

July 23, 2010

Carol Rische
General Manager
Humboldt Bay Municipal Water District
828 Seventh Street
P.O. Box 95
Eureka, CA 95502

Re: Proposed Recommendations of Advisory Committee

Dear Carol:

In my role as special counsel to the Humboldt Bay Municipal Water District (District) it has been my privilege to provide legal advice to the Board of Directors regarding the way(s) in which the District may retain local control of its water rights. As part of that effort, the District recently requested that I review the proposals currently being evaluated by the Advisory Committee through the Water Resources Planning process to determine: (i) whether any or all of the proposals comply with California law, and (ii) whether (and to what extent) the proposals secure local control of the District's water rights for the foreseeable future. This letter summarizes my conclusions.

As I understand the matter, the Advisory Committee is currently evaluating four types of proposals for the District to make increased use of its water rights. First, the Advisory Committee is considering projects that would increase the consumptive use of water within the District's boundaries (e.g., new water-intensive businesses). Second, the Advisory Committee is considering selling water (not water rights) to public agencies located in other areas of California in order to generate revenues for the District. Such sales would only occur if the buyer is willing to agree to stringent conditions that would protect the District's water rights. Third, the Advisory Committee is considering projects that provide additional water for environmental restoration or enhancement in the Mad River watershed. Fourth, the Advisory Committee is considering other projects at Ruth Lake or in the watershed that would either provide additional recreational opportunities or that would generate additional hydroelectric power.

Although the projects being considered by the Advisory Committee are still at the conceptual level, these projects are sufficiently well-developed to allow me to evaluate whether they are legally viable and whether they can help the District maintain local control of its water rights. In terms of legal viability, all of the proposals being considered by the Advisory Committee could

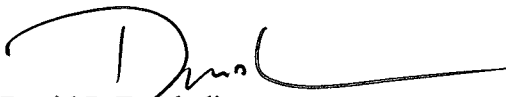
be legally implemented by the District. Under the Municipal Water District Law, the District has broad authority to serve water for consumptive and non-consumptive purposes (including recreation and environmental purposes). Some of the proposals might require additional permitting, but that does not, of course, mean that those proposals are not legally viable. For instance, serving water outside the District's existing boundaries will require a modification in the District's water rights for the period of the transfer. Similarly, increasing releases from Ruth Lake to improve or enhance the Mad River watershed would also require a modification of the District's water rights from the State Water Resources Control Board for the period of the transfer but would also probably require permits from the California Department of Fish & Game and the National Marine Fisheries Service.

Moreover, in terms of securing (or even enhancing) local control over the District's water rights, implementing any of these proposals would serve to advance local control over the District's water rights. All of these proposal would put additional water to use, either within the District or within the service area of another public agency. Putting additional water to use would make it more difficult for either the State of California or those outside the District to make claims that the District's water rights should be limited to the quantities currently needed in the absence of the two pulp mills. In particular, putting water to use by means of a transfer outside the District preserves the District's water rights while generating funds that could be used for operation and maintenance or capital expenses. Such a transfer should include a number of provisions that would prevent the buyer from becoming dependent on the transfer, such as preventing the transferred water from being included in an urban water management plan or water supply assessment.

For these reasons, I believe that the proposals currently being evaluated by the Advisory Committee could generally be implemented in a legal manner and would serve to enhance local control over the District's water rights.

Please feel free to call if you or the Board of Directors have any questions. I would be happy to meet with the Board of Directors, the Advisory Committee or others to discuss this letter if that would serve to advance the District's effort.

Very truly yours,



David R.E. Aladjem