



July 18, 2007

Mark Gendron, VP Requirements Marketing
Bonneville Power Administration
PO Box 3621
Portland, OR 97208-3621

Dear Mark:

Thank you for meeting with me last Thursday to discuss various issues of concern to Umatilla Electric Cooperative (UEC).

An area we touched on which deserves further comment is the Residential Exchange debate. We support the efforts of Public Power, the Investor Owned Utilities (IOU) and Bonneville Power Administration (BPA) to arrive at a satisfactory conclusion to the Residential Exchange within the region. We feel a bit unclear on the need for a settlement apart from the creation of an established durable process for calculating the amount of the Residential Exchange.

Once the process for determining the amount of the Residential Exchange is known, wouldn't the allocation to particular IOU's also be clear? UEC members contributed \$14M of the \$1.4B paid to the IOU's. Our members believe strongly that they will receive either future benefits or a refund of the over-paid amounts that were included within that \$14M. Any settlement or calculation/allocation process must fully address the amounts Public Power over-paid to BPA.

Another issue that needs to be fully vetted is whether or not cost of service elements for the IOU's, which are caused by State or Federal legislation and regulation, should be included in average system cost considerations.

The Residential Exchange was created in an environment that did not anticipate mandatory Renewable Portfolio Standards (RPS) or that State regulators would force IOU's to build a power supply that was not based on Integrated Resource Plans or least-cost planning. It seems an extremely perverse outcome if the amount of Residential Exchange payments are increased due to artificially inflated average system costs because of State regulators' and IOUs' short-sighted-politically-correct power supply decisions.

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We are looking forward to working with you on the resolution of issues.

Thank you, again.

Sincerely,

M. Steven Eldrige
General Manager and CEO

MSE/dkt