

SHARES LEASE

This Shares Lease ("Lease") is entered into between the City of Redlands, a Municipal Corporation ("Lessor") and Bear Valley Mutual Water Company ("Lessee"). Lessor and Lessee agree as follows:

A. Lessor is the owner of 98 shares of the Capital Stock of the Crafton Heights Pipeline Company ("Shares"); and

B. Lessor desires to lease its 98 Shares represented by stock certificate numbers 256, 425 and 428 (hereinafter the "Leased Shares") to Lessee on the terms and conditions set forth hereinafter.

1. **Lease.** Lessor hereby agrees to lease the Shares to Lessee and Lessee agrees to lease same from Lessor for the purpose of providing pipeline capacity to Lessee. Any water transported by said pipeline capacity is not intended to be used for human consumption and shall not be used by Lessee for human consumption prior to treatment by Lessee, to California Department of Health Services, Office of Drinking Water Standards.

2. **Term.** The term of this lease shall begin on June 6, 2006 and end on June 1, 2007, [in no event more than one year] ("Lease Term") Notwithstanding the foregoing, Lessee understands and agrees that, there is no implied intention that this Lease or any rights or interest hereunder will be extended beyond the Lease Term.

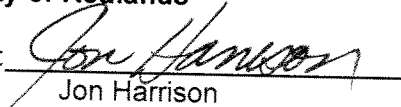
3. **Rent.** Lessee hereby agrees to pay Lessor the sum of \$1,470.00 ("Rent") in full upon execution of the Lease for the Leased Shares as set forth herein. Any and all capacity surcharges or extra water charges associated with use by the Lessee of the Leased Shares are the sole responsibility of the Lessee for the lease term.

4. **Assignability.** Lessor hereby agrees that Lessee shall have the right to assign or sublet (rent pool) but not otherwise transfer or encumber the Leased Shares under this Lease.

5. **Waiver.** Lessee hereby agrees to hold harmless Lessor from any loss, cost, expense and claims arising directly or indirectly out of the use of the Lessor's Leased Shares prior to expiration of this Lease, and from any environmental contamination of any water attendant to the Leased Shares, from whatever cause. Lessor assumes no responsibility for the quality or purity of any water attendant to the Leased Shares.

This Lease is executed on 6th day of June 2006

"Lessor":
City of Redlands

By: 

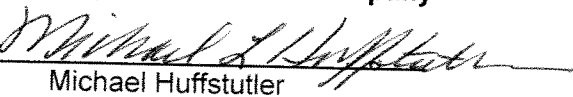
Jon Harrison
Mayor

Attest: 

City Clerk

"Lessee":

Bear Valley Mutual Water Company

By: 

Michael Huffstutler
General Manager