Department of Energy
Western Area Power Administration
Upper Great Plains Region
P.O. Box 35800
Billings, MT 59107-5800

APR 0 2 2008

Dear Customer and Other Interested Parties:

The Upper Great Plains Region of Western Area Power Administration (Western) invites you to attend a customer meeting in Sioux Falls, South Dakota, to discuss the alternatives to replace the Seams Operating Agreement (SOA) between the Mid-Continent Area Power Pool and the MidWest Independent Transmission System Operator (MISO). This meeting is an opportunity to learn more about the operational constraints that are impacting Western's ability to purchase and deliver power. Western is looking at possible solutions or alternatives to address these operational constraints while continuing to reliably serve our power commitments. Customers will be able to ask questions and provide input at the meeting. A court reporter will be present to record discussions. The meeting time, date, and location are:

9 a.m. (CDT) Wednesday, April 16, 2008
Holiday Inn – City Centre
100 West 8th Street
Sioux Falls, South Dakota

There are several factors that are contributing to the operational issues that require action. The most pressing is the fact that the SOA expired on February 1, 2008. It has been temporarily extended pending the outcome of our negotiations with MISO. MISO has filed a new proposed Module F addition to its tariff with the Federal Energy Regulatory Commission (FERC) that includes two possible alternatives for Western to consider.

The deepening drought and continued poor water conditions are contributing to our operational issues. To meet our obligations, Western has to make additional power purchases, the majority of which are located outside of Western's WAUE balancing authority. Historically, Western has had opportunities to purchase this power from many different entities. However, with more and more entities joining MISO, it is extremely difficult to find entities to purchase from when we are on the outside of the MISO market. Western spent $264 million on purchase power in 2007, which is up from $231 million spent in 2006.

Another issue facing Western is many of our purchases are being curtailed or cut by MISO due to increased Transmission Line Loading Relief (TLR) events, which curtail schedules to reduce overloading on the transmission system. Transactions with entities outside the MISO market are more likely to incur TLR curtailments than the transactions between entities inside the MISO market. In 2007, WAUE had more than 2,000 hours where schedules were curtailed or cut. The cost implication to acquire new resources to replace the lost schedules resulted in an additional cost of about $7 to 10 million per year. Western seeks a viable operational alternative to reduce the risk of TLR events and curtailed schedules while ensuring reliable delivery of power to our customers.

You may be asking, "Why do I need to know this?" or "How does this affect me?" Well, Western's customers have seen an increase in rates over the last several years, and it is foreseeable with the continued drought and the need to make firming power purchases that the rates will continue to increase. One way to reduce or mitigate the drought impacts is to find ways to make better purchases or operate in ways that reduce costs. At present, Western is considering the following alternatives:

1. Module F Part II of the MISO Tariff - which consists of signing a service agreement with MISO that is a seams agreement with redispatch. Previously this was discussed by Western as Option 1. At this time we are not certain if any modifications will be required to Western's Open Access Transmission Tariff dealing with the Integrated System transmission facilities (IS Tariff) to implement Part II. The Integrated System (IS) consists of Western UGPR, Basin Electric Power Cooperative, and Heartland Consumers Power District transmission facilities. If IS Tariff modifications are necessary, further information will be provided.

2. Module F Part III of the MISO Tariff - which consists of signing a service agreement with MISO whereby Western would include its generation and load from the current WAUE balancing authority within the MISO market. Western's transmission would not be included, and the IS would stay intact. Previously this was discussed as Option 2. IS Tariff modifications will be required to accommodate Part III participation. Selection of this alternative will be contingent upon Western's ability to make appropriate IS Tariff modifications. A separate process will be conducted addressing the necessary changes.

3. Other Alternatives - such as joining the Southwest Power Pool (SPP). This is a new consideration and Western is studying the impacts of this alternative along with the others identified above. Due to the open–ended nature of these other alternatives, it is uncertain if IS Tariff revisions will be necessary. Prior to selecting an alternative, information regarding the IS Tariff implications will be provided.

On March 4, 2008, MISO filed a revision to its tariff with FERC, including items 1 and 2 mentioned above. The filing is expected to be approved by FERC in the near future and Western will have the option of choosing a service agreement under the MISO tariff. The entire MISO filing is available at: http://www.midwestiso.org/publish/Document/1e1401_118199304fa_-7c3d0a48324a?rev=3

Western has not identified a preferred alternative at this time. We encourage you to join us on April 16th in Sioux Falls, South Dakota, to learn more about the alternatives and share your comments or concerns as we move forward and evaluate possible solutions during this process.

Please visit our website at:
http://www.wapa.gov/ugp/PowerMarketing/MISOSeams
to check for updates on this process and provide us your e-mail contact information
to receive electronic notices.

If you have any questions please telephone me at (406) 247-7394, or Ms. Linda Cady-Hoffman at (406) 247-7439.

Sincerely,

Robert F. Riehl
Power Marketing Manager