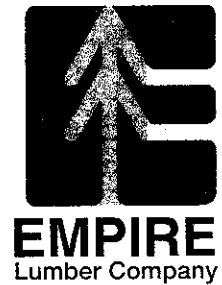


January 31, 2008

City of Weippe
Mayor and Council Members
P. O. Box 146
Weippe, ID 83553

RECEIVED
FEB 04 2008
IDWR/North



Dear Mayor Steadman:

We have recently been notified by the Idaho Department of Water Resources (IDWR) that our application for water permit #84-12242 has been protested by the City of Weippe. A copy of the City's protest letter has been provided to us; it is the only protest that was received concerning our application for permit. In your letter it is stated that although the City of Weippe is supportive of our desire to provide fire protection for our mills and log decks you also believe we could get sufficient fire protection with considerably less water volume, which would also require the need for a storage tank to be constructed. While this may be the case, it would also be considerably more expensive for our company to construct a storage tank and more difficult to maintain as well. Installing a storage tank is not necessary as long as a large enough quantity of water can be tapped from an underground aquifer to meet our needs. We want re-assure the Mayor and City Council that the only time we intend to use the volume of water we applied for is if the fire suppression system is activated because one or both of the sawmills are on fire. At the request of the IDWR we must attempt to resolve the issue informally without the need for intervention by them. In this letter we hope to explain our need for the water permit as well as the volume of water we have applied for to the satisfaction of the Mayor and City Council of Weippe so that our project can move forward in a timely fashion.

As you are all aware, insurance rates have increased significantly over the past several years for all types of insurance, including that which is required for sawmill operations. With our purchase of the former Hutchins and Timberline Sawmills in 2005 we understood it would be a matter of time before it became necessary to install fire suppression systems in both of the sawmills. We have been given notice that fire suppression systems must be installed soon or our insurance rates are going to increase significantly and there is a distinct possibility that our insurance policy could be cancelled in the future if a fire suppression system is not put into operation. Because the City of Weippe's water system is not capable of supplying our milling operations with enough water volume or pressure for a fire suppression system, it is up to us to find our own source of water, hence the application for a water permit with the IDWR. In order to satisfy our insurance company's requirements for water volume, we must be able to provide at least 1,200 gallons per minute (gpm) to the fire suppression system for a minimum of 6 continuous hours which amounts to 432,000 gallons of water. Our options for supplying water in this volume are: 1. Construct a holding tank similar to what the City uses, but considerably larger. 2. Excavate a holding pond of sufficient size which would include a liner and cover. 3. Drill a large diameter well with the capability of providing 1,200 gpm, with a high volume pump installed in it. All of these options are very expensive. The large diameter well is the most cost effective, is considerably less intrusive on the land and is our preferred choice.

"Specialists in the Wood Products Industry Since 1956"

Empire Lumber Company, dba KAMIAH MILLS, P.O. Box 638, Kamiah, ID 83536 (208) 935-2536

Following is a short summary of the three options:

Option 1, Construct a holding tank: Little time has been spent looking into all of the particulars of installing a tank. This option is extremely expensive, would require us to set aside valuable property and would be an eyesore to most of the residents of town. It would also require that a high volume pump and an emergency diesel generator be installed in a heated pumping building which would also need to be constructed. An unknown amount of maintenance would be involved as well and there could be possible freezing issues to contend with in the winter because water would not be cycling through the tank on a regular basis like the City's water system does. We wouldn't want to start another debate on what should be painted on the tank either, Gorilla or no Gorilla?

Option 2, Excavate a holding pond: This option would require us to set aside valuable property as well. A considerable amount of excavation would be required and an expensive pond liner and cover would be necessary. The entire area would need to be fenced off and a high volume pump and an emergency diesel generator would also need to be installed in a heated pumping building similar to the holding tank option. It is unknown the difficulties of maintaining this option including keeping the water from freezing in the winter. Regardless, both of the options for storing water at ground level or above are considerably more expensive and less favorable than storing water underground.

Option 3, Drill a large diameter well: This option would require considerably less property to be set aside than the preceding two. One heated pumping building similar in size to the other two options is all that would be required to house the well head with a line shaft pump installed and an emergency diesel generator. The water would remain in the underground aquifer and would only be pumped in case of a fire emergency. We intend to drill an 8 to 12 inch diameter test hole first to determine if a sufficient volume of water is available before drilling a larger diameter well. The actual volume of water produced by the smaller well can be tested by using air pressure provided by the drill rig. With the casing size limitations of the smaller well it would be physically impossible to install a large enough pump to provide a sufficient amount of water volume and pressure to the fire suppression system. If at least 1,200 gallons per minute is available, the larger diameter well would then be drilled in the same vicinity as the smaller well. If there is not enough water available to warrant drilling the large diameter well we will make due with the volume of water that the smaller well provides and will most likely excavate a holding pond to store the water in, much the same as option 2.

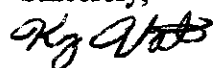
In any case the smaller well will provide water to irrigate our log decks during the summer months which will also help to reduce the fire hazard in the log yard. It will also be used to provide water for dust abatement when needed. In years past the City has provided water for our dust abatement needs.

In order to conserve water, we plan to use the settling pond that is currently in place to collect irrigation water that has run off the log decks. The collected water will be filtered and once again used to irrigate the log decks.

Please keep in mind that we wouldn't need to procure our own source of water if the City had the capability of supplying the volume and pressure required to fulfill the minimum requirements of our insurance company. Also keep in mind that this large volume of water may never be used! The only time 1,200 gallons per minute would be needed for fire suppression is in the event that one of the mills catches on fire. If either of the mills were to catch on fire and the fire suppression system wasn't operational, the Weippe Volunteer Fire Department would be called on to help suppress it. With the City's fire hydrant pressure and volume already insufficient, the chance of successfully putting out a fire without succumbing to a major or complete loss is anyone's guess, but is one that could be completely nullified if we had a fire suppression system of our own in operation.

Empire Lumber Company along with the Hutchins families have provided family wage employment for many of the citizens of Weippe and the surrounding area for the past several decades. We intend to continue supporting the City of Weippe as long as we believe the feelings are mutual. It was never our intention to compromise the City's water system in any way and we only plan to use as much water as is necessary to operate our sawmills in a safe and secure manner while also protecting our log decks from fire and degradation. We ask that the Weippe Mayor and City Council understand the situation we are in and help us to complete our project by not allowing unnecessary costs and/or delays to arise that you have the ability to prevent. In this tumultuous wood products industry, any unnecessary costs or delays would only add to the perfect economic storm that is already before us. Time is of the essence in gaining the support of the Mayor and City Council and it would be very much appreciated at this time if we could move this project forward with a renewed sense of urgency.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Kenny Walter' with a stylized flourish at the end.

Kenny Walter
Sawmill Manager