

SETTLEMENT AGREEMENT

This Settlement Agreement is entered into as of this ____ day of December, 1992, by and between DIAMOND HEAD WATER SUPPLY CORPORATION (hereinafter "the Corporation"), a Texas Corporation organized pursuant to Tex. Rev. Civ. Stat. Ann. art. 1434a, DIAMOND HEAD ON LAKE CONROE ASSOCIATION, INC., a Texas non-profit corporation, REGENCY POINT TOWNHOME ASSOCIATION, INC. (hereinafter "the Association"), a Texas non-profit corporation, and JO NELL DREW.

The Corporation is a retail public utility that provides water and sewer service to the Diamond Head on Lake Conroe subdivision and the Regency Point Townhome subdivision in Montgomery County, Texas. Diamond Head on Lake Conroe Association, Inc. is the homeowners' association for the Diamond Head on Lake Conroe subdivision. The Association and the individual townhome owners in the Regency Point Townhome subdivision are water and sewer service customers of the Corporation. Jo Nell Drew is a townhome owner and the owner of the undeveloped lots in the Regency Point Townhome subdivision. Disputes have arisen between the Corporation, Diamond Head on Lake Conroe Association, Inc., the Association, and Jo Nell Drew concerning membership in the Corporation, rates charged by the Corporation, and maintenance of certain water and sewer lines and a lift station serving the Regency Point Townhome subdivision, among other things. The Corporation, Diamond Head on Lake Conroe Association, Inc., the

Association and Jo Nell Drew desire to resolve all disputes between themselves, and in order to do so hereby agree to the following:

Section 1. The Corporation agrees to seek a certificate of convenience and necessity with a service area that includes at least the Diamond Head subdivision and the Regency Point Townhome subdivision.

Section 2. The Corporation agrees that the Association and each lot owner in the Regency Point Townhome subdivision are members of the Corporation, with all of the rights of members provided by law or by the organization documents of the Corporation.

Section 3. The Corporation agrees to hold its annual meeting for the year 1993 in January 1993. The Corporation agrees that at least one Corporation director will be elected at the January 1993 meeting.

Section 4. The Corporation agrees to accept and maintain the water and sewer lines, the lift station, and all other facilities serving the Regency Point Townhome subdivision, up to the individual meter of each customer.

Section 5. The Association agrees to transfer \$5,760 to Diamond Head on Lake Conroe Association, Inc. as a contribution to capital as of the date of this Settlement Agreement.

Section 6. Jo Nell Drew agrees to transfer \$2,060 to the Corporation as of the date of this Settlement Agreement.

Section 7. The Association agrees to pay, and the Corporation agrees to accept, \$1,567.50 per month in payment for water and sewer service to the Association and all other customers in the Regency Point Townhome subdivision for November and December 1992.

Section 8. The Corporation agrees that the payments made by the Association pursuant to Sections 5, 6 and 7 of this Settlement Agreement represent full payment for all charges of any kind or nature due to the Corporation and Diamond Head on Lake Conroe Association, Inc. from the Association or any customer in the Regency Point Townhome subdivision prior to January 1, 1993.

Section 9. The Corporation agrees that beginning January 1, 1993, it will begin serving the Association and all other customers in the Regency Point Townhome subdivision individually and at the same rates and upon the same terms that it serves all other members of the Corporation. The Corporation agrees that beginning January 1, 1993, the Association will not be liable for the bill of any customer in the Regency Point Townhome subdivision other than itself.

Section 10. The Corporation agrees to take all reasonable measures to address water quality problems experienced by the Regency Point Townhome subdivision.

Section 11. Jo Nell Drew agrees to pay standby fees on 25 lots at the same rate and upon the same terms as standby fees are

charged to all other members of the Corporation beginning January 1, 1993; provided, however, that those standby fees shall be adjusted retroactive to January 1, 1993, to reflect the actual number of lots subject to standby fees owned by Jo Nell Drew on the first of the following dates:

- (a) the date of completion of replatting of the lots owned by Jo Nell Drew that are subject to the standby fees;
- (b) the date of completion of the transfer of ownership of any portion of the lots owned by Jo Nell Drew that are subject to standby fees; or
- (c) June 1, 1993.

Jo Nell Drew agrees to pay standby fees on all lots that she owns that are subject to the standby fee at the same rate and upon the same terms as standby fees are charges to all other members of the Corporation beginning June 1, 1993.

Section 12. Should any provision of this Settlement Agreement subsequently be determined to be invalid, illegal or unenforceable, said provision shall at that time be deemed severed from this Settlement Agreement, but only to the specific extent of its invalidity, illegality or unenforceability, and such reformed provision as well as all other provisions of the Settlement Agreement shall be unaffected and shall continue in full force and effect.

Section 13. This Settlement Agreement is the exclusive statement of the agreement of the parties with respect to its subject matter and supersedes all prior agreements, negotiations, representations, proposals and awards, written or oral, relating to its subject matter. No addition to or modification of any provision of the Settlement Agreement shall be binding upon the parties unless made in writing and signed by the parties. No course of dealing or usage of trade or course of performance shall be relevant to explain or supplement any term expressed in this Settlement Agreement.

DIAMOND HEAD WATER SUPPLY CORPORATION

By _____
President

DIAMOND HEAD ON LAKE CONROE
ASSOCIATION, INC.

By _____
President

REGENCY POINT TOWNHOME
ASSOCIATION, INC.

By _____
President

JO NELL DREW

By _____
Jo Nell Drew