

**Silver Fork Pipeline Corporation**  
**Big Cottonwood Canyon**  
**P.O. Box 71592**  
**Salt Lake City, Utah 84171-0350**  
**801/647-2999**

July 3, 1997

**RECEIVED**

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WATER RIGHTS  
SALT LAKE

Mr. Robert L. Morgan, P.E.  
State Engineer  
Department of Natural Resources  
Division of Water Rights  
1594 West North Temple, Suite 220  
P.O. Box 146300  
Salt Lake City, Utah 84114-6300

Re: June 26, 1997 Water Users Meeting

Dear Mr. Morgan:

First of all, I would like to thank you on behalf of our shareholders for hosting the water users meeting on June 26th. While you characterized it as "exploratory" and "informational" it was well done and I believe an excellent dialog occurred expressing many concerns and divergent points of view.

While Silver Fork Pipeline Corporation, a non-profit water distribution company, is not an adjudicated water right under the Morse Decree number Civil 8921 rendered in 1914 and affirmed by the Supreme Court in 1918, it is, none-the-less, a water user (via a Diligence Claim) in the Big Cottonwood Canyon drainage. The Morse Decree of 1914 only adjudicated the surface waters of Big Cottonwood Creek and Salt Lake City's water rights (excluding the specified reservoirs) and the various ditch companies water rights (and others) are measured from their lawful point of diversion at the mouth of Big Cottonwood Canyon or westward as outlined in the Decree. The Morse Decree granted water rights above the mouth of the Canyon in Big Cottonwood Creek and the waters reaching the mouth of the Canyon are serving Salt Lake City and others only after the up-stream rights are satisfied. The Morse Decree was not a "General Adjudication" and waters, i.e., springs, mine tunnels, surface tributaries ect, in Big Cottonwood Canyon were not addressed unless specifically enumerated in the Decree. In fact, the Supreme Court affirmation in 1918 specifically said "To have done so the Court would have exceeded its power." An excellent example of the State Engineers Office recognizing that principle was when, in 1940, it granted a water right to the Alta Transportation Company, a drain tunnel for the Prince of Wales Mine in the Silver Fork canyon.

This outline is to express some of the issues the new Water Commissioner and your office will need to be sensitive. It is not only the measuring devices at the headgates of the various ditch companies points of diversion, it is also waters in the Big Cottonwood Canyon "drainage" which may not be surface tributary's of Big Cottonwood Creek, such as, springs, lakes, tributaries to lakes, mine tunnels, headwater sources and so forth which are not a part of the Morse Decree. This may become very complex, especially if Salt Lake City continues to interfere in the statutory responsibilities of the State Engineers Office as it pertains to Big Cottonwood Canyon and/or other Wasatch Front canyons.

With the foregoing as background, I'll now address the six specific items you requested:

1. System Needs: The SFPCo. is in the process of upgrading all of its main distribution lines to 6" lines and burying them so they may support "winter water" use, reducing the need to run bleeders. Currently, a water meter has been installed in our tunnel to be able to provide your office with flow measurements to meet the reporting requirements to the legislature. This work will not be complete until at least 2002 as we are funding the improvements with assessments to the shareholders and not from loans. The Water Commissioner should recognize the Kentucky-Utah Mine source is "developed water" and not a surface tributary of Big Cottonwood Creek and thus interference should never be an issue regarding the flows of Big Cottonwood Creek.

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2. Role of Water Commissioner: To oversee the water rights as outlined in the various decrees concerning Big and Little Cottonwood Canyons, Mill Creek and Parley's Creek. To take measurements or cause to take measurements at the various specified points of diversion, headgates, ect. to insure compliance with the decreed rights. To make timely reports of measurements and usages to the various ditch company's so each can be reassured 1.) They are not abusing their lawful usage, and 2.) That no one else is abusing their lawful usage. To report or to take action upon any unlawful interference with those water rights. And, finally, to consult with and make reports to the State Engineer in order for the State Engineer to make his statutory reports and be apprised of the administration of the various decrees.

3. Responsibility for Maintenance: It should be the responsibility of the Watermasters for the various ditch company's to maintain their own headgates, points of diversion and measuring devices. The Water Commissioner cannot delegate, except to his/her own deputies, the duty to measure flows. (There is too much risk for non-compliance.)

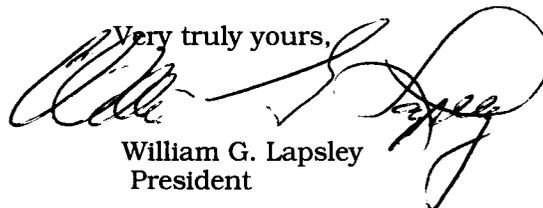
4. Operation and Delivery: After determining the flows, the Water Commissioner should establish a schedule of times, dates and amounts that should be taken by the various users. The Watermasters should then follow the schedules unless there are problems to be resolved, which, then, the Water Commissioner should step in and quickly provide solutions or options. The Water Commissioner could then monitor, on a spot check basis, compliance, imposing awesome penalties for failure to comply.

5. We would suggest one full time, salaried, Water Commissioner and three part-time deputy's. One deputy for Parley's Creek and Mill Creek and one each for Big and Little Cottonwood Canyons. These deputies would only work during the period April 1, to August 1, of each year, be paid by the hour plus a mileage and out of pocket expense reimbursement.

6. Financing: We would suggest that an expense budget be prepared by the Water Commissioner, including salary, auto mileage, cell telephone (since most of his time would be in the field), computer expense, and office expense. The State Engineer could provide an office/desk space and staff (for sending bills, correspondence, ect.) and be reimbursed for said expense from the water users overseen by the Water Commissioner. It would be beneficial to have the Water Commissioner housed with the State Engineer to lend further credibility to the Commissioners voice. Since each decree has different ways to establish volumes of water, the Water Commissioner could determine the total flows of each stream, then determine the percentage of water each user takes and assess each water user based on their percentage of water taken or consumed to the whole. We would suggest that a 10% charge be assessed for the first ten years to create a one year expense reserve for the operation of the office. After the reserve has been established, the 10% reserve charge should be terminated.

These are some preliminary thoughts which may or may not prove helpful. Should you have any questions concerning how any of the above might work, please do not hesitate to contact me at my office at 801/645-7153 or home 801/581-1231.

Very truly yours,



William G. Lapsley  
President

WGL:ms

cc: Board of Directors

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