



Arizona Electric Power Cooperative, Inc.

P.O. Box 670 • Benson, Arizona 85602-0670 • Phone 520-586-3631

October 15, 2004

FAX (720) 962-7200

Mr. Michael Hacskaylo, Administrator
Western Area Power Administration (Western)
P.O. Box 281213
Lakewood, Colorado 80228-8213

Dear Mr. Hacskaylo:

I write to express Arizona Electric Power Cooperative, Inc.'s deep concern with two letters we recently received from the Assistant Regional Manager for Power Marketing of Western's Desert Southwest Customer Service Region, dated September 27, 2004 and October 5, 2004. The letters attempt to summarize the current status of the so-called "Section 12 language," a new contract provision proposed by Western to be included in the Contract Extension Amendment for our Parker-Davis Firm Electric Service Contract, and suggest that the language is now a "workable provision." We respectfully disagree.

Since first learning that Western was proposing the Section 12 language, we have participated in Western's customer consultation process to determine whether the language could be revised to be acceptable to both Western and the customers. While we appreciate the effort made by Western to negotiate with customers and to incorporate some of the suggestions made by customers, our central concerns have not been addressed. It is our contention that the Parker-Davis contracts and other power contracts have been successfully marketed under the preference laws for decades without the kind of unilateral dispute resolution envisioned in Section 12. This is why, to our knowledge, the strong preference of the customers continues to be that the Section 12 language not be included in the contract extension amendments.

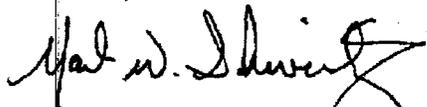
We will continue to pursue solutions that will meet the needs of Western and the customers and will communicate with you further, certainly within the thirty-day time period stated in the September 27 letter. In the meantime, we appreciate your willingness to meet with certain Western customers on October 18, 2004 to discuss the relevance of Section 12 and any viable alternative to it.



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We look forward to working with you further on this and other Parker-Davis contract extension issues.

Sincerely,



Mark W. Schwartz
Senior V.P. & Chief Operating Officer

cc: Mr. Tyler Carlson
Ms. Jean Gray
FAX (602) 352-2520