

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
CORPUS CHRISTI DIVISION**

**United States Courts
Southern District of Texas
FILED**

FEB 19 2008

Michael N. Milby, Clerk of Court

| | | |
|-----------------------------|---|-------------------------------------|
| IN RE: |) | |
| |) | |
| SCOTIA DEVELOPMENT LLC, |) | |
| THE PACIFIC LUMBER COMPANY, |) | Chapter 11 |
| BRITT LUMBER CO., INC., |) | Case Nos. 07-20027 through 07-20032 |
| SALMON CREEK LLC, |) | (Jointly Administered) |
| SCOTIA INN, INC., AND |) | |
| SCOTIA PACIFIC COMPANY LLC, |) | |
| |) | |
| DEBTORS |) | |

STATEMENT OF POSITION OF U.S. SENATOR DIANNE FEINSTEIN

To the Court and All Plan Proponents:

As the primary public official involved in negotiating the 1996 Headwaters Agreement and 1999 Habitat Conservation Plan (HCP), I respectfully submit this statement of my position on the reorganization of the Pacific Lumber Company.

I strongly believe that any reorganization should adhere to the HCP and the guiding principles of the Headwaters Agreement. The mismanagement of Pacific Lumber should not be allowed to undermine these far-reaching agreements that were carefully negotiated and fully accepted by all the parties.

I can testify that the Headwaters Agreement and HCP represent an extraordinarily serious commitment from both the United States Government and the State of California. We exhaustively negotiated an agreement that would protect the public's irreplaceable resources in the old growth redwoods, while recognizing the legitimate claims of the private owners of the land.

I dedicated at least 550 hours in carefully crafting the Headwaters Agreement, much of it in personal and intense negotiations with Mr. Hurwitz of Pacific Lumber.

In the end, the State and Federal governments paid over \$380 million -- including \$250 million from the Federal government, and \$130 million from the State -- to complete the agreement. This is top dollar, in my view. These funds were not expended lightly, but represented full compensation to Pacific Lumber for sealing the public trust interests in the land by protecting the ancient redwoods.

The public trust resources protected include not only the 7,500 acres brought into public ownership, but also 200,000 acres of redwood timberland sheltering dozens of threatened and endangered species in an important watershed for many salmon and other fish.

Currently the HCP designates 6,600 acres of Pacific Lumber's land as Marbled Murrelet Conservation Areas (MMCA's). Each of these 11 areas, known as the "lesser cathedrals," includes about 50% old growth trees and constitutes a reserve of high quality habitat to protect the Federally listed marbled murrelet. Taken together with the 7,500 acres purchased by the Federal government, the MMCA's protect over 80% of the high quality marbled murrelet habitat on Pacific Lumber land that was part of the Headwaters Agreement. Future activities inside the MMCA's or within the quarter mile buffer around them need to comply with the restrictions in the HCP.

Based on my personal experience in negotiating the Headwaters Agreement, I strongly believe that any plan for Pacific Lumber's reorganization must adhere to the following principles:

1. The reorganization plan must uphold the Habitat Conservation Plan and related agreements, including Assembly Bill (AB) 1986, the Agreement Relating to the Enforcement of AB 1986, and the conditions, covenants and restrictions recorded in accordance with the Habitat Conservation Plan and AB 1986. I hold as a fundamental principle that this extensive commitment of the public's resources in service of the public trust should not be lightly turned to naught.

It is my firm belief that, as stated in the February 1999 Agreement Relating to Enforcement of Assembly Bill 1986, all of the environmental restrictions and obligations under the Headwaters Agreement and the Habitat Conservation Plan are "covenants that run with the land and are binding on all of the Lands" covered by the HCP. The same February 1999 Agreement makes clear that these covenants are "binding on the Company and any successor owners of the Lands for a period of fifty (50) years." I also believe that any reorganization plan adopted by the Court must ensure that the February 1999 Implementation Agreement with Regard to the Habitat Conservation Plan is fully enforced. That Implementation Agreement requires the approval of Federal and State authorities for any transfer of ownership or control of covered lands.

2. Timber operations can proceed while sustaining environmental protections. The Habitat Conservation Plan describes how timber operations can protect dozens of threatened and endangered species on these sensitive lands. The Plan is also an adaptive management tool that allows the timber operators to work with State and Federal wildlife agencies to find a balance between protecting species habitat and allowing timber operations to continue.
3. Maintain the economic vitality of the region. Pacific Lumber's years of service as one of the largest employers in Humboldt County should be continued through a reorganization plan that contributes to the County's economic well-being. The town of Scotia is one of the last remaining live-work communities in the State,

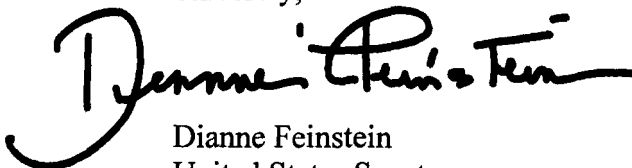
and after operating for over 100 years, Pacific Lumber is part of California's timber heritage. Sustainable, high quality timber production can and should be a long-standing pillar of the local economy.

4. The reorganization plan must comply with all regulations consistent with Federal, State and local laws.

The people of the United States and all California residents have a strong interest in a successful reorganization of Pacific Lumber that abides by these important principles.

I appreciate your consideration of my views, and wish all parties the fullest success in implementing plans for this great national resource.

Sincerely,

A handwritten signature in black ink that reads "Dianne Feinstein". The signature is written in a cursive, flowing style with a large initial "D".

Dianne Feinstein
United States Senator

SERVICE LIST

Debtor

Gary L. Clark
Scotia Pacific LLC
125 Main Street
Scotia, CA 95565

Attorneys for Debtor Scotia Pacific LLC

Kathryn Coleman
Gibson Dunn & Crutcher LLP
200 Park Avenue, 47th Floor
New York, NY 10166-0193

Attorneys for Debtor Scotia Pacific LLC

Eric J. Fromme
Gibson Dunn & Crutcher LLP
3161 Michaelson Drive
Irvine, CA 92612-4412

Attorneys for Debtor Scotia Pacific LLC

Kyung S. Lee / Wendy Laubach / Chris Johnson
Diamond McCarthy Taylor
Finley & Lee L.L.P.
909 Fannin, Suite 1500
Houston, TX 77010

Counsel for Debtors Scotia Development et al.

Shelby A. Jordan / Harlin C. Womble, Jr. /
Nathaniel Peter Holzer / Kevin J. Franta
Jordan, Hyden, Womble, Culbreth & Holzer P.C.
500 N. Shoreline Drive, Suite 900
Corpus Christi, TX 78471

Counsel for Debtors Scotia Development et al.

Jack L. Kinzie / James Prince II /
C. Luckey McDowell
Baker Botts LLP
2001 Ross Avenue
Dallas, TX 75201-2980

Counsel for Bank of New York Trust Company, N.A.

Zack A. Clement / William R. Greendyke /
R. Andrew Black / Jason L. Bolland /
Mark A. Worden
Fulbright & Jaworski LLP
1301 McKinney Street, Suite 1500
Houston, TX 77010-3095

Counsel for Marathon Structured Finance Fund, LP

David Neier / William Brewer
Winston & Strawn, LLP
200 Park Avenue
New York, NY 10166

Counsel for Marathon Structured Finance Fund, LP

John D. Penn / Trey Monsour
Haynes & Boone, LLP
201 Main Street, Suite 2200
Fort Worth, TX 76102

U.S. Trustee

Charles R. Sterbach
United States Trustee
606 N. Carancahua, Suite 1107
Corpus Christi, TX 78476

Counsel for Official Committee of Unsecured Creditors

John D. Fiero / Maxim B. Litvak /
Kenneth H. Brown
Pachulski Stang Ziehl & Jones, LLP
150 California Street, 15th Floor
San Francisco, CA 94111

Counsel for Bank of America

Evan M. Jones / Brian M. Metcalf
O'Melveny & Myers LLP
400 South Hope Street
Los Angeles, CA 90071-2899

Counsel for Maxxam Group, Inc.

Alan Gover
White & Case, LLP
1155 Avenue of the Americas
New York, NY 10036-2787

Counsel for Bank of New York

Tony L. Gerber / Louis R. Strubeck, Jr. /

Richard S. Krumholz

Fulbright & Jaworski L.L.P.

2200 Ross Avenue, Suite 2800

Dallas, TX 75201-2784