Facility Operations and Procedures Agreement for the
Buckman Direct Diversion Project between the City of Santa Fe,
Santa Fe County and Las Campanas LP

This Facility Operations and Procedures Agreement (hereinafter referred to as
"the FOPA") is entered into by and between the Board of County Commissioners of
Santa Fe County (hereinafter referred to as "the County"), a political subdivision of the
State of New Mexico, the City of Santa Fe (City), a municipal corporation of the State of
New Mexico, and Las Campanas Limited Partnership, a Delaware Limited Partnership
(hereinafter referred to as "Las Campanas"), effective as of the date of the last signature
below.

Recitals

WHEREAS, the City, the County and Las Campanas are partners in the
Buckman Direct Diversion project (hereinafter referred to as "the BDD Project" or
"BDD") and desire to execute a Facility Operations and Procedures Agreement
(hereinafter referred to as “the FOPA”, “the Agreement” or "this Agreement") to
facilitate the construction of the BDD Project;

WHEREAS, the City and County executed a Water Resources Agreement
(hereinafter referred to as "WRA") on January 11, 2005 to address utility-to-utility issues
between the City and County water utilities, and a Joint Powers Agreement (hereinafter
referred to as "the JPA") on March 7, 2005 to establish the Buckman Direct Diversion
Board (hereinafter referred to as "BDD Board");

WHEREAS, the JPA contemplates execution of the FOPA in order to address
facility operations;

WHEREAS, on February 2, 2006 the BDD Board voted unanimously to
recommend the Principles of Agreement for the FOPA and directed staff to prepare this
Agreement; and

WHEREAS, the BDD Board considered this Agreement on September 7, 2006
and recommended that the City, the County and Las Campanas LP execute this
Agreement expeditiously.

NOW, THEREFORE, upon the mutual consideration described by this Agreement,
including the covenants and promises contained herein, the adequacy of which is
acknowledged by the parties, the County, the City and Las Campanas agree as follows:

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Definitions. Capitalized words or phrases used in this Agreement, if defined below, shall have the following meanings:

1. AFY or afy means acre feet per year.

2. Agreement means this Facility Operations and Procedures Agreement, also referred to as "FOPA" or "the FOPA."

3. BDD Board means the Buckman Direct Diversion Board, created as set forth in the JPA.

4. BDD Partners means the City, the County, and Las Campanas.

5. BDD Project means the Buckman Direct Diversion Project, a project to divert surface water from the Rio Grande at Buckman as described in the draft Environmental Impact Statement for the Buckman Direct Diversion Project. The BDD Project has a diversion capacity of 8,730 afy. The BDD Project includes diversion, treatment, transmission and related works.

6. BDD Project EIS means the environmental impact statement prepared by the US Forest Service and the Bureau of Land Management for the BDD Project.

7. City/County Separate Facilities means those portions of the BDD Project including pumping equipment in booster station 2A, the raw water pipeline extending from pump station 2A to the City/County Water Treatment Plant, and the finished water pipelines to the points of interconnection, as shown on Exhibit A of this Agreement.

8. City-Las Campanas Settlement Agreement means that certain agreement executed on September 30, 2003 in order to compromise and settle all issues associated with Case No. D-0101-CV-01878, First Judicial District, State of New Mexico.

9. Construction Costs means all of the costs to implement the BDD Project paid to the Owners’ Consultant, the DB Contractor, and professional and legal services contractors contracted by the Project Manager for services directly related to delivery of the BDD Project as recommended by the BDD Board. Construction Costs do not include BDD EIS Costs, Project Management Costs as defined in the PMFSA, and Permitting Costs.

10. DB Contractor means the design-build contractor procured by the BDD Board.

11. JPA means that certain Joint Powers Agreement entered into on March 7, 2005 by and between the City of Santa Fe and Santa Fe County.

12. Las Campanas Separate Facilities means those portions of the BDD Project, including pumping equipment in booster station 2A and the raw water pipeline extending from booster station 2A to Las Campanas that provide water only to Las Campanas, as shown on Exhibit A of this Agreement.

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13. MGD means million gallons per day.

14. Owners’ Consultant means the consulting engineer contracted by the BDD Board to create the delivery of the BDD Project.

15. Permitting Costs means the costs to acquire permits necessary for construction and operation of the BDD Project.

16. PMFSA means the Project Management and Fiscal Services Agreement.

17. Project Manager means the Project Manager of the BDD Project as specified in JPA Section 13. Designation of Project Manager.

18. Project Management Costs means the costs of the Project Manager to implement and operate the BDD Project as defined in the PMFSA.

19. Shared Facilities means that portion of the BDD Project that provides raw water to all BDD Partners, as shown on Exhibit A of this Agreement, including all portions of booster station 2A except for the pumping equipment in booster station 2A that is part of the Las Campanas Separate Facilities or the City/County Separate Facilities.

20. WRA means that certain Water Resources Agreement between the City of Santa Fe and Santa Fe County with an effective date of January 11, 2005.

Agreement

1. Description of the BDD Project. The BDD Project is a mix of shared and separate facilities. See Exhibit A to this Agreement for a schematic/map of the BDD Project showing Shared Facilities, Las Campanas Separate Facilities and City/County Separate Facilities.

2. Ownership of the Project. The City and County each own an undivided equal interest in the Shared Facilities. The City and County each own an undivided equal interest in the City/County Separate Facilities. Las Campanas owns the Las Campanas Separate Facilities.

3. Use of the Shared Facilities. Use of the Shared Facilities shall be apportioned to each BDD Partner based on the peak day capacity allocated in FOPA Section 7. BDD Project Facility Capacity Allocation.

4. Relationship of the Parties. Except as provided in this Agreement, the City and County shall be allocated the rights and responsibilities of a general partner in a business/corporate model under New Mexico law. Las Campanas shall have the rights

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and responsibilities of a limited partner in a business/corporate model under New Mexico law.

5. Management of the Shared Facilities and the City/County Separate Facilities. Management of the Shared Facilities and the City/County Separate Facilities shall be accomplished through the BDD Board, consistent with the provisions of this Agreement, the JPA, the WRA, and the PMFSA.

6. Permits. The BDD Board shall be the permittee of the permits, rights of ways, and authorizations pursuant to the Record of Decision on the BDD Project EIS. Other permitting requirements will be identified by the Owners’ Consultant and will be acquired, managed and maintained by the Project Manager except for the water rights permits described in FOPA Section 11. Water Rights Transfers. The BDD Partners agree to cooperate and coordinate to the greatest extent possible on the acquisition, management and maintenance of all BDD Project permits.

7. BDD Project Facility Capacity Allocation. The peak day diversion capacities are:

| City:       | 62.09% | (11.3 mgd allocation of 18.2 mgd total capacity) |
| County:    | 20.33% | (3.7 mgd allocation of 18.2 mgd total capacity) |
| Las Campanas: | 17.58% | (3.2 mgd allocation of 18.2 mgd total capacity) |

A BDD Partner may use another BDD Partner’s unused peak day diversion capacity. Consent for one BDD Partner to utilize another BDD Partner’s unused peak day diversion capacity shall not be unreasonably withheld and the cost to use that capacity shall be calculated as set forth in a separate agreement.

8. Water Rights and Divertable Water Supply. Each BDD Partner shall divert only that amount of water in the system for which water rights are in good standing with the New Mexico State Engineer, subject to the limitations on diversions at low flow set as forth in the BDD Project EIS or other applicable permits. The BDD Partners each recognize an individual responsibility to maintain their own water rights portfolio and to manage any water rights shortage within that portfolio. No BDD Partner shall make any claim or attempt to use another BDD Partner’s water rights without the express written consent of that BDD Partner.

9. Sharing of Shortages. Facility Failure. In the event of reduced total capacity of the BDD Project caused by facility failure, the BDD Partners shall receive deliveries on a reduced basis that are computed from a pro-rata percentage of peak day (mgd) diversion capacity as described by FOPA Section 7. BDD Project Facility Capacity Allocation. Facility failure does not include the occurrence of low flow on the Rio Grande, any restrictions on diversions pursuant to the BDD Project EIS, or limitations on the use of specific water rights. Facility failure does include damage caused by floods, upstream spills of pollutants or toxic materials, failure or damage to the BDD Project, and scheduled or unscheduled shut downs required for maintenance, repair, or replacement.
10. BDD Project Operations. Actual Water Deliveries. Each BDD Partner shall use its
best efforts to conform the actual water demand it places on the BDD Project to its
demand schedules prepared in conformance with FOPA Section 26. BDD Project
Requested Delivery Schedule. No BDD Partner shall exert an actual demand on the BDD
Project at a rate that exceeds the capacity allocation set forth in FOPA Section 7. BDD
Project Facility Capacity Allocation adjusted for the sharing of shortages as set forth in
FOPA Section 8. Water Rights and Divertable Water Supply and FOPA Section 9.
Sharing of Shortages. Facility Failure. The Project Manager shall operate the facility to
meet the BDD Partners' actual demand, subject to the capacity allocation set forth in
FOPA Section 7. BDD Project Facility Capacity Allocation adjusted for the sharing of
shortages as set forth in FOPA Section 8. Water Rights and Divertable Water Supply and
FOPA Section 9. Sharing of Shortages. Facility Failure. The BDD Project shall
include water measurement devices to account for the actual volume, rate, and time-of-
day of all water deliveries to each BDD Partner. The BDD Project, in conjunction with
operations procedures, shall include controls to limit each BDD Partner's water demand
to its peak day and annual volume allocations.

11. Water Rights Transfers. The BDD Partners shall cooperate to transfer the water
rights described in the BDD Project EIS and shall take actions that are consistent with the
BDD Project EIS. The BDD Partners shall coordinate in development of strategies for
compliance with the Conditions of Approval contained in New Mexico State Engineer
diversion permits.

In accordance with the WRA, the County shall identify a schedule for the transfer of such
water rights and the City shall cooperate in the transfers.

In accordance with the City-Las Campanas Settlement Agreement, Las Campanas shall
identify a schedule for the transfer of such water rights and the City shall cooperate in the
transfers.

12. Cost Sharing. Use of Funding from County Ordinance No. 2002-05. The
PMFSA shall reflect that the County may use the proceeds from County Ordinance No.
2002-05, subject to the terms of that Ordinance.

13. Cost Sharing. BDD Project EIS Costs. Costs related to the preparation of the BDD
Project EIS are addressed in the MOU per FS No. 02-MU-11031000-013 dated January
16, 2002 and are based on the percentage of annual diversion amounts listed in the BDD
Project EIS.

14. Cost Sharing. Construction Costs of Shared Facilities. Las Campanas shall pay a
proportionate share of the Construction Costs of the Shared Facilities as measured by
peak day (mgd) capacity in the BDD Project EIS (17.58%). The City and County shall
share in the costs of the BDD Project as set forth in the JPA Section 16. Cost Sharing for
Design and Construction for the BDD Project.
15. Cost Sharing. Construction Costs of the Las Campanas Separate Facilities. Las Campanas shall pay all of the costs of design and construction of the Las Campanas Separate Facilities, including those costs of the Owner’s Consulting Engineer and the BDD Project design-build contractor to implement that portion of the Las Campanas Separate Facilities located within booster station 2A and the Las Campanas pipeline extending from booster station 2A to the location near Dead Dog Well where the Las Campanas Separate Facilities physically diverge from the City/County Separate Facilities.


20. Cost Sharing. Fixed OMR&R Costs for the Shared Facilities. Fixed OMR&R Costs of the Shared Facilities shall be apportioned between the County, the City and Las Campanas using the capacity allocation shown in FOPA Section 7. BDD Project Facility Capacity Allocation.

21. Cost Sharing. Variable OMR&R Costs of the Shared Facilities. Variable OMR&R costs of the Shared Facilities shall be apportioned between the County, the City and Las Campanas based on the actual delivery of water to each BDD Partner in accordance with FOPA Section 27. Annual Operating Plan.

22. Cost Sharing. Fixed and Variable OMR&R Costs of the Las Campanas Separate Facilities. Las Campanas shall pay the full amount of the Fixed and Variable OMR&R costs of the Las Campanas Separate Facilities.

23. Cost Sharing. Fixed and Variable OMR&R Costs of the City/County Separate Facilities. Fixed OMR&R costs of the City/County Separate Facilities shall be apportioned between the County and the City using the capacity allocation of the City/County Separate Facilities [County 24.6%, 3.7 mgd of 15 mgd, City 75.3%, 11.3 mgd of 15 mgd]. Variable OMR&R costs of the City/County Separate Facilities shall be
apportioned between the County and City based on the actual delivery of water to each BDD Partner in accordance with *FOPA Section 27. Annual Operating Plan*. Each year following commencement of operations of the BDD Project and in connection with its approval of the budget pursuant to *JPA Section 17. Cost Sharing for Operation and Maintenance Costs for the BDD Project*, the BDD Board shall review the proposed allocation of costs between the fixed and variable categories and either approve, reject or modify same. At the same time, the BDD Board shall review the allocation methodology of fixed and variable costs as between the City and the County set forth in this section to determine whether the allocation is reasonable and appropriate, and shall explore alternative methodologies.

24. **Emergency Reserve Fund.** The Project Manager, in consultation with the BDD Partners, shall submit to the BDD Board an analysis of the funds required for an emergency reserve and suggested procedures for creation and management of the emergency reserve fund.

25. **The BDD Partners and the BDD Board.** The appointment of City Councilors and County Commissioners by their governing bodies provides representation of the City and the County on the BDD Board, as described in the JPA. The selection of a citizen member by the BDD Board provides representation of the public at large on the BDD Board.

Las Campanas has an interest in the decisions of the BDD Board that impact the delivery of water from the Shared Facilities to the Las Campanas Separate Facilities. Las Campanas shall be able to request a BDD Board agenda item through coordination with the Project Manager. Las Campanas is entitled to notice of BDD Board decisions that relate to Las Campanas deliveries of water from the Shared Facilities to the Las Campanas Separate Facilities. Las Campanas is entitled to the opportunity to prepare materials and present those materials to the BDD Board.

With respect to the BDD Board role in governance and oversight of operations, the Shared Facilities shall not be operated to adversely impact the Las Campanas annual and/or peak day capacity during normal operations.

The BDD Board and Las Campanas shall coordinate to develop the annual BDD operational plan, notice procedures for planned shutdowns, annual OMR&R accounting practices, emergency and facility failure plans, water right and water resource management processes and procedures in accordance with applicable regulations, and the environmental compliance management in accordance with applicable regulations.

26. **BDD Project Requested Delivery Schedule.** The BDD Partners acknowledge that management of minimum and low flows in the shared diversion and conveyance system is important because of sediment and OMR&R concerns and because each BDD Partner has different needs in the Shared Facilities. The Project Manager shall require that the design of the BDD Project shall be capable of accommodating each of the BDD Partners’ expected minimum deliveries.
27. **Annual Operating Plan.** The BDD Partners shall submit to the Project Manager the daily, weekly and monthly requested deliveries for each upcoming year no later than October 1 of each year. The Project Manager, in consultation with the BDD Partners, shall schedule the anticipated demand for the upcoming year for each BDD Partner in a Draft Delivery Schedule, which will be finalized among the BDD Partners by December 1 of that year. The Project Manager, with input from and in consultation with the BDD Partners, shall prepare a manual for project operations, which will be distributed among the BDD Partners.

28. **Early Start.** Any BDD Partner may begin an early start of facility construction in accordance with all applicable permits, agreements and construction requirements.

29. **Data & Information Sharing.** Each BDD Partner shall designate an engineering and a legal representative to coordinate, facilitate, and implement information sharing, including the SCADA telemetry.

30. **Operations, Maintenance and Security.** Operations, maintenance and security responsibilities shall be performed by the City of Santa Fe as Project Manager until December 1, 2015, as set forth in the JPA, except that Buckman Road shall be maintained by the County as required for access to the BDD Project facilities. All expected and planned operations and maintenance shall be presented to the BDD Board for approval and budget purposes.

31. **Dispute Resolution.** The Project Manager shall be responsible for resolving disputes arising in this agreement. If the Project Manager cannot satisfactorily resolve a dispute, then any BDD Partner may petition the BDD Board for a resolution. In the event these steps do not resolve the dispute, then the BDD Partners agree to use any and all methods of dispute resolution, up to and including binding arbitration, to resolve any conflicts arising under this Agreement, the expenses of which shall be shared equally by the BDD Partners. Disputes shall be first discussed by representatives of each party having the authority, if necessary, to bind the party that they represent. Such representatives shall use their best efforts to amicably and promptly resolve the dispute. If the parties are unable to resolve the dispute through informal mechanisms or mediation within 30 days of the occurrence of the event or circumstances giving rise to the dispute, either party may give notice to the other party that the dispute is to be submitted to binding arbitration. Any dispute requiring notice shall be shall be reported to the next meeting of the respective City and County governing bodies. Such notice shall contain the name of a proposed arbitrator, and in the event the other party does not agree with the proposed arbitrator, the model guidelines of the American Arbitration Association shall be used to select an arbitrator and govern the conduct of the arbitration, rendering of an award and enforcement of the award consistent with New Mexico state law. Within 60 days of notice an arbitrator shall be appointed and within 120 days of notice the arbitrator shall prepare an award. The arbitrator’s award shall be binding on the parties.
32. **Entire Agreement.** This Agreement contains the Entire Agreement between the BDD Partners with regard to the matters set forth herein.

33. **Binding Effect.** This Agreement shall be binding upon and inure to the benefit of the parties and their respective representatives, successors, and assigns.

34. **Counsel.** The BDD Partners acknowledge that they have freely entered into this Agreement with the advice of their respective legal counsel.

35. **Other Documents.** The BDD Partners agree to execute such further and other agreements as reasonably may be required from time to time to carry out the provisions of this Agreement.

36. **Law.** The laws of the State of New Mexico shall govern this Agreement.

37. **Execution in Counterparts.** This Agreement may be executed in counterparts with separate signature pages in the format shown below.

38. **Notices.** Any notice, demand, request, or information authorized or related to this Agreement shall be deemed to have been given if mailed (return receipt requested), hand delivered or faxed as follows:

**To the City:**
Director of the Sangre de Cristo Water Division  
City of Santa Fe  
PO Box 909  
Santa Fe, NM 87501  
Phone: 955-4200  
Fax: 955-4352

**With a copy to:**
City Manager  
City of Santa Fe  
PO Box 909  
Santa Fe, NM 87501  
Phone: 955-6509  
Fax: 955-6683

**City Attorney**  
City of Santa Fe  
PO Box 909  
Santa Fe, NM 87501  
Phone: 955-6511  
Fax: 955-6748

**To the County:**
Santa Fe County Utilities Director  
Santa Fe County
205 Montezuma
Santa Fe, N.M. 87505
Phone: 986-6210
Fax: 992-8421

With a copy to:
County Manager
Santa Fe County
P.O. Box 276
Santa Fe, N.M. 87504
Phone: 986-6200
Fax: 986-6362

County Attorney
Santa Fe County
P.O. Box 276
Santa Fe, N.M. 87504
Phone: 986-6279
Fax: 986-6362

To Las Campanas:
Las Campanas Engineering
218 Camino La Tierra
Santa Fe, NM 87506
Phone: 986-8090
Fax: 986-6076

With a copy to:
Counsel for Las Campanas
Law and Resource Planning Associates
201 Third Street NW, Suite 1750
Albuquerque, NM 87102
Phone: 346-0998
Fax: 346-0997

IN WITNESS WHEREOF, each of the City of Santa Fe, New Mexico, the County of Santa Fe, New Mexico, and Las Campanas LP has caused this Agreement to be executed and delivered by its duly authorized representatives as of the date specified below.
THE BOARD OF COUNTY COMMISSIONERS
OF SANTA FE COUNTY

By: Harry B. Montoya, Chair

ATTEST:

Valerie Espinoza, County Clerk

Approved as to form:

Stephen C. Ross, County Attorney
Approved by the City of Santa Fe

Mayor, City of Santa Fe Council / Date

Approved as to form

City of Santa Fe Attorney / Date

Reviewed

City of Santa Fe Clerk / Date

City of Santa Fe Finance / Date
Las Campanas Limited Partnership
By: Las Campanas Corporation, Its General Partner

[Signature]

10-16-05
Date