State of Idaho
DEPARTMENT OF WATER RESOURCES
Southern Region, 1341 Fillmore Street, Suite 200 • Twin Falls, Idaho 83301-3380
Phone: (208) 736-3033 • Fax: (208) 736-3037 • Web Site: www.idwr.idaho.gov

C. L. "BUTCH" OTTER
Governor

DAVID R. TUTHILL, JR.
Director

December 31, 2008

Western Mortgage & Realty Co
Attn: Tim Tippett
PO Box 3110
Pasco, WA 99302-3110

Via: E-mail (ttippett@amerion.com)

RE: The Western Mortgage & Realty Co properties in Lincoln and Minidoka Counties in Southern Idaho once owned by the Young family and also known as Mainline, KECO, Rustic Ag and Storm Circle properties.

Dear Mr. Tippett:

Over the last several months Jeanie Robertson and I have been working with Steve and Maria Young on cleaning up several water right issues associated with the above described properties. We last met on December 23, 2008 to review the progress on resolving several issues. As listed below this letter outlines and explains where we are in this process. Attached to this letter are documents for your consideration needing your signature. Additionally you will need to respond or provide direction as to how to proceed on some items and may need to provide some supporting documentation. In general the work has been focusing on getting an accurate listing of the water rights associated with these properties and changing the ownership record of the appurtenant water rights to "Western Mortgage & Realty Co" (W[illegible]) and associating these water rights to the actual legal description of the existing wells being used and accurately describing the actual place of use of these rights. We have utilized IDWR's GIS mapping system to make many of these analysis.

ISSUE #1 As you may know in the past the Youngs filed numerous transfer applications in anticipation of developing several dairy sites on the properties. These transfer applications have been assigned to WMR but we have been requested not to process but hold these applications. IDWR has re-evaluated this request and determined that we will no longer hold applications. In discussing this matter with the Youngs it is my understanding that it is unlikely that dairies will be developed at these sites anytime soon so processing of these applications is premature. It is requested that you acknowledge in writing that these applications be withdrawn. If withdrawn the applications will be returned, any data entry work already done with be preserved electronically, and any fees paid will be credited to fees currently due. (See attached Fee sheet) It is specifically requested that you withdraw:

-Transfers 72186 and 72185. These two transfers offset each other to avoid a mitigation requirement if processed separately. Transfer 72186 moves 226 watered acres off of Section 9, T8S, R22E and moves the acres north to be included in the KECO system. This creates an un-irrigated site in Section 9, T8S, R22E that a dairy was proposed to be built using water converted from irrigation under transfer 72185 currently serving land served by the KECO wells. As drafted these transfer would be processed together and if withdrawn they should be withdrawn together.

-Transfer 72427 proposed to supply a new dairy proposed in Sections 13 and 24, T7S, R23E by drying up acres in Sections 13, 14 and 24 T7S, R23E near the proposed dairy site. These lands are currently irrigated by the KECO wells.

-Transfer 72094 proposed to supply a new dairy proposed in Sections 14, T7S, R23E by drying up acres in Section 13 T7S, R23E near the proposed dairy site. These lands are currently irrigated by the KECO wells.

-Transfer 72095 proposed to supply a new dairy proposed in Sections 32, T6S, R23E by drying up acres in Section 13 and 24 in T7S, R23E. These lands are currently irrigated by the KECO wells.

-Transfer 72096 proposed to supply a new dairy proposed in Sections 21, T7S, R24E by drying up acres in Section 21 T7S, R24E near the proposed dairy site. These lands are currently irrigated by the KECO wells.

-Transfer 72135 proposed to supply a new dairy proposed in Sections 24, T7S, R24E by drying up acres in Section 24 T7S, R24E near the proposed dairy site. These lands are currently irrigated by Storm Circle wells.

If these seven transfers are withdrawn the lands proposed to be dried up can remain irrigated and a total of $2030 will be credited. (See attached fee sheet)

ISSUE #2 Licensing of Permit 36-8475 needs to be finalized. This permit was developed in the KECO well area. A field exam has been competed and summarized in the attached memo. Based on this analysis the attached licensing amendment was created. The permit has been assigned to WMR but the assignment fee and the licensing amendment fee needs to be paid. Please print out the licensing amendment and look it over. Please sign it and return it to this office with the proper fee. (See attached fee sheet)

ISSUE #3 Modification of rights to be associated with the KECO well system. Modification includes associating the various rights with appropriate places of use, proper points of diversion, changing the ownership record into WMR, addressing watering lands of BLM or BOR and preserving 5 dairy sites with senior water rights for potential dairy development in future. Note that this KECO system is large involving 29 wells and approximately 78 water right records. Due to limitations in IDWR's software

programs for process transfers, I have been forced to split these modifications into several transfer actions as listed below:

-Amend transfer 73711. This transfer was originally filed to bring in 26.7 acres to the KECO system which were purchased from Woodland. The application was advertised as originally drafted without protest. If amended it would not be re-advertised. The application has been assigned to WMR. The amendment corrects the points of diversion and places the acres in the permissible place of use (PPU) of KECO. (Same lands and wells listed on licensing amendment for permit 36-8475 noted above.) For convenience I've added the rights to be associated with 5 dairy sites into this amended transfer. These 5 dairy sites are separate lands than the KECO PPU but these lands are to be associated with the KECO 29 well network. This transfer additionally changes the ownership record for all these rights into WMR.

-New transfers 75283 and 75290 conform the remaining 71 rights to the KECO 29 wells. These two transfers associate 69 rights with the KECO PPU and 1 for BLM land and 1 for BOR land. The BLM and BOR issue is addressed in Transfer 75290. Additionally Transfer 75290 includes a right that was missed in an earlier transfer that was part of the Common's land. Note that these transfers change the ownership of 70 rights to WMR and split off 1 right for BLM ownership per the agreement with BLM. Note the ownership of the right on BOR is kept in WMR ownership. It appears from our record the BOR land is leased annually and WMR provides the water.

To finalize these three transfers please find the following attached:

-Amended transfer 73711 in its entirety.

-Important pages including signature pages for both of transfers 75283 and 75290. ***Note that the transfer applications generated by the IDWR computer program for these two transfers are several hundred pages long so not all pages are included.

Please print these out and review and then sign them before a notary and return with appropriate fee. (See attached fee sheet)

ISSUE # 4 Change of ownership of remaining water rights not included in the above actions and clarification of security interest for many of the water rights on WMR land. Also the need to register WMR with the State of Idaho Secretary of State.

-Many of the water rights in the transfers or otherwise that were in the Young's name have a security interest filed by Keybank National Association, 501 Broadway, Idaho Falls, ID 83405. To process the transfers we need a statement from Keybank National Association stating they are ok with the transfers and we also need clarification if their interest continues with the new ownership going to WMR or their security interest needs to be removed.

-Change of ownership to WMR needs to be filed for the irrigation rights on the Mainline properties.

-Change of ownership to WMR needs to be filed for the domestic and stockwater

rights associated with all properties.

-Change of ownership to WMR needs to be filed for the irrigation rights on the lands in the Storm Circle area.

-Change of ownership to WMR needs to be filed for the irrigation rights on the lands in Section 4, T9S, R22E.

-A search of the registered business entities with the Secretary of State of Idaho allowed to do business in the state did not find that WMR was registered. This needs to be done to finalize processing of the transfers. Please submit evidence that this has been completed. You might visit: http://www.sos.idaho.gov/ for more information.

To facilitate the change of ownership process please find attached a change of ownership form with attachments that list the water rights know to IDWR to be associated with the WMR lands. Note that IDWR has been provided a copy of the Deed in Lieu of Foreclosure dated August 8, 2007 where WMR obtained ownership of the subject land. If this is the most recent documentation of ownership it need not be resubmitted with the ownership form. Please print out the ownership form with attachments, sign it and return it with any updated ownership documentation along with the proper fee. (See attached Fee sheet)

Conclusion In considering the forgoing and the various attachments listed above, please find another attachment being an excel spreadsheet that is a work in progress that has been utilized by Jeanie and me to organize these issues. I know for a fact this can be very confusing so once you review this letter I would invite a phone call from you to address any questions you might have. Hopefully we can quickly bring many of these issues to finalization.

Respectfully,

Allen Merritt, PE
Southern Region Manager

CC: Steve and Maria Young (steve@83350.org)
Tara Hagen (Tara_Hagen@blm.gov)
Pam Skaggs- IDWR