

September 26, 2008

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

Subject: Slice Product Subscription

Dear Steve:

Thank you for meeting with the Slice representatives earlier this month. During that meeting you requested a summary of the changed circumstances that would enable BPA to offer more Slice product than the 1850 aMW identified in the 2007 Regional Dialogue Policy Record of Decision. Our summary is attached for your consideration.

You also asked our representatives to identify the level of demand for the product. We have determined that there is a *very high probability* that all but one of the utilities that submitted a Good Faith Estimate will choose Slice. In that light, we will be refining our proposal for the amount of the Slice Product required to meet our collective needs.

There are still a number of Slice/Block contract issues that remain outstanding. We are currently drafting alternative language in the specific areas discussed previously, which we will deliver to you next week. Our language changes will be narrow and concern only those items that are necessary to ensure the Slice contract is sustainable over the long term.

Slice representatives would like to meet with you again on Thursday, October 2 to engage in discussion and resolution of the issues that remain. Like you, we want to be in a position to close the Regional Dialogue process and sign new power supply contracts by December 1, 2008. We are committed to working toward this mutual goal.

Steve, we have come a long way and successful conclusion of this long Regional Dialogue process is within reach. With some small movement by BPA on these remaining issues, we believe that your objective for the timely execution of the new long-term contracts can be achieved.

Sincerely,



Dick Helgeson
Slice CEO Committee Chair

On behalf of BPA Customers that submitted Slice Good Faith Estimates

Change of circumstances supporting additional Slice sales by BPA

In considering an increase to BPA's 25% overall cap on Slice sales, Steve Wright asked for a summary of what has changed since BPA completed the Slice study in 2005 and issued its Regional Dialogue Policy in 2007. There are a number of changes in the product itself, as well as to the framework within which the Slice product is offered that provide BPA assurances that it can support additional amount of Slice above the originally stated limit. This is a summary of such changes:

1. The BPA Regional Dialogue Record of Decision (ROD) issued in July 2007 stated, in reference to the 25% cap that, "This modest increase is consistent with all parties' perspective that little, if any, new interest in Slice is expected." (page 155 of ROD). This is obviously not the case. BPA justified the 25% Slice limit based on its early assessment of customers' interest in the Slice product and didn't expect much increase from the current level (page 157 of ROD). BPA did not perform any detailed studies demonstrating how much Slice sales it could support but instead proposed a limit that was felt to be sufficient to meet demand. This resulted from the belief that the reductions in the attributes of the product would discourage additional participation. The 2007 Policy clearly underestimated the customers' interest in Slice as evidenced by the number of Good Faith Estimates submitted by customers on or before August 27, 2008. In fact, we have polled the interested parties to ascertain their interest in the product. While there are a number of customers working through their due diligence towards a final product elections, PNGC is the only one that is currently indicating they will most likely not choose the Slice/Block product.
2. When the current subscription Slice/Block contract was offered, BPA was willing to sell up to 2000 aMW as Slice, representing 28% of the Federal Base System firm capability at that time. BPA should be willing to offer at least an equivalent amount, if not more, simply based on the expected refinements in the modeling, the reduction in flexibility offered the Slice customers, and the fact that Tacoma Power will not be purchasing Shaped Block after 2011 as they are now.
3. BPA justified, in part, the 25% cap by stating in the ROD that with a 50/50 Slice/Block combination, 25% Slice would support 3,550 aMW of aggregated customer load. BPA claims Slice has been "successfully implemented" at a 50/50 Slice/Block combination based solely on the current Slice/Block mix of one customer, Snohomish PUD. BPA is in no position to ascertain the success or failure of any individual customer's implementation of the Slice product. The aggregate Slice/Block ratio of the remaining 24 current Slice customers is well above a 60/40 Slice/Block combination. Furthermore, BPA's justification of this 50/50 Slice/Block combination goes primarily toward meeting net energy requirements without regard to the peaking or hour-to-hour load-following needs of the Slice customers. As stated in the ROD, customers recognize that Slice

does not implicitly provide contract capability to follow load nor does it guarantee sufficient energy or capacity to meet retail loads at all times. However, this alone does not absolve BPA of certain obligations under the Northwest Power Act to provide preference power products that have the combined capability of meeting both the energy and peaking net requirements of preference customers, at least on a planning basis. For these and other reasons, the assumed 50/50 Slice/Block combination may not work for customers either individually or in aggregate.

4. Alternative 2 was framed as, "Continue sales of the Slice product at approximately the current amount, with modest reductions in the current level of operating flexibility and/or clarification of the nature of the capacity rights and flexibility" (Page 143 RD ROD July 2007) and was a compromise by existing Slice customers to a more limited product. In developing the Agreement, the nature of the Slice construct has dramatically changed. The customers' Slice contracts will be driven by the results of a new system simulation model that is more detailed and translates intra-day constraints not envisioned in July 2007 when the ROD was issued. This new simulation model will include water routing logic for the six main dispatchable projects rather than lumping them together as a single generation value. As a result, the flexibility made available to the Slice customers under the new Slice product will more closely match the intra-day availability and constraints on the FBS, which is substantially different than the current contract. Additionally, this change greatly simplifies the administration and hourly implementation by BPA hydro operators, who will be able to update Slice customers' contractual limits, ensuring for BPA Slice customers are subject to the same operational constraints, at the individual project level, as Power Services.
5. Some NRU members are now seriously considering the Slice Product and NRU staff has not actively participated in the last round of Slice contract drafting. We understand NRU's Board has not been briefed on the revisions to the Slice contract and the potential impacts on non-Slice customers. We also understand, however, that NRU at this time does not anticipate taking a position on whether the Slice cap should or should not be raised.
6. Per the TRM the existing PacifiCorp Peaking Contract won't be renewed after its expiration in August 2011, unless it is a Discretionary Obligation. This significantly reduces the amount of Tier 1 System Capability required to be set aside to serve this significant next hour system obligation in the post-2011 contract period. On this point alone the Slice limit could be increased.
7. The ROD stated "BPA proposes to continue to make an array of products available that would meet its customers' diverse needs, offering comparable products to those currently available." (Page 87) Ultimately BPA did not offer a Shaped Block product comparable to the current form, and Tacoma Power has elected to pursue Slice as the product that best preserves its ability to reliably serve its load. BPA should support the sale of additional amounts of Slice, factoring in the reduced amount of flexibility dedicated to Tacoma through its existing Shaped Block product.

8. BPA, on Page 156 of the ROD, cited "significant disputes and issues" as part of its rationale for not offering more than 25% of the FBS as Slice and mentioned Excess Requirements Energy as an example. The TRM provisions on load loss ensure this won't be a future issue, reducing the potential areas of disagreement under the Slice product. In addition, BPA's requirement that Slice Customers purchase a minimum 30% of their Net Requirement as Block provides an adequate source of contract reductions without complications from reducing the Slice portion of the product.
9. TBL now has a cost-based tariff for recovering the costs of wind integration, which is being refined in the current 2010 rate case. This change provides assurances that the off-the-top system capability dedicated to wind integration will be priced appropriately and should not be a factor impacting the amount of Slice that is offered.
10. A number of BPA's public utility customers now face strict renewable resource standards and many have determined that securing their own above-RHWM resources will provide them with the level of control over their portfolios they need to ensure compliance with these standards. Based in part on the prohibitive nature of Tier 2 above high water mark resource acquisition and integration described in the TRM, many utilities have concluded that Slice is a better fit than other products to complement acquisition and development of above-RHWM non-federal resources and help them provide reliable and renewable power supplies to their customers. By increasing the Slice limit, BPA will support a broader effort to provide the Northwest with additional renewable power supplies.
11. The BPA ROD suggested that Slice may introduce load uncertainty into BPA's operational goals and raise concerns of cost shifts between customers. The TRM has been designed to minimize or eliminate cost shifts between BPA's customers. In addition, the detailed modeling proposed for the Slice Product facilitates ongoing updates to customers' expected schedule requests over the next week. This level of schedule transparency is a significant improvement for BPA's operators, allowing them to have a much better sense of how Slice customers may utilize contract flexibility. This improvement in the overall scheduling process should enable BPA to support a higher limit on the Slice product availability.



Department of Energy

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

EXECUTIVE OFFICE

October 1, 2008

In reply refer to: PG-5

Mr. Dick Helgesen
Slice CEO Committee Chair
Eugene Water and Electric Board
P O Box 10148
Eugene, OR 97440-2148

Dear Dick:

Thank you for your September 26, 2008, letter regarding the efforts of the Slice CEO Committee to develop an allocation of Slice Product percentages among the utilities that submitted Slice Good Faith Estimates. We appreciated your perspective on the circumstances that have changed since we issued the Regional Dialogue Policy ROD, and that you now believe argue for BPA's reconsideration of our decision to limit the Slice Product offering to 25 percent of the system's firm power production. We have included our thoughts in the form of responses to each of your points in the following enclosure. This letter would have benefited from more polishing, but we have chosen to respond to you promptly due to our commitment to maintain the schedule for contract signing.

I want to assure you that we have carefully considered your comments, and we are attempting to balance your interests against the ever increasing volatility and uncertainty in system operations that we are facing. I want it to be understood that I and my team have listened to your concerns, and have already expanded this product offering in an attempt to meet your needs. The present level of Slice Product service is approximately 1,560 aMW at 22.6 percent of power from our current Federal base system. We have already offered to increase the percentage share of power from our system that we would provide as the next Slice Product to 25 percent, and because this percentage is applied to a larger Federal base system of 7,400 aMW (once fully augmented) this will provide 1,850 aMW or about 290 aMW more than the present Slice Product supply. This is about a 19 percent increase in Slice product from today's levels. It is difficult for us to offer more of the Slice product for the following reasons:

- A) Demands on the operating flexibility of the Federal system due to loads, fish requirements, reliability requirements, and resource integration have grown rapidly -- more so than expected when the 25 percent Slice cap was established last year. A primary reason for that cap was that Slice requires commitment of more of that flexibility than is needed to meet the fluctuations in Slice customer load. Specifically, we have retained the ability for Slice Product customers to modify their scheduled quantity for any hour, 30 minutes prior to the hour, and limited BPA's

ability to change any Slice product constraints for the hour prior to the scheduled hour as well as during the hour of delivery. These aspects of the Slice Product's design cause uncertainty in BPA's ability to manage system operations. Ultimately, BPA is responsible for, and Slice customers are protected from, any unpredicted changes in system operations that occur within the windows afforded Slice customers.

- B) The revisions in the product ensure that Slice customers will face more of the actual operating constraints than they do now. This was anticipated when we chose the "Alternative 2" approach last year. However, the product design ensures Slice customers will still be insulated from unexpected changes in operational requirements that occur less than one hour before and during the actual operating hour. More Slice sales thus increase the challenges of responding to such unexpected operational requirements, and increase the risk that BPA will not be able to respond adequately under very challenging conditions.
- C) Nothing significant, beyond the increase in demand for Slice, has changed since the 25 percent cap was established in the July 2007 Regional Dialogue Policy. If anything, demands on system flexibility are greater.
- D) We are concerned that some customers do not feel Slice works for them at levels around 50 percent. Though we would like to accommodate all those interested in Slice, we also feel that the Load Following product is a good alternative. From our discussions with customers, it appears that customers are comparing Slice to Load Following service and concluding they need 60 percent Slice to make Slice a somewhat lower-cost product for them than the Load Following product. Though we do have a strong interest in keeping customer costs low, this is not a sufficiently compelling reason for BPA to increase the amount of Slice that will be sold, especially in view of the other significant concerns about doing so.
- E) BPA has taken great pains to make it easy to integrate new non-Federal resources under all the products, and to ensure a level playing field between BPA Tier 2 service and non-Federal resources. BPA has further committed to continue to work with customers into next year to address any remaining obstacles to non-Federal resource development.

Even given these reasons to remain with our present 25 percent limit, we recognize the importance of the issue to many of our customers. In view of this, we challenged ourselves to determine the maximum Slice amount that would not constitute an imprudent risk in view of the considerations addressed here. This risk analysis decision is largely based on our judgment of the Federal system's capability to absorb short-term uncertainty and therefore is not precise. Applying that judgment, we have concluded that moving the Slice cap from 25 to 27 percent would be a risk we are willing to take in response to the strong customer interest. This will increase the total aMW sales of Slice to 2,000 aMW, which is a 440 aMW (roughly 28 percent)

increase relative to current Slice sales. We are providing this increase with some concern and reluctance, solely because of the strong customer demand for more Slice. Any further increase would be an imprudent action that we are not willing to take.

With respect to allocating this 2,000 aMW among current prospective Slice customers, BPA will provide a proportional allocation of that Slice amount based upon each utility's Slice Percentage Determination Requirements Load (SPDRL) for those utilities that provided a Good Faith Estimate. BPA will provide prospective Slice customers until October 15, 2008, to reach a consensus on a different allocation of the 2,000 aMW. The allocated amount will be used to determine the Preliminary Slice Percentage included in the Slice/Block contract BPA sends to each potential Slice customer.

If after BPA sends out these Slice/Block contracts, and any potential Slice participant reconsiders its interest in the Slice product and decides not to execute the Slice/Block contract, BPA will offer a contract amendment by January 30, 2009, for a reallocation of that unsold Slice amount to determine a revised Preliminary Slice Percentage in February 2009, among the parties with a signed Slice/Block contract. This reallocation will follow the principles outlined in Exhibit Q, Determination of Initial Slice Percentage of the Slice/Block contract.

In conclusion, I agree that we have come a long way in the development of the Regional Dialogue power products, contracts and Tiered Rate Methodology concepts, and it is critical that we bring this Slice negotiation to a positive close so that we can get on with the business of signing 20-year power contracts and implementing these complex and important agreements.

Sincerely,

Stephen J. Wright
Administrator and Chief Executive Officer

Enclosure

Attachment

BPA 9/29/08 Response to Slice Customer 9/26/08 Letter Regarding the BPA Decision to Allocate 25% of the Tier 1 System as Slice Product

[The format for this document is the Slice Customer statement, followed by BPA responses.]

Slice customer comment:

Change of circumstances supporting additional Slice sales by BPA

In considering an increase to BPA's 25% overall cap on Slice sales, Steve Wright asked for a summary of what has changed since BPA completed the Slice study in 2005 and issued its Regional Dialogue Policy in 2007. There are a number of changes in the product itself, as well as to the framework within which the Slice product is offered that provide BPA assurances that it can support additional amount of Slice above the originally stated limit. This is a summary of such changes:

1. The BPA Regional Dialogue Record of Decision (ROD) issued in July 2007 stated, in reference to the 25% cap that, "This modest increase is consistent with all parties' perspective that little, if any, new interest in Slice is expected." (page 155 of ROD). This is obviously not the case. BPA justified the 25% Slice limit based on its early assessment of customers' interest in the Slice product and didn't expect much increase from the current level (page 157 of ROD). BPA did not perform any detailed studies demonstrating how much Slice sales it could support but instead proposed a limit that was felt to be sufficient to meet demand. This resulted from the belief that the reductions in the attributes of the product would discourage additional participation. The 2007 Policy clearly underestimated the customers' interest in Slice as evidenced by the number of Good Faith Estimates submitted by customers on or before August 27, 2008. In fact, we have polled the interested parties to ascertain their interest in the product. While there are a number of customers working through their due diligence towards a final product elections, PNGC is the only one that is currently indicating they will most likely not choose the Slice/Block product.

BPA Response:

BPA's observation in the ROD that significant additional Slice customers were not expected was just that – an observation. It was not a significant reason for the limitation, and therefore the increase in interest in Slice is not, in and of itself, a reason to raise the limit. We concur that there is more Slice interest than expected, and agree that it places pressure on those parties seeking a high Slice product blend. This is similar to the initial Slice product customer interest expressed in the year 2000 that was eventually resolved. The representation that "little, if any, new interest" was expected in Slice product interest was predominantly made by the Slice lead representatives, and it was associated with the Slice parties' request that no limit be placed on the Slice quantity that BPA planned to offer. BPA acknowledged those statements, and thought of them as one reason why a 25% limit (a 10% increase in the Slice percentage and a 19% increase in the total amount of Slice sales) should not be considered to be limiting or unreasonable.

Slice customer comment:

2. When the current subscription Slice/Block contract was offered, BPA was willing to sell up to 2,000 aMW as Slice, representing 28% of the Federal Base System firm capability at that time. BPA should be willing to offer at least an equivalent amount, if not more, simply based on the expected refinements in the modeling, the reduction in flexibility offered the Slice customers, and the fact that Tacoma Power will not be purchasing Shaped Block after 2011 as they are now.

BPA Response:

The present amount of Slice being sold under existing contracts by BPA is 1,560 aMW. (22.6% of 6,916 aMW). BPA has proposed to offer 25% of 7,400 aMW or 1,850 aMW. This is a 10 % increase in % of Slice, but a 19% increase in FCRPS power offered as Slice. 27% of the augmented 7,400 aMW FCRPS is 2,000 aMW. 2,000 aMW is consistent with past representation by BPA to Congress on Slice limits. However, increasing the sales of Slice by this magnitude has some risk because we have lost system capability through BiOp and load growth, and we are facing tighter operating constraints (NERC reliability standards and BiOp), and we have more volatility in our interconnected generation and loads (predominantly wind). We now have 7 years of operating experience with Slice, and understand that demands on system flexibility are much higher than they were back in 2001.

Slice customer comment:

3. BPA justified, in part, the 25% cap by stating in the ROD that with a 50/50 Slice/Block combination, 25% Slice would support 3,550 aMW of aggregated customer load. BPA claims Slice has been "successfully implemented" at a 50/50 Slice/Block combination based solely on the current Slice/Block mix of one customer, Snohomish PUD. BPA is in no position to ascertain the success or failure of any individual customer's implementation of the Slice product. The aggregate Slice/Block ratio of the remaining 24 current Slice customers is well above a 60/40 Slice/Block combination. Furthermore, BPA's justification of this 50/50 Slice/Block combination goes primarily toward meeting net energy requirements without regard to the peaking or-hour-to-hour load-following needs of the Slice customers. As stated in the ROD, customers recognize that Slice does not implicitly provide contract capability to follow load nor does it guarantee sufficient energy or capacity to meet retail loads at all times. However, this alone does not absolve BPA of certain obligations under the Northwest Power Act to provide preference power products that have the combined capability of meeting both the energy and peaking net requirements of preference customers, at least on a planning basis. For these and other reasons, the assumed 50/50 Slice/Block combination may not work for customers either individually or in aggregate.

BPA Response:

- a) BPA agrees that it cannot assess another utility's success with Slice. We can only go by the facts, including Snohomish's continued interest in the product, and their representations to BPA. Until the cap on Slice recently became an issue, we had heard

no complaints from Snohomish that their current 50/50 mix was not working for them. Similarly, Slice customers cannot assess BPA's system/operational capability to offer the product. BPA has consistently stated from the time of this product's inception that BPA operators have concerns managing the FCRPS due to the uncertainty this product's scheduling flexibility offers.

- b) The Slice product description (Section 5.1) clearly states:
"BPA does not guarantee that the amount of Slice Output Energy made available under the Slice Product, combined with Firm Requirements Power made available under the Block Product, will be sufficient to meet //customer name//s regional consumer load, on an hourly, daily, weekly, monthly, or annual basis."
- c) BPA has always considered the Slice Product, including its advanced sale of surplus, to be a discretionary product offering by BPA. BPA made the decision to offer this product at the request of its customers. BPA does not, and has not, represented that it is a product that can be relied upon to meet all of a customer's firm load. This product is not a load following product. BPA does offer the Load Following product for this purpose.

Slice customer comment:

- 4. Alternative 2 was framed as, "Continue sales of the Slice product at approximately the current amount, with modest reductions in the current level of operating flexibility and/or clarification of the nature of the capacity rights and flexibility" (Page 143 RD ROD July 2007) and was a compromise by existing Slice customers to a more limited product. In developing the Agreement, the nature of the Slice construct has dramatically changed. The customers' Slice contracts will be driven by the results of a new system simulation model that is more detailed and translates intra-day constraints not envisioned in July 2007 when the ROD was issued. This new simulation model will include water routing logic for the six main dispatch-able projects rather than lumping them together as a single generation value. As a result, the flexibility made available to the Slice customers under the new Slice product will more closely match the intra-day availability and constraints on the FBS, which is substantially different than the current contract. Additionally, this change greatly simplifies the administration and hourly implementation by BPA hydro operators, who will be able to update Slice customers' contractual limits, ensuring for BPA Slice customers are subject to the same operational constraints, at the individual project level, as Power Services.

BPA Response:

- a) In BPA's view, the Slice product has not changed since the July 2007 Policy. Development of the Slice model is simply the means of implementing the Alternative 2 approach to Slice, not a change in that approach. The fact that Slice customers will now be subject to more of the actual operating limitations that BPA does is not a new development – it is the core of the Alternative 2 approach decided in the RD ROD. As thoroughly discussed last year, if we had decided to offer significantly more Slice (Alternative #3), we would have made significant contract and Slice model changes to

reduce real time flexibility. We (collectively BPA and our customers) did not pursue this alternative.

- b) The nature of the new Slice Computer Application (SCA) has dramatically changed. In an attempt to meet Slice customer interests it is far more complex than BPA's original proposal. While the SCA more realistically reflects the FCRPS' actual flexibility and therefore it is somewhat more limiting than the existing model (consistent with the Alternative 2 approach), it also attempts to allow far more individual customer flexibility than the past model.
- c) The Slice product has always contractually offered the ability for BPA to pass through post pre-schedule system constraints. Such actions are complex, difficult and time consuming to monitor and model, and we have not had the systems in place to effectively take such actions. As such, BPA currently only attempts to pass-through major (over 500 MW) changes. Under the new contract and with the new SCA, we have committed to be more diligent passing these real time constraints to Slice parties. We expect this to be an extremely challenging process, particularly with the assurances requested by the Slice customers for demonstrations of the equitable distribution of any real time constraints to both Slice and Non-Slice operations.
- d) The bottom line is that we do not expect this product to be easier to manage and implement than the existing product. It is extremely complex and is predicated on the SCA which has yet to be successfully designed.

Slice customer comment:

- 5. Some NRU members are now seriously considering the Slice Product and NRU staff has not actively participated in the last round of Slice contract drafting. We understand NRU's Board has not been briefed on the revisions to the Slice contract and the potential impacts on non-Slice customers. We also understand, however, that NRU at this time does not anticipate taking a position on whether the Slice cap should or should not be raised.

BPA Response:

NRU and other customer's comments and concerns are a matter of record. They were filed, documented and considered when we made our present Regional Dialogue Policy ROD decision on this matter. Yet while cost shift issues are important for us to avoid, even if NRU's position changed, we would have serious reservations about increasing the Slice percentage due to the commitment of limited flexibility.

Slice customer comment:

- 6. Per the TRM the existing PacifiCorp Peaking Contract won't be renewed after its expiration in August 2011, unless it is a Discretionary Obligation. This significantly reduces the amount of Tier 1 System Capability required to be set aside to serve this

significant next hour system obligation in the post-2011 contract period. On this point alone the Slice limit could be increased.

BPA Response:

BPA agrees that the termination of the PacifiCorp peaking contract in 2011 will produce a beneficial and timely reduction to the amount of BPA contract obligations that have real time change rights. This termination was known and considered at the time the 25% limitation was set. It is not a new development. In fact, it is one reason that BPA was able to offer a near 300 aMW increase in the amount of Slice at the same time as other demands on system flexibility are increasing. We have had similar issues/concerns with the PacifiCorp product as we have with Slice. As a clear demonstration of this concern, we have reduced the flexibility of the PacifiCorp product so that only 275 MW (out of 575) still have rights to make schedule changes 30 minutes prior to the hour.

Slice customer comment:

7. The ROD stated "BPA proposes to continue to make an array of products available that would meet its customers' diverse needs, offering comparable products to those currently available." (Page 87) Ultimately BPA did not offer a Shaped Block product comparable to the current form, and Tacoma Power has elected to pursue Slice as the product that best preserves its ability to reliably serve its load. BPA should support the sale of additional amounts of Slice, factoring in the reduced amount of flexibility dedicated to Tacoma through its existing Shaped Block product.

BPA Response:

- a) The Block with shaping capacity product did not contain the operating flexibilities that Slice contains and which drive the need to cap Slice. Tacoma's product allowed no changes in Tacoma's hourly amounts after the pre-schedules were set the day before the day of operation. In contrast, Slice customers can change their hourly take 30 minutes before the hour starts. Further, Tacoma's practice has been to use their flexibilities to follow their loads, not to maximize their marketing activities. Thus, Tacoma's absence as a Block customer does not significantly mitigate the need for a cap on Slice sales.
- b) You will note a consistent theme from BPA. We are very concerned with the present extent that we have offered (or are exposed to) products that have the ability to place large amounts of uncertainty on our system operations. We have been examining every opportunity to reasonably limit such flexibility in order to assure our ability to meet all future system obligations in a reliable manner

Slice customer comment:

8. BPA, on Page 156 of the ROD, cited "significant disputes and issues" as part of its rationale for not offering more than 25% of the FBS as Slice and mentioned Excess Requirements Energy as an example. The TRM provisions on load loss ensure this won't be a future issue, reducing the potential areas of disagreement under the Slice

product. In addition, BPA's requirement that Slice Customers purchase a minimum 30% of their Net Requirement as Block provides an adequate source of contract reductions without complications from reducing the Slice portion of the product.

BPA Response:

We agree that BPA and the Slice parties have worked together to address one of the more contentious existing Slice contract issues in this new contract, that is; Excess Requirements Energy (ERE). Even with this success, we believe that the nature of the Slice product is so complex, and fraught with equitable allocation questions, that it is unfortunately destined to be a contract that will require extensive ongoing contract administration attention, and dispute resolution over time. This letter, and the letters you have indicated that you plan to send this coming week, in addition to the fact that vastly more effort has already gone into development of the Slice contract than the Load Following contract, are indicative of these types of issues.

Slice customer comment:

9. TBL now has a cost-based tariff for recovering the costs of wind integration, which is being refined in the current 2010 rate case. This change provides assurances that the off-the-top system capability dedicated to wind integration will be priced appropriately and should not be a factor impacting the amount of Slice that is offered.

BPA Response:

With respect to the rate impacts of wind integration, we agree. But, with respect to the physical demands on the BPA system, we do not agree that pricing resolves those demands. Wind integration, load growth, fish operations, and other factors are challenging the physical capability of the federal system to meet all the demands placed on it. This is causing us to look increasingly to resource acquisitions to meet those demands. Slice, by its nature, increases the demands on system flexibility above and beyond those created by the Slice customers' system loads themselves at the same time as these other developments are adding to those demands on the system.

Slice customer comment:

10. A number of BPA's public utility customers now face strict renewable resource standards and many have determined that securing their own above-RHWM resources will provide them with the level of control over their portfolios they need to ensure compliance with these standards. Based in part on the prohibitive nature of Tier 2 above high water mark resource acquisition and integration described in the TRM, many utilities have concluded that Slice is a better fit than other products to complement acquisition and development of above-RHWM non-federal resources and help them provide reliable and renewable power supplies to their customers. By increasing the Slice limit, BPA will support a broader effort to provide the Northwest with additional renewable power supplies.

BPA Response:

We do not agree that the TRM describes restrictive or prohibitive Tier 2 renewable resource integration requirements. We have worked hard to ensure that both the Slice and the Load Following Products, along with the TRM construct, provide a reasonable and flexible means for customer resource integration, and are carefully structured to create a level playing field between Tier 2 service from BPA and nonfederal resource development, and make it possible for customers to meet their own load growth with nonfederal resources.

Slice customer comment:

11. The BPA ROD suggested that Slice may introduce load uncertainty into BPA's operational goals and raise concerns of cost shifts between customers. The TRM has been designed to minimize or eliminate cost shifts between BPA's customers. In addition, the detailed modeling proposed for the Slice Product facilitates ongoing updates to customers' expected schedule requests over the next week. This level of schedule transparency is a significant improvement for BPA's operators, allowing them to have a much better sense of how Slice customers may utilize contract flexibility. This improvement in the overall scheduling process should enable BPA to support a higher limit on the Slice product availability.

BPA Response:

A very fundamental concern is that serving customer load through Slice is much more demanding on federal system flexibility than serving that same load through a traditional Load Following or Block service. This is one of the primary concerns that drove our decision to cap the Slice amount. This same concern caused WAPA to take the far more drastic step of requiring prescheduled amounts two days in advance, with none of the flexibilities BPA is providing Slice customers. We agree that BPA's ability to receive Slice customers' ongoing updates to expected schedules will conceptually be helpful in terms of planning FCRPS system operations. However, the fact remains that there is no commitment for Slice customers to maintain these schedules, and Slice customers have the ability to modify them as late as 30 minutes prior to the hour. In essence, under situations of duress, this gives BPA operators about 15 to 20 minutes to modify FCRPS operations to respond to Slice schedule changes, and these adjustments could be quite large. Also, Slice customers are not subject to any system operation requirements that emerge 2 hours or less before the operating hour. Hence, the fact that some steps have been taken to mitigate these other impacts does not by any means eliminate this fundamental concern.