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August 18, 2006

Jeff Peppersack, Manager  
Water Rights Permits Section  
Idaho Department of Water Resources  
PO Box 83720  
Boise, Idaho 83720-0098

**RECEIVED**

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**DEPARTMENT OF  
WATER RESOURCES**

Re: Application for Transfer No. 71642

Dear Mr. Peppersack:

Thank you for your letter of July 17, 2006 extending the time for providing additional information concerning Application for Transfer No. 71642. I have given the matter some additional thought and believe that the application can be approved as filed with restrictive conditions of approval to address the concerns described in your letter.

My intent in filing the application was to provide a permissible place of use for four existing water rights. I am willing to forego some of the flexibility sought under the application by limiting the permissible place of use to three of the water rights and by identifying a specifically defined place of use for the fourth water right (Right No. 37-7808). The two parcels would be served from the same well using separate delivery/distribution systems. This proposal addresses your concerns because use of water under Right No. 37-7808 can then be measured, monitored and regulated separately from water use under the other three rights.

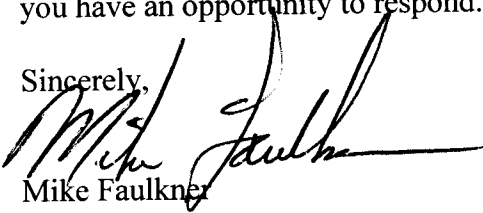
The transfer application and its associated mitigation plan can be approved in accordance with your staffs' recommendation with additional conditions of approval to address the following:

1. Limit use of water under right no. 37-7808 to 163 acres in the 40-acre parcels covered by the eastern pivot. This is principally the S $\frac{1}{2}$ NE $\frac{1}{4}$  and the N $\frac{1}{2}$ SE $\frac{1}{4}$  of Section 8, T6S R14E. The amount of water diverted under this right would be limited to 1.76 cfs and 308.1 afa. The only water to be diverted and used through the pivot and distribution system serving this land is to be from Right No. 37-7808 unless approval to use other water rights on the land is obtained in a subsequent approval given by IDWR.
2. Limit use of water under Rights Nos. 37-8005B, C, & D to a permissible place of use covering the remaining 264 acres in the place of use requested under Transfer No. 71642. The combined use of water under these rights shall be limited to 4.03 cfs and 1056 afa.
3. Prior to diversion of water under right No. 37-7808, a separate flow meter, capable of measuring and recording the volume of flow diverted during the irrigation season, shall be installed on a pipeline dedicated to delivering water to the 163-acre place of use authorized under this right.

4. The Water District 130 watermaster shall have access to read the flow meters at all times. The right holder shall report the annual diversion of water under these rights to Water District 130 prior to December 31 of each year.

Please consider this suggestion as a resolution to this matter and let me know whether the approach is workable. I have asked ERO Resources to hold up on further review until you have an opportunity to respond.

Sincerely,

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

Mike Faulkner

c. Norm Young, ERO Resources Corp.