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WATER RESOURCES DEPT
SALEM, OREGON

December 28, 2010

Phillip C. Ward, Director
Water Resources Department
725 Summer St NE, Suite A
Salem, OR 97301-1271

Subject: Water Use Change Pursuant to OAR 690-380-2340 to Enable Water Use by the
Klamath Bioenergy Facility

Dear Director Ward:

Collins Products owns and operates a mill in Klamath Falls; as part of this endeavor, Collins owns and operates a well commonly referred to as "Well No. 6" that is operated pursuant to Water Right Certificate No. 48602 issued on October 5, 1979. The water from the well was originally used to provide make-up water for boilers owned and operated by Collins' predecessor, the Weyerhaeuser Company, as well as for lunchroom and restroom facilities. The maximum rate of withdrawal is limited to no more than 1.34 cubic feet per second (cfs).

On September 10, 2004, Thomas Nelson, on behalf of Collins, wrote to the Oregon Water Resources Department to notify the Department that the authorized use was being changed from "manufacturing including restroom and lunch room facilities" to general industrial use, pursuant to ORS 540.520(9) and OAR 690-380-2340. This change was intended to facilitate the use of water from Well No. 6 for make-up water at the Klamath Cogeneration Plant (the "KCP"), which at the time was owned by the City of Klamath Falls. On May 25, 2006, the Department formally accepted and acknowledged the notification of the change. The KCP was subsequently purchased by Klamath Energy LLC, which is owned by Iberdrola Renewables. On March 27, 2009, the Oregon Energy Facility Siting Council issued a final order approving the fourth amendment request to the site certificate for the KCP, which further recognized and approved of the use of Well No. 6 by the KCP under Water Right Certificate No. 48602, consistent with the change notification described above. (See attached documents.)

Collins has now determined that in addition to providing water to the KCP as outlined above, it would also be advantageous to sell water from Well No. 6 to Klamath Falls Bioenergy's (KFB) biomass facility for use as boiler make-up water, including restroom and lunch room facilities, and other general industrial uses. Rather than Klamath Falls Bioenergy pursuing its own Well No. 6 water right, Collins has concluded that the best arrangement would be for Collins to provide a further notice pursuant to OAR 690-380-2340, to seek the

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Department's confirmation that water from Well No. 6 may be used for general industrial purposes by KFB on land that KFB intends to purchase from Collins.

Thus, in accordance with OAR 690-380-2340, the following information is provided:

- (a) The name and mailing address of the persons using water under the water right is:

Collins Products
P.O. Box 16
6410 Highway 66
Klamath Falls, OR 97601

The name and mailing address of the person operating the facilities that will use water from Well No. 6 is:

Klamath Falls Bioenergy, LLC
10800 NE 8th Street
Suite 320
Bellevue, WA 98004-4467

- (b) The Water Right Certificate No. is 48602.
- (c) The holder of the original permit and consequent water right is Weyerhaeuser Company, which operated the site as a mill. Weyerhaeuser sold its interest in the mill to Collins Products in 1996. This site is located on the west bank of the Klamath River approximately three miles west of the junction of U.S. Highway 97 and State Highway 66, as more fully described in Certificate No. 48602.
- (d) The quantity of water diverted to satisfy the authorized specific use under the original water right is 1.34 cubic feet per second.
- (e) The water was initially used in part as make-up water for boilers owned by Weyerhaeuser and then Collins. Collins has granted to Klamath Bioenergy, LLC an option to acquire a portion of the mill site, in Township 39 South, Range 8 E, Section 23, Northeast One-quarter and South-east One-quarter. This parcel was a portion of the property Collins' purchased from Weyerhaeuser. Assuming that Klamath Falls Bioenergy, LLC exercises the option, and purchases this parcel, Collins, subject to finalizing a water sales agreement, will sell water from Well No. 6 to Klamath Falls Bioenergy. The water will be used by Klamath Falls Bioenergy for boiler make-up water and for restroom and lunch room facilities, and other general industrial uses.

Finally, we have reviewed our water use records from Well No. 6 and have determined that there has been consistent use of that water over the last ten years. We intend to continue to provide water to the KCP, as well as provide water to the KFB, but we will not exceed the maximum rate of 1.34 cfs as authorized in the original Water Right Certificate No. 48602.

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Further, we understand that making this water use change notification pursuant to OAR 690-380-2340 in no way obligates Collins to sell or provide water to the KFB, nor does it ensure that the KFB has access to the well or water from the well. Rather, such sale and provision of water by Collins, and access to and use of water by the KFB, is subject to Collins and KFB reaching a final agreement as between themselves.

We look forward to working with the Department on this issue. Please let me know if you have any questions.

Sincerely,

COLLINS PRODUCTS



Eric Schooler

cc: Mr. John Rivers, Klamath Falls Bioenergy, LLC