



United States Department of the Interior

BUREAU OF RECLAMATION

Mid-Pacific Regional Office

2800 Cottage Way

Sacramento, CA 95825-1898

MAY 27 2016

IN REPLY REFER TO:

MP-440
WTR-4.00

Mr. Brent Cheyne
President, Board of Directors
Klamath Irrigation District
6640 KID Lane
Klamath Falls, OR 97603

Subject: Implementation of Contract No. 16-WC-20-4838 (Contract) – Klamath Project,
Oregon-California

Dear Mr. Cheyne:

This letter is in response to clarifications requested by the Klamath Irrigation District (District) on specific Articles and other matters associated with the subject Contract.

Regarding the repayment term pursuant to Article 5(d) of the proposed Contract, the District has indicated a desire to have a period longer than the initial ten-year term. Article 5(f) of the proposed Contract requires that the Bureau of Reclamation complete a financial analysis of the District within one year of execution of the proposed Contract to determine if that term should be maintained or modified. While both parties are confident that the District's financial status will support a term greater than the initial ten-year term, the financial analysis must first be completed. At your earliest convenience, we are ready to work with the District to expeditiously complete the financial analysis, which will certainly be completed prior to any repayment by the District pursuant to the proposed Contract.

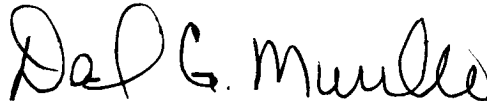
Regarding Article 13 of the proposed Contract, that is a standard article found in Reclamation's Directive and Standards PEC 10-04. PEC 10-04 is based upon, in large part, Section 6 of the Reclamation Project Act of 1939 (53 Stat. 1191; 43 U.S.C. § 485e), which states: "That any such contract shall require that no water shall be delivered to lands or parties which are in arrears in the advance payment of operation and maintenance or toll charges, or to lands or parties which are in arrears for more than twelve months in the payment of construction charges due from such lands or parties to the United States...." (Emphasis Added). Unlike the District's Contract No. 14-06-200-3784, dated November 29, 1954, providing for the repayment of construction costs

therefore allowing for a twelve month grace period in the payment of construction charges, the costs associated with the C Flume Replacement Project are operation and maintenance costs and are not afforded that grace period.

Finally, the District has indicated continued interest in obtaining non-reimbursable funding pursuant to Section 9603(c) of Public Law 111-11 (123 Stat. 1348, 43 U.S.C. §510b(c)). Reclamation recognizes the importance of this matter to the District and will continue to evaluate the C Flume Replacement Project in order to determine whether it qualifies for non-reimbursable funding under Public Law 111-11. Accordingly, Reclamation cannot at this time agree to any modification to the proposed Contract to address potential non-reimbursable funding, as the District has proposed. However, the proposed Contract can be amended in the future should a determination be made that the C Flume Replacement Project qualifies for non-reimbursable funding. The Mid-Pacific Region will inform the District of that determination as soon as possible.

Reclamation looks forward to continuing to work with the District to see that the C Flume Replacement Project is completed in a timely and expeditious manner.

Sincerely,

A handwritten signature in black ink, appearing to read "David G. Murillo". The signature is written in a cursive, flowing style.

David G. Murillo
Regional Director