

November 1, 2002

Via Email and First Class Mail

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

Re: Settlement Contractors' Further Red-Lined Draft of Renewal Contract for Discussion at the November 4, 2002 Negotiating Session

Dear Mr. Ryan:

In preparation for our November 4, 2002 negotiating session, I am enclosing an October 31, 2002 draft of the Settlement Contract. This draft includes and highlights revisions discussed during the last two negotiating sessions. The provisions that have been tentatively agreed to are not shaded. Accordingly, our further negotiations and discussions should primarily focus on the shaded provisions. Following is a discussion of the shaded provisions, and an explanation of the further modifications proposed by the Settlement Contractors:

1. Article 3(c)(1): During the last two negotiating sessions on October 7 and October 21, 2002, Reclamation did not provide a specific counter-proposal to the Settlement Contractors' proposed redraft of Article 3(c)(1), which the Settlement Contractors provided to Reclamation on October 1, 2002. Instead, Reclamation stated that it would not accept the Settlement Contractors' redraft, but that it would consider further proposals from the Settlement Contractors. The Settlement Contractors remain disappointed with Reclamation's refusal to develop a counter-proposal on this important issue. In any event, as a further good faith attempt to break the deadlock on this matter, the Settlement Contractors have proposed a new Article 3(c)(1) as shown. Under this provision, the proposed base supply rescheduling fee would generally be imposed on a greater frequency than as set forth in USBR Exhibits 9 and 10 in these negotiations. The 50% multiplier for the two rate components is intended to account for that fact, as well as the fact that the Settlement Contractors will only be receiving 75% of their supplies during Shasta Critical Years.

This new Article 3(c)(1) has no reference to Term 91 as the trigger for when the fee is imposed. This is consistent with the fact that Term 91 does not apply to the Settlement Contractors' water rights, and this helps to address the Settlement Contractors' significant concerns with any attempt to expressly refer to Term 91 as the basis for any decisions or imposition of fees under the Settlement Contracts. The Settlement Contractors have described these concerns in detail during previous negotiation sessions. The Settlement Contractors will not agree to any provision within these contracts that refers to Term 91.

Finally, this proposal is subject to: (1) the Settlement Contractors' review and consideration of Reclamation's forthcoming proposal regarding how it intends to account for the monthly diversion of Project Water versus Base Supply Water under the Settlement Contracts; and (2) the Settlement Contractors' further consideration of how the imposition of the proposed base supply rescheduling fee under Article 3(c)(1) will affect their ability to participate in the Phase 8 process. I know you are not concerned about how these negotiations relate to the Phase 8 process, but the Settlement Contractors are.

2. Article 3(e): After further review and consideration, the Settlement Contractors propose adding the additional underlined text to the end of Article 3(e) (the new 3(f)). This provision is consistent with the CVPIA water transfer language agreed to by Reclamation for the interim renewal contracts for Sacramento Valley CVP water service contractors.

3. Articles 8 and 29: In order to provide incentives for water conservation, and consistent with our discussions during the October 21, 2002 negotiating session, the Settlement Contractors have revised the proposed provisions in the Settlement Contractors' Exhibit 13, and these revised provisions are set forth in Articles 8(a) and 29(a).

4. Article 9(b): A redraft of the so-called water quality provision is set forth in Article 9(b). I have retained some of the modifications Reclamation proposed in its last draft and have, as discussed, underscored the importance of the issue and the requirement that the Parties use their best efforts to resolve any dispute.

Finally, the Settlement Contractors understand that Reclamation will be providing the following in conjunction with the November 4, 2002 negotiating session: (1) Reclamation's proposal regarding how it intends to account for the monthly diversion of Project water versus Base Supply water under the Settlement Contracts, and Reclamation's justification for this proposed accounting procedure; (2) Reclamation's interpretation of whether the provisions of Articles 8(f), 8(g) and 30 provide assurances to the Settlement Contractors that any changes to Reclamation's proposed accounting procedures are subject to prior review by and consultation with the Settlement Contractors; and (3) a status report on Reclamation's analysis regarding how any base supply rescheduling fees paid under Article 3(c)(1) would be credited against the Settlement Contractors' repayment obligations.

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

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
Van Tenney
William Menke
Dennis Michum
David Guy
Marc Van Camp
Andrew Hitchings