MODIFICATION OF LEASE

THIS MODIFICATION OF LEASE is made and entered into, to be effective as of the date indicated below, by and between the CITY OF PORT TOWNSEND, a municipal corporation (hereinafter referred to as the "City"), and PORT TOWNSEND PAPER CORPORATION, a Washington corporation (hereinafter referred to as "PTPC").

WHEREAS, the City and CROWN ZELLERBACH CORPORATION, a corporation (hereinafter referred to as "Crown"), entered into that certain Lease dated on or about March 15, 1956 (the "Lease"), by the terms of which the City leased to Crown certain property pertaining to a water transmission line for a period of forty-four (44) years from March 15, 1956 to March 15, 2000; and

WHEREAS, the Lease covered then existing water systems known as Snow Creek-Olympic Gravity Water System, Big Quilcene Water Extension Project and City Lake; and further included new works to be known as Lord's Lake Development; and included the distribution, chlorinating system and all other parts of the water transmission and distribution systems thereto pertaining; and

WHEREAS, the Lease, in paragraph "III" thereof limited the City use of water in the water supply therein mentioned to an amount not exceeding four million gallons of water in any one day, and further limited the City to the diversion of four hundred thousand gallons per day from a certain point therein stated to be at "approximately station 1614"; and
WHEREAS, subsequent thereto the City has caused to be made improvements in the transmission line which is the subject matter of the Lease, particularly in that the diameter of pipe at a place called "Woodmans Gulch" has been increased, resulting in a substantial increase in water supply; and

WHEREAS, Crown has assigned or intends to assign the Lease and all of Crown's rights and obligations thereunder to PTPC; and

WHEREAS, the City desires to consent to the assignment of the Lease to PTPC; and

WHEREAS, it appears in the best interest of the parties that the term of the Lease should be extended twenty (20) years to March 15, 2020 A.D., and that certain other modifications be made to the Lease;

NOW, THEREFORE, in exchange for the mutual promises and covenants herein contained, and for other good and valuable consideration, the mutual receipt of which is hereby mutually acknowledged:

1. IT IS AGREED that Section "II" of the Lease be and is hereby amended to the extent that the termination date of March 15, 2000 A.D. is changed to March 15, 2020 A.D.

2. IT IS FURTHER AGREED, that Section "III" of the Lease be and is hereby amended to read as follows:

"III

POSSSESSION-ALLOCATION OF WATER

The Lessee shall have full possession, control, use and enjoyment of that part of the waterworks and system leased hereby throughout the period of said lease, including all of the water supply flowing through said waterworks and system not expressly reserved herein to the City. The City
reserves from said water supply flowing through said waterworks and system a quantity of water sufficient to serve the demands of all present and future consumers served by the City, whether within or without the limits of said City, including such water as may be needed by the City for its own purposes, at a maximum rate of 7.74 cubic feet per second, not exceeding, however, at any time the maximum amount of five million gallons of water in any one day, which water so reserved shall be taken by the City at the City limits by the City there maintaining a connection with that part of the waterworks and systems so leased.

A. Out-of-City User. The City may maintain its present connection with the pipeline of said waterworks and system located at approximately Station 1614, and may use said connection to supply the following users of water and no others:

1. Badlock and Irondale; and
2. Users located on Discovery Bay near what is known as "Four Corners"; and
3. United States Government for use only on Indian Island; and
4. Users located on Marrowstone Island;
5. Chimacum, and
6. Such other users as the limitations herein may permit;

which water so supplied to said users shall be a part of and included in the maximum of five million gallons of water reserved by the City as aforesaid on the following terms and conditions, namely: That the quantity of water diverted through said connection shall not exceed at any time 1,000,000 gallons per 24-hour day, the valve located on said six-inch connection will be kept locked in a position to pass
only said maximum amount of 1.54 cubic feet per second, and the City shall maintain at all times in good operating condition an accurate water meter on said connection for the purpose of measuring all water passing from the main pipeline through said connection.

B. Snow Creek Contingency. If the City at any time during the terms of this lease should desire to develop the water supply from Snow Creek to meet its additional municipal water needs, the Lessee, upon request of the City, shall release to the City so much of the Snow Creek water supply as the City may require and shall permit the City to build a pipeline on and along the leased right-of-way for the purpose of conducting water from Snow Creek to the City. Lessee shall execute and deliver to the City, when so requested by the City, all necessary subleases, assignments and transfers to afford to the City the full use and enjoyment of the Snow Creek water supply, in addition to the maximum of five million gallons daily reserved to the City from the Big Quilcene Water Extension Project."

3. IT IS FURTHER AGREED that the last full paragraph of Section C of Section IV on page 8 of the Lease is amended to read as follows:

"In the event that any part or all of the waterworks and system leased hereby becomes non-operative by reason of any catastrophe or act of God, including but not limited to, slides, washouts, erosion and earthquakes, neither party shall be obligated to replace such part of the leased properties so damaged. If, on mutual agreement of the City's and Lessee's engineers, such parts are so replaced by the City or by Lessee, the City shall pay five-eighths (5/18ths) of such cost of replacement and Lessee shall pay
thirteen-eighths (13/18ths) thereof; provided, however, the City shall not be obligated to pay more than the balance then existing in the 'Transmission Line Replacement Fund,' as defined in Section F of this Section IV.

4. IT IS FURTHER AGREED that the City, pursuant to Section IX of the Lease, hereby consents to the assignment of the Lease and all of the Lessee's rights and obligations thereunder, as amended hereby, to PTPC. From and after the effective date of said assignment, PTPC agrees to perform all obligations of lessee under the Lease as amended hereby. All reference to the "Lessee" in the Lease and this Modification shall hereinafter refer to PTPC.

5. IT IS FURTHER AGREED that, except as modified hereby, all the terms and conditions of the Lease, which is incorporated by this reference herein, remain in full force and effect and binding upon the City and PTPC. The effective date of this Modification shall be the date written below.

IN WITNESS WHEREOF, the City of Port Townsend has caused this Modification of Lease to be executed in its name and behalf, by its Mayor and City Clerk, and its corporate seal to be hereunto affixed, after due proceedings had in accordance with law, and Port Townsend Paper Corporation has caused this Modification of Lease to be executed by its officers thereunto duly authorized, in quadruplicate hereof.

Effective Date: **DECEMBER 21, 1983**

THE CITY OF PORT TOWNSEND

By: [Signature]
Mayor

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ATTEST:

David Alder
City Clerk

PORT TOWNSEND PAPER CORPORATION,
a Washington corporation

By: Juan del Valle, President

ATTEST:

E.P. Swain, Jr., Secretary

APPROVED AS TO FORM:

Attorney for the City of Port Townsend

STATE OF WASHINGTON )
COUNTY OF JEFFERSON ) ss:

On this 15th day of November, 1983, before me, the undersigned, a Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared Brent S. Shirley and David Grove, to me known as the Mayor and City Clerk, respectively, of THE CITY OF PORT TOWNSEND, the municipality that executed the foregoing instrument, and acknowledged the said instrument to be the free and voluntary act and deed of said municipality, for the uses and purposes therein mentioned, and on oath stated that they were authorized to execute the said instrument.

WITNESS my hand and official seal hereto affixed the day and year first above written.

NOTARY PUBLIC in and for the State of Washington, residing at Fort Townsend

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STATE OF WASHINGTON
COUNTY OF KING

On this 15th day of November, 1983, before me, the undersigned, a Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared JUAN del VALLE and E. P. SWAIN, JR., to me known to be the President and Secretary, respectively, of PORT TOWNSEND PAPER CORPORATION, a Washington corporation, the corporation that executed the foregoing instrument, and acknowledged the said instrument to be the free and voluntary act and deed of said corporation, for the uses and purposes therein mentioned, and on oath stated that they were authorized to execute the said instrument and that the seal affixed is the corporate seal of said corporation.

WITNESS my hand and official seal hereto affixed the day and year first above written.

[Signature]
Notary Public in and for the State of Washington, residing at Seattle.