

September 10, 2010

Dear Anderson Island members,

I hope this letter finds everyone well. The summer was a little short but we made significant progress on a number of system improvements to better serve your electrical needs. The purpose of this letter is to get all members up to speed as to the development of the new submarine cable and additional system improvements that we are doing concurrently. Both of these large improvements will take short outages to complete. We are working with island officials to schedule the best time for these outages. As soon as the dates are firming up we will be posting it around the island as well as sending it out electronically. If you have not signed up for email alerts this would be a great time to do so. Please either go to the Tanner Electric website or call the North Bend office, for assistance.

Before I get into the submarine cable project I would like to update you on another important project that we are currently working on. As most of you know I was the lineman on the island for 6 years before moving over the mainland to eventually take the General Manager position. During my time, on the island, and in the years to follow we have had multiple tree contacts on a section of our main overhead line that have caused system wide outages. We have now started an undergrounding project that will eliminate a couple of sections of overhead to avoid the majority of these problems. The schedule is to have this project completed before the end of October. This will require an outage to switch from the old line to the new. We are estimating a 4 to 6 hour outage for this project.

The new Anderson Island submarine cable project is still on schedule, but not without unexpected increased costs. Our initial estimate in August 2009 was approximately \$4.1 million. With the cable en route, and permits, easements and installation contracts in place, our forecast is now \$5.3- \$5.7 million, with weather during installation being the primary uncertainty remaining. The majority of the increase was a result of two factors. The Gulf oil spill considerably increased demand and costs for marine resources, as well as insurance rates. And permitting agencies imposed additional studies, on-site monitoring, and alterations to the cable route, which is now lengthier, requires more directional drilling, and adds to engineering and project management costs. Tanner has already significantly mitigated the cost increases by negotiating directly with sub-contractors, and assuming reasonable contractor risks and responsibilities.

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The good news is we are still on track to have the new cable installed and energized by early November. The 25kV cable has a longer life expectancy than the 15kV option, as well as greater load growth capacity. Fiber optics will improve our ability to protect the cable, and perhaps add other communication capabilities in the future. The cable is on a ship in Puget Sound and will be loaded on a barge for testing this week. The directional drilling work will start near the end of September and will take approximately 3 weeks. The actual marine installation will begin on October 25<sup>th</sup> and take a week, provided we are not delayed by inclement weather. Upon completion we will need a short outage to make the final switch to the new cable. As we get closer to identifying a specific date, we will communicate this to you.

Once installation is complete and the final expenditures are known, the Board will review financing and funding options to cover actual costs, and communicate any decisions as soon as they are made.

I would like to thank everyone who has written or called with support or questions. Tanner is dedicated to successfully completing this project, and everyone involved is committed to ensuring long-term reliability and quality of service for the Island, while managing the costs within our control. Following this letter you will find a list of common questions and answers. If you have additional questions please don't hesitate to call or email.

Sincerely,

Steven W. Walter

General Manager