October 22, 1999

Paul Norman, Senior Vice President
Power Business Line
Bonneville Power Administration
P.O. Box 12999
Portland, OR 97232

Re: Bonneville PBL Slice Product
Comments of Pacific Northwest Generating Cooperative
and its Members on:
(1) Issue Paper on Post-2006 Inventory Solution, and
(2) Revised Slice Product Description
(Issued October 8, 1999)

Dear Paul:

Pacific Northwest Generating Cooperative (PNGC) presents the following comments on behalf of itself and its members,[1] each of whom is a preference customer of the Bonneville Power Administration. PNGC and its members are interested in the development of a workable and cost-effective Slice product that is consistent with the Bonneville Administrator's five Slice principles. We understand that price and cost shift (including costs and cost allocation) issues will be addressed separately in the Power Rate Case; testimony will be presented on those issues in the rate case on behalf of PNGC and its members.

General Comments

Bonneville's Slice product is new and unique. The product presents many substantial challenges not posed by other power products currently or previously offered by Bonneville. If properly developed and implemented, the Slice product may provide a variety of significant benefits for Bonneville, Slice product purchasers, and other Bonneville customers.

PNGC has participated on behalf of its members in Slice product technical and contract development discussions. We commend Bonneville on the efforts of its

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[1] Blachly-Lane County Cooperative Electric Association; Central Electric Cooperative, Inc.; Consumers Power, Inc.; Coos-Curry Electric Cooperative, Inc.; Douglas Electric Cooperative, Inc.; Lane Electric Cooperative, Inc.; Lost River Electric Cooperative, Inc.; Northern Lights, Inc.; Oregon Trail Electric Consumers Cooperative, Inc.; Raft River Rural Electric Cooperative, Inc.; and, Umatilla Electric Cooperative Association.

negotiating team. They have brought considerable ability and an energetic and receptive attitude to the negotiating process. Their willingness to consider openly and seriously alternative suggestions and approaches to solving the many problems presented by the Slice product has allowed the negotiating team to make excellent progress.

While it is too soon to evaluate the ultimate merits and desirability of purchasing the Slice product, PNGC and its members appreciate Bonneville's efforts to bring forth and implement a Slice product that has commercial value to Bonneville and its customers and is consistent with the Administrator's principles. We are optimistic that continued willingness by Bonneville to realistically evaluate the risks and benefits offered by a properly constructed Slice product will allow us to resolve remaining issues and bring this effort to a successful and timely conclusion.

Issue Paper on Post-2006 Inventory Solution

Bonneville's Issue Paper poses the question: "What should the Slice participant's responsibilities be for future inventory augmentation in subsequent rate periods?"

Fundamental to an understanding of the Slice product is recognition that the product is based upon the actual power production of the Federal Base System (FBS). In that respect, it is the same kind of power supply that Bonneville gets. The Slice customers, like Bonneville, must manage this supply to serve their loads.

In return for a portion of their power supply represented by the Slice product, Slice purchasers pay a percentage share of the actual costs of FBS generation and other costs that Bonneville is required by statute to incur.

Unlike the other Bonneville power products, the Slice product will not match the purchaser's load. Slice purchasers take on the risk of the variable FBS costs and power production. They must pay their own costs of shaping the FBS power to their loads and purchasing additional power supplies to serve their own load growth. Thus, Slice customers are not able to meet any of their load growth by increasing their Slice entitlements. They do not benefit from the resources BPA acquires to meet the load growth of other customers.

Bonneville has proposed in this Issue Paper that Slice customers not only bear these costs and risks, but also bear the cost of Bonneville purchases to serve other loads. This represents cost shifts to Slice purchasers from other Bonneville customers, in contravention of the Administrator's Slice Principles.

In order to help Bonneville and other Subscription customers bring the Subscription process to a successful close, Slice purchasers have expressed their willingness to pay a share of the net costs of the inventory solution for the next rate period (OY 2002-2006).

However, any cost of inventory solution that Slice purchasers are asked to bear in the post-2006 period must be carefully defined and limited in order to preclude inequitable cost shifts and must reflect Bonneville's statutory obligations. PNGC can support an approach where Slice purchasers share in the net cost of post-2006 resource augmentation to meet: (1) all preference customer load including load growth and (2) up to 2200 aMW of IOU residential load, split between power and financial support. (This 2200 aMW represents a firm cap on Slice purchasers' support for this load in the post-2006 rate periods.) Slice customers should not pay for ***any*** continuing or new resource augmentation to serve DSI loads in the post-2006 period.

Revised Slice Product Description

1. Disposition of Critical Slice Amount to Serve Slice Customer's Firm Load.

PNGC agrees that it is reasonable for Bonneville to require some demonstration that Slice product power is being used to serve the regional firm load of Slice purchasers. Within a reasonable period of time following the close of an operating or fiscal year, Bonneville and each Slice purchaser should cooperate to determine that firm power equal to the Slice purchaser's Critical Slice Amount plus any other Bonneville requirements preference power purchased by the customer was not resold. This approach is fully consistent with Bonneville's obligations under applicable law.

Any alternative approach entailing more frequent determinations would create unnecessary and burdensome administrative requirements and reduce operational flexibility, which is absolutely essential to making the Slice product function.

2. Long Term Risks; Rate Methodology.

The Slice product allocates significant and long-term risks to Slice purchasers. It goes without saying that the product will not be viable without acceptable means to manage identifiable long-term risks.

One of the most important of the long-term risks inherent in this product is the Slice rate methodology. PNGC and other Slice purchasers recognize that the Slice rate will almost certainly change in each rate period. This is an acceptable and manageable risk. A risk that is unmanageable and unacceptable is that a suitable Slice rate methodology will not be approved for more than one rate period. Slice contracts offered for 10-20 year terms must include acceptable contingency and conversion provisions in the event that the Federal Energy Regulatory Commission does not approve a workable Slice Rate Methodology extending for rate periods beyond 2002-2006.

The importance of this issue to getting the Slice product off the ground cannot be exaggerated. If PNGC and its members determine that the Slice product would benefit their customers, regardless of their decision whether to purchase, they will commit to supporting long term regulatory approval of an acceptable Slice rate methodology. In turn, PNGC and other Slice purchasers request that Bonneville commit to making its best efforts to secure the approvals needed from the FERC.

3. Conversion Rights.

In addition to long term regulatory approval of a Slice rate methodology, several other events may occur that should trigger conversion rights under a Slice contract. These include, but may not be limited to, the following:

- Invalidity, unenforceability or judicial or regulatory restraint of the performance of any term, covenant or condition of the Slice contract.
- Regarding rates: (a) no Slice rate is in effect in any rate period; (b) the Slice rate methodology approved by the FERC differs materially from that provided in the Slice contract; and (c) the Slice rate as approved by FERC does not comport with the Slice rate methodology set forth in the Slice contract.
- The transmission rate or rates available to move a Slice purchaser's Slice Entitlement over the FCRTS does not comply with the applicable provisions of the Slice contract.
- There has been a dry hole event as described in the Slice contract.

With regard to transmission, since the Slice is a bus bar product delivered in the shape of the resource, not the shape of the load, and since it is also uncertain where the product will be made available to the customer, it is unclear whether transmission service will be available that makes this product economic to purchase. Clearly, conversion rights are essential, and an acceptable test is needed to evaluate the economic viability. This test needs to be performed each time transmission rates change, or when there is a change in the transmission regime such as the formation of a regional transmission organization or other FERC-mandated change. We reiterate the importance of developing a transmission product that works for Slice customers.

4. Joint Operations of Slice Purchasers

Many of Bonneville's preference customers, large and small, have expressed interest in, and participated in the development of the Slice product. This product has benefits that could be realized by both large and small customers, provided that small customers may arrange, at their own expense, for either joint or pooled operations to take advantage of this product. Without such joint or pooled operations, performing such essential Slice product functions as scheduling and addressing energy imbalances would place unfair burdens on small customers. Bonneville should take all reasonable steps to allow small customers to avoid these burdens.

Very truly yours,

/S/

David E. Piper, President
Pacific Northwest Generating Cooperative

cc: PNGC Members