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April 19, 2010

Timothy J. Luke, Section Manager
Water Distribution Section
Idaho Department of Water Resources
P.O. Box 83720
Boise, Idaho 83720-0098

Rock Holbrook
Bear River Water Master
55 Holiday Circle
Fish Haven, Idaho 83287

Re: *Last Chance Canal Co., Ltd. Leased Water Rights*

Dear Tim and Rock:

In conjunction with the Department's approval of Railroad Springs Ranch, LLC's Transfer of Water Right No. 13-7586, it has come to my attention that there may be an issue regarding the accounting for various water rights leased by Last Chance Canal Company. Last Chance leases water rights from Harris Eight Mile Ranch, LLC, and also P4 Production, LLC, which remain in effect. Additionally, from 4/1/2001 through the end of the 2007 irrigation season, Last Chance leased Water Right 11-255 from Railroad Springs Ranch, LLC.

Railroad Springs Ranch, LLC, has a pending Application for Transfer No. 76278 for the purpose of moving the point of diversion and place of use of this water right from Last Chance Canal back to the original place of use and point of diversion. In conjunction with final approval of that Transfer, Denise Kidman in the Eastern Region Office requested evidence that the water right had been diverted and applied to beneficial use by Last Chance Canal Company and therefore not

April 19, 2010

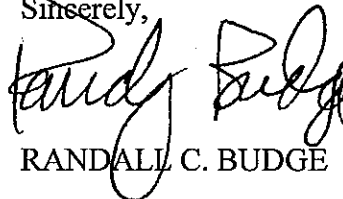
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forfeited before the approval of the transfer would be granted. This apparently was because the Water Master's Report did not clearly reflect the delivery of water under these rights to the Last Chance diversion. In checking with Water Master Rock Holbrook and in reviewing the delivery records on file with the Department, it is not clear that these leased water rights have been properly accounted for as being delivered to Last Chance. Accordingly, I obtained and provide the enclosed Affidavit from Last Chance President Marcus J. Gibbs, which provides information concerning the lease of these water rights and their diversion and application for beneficial use. The original has been provided to Denise Kidman, which should permit the Railroad Springs Ranch, LLC Transfer to be approved.

Last Chance is concerned that the Department properly account for and reflect on its records the delivery of these leased water rights since they are used to supplement Last Chance's natural flow rights, all of which are junior, with the exception of Water Right 13-00991C. Last Chance is concerned that if these leased water rights are not properly credited to their account, they may be charged with more Bear Lake storage water than they are actually using. I'd appreciate it if you would investigate this, advise of your findings and make any changes that may be appropriate to ensure that these leased water rights are properly accounted for.

Thank you for your cooperation and assistance.

Sincerely,



RANDALL C. BUDGE

RCB:rr

Enclosures

cc: Last Chance Canal Company
Mark Mathews, President
Marcus J. Gibbs, Board Member
IDWR Eastern Region
Denise Kidman

APR 21 2010

DEPARTMENT OF
WATER RESOURCES

AFFIDAVIT

STATE OF IDAHO)
 : SS
COUNTY OF CARIBOU)

The undersigned Marcus J. Gibbs, being first duly sworn under oath, deposes and states that the following facts are true and correct to the best of my knowledge, recollection and belief:

1. I am now and have been at all times described herein a resident of Caribou County, Idaho residing at 632 Highway 34, Grace, Idaho 83241.

2. I am a farmer and shareholder in the Last Chance Canal Company, Ltd. ("Last Chance"). I have been on the Board of Directors of Last Chance from 1975 to date and served as the President of the Board from 1993 through 2008. I am familiar with all of the water rights of Last Chance which are diverted from the Bear River northeast of Grace, Idaho, and delivered through a system of canals and ditches to provide irrigation water to Last Chance shareholders who irrigate approximately 29,000 acres of fertile land in Caribou County, Idaho.

3. Attached is a Water Right Summary which reflects all water rights owned and leased by Last Chance which are utilized to deliver irrigation water to the shareholders. As shown under Part A in the attached Water Right Summary, Last Chance owns five decreed natural flow water rights in the Bear River totaling 656.76 cfs with priority dates ranging from March 1, 1889 to August 29, 1910. Last Chance also holds a Storage Water Contract entered into with Utah Power & Light Company, now known as PacifiCorp or Rocky Mountain Power, which provides up to 40,000 AF annually of storage water from Bear Lake. The Bear Lake storage water is used to supplement the decreed natural flow rights.

4. In addition to the decreed natural flow rights and Bear Lake storage rights, Last Chance has leased certain water rights of P4 Production, LLC, Eight Mile Ranch, LLC, and Railroad Springs Ranch, LLC, as identified in Part B of the attached Water Right Summary. The lease of the P4 Production, LLC Water Right Nos. 11-2106, 11-0448, 11-0457, 11-0471, and 11-0499 commenced April 22, 1999, and remains in effect. The lease of the Eight Mile Ranch, LLC Water Right No. 11-7475 began on November 29, 2007, and remains in effect. The lease of Railroad Springs Ranch, LLC Water Right No. 11-255 began on April 1, 2001, and expired at the

end of the 2007 irrigation season. These leased water rights are collectively referred to as the "Leased Water Rights". With the exception of P4 Production, LLC Water Right No. 11-00449, all of the Leased Water Rights have priority dates which are earlier than all of the Last Chance water rights, excepting only Last Chance Water Right No. 13-00991C which has a priority date of March 1, 1897 for 200 cfs. After the spring runoff all of the Last Chance water rights are subject to curtailment to provide water to senior priority water rights, excepting the 1897 water right. For that reason Last Chance entered into the described Lease Agreements with P4 Production, LLC, Eight Mile Ranch, LLC, and Railroad Springs Ranch, LLC, in order to provide an adequate supply of irrigation water and reduce reliance upon Bear Lake storage water.

5. The described Leased Water Rights have been diverted and applied to beneficial use for irrigation purposes by Last Chance shareholders during each year that the described leases have been in effect. The Idaho Department of Water Resources approved the change in the point of diversion and place of use to the Last Chance points of diversion and places of use on all of the Leased Water Rights, being Transfer No. 5621 for the P4 Production, LLC water rights, Transfer No. 26082 for the Harris Eight Mile Ranch, LLC water rights, and Transfer No. 67082 for the Railroad Springs Ranch, LLC water rights.

6. With respect to the Railroad Springs Ranch, LLC water rights, because that Lease terminated at the end of the 2007 irrigation season, it is my understanding that the owner, Railroad Springs Ranch, LLC, has filed an Application for Transfer to change the point of diversion and place of use back to the original location. Last Chance approves of this transfer.

**LAST CHANCE CANAL COMPANY
WATER RIGHT SUMMARY**

A. DIETRICH-DECREED RIGHTS:

	<u>Water Right No.</u>	<u>Priority</u>	<u>Diversion Rate</u>	<u>Period/Use</u>
1.	13-00991C	3/01/1897	200.00 cfs	4/20 to 9/30
2.	13-00992C	5/14/1901	240.00 cfs	4/20 to 9/30
3.	13-00955	08/09/1909	138.16 cfs	4/20 to 9/30
4.	13-00956	12/31/1909	25.60 cfs	4/20 to 9/30
5.	11-00262	08/29/1910	<u>54.00 cfs</u>	4/20 to 9/30
Total:			657.76 cfs	

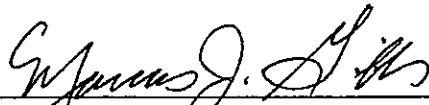
B. Bear Lake Storage Contract with PacifiCorp provides up to 40,000 acre feet annually of storage water from Bear Lake in Addition to the above.

C. LEASED WATER RIGHTS:

	<u>Water Right No.</u>	<u>Priority</u>	<u>Quantity</u>	<u>Owner</u>	<u>Transfer No.</u>
1.	11-255 <i>Renumbered to 13-7586 when X-ferred to LCCC</i>	05/01/1889	2.0 cfs	Railroad Springs Ranch, LLC	67082
2.	11-7475 <i>was P4 11-254 254 split to 7475 & 7474 (rem. part)</i>	05/01/1889	12.5* (4/20) (reducing to 5.0 7/1)	Harris Eight Mile Ranch (McGee & Janet Harris)	26082
3.	11-00531C	05/01/1892	1.82 cfs	P4 Production, LLC	5621
4.	11-00449	05/01/1910	<u>0.20 cfs</u>	P4 Production, LLC	5621
Total:			16.52 cfs		

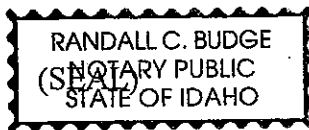
FURTHER YOUR AFFIANT SAYETH NAUGHT.


DATED this 13 day of April, 2010.



MARCUS J. GIBBS

SUBSCRIBED AND SWORN TO before me this 13th day of April, 2010.





NOTARY PUBLIC FOR IDAHO,
Residing at: Pocatello, ID.
My Commission expires: 10/11/2012