Execution Copy

FIRST AMENDMENT
TO THE
SERVICE CONTRACT FOR WASTEWATER TREATMENT SYSTEM
CAPITAL IMPROVEMENTS AND ASSET MANAGEMENT

among

THE BOROUGH OF NAUGATUCK, CONNECTICUT

and

THE WATER POLLUTION CONTROL AUTHORITY
OF THE BOROUGH OF NAUGATUCK

and

U.S. FILTER OPERATING SERVICES, INC.

Dated as of

June 4, 2002

FIRST AMENDMENT
TO THE
SERVICE CONTRACT FOR WASTEWATER TREATMENT SYSTEM
CAPITAL IMPROVEMENTS AND ASSET MANAGEMENT

This FIRST AMENDMENT TO THE SERVICE CONTRACT FOR WASTEWATER TREATMENT SYSTEM CAPITAL IMPROVEMENTS AND ASSET MANAGEMENT is made and dated as of June 4, 2002 among the Borough of Naugatuck, Connecticut, a political subdivision organized and existing under the laws of the State of Connecticut, the Water Pollution Control Authority of the Borough of Naugatuck, a water pollution control authority established by the Borough of Naugatuck pursuant to Chapter 103 of the Connecticut General Statutes (the "WPCA"; the WPCA and the Borough of Naugatuck, Connecticut are collectively referred to herein as the "Borough") and U.S. Filter Operating Services, Inc., a corporation organized and existing under the laws of the State of Delaware and authorized to do business in the State of Connecticut (the "Company").

RECITALS

WHEREAS, the Borough and the Company have heretofore executed a Service Contract for Wastewater Treatment System Capital Improvements and Asset Management dated as of October 25, 2001 (the "Service Contract"; capitalized terms used but not defined herein are as defined for purposes of the Service Contract); and

WHEREAS, in the course of completing their Approval Period responsibilities, the parties have determined that certain provisions of the Service Contract should be clarified or modified.

NOW, THEREFORE, the parties hereto agree as follows:

Section 1. Amendment of the Service Contract. Each of the following sections of the Service Contract is hereby amended, in relevant part, as set forth below; in each case, language to be deleted from the provision is bracketed and language to be added thereto is underscored:

(a) Amendment of Recital (B) of the Service Contract. Recital (B) to the Service Contract to read, in its entirety, as follows:

> (B) The wastewater treatment plant is operated by the Company under a contract which expires on [April 30, 2002] August 31, 2002, or such earlier time as provided in such contract.

(b) Amendment of Definition of "Applicable Law" in Section 1.1 of the Service Contract. "Applicable Law" in Section 1.1 of the Service Contract to read, in its entirety, as follows:

> "Applicable Law" means: (1) any federal, state or local law, code or regulation; (2) any formally adopted and generally applicable rule, requirement, determination, standard, policy, implementation schedule, or other order of any

Governmental Body having appropriate jurisdiction; (3) any established interpretation of law or regulation utilized by an appropriate regulatory Governmental Body if such interpretation is documented by such regulatory body and generally applicable; (4) any Governmental Approval; and (5) any consent order or decree, settlement agreement or other similar agreement between the Borough and the DEP or EPA, in each case having the force of law and applicable from time to time: (a) to the siting, design, acquisition, construction, equipping, financing, ownership, possession, startup, testing, acceptance, operation, maintenance, repair, replacement or management of the System; (b) to the conveyance, treatment, storage or discharge of the influent thereto or the effluent thereof; (c) to the air emissions therefrom; and (d) to the transfer, handling, processing, transportation, incineration or disposal of sludge and other residuals produced thereby. Applicable Law shall include the NPDES Permit, the Title V Permit, the General Nitrogen Permit and the Sewer Use Regulations, but shall be deemed not to include the Excluded Conditions.

(c) Amendment of Definition of "Change in Law" in Section 1.1 of the Service Contract. "Change in Law" in Section 1.1 of the Service Contract to read, in its entirety, as follows:

"Change in Law" means any of the following acts, events or circumstances to the extent that compliance therewith materially increases the cost of performing or materially increases the scope of a party's obligations hereunder:

(a) the adoption, amendment, promulgation, issuance, modification, repeal or written change in administrative or judicial interpretation of (i) any Applicable Law (other than the General Nitrogen Permit) on or after the Contract Date, or (ii) the General Nitrogen Permit on or after January 2, 2002;

(b) the order or judgment of any Governmental Body issued on or after the Contract Date (unless such order or judgment is issued to enforce compliance with the General Nitrogen Permit or with Applicable Law which was effective as of the Contract Date) to the extent such order or judgment is not the result of willful or negligent action, error or omission or lack of reasonable diligence of the Company or of the Borough, whichever is asserting the occurrence of a Change in Law; provided, however, that the contesting in good faith or the failure in good faith to contest any such order or judgment shall not constitute or be construed as such a willful or negligent action, error or omission or lack of reasonable diligence; or

(c) a delay in the review, issuance or renewal of, or the suspension, termination, or interruption of any Governmental Approval, or the imposition of a term, condition or requirement which is more stringent or burdensome than the Contract Standards in effect as of the Contract Date in connection with the issuance, renewal or failure of issuance or renewal of any Governmental Approval, to the extent that such occurrence is not the result of willful or negligent action, error or

omission or a lack of reasonable diligence of the Company or of the Borough, whichever is asserting the occurrence of a Change in Law; provided, however, that the contesting in good faith or the failure in good faith to contest any such occurrence shall not be construed as such a willful or negligent action or lack of reasonable diligence.

It is specifically understood, however, that a change in the nature or severity of the actions typically taken by a Governmental Body to enforce compliance with Applicable Law which was effective as of the Contract Date [none of the following] shall not constitute a "Change in Law" [:

(a) a change in the nature or severity of the actions typically taken by a Governmental Body to enforce compliance with Applicable Law which was effective as of the Contract Date; or

(b) after the Scheduled ICI Acceptance Date for the nitrogen removal system portion of the Initial Capital Improvements, a Change in Law related to the Borough's TMDL compliance for total nitrogen that does not impose a TMDL allocation that is more stringent than 247.4 lbs/day on an annual average basis as of the Contract Date].

(d) Amendment of Definition of "DEP-Mandated Collection System Work" in Section 1.1 of the Service Contract. "DEP-Mandated Collection System Work" in Section 1.1 of the Service Contract to read, in its entirety, as follows:

"[DEP-Mandated] Third Party Collection System Work" [shall have the meaning set forth in Appendix 14] means all Collection System work that is to be performed by third party contractors in accordance with subsection 7.2(D) and Appendix 14.

(e) Addition of Definition of "General Nitrogen Permit" to Section 1.1 of the Service Contract. New definition of "General Nitrogen Permit" to Section 1.1 of the Service Contract, to read, in its entirety, as follows:

"General Nitrogen Permit" means the General Permit for Nitrogen Discharges issued on January 2, 2002 and expiring on December 31, 2006, and attached hereto as a Reference Document.

(f) Addition of Definition of "ICI Labor and Materials Payment Bond" to Section 1.1 of the Service Contract. New definition of "ICI Labor and Materials Payment Bond" to Section 1.1 of the Service Contract, to read, in its entirety, as follows:

"ICI Labor and Materials Payment Bond" means the surety bond which guarantees the timely payment by the Company for all labor, materials, supplies, implements, and machinery and equipment furnished with respect to the Initial Capital Improvements, and which shall be provided in accordance with Section 15.4 and substantially in the form set forth in the Transaction Forms.

(g) Addition of Definition of "Offsetting Credits" to Section 1.1 of the Service Contract. New definition of "Offsetting Credits" to Section 1.1 of the Service Contract, to read, in its entirety, as follows:

> "Offsetting Credits" has the meaning set forth in subsection 4.6(B).

(h) Amendment of Definition of "Pre-Existing Environmental Condition" in Section 1.1 of the Service Contract. "Pre-Existing Environmental Condition" in Section 1.1 of the Service Contract to read, in its entirety, as follows:

> "Pre-Existing Environmental Condition" means, and is limited to, (1) the presence anywhere in, on or under the Managed Assets on the Contract Date of underground storage tanks (for the storage of chemicals or petroleum products) that are not then in use in connection with operation of the Managed Assets; (2) the presence of Hazardous Materials or Regulated Substances in environmental media anywhere in, on or under the Managed Assets (including the presence in surface water, groundwater, soils or subsurface strata) as of April 16, 2001, whether or not disclosed to the Company; (3) the presence anywhere in, on or under the Collection System on [July 1, 2002] January 1, 2003 of underground storage tanks (for the storage of chemicals or petroleum products) that are not then in use in connection with operation of the Collection System; and (4) the presence of Hazardous Materials or Regulated Substances in environmental media anywhere in, on, around or under the Collection System (including the presence in surface water, groundwater, soils or subsurface strata) as of [July 1, 2002] January 1, 2003, whether or not disclosed to the Company.

(i) Amendment of Definition of "Security Instruments" in Section 1.1 of the Service Contract. "Security Instruments" in Section 1.1 of the Service Contract to read, in its entirety, as follows:

> "Security Instruments" means the Guaranty Agreement, the Letter of Credit, the ICI Labor and Materials Payment Bond, the Operations Collateral Bond and the Operations Surety Bond.

(j) Amendment of Item (q) of the Exclusions to the Definition of "Uncontrollable Circumstance" in Section 1.1 of the Service Contract. Item (q) of the Exclusions to the definition of "Uncontrollable Circumstance" in Section 1.1 of the Service Contract to read, in its entirety, as follows:

> (q) [after the Scheduled ICI Acceptance Date for the nitrogen removal system portion of the Initial Capital Improvements, a Change in Law related to the Borough's TMDL compliance for total nitrogen that does not impose a TMDL allocation more stringent than 247.4 lbs/day on an average annual basis as of the Contract Date] Intentionally Omitted;

(k) Amendment of Subsection (D)(4) of Section 4.5 of the Service Contract. Subsection (D)(4) of Section 4.5 of the Service Contract to read, in its entirety, as follows:

(4) the amounts of any milestone payments for Advancement Work for which Requisitions have been duly submitted and approved in accordance with this Section shall bear interest beginning 30 days following the date of each such Requisition, at an annual interest rate of [6.9] 6.0 percent through the date of actual payment.

(l) Amendment of Section 4.6 of the Service Contract. Section 4.6 of the Service Contract to read, in its entirety, as follows:

SECTION 4.6. TRANSACTION COST REIMBURSEMENT AND OTHER PAYMENTS. (A) Financed Payments. On the Commencement Date, the Borough shall be paid from the proceeds of the financing for the ICI Design/Build Work:

(1) an amount equal to $197,925 for reimbursement of its transaction costs incurred in the procurement and negotiation of this Service Contract; and

(2) an amount equal to $39,585 for its costs to be incurred in reviewing and monitoring the ICI Design/Build Work.

(B) Company [Payments] Offsetting Credits. Within [30] 60 days following the Commencement Date, the Company shall [pay or reimburse, as applicable, to the Borough] offset the amounts owed by the Borough under the Interim Service Contract by the following credits ("Offsetting Credits"); provided that, for purposes of computing the accrued interest on the amounts owed by the Borough to the Company under the Interim Service Contract, the Offsetting Credits shall be deemed effective as of the Commencement Date under this Service Contract:

(1) [an amount equal to] $144,040 for the total mobilization costs paid to the Company through the date of termination of the Interim Service Contract;

(2) [an amount equal to any outstanding credit due to the Borough for] $15,000 for the Borough's having assumed the responsibility for transferring Governmental Approvals under the Interim Service Contract [(in the amount of $15,000)]; and

(3) an amount equal to (i) all Cost Substantiated fees paid by the Borough for the fiscal year ending June 30[, 2002] in which the Commencement Date occurs that were required for the maintenance of Governmental Approvals for the Managed Assets and for which the Company will be responsible hereunder as of the Commencement Date, multiplied by [(2)] (ii) a fraction, the denominator of which is 365, and the numerator of which is the number of days from the Commencement Date through June 30[, 2002] of the fiscal year in which the Commencement Date occurs. (If the Commencement Date occurs before June 30, 2002, the amount to be determined pursuant to the formula in this item (3) shall be for the Borough's fiscal year ending June 30, 2002. If the Commencement Date occurs after June 30, 2002, the amount to be determined pursuant to the formula in this item (3) shall be for the Borough's fiscal year ending June 30, 2003.)

(m) Amendment of Subsection (A) of Section 5.2 of the Service Contract. Subsection (A) of Section 5.2 of the Service Contract to read, in its entirety, as follows:

(A) Management Responsibility. Commencing on the Commencement Date, the Company shall operate and manage the Managed Assets on a 24-hour per day, 7-day per week basis, and shall collect, receive and treat System Influent, discharge Plant Effluent, transport and dispose of System Residuals and operating wastes, control odor, provide all information necessary to secure Governmental Approvals, and otherwise manage and operate the Managed Assets so as to comply with the Contract Standards applicable to such activities, each of the plans pertaining thereto set forth in the Appendices, and the other terms and conditions of this Service Contract. Commencing [in the Contract Year beginning July 1, 2002] on January 1, 2003, the Company shall provide the services with respect to the Collection System as set forth in this Service Contract.

(n) Amendment of Section 5.18 of the Service Contract. Section 5.18 of the Service Contract to read, in its entirety, as follows:

SECTION 5.18. NITROGEN [REMOVAL] CREDITS. [Following the completion of the Initial Capital Improvements pertaining to nitrogen removal, the Borough may request the Company to, or the Company may on its own initiative, undertake a study as to whether the Managed Assets are able to cost-effectively reduce the amount of nitrogen contained in the Plant Effluent such that nitrogen removal credits can be marketed by the Company under Applicable Law. If the results of the study conclude that nitrogen removal credits can be cost-effectively marketed, the Company, acting as agent of the Borough, shall market and sell any such nitrogen removal credits. The parties shall, at the time of implementation of any such marketing program, negotiate a fixed fee per credit as compensation for the Company's making available, marketing and selling such credits. Any such compensation shall be payable to the Company as part of the Variable Component of the Service Fee as provided in subsection 12.4(C).] (A) Nitrogen Credits Under State Purchase Program. The parties acknowledge that the State Commissioner of Environmental Protection, in accordance with and pursuant to 2001 Conn. Acts 180 (Reg. Sess.), may from time to time during the Term of this Service Contract purchase nitrogen credits created by the Plant as part of the State's nitrogen credit exchange program. The Company acknowledges that (i) the State Commissioner of Environmental Protection may audit the annual operating data of the Plant in order to assess compliance with the General Nitrogen Permit and (ii) the proceeds from the nitrogen credit exchange program's purchase of any available nitrogen credits created by the Plant, whether before or after completion of the Initial Capital Improvements pertaining to nitrogen removal, shall be for the sole account of the Borough.

(B) Nitrogen Credits Upon Termination of State Purchase Program. In the event that the State Commissioner of Environmental Protection ceases the program for State purchase of nitrogen credits under the nitrogen credit exchange program, the Borough may request the Company to, or the Company

may on its own initiative, undertake a study as to whether the Managed Assets are able to cost-effectively reduce the amount of nitrogen contained in the Plant Effluent such that nitrogen removal credits can be marketed by the Company under Applicable Law. If the results of the study conclude that nitrogen removal credits can be cost-effectively marketed, the Company, acting as agent of the Borough, shall market and sell any such nitrogen removal credits. The parties shall, at the time of implementation of any such marketing program, negotiate a fixed fee per credit as compensation for the Company's making available, marketing and selling such credits. Any such compensation shall be payable to the Company as part of the Variable Component of the Service Fee as provided in subsection 12.4(C).

(o) Amendment of Section 7.2 of the Service Contract. Section 7.2 of the Service Contract to read, in its entirety, as follows:

SECTION 7.2. COLLECTION SYSTEM MAINTENANCE, REPAIR AND REPLACEMENT. (A) Inspections, Cleaning and Blockage Removal. Commencing [in the Contract Year beginning July 1, 2002] on January 1, 2003, the Company shall, as part of the Collection System Fee, perform the following work with respect to the Collection System:

(1) the Company shall conduct scheduled inspections on a routine basis of the force main and Pump Station components of the Collection System to maintain their continuous operability in accordance with the procedures set forth in Appendix 14;

(2) the Company shall conduct routine and emergency cleaning of the Collection System in accordance with Contract Standards;

(3) the Company shall conduct inspections of the Collection System mains in accordance with an inspection plan developed by the Company and approved by the Borough as provided in Appendix 14;

(4) within one hour of observation or receipt of notice by the Company of a blockage in the Collection System that is causing a Back-Up, the Company shall take prompt action to remove such blockage as provided in Appendix 14; and

(5) within a reasonable time after observation or receipt of notice by the Company of a partial blockage in the Collection System that is significantly restricting the use or function of any component of the Collection System, the Company shall take action to remove such blockage.

The Borough shall make available to the Company on an "as-needed" basis the Borough's vacuum truck for its use in performing the Collection System services hereunder. The Borough shall make the Borough's vacuum truck available to the Company promptly upon request (no later than one hour) in the event of notice received by the Company of a blockage, partial blockage, Back-Up or other emergency, and shall otherwise make the vacuum truck available within a reasonable time (no later than one day) following request by the Company in order to perform other services relating to the Collection System.

(B) Responsibilities for Back-Ups. In the event of a Back-Up, the Company shall, as part of the Collection System Fee, conduct an investigation as to the cause of the Back-Up and advise both the Borough and any affected property owner of the location of the blockage or other condition causing the Back-Up. Responsibility for such Back-Ups shall be allocated as follows:

(1) if the Back-Up is caused by a failure at a Pump Station, the Company shall undertake necessary repairs at the Pump Station in accordance with, and subject to the limitations contained in, subsection (C) of this Section;

(2) if the Back-Up is caused by a blockage in the Collection System, the Company shall undertake necessary actions to remove the blockage as provided in subsection (A)(4) of this Section;

(3) if the Back-Up is caused by a blockage in a lateral/connection line, the Company shall advise the Borough and the affected property owner, it being the understanding of the parties that such blockage is the responsibility of the affected property owner; and

(4) the Company shall be responsible for any [Sanitation Cost or Property Loss (as such terms are defined in Attachment 1 to Appendix 14) for] clean-up or sanitization of the affected property owner's property to maintain the continued habitability of such affected property and costs of repairing or replacing such affected property damaged as a result of a Back-Up that is caused by the failure [to] of the Company to fulfill its obligations set forth in subsection (A)(4) or (A)(5) of this Section.

(C) Collection System Repair and Replacement. Except for Third Party Collection System Work to be performed pursuant to subsection (D) of this Section, t[T]he Company shall, as part of the Collection System Fee, conduct maintenance, repair and replacement activities with respect to the Collection System in accordance with Appendix 14[.] and the following provisions:

(1) Pump Station Repair and Replacement. In carrying out its repair and replacement obligations in relation to the [Collection System] Pump Stations, the Company shall be responsible for all repair and replacement costs at the Pump Stations up to a $10,000 limit (per Pump Station event) [and repair and replacement costs for the balance of the Collection System up to a $50,000 limit per Contract Year] ([each] as adjusted on July 1, 2003 and annually thereafter by the Adjustment Factor).

(2) Other Collection System Repair and Replacement. In conducting those types of minor repair and replacement activities with respect to the balance of the Collection System that can be performed without the engagement of a third party contractor, the Company shall only be responsible for such work as can be accomplished with available Company personnel and for costs of parts, supplies and other materials and third party services up to a $20,000 limit per Contract Year (as adjusted on July 1, 2003 and annually thereafter by the Adjustment Factor).

(3) Determination of Costs within Repair and Replacement Limits. If any repairs or replacements that are required to be made to [the] a Pump Station or the balance of the Collection System [as a result of any of the foregoing] involve costs in excess of the applicable limits set forth in paragraphs (1) or (2) above (each as adjusted on July 1, 2003 and annually thereafter by the Adjustment Factor), then the Company shall be responsible for the costs resulting from such event up to such limit and the Borough shall pay for all repair and replacement costs in excess thereof, subject to Cost Substantiation. The Company shall be solely responsible, however, for all repair and replacement costs, regardless of the costs thereof, if such repair and replacement is due to Company Fault. In determining the costs for any repair and replacement work for purposes of this Section, the Company may include the direct and actual costs related to parts, supplies and other materials and third party contractors used in connection with such repair or replacement work. The Company shall not include the costs of any of its employees assigned to the Managed Assets and the Collection System in determining the costs of any [maintenance,] repair or replacement work.

(4) Pump Station Repair and Replacement Work in Excess of Limit. The Company shall give the Borough reasonable advance notice (at least ten business days) of any Pump Station repair and replacement event expected to exceed the limits set forth in this Section. The Company shall obtain the prior written approval of the Borough before undertaking any Pump Station repair or replacement work hereunder that is reasonably expected to exceed $10,000 (as adjusted on July 1, 2003 and annually thereafter by the Adjustment Factor). The Company recognizes that the Borough shall have the right to withhold its approval of any such Pump Station repair or replacement work due to the unavailability of Borough funds for such purposes. The Company further recognizes that, for purposes of funding Pump Station repair or replacement work in excess of $10,000 (as adjusted on July 1, 2003 and annually thereafter by the Adjustment Factor), the Borough may use any unspent portion of the $81,500 appropriated for each Contract Year for Third Party Collection System Work under subsection (D) of this Section. If any Pump Station repair or replacement work requires work in excess of the $10,000 limit (as adjusted on July 1, 2003 and annually thereafter by the Adjustment Factor), and the Borough fails to timely approve such work, the Borough shall be responsible for all Loss-and-Expense imposed as a result of such failure to approve such Pump Station repair or replacement work.

(5) Other Collection System Repair and Replacement Work in Excess of Limit. If repairs or replacements are required to the Collection System (other than the Pump Stations) that cannot be performed with available Company personnel, or if such repair and replacement work performed by Company personnel would involve costs of parts, supplies and other materials and third party services in excess of the $20,000 limit per Contract Year (as adjusted on July 1, 2003 and annually

thereafter by the Adjustment Factor), then the Company shall either (i) implement the work as Third Party Collection System Work, subject to the prior approval of the Borough and the limitations set forth in subsection (D) of this Section; or (ii) obtain prior written approval of the Borough before undertaking any such Collection System work where costs of parts, supplies and other materials and third party services would exceed the $20,000 limit per Contract Year (as adjusted on July 1, 2003 and annually thereafter by the Adjustment Factor); provided that the Company recognizes that the Borough shall have the right to withhold its approval of any such Collection System repair and replacement work due to the unavailability of Borough funds for such purposes. If any Collection System repair or replacement work requires parts, supplies and other materials and third party services in excess of the $20,000 limit per Contract Year (as adjusted on July 1, 2003 and annually thereafter by the Adjustment Factor), and cannot be undertaken as Third Party Collection System Work under subsection (D) of this Section, and the Borough fails to timely approve such work, the Borough shall be responsible for all Loss-and-Expense imposed as a result of such failure to approve such Collection System repair or replacement work.

(6) Procurement Requirements under Applicable Law. If required by Applicable Law governing the procurement of public works, the Company shall, on behalf of the Borough (without change in responsibility between the parties for payment as provided in this subsection), solicit bids or otherwise contract the construction and installation of any such repair or replacement work, and the repair or replacement work shall be carried out by the successful third party contractor. [The Company shall give the Borough reasonable advance notice (at least ten business days) of any Pump Station repair and replacement event expected to exceed the limits set forth in this Section.]

(D) Third Party [Contractors for the] Collection System Work. For the Collection System services commencing on January 1, 2003, the Borough shall appropriate an amount equal to $40,750 for Third Party Collection System Work to be performed by unrelated third-party contractors through June 30, 2003. Commencing in the Contract Year beginning [July 1, 2002] July 1, 2003 and in each Contract Year thereafter, the Borough shall appropriate an amount equal to $81,500 (as adjusted on July 1, 2003 and annually thereafter by the Adjustment Factor) for [DEP-Mandated] Third Party Collection System Work to be performed by unrelated third party contractors. Third Party Collection System Work, for purposes of this subsection, includes the following work, in each case when performed by a third party contractor:

(1) DEP-mandated work identified in the Collection System O&M Manual and as provided in Appendix 14;
(2) Major repair and replacement of the Collection System (except for Pump Station repair and replacement work) as provided in Appendix 14; and
(3) Emergency repair and replacement of the Collection System.

The Company, as part of its Collection System responsibilities for the Collection System Fee, shall provide all necessary procurement, oversight and construction management of the Third Party Collection System Work. The Company, as part of its Collection System responsibilities and no later than 60 days prior to the end of each such Contract Year, shall submit to the Borough for review and [comment] approval its work scope and schedule of [DEP-Mandated] Third Party Collection System Work that is expected to be performed in the next Contract Year. This schedule shall be prepared by the Company in accordance with the Collection System O&M Manual and Appendix 14. The Company acknowledges that the Borough shall have the right from time to time to delete, defer or postpone any scheduled Third Party Collection System Work in order to allocate all or a portion of the appropriated $81,500 to respond to emergency and/or Pump Station repair or replacement work required in the Collection System during a Contract Year. If required by Applicable Law governing the procurement of public works, the Company shall, on behalf of the Borough, solicit bids or otherwise contract the [maintenance or repair work] Third Party Collection System Work, and such [maintenance or repair] work shall be carried out by the successful third party contractor. The Company shall not commit to any third party contracts for [DEP-Mandated] Third Party Collection System Work for amounts more than the $40,750 for the Contract Year ending June 30, 2003 or $81,500 limit (as adjusted on July 1, 2003 and annually thereafter by the Adjustment Factor), as appropriate, without the prior approval of the Borough; and if the Company, without the Borough's approval, commits to any third-party contracts in excess of such amounts, the Company shall be responsible for such excess contractual commitments. If [DEP-Mandated] Third Party Collection System Work requires work in excess of the $40,750 for the Contract Year ending June 30, 2003 or $81,500 limit (as adjusted on July 1, 2003 and annually thereafter by the Adjustment Factor), as appropriate, and the Borough fails to timely approve such additional amount, the Borough shall be responsible for all Loss-and-Expense imposed as a result of such failure to complete such [DEP-Mandated] Third Party Collection System Work. The Company shall pay all costs relating to such third party contractor maintenance or repair work and shall be reimbursed therefor by the Borough as provided in Section 12.5; provided that the Company shall have no obligation to pay for such [third party maintenance and repair work] Third Party Collection System Work in excess of the limits set forth in this subsection (other than for unapproved excess contractual commitments as provided herein) or such additional amounts as approved by the Borough.

(E) Odor Complaints. The Company shall promptly respond to and investigate odor complaints relating to the Collection System, including the Pump Stations. The Borough acknowledges the limitations of the Company's Collection System responsibilities as set forth in this Section; and subject to such limitations, the Company agrees to use reasonable efforts in accordance with Prudent Industry Practice to address and resolve, to the extent practicable, any verified odor complaints relating to the Collection System. The Company shall submit, together with the operations report required by Section 5.15, a monthly report to the Borough which includes: (1) a listing of all odor complaints related to the Collection System received during the month, with the

name, address, and nature of the complaint; and (2) all investigations conducted and actions taken or planned in response to such complaints. Nothing in this subsection shall be deemed to expand the Company's responsibilities with respect to the design, construction, operation, maintenance, repair or replacement of the Collection System or any part thereof.

(p) Addition of Subsection 9.4(B)(8) of the Service Contract. New subsection 9.4(B)(8) of the Service Contract to read, in its entirety, as follows:

(8) ICI Labor and Materials Payment Bond. The Company has obtained and delivered to the Borough an ICI Labor and Materials Payment Bond as required by Section 15.4. Such bond shall be substantially in the form set forth in the Transaction Forms.

(q) Addition of subsection 9.5(O) of the Service Contract. New subsection 9.5(O) of the Service Contract to read, in its entirety, as follows:

(O) Prompt Payment. The Company shall, within 30 days after payment to the Company by the Borough, pay any amounts due any Subcontractor, whether for labor performed or materials furnished, when the labor or materials have been included in a Requisition submitted by the Company and paid by the Borough. The Company shall include in each of its Subcontracts a provision requiring each Subcontractor to pay any amounts due under any of its subcontracts, whether for labor performed or materials furnished, within 30 days after such Subcontractor receives a payment from the Company which encompasses labor or materials furnished by such Subcontractor. Claims against the Company or any Subcontractor under this subsection shall be subject to the provisions of Section 49-41a of the Connecticut General Statutes, as amended.

(r) Amendment of Section 12.1 of the Service Contract. Section 12.1 of the Service Contract to read, in its entirety, as follows:

SECTION 12.1. COMPENSATION GENERALLY. From and after the Commencement Date, the Borough shall pay the Service Fee to the Company as compensation for the Company's performing the Management Services (other than the Management Services relating to the Collection System) under this Service Contract. Commencing on [the Contract Year beginning July 1, 2002] January 1, 2003, the Borough shall pay the Collection System Fee to the Company as compensation for the Company's performing the Management Services relating to the Collection System under this Service Contract. The Service Fee and Collection System Fee shall each be calculated according to this Article. Examples of the calculation of the Service Fee and the Collection System Fee and the application of the Adjustment Factor are included in Appendix 21.

(s) Amendment of Section 12.2 of the Service Contract. Section 12.2 of the Service Contract to read, in its entirety, as follows:

SECTION 12.2. COLLECTION SYSTEM FEE. The Collection System Fee for the Collection System services performed by the Company in accordance with Section 7.2 (other than the Third Party Collection System Work in subsection 7.2(D)) from January 1, 2003 through June 30, 2003 shall be $113,226.50. The Collection System Fee for such Collection System services for the Contract Year beginning [July 1, 2002] July 1, 2003 shall be $226,453 (as adjusted on July 1, 2003 by the Adjustment Factor). The amount for any subsequent Contract Year shall be determined by multiplying (a) the Collection System Fee for the previous Contract Year, times (b) the Adjustment Factor.

(t) Amendment of Subsection (C)(2) of Section 12.4 of the Service Contract. Subsection (C)(2) of Section 12.4 of the Service Contract to read, in its entirety, as follows:

(2) Nitrogen Removal Element. Subject to the conditions of subsection 5.18(B), t[T]he Nitrogen Removal Element of the Variable Component shall be payable to the Company in an amount equal to a fixed fee for each nitrogen removal credit made available, marketed and sold by the Company hereunder, such amount to be negotiated by the parties pursuant to [Section] subsection 5.18(B).

(u) Amendment of Section 12.5 of the Service Contract. Section 12.5 of the Service Contract to read, in its entirety, as follows:

SECTION 12.5. REIMBURSABLE COSTS CHARGE. For the Collection System services commencing on January 1, 2003 and ending on June 30, 2003, the Reimbursable Costs Charge shall be in an amount equal to the actual and direct expenses (without markup for profit, administration or otherwise) paid by the Company to unrelated third-party contractors for Third Party Collection System Work as provided in subsection 7.2(D), up to a maximum amount of $40,750 unless a higher amount is approved by the Borough. Commencing [in July 1, 2002] on July 1, 2003, the Reimbursable Costs Charge shall be in an amount equal to the actual and direct expenses (without markup for profit, administration or otherwise) paid by the Company to unrelated third-party contractors for [DEP-Mandated] Third Party Collection System Work as provided in subsection 7.2(D), up to a maximum amount of $81,500 per Contract Year (adjusted on July 1, 2003 and annually thereafter based on the Adjustment Factor) unless a higher amount is approved by the Borough.

(v) Amendment of Subsection (A)(1) of Section 13.2 of the Service Contract. Subsection (A)(1) of Section 13.2 of the Service Contract to read, in its entirety, as follows:

(1) Security for Performance. The failure of the Company to obtain or maintain in full force and effect any Security Instrument required by Article XV as security for the performance of this Service Contract (unless the Borough has released the Company from its obligation to provide a Security Instrument pursuant to Section [15.4] 15.5), without excuse for Uncontrollable Circumstances;

(w) Addition of Section 15.4 of the Service Contract. New Section 15.4 of the Service Contract to read, in its entirety, as follows:

SECTION 15.4. ICI LABOR AND MATERIALS PAYMENT BOND. (A) Requirements. On or before each initial construction commencement date for each Initial Capital Improvement and Capital Modification, the Company shall provide financial security for the performance of its construction obligations hereunder through ICI Labor and Materials Payment Bonds issued by a surety company: (1) approved by the Borough having a rating of "A" in the latest revision of the A.M. Best Company's Insurance Report; (2) listed in the United States Treasury Department's Circular 570, "Companies Holding Certificates of Authority as Acceptable Sureties on Federal Bonds and as Acceptable Reinsurance Companies"; and (3) properly registered and licensed to conduct business in the State. The ICI Labor and Materials Payment Bonds shall be issued in the name of the Company, as principal, and the Borough, as obligee, in the amount of the Fixed ICI Design/Build Price, to be adjusted to account for any Fixed ICI Design/Build Price Adjustments, and shall remain open until the Final Completion of the applicable Initial Capital Improvements and Capital Modification. The Company shall be responsible throughout the Term of this Service Contract for monitoring any surety company issuing a ICI Labor and Materials Payment Bond required by this Section in accordance with the provisions of subsections 15.2(B)(1) and 15.2(B)(2).

(B) Reimbursement by Borough. The Borough, in accordance with this subsection, shall reimburse the Company an amount equal to the premium (without markup for profit, administration or otherwise) paid by the Company for obtaining and maintaining the ICI Labor and Materials Payment Bond required for the Initial Capital Improvements through the actual date of Final Completion or the scheduled date of Final Completion for the Initial Capital Improvements or Capital Modification, which ever is earlier. Such premium shall be reimbursed by the Borough within 30 days following submittal of invoices therefor by the Company. The base premium for the ICI Labor and Materials Payment Bond for the Initial Capital Improvements is anticipated to be $15,564 assuming a 730-day duration, with an additional surcharge of 1% of the base premium for extension of the bond for each 30-day period greater than 730 days. The parties acknowledge that, as of the Commencement Date, the last applicable Scheduled ICI Acceptance Date is 660 days and that Final Completion is scheduled to occur no later than 30 days thereafter (or 690) as provided by subsection 10.11(A). Based on the foregoing, and assuming that the Scheduled ICI Acceptance Date and Final Completion are not extended pursuant to subsection 10.9(B), the Borough's obligation to reimburse the Company hereunder with respect to the premium for the ICI Labor and Materials Payment Bond would be determined as follows:

1. If Final Completion occurs on a day that is less than or equal to 730 days, the Borough shall reimburse the Company an amount equal to the base premium only.

2. If Final Completion occurs on a day that is greater than 730 days and the scheduled date for Final Completion is less than or equal to 730 days, (1) the Borough shall reimburse the Company an amount equal to the base premium, and (2) the Company shall be responsible for the additional surcharge based on the number of days Final Completion occurs beyond 730 days.

3. If Final Completion occurs on a day that is greater than 730 days and the scheduled date for Final Completion is greater than 730 days, (1) the Borough shall reimburse the Company an amount equal to the base premium plus the additional surcharge based on the number of days Final Completion occurs up to and including the scheduled date for Final Completion, and (2) if applicable, the Company shall be responsible for the additional surcharge based on the number of days Final Completion occurs beyond the scheduled date for Final Completion.

The parties recognize that the Scheduled ICI Acceptance Date and the scheduled date for Final Completion may be extended on a day for day basis pursuant to subsection 10.9(B). In such event, the scheduled date for Final Completion of 690 days as set forth in items 1 through 3 in the above example would likewise be extended on a day for day basis. For example, if an Uncontrollable Circumstance extends the Scheduled ICI Acceptance Date by 60 days, Final Completion would be scheduled to occur no later than 30 days after 720 days (or 750 days); and in such event, the Borough would reimburse the Company for the base premium plus the surcharge for one 30-day extension period.

(x) Amendment of Section 15.4 of the Service Contract. Section 15.4 of the Service Contract to read, in its entirety, as follows:

SECTION [15.4] 15.5 COST OF PROVIDING SECURITY FOR PERFORMANCE. (A) Inclusion in Service Fee. Except as otherwise provided herein, the cost and expense of obtaining and maintaining the Security Instruments required under this Article as security for the performance of the Company's obligations hereunder shall be borne by the Company without reimbursement from the Borough.

(B) Release of Security. The Borough shall have the right at any time to release the Company from its obligation to provide the Letter of Credit required under this Article. Upon any such release and for such time as the Borough does not reinstate the Letter of Credit requirement hereunder, the Company shall credit the Borough an amount equal to $3,250 (as adjusted annually by the Adjustment Factor) for each Contract Year the Letter of Credit has been released. Notwithstanding the Borough's having elected to release the Letter of Credit hereunder, the Borough may direct the Company at any time thereafter to reinstate such Letter of Credit. In such event, the Company shall within 15 days following such notice of reinstatement furnish the Borough with the reinstated Letter of Credit.

(y) Amendment of Section 16.13 of the Service Contract. Section 16.13 of the Service Contract to read, in its entirety, as follows:

SECTION 16.13 NOTICE OF LITIGATION AND OTHER MATTERS. (A) Notice of Litigation. In the event the Company or Borough receives notice of or undertakes the defense or the prosecution of any Legal Proceedings, claims, or investigations in connection with the Managed Assets and the Collection System, the party receiving such notice or undertaking such prosecution shall give the other party timely notice of such proceedings, claims or investigations and shall inform the other party in advance of all hearings regarding such proceedings, claims or investigations.

(B) Notices Relating to Borough Financing. In the event that the Borough receives or gives notice of the occurrence or threatened occurrence of an event of default, or the exercise of any remedies, under any agreement relating to the financing (including any municipal lease financing) of the Initial Capital Improvements or any other improvements or work to be performed by the Company under this Service Contract, the Borough shall within two business days of the receipt or giving thereof provide a copy of such notice to the Company.

(z) Amendment of the Introductory Paragraph of Section 2.0 in Appendix 2 to the Service Contract. Introductory paragraph of Section 2.0 in Appendix 2 to the Service Contract to read, in its entirety, as follows:

2.0 WWTP UPGRADES FOR NITROGEN REMOVAL

The Company shall provide a nitrogen removal system that shall be capable of meeting [the proposed] a TMDL effluent end of pipe load of [247.4] 246 lbs/day total nitrogen on an average annual basis up to a Sewer Influent flow of 8.11 MGD, while meeting all other effluent requirements of Applicable Law. Completion of the nitrogen removal system shall include, at a minimum, the following elements:

- Removal of existing air diffuser systems from aeration basins 1, 2, 4 and 5 (see Attachment 1 to this Appendix).

- Installation of four (4) megaprop type submersible mixers (two (2) each in aeration basins 1 and 4), including the necessary lifting and lowering hardware. Mixers shall be similar and of equivalent quality to USFilter/EMU products type TR325.31-4/12, with propeller diameter of 2400 mm and a 31 rpm, 7.0 hp motor.

- Installation of fine bubble diffuser aeration systems in aeration basins 2, 3, 5 and 6, consisting in total of six thousand (6000) EPDM membrane disc type diffusers. Diffusers in aeration basins 2 and 5 shall be mounted on an existing manifold; diffusers in aeration basins 3 and 6 shall be mounted on a new manifold. The installation of the new

aeration system shall be implemented in coordination with Appendix 16 Odor Control Plan.

- Installation of two (2) recirculation pumps, one each in aeration basins 3 and 6. Each recirculation pump shall be similar and of equivalent quality to USFilter/EMU products model KPR 760-6+T484-10/36, with a capacity of 22,600 gpm at 10-ft TDH. The pumps shall be designed for wet sump installation. The pump and motor casing shall be made of cast iron and the propeller blades shall be stainless steel.

- Installation of 36-inch recycle lines from aeration basins 1 and 3 and aeration basins 4 and 6.

- Installation of all appurtenant structures, equipment and systems necessary to make the nitrogen removal system fully functional and operational and in compliance with all local, state and federal guidelines and requirements.

The nitrogen removal system shall be constructed in such a manner that the existing system will maintain compliance with the NPDES Permit at all times.

[When enacted, the] The Company shall be required to [meet the final DEP requirements for] achieve Total Maximum Discharge Limits (TMDL) for nitrogen [, currently recognized by the Borough and the Company to be] equal to an effluent total nitrogen level of [247.4] 246 lbs/day on an annual average basis. The Company acknowledges that the ICI for nitrogen removal will achieve said performance. Further, the Company shall be fully responsible for WWTP compliance with this TMDL under all flow conditions (average and peak loading) up to the allowable flows and loadings of the WWTP (see Appendix 3).

(aa) Amendment of Section 2.0 in Appendix 3 to the Service Contract. Section 2.0 in Appendix 3 to the Service Contract to read, in its entirety, as follows:

2.0 PLANT DESIGN CAPACITY AND CAPABILITIES AFTER INITIAL CAPITAL IMPROVEMENTS

The completion of the Initial Capital Improvements shall not diminish the existing capacity of the WWTP. In addition to the existing design capacity and capabilities described above, the Initial Capital Improvements shall result in a reduction of total nitrogen in the Plant's effluent waste stream to a level for compliance with the [pending] TMDL regulation for total nitrogen. This shall mean that the Company shall operate the Plant such that the Plant's effluent maximum end of pipe waste load discharge for total nitrogen shall not exceed [247.4] 246 lbs/day on an average annual basis up to a Sewer Influent flow capacity of 8.11 MGD. Beyond that flow volume, the Company will utilize Prudent Industry Practice to reduce the Plant's effluent maximum end of pipe waste load discharge for total nitrogen to the extent practical, noting the limitations of the nitrogen removal system. In addition to the reduction of total nitrogen, the Plant with the ICIs shall meet all discharge requirements detailed in the NPDES Permit. The Company shall not, during the Term of the Service

Contract, without the written approval of the Borough, petition or otherwise request a Governmental Body to reduce the applicable nitrogen requirements of any Governmental Approval such that the Company would be able to operate the nitrogen removal equipment installed as part of the Initial Capital Improvements at a level less than that required by this Section. The Company acknowledges that any such action would constitute an action unfairly detrimental to the Borough as prohibited by Section 5.12(A) of the Service Contract.

(bb) Amendment of the Introductory Paragraph in Appendix 6A to the Service Contract. Introductory paragraph in Appendix 6A to the Service Contract to read, in its entirety, as follows:

Subject to the provisions of Section 9.5 of the Service Contract and Appendix 2A, the Company shall be entitled to progress payments consistent with the completion of milestones related to each of the Collection System Capital Improvements as defined in this Appendix 6A. The upgrades for the Collection System will commence on [July 1, 2002] January 1, 2003 ("Collection System Commencement Date"). This Appendix 6A contains the milestones and associated percentages to be used to determine the amount to which the Company is entitled regarding the design, construction and acceptance of the Collection System Capital Improvements. The milestones relate to completion of an activity; no payments for partial completion of each milestone will be made.

(cc) Amendment of Section 1.2 of Appendix 14 to the Service Contract. Section 1.2 of Appendix 14 to the Service Contract to read, in its entirety, as follows:

1.2 Collection System

1.2.1 Operation and Maintenance Generally

The Company shall provide continuous, full-service Management Services for the Collection System in both its existing condition, and during and after the completion of Collection System Improvements described in Appendix 2A and other future modifications are completed, all of which services shall be in accordance with the Service Contract, meet or exceed Prudent Industry Practice, and be in full compliance with Applicable Law. The scope of these services shall include those services described in Section 1.1 of this Appendix 14 (Wastewater Treatment Plant), and also the specific items listed below.

1. Provide for capital repair and replacement, and repair or replace any Collection System materials, equipment or structures, which are in need of repair or fail during the Term of the Service Contract to the limits stated below.

   - Repair and replacement of the five Pump Stations up to a $10,000 limit per Pump Station event, such limit escalated by the

Adjustment Factor described in Section 12.4(D) of the Service Contract.

- [Repair and replacement of the balance of the Collection System (excluding Pump Station repairs and replacements) up to an amount of $50,000 per year, such limit escalated by the Adjustment Factor described in Section 12.4(D) of the Service Contract.] Minor repair and replacement activities with respect to the balance of the Collection System that can be performed with available Company personnel and for costs of parts, supplies and other materials and third party services up to a $20,000 limit per Contract Year (as adjusted on July 1, 2003 and annually thereafter by the Adjustment Factor).

2. Provide for all routine maintenance and repair for the five wastewater pumping stations including:

   - All utility costs for the pumping stations (including electricity and back-up fuel oil
   - Pumps, valves, control systems, electrical systems
   - Painting of interior and exterior of all Collection System structures and appurtenances

3. [In addition, the following other] Provide for the following sewer collection system improvements and/or maintenance items [shall be completed, subject to the $50,000 annual cap detailed in Item 1 above], except where (i) third party contractors are required to undertake or complete such work in which event the third party contractor costs are subject to Section 1.2.2 hereof, or (ii) the costs of parts, supplies and other materials and third party services used in repair and replacement work exceeds a limit of $20,000 per Contract Year (as adjusted on July 1, 2003 and annually thereafter by the Adjustment Factor):

   - Collect all data gathered in the course of these operation and maintenance services associated with the sewer collection system and provide the information in a database format for Borough records either by updating the old information or by establishing new information. This includes repair record drawings or as-built drawings, logs of complaints, sewer backup responses, etc.
   - Add, repair and/or replace manholes on an as needed basis.
   - Replace worn manhole rings and covers as needed.
   - Raise manhole rings and covers for Borough road reconstruction.
   - Repair or replace broken sewer services or mains caused by the negligence of others.

- Carry out service connection repairs identified through investigations and inspections preformed by the Company as part of the work described in this Appendix 14 or as identified by the Borough.
- Carry out all necessary activities associated with flood control measures necessary for protection of Collection System Managed Assets pumping stations (i.e., sandbagging pump station assets in low lying areas, coordinate with Borough staff to identify plugged drainage pipes in areas where these could result in flood damage to pumping station, etc.)

4. Respond promptly to (within one (1) hour after notice, or as otherwise required) and rectify all normal problems and emergencies relating to the Collection System. The Company shall as soon as practically possible notify the Borough in the case of any emergency.

5. The Company shall, within three (3) years of the commencement of Collection System O& M services, prepare a list of up to twenty (20) trouble areas in the Collection System which have a history of sewer backups. This list will be presented to the Borough for review and approval. Upon approval, these areas will be flushed <u>at least</u> once per year, <u>or more frequently if Back-Up problems persist,</u> as a preventative measure to prevent sewer backups. [This work will be carried out in addition to the routine sewer cleaning described in Section 1.2.2 below.] <u>In addition to the foregoing preventative sewer flushing responsibilities, the Company shall provide routine sewer flushing as described in the Collection System O&M Manual (i.e., routine sewer flushing up to $9,000 per Contract Year (as adjusted July 1, 2003 and annually thereafter by the Adjustment Factor)).</u>

6. The Company shall respond to all sewer Back-Ups within one (1) hour after notice and attempt to identify the cause. The response to the Back-Up will be as follows:

   - If the cause is identified as a problem (i.e. blockage) in a service connection, the Company's on-site representative will notify the homeowner of the problem who will be responsible for clearing the blockage.

   - If the cause is identified as a blockage in the Collection System, then the Company will take all actions to clear the blockage.

   - If the cause is a failure at a pump station, the Company will take immediate action to remedy the situation and will be responsible for any clean up needed after such a Back-Up.

7. The Company shall keep a log of all sewer Back-Ups and forward a copy to the Borough on a monthly basis. <u>The Company shall also</u>

report all Back-Ups to all Governmental Bodies as and to the extent required by Applicable Law.

8. Maintain, calibrate and read any meters (existing and future) associated with monitoring flows from Participating Entities.

1.2.2 [DEP Mandated] Third Party Collection System Work

The Company shall [complete all DEP Mandated] schedule, implement and complete Third Party Collection System Work as described in the Wastewater Collection System Operations and Maintenance Manual (Reference Document F) and in this Section. [Specifically included in this work will be the following] Work to be included as Third Party Collection System Work shall include:

1. Root treatment of approximately 4000 lineal feet of sewer mains annually.

2. Annual video sewer pipe inspection in the amount of approximately $20,000, escalated by the Adjustment Factor described in Section 12.4(D) of the Service Contract.

3. Repair and replacement of the Collection System that require the use of third party contractors (excluding Pump Station repairs and replacements).

The Company, as part of its Collection System responsibilities for the Collection System Fee, shall provide all necessary procurement, oversight and construction management of the Third Party Collection System Work.

In the completion of this work, the Company will be allowed to utilize Subcontractors to carry out certain tasks which will be identified as Third Party [DEP Mandated] Collection System Work. [Third Party DEP Mandated Collection System Work shall include video inspection and chemical root treatment.] Unless otherwise approved by the Borough, payment for Third Party [DEP Mandated] Collection System Work will be treated as a reimbursable expense paid to the [Contractor] Company by the Borough in an amount not to exceed (i) $40,750 for the work performed during the period of January 1, 2003 through June 30, 2003, and (ii) [$81,000 per year] $81,500 (as adjusted on July 1, 2003 and annually thereafter by the Adjustment Factor) for the work performed in the Contract Year commencing on July 1, 2003 and each Contract Year thereafter. [, escalated by the Adjustment Factor as described in Section 12.4(D) of the Service Contract.]

In the execution of Third Party [DEP Mandated] Collection System Work, the Company will prepare an annual work plan which will detail the scope of the work and schedule involved that [year] Contract Year in the manner provided in Section 7.2(D). This plan will be submitted to the Borough for approval as provided in Section 7.2(D). Once approved, the Company will obtain, at a minimum, three competitive quotes for Third Party [DEP

Mandated] Collection System Work, with the work being awarded to the lowest responsible bidder. If upon receipt of Third Party [DEP Mandated] Collection System Work bids, the Company determines that the annual budget of [$81,000] $40,750 or $81,500, as appropriate, may be exceeded through the execution of the lowest responsible bidder, the Company shall notify the Borough immediately and revise (and resubmit for approval) the work scope in the annual plan of [DEP Mandated] Collection System Work so that the budget will not be exceeded. If necessary, the Company will re-bid the Third Party [DEP Mandated] Collection System Work. The Company acknowledges that the Borough shall have the right from time to time to delete, defer or postpone any scheduled Third Party Collection System Work in order to allocate all or a portion of the appropriated $40,750 or $81,500, as appropriate, to respond to emergency and/or Pump Station repair or replacement work required in the Collection System during a Contract Year.

(dd) Amendment of Section 2.0 of Appendix 21 to the Service Contract. Section 2.0 of Appendix 21 to the Service Contract to read, in its entirety, as follows:

2.0 COLLECTION SYSTEM FEE CALCULATIONS

The Collection System Fee for the Collection System services performed by the Company from January 1, 2003 through June 30, 2003 shall be $113,226.50. The Collection System Fee for the Contract Year beginning on [July 1, 2002] July 1, 2003 shall be $226,453 (as adjusted on July 1, 2003 by the Adjustment Factor). The amount for any subsequent Contract Year shall be determined by multiplying (a) the Collection System Fee for the previous Contract Year, times (b) the Adjustment Factor.

(ee) Addition of Transaction Form E to the Service Contract. New Transaction Form E ("Form of ICI Labor and Materials Payment Bond") to read, in its entirety, as set forth Attachment A to this First Amendment.

(ff) Addition of Reference Document N to the Service Contract. New Reference Document N ("General Permit for Nitrogen Discharges") to read, in its entirety, as set forth Attachment B to this First Amendment.

Section 2. Entire Agreement. This First Amendment, and the Service Contract, to the extent not modified hereby, set forth the entire understanding of the parties hereto with respect to the subject matter hereof and supercedes all prior understandings and communications, whether written or oral with respect to such subject matter.

Section 3. Severability. The invalidity or inability to enforce any provision of this First Amendment will not affect the other provisions, and this First Amendment will be construed in all respects to the extent possible to fulfill the purposes of this First Amendment as if such invalid or unenforceable provision were omitted. To the extent any provision of this First Amendment is held to be invalid or unenforceable, the parties agree to negotiate in good faith in an effort to adopt revised provisions designed to reflect the original intention of the parties and the purposes of the First Amendment.

Section 4. Singular and Plural. Singular words shall connote the plural as well as the singular, and vice versa (except as indicated), as may be appropriate.

Section 5. References; Headings. Unless otherwise indicated, references within this First Amendment to articles, sections or subsections are references to articles, sections or subsections in or to the Service Contract. The headings preceding the text of the articles, sections or subsections of this First Amendment shall be solely for convenience of reference and shall not affect its meaning, construction or effect.

Section 6. Successors. This First Amendment shall be binding upon and inure to the benefit of, the Borough and the Company, and their respective successors and permitted assigns.

Section 7. Third Party Beneficiaries. The provisions of this First Amendment are solely for the benefit of the Borough and the Company and nothing in this First Amendment shall be construed to give any other person any legal or equitable right, remedy or claim under or in respect of this First Amendment or any provision contained herein.

Section 8. Governing Law. This First Amendment shall be interpreted and construed in accordance with the applicable laws of the State.

Section 9. Counterparts; Effective Date. This First Amendment may be executed in any number of original counterparts. All such counterparts shall constitute but one and the same instrument. This First Amendment shall be immediately effective upon the completed execution hereof.

IN WITNESS WHEREOF, the parties have caused this First Amendment to be executed and delivered by their duly authorized officers or representatives as of the date first above written.

[Borough Seal] THE BOROUGH OF NAUGATUCK, CONNECTICUT

ATTEST:

_____ By:_____
Joan B. Taf
Mayor

THE WATER POLLUTION CONTROL AUTHORITY OF THE BOROUGH OF NAUGATUCK

ATTEST:

_____ By:_____
Ronald Merancy
Chairman

U.S. FILTER OPERATING SERVICES, INC.

ATTEST:

_____ By:_____
Steven J. Kruger
Vice President and General Manager
Northeast Business Center

Attachment A to the First Amendment

TRANSACTION FORM E

FORM OF ICI LABOR AND MATERIALS PAYMENT BOND

[Form to be provided by the Company on or before the Commencement Date.]

Attachment B to the First Amendment

[Attach Reference Document N – General Permit for Nitrogen Discharges]