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November 2, 2004
For Settlement Discussions Only

J. Craig Smith, Esq.
SMITH HARTVIGSEN PLLC
215 South State Street, Suite 650
Salt Lake City, Utah 84111

RE: U.S. Fuel Company and ANR Co., Inc. v. Huntington-Cleveland Irrigation Co.

Dear Craig:

As we have discussed, ANR Co., Inc., further reviewed its water needs following the meeting in early September between ANR the Utah State Engineer and the Board of Directors of Huntington-Cleveland Irrigation Company. ANR has determined that it will need all of the water rights it claims in Cedar Creek as well as those which it acquired from U.S. Fuel Company in the Price River drainage. ANR has no surplus water rights available for release to the Irrigation Company in settlement of this matter. ANR would be interested in purchasing additional water rights if the Irrigation Company is willing to sell water rights in these drainages.

Also, in response to your letter dated September 13, 2004, it is ANR's understanding that the Irrigation Company has not raised your arguments regarding hydrologic connection in a timely protest to the proposed determination for the Price River drainage.

Finally, ANR is still interested in negotiating a water sharing agreement with the Irrigation Company to enable ANR to provide water to the Cedar Creek Ranch until the litigation in this matter is resolved. By Order dated February 26, 2004, Judge Anderson stayed ANR's motion seeking admission of U.S. Fuel's protests to the San Rafael River Drainage proposed determination. This stay remains in effect until the Utah Supreme Court rules in *Green River Canal Co. v. Olds,* Case No. 20030156-SC. We understand that on October 5, 2004, you and Mr. Wagstaff argued this matter in the Utah Supreme Court and that a decision is anticipated in early Spring, 2005. Therefore, the water sharing arrangement should be negotiated prior to April, 2005, when the next water year begins.

We appreciate your assistance in this matter. Please let me know if the Board is willing to consider a water sharing arrangement with ANR.

Very truly yours,

Denise A. Dragoo

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DAD:jmc:321801
cc: Carl Kingston, Esq.
Ward Wagstaff, Esq.
Mark Dykes, Esq.
Ronald Rencher, Esq.

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