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December 16, 2010

Hon. James H. Hancock, Jr., Esq.
Balch & Bingham, LLP
1901 Sixth Avenue North
Suite 1500
Birmingham, Alabama 35203

Re: *Martin Hydroelectric Project (FERC No. 349-150)*
Central Elmore Water & Sewer Authority Water Withdrawals from Lake
Martin

Dear Jim:

I am writing on behalf of Central Elmore Water & Sewer Authority (CEW&SA) which has been an active stakeholder participant in the Martin Hydroelectric Project (FERC No. 349-150) relicensing process that your client, Alabama Power, has been conducting over the last several years. I wanted to take this opportunity to communicate with you because I have not heard from you in well over a month. I wanted to impress upon you the importance of addressing, as soon as possible, CEW&SA's prospective water supply needs following the expiration of the current water withdrawal contract in June of 2013 and CEW&SA's other concerns with regard to the relicensing process.

As I have noted before, CEW&SA is one of the largest rural water authorities in the State of Alabama (as organized and authorized by § 11-88-1, et seq., *Code of Alabama*). Currently, CEW&SA provides potable water service to over 60,000 individuals and businesses, as well as water for fire protection for large portions of Elmore County and Coosa County, Alabama. I believe we would certainly agree that access to clean, affordable potable water as well as fire protection is a significant improvement to the human environment and an enhancement to the ability for individuals, businesses and governments to be protected and productive. CEW&SA takes its mission to provide clean, affordable potable water very seriously. Fortunately for the majority of residents and businesses in Elmore County and Coosa County, CEW&SA has previously developed a plentiful and affordable source of water from Lake Martin following the previous declaration by FERC that CEW&SA had a right to withdraw water from Lake Martin to provide for the potable water needs of the adjacent communities. It is this abundant source of

water that is available, subject to requirements set forth by FERC, and accessible due to significant investments by CEW&SA, that CEW&SA is committed to secure for its customers current and future water needs during the upcoming relicensing period for the Martin Hydroelectric Project (FERC No. 349-150).

As stated above your client, Alabama Power has been involved in the Integrated Licensing Process (ILP) designed by FERC in its attempt to relicense the Martin Hydroelectric Project (FERC No. 349-150). FERC has intended the ILP to streamline the licensing process by providing a predictable, efficient, and timely licensing process to ensure “adequate resource protections.” In addition, the ILP is promoted by FERC to achieve efficiencies in the licensing process by addressing three “fundamental” principles:

- Early issue identification and resolution of studies needed to fill information gaps, avoiding studies post-filing;
- Integration of other stakeholder permitting process needs; and
- Established time frames to complete process steps for all stakeholders, including the Commission.

Bottom line, it appears FERC wanted potential licensees to identify and resolve as many issues as possible prior to the formal license application process while providing stakeholders with valuable information concerning the licensing of the project as well as providing a means for stakeholders to participate by providing information and input into and about the various Study Plans. This goal of the ILP certainly makes sense. While Alabama Power has certainly spent a great deal of time developing its study plans and holding numerous meetings with the Martin Interest Groups (MIGs), it appears that a number of critical issues that are of consequence through the licensing process, and that Alabama Power has been aware of for many years, have been minimized or avoided. In the case of water withdrawals, Alabama Power developed Study Plan 11 which, on the surface, addresses water quantity, water use, and water withdrawals, but neither this document nor the ILP has been utilized to genuinely address significant concerns or impacts regarding water use or water withdrawals. This appears to be either a greatly underutilized opportunity to resolve a known concern for an active stakeholder and its significant customer base or your client is simply minimizing the issue.

At the end of March of 2010, Alabama Power disclosed its draft Study Plan 11 – Water Quantity, Water Use, and Water Withdrawals. While Alabama Power did formally disclose its intention of applying its water withdrawal policy to Lake Martin, which includes a radical compensation scheme, the Study Plan in no way gave any real guidance to current or prospective water withdrawers as to extent its water withdrawal policy would affect cumulative pricing of water withdrawals. In fact, its water withdrawal policy is in contrast to the water withdrawal compensation arrangement previously approved by FERC between CEW&SA and Alabama Power. An objective observer might equate Alabama Power’s creative pricing modules to that of actually selling water, which it is not permitted to do.

In April of 2010, CEW&SA filed its initial response to the draft of Study Plan 11. This initial response was designed to put Alabama Power and FERC on notice regarding CEW&SA’s concerns with the Study Plan. In addition, CEW&SA expected to receive some sort of response

to its initial concerns either from Alabama Power or FERC. CEW&SA had planned to continue to monitor the developments of this draft Study Plan 11 and make additional comments prior to the planned release of the final Study Plan 11 in December of 2010.

In August of 2010, following no response from Alabama Power to CEW&SA's initial concerns and no offer from Alabama Power to discuss the prospective water withdrawals by CEW&SA during the upcoming licensing period, CEW&SA requested, through correspondence, a meeting with FERC to discuss its growing concern with the manner Alabama Power was addressing future water withdrawals from the Martin Hydroelectric Project (FERC No. 349-150) and other concerns CEW&SA had with the licensing process. It seems more than ironic that approximately one (1) week after the request for a meeting was sent to FERC that your client, Alabama Power, came out with its final report for Study Plan 11. The final report for Study Plan 11 was identical to the draft Study Plan 11, which is to say that none of CEW&SA initial concerns were addressed in the final report, and the final report was released four (4) months prior to its scheduled release date. While I certainly have no issue with Alabama Power completing and issuing any Study Plan early following its completion, I consider the timing of the release of the final report following CEW&SA's request to FERC as blatant contempt for the concerns of CEW&SA.

Subsequent to these action, CEW&SA has made clear many of its concerns to Alabama Power and FERC regarding the application of Alabama Power's water withdrawal policy toward CEW&SA and its customers, as well as its concerns for the licensing process that has been observed over the past number of years. While CEW&SA does appreciate much of Alabama Power's efforts and information during the ILP, CEW&SA remains deeply frustrated over your client's lack of concern in addressing CEW&SA's greatest apprehension in the licensing process. It appears your client is trying to ignore the major issues that the ILP is supposedly designed to address prior to the formal licensing application process. Again, a prime example of Alabama Power's approach is when Alabama Power finally agreed to meet with representatives of CEW&SA to discuss the water withdrawal issue in early November of this year, the meeting was cancelled following the filing of CEW&SA's comments that were due to FERC on November 1, 2010 (a FERC set deadline). Apparently Alabama Power did not appreciate the comments made and therefore, the meeting between the parties was unilaterally cancelled by Alabama Power. Alabama Power sent an email stating that the meeting will be rescheduled following Alabama Power to addressing with FERC CEW&SA's concerns. To date I have not seen Alabama Power address these concerns nor have I heard back from you or Alabama Power as to when CEW&SA can meet with your client to discuss this issue vital to CEW&SA and its customers.

This matter seems like the ideal issue to address and resolve during the ILP. Unfortunately, it appears that Alabama Power is preparing to file its Preliminary License Proposal (PLP) and I assume its License Application without addressing this issue that has significant ramifications to not just CEW&SA and Alabama Power but to over 60,000 residents and businesses in Elmore and Coosa Counties plus numerous visitors to the central Alabama region.

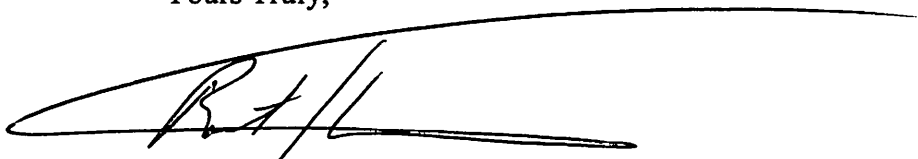
CEW&SA respectfully requests a meeting be held as soon as possible and prior to Alabama Power filing its PLP to allow time to make significant progress on the water

CEW&SA to meet its debt service ratio for its bond holders, and disable CEW&SA's long-standing goal of adding additional access to potable water in rural areas as the opportunity arises and funds are made available.

Again, CEW&SA appreciates FERC considering CEW&SA's concerns in the licensing process for the Martin Hydroelectric Project (FERC No. 349-150). CEW&SA reiterates the concerns it raised in its November 1, 2010 correspondence referenced above. I look forward to continuing to participate in the relicensing process as a representative of CEW&SA, working with Alabama Power in the negotiations for a new water withdrawal agreement, and working with FERC to ensure that the relicensing process is fair and stakeholders are treated in an equitable manner.

I look forward to hearing from you soon.

Yours Truly,



Robert J. Morris

RJM/bi

cc: Mr. Jeff Wright, Director of Office of Energy Projects, FERC (*via email*)
Mr. Mark Pawlowski, South Division Director, FERC (*via email*)
Mr. James H. Hancock, Esq. (*via email*)
Mr. Earl Reeves, Chairman, Elmore County Commission (*via email*)
Mr. Joe Faulk, Commissioner, Elmore County Commission (*via email*)
Mr. Patrick Pinkston, Esq. (*via email*)
Mr. Thomas C. Ingram, Chairman, CEW&SA
Mr. Kenneth Holt, Vice-Chairman, CEW&SA
Mr. H. Wade Johnson, Board Member, CEW&SA
Mr. Robert L. Prince, Jr., General Manager, CEW&SA (*via email*)
Mr. J. Theodore Jackson, Esq. (*via email*)
Mr. Chris Simmons, Esq. (*via email*)