



August 14, 2006

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**Vice-President**

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**Interim General Manager**

Daniel M. Bleskey

**Utilities Manager**

George J. Milanés

**Fire Chief**

Matt Jenkins

Marshall W. Davert  
Montgomery Watson Harza, Americas, Inc.  
3321 Power Inn Road, Suite 300  
Sacramento, CA 95826

**SUBJECT: TERMINATION OF CONTRACT FOR DEFAULT:  
WASTEWATER PROJECT MANAGEMENT AND  
PREPARATION OF PROJECT REPORT (AS  
AMENDED)**

Dear Mr. Davert:

This letter is official notification that the subject Contract, as amended, has been terminated effective immediately.

Montgomery Watson Harza (MWH) has knowingly violated numerous contract provisions and failed to correct these deficiencies in accordance with the contract agreement.

The Los Osos Community Services District (District), during the course of the analysis of MWH's performance related to the subject contract, has determined that MWH is in material breach of certain contract terms and has failed to perform in accordance with the contract provisions as promised by MWH. The termination for default is based on the following:

Violation of Section 4 entitled "Scope of Services", in that MWH:

- Has had numerous substantive contacts and communications with contractors, regulators, governmental agencies, litigants and other third parties and has not copied the District, despite the District's request for such copies, minutes and transcripts of such contacts and communications.

Violation of Section 6 entitled "Compensation of Consultant", in that MWH and individuals employed by MWH:

- Have submitted invoices not in accordance with the Agreement;
- Have submitted invoices and has been compensated multiple times for the same work;
- Has knowingly submitted multiple false claims in violation of Government Code (GC) §12650.



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Violation of Section 10 entitled "Performance Standards", in that MWH:

- Calculated an effluent application rate for the Broderson Leach Fields was not in compliance with normally accepted standards and guidelines as established by the United States Environmental Protection Agency (USEPA) and the State Water Resources Control Board (SWRCB). On July 7, 2006, the District requested that MWH explain the discrepancy and justify the application rates used in the Project Report and that served as the basis of design. On July 15, 2006, MWH refused to provide this information (Section 10(A) and (B));
- Has knowingly submitted multiple false claims in violation of GC §12650 (Section 10(A));
- Has knowledge of said false claims and not disclosed said false claims in violation of GC §12651(Section 10(A));
- Submitted inaccurate, false and misleading information to the District, local and state agencies in support of, but not necessarily limited to, regulatory requirements, permits, financing and licenses (Section 10(A) and (B));
- Failed to have documents stamped by a registered professional engineer that was in responsible charge of the work at the time of submission of critical reports in violation of the Business and Professions Code (BPC) § 6735 (Section 10(A), (B) and (C));
- Failed to provide a project manager for the period of March 3, 2000 through January 30, 2002 that was a registered professional engineer in responsible charge of the work in violation of BPC §6700 through §6706.3 and BPC §6785 through §6788 and the rules of professional conduct as established by the BPC and administered by the California Department of Consumer Affairs.

Violation of Section 12 entitled "Conflict of Interest", in that MWH has aggressively acted, on numerous instances, in a manner that is a clear conflict of interest but at a minimum is the appearance of a conflict of interest as follows:

- Has knowingly and with malice actively worked with regulatory agencies in a manner that is not in the best interests of the District;
- Has knowingly and with malice actively worked with third parties in a manner that is not in the best interests of the District;
- Has knowingly and with malice actively worked with contractors in a manner that is not in the best interests of the District;
- Has knowingly and as a matter of public record made financial contributions to entities that are litigating against the District in an effort to stop the project;
- Has knowingly and as a matter of public record made financial contributions to government officials in a manner so as to influence courses of actions that are not in the best interests of the District;
- Has knowingly and as a matter of public record made financial contributions to special interest groups in a manner that are not in the best interests of the District;
- Has knowingly and with malice had inappropriate contacts and communications with parties litigating against the project and said contacts and communications are not in the best interests of the District
- Failed to notify the District of the above described conflicts of interest or the appearance of a conflict of interest.

The numerous actions that violate Section 12 were clearly designed to benefit parties at the District's risk, including but not limited to MWH, third parties and the contractors in such a manner to demonstrate MWH's loss of objectivity in representing the best interests of the District.

Violation of Section 14 entitled "Ownership of Documents" and Section 15 entitled "Records, Audit and Review", in that MWH:

- Has not provided copies of all electronic data as requested by the District including but not limited to e-mails, data files, CAD data, etc.;

Violation of Section 17 entitled "Insurance", in that MWH:

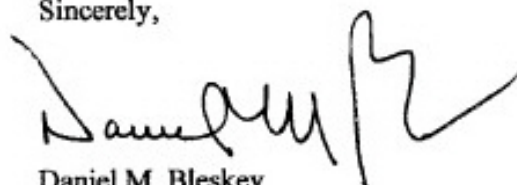
- Has not provided a copy of the original Certificates of Insurance;
- Has not provided any proof of Professional Liability Insurance;
- Has not provided any Certificates of insurance evidencing renewal of coverage.

The District is continuing its investigation into the circumstances regarding MWH's contract performance and reserves all rights and remedies per Section 29 of the Contract Agreement.

As provided under Section 34 of the contract agreement, MWH is directed to provide all requested documents immediate upon receipt of this notice of termination for default.

The District is formulating a claim for reimbursement of all costs incurred and anticipated to be incurred as a result of MWH's default.

Sincerely,



Daniel M. Bleskey  
Interim General Manager

Cc: Board of Directors  
Interim General Counsel  
Special Counsel, S. Onstot  
Special Counsel, J. Biggs  
MWH Surety  
Attorney General  
Regional Water Quality Control Board, R. Briggs  
State Water Resources Control Board, C. Cantu  
USEPA Region 9  
USEPA Inspector General  
Office of Management and Budget