



State of Idaho

DEPARTMENT OF WATER RESOURCES

322 East Front Street, P.O. Box 83720, Boise, ID 83720-0098

Phone: (208) 287-4800 Fax: (208) 287-6700 Web Site: www.idwr.idaho.gov.

January 11, 2005

DIRK KEMPTHORNE
Governor

KARL J. DREHER
Director

HFM CASTLEVIEW LLC
C/O MIKE IHLE
11854 W FLINTLOCK DR
BOISE ID 83713

RE: APPLICATION TO LEASE WATER RIGHT NO(S). 2-2173, 2-2357A, 2-7046C, 2-7046D, AND 2-10234 TO THE WATER SUPPLY BANK

Dear Lessor:

The Department of Water Resources ("department") has completed its review of the Applications to Sell or Lease Water Right(s) to the Water Supply Bank ("bank"). Please consider that the offered water right(s) are accepted into the bank. The applications are accepted into the bank as of March 3, 2004.

Several items to keep in mind in connection with the lease of a water right to the bank are as follows:

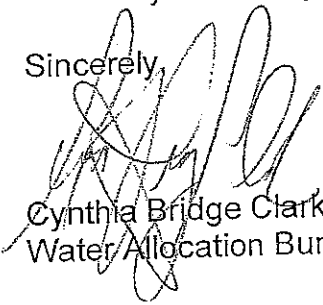
- 1 The water right numbers referenced above are identified as claimed in the Snake River Basin Adjudication (SRBA).
- 2 Rental of water under these rights is subject to the conditions of approval of the water rights.
- 3 Prior to rental of these rights from the bank, additional review may be required to confirm the validity of the rights, and diversion limitations when the above referenced rights and overlapping rights diverted from Castle Creek are combined.
- 4 There is no rental payment to the lessor of the water right if the right or a part thereof is not rented from the bank.
- 5 While a right is in the bank, the owner of the right may not use the right even if the right is not rented from the bank.
- 6 A right accepted into the bank stays in the bank until the Board releases it, the lease term expires, or upon request from the lessor to change the term of the lease.

7. While a water right is in the bank, forfeiture provisions are stayed.
8. Acceptance of a right into the bank does not, in itself, confirm the validity of the right or any elements of the water right, or improve the status of the right including the notion of resumption of use. It does not preclude the opportunity for review of the validity of this water right in the ongoing Snake River Basin Adjudication or any other department application process.
9. The water rights referenced above will be rented from the bank at the current rental rate unless otherwise specified by the lessor.
10. Failure of the right holder to comply with the conditions of acceptance is cause for the Director to rescind acceptance of the lease.
11. Upon acceptance of a water right into the Board's water supply bank, the owner of the right may withdraw the right within thirty (30) days of acceptance into the bank if the owner does not agree with the conditions of acceptance.

The right(s) will remain in the bank for an "indefinite" lease term unless the right(s) are released earlier by the Board, or upon request by the lessor. To change the term of the lease or to release the right(s) from the bank, the lessor must submit a request in writing to the department.

If you have questions, please feel free to contact me.

Sincerely,



Cynthia Bridge Clark
Water Allocation Bureau