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December 18, 2009



Mr. Jesse Cunningham
President
Lake Martin HOBOS
PO Box 1030
Dadeville, AL 36853-1030

RE: Martin Relicensing Studies 12(g) and 12(h) (FERC Project No. 349)

Dear Jesse:

I am in receipt of your letter dated December 9, 2009 regarding ongoing studies 12(g) and 12(h) (hereinafter, “the studies”). As you know, these studies are being conducted as part of the Integrated Licensing Process (ILP) that Alabama Power is using to relicense the Martin Dam Project (FERC No. 349). The Federal Energy Regulatory Commission approved the two study plans on April 17, 2009, which the Lake Martin Home Owners and Boat Owners Association (HOBOS) helped develop during 2008-2009.

First, Alabama Power agrees that the “relicensing program depends on all parties working together to achieve the common goal of preparing all the necessary documents, studies, and coordinating the inclusion of all pertinent information into the filing documents that represent the combined interest of all stakeholders.” Alabama Power has been working with Lake Martin stakeholders since 2007 to achieve consensus on the needed studies to be conducted during the relicensing process and continues to work with Lake Martin stakeholders while the studies are being conducted.

However, Alabama Power disagrees with many other statements contained in your letter and responds to each below. We have included the original statement in italicized text from your letter to facilitate a review of the issues you raise. Alabama Power’s response appears following the italicized text.

An economic impact study of Lake Martin is extremely important to this area. A comprehensive study of this type has never been completed, and hopes are that such a study can not only justify raising the fall, winter, and spring levels of the lake, but can also be used to attract new businesses to the area. It is generally recognized that Lake Martin is the economic engine of the area and this study will provide the proof necessary to attract business growth to the area. The unemployment rate for Tallapoosa County is currently about 15%, significantly higher than the national unemployment average, and stakeholders feel raising the levels of Lake Martin can have a real positive impact on the economic conditions in the area.

We agree that an economic impact study can provide valuable information concerning the importance of an event, business, or lake to an area. However, discerning ways to enhance this economic value is not the purpose of the Alabama Power relicensing studies or the FERC

relicensing process. Rather, the purpose of the studies is to produce information that can inform stakeholders in making decisions on issues to be resolved through the relicensing process. Enhanced economic conditions in the local community can be a result of the relicensing process but it is not the goal of it. Alabama Power is charged with examining the effects of continued operation of the Martin Dam Project and any proposed changes in operation on the project resources, including any effects (positive and/or negative) on recreation and economic resources. Since Alabama Power is considering several alternative water level scenarios (proposed by the HOBO and other stakeholders), we must analyze potential effects of these alternatives and provide a recommendation to FERC so that they can make a final determination on how the project should be operated and the protection, mitigation, and enhancement (PME) measures that should be included in any license issued to Alabama Power for the Martin Project.

Alabama Power disagrees that a comprehensive study has never been completed for Lake Martin. Fishery Information Management Systems (FIMS) completed such a study in the mid-1990s that provided invaluable information on the value of Lake Martin to the local community and the state. Alabama Power originally intended to use this existing information in relicensing, but due to the effects of the 2007 drought on collecting updated recreation use estimates, and input from the stakeholders, we decided to develop a new study (Study Plan 12g and 12 h which was added by FERC) for FERC approval. Study Plans 12g and 12h were modeled on the FIMS study at the request of both the HOBO and other stakeholders.

Alabama Power also rejects the notion that the purpose of the studies is to “justify” any position regarding alternative water level scenarios. If we entered into a study (any study) with the intent of justifying a position, it would grossly undermine the scientific validity of the study and negate the value of conducting the study. Alabama Power is not conducting these studies to justify any one position, but to objectively examine the effects of the reasonable alternatives and to provide this information to the FERC who will be responsible for making a final decision regarding the operation of the Martin Project.

As a responsible corporate citizen, Alabama Power shares your concern about unemployment in the Lake Martin area and is optimistic that Lake Martin can continue to be a catalyst for economic development in the area.

Unfortunately, these critical studies have advanced to the current point, without input being offered by APCo to the Lake Martin area stakeholders. Mr. Rob Southwick, Southwick Associates, was introduced to attendees of a restricted stakeholder meeting. However, Mr. Southwick did not explain his proposed study at that time, nor have other opportunities been allowed for input from area stakeholders.

The HOBO’s claim that it and other stakeholders had no opportunity for input in the development of the studies is absolutely false. All stakeholders, including the HOBO, were provided with at least three opportunities to comment on the study plans prior to FERC approval on April 17, 2009. In fact, the drafting of the study plans occurred over two years and HOBO members were instrumental in developing most of the study plans. Alabama Power was very open on how these particular studies would be conducted and provided the Request for Proposals to interested stakeholders upon request. After Southwick Associates was selected and the final scope of work was being completed, Alabama Power held a meeting at which Mr. Rob

Southwick explained the methods included in the scope of work. To say the meeting was “restricted” is untrue; the meeting was open to all stakeholders with a particular interest in this study. Meeting attendees included the HOBO, the Lake Martin Resource Association (LMRA), and the Alabama Department of Conservation and Natural Resources (ADCNR). Further, to say Mr. Southwick “did not explain his proposed study at that time” is misleading. The main purpose of the meeting was for the stakeholders to meet Mr. Southwick and hear his proposal for completing the work scope as well as answer any questions from stakeholders.

Study 12(g) has progressed throughout the summer with interviews of boaters, fishermen, persons at boat ramps, and some individuals on docks. To date the questionnaire used has not been made available to local stakeholders.

Alabama Power does not intend to share the detailed sampling plan at this time as we do not want to bias study results in any way, or provide the means for any other group to bias the study results. The questionnaire will not be made available until the draft report is issued. Southwick Associates is a professional firm specializing in natural resource related surveys. We have relied on their expertise to meet the study objectives which were approved by FERC in the April 17, 2009 Study Plan Determination. We refute the claim that interviews have been conducted with “some individuals on docks”. The sampling plan contained in the FERC approved study plan includes “anyone visible on the water or within 10 feet of shoreline” and not just “some” individuals.

The economic indicators study, 12(h), has progressed to the point where questionnaires were mailed out to a sampling of property owners. This HOBO representative requested to review the questionnaire, after learning it was about to be mailed out. The request was denied by Mr. Crew and Mr. Southwick, on the grounds that it might taint the study, but Mr. Southwick did read parts of the questionnaire over the phone and actually added suggested questions 21(a) and 21(b) to cover one needed aspect of the study. It is unknown if Mr. Southwick has personally visited the lake or any of its facilities; however, it appears that employees of Kleinschmidt Associates, a consultant hired by APCo, have been involved in the formulation of the study methodology. Local stakeholders should have been involved with the study formulation stages and could have provided valuable information that would have made the survey more applicable to conditions around Lake Martin.

Again, Alabama Power never had any intentions of distributing the draft questionnaires to stakeholders for review and comment. It would be grossly inappropriate from a scientific standpoint if we used a “negotiated” questionnaire that served the special interest of each stakeholder group. We have relied on Southwick’s expertise in formulating a questionnaire that meets the rigor of survey research methodology and also meets the FERC approved study objectives.

An example of a potential problem area with the survey was discussed at the December 3 meeting. The issue of the survey being divided into six potential rule curve scenarios, which essentially made the survey six different surveys were sent to 116 stakeholders each. At best the sample ratio of 116 out of over 7,800 resident stakeholders does not seem to be adequate sampling. Proposals made

during stakeholder meetings for the rule curve change called for increased lake level periods in the fall, with a winter curve of three to five feet higher water levels, and an early fill date. Scenarios offered survey recipients did not include any of the proposed rule curve levels, only fragments of those levels.

It is true that each individual questionnaire only contains one of the alternatives under consideration. However, the purpose of the study is not to discover which alternative is preferred by the majority of stakeholders (in which case they would have been presented with all alternatives). The purpose is to examine the effects of the alternatives on recreation and economic resources. In order to accomplish this, it is necessary to examine each alternative separately. When the data are collected, the analysis outlined in the FERC approved scope of work will provide the means to evaluate the effects of the various combined alternatives.

During the meeting of December 3, 2009, HOB0 representatives, and other stakeholders, reported to the attendees that the survey had been mailed out and some recipients have reported that the study is too cumbersome, complex, and time consuming. HOB0s and other stakeholder groups received copies of the study from members, since none were provided for review.

Southwick performed extensive pre-testing of the questionnaire with local individuals as well as a small sample from the population of Lake Martin property owners. There was some indication the questionnaire was complex, but the issues and objectives of the survey are complex as well. We suggest you publicize the importance of returning the questionnaire and answering the questions to the best of an individual's ability.

To date, the business portion of the study has not been mentioned at relicensing meetings. This would be a very good opportunity for APCo to include local stakeholders in the formulation and methodology of this portion of the study.

The business portion of Study Plan 12g was discussed at relicensing meetings in 2009; most recently at the December 3, 2009 meeting where you were present. The FERC approved scope of work contains the methodology for the business portion of the study. We recommend that you review the FERC approved study plan for specific methods being used for this portion of the study. If you have any questions after reviewing the study plan, I will be happy to relay them to Mr. Southwick.

There are numerous areas of concern for the studies as they have progressed so far:

- 1. Will the interests of all stakeholders be correctly served by the studies and subsequent reports?*
- 2. Will an adequate number of responders complete the survey correctly to validate the effort?*
- 3. At the completion of the survey, will Lake Martin area stakeholders be included in the review of the survey data and other documents used to develop the findings and conclusions of the overall study?*

The purpose of any FERC relicensing study is not to prove that all interests of all stakeholders would be served. The relicensing process simply provides an avenue for resource

agencies, non-governmental organizations, special interest groups, and individuals to participate in the development of information and the review of said information. As is mostly the case, there are always competing interests. All stakeholders are “correctly served” if they are provided opportunity to participate in the process. The studies will meet the objectives outlined in the FERC approved study plan. Interpretation of the results provided by the studies will be discussed with stakeholders, but whether you feel the interpretation of the results is “correct” is a subjective decision you will have to make.

Southwick Associates would not be conducting the study as proposed if they did not feel an adequate amount of useful data will be collected to meet study objectives. Alabama Power is confident that they will receive a response rate consistent or better than industry standards.

If you review the FERC approved study plan, on which you have commented on multiple occasions, you will notice there is an item for responding to comments from the Martin Issue Group (MIG) in the scope of work contained in the attachment. This means you will be provided an opportunity to review and comment on the report prepared by Southwick.

While the HOBOS acknowledge that the consulting firm should have been able to develop the questionnaire in secret, input into the data necessary to compile the study should have been available to local stakeholders. Moving forward, stakeholder involvement will be critical to the completion of the above mentioned studies, as well as all the other studies that must be completed prior to submission to FERC. Stakeholders have spent many hours and days assisting development of many aspects of the studies. The critical time of compilation is approaching, stakeholder interest is peaking, and now is the time for the openness and cooperation that APCo and FERC have shown in the past.

We agree that it was necessary and absolutely prudent for Southwick to develop the questionnaire according to the methods approved by FERC. Alabama Power is committed to continuing the “openness and cooperation” for the remainder of the process; however, this does not mean that Alabama Power will compromise any of the data collection and approved study methods to satisfy the needs/interests of any stakeholder group.

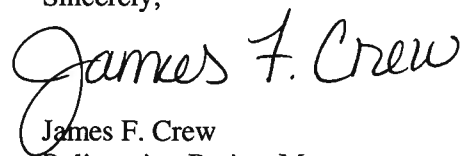
The HOBOS would like to recommend that a meeting be scheduled as soon as possible to address the survey issues and plans for the future. Possibly a meeting with Mr. Rob Southwick could be held next month in conjunction with the modeling workshop that was proposed at the December 3d meeting.

Alabama Power does not consider it appropriate to hold a meeting to discuss “survey issues” associated with these studies for the reasons previously identified in this letter. We will continue to conduct the meetings needed to present results from these studies and negotiate protection, mitigation, and enhancement measures with stakeholders based on the results/and interpretation of those results.

In conclusion, I appreciate your passion for raising the winter water levels in Lake Martin. However, let me reiterate that there are a number of resources that have to be considered before Alabama Power and FERC can decide what is feasible and in the best interest of all resources and stakeholder interest involved. While the studies you

have commented on in your letter are an important component of our evaluation, we will be considering positive and adverse effects on all project resources as a result of a potential change in the rule curve and such information will be filed with FERC for their use in processing the Martin Project license application.

Sincerely,

A handwritten signature in black ink that reads "James F. Crew". The signature is written in a cursive style with a large, looping initial "J".

James F. Crew
Relicensing Project Manager
Alabama Power Company

Cc: Mark Pawlowski, FERC
Lee Emery, FERC
Martin Project Stakeholder Distribution List