

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF RECLAMATION
Central Valley Project, California

CONTRACT BETWEEN THE UNITED STATES AND
HOWALD FARMS, INC,
DIVERTER OF WATER FROM SACRAMENTO RIVER SOURCES,
SETTLING WATER RIGHTS DISPUTES AND
PROVIDING FOR PROJECT WATER

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3 UNITED STATES
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5 BUREAU OF RECLAMATION
6 Central Valley Project, California

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8 HOWALD FARMS, INC.
9 DIVERTER OF WATER FROM SACRAMENTO RIVER SOURCES,
10 SETTLING WATER RIGHTS DISPUTES AND
11 PROVIDING FOR PROJECT WATER

12 THIS CONTRACT, hereinafter referred to as "Settlement Contract," is entered into
13 by THE UNITED STATES OF AMERICA, hereinafter referred to as the United States, made
14 this 18th day of March, 2005, pursuant to the applicable authority
15 granted to it generally in the Act of June 17, 1902 (32 Stat. 388), and acts amendatory or
16 supplementary thereto, including, but not limited to, the Acts of August 26, 1937 (50 Stat. 844),
17 as amended and supplemented, August 4, 1939 (53 Stat. 1187), as amended and supplemented,
18 including, but not limited to, Sections 9 and 14 thereto, July 2, 1956 (70 Stat. 483), June 21,
19 1963 (77 Stat. 68), October 12, 1982 (96 Stat. 1263), October 27, 1986 (100 Stat. 3050), as
20 amended, and Title XXXIV of the Act of October 30, 1992 (106 Stat. 4706), all collectively
21 hereinafter referred to as Federal Reclamation law, and HOWALD FARMS, INC, hereinafter
22 referred to as the Contractor, acting pursuant to Sections 12003 and 12004 of the California
23 Water Code, with its principal place of business in California;

24 WITNESSETH, that:

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EXPLANATORY RECITALS

[1st] WHEREAS, the United States has constructed and is operating the Central Valley Project, California, for multiple purposes pursuant to its statutory authority; and

[2nd] WHEREAS, the Contractor has rights to divert, is diverting, and will continue to divert for reasonable beneficial use, water from the natural flow of the Sacramento River and tributaries thereto, that would have been flowing therein if the Central Valley Project were not in existence;

[3rd] WHEREAS, the construction and operation of the integrated and coordinated Central Valley Project has changed and will further change the regimen of the Sacramento, American, San Joaquin, and Trinity Rivers and the Sacramento-San Joaquin Delta from unregulated flow to regulated flow; and

[4th] WHEREAS, the United States has rights to divert, is diverting, and will continue to divert waters from said Rivers and said Delta in connection with the operation of said Central Valley Project; and

[5th] WHEREAS, the Contractor and the United States had a dispute over the respective rights of the parties to divert and use water from the regulated flow of the Sacramento River which threatened to result in litigation, and as a means to settle that dispute entered into Contract No. 14-06-200-1042A, as amended, hereinafter referred to as the Existing Contract, which established terms for the delivery to the Contractor of Central Valley Project Water, and the quantities of Base Supply the United States and the Contractor agreed may be diverted by the Contractor from the Sacramento River pursuant to such contract; and

[6th] WHEREAS, the United States and the Contractor disagree with respect to the authority of the United States to change the quantities of Base Supply and/or Project Water

48 specified as available for diversion in this Settlement Contract from the quantities specified in
49 the Existing Contract, and other issues related thereto. That dispute was the subject of litigation
50 in a lawsuit entitled *Glenn-Colusa Irrigation District, et al. v. United States, et al.* [Civ. No. S-
51 01-1816 GEB/JFM (E.D. Cal.)], but that litigation was dismissed, without prejudice, pursuant to
52 a stipulation of dismissal filed by the parties thereto on August 29, 2002. Notwithstanding that
53 dismissal, the Contractor and the United States enter into this Settlement Contract to renew the
54 Existing Contract, pursuant to the terms of the Existing Contract, Federal Reclamation law, and
55 the laws of the State of California; and

56 [7th] WHEREAS, to assure the Contractor of the enjoyment and use of the regulated
57 flow of the said Rivers and the Delta, and to provide for the economical operation of the Central
58 Valley Project by, and the reimbursement to, the United States for expenditures made for said
59 Project.

60 NOW, THEREFORE, in consideration of the performance of the herein contained
61 provisions, conditions, and covenants, it is agreed as follows:

62 DEFINITIONS

63 1. When used herein, unless otherwise expressed or incompatible with the intent
64 hereof, the term:

65 (a) "Base Supply" shall mean the quantity of Surface Water established in
66 Articles 3 and 5 which may be diverted by the Contractor from the Sacramento River each month
67 during the period April through October of each Year without payment to the United States for
68 such quantities diverted;

69 (b) "Basin-Wide Water Management Plan" shall mean the mutually agreeable
70 Sacramento River Basinwide Water Management Plan, dated October 11, 2004, developed by

71 Glenn-Colusa Irrigation District, Maxwell Irrigation District, Natomas Central Mutual Water
72 Company, Pelger Mutual Water Company, Princeton-Codora-Glenn Irrigation District, Provident
73 Irrigation District, Reclamation District 108, Sutter Mutual Water Company, Anderson-
74 Cottonwood Irrigation District, Meridian Farms Water Company, Reclamation District 1004, and
75 the U.S. Bureau of Reclamation;

76 (c) "Charges" shall mean the payments for Project Water that the Contractor
77 is required to pay to the United States in addition to the "Rates" specified in this Settlement
78 Contract. The Contracting Officer will, on an annual basis, determine the extent of these
79 Charges. The type and amount of each Charge shall be specified in Exhibit D;

80 (d) "Contract Total" shall mean the sum of the Base Supply and Project Water
81 available for diversion by the Contractor for the period April 1 through October 31;

82 (e) "Critical Year" shall mean any Year in which either of the following
83 eventualities exists:

84 (1) The forecasted full natural inflow to Shasta Lake for the current
85 Water Year, as such forecast is made by the United States on or before February 15 and reviewed
86 as frequently thereafter as conditions and information warrant, is equal to or less than 3.2 million
87 acre-feet; or

88 (2) The total accumulated actual deficiencies below 4 million acre-feet
89 in the immediately prior Water Year or series of successive prior Water Years each of which had
90 inflows of less than 4 million acre-feet, together with the forecasted deficiency for the current
91 Water Year, exceed 800,000 acre-feet.

92 For the purpose of determining a Critical Year, the computation of inflow to
93 Shasta Lake shall be performed in a manner that considers the extent of upstream development

94 above Shasta Lake during the year in question, and shall be used as the full natural flow to
95 Shasta Lake. In the event that major construction has occurred or occurs above Shasta Lake after
96 September 1, 1963, and which has materially altered or alters the regimen of the stream systems
97 contributing to Shasta Lake, the computed inflow to Shasta Lake used to define a Critical Year
98 will be adjusted to eliminate the effect of such material alterations. After consultation with the
99 State of California, the National Weather Service, and other recognized forecasting agencies, the
100 Contracting Officer will select the forecast to be used and will make the details of it available to
101 the Contractor. The same forecasts used by the United States for the operation of the Project
102 shall be used to make the forecasts hereunder;

103 (f) "CVPIA" shall mean the Central Valley Project Improvement Act, Title
104 XXXIV of the Act of October 30, 1992 (106 Stat. 4706);

105 (g) "Eligible Lands" shall mean all lands to which Project Water may be
106 delivered in accordance with Section 204 of the Reclamation Reform Act of October 12, 1982
107 (96 Stat. 1263), as amended, hereinafter referred to as RRA;

108 (h) "Excess Lands" shall mean all lands in excess of the limitations contained
109 in Section 204 of the RRA, other than those lands exempt from acreage limitation under Federal
110 Reclamation law;

111 (i) "Full Cost Rate" shall mean that water rate described in Sections 205(a)(3)
112 or 202(3) of the RRA, whichever is applicable;

113 (j) "Ineligible Lands" shall mean all lands to which Project Water may not be
114 delivered in accordance with Section 204 of the RRA;

115 (k) "Landholder" shall mean a party that directly or indirectly owns or leases
116 nonexempt land, as provided in 43 CFR 426.2;

117 (l) "Project" shall mean the Central Valley Project owned by the United
118 States and managed by the Department of the Interior, Bureau of Reclamation;

119 (m) "Project Water" shall mean all Surface Water diverted or scheduled to be
120 diverted each month during the period April through October of each Year by the Contractor
121 from the Sacramento River which is in excess of the Base Supply. The United States recognizes
122 the right of the Contractor to make arrangements for acquisition of water from projects of others
123 than the United States for delivery through the Sacramento River and tributaries subject to
124 written agreement between Contractor and the United States as to identification of such water
125 which water when so identified shall not be deemed Project Water under this Settlement
126 Contract;

127 (n) "Rates" shall mean the payments for Project Water determined annually
128 by the Contracting Officer in accordance with the then current applicable water ratesetting
129 policies for the Project, as described in subdivision (a) of Article 8 of this Settlement Contract;

130 (o) "Secretary" or "Contracting Officer" shall mean the Secretary of the
131 Interior, a duly appointed successor, or an authorized representative acting pursuant to any
132 authority of the Secretary and through any agency of the Department of the Interior;

133 (p) "Surface Water" shall mean only those waters that are considered as
134 surface water under California law;

135 (q) "Water Year" shall mean the period commencing with October 1 of one
136 year and extending through September 30 of the next; and

137 (r) "Year" shall mean a calendar year.

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TERM OF SETTLEMENT CONTRACT

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2. (a) This Settlement Contract shall become effective April 1, 2005, and shall

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remain in effect until and including March 31, 2045; Provided, that under terms and conditions

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mutually agreeable to the parties hereto, renewals may be made for successive periods not to

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exceed 40 years each. The terms and conditions of each renewal shall be agreed upon not later

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than one year prior to the expiration of the then existing Settlement Contract.

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(b) With respect to Project Water and the portions of this Settlement Contract

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pertaining thereto, upon written request by the Contractor of the Secretary made not later than

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one year prior to the expiration of this Settlement Contract, whenever, account being taken of the

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amount then credited to the costs of construction of water supply works, the remaining amount of

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construction costs of water supply work which is properly assignable for ultimate return by the

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Contractor as established by the Secretary of the Interior pursuant to (3) of Section 1 of Public

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Law 643 (70 Stat. 483), probably can be repaid to the United States within the term of a contract

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under subsection 9(d) of the 1939 Reclamation Project Act (53 Stat. 1187), the relevant portions

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of this Settlement Contract may be converted to a contract under said subsection 9(d) upon terms

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and conditions mutually agreeable to the United States and the Contractor. The Secretary shall

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make a determination ten years after the date of execution of this Settlement Contract, and every

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five years thereafter, of whether a conversion to a contract under said subsection 9(d) can be

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accomplished pursuant to Public Law 643. Notwithstanding any provision of this Settlement

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Contract, the Contractor reserves and shall have all rights and benefits under Public Law 643.

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WATER TO BE FURNISHED TO CONTRACTOR

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3. (a) Subject to the conditions, limitations, and provisions hereinafter

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expressed, the Contractor is hereby entitled and authorized to divert from the Sacramento River

161 at the locations shown in Exhibit A, for beneficial use within the area delineated on Exhibit B,
162 (both Exhibits are attached hereto and made a part hereof), the Contract Total designated in
163 Exhibit A, or any revision thereof, in accordance with the monthly operating schedule required
164 by Article 3(c) of this Settlement Contract. The quantity of any water diverted under this
165 Settlement Contract from the Sacramento River, during the period April through October, for use
166 on any lands delineated on Exhibit B, by the owner of such lands or otherwise shall constitute a
167 part of the Contract Total as shown on Exhibit A and shall be subject to all the provisions of this
168 Settlement Contract relating to such Contract Total as if such diversion were made by the
169 Contractor.

170 (b) The Contractor may have acquired rights to divert water from the
171 Sacramento River during the period April through October, that were obtained after the date of
172 execution of the Existing Contract, or the Contractor may acquire such rights in the future. All
173 diversions made from the Sacramento River, pursuant to such rights, during the period April
174 through October, shall not be considered a part of the quantity of Base Supply and Project Water
175 specified in Exhibit A; Provided, that the quantities diverted pursuant to the above rights shall be
176 identified on the schedule submitted pursuant to Article 3(c) below, and shall not be substituted
177 for any Base Supply or Project Water; Provided, further, that any such identified quantities of
178 other acquired rights may be diverted by the Contractor before incurring any fee pursuant to
179 Article 3(c)(1), below.

180 (c) Before April 1 and before the first day of each month thereafter when a
181 revision is needed, the Contractor shall submit a written schedule to the Contracting Officer
182 indicating the Contract Total to be diverted by the Contractor during each month under this
183 Settlement Contract. The United States shall furnish water to the Contractor in accordance with

184 the monthly operating schedule or any revisions thereof. However, the United States recognizes
185 the need of the Contractor to change from time to time its monthly diversions of water from the
186 quantities shown in Exhibit A; the Contractor may make such changes, provided:

187 (1) that for the quantity of Base Supply diverted in excess of the
188 monthly quantity shown in Exhibit A, and as may be reduced in accordance with Article 5(a),
189 during June, July, August, September, or October of any Water Year, the Contractor shall be
190 charged a rescheduling fee equal to 50 percent of the sum of the storage operations and
191 maintenance rate and the storage capital rate components of the Project ratesetting policy.

192 (2) that in no event shall the total quantity scheduled for diversion by
193 the Contractor from the Sacramento River:

194 (i) During the period April through October exceed the
195 aggregate of the Contract Total for that period shown in Exhibit A or any revision
196 thereof;

197 (ii) During the period July through September exceed the
198 aggregate of the Contract Total for that period shown in Exhibit A or any revision
199 thereof.

200 (d) In the event conditions warrant, the Contracting Officer reserves the right
201 to require the Contractor to submit, at least 72 hours prior to the beginning of each weekly
202 period, its estimate of daily diversion requirements for each such period from the Sacramento
203 River; Provided, however, that changes during any such period may be made upon the giving of
204 72 hours' notice thereof to the Contracting Officer.

205 (e) No sale, transfer, exchange, or other disposal of any of the Contract Total
206 designated in Exhibit A or the right to the use thereof for use on land other than that shown on

207 Exhibit B shall be made by the Contractor without first obtaining the written consent of the
208 Contracting Officer. Such consent will not be unreasonably withheld and a decision will be
209 rendered in a timely manner. For short-term actions that will occur within one year or less, the
210 decision will be rendered within 30 days after receipt of a complete written proposal. For long-
211 term actions that will occur in a period longer than one year, the decision will be rendered within
212 90 days after receipt of a complete written proposal. For a proposal to be deemed complete by
213 the Contracting Officer, it must comply with all provisions required by State and Federal law,
214 including information sufficient to enable the Contracting Officer to comply with the National
215 Environmental Policy Act, the Endangered Species Act, and applicable rules or regulations then
216 in effect; Provided, that such consent does not authorize the use of Federal facilities to facilitate
217 or effectuate the sale, transfer, exchange, or other disposal of Base Supply. Such use of Federal
218 facilities will be the subject of a separate agreement to be entered into between the Contractor
219 and Reclamation.

220 (f) For the purpose of determining whether Section 3405(a)(1)(M) of the
221 CVPIA applies to the Contractor as a transferor or transferee of Project Water, the Contracting
222 Officer acknowledges that the Contractor is within a county, watershed, or other area of origin,
223 as those terms are utilized under California law.

224 (g) Nothing herein contained shall prevent the Contractor from diverting
225 water during the months of November through March for beneficial use on the land shown on
226 Exhibit B or elsewhere to the extent authorized under the laws of the State of California.

227 (h) The United States assumes no responsibility for and neither it nor its
228 officers, agents, or employees shall have any liability for or on account of:

229 (1) The quality of water to be diverted by the Contractor;

230 (2) The control, carriage, handling, use, disposal, or distribution of
231 water diverted by the Contractor outside the facilities constructed and then being operated and
232 maintained by or on behalf of the United States;

233 (3) Claims of damage of any nature whatsoever, including but not
234 limited to, property loss or damage, personal injury, or death arising out of or connected with the
235 control, carriage, handling, use, disposal, or distribution of said water outside of the hereinabove
236 referred to facilities; and

237 (4) Any damage whether direct or indirect arising out of or in any
238 manner caused by a shortage of water whether such shortage be on account of errors in
239 operation, drought, or unavoidable causes.

240 (i) In addition to the provisions of subdivision (h) of Article 3 of this
241 Contract, if there is a shortage of Project Water because of actions taken by the Contracting
242 Officer to meet legal obligations then, except as provided in subdivision (a) of Article 30 of this
243 Contract, no liability shall accrue against the United States or any of its officers, agents, or
244 employees for any damage, direct or indirect, arising therefrom.

245 RETURN FLOW

246 4. Nothing herein shall be construed as an abandonment or a relinquishment by the
247 United States of any right it may have to the use of waste, seepage, and return flow water derived
248 from water diverted by the Contractor hereunder and which escapes or is discharged beyond the
249 boundaries of the lands shown on Exhibit B; Provided, that this shall not be construed as
250 claiming for the United States any right to such water which is recovered by the Contractor
251 pursuant to California law from within the boundaries of the lands shown on Exhibit B, and

252 which is being used pursuant to this Settlement Contract for surface irrigation or underground
253 storage for the benefit of the lands shown on Exhibit B by the Contractor.

254 CONSTRAINTS ON THE AVAILABILITY OF WATER

255 5. (a) In a Critical Year, the Contractor's Base Supply and Project Water agreed
256 to be diverted during the period April through October of the Year in which the principal portion
257 of the Critical Year occurs and, each monthly quantity of said period shall be reduced by
258 25 percent.

259 (b) The amount of any overpayment by the Contractor shall, at its option, be
260 refunded or credited upon amounts to become due to the United States from the Contractor under
261 the provisions hereof in the ensuing Year. To the extent of such deficiency such adjustment of
262 overpayment shall constitute the sole remedy of the Contractor.

263 INTEGRATED WATER MANAGEMENT AND PARTNERSHIPS

264 6. The Contractor and United States desire to work together to maximize the
265 reasonable beneficial use of water for their mutual benefit. As a consequence, the United States
266 and the Contractor will work in partnership and with others within the Sacramento Valley,
267 including other contractors, to facilitate the better integration within the Sacramento Valley of all
268 water supplies including, but not limited to, the better management and integration of surface
269 water and groundwater, the development and better utilization of surface water storage, the
270 effective utilization of waste, seepage and return flow water, and other operational and
271 management options that may be identified in the future.

272 USE OF WATER FURNISHED TO CONTRACTOR

273 7. (a) Project Water furnished to the Contractor pursuant to this Settlement
274 Contract shall not be delivered or furnished by the Contractor for any purposes other than

275 agricultural purposes without the written consent of the Contracting Officer. For purposes of this
276 Settlement Contract, "agricultural purposes" includes, but is not restricted to, the irrigation of
277 crops, the watering of livestock, incidental domestic use including related landscape irrigation,
278 and underground water replenishment.

279 (b) The Contractor shall comply with requirements applicable to the
280 Contractor in biological opinion(s) prepared as a result of a consultation regarding the execution
281 of this Settlement Contract undertaken pursuant to Section 7 of the Endangered Species Act of
282 1973, as amended, that are within the Contractor's legal authority to implement. The Existing
283 Contract, which evidences in excess of 40 years of diversions, for agricultural uses, of the
284 quantities of water provided for in Article 3, and the underlying water rights of the Contractor
285 will be considered in developing an appropriate base-line for the Biological Assessment prepared
286 pursuant to the Endangered Species Act, and in any other needed environmental review.
287 Nothing herein shall be construed to prevent the Contractor from challenging or seeking judicial
288 relief in a court of competent jurisdiction with respect to any biological opinion or other
289 environmental documentation referred to in this Article.

290 RATE AND METHOD OF PAYMENT FOR WATER

291 8. (a) The Contractor shall make payments to the United States as provided in
292 this Article for all Project Water shown in Exhibit A as follows:

293 (1) 75 percent of the amount shown as Project Water shall be paid for
294 by the Contractor in each Year; and in addition

295 (2) the Contractor shall pay for Project Water actually diverted in
296 excess of 75 percent of the amount shown as Project Water.

297 Such payments shall be at Rates and Charges established in accordance with: (i) the
298 Secretary's then-current ratesetting policies for the Project; and (ii) applicable Reclamation law
299 and associated rules and regulations, or policies; Provided, that if the Contractor desires to use
300 Project Water for other than agricultural purposes the Rates and Charges set forth above will be
301 adjusted by the Contracting Officer to the applicable Rates and Charges for such purposes. The
302 Rates and Charges applicable to the Contractor upon execution of this Settlement Contract are
303 set forth in Exhibit D, as may be revised annually. The Secretary's ratesetting policies for the
304 Project shall be amended, modified, or superseded only through a public notice and comment
305 procedure. The Contracting Officer shall adjust the amount of Project Water for which payment
306 is required to the extent of any reduction in diversions of Project Water made in accordance with
307 the water conservation provisions of Article 29(e).

308 (b) The Contracting Officer shall notify the Contractor of the Rates and
309 Charges as follows:

310 (1) Prior to July 1 of each Year, the Contracting Officer shall provide
311 the Contractor an estimate of the Charges for Project Water that will be applied to the period
312 October 1, of the current Year, through September 30, of the following Year, and the basis for
313 such estimate. The Contractor shall be allowed not less than two months to review and comment
314 on such estimates. On or before September 15 of each Year, the Contracting Officer shall notify
315 the Contractor in writing of the Charges to be in effect during the period October 1 of the current
316 Year, through September 30, of the following Year, and such notification shall revise Exhibit D.

317 (2) Prior to October 1 of each Year, the Contracting Officer shall make
318 available to the Contractor an estimate of the Rates for Project Water for the following Year and
319 the computations and cost allocations upon which those Rates are based. The Contractor shall be

320 allowed not less than two months to review and comment on such computations and cost
321 allocations. By December 31 of each Year, the Contracting Officer shall provide the Contractor
322 with the final Rates to be in effect for the upcoming Year, and such notification shall revise
323 Exhibit D.

324 (c) The Contractor shall pay the United States for Project Water in the
325 following manner:

326 (1) With respect to Rates, prior to May 1 of each Year, the Contractor
327 shall pay the United States one-half the total amount payable pursuant to subdivision (a) of this
328 Article and the remainder shall be paid prior to July 1 or such later date or dates as may be
329 specified by the United States in a written notice to the Contractor; Provided, however, that if at
330 any time during the Year the amount of Project Water diverted by the Contractor shall equal the
331 amount for which payment has been made, the Contractor shall pay for the remaining amount of
332 such water as shown in Exhibit A in advance of any further diversion of Project Water.

333 (2) With respect to Charges, the Contractor shall also make a payment
334 to the United States, in addition to the Rate(s) in subdivision (c)(1) of this Article, at the Charges
335 then in effect, before the end of the month following the month of delivery or transfer. The
336 payments shall be consistent with the quantities of Project Water delivered or transferred.
337 Adjustment for overpayment or underpayment of Charges shall be made through the adjustment
338 of payments due to the United States for Charges for the next month. Any amount to be paid for
339 past due payment of Charges shall be computed pursuant to Article 13 of this Settlement
340 Contract.

341 (d) Payments to be made by the Contractor to the United States under this
342 Settlement Contract may be paid from any revenues available to the Contractor. All revenues

343 received by the United States from the Contractor relating to the delivery of Project Water or the
344 delivery of non-Project Water through Project facilities shall be allocated and applied in
345 accordance with Federal Reclamation law and the associated rules or regulations, and the then
346 current Project ratesetting policies for irrigation water.

347 (e) The Contracting Officer shall keep its accounts pertaining to the
348 administration of the financial terms and conditions of its long-term water service and Settlement
349 Contracts, in accordance with applicable Federal standards, so as to reflect the application of
350 Project costs and revenues. The Contracting Officer shall, each Year upon request of the
351 Contractor, provide to the Contractor a detailed accounting of all Project and Contractor expense
352 allocations, the disposition of all Project and Contractor revenues, and a summary of all water
353 delivery information. The Contracting Officer and the Contractor shall enter into good faith
354 negotiations to resolve any discrepancies or disputes relating to accountings, reports, or
355 information.

356 (f) The parties acknowledge and agree that the efficient administration of this
357 Settlement Contract is their mutual goal. Recognizing that experience has demonstrated that
358 mechanisms, policies, and procedures used for establishing Rates and Charges and/or for making
359 and allocating payments, other than those set forth in this Article may be in the mutual best
360 interest of the parties, it is expressly agreed that the parties may enter into agreements to modify
361 the mechanisms, policies, and procedures for any of those purposes while this Settlement
362 Contract is in effect without amendment of this Settlement Contract.

363 (g) For the term of this Settlement Contract, Rates under the respective
364 ratesetting policies for the Project will be established to recover only reimbursable operation and
365 maintenance (including any deficits) and capital costs of the Project, as those terms are used in

366 the then current Project ratesetting policies, and interest, where appropriate, except in instances
367 where a minimum Rate is applicable in accordance with the relevant Project ratesetting policy.
368 Proposed changes of significance in practices which implement the ratesetting policies for the
369 Project will not be implemented until the Contracting Officer has provided the Contractor an
370 opportunity to discuss the nature, need, and impact of the proposed change. The Contractor
371 retains all rights to challenge the validity of Rates and Charges imposed pursuant to this
372 Settlement Contract, including but not limited to operation and maintenance expenses and
373 operation and maintenance deficits, in an appropriate administrative or judicial proceeding.

374 (h) Except as provided in subsection 3405(a)(1)(B) of the CVPIA, the Rates
375 for Project Water transferred, exchanged, or otherwise disposed of, by the Contractor shall be the
376 Contractor's Rates adjusted upward or downward to reflect the changed costs of delivery (if any)
377 of the transferred, exchanged, or otherwise disposed of Project Water to the transferee's point of
378 delivery in accordance with the then-current ratesetting policies for the Project. Except as
379 provided in subsection 3407(d)(2)(A) of the CVPIA, the Charges for Project Water transferred,
380 exchanged, or otherwise disposed of, by the Contractor shall be the Contractor's Charges
381 specified in Exhibit D. If the Contractor is receiving lower Rates and Charges because of
382 inability to pay and is transferring, exchanging, or otherwise disposing of Project Water to
383 another entity whose Rates and Charges are not adjusted due to inability to pay, the Rates and
384 Charges for transferred, exchanged, or otherwise disposed of Project Water shall be the
385 Contractor's Rates and Charges unadjusted for ability to pay.

386 (i) Pursuant to the Act of October 27, 1986 (100 Stat. 3050), the Contracting
387 Officer is authorized to adjust determinations of ability to pay every five years.

388 (j) Each payment to be made pursuant to subdivisions (a) and (c) of this
389 Article shall be made at the office of the Bureau of Reclamation, MP Region: Mid-Pacific,
390 P.O. Box 894242, Los Angeles, CA 90189-4242, or at such other place as the United States may
391 designate in a written notice to the said Contractor. Payments shall be made by cash transaction,
392 wire, or any other mechanism as may be agreed to in writing by the Contractor and the
393 Contracting Officer. In the event there should be a default in the payment of the amount due, the
394 delinquent payment provisions of Article 13 shall apply. The Contractor shall not be relieved of
395 the whole or any part of its said obligation by, on account of, or notwithstanding, as the case may
396 be:

397 (1) Its failure, refusal, or neglect to divert 75 percent of the quantity of
398 Project Water shown on Exhibit A;

399 (2) The default in payment to it by any water user of assessments,
400 tolls, or other charges levied by or owing to said Contractor;

401 (3) Any judicial determination that any assessment, toll, or other
402 charge referred to in subsection 8(c)(2) of this Settlement Contract is irregular, void, or
403 ineffectual; or

404 (4) Any injunctive process enjoining or restraining the Contractor
405 from making or collecting any such assessment, toll, or other charge referred to in subsection
406 8(c)(2) of this Settlement Contract.

407 AGREEMENT ON WATER QUANTITIES

408 9. (a) During the term of this Settlement Contract and any renewals thereof:

409 (1) It shall constitute full agreement as between the United States and
410 the Contractor as to the quantities of water and the allocation thereof between Base Supply and

411 Project Water which may be diverted by the Contractor from the Sacramento River for beneficial
412 use on the land shown on Exhibit B from April 1 through October 31, which said diversion, use,
413 and allocation shall not be disturbed so long as the Contractor shall fulfill all of its obligations
414 hereunder;

415 (2) Neither party shall claim any right against the other in conflict with
416 the provisions of Article 9(a)(1) hereof.

417 (b) Nothing herein contained is intended to or does limit rights of the
418 Contractor against others than the United States or of the United States against any person other
419 than the Contractor; Provided, however, that in the event the Contractor, the United States, or
420 any other person shall become a party to a general adjudication of rights to the use of water of
421 the Sacramento River system, this Settlement Contract shall not jeopardize the rights or position
422 of either party hereto or of any other person and the rights of all such persons in respect to the
423 use of such water shall be determined in such proceedings the same as if this Settlement Contract
424 had not been entered into, and if final judgment in any such general adjudication shall determine
425 that the rights of the parties hereto are different from the rights as assumed herein, the parties
426 shall negotiate an amendment to give effect to such judgment. In the event the parties are unable
427 to agree on an appropriate amendment they shall, within 60 days of determining that there is an
428 impasse, employ the services of a neutral mediator, experienced in resolving water rights
429 disputes, to assist in resolving the impasse. The cost of the mediation will be shared equally. A
430 failure to reach agreement on an amendment within 60 days of the end of mediation will cause
431 the immediate termination of this Settlement Contract.

432 (c) In the event that the California State Water Resources Control Board or a
433 court of competent jurisdiction issues a final decision or order modifying the terms and

434 conditions of the water rights of either party to this Settlement Contract in order to impose Bay-
435 Delta water quality obligations, the Contractor and the United States shall promptly meet to
436 determine whether or not to modify any of the terms of this Settlement Contract to comply with
437 the final decision or order, including, but not limited to, the applicability of the rescheduling
438 charge in Article 3(c)(1) of this Settlement Contract. If within 60 days of the date of the issuance
439 of the final decision or order the parties are not able to reach agreement regarding either the need
440 to modify this Settlement Contract or the manner in which this Settlement Contract is to be
441 modified, the parties shall promptly retain a neutral mediator, experienced in resolving water
442 right disputes, to assist the parties in resolving their dispute. The cost of the mediator shall be
443 shared equally. In the event that either of the parties to this Settlement Contract determines that
444 the parties will not be able to develop mutually-agreeable modification(s) to this Settlement
445 Contract even with the assistance of a mediator, either of the parties to this Settlement Contract
446 may attempt to resolve the impasse by seeking appropriate judicial relief including, but not
447 limited to, filing a general adjudication of the rights to the use of water in the Sacramento River
448 system. The foregoing provisions of this sub-article shall only apply to the incremental
449 obligations contained within a final decision or order of the State Water Resources Control
450 Board that reflects a modification to the obligations imposed in State Water Resources Control
451 Board Revised Water Rights Decision 1641 dated March 15, 2000, and its associated 1995 Water
452 Quality Control Plan which, taken together, will be considered the baseline for the application of
453 the provisions of this sub-article.

454 (d) In the event this Settlement Contract terminates, the rights of the parties to
455 thereafter divert and use water shall exist as if this Settlement Contract had not been entered into;
456 and the fact that as a compromise settlement of a controversy as to the respective rights of the

457 parties to divert and use water and the yield of such rights during the term hereof, this Settlement
458 Contract places a limit on the Contract Total to be diverted annually by the Contractor during the
459 Settlement Contract term and segregates it into Base Supply and Project Water shall not
460 jeopardize the rights or position of either party with respect to its water rights or the yield thereof
461 at all times after the Settlement Contract terminates. It is further agreed that the Contractor at all
462 times will first use water to the use of which it is entitled by virtue of its own water rights, and
463 neither the provisions of this Settlement Contract, action taken thereunder, nor payments made
464 thereunder to the United States by the Contractor shall be construed as an admission that any part
465 of the water used by the Contractor during the term of this Settlement Contract was in fact water
466 to which it would not have been entitled under water rights owned by it nor shall receipt of
467 payments thereunder by the United States from the Contractor be construed as an admission that
468 any part of the water used by the Contractor during the term of this Settlement Contract was in
469 fact water to which it would have been entitled under water rights owned by it.

470 MEASUREMENT OF WATER

471 10. (a) All water diverted by the Contractor from the Sacramento River will be
472 diverted at the existing point or points of diversion shown on Exhibit A or at such other points as
473 may be mutually agreed upon in writing by the Contracting Officer and the Contractor.

474 (b) All water diverted from the Sacramento River pursuant to this Settlement
475 Contract will be measured or caused to be measured by the United States at each point of
476 diversion with existing equipment or equipment to be installed, operated, and maintained by the
477 United States, and/or others, under contract with and at the option of the United States. The
478 equipment and methods used to make such measurement shall be in accordance with sound

479 engineering practices. Upon request of the Contractor, the accuracy of such measurements will
480 be investigated by the Contracting Officer and any errors appearing therein will be corrected.

481 (c) The right of ingress to and egress from all points of diversion is hereby
482 granted to all authorized employees of the United States. The Contractor also hereby grants to
483 the United States the right to install, operate, maintain, and replace such equipment on diversion
484 or carriage facilities at each point of diversion as the Contracting Officer deems necessary.

485 (d) The Contractor shall not modify, alter, remove, or replace diversion
486 facilities or do any other act which would alter the effectiveness or accuracy of the measuring
487 equipment installed by the United States or its representatives unless and until the Contracting
488 Officer has been notified with due diligence and has been given an opportunity to modify such
489 measuring equipment in such manner as may be necessary or appropriate. In the event of an
490 emergency the Contractor shall notify the United States within a reasonable time thereafter as to
491 the existence of the emergency and the nature and extent of such modification, alteration,
492 removal, or replacement of diversion facilities.

493 (e) The Contractor shall pay the United States for the costs to repair, relocate,
494 or replace measurement equipment when the Contractor modifies, alters, removes, or replaces
495 diversion or carriage facilities.

496 (f) Contractor and Contracting Officer shall develop a mutually agreeable
497 surface water delivery water measurement program which shall be implemented by the
498 Contractor, and such measurement program shall be consistent with the conservation and
499 efficiency criteria for evaluating water conservation plans as provided in Article 29(a).

500 (g) All new surface water delivery systems installed within the lands
 501 delineated on Exhibit B after the effective date of this Settlement Contract shall also comply with
 502 the measurement provisions described in this Article.

503 RULES AND REGULATIONS

504 11. The parties agree that the delivery of Project Water for irrigation use or use of
 505 Federal facilities pursuant to this Settlement Contract is subject to Federal Reclamation law,
 506 including but not limited to, the Reclamation Reform Act of 1982 (43 U.S.C. 390aa et seq.), as
 507 amended and supplemented, and the rules and regulations promulgated by the Secretary of the
 508 Interior under Federal Reclamation law.

509 GENERAL OBLIGATION--BENEFITS CONDITIONED UPON PAYMENT

510 12. (a) The obligation of the Contractor to pay the United States as provided in
 511 this Settlement Contract is a general obligation of the Contractor notwithstanding the manner in
 512 which the obligation may be distributed among the Contractor's water users and notwithstanding
 513 the default of individual water users in their obligations to the Contractor.

514 (b) The payment of Charges becoming due hereunder is a condition precedent
 515 to receiving benefits under this Settlement Contract. The United States shall not make water
 516 available to the Contractor through Project facilities during any period in which the Contractor
 517 may be in arrears in the advance payment of water Rates due the United States. The Contractor
 518 shall not furnish water made available pursuant to this Settlement Contract for lands or parties
 519 which are in arrears in the advance payment of water rates levied or established by the
 520 Contractor.

521 (c) With respect to subdivision (b) of this Article, the Contractor shall have no
 522 obligation to require advance payment for water Rates which it levies.

523 CHARGES FOR DELINQUENT PAYMENTS

524 13. (a) The Contractor shall be subject to interest, administrative and penalty
 525 charges on delinquent installments or payments. When a payment is not received by the due
 526 date, the Contractor shall pay an interest charge for each day the payment is delinquent beyond
 527 the due date. When a payment becomes 60 days delinquent, the Contractor shall pay an
 528 administrative charge to cover additional costs of billing and processing the delinquent payment.
 529 When a payment is delinquent 90 days or more, the Contractor shall pay an additional penalty
 530 charge of six percent per year for each day the payment is delinquent beyond the due date.

531 Further, the Contractor shall pay any fees incurred for debt collection services associated with a
532 delinquent payment.

533 (b) The interest charge rate shall be the greater of the rate prescribed quarterly
534 in the Federal Register by the Department of the Treasury for application to overdue payments,
535 or the interest rate of one-half of one percent per month prescribed by Section 6 of the
536 Reclamation Project Act of 1939 (Public Law 76-260). The interest charge rate shall be
537 determined as of the due date and remain fixed for the duration of the delinquent period.

538 (c) When a partial payment on a delinquent account is received, the amount
539 received shall be applied, first to the penalty, second to the administrative charges, third to the
540 accrued interest, and finally to the overdue payment.

541 QUALITY OF WATER

542 14. The operation and maintenance of Project facilities shall be performed in such
543 manner as is practicable to maintain the quality of raw water made available through such
544 facilities at the highest level reasonably attainable as determined by the Contracting Officer. The
545 United States does not warrant the quality of water and is under no obligation to construct or
546 furnish water treatment facilities to maintain or better the quality of water.

547 WATER AND AIR POLLUTION CONTROL

548 15. The Contractor, in carrying out this Settlement Contract, shall comply with all
549 applicable water and air pollution laws and regulations of the United States and the State of
550 California, and shall obtain all required permits or licenses from the appropriate Federal, State,
551 or local authorities.

552 EQUAL OPPORTUNITY

553 16. During the performance of this Settlement Contract, the Contractor agrees as
554 follows:

555 (a) The Contractor will not discriminate against any employee or applicant for
556 employment because of race, color, religion, sex, or national origin. The Contractor will take
557 affirmative action to ensure that applicants are employed, and that employees are treated during
558 employment, without regard to their race, color, religion, sex, or national origin. Such action
559 shall include, but not be limited to, the following: Employment, upgrading, demotion, or
560 transfer; recruitment or recruitment advertising; layoff or termination, rates of payment or other

561 forms of compensation; and selection for training, including apprenticeship. The Contractor
562 agrees to post in conspicuous places, available to employees and applicants for employment,
563 notices to be provided by the Contracting Officer setting forth the provisions of this
564 nondiscrimination clause.

565 (b) The Contractor will, in all solicitations or advertisements for employees
566 placed by or on behalf of the Contractor, state that all qualified applicants will receive
567 consideration for employment without discrimination because of race, color, religion, sex, or
568 national origin.

569 (c) The Contractor will send to each labor union or representative of workers
570 with which it has a collective bargaining agreement or other contract or understanding, a notice,
571 to be provided by the Contracting Officer, advising the said labor union or workers'
572 representative of the Contractor's commitments under Section 202 of Executive Order No. 11246
573 of September 24, 1965, as amended, and shall post copies of the notice in conspicuous places
574 available to employees and applicants for employment.

575 (d) The Contractor will comply with all provisions of Executive Order No.
576 11246 of September 24, 1965, as amended, and of the rules, regulations, and relevant orders of
577 the Secretary of Labor.

578 (e) The Contractor will furnish all information and reports required by said
579 amended Executive Order and by the rules, regulations, and orders of the Secretary of Labor, or
580 pursuant thereto, and will permit access to its books, records, and accounts by the Contracting
581 Officer and the Secretary of Labor for purposes of investigation to ascertain compliance with
582 such rules, regulations, and orders.

583 (f) In the event of the Contractor's noncompliance with the nondiscrimination
584 clauses of this Settlement Contract or with any of the said rules, regulations, or orders, this
585 Settlement Contract may be canceled, terminated, or suspended, in whole or in part, and the
586 Contractor may be declared ineligible for further Government contracts in accordance with
587 procedures authorized in said amended Executive Order, and such other sanctions may be
588 imposed and remedies invoked as provided in said Executive Order, or by rule, regulation, or
589 order of the Secretary of Labor, or as otherwise provided by law.

590 (g) The Contractor will include the provisions of paragraphs (a) through (g) in
591 every subcontract or purchase order unless exempted by the rules, regulations, or orders of the
592 Secretary of Labor issued pursuant to Section 204 of said amended Executive Order, so that such
593 provisions will be binding upon each subcontractor or vendor. The Contractor will take such
594 action with respect to any subcontract or purchase order as may be directed by the Secretary of
595 Labor as a means of enforcing such provisions, including sanctions for noncompliance:
596 Provided, however, that in the event the Contractor becomes involved in, or is threatened with,
597 litigation with a subcontractor or vendor as a result of such direction, the Contractor may request
598 the United States to enter into such litigation to protect the interests of the United States.

599 17. Omitted.

600 MINGLING OF CONTRACTOR'S PROJECT AND NON-PROJECT WATER

601 18. (a) Project Water must of necessity be transported by the Contractor to its
602 water users by means of the same works and channels used for the transport of its non-Project
603 Water including Base Supply. Notwithstanding such mingling of water, the provisions of Article
604 11 hereof shall be applicable only to Project Water, and such mingling of water shall not in any
605 manner subject to the provisions of Article 11 hereof the Contractor's non-Project Water
606 including Base Supply.

607 (b) If required in accordance with subdivision (c) of this Article, the
608 Contractor shall install and maintain such measuring equipment and distribution facilities and
609 maintain such records as may be necessary to determine the amounts of water delivered to
610 Excess Lands served by the Contractor. The Contractor shall not within any month deliver to
611 Ineligible Lands water in excess of the non-Project Water, including Base Supply, for that
612 month. The Contracting Officer or authorized representative shall have the right at all
613 reasonable times to inspect such records and measuring equipment.

614 (c) The Contractor will not be considered in violation of the requirement that
615 Project Water be delivered only to Eligible Lands during any month of the irrigation season that
616 the water requirement for beneficial use on Eligible Lands for that month is equal to or in excess
617 of the Project Water for that month as shown on Exhibit A or any revision thereof pursuant to
618 subdivision (c) of Article 3. The water requirement for beneficial use on Eligible Lands will be
619 determined by multiplying:

620 (1) the number of irrigable acres of the particular types of crops grown
621 in that year on the acreage designated as eligible by

622 (2) the Unit Duties as set forth in Exhibit C attached hereto and made
623 a part hereof, or by such other Unit Duties mutually agreed upon by the Contractor and the
624 Contracting Officer. In order to make the computation of the water requirement for Eligible
625 Lands, on April 1 of each Year and concurrently with its order for water for the irrigation season,
626 the Contractor shall designate the acreage of and type of crops to be grown on its Eligible Lands
627 that irrigation season. During any month the water requirement as above determined for crops
628 growing on Eligible Lands during such month is equal to or in excess of the Project Water for
629 that month as provided herein the Contractor shall not be required to measure the water delivered
630 to Excess Lands. Any month the said water requirement is less than the amount of Project Water
631 as provided herein, the Contractor will be required to measure water delivered to excess land in
632 accordance with subdivision (b) hereof.

633 BOOKS, RECORDS, AND REPORTS

634 19. The Contractor shall establish and maintain accounts and other books and records
635 pertaining to administration of the terms and conditions of this Settlement Contract, including:
636 the Contractor's financial transactions, water supply data, and Project land and right-of-way
637 agreements; the water users' land-use (crop census), land ownership, land-leasing and water use
638 data; and other matters that the Contracting Officer may require. Reports thereon shall be
639 furnished to the Contracting Officer in such form and on such date or dates as the Contracting
640 Officer may require. Subject to applicable Federal laws and regulations, each party to this
641 Settlement Contract shall have the right during office hours to examine and make copies of each
642 other's books and official records relating to matters covered by this Settlement Contract.

643 CHANGE OF PLACE OF USE OR ORGANIZATION

644 20. (a) Unless the written consent of the United States is first obtained no change
645 shall be made in the place of water use shown on Exhibit B.

646 CONSOLIDATION OF CONTRACTING ENTITIES

647 21. Consolidation of Contractors may be approved by the Contracting Officer
648 provided: (i) the Contracting Officer approves the form and organization of the resulting entity

649 and the utilization by it of the Contract Total; and (ii) the obligations of the Contractors are
650 assumed by such entity.

651 No such consolidation shall be valid unless and until approved by the Contracting
652 Officer.

653 NOTICES

654 22. Any notice, demand, or request authorized or required by this Settlement Contract
655 shall be deemed to have been given, on behalf of the Contractor, when mailed, postage prepaid,
656 or delivered to the Area Manager, Northern California Area Office, Bureau of Reclamation,
657 16349 Shasta Dam Boulevard, Shasta Lake, California 96019, and on behalf of the United
658 States, when mailed, postage prepaid, or delivered to Mr. Brad Howald, Howald Farms, Inc.,
659 14877 Howald Drive, Woodland, California 95776. The designation of the addressee or the
660 address may be changed by notice given in the same manner as provided in this Article for other
661 notices.

662 ASSIGNMENT LIMITED--SUCCESSORS AND ASSIGNS OBLIGATED

663 23. (a) The provisions of this Settlement Contract shall apply to and bind the
664 successors and assigns of the parties hereto, but no assignment or transfer of this Settlement
665 Contract or any right or interest therein shall be valid until approved in writing by the
666 Contracting Officer.

667 (b) The assignment of any right or interest in this Settlement Contract by
668 either party shall not interfere with the rights or obligations of the other party to this Settlement
669 Contract absent the written concurrence of said other party.

670 (c) The Contracting Officer shall not unreasonably condition or withhold his
671 approval of any proposed assignment.

672 OFFICIALS NOT TO BENEFIT

673 24. (a) No Member of or Delegate to Congress, Resident Commissioner, or
674 official of the Contractor shall benefit from this Settlement Contract other than as a water user or
675 landowner in the same manner as other water users or landowners.

676 (b) No officer or member of the governing board of the Contractor shall
677 receive any benefit that may arise by reason of this Settlement Contract other than as a
678 landowner within the Contractor's Service Area and in the same manner as other landowners
679 within the said service area.

680 CONTINGENT UPON APPROPRIATION OR ALLOTMENT OF FUNDS

681 25. The expenditure or advance of any money or the performance of any obligation of
682 the United States under this Settlement Contract shall be contingent upon appropriation or
683 allotment of funds. Absence of appropriation or allotment of funds shall not relieve the
684 Contractor from any obligations under this Settlement Contract. No liability shall accrue to the
685 United States in case funds are not appropriated or allotted.

686 CONFIRMATION OF SETTLEMENT CONTRACT

687 26. The Contractor, after the execution of this Settlement Contract, shall promptly
688 seek to secure a decree of a court of competent jurisdiction of the State of California, if
689 appropriate, confirming the execution of this Settlement Contract. The Contractor shall furnish
690 the United States a certified copy of the final decree, the validation proceedings, and all pertinent
691 supporting records of the court approving and confirming this Settlement Contract, and
692 decreeing and adjudging it to be lawful, valid, and binding on the Contractor. This Settlement
693 Contract shall not be binding on the United States until such final decree has been secured.

694 UNAVOIDABLE GROUNDWATER PERCOLATION

695 27. To the extent applicable, the Contractor shall not be deemed to have delivered
696 Project Water to Excess Lands or Ineligible Lands if such lands are irrigated with groundwater
697 that reaches the underground strata as an unavoidable result of the delivery of Project Water by
698 the Contractor to Eligible Lands.

699 PRIVACY ACT COMPLIANCE

700 28. (a) The Contractor shall comply with the Privacy Act of 1974 (5 U.S.C. 552a)
701 (the Act) and the Department of the Interior rules and regulations under the Act (43 CFR 2.45 et
702 seq.) in maintaining Landholder acreage certification and reporting records, required to be
703 submitted to the Contractor for compliance with Sections 206 and 228 of the Reclamation
704 Reform Act of 1982 (96 Stat. 1266), and pursuant to 43 CFR 426.18.

705 (b) With respect to the application and administration of the criminal penalty
706 provisions of the Act (5 U.S.C. 552a(i)), the Contractor and the Contractor's employees
707 responsible for maintaining the certification and reporting records referenced in (a) above are
708 considered to be employees of the Department of the Interior. See 5 U.S.C. 552a(m).

709 (c) The Contracting Officer or a designated representative shall provide the
710 Contractor with current copies of the Interior Department Privacy Act regulations and the Bureau
711 of Reclamation Federal Register Privacy Act System of Records Notice (Acreage Limitation--

712 Interior, Reclamation-31) which govern the maintenance, safeguarding, and disclosure of
713 information contained in the Landholder's certification and reporting records.

714 (d) The Contracting Officer shall designate a full-time employee of the
715 Bureau of Reclamation to be the System Manager who shall be responsible for making decisions
716 on denials pursuant to 43 CFR 2.61 and 2.64 amendment requests pursuant to 43 CFR 2.72. The
717 Contractor is authorized to grant requests by individuals for access to their own records.

718 (e) The Contractor shall forward promptly to the System Manager each
719 proposed denial of access under 43 CFR 2.64; and each request for amendment of records filed
720 under 43 CFR 2.71; notify the requester accordingly of such referral; and provide the System
721 Manager with information and records necessary to prepare an appropriate response to the
722 requester. These requirements do not apply to individuals seeking access to their own
723 certification and reporting forms filed with the Contractor pursuant to 43 CFR 426.18, unless the
724 requester elects to cite the Privacy Act as a basis for the request.

725 WATER CONSERVATION

726 29. (a) Prior to the diversion of Project Water, the Contractor shall be
727 implementing an effective water conservation and efficiency program based on the Basin-Wide
728 Water Management Plan and/or Contractor's water conservation plan that has been determined
729 by the Contracting Officer to meet the conservation and efficiency criteria for evaluating water
730 conservation plans established under Federal law. The water conservation and efficiency
731 program shall contain definite water conservation objectives, appropriate economically feasible
732 water conservation measures, and time schedules for meeting those objectives. Continued
733 diversion of Project Water pursuant to this Settlement Contract shall be contingent upon the
734 Contractor's continued implementation of such water conservation program. In the event the
735 Contractor's water conservation plan or any revised water conservation plan completed pursuant
736 to subdivision (c) of Article 29 of this Settlement Contract have not yet been determined by the
737 Contracting Officer to meet such criteria, due to circumstances which the Contracting Officer
738 determines are beyond the control of the Contractor, Project Water deliveries shall be made
739 under this Settlement Contract so long as the Contractor diligently works with the Contracting

740 Officer to obtain such determination at the earliest practicable date, and thereafter the Contractor
741 immediately begins implementing its water conservation and efficiency program in accordance
742 with the time schedules therein.

743 (b) The Contractor shall submit to the Contracting Officer a report on the
744 status of its implementation of the water conservation plan on the reporting dates specified in the
745 then existing conservation and efficiency criteria established under Federal law.

746 (c) At five-year intervals, the Contractor shall revise its water conservation
747 plan to reflect the then current conservation and efficiency criteria for evaluating water
748 conservation plans established under Federal law and submit such revised water management
749 plan to the Contracting Officer for review and evaluation. The Contracting Officer will then
750 determine if the water conservation plan meets Reclamation's then current conservation and
751 efficiency criteria for evaluating water conservation plans established under Federal law.

752 (d) If the Contractor is engaged in direct groundwater recharge, such activity
753 shall be described in the Contractor's water conservation plan.

754 (e) In order to provide incentives for water conservation, the Contractor may
755 reduce the amount of Project Water for which payment is required under Article 8(a) in
756 accordance with the provisions of this Article 29(e).

757 (1) On or before February 15 of any Water Year, the Contractor may
758 file with Reclamation an offer to reduce Project Water use, hereinafter referred to as Offer. The
759 Offer shall specify the maximum quantity of Project Water to be diverted by the Contractor for
760 each month that Project Water is available for that Water Year under this Settlement Contract.
761 The Contracting Officer shall provide the Contractor with a decision, in writing, to the Offer on

762 or before March 15 of that Water Year. The dates specified in this Article 29(e)(1) can be
763 changed if mutually agreed to, in writing, by the Contractor and Contracting Officer.

764 (2) If Reclamation accepts the Offer, the Contractor's payment
765 obligation under Article 8(a)(1) shall be reduced to the maximum quantity of Project Water to be
766 diverted by the Contractor as specified in the Offer. The Contractor shall not divert Project
767 Water in excess of the quantities set forth in the Offer; Provided, however, if the Contractor's
768 diversions of Project Water exceed the quantities set forth in the Offer, the Contractor shall pay
769 to Reclamation the applicable Rates and Charges plus an amount equal to the applicable Rates
770 and Charges, unadjusted for ability to pay, for each acre-foot of Project Water diverted in excess
771 of the quantities set forth in the Offer.

772 (3) If Reclamation decides not to accept the Offer, the Contractor's
773 payment obligation will remain as specified in Article 8(a)(1).

774 (4) The provisions of this Article 29(e) shall be in addition to and shall
775 not affect the provisions of Article 3(e) pertaining to the sale, transfer, exchange, or other
776 disposal of the Contract Total designated in Exhibit A.

777 OPINIONS AND DETERMINATIONS

778 30. (a) Where the terms of this Settlement Contract provide for actions to be
779 based upon the opinion or determination of either party to this Settlement Contract, said terms
780 shall not be construed as permitting such action to be predicated upon arbitrary, capricious, or
781 unreasonable opinions or determinations. Both parties, notwithstanding any other provisions of
782 this Settlement Contract, expressly reserve the right to seek relief from and appropriate
783 adjustment for any such arbitrary, capricious, or unreasonable opinion or determination. Each
784 opinion or determination by either party shall be provided in a timely manner. Nothing in

785 subdivision (a) of Article 30 of this Settlement Contract is intended to or shall affect or alter the
786 standard of judicial review applicable under Federal law to any opinion or determination
787 implementing a specific provision of Federal law embodied in statute or regulation.

788 (b) The Contracting Officer shall have the right to make determinations
789 necessary to administer this Settlement Contract that are consistent with the provisions of this
790 Settlement Contract, the laws of the United States and of the State of California, and the rules
791 and regulations promulgated by the Secretary of the Interior. Such determinations shall be made
792 in consultation with the Contractor to the extent reasonably practicable.

793 CONTRACTOR TO PAY CERTAIN MISCELLANEOUS COSTS

794 31. (a) In addition to all other payments to be made by the Contractor pursuant to
795 this Settlement Contract, the Contractor shall pay to the United States, within 60 days after
796 receipt of a bill and detailed statement submitted by the Contracting Officer to the Contractor for
797 such specific items of direct cost incurred by the United States for work requested by the
798 Contractor associated with this Settlement Contract plus indirect costs in accordance with
799 applicable Bureau of Reclamation policies and procedures. All such amounts referred to in this
800 Article shall not exceed the amount agreed to in writing in advance by the Contractor. This
801 Article shall not apply to costs for routine contract administration.

802 (b) All advances for miscellaneous costs incurred for work requested by the
803 Contractor pursuant to Article 31 of this Settlement Contract shall be adjusted to reflect the
804 actual costs when the work has been completed. If the advances exceed the actual costs incurred,
805 the difference will be refunded to the Contractor. If the actual costs exceed the Contractor's
806 advances, the Contractor will be billed for the additional costs pursuant to Article 31 of this
807 Settlement Contract.

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WAIVER OF DEFAULT

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32. The waiver by either party to this Settlement Contract as to any default shall not be construed as a waiver of any other default or as authority of the other party to continue such default or to make, do, or perform, or not to make, do, or perform, as the case may be, any act or thing which would constitute a default.

813

CONTRACT ASSIGNMENT OR TERMINATION UPON TRANSFER OF LAND

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816

33. (a) The rights and obligations of the Contractor may be transferred in connection with the transfer of title to the land or any portion thereof delineated on Exhibit B on the following terms and conditions:

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(1) A voluntary inter vivos transfer may be made, upon mutual agreement of the United States and the Contractor, to a person eligible to hold title to the land as a nonexcess landowner:

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(2) A voluntary inter vivos transfer may be made to a person ineligible to hold title to the land as a nonexcess landowner provided that no Project Water may thereafter be used on Excess Lands and the assignee shall not be privileged to obtain such use of Project Water on Excess Lands.

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(3) In the event the title of the Contractor to such land, or any portion thereof, is transferred by operation of law, such as by conveyance in satisfaction of a mortgage, by inheritance, or by devise, the rights and obligations of the Contractor shall pass with the title and the land shall be subject to provisions of Reclamation law pertaining to such transfers. Any transfer of the rights and obligations of this Settlement Contract by the person acquiring title by operation of law shall be in accordance with provisions of subsection (1) or (2) above.

830 (b) The Contractor shall notify the Contracting Officer in writing of any
831 proposed transfer of this Settlement Contract. In addition, in the case of a partial assignment the
832 Contractor shall:

833 (1) Designate the proportionate quantities of Base Supply and Project
834 Water which it desires to assign;

835 (2) Furnish the United States with a copy of the deed transferring title.

836 (c) No transfer of this Settlement Contract shall be effective unless and until
837 approved by the Contracting Officer, and, if approved, shall be effective from the date of such
838 approval.

839 (d) Upon mutual agreement between the United States and the Contractor, this
840 Settlement Contract or a portion thereof may be terminated and the new landowner will have the
841 privilege of entering into a Settlement Contract for water service for a proportionate share of the
842 Contract Total provided he is duly qualified to receive water for such land.

843 TERMINATION

844 34. This Settlement Contract will terminate upon mutual agreement of the parties
845 prior to the end of the term or any renewal thereof.

846 IN WITNESS WHEREOF, the parties hereto have executed this Settlement
847 Contract as of the day and year first hereinabove written.

848 THE UNITED STATES OF AMERICA

APPROVED AS TO LEGAL
FORM AND SUFFICIENCY
James E. Tidwell
OFFICE OF REGIONAL SOLICITOR
DEPARTMENT OF THE INTERIOR

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851

By: *Frank [Signature]*
Regional Director, Mid-Pacific Region
Bureau of Reclamation

852 (SEAL)

853 HOWALD FARMS, INC.

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By: *Brad [Signature]*
President

ATTEST:

857 *Craig [Signature]*
858 Secretary
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862 (H:\public\Sac River Final LTRC's\2005-01-31 Howald Farms, Inc., Final Draft Contract with
863 exhibits.doc)

Board Resolution Approving Water Contract No. 14-06-200-1042A-R-1
Between the United States Department of The Interior Bureau of
Reclamation and Howald Farms Inc.


Be It Resolved, that the President and Secretary of Howald Farms Inc. are hereby authorized to sign the Long Term Water Contract No 14-06-200-1042A-R-1 between the United States and Howald Farms Inc.

We hereby agree as the President and Secretary of Howald Farms Inc. with the form and content of the Long Term Water Contract No. 14-06-200-1042A-R-1 at their meeting held on March 2, 2005.

Frank Howald



Brad Howald



Craig Howald




Exhibit A

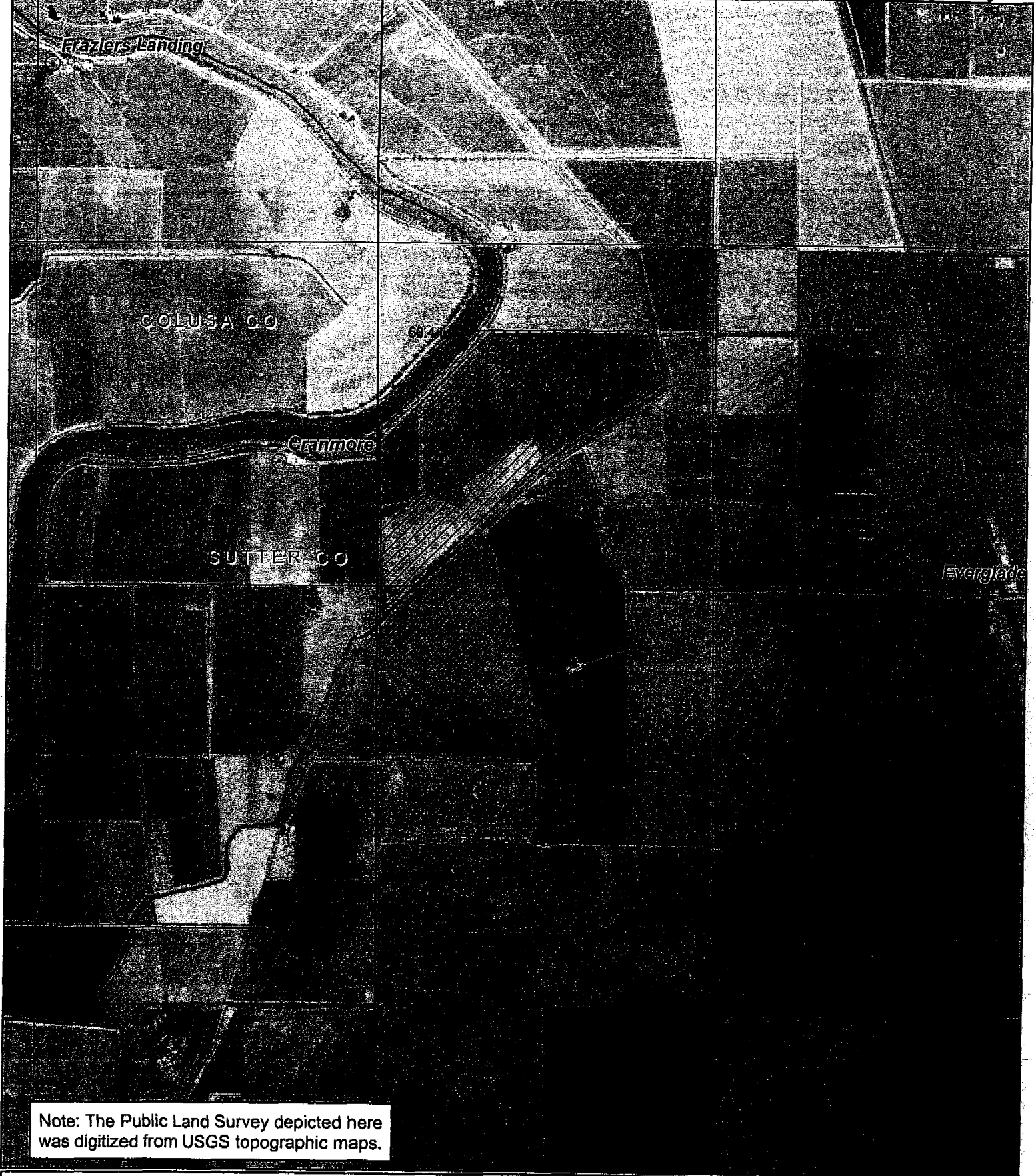
HOWALD FARMS, INC.
Sacramento RiverSCHEDULE OF MONTHLY DIVERSIONS OF WATER

	<u>Base Supply</u> (acre-feet)	<u>Project Water</u> (acre-feet)	<u>Contract Total</u> (acre-feet)
April	<u>170</u>	<u>0</u>	<u>170</u>
May	<u>440</u>	<u>0</u>	<u>440</u>
June	<u>340</u>	<u>170</u>	<u>510</u>
July	<u>140</u>	<u>450</u>	<u>590</u>
August	<u>160</u>	<u>490</u>	<u>650</u>
September	<u>90</u>	<u>300</u>	<u>390</u>
October	<u>10</u>	<u>0</u>	<u>10</u>
Total	<u>1,350</u>	<u>1,410</u>	<u>2,760</u>

Point of Diversion: 60.4L

Dated:



01-31-2005



Note: The Public Land Survey depicted here was digitized from USGS topographic maps.

Howald Farms, Inc.

Contract No. 14-06-200-1042A-R-1
Exhibit B

-  Contractor's Service Area
-  Point of Diversion

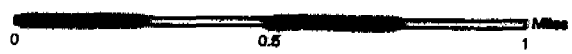


Exhibit C

HOWALD FARMS, INC.
Sacramento RiverUNIT DUTY

(In Acre-Feet Per Acre)

	<u>Rice</u>	<u>Alfalfa and Irrigated Pasture</u>	<u>General Crops</u>
June	1.80	0.80	0.60
July	2.00	1.00	0.70
August	1.90	0.80	0.70
September	0.50	0.60	0.40

Dated: 01-31-2005

Exhibit D

HOWALD FARMS, INC.
Sacramento River
2005 Water Rates and Charges per Acre-Foot

<u>COST OF SERVICE RATES:</u>	<u>Irrigation</u>
Capital Rates	
Storage	\$ 4.47
O&M Rates:	
Water Marketing	\$ 6.61
Storage	\$ 5.93
Deficit Rates:	
Interest Bearing	\$ 0.57
CFO/PFR Adjustment Rate 1/	<u>\$ 1.18</u>
TOTAL	<u>\$18.76</u>
<u>RESCHEDULING FEE:</u>	<u>\$5.54</u>
 <u>FULL-COST RATES:</u>	
Section 202(3) Rate is applicable to a Qualified Recipient or to a Limited Recipient receiving irrigation water on or before October 1, 1981.	<u>\$23.54</u>
Section 205(a)(3) Rate is applicable to a Limited Recipient that did not receive irrigation water on or before October 1, 1981.	<u>\$26.04</u>
 <u>CHARGES UNDER P.L. 102-575 TO THE RESTORATION FUND 2/</u>	
Restoration Payments (3407(d)(2)(A))	<u>\$ 7.93</u>

1/ Chief Financial Officer (CFO) adjustment and Provision for Replacement (PFR) expense is being distributed over a 5-year period beginning in FY 2003 for those contractors that requested those costs be deferred.

2/ Restoration fund charges are payments in addition to the water rates and were determined pursuant to Title XXXIV of Public Law 102-575. Restoration fund charges are on a fiscal year basis (10/1 - 9/30).