



P. O. Box 1000
Bryan, TX 77805
Phone: 979-821-5700
Fax: 979-821-5795
<http://www.btutilities.com>

RECEIVED MAR 27 2008

March 24, 2008

Mark Henry
Manager, Compliance Review & Verification
Texas Regional Entity
7620 Metro Center Drive
Austin, Texas 78744

Dear Mr. Henry:

BTU QSE Service, Inc., (QSE) hereby notifies Texas Regional Entity that with respect to violation CIP-001-1, R1, QSE does not contest the Alleged Violation(s) or proposed penalty, and agrees to submit and implement a mitigation plan to correct the violation and its underlying causes.

With respect to violation CIP-001-1, R3, QSE does not contest the Alleged Violation(s) and agrees to submit and implement a mitigation plan to eliminate the violation and its underlying causes, but contests the proposed penalty.

QSE respectfully requests that Texas RE reduce or eliminate the proposed penalty for the R3 violation. While there is no dispute that the violation occurred, the BTU Division Manager took immediate action when notified of the violation. He promptly located the Sabotage Reporting Procedures and inserted that document into the operator procedures manual. This action was taken in the presence of the auditors. The Mitigation Plan attached hereto explains that the operator procedures manual cannot be altered or amended without approval of the Division Manager of QSE Power Marketing or the Group Manager of QSE Power Marketing and Power Production. Additionally, QSE has instituted a semi-annual review of all procedures manuals for compliance with NERC Reliability Standards and Requirements. QSE expects that these actions will prevent the recurrence of the noted violations. Furthermore, QSE is anxious to meet with Texas RE to determine whether additional actions may be taken to eliminate and prevent future violations.

While the amount of the proposed penalty is not unconscionable, QSE urges the Texas RE to reexamine its consideration of the factors guiding the determination of the proposed penalty. In particular, QSE is an independent municipal corporation providing services to BTU and other municipally owned utilities. Because of this non-profit structure, even modest penalties will indirectly affect the cost of the services QSE provides to its municipal utility customers. Additionally, the Audit Report acknowledges that the reliability impact of this violation to the bulk power system is "minimal" and that

interviews with operators indicated that prompt and effective communications would occur with the ISO despite the violation. Moreover, as explained above, QSE's corrective actions were prompt and thorough. Consequently, QSE is hopeful that Texas RE will reconsider the appropriateness of assessing a monetary penalty against QSE under these circumstances.

Of course, QSE is happy to provide additional information to or meet with Texas RE in connection with this audit or any other matter. If a formal request for settlement is necessary or appropriate at this time, please consider this letter such a request.

Please do not hesitate to contact me if you have any questions or comments regarding the foregoing, or any other matter in which I may be of assistance.

Sincerely,

A handwritten signature in black ink that reads "Dan Wilkerson". The signature is fluid and cursive, with a large initial "D" and a stylized "W".

Dan Wilkerson
BTU General Manager
BTU QSE Services, Inc.