AGREEMENT IN PRINCIPLE: SAELTZER DAM FISH PASSAGE PROJECT

The signatories below agree that the following principles accurately describe the proposed Saeltzer Dam Fish Passage Project (proposed Project) negotiated between the U.S. Bureau of Reclamation (Reclamation) and the Townsend Flat Water Ditch Company and/or its successors (Townsend) on March 10, 2000. Reclamation and Townsend understand that implementing the proposed Project is contingent upon: completing necessary environmental permitting requirements; securing necessary funding, water supplies, and project-related mitigation; and reaching agreement between California Department of Fish and Game, U.S. Fish and Wildlife Service, and Reclamation on Clear Creek instream flow commitments following cancellation of the existing 1960 Reclamation-Townsend Settlement Agreement.

Neither this memorandum nor any provision hereof creates any binding legal obligation on the part of any party hereto. There shall be no legally binding agreement between the parties unless and until the parties execute a Memorandum of Understanding setting forth in detail all of the terms and conditions of the agreement of the parties.

Negotiator	Date
Michael J. Ryan, Area Manager U.S. Bureau of Reclamation	March 10, 2000
Doreeta Domke, President Townsend Flat Water Ditch Company	March 11, 2000

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RECLAMATION AND TOWNSEND JOINT RESPONSIBILITIES:

- Reclamation and Townsend will use their best efforts to develop a formal Memorandum of Understanding (MOU) within sixty days of this Agreement, consistent with the following principles that will define Reclamation's and Townsend's roles and responsibilities regarding actions that will be undertaken as part of the proposed Project. Reclamation and Townsend recognize that other parties, including the California Department of Fish and Game, will participate in preparing the MOU.

RECLAMATION RESPONSIBILITIES:

- Reclamation will provide 6,000 acre-feet of settlement water to Townsend in recognition of Townsend's pre-1914 water right. The Reclamation-Townsend contract for providing the settlement water will be consistent with the terms of the Sacramento River Settlement Contracts.

- Reclamation will not oppose proposals by Townsend to transfer up to 6,000 acre-feet of the settlement water to other entities for use within Shasta County. Further, Reclamation will not oppose proposals by Townsend to transfer up to 3,360 acre-feet of the settlement water (historical consumptive use) to other entities for use outside of Shasta County provided the quantity of Townsend's settlement water diverted within Shasta County during the year of the transfer is reduced by 1.786 acre-feet for each acre-foot transferred outside the County.

- Reclamation will pay Townsend $2,500,000 in exchange for: (1) Townsend releasing its contractual interest in the 1960 Reclamation-Townsend Settlement Agreement; (2) Townsend's agreement not to replace Saeltzer Dam with another diversion structure in Clear Creek; (3) Townsend's relinquishment of its right to maintain a direct diversion from Clear Creek below Whiskeytown Dam; (4) Townsend's relinquishment of its interest in Saeltzer Dam and headworks; (5) Townsend's release of its easement

underlying Saeltzer Dam; (6) Townsend's assignment to Reclamation of the remainder of its pre-1914 water right; and (7) Townsend's agreement to be responsible for approved costs and other obligations associated with decommissioning its ditch.

- Reclamation will pay 100% of capital costs, currently estimated at $1,250,000, to: (1) remove Saeltzer Dam and its headworks; and (2) remove and dispose of any sediment that has accumulated behind Saeltzer Dam.

- Reclamation will pay 100% of costs to prepare all state and federal environmental documents that may be required to complete the proposed Project. These costs do not include Townsend's participation in developing and reviewing such documents.

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TOWNSEND RESPONSIBILITIES:

- Townsend will release all interest and title to Saeltzer Dam and its headworks to Reclamation. Townsend also will release its underlying easement upon which the dam and its headworks are located to California Department of Fish and Game.

- Townsend will release Reclamation from its contractual obligations under the existing 1960 Reclamation-Townsend Settlement Agreement, at which time that agreement shall terminate.

- Townsend will retain the first 6,000 acre-feet of its pre-1914 water right, referred to above, and will transfer the remainder of its water right to Reclamation. Townsend also agrees not to maintain or in the future seek to obtain any diversion from Clear Creek below Whiskeytown Dam.

- Townsend will support Reclamation's petition to the State Water Resources Control Board, pursuant to Water Code 1707, to expand the appropriate CVP water rights permits to include instream uses.

- Subject to Townsend's prior acceptance and approval, Townsend will be responsible for the costs and any other obligations associated with decommissioning its ditch, including, but not limited to, satisfying third party claims and/or mitigation responsibilities, if any, along the ditch. In addition, interested third party entities may participate to accomplish any or all required mitigation measures.