

March 10, 2008

Subject: Kilarc-Cow Creek Hydroelectric Project (FERC No. 606)
Solicitation of Interest for Ownership and Management of Kilarc Powerhouse and
Adjacent Land for Public Use

To Interested Parties,

Pacific Gas and Electric Company (PG&E), the Licensee for the Kilarc-Cow Creek Hydroelectric Project, FERC No. 606 (Project), is applying to the Federal Energy Regulatory Commission to surrender the license for this Project. As part of the surrender process, PG&E proposes to decommission and remove the Project works as discussed in the Preliminary Proposed Decommissioning Plan (Preliminary Plan) issued by PG&E on September 10, 2007. In the development of the Preliminary Plan, local community members expressed concerns that the Kilarc Powerhouse would be decommissioned. PG&E would support transferring the Kilarc Powerhouse and adjacent lands to another entity for public use, which would be recreational or historical in nature. However, it is PG&E's intention to work within the requirements of its Land Conservation Commitment to permanently protect specific watershed lands through donation of conservation easements and/or fee interests in such lands to qualified entities. Although others may be considered, we would expect that any entity proposed to take over the Kilarc Powerhouse and adjacent lands to be a State or Federal agency, local government, or nonprofit group that has the demonstrated capacity and capability of owning and managing the facility for a recreational/historical public use.

PG&E has prepared a guidance document to assist organizations potentially interested in owning and managing Kilarc Powerhouse and adjacent lands. The document, entitled "Requirements for Acquiring, Owning and Managing Kilarc Powerhouse and Adjacent Land," is attached. It evaluates the requirements and obligations associated with such an undertaking, and discusses the issues that would need to be addressed by a prospective owner/operator.

Solicitation of Interest

With this letter, PG&E is soliciting statements of interest in owning, managing, and operating Kilarc Powerhouse and adjacent land for a recreational/ historical public use¹. Qualified organizations must have the capability to maintain and operate the facilities, as well as the

¹ Kilarc Powerhouse for generation purposes will not be considered under this solicitation. PG&E has no authority to authorize continued operation of Project facilities for power generation.

capability to obtain the necessary regulatory and legal approvals for transfer and operation of the facilities. Interested parties are invited to return the attached "Solicitation of Interest Form" **by April 24, 2008**. PG&E will review any Solicitation of Interest forms received, and contact respondents by mail or phone to discuss interests and, if warranted, establish a process for further discussion.

Completed Solicitation of Interest Forms should be mailed (US Postal delivery) to:

Stacy Evans
Pacific Gas and Electric Company
Power Generation
Mail Code N11C
PO Box 770000
San Francisco, CA 94117

Or express mailed (Overnight Delivery) to:

Stacy Evans
Pacific Gas and Electric Company
Power Generation
245 Market Street
San Francisco, CA 94105

Sincerely,

Handwritten signatures of Stacy Evans and Steve Nevares in black ink.

Stacy Evans and Steve Nevares
Co-Project Managers– Kilarc-Cow Creek Project

Attachments

Solicitation of Interest Form

Requirements for Acquiring, Owning, Managing Kilarc Powerhouse and Adjacent Land

SOLICITATION OF INTEREST FORM

1. Please provide the following:
 - a. Name of organization
 - b. Principal contact person
 - c. Contact Information: Address, Telephone, Fax, E-mail
 - d. Names, roles and contact information for any major teaming partners
2. Please provide an overview of your organization, including legal structure, mission, history, location, accomplishments, and personnel resources. Please provide any supporting documentation in this regard.
3. Briefly describe your organization's experience managing facilities and land for public uses, especially those historical and/or recreational in nature.
4. Briefly describe your organization's experience obtaining environmental and/or regulatory permits, especially your experience working with the California State Historic Preservation office.
5. Briefly describe your organization's experience with facility upgrades for compliance with the American for Disabilities Act, and with seismic retrofits.
6. Briefly describe how your organization proposes to finance the operations and maintenance of the facility and land.
7. Briefly describe your organization's plan to manage the financial and other liabilities associated with operating a facility for public use.
8. Briefly describe your assessment of the key challenges and risks in operating and maintaining Kilarc Powerhouse and adjacent land for recreational/historical public use.
9. Briefly describe what types of support does your approach need for success?

PACIFIC GAS AND ELECTRIC COMPANY

**Kilarc-Cow Creek Hydroelectric Project
FERC Project No. 606**

**REQUIREMENTS FOR ACQUIRING, OWNING AND
MANAGING
KILARC POWERHOUSE AND ADJACENT LAND**

March 10, 2008



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**REQUIREMENTS FOR ACQUIRING, OWNING AND MANAGING
KILARC POWERHOUSE AND ADJACENT LAND**

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Section 1.0 Introduction

Pacific Gas and Electric Company (PG&E) is the owner and operator of the federally-licensed Kilarc-Cow Creek Hydroelectric Project, FERC No. 606 (Project). PG&E began to relicense the Project in 2002. During the process of relicensing, PG&E identified issues associated with resource protection and upgrades that would be required for continued operation of the facilities. Evaluation of the costs of operating the Project under a new license with anticipated conditions showed that the likely cost of providing the necessary level of protection, mitigation, and enhancement of the resources affected by the Project would outweigh the economic benefit of generation at the Project over the life of the new license. After discussions with resource agencies, PG&E made the decision not to file for a new license to operate the Project. After the decision was made the Federal Energy Regulatory Commission (FERC) allowed for interested parties to file for a new license for the Project, however no entity filed for the license in the timeframe allowed. Consequently, FERC ordered PG&E to develop a Surrender Application, which includes a decommissioning plan. In development of PG&E's decommissioning plan, several local community members expressed concerns that the Kilarc Powerhouse would be decommissioned. It was suggested that another entity could perhaps take over the facility for future public use. In support of PG&E's Land Conservation Commitment to permanently protect watershed lands through donation of conservation easements and/or fee interests in the lands, PG&E would support a donation of the land facility to a State or Federal agency, local government, or nonprofit group that has demonstrated capacity and capability to maintain the facility for a recreational/historical public use.

PG&E has prepared this document to assist entities potentially interested in acquiring, owning and managing the Kilarc Powerhouse and adjacent land for future public use, which would be recreational or historical in nature, to evaluate the opportunities, requirements and obligations associated with such an undertaking. Information is provided on maintenance of essential facilities, required land transfers, institutional obligations, and potential permits and upgrades that may be needed.

This document reflects PG&E's current understanding of the issues that would need to be addressed to modify Kilarc Powerhouse and adjacent land for public use. Additional issues to those identified herein may arise in the course of transferring the Kilarc Powerhouse and adjacent land to another entity for recreational or historical purposes and additional requirements could be applicable. Those entities interested in owning Kilarc Powerhouse and adjacent land are advised to conduct their own due diligence, including consulting with the various agencies of jurisdiction as to the applicable regulations and requirements.

1.1 Project Description

The Project, which includes Kilarc Powerhouse, is located in Shasta County approximately 30 miles east of Redding near the community of Whitmore. The Project consists of two separate developments; one on South Cow Creek (Cow Creek Development), and one on Old Cow Creek



(Kilarc Development). Each development has a series of diversions from streams, a canal system, access roads, forebay, powerhouse with electric generators, tail race, switchyard, and a short transmission line connecting the powerhouses to the power grid.

Kilarc Powerhouse and Adjacent Land – The Kilarc Powerhouse was constructed in 1904, and is a two story, rubble masonry wall buildings with a corrugated metal roof. Inside the powerhouse are two turbines and generators as well as other electrical equipment.

On the same parcel as the Kilarc Powerhouse, adjacent to the northeast portion of the building, is the Kilarc switchyard, a small paved parking area, and an unpaved parking area. To the southwest of the Kilarc Powerhouse is a level grassy lawn that affords direct access to Old Cow Creek that the public currently informally uses for picnicking and fishing access. PG&E would retain and continue to operate the switchyard, which would require the property parcel to be split. The Kilarc Powerhouse and adjacent land to the southeast could be operated and maintained for public use. These facilities could have several future public uses, such as: utilizing Kilarc Powerhouse as a museum, formalize the use of the level grassy area as a picnic site, and access to Old Cow Creek for recreational fishing.

Photograph 1.1-1a Kilarc Powerhouse and Adjacent Land





Section 2.0 Considerations and Operation Issues

After Project decommissioning, Kilarc Powerhouse will not be operated by PG&E or any other entity for power generation. If another entity were interested in the future ownership of Kilarc Powerhouse and adjacent land for public use, PG&E would be supportive, so long as all regulatory and legal requirements were met, the facilities were adequately maintained, and PG&E retained no future legal, financial, or other obligations. PG&E would be willing to meet with interested entities to discuss their interest in future ownership of this site for public recreational and/or historical use.

PG&E has identified the following issues that may need to be addressed by a prospective owner. However, as mentioned previously, PG&E cannot anticipate all of the potential issues involved in seeking to operate Kilarc Powerhouse as a recreational facility. Consequently, this list is not intended to be exclusive, exhaustive, or definitive.

- Identify a future use of the Powerhouse that would be compatible with PG&E's continued use of the adjacent switchyard;
- Parcel Split will be required;
- Upgrade to meet seismic retrofit requirements;
- Upgrade to meet ADA requirements for public recreational use;
- Assume liability for future operation and maintenance as a recreational facility and for public use;
- Obtain FERC, CPUC, and other regulatory approvals that may be necessary.

2.1 Land Transfers and Access

PG&E owns the land around the Kilarc Powerhouse. For future ownership of the Kilarc Powerhouse and adjacent land (excluding the portion of the parcel on which the switchyard is located), a portion of the PG&E-owned lands would need to be acquired by the interested entity for public use. The transfer of utility facilities is subject to certain regulatory and legal requirements, as discussed in Section 2.2 below.

2.2 Involvement/Approval of Other Entities

Project Agreement for Kilarc Cow Creek Hydroelectric Project – Future public use of the Kilarc Powerhouse and surrounding area would support the Project Agreement, by preserving the historical, architectural and cultural value of the Kilarc Powerhouse, and/or support public recreation opportunities. When PG&E was considering decommissioning as an alternative to relicensing the Project, it consulted with State and Federal resource agencies and environmental groups to determine the expectations of those parties regarding decommissioning. The



consultation resulted in the Project Agreement¹, which identifies the parameters of decommissioning the parameters of decommissioning.

Federal Energy Regulatory Commission – Since the Kilarc Powerhouse is part of a project licensed by FERC under the Federal Power Act, the disposition of Project facilities, including Kilarc Powerhouse and the adjacent land, would require FERC’s approval and would be subject to evaluation under the National Environmental Policy Act. If the facilities are to be transferred to another entity, during the decommissioning process, PG&E would need to include this proposal in the Surrender Application for FERC’s consideration.

California Public Utilities Commission (CPUC) – In some cases, the CPUC has authority over the disposition or encumbrance of utility lands and facilities. Proposed transactions may need to be submitted to the CPUC for approval under Section 851 of the Public Utilities Code. Under that statute, the CPUC has an approval process for certain asset transfers. The method for seeking CPUC approval depends in part on the value of the land or asset to be transferred. Depending on the intended use of the property, CEQA review and approval by the CPUC may be required.

State Historic Preservation Office – Mitigation conditions established in the License Surrender Application, such as consultation with the State Historic Preservation Office and FERC under Section 106 of the National Historic Preservation Act, will also guide future use for the site. This consultation with the SHPO could include ensuring that any rehabilitation or modification of the Kilarc Powerhouse in preparation for its use as a historic site or as a recreational facility is conducted in a manner consistent with the Secretary of the Interior’s Standards for the Treatment of Historic Properties. An agreement (PA or MOA) between FERC, PGE, the future property owner, and SHPO could be established as part of the License Surrender Application, where the responsibilities and schedule are provided as to the future of the powerhouse.

2.3 Required Facilities

Kilarc Powerhouse and Adjacent Land – In order to make the facility suitable for public use, the following activities and modifications may need to be made depending on the specific proposed uses of the Powerhouse and the adjacent land: site planning to create a more suitable parking area; construction of public restrooms; improvements to the site and building in compliance with the Americans with Disabilities Act; and seismic retrofitting of the Powerhouse to a level necessary for public use.

Recreation Facility Maintenance – Maintenance of Kilarc Powerhouse and adjacent land should be comparable to other facilities of this size. Generally, maintenance and operations would include landscaping, janitorial work, and snow removal, as well as other basic maintenance needs including repairing sprinkler system, fencing repairs, painting, pest control, roof repairs, window and door servicing, and plumbing repairs.

¹ Parties to the Project Agreement are PG&E, U.S. Fish and Wildlife Service, California Department of Fish and Game, National Park Service, California State Water Resources Control Board, National Marine Fisheries Service, Friends of the River, and Trout Unlimited.



2.4 Potential Liabilities Associated with Kilarc Powerhouse Recreation Operations

The potential liabilities associated with the retention of Kilarc Powerhouse and adjacent land for public use include the potential for personal injury associated with public use. All electrical generation equipment in the powerhouse will be de-energized as a part of the decommissioning plan.

2.5 Transfer and Upgrade Costs

In addition to the maintenance costs, there are other costs associated with the transfer and permitting of Kilarc Powerhouse and adjacent land for future public use including seismic retrofit, ADA requirements. Conditions established in the Surrender Application, such as consultation with the State Historic Preservation Office and FERC under Section 106 of the National Historic Preservation Act, and the California Environmental Quality Act (CEQA) may also apply to the transfer and upgrades, which could potentially require additional costs.

PG&E has not estimated what the transfer and upgrade costs would be at this time.



Section 3.0 Summary

PG&E supports the potential acquisition, ownership and management by an outside entity of the Kilarc Powerhouse and adjacent land for public use. The transfer of facilities would need to be approved by FERC, the CPUC, and other State and Federal agencies as part of standard permitting processes for management of these facilities for a new use.

If the approvals are obtained for transfer of the Project facilities and lands, the prospective owner would need to assume all liability for the Project, including personal injury and accidental death. The future owner would need to work with PG&E to obtain land rights and necessary parcel divisions and assume fiscal responsibility for the facilities.

PG&E is available to discuss with interested parties the transfer of the Kilarc Powerhouse and adjacent lands. .

Interested parties should contact Stacy Evans, PG&E's Project Manager at 415-973-4731.