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July 21, 2004

Transmitted By Fax and U.S. Mail

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Deputy Attorney General
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Re: *Claimant: Diamond T Ranch, L.L.C.*
Subcase Nos. 29-07489A and 29-04277

Dear Ernie and Candice:

This will follow up on our July 16, 2004 conference call regarding the above matter. Based upon a review of the history and files pertaining to these water rights and the prior use, which we have further documented by the supporting Affidavits of the well driller, Forrest Cagle, and prior owner, Virgil Jahnke, it is my understanding that the Department would be willing to enter into a settlement agreement encompassing the following terms:

1. Water Right No. 29-2433 would be disallowed. The water that could be proved up on under that right, a total of 1.10 cfs (assuming the historic use consisted of three 1/4-mile hand lines with 5/32s inch nozzles times 99 nozzles times 5 gpm) would be recommended as a "beneficial use" claim under Right No. 29-4277.
2. Right No. 29-4277 would be recommended for 1.10 cfs with a priority of 10/17/1960.
3. Right No. 29-7489A would be recommended for 2.02 cfs with a priority date of 10/11/1985.

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4. Since the systems are interconnected, the three existing wells would be reflected as the points of diversion under both of the allowed rights as follows:

Township 11 South, Range 37 East, Bannock County:
Section 20: SW NE, NW SE, NE SE

5. Both rights would have a common 308 acre place of use. The place of use is irrigated by two center pivots with 34 irrigated acres per quarter, plus 36 acres under wheel lines described as follows:

Township 11 South, Range 37 East, Bannock County:
Section 20: SE SE 34 acres
SW SE 34 acres
NE SE 34 acres
NW SE 34 acres
NW NE 34 acres
SW SE 34 acres
NE NW 34 acres
SE NW 34 acres
Section 17: SE SE 36 acres
308 acres

* { Enclosed is a map we have prepared reflecting the three points of diversion, the pivot centers, the wheel lines and the place of use. The applicant Diamond T has approved of a settlement on this basis. If this meets with your approval, Ernie would you please prepare and forward the Amended Claims for 29-07489A and 29-04277. We are prepared to file a Standard Form 4 Motion to File Amended Notice of Claim which can be served and noticed up for hearing on August 18, 2004 at 9:00 a.m., as set by Special Master Bilyeu at the June 30, 2004 settlement conference.

Please advise if you have any questions or concerns.

Sincerely,

Randy Budge
RANDALL C. BUDGE

RCB:rr

Enclosures

cc: Diamond T Ranch/Phil Adams
Ralph Wheatley

* Done Today - will file the Motion +
Amended Claims and wait to go.
Randy

