

February 6, 2007

MEMORANDUM

TO: Water District No. 11 Members
FR: Douglas J. Bornemeier, Manager, PacifiCorp Energy
RE: Background Information for February 6, 2007, Annual Meeting

The purpose of this memorandum is to outline PacifiCorp Energy's (PacifiCorp) position on certain issues to be discussed at the February 6, 2007, annual meeting, and to provide District No. 11 members with background information regarding voting procedures¹ PacifiCorp intends to request at the annual meeting.

Selection of a New Watermaster

PacifiCorp recommends that the District select a new watermaster for the upcoming 2007 irrigation season. PacifiCorp proposes that the District adopt a resolution empowering and directing the Advisory Committee to (1) solicit and screen potential candidates; (2) solicit a bid from Idaho Department of Water Resources to provide watermaster services; and (3) make a recommendation to the District on a preferred candidate no later than March 1, 2007 (Proposed Resolution #7). Thereafter, the District would convene a special meeting on or about March 7, 2007, to elect a new watermaster. PacifiCorp believes this proposal will permit District members to identify and mutually agree upon a new watermaster, or in the alternative, to secure needed watermaster services from the State for the 2007 irrigation season.

Responding to the December 15, 2006, Demand Letter

On December 15, 2006, the District Treasurer and Advisory Committee members received a letter from Daniel E. Williams, an attorney representing Pete Peterson on matters pertaining to Mr. Peterson's employment as District watermaster. The letter requests that the District reimburse Mr. Peterson in the amount of \$9,352.31 for his expenses.

On January 19, 2007, the State Attorney General's (AG's) Office responded to this letter on behalf of the District (Exhibit B). The AG's Office raises questions about Mr. Peterson's claimed expenses, and recommends that the Idaho Department of Water Resources (IDWR) request that the State Controller's Office conduct an audit of the District's financial records for the years 2005 and 2006 before any expenses are reimbursed. In view of the AG's advice on this matter, PacifiCorp proposes the District adopt a resolution directing the Treasurer to request an audit from the State Controller's Office as outlined in the AG's January 19, 2007, letter

¹ See Idaho Code § 42-605(4). A copy of the Idaho Code referenced in this memorandum is attached for your reference as Exhibit A.

(Proposed Resolution #8). PacifiCorp also proposes that the District (1) authorize the Advisory Committee to consult with the AG's Office to identify appropriate actions in response to the December 15, 2006, demand letter, and (2) make recommendations to the District regarding such appropriate actions to the District prior to March 1, 2007. PacifiCorp believes adoption of this resolution appropriate in view of the AG's advice to the District on this matter.

Improving District Accounting and Assessment Functions

Aside from selection of a new watermaster and addressing expense claims, PacifiCorp proposes several other resolutions to improve District functions and to formalize District expense procedures. Specifically, PacifiCorp proposes resolutions that will (1) establish a fixed fiscal year for District accounting (Proposed Resolution #1); (2) set a minimum assessment level for District members (Proposed Resolution #2); (3) establish procedures for conducting biennial District audits (Proposed Resolution #3); (4) clarify District policies regarding documentation and reimbursement of expenses by the District and its agents (Proposed Resolution #4); and (5) clarify accounting and assessment procedures for District function (Proposed Resolutions #5 and #6).

Voting Procedures Pertaining to the February 6, 2007, Annual Meeting

The Idaho Code sets forth procedures for voting on District matters, including the election of a District watermaster for the irrigation season.² Specifically, Idaho law provides that voting shall be by majority vote of the water users present at the annual meeting unless one or more water users requests voting using alternative procedures.³ If alternative procedures are requested, members may vote on the basis of the average annual dollar amount and any fraction thereof assessed for that person's qualifying water right for the previous five (5) years, or such lesser number of years as the right has been assessed.

PacifiCorp intends to use alternative voting procedures pursuant to Idaho Code Section 42-605(4) on matters pertaining to the selection of a new watermaster. Specifically, PacifiCorp wishes to exercise its right to vote on the basis of the average dollar amount assessed to each District member ("voting by assessment") as provided by State law.

Idaho law provides that if a member such as PacifiCorp requests voting by assessment, the meeting chairman appointed at the February 6, 2007, annual meeting shall appoint a "credentials committee" to determine the number of votes each water user present is authorized to cast. To assist District members and any appointed committee in this regard, PacifiCorp has attached to this memorandum a spreadsheet developed by Austin Moses, District Treasurer, which presents the average annual dollar amount assessed to each District member for the past five years (Exhibit C). In accordance with State law, PacifiCorp recommends the District certify and adopt this analysis for the purpose of determining voting rights at the February 6, 2007, annual meeting.

² See Idaho Code § 42-605(3)(providing that a watermaster shall be elected at the annual meeting).

³ See Idaho Code § 42-605(4)(bolded section of attached code).

Matters Subject to Voting by Assessment

As discussed above, PacifiCorp wishes to retain a new watermaster for the 2007 irrigation season, and has proposed a resolution that would authorize the Advisory Committee to solicit and screen potential candidates, and make recommendations to the District. District members would then elect a watermaster consistent with State law. While State law contemplates that the District will select a new watermaster at the annual meeting, given the current circumstances, PacifiCorp believes the District would be better served by postponing selection of a watermaster until the Advisory Committee is able to identify an acceptable candidate. PacifiCorp has discussed this proposal with IDWR, and the State has agreed to postpone its appointment of a District watermaster under the terms of PacifiCorp's proposal.

PacifiCorp urges the Advisory Committee and District to adopt its proposal for selection of a new watermaster. At this time, PacifiCorp intends to vote by assessment on matters pertaining to the selection of the District watermaster. PacifiCorp may exercise its right to vote by assessment on other matters before the District during the February 6, 2007, meeting.

**PacifiCorp Energy's Proposed District Resolutions
Water District #11 Annual Meeting**

Summary of Resolutions:

1. *Fix fiscal year to 1 Feb - 31 Jan*
2. *Change minimum assessment to state-approved threshold (\$50 not \$100)*
3. *Audit - do in accordance with state law, but full audit as needed and determined by the a member of the advisory committee*
4. *Watermaster expense policy (vehicle mileage OR direct expenses; mileage log; review by advisory committee)*
5. *Storage water delivery fees as a function of last year's storage water use*
6. *Assessments to be based on last year's natural flow use (compute credits and debits this year, then no more)*
7. *Procedure to acquire watermaster services*
8. *Audit of District financial records and response to December 15, 2006, demand letter*

Proposed Text of Resolutions:

✓ **Resolution 1**

WHEREAS, the Treasurer of Water District #11, Austin Moses, has indicated that it is in the best interest of the District and consistent with standard business practice to have a fixed fiscal year for accounting purposes,

NOW, THEREFORE, BE IT RESOLVED by the water users of Water District #11, meeting in regular session this sixth day of February 2007; that the fiscal year for Water District #11 shall be from February 1 to January 31 of the following year. The fiscal year beginning February 1, 2007 shall be termed the 2007 fiscal year.

✓ **Resolution 2**

WHEREAS, the water district had previously resolved to implement a minimum assessment amount in excess of the maximum of fifty dollars (\$50) allowed by Idaho Code §42.612(4)

NOW, THEREFORE, BE IT RESOLVED by the water users of Water District #11, that the minimum assessment for watermaster services be fifty dollars (\$50).

✓ **Resolution 3**

WHEREAS, Idaho Code §67-450B(2c) sets a minimum requirement of a biennial financial review of all previous years for which the annual budget exceeds fifty thousand dollars (\$50,000), but does not exceed one hundred thousand dollars (\$100,000) and

WHEREAS the water users of Water District #11 desire to go beyond the minimum level required by Idaho Code §67-450B(2c) and perform an audit of the period from 1 February 2005 to 7 February 2006 and

WHEREAS Deaton and Company of Pocatello, an accounting firm qualified to perform audits under Idaho state law, has indicated that such an audit would be approximately between \$2,000 and \$2,200, plus out of pocket costs and

WHEREAS an amount exceeding this estimate has been previously budgeted and has not been expended,

NOW, THEREFORE, BE IT RESOLVED by the water users of Water District #11, that Water District #11 contract with Deaton and Company of Pocatello to perform an audit of the period from 1 February 2005 to 7 February 2006 and

BE IT FURTHER RESOLVED that the minimum requirement of a biennial financial review of each fiscal year since the previous review report or audit for which the annual budget exceeds fifty thousand dollars (\$50,000), but does not exceed one hundred thousand dollars (\$100,000), shall be budgeted and performed in future years as overseen by the Treasurer of Water District #11 but does not preclude future more extensive audits as may be desired and directed by the water users in future resolutions.

Resolution 4

WHEREAS, the water district currently has no expense policy for the watermaster clarifying the intent of the water users beyond the underlying requirements in Idaho Code §42-619(8), and

WHEREAS, Idaho Code §42-619(8) sets minimum standards for an expense policy, but an expense policy setting more strict standards may be set, and

WHEREAS the water users desire that all expenses be documented and reimbursed in accordance with all applicable laws, best business practices and the expense policy attached herein, and

WHEREAS, the expense policy attached herein exceeds the minimum standards set by Idaho Code §42-619(8) and is in the best interests of Water District #11

NOW, THEREFORE, BE IT RESOLVED by the water users of Water District #11, that the Advisory Committee be empowered and directed to review PacifiCorp's proposed expense policy dated January 26, 2007, and make recommendations regarding its adoption to Water District #11 no later than March 1, 2007.

Resolution 5

WHEREAS, the owner of a reservoir desiring delivery of storage water through natural channels in the state of Idaho is responsible to pay for delivery of stored water as is the case for PacifiCorp, a water user in Water District #11, who is the owner and operator of the Bear Lake Reservoir and has a decreed right to use the natural channel of the Bear River to deliver storage water for supplemental irrigation to certain irrigators in Water District #11 and Utah and

WHEREAS Idaho Code §42-801 allows storage water delivery assessments to be based on the cost of delivering a unit of water and

WHEREAS water accounting (the Bear River interstate model) performed by the Idaho Department of Water Resources allows determination of the relative amounts of natural flow and supplemental water delivered to each water user, and

NOW, THEREFORE, BE IT RESOLVED by the water users of Water District #11, all salary, benefits and expenses for watermaster services and any other expenses incurred for district purposes for delivery of both storage water and natural flow be paid through Water District #11 and reflected in the budget and financial statements of the district.

BE IT FURTHER RESOLVED that:

1. The fee for watermaster services and all associated expenses to deliver storage water be proportional to the 24-hour second-foot volume of water delivered in the preceding year and shall be paid for by the owner of the reservoir;
2. The fee for watermaster services and all associated expenses to deliver storage water be computed in the same manner as natural flow assessments as specified in Idaho Code §42-801 and
3. The sum of the natural flow assessment and storage water delivery fees shall cover all salary, benefits and expenses of the district and no water user shall make non-budgeted or external payments to Water District #11 personnel.

Resolution 6

WHEREAS, the current method of computing the assessment is unduly cumbersome and results in unnecessary fluctuating assessments, and

WHEREAS, water diversion information exists upon which the assessment can be fairly and accurately determined, and

WHEREAS, Idaho Code §42-612(5) allows the simplification of the assessment procedure by not requiring the carrying forward debits or credits,

NOW, THEREFORE, BE IT RESOLVED by the water users of Water District #11, that all future assessments beginning with the 2008 assessments shall be based on the previous year's 24-hour second-foot volume of water delivered and

BE IT FURTHER RESOLVED that for the purpose of computing assessments for the 2007 fiscal year, credits and debits shall be calculated and assessments adjusted for the actual 2006 water use.

Resolution 7

WHEREAS, watermaster services are required for the operation of the district;

WHEREAS, no watermaster was elected in the course of the annual meeting; and

WHEREAS, the advisory committee serves as advisors to the director of the Department of Water Resources and may be authorized by the water users to carry out policies as set forth in a resolution

NOW, THEREFORE, BE IT RESOLVED by the water users of Water District #11, that the advisory committee be empowered to solicit and identify watermaster candidates for Water District #11; and

BE IT FURTHER RESOLVED that:

1. The advisory committee be empowered to solicit and screen candidates for the watermaster position. The advisory committee is further directed to seek to make a unanimous recommendation to the District on a preferred candidate no later than March 1, 2007;
2. The advisory committee is directed to obtain a bid from the Idaho Department of Water Resources to provide watermaster services to the District for the 2007 irrigation season. The advisory committee is further directed to present this bid to the District no later than March 1, 2007;
3. The advisory committee is directed to request that the Idaho Department of Water Resources schedule a special District meeting on or about March 7, 2007, to elect a new watermaster.

Resolution 8

WHEREAS, on December 15, 2006, representatives from Pete Peterson submitted a demand letter to the District requesting that the District pay Mr. Peterson \$9,352.31 in allegedly-owed expenses;

WHEREAS, the District, as a State governmental entity, is represented by the State of Idaho, Attorney General's Office, on legal matters pertaining to District operations;

WHEREAS, the State of Idaho Attorney General's Office recommends that the State Controller's Office conduct an audit of the District's financial records for the years 2005 and 2006 before any further expenses are advanced or reimbursed to Mr. Peterson;

NOW, THEREFORE, BE IT RESOLVED by the water users of Water District #11 that the District Treasurer is hereby directed to request that the State Controller's Office conduct an audit of the District's financial records for the for the years 2005 and 2006 before any further expenses are advanced or reimbursed to Pete Peterson;

BE IT FURTHER RESOLVED that:

1. The advisory committee be empowered and directed to consult with the State Attorney General's Office concerning the December 15, 2006, demand letter and legal issues pertaining to this letter; and

2. The advisory committee is hereby directed to make recommendations to the District prior to March 1, 2007, based upon the advice of the State Attorney General's Office to resolve legal issues identified in the December 15, 2006, demand letter.

Employee Expense Policy for Water District #11

Draft 1/26/2007

Water District #11 Employee Expense Policy

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Water District #11 Employee Expense Policy

1.0 Preface

Travel and related expenses are a significant cost to the water district in administering water rights and allocating water. Hence, this policy ensures that all expenses are documented according to IRS guidelines and are prudent and required in administering water rights.

2.0 General Policy Guidelines

All expenses must have an approved business purpose clearly documented and in enough detail to satisfy Water District and IRS requirements. For example, "Checking Diversions" is not a valid business purpose, but "Collecting Diversion data in the Dingle Area" is a clear and detailed business purpose. (See further examples in section 4.0 Requirements for Eligible Expenses)

3.0 Responsibilities

The Water District Advisory Committee has control over administration and reporting requirements related to employee-incurred business expenses. It is also responsible for maintaining effective controls over expense commitments and expenditures through various forms of review and management reporting.

The Water District Advisory Committee, designated as business expense approvers, is responsible for the legitimacy, integrity, and accuracy of the items they approve. Approvers must ensure that all expenses comply with Water District policy and guidelines.

4.0 Requirements for Eligible Expenses

The following conditions must be met to satisfy both Water District guidelines and IRS requirements:

Employee-Incurred Business Expenses:

- Expenses must have a specific business purpose.
- The employee must substantiate and document the amount, date, place, and business purpose for all funds expended or charges incurred within a reasonable period of time.
- Expenses must be incurred wholly, exclusively and necessarily in the performance of business duties.

Ordinary, Necessary, and Reasonable Expenses:

- *Ordinary:* The expense is expected and common in the normal course of business and is a standard practice by the Water District and industry standards.
- *Necessary:* The expense is essential to the Water District's business purpose and operation.
- *Reasonable:* The expense should be of standard quality, which adequately meets the needs of the employee from the standpoint of comfort; it should represent effective, efficient conduct of Water District business.

Business Purpose:

Business purpose should clearly state the reason for incurring the expense and how it relates to the development, enhancement, or continuation of the Water District's business interests. The stated business purpose should be as specific as possible to meet regulatory guidelines. For a comprehensive list of business expenses and proper treatment, review the Expense Policy Matrix.

| <i>Poor Business Purpose Description</i> | <i>Better Business Purpose Description</i> |
|---|--|
| Meeting | Bear River Commission Meeting |
| June Expenses | Create a clear business purpose for each expense ("June Expenses" may be a good report title) |
| Checking Diversions | Collecting Diversion data in the Dingle Area |

5.0 Receipts

5.1 Required receipts – Travel

Required original receipts must be forwarded to the Water District Treasurer upon completion of each expense report. If no receipt is available fill out the Missing Receipt Form and submit with the expense report.

Water District #11 Employee Expense Policy

Required original receipts include:

- All cash expenditures \$25 or greater
- All receipts for items over \$75
- Hotel folios (not the signed credit card receipt) for all lodging expenses. These lodging expenses must be itemized. Non-lodging charges such as meals and telephone calls that appear on the hotel folio must be split and reported separately on the Expense Report.
- For audit purposes, it is recommended that all receipts be submitted where feasible.

Receipts are NOT required for:

- Reimbursements under a per diem agreement
- Travel-related charges (other than lodging) under \$75.00.

5.2 Required Receipts – Equipment and Supplies

Per IRS regulations, all equipment and supplies purchases require receipts to be submitted. If no receipt is available fill out the Missing Receipt Form submit with Expense Report.

6.0 Travel Guidelines

6.1 Hotel

Original receipts are required with no exceptions and any expenses above the normal room and tax charge must be split and accounted for appropriately. Employees will be reimbursed for the actual cost of single room accommodations typically occupied by business travelers. Double occupancy is optional provided each traveler only reports their prorated share of the total room cost. Unwarranted and/or unauthorized use of more expensive accommodation may result in a charge-back of the additional cost to the employee.

6.2 Personal Vehicles

When employees elect to utilize their personal vehicle, they can be reimbursed for either the mileage reimbursement or for the fuel consumed, not both, unless employees receive a Water District-paid car allowance, in which case no mileage reimbursement will be available.

- The use of personal vehicles for business travel is permitted when authorized, and will be reimbursed at the prevailing limit established by the Water District, plus appropriate charges for parking and tolls.
- The employee will be reimbursed for business miles submitted multiplied by the standard IRS rate per mile.
- When the use of a personal vehicle is incidental to business travel, the traveler will be reimbursed for mileage and other normal expenses.
- Reimbursement for mileage will only be for those miles incurred in excess of your normal commute. If the watermaster, deputy or any employee lives outside of Water District #11 boundaries, only travel within Water District #11 boundaries will be reimbursed for normal duties. Required travel to meetings outside of the Water District #11 boundaries will be reimbursed using applicable IRS regulations.

Insurance

Any personal automobile used for business travel must have insurance coverage for accident, public liability, and property damage as required by the state in which it is registered.

Non-Reimbursable Expenses

Repairs, maintenance, or insurance on personal vehicles are not reimbursable under any circumstances. The Water District is not responsible for payment of fines and penalties incurred by the driver when the use of a personal automobile is permitted for business travel. Fuel, repairs, and other related costs will not be reimbursable when mileage reimbursement is being claimed. Normal commute mileage is not a reimbursable expense.

Vehicle Allowance

All expenses (e.g. fuel, tires, maintenance, license, taxes, etc.) associated with owning and operating a vehicle covered under the Vehicle Allowance Guideline will be the responsibility of the participating employee.

Water District #11 Employee Expense Policy

7.0 Business meals reporting and alcohol policy

7.1 Business meals reporting requirements

The IRS defines rules for reporting and deductibility of business, travel and entertainment meals as follows:

- Meals purchased by an employee incurred for business or travel must be ordinary, necessary and reasonable expenses while conducting Water District business.
- All business meals, whether out-of-town or in an employee's local work area, require a statement of business purpose and the names and business affiliations of those for whom the meal was purchased.
- When an employee is traveling within the same city in which they live, lunch meals are generally not reimbursable except when business is conducted during the meal.
- Entertainment meals that are incurred need to be directly related to, or associated with, the conduct of the Water District business.
- Meal expense substantiation must include a statement of business purpose and a listing of all recipients including their business affiliation in accordance with guidelines outlined in this policy.
- When a group of ten (10) or more is entertained, all may be included under a descriptive heading that will indicate the number and business connections of the group.
- The type of meal purchased must also be specified; e.g. breakfast, lunch, dinner, refreshments, etc.
- Beverages should not increase the price of the meal beyond the recommended guideline.
- A maximum of \$55.00 a day is permitted unless traveling in extremely high cost destinations.

General Guidelines (maximum per Individual)

- Breakfast \$10
- Lunch \$15
- Dinner \$30

In-Town versus Out-of-Town meals

Because the IRS has different tax rules for in-town meals and out-of-town meals, The Water District requires travelers to properly categorize meal expenses.

In general, you are out of town if you are away from your primary location (town or city where you perform most of your work) for longer than a day's work, and you need to get sleep or rest to meet the demands of your work. Meals purchased while out of town should be categorized as "Meals: Business Travel" on the Expense Report. If you are not out of your primary city, you should categorize meals purchased as "Meals: In-Town" on the Expense Report.

7.2 Alcohol Policy

The Water District prohibits employees from using or being under the influence of alcohol on Water District time, or Water District property, or when representing the Water District.

Using or being under the influence of alcohol on Water District time or when representing the Water District is prohibited at all times when it impairs the individual in any manner which would create an actual or potential safety risk to the individual or others, damage to the Water District's reputation, diminished performance or any other liability to the Water District. Consuming alcohol at any time during the workday, including during meal breaks, is prohibited unless in connection with occasions where appropriate for reasonable business entertainment as described below.

Limited Exceptions

The Water District recognizes that there are occasions when alcoholic beverages may be appropriately consumed in connection with certain business or social events related to Water District business but outside of normal business hours. Any questions regarding such occasions should be directed to the Water District Advisory Committee. In such situations, employees are expected to limit consumption to moderate amounts that allow for the employee to continue to function in a safe and professional manner and that are under the legal limits for operating a vehicle. Any employee attending a Water District function who is not able to drive safely is expected to arrange for alternate safe transportation. Water District vehicles shall not be operated after consuming any amount of alcohol.

Water District #11 Employee Expense Policy

- Serving alcohol at Water District social events is only permitted under certain limited circumstances and requires Water District Advisory Committee approval, in accordance with the terms of the Drug and Alcohol policy.
- The cost for alcohol is not to be treated outside normal meal expenditure limits, and must always be accurately reported and approved consistent with reporting procedures.

Strictly Prohibited

Operating any vehicle on Water District business or a Water District-related activity, while impaired by any substance, including alcohol, is strictly prohibited at any time – even when done so in connection with one of the limited exceptions described above.

8.0 Telephone Expenses

8.1 Cell Phone

Cell phone expenses will be minimized by employees through choosing the lowest-cost plan that will meet business needs. Reimbursement for water-district paid cell phones is limited to justifiable business use. Personal use of water-district paid cell phones should not result in air-time charges. If personal use is a regular occurrence employees may choose two methods of reconciling the business/personal use:

1. *Overage reconciliation* – if personal calls are rare, any personal calls that result in overage charges for a given billing period (even if the personal call occurred early in the billing period and are not labeled as having resulted in additional charges) the overage will be excluded from reimbursement. If the lowest-cost available plan is sufficient for all business/personal needs and no overage charges are incurred, no additional expense reporting beyond submitting the cell phone bill with the Expense Report is required.
2. *Planned business/personal split* – if personal calls are made on a regular basis and the desired plan to meet additional personal needs is more expensive than the lowest-cost plan that meets business needs, then only the cost of the business plan required will be reimbursed. Overage charges resulting from Water District business must be identified and explained before reimbursement, otherwise overage charges will be assumed to be personal and will not be reimbursed.

The cell-phone statement with call-level detail must be submitted every billing period with an Expense Report to receive reimbursement. With either business/personal use option described above, once the business-justified monthly cell-phone plan costs are established, personal calls need only be identified in monthly bills if overage charges are incurred. If overage charges are incurred, all personal calls must be identified in the bill. If business-related calls resulted in the overage, the cause must be identified in the Expense Report. Only justified business-related overage charges will be reimbursed.

8.2 Office Phone

If deemed necessary by the advisory committee, a landline phone for an office may be paid for through water district expenses. The least expensive option will be chosen. For home offices, only the incremental cost of an additional line will be reimbursed.

9.0 Expense Report Submission

The Water District's standard method of employee business expense reporting is through a standardized form that may be submitted on paper, electronically or by fax. Original receipts must be submitted (in accordance with section 5.0 above) to the designated entity to receive reimbursement.

EXHIBIT A

IRRIGATION AND DRAINAGE - WATER RIGHTS AND RECLAMATION

CHAPTER 6

DISTRIBUTION OF WATER AMONG APPROPRIATORS

42-605. DISTRICT MEETINGS -- WATERMASTER AND ASSISTANTS -- ELECTION -- REMOVAL -- OATH AND BOND -- ADVISORY COMMITTEE.

(1) There shall be held on the first Monday in March in each year, and, except as provided in subsection (2) of this section, commencing at two o'clock P.M., a meeting of all persons owning or having the use of a water right, in the waters of the stream or water supply comprising such district, which right has been adjudicated or decreed by the court or is represented by valid permit or license issued by the department of water resources.

(2) Such meeting shall be held at some place within the water district, or at some nearby location convenient to a majority of those entitled to vote thereat, which place shall be designated by the director of the department of water resources. The director shall, at least twenty-one (21) days prior to the meeting date, send notification by regular mail to all persons, companies or corporations known by the director to hold rights to the use of the waters of such district, which right has been adjudicated or decreed by the court or is represented by valid permit or license issued by the department of water resources, of the time, date, location and purpose of the annual meeting. At any annual meeting the water users may vote to waive the requirement for notice by mail and provide for notice to be given for future meetings by publication of the time, date, location and purpose of the meeting in a newspaper or newspapers in general circulation in the district. Published notice shall be made once per week for two (2) consecutive weeks with the second notice appearing at least fourteen (14) and not more than thirty (30) days prior to the meeting. In water districts whose area includes land in more than four (4) counties the annual meeting shall commence at ten o'clock A.M. instead of two o'clock P.M.: provided, that the water users of any water district may, by resolution adopted at an annual meeting or at a special meeting properly called for that purpose, change the time of day when the meeting shall commence or change the date for annual meetings in subsequent years to any day except Saturday and Sunday between the second Monday of January and the third Monday in March or change both the time and the date, in which case the director of the department of water resources shall send notification at least twenty-one (21) days prior to said meeting date. At an annual meeting the water users may adopt resolutions to assure or improve the distribution of the waters of the district within state law, and may provide that such resolutions shall continue from year to year.

(3) At the meeting of the water users of a district there shall be elected a watermaster for such water district, who may be authorized to employ such other regular assistants as the water users shall deem necessary, and who, upon appointment by the director of the department of water resources, shall be responsible for distribution of water within said water district, and the water users shall, prior to the election of such watermaster and approval of the employment of assistants, fix the compensation to be paid them during the time actually engaged in the performance of their duties.

(4) Voting shall be by majority vote of the water users present at the meeting unless one (1) or more water users requests voting using the procedure which follows in this subsection. In such case the meeting chairman

shall appoint a credentials committee to determine the number of votes each water user present is authorized to cast. If requested, each person present, owning or having the use for the ensuing season of any water right in the stream or water supply comprising such water district, which right has been adjudicated or decreed by the court or is represented by valid permit or license issued by the department of water resources, shall be entitled to a number of votes equal to the average annual dollar amount and any fraction thereof assessed for that person's qualifying water right for the previous five (5) years, or such lesser number of years as the right has been assessed. If a right has not previously been assessed, a person present, owning or having the use of the right for the ensuing season shall be entitled to a number of votes equal to the dollar amount and any fraction thereof which the right would have been assessed had it existed and been reasonably used when water was available under the priority of the right during the previous season.

(5) At such meeting the water users shall choose a meeting chairman and meeting secretary and shall determine the manner and method of electing the watermaster. The water users shall, at the annual meeting, provide for the water district treasurer functions in accordance with section 42-619, Idaho Code. Within five (5) days after such meeting the meeting chairman and meeting secretary shall forward a certified copy of the minutes of such meeting to the department of water resources. The meeting chairman, or the meeting secretary, if the meeting chairman is not present, from the immediately preceding annual meeting shall call the meeting to order and preside over the election of officers for the meeting.

(6) At such meeting the water users may choose an advisory committee to be composed of members selected as may be determined at the meeting, which committee shall serve as advisors to the director and the watermaster in matters pertaining to the distribution of water within the district. The advisory committee may be authorized to carry out policies as set forth in resolutions duly adopted by the water users at the annual meeting or at a special meeting. The advisory committee may also serve as the local committee to facilitate the rental of stored water if appointed by the water resource board for such purpose under the provisions of section 42-1765, Idaho Code.

(7) A corporation or a water delivery organization, including, but not limited to a corporation, a water company, an irrigation district, an irrigation company or a canal company, shall be considered a person for the purpose of this section and shall cast its vote by someone to be designated by the corporation.

(8) Should said meeting not be held, or should said watermaster not be elected or the watermaster's compensation not be fixed as above provided, then the director of the department of water resources is authorized to appoint a watermaster and fix the watermaster's compensation.

(9) The director of the department of water resources may remove any watermaster whenever such watermaster fails to perform the watermaster's duty, upon complaint in that respect being made to the director in writing, by one (1) person owning or having the right to the use of a water right in such district, which right has been adjudicated or decreed by the court or is represented by valid permit or license issued by the department of water resources provided, that upon investigation the director, after a hearing with the other water users of said district, which shall be held in the district or at some location convenient to the water users of the district, finds such charge to be true, and the director may appoint a successor for the unexpired term.

(10) Before entering upon the duties of the watermaster's office, said watermaster shall take and subscribe an oath before some officer authorized by the laws of the state to administer oaths, to faithfully perform the

duties of the watermaster's office, as provided in section 42-607, Idaho Code, and shall file that oath with the department of water resources. Upon appointment by the director of the department of water resources, the actions taken by a watermaster in fulfillment of the duties of his office are covered by the state group surety bond as provided by sections 59-801 through 59-804, Idaho Code.

(11) The director shall call a special meeting of the water users of a district upon receipt of a written request for such meeting from a majority of the members of the advisory committee for a district, a written request from water users representing thirty percent (30%) or more of the votes cast at the last regular annual meeting, a written request from the watermaster or on the director's own motion if the director determines a meeting is necessary to address matters that cannot be delayed until the next regular annual meeting. Notice of the time, place and purpose of the special meeting shall be given by the director in the manner provided in subsection (2) of this section, provided however, that a special meeting notice shall be sent at least fourteen (14) days prior to the meeting date.

(12) The water users may, by resolution, authorize the watermaster to acquire, hold and dispose of such real and personal property, equipment and facilities in the name of the water district as necessary for the proper distribution of water and shall provide that all such real and personal property shall remain in the custody of the watermaster and the watermaster's successor.

EXHIBIT B



STATE OF IDAHO
OFFICE OF THE ATTORNEY GENERAL
LAWRENCE G. WARDEN
January 19, 2007

Mr. Daniel E. Williams
Huntley Park
250 S. 5th, Suite 680
P.O. Box 2188
Boise, ID 83701

RE: Pete Peterson - Demand Letter for Watermaster Expenses

Dear Mr. Williams:

Your demand letter dated December 15, 2006 addressed to Mr. Austin Moses, District Treasurer and Advisory Board members for Water District no. 11 was forwarded to the Idaho Department of Water Resources (IDWR). The Department has in turn asked my office to review the letter before responding back to the water district. Under I.C. § 42-604 water districts are considered instrumentalities of the state and are entitled to legal representation from the Office of the Attorney General. Future correspondence should be addressed to my office at the address on the letterhead.

Additionally, IDWR has been copied with letters from PacifiCorp to you and your client, Mr. Pete Peterson, requesting a meeting to discuss the watermaster expenses. IDWR has indicated to me that it is hopeful an agreement can be reached between Mr. Peterson and PacifiCorp regarding the reimbursement of any outstanding expenses. IDWR's preference is that the local water district resolve budget and personnel issues on its own as much as possible and without unnecessary state intervention. Unfortunately, the lines of communication between those seeking to resolve this matter within the water district are either strained or absent.

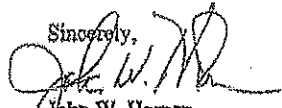
My review of the water district minutes and the amounts submitted by the watermaster raise questions about those expenses as well as the existence of any contract for 2006. Without a contract for 2006, it is difficult to determine whether a certain payment is additional salary or prepaid expenses. Additionally, the monthly history of reimbursement for vehicle expenses does not appear consistent with the statewide standards established by the State Controller's Office. IDWR had previously requested that the water district obtain an independent financial audit, but the Advisory Committee could not agree on the scope of the audit or which year to audit. I am hesitant to advise IDWR to instruct the District Treasurer to reimburse Mr. Peterson for any remaining

Daniel E. Williams
January 19, 2007
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expenses until these issues are resolved. Unless the matter is resolved locally without IDWR intervention, I intend to advise IDWR to request that the State Controller's Office conduct an audit of the water district's financial records for the years 2005 and 2006 before any expenses are reimbursed.

IDWR has requested that a representative from the Office of the Attorney General attend the annual meeting on February 6, 2007. Unless this matter is resolved in advance of the meeting, I plan to attend the meeting. Please feel free to give me a call at 287-4812 should you have any questions.

Sincerely,



John W. Homan
Deputy Attorney General
Natural Resources Division

c. Water District # 11 Advisory Board
Austin Moses
Tim Luke
Lyle Swank
Gary Spackman

EXHIBIT C

Water District #11
Average five year assessment
2002 to 2006

2002 2003 2004 2005 2006

| Water User | 2002 | 2003 | 2004 | 2005 | 2006 | Average |
|---|----------|--------|--------|----------|----------|---------|
| Miller Ditch | | | | | | |
| Laroy Esterhilt c/o Hal Drinkas | 8.25 | 10.68 | 0.43 | 8.33 | 15.75 | 8.68 |
| Grant Esterhilt (Clifton Steele) | 8.25 | 10.68 | 0.43 | 8.33 | 15.75 | 8.68 |
| Laroy Taylor c/o Hal Drinkas | 2.34 | 3.71 | (0.49) | 2.68 | 5.68 | 2.78 |
| Henry Rigby c/o Rulon Westesen | 31.16 | 41.47 | 0.47 | 30.68 | 62.82 | 33.32 |
| Nutter Canal | | | | | | |
| Henry Rigby c/o Rulon Westesen | 14.65 | 27.27 | 1.25 | 47.28 | 1.25 | 18.34 |
| Larry Butler | 5.98 | 11.05 | 0.52 | 19.20 | 0.52 | 7.45 |
| Denar Remmel | 8.88 | 16.58 | 0.75 | 28.80 | 0.72 | 11.15 |
| Laroy Taylor c/o Hal Drinkas | 2.77 | 5.16 | 0.30 | 9.04 | 0.15 | 3.48 |
| Kay Rigby c/o Conrad Nebeker | 23.69 | 44.21 | 2.01 | 76.61 | 2.15 | 29.73 |
| Sorensen Ditch Nebeker 50% Ura 50% | 50.00 | 50.00 | 50.00 | 50.00 | 100.00 | 60.00 |
| Jensen Ditch | 50.00 | 50.00 | 50.00 | 50.00 | 100.00 | 60.00 |
| Lloyd Ditch c/o Jim Smith | 50.00 | 50.00 | 50.00 | 50.00 | 100.00 | 60.00 |
| Dingle Irrigation Co. | (104.75) | 497.60 | 403.93 | 1,245.73 | (123.80) | 382.55 |
| Ream-Crockett | 121.82 | 256.12 | 803.50 | 838.04 | (72.72) | 349.35 |
| Black Otter Canal | | | | | | |
| Black Otter Irrig Co | 401.46 | 247.69 | 402.74 | 823.98 | (163.69) | 341.24 |
| Peg Leg Island Irrig | 67.81 | 41.87 | 58.18 | 139.12 | (28.56) | 57.68 |
| Preston Montpelier Irrig | 87.55 | 447.70 | 339.19 | 759.52 | 216.27 | 374.05 |
| Larocm Kent Canal | | | | | | |
| Darrell Keetch | 34.31 | 34.31 | 34.30 | 34.18 | 58.62 | 41.14 |
| Paul Keetch | 11.69 | 11.69 | 11.70 | 11.40 | 23.38 | 13.97 |
| Larry Unford | 4.00 | 4.00 | 4.00 | 4.42 | 8.00 | 4.88 |
| Pugmire Ditch | 50.00 | 50.00 | 50.00 | 50.00 | 100.00 | 50.00 |
| Westfork Irrig | 174.87 | 650.09 | 649.54 | 2,138.95 | 698.76 | 854.44 |
| Budge Canal | | | | | | |
| McGee Harris | 4.72 | 98.78 | 63.32 | 81.50 | 68.59 | 63.46 |
| Randy Parlier | 0.39 | 7.45 | 4.30 | 6.27 | 5.19 | 4.82 |
| Paul Kunz #1 & #2 c/o Brad Westenthalne | 100.00 | 100.00 | 100.00 | 100.00 | 200.00 | 120.00 |
| Parley Kunz included in Paul Kunz above | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Dean Kunz | 50.00 | 50.00 | 50.00 | 50.00 | 100.00 | 60.00 |
| Stephen & R Kunz | 50.00 | 50.00 | 50.00 | 50.00 | 100.00 | 60.00 |
| Larry Allerman | 50.00 | 50.00 | 50.00 | 50.00 | 100.00 | 60.00 |
| Cloyd Wellert/Richard Sorensen | 50.00 | 50.00 | 50.00 | 50.00 | 100.00 | 60.00 |
| Wayne Kunz | 50.00 | 50.00 | 50.00 | 50.00 | 100.00 | 60.00 |

| | | | | | | | |
|-----------------------------------|-----------|-----------|-----------|-----------|------------|-----------|-------|
| L. Stevens c/o Roger Stevens | 50.00 | 50.00 | 0.00 | 50.00 | 50.00 | 100.00 | 50.00 |
| Alijo Phelps | 50.00 | 50.00 | 50.00 | 50.00 | 50.00 | 100.00 | 50.00 |
| Larry Alkman | 50.00 | 50.00 | 50.00 | 50.00 | 50.00 | 100.00 | 50.00 |
| Last Chance Canal | 1,958.54 | 1,263.17 | 2,491.48 | 4,281.86 | 7,253.42 | 3,449.09 | |
| Gentile Canal | | | | | | | |
| Gentile Valley Canal | 212.42 | 51.97 | 167.15 | 449.30 | 214.66 | 219.10 | |
| Thatcher Irrig | 168.70 | 41.26 | 132.68 | 366.85 | 170.41 | 173.98 | |
| Jim Elsmore c/o Dan Forsgren | 45.03 | 11.02 | 35.45 | 89.75 | 43.47 | 45.94 | |
| Keith Berthome c/o Chris Berthome | 32.21 | 7.87 | 25.33 | 73.71 | 29.61 | 33.78 | |
| Janet Wihseker | 50.00 | 50.00 | 50.00 | 50.00 | 100.00 | 50.00 | |
| George Wanless | 50.00 | 50.00 | 50.00 | 50.00 | 100.00 | 50.00 | |
| Lawrence Fox | 50.00 | 50.00 | 50.00 | 50.00 | 100.00 | 50.00 | |
| David Staehfand | 50.00 | 50.00 | 50.00 | 50.00 | 100.00 | 50.00 | |
| David Staehfand | 50.00 | 50.00 | 50.00 | 50.00 | 100.00 | 50.00 | |
| Smith Bosen Ditch | 50.00 | 50.00 | 50.00 | 50.00 | 100.00 | 50.00 | |
| Wendell Smith Pump | 50.00 | 50.00 | 50.00 | 50.00 | 100.00 | 50.00 | |
| Nelson Irrig | 61.53 | 36.78 | 71.48 | 188.16 | 45.63 | 80.52 | |
| Riversdale Preston Irrig Up | | | | | | | |
| Pete Peterson | 25.00 | 25.00 | 25.00 | 25.00 | 50.00 | 30.00 | |
| Riversdale Estates c/o Mike Adams | 25.00 | 25.00 | 25.00 | 25.00 | 50.00 | 30.00 | |
| Riversdale Irrigation Company | 130.56 | 94.22 | 152.84 | 489.90 | (2.11) | 174.03 | |
| Riversdale Preston Pump | 50.00 | 50.00 | 50.00 | 50.00 | 100.00 | 50.00 | |
| West Cache Canal | 1,538.43 | 1,308.40 | 1,889.97 | 2,865.74 | 1,785.33 | 1,837.17 | |
| Cub River Irrig Pumps | 981.36 | 393.12 | 693.52 | 402.31 | 896.63 | 673.47 | |
| Ben Johnson Estate | 50.00 | 50.00 | 50.00 | 50.00 | 100.00 | 50.00 | |
| Keith Hodges | 50.00 | 50.00 | 50.00 | 50.00 | 100.00 | 50.00 | |
| Ingle/Lamont | 50.00 | 50.00 | 50.00 | 50.00 | 100.00 | 50.00 | |
| Terry Porter | 50.00 | 50.00 | 50.00 | 50.00 | 100.00 | 50.00 | |
| Royd Jensen | 50.00 | 50.00 | 50.00 | 50.00 | 100.00 | 50.00 | |
| Steven Bobba | 50.00 | 50.00 | 50.00 | 50.00 | 100.00 | 50.00 | |
| Alex Inglei | 50.00 | 50.00 | 50.00 | 50.00 | 100.00 | 50.00 | |
| Robert Henderson | 50.00 | 50.00 | 50.00 | 50.00 | 100.00 | 50.00 | |
| Carol Whitney | 50.00 | 50.00 | 50.00 | 50.00 | 100.00 | 50.00 | |
| Total Irrigation Users | 7,653.65 | 7,274.90 | 9,601.22 | 17,102.03 | 14,404.88 | 11,208.34 | |
| Soda Plant | 11,944.23 | 9,970.78 | 8,038.71 | 10,672.72 | 23,525.27 | 13,080.34 | |
| Grace Plant | 7,886.50 | 9,137.67 | 10,588.53 | 3,358.96 | 12,366.28 | 8,626.39 | |
| Cove Plant | 7,952.96 | 9,316.11 | 9,590.27 | 7,950.00 | (5,470.10) | 5,067.85 | |
| Onoda Plant | 10,652.67 | 8,896.54 | 7,517.27 | 14,524.29 | 32,868.08 | 14,891.37 | |
| Total Rocky Mountain Power | 38,236.35 | 37,331.10 | 36,751.78 | 38,500.97 | 55,287.53 | 41,615.95 | |