

FEDERAL ENERGY REGULATORY COMMISSION
Washington, D. C. 20426

OFFICE OF ENERGY PROJECTS

Project No. 1494 – Oklahoma
Pensacola Project
Grand River Dam Authority

Mr. Kevin Easley
Chief Executive Officer
Grand River Dam Authority
P.O. Box 409
Vinita, OK 74301-0409

AUG 09 2006

RE: Compliance and Administrative Matters

Dear Mr. Easley:

This is in reference to certain follow-up actions required in connection with three ongoing compliance matters involving the Pensacola Project (FERC No. 1494): (1) the unauthorized construction of a shoreline retaining wall, and associated dredging, at Arrowhead Marina; (2) the unauthorized shoreline-clearing and dredging work by William Payne in the Duck Creek arm of Grand Lake; and (3) the installation of habitable structures (cabanas) at Thunder Bay Marina in violation of the marina's commercial-dock permit. Also, this is in regard to three ongoing administrative matters related to the project: (1) flowage-easement acquisition; (2) stakeholder participation in shoreline management planning; and (3) elements to be included in the proposed shoreline management plan (SMP) for Grand Lake.

In order to update us on your efforts to complete these long-standing compliance requirements, and to assist us in monitoring the above-noted matters, please provide a detailed report addressing each of these items as specifically discussed below.

COMPLIANCE MATTERS

Retaining Wall and Dredging at Arrowhead Marina – By letter dated March 8, 2005, you informed us that an after-the-fact application to permit this wall and dredging is expected to be filed with the Commission, for approval, within 90 days after a final court order is issued in a related litigation on this matter. Please describe the current status of this court case and provide an estimated schedule for filing the required application.

Shoreline Clearing and Dredging by William Payne – By letter dated December 27, 2005, you provided us a progress report on your implementation of measures to mitigate the adverse effects of this clearing and dredging work. Please provide a final mitigation report describing the measures you have taken, and intend to take to: (1) stabilize the affected shoreline area, remove and dispose of associated fill and debris, and plant replacement trees; (2) acquire or develop 36 acres of wetlands to compensate for the loss of nine wetland acres; and (3) revise the project's Exhibit G drawings to enclose the wetlands-mitigation site within the project boundary.

Habitable Structures at Thunder Bay Marina – Following a series of teleconferences regarding this permit violation, we requested that you file with the Commission either an application for an after-the-fact permit for these structures, or a report describing the steps you have taken, or intend to take to otherwise resolve this matter. We also requested that you keep us informed on the results of your public meetings held on November 8, 10, and 29, 2005 on the issue of habitable structures on Grand Lake. Please provide the above application or report, including – in either case – a description of your efforts to require the marina owner to stop constructing any additional structures of this type and to vacate the existing structures. Also please provide a report summarizing the results of your habitable structures meetings, and subsequent policy deliberations related to such structures on the lake.

ADMINISTRATIVE MATTERS

Acquisition of Flowage Easements – In 1994, several property owners located at the upper end of Grand Lake filed lawsuits alleging that the Grand River Dam Authority (GRDA) was responsible for damages to their properties during past flood events. The court recently ruled in favor of the plaintiffs and required GRDA to pay damages. At this time, we understand you are beginning settlement negotiations with these property owners to obtain flowage easements over these properties in exchange for payments toward the plaintiffs' legal costs. Please provide a report describing the status of your efforts to acquire such easements.

Stakeholder Participation in Shoreline Management Planning – We have communicated to you our expectation that the interests and concerns of all stakeholders be solicited and considered in your current shoreline-management-planning process for Grand Lake. You are addressing this important planning strategy through a series of stakeholder workshops and other public forums focusing primarily on allowable uses, shoreline management classifications, and permitting.

To ensure that equitable and meaningful opportunities are being provided for stakeholder participation and involvement in the development of an SMP for the lake, please provide a report describing: (1) the roles and responsibilities of the SMP committees that have been formed on allowable uses, shoreline management classifications, and permitting; (2) the types of information that have been, or should be, made available to these committees to support their analyses and discussions; (3) the procedures and methods being used to appropriately take into account, and incorporate into the SMP the results of the committees' work; and (4) the steps and measures being taken to address the comments and recommendations received from other interested parties not serving on the SMP committees, including individual members of the public. The report should also include descriptions of opportunities under consideration for stakeholder cooperation and participation in implementing the SMP's provisions, including special management programs such as adopt-a-shoreline and clean-marina initiatives.

Grand Lake SMP – Please provide a report describing: (1) the major milestones that have been met in preparing this SMP since GRDA's Board of Directors approved its development in June 2005; (2) the remaining steps needed to complete the plan, including any reviews and approvals by the Board; and (3) the date you expect to submit the plan to the Commission.

We expect that the following items will be addressed in the plan. If you do not intend to address any of these items, please provide your reasons, based on project-specific circumstances.

- GRDA's management of 1,630 acres of project lands for wildlife, as required by article 406 of the license;
- testing for heavy-metal contamination in areas affected by proposed dredging activities at the project;
- carrying-capacity study results;
- limitations and restrictions on private and multi-use docks;
- habitable structures; and
- shoreline buffer zones.

Project No. 1494

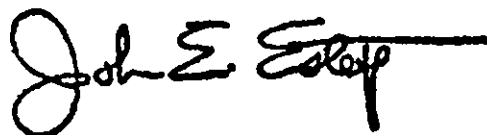
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An original and seven copies of the requested report should be filed with the Secretary of the Commission within 21 days of the date of this letter. The report should be sent to the following address and should reference Project No. 1494 to ensure proper filing.

Magalie R. Salas, Secretary
Federal Energy Regulatory Commission
Mailing Code: DHAC, PJ-12.1
888 First Street, NE
Washington, DC 20426

Your immediate attention to the important items discussed in this letter is appreciated. We look forward to working with you to ensure that the Pensacola Project is in compliance with the terms and conditions of its license, and that the resources of the project are protected for beneficial uses by all stakeholders. If you have any questions regarding these matters, please contact Steve Naugle at (202) 502-6061.

Sincerely,

A handwritten signature in black ink that reads "John E. Estep". The signature is written in a cursive style with a long horizontal line extending from the end of the name.

John E. Estep
Chief, Land Resources Branch
Division of Hydropower
Administration and Compliance

cc: Robert Sullivan
Assistant GM, Risk Management
and Regulatory Compliance
Grand River Dam Authority
P.O. Box 409
Vinita, OK 74301-0409