

June 16, 2011

Oregon Water Resources Department
Attn: William Fujii
725 Summer Street NE, Suite A
Salem, OR 97301



Dear Mr. Fujii,

Enclosed is the Klamath Basin Rangeland Trust's (KBRT's) report for Oregon Water Resources Department (OWRD) Grant GC0013 09B: Planning Study for the Establishment of a Water Transaction Program (WTP) in the Upper Klamath Basin.

Our grant from OWRD was for the completion of 7 specific tasks. Below is a list of those tasks and where in the report information about each task can be found, or a summary of the results.

Task 1: Identify water transaction program options

Chapter 2 Section A (pg 12-14) of our report summarizes the various tools our program intends to use based on community and funder interest as well as Oregon water law.

Task 2: Identify flow targets

An annual volumetric target for increased flows to Upper Klamath Lake is included in Chapter 1 Section B (pg 8). Specific flow targets for our stream reach priorities are included in Chapter 1 Section C (pg 9-12). These flow targets will be further improved and revised once the USGS and Klamath Tribes complete their hydrologic study of the basin. KBRT is a key participant in this study, and preliminary results are due this summer, with final results to be completed around October 2011.

Task 3: Complete pricing analysis

KBRT hired Westwater Research to complete a pricing analysis for water transactions in the Upper Klamath. Their full report is included as Appendix 1, and a summary of their results is included in Chapter 2 Section B (pg 14-16).

Task 4: Determine funding structure options

KBRT has developed a budget and potential funding structure for the program which is detailed in Chapter 4 Sections A and B (pg 28-32).

Task 5: Determine program structure and administration

The methodology for administering and operating the program is detailed in Chapter 2 Section D (pg 18-19). The process for evaluating projects is reviewed in Chapter 2 Section C (pg 16-18).

Task 6: Post-planning study implementation

No information about this is included in the report as the report is intended to be the foundation on which the pilot program is initiated.

KBRT has made significant progress at implementing the Water Transactions Program. Progress thus far includes:

- ◆ Development of a legal “Option to Transfer Water Rights Instream” contract which is used as a template to develop individual contracts with landowners participating in the program.
- ◆ Two signed Option to Transfer Water Rights Instream agreements which KBRT expects will result in the transfer of 19cfs of irrigation water rights to instream flow. These are intended to be Pilot Transactions for further establishment of the program and assessing opportunities for improvements to the program.
 - The first Option is for water rights on Fivemile Creek, a tributary to the North Fork Sprague River. KBRT has obtained all of the funding for this transaction and has filed the Transfer Application with the OWRD.
 - The second Option is for water rights on Sevenmile Creek in the Wood River Valley. KBRT currently has these water rights leased instream under a “lease to own” agreement with the landowner. KBRT has secured \$520,819 towards the acquisition cost of \$2,962,690, and has an application for an additional \$1M pending.
- ◆ KBRT continues to conduct outreach to landowners in the Upper Klamath Watershed regarding our WTP. Multiple landowners have expressed interest in the program. KBRT has signed Letters of Intent with two additional landowners, and KBRT has completed water valuation estimates for several ranches. At this time it appears that interest in the program exceeds the funding available for water acquisition and transfer, so KBRT is focusing on development of new funding sources.
- ◆ KBRT also has applications pending with several private foundations to support staff time and other program costs to administer the WTP. In addition, KBRT anticipates receiving some funding from Federal Agencies to support the on-going project.
- ◆ KBRT is participating in a project to develop a Water Market in the Klamath Basin for meeting water quality requirements under the Oregon Department of Environmental Quality’s (OR DEQ) Total Maximum Daily Load regulations. This project includes OR DEQ, Pacificorp, CA North Coast Water Quality Control Board, and the National Fish and Wildlife Foundation through a Natural Resource Conservation Service Conservation Innovation Grant (NRCS CIG). If established, the water

market would provide a long-term source of funding for flow restoration efforts in the Klamath Basin. These efforts are on-going.

Task 7: Integrate the Water Use Retirement Program (WURP) provision of the Klamath Basin Restoration Agreement (KBRA) into the Upper Klamath Basin water transaction program plan.

- a. Coordinate with the Klamath Tribes and Klamath Water Users Association as they work through the development of Section 16 of the KBRA, including the Off-project Water Settlement and the Water Use Retirement Program.
- b. Coordinate with the Klamath Tribes to integrate their fishery goals and hydrologic model results into the flow targets.
- c. Coordinate with the Klamath Tribes, Upper Klamath Water Users Association, National Fish and Wildlife Federation, and US Fish and Wildlife Service regarding the potential for federal funds allocation and administration of those funds.

There are several references to KBRT's coordination with the KBRA throughout the program report. However, since the KBRA has not yet been implemented and funded, it seemed most appropriate for the Water Transactions Program to be designed to function without implementation of the KBRA. KBRT continues to coordinate and work closely with the Klamath Tribes, Klamath Water Users Association and others to develop an implementation framework for Section 16 of the KBRA, as well as with the Tribes, State and Federal agencies operating in the basin to meet various hydrologic and fisheries goals. More specifically:

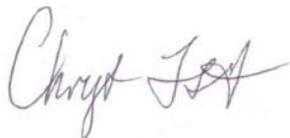
- ◆ KBRT is involved in an on-going flow modeling project with the off-project water users and the Klamath Tribes. For this project, the USGS is creating an interactive model in a GIS platform that allows the user to approximate the streamflow impacts from the retirement of water rights in the basin. While KBRT hoped this work would be completed during the grant period, the project has been delayed and extended, likely due to the large number of parties involved.

Preliminary results are expected to be submitted by the USGS to the Klamath Tribes and KBRT for review, and the final model is expected to be released in the fall of 2011. The final model will be used to make recommendations for the specific water right retirements under the WURP provision of the KBRA. (The flow targets presented in the Water Transactions Program report (pg 9-12) are based on previous work establishing targets).

- ◆ KBRT has coordinated with the Klamath Tribes on their proposed instream flow targets to achieve the 30,000AF of increased flows into Upper Klamath Lake. KBRT recommended that a higher portion of the flow be obtained from the Wood River Valley due to the high quality of water originating from the valley and the ability to achieve fisheries objectives in the valley with flow restoration. In addition, the geography of the Wood River Valley provides a high level of certainty that retired water rights will be able to reach the lake and not be diverted or otherwise lost in the system.
- ◆ KBRT has and continues to provide detailed information about our on-going flow restoration efforts to the parties involved in the KBRA to ensure that our work coordinates with the long-term goals of the KBRA. This included a presentation of the WestWater economic valuation study of water rights in the Upper Klamath Watershed to the Klamath Tribes and Off-project Water Users for input, and providing details about our current flow restoration objectives (locations and volume) to the same parties.
- ◆ KBRT is working closely with US Fish and Wildlife Service to identify landowners in critical stream reaches in the Sprague that are interested in both restoration and water use retirement. This has included multiple field visits and a community information session.

In summary, the objectives that KBRT planned to achieve under Grant GC0013 09 and the amended grant agreement have all been met or exceeded. Most importantly, the Water Transactions Program is active with multiple transactions in process. The funds provided by the Oregon Water Resources Department have been instrumental in this effort; and the conservation and ecological improvements in the Klamath Basin that will result from this study are substantial. KBRT appreciates the Department's support for flow restoration in the Klamath Basin and looks forward to the on-going work towards aquatic habitat recovery and agricultural water stability that is so greatly needed within the basin.

Sincerely,



Chrysten Lambert
Water Transactions Program Director
Klamath Basin Rangeland Trust