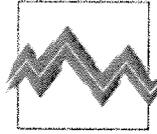


**MARKET VALUE OF THE
AQUARION WATER CAPITAL OF MASSACHUSETTS, INC.
WATER TREATMENT PLANT IMPROVEMENTS
AS OF JUNE 29, 2012
SUMMARY APPRAISAL REPORT**



Willamette Management Associates

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June 29, 2012

Joe A. Conner, Esq.
Baker Donelson Bearman Caldwell & Berkowitz
1800 Republic Centre
633 Chestnut Street
Chattanooga, Tennessee 37450-1800

Dear Mr. Conner:

At your request, Willamette Management Associates prepared a limited scope appraisal related to the water treatment plant located in Town of Hingham, Massachusetts (“Hingham”).

We understand that Aquarion Water Capital of Massachusetts, Inc. (“AWCAP”), a wholly-owned subsidiary of Aquarion Company (“Aquarion”), owns the water treatment plant located in Hingham, Massachusetts.

We understand that you (“Legal Counsel”) represent Aquarion in a potential dispute with Hingham (“the dispute”) over the acquisition of the water treatment plant in conjunction with the possible acquisition of the balance of the Hingham Water System pursuant to the pricing formula under the 1879 Charter. As you are aware, we also prepared, at your request, a report reflecting the price of the Hingham Water system corporate property (both tangible and contributory property) pursuant to the pricing formula in the 1879 Charter.

OBJECTIVE AND PURPOSE OF THE ANALYSIS

The objective of this analysis is to estimate the market value of the water treatment plant located at 900 Main Street, in Hingham (the “subject property” or the “facility”). As further described below, the subject property includes only the improvements (and not the site) related to the Hingham water treatment plant. Our market value analysis concludes a fee simple interest level of ownership in the subject property.¹

For the purpose of this analysis, we used the Appraisal Institute’s definition of market value, as follows: the most probable price that the specified property interest should sell for in a competitive market after a reasonable exposure time, as of a specified date, in cash, or in terms equivalent to cash, under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably, for self-interest, and assuming that neither is under duress.²

¹ A fee simple interest is defined as absolute ownership unencumbered by any other interest or estate, subject to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.

² *The Dictionary of Real Estate Appraisal*, Fifth Edition. Chicago: Appraisal Institute, 2010.

Our market value analysis contemplates the highest and best use of the subject property as its current use (as a water treatment plant) in continuing operations. In other words, in our opinion, the highest and best use for the subject property is to continue operating as a water treatment facility.

Highest and best use is defined as follows: The most probable legal use of a property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value.³

We performed our market value analysis as of June 10, 2012 (the “valuation date”).

The purpose of our analysis is to assist Legal Counsel with regard to the dispute. No other purpose is intended or should be inferred.

SCOPE OF WORK

The following listing of procedures summarizes the scope of the work we conducted to develop this appraisal report:

- we discussed the facility lease operations with Aquarion Management⁴;
- we analyzed relevant corporate and financial documents provided by Aquarion Management;
- we relied on the analysis performed by Hatch Mott MacDonald;
- we researched relevant capital market data to use in our analysis;
- we applied generally accepted real estate appraisal approaches in our analysis of the subject property; and
- we concluded an estimate of value for the subject property and prepared this appraisal report.

A description of additional scope of work items and a discussion of these items are presented in various sections of this appraisal report.

SOURCES OF INFORMATION

During the course of this assignment, we received and analyzed several documents, including the following:

- Facility lease agreement between Massachusetts Capital Resources Company and Massachusetts-American Water Company, dated July 1, 1995 (the “facility lease agreement”)—provided in Appendix B
- The fourth amendment to the facility lease agreement dated December 1, 2004—provided in Appendix B

³ *Valuing Machinery and Equipment: The Fundamentals of Appraising Machinery and Technical Assets, Second Edition*, American Society of Appraisers, 2005.

⁴ Unless specified otherwise, Aquarion Management means Aquarion executive Troy Dixon, the director of rates and regulation, and Aquarion personnel working under the supervision of Mr. Dixon.

- Ground lease agreement between Massachusetts-American Water Company, as landlord, and Massachusetts Capital Resources Company, as tenant, dated July 1, 1995—provided in Appendix B
- Hatch Mott MacDonald document entitled the *Hingham Water Treatment Plant Valuation*, as of June 2012—provided in Appendix C
- Massachusetts Industrial Finance Agency, Water Treatment Revenue Bonds, Massachusetts-American Hingham Project, Series 1995, dated July 26, 1995
- The Real Estate Research Corporation (“RERC”), *Real Estate Report*, Spring 2012, Volume 41, Number 1—selected pages are provided in Appendix D
- Lease payment schedule provided by Aquarion Management—provided in Appendix E

During the course of our analysis, we discussed the water treatment facility lease payment schedule with Aquarion Management.

WATER TREATMENT PLANT DESCRIPTION

AWCAP, the facility owner, is a wholly-owned subsidiary of Aquarion. AWCAP, formerly Massachusetts Capital Resources Company (“MCRC”) operated as a wholly owned subsidiary of Massachusetts-American Water Company, was formed in 1995 for the sole purpose of acquiring, financing, constructing, and leasing the subject water treatment plant in Hingham, Massachusetts.

AWCAP does not have material assets or revenue, other than the water treatment plant and the related-party lease income derived from that facility. Additionally, AWCAP has no employees.

Massachusetts-American Water Company (MAWC)—the predecessor organization to Aquarion Water Company of Massachusetts (“AWCMA”)—began construction of the water treatment plant in 1994. The subject property was placed in service by MAWC in 1996.

The cost of acquiring, constructing, equipping, and installing the facility was primarily provided by funds generated from the sale of Water Treatment Revenue Bonds. The bond sale was accomplished through a Series 1995 bond offering.

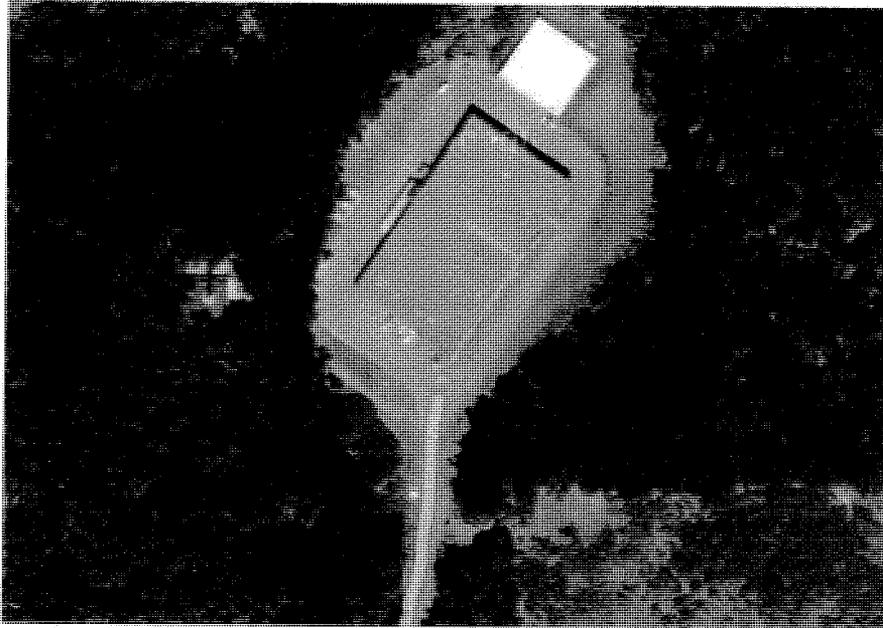
The principal amount of the bond offering was \$37,700,000. The bonds were issued by the Massachusetts Industrial Finance Agency pursuant to a Loan and Trust Agreement dated as of July 1, 1995 (“Water Revenue Bonds”).

The subject property is commonly referred to as the Hingham Water Treatment Plant. The facility is a 7.0 million gallon per day capacity water treatment facility located off of Main Street in Hingham, MA. The subject property is located on a 46.1 acre site. The 46.1 acre site is subject to a ground lease. We were instructed by Legal Counsel, not to value the ground lease or the fee simple interest of the 46.1 acre site.

The purpose of the facility is to treat water collected from surface water and wells in response to the Environmental Protection Agency (EPA) Surface Water Treatment Rule. The treatment processes are contained within a single structure with a footprint of approximately 240 by 140 feet. The total interior space of the facility is approximately 75,000 square feet.

The improvements at the subject property include a multiple level structure containing different treatment processes. The treatment processes consist of oxidation, mixing, clarification, and filtration.

The subject property filtration process residuals are processed in the same building, through thickening and centrifuge dewatering. A photograph of the facility is provided below:



A more detailed description of the facility is presented in Appendix C, the Hatch Mott MacDonald document entitled the *Hingham Water Treatment Plant Valuation*, as of June 2012.

FACILITY LEASE AGREEMENT

MCRC entered into a facility lease agreement (the "Agreement") with MAWC in July 1995. The Agreement was effective as of the first day of July, 1995. Because Aquarion acquired MAWC and MCRC in 2002, the Agreement is now between AWCAP and AWCMA.

The Agreement is by and between AWCAP (the "Lessor") and AWCMA (the "Lessee"). The Agreement is provided in Appendix B, along with the fourth amendment to the Agreement.

The term of the Agreement began on July 1, 1995. Unless terminated as provided in the Agreement, the Agreement expires in 40 years and 6 months after the commencement date. According to Aquarion Management, the Agreement will expire on December 31, 2035.

According to the Agreement, AWCMA pays AWCAP basic rent that consists of three major components: (1) the fixed basic rent, (2) the base percentage rent component, and (3) the adjustment factor component. For the purposes of our analysis, we will refer to the second two components as one component—that is, the "percentage rent component."

The fixed basic rental component provides revenue sufficient to allow the AWCAP to (1) meet its financing obligations and (2) provide a limited return on the investment in the facility. The fixed basic

rental component is comprised of two parts (1) the debt service-related fixed basic rent component and (2) the additional fixed basic rent non-debt service component.

The percentage rent component is a variable component that provides AWCAP with incremental revenue constituting a return on investment. The percentage rent component is based on a defined rate schedule applied to the amount of water treated by the plant each month in excess of 30 million gallons.

The rental income earned by AWCAP under this operating lease was approximately \$3,413,000 and \$3,321,000 for 2011 and 2010, respectively.

As mentioned above, AWCAP (originally entered into by MCRC) also has a ground lease with AWCMA (originally entered into by MAWC) for the land (i.e., the site) that the water treatment plant is located on. That site is approximately 46.1 acres. Rental income under the ground lease totals less than one dollar during the term of the Agreement. Upon termination of the Agreement, rental income under the ground lease will be established based on the fair market value of the subject property. This analysis does not include any consideration of the site or the ground lease.

ANALYSIS WORK PRODUCT

In our market value analysis of the subject property, we considered all generally accepted real estate appraisal approaches. Appraisers typically use one or more of the three generally accepted approaches to value real estate interests.

While the specific titles of these three real estate appraisal approaches may vary, the generally accepted names are as follows:

1. the cost approach,
2. the sales comparison approach, and
3. the income approach.

Cost Approach

The cost approach is based on the principle that a willing buyer would pay no more for a subject property than the cost to produce a substitute property with equivalent utility. This appraisal approach is particularly applicable when (1) the subject property includes relatively new improvements, (2) the improvements represent the highest and best use of the property as improved, (3) the site includes relatively unique or special purpose improvements, and (4) there are few sales or leases of comparable properties.

In the cost approach, the appraiser estimates the current cost of all improvements and then depreciates the current cost estimate to reflect any value loss from physical, functional, and external causes. The value of the site (as if vacant and improved) is added to the depreciated current cost of the improvements in order to conclude the value of a subject property. This analysis does not include the value of the subject site.

Sales Comparison Approach

The sales comparison approach relies on an analysis of the sales of comparable properties. The comparable property sale prices may be adjusted for differences between the subject property and the

comparable property. The real estate value is typically concluded using a unit of comparison such as price per square foot, effective gross income multiplier, or net income multiplier. Adjustments are often applied to the units of comparison based on an analysis of the comparable sales, and the adjusted unit of comparison is then used to derive a value for the subject property.

The reliability of this real estate appraisal approach depends on (1) the availability of comparable sales data, (2) the verification of the sales data, (3) the degree of comparability of the subject property to comparable properties, and (4) the absence of nontypical conditions affecting the comparable sales price.

Income Approach

The first procedure in applying the income approach is to determine the income-producing capacity of the subject property. The income-producing capacity can be determined (1) by considering contract rents on leases in place or (2) by estimating market rent from rental activity at competing properties. Deductions from gross rental income may then be made for expected vacancy and collection loss and operating expenses.

The yield capitalization (or discounted cash flow) method is an income approach method using a multiple period cash flow projection. In this method of capitalizing future income to a present value, periodic cash flows and a reversion value (if any) are estimated and discounted to a present value. The present value discount rate is determined by analyzing current investor yield requirements for similar investments.

THE WATER TREATMENT PLANT MARKET VALUE ANALYSIS

After considering each of the three generally accepted real estate appraisal approaches, we concluded that the cost approach is the most appropriate approach for our analysis.

We concluded that the cost approach is the most appropriate approach for the subject appraisal because:

1. the subject property is a special purpose property,
2. the subject property is a relatively new property,
3. the subject property is the type of property that is typically owner-occupied property, i.e., it is not the type of property that is frequently leased from a lessor to a lessee,
4. the Agreement (as defined above) is a related party transaction—i.e., a lease between affiliated entities; therefore, the terms of the Agreement may not represent market rental rates, and
5. we could not identify any recent sales of sufficiently comparable facilities.

In our opinion, the value of the subject property is most reasonably estimated through the application of the cost approach.

We were provided with a schedule of the subject property lease payment projections from Aquarion Management. The lease payment schedule is provided in Appendix E. The lease payment schedule was prepared according to the Agreement and, specifically, according to the fourth amendment to the Agreement.

Because we were provided with the abovementioned lease schedule, we were able to calculate a value indication of the subject property using the income approach and the discounted cash flow (yield capitalization) method.

As mentioned above, the Agreement represents a transaction between related entities. Therefore, the terms of the Agreement may not represent current market rental rates for the subject property improvements. Accordingly, the use of the yield capitalization method based on the lease schedule will indicate a leased fee value for the subject improvements. Such an analysis may not indicate a market value for the subject improvements.

We did not rely on the sales comparison approach. This was because we could not identify any recent sales of sufficiently comparable properties.

Replacement Cost New less Depreciation Method

For our cost approach analysis, we relied on the Hatch Mott Macdonald (“Hatch Mott”) replacement cost new less depreciation (“RCNLD”) analysis. A copy of the Hatch Mott RCNLD analysis report is included in Appendix C.

According to Hatch Mott, the RCNLD of the subject property improvements was \$61.9 million, as of June 2012.

Discounted Cash Flow (Yield Capitalization) Method

The discounted cash flow (yield capitalization) method is implemented in three procedures. First, projections of rental income—typically for five years or more (the “discrete projection period”)—are discounted to a present value using a present value discount rate.

Second, a reversion value is estimated—that is, if the rental income cash flow is anticipated to continue past the discrete projection period. This reversion value estimate is also discounted to a present value.

And, finally, the summation of the discrete projection period present value indications is added to the present value of the reversion.

For the rental income cash flow projection, we relied on lease payment schedule prepared by Aquarion Management.

This lease payment schedule is provided in Appendix E, and it is summarized in Exhibit 2 of this report. As mentioned above, the lease payment consists of three components: (1) the fixed basic rent, (2) the base percentage rent component, and (3) the adjustment factor component.

As mentioned above, the fixed basic rent component is comprised of a fixed amount related to the servicing of the Water Revenue Bonds. This fixed part is \$2.7 million a year.

The base percentage rent component provides AWCAP with a means to earn a fair rate of return on its plant assets, i.e., the subject property. The percentage rent component is calculated by multiplying the difference of the actual amount of water treatment minus 30 million gallons a month. For the base year in the schedule, the water treatment volume was 1.136 billion gallons in 2010.

Therefore, the percentage rent component is calculated—in the lease payment schedule—as 1,136.428 million gallons minus the $30 \times 12 = 360$ million gallon requirement, resulting in a 776,728 gallon figure.

That 776,728 gallon figure is then multiplied by the variable percent rent rate. The 776,428 gallon difference is used in each year of the lease payment schedule.

The next procedure is to apply the variable percentage rent rate. The percentage rent rate increases each year. The variable percentage rent rates are provided in schedule III of the fourth amendment to the Agreement.

For example, in 2012, the base percentage rent component is calculated as follows: 776,428 gallons multiplied by \$1.0929 = \$848,588.

The next component is the adjustment factor component. If the actual water treatment usage falls below planned water treatment usage levels, then the rent is increased by the adjustment factor component. This adjustment is made every five years.

The remaining cash flow component in the lease payment schedule is the subtraction of interest income. According to Aquarion Management, AWCAP is required to keep a certain amount of cash on hand. This cash represents a one year payment of Water Revenue Bond principal and interest. This cash requirement is necessary to satisfy the Water Revenue Bonds covenants. AWCAP earns interest on the related cash balances. The interest is used to reduce the lease payment.

The lease payment schedule is presented in Exhibit 2. The schedule lists the lease payments to be paid to AWCAP by AWCMA for the Agreement remaining term ended December 31, 2035. The next procedure is to present value the total lease payment cash flow.

Present Value Discount Rate

We considered the real estate investor survey as listed in our Exhibit 3, Appendix A. The real estate investor survey from RERC indicated a range of yield capitalization rates or present value discount rates—7.6 percent to 8.4 percent for industrial properties. These interest rates of return (or yield capitalization rates) were published by RERC in its *Real Estate Report* for Spring 2012.

The RERC report provided real estate yield capitalization rates—i.e., present value discount rates—by various geographic categories. In our income approach analysis, we considered the published yield capitalization rates for (1) the Boston, Massachusetts real estate market, (2) the east coast region, and (3) the total United States market.

The average real estate rates of return over the period were (1) 8.0 percent for the Boston, Massachusetts real estate market, (2) 8.1 percent for the east coast region, and (3) 8.2 percent for the total United States market.

We selected a present value discount rate of 8 percent. We based our selection on the Boston Massachusetts mean yield capitalization rate indication. We selected that rate because the Boston market is the most specific comparable market source data available.

Discounted Cash Flow Method Value Indication

On Exhibit 2, we applied the present value discount rate to the rental income cash flow projections for each year of the discrete period. We arrived at the total present value of the discrete period of \$43.1 million. To that discrete projection period estimate, we added a reversion value.

To estimate the reversion value, we relied on the subject property \$61.9 million RCNLD value estimate. We decreased the RCNLD current value indication of \$61.9 million by a 25 percent depreciation percentage in order to estimate a reversion value. This 25 percent depreciation adjustment estimate was provided to us by Hatch Mott.

By applying the 25 percent depreciation estimate, the assumption is that the reversion value of the water treatment plant will be 75 percent of current RCNLD at the end of the lease period. Therefore, we multiplied the \$61.9 million RCNLD by 75 percent and rounded to arrive at a reversion value estimate of \$46.0 million.

We then discounted the \$46.0 million reversion value estimate by the present value discount rate of 8 percent to arrive at \$7.8 million value component, as of June 10, 2012.

Finally, we added the present value of (1) the discrete projection period value of \$43.1 million and (2) the reversion value of \$7.8 million, to arrive at (3) the market value of the water treatment plant improvements of \$51.0 million.

SUMMARY AND CONCLUSION

On Exhibit 1 of Appendix A, we present our market value estimate of the Hingham water treatment plant improvements, as of June 10, 2012.

In order to arrive at our market value conclusion for the subject property, we performed the following three procedures. First, we weighted our market value estimates related to the subject property improvements. That is, we applied valuation emphasis to (1) the cost approach, and the RCNLD method, and (2) the income approach, and the discounted cash flow (yield capitalization) method.

We concluded that the cost approach is the most appropriate approach for the subject appraisal because:

1. the subject property is a special purpose property,
2. the subject property is a relatively new property,
3. the subject property is the type of property that is typically owner-occupied property, i.e., it is not the type of property that is frequently leased from a lessor to a lessee,
4. the Agreement (as defined above) is a related party transaction—i.e. a lease between affiliated entities; therefore, the terms of the Agreement may not represent market rental rates, and
5. we could not identify any recent sales of sufficiently comparable facilities.

The RCNLD method value indication for the subject property improvements was \$61.9 million as of June 2012. We multiplied the RCNLD value indication by 90 percent to arrive at a \$55.7 million weighted value. Continuing the first procedure, we then selected a 10 percent emphasis to the income approach discounted cash flow (yield capitalization) method.

We multiplied the \$51.0 million income approach value indication estimate by 10 percent to arrive at \$5.1 million for the subject property.

For the second procedure, we added the two weighted value indications. This calculation was performed as follows: (1) we added \$55.7 million based on the RCNLD method to (2) \$5.1 million based on the discounted cash flow method to arrive at an indicated value of the subject property improvements of \$60.8 million.

Therefore, as of June 10, 2012, we estimated the market value of the water treatment plant improvements to be \$60.8 million. This estimate does not include the AWCAP ground lease (or the fee simple interest) for the 46.1 acre site.

Based on our analysis, the market value of the Hingham water treatment plant, including the subject property improvements, as of June 10, 2012, is (rounded):

\$60,800,000.⁵

LIMITATIONS OF OUR CONCLUSION

During our analysis, we were provided with an appraisal of the subject real property improvements at the water treatment plant. The appraisal of the subject real property improvements was performed by Hatch Mott MacDonald. We relied on these data and information as fairly presenting the RCNLD of the water treatment plant improvements. We have not independently verified the Hatch Mott MacDonald appraisal of the subject real property improvements. Therefore, we express no opinion or other form of assurance regarding the RCNLD analysis.

We calculated the market value of the subject property based on the information that was available to us. If additional information becomes available to us, we reserve the right to amend this analysis and our value conclusion.

During this assignment, we were provided with unaudited financial and operational data with respect to the subject property. We accepted these data without independent verification or confirmation.

We are independent of Aquarion (and its subsidiaries) and all other parties associated with the dispute. We have no current or prospective financial interest in the subject property. Our fee for this analysis was in no way influenced by the results of our valuation.

⁵ We reserve the right to amend our opinion if and when new data become available. We note that the \$60,800,000 subject property market value estimate is subject to the stated limitations.

Joe A. Conner, Esq.

June 29, 2012

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The appraisal certification, the assumptions and limiting conditions, and professional qualifications of the principal appraiser are components of this report.

Very truly yours,

WILLAMETTE MANAGEMENT ASSOCIATES

A handwritten signature in cursive script that reads "Robert F. Reilly".

Robert F. Reilly

Willamette Management Associates

Joe A. Conner, Esq.
June 29, 2012
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APPENDIX A - EXHIBITS

EXHIBIT 1
AQUARION WATER COMPANY - HINGHAM WATER SYSTEM
WATER TREATMENT PLANT MARKET VALUE ANALYSIS
AS OF JUNE 10, 2012

Water Treatment Plant Improvements, Valuation Approaches and Methods		Valuation Indication (\$000)	Valuation Emphasis (%)	Value Conclusion (\$000)
Cost Approach - Replacement Cost New Less Depreciation (RCNLD) Method	[a]	61,909	90	55,718
Income Approach - Discounted Cash Flow (Yield Capitalization) Method	[b]	51,000	10	5,100
Market Value of the Water Treatment Plant Improvements				\$ 60,818
Market Value of the Water Treatment Plant Improvements (Rounded)				\$ 60,800

Footnotes:

[a] See Hingham Water Treatment Plant Valuation, Hatch Mott Macdonald as of June 2012.

[b] See Exhibit 2.

Sources: As indicated.

EXHIBIT 2
AQUARIUM WATER COMPANY - BINGHAM WATER SYSTEM
WATER TREATMENT PLANT IMPROVEMENTS
INCOME APPROACH - DISCOUNTED CASH FLOW (YIELD CAPITALIZATION) METHOD
AS OF JUNE 10, 2012

Lease Payment Schedule For the Remaining Term of the Facility Lease Agreement [a]									
Year Ended December 31,	Fixed Basic Rent Component (\$000)	Base Percentage Rent Component (\$000)	Adjustment Factor Component (\$000)	Less Interest Income On Required Cash Reserve (\$000)	Total Lease Payment Cash Flow (\$000)	Time Period Measured in Years from June 10, 2012	Present Value Factor Based on a 9.0% Present Value Discount Rate [c] (%)	Present Value of Discrete Period Lease Cash Flow (\$000)	
	A	B	C	D	A+B-C-D=E	F	G	H	
2012 [b]	2,679	849	56	(91)	3,493	0.979	1,911		
2013	2,679	882	56	(91)	3,527	0.922	3,251		
2014	2,679	915	118	(91)	3,624	0.853	3,093		
2015	2,679	955	118	(91)	3,661	0.790	2,893		
2016	2,679	993	118	(91)	3,699	0.732	2,706		
2017	2,679	1,032	118	(91)	3,739	0.677	2,533		
2018	2,679	1,074	118	(91)	3,780	0.627	2,371		
2019	2,679	1,117	154	(91)	3,869	0.581	2,247		
2020	2,679	1,161	154	(91)	3,914	0.538	2,104		
2021	2,679	1,208	184	(91)	3,961	0.498	1,972		
2022	2,679	1,256	184	(91)	4,009	0.461	1,848		
2023	2,679	1,306	226	(91)	4,089	0.427	1,732		
2024	2,679	1,359	226	(91)	4,173	0.395	1,649		
2025	2,679	1,413	226	(91)	4,227	0.366	1,546		
2026	2,679	1,469	226	(91)	4,284	0.339	1,451		
2027	2,679	1,528	226	(91)	4,343	0.314	1,362		
2028	2,679	1,589	226	(91)	4,404	0.290	1,279		
2029	2,679	1,653	307	(91)	4,548	0.269	1,223		
2030	2,679	1,719	307	(91)	4,614	0.249	1,149		
2031	2,679	1,788	307	(91)	4,683	0.230	1,079		
2032	2,679	1,859	307	(91)	4,754	0.213	1,014		
2033	2,679	1,934	307	(91)	4,829	0.198	954		
2034	2,679	2,011	412	(91)	5,012	0.183	917		
2035	2,679	2,092	412	(91)	5,092	0.169	862		
								Total Present Value of Discrete Period Lease Cash Flow	\$ 42,145
Post-Lease Terminal Value Estimate									
				Current RCNLD based on Hatch, Mott MacDonald Estimate	61,909				
				Estimated Reversion Value [d]	46,000				
				Present Value Discount Rate	0.169				
				Present Value of Estimated Reversion Value	\$ 7,791				I
				Market Value of the Water Treatment Plant Improvements (Rounded)	\$ 51,000				H + I

Footnotes:
 [a] The lease payment schedule was prepared by Aquarion Management.
 [b] The 2012 present value of discrete period lease cash flow was adjusted to reflect the June 10, 2012 valuation date.
 [c] Present value calculated as: cash flow to received first-year, Present value discount rate (yield capitalization rate) is presented in Exhibit 3.
 [d] Calculated as follows: \$61,909 current RCNLD estimate multiplied by x 75%, remaining life factor estimate was provided by Hatch, Mott MacDonald.
 Sources: As indicated.

EXHIBIT 3
AQUARION WATER COMPANY - HINGHAM WATER SYSTEM
WATER TREATMENT PLANT IMPROVEMENTS
INCOME APPROACH VALUATION METHODS
AS OF JUNE 10, 2012

Yield Capitalization Rate Analysis

	Going-In Yield Cap Rate		
	RERC Estimate (%)	East Region (%)	United States (%)
RERC Real Estate Report (Spring 2012)			
Industrial - Warehouse	7.6	7.9	8.0
Industrial - Research and Development	8.1	8.2	8.3
Industrial - Flex	8.3	8.2	8.4
Mean Percentage of Going-in Yield Cap Rates	8.0	8.1	8.2
Selected Present Value Discount Rate		<u>8</u>	

Sources: As indicated.

APPENDIX B – FACILITY LEASE AGREEMENT AND GROUND LEASE AGREEMENT

FACILITY LEASE AGREEMENT

Between

MASSACHUSETTS CAPITAL RESOURCES COMPANY

and

MASSACHUSETTS-AMERICAN WATER COMPANY

Dated as of July 1, 1995

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FACILITY LEASE AGREEMENT

THIS FACILITY LEASE AGREEMENT is dated as of the first day of July, 1995, by and between Massachusetts Capital Resources Company, a Delaware corporation (the "*Lessor*") and Massachusetts-American Water Company, a Massachusetts corporation (the "*Lessee*").

WITNESSETH:

WHEREAS, the Lessor has purchased from the Lessee a partially constructed water treatment plant located at 900 Main Street, Hingham, Massachusetts, which is more fully described on Exhibit A hereto (the Water Treatment Plant together with the rights of the Lessor under the Site Lease hereinafter described, being the "*Facility*") and concurrently with its purchase the Lessor has assumed certain obligations of the Lessee under that certain Agreement between the Lessee and Bec-Mor dated as of August 1, 1994, as amended, including an amendment adding the Lessor as a party (the "*Construction Contract*") pursuant to which Bec-Mor is required to construct, equip and install the Facility;

WHEREAS, the Lessor has entered into a ground lease from the Lessee of the site on which the Facility is located, the legal description for which is set forth in Exhibit B hereto (the "*Facility Site*") pursuant to a Ground Lease dated as of July 1, 1995 (the "*Site Lease*");

WHEREAS, the cost of acquiring, constructing, equipping and installing the Facility shall be financed by funds of the Lessor and by (i) the sale of Water Treatment Revenue Bonds (Massachusetts-American Hingham Project) Series 1995 in the principal amount of \$37,700,000 (the "*Bonds*") issued by the Massachusetts Industrial Finance Agency (the "*Issuer*") pursuant to a Loan and Trust Agreement dated as of July 1, 1995 (the "*Indenture*") among the Issuer, the Lessor and First Fidelity Bank, National Association, as trustee (the "*Trustee*") and (ii) the loan by the Issuer of the proceeds from such sale to the Lessor pursuant to the Indenture;

WHEREAS, the Lessor shall evidence and secure its obligation to repay the aforesaid loan by its delivery to the Trustee of its mortgage bonds which will be issued pursuant to the Indenture of Mortgage and Security Agreement dated as of July 1, 1995 (the "*Mortgage Indenture*") from the Lessor to First Fidelity Bank, National Association, as trustee (the "*Mortgage Trustee*"); and

WHEREAS, the Lessor and the Lessee desire that the Lessor complete the construction of the Facility and lease the same to the Lessee pursuant to the terms of this Agreement.

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration and of the mutual benefits, covenants, and agreements herein expressed, the Lessor and the Lessee hereby agree as follows:

ARTICLE I

DEFINITIONS

Capitalized terms not otherwise defined herein shall have the meanings set forth in the Mortgage Indenture and the Indenture.

"Act" means Chapter 23A, Sections 29-38C, and, to the extent made applicable by Section 35 of Chapter 23A, Chapter 40D, as amended, of the Massachusetts General Laws.

"Additional Bonds" means Bonds authenticated and delivered pursuant to Section 312 of the Indenture.

"Additional Fixed Basic Rent" shall have the meaning set forth in Section 4.3(a)(i) of this Agreement.

"Additional Mortgage Bonds" means Mortgage Bonds authenticated and delivered pursuant to Section 2.04 of the Mortgage Indenture.

"Additional Rent" shall have the meaning set forth in Section 4.3(c) of this Agreement.

"Affiliate" with respect to any Person, means any other Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, such Person. For purposes of this definition, the term "control" (including the correlative meanings of the terms "controlled by" and "under common control with"), as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management policies of such Person, whether through the ownership of voting securities or by contract or otherwise. No individual shall be deemed to be an Affiliate of a Person solely by reason of his or her being a director, committee member, officer or employee of such Person.

"Agreed Upon Interest Rate" of any Facility Subordinated Debt shall mean at the time of reference the Base Rate as announced publicly from time to time by State Street Bank and Trust Company as the rate of interest it will charge its prime commercial borrowers, or such other rate of interest as Lessor and Lessee shall agree upon.

"Agreement" means this Facility Lease Agreement dated as of July 1, 1995, between the Lessor and the Lessee, as such Facility Lease Agreement may be amended or supplemented from time to time in accordance with the terms hereof.

"Annual Forecast" is defined in Section 5.4 hereof.

"AWW Capital Contribution Agreement" means the Capital Contribution Agreement dated as of July 1, 1995 between the Lessee and AWW.

"AWW" shall mean American Water Works Company, Inc.

"*Basic Rent Payment Date*" shall mean (A) the 25th day of each month following the Commencement Month and (B) if the Commencement Date occurs prior to the 25th day of the Commencement Month, the 25th day of the Commencement Month; *provided* that if the 25th day of any month referred to in (A) or (B) of this definition is not a Business Day, the Basic Rent Payment Date shall be the next succeeding Business Day.

"*Basic Rent Payments*" shall have the meaning set forth in Section 4.3(a) of this Agreement.

"*Basic Rent*" shall have the meaning set forth in Section 4.3(a) of this Agreement.

"*Beneficial Owner*" is defined in Section 301(e) of the Indenture.

"*Bond Counsel*" means any firm of nationally recognized municipal bond attorneys selected by the Lessor with the prior written consent of a Lessee Representative (which consent shall not be unreasonably withheld) and the Issuer and experienced in the issuance of municipal bonds and matters relating to the exclusion of the interest thereon from gross income for Federal income tax purposes.

"*Bond Rating Reaffirmation*" shall mean each of the two rating agencies which give an original rating of the Series 1995 Bonds as of the Closing Date shall reaffirm in a letter from such agency to the Trustee, the Mortgage Trustee, the Lessee and the Lessor that its respective rating of the Series 1995 Bonds after a Final DPU Rate Order approving a Facility Rate Increase has been issued on or after the Commencement Date, is the same as or higher than its original rating.

"*Bondholder*" means the registered owner of a Bond.

"*Bonds*" means the Series 1995 Bonds and any Additional Bonds issued under the Indenture.

"*Business Day*" means any day other than (i) a Saturday or Sunday or (ii) a day on which banks in any city in which the principal office of the Trustee, the Mortgage Trustee or any Securities Depository is located, are authorized or required to be closed.

"*Capital Replacement Account*" means the account by that name created in Section 5.02 of the Mortgage Indenture.

"*Capital Replacement Fund Redemption*" shall have the meaning set forth in Section 4.07(c) of the Mortgage Indenture.

"*Capital Replacement Fund*" means the fund by that name created in Section 5.02 of the Mortgage Indenture.

"*Capitalized Lease*" shall mean any lease the obligation for Rentals with respect to which is required to be capitalized on a balance sheet of the lessee in accordance with GAAP.

"*Capitalized Rentals*" of any Person shall mean as of the date of any determination thereof the amount at which the aggregate Rentals due or to become due under all Capitalized Leases under which such Person is a lessee would be reflected as a liability on a balance sheet of such Person.

"*Casualty*" shall mean loss or damage to the Facility by fire or other casualty, excluding, however, any Governmental Authority Acquisition.

"*Change in Law*" means the adoption, promulgation, issuance, modification or change in administrative or judicial application, after the date of this Agreement, of any Law. A Law is deemed to be duly adopted, promulgated, issued or otherwise officially modified or changed in interpretation, when it is in provisional, interim or final form and effective or to become effective without any further action by any federal, state or local governmental body, administrative agency or governmental official having jurisdiction.

"*Closing Date*" means August 17, 1995.

"*Code*" means the Internal Revenue Code of 1986, as amended.

"*Collateral*" means all of the collateral pledged and assigned to the Lessor by the Lessee pursuant to Section 4.5 hereof.

"*Commencement Date*" means the last to occur of the following dates:

(a) the date that the certificate of the Independent Engineer is delivered to the Lessee, the Lessor, the Mortgage Trustee and the Trustee in which the Independent Engineer certifies that (i) the Substantial Completion Date has occurred, and (ii) the Facility is operational as a water treatment facility with a maximum capacity of 7.0 MGD, *provided* that the certification in clause (ii) shall be made only if (A) water was delivered to the Facility, the water was treated by the Facility and after being so treated was within the parameters required by the Construction Contract and the water so treated was delivered by the Facility and (B) the Independent Engineer shall have observed the accomplishment of the items described in clause (ii)(A),

(b) the date on which a certificate of occupancy is issued for the Facility by the Town of Hingham Building Commissioner, and

(c) the date the Massachusetts Department of Environmental Protection approves the use of the Facility as a water treatment facility.

"*Commencement Month*" shall mean the month in which the Commencement Date shall occur.

"*Commonwealth*" means The Commonwealth of Massachusetts.

"*Company Representative*" shall have the meaning set forth in the Mortgage Indenture.

"*Construction Contract*" means that certain Agreement dated as of August 1, 1994, between the Lessee and the Contractor, as amended, including an amendment adding the Lessor as a party.

"*Construction Fund*" means the fund by that name created in Section 401 of the Indenture.

"*Construction Period*" means the period between the beginning of the acquisition, construction and installation of the Facility by the Lessor or the date on which the Series 1995 Bonds are first delivered to the purchasers thereof, whichever is earlier, and ending on and including the date immediately prior to the Commencement Date.

"*Contractor*" means Bec-Mor and its successors and assigns under the Construction Contract.

"*Coverage Ratio*" means at the time of reference the ratio of (i) Net Income Available for Fixed Charges for the Period consisting of the four immediately preceding fiscal quarters of the Lessee to (ii) Pro Forma Fixed Charges for such Period.

"*CPI*" or "*CPI Index*" means the Consumer Price Index for the Boston, Massachusetts, Standard Metropolitan Statistical Area, All-Items for all Urban Consumers, 1982-1984 Base, published by the United States Department of Labor, or, if such index is no longer published or its method of computation is substantially modified, a substitute index published by the United States Government or by a reputable publisher of financial or economic statistics that will fairly and reasonably reflect the same or substantially the same information as the discontinued or modified index selected by the Lessee.

"*Debt*" of any Person means at any date, without duplication, (i) all obligations of such Person for borrowed money or which has been incurred in connection with the acquisition of property or assets, (ii) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments, (iii) all obligations of such Person to pay the deferred purchase price of property or services, (iv) all obligations under Capitalized Leases of such Person, (v) all Debt of others secured by a Lien on any asset of such Person, whether or not such Debt is assumed by such Person and (vi) all Debt of others to the extent Guaranteed by such Person.

"*Debt Service*" means, for any Period, principal of, premium, if any, and interest due and payable on the Mortgage Bonds during such Period.

"*Debt Service Coverage Ratio*" means for any Period, the ratio of (i) the aggregate amount of Basic Rent payable during such Period, *provided* that if at the time of reference any due date of such Basic Rent shall have occurred, such aggregate amount shall include for

such due date only the amount of such Basic Rent which was actually paid, to (ii) Debt Service payable during such Period.

"Debt Service Fund" means the fund by that name created by Section 5.02 of the Mortgage Indenture.

"Debt Service Reserve Fund" means the fund by that name created in Section 304 of the Indenture.

"Debt Service Reserve Fund Requirement" shall have the meaning set forth in Section 102 of the Indenture.

"Default" means any event which would constitute an *"Event of Default"* as such term is defined in the Indenture, the Mortgage Indenture or this Agreement with the giving of notice or the lapse of time, or both.

"Determination of Taxability" shall have the meaning set forth in Section 102 of the Indenture.

"Distribution Account" shall mean the Distribution Account created under Section 5.02 of the Mortgage Indenture.

"DPU" shall have the meaning set forth in Section 5.2 of this Agreement.

"Eligible Successors" means (i) with respect to the Independent Engineer, such nationally recognized engineering firm that is mutually acceptable to the Lessee and the Mortgage Trustee, or (ii) with respect to the Independent Insurance Advisor, such nationally recognized insurance consultant that is mutually acceptable to the Lessee and the Mortgage Trustee.

"Eminent Domain Taking" shall mean the title in and to, or the temporary use of, the Facility or any part thereof or interest therein or all or any portion of (x) the water supply system for the Facility or (y) the water distribution system served by the Facility, shall be taken under the exercise of the power of eminent domain by any Governmental Authority, or the Facility or any part thereof or interest therein or all or any portion of (x) the water supply system for the Facility or (y) the water distribution system served by the Facility, is sold in lieu of such exercise of the power of eminent domain, excluding, however, any Hingham Lessee Succession.

"Environmental Discharge" means any release of any Hazardous Materials in violation of any applicable Environmental Law or that would create a liability under any applicable Environmental Law.

"Environmental Law" means any Law relating to pollution or the environment, including laws relating to noise or to emissions, discharges, releases or threatened releases of

Hazardous Materials into the workplace or the environment, or otherwise relating to the presence of Hazardous Materials.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

"Event of Default" means any occurrence or event specified in and defined by Section 7.1 hereof.

"Excess Replacement Fund Amounts" shall have the meaning set forth in Section 5.07(c) of the Mortgage Indenture.

"Facility" shall mean the water treatment plant described in Exhibit A hereto and the rights of the Lessor under the Site Lease.

"Facility Costs" shall have the meaning set forth in Section 102 of the Indenture.

"Facility Documents" means each of the Site Lease, the Construction Contract and the Security Documents.

"Facility Modification" shall have the meaning set forth in Section 10.1 of this Agreement.

"Facility Participants" means the Lessee, the Contractor and its Affiliates, AWW and the Lessor.

"Facility Pipe Easement" shall have the meaning set forth in Section 8.1 of this Agreement.

"Facility Rate Increase" shall have the meaning set forth in Section 5.2 of this Agreement.

"Facility Ratepayer" shall have the meaning set forth in Section 5.2 of this Agreement.

"Facility Site" means the approximately 46-acre site located in the Town of Hingham, Massachusetts, upon which the Facility is located which is more particularly described on Exhibit B to this Agreement.

"Facility Subordinated Debt" shall have the meaning set forth in Section 10.2 hereof.

"Favorable Opinion of Bond Counsel" means, with respect to any action the occurrence of which requires such an opinion, an unqualified Opinion of Counsel, which shall be a Bond Counsel, to the effect that such action is permitted under the Act, the Indenture, the Mortgage Indenture and this Agreement and will not adversely affect the

exclusion from gross income of interest on the Tax-Exempt Bonds for purposes of Federal income taxation (subject to the inclusion of any customary exceptions).

"Federal Bankruptcy Code" means Title 11 of the United States Code or any other federal bankruptcy code hereafter in effect.

"Federal Tax Statement" shall have the meaning set forth in the Indenture.

"Final DPU Rate Order" shall have the meaning set forth in Section 5.2 of this Agreement.

"Fiscal Quarter" means any calendar quarter.

"Fiscal Year" means the period beginning January 1 and ending December 31 of the same year.

"Fixed Basic Rent for Debt Service" shall have the meaning set forth in Section 4.3(a)(i) of this Agreement.

"Fixed Basic Rent" shall have the meaning set forth in Section 4.3(a)(i) of this Agreement.

"Fixed Charges" for any Period shall mean with respect to the Lessee the sum of (i) all Rentals (other than Rentals on Capitalized Leases) payable during such Period by the Lessee and (ii) all Interest Charges on all Long Term Debt (including the interest component of Rentals on Capitalized Leases) of the Lessee.

"GAAP" means generally accepted accounting principles in the United States as in effect from time to time subject, however, to the rules and regulations of any governmental body or agency under the jurisdiction of which the Lessee may be operating.

"Good Faith Contest" means the contest of an item if: (i) the item is diligently contested in good faith by appropriate proceedings timely instituted and (A) adequate reserves are established in accordance with GAAP with respect to the contested item and held by or for the benefit of the Lessee in cash or Permitted Investments and (B) during the period of such contest, the enforcement of any contested item is effectively stayed; or (ii) the failure to pay or comply with the contested item during the period of such Good Faith Contest could not reasonably be expected to result in a Material Adverse Effect.

"Governmental Approvals" means any authorization, consent, approval, license, franchise, lease, ruling, permit, tariff, rate, certification, exemption, filing or registration by or with any Governmental Authority (including, without limitation, zoning variances, special exceptions and non-conforming uses) relating to the construction, ownership, operation or maintenance of the Facility or to the execution, delivery or performance of any Facility Document.

"Governmental Authority Acquisition" shall mean (A) any Hingham Lessee Succession and (B) any Eminent Domain Taking.

"Governmental Authority" means the federal government, any state or other political subdivision thereof, and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government and any other governmental entity with authority over any aspect of construction or operation of the Facility.

"Guaranty" by any Person shall mean any obligation, contingent or otherwise, of such Person directly or indirectly guaranteeing in any manner any Debt or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or other obligation (whether arising by virtue of partnership arrangements, by agreement to keep-well, to purchase assets, goods, bonds or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (ii) entered into for the purpose of assuring in any other manner the obligee of such Debt or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part), *provided*, that the term *"Guaranty"* shall not include (x) endorsements for collection or deposit in the ordinary course of business, or (y) indemnity or hold harmless provisions included in contracts entered into in the ordinary course of business. The term *"Guaranty"* or *"Guaranteed"* used as a verb has a correlative meaning.

"Hazardous Materials" means any toxic or hazardous pollutant, emissions, contaminants, chemicals, materials, wastes or substances, as any of those terms are defined from time to time in or for the purposes of any relevant Environmental Law, specifically including, but not limited to, asbestos, polychlorinated biphenyls, and any petroleum or hydrocarbon-based products or derivatives.

"Hingham Lessee Succession" shall mean the succession by the Town of Hingham to Massachusetts-American Water Company as Lessee under this Agreement as a result of the exercise by the Town of Hingham of its right to purchase the corporate property located in the Towns of Hingham and Hull of Massachusetts-American Water Company, as successor to the Hingham Water Company, pursuant to the provisions of the charter of Hingham Water Company which charter was enacted by the Massachusetts legislature in 1879.

"Indenture" means the Loan and Trust Agreement dated as of July 1, 1995 among the Issuer, the Trustee and the Lessor, as it may be supplemented or amended from time to time pursuant to the provisions thereof.

"Independent Engineer" means Malcolm Pirnie, Inc. or its Eligible Successor.

"Independent Engineer's Certificate" means a certificate of a representative of the Independent Engineer.

"Independent Insurance Advisor" means Johnson & Higgins or its Eligible Successor.

"Insurance and Condemnation Proceeds Account" means the account by that name created in Section 5.02 of the Mortgage Indenture.

"Interest Charges" for any Period shall mean all interest and all amortization of debt discount and expense on any particular Debt for which such calculations are being made. Computations of Interest Charges on a *pro forma* basis for Debt having a variable interest rate shall be calculated at the rate in effect on the date of any determination.

"Issuer" means the Massachusetts Industrial Finance Agency, a body corporate and politic and a public instrumentality of the Commonwealth.

"Law" means any statute, law, rule, regulation, ordinance, order, code, policy or rule of common law, now or hereafter in effect, and any judicial or administrative interpretation thereof having precedential value by a Governmental Authority or otherwise, including any judicial or administrative order, consent decree or judgment.

"Lease Term" is defined in Section 4.2 hereof.

"Lessee" means Massachusetts-American Water Company, a Massachusetts Corporation, its successors and assigns.

"Lessee Representative" means a person at the time designated to act on behalf of the Lessee for purposes of the Mortgage Indenture and this Agreement by a written instrument furnished to the Mortgage Trustee containing the specimen signature of such person and signed on behalf of the Lessee by its President or a Vice President or other authorized officer of the Lessee. The instrument may designate an alternate or alternates.

"Lessor" means Massachusetts Capital Resources Company, a Delaware corporation, and its successors and assigns.

"Lessor Documents" means the Indenture, the Mortgage Indenture, this Agreement, the Site Lease, the Construction Contract and the Mortgage Bonds.

"Lessor's Return on Equity" shall have the meaning set forth in Section 7.2(e) hereof.

"Lien" means any mortgage, pledge, security interest, hypothecation, collateral assignment, lien (statutory or other), or preference, priority or other security agreement, preferential arrangement or encumbrance which has the practical effect of constituting a security interest (including, without limitation, any conditional sale or other title retention agreement, any financing lease having substantially the same economic effect as any of the foregoing, and the filing of any financing statement under the Uniform Commercial Code or comparable law of any jurisdiction).

"Long Term Debt" of the Lessee shall mean (i) all Debt of the Lessee for borrowed money or which has been incurred in connection with the acquisition of assets in each case having a final maturity of more than one year from the date of origin thereof (or which is

renewable or extendible at the option of the obligor for a period or periods more than one year from the date of origin), including all payments in respect thereof that are required to be made within one year from the date of any determination of Long Term Debt, whether or not the obligation to make such payments shall constitute a current liability of the obligor under GAAP, (ii) all Capitalized Rentals of the Lessee, and (iii) all Guaranties by the Lessee of Long Term Debt of others; *provided, however*, that during the period beginning on the Closing Date and ending on the first to occur of (x) the date of the Bond Rating Reaffirmation or (y) the date of the repurchase by the Company of the Facility pursuant to Section 7.2(b) hereof, the interest of the Lessee in the lease created by this Agreement shall not be considered to be Long Term Debt for purposes of this Agreement.

"Maintenance Plan" is defined in Section 5.5 hereof.

"Material Adverse Effect" means a materially adverse effect on (i) the Facility (including the acquisition, construction, timely completion, operation or maintenance of the Facility as contemplated by the Facility Documents), (ii) the operations, results of operations or property of the Lessee, (iii) the ability of the Lessee or the Lessor to perform its respective obligations under any of the Facility Documents to which it is a party, or the ability of the Lessee or the Lessor to obtain performance under the Facility Documents to which either one is a party in accordance with the terms thereof, (iv) the value of the Trust Estate, (v) the timely payment of the principal of, or premium, if any, or interest on any of the Bonds or the Mortgage Bonds, (vi) the availability of any material Governmental Approval as shall now or hereafter be necessary to be obtained in connection with the acquisition, construction, completion, operation or maintenance of the Facility, (vii) compliance by the Lessee or the Lessor with any material Governmental Approval in whole or in part, or (viii) the financial condition of the Lessee or the Lessor.

"Moody's" means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Lessor.

"Mortgage Bonds" means the Series 1995 Mortgage Bonds and any Additional Mortgage Bonds issued under the Mortgage Indenture.

"Mortgage Indenture" means the Indenture of Mortgage and Security Agreement dated as of July 1, 1995 from the Lessor to the Mortgage Trustee, as it may be supplemented or amended from time to time pursuant to the provisions thereof.

"Mortgage Trustee" means First Fidelity Bank, National Association, a national banking association, as Trustee under the Mortgage Indenture and having its principal corporate trust office in Philadelphia, Pennsylvania, or any successor thereto pursuant to Section 8.02 of the Mortgage Indenture.

"*Net Income Available for Fixed Charges*" of the Lessee shall be determined for any Period as follows:

(a) From the total income (except amortization of premium on Debt), whether credited to surplus or otherwise, of the Lessee, from all sources (which shall not include income or losses from the sale of capital assets but shall include as a credit interest charged to construction) for the Period in question, there shall be deducted all operating and nonoperating expenses and charges, including maintenance and depletion as is determined by its Board of Directors in accordance with established practice of the Lessee, taxes (except as hereinafter provided), license fees and franchise taxes paid or accrued or taxes based upon gross income, gross revenues or gross receipts, but excluding from such deductions federal and state taxes based on net income paid or accrued, Fixed Charges, Percentage Rent paid under this Agreement, write-downs of property, or other adjustments, and similar items. Any increase or decrease in gross revenues of the Lessee attributable to higher or lower rates that have been in effect for less than the full twelve-month period on which such calculation is based shall be annualized, and there shall also be annualized such related fixed expenses and charges as are known to the principal officers of the Lessee.

(b) In case, within or after the Period for which the computation of net income of the Lessee is made, the Lessee shall have acquired any property (including an acquisition by merger), such acquired property may be treated as having been owned by the Lessee for the whole of such Period of computation and the net income thereof for such Period may, at the option of the Lessee, be included in the net income of the Lessee, and there shall be excluded, in computing such net income, an amount equal to the net income estimated by the Lessee to be applicable to any property sold or disposed of by the Lessee after the beginning of such Period of computation.

(c) For the purpose of this definition, all determinations of net income shall be made in accordance with GAAP.

"*New England-American Merger*" shall mean the merger of the Lessee, The Salisbury Water Supply Company, Hampton Water Works Company, Connecticut-American Water Company and New York-American Water Company pursuant to an Agreement and Plan of Merger dated as of September 1, 1994.

"*Official Statement*" means the Official Statement dated July 26, 1995 relating to the Series 1995 Bonds.

"*Officer's Certificate*" means (i) with respect to the Lessor, a certificate executed by a Company Representative and (ii) with respect to the Lessee, a certificate executed by a Lessee Representative.

"*Outstanding*" when used as of a particular time with reference to the Bonds shall have the meaning set forth in the Indenture and when used as of a particular time of reference to

the Mortgage Bonds, means all Mortgage Bonds delivered under the Mortgage Indenture except:

- (i) Mortgage Bonds canceled by the Mortgage Trustee or surrendered to the Mortgage Trustee for cancellation;
- (ii) Mortgage Bonds paid or deemed to have been paid within the meaning of Section 11.01 of the Mortgage Indenture; and
- (iii) Mortgage Bonds in lieu of or in substitution for which replacement Bonds shall have been executed by the Lessor and delivered by the Mortgage Trustee.

"*Percentage Rent*" shall have the meaning set forth in Section 4.3(a)(ii) of this Agreement.

"*Period*" means, as the context requires, a calendar year or specified portion thereof, a Fiscal Year, fiscal quarter or specified number of fiscal quarters of the Lessee.

"*Permitted Encumbrances*" means, as of any particular time, with respect to the Facility (i) liens thereon for taxes, assessments and governmental charges which are either not yet due, are due but payable without penalty or are the subject of a Good Faith Contest, (ii) such minor defects, irregularities, encumbrances, utility, access and other easements and rights of way, mineral rights, restrictions and exceptions, statutory liens and clouds on title as normally exist with respect to properties similar in character to the Facility that will not in the aggregate materially interfere with or impair the operations being conducted at the Facility (or, if no operations are being conducted thereat, the operations for which the Facility was designed or last modified) or that will not in the aggregate result in a Material Adverse Effect, or which are under contract to be removed or altered in the normal course of constructing the Facility, (iii) the Site Lease, this Agreement, the Construction Contract and the Mortgage Indenture, (iv) any mechanic's, laborer's, materialmen's, suppliers, vendors, construction or other like liens or rights arising in the ordinary course of business or incident to the construction or improvement of any property in respect of obligations which are not yet past due or which are the subject of a Good Faith Contest, (v) any exceptions to title which are contained in the Title Policy or leasehold insurance policy delivered to the Mortgage Trustee, (vi) all deposits or pledges to secure: statutory obligations or appeals; releases of attachments, stays of execution or injunctions; performance of bids, tenders, contracts (other than for the repayment of borrowed money), permits or leases; or for purposes of like general nature in the ordinary course of business; (vii) liens in connection with workers' compensation, unemployment insurance or other social security or pension obligations, and (viii) legal or equitable encumbrances deemed to exist by reason of the existence of any litigation or other legal proceeding if the same is the subject of a Good Faith Contest (excluding any attachment prior to judgment, judgment lien or attachment in aid of execution on a judgment).

"*Permitted Investments*" shall have the meaning set forth in Section 1.01 of the Mortgage Indenture.

"Person" means any individual, sole proprietorship, corporation, partnership, joint venture, limited liability company, trust, unincorporated association, institution, Governmental Authority or any other entity.

"Pro Forma Fixed Charges" for any Period shall mean, as of the date of determination thereof, the maximum amount of Fixed Charges which would have become payable by the Lessee in such Period on a *pro forma* basis after giving effect as of the beginning of such Period to (i) Rentals payable by the Lessee under any lease entered into by the Lessee as of the date of determination, *provided, however*, that Rentals payable under this Agreement shall not be included in Pro Forma Fixed Charges until the occurrence of the Commencement Date, and (ii) the incurrence of any Long Term Debt of the Lessee as of the date of determination and the concurrent retirement of outstanding Long Term Debt or termination of any Capitalized Leases of the Lessee.

"Projected Debt Service Coverage Ratio" shall mean for any Period, a projection, at the time of determination, of the Debt Service Coverage Ratio for such Period prepared in good faith based upon assumptions consistent in all material respects with the Facility Documents and the historical operating results of the Facility including, for purposes of calculating the Percentage Rent, using the average monthly number of gallons of water actually treated by the Facility during the prior twelve months (excluding any period during the treatment capacity has been reduced due to casualty or condemnation) or such other amount as determined by the Independent Engineer.

"Prudent Engineering and Operating Practices" means the practices, methods and acts generally engaged in or adopted by the water utility industry that at a particular time for water treatment facilities of similar design and construction as the Facility, in the exercise of reasonable judgment in light of the facts known or that reasonably should have been known at the time a decision was made, would have been expected to accomplish the desired result in a manner consistent with law, regulation, reliability, safety, environmental protection, economy and expedition.

"Redemption Account" means the account by that name created in Section 5.02 of the Mortgage Indenture.

"Release", when used in connection with any Environmental Discharge or Hazardous Materials, means and includes any release, spill, emission, leaking, pumping, injection, deposit, disposal, discharge, dispersal, leaching or migration, where such release is either regulated by applicable Environmental Law or may serve as a basis for liability of the Lessor, the Lessee or the Trustee under any applicable Environmental Law.

"Rent" shall mean Basic Rent and Additional Rent.

"Rentals" shall mean and include as of the date of any determination thereof (i) in the case of this Agreement, all Fixed Basic Rent payable by the Lessee (excluding all other Rent payable hereunder) and (ii) in the case of any other lease or sublease of real or personal property (other than office leases, automobile leases, office equipment leases and other leases

of property used primarily for administrative purposes), all fixed payments (including all payments due, other than solely by reason of acceleration, on termination or surrender of the property) payable by the Lessee thereunder, but exclusive of any amounts required to be paid by the Lessee (whether or not designated as rents or additional rents) on account of maintenance, repairs, insurance, taxes and similar charges, and fixed charges under any so-called "percentage leases" shall be computed solely on the basis of the minimum rents, if any, required to be paid by the Lessee regardless of sales volume or gross revenues.

"Requirement of Law" means, as to any Person, any Law applicable to or binding upon such Person or any of its properties or to which such Person or any of its properties is subject, and, as to the Lessor, the Lessee or the Facility, any Law applicable to or binding on the Facility or any of its properties or to which the Facility or any of its properties is subject, including, without limitation, relevant Environmental Laws, restrictive land use covenants and zoning, use and building codes, laws, regulations and ordinances.

"Securities Depository" means DTC, or its nominee, and its successors appointed by the Lessor in accordance with the provisions of Section 301(e) of the Indenture.

"Security Documents" means, collectively, the Mortgage Indenture, this Agreement, the Stock Pledge, the Indenture, the AWW Capital Contribution Agreement and any financing statements relating thereto.

"Series 1995 Bonds" shall have the meaning set forth in the Indenture.

"Series 1995 Mortgage Bonds" shall have the meaning set forth in Section 2.03 of the Mortgage Indenture.

"Site Lease" means the Ground Lease dated as of July 1, 1995, between the Lessor and the Lessee, as the same may be supplemented or amended in accordance with its terms.

"Standard & Poor's" means Standard & Poor's Ratings Group, a division of McGraw-Hill Inc., its successors and assigns, and, if such group shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Standard & Poor's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Lessor.

"Stipulated Loss Value" shall mean as of any Basic Rent Payment Date the amount set forth in Schedule V hereto opposite such Basic Rent Payment Date.

"Stock Pledge" means the Pledge Agreement dated as of July 1, 1995 from AWW to the Mortgage Trustee pursuant to which AWW pledges 100% of the common stock of the Lessor as further security for the payment of the Mortgage Bonds by the Lessor.

"Subordinated Debt" means unsecured indebtedness issued by the Lessor (i) that is in all respects fully subordinated to the Lessor's indebtedness obligations under the Facility Documents and (ii) pursuant to which the holder of such indebtedness shall have no right to

exercise remedies under the instruments or agreements evidencing such indebtedness, or as otherwise permitted by law, to enforce repayment of such indebtedness for as long as any Mortgage Bonds are Outstanding.

"Substantial Completion" shall have the meaning ascribed to it in Section 14.8 of the General Conditions of the Construction Contract.

"Substantial Completion Date" means the date that Substantial Completion has occurred as set forth in Section 14.8 of the General Conditions of the Construction Contract.

"Substantial Loss" is defined in Section 4.4(d).

"Surplus Fund" means the fund by that name created in Section 5.02 of the Mortgage Indenture.

"Tax-Exempt Bonds" means the Series 1995 Bonds and Additional Bonds delivered under the Indenture, if in connection with such delivery there was delivered to the Trustee an opinion of Bond Counsel to the effect that the interest on such Additional Bonds is excluded from the gross income of the owners of such Additional Bonds for purposes of Federal income taxation.

"Third Party Engineer" is defined in Section 13.11 hereof.

"Third Party Engineer Dispute Resolution" means the procedure set forth in Section 13.11 hereof.

"Total Capitalization" of the Lessee shall mean the sum of (i) Long Term Debt plus (ii) the total of all capital stock of the Lessee plus all paid-in surplus, capital surplus, earned surplus and other surplus accounts of the Lessee, determined in accordance with GAAP.

"Trust Estate" is defined in the Granting Clauses of the Mortgage Indenture.

"Trustee" means First Fidelity Bank, National Association, a national banking association, as Trustee under the Indenture, and having its principal corporate office in Philadelphia, Pennsylvania, or any successor thereto pursuant to Section 705 of the Indenture.

"Uniform Commercial Code" shall mean the Uniform Commercial Code as in effect from time to time in the Commonwealth.

ARTICLE II

REPRESENTATIONS AND WARRANTIES OF THE LESSOR

The Lessor represents and warrants as follows:

(a) *Organization and Authority of the Lessor.* The Lessor (1) is a corporation duly organized and validly existing under the laws of its jurisdiction of incorporation, (2) is a single purpose entity organized for the purposes set forth in its Articles of Incorporation, (3) has all the requisite power and authority and all necessary licenses and permits to own the Facility and to carry on its business as now conducted and as presently proposed to be conducted, (4) has full power and authority to enter into the transactions contemplated by the Lessor Documents and to carry out its obligations under the Lessor Documents, including the issuance of the Mortgage Bonds, (5) is not in violation of any provisions of any Laws or any agreement or instrument to which the Lessor is a party or by which it is bound that could reasonably be expected to result in a Material Adverse Effect and (6) by proper corporate action has duly authorized the execution and delivery of the Lessor Documents.

(b) *No Conflicts; Laws and Contracts; No Default.* Neither the execution, delivery and performance by the Lessor of this Agreement and the other Lessor Documents nor the consummation of any of the transactions contemplated hereby or thereby nor performance of or compliance with the terms and conditions hereof or thereof by the Lessor (i) contravenes any Requirement of Law applicable to the Lessor or any of the Trust Estate which contravention could reasonably be expected to result in a Material Adverse Effect, (ii) conflicts with or constitutes a default under or results in the violation of the provisions of any Lessor Document, the Articles of Incorporation of the Lessor or any other agreement to which the Lessor is a party that could reasonably be expected to result in a Material Adverse Effect or (iii) results in the creation or imposition of any Liens (other than Permitted Encumbrances) on any of the Trust Estate.

(c) *Authorization; Execution and Delivery; Enforceability.* Each of the Lessor Documents has been duly authorized, executed and delivered by the Lessor and each constitutes the legal, valid and binding obligation of the Lessor enforceable against the Lessor in accordance with its terms, except as such enforceability (A) may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting the enforcement of creditors' rights and remedies generally and (B) is subject to general principles of equity (regardless of whether enforceability is considered in a proceeding in equity or at law).

(d) *Litigation.* Except as disclosed in the Official Statement, there is no litigation or proceeding pending, or to the knowledge of the Lessor threatened, against the Lessor, or to the knowledge of the Lessor affecting it, which would adversely affect the validity or enforceability of the Lessor Documents, or the ability of the Lessor to comply with its obligations under the Lessor Documents, or the transactions contemplated thereby.

(e) *Application of Proceeds.* The Lessor will apply the proceeds from the sale of the Bonds as specified in the Indenture and this Agreement.

(f) *Indebtedness.* The Lessor upon execution and delivery of the Lessor Documents will have no Debt outstanding other than the loan under the Indenture which is evidenced by the Mortgage Bonds.

(g) *Government Approvals.* To the knowledge of the Lessor, upon the performance of reasonable diligence in connection therewith, all material Governmental Approvals which are required to be obtained in the name of the Lessor in connection with the (i) construction and leasing of the Facility to the Lessee and (ii) the execution, delivery and performance by the Lessor of the Lessor Documents are set forth in Schedule I hereto. To the knowledge of the Lessor, each of such Governmental Approvals set forth in Part A of Schedule I has been obtained or made, was validly issued on the basis of an application and submission in respect thereof which was complete and accurate in all material respects, and is in full force and effect.

None of the Governmental Approvals set forth in Part B of Schedule I hereto relating to the Lessor are required to be obtained prior to the date hereof and the Lessor does not have any reason to believe it will be unable to obtain such Governmental Approvals in the ordinary course of business and at such time or times as may be necessary to avoid any substantial delay in, or material impairment to, the consummation and performance of the transactions contemplated by the Agreement and the other Facility Documents.

(h) *Taxes.* The Lessor has filed, or caused to be filed, all tax and information returns that are required to be filed by it in any jurisdiction, and has paid all taxes shown to be due and payable on such returns and all other taxes and assessments payable by it, to the extent the same have become due and payable.

(i) *Classification of Facility.* The Facility will be operated as "Pollution Control Facilities" within the meaning of the Act and used exclusively and solely as facilities for the furnishing of water within the meaning of Section 142(a)(4) of the Code and the regulations thereunder.

(j) *Title to Facility Site.* The Lessor has acquired good and clear record leasehold title to the Facility Site through the Site Lease, subject only to Permitted Encumbrances.

(k) *Information Furnished Bond Counsel.* The written information provided by the Lessor to Bond Counsel in the Federal Tax Statement is true and correct in all material respects.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF THE LESSEE

The Lessee represents and warrants as follows:

(a) *Organization, Power and Status of the Lessee.* The Lessee (i) is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth and (ii) is duly authorized to do business in the Commonwealth and, to the extent necessary, in each other jurisdiction where the character of its properties or the nature of its activities makes such qualification necessary. The Lessee is a water utility which is subject to regulations under the laws of the Commonwealth as a public service corporation. The Lessee has all requisite power and authority to lease and operate the property it purports to lease and to carry on its business as now being conducted and as proposed to be conducted in respect of the Facility.

(b) *Authorization; Enforceability; Execution and Delivery.* (i) The Lessee has all necessary power and authority to execute, deliver and perform under this Agreement and each other now existing Facility Document to which it is a party.

(ii) All action on the part of the Lessee that is required for the authorization, execution and delivery of this Agreement and each other Facility Document to which the Lessee is a party has been duly and effectively taken; and the execution and delivery of this Agreement and each such other Facility Document does not require the approval or consent of any holder or trustee of any Debt of the Lessee which has not been obtained.

(iii) Each of this Agreement and each other Facility Document to which the Lessee is a party constitutes the legal, valid and binding obligation of the Lessee enforceable against it in accordance with the terms thereof, except as such enforceability (A) may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting the enforcement of creditors' rights and remedies generally and (B) is subject to general principles of equity (regardless of whether enforceability is considered in a proceeding in equity or at law).

(c) *No Conflicts; Laws and Contracts; No Default.* (i) Neither the execution, delivery and performance by the Lessee of this Agreement nor of each other Facility Document to which the Lessee is a party nor the consummation of any of the transactions contemplated hereby or thereby nor performance of or compliance with the terms and conditions hereof or thereof by the Lessee (A) contravenes any Requirement of Law applicable to the Lessee or any of the Collateral which contravention could reasonably be expected to result in a Material Adverse Effect, (B) constitutes a default under or results in the violation of the provisions of the Articles of Incorporation of the Lessee or of any other Facility Documents that could reasonably be expected to result in a Material Adverse Effect or (C) results in the

creation or imposition of any Liens (other than Permitted Encumbrances) on any of the Collateral, or (D) results in the acceleration of any obligation of the Lessee under any of the Facility Documents.

(ii) The Lessee and the Facility are in compliance with and not in default under any and all Requirements of Law applicable to the Lessee or the Facility and all terms and provisions of all Facility Documents to which the Lessee is a party, unless such noncompliance or such default could not reasonably be expected to result in a Material Adverse Effect.

(d) *Governmental Approvals.* To the knowledge of the Lessee, upon the performance of reasonable diligence in connection therewith, all material Governmental Approvals which are required to be obtained in the name of the Lessee in connection with (i) the construction, operation and maintenance of the Facility and (ii) the execution, delivery and performance by the Lessee of the Facility Documents are set forth in Schedule I hereto. To the knowledge of the Lessee, upon the performance of reasonable diligence in connection therewith, all Governmental Approvals which are required to be obtained in the name of any of the Facility Participants other than the Lessee and Lessor in connection with the matters described in clauses (i) and (ii) of the preceding sentence, are set forth in Schedule II hereto, except for those Governmental Approvals the failure of which to obtain could not reasonably be expected to have a Material Adverse Effect.

To the knowledge of the Lessee, upon the performance of reasonable diligence in connection therewith, each of the Governmental Approvals set forth in Part A of Schedule I and in Schedule II hereto, has been duly obtained or made, was validly issued on the basis of an application and submission in respect thereof which was complete and accurate in all material respects, and is in full force and effect.

The Lessee, and to the knowledge of the Lessee upon the performance of reasonable diligence in connection therewith, each Facility Participant is in compliance with all Governmental Approvals listed in Part A of Schedule I and in Schedule II hereto, respectively, unless such noncompliance could not reasonably be expected to have a Material Adverse Effect.

None of the Governmental Approvals set forth in Part B of Schedule I hereto are required to be obtained prior to the date hereof.

The Lessee does not have any reason to believe that it will be unable to obtain the Governmental Approvals set forth in Part B of Schedule I hereto in the ordinary course of business and at such time or times as may be necessary to avoid any substantial delay in, or material impairment to, the consummation and performance of the transactions as contemplated by this Agreement and the other Facility Documents.

(e) *Litigation.* Other than as described in the Official Statement, there are no actions, suits or proceedings at law or in equity or by or before any Governmental

Authority now pending against the Lessee or to the best of the Lessee's knowledge, threatened against the Lessee or pending or threatened against any Facility Participant or any property or other assets or rights of the Lessee or any Facility Participant with respect to this Agreement or any other Facility Document or the Facility that could reasonably be expected to result in a Material Adverse Effect.

(f) *Collateral.* (i) The Lessee has valid leasehold rights or good title to the Collateral purported to be covered by the Security Documents to which it is a party, subject only to Permitted Encumbrances.

(ii) With respect to the personal property forming a part of the Collateral, all filings, recordings, registrations and other actions have been made, obtained and taken in all relevant jurisdictions that are necessary to create and perfect the Liens in favor of the Lessor in all right, title, estate and interest of the Lessee in the Collateral covered thereby subject to no prior, equal or junior Liens other than Permitted Encumbrances.

(iii) To the best knowledge of the Lessee after due inquiry, the Lessee has obtained and holds in full force and effect, or has the right to obtain, all patents, trademarks, copyrights and other such rights or adequate licenses therein, free from restrictions which could reasonably be expected to result in a Material Adverse Effect, which are necessary for the leasing, construction, operation and maintenance of the Facility.

(g) *Taxes.* The Lessee has filed, or caused to be filed, all tax and information returns that are required to have been filed by it in any jurisdiction, and has paid all taxes shown to be due and payable on such returns and all other taxes and assessments payable by it, to the extent the same have become due and payable, except to the extent there is a Good Faith Contest thereof by the Lessee.

(h) *Environmental Matters.* To the best knowledge of the Lessee, after due inquiry, the Site does not contain any Hazardous Materials or underground storage tanks that, under any Environmental Law currently in effect (A) could reasonably be expected to result in a Material Adverse Effect or (B) could reasonably be expected to result in the imposition of a Lien other than a Permitted Encumbrance on the Facility or the Site.

(i) *Information Furnished Bond Counsel.* The written information provided by the Lessee to Bond Counsel in the Federal Tax Statement is true and correct in all material respects.

(j) *No Prohibited Facilities.* No portion of the proceeds of the Tax-Exempt Bonds will be used to provide any facilities described in Section 147(e) of the Code.

ARTICLE IV

LEASE OF THE FACILITY AND RENTAL PROVISIONS

Section 4.1. Lease of the Facility; Commencement Date. The Lessor will lease to the Lessee and the Lessee will lease from the Lessor the Facility for and during the Lease Term provided and on and subject to the terms and conditions set forth in this Agreement. The Lessor shall acquire, construct, and install the Facility as specified in Section 6.3 hereof and the Lessee agrees during the term of this Agreement beginning with the Commencement Date to use and occupy the Facility in accordance with the Facility Documents to which it is a party.

Section 4.2. Duration of Term. The term of this Agreement shall commence as of the Closing Date, and unless terminated as provided in this Agreement, shall expire 40 years and 6 months after the Commencement Date (the "*Lease Term*").

The Lessor agrees to permit the Lessee to have and remain in sole and exclusive possession of the Facility immediately on the Commencement Date. Except as otherwise expressly provided in this Agreement or in the Indenture, neither the Lessor nor any person claiming through or under it shall enter on the premises demised hereby for any purpose without the prior written consent of the Lessee. The Lessor covenants and represents that it has full right and lawful authority to enter into this Agreement for its full term, including any extension of the term. As long as the Lessee shall duly perform all its obligations under this Agreement, the Lessee shall have the right to have, hold, and enjoy peaceful, quiet and undisputed possession of the Facility during the Lease Term, subject only to the matters specifically herein excepted, and the Lessor shall take all appropriate action requested by the Lessee to enforce such possession.

Section 4.3. Rental Provisions.

(a) *Basic Rent.* The Lessee covenants to pay to the Lessor as basic rent ("*Basic Rent*") the following amounts:

(i) on each Basic Rent Payment Date, the Lessee will pay for the month in which such Basic Rent Payment Date occurs the amount specified on Schedule III hereto under the heading "*Fixed Basic Rent*" for such month (such amount being the "*Fixed Basic Rent*" for such month) which will equal the sum of the following two amounts:

(A) the amount specified on Schedule III hereto under the heading "*Fixed Basic Rent - Debt Service Portion*" for such month (such amount being the "*Fixed Basic Rent for Debt Service*" for such month) which amount, when aggregated with the other payments of Fixed Basic Rent for Debt Service, (x) equals the aggregate amount of principal and interest scheduled to be paid on the Mortgage Bonds and (y) will permit the transfers by the Mortgage

Trustee required in Section 5.03(b)(ii) of the Mortgage Indenture to pay the Mortgage Bonds; and

(B) the amount specified on Schedule III hereto under the heading "Fixed Basic Rent - Non-Debt Service Portion for such month (such amount being the *"Additional Fixed Basic Rent"* for such month);

provided, however, the Fixed Basic Rent for the Commencement Month shall be a fraction of the monthly Fixed Basic Rent which has a numerator equal to the number of days in the period beginning on and including the Commencement Date and ending on and including the last day of the Commencement Month (assuming, however, that the Commencement Month consists of 30 days) and the denominator shall be 30 days (the *"Commencement Month Fixed Basic Rent"*) and (x) if the first Basic Rent Payment Date occurs in the Commencement Month, the Commencement Month Fixed Basic Rent shall be payable on such Basic Rent Payment Date and (y) if the first Basic Rent Payment Date occurs in the month following the Commencement Month, the Commencement Month Fixed Basic Rent shall be payable on such Basic Rent Payment Date in addition to the Fixed Basic Rent payable for such month.

(ii) on each Basic Rent Payment Date following the Commencement Month, the Lessee will pay an amount, if any, which constitutes a variable processing charge based upon the quantity of water treated by Lessee for the prior month, with an adjustment every five years to the charge based upon the Lessor's return on equity, all as calculated pursuant to the provisions set forth in Schedule III under the heading *"Percentage Rent"* (such amount being the *"Percentage Rent"*).

All such payments of Basic Rent are sometimes referred to as *"Basic Rent Payments"*. In the event that the Mortgage Trustee shall receive (i) any business interruption insurance proceeds for deposit in the Revenue Account, (ii) any amounts from the Insurance and Condemnation Proceeds Account for deposit in the Revenue Account pursuant to Section 5.05 of the Mortgage Indenture or (iii) earnings on moneys in the Debt Service Reserve Fund for deposit in the Revenue Account pursuant to Section 311(b) of the Indenture, the Basic Rent due thereafter shall be reduced in an aggregate amount equal to the amount of such deposit, with such reduction being applied to Basic Rent due thereafter in chronological order. In the event that any payment by the Lessee of Basic Rent for a Basic Rent Payment Date is less than the amount due on such Basic Rent Payment Date, such payment shall be applied to the payment of Basic Rent then due in the following order: first, to Fixed Basic Rent for Debt Service then due, second, to Additional Fixed Basic Rent then due and third, to Percentage Rent then due.

(b) *Adjustments to Basic Rent.*

(i) In the event that the Debt Service shall be reduced (A) by the redemption of a portion of the Outstanding Mortgage Bonds by the Lessor pursuant to Section 4.07(a) of the Mortgage Indenture to reduce Debt Service for purposes specified in Section 7.1(1) hereof, or (B) by the refunding of Outstanding Mortgage

Bonds with Additional Mortgage Bonds issued by the Lessor pursuant to Section 2.04(d) of the Mortgage Indenture or (C) by the redemption of a portion of the Outstanding Mortgage Bonds by the Lessor pursuant to a Capital Replacement Fund Redemption under Section 4.07(c) of the Mortgage Indenture, the Fixed Basic Rent for Debt Service as set forth on Schedule III shall be amended so that the amount of the revised Fixed Basic Rent for Debt Service for each Basic Rent Payment Date, when aggregated with the other revised payments of Fixed Basic Rent for Debt Service, (x) equals the reduced aggregate amount of scheduled payments of principal and interest on the Mortgage Bonds after giving effect to such event and (y) will permit the transfers by the Mortgage Trustee required in Section 5.03(b)(ii) of the Mortgage Indenture to pay the Mortgage Bonds; *provided, however*, that (1) the aggregate Fixed Basic Rent payable on each Basic Rent Payment Date after such event shall remain the same as it was prior to such event and Additional Fixed Basic Rent shall be amended on such Schedule III so that for any Basic Rent Payment Date thereafter the sum of the Fixed Basic Rent for Debt Service and Additional Fixed Basic Rent payable on such Basic Rent Payment Date shall equal the aggregate Fixed Basic Rent for such Basic Rent Payment Date set forth on Schedule III prior to the amendment required by such event, (2) in the event that as a result of the redemption described in clause (A) of this Section 4.3(b)(i), the Lessee and the Lessor shall enter into an amendment to this Agreement pursuant to and in compliance with the conditions and provisions of Section 14.1(b)(i) hereof, the provisions of clause (1) of this Section 4.3(b)(i) shall not be applicable and upon the execution and delivery of such amendment, the Fixed Basic Rent and Additional Fixed Basic Rent shall be adjusted as provided in such amendment, (3) in the event that as a result of the refunding described in clause (B) of this Section 4.3(b)(i), the Lessee and Lessor shall enter into an amendment to this Agreement pursuant to and in compliance with the conditions and provisions of Section 14.1(b)(ii) hereof, the provisions of clause (1) of this Section 4.3(b)(i) shall not be applicable and upon the execution and delivery of such amendment, the Fixed Basic Rent and Additional Fixed Basic Rent shall be adjusted as provided in such amendment and (4) in the event that as a result of the redemption described in clause (C) of this Section 4.3(b)(i), the Lessee and the Lessor shall enter into an amendment to this Agreement pursuant to and in compliance with the conditions and provisions of Section 14.1(b)(iii) hereof, the provisions of clause (1) of this Section 4.3(b)(i) shall not be applicable and upon the execution and delivery of such amendment, the Fixed Basic Rent and Additional Fixed Basic Rent shall be adjusted as provided in such amendment.

(ii) In the event that Outstanding Mortgage Bonds shall be redeemed in part pursuant to Section 4.09(a) of the Mortgage Indenture due to a Determination of Taxability, Section 4.09(b) of the Mortgage Indenture with excess Bond proceeds and/or Section 4.09(d) of the Mortgage Indenture with a termination payment from the Contractor, any decrease in scheduled payments of principal and interest on the Mortgage Bonds resulting from any such redemptions shall be subtracted from Fixed Basic Rent for Debt Service and from Fixed Basic Rent and in each case Schedule III shall be amended so that (A) the amount of the revised Fixed Basic Rent for Debt Service for each Basic Rent Payment Date, when aggregated with the other revised

payments of Fixed Basic Rent for Debt Service, (x) equals the reduced aggregate amount of scheduled payments of such principal and interest due on the Mortgage Bonds and (y) will permit the transfers by the Mortgage Trustee required in Section 5.03(b)(ii) of the Mortgage Indenture to pay the Mortgage Bonds and (B) Fixed Basic Rent payable on any Basic Rent Payment Date for which there has been a reduction in Fixed Basic Rent for Debt Service, shall also be reduced by the amount of such reduction.

(iii) If any Additional Mortgage Bonds shall be issued by the Lessor to pay for completion of the Facility pursuant to Section 2.04(b) of the Mortgage Indenture or for improvements to the Facility pursuant to Section 2.04(c) of the Mortgage Indenture, any increase in scheduled payments of principal and interest on the Mortgage Bonds resulting from such issuance shall be added to Fixed Basic Rent for Debt Service and to the Fixed Basic Rent and in each case Schedule III shall be amended so that (A) the amount of the revised Fixed Basic Rent for Debt Service for each Basic Rent Payment Date, when aggregated with the other revised payments of Fixed Basic Rent for Debt Service, (x) equals the increased aggregate amount of scheduled payments of such principal and interest due on the Mortgage Bonds and (y) will permit the transfers by the Mortgage Trustee required in Section 5.03(b)(ii) of the Mortgage Indenture to pay the Mortgage Bonds, and (B) Fixed Basic Rent payable on any Basic Rent Payment Date for which there has been an increase in Fixed Basic Rent for Debt Service, shall also be increased by the amount of such increase.

(iv) In the event that Schedule III is required to be amended pursuant to the preceding provisions of this Section 4.3(b) or any amendment to this Agreement pursuant to Section 14.1(b), the Lessee, concurrently with or prior to the event as a result of which Schedule III is required to be amended, shall prepare and deliver to the Trustee, the Mortgage Trustee, the Lessor and the Independent Engineer, the required amended Schedule III to this Agreement and upon the date of such delivery the amended Schedule III shall become effective; *provided*, that the Lessor, the Mortgage Trustee, the Trustee and the Independent Engineer will be furnished with a draft of the proposed amended Schedule III by the Lessee at least five Business Days prior to the date of such delivery.

(c) *Additional Rent.* All amounts and liabilities which the Lessee is required to pay under this Agreement other than Basic Rent, together with any penalty, interest and cost which may be added for nonpayment or late payment thereof shall constitute additional rent hereunder ("*Additional Rent*"). If the Lessee shall fail to pay such Additional Rent when the same shall become due, the Lessor shall have all the rights, powers and remedies with respect thereto as are provided herein or by law in the case of nonpayment of Basic Rent and shall, except as provided herein, have the right to pay the same on behalf of the Lessee.

(d) *Commencement Date Proration of Expenditures.* During the Construction Period, the Lessor as provided in Section 6.3(b), shall be obligated to make or cause to be made the necessary expenditures (i) to keep and maintain in effect insurance specified therein, and (ii) to pay all taxes, assessments and other governmental charges prior to the

time penalties attached during the Construction Period. Upon the Commencement Date all such expenditures which have been made by the Lessor shall be prorated to the Commencement Date and the Lessee shall pay to the Lessor as Additional Rent, an amount which will reimburse the Lessor for any expenditures described in the preceding sentence which are not allocable to the Construction Period and the Lessee will receive a credit against such amount for any expenditures which are to be made by the Lessee on or after the Commencement Date to pay insurance costs, taxes, assessments and other governmental charges as provided in Sections 5.8 and 5.9 which are allocable to the Construction Period; *provided*, that (A) if the amount of such credit exceeds the amount to be paid by the Lessee to reimburse the Lessor, the Lessor shall pay the Lessee an amount equal to the excess and (B) if the actual amount of any liability for which such expenditures have been or shall be made are not certain in the opinion of the Independent Engineer such liability shall be estimated by the Independent Engineer and an appropriate payment adjustment shall be made by the Lessor or Lessee, as the case may be, at such time as the Independent Engineer shall certify in a certificate delivered to the Lessor and Lessee that the actual amount of such liability has been determined, the actual amount thereof and the payment adjustment.

(e) *Net Lease.* This Agreement is a net lease commencing on the Commencement Date and, any present or future Law to the contrary notwithstanding, shall not terminate except as otherwise specifically provided herein, nor shall the Lessee be entitled to any abatement or reduction, set-off, counterclaim, defense or deduction with respect to any Basic Rent or Additional Rent, nor shall the obligations of the Lessee hereunder be affected except as otherwise expressly provided herein. The Lessee shall remain obligated under this Agreement in accordance with its terms and shall not take any action to terminate, rescind or avoid this Agreement, notwithstanding any bankruptcy, insolvency, reorganization, liquidation, dissolution or other proceeding affecting the Lessor, or any action with respect to this Agreement which may be taken by any trustee, receiver or liquidator or by any court.

(f) *Payment of Basic Rent.* Any Basic Rent Payments shall be made in immediately available funds as directed by the Mortgage Trustee.

Section 4.4. Casualty and Governmental Authority Acquisition. (a) (i) Subject to the provisions of Section 4.4(d) hereof, if prior to the end of the Lease Term, there shall be a loss or damage to the Facility by reason of the occurrence of a Casualty or a Governmental Authority Acquisition, the Lessee shall be obligated to continue to make the payments required to be made by the Lessee under this Agreement.

(ii) Subject to the provisions of Section 4.4(d) hereof, the proceeds of any insurance received by reason of a Casualty, or any award or other compensation paid by reason of a Governmental Authority Acquisition (excluding any amounts which the Lessee under the Site Lease is entitled to receive as owner of the Facility Site), shall be deposited in the Insurance and Condemnation Proceeds Account and, except for proceeds of business interruption insurance, shall be disbursed therefrom, after deducting any reasonable and necessary expense incurred by the Lessor, the Mortgage Trustee or the Lessee in collecting such proceeds, as provided in Section 5.05 of the Mortgage Indenture.

(b) Immediately after the occurrence of a Casualty, the Lessee shall notify the Independent Engineer, the Mortgage Trustee, the Trustee and the Lessor in writing of such event. The Lessee hereby agrees that the Mortgage Trustee shall apply amounts representing the net proceeds of insurance paid on account of such Casualty in the Insurance and Condemnation Proceeds Account in accordance with Section 5.05 of the Mortgage Indenture.

(c) Immediately after the commencement of any proceedings by a Governmental Authority for the purpose of obtaining a Governmental Authority Acquisition, the Lessee shall notify the Independent Engineer, the Lessor, the Mortgage Trustee and the Trustee thereof in writing. The Lessee hereby agrees that the Mortgage Trustee shall apply amounts representing the net proceeds of any such Governmental Authority Acquisition in the Insurance and Condemnation Proceeds Account in accordance with Section 5.05 of the Mortgage Indenture.

(d)(i) If an occurrence of the character referred to in paragraph (i) or (ii) of Section 4.4(a) other than a Hingham Lessee Succession, involves a loss or damage exceeding an amount which is equal to 10% of the Stipulated Loss Value determined as of the next Basic Rent Payment Date (the "*Substantial Loss Amount*") and the Lessee concludes that the loss or damage is such that the restoration of the Facility or the continued use of the Facility is impossible or materially uneconomic (any such loss or damage being a "*Substantial Loss*"), the Lessee shall, not later than 30 days after the occurrence thereof, deliver to the Lessor, the Independent Engineer, the Mortgage Trustee and the Trustee a notice in writing (a "*Termination Notice*") describing the event which took place causing such loss or damage, setting forth the reasons why the Lessee is of the opinion that it is a Substantial Loss and declaring the intention of the Lessee to terminate this Agreement as a result of the Substantial Loss. Within 30 days following its receipt of a Termination Notice, the Independent Engineer shall deliver its report to the Lessee, the Lessor, the Mortgage Trustee and the Trustee as to whether the Independent Engineer concurs with the opinion of the Lessee that the loss or damage is a Substantial Loss. If either (A) the report of the Independent Engineer concurs that the loss or damage is a Substantial Loss, or (B) if the Independent Engineer does not concur but a Third Party Engineer requested by the Lessee pursuant to Section 13.11 of this Agreement determines that the Independent Engineer is incorrect, the Lessee on the Basic Rent Payment Date next following the date of delivery of such report or the date of such determination, as the case may be, shall prepay the Fixed Basic Rent in an amount equal to the Stipulated Loss Value as of such Basic Rent Payment Date and pay any other unpaid rent which is due and payable on such Basic Rent Payment Date, such amount to be deposited in the Redemption Account for distribution in accordance with Section 5.04 of the Mortgage Indenture and upon such deposit and payment by the Lessor this Agreement shall terminate; *provided, however*, that in the event that subsequent to such termination the Lessor shall sell or lease the Facility, the Lessor shall mitigate the damages suffered by the Lessee in paying the Stipulated Loss Value to the same extent the Lessor would be required to mitigate damages under Section 9.2 in the event of a prepayment of Fixed Basic Rent due to an Economic Abandonment Determination.

(ii) If an occurrence of the character referred to in clauses (i) or (ii) of Section 4.4(a) other than a Hingham Lessee Succession, involves a loss or damage which is less than the Substantial Loss Amount, or, if the amount of such loss or damage equals or exceeds the Substantial Loss Amount and either (A) the Lessee shall not have delivered a Termination Notice as required by Section 4.4(d)(i) or (B) such Termination Notice was delivered by the Lessee as required by Section 4.4(d)(i) but the requirements set forth in Section 4.4(d)(i) to terminate this Agreement shall not have been met, then this Agreement shall continue in full effect and the Lessee, with the proceeds from the Insurance and Condemnation Proceeds Account, shall proceed promptly to restore the Facility as hereinafter provided. The Lessee shall have the obligation to restore the Facility in all material respects to its condition immediately prior to the occurrence which caused the loss or damage referred to in the preceding sentence and in the event that the proceeds in the Insurance and Condemnation Proceeds Account are insufficient to complete such restoration, the Lessee shall be required to deposit such additional amounts in the Insurance and Condemnation Proceeds Account pursuant to Section 5.05 of the Mortgage Indenture as shall be necessary in order to complete such restoration; *provided*, that (i) the additions and replacements which constitute such restoration shall not be considered to be Facility Modifications, and (ii) the Lessee shall not be entitled to be repaid under Article X for its expenditure of such additional amounts.

(iii) Upon the occurrence of a Hingham Lessee Succession, this Agreement shall continue in full force and effect and (A) the Town of Hingham ("*Hingham*") shall become obligated to perform all of the duties and obligations of the Lessee under this Agreement (except those obligations which by their nature cannot be performed by a municipal government), and shall become entitled to substantially all rights, privileges and benefits of, the Lessee under this Agreement and (B) Massachusetts-American Water Company ("*Mass-Am*") shall have no further duties or obligations under this Agreement, except that:

(u) Mass-Am shall continue to be obligated to comply with the provisions of Sections 5.14 and 5.17 hereof and Hingham shall not be subject to compliance with Sections 5.14 and 5.17 and all references to the term "*Lessee*" in such provisions and in the related definitions used to determine compliance with Sections 5.14 and 5.17 and for any other computations of the Coverage Ratio shall be deemed to refer to Mass-Am and not to Hingham,

(v) Mass-Am shall continue to be obligated to furnish to the parties specified in the lead-off provisions of Section 5.1 the financial information required by Section 5.1(b) where the references to the term "*Lessee*" therein and in the related definitions used therein shall be deemed to refer to Mass-Am and not to Hingham and the requirements of Section 5.1(b) shall be deleted from the reporting requirements for Hingham as Lessee under Section 5.1,

(w) Hingham shall deliver to Mass-Am a copy of all reports, notices and other information required to be delivered by the Lessee to the Lessor under this Agreement,

(x) in the event that Mass-Am shall fail to comply with Sections 5.14, 5.17 or 5.1 as set forth above, such failure to comply shall constitute an Event of Default by the Lessee under the paragraph of Section 7.1 which applies to such Section 5.14, 5.17 or 5.1, as the case may be, but only after the applicable grace periods have elapsed, and for purposes of this determination references in the applicable paragraph of Section 7.1 to the term "*Lessee*" and the related definitions shall be deemed to refer to Mass-Am,

(y) in the event that an Event of Default occurs, Hingham shall be primarily liable for the payment of all amounts due the Lessor under Article VII, *provided*, that Mass-Am shall also remain liable for such payments and if and to the extent that Mass-Am shall make any such payments, Mass-Am shall be subrogated to the rights of the Lessor against Hingham for such payments, and

(z) Hingham shall not succeed to any right of Mass-Am as Lessee (A) to request or direct the Lessor (i) to issue Additional Mortgage Bonds under the Mortgage Indenture, (ii) to refund any Outstanding Mortgage Bonds, (iii) to redeem any Outstanding Mortgage Bonds or (B) with respect to the rights of the Lessee in Article XII.

Section 4.5. Security Interest in Collateral. So long as any of the Mortgage Bonds remain Outstanding, in order to (x) provide for the operation and maintenance of the Facility, (y) secure the prompt payment of all amounts due under this Agreement, to the extent provided herein and in the Indenture and (z) secure the due performance and observance by the Lessee of all covenants, agreements and provisions of this Agreement, for the uses and purposes and subject to the terms hereof and of the Indenture, the Lessee does hereby mortgage, grant, assign, transfer, convey, pledge and confirm unto the Lessor, its successors and assigns, in trust, a security interest in all right, title and interest of the Lessee in and to the following collateral (the "*Collateral*"):

- (a) this Agreement;
- (b) the AWW Capital Contribution Agreement;
- (c) all Governmental Approvals, to the extent assignable; and

(d) any and all proceeds of any public liability insurance, automobile liability insurance, insurance covering a loss due to an interruption in the operation of any portion of the Facility (including business interruption and use and occupancy insurance or any other insurance), casualty insurance and insurance for the repair or replacement of any portion of the Facility maintained by the Lessee in connection with the Facility.

ARTICLE V

LESSEE COVENANTS AND AGREEMENTS

The Lessee hereby covenants and agrees:

Section 5.1. Reporting Requirements. The Lessee shall furnish (i) to the Lessor, (ii) to the Mortgage Trustee, (iii) to the Trustee, (iv) upon written request, to any holder of at least \$1,000,000 in aggregate principal amount of the Mortgage Bonds Outstanding, and (v) upon written request, to any Bondholder or any Beneficial Owner of at least \$1,000,000 in aggregate principal amount of the Bonds Outstanding:

(a) as soon as practicable and in any event within 60 days after the end of the first, second and third quarterly accounting periods of each Fiscal Year of the Lessee (commencing with the quarter ending June 30, 1995), an unaudited balance sheet of the Lessee as of the last day of such quarterly period and the related statements of income and cash flows for the portion of the Fiscal Year ending with the last day of such quarterly period, setting forth in each case in comparative form the unaudited figures for the corresponding period from the preceding Fiscal Year and accompanied by an Officer's Certificate to the effect that such financial statements fairly represent the Lessee's financial condition and results of operations at and as of their respective dates;

(b) as soon as practicable and in any event within 120 days after the end of each Fiscal Year (commencing with the Fiscal Year ending December 31, 1995), (i) a balance sheet of the Lessee as of the end of such Fiscal Year and the related statements of income and cash flow during such Fiscal Year setting forth in each case in comparative form the figures from the preceding Fiscal Year, accompanied by an audit report thereon of a firm of independent public accountants of recognized national standing selected by the Lessee and (ii) an Officer's Certificate setting forth the Coverage Ratio as of the end of such Fiscal Year;

(c) at the same time as the annual financial statements are delivered pursuant to clause (b) above, an Officer's Certificate (i) confirming that all insurance policies required pursuant to Section 5.8 are in full force and effect on the date thereof, (ii) confirming the names of the companies issuing such policies, (iii) confirming the amounts and expiration dates of such policies, (iv) stating that payment of premiums on such policies has been made, (v) stating that such policies comply with the requirements of Section 5.8 and (vi) including a summary of all claims against insurance and the status of each during the preceding Fiscal Year;

(d) at the same time as the financial statements are delivered pursuant to clauses (a) and (b) above, an Officer's Certificate to the effect that (i) no Event of Default exists under this Agreement and (ii) to the knowledge of the Lessee, no default by the Lessee which could not reasonably be expected to be cured within the applicable cure period or, in either case, if such statement cannot be so certified,

specifying in reasonable detail the exceptions to such statement and the actions to be taken with respect to such exceptions;

(e) each of the following items:

(i) promptly after the Lessee learns of the occurrence thereof, written notice of the occurrence of any event or condition which constitutes (or that, upon notice or lapse of time or both, would constitute) an Event of Default under this Agreement, specifically stating that such event or condition has occurred and describing it and any action being or proposed to be taken with respect thereto;

(ii) written notice of the occurrence of any Governmental Authority Acquisition or any Casualty and an Officer's Certificate setting forth the details thereof and the action which the Lessee is taking or proposes to take with respect thereto; and

(iii) written notice of the occurrence of any event giving rise to a claim under any insurance policy which might be expected to be in an amount greater than \$500,000 (escalating at the CPI from June, 1995) together with copies of any document relating thereto (including copies of any such claim) in possession or control of the Lessee or any agent thereof; and

(f) copies of any information required to be furnished under this Agreement to any securities pricing service designated in a notice to the Lessee from a Bondholder or Beneficial Owner; *provided* that the Lessee agrees that in the event that it shall be provided under any statute or rule of the Securities and Exchange Commission, Municipal Securities Rulemaking Board or other regulatory body that information relating to the Lessor, the Lessee or any other Person be made available to the public or any Person (including without limitation any municipal securities information depository) in order to assure the liquidity of the Bonds, then the Lessee shall use its best efforts to cause such information to be so made available.

Section 5.2. Final DPU Rate Orders and Reaffirmation of Bond Rating. The Lessee agrees to use all reasonable efforts (i) to obtain from the Massachusetts Department of Public Utilities (the "DPU") at the earliest time on or after the Commencement Date occurs, a final and unappealable rate order issued by the DPU (the "*Final DPU Rate Order*") approving an increase in rates resulting from the construction of the Facility (the "*Facility Rate Increase*") to be charged by the Lessee to its ratepayers in Hingham, Hull, Norwell and Cohasset who will be served by the Facility (the "*Facility Ratepayers*"), (ii) to obtain the Bond Rating Reaffirmation at the earliest time on or after the Commencement Date, and (iii) in the event that Improvement Bonds shall be issued, to obtain from the DPU either prior to or at the earliest time after the issuance of such Improvement Bonds a Final DPU Rate Order approving a Facility Rate Increase to be charged by the Lessee to the Facility Ratepayers.

Section 5.3. Operating Disclosure. Commencing with the semi-annual operating report hereinafter described for the first six month period which ends more than 90 days after the Commencement Date and continuing so long as any of the Mortgage Bonds remain Outstanding, the Lessee shall provide semi-annual operating reports, as described below, to the Trustee, the Mortgage Trustee, the Lessor, the Independent Engineer and upon written request, to (x) any Bondholders or any Beneficial Owners of at least \$1,000,000 in aggregate principal amount of the Bonds Outstanding, and (y) to the holders of at least \$1,000,000 in aggregate principal amount of Outstanding Mortgage Bonds, no later than 30 days after each June 30 and December 31. The operating reports shall include, for the previous six or 12 months, as the case may be, statistics relating to plant availability, Rent payments, the quantity of water treated by the Lessee, the Debt Service Coverage Ratio for the four immediately preceding Fiscal Quarters, the estimated Debt Service Coverage Ratio for the current Fiscal Year and comparative operating budget data for the previous and the current year and actual costs incurred for the year to date.

Section 5.4. Annual Forecast. Not less than (i) 60 days prior to the first day of each full Fiscal Year following the Commencement Date and (ii) 90 days following the Commencement Date if the Commencement Date is more than six months prior to the end of the Fiscal Year in which it occurs, the Lessee shall submit to the Independent Engineer, the Lessor, the Mortgage Trustee and the Trustee in draft form an operation plan and a budget, detailed by month as hereinafter specified (the "Annual Forecast"), provided that (x) if the Commencement Date is more than six months prior to the end of the Fiscal Year in which it occurs, the first Annual Forecast shall cover the period from the Commencement Date through the end of the Fiscal Year in which it occurs or (y) if the Commencement Date is within the last six months of the Fiscal Year in which it occurs, the first Annual Forecast shall cover the period from the Commencement Date through the end of the Fiscal Year which follows the Fiscal Year in which the Commencement Date occurs. Each Annual Forecast shall specify the estimated Basic Rent payments, the estimated quantity of water to be treated by the Lessee, and contain calculations in reasonable detail which will provide (A) the estimated Debt Service Coverage Ratio for the current Fiscal Year and (B) the Projected Debt Service Coverage Ratio for the immediately succeeding Fiscal Year. If the Annual Forecast provides that both the estimated Debt Service Coverage Ratio for the current Fiscal Year and the Projected Debt Service Coverage Ratio for the immediately succeeding Fiscal Year (collectively, the "Current Performance Ratios") exceed 1.25, the Annual Forecast shall not be required to be submitted to the Independent Engineer and shall then be provided to the Lessor, the Mortgage Trustee and the Trustee. If, however, both Current Performance Ratios do not exceed 1.25, the Lessee shall submit the draft of the proposed Annual Forecast to the Independent Engineer which shall provide its comments, if any, to the Lessee within 30 days of its receipt thereof and the Lessee shall incorporate the Independent Engineer's reasonable suggestions into a final Annual Forecast, which, so long as any Mortgage Bonds remain Outstanding, shall then be provided to the Lessor and the Trustee. If, after reasonable efforts, the Lessee and the Independent Engineer cannot concur on items in a final Annual Forecast, the Lessee may invoke the Third Party Engineer Dispute Resolution described in Section 13.11. The Lessee will use reasonable efforts, consistent with normal operations and requirements, to operate and maintain the Facility, or cause the Facility to be operated and maintained, substantially in accordance with the Annual Forecast

which is delivered to the Lessor, the Mortgage Trustee and the Trustee pursuant to the foregoing provisions of this Section 5.4.

Section 5.5. Maintenance Plan. The Lessee shall prepare for the first full Fiscal Year which begins more than 90 days after the Commencement Date and for every Fiscal Year thereafter, and shall submit to the Independent Engineer a maintenance plan which forecasts major maintenance for the next five years (the "*Maintenance Plan*") and shall be submitted at the same time as the Annual Forecast; *provided, however*, that if the Annual Forecast shall demonstrate that both of the Current Performance Ratios exceed 1.25, a Maintenance Plan shall not be required to be submitted to the Independent Engineer and shall then be provided to the Lessor, the Mortgage Trustee and the Trustee. If, however, both Current Performance Ratios do not exceed 1.25, the Lessee shall submit the Maintenance Plan to the Independent Engineer which shall provide its comments, if any, to the Lessee within 30 days of its receipt of the proposed Maintenance Plan and the Lessee shall incorporate the Independent Engineer's reasonable suggestions into a final Maintenance Plan, which, so long as any of the Mortgage Bonds remain Outstanding, shall then be provided to the Trustee, the Mortgage Trustee and the Lessor. If, after reasonable efforts, the Lessee and the Independent Engineer cannot concur on items in a final Maintenance Plan, the Lessee may invoke the Third Party Engineer Dispute Resolution described in Section 13.11.

Section 5.6. Maintenance of Existence, Properties, Maintenance of Property, Facility Status, Governmental Approvals, Audit Expenses. (a) The Lessee shall preserve and maintain (i) its legal existence as a corporation and its good standing under the laws of the Commonwealth and its qualification to do business in the Commonwealth and (ii) all of its rights, privileges and franchises necessary for the operation of the Facility and the maintenance of its existence.

(b) The Lessee shall perform in all material respects all of its covenants and agreements contained in any of the then existing Facility Documents to which it is a party, the nonperformance of which could reasonably be expected to result in a Material Adverse Effect.

(c) From and after the Commencement Date, the Lessee will maintain and operate the Facility, or cause the Facility to be maintained and operated (i) in good order and repair, (ii) in compliance with the provisions of the Facility Documents, the noncompliance with which could reasonably be expected to result in a Material Adverse Effect, and (iii) substantially in accordance with Prudent Engineering and Operating Practices. From and after the Commencement Date the Lessee will pay or cause to be paid all charges for utilities supplied to the Facility. From and after the Commencement Date, the Lessee shall have the sole right to direct the sale of any property or assets from the Facility subject to the provisions of Section 5.16 hereof and other provisions of the Facility Documents.

(d) The Lessee agrees that it will not use any plant or water treatment facilities other than this Facility to provide treated water to the ratepayers in the towns of Hingham, Hull, Norwell and Cohasset.

(e) The Lessee shall use all reasonable efforts to obtain and to maintain in full force and effect all Governmental Approvals that are necessary from time to time (i) to conduct its business as currently conducted and as proposed to be conducted, (ii) for the Facility to treat water in accordance with and as contemplated by the Construction Contract and (iii) to perform its obligations under the Facility Documents to which it is a party, unless the failure to so obtain or maintain any such Governmental Approval could not reasonably be expected to result in a Material Adverse Effect.

(f) The Lessee shall preserve and maintain good title or valid leasehold rights to the Facility Site and the Collateral purported to be subject to the Lien of the Security Documents to which it is a party, subject only to Permitted Encumbrances and the terms of the then existing Facility Documents, unless such failure could not reasonably be expected to result in a Material Adverse Effect.

(g) So long as the Lessee operates the Facility, it will operate it as "Pollution Control Facilities" as contemplated by the Act and, so long as any Tax-Exempt Bonds remain Outstanding, it will use all portions of the Facility financed in whole or in part from proceeds of Tax-Exempt Bonds exclusively and solely as facilities for the furnishing of water within the meaning of Section 142(a)(4) of the Code and the regulations promulgated thereunder, and will not take or omit to take any action that would cause interest on the Tax-Exempt Bonds to be included in gross income for federal income tax purposes.

(h) The Lessee agrees to pay all expenses incurred by the Lessor in connection with any rating of the Bonds, including the costs of any audits or preparation of other financial information of the Lessor required for such purposes.

Section 5.7. Compliance with Laws. The Lessee shall comply in all material respects with all Requirements of Law applicable to the Lessee or the Facility (a) in conducting its business as currently conducted and as proposed to be conducted pursuant to the then existing Facility Documents and (b) in performing its material obligations under the Facility Documents except for any Requirements of Law the noncompliance with which could not reasonably be expected to result in a Material Adverse Effect.

Section 5.8. Insurance. (a) To the extent available on commercially reasonable terms, the Lessee shall at all times from and after the Commencement Date and during the Lease Term effect, maintain and keep in force, or cause to be effected, maintained and kept in force, the insurance listed in Schedule IV. Insurance required pursuant to Schedule IV shall be with responsible insurance carriers which are authorized to do business in the Commonwealth and have a Best's Rating of "A-XII" or as agreed upon by the Lessor and the Lessee.

(b) The Mortgage Trustee shall be named as a joint loss payee under all required property and business interruption/extra expense insurance, and shall be named as an additional insured as its interest may appear with respect to the insurance required by Schedule IV. The Lessor and the Mortgage Trustee (so long as any Mortgage Bonds remain Outstanding) shall also be named as additional insureds with respect to General Liability,

Excess Liability and Automobile Liability insurance required by Schedule IV, as to claims based upon or relating to the acts or omissions of the Lessee, in connection with the Facility.

(c) The insurance carried in accordance with Schedule IV shall include the following provisions:

(i) To the extent permitted by Law, all insurers shall waive all rights of subrogation against the Mortgage Trustee and its respective officers, employees, agents, successors and assigns, and shall waive any right of set-off and counterclaim and any other right to deduction whether by attachment or otherwise;

(ii) Such insurance shall be primary without right of contribution of any other insurance carried by or on behalf of the Mortgage Trustee, with respect to its interest as such in the Facility and each policy shall contain a severability-of-interests or cross liability provision; and

(iii) If, at any time, such insurance is canceled, or any material change is made in the coverage which affects the interests of the Mortgage Trustee, such cancellation or change shall not be effective as to the Mortgage Trustee for 60 days, except for nonpayment of premium, which shall be ten days, after receipt by the Mortgage Trustee of written notice from such insurer of such cancellation or change.

(d) Upon procurement by the Lessee of the insurance set forth in Schedule IV, the Lessee shall furnish to the Mortgage Trustee certification of all required insurance. Such certification shall be executed by each insurer or by an authorized representative of each insurer. Such certification shall identify insurers, the type of insurance, the insurance limits, a description of the Facility and/or operations, the risks covered thereby and the policy term. The Lessee shall certify that the premiums on all such policies have been paid in full for the current year or will be paid when due. Upon request by the Mortgage Trustee, the Lessee will promptly furnish to the Mortgage Trustee copies of all insurance policies, binders and cover notes or other evidence of such insurance relating to the Facility. Notwithstanding anything contained herein to the contrary, the Lessee shall furnish to the Trustee, the Mortgage Trustee, any Bondholder or Beneficial Owner of at least \$1,000,000 in aggregate principal amount of Bonds Outstanding and any holder of at least \$1,000,000 of Outstanding Mortgage Bonds requesting the same, copies of all insurance policies, binders and cover notes or other evidence of such insurance relating to the Facility.

(e) If at any time any of the insurance required pursuant to this Section 5.8 shall no longer be available on commercially reasonable terms, the Lessee shall procure substitute insurance coverage that is the most equivalent to the required coverage and available on commercially reasonable terms. The Lessee shall deliver to the Mortgage Trustee a certificate of the Independent Insurance Advisor stating that the required insurance coverage is no longer available on commercially reasonable terms and that the proposed substitute insurance coverage is the most equivalent to the required coverage available on commercially reasonable terms.

(f) The loss, if any, under any property and/or business interruption/extra expense insurance required to be carried under Schedule IV shall be adjusted with the insurance companies or otherwise collected, including the filing in a timely manner of appropriate proceedings, by the Lessee. In addition, the Lessee shall take all other steps necessary or requested by the Mortgage Trustee to collect from insurers any loss covered by any of the insurance policies in Schedule IV. All such policies shall provide that the loss, if any, under such insurance shall be adjusted and paid as provided in this Section 5.8.

(g) The Lessor, the Lessee and the Mortgage Trustee shall cooperate and consult with each other in all matters pertaining to the settlement or adjustment of any and all claims and demands for damages on account of any taking or condemnation of the Facility or pertaining to the settlement, compromise or arbitration of any claim on account of any damage or destruction of the Facility or any portion thereof.

(h) No provision of this Section or any other provision of this Agreement shall impose on the Mortgage Trustee any duty or obligation to verify the existence or adequacy of the insurance coverage maintained by the Lessee, nor shall the Mortgage Trustee be responsible for any representations or warranties made by or on behalf of the Lessee to any insurance company or underwriter.

Section 5.9. Payment of Taxes and Claims. From and after the Commencement Date, the Lessee shall, prior to the time penalties shall attach thereto, pay and discharge or cause to be paid and discharged all taxes, assessments and governmental charges or levies lawfully imposed upon it or upon its income or profits or upon any of the Trust Estate and all lawful claims or obligations which either constitute a Lien upon, or, if unpaid, would become a Lien upon the Trust Estate, real or personal, or upon any part thereof; *provided* the Lessee shall not be required to pay any such tax, assessment, charge, levy, claim or obligation if there is a Good Faith Contest thereof by the Lessee. The Lessee shall promptly pay or cause to be paid any valid, final judgment enforcing any such tax, assessment, charge, levy or claim and cause the same to be satisfied of record unless such judgment is then the subject of a Good Faith Contest.

Section 5.10. Books and Records. The Lessee shall at all times keep proper books and records of all of its business and financial affairs and all of the business and financial affairs of the Facility in accordance with GAAP. The Lessee shall keep books of account or records concerning its accounts, inventory, contract rights, equipment and proceeds at its offices located on the Facility Site or at its principal offices in Hingham, Massachusetts.

Section 5.11. Right of Inspection. Subject to requirements of applicable Law and safety requirements and upon reasonable notice from the Mortgage Trustee, the Lessee shall permit the Lessor, the Mortgage Trustee, the Trustee or any agents or representatives thereof, from time to time during normal business hours to conduct reasonable inspections and examinations at all reasonable times of the Facility and the records of the Lessee relating to the Facility.

In addition, the Independent Engineer shall have the right to witness and verify the performance tests under the Construction Contract.

Section 5.12. Third Party Contracts. The Lessee may enter into any contract or agreement with any Person to receive, treat and transmit water to be supplied by such Person (a "Water Treatment Agreement") at the Facility but only if, after giving effect thereto, the then present value of the aggregate minimum payments required to be made under all then existing Water Treatment Agreements shall not exceed 10% of the fair value of the Facility on the Commencement Date as set forth in an Independent Engineer's certificate delivered to the Lessor and the Lessee on or prior to the Commencement Date.

Section 5.13. Compliance with Environmental Laws. The Lessee (i) shall comply in all material respects with all Environmental Laws applicable to the leasing, operation or use of the Facility Site or the Facility, and shall cause any persons occupying the Facility Site or the Facility to comply in all material respects with all such Environmental Laws except, in all events, where the failure to comply with such Environmental Laws would not result in a Material Adverse Effect, (ii) shall immediately pay or cause to be paid all costs and expenses incurred in connection with such compliance as such costs and expenses become due and payable (unless the payment of any such costs or expenses is the subject of a Good Faith Contest by the Lessee) and (iii) shall keep or cause to be kept the Facility Site and the Facility free and clear of any Liens other than Permitted Encumbrances imposed pursuant to such Environmental Laws (unless any such Lien is stayed or bonded). The Lessee shall not generate, use, treat, store, release, dispose of, or transport or permit the generation, use, treatment, storage, release, disposal or transportation of Hazardous Materials on, at, from, or to the Facility Site or the Facility except, in all events, in material compliance with all applicable Environmental Laws.

Section 5.14. Limitations on Fixed Charges. So long as any Mortgage Bonds remain Outstanding, the Lessee will not create, assume or incur or become liable for any Fixed Charges, except

(a) the Fixed Charges required to be paid by the Lessee under the Lease as in effect on the Closing Date and any increase in Fixed Charges resulting from the issuance of Completion Bonds pursuant to Section 2.04 of the Mortgage Indenture;

(b) Fixed Charges under Debt instruments or other leases or agreements which are in effect on the Closing Date; and

(c) any other Fixed Charges if at the time of the incurrence thereof and after giving effect to the application of the proceeds thereof,

(i) the Coverage Ratio shall have been at least (A) for any period ending on or prior to December 31, 1999, 1.45 to 1.00, and (B) for any period ending after December 31, 1999, 1.50 to 1.00, *provided* that if the New England-American Merger shall occur prior to December 31, 1999, the

Coverage Ratio for any period ending on or after the effective date of such New England-American Merger shall have been at least 1.50 to 1.00, and

(ii) the aggregate principal amount of all outstanding Long Term Debt of the Lessee shall not exceed 65% of Total Capitalization;

provided, however, that any Fixed Charges which are not permitted to be incurred pursuant to the foregoing provisions of this Section 5.14(c), shall be permitted if the rating agency or agencies which provided the then current rating of the Bonds prior to such incurrence shall reaffirm such a rating after giving effect to such incurrence.

Section 5.15. Liens. So long as any of the Mortgage Bonds remain Outstanding, the Lessee shall not create or suffer to exist or permit any Lien upon or with respect to the Facility except for Permitted Encumbrances.

Section 5.16. Prohibition on Disposition of Assets; Replacement Property. Except as contemplated by the Facility Documents, the Lessee shall not sell, lease (as lessor) or transfer (as transferor) (i) any property or assets of the Facility except in the ordinary course of business to the extent that such property is worn out or is no longer useful or necessary in connection with the operation of the Facility or to the extent that such property is replaced with property of equal value and utility to the Lessee or (ii) any other property or assets of the Facility unless the Independent Engineer shall certify (which certification shall not be unreasonably withheld or delayed) that such sale, lease or transfer will not result in a Material Adverse Effect. Any proceeds received by the Lessee from the sale of property or assets of the Facility (A) under clause (i) of the preceding sentence which exceed the cost of the replacement property or (B) under clause (ii) of the preceding sentence (collectively, "Facility Property Sale Proceeds") may be applied within the 30-day period following the receipt thereof by the Lessee to the purchase of other property which is useful in connection with the operation of the Facility ("Replacement Property") with the prior written approval of the Independent Engineer (which approval shall not be unreasonably withheld or delayed). To the extent that Facility Property Sale Proceeds are not applied as provided in the preceding sentence, the Lessee hereby agrees that such sums shall be held by the Mortgage Trustee in the Capital Replacement Fund under Section 5.07 of the Mortgage Indenture for further application as provided thereunder and in Section 10.2 of this Agreement.

Section 5.17. Consolidation, Merger. The Lessee will not consolidate or merge with or into any other Person unless (i) the Person which results from such consolidation or merger (the "surviving entity") either (A) is Massachusetts-American Water Company or (B) if not, (y) is a corporation organized under the laws of any state of the United States or the District of Columbia, and (z) the due and punctual performance and observance of all of the covenants in this Agreement to be performed or observed by the Lessee are expressly assumed in writing by the surviving entity and the surviving entity shall furnish to the Lessor, the Mortgage Trustee and the Trustee an opinion of counsel to the effect that the instrument of assumption has been duly authorized, executed and delivered and constitutes the legal, valid and binding contract and agreement of the surviving entity enforceable in

accordance with its terms, except as enforcement of such terms may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and similar laws affecting the enforcement of creditors' rights generally and by general equitable principles, and (ii) at the time of such consolidation or merger and immediately after giving effect thereto, (A) no Default or Event of Default would exist, and (B) the Coverage Ratio of the surviving entity as Lessee shall not be less than 1.50 to 1.00.

Section 5.18. Amendments; Additional Agreements. So long as any of the Mortgage Bonds remain Outstanding, the Lessee may enter into any amendment or modification of any of the then existing Facility Documents to which it is a party or enter into additional agreements with respect to the Facility only if a Lessee Representative certifies to the Mortgage Trustee, the Trustee and the Lessor, and the Independent Engineer confirms (which confirmation shall not be unreasonably withheld or delayed) that (i) such amendment, modification or additional agreement could not reasonably be expected to result in a Material Adverse Effect, and (ii) such amendment or modification would not reasonably be expected to materially increase the likelihood of the occurrence of a future Material Adverse Effect; *provided*, that such certificate and confirmation shall not be required for any amendment to this Agreement entered into pursuant to Section 14.1(b)(i), 14.1(b)(ii) or 14.1(b)(iii) of this Agreement.

Section 5.19. Lessee's Obligation with Respect to Tax Exemption of Interest Paid on the Tax-Exempt Bonds. Notwithstanding any other provision hereof, the Lessee covenants and agrees that it will not take or authorize or permit, to the extent such action is within the control of the Lessee, any action to be taken with respect to the Facility, or the proceeds of the Bonds (including investment earnings thereon), insurance, condemnation, or any other proceeds derived directly or indirectly in connection with the Facility, which will result in the loss of the exclusion of interest on the Tax-Exempt Bonds from gross income for Federal income tax purposes under Section 103(a) of the Code (except for any Tax-Exempt Bond during any period while any such Tax-Exempt Bond is held by a person referred to in Section 147(a) of the Code); and the Lessee also will not knowingly omit to take any action in its power which, if omitted, would cause the above result. This provision shall control in case of conflict or ambiguity with any other provision of this Agreement. The Lessee shall not (i) make any material change in the purposes for which the Facility is used or (ii) alter, remodel or improve the Facility or construct other facilities at the Facility Site which results in a substantial change in the Facility or the character of the activities conducted by the Lessee or the Lessor at the Facility site, unless in any such case the Lessor has complied with Section 407 of the Indenture.

Section 5.20. Financing Statements. (a) The Lessee will, at its expense, take all necessary action to maintain and preserve the liens and the security interests of this Agreement so long as any of the Bonds remain Outstanding.

(b) The Lessee will, forthwith after the execution and delivery of this Agreement, and thereafter from time to time, cause this Agreement (including any amendments thereof and supplements thereto) and any financing statements in respect of this Agreement to be filed, registered and recorded in such manner and in such places as may be required by law

in order to publish notice of and fully to perfect and protect the lien and security interest created thereby; and from time to time will execute or cause to be executed and will file or will cause to be filed any and all continuation statements and further instruments that may be requested by the Lessor, the Mortgage Trustee or the Trustee for such publication, perfection and protection. Except to the extent it is exempt therefrom, the Lessee will pay or cause to be paid all filing, registration and recording fees incident to such filing, registration and recording, and all expenses incident to the preparation, execution and acknowledgment of such instruments of further assurance, and all federal or state fees and other similar fees, duties, imposts, assessments and charges arising out of or in connection with the execution and delivery of this Agreement, said financing statements and such instruments of further assurance.

Section 5.21. Assignment and Subletting. The Lessee agrees that it will not sublet the Facility or assign its interest hereunder, nor shall the Lessee, except as provided in this Agreement, mortgage, pledge or otherwise encumber its interest hereunder.

ARTICLE VI

LESSOR COVENANTS

Section 6.1. Maintenance of Existence. The Lessor shall preserve and maintain (i) its legal existence as a corporation, (ii) its good standing under the laws of the Commonwealth and the State of Delaware and its qualification to do business in the Commonwealth and (iii) all of its rights, privileges and franchises necessary for ownership of the Facility and the maintenance of its existence.

Section 6.2. Compliance with Certain Agreements and Performance of General Covenants. (a) The Lessor shall perform in all material respects all of its obligations under the Lessor Documents, the non-performance of which could reasonably be expected to result in a Material Adverse Effect.

(b) The Lessor shall comply in all material respects with all Requirements of Law applicable to the Lessor and the Facility in performing its obligations under the Lessor Documents, except any thereof the noncompliance with which could not reasonably be expected to result in a Material Adverse Effect.

(c) The Lessor further covenants that, to the extent permitted by Law, it shall take no action nor enter into any agreement which could reasonably be expected to result in a Material Adverse Effect.

Section 6.3. Construction of Facility. (a) The Lessor will acquire, construct and install the Facility or cause the Facility to be acquired, constructed and installed, all in accordance with the Construction Contract and this Agreement, with diligence and continuity (except for interruptions provided for in the Construction Contract which the Lessor will use its best efforts to mitigate) in accordance with all material applicable Requirements of Law. The Lessor shall use all reasonable efforts to cause the Facility to be substantially completed and the Commencement Date to occur.

(b) During the Construction Period, the Lessor shall (i) effect, maintain and keep in force or cause to be effected, maintained and kept in force the insurance listed under Schedule IV under the heading "Construction Period" with the carriers described in Section 5.8(a) and (ii) prior to the time penalties attach, pay and discharge or cause to be paid and discharged all taxes, assessments and governmental charges or levies which either constitute a Lien upon, or, if unpaid, would become a Lien upon the Trust Estate. The Lessor shall have the right to have the expenses relating to the foregoing obligations paid out of the Construction Fund to the extent such expenses constitute Facility Costs.

(c) Subject to its covenants and agreements in this Agreement and subject further to the provisions of the Indenture, the Lessor, subject to the prior approval of the Lessee, may make, authorize or permit changes or amendments in the components of the Facility or may determine not to complete a portion of the Facility for which proceeds of the Bonds (and investment income thereon) are available, *provided, however*, that proceeds of the Bonds (and investment income thereon) otherwise allocable to such portion of the Facility must be used either (i) to pay costs of the remaining parts of the Facility, or (ii) to pay or redeem principal on the Bonds in accordance with the provisions of this Agreement and the Indenture, *provided* that in the case of (ii), the Lessor shall have received a Favorable Opinion of Bond Counsel with respect to such application.

(d) The Lessor shall not make any change or amendment in the components of the Facility if such change or amendment causes the economic life of the Facility to be reduced unless the Lessor shall have received the prior approval of the Lessee and shall have delivered to the Trustee a Favorable Opinion of Bond Counsel with respect to such change or amendment.

(e) The Lessor shall use all reasonable efforts to obtain and to maintain in full force and effect all Governmental Approvals applicable to the Lessor that are necessary from time to time (i) to conduct its business as currently conducted and as proposed to be conducted and (ii) to perform its obligations under the Facility Documents to which it is a party, unless the failure to so obtain or maintain any such Governmental Approval could not reasonably be expected to result in a Material Adverse Effect.

Section 6.4. Completion Bonds. Prior to the Commencement Date, if the Lessor shall determine that adequate funds are not available to complete the construction of the Facility, the Lessor shall have the authority to issue Additional Mortgage Bonds (the "*Completion Bonds*") in an aggregate principal amount sufficient to complete the construction, *provided, however*, that any such Completion Bonds may be issued only if the conditions set forth in Section 2.04(b) of the Mortgage Indenture are complied with.

Section 6.5. Change Orders. So long as any of the Mortgage Bonds remain Outstanding, the Lessor shall not initiate or consent to any change order under the Construction Contract unless (1) such change order is reasonable and is consistent with sound engineering practice, (2) such change order shall be approved by the Lessee, and (3) either (i) the Lessor certifies in an Officer's Certificate to the Mortgage Trustee and the Independent Engineer confirms in a certificate to the Mortgage Trustee (which confirmation

shall not be unreasonably withheld or delayed) that: (a) such change order is not reasonably expected to result in a Material Adverse Effect, (b) such change order is technically feasible, (c) such change order is not reasonably expected to materially and adversely affect the operation, reliability, value or remaining useful life of the Facility and (d) the implementation of such change order is not reasonably expected to cause the postponement of the Commencement Date, or (ii) such change order (x) does not individually exceed \$200,000 (either in the form of an increase or a decrease), and (y) when aggregated with all other change orders (other than those which meet the requirements of clause (3)(i) above or which are described in the last sentence of this Section 6.5) does not exceed \$2,000,000. Notwithstanding the foregoing, the restrictions set forth in this Section 6.5 shall not apply to change orders due to uncontrollable circumstances.

Section 6.6. Construction Disclosure. Until the Commencement Date, the Lessor shall provide quarterly construction reports, as described below, to the Trustee, the Mortgage Trustee, the Lessee, the Independent Engineer, and upon written request, to (x) any Bondholder or any Beneficial Owner of at least \$1,000,000 in aggregate principal amount of Bonds outstanding and (y) any holder of at least \$1,000,000 in aggregate principal amount of Outstanding Mortgage Bonds, no later than 30 days following the end of each calendar quarter. The construction reports shall include current draw down information, a comparison of the current budget with any drawdown schedule set forth in the Construction Contract, a summary of the general status of construction including the date on which completion is expected to occur, information on change orders, a discussion of sufficiency of funds, and such other matters as the Trustee, the Mortgage Trustee, the Lessee or the Independent Engineer may reasonably request.

Section 6.7. Issuance of Improvement Bonds and Refunding Bonds. Upon the written request of the Lessee, the Lessor shall use its best efforts to issue Improvement Bonds as provided in Section 10.3 of this Agreement and Refunding Bonds as provided in Sections 11.1 and 11.2 of this Agreement.

Section 6.8. Use of Series 1995 Bond Proceeds. The Lessor will apply all of the proceeds from the sale of the Series 1995 Bonds (exclusive of accrued interest) in accordance with the provisions hereof and of the Mortgage Indenture and the Indenture, to the extent it is within the power of the Lessor to do so.

Section 6.9. Debt. So long as any of the Mortgage Bonds remain Outstanding, the Lessor shall not create or incur or suffer to exist any Debt except:

(a) Debt issued under the Facility Documents including the issuance of Additional Mortgage Bonds permitted by the Facility Documents; and

(b) Subordinated Debt.

Section 6.10. Liens. (a) So long as any of the Mortgage Bonds remain Outstanding, the Lessor shall not create or suffer to exist or permit any Lien upon or with respect to the Facility except for Permitted Encumbrances.

Section 6.11. Guaranties. So long as any of the Mortgage Bonds remain Outstanding, the Lessor shall not contingently or otherwise be or become liable, directly or indirectly, in connection with any Guaranty except (a) Guaranties arising in the ordinary course of business, (b) indemnities with respect to unfiled materialmen's, mechanic's, workmen's, repairmen's, employee's or other like Liens arising in the ordinary course of operations or maintenance of the Facility, and (c) indemnities to federal, state or local governmental agencies or authorities relating to any expenses incurred that are incidental to obtaining easements or permits for the benefit of the Facility.

Section 6.12. Prohibition on Disposition of Assets; Prohibition on Leases. (a) The Lessor agrees that from and after the Commencement Date property or assets of the Facility will be disposed of at the direction of the Lessee as provided in Section 5.6(c).

(b) The Lessor will not enter into any lease (as lessee) of property except the Site Lease.

Section 6.13. Amendments; Additional Agreements. So long as any of the Mortgage Bonds remain Outstanding, the Lessor may enter into any amendment or modification of any of the then existing Facility Documents to which it is a party or enter into additional agreements only if a Company Representative certifies to the Trustee, the Mortgage Trustee and the Lessee, and the Independent Engineer confirms that (i) such amendment, modification or additional agreement could not reasonably be expected to result in a Material Adverse Effect, and (ii) such amendment or modification would not reasonably be expected to materially increase the likelihood of the occurrence of a future Material Adverse Effect; *provided* that such certificate and confirmation shall not be required for any amendment to this Agreement entered into pursuant to Section 14.1(b)(i), 14.1(b)(ii) or 14.1(b)(iii) of this Agreement.

Section 6.14. Prohibition on Fundamental Changes. So long as any of the Mortgage Bonds remain Outstanding, the Lessor shall not enter into any transaction of merger or consolidation, change its form of organization or its business, liquidate or dissolve itself (or suffer any liquidation or dissolution) or amend or modify its Articles of Incorporation. So long as any of the Mortgage Bonds remain Outstanding, the Lessor shall not purchase or otherwise acquire all or substantially all of the assets of any Person.

Section 6.15. Subordinated Debt Payments. So long as any of the Mortgage Bonds remain Outstanding, the Lessor shall not make any payments on any Subordinated Debt except from distributions from the Surplus Fund and as otherwise permitted by the Mortgage Indenture and this Agreement.

Section 6.16. Nature of Business. So long as any of the Mortgage Bonds remain Outstanding, the Lessor shall not engage in any business other than the owning, development, acquisition, construction, leasing, mortgaging, pledging and financing of the Facility and related activities as contemplated by the Facility Documents.

Section 6.17. Employee Plans. So long as any of the Mortgage Bonds remain Outstanding, the Lessor shall not become a party to, participate in or assume any liability with respect to any "pension plan" as defined in ERISA.

Section 6.18. Transactions with Affiliates. So long as any of the Mortgage Bonds remain Outstanding, the Lessor shall not enter into any transaction or agreement with any Affiliate other than (a) the Facility Documents and the transactions contemplated thereby and (b) transactions in the ordinary course of business on terms that are certified by the Lessor and confirmed by the Independent Engineer as being fair and reasonable to the Lessor.

Section 6.19. Maintenance of Control. Until such time as the AWW Capital Contribution has terminated pursuant to its terms, AWW shall own directly or through one or more wholly-owned subsidiaries 100% of the capital stock of the Lessee and the Lessor.

Section 6.20. Application of Termination Payment. The Lessor covenants and agrees that, if it ever receives a termination payment from the Contractor pursuant to the Construction Contract, it will cause all such moneys to be deposited into the Redemption Account and will direct the Mortgage Trustee to call the Series 1995 Mortgage Bonds, for special mandatory redemption pursuant to Section 4.09 of the Mortgage Indenture.

Section 6.21. Reaffirmation of Bond Ratings. The Lessor agrees to use all reasonable efforts (i) to obtain the Bond Rating Reaffirmation at the earliest time on or after the Commencement Date, and (ii) to have the rating agency or agencies reaffirm the rating of the Bonds at such other times as a rating or reaffirmation may be requested by the Lessee.

ARTICLE VII

EVENTS OF DEFAULT AND REMEDIES

Section 7.1. Events of Default. The term "Event of Default", whenever used herein, shall mean any of the following events (whatever the reason for such event and whether it shall be voluntary or involuntary or come about or be affected by operation of law, or be pursuant to or in compliance with any applicable Law), and any such event shall continue to be an Event of Default if and for so long as it shall not have been remedied:

- (a) The Lessee shall fail to pay any Fixed Basic Rent for Debt Service due hereunder within three days of when the same becomes due and payable;
- (b) The Lessee shall fail to pay any other Basic Rent Payment due hereunder within ten days of when the same becomes due and payable; or
- (c) The Lessee shall fail to maintain insurance as required by Sections 5.8(a) and (b) and such failure shall continue uncured for 10 days after the Lessee has actual knowledge of such failure; or

(d) The Lessee shall fail to perform or observe its covenant or agreement contained in Sections 4.3(c) (Additional Rent), 5.6(a) (Maintenance of Existence), 5.6(d) (Governmental Approvals), 5.14 (Fixed Charges), 5.15 (Liens), 5.16 (Disposition of Assets), 5.17 (Consolidation; Merger) or 5.18 (Amendments; Additional Agreements) and such failure shall continue uncured for 30 days after the Lessee has actual knowledge of such failure; or

(e) The Lessee shall fail to perform or observe any of its covenants contained in any other provision of this Agreement (other than those referred to in paragraphs (a) through (d) of this Section 7.1) and such failure shall continue uncured for 30 or more days after the Lessee has actual knowledge of such failure; *provided* that if the Lessee commences efforts to cure such default within such 30 day period, the Lessee may continue to effect such cure of the default (and such default shall not be deemed an "Event of Default" hereunder) for an additional 60 days after such 30 day period so long as a Lessee Representative provides an Officer's Certificate to the Mortgage Trustee stating that the Lessee is diligently pursuing the cure; or

(f) Any representation or warranty made by the Lessee herein shall prove to have been false or misleading in any respect as of the time made, confirmed or furnished and the inaccuracy of such representation or warranty has resulted or would reasonably be expected to result in a Material Adverse Effect, and such misrepresentation shall continue uncured for 30 or more days from the date the Lessee has actual knowledge thereof; *provided* that if the Lessee commences efforts to cure such inaccuracy within such 30 day period, the Lessee may continue to effect such cure of the misrepresentation (and such misrepresentation shall not be deemed an "Event of Default" hereunder) for an additional 60 days after such 30 day period so long as a Lessee Representative provides an Officer's Certificate to the Mortgage Trustee stating that the Lessee is diligently pursuing the cure; or

(g) The Lessee shall fail to make the payment when due of the principal or interest on any Debt of the Lessee which has an aggregate principal amount outstanding in excess of \$500,000 and as a result of such failure the maturity of such Debt shall have been accelerated; or

(h) With respect to any Facility Document: (A) such Facility Document is declared unenforceable by a Governmental Authority of competent jurisdiction in a final, non-appealable judgment, or (B) any party thereto denies it is required to comply with any material obligation under such Facility Document and such event would reasonably be expected to result in a Material Adverse Effect; *provided, however,* that neither of the events described in clause (A) or (B) above shall be an Event of Default if within 180 days after the occurrence of such event (x) the party which made the denial described in clause (B) above, resumes performance or (y) the parties to the Facility Document declared unenforceable enter into an alternative agreement (x) which contains, as certified by the Lessee to the Trustee and as confirmed (such confirmation not to be unreasonably withheld or delayed) by the Independent Engineer, substantially equivalent terms and conditions; or

(i) A final and non-appealable judgment or judgments for the payment of money in excess of \$500,000 shall be rendered against the Lessee or any of the property or assets of the Lessee, and the same shall remain unpaid, unvacated or unstayed by appeal or consent for a period of 30 or more consecutive days from the date of entry thereof; or

(j) The Lessee or the Lessor shall (i) apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee or liquidator of itself or of all or a substantial part of its property, (ii) admit in writing its inability, or be generally unable, to pay its debts as such debts become due, (iii) make a general assignment for the benefit of its creditors, (iv) commence a voluntary case under the Federal Bankruptcy Code, (v) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, winding-up, or composition or readjustment of debts, (vi) fail to controvert in a timely and appropriate manner, or acquiesce in writing to, any petition filed against such Person in an involuntary case under the Federal Bankruptcy Code, or (vii) take any corporate or other action for the purpose of effecting any of the foregoing; or

(k) A proceeding or case shall be commenced against the Lessee or Lessor without its application or consent in any court of competent jurisdiction, seeking (i) its liquidation, reorganization, dissolution, winding-up, or the composition or readjustment of debts, (ii) the appointment of a trustee, receiver, custodian, liquidator or the like of such Person under any law relating to bankruptcy, insolvency, reorganization, winding-up, or composition or adjustment of debts, and such proceeding or case shall continue undismissed, or any order, judgment or decree approving or ordering any of the foregoing shall be entered and continue unstayed and in effect, for a period of 90 or more consecutive days, or any order for relief against such Person shall be entered in an involuntary case under the Federal Bankruptcy Code; or

(l) The Bond Rating Reaffirmation shall not have been obtained within the period of 180 days (such period, as it may be extended as hereinafter provided being the "Waiting Period") immediately following the first to occur of July 1, 1996 or the Commencement Date; *provided*, that at any time which is at least 30 days prior to the end of the current Waiting Period, the Lessor may extend the Waiting Period for a 180-day period following the end of the then current Waiting Period (x) by delivering to the Mortgage Trustee for deposit in the Section 7.1(l) Account established under Section 5.03 of the Mortgage Indenture an amount equal to the sum of (i) any deficiency in the Debt Service Reserve Fund Requirement and (ii) the amount which when added to the funds, if any, which are then in the Section 7.1(l) Account, will equal six times the monthly Fixed Basic Rent for Debt Service and (y) by delivering to the Lessee, the Mortgage Trustee and the Trustee (i) a written notice from the Lessor which states (A) that the Bond Rating Reaffirmation has not been obtained and may not be obtained prior to the end of the current Waiting Period and (B) that the Lessor reasonably expects to obtain the Bond Rating Reaffirmation and (ii) a certificate confirmed by the Independent Engineer stating that the Debt Service

Reserve Requirement is met and that the Section 7.1(l) Account contains an amount which is equal to six times the monthly Fixed Basic Rent for Debt Service; *provided, further*, if the Lessor shall determine that a reduction of Debt Service is necessary to obtain the Bond Rating Reaffirmation, the Lessor shall furnish an Officer's Certificate to the Lessee, the Mortgage Trustee and the Trustee in which the Lessor shall (1) state that it has made such a determination, and (2) specify the minimum amount of Outstanding Mortgage Bonds (in multiples of \$5,000) which shall be redeemed for such purpose pursuant to Section 4.07(a) of the Mortgage Indenture, which minimum amount shall be confirmed by an Independent Engineer, and within 90 days following the delivery of such Officer's Certificate the Mortgage Bonds specified therein shall be so redeemed; or

(m) The Lessor shall fail to observe or perform any material covenant, condition or agreement contained in this Agreement on the part of the Lessor to be performed and such failure shall continue for 30 days after written notice specifying such failure and requiring the same to be remedied shall have been given to the Lessor by the Lessee or the Mortgage Trustee, which notice may be given by the Mortgage Trustee in its discretion and shall be given by the Mortgage Trustee at the written request of the holders of not less than 30% in aggregate principal amount of all Mortgage Bonds then Outstanding; *provided, however*, that if said default is such that it cannot be corrected within the applicable period, it shall not constitute an Event of Default if corrective action is instituted by the Lessor (or the Lessee on behalf of the Lessor) within the applicable period and diligently pursued until the default is corrected; *provided, further*, however, such default must be curable.

Section 7.2. Remedies. (a) Upon the occurrence of an Event of Default described in Section 7.1(b) above, the Lessor may initiate an action against the Lessee to collect the unpaid Basic Rent referred to in Section 7.1(b) but the Lessor shall not have the right to accelerate any Basic Rent Payments or initiate (i) any foreclosure or other collection action against the Facility or the Collateral or (ii) any bankruptcy, insolvency, reorganization, liquidation, dissolution or other similar proceeding against the Lessee, *provided, however*, that if any action or proceeding described in clause (i) or (ii) of this Section 7.2(a) shall be initiated as a result of another Event of Default with respect to which such action or proceeding is permitted hereunder, the Lessor may include in such action or proceeding the collection of such unpaid Basic Rent on a *pari passu* basis.

(b) Upon the occurrence of the Event of Default described in Section 7.1(l), the Lessee, within 20 days of such occurrence shall notify the Lessor in writing of a date which is within 180 days following such occurrence on which the Lessee shall repurchase the Facility from the Lessor or if no notice shall be so furnished, the Lessee shall be deemed to have selected a date which is the first Business Day on or after the 180th day next following the date of such occurrence (the date so selected shall be the "*Repurchase Date*"). On the Repurchase Date the Lessee shall repurchase the Facility for an aggregate purchase price (the "*Facility Purchase Price*") equal to the amount by which (A) the sum of (i) the aggregate principal amount of Mortgage Bonds then outstanding including any accrued but unpaid interest thereon plus (ii) the aggregate amount of equity contributions expended by the

Lessor in the purchase and construction of the Facility, exceeds (B) the aggregate value of assets in the Debt Service Reserve Fund, valued on the Repurchase Date as provided in Section 304(e) of the Indenture, and upon consummation of the repurchase this Agreement shall terminate.

(c) Upon the occurrence of the Event of Default described in Section 7.1(m), the Lessee may initiate an action or proceeding against the Lessor for specific performance or money damages resulting from such Event of Default but shall not have any right to terminate or modify any provisions of this Agreement and notwithstanding the occurrence of such Event of Default or the institution of any such action or proceeding by the Lessee, this Agreement shall continue in full effect.

(d) Upon the occurrence of an Event of Default described in Section 7.1(j) or (k) above, all Basic Rent Payments shall become automatically due and payable. Upon the occurrence of any other Event of Default under Section 7.1 (other than Sections 7.1(b), 7.1(l) and 7.1(m)), the Lessor may, by notice in writing delivered to the Lessee, declare all Basic Rent Payments immediately due and payable; *provided*, that the Lessor shall not declare all Basic Rent Payments to be due and payable unless the principal of and accrued interest on all Mortgage Bonds then Outstanding shall have been declared to be due and payable under Section 7.02 of the Mortgage Indenture. Such acceleration provisions, however, are also subject to the condition that if, after the principal of any Mortgage Bonds shall have been so declared to be due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as provided in the Mortgage Indenture, the Lessee shall cause to be deposited with the Lessor a sum sufficient to pay all matured installments of Basic Rent which shall have become due otherwise than by reason of such declaration (with interest thereon, at the rate per annum specified in the Mortgage Indenture) and such amount as shall be sufficient to cover reasonable compensation and reimbursement of expenses payable to the Trustee, and all Events of Default under the Mortgage Indenture other than nonpayment of Basic Rent which shall have become due by said declaration shall have been remedied, such Event of Default shall be deemed waived and such declaration and its consequences rescinded or annulled, and the Lessor shall promptly give written notice of such waiver, rescission or annulment to the Lessee and shall give notice thereof to all holders of Outstanding Mortgage Bonds previously notified of the acceleration, but no such waiver, rescission or annulment shall extend to or affect any subsequent Event of Default or impair any right or remedy consequent thereon.

(e) In payment of the Basic Rent Payments which have been declared due and payable pursuant to Section 7.2(d) above, the Lessee shall pay to the Lessor as liquidated damages for the loss of a bargain and not as a penalty an amount equal to the Stipulated Loss Value as of such Basic Rent Payment Date and, in addition, shall pay any unpaid rent as of the immediately preceding Basic Rent Payment Date; *provided*, that if and to the extent that the Stipulated Loss Value shall be paid by Lessee, the Lessor shall mitigate the damages paid by the Lessee in the event that (x) it shall sell the Facility, by paying to the Lessee proceeds from such sale remaining after payment to the Lessor of (I) all of the Lessor's expenses incurred in connection with such sale and (II) an amount equal to the sum of (A) the Lessor's expected residual interest in the Facility at the end of the Lease Term plus (B) the

Lessor's expected return on equity during the Lease Term which would have remained if this Agreement had not been terminated (the amount in subclause (B) being "*Lessor's Return on Equity*"), but not in excess of the Stipulated Loss Value so paid by the Lessee or (y) it shall lease the Facility, by paying to the Lessee a portion of the rent payable thereunder during the remainder of the Lease Term but only after first retaining amounts therefrom sufficient to compensate the Lessor for (I) all of the Lessor's expenses incurred in connection with the leasing of the Facility and (II) the Lessor's Return on Equity, in an aggregate amount which is not in excess of such Stipulated Loss Value so paid by the Lessee.

Section 7.3. Additional Remedies on Default; Obtaining the Collateral upon Default. Whenever any Event of Default under this Agreement shall have occurred and be continuing and all Basic Rent Payments have been declared to be due and payable pursuant to Section 7.2 and such acceleration has not been rescinded, the Lessor shall have all the rights and remedies of a secured party under the Uniform Commercial Code to enforce this Agreement and the security interests contained herein, and, in addition, subject to any requirements of applicable Law then in effect and the provisions hereof, the Lessor may, in addition to its other rights and remedies hereunder, do any of the following to the extent permitted by applicable Law and the provisions hereof:

(i) personally, or by trustees or attorneys, immediately take possession of the Collateral or any part thereof, from the Lessee or any other Person who then has possession of any part thereof with or without notice or process of law, and for that purpose may enter upon the premises where any of the Collateral is located and remove the same and use in connection with such removal any and all services, supplies, aids and other facilities of the Lessee;

(ii) instruct the obligor or obligors on any agreement, instrument or other obligation constituting the Collateral to make any payment required by the terms of such instrument, agreement or obligation directly to the Lessor;

(iii) take possession of the Collateral or any part thereof, by directing the Lessee in writing to deliver the same to the Lessor at any place or places designated by the Lessor, in which event the Lessee shall at its own expense:

(A) forthwith cause the same, to the extent reasonably feasible, to be moved to the place or places so designated by the Lessor and there be delivered to the Lessor;

(B) store, keep and safeguard any Collateral so delivered to the Lessor at such place or places pending further action by the Lessor as provided in Section 7.4; and

(C) while the Collateral shall be so stored, kept and safeguarded, provide such guards and maintenance services as shall be necessary to protect the same and to preserve and maintain them in good condition.

To the extent permitted by law, the Lessee's obligation to deliver the Collateral is of the essence of this Agreement and, accordingly, upon application to a court of equity having jurisdiction, the Lessor shall be entitled to obtain a decree requiring specific performance by the Lessee of said obligation.

Section 7.4. Remedies; Disposition of the Collateral. If an Event of Default has occurred and is continuing and pursuant to Section 7.2 all Basic Rent Payments have been declared to be due and payable and such acceleration has not been rescinded, any Collateral repossessed by the Lessor under or pursuant to Section 7.3 and any other Collateral, whether or not so repossessed by the Lessor, may, to the extent permitted by any contract terms governing such Collateral, be sold, leased or otherwise disposed of under one or more contracts or as an entirety, and without the necessity of gathering at the place of sale of the property to be sold, and in general in such manner, at such time or times, at such place or places and on such terms as the Lessor may, in compliance with any requirements of applicable law, determine to be commercially reasonable. Any such disposition shall be made upon not less than 30 days' written notice to the Lessee specifying the time such disposition is to be made and, if such disposition shall be a public sale, specifying the place of such sale. Any such sale may be adjourned by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned. Any of the Collateral may be sold, leased or otherwise disposed of, in the condition in which the same existed when taken by the Lessor or after any overhaul or repair which the Lessor shall determine to be commercially reasonable. To the extent permitted by law, the Lessor or its assigns may itself bid for and become the purchaser of the Collateral or any item thereof offered for sale at a public auction.

Section 7.5. Waiver. (i) Except as otherwise provided in this Agreement, if an Event of Default shall have occurred and be continuing and Basic Rent Payments shall have been declared due and payable pursuant to Section 7.2 and such acceleration has not been rescinded, the Lessee hereby waives, to the extent permitted by applicable law, notice or judicial hearing in connection with the Lessor's taking possession or the Lessor's disposition of any of the Collateral, including, without limitation, any and all prior notice and hearing for any prejudgment remedy or remedies and any such right which the Lessee would otherwise have under the constitution or any statute of the United States or of any state, and the Lessee, for itself and all who may claim under it, hereby further waives, to the fullest extent permitted by applicable law:

- (A) all damages occasioned by such taking of possession of any Collateral;
- (B) all other requirements as to the time, place and terms of sale or other requirements with respect to the enforcement of the Lessor's rights hereunder; and
- (C) all rights of redemption, appraisalment, valuation, stay, extension or moratorium now or hereafter in force under any applicable Law in order to prevent or delay the enforcement of this Agreement or the absolute sale of the Collateral or any portion thereof.

(ii) Without limiting the generality of the foregoing and to the extent permitted by Law and subject to the provisions hereof, if an Event of Default shall have occurred and be continuing and all Basic Rent Payments have been declared to be due and payable and such acceleration has not been rescinded, the Lessee hereby: authorizes the Lessor, in its sole discretion and without notice to or demand upon the Lessee and without otherwise affecting the obligations of the Lessee hereunder from time to time, to take and hold other collateral (in addition to the Collateral) for payment of any Basic Rent and to exchange, enforce or release such other collateral or any part thereof, and to accept and hold any endorsement or guarantee of payment of Basic Rent or any part thereof.

(iii) To the extent permitted by Law, any sale of, or the grant of options to purchase, or any other realization upon, any Collateral shall operate to divest all right, title, interest, claim and demand, either at Law or in equity, of the Lessee therein and thereto.

Section 7.6. Application of Proceeds. The proceeds of any Collateral obtained pursuant to Section 7.3 or disposed of pursuant to Section 7.4 shall be applied to the payment and satisfaction of the amounts payable to the Lessor pursuant to Section 7.2(d).

Section 7.7. Remedies Cumulative; No Waiver. Each and every right, power and remedy hereby specifically given to the Lessor shall be in addition to every other right, power and remedy specifically given under this Agreement or now or hereafter existing at Law or in equity, or by statute, and each and every right, power and remedy whether specifically herein given or otherwise existing may be exercised from time to time or simultaneously and as often and in such order as may be deemed expedient by the Lessor. All such rights, powers and remedies shall be cumulative, and the exercise or the partial exercise of one shall not be deemed a waiver of the right to exercise of any other. No delay or omission of the Lessor in the exercise of any of its rights, remedies, powers and privileges hereunder or partial or single exercise thereof, and no renewal or extension of any Basic Rent Payment, shall impair any such right, remedy, power or privilege or shall constitute a waiver thereof.

Section 7.8. Discontinuance of Proceedings. In case the Lessor shall have instituted any proceeding to enforce any right, power or remedy under this Agreement by foreclosure, sale, entry or otherwise, and such proceeding shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Lessor, then, in every such case, the Lessee and the Lessor shall be restored to their former positions and rights hereunder with respect to the Collateral, subject to the security interest created under this Agreement, and all rights, remedies and powers of the Lessor shall continue as if no such proceeding had been instituted.

ARTICLE VIII

LEASE TERMINATION

Section 8.1. Facility Pipe Easement. Upon the termination of this Agreement for any reason including any Event of Default other than the Event of Default described in

Section 7.1(l) of this Agreement, the Lessee shall forthwith convey to the Lessor an easement through the water pipes owned by the Lessee and located on the Facility Site which the Lessor shall be permitted to assign to any subsequent owner or lessee of the Facility so that such subsequent owner or lessee may transport water to and from the Facility through such pipes.

ARTICLE IX

ECONOMIC ABANDONMENT

Section 9.1. Economic Abandonment Determination; Notice. If at any time during the Lease Term after the 12th anniversary of the Closing Date, the Lessee shall determine that the Facility is obsolete or uneconomic to the Lessee and to terminate this Agreement (an "Economic Abandonment Determination") the Lessee shall deliver written notice (an "Economic Abandonment Notice") to the Lessor, the Independent Engineer, the Mortgage Trustee and the Trustee (i) stating the reasons for such determination, (ii) specifying a Basic Rent Payment Date (the "Termination Date") for the termination of this Agreement which is at least 12 months after the date of the delivery of such notice and (iii) agreeing to prepay on the Termination Date Fixed Basic Rent under this Agreement in an amount determined pursuant to the provisions of Section 9.2 hereof. Within 30 days after the date of delivery of the Economic Abandonment Notice, the Independent Engineer shall deliver a certificate to the Lessee, the Lessor, the Mortgage Trustee and the Trustee certifying whether in its opinion the Facility is obsolete or uneconomic to the Lessee. In connection with any determination by the Lessee or the Independent Engineer as to whether the Facility is obsolete or uneconomic to the Lessee, interest rates payable by the Lessee or Lessor for borrowed money and finance charges payable in connection therewith for such purpose shall be disregarded. If the Independent Engineer's Certificate confirms the Economic Abandonment Determination of the Lessee, the Lessee shall be obligated to make payments to the Lessor as provided in Section 9.2. If the Economic Abandonment Determination of the Lessee is not confirmed by the Independent Engineer, the aforesaid Economic Abandonment Notice shall be deemed to have been canceled.

Section 9.2. Fixed Basic Rent Prepayment; Mitigation of Damages. If an Economic Abandonment Determination shall be confirmed by the Independent Engineer, the Lessee, on the Termination Date specified in such Economic Abandonment Notice, shall pay to the Lessor an amount equal to the sum of (i) any unpaid rent which is due and payable as of the Termination Date, plus (ii) the Stipulated Loss Value as of such Termination Date and upon payment of such amounts by the Lessee, this Agreement shall terminate (the aggregate of the amounts due under clause (ii) being "Economic Abandonment Proceeds"); provided, however, that the Lessor shall mitigate the damages suffered by the Lessee in paying the Stipulated Loss Value in the event that (x) it shall sell the Facility, by paying to the Lessee proceeds from such sale remaining after payment to the Lessor of (i) all of the Lessor's expenses incurred in connection with such sale, and (ii) an amount equal to the sum of (A) the Lessor's expected residual interest in the Facility at the end of the Lease Term or Renewal Term, as the case may be, plus (B) the Lessor's Return on Equity, but not in excess of the Stipulated Loss Value so paid by the Lessee, or (y) it shall lease the Facility, by

paying to the Lessee a portion of the rent payable thereunder during the remainder of the Lease Term or Renewal Term, as the case may be, but only after first retaining amounts therefrom sufficient to compensate the Lessor for (I) all of the Lessor's expenses incurred in connection with the leasing of the Facility, and (II) the Lessor's Return on Equity, in an amount which is not in excess of such Stipulated Loss Value so paid by the Lessee.

Section 9.3. Application of Economic Abandonment Proceeds to Redeem Mortgage Bonds. The Lessor agrees that in the event that an Economic Abandonment shall be confirmed by the Independent Engineer, the Lessor shall exercise its option to redeem the Outstanding Mortgage Bonds in whole pursuant to Section 4.07(b) of the Mortgage Indenture so that all Outstanding Mortgage Bonds shall become due and payable within 30 days following the Termination Date specified in such Economic Abandonment Notice out of Economic Abandonment Proceeds and, to the extent of any shortfall, out of any other amounts then held by the Mortgage Trustee which pursuant to the provisions of the Mortgage Indenture shall then be available for such purpose.

ARTICLE X

FACILITY MODIFICATIONS; IMPROVEMENT BONDS

Section 10.1. Facility Modifications. The Lessee, at its own expense except as provided in Sections 10.2 and 10.3, shall make any addition, alteration, improvement or modification to the property constituting the Facility (hereinafter, a "*Facility Modification*") which is required by Law or Governmental Authority, whether or not the cost thereof may be capitalized or charged to maintenance and repairs under GAAP. In addition, the Lessee, at its expense except as provided in Sections 10.2 and 10.3, from time to time may make any Facility Modification it may deem desirable in the conduct of its business provided that the Lessee shall not have the right to make any such Facility Modification that will materially diminish the value or utility of the Facility or reduce its remaining useful life. Prior to making any Facility Modification other than a Facility Modification which the Lessee certifies to the Mortgage Trustee (which shall be confirmed by the certificate of an Independent Engineer) is required by Law or Governmental Authority, the Lessee shall certify to the Lessor, the Mortgage Trustee and the Trustee, which will be confirmed in a certificate of the Independent Engineer, that (i) the proposed Facility Modification enhances the value of the Facility or maintains the current value of the Facility, and (ii) installing the Facility Modification will not result in any Material Adverse Effect.

Section 10.2. Title to Modifications; Facility Subordinated Debt; Capital Replacement Fund. Title to each Facility Modification made pursuant to Section 10.1 shall vest in the Lessor, whether or not the cost of such Facility Modification is paid for out of the Capital Replacement Fund pursuant to the following paragraph, is financed pursuant to Section 10.3 or is paid for by the Lessee; *provided, however*, that if within the 60-day period immediately following the first date on which such Facility Modification shall have been completed and placed in service (the "*Placed in Service Date*"), the cost thereof shall not have been paid for out of the Capital Replacement Fund pursuant to the following paragraph or financed with Improvement Bonds pursuant to Section 10.3, the Lessor shall be deemed

to have become obligated on the Placed in Service Date to repay such cost to the Lessee in accordance with the terms of Subordinated Debt which will be deemed to have been issued by the Lessor to the Lessee on the Placed in Service Date (i) in a principal amount equal to such cost, (ii) bearing interest at the Agreed Upon Interest Rate payable semiannually on dates selected by the Lessor and (iii) having all principal and accrued and unpaid interest payable 30 days after the first date on which all Mortgage Bonds issued from time to time under the Mortgage Indenture shall have been paid in full (any such Subordinated Debt being "*Facility Subordinated Debt*").

If on the Placed in Service Date for any Facility Modification there shall be funds in the Capital Replacement Fund, the Lessee may request that any of such funds be applied to pay for all or any part of such Facility Modification or to reimburse the Lessee for the amount paid by the Lessee for such Facility Modification by delivering either within 30 days prior to or within 30 days following such date, a written request therefor to the Mortgage Trustee, with a copy thereof being delivered to the Trustee and the Lessor, and if the Mortgage Trustee approves such request, the Lessee upon receipt of such notice shall direct the Mortgage Trustee in applying such funds pursuant to such written request. At any time when there shall be Excess Replacement Fund Amounts in the Capital Replacement Fund the Lessee may request the Lessor to effect a Capital Replacement Fund Redemption pursuant to Section 4.07(c) of the Mortgage Indenture with funds in the Capital Replacement Fund in an amount specified by the Lessee which is permitted thereunder, and upon receipt of such request the Lessor shall use its reasonable efforts to accomplish the requested redemption, *provided*, that the following conditions have been complied with:

- (i) there shall be no more than one request for a Capital Replacement Fund Redemption in any one year;
- (ii) a Favorable Opinion of Bond Counsel shall have been delivered to the Mortgage Trustee; and
- (iii) no Event of Default shall have occurred and be continuing.

The Lessor agrees that it shall not effect a Capital Replacement Fund Redemption without the prior written approval of the Lessee.

Any Facility Modification with respect to which Facility Subordinated Debt has been issued may be financed by the Lessee pursuant to Section 10.3 with Improvement Bonds and upon the issuance thereof, such Facility Subordinated Debt shall be deemed to have terminated and cancelled and any unpaid interest on such Facility Subordinated Debt may be included in the cost of the Facility Modification being financed with such Improvement Bonds. So long as any Mortgage Bonds shall be Outstanding, interest payable on any Facility Subordinated Debt may be paid at the option of the Lessor and only out of amounts on deposit from time to time under the Distribution Account.

Section 10.3. Improvement Bonds. Lessee may finance any Facility Modifications with Improvement Bonds (a "*Supplemental Financing*") by requesting the Lessor to issue,

and upon receipt of such request the Lessor shall use its reasonable efforts to execute such documents and instruments, in form and substance satisfactory to the Lessor, as shall have been provided to it by the Lessee, and take such other action as may be necessary in order to effect the issuance of Additional Mortgage Bonds (the "Improvement Bonds") and shall use the proceeds thereof to pay the cost of such Facility Modifications, or, if the Lessee has paid for such Facility Modifications, to reimburse the Lessee for the amount so paid subject to fulfillment of the following conditions:

- (i) there shall be no more than one request for Improvement Bonds in any calendar year;
- (ii) the Lessee may include in such request for a Supplemental Financing only Facility Modifications not previously financed in a Supplemental Financing;
- (iii) the Improvement Bonds shall have a final maturity date no later than the date on which the Lease Term is scheduled to expire;
- (iv) a Favorable Opinion of Bond Counsel;
- (v) appropriate adjustments, if any, shall have been made in Schedule V to the percentages for Stipulated Loss Value to support the amortization of the Improvement Bonds;
- (vi) the Lessee shall have paid to the Lessor an amount equal to all out-of-pocket costs and expenses incurred by the Lessor;
- (vii) the Lessor and Lessee shall have entered into such agreements and shall have made or delivered such representations, warranties, covenants, provisions, opinions and other documents as may be reasonably requested;
- (viii) such Supplemental Financing meets the requirements set forth in Section 2.04(c) of the Mortgage Indenture and is otherwise permitted by the Mortgage Indenture;
- (ix) no Event of Default shall have occurred and be continuing;
- (x) such Supplemental Financing is for an amount not less than \$1,000,000 (escalating at the CPI from June, 1995); and
- (xi) the capital nature and the cost of such Facility Modifications shall be certified to the Lessor by the Lessee's independent certified public accountants.

If the recording or filing of a supplement to the Mortgage Indenture shall be required to subject to the lien and security interest of the Mortgage Indenture any Facility Modifications, the cost of which was financed in whole or in part with Improvement Bonds, then, within 30 days of the installation of such Facility Modifications, the Lessee shall

prepare and, after the execution and delivery thereof by the Lessor and the Mortgage Trustee, record or file such supplement to the Mortgage Indenture and such other instruments as may be necessary to confirm that title to such Facility Modifications has become subject to the lien and security interest of the Mortgage Indenture.

ARTICLE XI

REFUNDING BONDS

Section 11.1. Refunding Bonds at the Option of the Lessee. The Lessee shall have the option at any time to refund the Outstanding Mortgage Bonds by having Refunding Bonds issued pursuant to Section 2.04(d) of the Mortgage Indenture and the Lessee may exercise such option by requesting the Lessor to issue, and upon receipt of such request the Lessor shall use its best efforts to execute such documents and instruments, in form and substance satisfactory to the Lessor as shall have been provided to it by the Lessee, and take such other action as may be necessary in order to effect the issuance of Additional Mortgage Bonds ("*Refunding Bonds*") and shall use the proceeds thereof to refund Outstanding Mortgage Bonds, subject to fulfillment of the following conditions:

- (a) the Refunding Bonds shall have a final maturity date no later than the date on which the Lease Term is scheduled to expire;
- (b) appropriate adjustments, if any, shall be made on Schedule V to the percentages for Stipulated Loss Values to reflect the revised Debt Service;
- (c) the Lessee shall have paid to the Lessor an amount equal to all out-of-pocket costs and expenses incurred by the Lessor;
- (d) the issuing of the Refunding Bonds meets the requirements set forth in Section 2.04(d) of the Mortgage Indenture;
- (e) no Event of Default shall have occurred and be continuing, except if such Event of Default could be cured by such issuance.

Section 11.2. Refunding Bonds - Determination of Taxability. Upon the occurrence of a Determination of Taxability the Lessee may elect to have Refunding Bonds issued in order to refund Outstanding Mortgage Bonds securing Bonds affected by such Determination of Taxability by requesting the Lessor to issue the same but only if the conditions set forth in Sections 11.1(a) through 11.1(e) above shall have been met.

ARTICLE XII

LEASE RENEWAL; RIGHT OF FIRST REFUSAL

Section 12.1. Acknowledgment; Option to Renew Agreement. The Lessor and the Lessee acknowledge that although it is customary in leasing arrangements similar to this and desirable from the standpoint of both parties for the Lessee to have an option to purchase the Facility at the end of the Lease Term, and to have other rights to acquire the Facility in certain situations, the June 5, 1995 letter from Price, Waterhouse, a copy of which is attached hereto as Exhibit C, states that in accordance with SFAS 98 the only continuing involvement which the Lessee may have at the end of the Lease Term is the right of renewal and first refusal which is set forth herein.

Subject to the notice requirement set forth in Section 12.2 and so long as no Event of Default shall have occurred which shall be continuing on the Renewal Notice Date or the Renewal Date, the Lessee shall have the option to renew (the "*Renewal Option*") the term of this Agreement at the end of the Lease Term for one period as determined by the Lessee in its Renewal Notice (the "*Renewal Term*") which Renewal Term shall commence on the date following the end of the Lease Term (the "*Renewal Date*") and be at least two years but not more than a term which when added to the Lease Term equals 74% of the estimated useful life of the Facility determined as of the Commencement Date by the Independent Engineer as set forth in a certificate delivered to the Lessee, the Lessor, the Mortgage Trustee and the Trustee on or prior to the Commencement Date; *provided, however*, that if at any time after the Commencement Date the Independent Engineer shall deliver a certificate to the Lessee, the Lessor, the Mortgage Trustee and the Trustee in which it certifies that the estimated useful life of the Facility is longer than previously certified pursuant to this Section 12.1, then the Renewal Term may be extended to a term which when added to the Lease Term equals 74% of the estimated useful life of the Facility so certified by the Independent Engineer in such certificate. All of the provisions of this Agreement shall apply during the Renewal Term except (i) the Fixed Basic Rent shall be 30% of the Fixed Basic Rent which shall be in effect at the end of the Lease Term, as the same may be adjusted from time to time by the issuance of Additional Mortgage Bonds on or after the commencement of the Renewal Term and there shall be no Percentage Rent, (ii) the Event of Default in Section 7.1(a) which arises from a failure to pay Fixed Basic Rent for Debt Service shall be changed as of the Renewal Date so that the Event of Default arises for a failure to pay any Fixed Basic Rent, and (iii) if any Mortgage Bonds shall then be Outstanding, the Stipulated Loss Value shall be calculated in order to pay principal and interest thereon as the same become due and payable and if no Mortgage Bonds shall then be Outstanding, the Stipulated Loss Value shall be zero.

Section 12.2. Renewal Notice. Not later than six months prior to the expiration date of the Lease Term, the Lessee, if it intends to exercise its option to renew the term of this Agreement pursuant to Section 12.1, shall deliver written notice (a "*Renewal Notice*") to the Lessor stating (i) that the Lessee shall exercise such option to renew, and (ii) the Renewal Term selected by the Lessee (the date on which such notice is delivered being the "*Renewal Notice Date*"). Concurrently with its delivery of the Renewal Notice the Lessee shall furnish

an appraisal by an independent appraiser selected by the Lessee and reasonably acceptable to the Lessor as to the estimated fair market value of the Facility as of the Renewal Date and as of the end of the Renewal Term.

Section 12.3. Right of First Refusal. In the event that the Lessor shall enter into an agreement to sell the Facility to a third party at any time within the two year period following the expiration of the Lease Term or, if the Renewal Option is exercised, at any time within the two year period following the expiration of the Renewal Term (a "*Facility Sale Agreement*"), the Lessor, prior to consummating the Facility Sale Agreement shall first offer in a written notice to the Lessee to sell the Facility to the Lessee (a "*Sale Offer*") on the same terms and conditions as are contained in the Facility Sale Agreement. Within 90 days after the receipt by the Lessee of a Sale Offer, the Lessee shall notify the Lessor in writing if it shall accept or reject the Sale Offer and if no such notice is received from the Lessee, the Lessee shall be deemed to have rejected the Sale Offer. If the Sale Offer shall be rejected by the Lessee, the Lessor may consummate the sale of the Facility in accordance with the Facility Sale Agreement. If the Sale Offer is accepted by the Lessee, the Lessor and Lessee shall consummate the sale of the Facility to the Lessee pursuant to the Sale Offer; *provided*, that the period during which the sale shall be consummated may be extended if necessary for the purpose of obtaining any required DPU approval.

ARTICLE XIII

MISCELLANEOUS COVENANTS

Section 13.1. No Warranty of Condition or Suitability by the Lessor. The Lessor makes no warranty, either expressed or implied, as to the condition of the Facility or that it will be suitable for the Lessee's purposes or needs.

Section 13.2. Release and Indemnification Covenants with Respect to the Lessor. To the extent permitted by Law, the Lessee will, at its expense, indemnify and save harmless the Lessor and its directors, officers, employees and agents against and from any and all claims, damages, demands, expenses, liabilities of every kind (other than the gross negligence or willful, wrongful acts of the Lessor, its directors, officers, agents, servants, and employees) asserted by or on behalf of any person, firm, corporation or Governmental Authority arising out of, resulting from the condition, use, possession, conduct, management, planning, design, acquisition, construction, installation, financing or ownership of the Facility. To the extent permitted by Law, the Lessee will also, at its expense, indemnify and save harmless the Lessor against and from all costs, counsel fees, expenses and liabilities incurred in any action or proceeding brought by reason of any such claim or demand. If any proceeding is brought against the Lessor by reason of any such claim or demand, the Lessee will, upon notice from the Lessor, defend such proceeding on behalf of the Lessor. Notwithstanding the foregoing, the Lessee shall not be obligated to indemnify the Lessor or any of its directors, officers, employees or agents or hold any of them harmless against or from or in respect of any claim, damage, demand, expense, liability or loss arising from the intentional or willful misconduct or gross negligence of the Lessor or any of its directors, officers, employees or agents. The Lessor shall not be liable for any settlement of any claim, suit,

action or proceeding made without its consent (which consent shall not be unreasonably withheld). This Section shall survive the termination or expiration of this Agreement for any reason.

Section 13.3. Release and Indemnification Covenants with Respect to the Mortgage Trustee. The Lessee will indemnify and hold harmless the Mortgage Trustee, its officers, agents, servants and employees against and from any and all claims, costs, damages, demands, expenses and liabilities of every kind asserted by or on behalf of any person, firm, corporation or Governmental Authority which may be asserted against the Mortgage Trustee and for which the Mortgage Trustee may be liable (other than the gross negligence or willful, wrongful acts of the Mortgage Trustee, its officers, agents, servants, and employees) in connection with, arising out of, or resulting from (a) the acceptance or administration of the Mortgage Indenture and (b) the condition, use, possession, conduct, management, planning, design, acquisition, construction, installation, financing or ownership of the Facility. The Lessee will also, at its expense, indemnify and save harmless the Mortgage Trustee against and from all costs, counsel fees, expenses and liabilities incurred in any action or proceeding brought by reason of any such claim or demand. The Mortgage Trustee shall give prompt notice to the Lessee of any claim, suit, action, or proceeding (of which it has knowledge) to which this indemnity relates and shall cooperate with the Lessee, in the defense or settlement thereof; *provided* that the Lessee shall inform the Mortgage Trustee as to the status of such defense or settlement on a regular basis. The Mortgage Trustee shall not be liable for any settlement of any claim, suit, action or proceeding made without its consent (which consent shall not be unreasonably withheld). This Section shall survive the termination or expiration of this Agreement for any reason.

Section 13.4. Release and Indemnification Covenants with Respect to the Trustee. The Lessee will indemnify and hold harmless the Trustee, its officers, agents, servants and employees against and from any and all claims, costs, damages, demands, expenses and liabilities of every kind asserted by or on behalf of any person, firm, corporation or Governmental Authority which may be asserted against the Trustee and for which the Trustee may be liable (other than the gross negligence or willful, wrongful acts of the Trustee, its officers, agents, servants, and employees) in connection with, arising out of, or resulting from (a) the acceptance or administration of the Indenture and (b) the condition, use, possession, conduct, management, planning, design, acquisition, construction, installation, financing or ownership of the Facility. The Lessee will also, at its expense, indemnify and save harmless the Trustee against and from all costs, counsel fees, expenses and liabilities incurred in any action or proceeding brought by reason of any such claim or demand. The Trustee shall give prompt notice to the Lessee of any claim, suit, action, or proceeding (of which it has knowledge) to which this indemnity relates and shall cooperate with the Lessee, in the defense or settlement thereof; *provided* that the Lessee shall inform the Trustee as to the status of such defense or settlement on a regular basis. The Trustee shall not be liable for any settlement of any claim, suit, action or proceeding made without its consent (which consent shall not be unreasonably withheld). This Section shall survive the termination or expiration of this Agreement for any reason.

Section 13.5. Release and Indemnification Covenants with Respect to the Issuer. The Lessee will indemnify and hold harmless the Issuer, its officers, agents, servants and employees against and from any and all claims, costs, damages, demands, expenses and liabilities of every kind asserted by or on behalf of any person, firm, corporation or Governmental Authority which may be asserted against the Issuer and for which the Issuer may be liable (other than the gross negligence or willful, wrongful acts of the Issuer, its officers, agents, servants, and employees) in connection with, arising out of, or resulting from the condition, use, possession, conduct, management, planning, design, acquisition, construction, installation, financing or ownership of the Facility. The Lessee will also, at its expense, indemnify and save harmless the Issuer against and from all costs, counsel fees, expenses and liabilities incurred in any action or proceeding brought by reason of any such claim or demand. The Issuer shall give prompt notice to the Lessee of any claim, suit, action, or proceeding (of which it has knowledge) to which this indemnity relates and shall cooperate with the Lessee, in the defense or settlement thereof; *provided* that the Lessee shall inform the Issuer as to the status of such defense or settlement on a regular basis. The Issuer shall not be liable for any settlement of any claim, suit, action or proceeding made without its consent (which consent shall not be unreasonably withheld). This Section shall survive the termination or expiration of this Agreement for any reason.

Section 13.6. Compensation and Expenses of the Mortgage Trustee. The Lessee shall within 30 days of receipt of written notice thereof pay reasonable compensation to the Mortgage Trustee and any paying agent and all other fiduciaries and agents serving under the Mortgage Indenture for their services under or in connection with enforcement of the Mortgage Indenture and this Agreement, and all reasonable actual out-of-pocket expenses (including counsel fees) reasonably incurred by the Mortgage Trustee and any paying agent in performing their duties thereunder or hereunder or the enforcement thereof or hereof. The Lessee shall also pay all expenses (other than applicable taxes, fees, or other governmental charges) incurred in connection with exchanges, registrations, or registration of transfers of Mortgage Bonds. This Section shall survive the termination or expiration of this Agreement for any reason.

Section 13.7. Expenses of the Lessor. The Lessee shall pay the reasonable out-of-pocket expenses of the Lessor (including reasonable counsel fees) in connection with the performance of the duties of the Lessor under the Lessor Documents, and the authorization, execution, delivery, and sale of the Mortgage Bonds. This Section shall survive the termination or expiration of this Agreement for any reason.

Section 13.8. Compensation and Expenses of the Trustee. The Lessee shall within 30 days of receipt of written notice thereof pay reasonable compensation to the Trustee and any paying agent and all other fiduciaries and agents serving under the Indenture for their services under or in connection with enforcement of the Indenture, and all reasonable actual out-of-pocket expenses (including counsel fees) reasonably incurred by the Trustee and any paying agent in performing their duties thereunder or the enforcement thereof. The Lessee shall also pay all expenses (other than applicable taxes, fees, or other governmental charges) incurred in connection with exchanges, registrations, or registration of transfers of Bonds. This Section shall survive the termination or expiration of this Agreement for any reason.

Section 13.9. Expenses of the Issuer. The Lessee shall pay the reasonable out-of-pocket expenses of the Issuer (including reasonable counsel fees) in connection with the performance of the duties of the Issuer under the Indenture, and the authorization, execution, delivery, and sale of the Bonds. This Section shall survive the termination or expiration of this Agreement for any reason.

Section 13.10. Restrictions on Sale of the Facility by the Lessor. Except as contemplated or permitted by the Lessor Documents, the Lessor agrees that it will not sell, assign, convey, mortgage, encumber, or otherwise dispose of any part of the Facility during the Lease Term.

Section 13.11. Third Party Engineer Dispute Resolution. If the Lessee and the Independent Engineer are in dispute in respect of a test, notice, plan, report, certificate or budget, determination or other matter required to be confirmed, certified, approved, given or made by the Independent Engineer under this Agreement or any other Facility Document and they are unable to resolve the dispute within seven days of issuance by the Independent Engineer of a written notice to the Lessee (with a copy to the Mortgage Trustee and the Trustee) expressing its disagreement with such test, notice, plan, report, certificate, budget, determination or other matter, a single independent engineer (the "Third Party Engineer") shall be designated to consider and decide the issues raised by such dispute. The Lessee shall designate the Third Party Engineer not later than the third day following the expiration of the seven day period described above and such designation shall become effective in three days unless the Mortgage Trustee gives notice of its disagreement with such selection within such three day period. Within three days of the designation of a Third Party Engineer, each of the Lessee and the Independent Engineer shall submit to the Third Party Engineer a notice setting forth in detail such Person's position in respect of the issues in dispute. Such notice shall include supporting documentation, if appropriate.

The Third Party Engineer shall complete all proceedings and issue his decision with regard to the issues in dispute as promptly as reasonably possible, but in any event within ten days of the date on which he is designated as Third Party Engineer, unless the Third Party Engineer reasonably determines that additional time is required in order to give adequate consideration to the issues raised. In such case, the Third Party Engineer shall state in writing his reasons for believing that additional time is needed and shall specify the additional period required, which such period shall not exceed 10 days without the Lessee's agreement.

If the Third Party Engineer determines that the concerns set forth in the Independent Engineer's notice are valid, he shall so state and shall state the corrective actions to be taken by the Lessee. In such case, the Lessee shall promptly take such actions. The Lessee shall thereafter bear all costs which may arise from actions taken pursuant to the Third Party Engineer's decision. If the Third Party Engineer determines that the concerns set forth in the Independent Engineer's notice are not valid, he shall so state and shall state the appropriate actions to be taken by the Lessee. In such case, the Lessee shall take such actions and for purposes of the Indenture and this Agreement, the Independent Engineer shall be deemed to have approved, confirmed, concurred in or consented to the test, notice, plan,

report, certificate, budget, determination or other matter in dispute. The decision of the Third Party Engineer shall be final and non-appealable. The Lessee shall bear all reasonable costs incurred by the Third Party Engineer in connection with this dispute resolution mechanism.

Section 13.12. Performance of Independent Engineer. References herein and in the Mortgage Indenture to the performance of actions by the Independent Engineer, when modified by the phrase "which shall not be unreasonably withheld or delayed" or similar language shall require the Independent Engineer to render its written decision with respect to the test, plan, report, certificate, consent, budget, determination or other matter within 10 Business Days after receipt of written notice from the Lessee. In the event the Independent Engineer fails to act after 10 Business Days (or such longer period as the Independent Engineer may reasonably request (which additional period shall in no event exceed 30 days)), the Lessee may immediately invoke Third Party Engineer Dispute Resolution.

Section 13.13. Resignation or Removal of Engineers. The Independent Engineer or Third Party Engineer may at any time resign and be discharged of the duties created by this Agreement and the Mortgage Indenture by giving not less than 90 days' written notice to the Mortgage Trustee, the Trustee and the Lessee. The Lessee may remove the Independent Engineer in the event that the Independent Engineer breaches any of the duties imposed on it under this Agreement, the Mortgage Indenture or such agreement as may at the time be in effect between the Lessee and the Independent Engineer pursuant to which the Independent Engineer has undertaken to act in such capacity by giving not less than 30 days' notice to the Independent Engineer, the Mortgage Trustee and the Trustee. Any such notice shall specify the date when such resignation or removal shall take effect. Such resignation or removal shall take effect upon the date specified in such notice unless previously an Eligible Successor shall be appointed by the Trustee, the Mortgage Trustee and the Lessee, in which event such resignation or removal shall take effect immediately upon the appointment and acceptance of such Eligible Successor; *provided, however*, that no such resignation or removal may take effect until an Eligible Successor has been so appointed and has accepted. Upon the receipt of any such notice of resignation or removal, the Trustee, the Mortgage Trustee and the Lessee shall promptly appoint an Eligible Successor.

Section 13.14. Assignment; Successors and Assigns. This Agreement may be assigned in whole or in part by the Lessee; *provided, however*, that in the event of any assignment, the Lessee shall continue to remain primarily liable for the payments specified in Sections 4.3, 13.2, 13.3, 13.4, 13.5, 13.6, 13.7, 13.8 and 13.9 hereof and for performance and observance of the other agreements and covenants on its part herein provided. The Lessor may not assign its rights hereunder except as provided in the Mortgage Indenture and the Indenture, unless it receives a Favorable Opinion of Bond Counsel and the prior written consent of a Lessee Representative. This Agreement and all covenants, promises and agreements made by or on behalf of the Lessor or the Lessee herein shall inure to the benefit of, and shall be binding upon the Lessor, the Lessee and their respective successors and assigns.

ARTICLE XIV

AMENDMENTS

Section 14.1. Amendment Consent of Holders of Mortgage Bonds; without Consent of Holders of Mortgage Bonds. (a) This Agreement and the rights and obligations of the Lessor and the Lessee hereunder may be amended by an amendment hereof in writing which has been executed by the Lessor and the Lessee which shall become binding when the Mortgage Trustee has consented to the amendment, if required by Section 14.2, and, except as provided below, the Mortgage Trustee shall have received the written consents of (i) the holders of at least 66-2/3% in aggregate principal amount of the Mortgage Bonds then Outstanding, or (ii) in case less than all of the several series of Mortgage Bonds then Outstanding are affected by the amendment, the holders of at least 66-2/3% in aggregate principal amount of the Mortgage Bonds then Outstanding of each series so affected, exclusive of Mortgage Bonds disqualified as provided in Section 9.02 of the Mortgage Indenture, and upon delivery to the Mortgage Trustee of a Favorable Opinion of Bond Counsel; *provided, however*, that if such amendment will, by its terms, not take effect so long as any Mortgage Bonds of any specified series remain Outstanding, the consent of such holders shall not be required and such Mortgage Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Mortgage Bonds under this Section. No such amendment shall (1) change (except as otherwise provided herein) either the amount of or dates of payment of Fixed Basic Rent, or (2) reduce the obligations of the Lessee hereunder if any such reduction shall have a Material Adverse Effect. Notwithstanding the foregoing, this Agreement and the rights and obligations of the Lessor and the Lessee may be amended in accordance with the terms of this Agreement for any reason at any time by an amendment hereof when the Trustee shall have received (x) the written consents of the holders of 100% in aggregate principal amount of each series of the Mortgage Bonds then Outstanding and so affected by the amendment, and (y) a Favorable Opinion of Bond Counsel.

(b) The Lessor and the Lessee may enter into written amendments to this Agreement which shall become binding upon execution without the written consent of any holders of Mortgage Bonds only after receipt of a Favorable Opinion of Bond Counsel, as follows:

(i) in the event that Outstanding Mortgage Bonds shall be redeemed by the Lessor pursuant to Section 4.07(a) of the Mortgage Indenture for the purpose of obtaining a Bond Rating Reaffirmation pursuant to Section 7.1(l) hereof with the result that (x) the aggregate amount of Debt Service for the remaining Lease Term shall be reduced (the aggregate amount of the reduction being the "*Section 7.1(l) Redemption Debt Service Reduction*") and (y) the Fixed Basic Rent for Debt Service set forth on Schedule III shall be amended pursuant to Section 4.3(b) hereof to reflect the change in Debt Service, the Lessor and the Lessee may concurrently with, or at any time within the one-year period following the date of such redemption, enter into a written amendment to reduce future Fixed Basic Rent set forth in Schedule III in a net aggregate amount up to but not in excess of the Section 7.1(l) Redemption Debt

Service Reduction, *provided* that after giving effect to such amendment (I) the Fixed Basic Rent payable on each Basic Rent Payment Date thereafter shall not be less than the amended Fixed Basic Rent for Debt Service payable on such Basic Rent Payment Date, and (II) the Additional Fixed Basic Rent shall be amended on such Schedule III so that the amount payable on each such Basic Rent Payment Date shall equal the amount, if any, by which the amended Fixed Basic Rent payable on such date exceeds the amended Fixed Basic Rent for Debt Service payable on such date; *provided further*, that the aforesaid amendment may be entered into without the consent of any holders of Mortgage Bonds only if the following conditions shall be fulfilled:

(A) the Lessor shall certify in an Officer's Certificate to the Mortgage Trustee that, after giving effect to the amendment (1) the minimum Projected Debt Service Coverage Ratio for any full Fiscal Year during the remaining term of the Mortgage Bonds Outstanding will equal or exceed 1.20 to 1.00, and (2) the average of the Projected Debt Service Coverage Ratio for each of the full Fiscal Years during the remaining term of the Mortgage Bonds then Outstanding will equal or exceed 1.50 to 1.00;

(B) the Lessee shall certify in an Officer's Certificate to the Mortgage Trustee that after giving effect to the amendment, the Coverage Ratio of the Lessee shall be not less than 1.50 to 1.00; and

(C) the Independent Engineer shall deliver a certificate to the Mortgage Trustee in which the Independent Engineer confirms the calculations contained in the Officer's Certificate of the Lessor delivered pursuant to subparagraph (i)(A) above and confirms the calculations contained in the Officer's Certificate of the Lessee delivered pursuant to subparagraph (i)(B) above.

(ii) in the event that Refunding Bonds shall be issued pursuant to Section 2.04(d) of the Mortgage Indenture with the result that (x) the aggregate amount of Debt Service for the remaining Lease Term shall be reduced pursuant to Section 2.04(d)(i) of the Mortgage Indenture (the aggregate amount of the reduction being the "*Refunding Debt Service Reduction*") and (y) the Fixed Basic Rent for Debt Service set forth on Schedule III shall be amended pursuant to Section 4.3(b) hereof to reflect the change in Debt Service, the Lessor and the Lessee may concurrently with, or at any time within the one-year period following the date of issuance of such Refunding Bonds, enter into a written amendment to reduce future Fixed Basic Rent set forth on Schedule III in a net aggregate amount up to but not in excess of the Refunding Debt Service Reduction, *provided* that after giving effect to such amendment (I) the Fixed Basic Rent payable on each Basic Rent Payment Date thereafter shall not be less than the amended Fixed Basic Rent for Debt Service payable on such Basic Rent Payment Date, and (II) the Additional Fixed Basic Rent shall be amended on such Schedule III so that the amount payable on each such Basic Rent Payment Date shall equal the amount, if any, by which the amended Fixed Basic Rent payable on such date exceeds the amended Fixed Basic Rent for Debt Service payable on such date; *provided further*, that the aforesaid amendment may be entered

into without the consent of any holders of Mortgage Bonds only if the following conditions shall be fulfilled:

(A) the Lessor shall certify in an Officer's Certificate to the Mortgage Trustee that, after giving effect to the amendment (1) the minimum Projected Debt Service Coverage Ratio for any full Fiscal Year during the remaining term of the Mortgage Bonds Outstanding will equal or exceed 1.20 to 1.00, and (2) the average of the Projected Debt Service Coverage Ratio for each of the full Fiscal Years during the remaining term of the Mortgage Bonds then Outstanding will equal or exceed 1.50 to 1.00;

(B) the Lessee shall certify in an Officer's Certificate to the Mortgage Trustee that (1) after giving effect to the amendment and (2) if the Lessee determines that it shall request from the DPU a decrease in rates to be charged by the Lessee to the Facility Ratepayers as a result of issuance of such Refunding Bonds, after giving effect to the Final DPU Rate Order approving any such decrease in rates, the Coverage Ratio of the Lessee shall be not less than 1.50 to 1.00; and

(C) the Independent Engineer shall deliver a certificate to the Mortgage Trustee in which the Independent Engineer confirms the calculations contained in the Officer's Certificate of the Lessor delivered pursuant to subparagraph (ii)(A) above and confirms the calculations contained in the Officer's Certificate of the Lessee delivered pursuant to subparagraph (ii)(B) above.

(iii) in the event that Outstanding Mortgage Bonds shall be redeemed by the Lessor pursuant to a Capital Replacement Fund Redemption under Section 4.07(c) of the Mortgage Indenture with the result that (x) the aggregate amount of Debt Service for the remaining Lease Term shall be reduced (the aggregate amount of the reduction being the "*Capital Replacement Fund Redemption Debt Service Reduction*") and (y) the Fixed Basic Rent for Debt Service set forth on Schedule III shall be amended pursuant to Section 4.3(b) hereof to reflect the change in Debt Service, the Lessor and the Lessee may concurrently with, or at any time within the one-year period following the date of such redemption, enter into a written amendment to reduce future Fixed Basic Rent set forth in Schedule III in a net aggregate amount up to but not in excess of the Capital Replacement Fund Redemption Debt Service Reduction, *provided* that after giving effect to such amendment (I) the Fixed Basic Rent payable on each Basic Rent Payment Date thereafter shall not be less than the amended Fixed Basic Rent for Debt Service payable on such Basic Rent Payment Date, and (II) the Additional Fixed Basic Rent shall be amended on such Schedule III so that the amount payable on each such Basic Rent Payment Date shall equal the amount, if any, by which the amended Fixed Basic Rent payable on such date exceeds the amended Fixed Basic Rent for Debt Service payable on such date; *provided further*, that the aforesaid amendment may be entered into without the consent of any holders of Mortgage Bonds only if the following conditions shall be fulfilled:

(A) the Lessor shall certify in an Officer's Certificate to the Mortgage Trustee that, after giving effect to the amendment (1) the minimum Projected Debt Service Coverage Ratio for any full Fiscal Year during the remaining term of the Mortgage Bonds Outstanding will equal or exceed 1.20 to 1.00, and (2) the average of the Projected Debt Service Coverage Ratio for each of the full Fiscal Years during the remaining term of the Mortgage Bonds then Outstanding will equal or exceed 1.50 to 1.00;

(B) the Lessee shall certify in an Officer's Certificate to the Mortgage Trustee that after giving effect to the amendment, the Coverage Ratio of the Lessee shall be not less than 1.50 to 1.00; and

(C) the Independent Engineer shall deliver a certificate to the Mortgage Trustee in which the Independent Engineer confirms the calculations contained in the Officer's Certificate of the Lessor delivered pursuant to subparagraph (i)(A) above and confirms the calculations contained in the Officer's Certificate of the Lessee delivered pursuant to subparagraph (i)(B) above.

(iv) The Lessee and Lessor may also enter into a written amendment for any one or more of the following purposes and any requirement hereinafter set forth that there shall not be a Material Adverse Effect shall be confirmed by the Independent Engineer:

(A) to add to the conditions, covenants and terms contained herein required to be observed or performed by the Lessor or the Lessee, other conditions, covenants and terms thereafter to be observed or performed by the Lessor or the Lessee, or to surrender any right reserved herein to or conferred herein on the Lessor or the Lessee, and which in either case shall not have a Material Adverse Effect;

(B) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or amending any defective provision contained herein or in regard to questions arising hereunder which the Lessor or the Lessee may deem desirable or necessary, and which shall not have a Material Adverse Effect;

(C) to make any other change that does not have a Material Adverse Effect;

(D) in connection with the issuance of Additional Mortgage Bonds;

(E) to make changes required by Standard & Poor's or Moody's or any other nationally recognized securities rating agency as a condition to the Bond Rating Reaffirmation or the issuance or maintenance of any other rating on Bonds of any series by any such Rating Agency, *provided* that any such changes do not have a Material Adverse Effect; or

(F) to extend the Lease Term as provided in Article XII.

Section 14.2. Consent by Mortgage Trustee to Amendments. The consent of the Mortgage Trustee to any amendment or supplement to this Agreement authorized by this Article shall not be required unless the amendment adversely affects the rights, duties, liabilities or immunities of the Mortgage Trustee.

ARTICLE XV

MISCELLANEOUS

Section 15.1. Notices. All notices or other communications hereunder shall be sufficiently given and shall be deemed given when delivered or mailed as provided in the Mortgage Indenture.

Section 15.2. Binding Effect. This Agreement shall inure to the benefit of and shall be binding upon the Lessor, the Lessee and their respective successors and assigns, subject, however, to the limitations contained in Section 13.14.

Section 15.3. Severability. If any provision of this Agreement shall be determined to be unenforceable at any time, that shall not affect any other provision of this Agreement or the enforceability of that provision at any other time.

Section 15.4. Amendments. After the issuance of the Series 1995 Bonds, this Agreement may not be effectively amended or terminated except in accordance with the provisions hereof.

Section 15.5. Right of Lessee to Perform Lessor's Agreements. The Lessor irrevocably authorizes and empowers the Lessee to perform in the name and on behalf of the Lessor any agreement made by the Lessor in this Agreement or in the Mortgage Indenture which the Lessor fails to perform in a timely fashion, after prior written notice to the Lessor, if the continuance of such failure could result in an Event of Default under the Mortgage Indenture. This Section will not require the Lessee to perform any agreement of the Lessor. No such performance or advance shall operate to release the Lessor from any such failure and any sums so advanced by the Lessee shall constitute an obligation of the Lessor to the Lessee, shall, to the extent permitted by Law, be repayable by the Lessor on demand and shall bear interest at the rate of 1% per annum over the prime rate of the Mortgage Trustee, to the extent permitted by Law. The Lessee may not set-off, abate or reduce any such obligation of the Lessor to the Lessee against amounts owed by the Lessee hereunder.

Section 15.6. Right of Lessor to Perform Lessee's Agreements. In the event the Lessee shall fail to (a) pay any tax, charge, assessment or imposition pursuant hereto, (b) remove any lien, encumbrance or charge pursuant hereto, (c) maintain the Facility in repair pursuant hereto, (d) procure the insurance required hereby, in the manner herein described or (e) fail to make any other payment or perform any other act required to be

performed hereunder, and the Lessee is not contesting the same, then and in each such case the Lessor may (but shall not be obligated to) remedy such failure for the account of the Lessee and make advances for that purpose. No such performance or advance shall operate to release the Lessee from any such failure and any sums so advanced by the Lessor shall be added to the indebtedness secured by the Mortgage Indenture, shall be repayable by the Lessee on demand and shall bear interest at the rate of 1% per annum over the prime rate of the Mortgage Trustee if advanced by the Lessor. The Lessor shall have the right of entry on the Facility Site or any portion thereof in order to effectuate the purposes of this Section 15.6, subject to the permission of a court of competent jurisdiction, if required by Law.

Section 15.7. Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth.

Section 15.8. Captions; References to Sections. The captions in this Agreement are for convenience only and do not define or limit the scope or intent of any provisions or Sections of this Agreement. References to Articles and Sections are to the Articles and Sections of this Agreement, unless the context otherwise requires.

Section 15.9. Complete Agreement. This Agreement represents the entire agreement between the Lessor and the Lessee with respect to its subject matter.

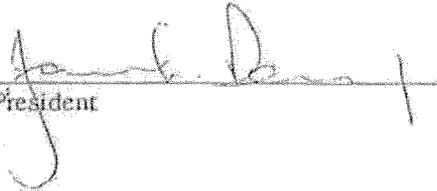
Section 15.10. Acknowledgment of Assignment. The Lessee hereby acknowledges that the Lessor is assigning its rights under this Agreement to the Mortgage Trustee pursuant to the provisions of the Mortgage Indenture.

Section 15.11. Counterparts. This Agreement may be signed in several counterparts. Each will be an original, but all of them together constitute the same instrument.

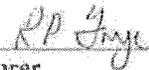
Section 15.12. Recording of Agreement. Notice of this Agreement and every modification and assignment hereof shall be recorded in the Office of the Register of Deeds for Plymouth County, Massachusetts, or in such other office as may be at the time by Law as the proper place for such recording.

IN WITNESS WHEREOF, the Lessor and the Lessee have caused this Agreement to be signed in their behalf by their duly authorized representatives as of the date first written above.

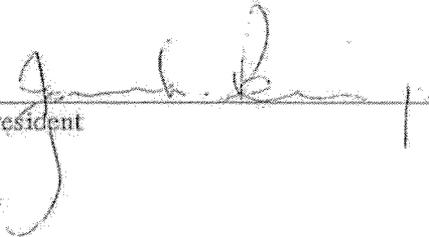
MASSACHUSETTS CAPITAL RESOURCES
COMPANY

By 
Its President

Attest:


Its Treasurer

MASSACHUSETTS-AMERICAN WATER
COMPANY

By 
Its President

Attest:

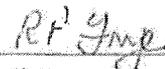

Its Treasurer

EXHIBIT A
DESCRIPTION OF WATER TREATMENT PLANT

The potable water filtration plant in a building of approximately 34,000 square feet, together with appurtenances thereto, constructed on the Facility Site (described in Exhibit B) to service the customers of Massachusetts-American Water Company in the Massachusetts municipalities of Hingham, Hull, Norwell and Cohasset, having the capability of producing 7.0 MGD for sale to such customers and having the following features: (i) granular activated carbon to remove chemicals, (ii) four large filters for the removal of solids, (iii) a superpulvator for clarification of the water supply, (iv) tanks for disinfecting the water by means of liquid sodium hypochlorite, (v) two centrifuges for processing of residuals from the treatment process and (vi) a clearwell of approximately 10,000 square feet for storage and distribution of treated water.

EXHIBIT B

DESCRIPTION OF FACILITY SITE

LEGAL DESCRIPTION

PARCEL I: A parcel of land in Hingham, Plymouth County, Massachusetts, situated on the Easterly side of Main Street,

Beginning at a stone bound, at the Northwest corner of the described parcel, in the Easterly sideline of Main Street, said stone bound lies North $2^{\circ}-28'-39''$ West, a distance of 375.32 feet from an angle point in said sideline.

Thence, North $86^{\circ}-32'-57''$ East, by land of Hingham Water Company, 571.38 feet to a point.

Thence, North $83^{\circ}-41'-25''$ East, by land of Hingham Water Company, 769.19 feet to a point.

Thence, South $8^{\circ}-52'-42''$ East, by land of Hingham Water Company and by land of M. J. Hall Realty Trust, 1497.87 feet to a stone bound in the Northerly sideline of Huntley Road.

Thence, South $84^{\circ}-41'-48''$ West, along said Northerly sideline of Huntley Road, the Northerly end of Hope Road and by land of Theodore and Cecile D. Paquette, 578.43 feet to a stone bound.

Thence, South $85^{\circ}-08'-42''$ West, by land of House of Prayer Lutheran Church, Inc., 714.29 feet to a point in the Easterly sideline of Main Street.

Thence, North $21^{\circ}-00'-49''$ West, along said Easterly sideline of Main Street, 138.88 feet to a point.

Thence, North $11^{\circ}-15'-59''$ West, along said Easterly sideline of Main Street, 190.65 feet to a point.

Thence, North $47^{\circ}-48'-11''$ East, along said Easterly sideline of Main Street, 18.83 feet to a point.

Thence, North $33^{\circ}-05'-39''$ West, along said Easterly sideline of Main Street, 92.69 feet to a point.

Thence, North 11°-38'-49" West, along said Easterly sideline of Main Street, 130.28 feet to a point.

Thence, North 7°-48'-29" West, along said Easterly sideline of Main Street, 282.40 feet to a point.

Thence, North 15°-31'-29" West, along said Easterly sideline of Main Street, 236.32 feet to a point.

Thence, North 10°-17'-09" West, along said Easterly sideline of Main Street, 58.89 feet to a point.

Thence, North 2°-28'-39" West, along said Easterly sideline of Main Street, 375.32 feet to a stone bound and point of beginning.

The above-described parcel contains 2,008,133 sq. ft, or 46.10 Acres.

The above-described parcel is shown on a plan entitled "Plan of Land in Hingham, Massachusetts, Prepared for Metcalf & Eddy, Inc.," dated August 2, 1995, by Perkins Engineering, Inc., Rockland, Massachusetts, to be recorded contemporaneously herewith with the Plymouth County Registry of Deeds (the "1995 Plan").

PARCEL II: The non-exclusive perpetual right and easement, appurtenant to Parcel I described above, over, through, in and under the nominally fifty foot wide "Permanent Access and Utility Easement Area" shown on the Easement Plan (defined below) to be used for all purposes for which ways are commonly used in the Town of Hingham in connection with the construction of improvements and use of Parcel I for water treatments purposes and for other related purposes described in Chapter 139 of the Acts of 1879 as the same has been or may be amended from time to time, and to be used to locate, construct, install, use, operate, maintain, inspect, repair, replace and relocate underground electric, telephone, gas, sewer, water, cable television, fire alarm and other utilities and all necessary conduits, fittings, and appurtenances related thereto, as created by and set forth in, that certain Easement Agreement dated August 4, 1994 between Massachusetts-American Water Company and House of Prayer Lutheran Church, Inc., recorded in Book 13068, Page 170. The Easement Plan is that certain plan entitled "Easement Plan, 916 Main Street, Hingham, Massachusetts" dated August 4, 1994 by Perkins Engineering, Inc. and recorded as Plan No. 543 of 1994 and recorded with said Easement Agreement. Said easement is also shown on the 1995 Plan as "Water Company Access and Utility Easement. See Book 10368, Page 170".

SCHEDULE III

BASIC RENT PAYMENTS

FIXED BASIC RENT

Monthly Fixed Basic Rent equals the sum of the following:

- (a) Monthly Fixed Basic Rent - Debt Service Portion which equals \$232,100, plus
- (b) Monthly Fixed Basic Rent - Non-Debt Service Portion which equals \$17,900.

PERCENTAGE RENT

Percentage Rent for any month equals (i) the Base Percentage Rent, as defined below, for such month, minus (ii) the Adjustment Factor, *provided* if the Adjustment Factor causes the monthly Percentage Rent to fall below 20% of monthly Fixed Basic Rent, the Adjustment Factor for such month shall be reduced (but not below zero) to provide monthly Percentage Rent to equal 20% of monthly Fixed Basic Rent.

The Base Percentage Rent for any month is the product of (a) "Percentage Rent Rate" from the following table for the respective year and (b) the number of million gallons of water treated by the Facility which exceed 30 million gallons in such month. The Base Percentage Rent must always be a positive number.

YEAR	PERCENTAGE RENT RATE	YEAR	PERCENTAGE RENT RATE	YEAR	PERCENTAGE RENT RATE
1996	\$651.12	2010	\$1,127.53	2024	\$1,952.52
1997	\$677.16	2011	\$1,172.63	2025	\$2,030.62
1998	\$704.25	2012	\$1,219.54	2026	\$2,111.84
1999	\$732.42	2013	\$1,268.32	2027	\$2,196.31
2000	\$761.72	2014	\$1,319.05	2028	\$2,284.17
2001	\$792.19	2015	\$1,371.81	2029	\$2,375.53
2002	\$823.87	2016	\$1,426.68	2030	\$2,470.56
2003	\$856.83	2017	\$1,483.75	2031	\$2,569.38
2004	\$891.10	2018	\$1,543.10	2032	\$2,672.15
2005	\$926.75	2019	\$1,604.83	2033	\$2,779.04
2006	\$963.82	2020	\$1,669.02	2034	\$2,890.20
2007	\$1,002.37	2021	\$1,735.78	2035	\$3,005.81
2008	\$1,042.46	2022	\$1,805.21		
2009	\$1,084.16	2023	\$1,877.42		

The Adjustment Factor:

For the period 1996 through 1998, equals 0.

For the period 1999 through 2003, equals the total Base Percentage Rent calculated for the period 1996 through 1998 less \$1,443,000, divided by 60.

For the period 2004 through 2008, equals the total Base Percentage Rent calculated for the period 1999 through 2003 less \$3,397,000, divided by 60.

For the period 2009 through 2013, equals the total Base Percentage Rent calculated for the period 2004 through 2008 less \$4,210,000, divided by 60.

For the period 2014 through 2018, equals the total Base Percentage Rent calculated for the period 2009 through 2013 less \$5,217,000, divided by 60.

For the period 2019 through 2023, equals the total Base Percentage Rent calculated for the period 2014 through 2018 less \$6,464,000, divided by 60.

For the period 2024 through 2028, equals the total Base Percentage Rent calculated for the period 2019 through 2023 less \$8,009,000, divided by 60.

For the period 2029 through 2033, equals the total Base Percentage Rent calculated for the period 2024 through 2028 less \$9,922,000, divided by 60.

For the period 2034 through 2035, equals the total Base Percentage Rent calculated for the period 2029 through 2033 less \$12,291,000, divided by 60.

SCHEDULE I

LESSEE AND LESSOR APPROVALS

Part A - Already Obtained

I. TOWN OF HINGHAM

- (1) Conservation Commission Determination of Applicability under Wetlands Protection By-Law, issued October 22, 1990, as amended July 16, 1991, to cover redesign/relocation of Facility.
- (2) Zoning Board of Appeals Special Permits (4) under the Zoning By-Law, issued October 16, 1991, as extended, modified and/or otherwise affected by Board of Appeals Decisions dated September 1, 1993, January 17, 1995 and June 19, 1995.
- (3) Building Permit No. 94-466 issued by Hingham Building Department, dated September 29, 1994.
- (4) Board of Health Disposal Works Permit, issued July 11, 1991, as amended to cover redesign/relocation of Facility.

II. COMMONWEALTH OF MASSACHUSETTS

- (1) Executive Office of Environmental Affairs MEPA Certification issued October 31, 1991, as amended to cover redesign/relocation of Facility.
- (2) Department of Environmental Protection:
 - (a) "Approval of Plans for Construction of New Water Treatment Plant," dated May 12, 1993.
 - (b) Approval of Ground Lease, issued July 7, 1995.
 - (c) Consent Order issued April 29, 1993, as amended, requiring Facility to be completed by June 29, 1996.

III. MISCELLANEOUS

- (1) Massachusetts Historical Commission, Letter of Compliance issued June 29, 1994.
- (2) Massachusetts Division of Fish & wildlife, Negative Finding of Endangered Species, issued July 29, 1991.

PART B - EXPECTED

I. TOWN OF HINGHAM

- (1) Fire Department Flammables/Fuel Oil Storage Permit (not available until Facility is operational),
- (2) Board of Appeals Approval of Evacuation Plan (pending: not required until Facility is operational).
- (3) Building Department Certificate of Occupancy (not available until construction of Facility is completed).
- (4) Extension of Board of Appeals Special Permit No. 2 (storage of toxic/hazardous chemicals), granted September 1, 1993 and expiring in 2021.

II. COMMONWEALTH OF MASSACHUSETTS

- (1) Department of Environmental Protection final approval (not available until Facility is capable of Certification).

SCHEDULE II

OTHER GOVERNMENTAL APPROVALS

Massachusetts Department of Public Utilities ("*DPU*"), Advisory Rulings issued on May 3, 1995, authorizing project financing of the Facility to proceed without further DPU Proceedings.

Price Waterhouse LLP



June 5, 1995

Mr. Roger P. Frye
Secretary-Treasurer
Massachusetts-American Water Company
75 Sgt. William B. Terry Drive
Hingham, Massachusetts 02043-1545

Dear Mr. Frye:

You have requested that we provide you with an overview of the technical accounting guidance related to certain aspects of the proposed sale-leaseback of the partially constructed water treatment plant located in Hingham, Massachusetts. The proposed transaction is expected to take place between Massachusetts-American Water Company (Mass-Am), as the seller/lessee, and Massachusetts Capital Resources Company (MCRC), a special purpose corporation, as the buyer/lessor. Both Mass-Am and MCRC are wholly-owned subsidiaries of American Water Works Corporation, Inc. Specifically, you have requested that we address the following two questions:

1. Can Mass-Am account for the lease agreement as an operating lease if a purchase option is included in the facility lease agreement between Mass-Am and MCRC?
2. Can agreed-upon rental renewal provisions be included in the facility lease agreement without impairing Mass-Am's ability to account for the transaction as an operating lease under the requirements of accounting for sale-leaseback transactions?

Mass-Am's objectives in the proposed transaction include removing the water treatment plant from its rate base and balance sheet to reduce the impact of the new facility on customer rates. The proposed sale-leaseback will allow Mass-Am to meet this objective by allowing the Company to account for the lease with MCRC as an operating lease.

Purchase Option

Question 1: Can Mass-Am account for the lease agreement as an operating lease if a purchase option is included in the facility lease agreement between Mass-Am and MCRC?

EXHIBIT C
(to Facility Lease Agreement)

Willamette Management Associates

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The primary accounting guidance related to the proposed transaction is Statement of Financial Accounting Standards No. 98 (SFAS 98), Accounting for Leases. SFAS 98 defines sale-leaseback accounting as a method in which the seller-lessee records the sale, removes all property and related liabilities from its balance sheet, recognizes gain or loss from the sale in accordance with Statement of Financial Accounting Standards No. 13 (SFAS 13), Accounting for Leases, and classifies the leaseback in accordance with SFAS 13. SFAS 98 specifically "addresses sale-leaseback transactions in which the seller-lessee sells property improvements or integral equipment to a buyer-lessor and leases them back while retaining the underlying land." This guidance is directly applicable to the proposed transaction between Mass-Am and MCRC.

Sale-leaseback accounting can be used by a seller-lessee only if a sale-leaseback includes all of the following:

1. A normal leaseback,
2. Payment terms and provisions that adequately demonstrate the buyer-lessor's initial and continuing investment in the property, and
3. Payment terms and provisions that transfer all of the other risks and rewards of ownership as demonstrated by the absence of any other continuing involvement by the seller-lessee.

The question you have asked us to address is related to Items 1 and 3 above. The requirements for a normal leaseback include the active use of the property by the seller-lessee in consideration for payment of rent, including contingent rentals that are based on the future operations of the seller-lessee, and excludes other continuing involvement provisions or conditions. The phrase "active use of the property by the seller-lessee" refers to the use of the property during the lease term in the seller-lessee's trade or business, provided that subleasing of the leased back property is minor.

Any type of continuing involvement, other than "active use of the property" by Mass-Am, is strictly prohibited by SFAS 98. Mass-Am's operation of the facility under the terms of the facility lease agreement is the only type of acceptable continuing involvement under the requirements of SFAS 98. Purchase options, including fair value purchase options, are specifically identified as a prohibited form of continuing involvement in sale-leaseback accounting. In particular, paragraph 11 of SFAS 98 states:

11. Paragraphs 25-39 and 41-43 of Statement 66 describe forms of continuing involvement by the seller-lessee not transferring the risks or rewards of ownership to the buyer-lessor. Two examples of continuing involvement

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specified in those paragraphs that are frequently found in sale-leaseback transactions are provisions or conditions in which:

- a. The seller-lessee has an obligation or an option to repurchase the property or the buyer-lessor can compel the seller-lessee to repurchase the property.
- b. The seller-lessee guarantees the buyer-lessor's investment or a return on that investment for a limited or extended period of time.

The inclusion of a purchase option in the proposed transaction would require Mass-Am to account for the transaction as a financing and to maintain the related asset and liability on its balance sheet.

Rental Renewal Provisions

Question 2: Can agreed-upon rental renewal provisions be included in the facility lease agreement without impairing Mass-Am's ability to account for the transaction as an operating lease under the requirements of accounting for sale-leaseback transactions?

While lease renewal provisions are considered part of a normal leaseback and SFAS 98 does not prohibit the use of rental renewal provisions within a sale-leaseback transaction, the terms of any rental renewal provisions must be evaluated under the requirements of SFAS 13. Specifically, paragraph 7.c of SFAS 13 provides that, in order to obtain operating lease accounting treatment, the lease term must be less than 75 percent of the estimated economic life of the leased property.

Section 4.2 of the Facility Lease Agreement (the "Agreement") between Mass-Am and MCRC defines the lease term as 40 years and 6 months. However, for SFAS 13 purposes, the lease term must also consider all periods, if any, covered by bargain renewal options, the existence of any penalties which makes renewal of the lease reasonably assured, periods prior to a bargain purchase option becoming exercisable or any periods representing renewals or extensions of the lease at the lessor's option. In particular, the existence of any penalties to Mass-Am of not renewing the lease must be considered.

SFAS 98 defines a penalty as "Any requirement that is imposed or can be imposed on the lessee by the lease agreement or by factors outside the lease agreement to disburse cash, incur or assume a liability, perform services, surrender or transfer an asset or rights to an asset or otherwise forego an economic benefit, or suffer an economic detriment." Factors which indicate that a penalty exists in this case include the uniqueness of purpose of the

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facility, the availability of comparable replacement property and the importance and significance of the facility to Mass-Am's business and service to its customers.

Section 12.1 of the Agreement contains the following provision that any renewal terms entered into between the parties:

. . . be at least two years but not more than a term which when added to the Lease Term equals 74% of the estimated useful life of the Facility determined as of the Commencement Date by the Independent Engineer as set forth in a certificate delivered to the Lessee, the Lessor, the Mortgage Trustee and the Trustee on or prior to the Commencement Date.

For purposes of evaluating the Agreement under SFAS 13, renewal periods as defined by Section 12.1 of the agreement should be included in the lease term.

At the termination of the Agreement, Mass-Am would not be prohibited from renegotiating a new lease agreement with MCRC. However, the terms of any renegotiated lease must be evaluated to determine if capital or operating lease treatment is appropriate. If it is clear that the terms of the renegotiated lease have been significantly affected by the fact that the lessee and lessor are related, the lease shall be classified according to its economic substance rather than its form.

Yours very truly,

Price Waterhouse LLP

SCHEDULE IV

REQUIRED INSURANCE

A. CONSTRUCTION PERIOD

A-1. Prior to the Commencement Date, the Lessor shall maintain or cause to be maintained the following insurance in accordance with the provisions of Section 6.3(b):

A-1.1. *Workers' Compensation Insurance* - within statutory limits as required by Law.

A-1.2. *Employer's Liability Insurance* - with limits of \$500,000 per accident, \$500,000 disease per employee, \$500,000 bodily injury by disease policy aggregate or as required by Law.

A-1.3. *Commercial General Liability Insurance* - including coverage on a Facility specific basis for premises/operations contractual liability, products/completed operations, broad form property damage coverage, independent contractors, XCU (no exclusions for explosion collapse, or underground exposures) and personal injury with limits as follows: (i) \$1,000,000 per occurrence BI/PD, (ii) \$1,000,000 aggregate products/completed operations, (iii) \$2,000,000 general aggregate (per project basis), and (iv) \$1,000,000 per occurrence personal and advertising injury liability.

A-1.4. *Automobile Liability Insurance* - including owned, non-owned, hired with limits of \$1,000,000 per occurrence BI/PD CSL, and no deductible.

A-1.5. *Excess or Umbrella Liability Insurance* - having limits of \$10,000,000 per occurrence/aggregate BI/PD (per project basis).

A-1.6. *Builders Risk* - Builders Risk Insurance including coverage for off site storage, inland and ocean cargo (if applicable) transit, fire, earthquake, flood and such extended coverages as usually included in an all risk policy form. Limit shall be the replacement value of the Facility for which the Contractor has risk of loss, for all perils including flood and earthquake. The deductibles on each separate and unrelated loss shall be (1) \$10,000 on all losses except flood perils, wherein the deductible shall be \$250,000 maximum per occurrence if the Facility is in Flood Zone A, or \$100,000 maximum per occurrence if the Facility is in any other flood zone; and (2) \$100,000 maximum deductible for earthquake.

A-1.7. *Business Interruption and Extra Expense Insurance* - Business interruption and extra expense insurance covering one year of continuing costs, lost profits and extra expenses due to business interruptions caused by an insured peril described in A-1.6 of this Schedule IV with up to a ten-day waiting period.

B. OPERATIONS

B-1. After the Commencement Date, the Lessee shall maintain or cause to be maintained the following insurance in accordance with the provisions of Section 5.8:

B-1.1. *Employer's Liability Insurance* - with limits of \$500,000 per accident, \$500,000 disease per employee, \$500,000 bodily injury by disease policy aggregate or as required by Law.

B-1.2. *Commercial General Liability Insurance* - including coverage on a Facility specific basis for premises/operations, independent contractors, product/completed operations and contractual liability, XCU (no exclusions for explosion collapse, or underground exposures) and personal injury with limits as follows: (i) \$1,000,000 per occurrence BI/PD, (ii) \$1,000,000 aggregate products/completed operations, (iii) \$2,000,000 general aggregate (per project basis), and (iv) \$1,000,000 per occurrence personal and advertising injury liability.

B-1.3. *Automobile Liability Insurance* - including owned, non-owned, hired with limits of \$1,000,000 per occurrence BI/PD CSL, and no deductible.

B-1.4. *Excess or Umbrella Liability Insurance* - having limits of \$10,000,000 per occurrence/aggregate BI/PD.

B-1.5. *"All Risk" Property Damage Insurance*. Insurance for loss, damage, or destruction of the Facility on an "all risk" basis including the perils of flood and earthquake (and boiler and machinery coverage) in an amount at all times equal to the full replacement value of the Facility. The deductibles on each separate and unrelated loss shall be (1) \$10,000 on all losses except flood perils, wherein the deductible shall be \$250,000 maximum per occurrence if the Facility is in Flood Zone A, or \$100,000 maximum per occurrence if the Facility is in any other flood zone; and (2) \$100,000 maximum deductible for earthquake.

B-1.6. *Business Interruption and Extra Expense Insurance*. Business interruption and extra expense insurance covering one year of continuing costs, lost profits and extra expenses due to business interruptions caused by an insured peril described in B-1.5 of this Schedule IV with up to a ten-day waiting period.

B-1.7. *Workers' Compensation* - within statutory limits as required by Law.

B-2. All policies shall be on reasonable and customary terms, conditions and exclusions which conform to reasonably accepted industry standards for the insured risks.

SCHEDULE V

STIPULATED LOSS VALUE

Date	Principal Portion of Slip Loss	Interest Portion of Slip Loss	Stipulated Loss Value
07/25/96	37,700,000	212,628	37,912,628
08/25/96	37,700,000	425,256	38,125,256
09/25/96	37,700,000	637,884	38,337,884
10/25/96	37,700,000	850,513	38,550,513
11/25/96	37,700,000	1,063,141	38,763,141
12/25/96	37,700,000	212,628	37,912,628
01/25/97	37,700,000	425,256	38,125,256
02/25/97	37,700,000	637,884	38,337,884
03/25/97	37,700,000	850,513	38,550,513
04/25/97	37,700,000	1,063,141	38,763,141
05/25/97	37,700,000	1,275,769	38,975,769
06/25/97	37,700,000	212,628	37,912,628
07/25/97	37,700,000	425,256	38,125,256
08/25/97	37,700,000	637,884	38,337,884
09/25/97	37,700,000	850,513	38,550,513
10/25/97	37,700,000	1,063,141	38,763,141
11/25/97	37,700,000	1,275,769	38,975,769
12/25/97	37,470,000	211,430	37,681,430
01/25/98	37,470,000	422,860	37,892,860
02/25/98	37,470,000	634,291	38,104,291
03/25/98	37,470,000	845,721	38,315,721
04/25/98	37,470,000	1,057,151	38,527,151
05/25/98	37,470,000	1,268,581	38,738,581
06/25/98	37,470,000	211,430	37,681,430
07/25/98	37,470,000	422,860	37,892,860
08/25/98	37,470,000	634,291	38,104,291
09/25/98	37,470,000	845,721	38,315,721
10/25/98	37,470,000	1,057,151	38,527,151
11/25/98	37,470,000	1,268,581	38,738,581
12/25/98	37,225,000	210,154	37,435,154
01/25/99	37,225,000	420,308	37,645,308
02/25/99	37,225,000	630,463	37,855,463
03/25/99	37,225,000	840,617	38,065,617
04/25/99	37,225,000	1,050,771	38,275,771
05/25/99	37,225,000	1,260,925	38,485,925
06/25/99	37,225,000	210,154	37,435,154
07/25/99	37,225,000	420,308	37,645,308
08/25/99	37,225,000	630,463	37,855,463
09/25/99	37,225,000	840,617	38,065,617
10/25/99	37,225,000	1,050,771	38,275,771
11/25/99	37,225,000	1,260,925	38,485,925
12/25/99	36,965,000	208,800	37,173,800
01/25/2000	36,965,000	417,600	37,382,600
02/25/2000	36,965,000	626,400	37,591,400
03/25/2000	36,965,000	835,200	37,800,200
04/25/2000	36,965,000	1,044,000	38,009,000
05/25/2000	36,965,000	1,252,800	38,217,800
06/25/2000	36,965,000	208,800	37,173,800
07/25/2000	36,965,000	417,600	37,382,600

SCHEDULE V

STIPULATED LOSS VALUE

Date	Principal Portion of Stip Loss	Interest Portion of Stip Loss	Stipulated Loss Value
08/25/2000	36,965,000	626,400	37,591,400
09/25/2000	36,965,000	835,200	37,800,200
10/25/2000	36,965,000	1,044,000	38,009,000
11/25/2000	36,965,000	1,252,800	38,217,800
12/25/2000	36,690,000	207,368	36,897,368
01/25/2001	36,690,000	414,735	37,104,735
02/25/2001	36,690,000	622,103	37,312,103
03/25/2001	36,690,000	829,471	37,519,471
04/25/2001	36,690,000	1,036,839	37,726,839
05/25/2001	36,690,000	1,244,206	37,934,206
06/25/2001	36,690,000	207,368	36,897,368
07/25/2001	36,690,000	414,735	37,104,735
08/25/2001	36,690,000	622,103	37,312,103
09/25/2001	36,690,000	829,471	37,519,471
10/25/2001	36,690,000	1,036,839	37,726,839
11/25/2001	36,690,000	1,244,206	37,934,206
12/25/2001	36,395,000	205,831	36,600,831
01/25/2002	36,395,000	411,663	36,806,663
02/25/2002	36,395,000	617,494	37,012,494
03/25/2002	36,395,000	823,325	37,218,325
04/25/2002	36,395,000	1,029,156	37,424,156
05/25/2002	36,395,000	1,234,988	37,629,988
06/25/2002	36,395,000	205,831	36,600,831
07/25/2002	36,395,000	411,663	36,806,663
08/25/2002	36,395,000	617,494	37,012,494
09/25/2002	36,395,000	823,325	37,218,325
10/25/2002	36,395,000	1,029,156	37,424,156
11/25/2002	36,395,000	1,234,988	37,629,988
12/25/2002	36,085,000	204,217	36,289,217
01/25/2003	36,085,000	408,433	36,493,433
02/25/2003	36,085,000	612,650	36,697,650
03/25/2003	36,085,000	816,867	36,901,867
04/25/2003	36,085,000	1,021,083	37,106,083
05/25/2003	36,085,000	1,225,300	37,310,300
06/25/2003	36,085,000	204,217	36,289,217
07/25/2003	36,085,000	408,433	36,493,433
08/25/2003	36,085,000	612,650	36,697,650
09/25/2003	36,085,000	816,867	36,901,867
10/25/2003	36,085,000	1,021,083	37,106,083
11/25/2003	36,085,000	1,225,300	37,310,300
12/25/2003	35,755,000	202,498	35,957,498
01/25/2004	35,755,000	404,996	36,159,996
02/25/2004	35,755,000	607,494	36,362,494
03/25/2004	35,755,000	809,992	36,564,992
04/25/2004	35,755,000	1,012,490	36,767,490
05/25/2004	35,755,000	1,214,988	36,969,988
06/25/2004	35,755,000	202,498	35,957,498
07/25/2004	35,755,000	404,996	36,159,996
08/25/2004	35,755,000	607,494	36,362,494

SCHEDULE V

STIPULATED LOSS VALUE

<u>Date</u>	<u>Principal Portion of Slip Loss</u>	<u>Interest Portion of Slip Loss</u>	<u>Stipulated Loss Value</u>
09/25/2004	35,755,000	809,992	36,564,992
10/25/2004	35,755,000	1,012,490	36,767,490
11/25/2004	35,755,000	1,214,988	36,969,988
12/25/2004	35,405,000	200,675	35,605,675
01/25/2005	35,405,000	401,350	35,806,350
02/25/2005	35,405,000	602,025	36,007,025
03/25/2005	35,405,000	802,700	36,207,700
04/25/2005	35,405,000	1,003,375	36,408,375
05/25/2005	35,405,000	1,204,050	36,609,050
06/25/2005	35,405,000	200,675	35,605,675
07/25/2005	35,405,000	401,350	35,806,350
08/25/2005	35,405,000	602,025	36,007,025
09/25/2005	35,405,000	802,700	36,207,700
10/25/2005	35,405,000	1,003,375	36,408,375
11/25/2005	35,405,000	1,204,050	36,609,050
12/25/2005	35,030,000	198,722	35,228,722
01/25/2006	35,030,000	397,444	35,427,444
02/25/2006	35,030,000	596,166	35,626,166
03/25/2006	35,030,000	794,888	35,824,888
04/25/2006	35,030,000	993,609	36,023,609
05/25/2006	35,030,000	1,192,331	36,222,331
06/25/2006	35,030,000	198,722	35,228,722
07/25/2006	35,030,000	397,444	35,427,444
08/25/2006	35,030,000	596,166	35,626,166
09/25/2006	35,030,000	794,888	35,824,888
10/25/2006	35,030,000	993,609	36,023,609
11/25/2006	35,030,000	1,192,331	36,222,331
12/25/2006	34,630,000	196,639	34,826,639
01/25/2007	34,630,000	393,277	35,023,277
02/25/2007	34,630,000	589,916	35,219,916
03/25/2007	34,630,000	786,554	35,416,554
04/25/2007	34,630,000	983,193	35,613,193
05/25/2007	34,630,000	1,179,831	35,809,831
06/25/2007	34,630,000	196,639	34,826,639
07/25/2007	34,630,000	393,277	35,023,277
08/25/2007	34,630,000	589,916	35,219,916
09/25/2007	34,630,000	786,554	35,416,554
10/25/2007	34,630,000	983,193	35,613,193
11/25/2007	34,630,000	1,179,831	35,809,831
12/25/2007	34,205,000	194,425	34,399,425
01/25/2008	34,205,000	388,850	34,593,850
02/25/2008	34,205,000	583,275	34,788,275
03/25/2008	34,205,000	777,700	34,982,700
04/25/2008	34,205,000	972,125	35,177,125
05/25/2008	34,205,000	1,166,550	35,371,550
06/25/2008	34,205,000	194,425	34,399,425
07/25/2008	34,205,000	388,850	34,593,850
08/25/2008	34,205,000	583,275	34,788,275
09/25/2008	34,205,000	777,700	34,982,700

SCHEDULE V

STIPULATED LOSS VALUE

Date	Principal Portion of Stip Loss	Interest Portion of Stip Loss	Stipulated Loss Value
10/25/2008	34,205,000	972,125	35,177,125
11/25/2008	34,205,000	1,166,550	35,371,550
12/25/2008	33,755,000	192,081	33,947,081
01/25/2009	33,755,000	384,163	34,139,163
02/25/2009	33,755,000	576,244	34,331,244
03/25/2009	33,755,000	768,325	34,523,325
04/25/2009	33,755,000	960,406	34,715,406
05/25/2009	33,755,000	1,152,488	34,907,488
06/25/2009	33,755,000	192,081	33,947,081
07/25/2009	33,755,000	384,163	34,139,163
08/25/2009	33,755,000	576,244	34,331,244
09/25/2009	33,755,000	768,325	34,523,325
10/25/2009	33,755,000	960,406	34,715,406
11/25/2009	33,755,000	1,152,488	34,907,488
12/25/2009	33,280,000	189,607	33,469,607
01/25/2010	33,280,000	379,215	33,659,215
02/25/2010	33,280,000	568,822	33,848,822
03/25/2010	33,280,000	758,429	34,038,429
04/25/2010	33,280,000	948,036	34,228,036
05/25/2010	33,280,000	1,137,644	34,417,644
06/25/2010	33,280,000	189,607	33,469,607
07/25/2010	33,280,000	379,215	33,659,215
08/25/2010	33,280,000	568,822	33,848,822
09/25/2010	33,280,000	758,429	34,038,429
10/25/2010	33,280,000	948,036	34,228,036
11/25/2010	33,280,000	1,137,644	34,417,644
12/25/2010	32,775,000	186,977	32,961,977
01/25/2011	32,775,000	373,954	33,148,954
02/25/2011	32,775,000	560,931	33,335,931
03/25/2011	32,775,000	747,908	33,522,908
04/25/2011	32,775,000	934,885	33,709,885
05/25/2011	32,775,000	1,121,863	33,896,863
06/25/2011	32,775,000	186,977	32,961,977
07/25/2011	32,775,000	373,954	33,148,954
08/25/2011	32,775,000	560,931	33,335,931
09/25/2011	32,775,000	747,908	33,522,908
10/25/2011	32,775,000	934,885	33,709,885
11/25/2011	32,775,000	1,121,863	33,896,863
12/25/2011	32,235,000	184,007	32,419,007
01/25/2012	32,235,000	368,014	32,603,014
02/25/2012	32,235,000	552,021	32,787,021
03/25/2012	32,235,000	736,028	32,971,028
04/25/2012	32,235,000	920,035	33,155,035
05/25/2012	32,235,000	1,104,043	33,339,043
06/25/2012	32,235,000	184,007	32,419,007
07/25/2012	32,235,000	368,014	32,603,014
08/25/2012	32,235,000	552,021	32,787,021
09/25/2012	32,235,000	736,028	32,971,028
10/25/2012	32,235,000	920,035	33,155,035

SCHEDULE V

STIPULATED LOSS VALUE

Date	Principal Portion of Stip Loss	Interest Portion of Stip Loss	Stipulated Loss Value
11/25/2012	32,235,000	1,104,043	33,339,043
12/25/2012	31,660,000	180,845	31,840,845
01/25/2013	31,660,000	361,689	32,021,689
02/25/2013	31,660,000	542,534	32,202,534
03/25/2013	31,660,000	723,378	32,383,378
04/25/2013	31,660,000	904,223	32,564,223
05/25/2013	31,660,000	1,085,068	32,745,068
06/25/2013	31,660,000	180,845	31,840,845
07/25/2013	31,660,000	361,689	32,021,689
08/25/2013	31,660,000	542,534	32,202,534
09/25/2013	31,660,000	723,378	32,383,378
10/25/2013	31,660,000	904,223	32,564,223
11/25/2013	31,660,000	1,085,068	32,745,068
12/25/2013	31,050,000	177,490	31,227,490
01/25/2014	31,050,000	354,979	31,404,979
02/25/2014	31,050,000	532,469	31,582,469
03/25/2014	31,050,000	709,958	31,759,958
04/25/2014	31,050,000	887,448	31,937,448
05/25/2014	31,050,000	1,064,938	32,114,938
06/25/2014	31,050,000	177,490	31,227,490
07/25/2014	31,050,000	354,979	31,404,979
08/25/2014	31,050,000	532,469	31,582,469
09/25/2014	31,050,000	709,958	31,759,958
10/25/2014	31,050,000	887,448	31,937,448
11/25/2014	31,050,000	1,064,938	32,114,938
12/25/2014	30,395,000	173,887	30,568,887
01/25/2015	30,395,000	347,774	30,742,774
02/25/2015	30,395,000	521,661	30,916,661
03/25/2015	30,395,000	695,548	31,090,548
04/25/2015	30,395,000	869,435	31,264,435
05/25/2015	30,395,000	1,043,323	31,438,323
06/25/2015	30,395,000	173,887	30,568,887
07/25/2015	30,395,000	347,774	30,742,774
08/25/2015	30,395,000	521,661	30,916,661
09/25/2015	30,395,000	695,548	31,090,548
10/25/2015	30,395,000	869,435	31,264,435
11/25/2015	30,395,000	1,043,323	31,438,323
12/25/2015	29,700,000	170,065	29,870,065
01/25/2016	29,700,000	340,129	30,040,129
02/25/2016	29,700,000	510,194	30,210,194
03/25/2016	29,700,000	680,258	30,380,258
04/25/2016	29,700,000	850,323	30,550,323
05/25/2016	29,700,000	1,020,388	30,720,388
06/25/2016	29,700,000	170,065	29,870,065
07/25/2016	29,700,000	340,129	30,040,129
08/25/2016	29,700,000	510,194	30,210,194
09/25/2016	29,700,000	680,258	30,380,258
10/25/2016	29,700,000	850,323	30,550,323
11/25/2016	29,700,000	1,020,388	30,720,388

SCHEDULE V

STIPULATED LOSS VALUE

<u>Date</u>	<u>Principal Portion of Stip Loss</u>	<u>Interest Portion of Stip Loss</u>	<u>Stipulated Loss Value</u>
12/25/2016	28,960,000	165,902	29,125,902
01/25/2017	28,960,000	331,804	29,291,804
02/25/2017	28,960,000	497,706	29,457,706
03/25/2017	28,960,000	663,608	29,623,608
04/25/2017	28,960,000	829,510	29,789,510
05/25/2017	28,960,000	995,413	29,955,413
06/25/2017	28,960,000	165,902	29,125,902
07/25/2017	28,960,000	331,804	29,291,804
08/25/2017	28,960,000	497,706	29,457,706
09/25/2017	28,960,000	663,608	29,623,608
10/25/2017	28,960,000	829,510	29,789,510
11/25/2017	28,960,000	995,413	29,955,413
12/25/2017	28,170,000	161,458	28,331,458
01/25/2018	28,170,000	322,917	28,492,917
02/25/2018	28,170,000	484,375	28,654,375
03/25/2018	28,170,000	645,833	28,815,833
04/25/2018	28,170,000	807,292	28,977,292
05/25/2018	28,170,000	968,750	29,138,750
06/25/2018	28,170,000	161,458	28,331,458
07/25/2018	28,170,000	322,917	28,492,917
08/25/2018	28,170,000	484,375	28,654,375
09/25/2018	28,170,000	645,833	28,815,833
10/25/2018	28,170,000	807,292	28,977,292
11/25/2018	28,170,000	968,750	29,138,750
12/25/2018	27,325,000	156,705	27,481,705
01/25/2019	27,325,000	313,410	27,638,410
02/25/2019	27,325,000	470,116	27,795,116
03/25/2019	27,325,000	626,821	27,951,821
04/25/2019	27,325,000	783,526	28,108,526
05/25/2019	27,325,000	940,231	28,265,231
06/25/2019	27,325,000	156,705	27,481,705
07/25/2019	27,325,000	313,410	27,638,410
08/25/2019	27,325,000	470,116	27,795,116
09/25/2019	27,325,000	626,821	27,951,821
10/25/2019	27,325,000	783,526	28,108,526
11/25/2019	27,325,000	940,231	28,265,231
12/25/2019	26,425,000	151,643	26,576,643
01/25/2020	26,425,000	303,285	26,728,285
02/25/2020	26,425,000	454,928	26,879,928
03/25/2020	26,425,000	606,571	27,031,571
04/25/2020	26,425,000	758,214	27,183,214
05/25/2020	26,425,000	909,856	27,334,856
06/25/2020	26,425,000	151,643	26,576,643
07/25/2020	26,425,000	303,285	26,728,285
08/25/2020	26,425,000	454,928	26,879,928
09/25/2020	26,425,000	606,571	27,031,571
10/25/2020	26,425,000	758,214	27,183,214
11/25/2020	26,425,000	909,856	27,334,856
12/25/2020	25,465,000	146,243	25,611,243

SCHEDULE V

STIPULATED LOSS VALUE

<u>Date</u>	<u>Principal Portion of Stip Loss</u>	<u>Interest Portion of Stip Loss</u>	<u>Stipulated Loss Value</u>
01/25/2021	25,465,000	292,485	25,757,485
02/25/2021	25,465,000	438,728	25,903,728
03/25/2021	25,465,000	584,971	26,049,971
04/25/2021	25,465,000	731,214	26,196,214
05/25/2021	25,465,000	877,456	26,342,456
06/25/2021	25,465,000	146,243	25,611,243
07/25/2021	25,465,000	292,485	25,757,485
08/25/2021	25,465,000	438,728	25,903,728
09/25/2021	25,465,000	584,971	26,049,971
10/25/2021	25,465,000	731,214	26,196,214
11/25/2021	25,465,000	877,456	26,342,456
12/25/2021	24,440,000	140,477	24,580,477
01/25/2022	24,440,000	280,954	24,720,954
02/25/2022	24,440,000	421,431	24,861,431
03/25/2022	24,440,000	561,908	25,001,908
04/25/2022	24,440,000	702,385	25,142,385
05/25/2022	24,440,000	842,863	25,282,863
06/25/2022	24,440,000	140,477	24,580,477
07/25/2022	24,440,000	280,954	24,720,954
08/25/2022	24,440,000	421,431	24,861,431
09/25/2022	24,440,000	561,908	25,001,908
10/25/2022	24,440,000	702,385	25,142,385
11/25/2022	24,440,000	842,863	25,282,863
12/25/2022	23,345,000	134,318	23,479,318
01/25/2023	23,345,000	268,635	23,613,635
02/25/2023	23,345,000	402,953	23,747,953
03/25/2023	23,345,000	537,271	23,882,271
04/25/2023	23,345,000	671,589	24,016,589
05/25/2023	23,345,000	805,906	24,150,906
06/25/2023	23,345,000	134,318	23,479,318
07/25/2023	23,345,000	268,635	23,613,635
08/25/2023	23,345,000	402,953	23,747,953
09/25/2023	23,345,000	537,271	23,882,271
10/25/2023	23,345,000	671,589	24,016,589
11/25/2023	23,345,000	805,906	24,150,906
12/25/2023	22,175,000	127,736	22,302,736
01/25/2024	22,175,000	255,473	22,430,473
02/25/2024	22,175,000	383,209	22,558,209
03/25/2024	22,175,000	510,946	22,685,946
04/25/2024	22,175,000	638,682	22,813,682
05/25/2024	22,175,000	766,419	22,941,419
06/25/2024	22,175,000	127,736	22,302,736
07/25/2024	22,175,000	255,473	22,430,473
08/25/2024	22,175,000	383,209	22,558,209
09/25/2024	22,175,000	510,946	22,685,946
10/25/2024	22,175,000	638,682	22,813,682
11/25/2024	22,175,000	766,419	22,941,419
12/25/2024	20,925,000	120,705	21,045,705
01/25/2025	20,925,000	241,410	21,166,410

SCHEDULE V

STIPULATED LOSS VALUE

Date	Principal Portion of Stip Loss	Interest Portion of Stip Loss	Stipulated Loss Value
02/25/2025	20,925,000	362,116	21,287,116
03/25/2025	20,925,000	482,821	21,407,821
04/25/2025	20,925,000	603,526	21,528,526
05/25/2025	20,925,000	724,231	21,649,231
06/25/2025	20,925,000	120,705	21,045,705
07/25/2025	20,925,000	241,410	21,166,410
08/25/2025	20,925,000	362,116	21,287,116
09/25/2025	20,925,000	482,821	21,407,821
10/25/2025	20,925,000	603,526	21,528,526
11/25/2025	20,925,000	724,231	21,649,231
12/25/2025	19,590,000	113,196	19,703,196
01/25/2026	19,590,000	226,392	19,816,392
02/25/2026	19,590,000	339,588	19,929,588
03/25/2026	19,590,000	452,783	20,042,783
04/25/2026	19,590,000	565,979	20,155,979
05/25/2026	19,590,000	679,175	20,269,175
06/25/2026	19,590,000	113,196	19,703,196
07/25/2026	19,590,000	226,392	19,816,392
08/25/2026	19,590,000	339,588	19,929,588
09/25/2026	19,590,000	452,783	20,042,783
10/25/2026	19,590,000	565,979	20,155,979
11/25/2026	19,590,000	679,175	20,269,175
12/25/2026	18,165,000	105,002	18,270,002
01/25/2027	18,165,000	210,004	18,375,004
02/25/2027	18,165,000	315,006	18,480,006
03/25/2027	18,165,000	420,008	18,585,008
04/25/2027	18,165,000	525,010	18,690,010
05/25/2027	18,165,000	630,013	18,795,013
06/25/2027	18,165,000	105,002	18,270,002
07/25/2027	18,165,000	210,004	18,375,004
08/25/2027	18,165,000	315,006	18,480,006
09/25/2027	18,165,000	420,008	18,585,008
10/25/2027	18,165,000	525,010	18,690,010
11/25/2027	18,165,000	630,013	18,795,013
12/25/2027	16,645,000	96,262	16,741,262
01/25/2028	16,645,000	192,524	16,837,524
02/25/2028	16,645,000	288,786	16,933,786
03/25/2028	16,645,000	385,048	17,030,048
04/25/2028	16,645,000	481,310	17,126,310
05/25/2028	16,645,000	577,573	17,222,573
06/25/2028	16,645,000	96,262	16,741,262
07/25/2028	16,645,000	192,524	16,837,524
08/25/2028	16,645,000	288,786	16,933,786
09/25/2028	16,645,000	385,048	17,030,048
10/25/2028	16,645,000	481,310	17,126,310
11/25/2028	16,645,000	577,573	17,222,573
12/25/2028	15,020,000	86,918	15,106,918
01/25/2029	15,020,000	173,837	15,193,837
02/25/2029	15,020,000	260,755	15,280,755

SCHEDULE V

STIPULATED LOSS VALUE

Date	Principal Portion of Stip Loss	Interest Portion of Stip Loss	Stipulated Loss Value
03/25/2029	15,020,000	347,673	15,367,673
04/25/2029	15,020,000	434,592	15,454,592
05/25/2029	15,020,000	521,510	15,541,510
06/25/2029	15,020,000	86,918	15,106,918
07/25/2029	15,020,000	173,837	15,193,837
08/25/2029	15,020,000	260,755	15,280,755
09/25/2029	15,020,000	347,673	15,367,673
10/25/2029	15,020,000	434,592	15,454,592
11/25/2029	15,020,000	521,510	15,541,510
12/25/2029	13,280,000	76,913	13,356,913
01/25/2030	13,280,000	153,827	13,433,827
02/25/2030	13,280,000	230,740	13,510,740
03/25/2030	13,280,000	307,653	13,587,653
04/25/2030	13,280,000	384,567	13,664,567
05/25/2030	13,280,000	461,480	13,741,480
06/25/2030	13,280,000	76,913	13,356,913
07/25/2030	13,280,000	153,827	13,433,827
08/25/2030	13,280,000	230,740	13,510,740
09/25/2030	13,280,000	307,653	13,587,653
10/25/2030	13,280,000	384,567	13,664,567
11/25/2030	13,280,000	461,480	13,741,480
12/25/2030	11,420,000	66,141	11,486,141
01/25/2031	11,420,000	132,282	11,552,282
02/25/2031	11,420,000	198,423	11,618,423
03/25/2031	11,420,000	264,563	11,684,563
04/25/2031	11,420,000	330,704	11,750,704
05/25/2031	11,420,000	396,845	11,816,845
06/25/2031	11,420,000	66,141	11,486,141
07/25/2031	11,420,000	132,282	11,552,282
08/25/2031	11,420,000	198,423	11,618,423
09/25/2031	11,420,000	264,563	11,684,563
10/25/2031	11,420,000	330,704	11,750,704
11/25/2031	11,420,000	396,845	11,816,845
12/25/2031	9,430,000	54,615	9,484,615
01/25/2032	9,430,000	109,231	9,539,231
02/25/2032	9,430,000	163,846	9,593,846
03/25/2032	9,430,000	218,462	9,648,462
04/25/2032	9,430,000	273,077	9,703,077
05/25/2032	9,430,000	327,693	9,757,693
06/25/2032	9,430,000	54,615	9,484,615
07/25/2032	9,430,000	109,231	9,539,231
08/25/2032	9,430,000	163,846	9,593,846
09/25/2032	9,430,000	218,462	9,648,462
10/25/2032	9,430,000	273,077	9,703,077
11/25/2032	9,430,000	327,693	9,757,693
12/25/2032	7,305,000	42,308	7,347,308
01/25/2033	7,305,000	84,616	7,389,616
02/25/2033	7,305,000	126,924	7,431,924
03/25/2033	7,305,000	169,233	7,474,233

SCHEDULE V

STIPULATED LOSS VALUE

Date	Principal Portion of Stip Loss	Interest Portion of Stip Loss	Stipulated Loss Value
04/25/2033	7,305,000	211,541	7,516,541
05/25/2033	7,305,000	253,849	7,558,849
06/25/2033	7,305,000	42,308	7,347,308
07/25/2033	7,305,000	84,616	7,389,616
08/25/2033	7,305,000	126,924	7,431,924
09/25/2033	7,305,000	169,233	7,474,233
10/25/2033	7,305,000	211,541	7,516,541
11/25/2033	7,305,000	253,849	7,558,849
12/25/2033	5,030,000	29,132	5,059,132
01/25/2034	5,030,000	58,264	5,088,264
02/25/2034	5,030,000	87,396	5,117,396
03/25/2034	5,030,000	116,528	5,146,528
04/25/2034	5,030,000	145,660	5,175,660
05/25/2034	5,030,000	174,793	5,204,793
06/25/2034	5,030,000	29,132	5,059,132
07/25/2034	5,030,000	58,264	5,088,264
08/25/2034	5,030,000	87,396	5,117,396
09/25/2034	5,030,000	116,528	5,146,528
10/25/2034	5,030,000	145,660	5,175,660
11/25/2034	5,030,000	174,793	5,204,793
12/25/2034	2,600,000	15,058	2,615,058
01/25/2035	2,600,000	30,117	2,630,117
02/25/2035	2,600,000	45,175	2,645,175
03/25/2035	2,600,000	60,233	2,660,233
04/25/2035	2,600,000	75,292	2,675,292
05/25/2035	2,600,000	90,350	2,690,350
06/25/2035	2,600,000	15,058	2,615,058
07/25/2035	2,600,000	30,117	2,630,117
08/25/2035	2,600,000	45,175	2,645,175
09/25/2035	2,600,000	60,233	2,660,233
10/25/2035	2,600,000	75,292	2,675,292
11/25/2035	2,600,000	90,350	2,690,350
12/25/2035	0	0	0

**FOURTH AMENDMENT TO FACILITY LEASE
AGREEMENT DATED AS OF JULY 1, 1995**

THIS Fourth Amendment dated December 1, 2004 (the "*Fourth Amendment*") to the Facility Lease Agreement dated as of July 1, 1995, as previously amended and as amended by this Fourth Amendment (the "*Facility Lease*") between Aquarion Water Company of Massachusetts, Inc., formerly Massachusetts-American Water Company, as Lessee (the "*Lessee*") and Aquarion Water Capital of Massachusetts, Inc., formerly Massachusetts Capital Resources Company, as Lessor (the "*Lessor*"), is entered into by the Lessee and Lessor as a result of the redemption of Series 1995 Bonds with excess Series 1995 Bond proceeds remaining after the construction was completed.

Section 4.01(c) of the Loan and Trust Agreement dated as of July 1, 1995 (the "*Indenture*") among Massachusetts Development Finance Agency, formerly Massachusetts Industrial Financial Agency (the "*Issuer*"), the Lessor and Wachovia Bank, National Association as successor to First Fidelity Bank, National Association, as Trustee (the "*Trustee*") provides that after the completion of the Facility, the balance of any moneys not needed to pay Facility Costs or interest on Series 1995 Bonds shall be transferred (assuming nothing is needed for the Debt Service Reserve Requirement, which is the case) to the Bond Fund and applied in accordance with Section 310(b) of the Indenture. Section 310(b) states that any such moneys, with net earnings thereon (herein such moneys plus such net earnings being referred to as "*Redemption Funds*") are required to be used to redeem Series 1995 Bonds on a Business Day designated by the Lessor at least 45 days before the redemption date (the "*Redemption Date*"). Section 4.09(b) of the Indenture of Mortgage and Security Agreement dated as of July 1, 1995, as amended (the "*Mortgage Indenture*") from the Lessor to Wachovia Bank, National Association as successor to First Fidelity Bank, National Association, as Trustee, requires the mandatory redemption (with maturities selected by the Lessor) of the Series 1995 Mortgage Bonds on the Redemption Date in a principal amount equal to the principal amount, corresponding in each case to Series 1995 Bonds being redeemed with Redemption Funds pursuant to Section 310(b) of the Indenture and the Trustee pursuant to such Section 310(b) is required to select the Series 1995 Bonds to be redeemed by lot if less than all of a maturity shall be so called for redemption.

The Lessor has determined that the amount of the Redemption Funds is \$2,565,000 and accordingly has notified the Trustee of such amount and has selected January 25, 2005 as the date for the redemption of \$2,565,000 aggregate principal amount of the Series 1995 Bonds to be redeemed. The Lessor has selected the maturities of the Series 1995 Mortgage Bonds to be redeemed on January 25, 2005 and the Trustee has selected by lot the Series 1995 Bonds of corresponding maturities to be redeemed on January 25, 2005.

Lessee and Lessor agree that as a result of the aforesaid redemptions, the Basic Rent Payments will be reduced and accordingly agree to the revised Basic Rent Payments set forth on

Schedule III to the Facility Lease which is attached hereto. Lessee and Lessor also agree that as a result of the aforesaid redemptions the Stipulated Loss Values will be reduced and accordingly agree to the revised Schedule V to the Facility Lease attached hereto. Both Schedules shall become effective on the date of redemption of the Series 1995 Bonds pursuant to the foregoing provisions of this Fourth Amendment.

In light of the matters set forth above, the Lessee and Lessor agree to restate each of Schedule III and Schedule V to the Facility Lease in its entirety to read as set forth in the respective form attached hereto.

This Fourth Amendment shall be governed by and construed in accordance with the laws of the Commonwealth of Massachusetts.

Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Facility Lease.

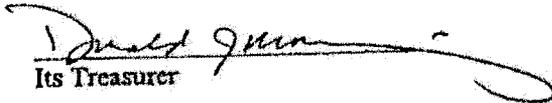
IN WITNESS WHEREOF, the Lessor and the Lessee have caused this Fourth Amendment to be signed in their behalf by their duly authorized representatives as of the date first written above.

AQUARION WATER COMPANY OF
MASSACHUSETTS, INC., as Lessee

By
Its President



Attest:



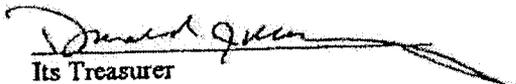
Its Treasurer

AQUARION WATER CAPITAL OF
MASSACHUSETTS, INC., as Lessor

By
Its President



Attest:



Its Treasurer

SCHEDULE III

BASIC RENT PAYMENTS

FIXED BASIC RENT

Monthly Fixed Basic Rent equals the sum of the following:

- (a) Monthly Fixed Basic Rent - Debt Service Portion which equals \$205,250
- plus
- (b) Monthly Fixed Basic Rent - Non-Debt Service Portion which equals \$18,000.

PERCENTAGE RENT

Percentage Rent for any month equals (i) the Base Percentage Rent, as defined below, for such month, minus (ii) the Adjustment Factor, *provided* if the Adjustment Factor causes the monthly Percentage Rent to fall below 20% of monthly Fixed Basic Rent, the Adjustment Factor for such month shall be reduced (but not below zero) to provide monthly Percentage Rent to equal 20% of monthly Fixed Basic Rent.

The Base Percentage Rent for any month is the product of (a) "Percentage Rent Rate" from the following table for the respective year and (b) the number of million gallons of water treated by the Facility which exceed 30 million gallons in such month. The Base Percentage Rent must always be a positive number.

YEAR	PERCENTAGE RENT RATE	YEAR	PERCENTAGE RENT RATE	YEAR	PERCENTAGE RENT RATE
1996	\$583.50	2010	\$1,010.50	2024	\$1,749.80
1997	\$606.90	2011	\$1,050.90	2025	\$1,819.80
1998	\$631.10	2012	\$1,092.90	2026	\$1,892.60
1999	\$656.40	2013	\$1,136.60	2027	\$1,968.30
2000	\$682.60	2014	\$1,182.10	2028	\$2,047.00
2001	\$709.90	2015	\$1,229.40	2029	\$2,128.90
2002	\$738.30	2016	\$1,278.60	2030	\$2,214.10
2003	\$767.90	2017	\$1,329.70	2031	\$2,302.60
2004	\$798.60	2018	\$1,382.90	2032	\$2,394.70
2005	\$830.50	2019	\$1,438.20	2033	\$2,490.50
2006	\$863.80	2020	\$1,495.70	2034	\$2,590.20
2007	\$898.30	2021	\$1,555.60	2035	\$2,693.80
2008	\$934.20	2022	\$1,617.80		
2009	\$971.60	2023	\$1,682.50		

Prepared by or under the supervision of: Joshua Unger

The Adjustment Factor:

For the period 1996 through 1998, equals 0.

For the period 1999 through 2003, equals the total Base Percentage Rent calculated for the period 1996 through 1998 less \$1,293,000, divided by 60.

For the period 2004 through 2008, equals the total Base Percentage Rent calculated for the period 1999 through 2003 less \$3,044,000, divided by 60.

For the period 2009 through 2013, equals the total Base Percentage Rent calculated for the period 2004 through 2008 less \$3,773,000, divided by 60.

For the period 2014 through 2018, equals the total Base Percentage Rent calculated for the period 2009 through 2013 less \$4,676,000, divided by 60.

For the period 2019 through 2023, equals the total Base Percentage Rent calculated for the period 2014 through 2018 less \$5,793,000, divided by 60.

For the period 2024 through 2028, equals the total Base Percentage Rent calculated for the period 2019 through 2023 less \$7,178,000, divided by 60.

For the period 2029 through 2033, equals the total Base Percentage Rent calculated for the period 2024 through 2028 less \$8,892,000, divided by 60.

For the period 2034 through 2035, equals the total Base Percentage Rent calculated for the period 2029 through 2033 less \$11,015,000, divided by 60.

GROUND LEASE
BETWEEN
MASSACHUSETTS-AMERICAN WATER COMPANY
AS LANDLORD
AND
MASSACHUSETTS CAPITAL RESOURCES COMPANY
AS TENANT
DATED AS OF JULY 1, 1995

Prepared by:

Thomas G. Tumilty
Peabody & Brown
101 Federal Street
Boston, Massachusetts 02110

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GROUND LEASE

THIS GROUND LEASE (this "Lease") is made as of this 1st day of July, 1995, by and between MASSACHUSETTS-AMERICAN WATER COMPANY, a Massachusetts corporation, having its principal place of business at 75 Sgt. William B. Terry Drive, Suite 170, Hingham, Massachusetts 02043-1545 ("Landlord") and MASSACHUSETTS CAPITAL RESOURCES COMPANY, a Delaware corporation, having a place of business at 75 Sgt. William B. Terry Drive, Suite 170, Hingham, Massachusetts 02043-1545 ("Tenant").

RECITALS

WHEREAS, the Landlord is the owner of certain contiguous parcels of real property comprising approximately 116 acres located on and off of Main Street and South Pleasant Street in the Town of Hingham, Massachusetts, including a certain parcel containing approximately 46 acres numbered as 900 Main Street;

WHEREAS, contemporaneously herewith the Tenant has purchased from the Landlord a partially constructed water treatment plant located on the 900 Main Street parcel, and concurrently with its purchase the Tenant has agreed to complete the construction, equipping and installation of the water treatment plant;

WHEREAS, the Landlord and the Tenant desire that the Tenant complete the construction of the water treatment plant and lease the same to the Landlord pursuant to the terms of the Facility Lease Agreement (as defined herein); and

WHEREAS, in connection with the Tenant's acquisition and completion of the water treatment plant the Tenant requires, and the Landlord has agreed to provide, a long-term ground lease of the 900 Main Street parcel, together with an assignment of certain appurtenant easement rights benefitting the parcel.

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration and of the mutual benefits, covenants, and agreements herein expressed, the Landlord and the Tenant hereby agree as follows:

ARTICLE I DEMISE/USE

The following provisions of this Article I shall be applicable during both the Primary Term and the Remaining Term of this Lease:

SECTION 1. DEFINITIONS.

"Access Easement" shall mean that certain Easement Agreement dated as of August 4, 1994 by and between Massachusetts-American

Water Company, as owner of the Demised Premises, and The House of Prayer Lutheran Church, Inc., as owner of a certain parcel of land located on Main Street, Hingham, Massachusetts and immediately abutting the Demised Premises, which Easement Agreement has been recorded at the Plymouth County Registry of Deeds in Book 13068, Page 170, and together with that side letter agreement dated August 4, 1994 between the Water Company and the Church.

"Additional Rent" shall have the meaning set forth in Section 25.

"Appropriation" shall have the meaning set forth in Section 38.

"Appurtenant Rights" shall have the meaning set forth in Section 2(c).

"Base Rent" shall have the meaning set forth in Section 6 during the Primary Term of this Lease, and shall have the meaning set forth in Section 25 during the Remaining Term of this Lease.

"Construction Contract" shall have the meaning ascribed to such phrase in the Facility Lease Agreement.

"Demised Premises" shall mean the land located at 900 Main Street, Hingham, Plymouth County, Massachusetts consisting of approximately 46 acres and described on Exhibit A hereto, and together with any and all rights, privileges, easements, appurtenances and rights of access thereto and egress therefrom, including the Appurtenant Rights, in any way benefitting, belonging or pertaining thereto.

"Facility" shall mean a potable water treatment plant, having a treatment capacity of 7,000,000 gallons per day, together with all buildings, structures, equipment, utilities and appurtenances required for the operation and use thereof, together with parking areas and access roadways, and together with the leasehold estate granted hereunder as all of the same may be modified or expanded from time to time.

"Facility Lease Agreement" shall mean that certain Facility Lease Agreement by and between Massachusetts Capital Resources Company, as lessor, and Massachusetts-American Water Company, as lessee, dated as of July 1, 1995, pursuant to which (a) the Demised Premises will be subleased to, and (b) the Facility will be leased to and operated by, Massachusetts-American Water Company.

"Good Faith Contest" shall, during the Primary Term of this Lease, have the meaning ascribed to such phrase in the Facility Lease Agreement; and thereafter, during the Remaining Term of this Lease, shall have the meaning set forth in Section 26(d) hereof.

"Imposition(s)" shall mean all real estate and personal property taxes, any sales, excise or similar taxes on the Rent (excluding Landlord's income tax obligations), special and general assessments, water and sewer rates and charges, and other governmental charges of any kind and nature whatsoever, ordinary or extraordinary, which shall be laid, assessed, levied or imposed upon or become due and payable in connection with, or a lien upon, the Demised Premises or any part thereof, or the Facility thereon, or any part thereof.

"Institutional Lender" shall mean any savings bank, savings and loan association, commercial bank, trust company, credit union, insurance company, real estate investment trust, employees' profit-sharing trust, or pension fund.

"Landlord's Premises" shall mean all those certain parcels of land owned by Landlord, abutting and adjacent to the Demised Premises (and excluding the Demised Premises), containing approximately 70 acres, and located on and off of Main Street and South Pleasant Street, Hingham, Plymouth County, Massachusetts.

"Leasehold Mortgage" shall have the meaning set forth in Section 35(a).

"Leasehold Mortgagee" shall have the meaning set forth in Section 35(b).

"Legal Requirement(s)" shall mean all laws and ordinances, and the orders, rules, regulations and requirements of all Federal, State, county and municipal governments, and appropriate departments, agencies, commissions, boards, public authorities and officers thereof, now or hereafter in force, which may be applicable to the Demised Premises, the Facility and appurtenances benefitting, belonging or pertaining thereto, or the use or manner of use of the Demised Premises or the Facility.

"Mortgage Indenture" shall mean that certain Indenture of Mortgage and Security Agreement from Massachusetts Capital Resources Company to First Fidelity Bank, National Association, as Trustee, dated as of July 1, 1995, and all supplements and amendments thereto, and extensions or renewals thereof.

"Mortgage Trustee" shall mean First Fidelity Bank, National Association, and any successor thereto as Trustee under the Mortgage Indenture.

"Notice of Ground Lease" shall mean an instrument, substantially in the form of Exhibit B hereto, which meets the requirements of a "notice of lease" as set forth in Massachusetts General Laws, ch. 183, §4, executed and delivered by the parties hereto.

"Permits and Approvals" shall mean any and all zoning, building and other permits, licenses and approvals required by all applicable laws, rules and regulations of all public authorities having jurisdiction to develop, construct, occupy and operate the Facility.

"Permitted Encumbrances" shall mean, as of any particular time, (i) liens for taxes, assessments and governmental charges which are either not yet due, are due but payable without penalty, or are the subject of a Good Faith Contest, (ii) such minor defects, irregularities, encumbrances, utility, access and other easements and rights of way, mineral rights, restrictions and exceptions, statutory liens and clouds on title as normally exist with respect to properties similar in character to the Demised Premises that will not in the aggregate materially interfere with or impair the contemplated use of the Demised Premises and the Facility by the Tenant, or of which are under contract to be removed or altered in the normal course of constructing the Facility on the Demised Premises, (iii) this Lease, the Facility Lease Agreement, the Mortgage Indenture, the Construction Contract and that certain Indenture of Mortgage from Hingham Water Company (n/k/a Massachusetts-American Water Company) to The Fidelity Bank (n/k/a First Fidelity Bank, National Association) as Trustee, dated as of March 1, 1971, and all supplements and amendments thereto, and extensions or renewals thereof, (iv) any mechanic's, laborer's, materialmen's, supplier's, vendor's, construction or other similar liens or rights arising in the ordinary course of business or incident to the construction of the Facility in respect of obligations which are not yet past due or which are the subject of a Good Faith Contest, (v) any exceptions to title which are contained in the leasehold title insurance policy issued by Old Republic National Title Insurance Company delivered to the Tenant, (vi) all deposits or pledges to secure: statutory obligations or appeals; releases of attachments, stays of execution or injunctions; performance of bids, tenders, contracts (other than for the repayment of borrowed money), permits or leases; or for purposes of a similar general nature in the ordinary course of business, (vii) liens in connection with workers' compensation, unemployment insurance or other social security or pension obligations, and (viii) legal or equitable encumbrances deemed to exist by reason of the existence of any litigation or other legal proceeding if the same are the subject of a Good Faith Contest, (excluding any attachment prior to judgment, judgment lien, or attachment in aid of execution on a judgment).

"Permitted Exceptions" shall have the meaning set forth in Section 2(b).

"Primary Term" shall have the meaning set forth in Section 4.

"Regulated Materials" shall mean any toxic or hazardous pollutant, emission, contaminant, chemical, material, waste or substance, as any of such terms are defined from time to time in or for the purposes of any relevant law, statute, rule, regulation, ordinance, order, code, policy or rule of common law, now or hereafter in effect, or in or by any judicial or administrative interpretation thereof, relating to pollution and/or protection of public health or the environment, and specifically including, but not limited to, asbestos, polychlorinated biphenyls and any petroleum or hydrocarbon-based products or derivatives.

"Remaining Term" shall have the meaning set forth in Section 23.

"Rent" shall mean during the Primary Term of this Lease, all Base Rent (as defined in Section 6), and during the Remaining Term of this Lease shall mean all Base Rent (as defined in Section 25) and all Additional Rent.

"Reserved Rights" shall have the meaning set forth in Section 2(d).

"Responsible Party" shall mean: (i) Massachusetts Capital Resources Company during the Construction Period (as such term is defined in the Facility Lease Agreement); (ii) Massachusetts-American Water Company and its successors thereafter during the remainder of the Primary Term of this Lease; and (iii) the Tenant during the Remaining Term of this Lease.

"Term" shall mean the Sixty (60) year period commencing on the Term Commencement Date, and shall include the Primary Term and the Remaining Term.

"Term Commencement Date" shall mean August 17, 1995.

SECTION 2. DEMISE/APPURTENANT AND RESERVED RIGHTS.

(a) Landlord, in consideration of the rents to be paid hereunder by Tenant and the covenants, conditions and agreements herein contained on the part of Tenant to be paid, kept and performed, does hereby grant, demise, lease and let unto Tenant, and Tenant does hereby take and lease from Landlord for the Term and upon the rents, covenants, conditions and agreements herein contained, the Demised Premises, subject to and with the benefit of the Permitted Exceptions, the Appurtenant Rights and the Reserved Rights.

(b) The "Permitted Exceptions" consist of:

(i) the Permitted Encumbrances;

(ii) the Permits and Approvals; and

(iii) all Legal Requirements now or hereafter in force.

(c) The "Appurtenant Rights" consist of:

(i) the right, in common with the Landlord and others, to exercise and enjoy the easements and rights created under the Access Easement;

(ii) the right, in common with the Landlord and others, to exercise and enjoy any other easements and rights created under or pursuant to any one or more of the Permitted Encumbrances, to the extent that the same are located on, or otherwise benefit, the Landlord's Premises and are reasonably necessary to afford the Tenant and its permittees and assigns access to, and use and enjoyment of, the Demised Premises, now or in the future during the Term hereof;

(iii) the right, in common with Landlord and others, from time to time to install, construct, repair, replace, use, maintain, modify and relocate for service to the Demised Premises, pipes, ducts, conduits, wires, cables and other facilities and fixtures for gas, water, sewer, steam, electricity, telephone, data communication, storm drainage and other utilities located or to be located on or in the Landlord's Premises, provided that any replacements therefor are essentially equivalent or better than those now existing or hereafter constructed; and further, that if any of the foregoing utilities facilities are replaced or relocated, the Responsible Party shall relocate such facilities so as not to pass through any structures then existing on the Landlord's Premises. The Tenant shall exercise its rights granted in this clause without interfering with Landlord's use of the Landlord's Premises and without overburdening any such facilities. The Responsible Party shall pay the costs of any installation, construction, modification and relocation to the extent the same are undertaken to serve the Demised Premises;

(iv) the right to exercise all rights, powers and privileges granted by the Permits and Approvals in connection with the construction, installation, equipping, testing, operation and use of the Facility.

(d) The Demised Premises are leased subject to the following "Reserved Rights":

(i) the right of Landlord and Landlord's successors and assigns, hereby reserved, in common with the Tenant, to exercise and enjoy the easements and rights created under the Access Easement, to the extent reasonably necessary, but at all times subject to Section 5 hereof, to afford the Landlord access to, and use and enjoyment of, the Landlord's Premises, now or in the future during the Term hereof;

(ii) the right of Landlord and Landlord's successors and assigns, hereby reserved, in common with the Tenant, to exercise and enjoy any other easements and rights created under or pursuant to any one or more of the Permitted Encumbrances, to the extent that the same are located on, or otherwise benefit, the Demised Premises and are reasonably necessary, but at all times subject to Section 5 hereof, to afford the Landlord access to, and use and enjoyment of, the Landlord's Premises, now or in the future during the Term hereof;

(iii) the right of Landlord and Landlord's successors and assigns, hereby reserved, from time to time to install, construct, repair, replace, use, maintain, modify and relocate for service to any portion of the Landlord's Premises, pipes, ducts, conduits, wires, cables and other facilities and fixtures for gas, water, sewer, steam, electricity, telephone, data communication, storm drainage and other utilities now located or to be located on or in the Demised Premises, provided that any replacements therefor are substantially equivalent or better than those now existing or hereafter constructed; and further, that if any of the foregoing utilities facilities are replaced or relocated, Landlord shall relocate such facilities so as not to pass through any structures then existing on the Demised Premises. The Landlord shall exercise its rights reserved in this clause without interfering with Tenant's use of the Demised Premises and without overburdening any such facilities. The Landlord shall pay the costs of any installation, construction, modification and relocation to the extent that the same are undertaken to serve the Landlord's Premises;

(iv) the right of Landlord and Landlord's successors and assigns, hereby reserved, from time to time to enter upon the Demised Premises for the purposes of performing inspections and tests including, without limitation, test borings and monitoring wells in order to determine whether any Regulated Materials are present on, under or within the

Demised Premises; provided, that such inspections and tests do not unreasonably interfere with the use and occupancy of the Demised Premises; and provided, that the Landlord shall give Tenant not less than five (5) business days notice of such inspections and tests; and provided, that Landlord shall indemnify and hold Tenant harmless from any and all costs, damages and liabilities (including reasonable attorneys fees) to the extent that such inspection and testing causes the release (or claims thereof) of Regulated Materials, or to the extent Tenant is otherwise damaged or reasonably incurs costs and expenses in connection with the foregoing; and further provided, that any land and any portion of the Facility disturbed by such inspection and testing shall be forthwith restored to their condition prior to testing.

SECTION 3. USE OF THE DEMISED PREMISES/RESTRICTIONS.

(a) During the Primary Term, the Responsible Party, and during the Remaining Term, the Tenant, shall have the right to use the Demised Premises for the construction, installation, equipping, testing, operation, use, repair and replacement (including improvements and additions) of the Facility, to the extent the same is lawfully permitted under applicable building, zoning and other laws, rules, and regulations, and for no other use or purpose. The construction, installation, equipping, testing, operation and use of the Facility shall be undertaken and maintained at all times in strict compliance with the requirements of the Permits and Approvals and the Access Easement.

(b) The Responsible Party shall not use or permit the use of the Demised Premises or any portion thereof for the use, generation, treatment, storage or disposal of Regulated Materials, except and only to the extent that the presence and use of the Regulated Materials are required for the operation of the Facility and are properly licensed and approved by all appropriate governmental authorities, and in accordance with applicable laws and regulations. The Responsible Party shall promptly provide the Landlord with copies of all notices received by it, including, without limitation, any notice of violations, notice of responsibility or demand from any federal, state or local authority or official in connection with the presence or use of Regulated Materials in or about the Demised Premises. In the event that the Responsible Party, its agents, representatives or those claiming under it cause any release of Regulated Materials upon the Demised Premises, or use Regulated Materials on the Demised Premises in violation of any applicable law, regulation or license, the Responsible Party shall promptly remedy the problem or violation in accordance with all applicable

laws and requirements, and shall indemnify, defend and hold the Landlord harmless from and against all loss, damage, claims, liabilities, judgments, costs and expenses, including reasonable attorneys' fees and the cost of litigation, arising from the presence or release of such Regulated Materials or the remediation thereof. The foregoing indemnity provision shall survive the expiry or earlier termination of this Lease. Nothing herein shall be deemed to prohibit the lawful use of customary fuels to provide heat or power to the Facility, or the storage and use of customary cleaning materials and office and other supplies, provided that all such fuels and materials are stored and used in a lawful manner, in accordance with the terms of any applicable permit or license.

ARTICLE II PRIMARY TERM

Until the first date on which the Facility Lease Agreement shall no longer be in full force and effect and the Lessee thereunder shall have paid all amounts due and payable under said Facility Lease Agreement (the "Primary Term Termination Date"), this Lease shall be governed by the following provisions:

SECTION 4. PRIMARY TERM. The primary term of this Lease shall commence on the Term Commencement Date and shall expire on the Primary Term Termination Date (the "Primary Term").

SECTION 5. QUIET ENJOYMENT. The Tenant shall peaceably and quietly have, hold and enjoy the Demised Premises for the Primary Term hereof.

SECTION 6. RENT. The Landlord hereby acknowledges receipt of rent for the entire Primary Term hereof in the sum of One Hundred Dollars (\$100.00) (the "Base Rent").

SECTION 7. TAXES AND OTHER IMPOSITIONS.

(a) All Impositions shall be paid by the Responsible Party as provided in the Facility Lease Agreement.

(b) If, by law, any Imposition is payable, or may at the option of the taxpayer be paid, in installments (provided no lien, interest, penalty or otherwise shall accrue on the unpaid balance of such Imposition), the Responsible Party may pay the same in such installments, as the same become due and payable. All Impositions assessed or imposed for the fiscal period in which the Primary Term of this Lease commences, or for the fiscal period in which the Primary Term of this Lease terminates, shall be apportioned pro rata between Landlord and the Responsible Party in accordance with the portion of such fiscal period during which such Primary Term shall be in effect.

(c) If the Demised Premises are not separately assessed by the Town of Hingham, the Responsible Party shall be liable throughout the Primary Term for (x) the taxes for land attributable to the Landlord's Premises, including the Demised Premises, (or such other tax lot which includes the Demised Premises) in the same proportion as the number of square feet of land comprising the Demised Premises bears to the total number of square feet of land comprising the Landlord's Premises, including the Demised Premises (or such other tax lot which includes the Demised Premises) and (y) all taxes attributable to the Facility now or hereafter located on the Demised Premises. If the Demised Premises are not separately assessed, or if bills for Impositions shall otherwise be sent to Landlord rather than to the Responsible Party, the Responsible Party shall, within twenty (20) days after receipt of an invoice from Landlord setting forth the amount of any bill for such Impositions attributable to the Demised Premises, pay such amounts to Landlord or directly to the taxing authority, in which event the Landlord shall be furnished with satisfactory evidence of such payment.

(d) The Responsible Party shall have the right to contest any Imposition by a Good Faith Contest.

SECTION 8. UTILITIES. Beginning on the Term Commencement Date, the Responsible Party shall pay or cause to be paid, all charges for gas, water, sewer, electricity, light, heat or power, telephone, data communication or other utility services supplied to the Demised Premises throughout the Primary Term hereof. The Responsible Party shall, without cost to Landlord, procure any and all necessary permits, licenses or other authorizations required for the lawful and proper installation and maintenance upon the Demised Premises of wires, pipes, ducts, conduits, cables and other equipment and appliances for use in supplying any such utility service to the Demised Premises (including, without limitation, such as are required for the construction, use and operation of the Facility).

SECTION 9. COMPLIANCE WITH LAWS.

(a) The Responsible Party shall, throughout the Primary Term hereof and without cost to Landlord, promptly comply with all Legal Requirements.

(b) The Responsible Party, after notice to Landlord, may by appropriate proceedings conducted promptly at the Responsible Party's own expense, in the Responsible Party's name and/or (whenever necessary) Landlord's name, contest in good faith the validity or enforcement of any such Legal Requirement. So long as (i) such deferment shall not subject Landlord to a fine or

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other criminal or civil liability or penalty, (ii) the Responsible Party shall be diligently prosecuting such contest to a final determination by a court, department or governmental authority or body having jurisdiction thereof, and (iii) the Responsible Party shall have furnished Landlord with such security, by bond or otherwise, as Landlord may reasonably request in connection with such contest, the Responsible Party may defer compliance with any such Legal Requirement.

SECTION 10. CONSTRUCTION OF FACILITY. Tenant shall continue the construction, installation and equipping of the Facility in compliance with the requirements of the Facility Lease Agreement.

SECTION 11. IMPROVEMENTS, ALTERATIONS, ADDITIONS. Improvements, alterations or additions shall be made as required and/or permitted in the Facility Lease Agreement.

SECTION 12. LIENS. No liens shall be permitted except as provided in the Facility Lease Agreement.

SECTION 13. EASEMENTS. The Tenant and Massachusetts-American Water Company shall each have the right to enter into reasonable agreements with utility companies creating easements in favor of such companies as are reasonably required in order to service the Facility on the Demised Premises subject to Landlord's consent thereto, which consent shall not be unreasonably withheld, and Landlord agrees to execute any and all documents, agreements and instruments, and to take all other actions, reasonably necessary to effectuate the same, all at the Responsible Party's sole cost and expense.

SECTION 14. REPAIRS AND MAINTENANCE. The Facility shall be repaired and maintained by the Responsible Party as required in the Facility Lease Agreement.

SECTION 15. OWNERSHIP OF LAND AND IMPROVEMENTS. Landlord and Tenant acknowledge and agree that: (a) Landlord is the owner in fee of the Demised Premises and Tenant only has the right to the possession and use thereof upon the terms, covenants and conditions set forth in this Lease; and (b) during the Term, Tenant will be the equitable and beneficial owner of a leasehold estate in the Demised Premises and the owner in fee of the Facility and of all future improvements on the Demised Premises, except for such future improvements as may be installed by the Landlord pursuant to its Reserved Rights. Upon expiry or termination of this Lease, the Facility and all other Tenant-owned improvements hereinafter installed on or at the Demised Premises shall continue to be owned by the Tenant, and Tenant, subject to the requirements of Section 41 hereof, shall have the right to remove the Facility and all such hereinafter installed Tenant-owned improvements.

SECTION 16. LANDLORD MORTGAGES. Landlord hereby covenants and agrees that during the Primary Term of this Lease, and except for Permitted Encumbrances, Landlord shall not have the right or power to mortgage or otherwise create or suffer the creation of any restrictions, liens, encumbrances, rights, title or interests in others, upon or affecting the fee interest in the Demised Premises, unless the same is subordinate to this Lease. Landlord covenants and agrees to fully perform and comply with all terms and conditions of the Permitted Encumbrances now existing or hereinafter created.

SECTION 17. LEASEHOLD MORTGAGES.

(a) Tenant shall have the right, during the Primary Term of this Lease, to mortgage Tenant's leasehold estate in the Demised Premises, the Facility or any part or parts thereof, including any and all improvements, appurtenances, rights, privileges and easements benefitting, belonging or pertaining thereto, pursuant to the Mortgage Indenture, and to assign this Lease as collateral security for such Mortgage Indenture. It is understood that at no time shall Landlord's fee ownership of the Demised Premises be encumbered or joined, or Landlord's rights hereunder subordinated, in connection with the Mortgage Indenture, the rights of Tenant under this Section 17 being solely to mortgage or encumber Tenant's leasehold estate in the Demised Premises.

(b) During the Primary Term hereof, there shall be no cancellation, termination, surrender, acceptance of surrender, amendment or modification of this Lease, without the prior written consent of the then Mortgage Trustee under the Mortgage Indenture.

(c) The Mortgage Trustee or other acquirer of the leasehold estate of Tenant pursuant to foreclosure, assignment in lieu of foreclosure or other proceedings may, upon acquiring Tenant's leasehold estate, without further consent of Landlord, sell and assign the leasehold estate on such terms and to such persons and organizations as are acceptable to such Leasehold Mortgagee or acquirer and shall thereafter be relieved of all obligations under this Lease; provided, that such assignee has delivered to Landlord its written agreement to be bound by all of the provisions of the Lease.

(d) So long as the Mortgage Indenture is in existence, unless the Mortgage Trustee shall otherwise expressly consent in writing, the fee title to the Demised Premises, and the leasehold estate of Tenant therein created by this Lease, shall not merge but shall remain separate and distinct, notwithstanding the acquisition of said fee title and said leasehold estate by Landlord or Tenant or by a third party, by purchase or otherwise.

(e) In the event on any occasions hereafter Tenant seeks to mortgage its leasehold estate, Landlord agrees to amend this Lease from time to time to the extent reasonably requested by a lender proposing to make Tenant a loan secured by a lien upon Tenant's leasehold estate, provided that, such proposed amendments do not materially and adversely affect the rights of Landlord or its interest in the Demised Premises. All reasonable expenses incurred by Landlord in connection with any such amendment shall be paid by Tenant.

(f) Tenant covenants that it will not treat this Lease as terminated by any election made under Section 365(h) of the Bankruptcy Code of 1978, as amended from time to time through and including the Bankruptcy Reform Act of 1994, or under any similar law or right of any nature, and Tenant hereby assigns to the Mortgage Trustee any right to acquiesce in any such termination.

(g) Notices from Landlord to the Mortgage Trustee shall be mailed to the address for the Mortgage Trustee set forth in the Mortgage Indenture, and those from Mortgage Trustee to Landlord shall be mailed to the address designated pursuant to the provisions of Section 46 hereof. Such notices, demands and requests shall be given in the manner described in Section 46 and shall in all respects be governed by the provisions of such Section.

SECTION 18. HAZARD/CASUALTY INSURANCE. During the Primary Term hereof, Landlord and Tenant acknowledge and agree that the provisions of the Facility Lease Agreement shall determine and govern the rights and duties of the parties hereto with respect to the provision and maintenance of hazard and casualty insurance.

SECTION 19. DESTRUCTION OR DAMAGE. During the Primary Term hereof, Landlord and Tenant acknowledge and agree that the provisions of the Facility Lease Agreement shall determine and govern the rights and duties of the parties hereto with respect to the rebuilding and restoration of the Facility following a casualty.

SECTION 20. CONDEMNATION. During the Primary Term hereof, Landlord and Tenant acknowledge and agree that the condemnation provisions of the Facility Lease Agreement shall determine and govern the rights and duties of the parties hereto with respect to the receipt and application of condemnation awards and proceeds, and with respect to obligations to restore the Facility.

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SECTION 21. LIABILITY INSURANCE. During the Primary Term hereof, Landlord and Tenant acknowledge and agree that the public liability insurance provisions of the Facility Lease Agreement shall determine and govern the rights and duties of the parties hereto with respect to the provision and maintenance of public liability insurance.

SECTION 22. DEFAULTS - REMEDIES. If the Responsible Party shall default in the performance or observance of any other provision of this Lease to be performed or observed by such Responsible Party (notwithstanding that any such default is pursuant to or the result of any bankruptcy or insolvency proceedings which shall result in the postponement, suspension or cancellation of any such obligation of such Responsible Party under this Lease), and such default shall continue for a period of thirty (30) days after written notice thereof by Landlord without being cured, unless within such thirty (30) day period the cure thereof is commenced and diligently prosecuted thereafter; then, Landlord may enforce such Responsible Party's, or as the case may be, Tenant's, obligations by suit for specific performance or injunctive relief, or by an action for money damages, but in no event shall Landlord shall have the right to terminate this Lease.

ARTICLE III REMAINING TERM

From and after the Primary Term Termination Date, this Lease shall be governed by the following provisions:

SECTION 23. REMAINING TERM.

(a) The remaining term of this Lease shall commence on the day following the Primary Term Termination Date and shall expire on that date which is the last day of the Term, unless sooner terminated in accordance with the provisions hereof (the "Remaining Term").

(b) If Tenant should hold over after the end of the Remaining Term of this Lease, the Term of this Lease shall continue thereafter until terminated by either party by not less than ninety (90) days' prior written notice to the other, which notice may, however, be given prior to the commencement of such holdover so long as such notice is not given more than six (6) months prior to such commencement. All of the terms and provisions of this Lease in effect immediately prior to such holdover shall be applicable during such holdover and for any further time following the end of the Term of this Lease during which Tenant may continue to use or occupy the Demised Premises; provided however, that the annual Base Rent during any such holdover period shall be double the annual Base Rent in effect immediately prior to such holdover.

SECTION 24. QUIET ENJOYMENT. So long as Tenant shall pay the Base Rent, Additional Rent and any other sums payable hereunder as the same become due, and shall fully comply with all of the terms of this Lease, Tenant shall peaceably and quietly have, hold and enjoy the Demised Premises for the Remaining Term hereof, subject, however, to all of the terms (exclusive of Article II hereof) of this Lease.

SECTION 25. RENT.

(a) Tenant agrees to pay to Landlord, as rent for the Remaining Term hereof, the then fair market rental value for the Demised Premises (the "Base Rent"). Not less than seventy five (75) days prior to the commencement of the Remaining Term (the "Rent Determination Date"), the parties shall negotiate and establish the amount of such Base Rent, and the payment dates and other payment terms thereof. If the parties are unable to agree upon such fair market rental value by the Rent Determination Date, then within fifteen (15) days after the Rent Determination Date, each party shall select an independent MAI-qualified appraiser, and the two appraisers shall select a third, similarly qualified appraiser. Each such appraiser shall be a member in good standing of the American Institute of Appraisers, and shall have at least ten (10) years of experience appraising commercial property in the eastern Massachusetts area. The three appraisers shall independently appraise the Demised Premises, and shall deliver their respective reports to both Landlord and Tenant within sixty (60) days after the Rent Determination Date. The fair market rental value of the premises shall then be determined as follows: first, average the three appraisals; then disregard the appraisal which deviates the most from the average; then average the two remaining appraisals. The average of the two remaining appraisals shall be the fair market rental value of the Demised Premises for purposes of determining the Base Rent for the Remaining Term, and shall be binding upon the Landlord and Tenant. Each party shall bear the cost of the appraisal by the appraiser selected by it. The cost of the appraisal by the third appraiser shall be shared equally by the parties.

(b) All other sums due hereunder from Tenant during the Remaining Term shall be payable when due as additional rent ("Additional Rent"). The term Rent shall mean and include any and all of the Base Rent and the Additional Rent.

(c) The Rent payable by Tenant hereunder shall be paid without notice or demand, and without abatement, deduction or offset except as otherwise expressly provided in this Lease. The Rent shall be paid to Landlord at Landlord's business address set forth on the first page of this Lease, or at such other place as Landlord shall from time to time designate in writing. The Rent

shall be paid in U.S. dollars, or such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts.

SECTION 26. TAXES AND OTHER IMPOSITIONS.

(a) Beginning on the first day of the Remaining Term and continuing until the end of the Lease Term, Tenant shall pay, or cause to be paid, as the same become due and payable and before any fine, penalty, interest or other charge may be added thereto for nonpayment, all Impositions. If requested by Landlord, Tenant shall, in twenty (20) days after the time above provided for the payment by Tenant of any such Imposition, furnish to Landlord satisfactory evidence of such payment.

(b) If, by law, any Imposition is payable, or may at the option of the taxpayer be paid, in installments (provided no lien, interest, penalty or otherwise shall accrue on the unpaid balance of such Imposition), Tenant may pay the same in such installments, as the same become due and payable. All Impositions assessed or imposed for the fiscal period in which the first day of the Remaining Term of this Lease commences, or for the fiscal period in which the Term of this Lease terminates, shall be apportioned pro rata between Landlord and Tenant in accordance with the portion of such fiscal period during which such Term shall be in effect.

(c) If the Demised Premises are not separately assessed by the Town of Hingham, Tenant shall be liable throughout the Remaining Term for (x) the taxes for land attributable to the Landlord's Premises, including the Demised Premises, (or such other tax lot which includes the Demised Premises) in the same proportion as the number of square feet of land comprising the Demised Premises bears to the total number of square feet of land comprising the Landlord's Premises, including the Demised Premises (or such other tax lot which includes the Demised Premises) and (y) all taxes attributable to the Facility now or hereafter located on the Demised Premises. If the Demised Premises are not separately assessed, or if bills for Impositions shall otherwise be sent to Landlord rather than to the Tenant, Tenant shall, within twenty (20) days after receipt of an invoice from Landlord setting forth the amount of any bill for such Impositions attributable to the Demised Premises, pay such amounts to Landlord or directly to the taxing authority, in which event the Landlord shall be furnished with satisfactory evidence of such payment.

(d) Tenant shall have the right to contest in good faith (a "Good Faith Contest") any Imposition by appropriate legal proceedings in the manner provided by law, provided that all such proceedings shall be begun as soon as possible after the

assessment of any such Imposition and shall be diligently prosecuted to final determination. Payment of any such contested Imposition may be deferred pending such contest, provided that such deferment of payment shall not jeopardize Landlord's interest in the Demised Premises or the Landlord's Premises. The Tenant shall promptly pay any such contested Imposition, if at any time, the Demised Premises, the Landlord's Premises, or any part thereof shall be in danger of being sold, foreclosed, forfeited or otherwise lost, or if Landlord shall be subjected to any criminal or civil liability or penalty for such nonpayment. If requested by the Landlord, the Tenant, in connection with any such contest, shall post an appropriate bond or other security as may be reasonably necessary either (i) to cover the amount of the contested Imposition, with interest and penalties, for the period which such proceedings may be expected to take, or (ii) to remove any lien which has attached or which has been imposed on the Landlord's Premises or the Demised Premises. Any such contest shall be undertaken at the expense of the Tenant, and shall, at the election of Tenant, be in the name of Tenant or in the name of Landlord or in the names of both. At the request of Tenant and without expense to the Landlord, Landlord shall join in any contest and execute any and all documents in connection therewith as Tenant may reasonably request. Tenant shall indemnify Landlord against and save Landlord harmless from all loss, damage, claims, liabilities, judgments, costs and expenses, including reasonable attorneys' fees and the cost of litigation, arising out of any such contest or out of the deferment of payment of any such contested Imposition. Until such time as an abatement or refund shall be obtained, an Imposition shall be deemed to be the amount assessed; after an abatement or refund shall be obtained, the Imposition shall be deemed to be the amount assessed, less the net abatement or refund.

SECTION 27. UTILITIES. Beginning on the first day of the Remaining Term, Tenant shall pay or cause to be paid, all charges for gas, water, sewer, electricity, light, heat or power, telephone, data communication or other utility services supplied to the Demised Premises throughout the Remaining Term hereof. Tenant shall, without cost to Landlord, procure any and all necessary permits, licenses or other authorizations required for the lawful and proper installation and maintenance upon the Demised Premises of wires, pipes, ducts, conduits, cables and other equipment and appliances for use in supplying any such utility service to the Demised Premises (including, without limitation, such as are required for the construction, use and operation of the Facility).

SECTION 28. COMPLIANCE WITH LAWS.

(a) Tenant shall, throughout the Remaining Term hereof and without cost to Landlord, promptly comply with all Legal Requirements.

(b) Tenant, after notice to Landlord, may by appropriate proceedings conducted promptly at Tenant's own expense, in Tenant's name and/or (whenever necessary) Landlord's name, contest in good faith the validity or enforcement of any such Legal Requirement. So long as (i) such deferment shall not subject Landlord to a fine or other criminal or civil liability or penalty, (ii) Tenant shall be diligently prosecuting such contest to a final determination by a court, department or governmental authority or body having jurisdiction thereof, and (iii) Tenant shall have furnished Landlord with such security, by bond or otherwise, as Landlord may reasonably request in connection with such contest, Tenant may defer compliance with any such Legal Requirement.

SECTION 29. IMPROVEMENTS, ALTERATIONS, ADDITIONS. No substantial portion of the Facility constructed on the Demised Premises shall be demolished or removed by Tenant, and Tenant shall not at any time during the Remaining Term make, or permit to be made, any alteration, rebuilding, replacement, change, addition or other improvement in or to the Demised Premises or to the Facility thereon, except in compliance with the following conditions:

(a) No such work shall be performed during the Remaining Term which would interfere with or change the permitted use of the Demised Premises for the siting and operation of a water treatment facility as set forth in Section 3(a) hereof;

(b) In the case of demolition of any portion of the Facility, the demolished structures shall be replaced by others having a value, upon completion, at least equal to those demolished, and Tenant shall, before commencing the work of demolition, furnish Landlord with a bond or other reasonably satisfactory evidence that shall replacement structures will be completed and paid for;

(c) In the case of any work other than demolition of a structure, the Facility upon the Demised Premises shall continue to be at least equal in value, after such work, as before;

(d) All such work shall be performed in a good and workmanlike, first-class manner, at Tenant's sole cost and expense, and shall not weaken or impair the structural strength, or lessen the value, of any portion of the Facility as shall be upon the Demised Premises at the time;

(e) All such work shall be done according to plans and specifications therefor which shall be first submitted to and approved in writing by the Landlord;

(f) Before the commencement of any such work, such plans and specifications shall be filed with and approved by all governmental departments or authorities having jurisdiction, Tenant shall have procured and paid for all required permits, licenses and authorizations, and all such work shall be done subject to and in accordance with the requirements of law and local regulations of all governmental departments or authorities having jurisdiction and in accordance with all such approvals, permits, licenses and authorizations;

(g) Before the commencement of any such work, Tenant shall furnish to Landlord owner's protective liability and property damage insurance, in such amounts as Landlord shall reasonably request, covering the risk during the course of such work; and

(h) Before the commencement of any such work, Tenant shall deliver to Landlord such certificates as Landlord shall reasonably request evidencing adequate worker's compensation insurance in connection with such work.

SECTION 30. LIENS. Tenant covenants and agrees to pay promptly all sums legally due and payable for work, labor, services and materials, and for the procurement of any necessary permits or licenses, in connection with the construction or installation of any improvements or additions on the Demised Premises as to which any lien is or legally can be asserted against Landlord's or Tenant's interest in the Demised Premises or any such improvements or additions. If any mechanic's, materialman's or similar lien shall at any time be filed against Landlord, Landlord's Premises or the Demised Premises, Tenant shall cause the same to be discharged of record within forty-five (45) days after the date of filing of the same, unless Tenant shall in good faith determine that the amount or validity of such claimed lien should be contested, in which case Tenant shall have no obligation to discharge such lien so long as Tenant, if requested by Landlord, shall within such forty-five (45) day period, furnish a surety bond or other security reasonably satisfactory to Landlord adequate to protect the Demised Premises, the Landlord's Premises and Landlord against such lien and shall in good faith diligently prosecute such contest to a final determination by appropriate legal proceedings. If Tenant shall fail to discharge such claimed lien or furnish such bond or other security within such forty-five (45) day period, then, in addition to any other right or remedy of Landlord, Landlord after notice to Tenant may, but shall not be obligated to, discharge the same either by paying the amount claimed to be due or by procuring the discharge of such lien by deposit in court or by giving security or in such other manner as is now or may be prescribed by law. Any such payment or deposit made by the

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Landlord shall be immediately repayable to the Landlord by the Tenant, which repayment obligation shall be deemed to be Additional Rent payable pursuant to Section 25(b) hereof.

SECTION 31. EASEMENTS. Tenant shall have the right to enter into reasonable agreements with utility companies creating easements in favor of such companies as are reasonably required in order to service any improvements or additions on the Demised Premises subject to Landlord's consent thereto, which consent shall not be unreasonably withheld, and Landlord agrees to execute any and all documents, agreements and instruments, and to take all other actions; reasonably necessary to effectuate the same, all at Tenant's sole cost and expense.

SECTION 32. REPAIRS AND MAINTENANCE. Tenant shall throughout the Remaining Term hereof, at Tenant's sole cost and expense, keep or cause to be kept the Demised Premises and the Facility in good order and first-class condition (damage or destruction caused by ordinary wear and tear and Landlord's sole negligence or default excepted) and shall promptly make all necessary repairs thereto, interior, exterior, structural and nonstructural, ordinary as well as extraordinary, foreseen as well as unforeseen, which Tenant considers appropriate. There is also excepted from the requirements of this Section any loss caused by an Appropriation for which provision is made in Section 38 hereof for the termination of this Lease, if such termination option is exercised by Tenant. Landlord, pursuant to the requirements of this Lease, shall have no responsibility whatsoever in respect of maintenance or repair, except to the limited extent that the necessity therefor is caused solely by Landlord's negligence or default, it being intended that (except as aforesaid) Tenant shall have the full responsibility therefor.

SECTION 33. OWNERSHIP OF LAND AND IMPROVEMENTS. Landlord and Tenant acknowledge and agree that: (a) Landlord is the owner in fee of the Demised Premises and Tenant only has the right to the possession and use thereof upon the terms, covenants and conditions set forth in this Lease; (b) during the Term, Tenant will be the equitable and beneficial owner of a leasehold estate in the Demised Premises and the owner in fee of the Facility and of all future improvements on the Demised Premises, except for such future improvements as may be installed by the Landlord pursuant to its Reserved Rights; and (c) neither party shall voluntarily take any position inconsistent with the foregoing provisions hereof for accounting, for federal or state income tax purposes, for insurance or eminent domain purposes, or otherwise. Upon expiry or termination of this Lease, the Facility and all other Tenant-owned improvements hereinafter installed on or at the Demised Premises shall continue to be owned by the Tenant, and Tenant, subject to the requirements of Section 41 hereof, shall have the right to remove the Facility and all such hereinafter installed Tenant-owned improvements.

SECTION 34. LANDLORD MORTGAGES. Landlord hereby covenants and agrees that during the Remaining Term of this Lease, and except for Permitted Encumbrances, Landlord shall not have the right or power to mortgage or otherwise create or suffer the creation of any restrictions, liens, encumbrances, rights, title or interests in others, upon or affecting the fee interest in the Demised Premises, unless the same is subordinate to this Lease. Landlord covenants and agrees to fully perform and comply with all terms and conditions of the Permitted Encumbrances now existing or hereinafter created.

SECTION 35. LEASEHOLD MORTGAGES.

(a) Tenant shall have the right, at any time and from time to time during the Remaining Term of this Lease, to mortgage Tenant's leasehold estate in the Demised Premises, the Facility or any part or parts thereof, including any and all improvements, appurtenances, rights, privileges and easements benefitting, belonging or pertaining thereto, to an Institutional Lender and to assign this Lease as collateral security for such mortgage and to renew, modify, consolidate, replace, extend or refinance such mortgage, so long as the term of any such mortgage (hereinafter a "Leasehold Mortgage") shall be for a period, as at the inception thereof, that shall be wholly within the Remaining Term of this Lease and any then exercised extensions of the Term. It is understood that at no time shall Landlord's fee ownership of the Demised Premises be encumbered or joined, or Landlord's rights hereunder subordinated, in connection with any Leasehold Mortgage, the rights of Tenant under this Section 35 being solely to mortgage or encumber Tenant's leasehold estate in the Demised Premises.

(b) If Tenant shall mortgage its leasehold estate in accordance with the foregoing provisions, Landlord agrees that so long as any such Leasehold Mortgage shall remain unsatisfied of record, and provided that written notice of such Leasehold Mortgage is given to Landlord (in the manner set forth in Section 46 hereof) by the holder (a "Leasehold Mortgagee") of such Leasehold Mortgage, which notice shall include such holder's mailing address for notice purposes hereunder and be accompanied by a recorded copy of the Leasehold Mortgage, the following provisions shall apply with respect to each such Leasehold Mortgage:

(i) Leasehold Mortgagee Consent. There shall be no cancellation, termination, surrender, acceptance of surrender, amendment or modification of this Lease, without the prior written consent of each such Leasehold Mortgagee.

(ii) Default Notices. Landlord, upon providing Tenant any notice of: (1) default under this Lease, or (2) a termination of this Lease, or (3) a matter on which Landlord may predicate or claim a default, shall at the same time provide a copy of such notice to each Leasehold Mortgagee. No such notice by Landlord to Tenant shall be deemed to have been duly given unless a copy thereof has been so provided to every Leasehold Mortgagee. From and after the giving of such notice to a Leasehold Mortgagee, such Leasehold Mortgagee shall have the same period, after the giving of such notice to it, for remedying the defaults or acts or omissions which are the subject matter of such notice or causing the same to be remedied, as is given Tenant after the giving of such notice to Tenant, plus in each instance, the additional period of time specified in subsections (iii) and (iv) of this Section 35(b) to remedy, commence remedying or cause to be remedied the defaults or acts or omissions which are specified in any such notice. Landlord shall accept such performance by or at the instigation of such Leasehold Mortgagee as if the same had been done by Tenant. Tenant authorizes each Leasehold Mortgagee to take any such action at such Leasehold Mortgagee's option, and Tenant does hereby authorize entry upon the Demised Premises by the Leasehold Mortgagee for such purpose.

(iii) Additional Notice to Leasehold Mortgagee.

(1) Anything contained in this Lease to the contrary notwithstanding, if any default shall occur which entitles Landlord to terminate this Lease, Landlord shall have no right to terminate this Lease unless, following the expiration of the period of time given Tenant to cure such default or the act or omission which gave rise to such default, Landlord shall notify every Leasehold Mortgagee of Landlord's intent to so terminate (a "Termination Notice") at least thirty (30) days in advance of the proposed effective date of such termination if such default is capable of being cured by the payment of money, and at least forty-five (45) days in advance of the proposed effective date of such termination if such default is not capable of being cured by the payment of money. The provisions of subsection 35(b)(iv) below shall apply if, during such 30- or 45-day period (the "Termination Notice Period"), any Leasehold Mortgagee shall:

(a) notify Landlord of such Leasehold Mortgagee's desire to nullify such notice, and

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(b) pay or cause to be paid all Base Rent, Additional Rent, and other payments then due and in arrears as specified in the Termination Notice to such Leasehold Mortgagee and which may become due during such Termination Notice Period; and

(c) comply or in good faith, with reasonable diligence and continuity, commence to comply with all non-monetary requirements of this Lease then in default and reasonably susceptible of being complied with by such Leasehold Mortgagee, provided however, that such Leasehold Mortgagee shall not be required during such Termination Notice Period to cure or commence to cure any default consisting of Tenant's failure to satisfy and discharge any lien, charge or encumbrance against the Tenant's interest in this Lease or the Demised Premises junior in priority to the lien of the mortgage held by such Leasehold Mortgagee.

(iv) Procedure on Default.

(1) If Landlord shall elect to terminate this Lease by reason of any default of Tenant, and a Leasehold Mortgagee shall have proceeded in the manner provided for by subsection 35(b)(iii) above, the specified date for the termination of this Lease as fixed by Landlord in its Termination Notice shall be extended for a period of six (6) months, provided that such Leasehold Mortgagee shall, during such six-month period:

(a) pay or cause to be paid the Base Rent, Additional Rent and other monetary obligations of Tenant under this Lease as the same become due, and continue its good faith efforts to perform all of Tenant's other obligations under this Lease, except (x) obligations of Tenant to satisfy or otherwise discharge any lien, charge or encumbrance against Tenant's interest in this Lease or the Demised Premises junior in priority to the lien of the mortgage held by such Leasehold Mortgagee and (y) past non-monetary obligations then in default and not reasonably susceptible of being cured by such Leasehold Mortgagee; and

(b) if not enjoined or stayed, take steps to acquire or sell Tenant's interest in this Lease by foreclosure of the Leasehold Mortgagee or other appropriate means and prosecute the same to completion with due diligence.

(2) If at the end of such six-month period such Leasehold Mortgagee is complying with subsection 16(b)(iv)(1) above, this Lease shall not then terminate, and the time for completion by such Leasehold Mortgagee of its proceedings shall continue so long as such Leasehold Mortgagee proceeds to

complete steps to acquire or sell Tenant's interest in this Lease by foreclosure of the Leasehold Mortgage or by other appropriate means with reasonable diligence and continuity. Nothing in this subsection 35(b)(iv), however, shall be construed to extend this Lease beyond the original Term thereof, as extended by any options to extend the term of this Lease properly exercised by Lessee or a Leasehold Mortgagee, nor to require a Leasehold Mortgagee to continue such foreclosure proceedings after the default has been cured. If the default shall be cured and the Leasehold Mortgagee shall discontinue such foreclosure proceedings, this Lease shall continue in full force and effect as if Tenant had not defaulted hereunder.

(3) If a Leasehold Mortgagee is complying with subsection 35(b)(iv)(1) above, upon the acquisition of Tenant's leasehold estate herein by such Leasehold Mortgagee (or its nominee) or by any other purchaser at a foreclosure sale or otherwise and the discharge of any lien, charge or encumbrance against the Tenant's interest in this Lease or the Demised Premises which is junior in priority to the lien of the Leasehold Mortgage held by such Leasehold Mortgagee and which the Tenant is obligated to satisfy and discharge by reason of the terms of this Lease, this Lease shall continue in full force and effect as if Tenant had not defaulted hereunder.

(4) For the purposes of this Section 35 the making of a Leasehold Mortgage shall not be deemed to constitute an assignment or transfer of this Lease or of the leasehold estate hereby created, nor shall any Leasehold Mortgagee, as such, be deemed to be an assignee or transferee of this Lease or of the leasehold estate hereby created so as to require such Leasehold Mortgagee, as such, to assume the performance of any of the terms, covenants or conditions on the part of the Tenant to be performed hereunder, but the purchaser at any sale of this Lease and of the leasehold estate hereby created in any proceedings for the foreclosure of any Leasehold Mortgage, or the assignee or transferee of this Lease and of the leasehold estate hereby created under any instrument of assignment or transfer in lieu of the foreclosure of any Leasehold Mortgage, shall be deemed to be an assignee or transferee within the meaning of this Section 35, and shall be deemed to have agreed to perform all of the terms, covenants and conditions on the part of the Tenant to be performed hereunder from and after the date of such purchase and assignment, but only for so long as such purchaser or assignee is the owner of the leasehold estate. Such purchaser or assignee may use the Demised Premises only for the purposes permitted under Section 3 hereof. If the Leasehold Mortgagee (or its nominee) shall become holder of the leasehold estate and if the Facility and

any other Tenant-owned improvements on the Demised Premises shall have been or become materially damaged on, before or after the date of such purchase and assignment, the Leasehold Mortgagee (or its nominee) shall be obligated to repair, replace or reconstruct the Facility or other improvements only to the extent of the net insurance proceeds received by the Leasehold Mortgagee (or its nominee) by reason of such damage. However, should such net insurance proceeds be insufficient to repair, replace or reconstruct the Facility or other improvements to the extent required hereunder, and should the Leasehold Mortgagee (or its nominee) choose not to fully reconstruct the Facility or other improvements to the extent required, such failure shall constitute an event of default under this Lease.

(5) Any Leasehold Mortgagee or other acquirer of the leasehold estate of Tenant pursuant to foreclosure, assignment in lieu of foreclosure or other proceedings may, upon acquiring Tenant's leasehold estate, without further consent of Landlord, sell and assign the leasehold estate on such terms and to such persons and organizations as are acceptable to such Leasehold Mortgagee or acquirer and shall thereafter be relieved of all obligations under this Lease; provided, that such assignee has delivered to Landlord its written agreement to be bound by all of the provisions of the Lease.

(v) New Lease. In the event of the termination of this Lease as a result of Tenant's default, Landlord shall, in addition to providing the notices of default and termination as required by subsections 35(b)(ii) and (iii) above, provide each Leasehold Mortgagee with written notice that the Lease has been terminated, together with a statement of all sums which would at that time be due under this Lease but for such termination, and of all other defaults, if any, then known to Landlord. Landlord agrees to enter into a new lease ("New Lease") of the Demised Premises with such Leasehold Mortgagee (or its nominee) for the term equal to the remainder of the Remaining Term of this Lease, effective as of the date of termination, at the Base Rent and Additional Rent, and upon the terms, covenants and conditions (including all options to extend but excluding requirements which are not applicable or which have already been fulfilled) of this Lease, provided:

(1) Such Leasehold Mortgagee shall make written request upon Landlord for such New Lease within sixty (60) days after the date such Leasehold Mortgagee is given Landlord's termination notice given pursuant to this subsection 35(b)(v).

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(2) Such Leasehold Mortgagee (or its nominee) shall pay or cause to be paid to Landlord at the time of the execution and delivery of such New Lease, any and all sums which would at the time of execution and delivery of such New Lease have been due pursuant to this Lease but for such termination and, in addition thereto, all reasonable expenses, including reasonable attorneys' fees, which Landlord shall have incurred by reason of such termination and the execution and delivery of the New Lease and which have not otherwise been received from Tenant or other party in interest under Tenant. Upon the execution of such New Lease, Landlord shall allow to the tenant named therein as an offset against the sums otherwise due under this subsection 35(b)(v) or under the New Lease, an amount, if any, equal to the net income derived by Landlord from the Demised Premises during the period from the date of termination of this Lease to the date of the beginning of the lease term of such New Lease. In the event of a controversy as to the amount to be paid to Landlord pursuant to this subsection 35(b)(v), the payment obligation shall be satisfied if Landlord shall be paid the amount not in controversy, and the Leasehold Mortgagee (or its nominee) shall agree to pay any additional sum ultimately determined to be due plus interest at a rate equal to the Bank of Boston Prime Rate, and such obligation shall be adequately secured.

(3) Such Leasehold Mortgagee (or its nominee) shall agree to remedy any of Tenant's defaults of which said Leasehold Mortgagee was notified by Lessor's termination notice given under this subsection 35(b)(v) and which are reasonably susceptible of being so cured by Leasehold Mortgagee (or its nominee).

(4) Any New Lease made pursuant to this subsection 35(b)(v) shall be prior to any mortgage or other lien, charge or encumbrance on the fee of the Demised Premises and the tenant under such New Lease shall have the same right, title and interest in and to the Demised Premises, the Facility and the other improvements thereon as Tenant had under this Lease.

(5) The tenant under any such New Lease shall be liable to perform the obligations imposed on the tenant by such New Lease only during the period such person has ownership of such leasehold estate.

(vi) New Lease Priorities. If more than one Leasehold Mortgagee shall request a New Lease pursuant to subsection 35(b)(v) above, Landlord shall enter into such New Lease with the Leasehold Mortgagee whose mortgage is prior in lien, or with the nominee of such Leasehold Mortgagee.

Landlord, without liability to Tenant or any Leasehold Mortgagee with an adverse claim, may rely upon a mortgagee title insurance policy issued by a responsible title insurance company doing business in The Commonwealth of Massachusetts as the basis for determining the appropriate Leasehold Mortgagee who is entitled to such New Lease.

(vii) Leasehold Mortgagee Need Not Cure Specified Defaults. Nothing herein contained shall require any Leasehold Mortgagee (or its nominee) as a condition to its exercise of any right hereunder to cure any default of Tenant not reasonably susceptible of being cured by such Leasehold Mortgagee (or its nominee), in order to comply with the provisions of subsections 35(b)(iii) or (iv), above, or as a condition of entering into the New Lease provided for by subsection 35(b)(v) above.

(viii) Eminent Domain. Tenant's share, as provided by Section 38 of this Lease, of the proceeds arising from an Appropriation shall, subject to the provisions of such Section, be disposed of as provided for by the senior Leasehold Mortgage.

(ix) Casualty Loss. A standard mortgagee clause naming each Leasehold Mortgagee may be added to any and all insurance policies required to be carried by Tenant (or for Tenant's benefit) hereunder on condition that the insurance proceeds are to be applied in the manner specified in this Lease and the Leasehold Mortgage shall so provide; except that, the Leasehold Mortgage may provide a manner for the disposition of such proceeds, if any, otherwise payable directly to the Tenant (but not such proceeds, if any, payable jointly to the Landlord and the Tenant) pursuant to the provisions of this Lease.

(x) No Merger. So long as any Leasehold Mortgage is in existence, unless all Leasehold Mortgagees shall otherwise expressly consent in writing, the fee title to the Demised Premises, and the leasehold estate of Tenant therein created by this Lease, shall not merge but shall remain separate and distinct, notwithstanding the acquisition of said fee title and said leasehold estate by Landlord or Tenant or by a third party, by purchase or otherwise.

(xi) Future Amendments. In the event on any occasions hereafter Tenant seeks to mortgage its leasehold estate, Landlord agrees to amend this Lease from time to time to the extent reasonably requested by an Institutional Lender proposing to make Tenant a loan secured by a lien upon Tenant's leasehold estate, provided that, such proposed amendments do

not materially and adversely affect the rights of Landlord or its interest in the Demised Premises. All reasonable expenses incurred by Landlord in connection with any such amendment shall be paid by Tenant.

(xii) Bankruptcy Election. Tenant covenants that it will not treat this Lease as terminated by any election made under Section 365(h) of the Bankruptcy Code of 1978, as amended from time to time through and including the Bankruptcy Reform Act of 1994, or under any similar law or right of any nature, and Tenant hereby assigns to the senior Leasehold Mortgagee any right to acquiesce in any such termination.

(xiii) Notices. Notices from Landlord to the Leasehold Mortgagee shall be mailed to the address furnished Landlord pursuant to Section 35(b) above, and those from a Leasehold Mortgagee to Landlord shall be mailed to the address designated pursuant to the provisions of Section 46 hereof. Such notices, demands and requests shall be given in the manner described in Section 46 and shall in all respects be governed by the provisions of such Section.

SECTION 36. HAZARD/CASUALTY INSURANCE.

(a) Tenant shall at all times during the Remaining Term hereof cause the Facility and any other improvements erected by Tenant on the Demised Premises to be insured for the benefit of Landlord, Tenant, and the holders of any mortgage on either the Demised Premises or Tenant's leasehold estate therein, as their respective interests may appear, against loss or damage by fire or by any casualty insured against under the standard form of extended coverage endorsement (including without limitation earthquake damage) and insuring against damage by flood, to the extent that the Demised Premises are located in a so-called flood hazard area, such coverage to be provided on a builder's risk coverage, so-called, during construction of any additions or improvements thereto. All such insurance shall be in amounts equal to not less than one hundred percent (100%) of the insurable value of all buildings and improvements (exclusive of cost of excavation, foundation walls and footings below the ground floor), with one hundred percent replacement cost endorsement, non-reporting and increased cost of construction forms. Rent insurance/business interruption coverage shall also be obtained and carried by Tenant during the Remaining Term for the benefit of Landlord, Tenant and the holders of any such mortgage, in an amount equal to twenty-four (24) months of rental income calculated at the then effective Base Rent. Tenant shall, within thirty (30) days after the execution hereof and thereafter at least thirty (30) days prior to the expiration of any then

existing policy, furnish to Landlord certificates stating that the amount of insurance (and if applicable, the policy coverage period) has been extended by the insurance company or by its duly authorized agent. All such policies to the extent obtainable shall contain a provision that the same shall not be cancelled or terminated except upon at least thirty (30) days' written notice to Landlord and the holders of any mortgages on the Demised Premises or Landlord's fee interest. Landlord acknowledges that its sole interest in such insurance is to require the proceeds thereof to be used to effect repairs and restoration as set forth in Section 37. All such insurance shall be adjustable by Tenant with the consent of Landlord, which consent shall not be unreasonably withheld, but shall be payable to the holder of any mortgage on the Demised Premises or such fee interest, to be held and dealt with as provided in Section 37.

(b) If Tenant shall fail to insure or keep insured the Facility and any other improvements upon the Demised Premises in the manner provided in subparagraph (a) of this Section 36, Landlord may, but shall not be required to, obtain and pay for such insurance, but only after the expiration of ten (10) days following written notice to Tenant specifying such failure, without such failure having been cured within said ten-day period. If Landlord shall so obtain and pay for such insurance, such payment shall be immediately reimbursed to Landlord by Tenant, and shall be deemed to be Additional Rent payable on demand.

SECTION 37. DESTRUCTION OR DAMAGE.

(a) In the event the Facility and any other improvements constructed by Tenant on the Demised Premises shall during the Remaining Term hereof be damaged (in whole or in part) or destroyed by fire or other cause, Tenant shall give Landlord prompt written notice thereof and Tenant, without cost to Landlord, shall with all reasonable diligence cause the same to be repaired, replaced or rebuilt. Within thirty (30) days after the occurrence of the event causing such damage or destruction, Tenant shall advise Landlord in writing of Tenant's plans to repair or rebuild and of the estimated schedule for commencement and completion thereof.

(b) Such work of repair, replacement or rebuilding shall be commenced as promptly as possible after the occurrence of the event causing such damage or destruction, shall be undertaken only in compliance with the applicable provisions of Section 29(a)-(h) hereof, and shall thereafter be diligently prosecuted to completion. Tenant's obligation so to repair, replace and rebuild hereunder shall continue notwithstanding that the cost thereof is in excess of the net insurance proceeds available to Tenant for such purposes.

(c) Each party hereby waives all liability of and all rights of recovery and subrogation against the other party or any of the officers, agents, or employees of the other party for any loss of or damage to property arising out of fire or casualty, and each party hereby agrees that neither such party nor any of its officers, agents, employees, or its or their insurers will sue the other party or any of the officers, agents or employees of the other party, for any loss of or damage to property arising out of fire or casualty. Each party further agrees that all casualty insurance policies carried by such party will contain waivers by the insurer of such liability, recovery, subrogation and suit.

SECTION 38. CONDEMNATION.

(a) In the event of a taking of or damage to all or any part of the Demised Premises, the Facility or any other improvements thereon by any public or quasi-public authority under any statute or by reason of the exercise of the power of eminent domain, whether by condemnation proceedings or otherwise; or any transfer of all or any part of the Demised Premises, the Facility or any such improvements made in avoidance of an exercise of the power of eminent domain (all of the foregoing being hereinafter referred to as an "Appropriation") during the Remaining Term of this Lease, the rights and obligations of Landlord and Tenant with regard to such Appropriation, including rights to the award therefrom and including compensation, severance or other damages, and interest, shall be as provided in this Section.

(b) If the whole of the Demised Premises shall be so taken, this Lease shall automatically terminate as of the date that possession is taken. In the event that less than the whole, but more than ten (10) percent, of the Facility constructed by Tenant on the Demised Premises shall be taken by public or quasi-public authority and such Facility cannot be reasonably restored, repaired or reconstructed to its prior economic value and use, Tenant shall have the option to terminate this Lease as of the date Tenant shall be dispossessed from such Facility so taken, by exercising the option as hereinafter described. If the parties hereto are unable to agree as to the percentage of the Facility affected by the Appropriation and/or as to whether the Facility can be so reasonably restored, repaired or reconstructed, the dispute shall be submitted to the Independent Engineer (as defined in the Facility Lease Agreement), whose written report and conclusions shall be binding on both parties. Such option to terminate shall be exercisable by Tenant at any time subsequent to the filing of the condemnation action and prior to the expiration of thirty (30) days after the day of such dispossession by giving written notice thereof to Landlord.

(c) In the event that a portion of the Facility situated on the Demised Premises shall be so taken and if this Lease shall not be terminated pursuant to the provisions of the foregoing Section 38(b), Tenant shall at its sole cost and expense promptly and with reasonable diligence restore, repair or reconstruct the Facility so that when so restored, repaired or reconstructed such Facility shall be of substantially the same quality and character (except as to size) as existed immediately prior to such taking. All such repair and restoration work shall be undertaken only in compliance with the applicable provisions of Section 29(a)-(h) hereof. Tenant's obligation so to restore, repair and reconstruct hereunder shall not be excused or limited in any way on account of the cost thereof being in excess of the proceeds of the net award available to Tenant for such purposes.

(d) In the event of any such termination as a result of such an Appropriation, Landlord shall be entitled to receive the entire award paid for the land included in the Demised Premises so taken, considering, however, that the land is subject to this Lease at the Base Rent, Additional Rent and other payments herein set forth, together with the entire amount of any award for any Landlord-owned improvements installed on or at the Demised Premises pursuant to the Landlord's Reserved Rights, and Tenant shall be entitled to receive the entire award paid for the taking of or damage to the Facility and any other improvements on the Demised Premises, as well as any award to which the Tenant may become entitled by virtue of the earlier termination of its leasehold estate and any other payments made on account of the taking of personal property or fixtures belonging to Tenant and/or for interruption of or damage to Tenant's business.

(e) In the event that this Lease is not so terminated, the entire award shall be paid to Tenant and shall be available to defray the cost of restoration thereof, and any proceeds of such award in excess of the cost of restoration of the Demised Premises shall be payable in accordance with the immediately preceding paragraph just as if this Lease had been terminated.

(f) Nothing in this Section 38 shall be so construed as to prevent Tenant from making its claim against the condemning authorities for any other damage or damages suffered by Tenant provided the same shall not adversely affect the compensation to which Landlord is entitled pursuant to the provisions of this Section.

(g) Landlord hereby agrees to give Tenant notice of any pending condemnation proceedings and full opportunity to participate in all negotiations concerning settlement. Landlord and Tenant each will not, without the prior written consent of

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the other (which consent shall not be unreasonably withheld or delayed), consummate any settlement in any condemnation proceedings affecting the Demised Premises.

SECTION 39. LIABILITY INSURANCE.

(a) At all times during the Remaining Term hereof, Tenant shall obtain and maintain in force, at Tenant's sole expense, comprehensive general public liability insurance, in which Landlord and the holders of any mortgages on the Demised Premises or on Landlord's fee interest shall be named as additional insureds, with limits of not less than \$2,000,000 for each death of or injury to one person in any accident or occurrence, not less than \$5,000,000 for death of or injury to more than one person in any one accident or occurrence, and not less than \$1,000,000 dollars for damage to property in one accident or occurrence, and in any event with such greater limits and amounts as are from time to time commonly obtained by owners of property similar to the Demised Premises in the locality in which the Demised Premises are located. To the extent such an endorsement is obtainable, such insurance shall not be cancelable without at least thirty (30) days' prior written notice to Landlord and any mortgagee of Tenant's leasehold estate in the Demised Premises. A certificate or duplicate copy of each such insurance policy, certified by the insurance company or by its duly authorized agent, shall be delivered to Landlord by Tenant within thirty (30) days after the date of execution hereof, and thereafter at least thirty (30) days before the expiration of any existing policy.

(b) Tenant will indemnify and save Landlord harmless from and against any and all claims, actions, damages, liability and expense in connection with loss of life, personal injury and/or damage to property arising from or out of any occurrence in, upon or at the Demised Premises resulting from any act or omission of Tenant, its agents, contractors, employees, servants, subtenants or concessionaires, and their respective agents, contractors, employees or servants.

SECTION 40. DEFAULTS - REMEDIES. (i) If Tenant shall default in the payment of any sum of money due hereunder and such default shall continue for a period of thirty (30) days, in the case of Rent, after the same is due (no notice of demand therefor by Landlord being required) and, in the case of any such sum other than Rent, after written demand therefor by Landlord; or (ii) if Tenant shall default in the performance or observance of any other provision of this Lease to be performed or observed by Tenant (notwithstanding that any such default is pursuant to or the result of any bankruptcy or insolvency proceedings which

shall result in the postponement, suspension or cancellation of any such obligation of Tenant under this Lease), and such default shall continue for a period of thirty (30) days after written notice thereof by Landlord without being cured, unless within such thirty (30) day period the cure thereof is commenced and diligently prosecuted thereafter; or (iii) except for a foreclosure or assignment in lieu of foreclosure under a Leasehold Mortgage, if the leasehold estate created hereby shall be taken on execution, or by other process of law; or (iv) if Tenant shall commit any act of bankruptcy or be declared bankrupt or insolvent according to law, or if any petition under federal or state law pertaining to bankruptcy or insolvency or for a reorganization or arrangement or other relief shall be filed by or against Tenant (and if so filed against Tenant, the same shall not be dismissed within sixty (60) days after such filing), or if any assignment, trust, mortgage or other transfer in trust or otherwise shall be made for the benefit of creditors, or if Tenant shall make or offer a composition of Tenant's debts with its creditors, or if a receiver, trustee or similar officer or creditors' committee shall be appointed to take charge of any property of or to operate or wind up the affairs of Tenant; or (v) if Tenant shall abandon the Demised Premises; or (vi) if any notice of violation (or other order or notice of a similar nature of effect) is issued for the Demised Premises by any governmental authority having jurisdiction relative to the generation, handling, transportation, storage or clean-up of Regulated Materials, and Tenant fails promptly to commence cure and thereafter diligently proceeds therewith to the satisfaction of all such governmental authorities, as may be reasonably required by Landlord and as may be necessary to abate any threat of any lien as hereinafter described or if any lien is recorded or otherwise arises against the Demised Premises under any laws, rules, orders or regulations related to Regulated Materials, then, Landlord may, at Landlord's option, in addition to any other remedies available under the laws of The Commonwealth of Massachusetts or to a landlord against a defaulting tenant, by written notice to Tenant, terminate this Lease, in which event the Remaining Term of this Lease shall expire and terminate, as fully and with like effect as if the entire Term of this Lease had lapsed and all rights of Tenant hereunder shall cease.

ARTICLE IV GENERAL PROVISIONS

The following provisions of this Article IV shall be applicable during both the Primary Term and the Remaining Term of this Lease:

SECTION 41. END OF TERM. Upon the expiry of this Lease or upon its earlier termination for any reason whatsoever, Tenant shall

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quit and peaceably surrender and deliver up the Demised Premises except for Tenant-owned fixtures and improvements thereon (including, without limitation, the Facility or the replacements thereof), moveable trade fixtures and personal property installed therein by Tenant or its subtenant, in good order, condition and repair, except for reasonable wear and tear, eminent domain or Landlord's negligence. Landlord may re-enter the Demised Premises and shall not be liable in damages for any such re-entry or guilty of trespass or forcible entry. Tenant shall repair any damage to the Demised Premises caused by Tenant or any subtenant or their respective agents, contractors, employees and servants in the removal of the Facility, any Tenant-owned fixtures and any trade fixture or personal property not required so to be surrendered. Tenant shall have a reasonable period of time (not to exceed one hundred eighty (180) days following the end of the Term to remove the Facility and all such Tenant-owned fixtures, trade fixtures and personal property, and to restore and repair any damage to the Demised Premises caused by such removal. Provided that Tenant promptly commences and diligently completes the work of such removal and repair, the continued occupancy of the Demised Premises by Tenant during such one hundred eighty (180) day period shall not be deemed to constitute holding over under the provisions of Section 23(b) hereof. At the expiration or earlier termination of this Lease, Tenant shall execute, acknowledge and deliver to Landlord, within five (5) days after written demand from Landlord to Tenant, any deed, termination of Notice of Lease or other document required to remove the cloud of this Lease from the title to the real property subject to this Lease.

SECTION 42. ASSIGNMENT; SUBLETTING. During the Primary Term hereof, Tenant may not assign this Lease or sublet all or any portion of the Demised Premises, provided however, that to the extent the Facility Lease Agreement is deemed to constitute a subletting of the Demised Premises, such sublet is hereby expressly consented to and approved by Landlord. During the Remaining Term hereof, Tenant may not assign this Lease or sublet all or any portion of the Demised Premises without the prior written consent of the Landlord, which consent shall not be unreasonably delayed, conditioned or withheld.

SECTION 43. LANDLORD'S RIGHT OF ENTRY. Landlord shall have the right throughout the Term, in person or through duly appointed agents, to enter upon the Demised Premises during ordinary and regular business hours for the purpose of inspecting the same, inspecting any work in progress to see that it is being performed in accordance with all of the provisions of this Lease, or in connection with any matter pertaining to this Lease. Landlord will use all reasonable efforts to cause as little interference as possible with the conduct of Tenant's business and the

business of any subtenant of the Demised Premises in connection with the exercise of Landlord's rights set forth in this Section 43.

SECTION 44. PERFORMANCE OF TENANT'S OBLIGATIONS. Whenever in this Lease it is provided that Tenant is obligated to perform any act, such act shall be deemed performed by Tenant if Tenant causes the due performance thereof by another party.

SECTION 45. ESTOPPEL CERTIFICATE. Each of the parties shall at any time and from time to time upon not less than fourteen (14) days' prior written notice by the other, execute, acknowledge and deliver to such other party or to any entity designated by such party a statement in writing certifying that this Lease is unmodified and is in full force and effect (of if there shall have been modifications, that this Lease is in full force and effect as modified and stating the modifications), and the dates to which the Base Rent, Additional Rent and other payments due hereunder have been paid, and stating whether such other party is in default in performing, fulfilling or observing any of the provisions of this Lease, and, if in default, specifying each such default (except that any such certificate by Landlord shall be made only to the best knowledge of the signer of such certificate), and setting forth any other information relative to this Lease as may be reasonably requested by such party, it being intended that any such statement may be relied upon by the party requesting it or by the Mortgage Trustee or any prospective mortgagee or encumbrancer, purchaser, assignee or subtenant; and the contents of such statement shall be binding upon the party executing same.

SECTION 46. NOTICE. All notices and other communications shall be in writing and shall be deemed given and delivered three (3) days after mailing when mailed, by registered or certified mail, postage and registration or certification charges prepaid, addressed in the case of Landlord, to Landlord at 75 Sgt. William B. Terry Drive, Suite 170, Hingham, Massachusetts 02043-1545, Attn: President, and addressed in the case of Tenant, to Tenant at 75 Sgt. William B. Terry Drive, Suite 170, Hingham, Massachusetts 02043-1545 Attn: Treasurer. Any party may by written notice to the other designate another address which shall thereupon become the effective address of such party for the purposes of this Section.

SECTION 47. NOTICE OF GROUND LEASE. The parties hereto shall have simultaneously with the execution and delivery of this Lease executed and delivered a short form Notice of Ground Lease in proper form for recording, which Tenant shall cause to be recorded.

SECTION 48. LIMITATION OF LIABILITY. Notwithstanding anything to the contrary contained in this Lease, neither Landlord nor Tenant, nor any officer, director, shareholder, partner, trustee, beneficiary, agent, or any other principal of Landlord or Tenant, whether disclosed or undisclosed, shall have any personal liability for the performance or discharge of any covenants, conditions or undertakings of Landlord or Tenant under this Lease.

SECTION 49. REMEDIES CUMULATIVE; COMPLETE AGREEMENT; WAIVER. All rights and remedies of both parties shall be cumulative and not alternative, in addition to and not exclusive of any other right or remedy to which such party may be lawfully entitled in case of any breach or threatened breach of any term or provision herein; the rights and remedies of both parties shall be continuing and not exhausted by any one or more uses thereof, and may be exercised at any time or from time to time and as often as may be expedient; and any option or election to enforce any such right or remedy may be exercised or changed at any time or from time to time. This Lease (and any other document expressly and specifically identified herein) sets forth the entire agreement by the parties with respect to the subject matter hereof, and no custom, act, forbearance, or words of silence at any time, gratuitous or otherwise, shall impose any additional obligation or liability upon either party, or waive or release either party from any default in the performance, fulfillment or observance of any obligation or liability, or operate as against either party as a supplement, alteration, amendment or change of any term or provision set forth herein, including this sentence, unless set forth in a written instrument duly executed by such party expressly stating that it is intended to impose such an additional obligation or liability, or to constitute such a waiver or release, or that it is intended to operate as such a supplement, alteration, amendment or change.

SECTION 50. ATTORNEYS' FEES. If either party herein shall bring suit for the possession of the Demised Premises, for the recovery of any sum due under this Lease, or for the breach of any provision of this Lease, the prevailing party shall be entitled to receive from the losing party such amounts as the court may adjudge to be reasonable as attorney's fees.

SECTION 51. SEVERABILITY. If any term or provision of this Lease or the application thereof to any person, property or circumstances shall to any extent be invalid or unenforceable, the remainder of this Lease, or the application of such term or provision to persons, properties and circumstances other than those as to which it is invalid or unenforceable, shall not be affected thereby, and each term and provision of this Lease shall be valid and enforced to the fullest extent permitted by law.

SECTION 52. BINDING EFFECT. Each of the terms, covenants and conditions of this Lease shall extend to and be binding on and inure to the benefit of not only Landlord and Tenant, but each of their respective successors and assigns; provided however, that this Section shall not be deemed to permit an assignment not otherwise expressly provided for in this Lease.

SECTION 53. NUMBER AND GENDER. Whenever the singular number is used in this Lease and when required by the context, the same shall include the plural, and the masculine gender shall include the feminine and neuter genders, and the word "person" shall include corporation, firm or association. If at any time there be more than one Tenant, the obligations imposed under this Lease upon Tenant shall be joint and several.

SECTION 54. PARAGRAPH HEADINGS. The marginal headings or title to the sections and subsections of this Lease are intended for convenience only, and shall have no effect upon the construction or interpretation of any part hereof.

SECTION 55. MULTIPLE COUNTERPARTS. This Lease may be executed in several counterparts, each of which shall be deemed an original, but all of which together constitute the same instrument.

SECTION 56. GOVERNING LAW. This Lease and the performance hereof shall be construed and enforced under the laws of The Commonwealth of Massachusetts.

IN WITNESS WHEREOF, the parties have caused this Lease to be duly executed as a sealed instrument as of the day and year first above written.

LANDLORD

MASSACHUSETTS-AMERICAN WATER
COMPANY

By: _____

[Signature]
PRESIDENT

TENANT

MASSACHUSETTS CAPITAL RESOURCES
COMPANY

By: _____

[Signature]
PRESIDENT

WITNESS

R. P. Gump

TREASURER

WITNESS

R. P. Gump

TREASURER

EXHIBIT A
to
GROUND LEASE
between
MASSACHUSETTS-AMERICAN WATER COMPANY
and
MASSACHUSETTS CAPITAL RESOURCES COMPANY

Legal Description of Demised Premises

PARCEL I: A parcel of land in Hingham, Plymouth County, Massachusetts, situated on the Easterly side of Main Street,

Beginning at a stone bound, at the Northwest corner of the described parcel, in the Easterly sideline of Main Street, said stone bound lies North 2°-28'-39" West, a distance of 375.32 feet from an angle point in said sideline.

Thence, North 86°-32'-57" East, by land of Hingham Water Company, 571.38 feet to a point.

Thence, North 83°-41'-25" East, by land of Hingham Water Company, 769.19 feet to a point.

Thence, South 8°-52'-42" East, by land of Hingham Water Company and by land of M. J. Hall Realty Trust, 1497.87 feet to a stone bound in the Northerly sideline of Huntley Road.

Thence, South 84°-41'-48" West, along said Northerly sideline of Huntley Road, the Northerly end of Hope Road and by land of Theodore and Cecile D. Paquette, 578.43 feet to a stone bound.

Thence, South 85°-08'-42" West, by land of House of Prayer Lutheran Church, Inc., 714.29 feet to a point in the Easterly sideline of Main Street.

Thence, North 21°-00'-49" West, along said Easterly sideline of Main Street, 138.88 feet to a point.

Thence, North 11°-15'-59" West, along said Easterly sideline of Main Street, 190.65 feet to a point.

Thence, North 47°-48'-11" East, along said Easterly sideline of Main Street, 18.83 feet to a point.

Thence, North 33°-05'-39" West, along said Easterly sideline of Main Street, 92.69 feet to a point.

TGT. 23312.6. std. ADS

Thence, North 11°-38'-49" West, along said Easterly sideline of Main Street, 130.28 feet to a point.

Thence, North 7°-48'-29" West, along said Easterly sideline of Main Street, 282.40 feet to a point.

Thence, North 15°-31'-29" West, along said Easterly sideline of Main Street, 236.32 feet to a point.

Thence, North 10°-17'-09" West, along said Easterly sideline of Main Street, 58.89 feet to a point.

Thence, North 2°-28'-39" West, along said Easterly sideline of Main Street, 375.32 feet to a stone bound and point of beginning.

The above-described parcel contains 2,008,133 sq. ft, or 46.10 Acres.

The above-described parcel is shown on a plan entitled "Plan of Land in Hingham, Massachusetts, Prepared for Metcalf & Eddy, Inc.," dated August 2, 1995, by Perkins Engineering, Inc., Rockland, Massachusetts, to be recorded contemporaneously herewith with the Plymouth County Registry of Deeds (the "1995 Plan").

PARCEL II: The non-exclusive perpetual right and easement, appurtenant to Parcel I described above, over, through, in and under the nominally fifty foot wide "Permanent Access and Utility Easement Area" shown on the Easement Plan (defined below) to be used for all purposes for which ways are commonly used in the Town of Hingham in connection with the construction of improvements and use of Parcel I for water treatments purposes and for other related purposes described in Chapter 139 of the Acts of 1879 as the same has been or may be amended from time to time, and to be used to locate, construct, install, use, operate, maintain, inspect, repair, replace and relocate underground electric, telephone, gas, sewer, water, cable television, fire alarm and other utilities and all necessary conduits, fittings, and appurtenances related thereto, as created by and set forth in, that certain Easement Agreement dated August 4, 1994 between Massachusetts-American Water Company and House of Prayer Lutheran Church, Inc., recorded in Book 13068, Page 170. The Easement Plan is that certain plan entitled "Easement Plan, 916 Main Street, Hingham, Massachusetts" dated August 4, 1994 by Perkins Engineering, Inc. and recorded as Plan No. 543 of 1994 and recorded with said Easement Agreement. Said easement is also shown on the 1995 Plan as "Water Company Access and Utility Easement. See Book 10368, Page 170".

EXHIBIT B
to
GROUND LEASE
between
MASSACHUSETTS-AMERICAN WATER COMPANY
and
MASSACHUSETTS CAPITAL RESOURCES COMPANY

Form of Notice of Ground Lease

NOTICE OF GROUND LEASE

Pursuant to the provisions of Massachusetts General Laws, Chapter 183, Section 4, notice is hereby given of the following ground lease:

Lease Parties:	<u>Landlord</u> Massachusetts-American Water Company 75 Sgt. William B. Terry Drive - Suite 170 Hingham, Massachusetts 02043-1545
	<u>Tenant</u> Massachusetts Capital Resources Company 75 Sgt. William B. Terry Drive Suite 170 Hingham, Massachusetts 02043-1545
Date of Execution of Ground Lease:	As of July 1, 1995
Description of Demised Premises:	A parcel of real estate containing approximately 46 acres located at 900 Main Street, Hingham, Plymouth County, Massachusetts, as further described on Exhibit "A" attached hereto.
Term of Ground Lease:	Sixty (60) years.
Commencement of Ground Lease Term:	August 17, 1995.
Options to Extend:	None.

This instrument is executed in order to provide notice of the ground lease herein described, and is not intended to vary the terms and conditions thereof.

WITNESS the execution hereof under seal this ___ of August, 1995.

LANDLORD

Massachusetts-American Water Company

By: _____

TENANT

Massachusetts Capital Resources Company

By: _____

THE COMMONWEALTH OF MASSACHUSETTS

_____, ss.

August __, 1995

Then personally appeared the above-named _____ as _____ of the Massachusetts-American Water Company, and acknowledged the foregoing instrument to be _____ free act and deed as _____, and the free act and deed of Massachusetts-American Water Company, before me.

Notary Public

My Commission Expires:

STATE OF _____)

August __, 1995

COUNTY OF _____)

ss.

Then personally appeared the above-named _____ as _____ of Massachusetts Capital Resources Company, and acknowledged the foregoing instrument to be _____ free act and deed as _____, and the free act and deed of Massachusetts Capital Resources Company, before me.

Notary Public

My Commission Expires:

EXHIBIT A
to
NOTICE OF GROUND LEASE

Legal Description of Demised Premises

PARCEL I: A parcel of land in Hingham, Plymouth County, Massachusetts, situated on the Easterly side of Main Street,

Beginning at a stone bound, at the Northwest corner of the described parcel, in the Easterly sideline of Main Street, said stone bound lies North 2°-28'-39" West, a distance of 375.32 feet from an angle point in said sideline.

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Thence, North 83°-41'-25" East, by land of Hingham Water Company, 769.19 feet to a point.

Thence, South 8°-52'-42" East, by land of Hingham Water Company and by land of M. J. Hall Realty Trust, 1497.87 feet to a stone bound in the Northerly sideline of Huntley Road.

Thence, South 84°-41'-48" West, along said Northerly sideline of Huntley Road, the Northerly end of Hope Road and by land of Theodore and Cecile D. Paquette, 578.43 feet to a stone bound.

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Thence, North 11°-15'-59" West, along said Easterly sideline of Main Street, 190.65 feet to a point.

Thence, North 47°-48'-11" East, along said Easterly sideline of Main Street, 18.83 feet to a point.

Thence, North 33°-05'-39" West, along said Easterly sideline of Main Street, 92.69 feet to a point.

TGT. 23312. 6. std. A93

Thence, North 11°-38'-49" West, along said Easterly sideline of Main Street, 130.28 feet to a point.

Thence, North 7°-48'-29" West, along said Easterly sideline of Main Street, 282.40 feet to a point.

Thence, North 15°-31'-29" West, along said Easterly sideline of Main Street, 236.32 feet to a point.

Thence, North 10°-17'-09" West, along said Easterly sideline of Main Street, 58.89 feet to a point.

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**APPENDIX C – HATCH MOTT MACDONALD –
HINGHAM WATER TREATMENT PLANT VALUATION**

Hingham Water Treatment Plant Valuation

HMM Project No. 309567

June 2012

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1.0 Executive Summary

The objective of this study is to develop a current fair market value of the Hingham Water Treatment Plant. The value of the capital assets was developed using the replacement cost of the assets, less observed depreciation. Estimates of the engineering design, interest, and permitting for the capital assets were also prepared. Refer to Appendix A for valuation spreadsheets and breakdown costs.

Based upon the total estimated capital and engineering cost values, the Hingham Water Treatment Plant is currently valued at \$61,909,211. Refer to Table 1, Appendix A for cost details.

2.0 System Description

The Hingham Water Treatment Plant is a 7.0 million gallon per day capacity water treatment facility located off of Main Street in Hingham, MA. The water treatment plant was constructed in 1996 to treat water from surface water and wells in response to the Environmental Protection Agency (EPA) Surface Water Treatment Rule. The treatment processes are contained within a single structure with a footprint of approximately 240 by 140 feet. There are multiple levels within the structure for different treatment processes. The treatment process consists of oxidation, mixing, clarification and filtration. The clarification and filtration systems were designed to meet the regulatory requirements of producing finished water with less than 0.1 NTU (NTU is a measurement of water clarity). The disinfection and filtration systems are designed to achieve a minimum of 99.9 percent inactivation of Giardia and 99.99 percent inactivation of viruses, in accordance with the EPA Surface Water Treatment Rule. The filtration process residuals are processed in the same building through thickening and centrifuge dewatering.

Information on the various systems has been collected from contract plans, specifications, operations and maintenance manuals, and interviews with Aquarion Water Company personnel.

3.0 Method of Valuation

3.1 Replacement Cost New Less Depreciation

The method of assigning a value to the assets utilized the Replacement Cost New Less Depreciation approach. In this method, costs of replacing the existing system in its entirety in current dollars, was estimated. The estimated current construction replacement costs were then depreciated by an amount consistent with the observed depreciation of the assets.

3.2 Replacement Cost New

3.2.1 Original Costs Plus Escalation

The method of estimating the current value of replacement costs is to identify the original construction costs and adjust the original cost by an escalation factor. In this case, the original construction costs, obtained from the Water Company's records and general construction contractor itemized breakdowns were adjusted using the Handy-Whitman Index. The Handy-Whitman Index is a publication that trends costs for water utility construction for various regions of the country. The Water Utility Cost Trends for the North Atlantic Region were used for the escalation of the costs. The index includes line items for various aspects of water utility plant, including specific transmission plant based upon type and materials of construction. Treatment Plant Indices for Building, Treatment Plant Equipment, Clarification Equipment, and Electric Pumping Equipment were used.

The original construction contract payments included off site work at remote raw water site locations (Accord Pond and Fulling Mill). The payments for the off- site work were subtracted from the total contract amount to arrive at the original construction cost for the Water Treatment Plant Work. Some minor improvements were made in 1997, which were included as separate line items for the original costs. Refer to Table 2, Appendix A for cost details.

The original construction cost of this particular facility is higher than similar capacity surface water treatment plants that use the same technology due to the site specific design restrictions and conditions of local approval for the facility. It would be anticipated that a new facility on the

same site would be subject to the same, if not more stringent restrictions, which would lead to higher construction costs.

In addition to the physical plant costs, the original construction costs included the contractor's general conditions costs, contractor's fee, and the contingency reserve for the project. Since these items were based upon a percentage of the physical plant costs, the current value of these costs was calculated based upon the percentage of the current escalated physical plant costs.

3.3 Depreciation

3.3.1 Introduction

The depreciation values used for the assets will be based upon observed conditions of the assets. Ongoing preventative maintenance and repair programs can significantly extend the life of the utility assets.

3.3.2 Lifetime Observed Depreciation

The methodology for estimating total service life for each component of the system is to apply engineering judgment based upon the observed condition assessment and the history of similar facilities.

The assets were then graded on the current condition on a scale of percent of like new condition. Based upon the observed condition, the calculated depreciated value was based upon the following formula:

$$\text{Depreciated value} = \text{Replacement cost new} \times (\text{Percentage of like new condition})$$

4.0 Observed Depreciation

4.1 Basis of Assessment

The evaluation of current condition of the facilities was based upon discussions with Hingham Water Treatment Plant Staff familiar with operations and maintenance of the facilities, review of operating conditions, review of design and construction documents, and field inspections and visual observation of the treatment plant.

4.2 Field Inspection

On May 22 and 23, 2012 representatives of HMM conducted a field inspection of the Hingham Water Treatment Plant, accompanied by water treatment plant operating personnel. Overall, the facilities were found to be in very good operating condition. The condition inspection worksheets are included in Appendix B. The treatment plant is maintained at a high level of service. Photographs of the current conditions of the plant have been attached in Appendix C.

4.3 Current Depreciation Condition

Overall, given the relative new age of the system, and that the visible portions are well maintained, and are in very good condition, the plant is in very good condition. Only the chemical feed systems, which are subject to regular wear and use, as well as chemical attack, were found to be significantly less than new condition. Other items such as filter media, underdrains and scrapers were identified as potential items that are less than new condition. The current value of the system facilities were found to be at or near the current construction replacement cost. There is no technological obsolescence in the treatment processes, as the plant continues to produce high quality potable water that meets or exceeds the regulatory water quality standards.

5.0 Other Costs

5.1 Engineering

The project records include the engineering design, value engineering, and construction phase engineering costs for the project. The study, preliminary design and final design phase engineering services were approximately 15 percent of the total construction cost, which is reasonable for the level of complexity of the project, and the unique site restrictions for this project. Technical review services, outside testing services, value engineering, materials testing and construction administrative services amounted to approximately another 5 percent of the construction cost. Under current conditions, the local site limitations may be even stricter, thus increasing the design effort accordingly. Therefore, current estimated engineering costs were calculated based upon the percentage of the construction costs.

5.2 Permitting

The project records include the permitting costs associated with the project. In accordance with Massachusetts Department of Environmental Protection Drinking Water Program, and Commonwealth of Massachusetts 310 CMR 4.05, the permit fee for water treatment plants that produce over 1.0 million gallons per day is negotiated based upon the complexity of the project, and the estimated hours of review time required by Department personnel. Therefore, it can be expected that the cost of a new permit would be similar to the original permit. Likewise, local planning, and construction approval costs are based upon a percentage of the construction cost and the level of review effort required. Current estimated permit costs were calculated based upon the percentage of the construction costs.

5.3 Interest

The project records include the interest fees associated with the project. Interest charges were approximately 15 percent of the total construction cost. When planning and budgeting new privately funded water projects, 15 percent of the total construction cost is typically used as the amount of interest financed during construction. The actual value of the interest charged is in line with current planning practice. Therefore, current estimated interest costs were calculated based upon the percentage of the construction costs.

6.0 Summary

Based upon the review of available construction cost and payment records, the original water treatment plant construction cost was \$30,626,879. This figure was then escalated to arrive at a current value in June 2012 of \$47,596,490. Table 2, in Appendix A, shows how the original price was escalated by the index factor. After a field investigation and observed depreciation of the water treatment plant assets, the current value of the water treatment plant assets was determined to be \$44,908,778. Table 2, in Appendix A, shows how the current value was depreciated based upon the observed percentage of like new condition. Adding the engineering, interest and permit fees, noted below, yield a total current (June 2012) value of the water treatment plant of \$61,909,211. The figures are summarized in the following table, with additional detail included in the appendices.

Table 1

WTP Construction Cost			
Initial Contract Value	\$30,626,879		
Current Value	\$47,596,490		
Depreciated Value	\$44,908,778		

Description	Percent	Initial Contract Value	Current Value Less Depreciation
WTP Construction Cost		\$30,626,879	\$44,908,778
Engineering Services	20.69%	\$6,337,854	\$9,849,505
Interest	14.92%	\$4,570,318	\$7,102,620
Permit Fees	0.10%	\$31,085	\$48,308
Totals =		\$41,566,136	\$61,909,211

APPENDIX A
VALUATION SPREADSHEETS

Item	Description	Initial Contract Value	Final Payment Value	Amended Contract Value Less Offsite Work ⁽¹⁾	Handy-Whitman Index 1996	Handy-Whitman Index Jan 2012	Escalation Rates	Current Value	Condition Assessment	Depreciated Value
SC-01	Site Work Subcontract	\$1,608,075	\$1,608,075	\$1,595,568	321	597	1.8598	\$2,967,440	99%	\$2,937,765
SC-02	Electrical Subcontract	\$2,664,930	\$2,501,752	\$2,300,912	460	780	1.7333	\$3,988,247	93%	\$3,709,070
SC-03	CIP Concrete Subcontract	\$5,314,249	\$5,314,249	\$5,281,094	321	597	1.8598	\$9,821,848	98%	\$9,603,564
SC-04	Structural Steel Subcontract	\$516,336	\$517,236	\$517,236	321	597	1.8598	\$961,962	96%	\$923,484
SC-05.04	Roll-up Doors	\$25,390	\$25,390	\$25,390	321	597	1.8598	\$47,221	95%	\$44,860
SC-05.05	Aluminum Windows & Storefronts	\$117,185	\$115,495	\$115,495	321	597	1.8598	\$214,799	98%	\$210,503
SC-06	Waterproofing	\$136,625	\$136,625	\$136,625	321	597	1.8598	\$264,097	96%	\$249,015
SC-07	Fleproofing Subcontract	\$77,307	\$77,307	\$77,307	321	597	1.8598	\$143,777	96%	\$136,588
SC-07.07	Misc Architectural	\$93,142	\$76,369	\$365,859	321	597	1.8598	\$630,448	98%	\$666,839
SC-08	Roofing Subcontract	\$223,007	\$223,007	\$223,007	321	597	1.8598	\$414,751	90%	\$373,276
SC-09	Painting Subcontract	\$342,023	\$332,995	\$320,995	321	597	1.8598	\$596,991	78%	\$462,668
SC-10	Mechanical/HVAC/Plumbing	\$4,488,474	\$4,435,271	\$4,368,371	367	669	1.8229	\$7,963,052	85%	\$6,768,594
SC-12	Landscape Subcontract	\$156,213	\$156,213	\$155,213	321	597	1.8598	\$288,667	100%	\$288,667
SC-14	Fire Protection (sprinkler) Subcontract	\$164,082	\$164,082	\$164,082	321	597	1.8598	\$305,162	95%	\$289,904
SC-17	Precast Arch Concrete Panel Subcontract	\$292,137	\$292,137	\$292,137	321	597	1.8598	\$543,320	98%	\$532,454
SC-18	Masonry Subcontract	\$688,169	\$688,169	\$688,169	321	597	1.8598	\$1,029,684	95%	\$978,199
SC-19	Miscellaneous Metals Subcontract	\$438,303	\$420,148	\$420,148	321	597	1.8598	\$781,397	98%	\$765,769
SC-23	Bridge Crane & Main Handling Sub	\$89,831	\$89,831	\$89,831	321	597	1.8598	\$167,069	99%	\$165,398
SC-24	Final Cleaning	\$24,100	\$24,100	\$24,100	321	597	1.8598	\$44,821	100%	\$44,821
PO-1.0	Super-Pulsator Clarifier	\$439,770	\$439,770	\$439,770	540	1077	1.9944	\$877,097	96%	\$844,937
PO-2.0	Process Pumps Supplied by F-M	\$326,645	\$313,335	\$261,263	367	669	1.8229	\$476,253	97%	\$461,966
PO-3.0	Sludge Cake Pumps	\$126,401	\$123,726	\$123,726	367	669	1.8229	\$225,539	90%	\$202,965
PO-4.0	sludge Grinders	\$14,746	\$14,746	\$14,746	367	669	1.8229	\$26,891	99%	\$26,612
PO-5.0	Mechanical Mixing Equipment	\$62,500	\$65,000	\$65,000	367	669	1.8229	\$118,488	90%	\$106,639
PO-5.1	Submersible Mixing Equipment	\$37,500	\$37,500	\$37,500	367	669	1.8229	\$68,358	90%	\$61,522
PO-6.0	Lime & Sodium Carbonate Stg & Feed	\$345,760	\$345,760	\$345,760	367	669	1.8229	\$630,282	80%	\$507,090
PO-7.0	Polymer & Chemical Process, Stg & Feed	\$510,360	\$518,715	\$518,715	367	669	1.8229	\$945,559	76%	\$720,989
PO-8.0	Centrifuges	\$707,095	\$706,850	\$706,850	367	669	1.8229	\$1,288,509	95%	\$1,224,083
PO-9.0	Rotary Positive Displacement Blowers	\$30,238	\$30,238	\$30,238	367	669	1.8229	\$55,120	98%	\$54,017
PO-10.0	Carbon Filter Media	\$156,800	\$156,800	\$156,800	540	1077	1.9944	\$312,729	98%	\$306,474
PO-11.0	Control Systems	\$602,140	\$602,711	\$602,711	450	780	1.7333	\$1,044,699	95%	\$992,464
PO-13.0	Clari-Trac	\$126,983	\$126,983	\$126,983	540	1077	1.9944	\$253,261	95%	\$240,598
PO-14.0	Filler Underdrains & Washwater Troughs	\$110,391	\$99,900	\$99,900	540	1077	1.9944	\$199,245	80%	\$159,396
PO-15.0	Process Pumps	\$203,192	\$179,644	\$161,956	367	669	1.8229	\$295,301	97%	\$287,623
	Subtotal 1 =	\$21,450,299	\$21,160,129	\$20,716,977				\$38,032,073		\$35,348,855
	Gen Cond Costs	\$2,199,079	\$2,199,079	\$2,199,079			10.61%	\$4,036,663		\$4,036,663
	Warranty Administration	\$50,000	\$50,000	\$50,000			0.24%	\$91,781		\$91,781
	Crossing Guard Detail	\$78,503	\$78,503	\$78,503			0.38%	\$144,101		\$144,101
	Fee	\$2,239,492	\$2,239,492	\$2,239,492			10.81%	\$4,110,846		\$4,110,846
	Shared Savings	\$594,426	\$594,426	\$594,426			2.87%	\$1,091,137		\$1,091,137
	Subtotal 2 =	\$26,611,799	\$26,321,629	\$25,880,477				\$47,506,601		\$44,823,384
	MCR - Misc. Metal, alum. Handrails ⁽²⁾	\$12,000	\$12,000	\$12,000	321	597	1.8598	\$22,318	95%	\$21,202
	Piping @ Centrifuges ⁽²⁾	\$1,665	\$1,665	\$1,665	367	669	1.8229	\$3,035	95%	\$2,683
	MCR GWJ Electric ⁽²⁾	\$27,500	\$27,500	\$27,500	450	780	1.7333	\$47,667	95%	\$45,283
	MCR Instrumentation ⁽²⁾	\$9,732	\$9,732	\$9,732	450	780	1.7333	\$16,869	95%	\$16,025
	Total =	\$26,662,696	\$26,372,926	\$25,931,374				\$47,596,480		\$44,908,778

Notes:
(1) Final payment less work performed offsite at Filling Mill and Accord Pond. These values were obtained from a review and analysis of backup data for each item. Refer to Appendix A
(2) Additional plant work covered by MCAP after plant was commissioned (1997)

MASSACHUSETTS AMERICAN WATER COMPANY
 WINGHAM WATER TREATMENT FACILITIES
 COST COMPARISON
 NOVEMBER 16, 2009

	1347	1594	TOTAL ACTUAL COST	MAVC	MCRC
CONSTRUCTION COST					
WATER TREATMENT FACILITY	\$12,965,000	\$28,650,000	\$26,972,321		28,972,321
ACCORD POND	260,000	900,000	618,777	618,777	
PULLING HILL	148,000	370,000	480,472	590,872	
OFF-SITE PIPING	120,000	1,390,000	2,808,844	2,696,844	
HIGH SERVICE GRADIENT PIPING		660,000	737,465	737,465	
CONSTRUCTION COST SUBTOTAL	\$14,300,000	\$31,660,000	\$30,628,879	\$4,554,358	\$26,074,521
ENGINEERING SERVICES					
CONSULTANT					
PRELIM. STUDY/DESIGN			4,308,552		4,308,549
CONSTRUCTION ADMIN.	600,000				
TECHNICAL REVIEW SERVICES		648,000	184,954		244,054
INSPECTION SERVICES		280,000	282,882		292,992
CONSULTANT SUBTOTAL	1,500,000	\$1,228,000	\$4,820,388		\$5,185,569
COMPANY					
PRELIMINARY STUDY/DESIGN			229,293		238,293
CONSTRUCTION ADMIN.		160,000	253,618		253,613
COMPANY SUBTOTAL		\$140,000	\$582,912		\$582,872
OTHER					
VALUE ENGINEERING CONSULT		40,000	48,868		49,868
CONSTRUCTION MAT'L & TEST		84,800	23,747		23,747
PIPELINE INSPECTION		30,000	79,727		79,727
OTHER SUBTOTAL		\$160,800	\$152,343		\$152,343
ENGINEERING SERVICES SUBTOTAL	1,600,000	\$1,468,800	\$4,931,054		\$6,331,434
OTHER EXPENDITURES					
INTEREST	\$1,700,000	\$2,740,000	\$4,578,218		\$4,578,318
EASEMENT ACQUISITION		150,000	154,406		154,406
LEGAL EXPENSES AND OTHER		450,000	484,918		484,918
WATER CO. MAT'L & LABOR		150,000	129,223		129,223
PERMIT FEES		150,000	21,068		21,046
OTHER EXPENDITURES SUBTOTAL	\$1,700,000	\$4,650,000	\$6,340,050		\$6,340,030
TOTAL	\$16,600,000	\$38,800,000	\$37,189,793	\$4,554,358	\$37,744,151

APPENDIX B
FACILITY INSPECTION FORMS

Hatch Mott MacDonald
 Facility Inspection Form
 DIVISION 2 SITE WORK DRAWINGS C-2 thru C-8
 and Pay App SC-01 & SC 12

Client: Aquarion	Date: 5/22/2012
Facility: Hingham Water Treatment Plant	By: JFC/MB

Asset Management Unit	Description	Noted Deficiencies	Age (yrs)	Condition Assessment
Site				
Building Access Road	plant access road from	none - pavement is free of defects	16	99%
Guard Rails	wood along access road	none - guard rail is free of defects	16	99%
Floor Drainage Vault	concrete - used for plant drains	Dave the plant mechanic reports the vault has no defects	16	99%
Fuel Tank Vault	concrete - used for fuel storage	Dave the plant mechanic reports the vault has no defects	16	99%
Outside Piping	buried plant piping	Dave the plant mechanic reports no leakage	16	99%
Septic System	septic tank and leach field for sanitary wastes	Septic tank has been pumped out once since the plant was commissioned. Dave the plant mechanic reports no problems	16	99%
Grading and Landscaping	site landscaping	landscaping is well maintained	16	100%
Fencing	Fencing was added after the plant was commissioned	No observed deficiencies	12	98%

Hatch Mott MacDonald
 Facility Inspection Form

DIVISION 11 Process Equipment DRAWINGS M-1 thru M-26

costs are in part of SC 10 for piping supply and installation of all equipment and PO1 through 15 except PO11 Controls

Client: Aquarion	Date: 5/22/2012
Facility: Hingham Water Treatment Plant	By: JFC/MB

Asset Management Unit	Description	Noted Deficiencies	Age (yrs)	Condition Assessment
Raw Water Piping/Oxidation System and Rapid Mix System				
Raw Water Piping	24" DIP with Venturi Flow Meter	none- no observed deficiencies; Dave the plant mechanic reported no problems with the piping	16	99%
Oxidation Tanks and Mixers				
Oxidation Tank Influent Valve	one 24" Butterfly Valve with electric actuator	none- no observed deficiencies; Dave the plant mechanic reported no problems with the valve; electric actuator will need to be replaced in the future	16	95%
Tanks	Four Concrete Tanks in Series	no observed cracks/spalling from surface. Inside of tanks have not been inspected by plant staff. No reported level change in tanks	16	99%
Mixers	One 7.5 HP Constant Speed Mixer in First Stage	none - no vibration, no noise; Dave the mechanic performs regular maintenance (grease bearings). Mixer is on continuously	16	98%
Rapid Mix System				
Rapid Mix Influent Valve	one 24" Butterfly Valve with electric actuator	none- no observed deficiencies; Dave the plant mechanic reported no problems with the valve; electric actuator will need to be replaced in the future		95%
Tanks	Two Concrete Tanks in Series	no observed cracks/spalling from surface. Inside of tanks have not been inspected by plant staff. No reported level change in tanks	16	99%
Mixers	Two Mixers 15 HP each with VFDs	none - no vibration, no noise; Dave the mechanic performs regular maintenance (grease bearings). Mixer is on continuously; VFD will need to be replaced in the future	16	90%

Hatch Mott MacDonald
 Facility Inspection Form

DIVISION 11 Process Equipment DRAWINGS M-1 thru M-26

costs are in part of SC 10 for piping supply and installation of all equipment and PO1 through 15 except PO11 Controls

Client: Aquarion	Date: 5/22/2012
Facility: Hingham Water Treatment Plant	By: JFC/MB

Asset Management Unit	Description	Noted Deficiencies	Age (yrs)	Condition Assessment
Superpulsator System				
Rapid Mix Effluent Piping	30" dia DIP to Superpulsators	none- no observed deficiencies; Dave the plant mechanic reported no problems with the piping	16	99%
Pulsator Influent Valves	two 24" Butterfly valves with electric actuators	none- no observed deficiencies; Dave the plant mechanic reported no problems with the valve; electric actuator will need to be replaced in the future	16	95%
Pulsator Effluent Valves	two 24" Butterfly valves with electric actuators	none- no observed deficiencies; Dave the plant mechanic reported no problems with the valve; electric actuator will need to be replaced in the future	16	95%
Vacuum Pumps	2 Trains 2 vacuum pumps/train total 4	none - no observed deficiencies. Dave the plant mechanic reported no problems with the vacuum pumps.	16	95%
Plates	Plates within Super P tanks	none - no observed deficiencies. Dave the plant mechanic reported no problems with the plates.	16	95%
Sludge Transfer Pumps	SLTP-1 and 2 Submersible 20 HP from Super Ps to Sludge Storage Tank	pumps run approximately 2 hrs/day; Dave the plant mechanic reported no problems.	16	90%
Pulsator Dewatering Pump	DWP-1 Vertical 20 HP	used only when dewatering the superpulsators. Pump has been run less than 24 hrs since commissioning	16	100%
Distribution Laterals		no observed or reported problems	16	99%
Weirs		no observed or reported problems	16	99%

Hatch Mott MacDonald
 Facility Inspection Form

DIVISION 11 Process Equipment DRAWINGS M-1 thru M-26

costs are in part of SC 10 for piping supply and installation of all equipment and PO1 through 15 except PO11 Controls

Client: Aquarion	Date: 5/22/2012
Facility: Hingham Water Treatment Plant	By: JFC/MB

Asset Management Unit	Description	Noted Deficiencies	Age (yrs)	Condition Assessment
Filters				
Clarified Water Effluent Piping	30" DIP to Filters	no observed or reported problems		99%
Underdrains	Roberts tile	no reported problems		80%
Media	60" GAC	media was replaced approximately 6 yrs ago	6	98%
Air Wash Blowers	Two at 75 HP, constant speed	limited to 20 min/day operation, regular maintenance is performed, no observed operating problems and no reported operating problems	16	98%
Automatic Valves	6 valves per filter	actuators on 2 filter effluent valves were replace a few years ago. No reported problems.	16	95%
Washwater Pumps	2 pumps at 125 HP each constant speed	limited to 45 min/day operation, regular maintenance is performed, no observed operating problems and no reported operating problems	16	98%
Filtered Water Piping	Effluent, Waste, filtered water piping and air scour	No reported leaks, low pressure operation, piping needs repainting	16	99%
Clearwell	used for disinfection and equalization	No visible outside leakage; no reported problems; clearwell has not been completely dewatered since commissioning	16	99%

Hatch Mott MacDonald
 Facility Inspection Form
 DIVISION 11 Process Equipment DRAWINGS M-1 thru M-26
 costs are in part of SC 10 for piping supply and installation of all equipment and PO1 through 15 except PO11 Controls

Client: Aquarion	Date: 5/22/2012
Facility: Hingham Water Treatment Plant	By: JFC/MB

Asset Management Unit	Description	Noted Deficiencies	Age (yrs)	Condition Assessment
Finished Water Pumps		all finished water pumps have regular maintenance performed by plant mechanics		
High Service Pumps - HSP 1	HSP-1 is 1,000 gpm at 210 ft and 100 HP; constant speed	HSP-1 is run only a few days per year	16	99%
High Service Pumps - HSP 2	HSP-2 is 525 gpm at 180 ft at 40 HP. Both are constant speed	HSP-2 is run almost continuously	16	95%
Low Service Pumps - LSP 1 and 2	two pumps each at 2,500 gpm at 220 ft at 200 HP; LSP-1 and 2 are constant speed	Very limited operation;	16	99%
Low Service Pumps - LSP -3	three pumps each at 2,500 gpm at 220 ft at 200 HP; LSP-1 and 2 are constant speed	VFD added to LSP-3 in 1997; LSP - 3 is operated continuously	16	95%
Finished Water Piping and Valves	Piping associated with Low and High Service Pumps	no observed or reported problems	16	99%
RESIDUALS				
Spent Washwater Tanks		None		
Concrete	Two tanks	no observed or reported problems	16	99%
Claritrac	one sludge collector per tank	no observed or reported problems; plant mechanics maintain the system	16	95%
Spent Washwater Recycle Pumps	RECP-1 and 2 15 HP V-belt	One pump was replaced approximately 4 years ago	4/16	90%

Client: Aquarion	Date: 5/22/2012
Facility: Hingham Water Treatment Plant	By: JFC/MB

Asset Management Unit	Description	Noted Deficiencies	Age (yrs)	Condition Assessment
Sludge Storage Tanks				
Concrete		no observed or reported problems	16	99%
Mixers	MIX-1 and 2 submersible 10 HP	one mixer was rebuilt approximately 4 yrs ago. Mixers run primarily during dewatering operation	16	90%
Centrifuge System				
Centrifuges	2 Humbolt Units	One unit was rebalanced at the factory several years ago. Unit 1 has 9,762 hrs and Unit 2 has 7,767 hrs	16	95%
Centrifuge Feed Pumps	CFP-1,2 and 3, Hose, VFD 20 HP	no observed or reported problems; hoses have been replaced - operated only when centrifuges are used	16	95%
Centrate Pumps	CFNP-1 and 2, Vertical 7.5 HP constant speed SCP-1 and 2 Progressing Cavity, constant speed, 40 HP	no observed or reported problems; operated only when centrifuges are used	16	95%
Sludge Cake Pumps	In Centrifuge Area, 7.5 ton	stators replaced every 500 to 1000 hours. Operated only when centrifuges are used	16	90%
Bridge Crane	not used any longer	none unit has only been operated for a few hours since commissioning	16	99%
Sludge Grinders		none reported	16	99%
Sludge Piping and Valves	piping associated with residuals system	no observed or reported problems	16	98%

Hatch Mott MacDonald
 Facility Inspection Form
 DIVISION 13 CONTROL SYSTEM DRAWINGS I-1 thru H-4
 and Pay App PO 11

Client: Aquarion	Date: 5/22/2012
Facility: Hingham Water Treatment Plant	By: JFC/MB

John Walsh from Aquarion indicated that the Distributed Control System (DCS) is original with the exception of recently installed PC and monitor. The DCS is functional and is maintained by ABB. PLCs are distributed in the plant for control of process such as filter backwashing, Superpulsators and sludge transfer pumps.

Asset Management Unit	Description	Noted Deficiencies	Age (yrs)	Condition Assessment
DCS	Control System Hardware and Software	Plant staff reported that the system is functional. ABB has a maintenance contract	16	90%
Fire Alarm System	detectors, alarms and outside communication	Plant staff reported that the system is functional	16	95%
Security Alarm System	detectors, alarms and outside communication	Plant staff reported that the system is functional	16	95%
Communications System	Intercom System	Plant staff reported that the system is functional	16	95%
Plant Instruments	Turbidimeters, pH, chlorine residual, flowmeter, level, pressure	Plant staff reported that instruments are routinely maintained and parts are replaced as needed	16	95%
Particle Counters	PCs were added to the clarified water and each filter effluent	Not part of original contract, PCs were added in ___ to provide additional information on filter	0	95%

**Hatch Mott MacDonald
Facility Inspection Form**

DIVISION 15 HVAC DRAWINGS H-1 thru H-10 and as part of Pay App Item SC 10

Client: Aquarion	Date: 5/22/2012\
Facility: Hingham Water Treatment Plant	By: JFC/MB

Ron Carlson a Service Technician from Trane was on site (cell 781-760-1082 he has been servicing the system since 1997 Trane has a contract to maintain the following
 ACCU-1 and 2 Air Cooled Condensing Units CP-4, 5 and 6 Circulating Pumps
 DH-1 and 2 Dehumidifiers AHU-7 and 8 Air Handling Units ACCH-1,2 and 3 Air Cooled Condensing Units
 Ron has performed maintenance on these systems and these units are all original. They are all functional. Trane is expecting bearing failures in the next Equipment is estimated to 80 to 85% good (of its original condition)
 Remainder of HVAC equipment on Sheets H-1 through H-10 is maintained by plant staff

Asset Management Unit	Description	Noted Deficiencies	Age (yrs)	Condition Assessment
Fans and Hoods	Fans and Hoods	none reported, maintained by plant staff	16	85%
Hot Water Unit Heaters	Hot Water Unit Heaters	none reported, maintained by plant staff	16	85%
Boiler	Boiler	none reported, maintained by plant staff	16	85%
Air Cooled Condensing Units	2 units located outdoor	none - regular maintenance by Trane	16	85% potential bearing replacement
Dehumidifiers	2 units located in polymer room	none - regular maintenance by Trane	16	85% potential bearing replacement
Air Handling Unit (notTrane)		none reported, maintained by plant staff	16	85%
Air Handling Units Trane	AHU-7 &8	none - regular maintenance by Trane	16	85% potential bearing replacement
Engine Generator Remote Radiator	RR-1	none reported, maintained by plant staff	16	85%
Air Cooled Liquid Chillers	3 units located outdoors	none - regular maintenance by Trane	16	85% potential bearing replacement
Fine Tube Radiators	FTR-1 and 2	none reported, maintained by plant staff	16	85%
Room Conditioning Heat Pump	RCU-1	none reported, maintained by plant staff	16	85%
Electric Duct Heater	ECH-1 and 2	none reported, maintained by plant staff	16	85%
Circulating Pumps (not Trane)	CP-1,2 and 3	none reported, maintained by plant staff	16	85%
Circulating Pumps (Trane)	CP-4,5 and 6	none - regular maintenance by Trane	16	85% potential bearing replacement
Ductwork	Overall Ductwork for plant	none reported, maintained by plant staff	16	85%

Hatch Mott MacDonald
 Facility Inspection Form
 Chemical Feed Systems (PO-6.0 & PO-7.0)

Client: Aquarion	Date: 5/22/2012
Facility: Hingham Water Treatment Plant	By: JFC/MHB

Asset Management Unit	Description	Noted Deficiencies	Age (yrs)	Condition Assessment
Lime Feed System (PO-6.0)				
Bulk Storage Silos	Steel silos (2)	None- well coated and protected, no signs of deterioration	16	90% Good
Lime Blowers/Air Compressors	Blowers (dry chemical)	None	16	90% Good
Lime Day Bins	Day bins for sludge processing	None	16	90% Good
Lime Day Bins	Day bins for potable/liquid process	None	16	90% Good
Slurry Tanks/Mixers	Solution/slurry tanks for potable/liquid process	Minor signs of surface rusting. Mixers are rebuilt every 3-4 years.	16	75% Good
Metering Pumps	Metering Pumps (5 total). Wallace & Tiernan Series 44 (2). Watson and Matlow hose pumps (3).	Wallace & Tiernan- minor signs of surface rusting.	8	75% Good
Chemical Feed Piping	Primarily tubing	None- no signs of leaking or deterioration	<2	75% good
Sodium Carbonate Feed System (PO-6.0)				
Bulk Storage Silo	Steel silo (1), two auger systems.	Minor signs of surface rusting. One auger feed system is currently down and needs replacement parts for repair.	16	80% Good
Solution Tanks/Mixers	Steel tanks (2)	Signs of surface rusting. Mixers are rebuilt every 3-4 yrs.	16	65% Good
Metering Pumps	Wallace & Tiernan Series 44 (3)	Minor signs of surface rusting	16	80% good
Chemical Feed Piping	PVC and tubing	None- no signs of leaking or deterioration	16	75% good
Alum Feed System (PO-7.0)				

1)

2)

3)

Hatch Mott MacDonald
 Facility Inspection Form
 Chemical Feed Systems (PO-6.0 & PO-7.0)

Client: Aquarion	Date: 5/22/2012
Facility: Hingham Water Treatment Plant	By: JFC/MHB

Asset Management Unit	Description	Noted Deficiencies	Age (yrs)	Condition Assessment
Bulk Tanks	Polyethylene Tanks (2) - 5500 gal ea	None	16	95%
Day Tank/Transfer Pump	Polyethylene Tank (1)- 1000 gal Transfer Pumps (2) March Mfg Centrifugal End Suction	Day Tank- none. Transfer pump shows minor surface corrosion.	16	90%
Metering Pumps	Wallace & Tiernan Series 44 (3)	None	16	90%
Chemical Feed Piping	PVC	None- no signs of leaking or deterioration	(16 for PVC, hose <5)	95%
Hydrofluorosilicic Acid System (PO-7.0)				
Bulk Tanks	Steel with rubber bladder (1) =2,500 gallons	None	16	70% good
Day Tank/Transfer Pump	Polyethylene Tank (1)- 55 gal Transfer Pumps (1) March Mfg Centrifugal End Suction	Day Tank- none. Transfer pump shows minor surface corrosion.	<3	90% good
Metering Pumps	Wallace & Tiernan Series 44 (2)	None	16	90%
Chemical Feed Piping	PVC and hose	None- no signs of leaking or deterioration	16	95%
Zinc Orthophosphate System (PO-7.0)				
Bulk Tanks	Polyethylene Tanks (1) - 5500 gal ea	None	16	95%
Day Tank/Transfer Pump	Polyethylene Tank (1)- 55 gal Transfer Pumps (1) March Mfg Centrifugal End Suction	Day Tank- none. Transfer pump shows minor surface corrosion.	16	90%
Metering Pumps	Wallace & Tiernan Series 44 (2)	None	16	95%
Chemical Feed Piping	PVC	None- no signs of leaking or other deterioration	16	95%

4)

5)

Hatch Mott MacDonald
 Facility Inspection Form
 Chemical Feed Systems (PO-6.0 & PO-7.0)

Client: Aquarion
 Facility: Hingham Water Treatment Plant
 Date: 5/22/2012
 By: JFC/MHB

Asset Management Unit	Description	Noted Deficiencies	Age (yrs)	Condition Assessment
Sodium Hypochlorite System (PO-7.0)				
Bulk Tanks	Steel banded FRP Tank (1), polyethylene tank (1)	Steel banded FRP tank is new, was constructed in place.	1	90% Good (current bulk tank)
Day Tank/Transfer Pump	Polyethylene Tank (1)- 275 gal Transfer Pumps (2) March Mfg Centrifugal End Suction	Transfer Pumps show signs of deterioration	16	50% Good
Metering Pumps	New- Thermo Scientific peristaltic model 850-3002 (4) Old- Wallace & Tiernan Series 44 (4)	New pumps- None	2/16	95% Good
Chemical Feed Piping	PVC	None- no signs of leaking or other deterioration	16	90%
Potassium Permanganate System (PO-7.0)				
Solution Tanks/Mixers	Steel tanks (2) with mixers. Mixers are rebuilt every 3-4 years.	None	16	90%
Metering Pumps	Wallace & Tiernan Series 44 (3)	None	16	90%
Chemical Feed Piping	PVC	None- no signs of leaking or other deterioration	16	95%
Coagulant Aid Polymer (PO-7.0)				
Dry Chemical Hopper	Wallace & Tiernan (1)	None	16	95%
Solution Tanks	Polyethylene Tanks (2)	None	16	95%
Metering Pumps	Wallace & Tiernan Series 44 (3)	None	16	90%
Chemical Feed Piping	PVC	None- no signs of leaking or other deterioration	16	95%

Hatch Mott MacDonald
 Facility Inspection Form
 Chemical Feed Systems (PO-6.0 & PO-7.0)

Client: Aquarion
 Facility: Hingham Water Treatment Plant
 Date: 5/22/2012
 By: JFC/MHB

Asset Management Unit	Description	Noted Deficiencies	Age (yrs)	Condition Assessment
9) Filter Aid Polymer (PO-7.0)				
Dry Chemical Hopper	Wallace & Tiernan (1)	None	16	95%
Solution Tanks	Polyethylene Tanks (2)	None	16	95%
Metering Pumps	Wallace & Tiernan Series 44 (3)	None	16	90%
Chemical Feed Piping	PVC	None- no signs of leaking or other deterioration	16	95%
10) Sludge Polymer (PO-7.0)				
Dry Chemical Hopper	Wallace & Tiernan (1)	None	16	95%
Solution Tanks	Polyethylene Tanks (2)	None	16	95%
Metering Pumps	Wallace & Tiernan Series 44 (4)	None	16	90%
Chemical Feed Piping	PVC	None- no signs of leaking or other deterioration	16	95%

Facility Inspection Form
 SC02 - SC09, SC17 - SC18

Client: Aquarion	Date: 5/22/2012
Facility: Hingham Water Treatment Plant	By: JFC/MHB

Asset Management Unit	Description	Noted Deficiencies	Age (yrs)	Condition Assessment
Electrical (SC02) Note (a)				
1) Transformers	Main Power Transformers (2), 1000 kVA (ea)	None	16	N/A- owned by Power Utility
2) Main Power Distribution Panel/Transfer Switch	Power distribution panel and transfer switch (Square D)	None	16	100% good
3) Lighting	Interior Lighting (ceiling mounted fixtures)	None	16	95% good
4) VFDs	Six units (three- centrifuge feed pumps, two- rapid mixers, one- Low Service Pump 3)	VFD for LS Pump 3 is near failure	16	80% good
5) MCCs	Five cabinets, five transformers and fourteen panels	None	16	95% good
6) Generator	Caterpillar 1875 kVA, 1500 KW	None	16	95% good
CIP Concrete (SC03)				
7) Oxidation and Rapid Mix Tanks	Concrete oxidation and rapid mix tanks	A couple of minor cracks observed, no surface deterioration or leaking observed.	16	98% good
8) Super-P Tanks	Concrete tanks for Super-pulsators	A couple of minor cracks observed, no surface deterioration or leaking observed.	16	98% good
9) Filter Tanks	Concrete tanks for Filters	A couple of minor cracks observed, primarily in middle floor filters, no leaking observed. No signs of distress when observed at ground level floor.	16	98% good
10) Sludge Storage Tanks	Concrete tanks for Sludge Storage	A couple of minor cracks, likely from construction. No signs of deterioration or leakage.	16	98% good
11) Spent Washwater Tanks	Concrete for Spent Washwater Tanks	A couple of minor cracks, likely from construction. No signs of deterioration or leakage.	16	98% good

Facility Inspection Form
 SC02 - SC09, SC17 - SC18

Client: Aquarion	Date: 5/22/2012
Facility: Hingham Water Treatment Plant	By: JFC/MHB

Asset Management Unit	Description	Noted Deficiencies	Age (yrs)	Condition Assessment
12) Centrate Tank	Concrete for Centrate Tanks	No observed deterioration. No signs of leakage.	16	98% good
13) Clearwell	Concrete clearwell for disinfection/finished water storage	There has been some delamination of the stucco on the exterior of the tank but no indication or problems with the concrete itself	16	96% good
14) Building Walls	Building walls	Very few minor cracks observed, no signs of settling	16	98% good
15) Building/Floor Slabs	Slabs located throughout the building	Very few minor cracks observed, no signs of settling	16	98% good
Building Superstructure (SC04-SC08, SC17-18)				
16) Structural Steel (SC04)	Steel- structural (beams and columns)	None	16	96% good
17) Roll-up Doors (SC05.04)	4 units	Minor dent in one unit, no problems noted by operations staff	16	95% good
18) Aluminum Windows and Storefront (SC05.05)	Aluminum windows and storefront Below grade concrete sealants, interior & exterior joint sealants, roof sealing	None	16	98% good
19) Waterproofing (SC06)		None	16	98% good
20) Fireproofing (SC07)	Fire pump system, sprinklers and fire hoses	No signs of deterioration with fire sprinkler system. Pump has practically no run time. Fire retarding spray on structural steel is intact	16	95% good
21) Misc. Architecture (SC07.07)	Carpentry, drywall, flooring, lockers, toilet partitions, office equipment		16	98% good
22) Roofing (SC08)	Roofing	None. No signs of leaking. No signs of rusting on decking.	16	90% good

Facility Inspection Form
 SC02 - SC09, SC17 - SC18

Client: Aquarion	Date: 5/22/2012
Facility: Hingham Water Treatment Plant	By: JFC/MHB

Asset Management Unit	Description	Noted Deficiencies	Age (yrs)	Condition Assessment
23) Precast Arch Concrete Panels (SC17)	Precast concrete panels- exterior treatment	None. No signs of deterioration, cracking, surface problems, or detachment from building.	16	98% good
24) Masonry (SC18)	Masonry	None. Very few minor cracks observed, no major cracks, separation, or sign of surface deterioration.	16	95% good
25) Misc. Metals (SC19)	Metal decking, gratings, rails, stairs, service platforms	None	16	98% good
Painting (SC09)				
26) Building Painting	Painting of the building superstructure (inter/exterior)	Minor deterioration noted in some areas; repainting required	16	90% good
27) Pipe Painting	Painting for the pipe systems.	Pipes are in varying condition, estimate 1/3 of exposed piping requires repainting in the next three years	16	65% good

Note (a) Information based on interviews with plant operations staff and John Doll, Electrical Engineer (electrical contractor)

APPENDIX C
PHOTOGRAPHS

**Hatch Mott MacDonald
Facility Inspection Form
Chemical Feed Systems**

1) Lime Feed System



Lime bulk storage silos



Lime Feeder

2) Sodium Carbonate Feed System

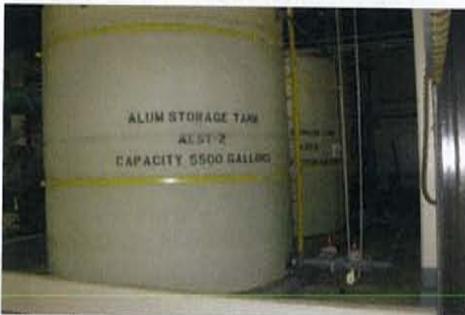


Sodium carbonate bulk silo with two feeders



Sodium carbonate feed room and solution tank

3) Alum Feed System



Alum bulk storage tanks



Alum feed system

Hatch Mott MacDonald
Facility Inspection Form
Chemical Feed Systems



Alum feed pumps

4) Hydrofluorosilic Acid Feed System



Hydrofluorosilic acid bulk tank & feed room



Hydrofluorosilic acid feed pumps

5) Zinc Orthophosphate Feed System



Zinc orthophosphate feed system



Zinc orthophosphate metering pumps

Hatch Mott MacDonald
Facility Inspection Form
Chemical Feed Systems

6) Sodium Hypochlorite Feed System



New bulk storage tank (left) and original tank maintained for backup (right)



Sodium hypochlorite transfer pump and day tank



Sodium hypochlorite feed pumps



New peristaltic feed pump

7) Coagulant Aid Polymer Feed System



Package coagulant aid polymer feed system

Hatch Mott MacDonald
Facility Inspection Form
Chemical Feed Systems

8) Coagulant Aid Polymer Feed System



Package filter aid polymer feed system

9) Sludge Processing Polymer Feed System



Package sludge processing polymer feed system

Hatch Mott MacDonald
Facility Inspection Form
SC02- Electrical

1) Main Power Distribution Panel/Transfer Switch



2) Lighting

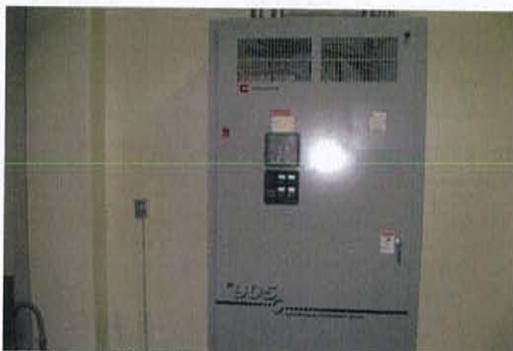


Office Area Lighting Units



Process Area Lighting Units

3) VFDs



MCC3- LS Pump 3 VFD



Rapid Mixer VFD

**Hatch Mott MacDonald
Facility Inspection Form
SC02- Electrical**

4) MCCs



Electrical Room MCC Panels



MCC-1

5) Generator



Generator Unit



Generator Room- Air Louver and Power

Hatch Mott MacDonald
Facility Inspection Form
SC03- CIP Concrete

6) Oxidation and Rapid Mix Tanks



Concrete and grating at Rapid Mix basins

7) Super-P Tanks



Concrete basins for Super Pulsator clarifiers

8) Filter Tanks



Filter basin



Filter basin

Hatch Mott MacDonald
Facility Inspection Form
SC03- CIP Concrete

9) Sludge Storage Tanks



Sludge storage tank deck



Sludge storage tank wall at basement level

10) Spent Washwater Tanks



Spent washwater tank deck



Spent washwater tank at basement level (left)

11) Centrate Tank



Centrate tank hatch



Centrate tank concrete walls at sub-basement level

12) Clearwell



Clearwell



Clearwell exterior walls



Clearwell exterior walls

13) Beams, Columns and Walls



CIP concrete beams (sub-basement level)



CIP concrete columns (sub-basement level)

Hatch Mott MacDonald
Facility Inspection Form
SC03- CIP Concrete



Concrete exterior wall (photo taken indoors)



Concrete exterior wall (photo taken outside)

14) Building Floor Slabs



Concrete slab in filter bays



Concrete slabs near Generator Room

Hatch Mott MacDonald
Facility Inspection Form
SC04 - SC08, SC17 - SC18 -Building Superstructure

15) Structural Steel (SC04)



Structural steel w/fireproofing in process area



Structural steel w/fireproofing in process area

16) Roll-up Doors (SC05.04)



Roll-up door by 1st floor chemical feed



Roll-up door by process area

17) Aluminum Windows and Storefront (SC05.05)



Front entrance/ doors



Front windows to offices/reception area

Hatch Mott MacDonald
Facility Inspection Form
SC04 - SC08, SC17 - SC18 -Building Superstructure

18) Fireproofing (SC07)



Fire pump and backflow preventer



Fire sprinkler and smoke detectors



Fire protection piping and hose station

19) Roofing (SC08)



Roofing at penetrations



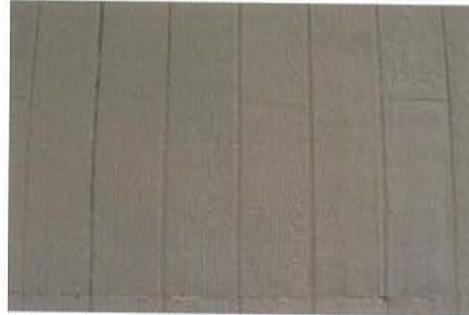
Membrane roofing

Hatch Mott MacDonald
Facility Inspection Form
SC04 - SC08, SC17 - SC18 -Building Superstructure

20) Precast Arch Concrete Panels (SC17)



Precast concrete panels



Precast concrete panels

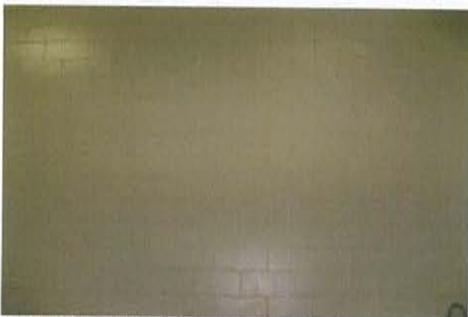
21) Masonry



Masonry- First floor chemical feed area



Masonry- Office area



Masonry- Solids processing area



Masonry- Basement

22) Misc. Metals



Roof access ladder



Stairs and handrail



Metal roof decking in process area

Hatch Mott MacDonald
Facility Inspection Form
SC09- Painting

23) Building Painting- General



Typical office



Conference Room



Wall/door paint on first floor



Paint deterioration on a basement wall

24) Pipe and Process Equipment Painting



Lime- Bulk Storage Silos



Cold/service water recirculation system



Filter washwater piping



Raw water piping

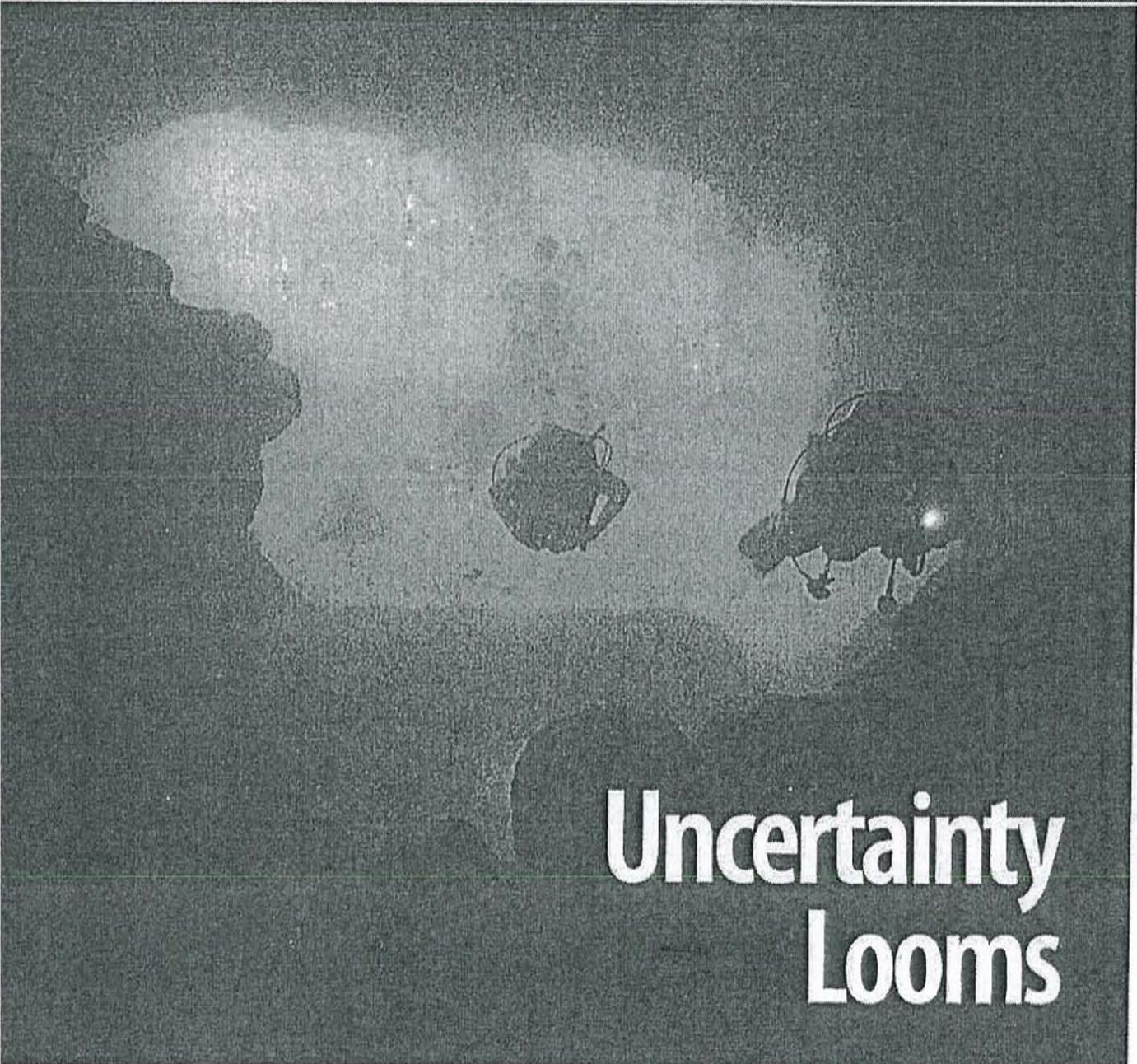
APPENDIX D – RERC REAL ESTATE REPORT

Joe A. Conner, Esq.
June 29, 2012

RERC®

REAL ESTATE REPORT

The National Real Estate Authority
SPRING 2012 | VOL 41 | NO 1



Uncertainty Looms

RERC® | Addressing the research needs of real estate professionals since 1931.

BALTIMORE

1ST QUARTER 2012

Baltimore Investment Criteria		First-Tier ¹ Investment Properties											
	Pre-Tax Yield (%)			Going-In Cap Rate (%)			Terminal Cap Rate (%)			Anticipated 1-Year Growth Rates			
	RERC Estimate	East Region	U.S.	RERC Estimate	East Region	U.S.	RERC Estimate	East Region	U.S.	National Value	East Value	National Rent	East Rent
Offc - CBD	8.4	8.9	9.2	6.8	7.3	7.7	7.6	8.0	8.4	1.1	1.0	1.0	0.8
Offc - Suburban	9.2	9.3	9.5	7.8	8.0	8.1	8.4	8.6	8.7	0.3	-0.1	0.4	-0.2
Ind - Warehouse	9.7	9.0	9.2	7.4	7.9	8.0	8.1	8.4	8.6	1.5	1.0	1.5	1.1
Ind - R&D	9.4	9.3	9.6	8.0	8.2	8.3	8.5	8.7	8.9	0.8	0.6	0.7	0.5
Ind - Flex	9.4	9.1	9.6	8.2	8.2	8.4	8.7	8.6	8.9	0.7	0.3	0.6	0.4
Ret - Reg Mall	8.4	8.7	9.1	7.0	7.5	7.7	7.7	8.2	8.4	0.6	0.7	0.7	0.7
Ret - Pwr Center	8.7	9.0	9.3	7.3	7.7	7.9	8.0	8.5	8.5	1.1	0.3	0.8	0.4
Ret - Neigh/Comm.	8.6	9.0	9.4	7.2	7.7	8.1	7.9	8.3	8.7	1.0	0.8	0.9	0.7
Apartment	7.6	7.7	8.2	6.0	6.4	6.6	6.7	7.1	7.3	3.8	3.5	3.4	3.4
Hotel	10.0	10.2	10.3	8.2	8.7	8.7	8.9	9.4	9.4	1.8	1.3	1.8	1.2
Average	8.8	9.0	9.3	7.4	7.8	8.0	8.1	8.4	8.6	1.3	1.0	1.2	0.9

¹ First-tier investment properties are defined as new or newer quality construction in prime to good locations.
 Source: RERC Investment Survey.

BOSTON

1ST QUARTER 2012

Boston Investment Criteria		First-Tier ¹ Investment Properties											
	Pre-Tax Yield (%)			Going-In Cap Rate (%)			Terminal Cap Rate (%)			Anticipated 1-Year Growth Rates			
	RERC Estimate	East Region	U.S.	RERC Estimate	East Region	U.S.	RERC Estimate	East Region	U.S.	National Value	East Value	National Rent	East Rent
Offc - CBD	8.4	8.9	9.2	6.4	7.3	7.7	7.1	8.0	8.4	1.1	1.0	1.0	0.8
Offc - Suburban	9.1	9.3	9.5	7.6	8.0	8.1	8.0	8.6	8.7	0.3	-0.1	0.4	-0.2
Ind - Warehouse	9.0	9.0	9.2	7.6	7.9	8.0	8.1	8.4	8.6	1.5	1.0	1.5	1.1
Ind - R&D	9.3	9.3	9.6	8.1	8.2	8.3	8.5	8.7	8.9	0.8	0.6	0.7	0.5
Ind - Flex	9.5	9.1	9.6	8.3	8.2	8.4	8.7	8.6	8.9	0.7	0.3	0.6	0.4
Ret - Reg Mall	8.4	8.7	9.1	6.7	7.5	7.7	7.3	8.2	8.4	0.6	0.7	0.7	0.7
Ret - Pwr Center	8.7	9.0	9.3	7.5	7.7	7.9	8.1	8.5	8.5	1.1	0.3	0.8	0.4
Ret - Neigh/Comm.	8.4	9.0	9.4	7.1	7.7	8.1	7.7	8.3	8.7	1.0	0.8	0.9	0.7
Apartment	7.3	7.7	8.2	5.6	6.4	6.6	6.3	7.1	7.3	3.8	3.5	3.4	3.4
Hotel	10.0	10.2	10.3	7.8	8.7	8.7	8.4	9.4	9.4	1.8	1.3	1.8	1.2
Average	8.8	9.0	9.3	7.3	7.8	8.0	7.8	8.4	8.6	1.3	1.0	1.2	0.9

¹ First-tier investment properties are defined as new or newer quality construction in prime to good locations.
 Source: RERC Investment Survey.

APPENDIX E – LEASE PAYMENT SCHEDULE

Joe A. Conner, Esq.
June 29, 2012
Page 219

Kevin M. Zanni

From: Joshua Unger <JUnger@aquarionwater.com>
Sent: Wednesday, June 13, 2012 10:42 AM
To: Kevin M. Zanni
Subject: RE: Hingham Treatment Facility Lease Payments- 2009-2035

Hi Kevin,

You are correct. I will make the change on our end also. Thank you for letting me know.

Thanks,

Josh

Joshua Unger
Senior Regulatory Compliance Specialist
Aquarion Water Company
500 Lindley Street
Bridgeport, CT 06606
Phone: 203.337.5990
Cell: 203.331.7434
Fax: 203.330.4641

Stewards of the Environment

Please think green before printing this e-mail

From: Kevin M. Zanni [mailto:kmzanni@willamette.com]
Sent: Wednesday, June 13, 2012 11:38 AM
To: Joshua Unger
Subject: RE: Hingham Treatment Facility Lease Payments- 2009-2035

Josh,

Great, thanks for the clarification.

Just FYI, I noticed that for the percentage rent calculation in years 2011, 2012, and 2035 there was a discrepancy in the percentage rent rate number. In my sheet, for 2011 and 2012, the percentage rent rate was swapped. In 2035, the percentage rent rate was \$100 lower than it should have been. No big deal, I made changes to my spreadsheet.

Thanks again.

Kevin

From: Joshua Unger [mailto:JUnger@aquarionwater.com]
Sent: Wednesday, June 13, 2012 10:32 AM
To: Kevin M. Zanni
Subject: RE: Hingham Treatment Facility Lease Payments- 2009-2035

Hi Kevin,

Joe A. Conner, Esq.

June 29, 2012

Page 220

The schedule is based on a calendar year. It would be year ended December 31, 2012.

The Company works on a calendar year so it has presented the lease on a calendar year. Since the lease began in July of 1995 the lease payment might be different in the last year.

Let me know if you have any other questions.

Thanks,

Josh

Joshua Unger
Senior Regulatory Compliance Specialist
Aquarion Water Company
500 Lindley Street
Bridgeport, CT 06606
Phone: 203.337.5990
Cell: 203.331.7434
Fax: 203.330.4641

Stewards of the Environment

Please think green before printing this e-mail

From: Kevin M. Zanni [<mailto:kmzanni@willamette.com>]
Sent: Wednesday, June 13, 2012 11:04 AM
To: Joshua Unger
Subject: RE: Hingham Treatment Facility Lease Payments- 2009-2035

Josh,

Just to confirm, your lease schedule is presented for years ended June 30. Therefore, for 2012 the lease payment indication is for year ended June 30, 2012.

Let me know if this is correct.

Thanks again,

Kevin

From: Joshua Unger [<mailto:JUnger@aquarionwater.com>]
Sent: Wednesday, June 13, 2012 9:29 AM
To: Kevin M. Zanni
Subject: FW: Hingham Treatment Facility Lease Payments- 2009-2035

Hi Kevin,

Here is the original e-mail sent to Joe with a description of how the spreadsheet was developed.

Thank you,

Josh

Joshua Unger

Joe A. Conner, Esq.

June 29, 2012

Page 221

Senior Regulatory Compliance Specialist
Aquarion Water Company
100 Lindley Street
Bridgewater, CT 06606
Phone: 203.337.5990
Cell: 203.331.7434
Fax: 203.330.4641

Towards of the Environment

Please think green before printing this e-mail

From: Joshua Unger

Sent: Wednesday, May 02, 2012 2:26 PM

To: 'Conner, Joe'; Troy Dixon

Cc: McKinley Rowe

Subject: Hingham Treatment Facility Lease Payments- 2009-2035

Hi Joe,

Attached is the calculation for Hingham Treatment Facility Lease yearly payments.

I have tried to include all the assumptions in the calculations:

The Fourth Amendment to the Facility Lease is attached as HH 1-101 Attachment A (It was included in the rate case). This is the document the company uses to calculate the lease.

In the percentage rent calculation, the previous month's monthly production from the treatment facility is used for the calculation. In this model I used the 2010 annual production for all 24 years requested.

In the calculation of the interest credit I used an interest rate based on the interest the company received for the reserve in 2010. $(90,593 \text{ (interest in the test year)} / 2,785,000 \text{ (required reserve for financing)}) = 3.25\%$

In the calculation of the adjustment factor, I assumed the company's percentage rent would not fall below 20% of the fixed rent. So I included a full year with an adjustment factor hitting every month. The adjustment factor is only allowed 1 a given month when the percentage rent is above 20% of the fixed rent. There is usually one month (usually January) when production is so low that the percentage rent (which is calculated for February) falls below the 20%. In the beginning of the lease the adjustment factor was a minus from the percentage rent based on the calculation on the last page of Schedule III. The reason it is now an addition is because the estimated increase in production was never realized and therefore the company needs to recoup the difference.

I am trying to be as descriptive as possible but the lease is complicated. Please call with any questions. We are in the process of filing another rate case so we will have limited time. Troy will also be out of pocket until next week so please direct any questions you have to me.

Thank you,

Josh

Joshua Unger

Senior Regulatory Compliance Specialist

Aquarion Water Company

100 Lindley Street

Bridgewater, CT 06606

Phone: 203.337.5990

Fax: 203.330.4641

Towards of the Environment

Please think green before printing this e-mail

Summary of Operating Lease for Hingham/Hull District Water Treatment Facility

Year	Fixed*	Percentage Rent**	Less Interest Credit***	Adjustment Factor****	Total
2009	\$ 2,679,000	\$ 754,377	\$ (90,513)	\$ 56,138	\$ 3,399,003
2010	\$ 2,679,000	\$ 784,580	\$ (90,513)	\$ 56,138	\$ 3,429,206
2011	\$ 2,679,000	\$ 815,948	\$ (90,513)	\$ 56,138	\$ 3,460,573
2012	\$ 2,679,000	\$ 848,558	\$ (90,513)	\$ 56,138	\$ 3,493,183
2013	\$ 2,679,000	\$ 882,488	\$ (90,513)	\$ 56,138	\$ 3,527,113
2014	\$ 2,679,000	\$ 917,816	\$ (90,513)	\$ 118,010	\$ 3,624,313
2015	\$ 2,679,000	\$ 954,541	\$ (90,513)	\$ 118,010	\$ 3,661,038
2016	\$ 2,679,000	\$ 992,741	\$ (90,513)	\$ 118,010	\$ 3,699,238
2017	\$ 2,679,000	\$ 1,032,416	\$ (90,513)	\$ 118,010	\$ 3,738,913
2018	\$ 2,679,000	\$ 1,073,722	\$ (90,513)	\$ 118,010	\$ 3,780,219
2019	\$ 2,679,000	\$ 1,116,659	\$ (90,513)	\$ 164,353	\$ 3,869,499
2020	\$ 2,679,000	\$ 1,161,303	\$ (90,513)	\$ 164,353	\$ 3,914,144
2021	\$ 2,679,000	\$ 1,207,811	\$ (90,513)	\$ 164,353	\$ 3,960,652
2022	\$ 2,679,000	\$ 1,256,105	\$ (90,513)	\$ 164,353	\$ 4,008,946
2023	\$ 2,679,000	\$ 1,306,340	\$ (90,513)	\$ 164,353	\$ 4,059,180
2024	\$ 2,679,000	\$ 1,358,594	\$ (90,513)	\$ 225,956	\$ 4,173,037
2025	\$ 2,679,000	\$ 1,412,944	\$ (90,513)	\$ 225,956	\$ 4,227,387
2026	\$ 2,679,000	\$ 1,469,468	\$ (90,513)	\$ 225,956	\$ 4,283,911
2027	\$ 2,679,000	\$ 1,528,243	\$ (90,513)	\$ 225,956	\$ 4,342,687
2028	\$ 2,679,000	\$ 1,589,348	\$ (90,513)	\$ 225,956	\$ 4,403,792
2029	\$ 2,679,000	\$ 1,652,938	\$ (90,513)	\$ 306,681	\$ 4,548,106
2030	\$ 2,679,000	\$ 1,719,089	\$ (90,513)	\$ 306,681	\$ 4,614,257
2031	\$ 2,679,000	\$ 1,787,803	\$ (90,513)	\$ 306,681	\$ 4,682,971
2032	\$ 2,679,000	\$ 1,859,312	\$ (90,513)	\$ 306,681	\$ 4,754,480
2033	\$ 2,679,000	\$ 1,933,694	\$ (90,513)	\$ 306,681	\$ 4,828,862
2034	\$ 2,679,000	\$ 2,011,104	\$ (90,513)	\$ 412,433	\$ 5,012,024
2035	\$ 2,679,000	\$ 2,091,542	\$ (90,513)	\$ 412,433	\$ 5,092,462

* Based on the Fourth Amendment to the Facility Lease Schedule III

** Assuming 2010 production stays consistent through out the next 24 years. The percentage rent rate per year is based on the Fourth Amendment to the Facility Lease Schedule III

*** Assuming interest at 3.25% based on interest included in DPU 11-43
 (90,593 (interest in the test year/2,785,000(required reserve for financing)=3.25%)

**** Assuming the monthly percentage rent calculation does not fall below 20% of the fixed rent.

APPENDIX F- APPRAISAL CERTIFICATION

We hereby certify the following statements regarding this appraisal:

1. This appraisal report is a summary report, as defined in the Uniform Standards of Professional Appraisal Practice (USPAP) Standards Rule 2-2.
2. The statements of fact contained in this report are true and correct.
3. The reported analysis, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial and unbiased professional analysis, opinions and conclusions.
4. I have no present or prospective future interest in subject property that is the subject of this appraisal report.
5. I have not previously appraised the subject property during the three years prior to this engagement.
6. I have no personal interest or bias with respect to the subject matter of this report or the parties involved.
7. My compensation for making the appraisal is in no way contingent upon the value reported or upon any predetermined value.
8. My analysis, opinions, and conclusions were developed, and this report was prepared, in accordance with USPAP.
9. I have not made a personal inspection of the property that is the subject of this report.
10. As described herein, the firm of Hatch Mott provided significant professional assistance regarding the analyses, opinions, and conclusions set forth in this report.
11. The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the code of professional ethics and the standards of professional appraisal practice of the professional organizations of which we are members.
12. Disclosure of the contents of this report is subject to the requirements of the professional organizations of which we are members related to review by their duly authorized representatives.

Robert F. Reilly

Robert F. Reilly

6/26/12

Date

APPENDIX G- ASSUMPTIONS AND LIMITING CONDITIONS

The primary assumptions and limiting conditions pertaining to the conclusion of value stated in this report are summarized below. Other assumptions are cited elsewhere in this report.

1. The value conclusion arrived at herein is valid only for the stated purpose as of the date of the valuation.
2. We have accepted without any verification financial statements and other related information provided by the company or its representatives as fully and correctly reflecting the subject properties operating results for the respective periods, except as specifically noted herein. We have not audited, reviewed, or compiled the financial information provided to us. Accordingly, we express no audit opinion or any other form of assurance on this information.
3. We obtained public information and industry and statistical information from sources we believe to be reliable. However, we make no representation as to the accuracy or completeness of such information and have performed no procedures to corroborate the information.
4. We do not provide assurance on the achievability of the results forecasted by the company because events and circumstances frequently do not occur as expected. Differences between actual and expected results may be material; and achievement of the forecasted results is dependent on actions, plans, and assumptions of management.
5. We based the value conclusion arrived at herein on the assumption that the current level of management expertise and effectiveness would continue to be maintained and that the character and integrity of the subject property through any sale, reorganization, exchange, or diminution of the owners' participation would not be materially or significantly changed.
6. This report and the value conclusion arrived at herein are for the exclusive use of our client for the sole and specific purposes as noted herein. They may not be used for any other purpose or by any other party for any purpose. Furthermore, the report and value conclusion are not intended by the authors, and should not be construed by the reader, to be investment advice in any manner whatsoever. The value conclusion represents our considered opinion, based on information furnished by the company and other sources.
7. Neither all nor any part of the contents of this report (especially the value conclusion, the identity of any valuation analysts, or the firm with which such valuation analysts are connected or any reference to any of their professional designations) should be disseminated to the public through advertising media, public relations, news media, sales media, mail, direct transmittal, or any other means of communication, including but not limited to the Securities and Exchange Commission or other governmental agency or regulatory body, without our prior written consent and approval.
8. We are not environmental consultants or auditors, and we take no responsibility for any actual or potential environmental liabilities. Any person entitled to rely on this report, wishing to know whether such liabilities exist, or the scope and their effect on the value of the property, is encouraged to obtain a professional environmental assessment. We do not conduct or provide environmental assessments and have not performed one for the subject property.
9. We have not independently determined whether the subject property is subject to any present or future liability relating to environmental matters (including, but not limited to CERCLA/Superfund liability) nor the scope of any such liabilities. Our valuation takes no such liabilities into account, except as they have been reported to us by the company or by an environmental consultant working for the company, and then only to the extent that the liability

was reported to us in an actual or estimated dollar amount. Such matters, if any, are noted in the report. To the extent such information has been reported to us, we have relied on it without verification and offer no warranty or representation as to its accuracy or completeness.

10. We have not made a specific compliance survey or analysis of the subject property to determine whether it is subject to, or in compliance with, the American Disabilities Act of 1990, and this valuation does not consider the effect, if any, of noncompliance.
11. No change of any item in this valuation report will be made by anyone other than us, and we have no responsibility for any such unauthorized change.
12. Unless otherwise stated, no effort has been made to determine the possible effect, if any, on the subject property due to future federal, state, or local legislation, including any environmental or ecological matters or interpretations thereof.
13. If prospective financial information approved by management has been used in our work, we have not examined or compiled the prospective financial information. Therefore, we do not express an audit opinion or any other form of assurance on the prospective financial information or the related assumptions. Events and circumstances frequently do not occur as expected, and there will usually be differences between prospective financial information and actual results, and those differences may be material.
14. Except as noted, we have relied on the representations of the owners, management, and other third parties concerning the value and useful condition of all equipment, real estate, and investments used in the business, and any other assets or liabilities, except as specifically stated to the contrary in this report. We have not attempted to confirm whether or not all assets of the business are free and clear of liens and encumbrances or that the entity has good title to all assets.

APPENDIX G- QUALIFICATIONS OF THE PRINCIPAL APPRAISER

ROBERT F. REILLY, CPA

Robert Reilly is a managing director of Willamette Management Associates. His practice includes business valuation, forensic analysis, and financial opinion services.

Robert has performed the following types of valuation and economic analyses: economic event analyses, merger and acquisition valuations, divestiture and spin-off valuations, solvency and insolvency analyses, fairness and adequacy opinions, ESOP formation and adequate consideration analyses, private inurement/intermediate sanctions opinions, acquisition purchase accounting allocations, reasonableness of compensation analyses, restructuring and reorganization analyses, tangible asset/intangible asset intercompany transfer price analyses, and lost profits/economic damages analyses.

He has prepared these valuation and economic analyses for the following purposes: transaction pricing and structuring (merger, acquisition, liquidation, and divestiture); taxation planning and compliance (federal income, gift, and estate tax; state and local property tax; transfer tax); financing securitization and collateralization; employee corporate ownership (ESOP employer stock transactions and compliance valuations); forensic analysis and dispute resolution; corporate strategic planning and management information; bankruptcy and troubled company support (recapitalization, reorganization, restructuring); financial accounting and public reporting; and regulatory compliance and corporate governance.

Robert has valued the following types of business entities and securities: close corporation business enterprise, close corporation fractional ownership interests, public corporation restricted stock, public corporation subsidiaries/ divisions, complex capital structures (various classes of common/preferred stock; options, warrants, grants, rights), general and limited partnership interests, joint ventures, proprietorships, professional service corporations, professional practices, LLPs and LLCs, license agreements, and franchises.

He has performed valuation, remaining useful life, lost profits/economic damages, and arm's-length royalty rate/transfer price analyses related to the following types of intangible assets: advertising campaigns and programs, appraisal plants, broadcast licenses, building permits, cable TV franchises, certificates of need, computer software, computer databases, contract rights, core depositors, copyrights, credit information files, customer and supplier contracts, customer lists and customer relationships, development/commercialization rights, distribution rights, distribution systems, employment contracts, engineering drawings, film libraries, franchise contracts and rights, going-concern value, goodwill, leasehold interests, licenses, literary compositions, loan portfolios, management contracts, manuscripts, mining and mineral rights, mortgage servicing rights, musical compositions, noncompete covenants, patent applications, patents, patient charts and records, permits, possessory interests, prizes and awards, procedural manuals, production backlogs, proprietary technology, solicitation rights, subscriber lists, technical documentation and libraries, trained and assembled workforces, trade names, trademarks, trade secrets, training manuals and documentation, and air/water/land use rights.

Robert has performed business and property valuations in the following industries: accounting and consulting, advertising, administrative services, aerospace, apparel, appraisal, automobile dealerships, automobile manufacturing, automobile suppliers, aviation, bottling, broadband, brokerage, cable television, cement, chemical, commercial banking, chemicals, communications, computer services, construction and contracting, consumer finance, consumer products, cosmetics, cruise ship lines, data processing, decontamination, defense, distribution, education, entertainment, equipment leasing, fast food, financial services, food processing, food service, forest products, grocery, health care, home health

services, hotel and hospitality, insurance, internet, investment banking, leasing, manufacturing, marine, medical and dental practice, mining and mineral extraction, money management, natural resources, petrochemical, petroleum, pharmaceuticals, plastics, printing, public utilities, publishing, radio broadcasting, railroad, real estate development, recreational services, refinery, restaurant, retailing, shipping, steel, telecommunications, television broadcasting, textiles, thrift institutions, transportation and trucking, vacation and leisure, vocational training, waste management, water and wastewater, and wholesaling.

He has prepared financial advisory analyses and economic analyses for merger and acquisition purposes: identification of M&A targets, valuation of target company synergistic/strategic benefits, identification and assessment of divestiture/spin-off opportunities, economic analysis of alternative deal structures, negotiation of deal price and terms, assessment of fairness and solvency of proposed transactions, and design/valuation of alternative equity and debt instruments.

Robert has valued the following types of real property interests: commercial office buildings, easements, facades, hospitals, hotels, industrial cooperatives, industrial and manufacturing facilities, industrial parks, land improvements and infrastructures, mines, nursing homes, quarries, railroads, regional shopping malls, residential apartment complexes, restaurants, retail stores, rights of way, strip shopping malls, timber land, vacant rural land, vacant urban land, and warehouses. These valuations have valued the following real estate interests: fee simple, leasehold interest, leasehold estate, possessory interests, life interests, reversionary interest, air rights, water rights, mineral rights, use rights and development rights.

Robert has been accepted as an expert witness in various federal, state, and international courts and before various boards and tribunals. This expert testimony has related to business, stock, and property valuation matters and to lost profits/economic damages matters. He has served as an expert witness in the following types of litigation: bankruptcy, breach of contract, breach of fiduciary duty, condemnation, conservatorship, corporate dissolution, expropriation, federal income tax, federal gift and estate tax, intellectual property infringement, lender liability, marital dissolution, dissenting shareholder appraisal rights/shareholder oppression, property tax appeal, reasonableness of executive compensation, solvency and insolvency, stockholder suits, tort claims, wrongful death/personal injury, and reasonableness of royalty rates and/or transfer prices. He has served as a court-appointed arbitrator with respect to squeeze-out merger dissenting shareholder rights actions.

PREVIOUS EXPERIENCE

Prior to Willamette Management Associates, Robert Reilly was a partner and national director of valuation services for the Deloitte & Touche accounting firm. Prior to Deloitte & Touche, Robert Reilly was vice president of Arthur D. Little Valuation, Inc., a valuation services firm. Prior to that, Robert was the director of corporate development for Huffey Corporation, a manufacturing company. Prior to that, he was a senior consultant for Booz, Allen & Hamilton, a management consulting firm.

EDUCATION

Master of Business Administration, finance, Columbia University Graduate School of Business

Bachelor of Arts, economics, Columbia University

PROFESSIONAL AFFILIATIONS

Accredited in Business Valuation (ABV)—American Institute of Certified Public Accountants
Accredited Senior Appraiser (ASA)—American Society of Appraisers, in business valuation
Accredited Tax Advisor (ATA)—Accreditation Council for Accountancy & Taxation
Associate Member—Appraisal Institute
Certified Business Appraiser (CBA)—Institute of Business Appraisers
Certified in Financial Forensics (CFF)—American Institute of Certified Public Accountants
Certified Management Accountant (CMA)—Institute of Management Accountants
Certified Public Accountant (CPA)—Ohio and Illinois
Certified Real Estate Appraiser (CREA)—National Association of Real Estate Appraisers
Certified Review Appraiser (CRA)—National Association of Review Appraisers and Mortgage Underwriters
Certified Valuation Consultant (CVC)—National Association of Review Appraisers and Mortgage Underwriters
Chartered Financial Analyst (CFA)—CFA Institute
Chartered Global Management Accountant (CGMA)—Association of International Certified Professional Accountants
Enrolled Agent (EA)—licensed to practice before the Internal Revenue Service

Robert is a member of the American Bankruptcy Institute, American Economic Association, American Institute of Certified Public Accountants, American Society of Appraisers, Business Valuation Association, The ESOP Association, Illinois Society of Certified Public Accountants, Institute of Business Appraisers, CFA Institute, Institute of Professionals in Taxation, Institute of Certified Management Accountants, International Association of Assessing Officers, National Association of Business Economists, National Association of Real Estate Appraisers, and Ohio Society of Certified Public Accountants.

Robert is a state certified general appraiser in the states of Illinois, Michigan, New York, Utah, and Virginia.

He has completed the following Appraisal Institute appraisal courses: 110—appraisal principles, 120—appraisal procedures, 200R—residential market analysis and highest & best use, 210—residential case study, OL300GR—online real estate finance statistics and valuation modeling, 310—basic income capitalization, 320—general applications, 400—USPAP update, 410A—standards of professional practice, 420—standards of professional appraisal practice, 420B—business practices and ethics, 430C—standards of professional practice, 510—advanced income capitalization, 520—highest and best use analysis, 530—advanced cost and sales comparison approaches, 540—report writing and valuation analysis, 550—advanced applications, SE700—the appraiser as an expert witness: preparation & testimony, online using your HP12C financial calculator, 7-hour National USPAP course, and 15-hour National USPAP course.