

Kenai Hydro, LLC

3977 Lake Street
Homer, AK 99603

October 12, 2010

Ms. Jennifer Hill
Northwest Branch – Division of Hydropower Licensing
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

- FILED ELECTRONICALLY -

RE: Kenai Hydro, LLC's Response to FERC's July 30, 2010 Information Request Regarding the Proposed Grant Lake/Falls Creek (Project Nos. 13212-001 & 13211-001) Hydropower Development on the Chugach National Forest

Dear Ms. Hill:

On July 30, 2010, the Commission requested that Kenai Hydro, LLC (KHL) meet with the Forest Service within 120-days to discuss project alternatives that would meet the standards of the Chugach National Forest Plan and current roadless area policy.

On August 10, 2010, representatives of Kenai Hydro, LLC met with representatives of the Chugach National Forest via conference call to discuss the issues identified in FERC's July 30, 2010 communication. While the U.S. Forest Service will need to review the Project proposal presented by KHL in its license application, at this time, no inherent conflicts were identified between the Project proposal and standards in the Forest Plan or the current roadless area policy. Please see the enclosed meeting summary for details.

Please feel free to contact me (msalzetti@homerelectric.com, 907-283-2375) with any questions regarding this filing.

Sincerely,

/s/ Mike Salzetti

Mike Salzetti
Project Engineer
Kenai Hydro, LLC

cc: Service List for Project Nos. 13211 and 13212

Kenai Hydro, LLC
Grant Lake/Falls Creek Hydroelectric Project
FERC Project Number 13212/13211
9:00 – 9:30 am, August 10, 2010
Conference Call Summary

In Attendance

Jenna Borovansky, Long View Associates (LVA), on behalf of Kenai Hydro, LLC (KHL)
Steve Padula, LVA, on behalf of KHL
Karen O’Leary, United States Forest Service (USFS)
Kevin Laves, USFS
Barbara Stanley, USFS

Agenda

Review status of project proposal for the Grant Lake Project and discuss FERC’s July 30 letter regarding consistency with Forest Plan standards and the roadless area policy.

Jenna Borovansky confirmed the agenda for the meeting, and stated that KHL representatives spoke with Mark Ivy, FERC, to confirm the intent of the July 30 letter from FERC. She noted that Mr. Ivy confirmed that FERC did not expect resolution of the issues in the letter within the 120-day response period, but FERC staff would like confirmation that both the USFS and KHL are aware of the potential issues identified in the letter (consistency with forest plan land use designations and the roadless area policy).

Meeting Summary

The USFS noted that several projects in Alaska had received similar letters from FERC. Jenna Borovansky stated the Kenai Hydro, LLC appreciates comments it has received from the USFS on the preliminary permits, and more recently FERC’s scoping document, and KHL’s study plans. She acknowledged that the Forest Service has provided useful information regarding the land use designations and status of the roadless area policy in the existing Forest Service comments on the record, and that KHL would like to confirm these comments with the Forest Service.

Consistency with Chugach National Forest Plan Land Use Designations

- The USFS confirmed that the land use designation for the area is Fish, Wildlife, and Recreation for the project vicinity.
- The Forest Plan includes utility systems as an allowed activity within the Fish, Wildlife, and Recreation designation, so there is no inherent conflict between the proposed project and this land use designation.
- The USFS will also be applying forest-wide standards and guidelines in its review of the project to ensure there are no resource-based conflicts between the project proposal and the forest-wide standards.
- The USFS will continue to be interested in resolution of the potential issues associated with the Iditarod Trail, as the USFS holds the easement from the state for the trail in the Project area. KHL will be filing a revised project description with FERC by August 13

that acknowledges that it will continue to work with state agencies and the USFS to develop a facilities and access road design compatible with the Iditarod Trail.

Consistency with Roadless Area Policy

- Portions of the Grant Lake shoreline on USFS lands are within the Kenai Mountains Roadless Area.
- The USFS confirmed that the Secretary of Agriculture has reserved authority to review proposed projects within roadless areas. The secretary will review the license application, and consider issues such as:
 - Is the activity in the roadless area (e.g., timber harvest) necessary?
 - Were other alternatives and solutions for the activity considered before the current alternative was chosen?
- The USFS noted that the two primary activities that are potential issues in roadless areas are road construction and any clearing of harvestable timber around the lakeshore.
- KHL is not proposing to construct roads within the roadless area, so the applicable issue to consider is whether shoreline timber will need to be removed. At this time, it is unknown if any shoreline vegetation will need to be removed. A shoreline vegetation study will record existing vegetation to determine whether clearing of the potential inundation area (approximately 2 feet maximum) will include any timber sized vegetation.

FEDERAL ENERGY REGULATORY COMMISSION

Washington, D. C. 20426

July 30, 2010

OFFICE OF ENERGY PROJECTS

Project Nos. 13212-001 & 13211-001
Grant Lake/Falls Creek Hydroelectric Project
Kenai Hydro, LLC

Mr. Brad Zubeck,
Project Manager
Kenai Hydro, LLC
3977 Lake Street
Homer, AK 99603

Subject: Hydropower Development on the Chugach National Forest

Dear Mr. Zubeck:

In its September 19, 2008, filing, the U.S. Forest Service (Forest Service) indicated that your proposed Grant Lake/Falls Creek Hydroelectric Project would be located within an area of the Chugach National Forest designated in the 2002 Revised Chugach National Forest Land and Resources Management Plan (2002 Forest Plan) as Fish, Wildlife, and Recreation Management Land Use Designation (Fish, Wildlife, & Recreation LUD). Additionally, the Forest Service indicated that your proposed project would be located within an Inventoried Roadless Area (Kenai Mountains Roadless Area) of the Chugach National Forest.

Based on our review of the pre-filing record for the Grant Lake/Falls Creek Hydroelectric Project, it appears as though the current configuration of your proposed project¹ may be inconsistent with current standards and guidelines specified in the 2002 Forest Plan for development of a hydroelectric project within a Fish, Wildlife, & Recreation LUD. It also appears as though your proposed project may be inconsistent with approved development activities for a roadless area.² Our review therefore suggests that your project as currently proposed may not be allowable under the standards of the 2002 Forest Plan and may not be allowable under the current roadless area policy.

You need to work closely to resolve any land use issues regarding your proposed project and the 2002 Forest Plan. Based on our review of the project record, however, it

¹ As proposed in the May 11, 2010 Scoping Document 1, September 16, 2009 Pre-application Document, and April 28, 2008 Application for Preliminary Permit.

² As described in the Secretary of Agriculture's May 28, 2010 memorandum.

Project Nos. 13212-001, 13211-001

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appears as though a discussion concerning these issues has been limited and that these issues have not been resolved. Therefore, within 120 days of the date of this letter, please meet with the Forest Service to discuss options, which may include a project alternative that meets the standards of the plan, and file a report that provides a description of how you and the Forest Service intend to resolve the land use issues regarding the current configuration of your proposed project, the 2002 Forest Plan, and current roadless area policy.

For further information or assistance on licensing matters, please contact Mark Ivy at (202) 502-6156.

Sincerely,

Jennifer Hill, Chief
Northwest Branch
Division of Hydropower Licensing

cc: Service List
Public Files