



**Pacific Gas and
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Power Generation

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August 12, 2008

Ms. Kelly Sackheim
Mr. Richard Ely
David Hydro, LLC.
27264 Meadowbrook Drive
Davis, California 95618

RE: Kilarc-Cow Creek Hydroelectric Project, FERC Project No. 606
Response to Proposal of the Kilarc Reconstruction Alternative

Dear Ms. Sackheim and Mr. Ely:

Thank you for your letter, dated July 4, 2008, on behalf of Davis Hydro, LLC. As Pacific Gas and Electric Company (PG&E) understands it, your July letter again requests that PG&E consider an alternative that allows continued operation of generation facilities at the Kilarc-Cow Creek Hydroelectric Project (Project), and appears to be an update to an alternative proposed by Davis Hydro in a September 17, 2007 letter submitted to the Federal Energy Regulatory Commission (FERC). As we have corresponded on previous occasions, PG&E is open to the continued operations of the Kilarc development solely for recreation and/or historical public uses, but the Federal Power Act precludes PG&E from being a future licensee and operator of the Project, and allows no opportunity under the Federal Power Act, for a third party, like Davis Hydro or any other entity, to assume operation of Project facilities, or a portion of the Project facilities, for power generation.

Additionally, PG&E believes that the proposal for decommissioning the Project, which will be incorporated into PG&E's Draft License Surrender Application, and has been developed in consultation with agencies and other stakeholders, is the right alternative for our ratepayers over the long term, and the fisheries for the State of California. Decommissioning the Project will restore natural streamflows to Old and South Cow Creeks, improving aquatic habitat, which in term will maximize benefits for anadromous fish.

Sincerely,

Stacy Evans, Project Manager
Hydro Licensing

cc: Attached FERC P-606 Service List

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cc: FERC P-606 Service List

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