

Dear Anderson Island Members,

The purpose of this letter is to provide a brief update on installation and financing of the new submarine cable to Anderson Island.

Since April when we re-energized the repaired submarine cable to the island, the staff and board have worked with a variety of agencies in an attempt to obtain funds to help with the cost of repairs and installation of a new cable. FEMA, Washington State, and Pierce County Emergency assistance all declined our request for assistance.

Our next step was to ask BPA (Bonneville Power Administration) to assist Tanner with the installation and funding. After several months of review, our request was ultimately denied.

After venting all options we have now shifted into high gear with the only avenue left to the cooperative. This is financing through our own lender (CFC--the National Rural Utilities Cooperative Finance Corporation) and installing the new cable with our own contractors and crews. The new submarine cable will be more robust and made with better technology than was available in the 1970's. We are anticipating installation to be completed in mid-October of this year.

We are facing many challenges with installation of the new cable. New easements must be negotiated with private land owners, commercial farms, Tribes, and the State.

Life expectancy for the new cable is estimated in the range of 30 to 40 years. In order to minimize the risk of future cable failures, the Board has determined that redundancy is the best long-term solution to serve our members on Anderson Island. Our long-range plans include preparing for installation of a second cable in approximately 20 years.

The cost to repair the old cable was \$1.4 million as well as \$600,000 to provide emergency generator power to our Island members during the outage. The additional revenue from the double and triple rates imposed during the outage and repair generated \$175,000. The remaining \$1.8 million has been shared equally by all of our membership. Going forward we must begin to recognize that the cost of providing service to the Island is considerably greater than in mainland areas. This is due not only to the submarine cable itself, but also to the extent of manpower and equipment needed to provide safe and reliable service, proportional to revenues generated.

The Board has approved that the cost of the new cable will be shared by all members of the cooperative, with the principal being covered by our Anderson Island members, and the interest/financing cost shared equally by members in all areas. Beginning in April 2010 the monthly facility charge on the Island will increase by \$16.67 to a new monthly total of \$31.17. Further, an 8% rate increase on kWh will be effective on the June 2010 bills for all of the membership. This increase will cover the interest cost of the cable as well as necessary capital improvement projects slated for all three service areas.

We understand these are difficult times for many of our members, which we must balance with our responsibility to maintain and improve facilities, and provide a safe, reliable distribution system. We look forward to continuing to work together in the cooperative spirit to accomplish these goals.

*Steven W. Walter*  
*Tanner Electric Cooperative*  
*General Manager*