December 23, 2003

Magalie R. Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, DC 20426

Re: Alcoa Power Generating Inc. - Yadkin Division, Project No. 2197-_____.
2003 Drought Contingency Plan Report

Dear Secretary Salas:

In compliance with Ordering Paragraph (E) of the Federal Energy Regulatory Commission's ("Commission") April 23, 2003 "Order Modifying and Approving Drought Contingency Plan and Granting Intervention,"¹ the Yadkin Division of Alcoa Power Generating, Inc. ("APGI") hereby submits a report (the "Report") assessing the 2003 Drought Contingency Plan ("DCP") and providing recommended changes for implementation of the DCP in 2004.

Background

In the summer of 2002, the Southeastern United States experienced severe drought conditions that resulted in a state of public health emergency in the States of North Carolina and South Carolina due to the diminished levels of water available for municipal consumption. The effects of the drought on the Yadkin/Pee Dee River basin were significant. As described in more detail in the April 2003 Order, in response to the drought conditions, APGI held a number of emergency meetings and ultimately sought and received several temporary

variances from the terms of the Yadkin Project license in an effort to conserve what water remained in the storage reservoirs in the lower Yadkin – Pee Dee River Basin.²

When these measures proved insufficient, the participants initiated a consultation process that resulted in a collaborated effort to develop a protocol for operation of the Yadkin Project and Progress Energy's Yadkin-Pee Dee Project reservoirs so as to maximize the use of water remaining in the reservoirs for municipal water supply. As a result, the participants were able to enter into an agreement entitled the "Yadkin-Pee Dee River Basin Emergency Drought Management Protocol for Post-September 15 Operations" (the "Protocol"). By letter dated August 29, 2002, APGI filed an emergency request for Commission action to allow APGI to implement a new operating regime for the Yadkin Project consistent with the Protocol.

By letter dated December 20, 2002, the Director of the Commission's Division of Hydropower Administration and Compliance found that APGI was prudent to have filed the emergency request that it made on August 29th. The Letter noted that as a result of improving conditions and forecasts, the need to continue the temporary license variances was no longer warranted and directed normal Project operations to resume. The Letter requested APGI, in consultation with the Parties,³ to develop a drought contingency plan for the summer of 2003. APGI submitted its proposed DCP on February 14, 2003. The April 2003 Order approved the DCP with certain modifications.

The April 2003 Order directed APGI to file a report by December 31, 2003 that assesses the DCP for 2003 and provides any recommendations for changes or future implementation. The Commission also indicated that any comments from the drought management team should be included with the Report. On December 3, 2003, Yadkin circulated a draft of the Report and solicited comments by December 15, 2003.

**Documents Submitted**

Copies of the following documents are being submitted with this transmittal letter:

(i)  The Report to the Commission Concerning the 2003 Implementation of the DCP (Appendix A); and

(ii) Comments on the draft Report that APGI has received to date (Appendix B).

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³ The Parties to the DCP are Progress Energy, the North Carolina Department of Environment and Natural Resources, the South Carolina Department of Natural Resources, the South Carolina Department of Health and Environmental Control, U.S. Fish & Wildlife Service, Duke Power Company, and High Rock Lake Association.
Summary of Report and Recommended Changes

During the January 2003 to November 2003 period, streamflow into the Yadkin Project was 68% higher than average based on over 70 years of data. As noted in the Report, which includes a summary of the monthly teleconference calls and postings on APGI’s Yadkin website, only in March 2003 was any of the Yadkin – Pee Dee River Basin under abnormally dry conditions. In fact, hydrologic data reviewed during the monthly teleconference calls reflected significant and rapid improvement over conditions in the same period in 2002. As a consequence of the favorable hydrologic conditions, it was not necessary for the Parties to hold additional meetings or develop a specific drought response during 2003.

For 2004, APGI proposes to continue the implementation of the DCP as approved in the April 2003 Order, with two modifications:

- APGI proposes to hold quarterly teleconferences rather than monthly beginning in February 2004. In the event that the Parties agree that there is a potential for drought conditions based on an analysis of the most current data, or if any Party notifies APGI of its determination that the U.S. Drought Monitor has elevated 10% or more of the Yadkin – Pee Dee River basin to a Drought Severity Classification of D1 or higher, at the request of that Party, APGI would schedule and hold monthly or more frequent meetings as needed to evaluate changing conditions and to discuss possible courses of action.

- In the event APGI implements operational changes to minimize the impact of drought conditions in 2004, APGI will prepare a draft report, provide an opportunity for review by the Parties, and file a final report with Commission, with copies to the Parties, that assesses the DCP for 2004 and provides any recommendations for changes or future implementation.

Summary of Comments on the Report

APGI received comments from the following four Parties on the Report: Progress Energy, High Rock Lake Association ("HRLA"), the North Carolina Department of Environment and Natural Resources ("NCDENR"), and the South Carolina Department of Natural Resources ("SCDNR"). Copies of the comments are attached hereto as Appendix B.

The comments are generally supportive of APGI’s approach for drought monitoring in 2004. Moreover, APGI is agreeable to incorporating a number of the suggested modifications to the DCP for 2004. Specifically, at NCDENR’s suggestion, we are adding a link on the Yadkin Division website to the National Weather Service’s 30-day rainfall forecast. With respect to the comments of NCDENR and SCDNR that a comprehensive, longer term DCP, with improved coordination with Progress Energy, should be addressed in the context of the current

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relicensing proceedings in the basis, APGI agrees and is receptive to working with Progress Energy in this effort.

NCDENR's suggestion that APGI should consider expanding the "Parties" to include a large group of participants that are potentially affected by a drought, is premature. APGI believes it would be more workable to stay with the current group of Parties (including Progress Energy) until a drought actually develops, and to expand the group as appropriate during the course of defining a specific drought response.

HRLA's comments propose two basic changes to the 2004 DCP: (1) changing the reference point for a trigger of monthly calls from the U.S. Drought Monitor to stream flow at the Yadkin College gauge; and (2) modifying language relating to control of operating decisions related to the Project. The U.S. Drought Monitor classification used in the DCP takes into consideration a number of factors in addition to stream flow (e.g., groundwater levels, etc.) and involves a more comprehensive drought classification process than monitoring a single stream flow gauge. Therefore, APGI submits that reliance on the U.S. Drought Monitor as a trigger point is a more sophisticated and accurate point of reference than the Yadkin College USGS gauge station that HRLA suggests as an alternative.

HRLA also suggests that "the Parties" should have the right to determine when operational changes are required for the Yadkin Project in response to drought conditions. However, as the licensee for the Yadkin Project, APGI is responsible for all aspects of license compliance, and under Section 10(c) of the Federal Power Act is liable for damages caused by the operation of the Project. Although any determination to change the operation of the Project will be informed through the consultation process of the DCP - as actually occurred during the drought of 2002 - because APGI's legal responsibilities cannot be shared or delegated, the ultimate decision must remain with APGI.

Please contact the undersigned if you have any questions concerning this Report.

Respectfully submitted,

[Signature]

David R. Poe
Counsel for Alcoa Power Generating Inc.

Enclosures

cc: Mr. Joseph D. Morgan,
FERC Division of Hydropower Administration and Compliance
All Parties
I. Background And Overview

At the request of the Federal Energy Regulatory Commission ("FERC"), on February 14, 2003, Alcoa Power Generating Inc. ("APGI"), through its Yadkin Division, filed a Drought Contingency Plan ("DCP") for the Yadkin Project, P-2197. On April 23, 2003, FERC approved the DCP with modifications.

The Parties to the DCP (Yadkin Division of APGI, Progress Energy, NC Department of Environment and Natural Resources, SC Department of Natural Resources, SC Department of Health and Environmental Control, US Fish & Wildlife Service, Duke Power Company, and High Rock Lake Association) were identified to hold monthly teleconferences beginning in March 2003 to evaluate hydrologic data. The evaluation process in these meetings was to include consideration, at a minimum, of forecasts and data from sources related to actual and forecasted streamflow, precipitation, and groundwater levels.

In addition, the DCP indicated that the existence of a drought would be deemed to occur if at any time the U.S. Drought Monitor elevates 10% or more of the Yadkin – Pee Dee River basin to a Drought Severity Classification of D1 or higher. Also, in the event that the Parties agreed that there is a potential for drought conditions based on an analysis of the most current data, APGI would then schedule and hold periodic meetings as needed to evaluate changing conditions and to discuss possible courses of action (i.e. a specific drought response) in order to protect public health and safety, and to minimize the environmental and economic damage that may be wrought by an extended drought.

In its April 23, 2003 approval, FERC requested APGI to file a report by December 31, 2003 that assesses the DCP for 2003 and provide any recommendations for changes or future implementation. FERC also requested that the report include any comments from the Parties.
II. 2003 DCP Implementation Report

During the January 2003 to November 2003 period, streamflow into the Yadkin Project was 68% higher than average streamflow based on over 70 years of data.

As a result and as noted in postings to APGI’s Yadkin Division website, http://www.alcoa.com/yadkin/en/info_page/reservoir_data.asp (appended to this Report), which summarize monthly teleconference calls indicated in the DCP, only in March 2003 was any of the Yadkin – Pee Dee River Basin under abnormally dry conditions. In fact, hydrologic data reviewed during the monthly teleconference calls represented significant and rapid improvement over conditions in the same period of 2002. With such high streamflow and significant improvement in overall conditions, it was not necessary for the Parties to hold additional meetings or develop a specific drought response.

APGI would highlight though that since the beginning of monthly teleconferences in March 2003, continuous improvement of information sources and communication to the public through its Yadkin Division website occurred. Specific improvements are noted below:

March 19, 2003 – The initial teleconference call summary provided the basic elements of the hydrologic review based on DCP requirements.

June 27, 2003 – APGI added a comment reflecting streamflow was above the long-term average. In response to questions from the High Rock Lake Association (HRLA) about the origin of the streamflow data, APGI began indicating that streamflow was measured at USGS gauging stations.

August 26, 2003 – In response to questions from HRLA about streamflow data being recorded at a point in time on the date of the call, with the help of the NC Department of Natural Resources – Division of Water Resources, APGI began providing a 30-day average streamflow. The 30-day average streamflow continued to be based on actual USGS gauging stations, but because a portion of the Yadkin River Basin above High Rock Reservoir is ungauged, a pro-rating method was used to estimate total streamflow into the Reservoir. In October, APGI further clarified this aspect of its communications.

September 23, 2003 – With information provided by the NC Department of Natural Resources – Division of Water Resources, APGI began providing a 30-day precipitation prediction from the National Weather Service.
III. Future Implementation of the DCP

In 2004, APGI will continue the implementation of the DCP as approved by FERC in 2003, with two procedural changes:

APGI proposes to hold quarterly teleconferences (rather than monthly) beginning in February 2004. In the event that the Parties agree that there is a potential for drought conditions based on an analysis of the most current data, or if any Party notifies APGI of its determination that the U.S. Drought Monitor has elevated 10% or more of the Yadkin – Pee Dee River basin to a Drought Severity Classification of D1 or higher, at the request of that Party, APGI would then schedule and hold monthly or more frequent meetings as needed to evaluate changing conditions and to discuss possible courses of action.

In the event APGI implements operational changes to minimize the impact of drought conditions in 2004, APGI will prepare a draft report, provide an opportunity for review by the Parties, and file a final report with FERC, with copies to the Parties, that assesses the DCP for 2004 and provides any recommendations for changes or future implementation.
Appendix

Monthly Teleconference Call Summaries And Postings To Yadkin’s Website

A conference call was held on March 19, 2003 as outlined in Yadkin's Drought Contingency Plan.

On that date, approximately half of the Yadkin - Pee Dee River Basin area was classified under abnormally dry conditions by the US Drought Monitor. No areas in the Basin were classified as being under drought conditions.

At the time of the call, streamflow into High Rock Reservoir was over 6000 cubic feet per second. Additional rainfall and streamflow was expected. Yadkin had been spilling water intermittently due to very high streamflow since the end of February 2003.

Groundwater levels in the upper Basin were about 1 foot below average levels for mid-March.

The Yadkin Project will continue normal operations in keeping with its FERC operating guides.

A conference call was held on April 23, 2003 as outlined in Yadkin's Drought Contingency Plan.

On that date, none of the Yadkin - Pee Dee River Basin area was classified under abnormally dry conditions or drought conditions by the US Drought Monitor.

At the time of the call, streamflow into High Rock Reservoir was approximately 6000 cubic feet per second. Additional rainfall and streamflow was expected. Yadkin had been spilling water intermittently due to very high streamflow since the end of February 2003.

Groundwater levels in the upper Basin were at or above average levels for late April.

The Yadkin Project will continue normal operations in keeping with its FERC operating guides.
A conference call was held on May 28, 2003 as outlined in Yadkin’s Drought Contingency Plan.

On that date, none of the Yadkin - Pee Dee River Basin area was classified under abnormally dry conditions or drought conditions by the US Drought Monitor.

At the time of the call, streamflow into High Rock Reservoir was over 5,000 cubic feet per second. Additional rainfall and streamflow was expected. Yadkin had been spilling water intermittently due to very high streamflow since the end of February 2003.

Groundwater levels in the upper Basin were above average levels for late May. The Yadkin Project will continue normal operations in keeping with its FERC operating guides.

A conference call was held on June 27, 2003 as outlined in Yadkin's Drought Contingency Plan.

On that date, none of the Yadkin - Pee Dee River Basin area was classified under abnormally dry conditions or drought conditions by the US Drought Monitor.

At the time of the call, streamflow into High Rock Reservoir was above the long-term average and was over 3,700 cubic feet per second as measured at USGS gauging stations. Additional rainfall and streamflow was expected. Yadkin had been spilling water intermittently due to very high streamflow since the end of February 2003.

Groundwater levels in the upper Basin were above long-term average levels for late May. The Yadkin Project will continue normal operations in keeping with its FERC operating guides.
A conference call was held on July 29, 2003 as outlined in Yadkin's Drought Contingency Plan.

On that date, none of the Yadkin - Pee Dee River Basin area was classified under abnormally dry conditions or drought conditions by the US Drought Monitor.

At the time of the call, streamflow into High Rock Reservoir was above the long-term average and was over 3,100 cubic feet per second as measured at USGS gauging stations. Additional rainfall and streamflow was expected. Although recently less frequent, Yadkin has been spilling water intermittently due to very high streamflow since the end of February 2003.

Groundwater levels in the upper Basin were above long-term average levels for late July.

The Yadkin Project will continue normal operations in keeping with its FERC operating guides.

A conference call was held on August 26, 2003 as outlined in Yadkin's Drought Contingency Plan.

On that date, none of the Yadkin - Pee Dee River Basin area was classified under abnormally dry conditions or drought conditions by the US Drought Monitor.

Over the last 30 days, streamflow into High Rock Reservoir was above the long-term average and was about 8,700 cubic feet per second as measured at USGS gauging stations. Additional rainfall and streamflow was expected. Although recently less frequent, Yadkin has been spilling water intermittently due to very high streamflow since the end of February 2003.

Groundwater levels in the upper Basin were above long-term average levels for late August.

The Yadkin Project will continue normal operations in keeping with its FERC operating guides.
A conference call was held on September 23, 2003 as outlined in Yadkin's Drought Contingency Plan.

On that date, none of the Yadkin - Pee Dee River Basin area was classified under abnormally dry conditions or drought conditions by the US Drought Monitor.

Over the last 30 days, streamflow into High Rock Reservoir was above the long-term average and was over 5,600 cubic feet per second as measured at USGS gauging stations. The National Weather Service indicated there was an equal chance of above normal, normal, or below normal precipitation over the next 30 days.

Groundwater levels in the upper Basin were above long-term average levels for late September.

The Yadkin Project will continue normal operations in keeping with its FERC operating guides.

A conference call was held on October 28, 2003 as outlined in Yadkin's Drought Contingency Plan.

On that date, none of the Yadkin - Pee Dee River Basin area was classified under abnormally dry conditions or drought conditions by the US Drought Monitor.

Over the last 30 days, total estimated streamflow into High Rock Reservoir was above the long-term average and was over 3,800 cubic feet per second as based on USGS gauging stations. The National Weather Service indicated there was an increased chance of below normal precipitation over the next 30 days.

Groundwater levels in the upper Basin were above long-term average levels for late October.

The Yadkin Project will continue normal operations in keeping with its FERC operating guides.
A conference call was held on November 25, 2003 as outlined in Yadkin’s Drought Contingency Plan.

On that date, none of the Yadkin - Pee Dee River Basin area was classified under abnormally dry conditions or drought conditions by the US Drought Monitor.

Over the last 30 days, total estimated streamflow into High Rock Reservoir was above the long-term average and was over 4,900 cubic feet per second as based on USGS gauging stations. The National Weather Service indicated there was an equal chance of above normal, normal, or below normal precipitation over the next 30 days.

Groundwater levels in the upper Basin were above long-term average levels for late November.

The Yadkin Project will continue normal operations in keeping with its FERC operating guides.
Appendix B
Dear Gene,

As you requested, the following is my comment on your "Draft".

The unusually high rainfall enjoyed in the Yadkin Basin during 2003 really made the execution of the DCP in its present form simply an exercise in teleconferencing, and there was no test of the workability of the Plan under drought conditions.

The DCP indicates that the existence of a drought would be deemed to occur if at any time the U.S. Drought Monitor elevates 10% or more of the Yadkin - Pee Dee River basin to a Drought Severity Classification of D1 or higher. Therefore, I have some problems with the wording of the closing paragraphs of the proposed Annual Report. I propose the following changes; my proposed additions are noted with italics and underline, my proposed deletions are indicated by "strikethrough".

APGI proposes to hold quarterly teleconferences (rather than monthly) beginning in February 2004; for so long as river flows at the USGS station on the Yadkin River at Yadkin College remain above the median average. In the event that the Parties agree that there is a potential for drought conditions based on an analysis of the most current data, or if any Party notifies APGI of its determination that the U.S. Drought Monitor has elevated any portion of the Yadkin - Pee Dee River basin to a Drought Severity Classification of D1 or higher, at the request of that Party, APGI would then schedule and hold monthly or more frequent meetings as needed to evaluate changing conditions and to discuss possible courses of action.

In the event APGI implements the Parties determine operational changes are required to minimize the impact of drought conditions in 2004, APGI will prepare a draft report based upon consensus recommendations of the Parties, provide an opportunity for review by the Parties, and file a final report with FERC, with copies to the Parties, that assesses the DCP for 2004 and provides any recommendations for changes or future implementation in Licence terms and/or operational guidelines.
Thank you for consideration of my views.

Cordially,

Larry O. Jones

High Rock Lake Association, Inc.

310 Fox Hollow Farm Road

Salisbury, NC 28146

704-633-8799
Subject: RE: NC DWR's Comments on DRAFT APGI Report To FERC - 2003 Drought Contingency Plan Implementation

From: Tom Fransen [mailto:Tom.Fransen@ncmail.net]
Sent: Monday, December 15, 2003 9:35 AM
To: Ellis, H. Gene
Cc: Barry Arney (E-mail); Phil Lucas (E-mail); Mark Bowers (E-mail); 'vang@dnr.state.sc.us'; 'baizedq@dhec.sc.gov'; 'johnson@dnr.state.sc.us'; 'larry@foshollowfarm.org'; 'asgerman@duke-energy.com'; Ott, Gregory J.; Poe, David (LLGM); Eric Horner; Steven Reed; Don Rayno; John Morris
Subject: NC DWR's Comments on DRAFT APGI Report To FERC - 2003 Drought Contingency Plan Implementation

Gene,

The following are NC DWR's comments on the Draft report and suggestions for changes to the Drought Contingency Plan (DCP).

The draft report and suggested changes to the DCP look good. During normal and high rainfall periods, such as what was experienced for most of 2003, quarterly conference calls will be adequate with your improved web site information. You might consider adding the link to the NWS' 30-day rainfall forecast.

The only suggested change is considering expanding the "Parties". Representation should be a larger group to include the reservoirs downstream and the main stem users on the Pee Dee River. During the 2002 drought period the meetings and conference calls were about basin wide drought issues not just High Rock Reservoir.

We feel the current DCP is adequate until an improved approach can be developed as part of the current relicensing process. As we have stated before we feel it is a priority that both APGI and Progress Energy work jointly during relicensing to develop a DCP that protects and balances the needs of the basin.

Tom Fransen
Water Allocation Section Chief
Division of Water Resources, NC DENR
From: Danny Johnson [mailto:johnson@dnr.state.sc.us]
Sent: Thursday, December 18, 2003 10:05 AM
To: Ellis, H. Gene
Subject: Re: DRAFT APGI Report To FERC - 2003 Drought Contingency Plan Implementation

Gene,
I have been out of the office for the past few days and see that I missed your deadline for comments on your proposed report and future implementation plan. In the event you are still accepting comments, I submit that both the report and plan look good to me and I agree with your suggested quarterly teleconference schedule during non-drought periods. As we have indicated previously, we believe that the current FERC relicensing process should include development of detailed and comprehensive long-term drought contingency plan, and we understand you intend to accomplish such plan development. We agree with the NCWRD comment that this plan should be developed in close coordination with Progress Energy.
Thanks for the opportunity to provide comments.
Danny Johnson

----- Original Message ----- 
From: "Ellis, H. Gene" <Gene.Ellis@alcoa.com>
To: "Barry Arney (E-mail)" <barry.arney@pnnmail.com>; "Phil Lucas (E-mail)" <Phillip.Lucas@pnnmail.com>; "Mark Bowers (E-mail)" <mark_bowers@fws.gov>;
"Tom Fransen @ NCDWR (E-mail)" <tom.fransen@ncmail.net>;
<vang@dnr.state.sc.us>; <baizedg@dhec.sc.gov>; <johnson@dnr.state.sc.us>;
<larry@foxhollowfarm.org>; <asgerman@duke-energy.com>; "Ott, Gregory J."
<Greg.Ott@alcoa.com>; "Poe, David (LLGM)" <David.Poe@llgm.com>
Cc: "Ellis, H. Gene" <Gene.Ellis@alcoa.com>
Sent: Wednesday, December 10, 2003 10:10 AM
Subject: FW: DRAFT APGI Report To FERC - 2003 Drought Contingency Plan Implementation

> We held the conference call this morning at 10 a.m. This is a follow-up that APGI is requesting written comments on the attached report and plan by December 15, 2003.
> 
> > > ----Original Message-----
> > > From: Ellis, H. Gene
> > > Sent: Wednesday, December 03, 2003 12:02 PM
> > > To: Barry Arney (E-mail); Phil Lucas (E-mail); Mark Bowers (E-mail); Tom Fransen (E-mail); vang@dnr.state.sc.us; badr@dnr.state.sc.us;
> baizedg@dhec.sc.gov; johnson@dnr.state.sc.us;
> larry@foxhollowfarm.org; asgerman@duke-energy.com; Ott, Gregory J.; Poe, David (LLGM)
> > > Cc: Ellis, H. Gene
> > > Subject: DRAFT APGI Report To FERC - 2003 Drought Contingency Plan
Implementation

> >
> > At the request of the Federal Energy Regulatory Commission (FERC), on February 14, 2003, Alcoa Power Generating Inc. (APGI), through its Yadkin Division, filed a Drought Contingency Plan (DCP) for the Yadkin Project, P-2197. On April 23, 2003, FERC approved the DCP with modifications.
> >
> > In its April 23, 2003 approval, FERC requested that APGI file a report by December 31, 2003 that assesses the DCP for 2003 and provide any recommendations for changes or future implementation. FERC also requested that the report include any comments from the Parties to the DCP.
> >
> > As requested, attached for your review and comment is a draft report to FERC, along with proposed recommendations for changes and future implementation. Separately, APGI has notified you of a conference call on December 10, 2003 to discuss the draft report and draft DCP for 2004. Please review and provide written comments by December 15, 2003. If you have any questions, please contact me.
> >
> > <<DCPReport2003.doc>>
> >
> >
December 17, 2003

Gene Ellis
Environmental & Natural Resources Manager
Alton Power Generating Inc.
Post Office Box 576
Badin, NC 28009

Dear Mr. Ellis,

We have reviewed your draft Report to the Federal Energy Regulatory Commission concerning the 2005 Implementation of the Drought Contingency Plan for the Yadkin Project – FERC No. 2197. We concur with the recommendation contained within the report that the monthly teleconferences be changed to quarterly unless conditions warrant a more frequent interval.

Thank you for the opportunity to review the draft report prior to filing.

Yours very truly,

Harry L. Arney, P.E.
Principal Engineer

cc: Phil Lucas
    Larry Mann
    Tom Walt
    Garry Whiting