

June 20, 2005 Email from Paul Davies, General Manger, Central Lincoln PUD

Dear Ms. Goodwin:

After reviewing BPA's six page Slice report, and the Staff Papers, we believe more strongly than before that the Slice product contains so many components of uncertainty and of generally unknown value that it was an ill-advised product. In addition to value unknowns, Slice seems to have an increasingly divisive and destabilizing influence over the Requirements customer group.

If it is so difficult to determine whether an issue needs to be considered a rate issue or a contract issue, perhaps the product description itself is unmanageable.

The Staff Papers acknowledge that there are cost shifts. Also acknowledged is that Slicers' use of hourly flexibility has not been assessed until now and that all cost shift analysis done prior to the Slice product (for the WP-02 rate case) assumed no use of flexibility by Slicers. Bonneville staff also admits that reliability issues related to Slice use of and effects on the system (perhaps particularly marketing effects) need to be much better understood. Slice marketing data is unavailable to BPA so a retrospective is difficult.

On page 21 of Staff Papers it is noted that financial impacts (of Slice) span across both business lines. Some of that occurs simply because of the existence of two business lines and the ability of the Slice customers to self-supply reserves at times and to avoid the OATT reserve rate.

The technical issues presented in the Staff Papers express the difficulty of tracking the components of a chunk of the system that is rented in an ownership-like manner to a few customers --- when not all customers are eligible (we are already told that too much more Slice would de-optimize the system). Slice is a Pilot Product and the BPA staff must treat all of its customers fairly by doing a thorough analysis of Slice functioning before Slice becomes a Final Product. Reading through the Staff Papers, one realizes that Staff has only scratched the surface in their analysis about these issues that were treated rather lightly when the Slice Product was approved.

The Slice group claimed (WP-02-B-SG-01, page 7) that Bonneville burdened its sensitivity analysis of possible Slice effects with its own rate design decisions. It is undoubtedly time to re-evaluate how components of what Slice is buying should be priced.

Central Lincoln PUD is a member of NRU (Northwest Requirements Utilities) and supports NRU's letter of comment, that is dated today, on the Draft Slice Report.

Thanks for the attention to our comments.

Paul Davies, General Manager, Central Lincoln PUD