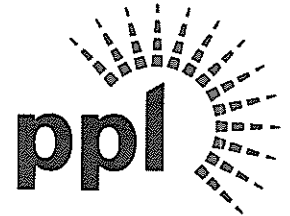


PPL Montana, 45 Basin Creek Road, Butte, Montana 59701



PPL MONTANA, LLC

Nancy Curriden
Forest Supervisor
Custer National Forest
1310 Main Street
Billings, Montana 59105

January 3, 2006

Dear Nancy:

Thank you for your comments on Mystic Lake Project (FERC No. 2301) supplemental report information Study #8 (Mystic Project effects on Mystic Lake Hydrology) and Study #9 (Aerial Survey of Riparian Corridor) provided in your December 8, 2005 letter to PPL Montana. PPL Montana agrees that existing Mystic Lake Project riparian data may be further evaluated in consultation with the Forest and that a long-term approach to monitoring riparian habitat trends within the Forest Boundary is appropriate. However, further analysis and monitoring should acknowledge that: 1) initial aerial and ground surveys do not show obvious riparian health or regeneration problems within the Forest Boundary, 2) the baseline for analysis and comparison under the Commission's Integrated Licensing Process is existing riparian condition rather than pre-dam riparian condition, 3) PPL Montana supports field measurements of riparian health rather than the use of the IHA model as a determinant of Mystic Project hydrologic or associated riparian condition, and 4) potential impacts to riparian health from continued Project operation should be considered distinct from adverse effects to riparian habitats from ongoing livestock grazing and other recreation and land-use based impacts. As described in previous filings with the Commission, PPL Montana is not proposing to change or modify existing operation of the Mystic Project.

As recommended in your December 8, 2005 letter, PPL Montana agrees to evaluate existing study information in appropriate Forest stream reaches which may include Riparian Type Shrub/Sedge, Riparian Type B in north center Section 6 and center Section 32 and portions of Riparian Type C. This evaluation would include using existing infrared aerial photo coverage taken in 2005 (scale 1:4800) with some ground truthing to delineate riparian vegetation to community level as well as quantitative analysis of these community type polygons. PPL Montana proposes, in consultation with the Forest Service, to develop a protocol for quantitative riparian analysis that is repeatable every five years to permit evaluation of trends, if any, from any operational changes which may be approved over the term of the new license. PPL Montana proposes to evaluate Forest riparian baseline conditions in the summer of 2006 and to

describe the protocol or details of this baseline assessment as a PM&E measure in the Preliminary Licensing Proposal (PLP) to be filed with the Commission on June 1, 2006. PPL Montana further proposes that a comparative quantitative analysis of any riparian trends would be repeated every five years or other appropriate interval for the duration of the license term under this PM&E measure.

PPL Montana will consult with Forest specialists early in 2006 regarding the development of this riparian baseline and trend analysis PM&E measure for inclusion in the Mystic Project PLP. We hope that early (2006) implementation of this PM&E measure and the information provided above will fully resolve the issues and further analysis needs identified by your December 8, 2005 letter to PPL Montana.

Thanks for your partnership on this important Project.

Regards,

A handwritten signature in black ink, appearing to read "J. H. Jourdonnais", written over a light blue horizontal line.

Jon Jourdonnais
Director Hydro Licensing and Compliance

Cc: PPL Montana will send Mystic Project stakeholders an email including this letter as .PDF file and will post letter to Mystic website www.mysticlakeproject.com