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DEPARTMENT OF
WATER RESOURCES

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Via E-mail & U.S. Mail

March 10, 2006

Craig L. Saxton
Senior Water Resource Agent
Adjudication Bureau
Idaho Department of Water Resources
322 East Front Street
P.O. Box 83720
Boise, ID 83720-0098

Re: Carolex LP – Water Right Nos. 67-80D, 67-81AC, 67-87, 67-88, 67-89A,
67-90B, 67-93, 67-4174, 67-4175, 67-4176, 67-4270, and 67-7338

Dear Craig:

This follows up on our December 15, 2005 meeting regarding the above-captioned water rights for which SRBA claims have been filed by my client, Carolex LP, in Adams County. Carolex also owns rights in other basins, which are not addressed in this letter.

I. NAME OF ENTITY

As I mentioned, there has been a change in the corporate entity, from Carola Holdings to Carolex LP. We will forward to you a change of ownership form and documentation.

II. WATER RIGHT NO. 67-80D

Water Right No. 67-80D is claimed out of original Water Right No. 67-80, which corresponds to the original right decreed in the amount of 3,500 inches to Orchards Water Company with an extensive place of use, the closest to the Carolex property being:

T15N, R1W, Sec. 10, S SW
T15N, R1W, Sec. 10, SE SW

This is outside of the Carolex property. As of this date, I do not have evidence that any portion of this right was transferred to Carolex.

III. WATER RIGHT NO. 67-81AC

Carolex holds shares in the Lost Valley Reservoir Company. We understand that Carolex's claim for Water Right No. 67-81AC will be disallowed on the basis that the water rights associated with the Lost Valley Reservoir will not be decreed to the individual shareholders (which hold beneficial title), but instead will be decreed to the Lost Valley Reservoir Company (which holds legal title).

Storage water from this project is used by Carolex for exchange purposes. I have discussed this with David Tuthill, who is reviewing these storage claims. David assured me that the place of use for the Reservoir Company's rights will include the Carolex property. David and I agree that there is no need to document the exchange arrangement under which storage rights are released from the reservoir for the benefit of Carolex's diversion on the Middle Fork Weiser River.

IV. WATER RIGHT NO. 67-89A

Water Right No. 67-89A is claimed out of original Water Right No. 67-89, which corresponds to the original right decreed in the amount of 21 inches to George Shaw with the following place of use:

T15N, R1W, Sec. 10, NW NE
T15N, R1W, Sec. 10, NE NW
T15N, R1W, Sec. 3, E SW

This is outside of the Carolex property. It is my understanding that this is property owned today by Alvin Yantis, not Carolex. As of this date, I do not have evidence that this right was transferred to Carolex.

V. WATER RIGHT NO. 67-90B

When we met, you pointed out that the watermaster lists Water Right No. 67-90B in the name of Mink Land & Livestock. This is in error. This water right is owned by Carolex. I have spoken with the watermaster, Bosco Bosler, about correcting the watermaster's records.

Water Right No. 67-90B is claimed out of original Water Right No. 67-90, which corresponds to the original right decreed in the amount of 44 inches to William B. Shaw with the following place of use:

T15N, R1W, Sec. 11, NW NW
T15N, R1W, Sec. 2, SW SW
T15N, R1W, Sec. 10, N SE
T15N, R1W, Sec. 10, S NE
T15N, R1W, Sec. 10, NE NE
T15N, R1W, Sec. 10, SE NW

All of this property (except for the portion in section 2) is on the current Carolex property.

A claim has been filed by Julia I. Marcum for Water Right No. 67-90A, which also derives from the same original right No. 67-90. I am advised that Ms. Marcum is now deceased and that her land is now part of the Carolex property. Consequently, the entire 44 inches should be recommended for Carolex, in accordance with Carolex' SRBA claim.

Please let me know if you need any further documentation.

VI. WATER RIGHT NOS. 67-87, 67-88, 67-90B, 67-93

It is my understanding that you anticipate recommending Carolex's decreed rights as follows:

Water Right Number	Inches	Cfs
67-87	30.0	0.60
67-88	13.0	0.26
67-90B	44.0	0.88
67-93	7.5	0.15
Total	94.5	1.89

If this changes, would you please let me know before the Director's report goes out?

VII. WATER RIGHT NOS. 67-4174, 67-4175, AND 67-4176

I understand that the three statutory claims, Water Right Nos. 67-4174, 67-4175, and 67-4176, are likely to be recommended with priority dates one day after the 1921 decree date and, consequently, will be available only when all decreed rights have been satisfied.

The claims were filed in the following quantities:

Water Right Number	Inches	Cfs
67-4174	50.0	1.0
67-4175	100.0	2.0
67-4176	100.0	2.0
Total	250.0	5.0

It is my understanding that the Department's recommendation will scale this back substantially. The Department will recommend a quantity sufficient to bring the total water rights for the Carolex property up to an inch-per-acre. What that number is will depend, in turn, on what the Department determines is the number of acres in the place of use. I discuss place of use below.

VIII. WATER RIGHT NOS. 67-4270 AND 67-7338

It is my understanding that these two domestic rights, Water Right Nos. 67-4270 and 67-7338, already have their partial decrees, and that no further action is required.

IX. 1979 APPLICATIONS

Carolex's ranch operator, Alvin Yantis, tells me that he distinctly recalls filing additional applications for water rights on behalf of Carolex's predecessor with IDWR in approximately 1979. These are different from the three statutory claims filed in 1977 (Water Right Nos. 67-4174, 67-4175, 67-4176). However, Alvin cannot locate records of this. Would you please check to see if the Department has any records of any water right applications for the Carolex property in addition to those listed in the caption to this letter?

X. PLACE OF USE

When I met with you, you explained that it appears that some lands are being irrigated south of the river. I am advised that Carolex is not currently irrigating land south of the river. However, this land has been irrigated in the past, and the company hopes to begin irrigating it again. Consequently, we believe it is appropriate to include these lands within the company's permissible place of use.

XI. POINTS OF DIVERSION

There is some inconsistency in the record over the location of points of diversion. Each of Carolex' water rights (both decreed and statutory claims) should have the same two points of diversion:

T15N, R1W, Sec. 12, SW SE (shown as a square dot in § 12 of IDWR map)

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T15N, R1W, Sec. 14, NW NE (shown as round dot in § 14 of IDWR map)

IDWR's map (copy enclosed) shows a third point of diversion, a square dot in the NE NE of section 14. Although this is not an active point of diversion, we have no objection to it being listed as an alternative point of diversion.

The Company's claim for Water Right No. 67-4176 lists a different point of diversion: T15N, R1W, Sec. 12, NW NE. This point of diversion is in error. As noted, each of the water rights have the same points of diversion.

Thank you again, Craig, for your help in evaluating Carolex's rights. Please do not hesitate to contact me if you have additional questions or if there are other issues that we should discuss prior to issuance of the Director's Report.

Sincerely,

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

Christopher H. Meyer

Encl: IDWR's map showing PODs.

cc: Lea Kuvinka, attorney for Carolex LP

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