



U.S. Geothermal Inc.

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DEPARTMENT OF
WATER RESOURCES

1509 Tyrell Lane, Suite B, Boise, ID 83706
Tel: 208.424.1027 Fax: 208.424.1030

July 27, 2006

Mr. Jeff Peppersack
Manager
Water Rights Permit Section
322 East Front Street
Boise, ID 83720-0098

Re: Application for Transfer No. 72440 – Expansion Right 43-10069

Dear Mr. Peppersack,

This letter is in response to your June 28, 2006 letter and our meeting on July 14, 2006 on the referenced Transfer. As we discussed, US Geothermal does not believe it is necessary or appropriate to attempt to quantify the amount of water that might be subject to curtailment as an expanded use pursuant to Idaho Code § 42-1416B in the subject Transfer proceeding, since the conditions upon which that statute could apply have not yet occurred. Specifically, the Director has yet to determine that an adequate management program does not exist and the Director has not yet issued any orders to holders of water rights to expanded use of ground water to reduce or cease withdrawals of ground water.

We believe that if the Director were to order curtailment, it would be very site specific and would need to take into consideration all affected holders of expanded use water rights to achieve the purpose of the statute. We do not believe it is appropriate to pre-judge any part of the Director's decision at this time. Therefore, to address this issue, we would suggest the following language as a condition of the transfer:

"The portion of these water rights that the Director determines are for expanded use in an order pursuant to Idaho Code § 42-1416B may be subject to curtailment until sufficient ground water is available to resume or increase withdrawals."

Alternatively, if IDWR believes it is absolutely necessary to preliminarily quantify the amount of ground water that might be subject to curtailment pursuant to Idaho Code § 42-1416B in the referenced Transfer proceeding, we believe that it should be based on a 75% consumptive use, which yields the following historical water usage volumes that would not be subject to curtailment as expanded use rights:

The total annual diversion under right 43-2381 shall be limited to 660 acre feet, and the consumptive portion shall be limited to 495 acre-feet.

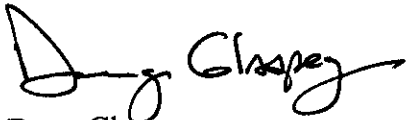
The total annual diversion under right 43-2534B shall be limited to 884 acre feet, and the consumptive portion shall be limited to 663 acre-feet.

As suggested in your letter, the rate of diversions should not change under rights 42-2381, 42-2534B and 43-10069.

Finally, we believe that even if IDWR attempts to establish preliminary volumes of water in the referenced Transfer that may be subject to curtailment pursuant to Idaho Code § 42-1416B, US Geothermal reserves the right to challenge any order of curtailment by the Director utilizing these preliminary volumes.

Thank you for your consideration and attention to this matter and if you have any question about this letter or the referenced Transfer, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Doug Glaspey", with a stylized flourish at the end.

Doug Glaspey
Chief Operating Officer

Cc; Kevin Beaton
Scott King