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Roger Rayburn  
PacificCorp Energy  
825 NE Multnomah St.  
Suite 1500  
Portland, OR 97232

Dear Mr. Rayburn,

Thanks for returning my call to Connelly Baldwin the other day. Our conversation proved to be most interesting.

As we discussed, I'm aware of your situation relative to the State of Utah's effort to eliminate water losses along the length of your Santa Clara Project and the potential investment compliance will require. I am writing to express my interest in acquiring the non-consumptive water right from the point of diversion above Baker Reservoir to the Veyo Power plant. I would also be willing to work with you to acquire the water right from the diversion above the Veyo Power plant to Gunlock Reservoir.

In both cases my interest lies in conveying these rights to the State of Utah as instream flows to support the natural hydrology and ecology of the Santa Clara River. Both diversions have a significant negative impact on the river, depriving it entirely of water in both cases at some times during the course of the year. I've enclosed photographs illustrating that this is the case at present.

The upper diversion is an easier project and I propose we handle this in two phases tackling this portion first. To my knowledge this conveyance system does not support any other users. I'll check on this as I promised when we spoke. This upper portion impacts a potentially exciting brown trout fishery and it is this that makes me confident I can find support.

The lower diversion is more complex in that the ditch and pipe system does deliver water to the Veyo ditch users. It may also deliver water across the river. I didn't check on that, but will. If so, you may be able to transfer the easement and maintenance requirements to those users. In addition the existence of the Sand Cove and Gunlock Reservoirs and their recreational value complicates this portion of your system. Certainly though your method of maintaining the ditch deprives these reservoirs of a viable fishery, thus limiting their value. Still, people do camp at Sand Cove and it is an amenity of some value. That will have to be considered.

The lower diversion impacts historic and important Spinedace habitat and that makes me confident that interest can be developed in this portion of your project.

In both cases however I see the acquisition of these water rights as quite doable. I understand your concerns about the cost of dismantling this system. I think perhaps you've overestimated your obligation to restore the ditch to a natural condition given the age of the easements. In some instances it is clear that leaving the pipe in place could prove to be a hazard in the long term. I don't think that any local group will assume responsibility for removal of your pipe or restoration of the ditch. I do think that we may be able to limit your restoration obligation and perhaps find some funds.

Frankly, if you were to simply discontinue operating the Veyo Plant right now and convey the water right as I am able to arrange I see very little in the way of immediate negative ramification. Over the long term however that pipe will degrade and surely segments and perhaps all of it will need to be removed.

I would be very interested to know what obligations for restoration are stated in your original easement documents, if any. That may prove to be a key factor.

I would ask that you sharpen your pencil concerning the three options that appear before you:

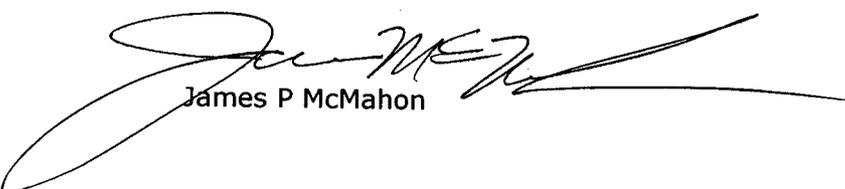
- 1) Line the unlined portions of the ditch to eliminate losses through seepage.
- 2) Pipe the entire length of the project
- 3) Convey the water right to me and abandon the project, dismantling and/or restoring segments of the project as deemed necessary.

Furthermore I'd ask you to give consideration to the value of the water right. I'll need to know whether I need to come up with cash and if so, how much. Alternatively I would ask you to consider a donation of the right to a non-profit group, which I would arrange. This would provide you with a tax deductible donation.

In the meantime, I'll explore the possibility of pursuing this transaction with the State of Utah, a couple of non-profits that could play a key role, and see where that leads. Once I learn more I'll write you again.

Please feel free to contact me at any time regarding your interest in this proposal. I am quite serious and willing to invest the effort to make it happen. For now I suggest we not divulge this negotiation widely until we have assessed its viability.

Sincerely,



James P McMahon

C: Jerry Olds, DNR Division of Water Rights  
Mike Silva, DNR Division of Water Rights