

June 3, 2005

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

Dear Steve:

Late in the day on May 31<sup>st</sup>, customers received *BPA's Draft Slice Report: Experience to Date and Initial Proposal for the Future*, dated May 31, 2005. We have been aware since last summer that BPA was conducting a review of the Slice product. However, we were unaware of the nature or scope of the review because BPA did not share with customers its course of action for over nine months. This is in sharp contrast to how BPA normally conducts its evaluations of products and services.

We have no problem having a good faith discussion of the product and its operations. As the customers responsible with ensuring that the product works to meet the needs of ratepayers we have important perspectives to share. We are, though, very disappointed with the agency in the way in which it has conducted the study so far, including the manner and timing of its release, and the content of this six page "report".

Procedurally, we are very concerned about how the agency has handled this matter. Releasing the document publicly before any real discussion with the Slice customers looks to be a strategy for BPA to give maximum voice to its own portrayal of the document to the public and to other customers.

In addition, the timing is problematic for customers. Since supporting documentation for the report is only now being released, we will have little time before the comment deadline to analyze the basis, if any, for the report's draft conclusions. Notwithstanding the follow-on review process that BPA is proposing, this treatment of the Slice issue stands in stark contrast to BPA's extensive public review of other issues relating to BPA's future products and services.

We have several concerns about the tone and substance of the draft report. Here we only summarize our initial reactions:

1. The document is noteworthy for its decidedly negative tone. There is little mention made of the many positive aspects of how Slice has been implemented by utility and agency staff.
2. The draft report's concerns and tentative conclusions regarding operational issues associated with Slice are assertions not backed up so far by data or analysis.
3. The draft report aims to review possible cost shifts to other customers without any mention of actual cost shifts *from* other customers *to* Slice customers. In the past the criteria regarding cost shifts related to movement in either direction.
4. The draft report does not recognize the benefits of the product. While there is an acknowledgement that some of BPA's water risk has been transferred to Slice customers, the report makes no mention of the other benefits BPA receives including increased probability of Treasury payments due to the take-or-pay nature of the product and the annual cost true-up feature.
5. The draft report does not recognize the improvements to BPA's operational efficiencies resulting from ongoing positive interaction between Slice operations personnel and the agency.
6. The draft report does not include in its review the possible impacts that a change in product characteristics would have on utilities that have made significant investments based on implementation of the current product.
7. The draft report cites Slice as a source of "significant friction". Like all relationships, both parties share the obligation to foster a mutually constructive relationship with each other and others. The manner of release and the unsubstantiated conclusions and tone of this latest report are not helpful developments.
8. Under the "future sales of Slice" section, it is notable that continuation of a product resembling the current product is not even cited as an option by BPA.
9. We are concerned about the impact that the timing and tone of the draft report may have on the ongoing Slice true-up mediation discussions, which we are committed to pursuing in good faith.

Given these concerns, we strongly urge you withdraw the report with intent to re-issue it after consulting with your Slice customers and others to repair the defects in the document per the above comments. In support of this we urge you to immediately share any supporting data you may have and make your technical and policy personnel available for discussions with Slice customer representatives so we may fully understand and respond to BPA's concerns.

We would like to work with BPA to assist in a more balanced approach to an evaluation of the Slice product. This product has shown many successes to date. A good faith

effort to build on these successes and improve the product will offer the region an important tool in an allocated system where customers will be taking on more resource responsibilities.

Sincerely,

PUBLIC UTILITY DISTRICT NO. 1 OF BENTON COUNTY, WASHINGTON



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General Manager

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General Manager

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Manager

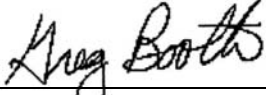
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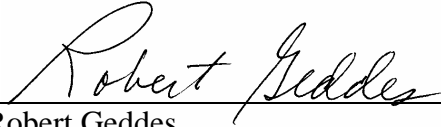
PACIFIC NORTHWEST GENERATING COOPERATIVE  
ON BEHALF OF ITSELF AND THE PNGC MEMBERS



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Patrick Reiten  
President & CEO

PUBLIC UTILITY DISTRICT NO. 1 OF PEND OREILLE COUNTY, WASHINGTON



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Robert Geddes  
General Manager

PUBLIC UTILITY DISTRICT NO. 1 OF SNOHOMISH COUNTY, WASHINGTON



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Ed Hansen  
General Manager

Cc: Paul Norman, BPA