
EXHIBIT F106

AGREEMENT OF SALE AND SERVICE,
DATED FEBRUARY 12, 2001, BY AND AMONG
SOUTHERN DELAWARE COUNTY AUTHORITY AND DELCORA

COPY ^{RA}

1/4/2001(sdca-5)

AGREEMENT OF SALE AND SERVICE

THIS AGREEMENT is made as of the 12th day of FEBRUARY, 2001 between the Southern Delaware County Authority ("SOUTHERN"), a Pennsylvania Municipal Authority, and DELAWARE COUNTY REGIONAL WATER QUALITY CONTROL AUTHORITY ("DELCORA"), a Pennsylvania Municipal Authority.

RECITALS

A. By order of the Pennsylvania Department of Environmental Protection ("DEP"), a regional wastewater system has been constructed and is operated by DELCORA to provide proper conveyance and treatment for wastewaters generated in portions of Delaware County.

B. SOUTHERN desires to contract with DELCORA for treatment of some of the wastewaters generated by its member municipalities.

C. SOUTHERN currently operates its municipal wastewater system which is comprised of its member municipality's sanitary sewers and a pump station. SOUTHERN desires to construct a new pump station and force main which will convey SOUTHERN wastewater to the DELCORA Regional Wastewater System.

D. SOUTHERN will design and construct a pump station, with metering and a force main (the "SOUTHERN Bypass System" or "The System") which will convey certain wastewater from some of SOUTHERN's member municipalities into certain existing sewers of DELCORA. The design and construction of the SOUTHERN Bypass System will comply with both DEP and DELCORA standards and requirements. After DELCORA approves the System, SOUTHERN and its member municipalities will retain ownership and control over their sanitary sewer systems and ownership of the pump station and DELCORA will then operate and maintain the system in accordance with the provisions set forth in this Agreement.

E. The wastewater received from SOUTHERN pursuant to this agreement will be conveyed to DELCORA's Western Regional Treatment Plant via: (1) the SOUTHERN Bypass System, and (2) existing sewers of DELCORA.

F. This Agreement is in addition to and does not supercede or replace any other earlier agreements between SOUTHERN, its member municipalities and DELCORA for treatment of wastewater.

NOW, THEREFORE, with the foregoing recitals made a part hereof and incorporated herein, the parties hereto, intending to be legally bound, hereby covenant and agree as follows:

ARTICLE I

CONSTRUCTION OF SOUTHERN BYPASS SYSTEM AND RELATED MATTERS

1.01. **Construction and Design Capacity.** SOUTHERN will be responsible for design and construction of the SOUTHERN Bypass System and will use its best efforts to have the System on line and operational on or before December 31, 2001. The SOUTHERN Bypass System shall be designed to provide capacity sufficient to meet the present and projected future requirements of the respective users thereof, and the System shall be designed and constructed to comply with the standards and requirements of DELCORA and DEP.

SOUTHERN will proceed in two (2) phases, a design phase and a construction phase. The design phase will be accomplished in three (3) stages: concept design, preliminary plans and specifications and final plans and specifications. SOUTHERN must receive DELCORA's written approval accepting each stage of the design process before it can proceed to the next stage. Construction may begin after DELCORA has approved the final plans and specifications and after all required government approvals have been obtained and copies delivered to DELCORA. During the construction phase of the project, DELCORA has the right to periodically inspect construction, without prior notice. Any construction change orders or variations from the final plans and specifications must be approved in writing by DELCORA before their implementation. DELCORA will notify SOUTHERN in writing of any variations in contractual requirements it observes during the construction process.

DELCORA's monitoring and approval of the System's design and construction is solely for the purpose of making the System compatible with the DELCORA Regional Wastewater System. DELCORA does not assume any duty or responsibility to any party by approving any phase of this project or by accepting ownership of the System when construction is completed.

1.02 **Easements.** SOUTHERN does hereby grant to DELCORA the free and uninterrupted use, liberty and privilege of, and passage in and along all public lands, roads, streets, alleys and ways owned by SOUTHERN or its member municipalities or in which it has a right of easement, together with free ingress, egress and regress to and for DELCORA, its agents, successors and assigns at all times and seasons for the operation and maintenance of the SOUTHERN Bypass System, subject, however, to the conditions that (1) in operating and maintaining the System, DELCORA will comply with all duly enacted laws regulating the use of public lands, roads, streets, alleys and ways, and (2) DELCORA will restore at DELCORA's sole expense, the surface of said lands, roads, streets, alleys and ways to the condition which existed prior to the commencement of any construction, maintenance or repair. In addition, SOUTHERN will acquire easements for all portions of the System not in the public right-of-way.

ARTICLE II **FINANCING**

2.01 **Interim Financing.** DELCORA will provide SOUTHERN with interim financing for the construction of the SOUTHERN Bypass System in an amount not to exceed Two Million Dollars (\$2,000,000). Interest shall accrue and be payable on the unpaid balance thereof at the rate of interest equal to the rate of interest payable to DELCORA on DELCORA's PLIGIT investments. Such interest rate shall be automatically adjusted whenever the said PLIGIT rate changes. SOUTHERN shall repay the interim financing in sixty (60) consecutive monthly installments of principal and interest, amortized over the sixty (60) month term, such payments being due and payable on the first day of each month beginning with the month immediately following the date of the loaning of such funds. SOUTHERN shall execute such document as DELCORA requires to evidence and secure the repayment obligations.

2.02 **Permanent Financing.** In the event that SOUTHERN is not successful in obtaining permanent financing for the SOUTHERN Bypass System project from PennVEST or some other source prior to the end of the sixty (60) month term referred to in Section 2.01 above, DELCORA agrees to provide permanent financing at the rate of interest, costs and terms of repayment commensurate to the rate of interest, costs and terms of repayment which DELCORA may then obtain by issuance of bonds for such purpose, provided that DELCORA is able to issue such bonds. DELCORA's obligation under this paragraph shall terminate upon SOUTHERN's closing on permanent financing for the project with another lender.

ARTICLE III
DELIVERY AND ACCEPTANCE OF WASTEWATER

3.01. **Point of Connection: Acceptance of Wastewater.** The wastewater covered by this Agreement will be delivered by SOUTHERN to DELCORA at a point of connection at the Sun Oil Company force main. A metering station will be constructed in the pump station as part of the SOUTHERN Bypass System which will measure and record all flows from SOUTHERN to DELCORA.

3.02. **Acceptance of Wastewater:** DELCORA agrees to accept those discharges which are in compliance with the DELCORA Standards, Rules & Regulations from the SOUTHERN tributary and conveyance facilities in an amount not to exceed three (3) million gallons per day (average daily flow).

3.03. **Additional Capacity.** DELCORA agrees to provide at all times during the term of the Agreement, after the date when SOUTHERN commences delivering wastewater pursuant to Section 2.01 above, sufficient conveyance and treatment capacity for all wastewater emanating from SOUTHERN and the entire Western Delaware County Service Area (as such area is defined and designated by DELCORA). If, at an time in the opinion of DELCORA or as validly determined by any governmental agency having regulatory powers over wastewater treatment, such capacity will become inadequate at a time less than ten years thereafter to convey or treat the total flows of wastewater emanating from the entire Western Delaware County Service Area, DELCORA shall design, plan and construct or otherwise provide such additional conveyance and treatment facilities as in its opinion or as required by said governmental agencies are necessary to provide sufficiency capacity. No capital contributions will be required from SOUTHERN in connection with any of the above mentioned construction without an appropriate supplement hereto executed by SOUTHERN but no supplement or other agreement shall be required prior to any adjustment of rates to recover thereby the cost of such construction, subject to Section 4.02 hereof.

ARTICLE IV
SERVICE CHARGES AND PAYMENTS

4.01 **Grace Period.** Notwithstanding anything contained herein to the contrary, SOUTHERN will not be charged any fee for the processing of wastewater by DELCORA during the period of the first ten (10) days of full operation of the SOUTHERN Bypass System following construction. The date of full operation shall be determined by DELCORA.

4.02. **Service Charges.** SOUTHERN agrees to pay DELCORA in each calendar year or portion thereof during which this Agreement is in effect, subject to the other provisions hereof, a service charge for the wastewater treatment and transportation services rendered by DELCORA to SOUTHERN for wastewater emanating from SOUTHERN. The service charge shall be based upon rates which are uniform for all users within a particular class in the region served and which are equitable between classes. Costs may include pro rata shares of administrative and general expenses, costs of effective and reasonable operation, maintenance, repair, renewal, and replacement, ordinary improvements, costs of construction, costs of operating and maintaining flow monitoring and sampling equipment, all amounts required to carry and amortize temporary and bonded indebtedness including required payments to reserve funds, and reasonable reserves.

Service charges for any industrial users in SOUTHERN's member municipalities served by this Agreement who are required to obtain an industrial discharge permit shall be shown separately on each invoice, charges for such industries shall include a volume charge (based upon wastewater flow or water consumption as deemed appropriate by DELCORA) and any applicable surcharges for high strength flows. Such rates and surcharges shall be equitable and consistent with rates and surcharges established for industrial users in other parts of the Western Service Area. Charges for industrial users will be reconciled at year end based on actual flows and loadings.

Such service charges will not include any costs of: (1) the collection, conveyance and treatment of wastewater in the Eastern Delaware County Service Area (as such area is defined and designated by DELCORA); and (2) the costs of any of DELCORA's facilities in the Western Delaware County Service Area not used for SOUTHERN's wastewater hereunder. DELCORA's good faith determinations as to elements of costs, classifications of customers, size of reasonable reserves and like matters shall be conclusive.

4.03. **Estimates of Service Charges.** On or before November 1st of each year commencing in 2001, DELCORA will prepare and submit to SOUTHERN a statement approved by the DELCORA Board of Directors showing, in reasonable detail, for the next succeeding calendar year: (1) the estimated amounts to be paid by SOUTHERN during such year as its estimated service charge determined in accordance with the provisions hereof; (2) the amount, if any, to be credited against the estimated service charge for such year as the result of any overpayments or adjustments of payments for any preceding year, as provided under Section 4.07 below; and (3) the amount of any prior bill not paid pursuant to Section 4.07, plus interest pursuant to Section 4.08.

4.04. **Amended Estimates.** In the event of unusual contingencies requiring an upward revision in the current budget adopted by DELCORA, or in the event of a material

change in the quantity or quality of SOUTHERN's wastewater flow, DELCORA may amend the estimated service charges to reflect such changed conditions. A statement showing the amended estimated payments, in reasonable detail, and the reasons therefore shall be submitted to SOUTHERN, thereafter, commencing with the next quarterly payment, the payments made by SOUTHERN shall be based upon the amended estimate. In the event SOUTHERN is not able legally to obtain funds with which to pay all of its share of the increase, any unpaid amount shall be paid by it in the calendar year following the receipt of the notice of the amended service charge. Interest on the increase resulting from the amended service charge shall be applied at the rate of 6% A.P.R. to the portion of the increase remaining to be paid as of March 1 of the said calendar year following the year in which the notice of the increase was received.

4.05. Payments on Estimates. SOUTHERN agrees to pay its Estimated Service Charges for such next succeeding calendar year in four (4) equal installments to be paid on or before March 1, June 1, September 1, and December 1 of each year. Actual usage of DELCORA's sewer system will be reconciled with the estimates utilized in calculating quarterly billings and adjustments made pursuant to 4.06 below.

4.06. Audited Statements. DELCORA shall cause to be prepared and certified by an Independent Public Accountant on or before March 31st of each year a report setting forth in reasonable detail (a) the Operating and Capital Costs of the Western Regional System for the preceding calendar year, and (b) the final service charge chargeable to SOUTHERN for such year determined in accordance with the provisions of Sections 4.02 through 4.05 above. Such report shall contain statements setting forth the payments theretofore made by SOUTHERN as estimated payments of service charges and the amount by which the final service charge to SOUTHERN exceeds or is less than the aggregate of the payments and credits theretofore made by or allowed to SOUTHERN on account of such service charge.

4.07. Payment to Final Service Charges; Credit for Overpayments. If the Final Service Charge to SOUTHERN for any calendar year as shown by such certified report differs from the aggregate of the payments and credits theretofore made by it based upon the aforesaid estimates, then SOUTHERN will pay to DELCORA the amount of any deficiency within thirty (30) days after the delivery of said certified report, and any excess of such payments and credits on account of estimates over the Final Service Charges shall be refunded to SOUTHERN within thirty (30) days.

4.08. Interest on Late Payments. If SOUTHERN does not make full payment of any such quarterly installments or additional charges, except as specified in 4.04, on or before the specified payment date, there shall be added to the amount thereof interest at the rate of

10% from the due date of such charge to the date on which DELCORA shall receive payment thereof.

4.09. **State and Federal Regulations to be Followed.** Notwithstanding any provision set forth in this Article, the service charges payable by SOUTHERN under this Agreement shall be calculated in such manner as will comply with the applicable regulations of the Federal Environmental Protection Agency and the Pennsylvania Department of Environmental Protection, or any successor agencies having jurisdiction thereof.

ARTICLE V MEASUREMENT OF WASTEWATER FLOWS

5.01. **Installation of Meters.** The quantity of wastewater emanating from SOUTHERN's facilities and discharged into the Southern Bypass System shall be based upon readings of the meter in the pump station as referenced in Section 3.01 above.

5.02. **Meter Readings, Maintenance and Calibration.** DELCORA will maintain a daily record of the wastewater flowing through the aforesaid meter. DELCORA will maintain, or cause to be maintained, as part of the annual costs the aforesaid meters and cause them to be inspected and calibrated at least quarterly for accuracy by the manufacturer thereof or some other company or person qualified to make such inspections.

5.03. **Access to Meters.** SOUTHERN shall have the right of access, to the meter for the purpose of reading and checking in place for accuracy, at its expense.

5.04. **Missing or Inaccurate Flow Records.** In the case of missing or inaccurate flow records due to faulty meter operation or otherwise, an estimate of flows shall be made by DELCORA based on records of past flow or similar flows as applied to the current conditions, for use in place of meter readings.

ARTICLE VI WASTEWATER QUALITY RESTRICTIONS

6.01. **Uniform Standards.** DELCORA has adopted uniform wastewater quality standards known as the "DELCORA Standards, Rules and Regulations of 1991", Resolution 91-03, as amended, which comply with the requirements of Federal, State and Local regulatory authorities. SOUTHERN and its member municipalities will refrain from discharging or permitting the discharge of wastewater from the SOUTHERN's facilities into DELCORA's System that would violate any of such standards as they now exist or as they may be modified from time to time. Wastewater which does not meet the standards set forth

in the DELCORA Standards, Rules and Regulations of 1991 is hereinafter referred to as "improper wastewater" or "improper discharge".

6.02. Compelling Compliance by Users; Penalties; Enforcement.

a. SOUTHERN and its member municipalities, if they have not already done so, shall adopt an ordinance or suitable regulation which, at a minimum, offers equivalency with DELCORA's Standards, Rules & Regulations of 1991, Resolution 91-03, as amended, prior to the acceptance of any discharge by DELCORA. Further, SOUTHERN and its member municipalities agree to adopt an ordinance or suitable regulations which, at a minimum, offers equivalency with any amendment to, revisions of, or substitution of DELCORA's Standards, Rules & Regulations as embodied in Resolution 91-03, as amended, within 60 days of the passage of said amendment, revision or substitute resolution.

b. SOUTHERN and its member municipalities, if they have not already done so, shall adopt an ordinance setting criminal and civil penalties for violations of DELCORA's Standards, Rules & Regulations which shall be applicable to all discharges into the SOUTHERN tributary and conveyance facilities and which are at least as high as the minimum penalties established by EPA's Pretreatment Regulations.

c. SOUTHERN and its member municipalities shall cooperate with DELCORA in enforcing the DELCORA Standards, Rules & Regulations, shall help identify industrial users located within their boundaries, and shall delegate their enforcement authority to DELCORA to the extent allowed by law.

6.03. Permits for Industrial Connections. SOUTHERN expressly acknowledges that any and all industrial users discharging to the SOUTHERN tributary and conveyance facilities must have a permit issued by DELCORA prior to the acceptance by DELCORA of the discharge from the industrial user. SOUTHERN and its member municipalities shall identify each industrial user now discharging or hereafter desiring to discharge industrial waste into SOUTHERN's collection system and shall require each such industrial user to apply to and receive from DELCORA a permit complying with DELCORA's Standards, Rules & Regulations of 1991, as hereafter supplemented or amended and SOUTHERN and its member municipalities will prohibit any such discharge by any industrial user which has not received such a permit from DELCORA.

6.04. Reimbursement for Damages from Improper Discharge. SOUTHERN and its member municipalities will assist DELCORA in determining the source of any improper wastewater. Upon notice from and at the direction of DELCORA, SOUTHERN and its member municipalities will assist DELCORA in terminating the flow of any improper

discharge. DELCORA shall be SOUTHERN's and its member municipalities' agent in prosecuting and/or initiating civil action against the person or entity which is the source of the improper discharge. All damages caused to DELCORA's and SOUTHERN's property as the result of improper discharge shall be recoverable from the person or entity which is the source of the improper discharge. If DELCORA is unable to recover its damages after pursuing a civil action against the source, the excess damages shall be recovered through the general rate structure in succeeding years. SOUTHERN shall indemnify and hold harmless DELCORA with respect to any damages or losses suffered by DELCORA on any other person or entity resulting from an improper discharge or improper wastewater.

ARTICLE VII OPERATION AND MAINTENANCE OF FACILITIES

7.01. **DELCORA Facilities.** After completion of the construction of the pump station, DELCORA will exercise best efforts to continuously operate, maintain and repair the System or cause it to be maintained and repaired so that it will be at all times in efficient operating condition and in compliance with the standards prescribed by all appropriate regulatory agencies for the purpose of this Agreement. All maintenance and repair performed by DELCORA will be charged to SOUTHERN, including but not limited to routine, preventative or unforeseen maintenance. Hourly charges will be the rate paid to the maintenance or repair person doing the service, including the current overhead factor. Required parts and supplies will be charged to SOUTHERN at the current inventory value. SOUTHERN will receive a monthly invoice listing the parts and supplies used and showing the labor charge by day of service. The invoice will be payable within thirty (30) days of receipt. DELCORA's Director of Operations and Maintenance will provide the daily and every other day required maintenance schedule. The maintenance period for said pump station will extend for the full length of the agreement.

7.02. **Southern Facilities.** Southern and its member municipalities will continue to operate, maintain, and repair their sanitary sewer systems and any other sewage treatment or conveyance facilities so that they will be at all times in efficient operating condition and in compliance with the standards prescribed by all appropriate regulatory agencies.

7.03. **Imposition of Sewer Rentals by Southern.** Amounts payable by SOUTHERN hereunder will be payable from the current revenues of SOUTHERN and its member municipalities derived from the imposition of sewer rents and charges and other related revenues. SOUTHERN and its member municipalities agree to impose and collect rents and charges for the use thereof, which together with all other revenues will be sufficient to provide in each year, 110% of the payments due under this Agreement and any other Agreements relating to sewage service. SOUTHERN and its member municipalities further

agree to assess all industrial charges segregated on each invoice directly to each identified industry. To the extent that sewer revenues of SOUTHERN and its member municipalities are insufficient in any year to comply with the foregoing requirement, SOUTHERN and its member municipalities will promptly increase their sewer rentals and charges by an amount sufficient to provide in the immediately following year for the deficiency and future compliance with such requirement.

7.04 Hold Harmless. DELCORA shall hold SOUTHERN harmless for damages or losses to the System or the person or property of third parties directly resulting from DELCORA's maintenance or repair of the System pursuant to Section 7.01 hereof; provided, however, that the hold harmless provisions of this Section 7.04 shall not apply with respect to maintenance and repairs to the System required as a result of: (a) SOUTHERN's breach of this Agreement; (b) SOUTHERN's non-compliance with the DELCORA Standards, Rules and Regulations then in effect; (c) SOUTHERN's violation of federal, state or local statutes, ordinances, regulations or procedures applicable wastewater transportation, treatment and/or disposal; and/or (d) illegal, intentional and/or negligent act(s) of SOUTHERN, its member municipalities and/or customers/users of the system. The provisions of this Section 7.04 shall not relieve SOUTHERN of its obligation pursuant to Section 7.01 hereof to timely pay to DELCORA the costs (including parts, supplies, DELCORA's labor charges and costs of subcontractors) for all maintenance and repair work performed under this Agreement.

ARTICLE VIII

GOVERNMENTAL GRANTS AND SUBSIDIES: PERMITS

8.01. Applications. DELCORA will make proper and timely applications to the Commonwealth of Pennsylvania and to the United States of America and their appropriate agencies for all available grants, subsidies or other payments and for all permits and approvals in respect to the construction, acquisition, operation and maintenance of the Western Regional System.

8.02. Compliance With Conditions for Grants. Each party will take all such action, within its legal powers, as may be required to comply with applicable laws and regulations relating to Federal and State grants and subsidies, to the end that such grants and subsidies may be obtained for the Western Regional System in the maximum amount, and each party will use its best efforts to obtain similar compliance from users and others.

ARTICLE IX
MISCELLANEOUS

9.01. **Insurance; Repairs and Reconstruction.** DELCORA will insure, or cause to be insured, the Western Regional System, or such parts thereof as are usually insured by the owners and/or operators of wastewater systems in the Commonwealth of Pennsylvania. Such insurance policies shall be nonassessable. SOUTHERN will insure, or cause to be insured, in a responsible company or companies authorized and qualified to do business under the laws of the Commonwealth of Pennsylvania, against loss or damage by fire and such other risks (including public liability) and casualties and in such amounts as are usually carried on like properties in said Commonwealth, the Southern Bypass System during its construction and subsequent operation and will name DELCORA as an additional insured.

9.02. **Inspection.** Each party shall provide each other from time to time all information relevant to the proper administration of their responsibilities under this Agreement, or in respect to the interpretation hereof, as, and in such form and detail as, may be reasonably requested and each shall at all reasonable times and from time to time permit their representatives to examine and inspect their respective records and physical facilities relevant to the subject matter of this Agreement.

9.03. **Force Majeure.** Notwithstanding any other provision of this Agreement, neither party hereto shall be responsible in damages to the other for any failure to comply with this Agreement resulting from an act of God or riot, sabotage, public calamity, flood, strike, breakdown of conveyance or treatment facilities, or other event beyond its reasonable control.

9.04. **Indemnity; Agency.** To the extent permitted by the Political Subdivision Tort Claims Act, 42 Pa.C.S.A. §8541 et seq., each party agrees to indemnify, defend and save harmless the other party against all costs, claims, losses, damages or legal actions of any nature on account of any injury to persons or property occurring in the performance of this Agreement due to the negligence of such party or its agents, employees, contractors or subcontractors.

SOUTHERN agrees to indemnify, defend and save harmless DELCORA from any costs, claims, losses, damages and legal actions of any nature arising from or in connection with the design and construction of the SOUTHERN Bypass System. SOUTHERN will require extended bonding and warranties satisfactory to DELCORA from all parties taking part in the design and/or construction process. In addition, SOUTHERN shall name DELCORA as an additional insured on its general liability insurance policy and shall furnish

DELCORA with a certificate of insurance in the amount of no less than three million dollars (\$3,000,000) prior to the commencement of the construction phase of the project.

9.05. **No Joint Ownership.** No provision of this Agreement shall be construed to create any type of joint ownership of any property, any partnership or joint venture, or create any other rights of liabilities except as expressly set forth herein.

9.06. **Severability.** Should any provision hereof for any reason be held illegal or invalid, no other provision of this Agreement shall be affected, and this Agreement shall then be construed and enforced as if such illegal or invalid provision had not been contained herein.

9.07. **Headings.** The headings in this Agreement are solely for convenience and shall have no affect in the legal interpretation of any provision hereof.

9.08. **Effective Date and Term of Agreement.** This Agreement shall become effective as of the date and year first written above and shall remain in force and effect for a period of twenty-five (25) years from such date, (subject to appropriate extensions of the period of existence of DELCORA and of similar extensions of the other Service Agreements) and may be renewed by either party for an additional period of twenty-five (25) years.

9.09. **Waiver.** The failure of a party hereto to insist upon strict performance of this Agreement or of any of the terms or conditions hereof shall not be construed as a waiver of any of its rights hereunder.

9.10. **Counterparts.** This Agreement has been executed in five (5) counterparts, each of which shall be regarded for all purposes as an original, but such counterparts shall together constitute but one and the same instrument.

9.11. **Successors and Assigns.** Except as provided in Section 9.12 hereof, this Agreement may not be voluntarily assigned by either party without the consent of the other. Subject to the foregoing, this Agreement shall bind and inure to the benefit of the respective successors and assigns of the parties hereto.

9.12. **Assignment of Service Charges.** DELCORA's right to receive payments hereunder may be assigned and pledged to Mellon Bank (East), as Trustee under Indenture dated May 1, 1974, or any subsequent Indenture to secure DELCORA's Sewer Revenue Bonds currently outstanding or hereafter issued to cover any Project Costs to DELCORA.

ARTICLE X
DEFINITIONS

10.01. **Definitions Incorporated Herein.** The definitions set forth in ARTICLE II of the DELCORA Standards, Rules and Regulations of 1991, Resolution 91-03, as amended, are incorporated herein by reference thereto as though set forth in full herein. Wherever used herein, the said terms shall have the meanings as so defined except in those instances where the context clearly indicates otherwise.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date and year first written above by their respective duly authorized officers and their respective seals to be hereunto affixed.

DELAWARE COUNTY REGIONAL
WATER QUALITY CONTROL AUTHORITY

(CORPORATE SEAL)

By: Stanley A. Kester
Chairman

Attest: David M. Hester
Secretary

SOUTHERN DELAWARE COUNTY AUTHORITY

(CORPORATE SEAL)

By: Michael J. Chermak Jr.
Chairman

Attest: Edith J. Kuddell
Secretary

LOAN AGREEMENT

between

DELAWARE COUNTY REGIONAL WATER QUALITY CONTROL AUTHORITY
("DELCORA")

and

SOUTHERN DELAWARE COUNTY AUTHORITY
("Southern")

Dated as of

July 11, 2001

Amending Certain Provisions of That Certain Agreement
of Sale and Service made as of February 12, 2001,
Between DELCORA and Southern

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LOAN AGREEMENT

THIS LOAN AGREEMENT dated July 11, 2001, between the DELAWARE COUNTY REGIONAL WATER QUALITY CONTROL AUTHORITY ("DELCORA"), a public instrumentality and body corporate and politic of the Commonwealth of Pennsylvania, with an address at 100 East 5th Street, Chester, Pennsylvania, and SOUTHERN DELAWARE COUNTY AUTHORITY ("Southern"), a public instrumentality and body corporate and politic of the Commonwealth of Pennsylvania, with an address at 101 Beech Street, Boothwyn, Pennsylvania 19061 (capitalized terms not defined in the recitals shall have the meanings ascribed to them in Article I of this Loan Agreement), amending and restating certain provisions of that certain Agreement of Sale and Service made as of February 12, 2001, between DELCORA and Southern.

BACKGROUND

A. DELCORA is a body corporate and politic organized by the County of Delaware, Pennsylvania ("County"), under the laws of the Commonwealth of Pennsylvania pursuant to the Pennsylvania Municipality Authorities Act of 1945, act approved May 2, 1945, P.L. 382, as amended and supplemented (the "Act"), as evidenced by its Certificate of Incorporation dated November 17, 1971;

B. DELCORA was organized for the purpose of acquiring, holding, constructing, improving, maintaining, operating, owning and leasing, either in the capacity of lessor or lessee, inter alia, sewers, sewer systems or parts thereof, sewage treatment works, including works for treating and disposing of industrial waste, in and for the County and such other territory as it may be authorized to serve and to contract with individuals, corporations, authorities, municipalities and other governmental bodies or regulatory agencies, both within and without the County;

C. In furtherance of such purposes, DELCORA heretofore undertook as a project the acquisition and construction of regional sewage conveyance and treatment facilities in accordance with various engineering analyses prepared for the purpose, copies of which are on file at the DELCORA's principal office (as defined in the Original Indenture hereinafter mentioned, the "Original Project");

D. To finance the costs of the Original Project, DELCORA has from time to time issued series of its notes and bonds, the first such series being \$19,950,000 aggregate principal amount, Sewer Revenue Bonds, Series of 1974, issued under and secured by a trust indenture dated as of May 1, 1974 ("Original Indenture"), between DELCORA and Girard Bank, as trustee;

E. DELCORA currently requires additional capital to finance various improvements to its wastewater conveyance and treatment facilities;

F. In order to provide, *inter alia*, such additional capital and meet transaction costs, DELCORA has determined to issue a series of its Sewer Revenue Bonds, 2001 Series ("2001 Bonds") under a new trust indenture ("2001 Indenture"), pursuant to which Commerce Bank/Pennsylvania, National Association, will serve as trustee ("Trustee");

G. One of the components of the capital project DELCORA has determined to undertake is the lending by DELCORA to Southern of an amount sufficient to finance the costs of the acquisition, construction and installation of a force main and pumping station to connect Southern's facilities to DELCORA's Western Regional Treatment Plant ("Project").

H. The cost of the Project was originally estimated to be not more than \$2,000,000.

I. Delcora and Southern entered into an agreement made as of February 12, 2001, relating to the Project ("Southern Project Agreement"), which in Article II thereof, sets forth the basic terms of said financial assistance from Delcora to Southern in an amount not to exceed \$2,000,000.

J. The Southern Project Agreement contemplated that Southern might receive financial assistance from the Pennsylvania Infrastructure Investment Authority ("Pennvest").

K. Because of certain required changes in engineering and scope, the cost of the Project is now estimated to be nearly \$5,000,000.

L. It does not now appear that financial assistance from Pennvest is soon to be forthcoming; accordingly Article II of the Southern Project Agreement, relating to financing of the Project, requires amendment to reflect the matters hereinabove set forth.

M. DELCORA has agreed, subject to appropriate documentation, to lend from the proceeds of the 2001 Bonds, and pending the issuance thereof, to advance, from available funds of DELCORA, sufficient moneys to Southern to enable payment of costs of the Project ("Loan").

N. DELCORA is entering into this Loan Agreement with Southern for the purposes of providing for, and setting forth the definitive terms of, (i) the Loan in order to finance the Project and (ii) the repayment of such Loan by Southern in amounts and at times as herein set forth.

O. DELCORA, by resolution adopted June 21, 2001, and Southern, by resolution adopted June 5, 2001, have authorized the Loan and the execution and delivery hereof.

NOW, THEREFORE, intending to be legally bound hereby, DELCORA and Southern agree as follows:

ARTICLE I

DEFINITIONS

Section 1.01 Definitions.

In addition to the terms defined in the recital clauses of this Loan Agreement, as used herein:

"Agreement Default" or "Event of Default" shall have the meaning assigned in Section 6.01 of this Loan Agreement.

"Authorized Officer" means in the case of DELCORA or Southern, any person or persons designated to act on behalf of DELCORA or Southern, as applicable, and when used with reference to any act or document also means any officer of DELCORA or Southern, respectively, authorized by resolution of DELCORA or Southern to perform such act or execute such document.

"Bond Counsel" means Blank Rome Comisky & McCauley LLP, or any law firm subsequently designated by DELCORA having a national reputation in the field of municipal law whose opinions are generally accepted by purchasers of municipal bonds and which is reasonably acceptable to the Trustee and the Bond Insurer.

"Certificate," "statement," "request," "requisition" and "order" mean, respectively, a written certificate, statement, request, requisition or order signed in the name of DELCORA by an Authorized Officer of DELCORA or Southern. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the instruments so combined shall be read and construed as a single instrument.

"Code" means the Internal Revenue Code of 1986, as amended, and the regulations promulgated or proposed thereunder.

"Cost" means cost, as defined in the Act and herein, including but not limited to cost of the acquisition of all lands, structures, rights-of-way, franchises, easements and other property rights and interests acquired by DELCORA or Southern for the Project; the cost of demolishing, removing or relocating any buildings or structures on lands so acquired, including the cost of acquiring any lands to which such buildings or structures may be moved or relocated; the cost of all labor, materials, machinery and equipment, financing charges, interest prior to and during construction and for such a limited period after completion of such construction as may be approved by DELCORA (not to exceed one year after completion of the Project); the cost of engineering, financial and legal services, plans, specifications, studies, surveys, estimates of costs and revenues, other expenses necessary or incident to determining the feasibility or practicability

of constructing a Project, Administrative Fees and Expenses; and such other expenses as may be necessary or incident to the construction of the Project, the financing of such construction and the placing of such Project in operation.

"DELCORA Resolutions" means the resolution or resolutions of DELCORA approving and authorizing the 2001 Bonds, the 2001 Indenture and this Loan Agreement.

"Regulations" means the final Treasury Regulations under Section 148 of the Code (Sections 1.148-0 through 1.148-11, 1.149(d)-1, 1.149(g)-1 and 1.150-1 through 1.150-2, inclusive), which were published in the C.F.R.

"Repayments" means the payments of principal of and interest on the Loan, and any other amounts payable by Southern pursuant to the provisions of this Loan Agreement.

"Southern Resolution" means the resolution or, collectively, resolutions of Southern that authorized the Project and the execution and delivery of this Loan Agreement.

Section 1.02 Interpretation. In this Loan Agreement, unless the context indicates otherwise, words importing the singular number include the plural number, and vice versa, the terms "hereof", "hereby", "herein", "hereto", "hereunder" and similar terms refer to this Loan Agreement, and the term "hereafter" means after and the term "heretofore" means before the date hereof, and words of any gender include the correlative words of the other genders. In this Loan Agreement, unless otherwise indicated, all references to particular Articles, Sections, Subsections or Paragraphs are references to the Articles, Sections, Subsections or Paragraphs of this Loan Agreement.

Section 1.03 Captions, Headings and Table of Contents. The captions, headings and table of contents in this Loan Agreement are solely for convenience of reference and in no way define, limit or describe the scope or intent of any Articles, Sections, Subsections or Paragraphs hereof.

(End of Article I)

ARTICLE II

REPRESENTATIONS

Section 2.01 Representations of DELCORA.

DELCORA hereby confirms and represents that:

(a) DELCORA is a public body corporate and politic established in the Commonwealth of Pennsylvania pursuant to the Act. Under the Act, DELCORA has the power to enter into the 2001 Indenture and this Loan Agreement and to carry out its obligations thereunder and hereunder and to issue the 2001 Bonds to provide moneys to finance the Project.

(b) By adoption of DELCORA Resolutions at one or more duly called and held meetings of DELCORA, DELCORA has duly authorized the execution and delivery this Loan Agreement, and the performance of its obligations hereunder.

Section 2.02 Representations of Southern.

Southern represents that:

(a) Southern is a body corporate and politic established in the Commonwealth of Pennsylvania pursuant to the Act. Under the Act, Southern has all requisite power and authority to own and operate its properties, to carry on its activities as now conducted and as presently proposed to be conducted, to enter into this Loan Agreement and to carry out and consummate all transactions contemplated hereby.

(b) There is no fact that adversely affects the properties, activities, prospects or condition (financial or otherwise) of Southern or the ability of Southern to perform all of its obligations under this Loan Agreement. All financial information and any other written statements furnished by Southern to DELCORA do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements contained therein or herein, in light of the circumstances under which they were made, not misleading.

(c) There are no proceedings pending or, to the knowledge of Southern, threatened against or affecting Southern in any court or before any governmental authority or arbitration board or tribunal that, if adversely determined, would adversely affect the properties, activities, prospects or condition (financial or otherwise) of Southern, or the ability of Southern to perform under this Loan Agreement, or the validity or the enforceability of this Loan Agreement.

(d) The execution and delivery of this Loan Agreement and all other documents and instruments and the consummation of the transactions contemplated hereby and compliance by Southern with the provisions hereof and thereof:

(1) Have been duly and effectively authorized by all necessary action on the part of Southern.

(2) Do not and will not conflict with or result in any breach of any of the material terms, conditions or provisions of, or constitute a default under, or result in the creation or imposition of any material lien, charge or encumbrance upon any property or assets of Southern pursuant to any indenture, loan agreement or other agreement or instrument (other than this Loan Agreement) or of any other contractual or legal restriction to which Southern is a party or by which Southern, its properties or operations may be bound, or any laws, ordinances, governmental rules or regulations of court or other governmental orders to which Southern, its properties or operations is subject.

(3) Constitutes a general obligation of Southern for which Southern pledges its full faith and credit.

(4) Have been duly authorized, executed and delivered by Southern and constitute valid and binding obligations of Southern, enforceable in accordance with the respective terms thereof.

(e) No event has occurred and no condition exists which, upon execution of this Loan Agreement would constitute an Agreement Default. Southern is not in violation in any material respect, and has not received notice of any claimed violation of any laws, ordinances, governmental rules or regulations or court or other governmental orders, or of any term of any agreement, charter, bylaw or other instrument to which it is a party or by which it or its property or operations is or may be bound.

(f) Southern has obtained all required approvals and has obtained, or reasonably expects to obtain, all permits and approvals required by any governmental body or officer for the acquisition, construction, renovation and installation of the Project, the financing or refinancing thereof or the reimbursement of Southern therefor; and Southern has complied with any applicable provisions of law requiring any notification, declaration, filing or registration with any governmental body or officer in connection with the acquisition, construction, renovation or installation of the Project, the financing or refinancing thereof or the reimbursement of Southern therefor. No consent, approval or authorization of, or filing, registration or qualification with, any governmental authority (other than those already obtained) is required on the part of Southern as a condition to the execution and delivery of this Loan Agreement or the consummation of any transaction herein.

(g) Southern is in compliance with all laws, ordinances, governmental rules and regulations to which it is subject.

(h) The Project for which this Loan Agreement is incurred is a "project" as such term is defined in the Act.

(i) The proceeds of the Loan will not exceed the Costs of the Project.

(j) No Costs of the Project have been paid by or on behalf of Southern more than 60 days prior to the earlier of (i) the Southern Resolution or (ii) a reimbursement resolution enacted by Southern which meets the requisites of the Code.

(End of Article II)

ARTICLE III

THE PROJECT

Section 3.01 Undertaking of Project.

Southern (a) shall acquire, construct, install, equip and/or improve the Project with all reasonable dispatch and in accordance with applicable law, (b) shall procure or cause to be procured all permits and licenses necessary for the prosecution of any and all work on the Project, and (c) shall pay when due all costs and expenses incurred in connection with such acquisitions, construction, installation, equipment and improvement from funds made available therefor in accordance with this Loan Agreement or otherwise. It is understood that the Project is the property of Southern and that any contracts made by Southern with respect thereto and any work to be done by Southern on the Project are made or done by Southern in its own behalf and not as agent or contractor for DELCORA.

Section 3.02 Application of Loan Proceeds; Deficiency. Southern agrees that the proceeds of the Loan will be used only for the payment of Costs of the Project, and will not be used for any other purpose. Notwithstanding whether the proceeds of the Loan are sufficient to pay all Costs of the Project, DELCORA shall have no obligation to provide any additional moneys to Southern for the Project. Southern shall not be entitled to any reimbursement for any such payments from DELCORA, nor shall it be entitled to any abatement, diminution or postponement of the Repayments.

Section 3.03 Completion of Project. Unless otherwise approved by DELCORA which approval may be conditioned upon receipt of an opinion of Bond Counsel furnished by Southern at its sole cost and expense, Southern shall have caused all of the proceeds of the Loan to be expended for Costs of the Project within three (3) years of the Loan Disbursement Date.

(End of Article III)

ARTICLE IV

THE LOAN

Section 4.01 The Loan.

(a) The Loan shall be in amount not to exceed five million dollars (\$5,000,000), shall be and shall be deemed to be fully advanced on the date of settlement of the 2001 Bonds ("Loan Disbursement Date").

(b) The Loan shall bear interest on the unpaid balance thereof at a rate equal to the average coupon of the 2001 Bonds.

(c) The Loan shall be amortized on a level debt-service basis; principal thereof and interest thereon shall be payable in forty (40) equal semiannual installments each payable on or before the 30th day prior to each interest payment date for the 2001 Bonds, in accordance with a schedule to be computed and certified by DELCORA's financial advisor, on and as of the Loan Disbursement Date.

Section 4.02 Temporary Loan.

(a) On the date hereof, pending and in anticipation of the Loan Disbursement Date, DELCORA is advancing to Southern, the amount of \$1,396,607.43, to enable Southern to pay certain previously incurred costs of the Project as set forth in Exhibit "A" hereto ("Temporary Loan").

(b) The Temporary Loan shall bear interest from the date hereof until the Loan Disbursement Date at a rate equal to that being earned during such period on the balance of the moneys in the account of DELCORA from which the Temporary Loan is disbursed; interest on the Temporary Loan shall be payable on the Loan Disbursement Date; and the principal of the Temporary Loan shall be payable by reducing the amount of the Loan to be disbursed on the Loan Disbursement Date by an amount equal to the Temporary Loan.

(c) Pending and in anticipation of the Loan Disbursement Date, DELCORA may, upon receipt of the written request of Southern in substantially the form of Exhibit "A", make additional advances which shall, from the date made, be treated in the same manner as the Temporary Loan.

Section 4.03 Obligations Unconditional. The obligations of Southern to make the payments required under Sections 4.01 and 4.02 hereof, shall be absolute and unconditional, and Southern shall make such payments without abatement, diminution or deduction regardless of any cause or circumstances whatsoever including without limitation any defense, set-off, recoupment or counterclaim which Southern may have or assert against DELCORA, the Trustee or any other person, whether express or implied, or any duty, liability or obligation arising out

of or connected with this Loan Agreement, it being the intention of the parties that the payments required of Southern hereunder will be paid in full when due without any delay or diminution whatsoever. Repayments required to be paid by or on behalf of Southern hereunder shall be received by DELCORA or the Trustee as net sums and Southern agrees to pay or cause to be paid all charges against or which might diminish such net sums. For the payment of all such obligations, Southern pledges its full faith and credit.

Section 4.04 Assignment of DELCORA's Right. To secure the payment of the principal of and interest on the 2001 Bonds, DELCORA may pledge and assign to the Trustee all of DELCORA's rights in, to and under this Loan Agreement, other than the rights of DELCORA to indemnification or payment of expenses under Section 5.10 hereof. Southern consents to such pledge and assignment and agrees, upon receipt from DELCORA of written notification to do so, to make or cause to be made Repayments directly to the Trustee without defense or set-off by reason of any dispute between Southern and the Trustee.

Section 4.05 Optional Prepayment. The Loan may be prepaid in whole or in part at any time, without premium or penalty, upon not less than thirty (30) days written notice (the "Prepayment Notice") to DELCORA. The Prepayment Notice shall specify (i) the amount to be prepaid and (ii) the date of the prepayment. Any partial prepayment shall not operate to abate or postpone Repayments otherwise becoming due or to alter or suspend any other obligations of Southern under this Loan Agreement.

Section 4.06 Conditions Precedent to Disbursing Funds. DELCORA may require, as a condition precedent to the disbursing either the Temporary Loan or the Loan, that Southern deliver or cause to be delivered, a certificate of an Authority officer(s) and/or an opinion of counsel as to the continuing truthfulness and accuracy of Southern's representations and warranties hereunder and the due authorization, execution, delivery, validity and enforceability hereof, , any of such documents to be in form and substance satisfactory to DELCORA.

(End of Article IV)

ARTICLE V

COVENANTS OF SOUTHERN

Section 5.01 Use of Project.

(a) Southern shall permit DELCORA to make inspections of its properties to determine compliance with this Section.

(b) Southern shall not use the Project or suffer or permit the Project to be used directly or indirectly in any trade or business carried on by any person who is not an exempt person within the meaning of Section 141 of the Code.

(c) Southern will not contract with any third party that is not a tax-exempt organization to administer or manage the Project unless all of the conditions of Treasury Regulation 1.141 or successor revenue regulations or rulings of the Internal Revenue Service are met.

(d) Southern shall not use or permit the use of the Project or any part thereof in such manner so as to cause any Bond to be a private activity bond as defined in Section 141 of the Code.

(e) Southern shall use the Project in furtherance of its activities as a public instrumentality and body corporate and politic of the Commonwealth of Pennsylvania.

Section 5.02 Maintenance of Existence. Southern will maintain its existence as a public instrumentality or, if applicable, a body corporate and politic of the Commonwealth of Pennsylvania under the Act.

Section 5.03 Rates and Charges. Southern agrees that its obligations under or contemplated by this Loan Agreement are general obligations of Southern, for which it hereby pledges its full faith and credit. Southern shall take or cause to be taken all such actions that may be necessary to repay the Loan and to perform its obligations hereunder. Southern agrees to operate itself and its properties on a revenue-producing basis or to pay such taxes or to charge such fees, charges and rates for its facilities and services and to exercise such skill and diligence so as to provide revenues and cash flow from its properties, together with other available funds, sufficient to make all Repayments and other payments hereunder, all debt service requirements on all other indebtedness and all expenses of operation, maintenance and repairs of its properties. Southern further covenants and agrees that it will, from time to time as often as necessary, and within applicable limits of law, revise its rates, fees and charges in such manner as may be necessary or proper to comply with the provisions of this Section.

Section 5.04 Insurance. Southern shall maintain, with financially sound and reputable insurers (or, with a certificate of approval of a qualified insurance consultant, a program of self-

insurance), insurance with respect to its properties and operations, including, but not limited to, the Project, against such casualties and contingencies, of such types (including public liability insurance) and in such amounts as are customary in the same or similar activities and similarly situated.

Section 5.05 Liens. Southern shall not create, incur or suffer to exist, and has not created, incurred or suffered to exist any lien, charge, security interest or encumbrance on the Project, other than any created pursuant to this Loan Agreement.

Section 5.06 Delivery of Financial Information. Southern shall deliver to DELCORA, as available and in any event within 180 days after the end of each fiscal year of Southern, and a statement of its financial position as of the end of such fiscal year and the related statements of revenues and expenses, fund balances and changes in fund balances for such fiscal year, setting forth in each case, in comparative form, the figures for the previous year. Such financial information shall be in compliance with generally accepted accounting principles applicable to Southern.

Section 5.07 Delivery of Other Information. Southern's financial officer shall, at the reasonable request of DELCORA, discuss Southern's financial matters with DELCORA or its designees and provide DELCORA with copies of any documents requested by DELCORA.

Section 5.08 Prohibited Activities. Southern shall not operate in any manner and shall not engage in any activities or take any action that might reasonably be expected to adversely affect the exemption of interest on the 2001 Bonds from federal income taxation.

Section 5.09 Taxes, Other Governmental Charges. Southern shall pay, as the same become due, all taxes and governmental charges of any kind whatsoever that may be lawfully assessed, levied or imposed on DELCORA or Southern with respect to the Project.

Section 5.10 Indemnification. Southern shall at all times protect, indemnify and save harmless DELCORA, its officers, directors, employees and agents, from and against all liabilities, obligations, claims, damages, penalties, causes of action, costs and expenses (including, without limitation, attorneys' fees and expenses) (collectively, "Claims") imposed upon or incurred by or asserted against DELCORA, its officers, directors, employees and agents, on account of (a) any failure of Southern to comply with any of the terms of this Loan Agreement or (b) any loss or damage to property or any injury to or death of any person that may be occasioned by any cause whatsoever pertaining to the Project or the use thereof. Nothing contained herein shall require Southern to indemnify DELCORA, its officers, directors, employees and agents, for any claim or liability resulting from any of their gross negligence or willful, wrongful acts.

If any action, suit or proceeding is brought against DELCORA, its officers, directors, employees and agents, for any loss or damage for which Southern is required to provide indemnification under this Section, Southern, upon request, shall at its expense resist and defend such action, suit or proceeding, or cause the same to be resisted and defended by counsel

designated by Southern and approved by DELCORA, and such approval shall not be unreasonably withheld, provided that such approval shall not be required in the case of defense by counsel designated by any insurance company undertaking such defense pursuant to any applicable policy of insurance. The obligations of Southern under this Section shall survive any termination of this Loan Agreement or the 2001 Indenture.

Section 5.11 Litigation Notice. Southern shall give DELCORA prompt written notice of any action, suit or proceeding pending or threatened against it at law or in equity, or before any governmental instrumentality or agency, which, if adversely determined, would materially impair the Project or would materially and adversely affect its business, operations, properties, assets or condition.

Section 5.12 Federal Tax Covenants.

(a) Southern covenants and agrees that it shall not take any action or omit to take any action which would result in the loss of the exclusion of the interest on any 2001 Bonds now or hereinafter issued from gross income for purposes of federal income taxation as that status is governed by Section 103(a) of the Code;

(b) Southern shall not take any action or omit to take any action, which action or omission would cause the 2001 Bonds (assuming solely for this purpose that the proceeds of the 2001 Bonds loaned to Southern represent all of the proceeds of the 2001 Bonds) to be "private activity bonds" within the meaning of Section 141(a) of the Code. Accordingly, unless Southern receives the prior written approval of DELCORA, Southern shall not (1) permit in excess of ten percent (10%) of either the proceeds of the 2001 Bonds loaned to Southern or the Project financed or refinanced with the proceeds of the 2001 Bonds loaned to Southern to be used (directly or indirectly) in any manner that would constitute "private business use" within the meaning of Section 141(b)(6) of the Code, (2) use (directly or indirectly) more than the lesser of five percent (5%) of the proceeds of the 2001 Bonds loaned to Southern or \$5,000,000 to make or finance loans to persons other than "governmental units" (as such term is used in Section 141(c) of the Code), or (3) use (directly or indirectly) any of the proceeds of the 2001 Bonds loaned to Southern to acquire any "nongovernmental output property" within the meaning of Section 141(d)(2) of the Code; provided further that not more than one-half of the allowable portion shall be either (i) "disproportionate related business use," or (ii) "private business use which is not related to any government use of such proceeds" (within the meaning of Section 141(b)(3) of the Code) of the 2001 Bonds, and provided further that the "nonqualified amount" with respect to the proceeds of the 2001 Bonds loaned to Southern, when added to the aggregate nonqualified amounts with respect to all prior tax-exempt issues any portion of the proceeds of which are or will be used with respect to the Project (as such terms are defined in Section 141 of the Code), does not exceed \$15,000,000;

(c) Southern shall not directly or indirectly use or permit the use of any proceeds of the 2001 Bonds (or amounts replaced with such proceeds) or any other funds or take any action or omit to take any action, which use or action or omission would cause the 2001 Bonds

(assuming solely for this purpose that the proceeds of the 2001 Bonds loaned to Southern represent all of the proceeds of the 2001 Bonds) to be "arbitrage bonds" within the meaning of Section 148(a) of the Code;

(d) Southern shall not directly or indirectly use or permit the use of any proceeds of the 2001 Bonds (assuming solely for this purpose that the proceeds of the 2001 Bonds loaned to Southern represent all of the proceeds of the 2001 Bonds) to pay the principal of or interest or redemption premium on or any other amount in connection with the retirement or redemption of, any issue of state or local governmental obligations ("refinancing of indebtedness") unless Southern shall establish to the satisfaction of DELCORA, prior to the issuance of the 2001 Bonds, that such refinancing of indebtedness will not adversely effect the exclusion from gross income for federal income tax purposes of interest on the 2001 Bonds and Southern has provided to DELCORA an opinion of Bond Counsel, in form and substance satisfactory to DELCORA to that effect;

(e) Southern shall not directly or indirectly use or permit the use of any proceeds of the 2001 Bonds to reimburse Southern for an expenditure with respect to a cost of the Project paid by Southern prior to the issuance of the 2001 Bonds unless (A) the allocation by Southern of proceeds of the 2001 Bonds to reimburse such expenditure complies with the requirements of Treas. Reg. § 1.150-2 (or successor provisions) necessary to enable the reimbursement allocation to be treated as an expenditure of proceeds of the 2001 Bonds for purposes of applying Sections 103 and 141-150 of the Code, or (B) such proceeds of the 2001 Bonds will be used for "refinancing of indebtedness" which was used to pay costs of the Project, or to reimburse Southern prior to the issuance of such indebtedness in accordance with a reimbursement allocation for such expenditures which complies with the requirements of Treas. Reg. § 1.150-2 (or successor regulations);

(f) Southern shall not directly or indirectly use or permit the use of any proceeds of the 2001 Bonds to pay any cost of the Project which does not constitute a "capital expenditure" within the meaning of Treas. Reg. § 1.150-1 (or successor regulations);

(g) Southern shall not directly or indirectly use or permit the use of any proceeds of the 2001 Bonds (assuming solely for this purpose that the proceeds of the 2001 Bonds loaned to Southern represent all of the proceeds of the 2001 Bonds) in any manner which would cause the 2001 Bonds to be considered "federally guaranteed" within the meaning of Section 149(b) of the Code or considered "hedge bonds" within the meaning of Section 149(g) of the Code;

(h) Southern shall not issue any debt obligations which (A) are sold at substantially the same time as the 2001 Bonds which finance or refinance the Loan, (B) are sold pursuant to the same place of financing as the 2001 Bonds which finance or refinance the Loan, and (C) are reasonably expected to be paid out of substantially the same source of funds as the 2001 Bonds which finance or refinance the Loan;

(i) Neither Southern nor any "related party" (within the meaning of Treas. Reg. § 1.150-1) shall purchase 2001 Bonds in an amount related to the amount of the Loan;

(j) Southern will not issue or permit to be issued obligations which will constitute an "advance refunding" of the 2001 Bonds within the meaning of Section 149(d)(5) of the Code without the express written consent of DELCORA, which consent may only be delivered by DELCORA after DELCORA has received notice from Southern of such contemplated action no later than sixty (60) days prior to any such contemplated action, and which consent is in the sole discretion of DELCORA;

(k) Southern will not invest any Loan disbursements or any other amounts which would constitute "gross proceeds" within the meaning of Treas. Reg. § 1.148-1(b), at a yield in excess of the yield on the 2001 Bonds, in accordance with instructions of DELCORA, except for any period such amounts constitute proceeds of indebtedness of Southern and such amounts have not been reallocated to the 2001 Bonds as "gross proceeds" of the 2001 Bonds in accordance with Treas. Reg. § 1.148-6(b);

(l) No "gross proceeds" of the 2001 Bonds held by Southern (other than amounts in a "bona fide debt service fund") will be held in a "commingled fund" (as such terms are defined in Treas. Reg. § 1.148-1(b));

(m) Based upon all of the objective facts and circumstances in existence on the date of issuance of the 2001 Bonds used to finance the Project, (A) within six (6) months of the date of issuance of the 2001 Bonds used to finance the Project, Southern will incur a substantial binding obligation to a third party to expend on the Project at least five percent (5%) of the "net sale proceeds" (within the meaning of Treas. Reg. § 1.148-1) of the Loan used to finance the Project (treating an obligation as not being binding if it is subject to contingencies within the control of Southern, DELCORA or a "related party" (within the meaning of Treas. Reg. § 1.150-1)), (B) completion of the Project and the allocation to expenditure of the "net sale proceeds" of the Loan used to finance the Project will proceed with due diligence and (C) all of the proceeds of the Loan used to finance the Project and investment earnings thereon will be spent prior to the period ending three (3) years subsequent to the date of issuance of the 2001 Bonds used to finance the Project. Accordingly, the proceeds of the Loan deposited in the Loan Account used to finance the Project will be eligible for the three (3) year arbitrage temporary period since the expenditure test, time test and due diligence test, as set forth in Treas. Reg. § 1.148-2(e)(2), will be satisfied; and

(n) The weighted average maturity of the Loan does not exceed 120% of the average reasonably expected economic life of the Project financed or refinanced with the Loan, determined in the same manner as under Section 147(b) of the Code. Accordingly, the term of the Loan will not be longer than is reasonably necessary for the governmental purposes of the Loan within the meaning of Treas. Reg. § 1.148-1(c)(4).

Section 5.13. Recordkeeping for Federal Tax Compliance Purposes. For purposes of this subsection, quoted terms shall have the meanings given to such terms by Section 148 of the Code including, particularly, Treas. Reg. § 1.148-1 through 1.148-11, as supplemented or amended, to the extent applicable to the 2001 Bonds, and any successor Regulations applicable to the 2001 Bonds.

(a) Unless otherwise advised in writing by DELCORA, in furtherance of the covenant of Southern contained in Section 5.12(c) above not to cause the 2001 Bonds to be "arbitrage bonds", Southern shall keep, or cause to be kept, accurate records of each investment it makes in any "nonpurpose investment," acquired with, or otherwise allocated to, "gross proceeds" of the 2001 Bonds not held by DELCORA and each "expenditure" it makes allocated to "gross proceeds" of the 2001 Bonds. Such records shall include the purchase price, including any constructive "payments," (or in the case of a "payment" constituting a deemed acquisition of a "nonpurpose investment" (e.g., a "nonpurpose investment" which ceases to be allocated to the "gross proceeds" of the 2001 Bonds after it is actually acquired because it is deposited in a sinking fund for the 2001 Bonds)) the "fair market value" of the "nonpurpose investment" on the date first allocated to the "gross proceeds" of the 2001 Bonds, nominal interest rate, dated date, maturity date, type of property, frequency of periodic payments, period of compounding, yield to maturity, amount actually or constructively received on disposition (or in the case of a "receipt" constituting a deemed disposition of a "nonpurpose investment" (e.g., a "nonpurpose investment" which ceases to be allocated to be "gross proceeds" of the 2001 Bonds because it is removed from a sinking fund for the 2001 Bonds)) the "fair market value" of the "nonpurpose investment" on the date it ceases to be allocated to the "gross proceeds" of the 2001 Bonds, the purchase date and disposition date of the "nonpurpose investments" and evidence of the "fair market value" of such property on the purchase date and disposition date (or deemed purchase or disposition date) for each such "nonpurpose investment." The purchase date, disposition date and the date of determination of "fair market value" shall be the date on which a contract to purchase or sell the "nonpurpose investment" becomes binding, i.e., the trade date rather than the settlement date. For purposes of the calculation of purchase price and disposition price, brokerage or selling commissions, administrative expenses or similar expenses shall not increase the purchase price of an item and shall not reduce the amount actually or constructively received upon disposition of an item except to the extent such costs constitute "qualified administrative costs."

(b) Within thirty (30) days of the last day of the fifth and each succeeding fifth "bond year" and within thirty (30) days of the date the last bond that is part of the 2001 Bonds is discharged (or on any other periodic basis requested in writing by DELCORA) Southern shall provide to DELCORA the records retained pursuant to Section (a) above and any other information requested by DELCORA relating to compliance with Section 148 of the Code (e.g., information related to the "nonpurpose investments" of Southern for purposes of application of the "universal cap"). For purposes of the preceding sentence, a "bond year" shall mean each 1-year period that ends on the anniversary date of the Loan Disbursement Date (unless otherwise instructed by DELCORA). The first and last bond years may be short periods.

Section 5.14 Arbitrage Rebate. Southern will pay to or for the account of DELCORA, as directed by DELCORA, all amounts determined by DELCORA's designated financial advisor to be attributable to Southern and to be needed to comply with the requirements of Section 148 of the Code, concerning arbitrage bonds, including Section 148(f), which requires generally a rebate payment to the United States of arbitrage profit from investment of the proceeds of the 2001 Bonds in obligations other than tax-exempt obligations. The obligation of Southern to make such payments is unconditional and is not limited to funds representing the proceeds of the Bonds or income from the investment thereof or any other particular source. Southern agrees to cooperate with DELCORA to the extent it is necessary to comply with this Section 5.14 and applicable provisions of the Indenture. Southern will pay the costs and expenses of such financial advisor in computing rebate liability.

(End of Article V)

ARTICLE VI

EVENTS OF DEFAULT AND REMEDIES

Section 6.01 Events of Default. Each of the following shall be an Event of Default:

(a) Failure by Southern to make or cause to be made any Repayment or any payment under Sections 4.01, 4.02 or 5.14 hereof on or prior to the date on which such payment is due and payable;

(b) Failure by Southern to observe and perform any other agreement, term or condition contained in this Loan Agreement and continuation of such failure for a period of 30 days after notice thereof shall have been given to Southern by DELCORA or the Trustee, or for such longer period as DELCORA and the Trustee may agree to in writing; provided that if the failure is other than the payment of money and is of such nature that it can be corrected but not within the applicable period, such failure shall not constitute an Event of Default so long as Southern institutes curative action within the applicable period and diligently pursues such action to completion;

(c) Southern shall (i) apply for or consent to the appointment of a receiver, trustee, liquidator or custodian or the like of itself or of its property, or (ii) admit in writing its inability to pay its debts generally as they become due, or (iii) make a general assignment for the benefit of creditors, or (iv) be adjudicated a bankrupt or insolvent, or (v) commence a voluntary case under the United States Bankruptcy Code, or file a voluntary petition or answer seeking reorganization, an arrangement with creditors or an order for relief, or seeking to take advantage of any insolvency law or file an answer admitting the material allegations of a petition filed against it in any bankruptcy, reorganization, or insolvency proceeding, or action shall be taken by it for the purpose of effecting any of the foregoing, or (vi) have instituted against it a proceeding in any court of competent jurisdiction, under any law relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking in respect of Southern an order for relief or an adjudication in bankruptcy, reorganization, dissolution, winding up, liquidation, a composition or arrangement with creditors, a readjustment of debts, the appointment of a trustee, receiver, liquidator or custodian or the like of Southern or of all or any substantial part of its assets, or other like relief in respect thereof under any bankruptcy or insolvency law, and, if such proceeding is being contested by Southern in good faith, the same shall (A) result in the entry of an order for relief or any such adjudication or appointment or (B) remain unvacated, undismissed and undischarged for a period of 60 days; and

(d) Any representation or warranty made by Southern herein or any statement in any report, certificate, financial statement or other instrument furnished in connection with this Loan Agreement or with the purchase of the 2001 Bonds shall at any time prove to have been false or misleading in any material respect when made or given.

Section 6.02 Remedies on Default.

(a) Whenever an Event of Default shall have occurred and be continuing, any one or more of the following remedial steps may be taken:

(1) DELCORA (or the Trustee if this Loan Agreement shall have been assigned thereto) may declare all Repayments to be immediately due and payable and

(2) DELCORA (or the Trustee if this Loan Agreement shall have been assigned thereto) may pursue any and all remedies now or hereafter existing at law or in equity to collect all amounts then due and thereafter to become due under this Loan Agreement or to enforce the performance and observance of any other obligation or agreement of Southern under this Loan Agreement.

(b) Southern covenants that, in case it shall fail to pay or cause to be paid any Repayments as and when the same shall become due and payable, whether at maturity or by acceleration or otherwise, then, upon demand of DELCORA (or the Trustee if this Loan Agreement shall have been assigned thereto), Southern will pay to DELCORA or the Trustee, as applicable, the whole amount that then shall have become due and payable hereunder; and, in addition thereto, such further amounts as shall be sufficient to cover the costs and expenses of collection, including a reasonable compensation to the Trustee, its agents and counsel, and any expenses or liabilities incurred by DELCORA or the Trustee, as applicable. In case Southern shall fail forthwith to pay such amounts upon such demand, the Trustee shall be entitled and empowered to institute any actions or proceedings at law or in equity for the collection of the sums so due and unpaid.

(c) In case there shall be pending proceedings for the bankruptcy or reorganization of Southern under the federal bankruptcy laws or any other applicable law, or in case a receiver or trustee shall have been appointed for the benefit of the creditors or the property of Southern, DELCORA (or the Trustee if this Loan Agreement shall have been assigned thereto) shall be entitled and empowered, by intervention in such proceedings or otherwise, to file and prove a claim or claims for the whole amount due hereunder, including interest owing and unpaid in respect thereof, and, in case of any judicial proceedings, to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee allowed in such judicial proceedings relative to Southern, its creditors or its property, and to collect and receive any moneys or other property payable or deliverable on any such claims, and to distribute the same after the deduction of its charges and expenses. Any receiver, assignee or trustee in bankruptcy or reorganization is hereby authorized to make such payments to DELCORA or the Trustee, and to pay to DELCORA or the Trustee any amount due it for compensation and expenses, including counsel fees incurred by it up to the date of such distribution.

Notwithstanding the foregoing subsections (a), (b) and (c), the Trustee shall not be obligated to take any step which in its opinion will or might cause it to expend money or

otherwise incur liability unless and until a satisfactory indemnity bond has been furnished to the Trustee at no cost or expense to the Trustee. Any amounts collected by the Trustee as Repayments or applicable to Repayments and any other amounts collected pursuant to action taken under this Section shall be paid into the Revenue Fund and applied in accordance with the provisions of the 2001 Indenture or, if the outstanding 2001 Bonds have been paid and discharged in accordance with the provisions of the 2001 Indenture, shall be paid as provided in the 2001 Indenture for transfers of remaining amounts in the Revenue Fund.

Section 6.03 Remedies Not Exclusive. No remedy conferred upon or reserved to DELCORA or the Trustee by this Loan Agreement is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Loan Agreement, or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default shall impair that right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle DELCORA or the Trustee to exercise any remedy reserved to it in this Article, it shall not be necessary to give any notice, other than any notice required by law or for which express provision is made herein.

Section 6.04 Payment of Legal Fees and Expenses. If an Agreement Default should occur and DELCORA or the Trustee should incur expenses, including attorneys' fees and expenses, in connection with the enforcement of this Loan Agreement or the collection of sums due hereunder, Southern shall reimburse DELCORA and the Trustee, as applicable, for the reasonable expenses so incurred, upon demand.

Section 6.05 No Waiver. No failure by DELCORA or the Trustee to insist upon the strict performance by Southern of any provision hereof shall constitute a waiver of their right to strict performance and no express waiver shall be deemed to apply to any other existing or subsequent right to remedy the failure by Southern to observe or comply with any provision hereof.

Section 6.06 Notice of Default. Southern shall notify the Trustee and DELCORA immediately if it becomes aware of the occurrence of any Agreement Default hereunder or of any fact, condition or event which, with the giving of notice or passage of time or both, would become an Agreement Default.

(End of Article VI)

ARTICLE VII

MISCELLANEOUS

Section 7.01 Term of Loan Agreement; Survival of Certain Provisions.

(a) This Loan Agreement shall be and remain in full force and effect from the date hereof until the date when all sums payable by Southern under this Loan Agreement shall have been paid.

(b) The obligations of Southern under Sections 5.10 and 5.14 hereof shall survive termination of this Loan Agreement.

Section 7.02 Notices. All notices, certificates, requests or other communications hereunder shall be in writing and shall be deemed to be sufficiently given when mailed by overnight, registered or certified mail, postage prepaid, and addressed as follows:

| | |
|--------------------|--|
| If to Southern: | Southern Delaware County Authority 101 Beech Street Boothwyn, Pennsylvania 19061 |
| If to DELCORA: | Delaware County Regional Water Quality Control Authority 100 East 5 th Street Chester, Pennsylvania 19016 |
| If to the Trustee: | Commerce Bank/Pennsylvania, National Association Corporate Trust Services 1701 Route 70 East Cherry Hill, New Jersey 08034 |

Southern, DELCORA and the Trustee, by notice given hereunder to the Persons listed above, may designate any further or different addresses to which subsequent notices, certificates, requests or other communications shall be sent.

Section 7.03 Limitation of Liability; No Personal Liability. In the exercise of the powers of DELCORA or the Trustee hereunder or under the 2001 Indenture, including without limitation the application of moneys and the investment of funds, neither DELCORA, the Trustee, nor their members, directors, officers, employees or agents shall be accountable to Southern for any action taken or omitted by any of them in good faith and with the belief that it is authorized or within the discretion or rights or powers conferred. DELCORA, the Trustee and their members, directors, officers, employees and agents shall be protected in acting upon any paper or document believed to be genuine, and any of them may conclusively rely upon the advice of counsel and shall be free from any liability for acting or refraining from acting in reliance with such advice and may (but need not) require further evidence of any fact or matter before taking any action. In the event of any default by DELCORA hereunder, the liability of DELCORA to Southern shall be enforceable only out of DELCORA's interest under this Loan Agreement and there shall be no other recourse for damages by Southern against DELCORA, its members, directors, officers, attorneys, agents and employees, or any of the property now or hereafter owned by it or them. All covenants, obligations and agreements of DELCORA contained in this Loan Agreement or the 2001 Indenture shall be effective to the extent authorized and permitted by applicable law. No such covenant, obligation or agreement shall be deemed to be a covenant, obligation or agreement of any present or future member, director, officer, agent or employee of DELCORA, and no official executing the 2001 Bonds shall be liable personally on the 2001 Bonds or be subject to any personal liability or accountability by reason of the issuance thereof or by reason of the covenants, obligations or agreements of DELCORA contained in this Loan Agreement or the 2001 Indenture.

Section 7.04 Parties Benefited. This Loan Agreement shall inure to the benefit of and shall be binding in accordance with its terms upon DELCORA, Southern and their respective successors and assigns and may be enforced only by the parties, their successors and assignees.

Section 7.05 Amendments. This Loan Agreement may not be effectively amended or modified except by an instrument in writing signed by Southern and DELCORA.

Section 7.06 Counterparts. This Loan Agreement may be executed in any number of counterparts, each of which shall be regarded as an original and all of which shall constitute one and the same instrument.

Section 7.07 Severability. If any provision of this Loan Agreement is determined by a court to be invalid or unenforceable, such determination shall not affect any other provision hereof, each of which shall be construed and enforced as if the invalid or unenforceable portion were not contained herein. Such invalidity or unenforceability shall not affect any valid and enforceable application thereof, and each such provision shall be deemed to be effective, operative and entered into in the manner and to the full extent permitted by applicable law.

Section 7.08 Governing Law. This Loan Agreement shall be deemed to be a contract made under the laws of the Commonwealth of Pennsylvania and for all purposes shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania.

Section 7.09 Assignment to Trustee Only. This Loan Agreement shall be assignable only by DELCORA to the Trustee for the purpose of providing a source of payment and security for the 2001 Bonds.

(End of Article VII)

IN WITNESS WHEREOF, DELCORA and Southern, intending to be legally bound, have caused this Loan Agreement to be duly executed in their respective names, all as of the date first above written.

DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY

Attest *David J. Horney* By *Stanley R. Kester*
(Assistant) Secretary (Vice) Chairman

[SEAL]

SOUTHERN DELAWARE COUNTY
AUTHORITY

Attest *Edith J. Huddle* By *Michael J. Chermak Jr.*
(Assistant) Secretary (Vice) President

6/22/2001

13:04

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NO. 695

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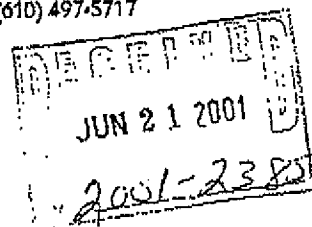
06/21/01

11:02



Southern Delaware County Authority

101 Beech Street
Boothwyn, PA 19061-4062
(610) 485-6789 or 485-0168
FAX (610) 497-5717



June 21, 2001

DELCORA
100 E. Fifth Street
P. O. Box 999
Chester, PA 19016

Att: Mr. John Pileggi, Controller

Re: Naamans Creek Pump Station & Force Main
DELCORA Bypass Project

Dear Mr. Pileggi:

In accordance with our agreement for the subject project, the Board respectfully requests reimbursement of the following:

| | |
|------------------------|--------------------|
| Construction Contracts | \$1,056,976.95 |
| Engineering | \$204,000.00 |
| Legal | \$13,212.82 |
| Accounting | \$1,850.00 |
| Rights of Way | \$62,481.00 |
| Permits/Administrative | <u>\$58,086.66</u> |

Total \$1,396,607.43

Very truly yours,

Michael J. Chermak, Jr.
President

MJCJR/ejh

Exhibit "A"