

CON-067

August 26, 2008

Mr. Stephen J. Wright
Administrator
Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208-3621

Re: Slice Product Subscription

Dear Steve:

As public agency customers who purchase over sixty percent of Bonneville Power Administration's priority firm power, we write you to affirm our sincere interest in the BPA Slice Product and our continuing concern about unworkable limits on the amount of this product being made available for Regional Dialogue contract subscription.

Some at BPA express surprise at the number of us who are seriously considering Slice as our preferred product option. In recent BPA forums we have heard conjecture that our interest is due to a fundamental misunderstanding of product alternatives. We also hear unfounded speculation that the increasingly constrained attributes of BPA's proposed Slice offering are perhaps overly generous. But in fact, the reason for our interest is remarkably straightforward. After careful consideration, we have simply concluded that BPA's Slice Product appears to be a good fit for our individual utility systems in meeting the future needs of our customers and the communities we serve.

In preparing our Good Faith Estimate submittals for the upcoming contract subscription, it is increasingly clear that the amount of Slice Product necessary to accommodate our legitimate needs cannot be obtained within the 25 percent cap that BPA has proposed. We appreciated your acknowledgement of this concern in a recent appearance before the PPC Executive Committee on August 7, 2008. At that time, you indicated that you would be looking to interested Slice purchasers, and other preference customers, to find a consensus solution to this problem.

As current and prospective Slice purchasers, we are working collaboratively to reach agreement on a proposal for equitable resolution of the related Slice subscription and allocation issues. By necessity, our proposal will require a meaningful increase in the amount of the Slice Product that BPA has committed to offer. Without such an increase, the Slice percentage afforded individual utilities is limited to the point that the product's value and flexibility are significantly undermined, and it becomes difficult and uneconomic for many of us to meet our system load and operating requirements.

Stephen J. Wright
Slice Product Subscription
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There are many compelling reasons for you to consider an increase in the amount of Slice that BPA will make available. Since its inception, the current Slice Product has proven quite viable without adverse impacts on BPA's system operation. We know of no objective evidence or quantitative analysis that supports a seemingly arbitrary 25 percent subscription cap. Moreover BPA is imposing major scheduling constraints, recall provisions, and operating limitations on the proposed new Slice product. BPA also proposes to eliminate the substantial scheduling flexibility associated with the current Block Product, to which some of us now subscribe. Under these changed circumstances, we believe the factors that have previously motivated BPA to severely restrict Slice Product availability are more than fully mitigated.

As BPA evaluates our Good Faith Estimates in the coming days, we would like to meet with you in person to present our joint proposal. We will also be in contact with other public power interests to gain their concurrence and support. As CEOs and General Managers of our respective utilities, we look forward to working with you to secure a solution to this problem that is acceptable to BPA and all of its preference customers.

Sincerely,




Jim Sanders
Benton County PUD



Greg Booth
Clatskanie PUD



Paul Davies
Central Lincoln PUD



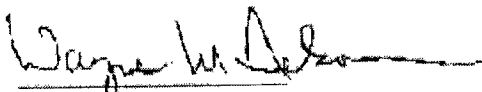
Brian Skeahan
Cowlitz County PUD



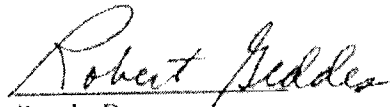
Fred Mitchell
Clallam County PUD



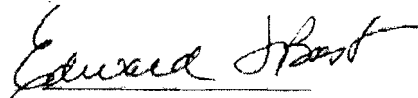
Frank Lambe
Emerald PUD



Wayne Nelson
Clark County PUD



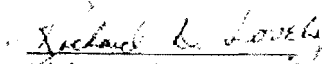
Randy Berggren
Eugene Water & Electric Board



Ed Brost
Franklin County PUD



John Prescott
PNGC Power



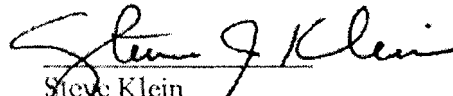
Rick Lovely
Gray's Harbor PUD



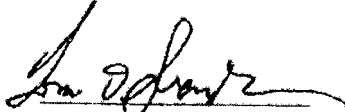
Jorge Carrasco
Seattle City Light



Jackie Flowers
Idaho Falls Power



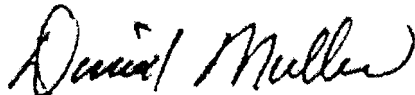
Steve Klein
Snohomish County PUD



Tom Svendsen
Klickitat County PUD



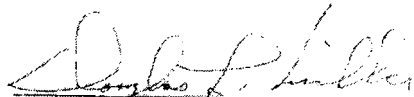
William A. Gaines
Tacoma Public Utilities



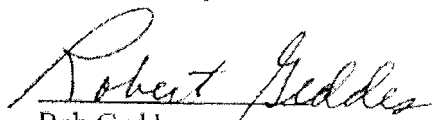
Dave Muller
Lewis County PUD



John Grubich
Okanogan County PUD



Doug Miller
Pacific County PUD



Bob Geddes
Pend Oreille PUD



Department of Energy

Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208-3621

EXECUTIVE OFFICE

August 29, 2008

In reply refer to: P-6

Mr. John Prescott
President and CEO
PNGC
711 NE Halsey Street
Portland, Oregon 97232

Dear Mr. Prescott:

Thank you for your letter of August 26, 2008, regarding Slice product subscription. I am responding to you immediately because of the importance of keeping the long-term contract signing process on schedule. I appreciate that you are seeking to work collaboratively to reach agreement on a proposal for equitable resolution of the related Slice subscription and allocation issues. In many respects, I fully expected to receive such a letter and would rather address these issues sooner than later.

I would welcome a meeting with you to discuss the future availability of the Slice product, however, I want expectations to be clear for such a meeting.

Recall that we spent a considerable amount of time debating the question as to whether Bonneville Power Administration (BPA) should offer the Slice product at all in the post-2011 period. We concluded that debate by deciding we would offer the product with some reduced flexibility and with a limit on the amount of Slice that would be offered. That conclusion was reached only after a great deal of reflection and regional discussion. I and the other senior managers with program responsibility spent a considerable amount of time discussing the characteristics, advantages, and disadvantages of the Slice product as it exists today. Our professional staff, which have responsibility for operating the system, were intimately involved in these discussions, although the decisions were made by senior management. Our conclusion with respect to the amount of operating flexibility and the limit on Slice availability was based on experience with the existing product and our in-depth understanding of the flexibility, constraints, and variability associated with operating the Federal hydro system. We made that decision as a package - in other words, we did not decide to limit flexibility separate from the decision as to the limit on Slice availability. In those discussions we offered to explore a Slice product with higher availability and greater flexibility reductions, but the decision, in part due to customer reaction, was to not spend time developing that alternative. Consequently, the modestly reduced flexibility available to Slice purchasers was fully anticipated when we

determined we'd modestly increase the amount of the Slice product availability. This was a matter of interest not just to BPA and Slice purchasers, but also to other regional parties who have expressed strong points of view about the right amount of Slice sales.

As we reviewed the Slice product to determine its future availability, we could not find a meaningful way to model this analysis for quantitative impacts under all future potential circumstances. Although more exploration of analytical approaches could have been pursued, we were confident of our judgment and determined to not take significant time away from the broader effort to get new contracts in place. As a result, we relied on the professional judgment of staff and senior management to make this decision. I believe this conclusion did not lack objective evidence, was reasonable, and not arbitrary.

The management of the Federal hydro system is an extremely complex affair. The Slice product has added greatly to that complexity and difficulty for BPA. A fundamental factor is that Slice creates substantial uncertainty to system obligations because of the ability by Slice customers to modify their schedules 30 minutes prior to an hour. The uncertainty created by Slice is greater than the uncertainty of the Slice customers' net requirement loads because the Slice product contains not only the inherent uncertainty of load variations, but also the uncertainty of discretionary marketing decisions. This additional uncertainty is occurring in an environment in which our operators already have substantial difficulty managing the variability of an unpredictable hydrosystem, but one that must perfectly match loads, resources, biological opinion requirements, navigation, flood control, and other non-power requirements. This is not an easy job, and the consequences of making mistakes are severe. The decision to limit Slice to 25 percent was one that was reached by the senior management team at BPA, including me, based on substantial internal and customer input. It is admittedly a judgment. But I believe we have made that judgment call in good faith and without bias for or against the Slice product based on what our system can deliver without compromising the ability to meet all of the obligations of the Federal hydro system. It is a judgment documented last year in our regional dialogue policy Record of Decision. I place great faith in this question, in the people who have had and will have the responsibility for making this system work, as to what limits are necessary to make this product feasible.

We have attempted to display some modest flexibility around the 25 percent because it is based on judgment rather than rigorous quantitative analysis. At some point we have to make a judgment as to how much flexibility is warranted. We have concluded that a percentage point or two of flexibility is consistent with our original decision. You are suggesting that a "meaningful increase" in the amount of Slice product is needed, which I assume means more than the number discussed at the negotiating table. Given the amount of time we spent on this issue in reaching the conclusion to offer the Slice product, I am willing to engage in this conversation only on the basis of new information that has not previously been available and that significantly alters the picture. I look forward to hearing from you about such matters.

I would also note that you state that absent an increase in Slice product availability, the product becomes difficult and uneconomic. A determination as to whether a product is economic requires a comparison against an alternative product. I would suggest that part of our agenda should be for you to elaborate on what alternatives you are comparing against to determine that the Slice product would be uneconomic to meet your system load and operating requirements.

Finally, when you come in, I will also want to discuss mechanisms that are available for allocating the Slice product among potential Slice purchasers. Again, I would encourage this allocation to be determined by the potential Slice participants as they did in 2000. If this is not possible, than BPA will define criteria and make the allocation. We have suggested that most or all of those who have expressed interest in Slice could be accommodated within the 25 percent limit simply by limiting the Slice percentage for each customer to levels that have already proved workable over the last seven years to some Slice purchasers, including some with little or no non-Federal resources. Your thoughts on this matter would be appreciated. Because I am concerned about how utilities may be positioning for the filing of Good Faith Estimates, I want to be clear that it is extremely unlikely we would be open to using a pro rata allocation based on the amounts included in the estimates.

I would suggest that you contact my assistant, Nicki Stauffer, to arrange a time to meet as soon as possible. I would expect that it will be extremely difficult to schedule a meeting promptly with all the signatories to your letter. I would hope we could find ways to overcome any such challenges that would lead to delay.

Let me close by saying I continue to believe we are on the cusp of completing an historic set of contracts that will provide substantial long-term benefit to Northwest ratepayers. I am anxious to resolve the remaining issues in front of us.

Sincerely,

A handwritten signature in black ink, appearing to read "Stephen J. Wright". The signature is fluid and cursive, with the first name "Stephen" and last name "Wright" clearly distinguishable.

Stephen J. Wright
Administrator and Chief Executive Officer

cc:

Jim Sanders, Benton County PUD
Paul Davies, Central Lincoln PUD
Fred Mitchell, Clallam County PUD
Wayne Nelson, Clark County PUD
Greg Booth, Clatskanie PUD
Brian Skeahan, Cowlitz County PUD
Frank Lambe, Emerald PUD
Randy Berggren, Eugene Water & Electric Board
Ed Brost, Franklin County PUD
Rick Lovely, Gray's Harbor PUD
Jackie Flowers, Idaho Falls Power
Tom Svendsen, Klickitat County PUD
Dave Muller, Lewis County PUD
John Grubich, Okanogan County PUD
Doug Miller, Pacific County PUD
Bob Geddes, Pend Oreille PUD
Jorge Carrasco, Seattle City Light
Steve Klein, Snohomish County PUD
William A. Gaines, Tacoma Public Utilities