

August 30, 2002

Michael J. Ryan
U.S. Bureau of Reclamation
Shasta Area Manager
16349 Shasta Dam Boulevard
Shasta Lake, CA 96019-8400

Re: Settlement Contractors' Proposed Language for Discussion at the
September 11, 2002 Negotiating Session

Dear Mr. Ryan:

In preparation for our September 11, 2002 negotiating session, I am enclosing various materials. These materials include the following:

1. An ~~August 30, 2002~~ August 16, 2002, draft of the Settlement Contract. This draft includes and highlights revisions discussed during the August 14, 2002 negotiating session. Shaded provisions are those tentatively agreed to during the August 14, 2002 negotiating session.
2. A red-lined proposal to resolve disputes over the last proposed (7/11/02) Article 3(c). As you know, the Settlement Contractors do not agree that the movement of base supply confers a "benefit" on the Settlement Contractors. In most cases sufficient natural flow exists within the Sacramento River to serve Settlement Contractors' needs. Moreover, the Settlement Contractors believe that in those situations where base supply is shifted from spring months to October, the CVP is, in fact, benefited. Nonetheless, in order to break the deadlock, we propose a payment to Reclamation when water is shifted to October. The 10% figure within the proposal reflects the years in which natural flow might not otherwise be available for diversion by Settlement Contractors under their water rights.
3. A red-lined proposal to resolve the disputes with respect to Reclamation's proposed water quality "re-opener." Again, the Settlement Contractors believe that any provision that has the potential to reduce contract quantities is inconsistent with the basic settlement that had been reached forty years ago. Nonetheless, in order to break the deadlock on this issue, we have proposed a means by which Reclamation's concerns about this issue and future CVP operations can be resolved.
4. The Settlement Contractors would also propose two forms of the contract as it addresses the take-or-pay provisions of Articles 8(a) and 9. The first would be where a Settlement Contractor would "take or pay" for 100% of its Project Water supply.

Michael J. Ryan
August 30, 2002
Page 2

In this case, a provision would be added to the water conservation articles of the Settlement Contract that would encourage contractors to take less than this full amount. Proposed language to be added to the water conservation provision of the Settlement Contract would be as follows:

The Contractor may notify the Contracting Officer not later than February 15 [this date could be earlier if Reclamation believes that planning requires an earlier date] in any year, that it will not take all or a portion of it's Project Water. In that event, Exhibit "A" will be modified, for that year, to reflect the notification and water will be delivered and sales will be charged based upon that modification.

The second form of contract would be the current Reclamation proposal for take-or-pay to apply to 75% of Project Water supply. This provision, of course, contains within it a substantial conservation incentive for contractors not to utilize in excess of 75% of their Project Water supply. This second form of Articles 8(a) and 9 is preferred by most of the Settlement Contractors.

Finally, while the Settlement Contractors have reviewed, in general, your August 22, 2002 letter, we are not yet in a position to respond. We will, however, be able to address these issues during our September 11, 2002 negotiating session.

Please do not hesitate to contact me if you have any questions or need additional information.

Very truly yours,

Stuart L. Somach
General Counsel,
Glenn-Colusa Irrigation District

SLS:sb

Encl.

cc: Kevin O'Brien
Mark Atlas
Paul Bartkiewicz
William Baber
John Kenny
Andrew Hitchings
Van Tenney