

STATE OF COLORADO

Colorado Water Conservation Board Department of Natural Resources

1313 Sherman Street, Room 721
Denver, Colorado 80203
Phone: (303) 866-3441
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www.cwcb.state.co.us



March 28, 2013

Mr. John Groo, Secretary/Treasurer
Bull Creek Reservoir Canal & Power Company
P.O. Box 25
Molina, CO 81646-0025

John W. Hickenlooper
Governor

Mike King
DNR Executive Director

Jennifer L. Gimbel
CWCB Director

Re: Bull Creek Reservoir #4 Rehabilitation – Loan Contract Change
Loan Contract Number C150240

Dear Mr. Groo:

We are in receipt of your letter dated January 1, 2013 referencing Tim Feehan's letter dated November 9, 2011 regarding the Company's requirement to either:

- 1.) have a contract for the sale of water
- or
- 2.) submit a letter to CWCB requesting an amendment to the Loan Contract allowing the Company to maintain ownership of Reservoir 1 & 2.

Your letter is requesting an additional year to evaluate the Company's ability to keep its water and maintain a \$125/share assessment.

The CWCB staff is in support of your request. This letter shall serve as notice that the Company's deadline for compliance with the requirements shall be January 2014. It is also our understanding that the Company will not make an additional principle payment (as it did in 2012) on the CWCB loan in 2013 and 2014 due to necessary repairs.

We will expect a follow up letter in January 2014 updating CWCB on the Company's financial situation and plans to address the contract language and annual payment. Thank you for your attention to this issue.

Sincerely,

Kirk Russell, PE, Chief
CWCB Finance Section



Bull Creek Reservoir Company

PO Box 25

Molina, CO 81646

1/1/13

Colorado Water Conservation Board
Attn: Kirk Russell
1580 Logan St., Suite 600
Denver, Colorado 80203

Dear Mr. Russell,

As detailed in my letters dated 7/1/12 and 10/1/12, currently prospects are quite limited for the sale of Bull Creek Reservoir Company water at a price that would be acceptable to BCRC shareholders. The most likely purchaser (Ute Water Conservancy District) has just made a very large purchase of water elsewhere at a very favorable price, and so is out of the market for the foreseeable future. BCRC's Reservoir #5 is the asset most likely to appeal to an entity seeking to purchase water, but it has infrastructure issues that need to be addressed. A geo-technical and slope stability study of the dam at Reservoir #5 was done in the fall of 2012, and though preliminary indications are that the dam is sound (the final report is currently being written), there are still some non-conforming characteristics and outlet issues that could discourage any potential buyers or depress the sale price until they are resolved.

In 2013, BCRC plans to do what it can (meaning what it can afford) to improve the condition of Reservoir #5. BCRC is also going to re-write its previously issued water prospectus to bring it up to date and then send an updated copy to area water providers and energy companies. It is not expected that much real interest will be generated in the near term, but the information will be made available and potential purchasers will be reminded that BCRC is a potential source for water. Energy companies in particular will be targeted. That industry has been depressed in this area for the last several years, but there are indications that some of the bigger and better established companies may be looking to acquire water sources for future use.

In any case, it does not appear that BCRC is going to be able to use its assets to reduce its shareholder assessment in the near future. The market is simply not there at this time at a price that would offer a good alternative for BCRC shareholders. Furthermore, it is extremely doubtful that any sale will ever occur that will lower the assessment to \$125, or that a sale will involve Reservoirs #1 or #2. Considering all the current uncertainties and all that could (or could not) yet occur, this does not seem like the time to amend BCRC's loan contract with the CWCB. BCRC's belief is that the current loan contract should remain in place for at least another year, or until there is enough information or consensus to make appropriate amendments.

Please contact me if you have any questions or comments.

Yours truly,

John W. Groo
Secretary / Treasurer, Bull Creek Reservoir Company



Bull Creek Reservoir Company

PO Box 25

Molina, CO 81646

10/1/12

Dear Mr. Feehan,

Bull Creek Company's geotechnical engineer Huddleston-Berry is just now completing a study of the dam at Bull Creek Reservoir #5. The purpose of this study is to determine the structural integrity of the dam and therefore the potential sale value of Reservoir #5. When completed, this study will have cost BCRC shareholders somewhere around \$27,000.

In my letter of 7/1/12, I explained that the most likely purchaser of BCRC water, Ute Water Conservancy District, was effectively removed from the market for BCRC water for any foreseeable future when they were able to purchase 12,000 acre feet of water from the Bureau of Reclamation's Ruedi Reservoir at a favorable price. Depending on what is learned about the dam at Reservoir #5, Ute may still be interested but I believe it will be a number of years before they would pay a price that would be acceptable to BCRC shareholders.

Oil and gas companies may be a possible alternative market for BCRC water. Their business in this area is depressed, but the larger, forward thinking companies may be interested in acquiring water sources to meet their projected future needs. I was recently contacted by a representative of Encana Oil and Gas Company. He was primarily interested in purchasing individual BCRC shares, but I did discuss with him the possibility of purchasing whole reservoirs in the future and after our conversation I sent him a copy of the BCRC reservoir prospectus.

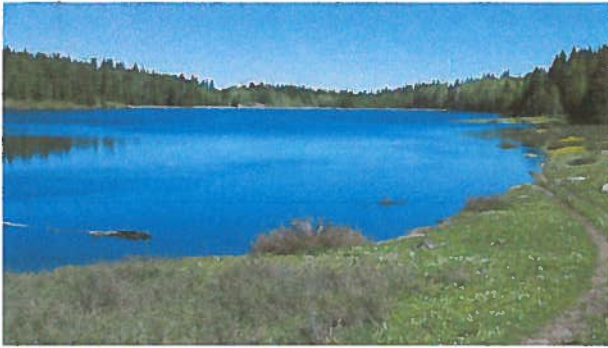
Again, BCRC does not feel that it can proceed very far until the quality of the dam at Reservoir #5 is known. When the study report is available, I will send you a copy.

Please contact me if you have any questions or comments.

Yours truly,

John W. Groo

Secretary / Treasurer, Bull Creek Reservoir Company



Bull Creek Reservoir Company

PO Box 25

Molina, CO 81646

7/1/12

Dear Mr. Feehan,

The high assessment paid by Bull Creek Reservoir Company shareholders continues to be a concern, but as detailed in my letter of 4/10/12 there appears to be no near term option for reducing that assessment by selling BCRC assets. Individual shareholders do have the option reducing their assessment by of selling some of their shares, and there has been one such transaction to date. It is worth noting that the shares were purchased by another BCRC shareholder, indicating that at least some shareholders feel that the water represented by the shares is worth the current high assessment.

After exploring the current market and reviewing possible future options for sale of BCRC assets, it has become clear that the asset with the most potential is Reservoir #5, but as described in my letter of 4/10/12 there are questions about the structural integrity of the dam at Reservoir #5 that need to be answered before we can know just what that potential is. BCRC has allocated funds for a comprehensive geo-technical study and slope stability analysis to be done by Huddleston-Berry later this summer. This of course places an additional burden on the shareholders, but it is understood that until the results of that study are known BCRC will not be able to develop its strategy for the future.

It is also worth noting that the potential market for BCRC water has been substantially impacted by the Bureau of Reclamation's decision to sell large portions of the water held in Ruedi Reservoir. Because of the location of BCRC's reservoirs, it has always been clear that the most likely purchaser of BCRC water is Ute Water Conservancy District in Grand Junction. However, Ute Water recently reached an agreement with the Bureau to purchase 12,000 acre feet of Ruedi Reservoir water for \$1,300 per acre foot. That will certainly reduce the appeal of BCRC's Reservoir #5 to Ute, at least for the near term, and at that price it is doubtful that BCRC shareholders would ever approve the sale of Reservoir #5.

So to summarize, I believe there will have to be significant changes in the market before BCRC's assets could be sold at a price that would be worthwhile to BCRC's shareholders. BCRC will continue to explore the limited options that exist for the sale of its water, but there is nothing that would appeal to BCRC shareholders at this at this time.

Please contact me if you have any questions or comments.

Yours truly,

John W. Groo

Secretary / Treasurer, Bull Creek Reservoir Company

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Department of Natural Resources

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November 9, 2011

Mr. John Groo, President
Bull Creek Reservoir Canal & Power Company
P.O. Box 25
Molina, CO 81646-0025

John W. Hickenlooper
Governor

Mike King
DNR Executive Director

Jennifer L. Gimbel
CWCB Director

Re: Bull Creek Reservoir #4 Rehabilitation - Loan Contract Language
Loan Contract C150240

Dear Mr. Groo:

This letter is a follow up to the email and verbal correspondence we have had over the last couple months. It is very important that the Company and the CWCB have a clear understanding of the Loan Contract as amended on December 1, 2010. The Project was Substantially Completed on September 1, 2011, which closed out the construction phase of the loan contract. Since the Company has resolved its lien with the S4 Corporation, the focus is now on the Loan Contract clause regarding the Company's need to sell assets to reduce the Company's debt.

Loan Contract Amendment No. 2, Paragraph 7a. reads as follows:

"Upon resolution of the pending litigation, Borrower shall attempt in good faith to sell Reservoirs 1 and 2 or some other combination of assets to maintain its annual assessments at a maximum of \$125 per share."

We recommend the following actions as they relate to this clause:

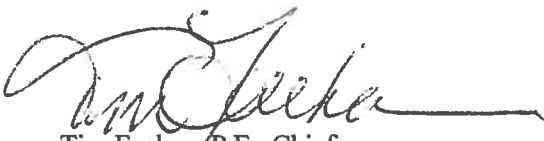
The Company shall prepare a water sale prospectus which includes varying combinations of Company's water assets. This shall be presented to the Company's shareholders at the 2012 shareholders meeting with the goal of reducing the Company's annual assessment to less than \$125/share (including Operations & Maintenance costs). The efforts to sell the water will include the submittal of a quarterly letter report starting on April 1, 2012 to the CWCB summarizing the status of the water sale efforts. By January 1, 2013, the Company shall either: 1.) have a contract for the sale of water or 2.) submit a letter to CWCB

Bull Creek Reservoir Canal & Power Company
Loan Contract Language
November 9, 2011
Page 2 of 2

requesting an amendment to the Loan Contract allowing the Company to maintain ownership of Reservoir 1 & 2 and all its water rights. The CWCB staff will review the Company's ability assess its membership and make the higher loan payments. The Board will consider this action at the bimonthly Board meeting in January 2013.

If you have any questions or concerns please let me know.

Sincerely,

A handwritten signature in black ink, appearing to read "Tim Feehan", with a long horizontal flourish extending to the right.

Tim Feehan, P.E., Chief
Finance Section
Colorado Water Conservation Board

E-mail Copy
CWCB Finance Section Staff