

May 29, 2009

Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

***RE: Public Utility District No. 1 of Okanogan County
Shanker's Bend Hydroelectric Project, FERC Project No. 12804
First Six-Month Preliminary Permit Progress Report***

Dear Secretary Bose:

On December 18, 2009, the Federal Energy Regulatory Commission ("FERC" or "Commission") granted the Public Utility District No. 1 of Okanogan County ("District") a preliminary permit for the Shanker's Bend Hydroelectric Project, FERC Project No. 12804 ("Project"), to investigate the feasibility of the Project located at Shanker's Bend on the Similkameen River in Okanogan County, Washington. In accordance with Article 4 of the preliminary permit, the District hereby files this progress report for the first six-month period of the permit.

Similkameen River Appraisal Level Study

The District has completed an appraisal level (pre-feasibility) evaluation of three options to develop water storage on the Similkameen River. The Similkameen River Appraisal Level Study ("SRALS") also evaluates the potential of each option to generate hydroelectric power and provide flood control benefits. The study was funded by a grant of \$325,000 from the Washington State Department of Ecology as part of its Columbia Basin Program. The United States Army Corps of Engineers contributed matching funds and developed a Similkameen River Hydrology and Water Availability Study. A downloadable version of the final SRALS report has been posted on the District's website, located at <http://www.okanoganpud.org/Similkameen/SimilkameenStudy.htm>.

SRALS Conclusions

The SRALS has shown that constructing any of the three alternative Similkameen Water Storage and Power projects on the Similkameen River is potentially viable from an engineering standpoint. Each of the three alternatives of a high, medium, and low dam presents potential impacts and benefits. All three alternatives would require extensive consultation and mitigation

proportionate to their impacts in order to reach agreement with affected parties, agencies and tribes.

- High Dam - The High Dam option, capable of providing up to 74 MW of installed hydropower capacity, would provide far more water storage, flood control and hydropower benefits than the other options, and would also provide greater benefits to downstream fish and other aquatic resources through summer cool water releases. It would attenuate floods in all years modeled, would very likely be able to meet temperature standards in the Similkameen River and improve conditions in the Okanogan River, would supply minimum instream flows (greater than naturally occurring flows) in all weeks, and would be capable of providing up to 2000 cfs of additional water in July-September of most years and offset recreational benefits as well. Measured against these benefits, the High Dam option would entail higher costs related to inundation of property and infrastructure, and for mitigation of effects to wetlands, wildlife habitat, and cultural resources. The reservoir would inundate extensive areas of wetlands, abandoned mines, residences and farms, and the lands of First Nations in Canada, and would be subject to Canadian regulations.
- Medium Dam - The Medium Dam option would provide water storage, flood control, benefits to fish downstream through the release of cooler water, and hydropower gains without affecting Canada. It would be capable of providing up to 23 MW of installed hydropower capacity; would attenuate floods in 91% of the years modeled, would likely be able to meet temperature standards in the Similkameen River and improve conditions in the Okanogan River, would supply minimum instream flows (greater than naturally occurring flows) in 96% of weeks, and would be capable of providing up to 500 cfs of additional water in July-September of most years. The most important challenges to moving forward with the Medium Dam option are associated with the inundation of land, property, and infrastructure, and potential mitigation requirements for wildlife and wetlands. Recreation and cultural resources remain issues that have the potential to pose considerable challenges as well. However, all of these challenges would be greatly reduced as compared to the High Dam option.
- Low Dam - The Low Dam option, capable of providing up to 19.6 MW of installed hydropower capacity, would provide reduced water storage, flood control and hydropower compared to the previous two options. The benefits to fish downstream through the release of cooler water during the summer months depend upon temperature stratification in the reservoir, which would need to be confirmed by modeling. It would attenuate floods in 76% of the years modeled, may be able to improve temperature conditions in the Similkameen River, and would supply minimum instream flows (greater than naturally occurring flows) in 92% of weeks. The smaller Low Dam reservoir significantly lessens concerns raised by the inundation of land, property, and infrastructure, as well as potential mitigation requirements for wildlife and wetland habitats, recreation sites and cultural resources. However, important potential effects remain in each area that would need to be addressed in permitting and consultation processes.

Consultation

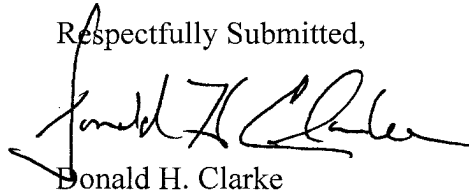
- As part of the development of the SRALS report, the District consulted with multiple agencies and organizations, including the: United States Fish and Wildlife Service; United States Bureau of Land Management; British Columbia Ministry of Environment; British Columbia Register of Historic Places Heritage Branch; the Canadian Ministry of Tourism, Sport and the Arts, Environment; Washington State Department of Fish and Wildlife; Washington State Department of Ecology; Washington State Department of Natural Resources; Okanogan County Planning Department; Lower Similkameen Indian Band; Upper Similkameen Indian Band; Colville Confederate Tribes; and Chopaka Lodge.
- Before and during the development of the appraisal study, the District provided multiple presentations and information regarding the potential Project to the following entities: Lower Similkameen Indian Band; First Nations Canada; Upper Similkameen Indian Band; Okanogan Watershed Action Team (Upper Columbia Salmon Recovery Board); United States Bureau of Land Management; Bilateral Okanogan Basin Technical Working Group; International Osoyoos Lake Board of Control; International Joint Commission, Okanogan County Pamona Grange, Transboundary Gas Group; Rotary Club of Okanogan-Omak; and the Oroville Senior Citizens Center.
- In addition, the District has been actively participating in a cross border International Steering Committee (“ISC”) comprised of five entities selected by Canadian officials and five entities selected by United States officials. Three of the positions are filled by First Nations, two of which are on the Canadian side of the border and one on the U.S. side. The other members are local and regional government officials and utility companies. The main purpose of the committee is to coordinate efforts on both sides of the border and to facilitate information sharing for all interested parties. The ISC, in parallel with the Districts efforts, has commissioned a study of the Similkameen River for flood control, water and hydroelectric benefits. The study is nearing completion and focuses most of its efforts upstream of the international border.

NEXT STEPS:

The District has identified data gaps that require further investigation to establish the feasibility of the options, and is considering next steps, which may include performing a feasibility study. Any feasibility study would establish a more thorough description of the environmental setting and identify potential environmental and social impacts, and potential mitigation measures for any significant effects. Any studies may include, but are not limited to, water use and quality, aquatic, botanical, wildlife, cultural, archaeological and historical resources, impacts on special status species and habitats, as well as recreation studies, land use and socio-economic studies.

Should you have any questions or comments regarding this report, please contact the undersigned or the District's Director of Regulatory and Environmental Affairs, Dan Boettger at (509) 422-8425.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Donald H. Clarke". The signature is written in a cursive style with a large initial "D".

Donald H. Clarke

Counsel to the Public Utility District
No. 1 of Okanogan County

CERTIFICATE OF SERVICE

I hereby certify that I have on this day served the foregoing document by email or first class mail postage prepaid upon each person designated on the official service list compiled by the Secretary of the Commission in this proceeding.

Dated at Washington, DC this 29th day of May 2009.

Manuel Sandoval
Legal Assistant
Law Offices of GKRSE
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Washington, DC 20005