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July 31, 2007

Russ Mull, R.E.H.S., A.I.C.P.
Director, Department of Resource Management
County of Shasta
1855 Placer Street, Suite 200
Redding, CA 96001-1759

Transmitted via e-mail
Original does not follow

Dear Mr. Mull:

This is a letter to follow up on several conversations that have resulted from our interest in working with various groups to preserve the Kilarc Reservoir, canal, and associated recreational area. Davis Hydro is a small hydropower development company that also does fish enhancement projects. We are currently focused on evaluating the feasibility of operating the Kilarc and possibly South Cow hydropower facilities in a manner that will enhance fish, fishing, and recreation in the area.

We would like to engage the County in a discussion of the following idea: Would the County to consider taking over the recreational facilities associated with the Kilarc Reservoir and Canal? This is a prime fishing, hiking, and camping area. We would also like to explore with ranchers any fishing access or recreation possibilities on South Cow Creek and would be interested in any ideas the County has in this regard.

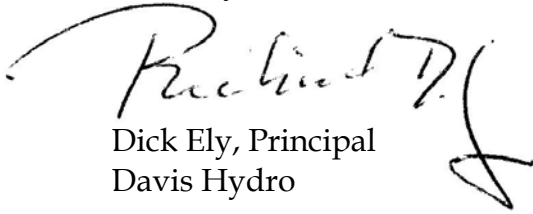
We suggest that as part of PG&E's surrender process the county assume fee title to the recreation of the Kilarc Project. Davis Hydro will pay the County for water delivery through that facility. In addition Davis Hydro will provide resources and manpower to operate and maintain the recreational facilities. Davis Hydro would operate the facility so as to provide fish and fishing opportunities as they are now. Davis Hydro will pay the county a water delivery fee which, on the average, will be designed to cover County canal costs. Over the long run, hydropower payments to the county should cover their out of pocket maintenance costs.

Davis Hydro will assume all the day-to-day operation, and the county is there to cover intermittent larger expenses. Annual canal maintenance will be shared, with the county assuming larger projects and Davis Hydro assuming all the daily and small engineering tasks. This will capitalize on the strengths of both organizations making this recreation/green power/hydropower project feasible.

The benefit to the County is an increase in recreation facilities, notably excellent trout fishing - especially for the handicapped. The benefits for Davis Hydro include water to generate power, a diminution of liability exposure, and a stable O&M budget. Additional benefits for all concerned will be the operation of the canal as an informal anadromous fish breeding area and the production of green power.

We would like an opportunity to discuss this with your Board at their convenience if it is of interest.

Sincerely,

A handwritten signature in black ink, appearing to read "Dick Ely", with a large, sweeping flourish extending to the left and a vertical line extending downwards to the right.

Dick Ely, Principal
Davis Hydro

cc: K. Sackheim
Web: kilarc.info