



Eugene Water & Electric Board

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June 20, 2005

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Dear Paul,

Sometimes we may take ourselves so seriously that we miss some fundamental truths and opportunities; I've tried not to do that in response to the Draft Slice Report. In fact, the following story came to mind after reading the report and summary document:

On "Capacity Benefits" And Load Uncertainty

Once upon a time there was a family-run bakery in a quaint Northwest neighborhood.

As a matter of custom and tradition, the bakery would turn out a certain number of cakes every day. With the leftover ingredients that suppliers usually delivered to them, the baker would make cupcakes.

The folks in the neighborhood loved it. They could rely on having cakes available, and every now and again they would be treated with extras beyond their appetites for the fixed amount of cakes they relied upon for their daily desserts.

As time went on, a number of customers in the neighborhood approached the baker with a proposal. If they agreed in advance to cover a fixed percentage of the baker's costs – including what the baker owed the bank for the mortgage on the ovens, rolling pins, and baker's racks – would the baker allow them to take the same percentage slice out of each cake and cupcake that the baker made?¹

¹ Alright, every American schoolchild knows you don't take a slice out of a cupcake. But the customers' consultants and the baker's lawyers thought they could get together and create an exhibit to describe how the cupcakes could be doled out proportionately, down to the point of how much batter would get scraped out of each bowl, so that even the Bakers' Union could be satisfied. Perhaps they were optimistic, but rumor has it that such exhibits have been put together somewhere in the Pacific Northwest.

The baker, who had worried about being late on the mortgage payment a time or two in the past, thought about the proposal and agreed. Not wanting to alienate the baker's other customers, the baker and the "slicers" agreed that only a certain percentage of the cakes would be sold out on a pre-sliced basis in order that the other customers could continue their historical relationship of purchasing just enough cake to satisfy their hunger on a daily basis.

A short while later, the baker's spouse noticed that the slices of cake the baker sold on a pre-sliced basis included icing. The spouse thought that a large part of the "eating cake" experience was satisfying because of the icing, and thought that the customers who bought their cake on a pre-sliced basis were getting too good of a deal because they weren't paying full value for the icing that they were getting. (I think the spouse must have been the one that made the icing back in the kitchen).

This totally confused the baker. "Full value? These customers are paying a fixed percentage of my costs – why shouldn't they be getting a fixed percentage of my product?"

"Because then you have less icing left over for your other customers," said the spouse.

"Yes, but if I scraped off the icing that I sold to the "sliced" customers, they wouldn't have the chance to receive the same enjoyment from their cake that the daily cake customers receive from their cake and icing! That wouldn't be fair, would it?"

"I just don't want to talk about it," said the spouse.

"Don't want to talk about it! What would happen if I kept the icing that is currently going to the pre-sliced customers? Would I sell it to someone else and keep the proceeds for myself? Give it to the bank in addition to my existing mortgage payment? Give it to my daily customers but not the pre-sliced customers? Or, if I were to give it back to all of my customers, what mechanism exists where I could possibly give my "icing" proceeds back to the pre-slice customers who have already paid a percentage of my costs and received a percentage of my cakes?"

"Well," said the spouse, "it all gets confusing, but I have heard worse things down at the bowling alley! Did you know that some of the 'slicers' have been heard to have eaten their cake before eating their dinners? Some of them don't even eat their vegetables! What is this world coming to . . .?"

"What's wrong with that" asked the baker? "It's their cake (and icing)."

“What’s wrong with that!” exclaimed the spouse. “It leads to worse things! Did you know that some of the ‘slicers’ are even scraping off their icing with a fork and eating it straight as icing only – without even loading it with cake?”

“Look” said the baker. “Its their cake! They can do with it what they want. They can eat it for dinner. They can eat it for dessert. Heck, they can even have it for breakfast for all I care. What am I, their dentist . . .?”

Unfortunately, this exchange happened long before the current trends of “win-win,” “getting to yes,” or a level of enlightenment where establishments such as the baker’s sought to meet their public responsibilities through commercially successful businesses. Instead, the baker and the spouse simply retired more often to their separate bedrooms and interacted less and less with each other during their remaining years together.

If only they had taken time to understand their different perspectives.

As you know, EWEB has experience as a “slicer” over several decades, sharing the capacity, energy, and load-following capabilities of mid-Columbia hydroelectric projects with other publicly-owned and investor-owned utilities since the 1950’s. Given our perspective from that experience - as well as from an incredibly respectful relationship with BPA staff who work directly with the BPA slice product,² EWEB staff was dumbfounded after reading the draft Slice Report. Clearly, we need to understand more about how some at BPA are viewing the BPA slice product.

EWEB is also a major purchaser of BPA’s non-slice products. As such, we monitor the economic performance of both the “slice” and “non-slice” components of our BPA purchases. While we have yet to experience the “slice” product under better-than-average water conditions (wouldn’t we all like to see some really good water years . . .), our analysis to date indicates the block product is slightly outperforming the slice product – even after normalizing for differing trading strategies.³ The Draft BPA Slice Report seems to suggest that the Slice Customers may be receiving windfall capacity benefits; if that is so, we sure as heck can’t find them

² Similar to our experience working with staff from the mid-Columbia utilities (including other purchasers), EWEB staff has learned a great deal about multiple topics from BPA staff, including Columbia River operations and stream-flow / snow pack forecasting. In addition, BPA staff has expressed their appreciation for the expertise and cooperation shared with them by EWEB. I believe this is the norm that characterizes BPA’s relationship with its Slice Customers at the operational level, and should not be overlooked when making policy decisions surrounding continuation of the Slice Product.

³ We normalize trading strategies by valuing secondary energy sales at the Dow Jones Mid-Columbia Index. EWEB does not believe we have better trading expertise than other entities such as BPA. Instead, we like the slice product because it allows us to tailor our secondary wholesale power risk exposure to explicit risk targets as determined by our internal management objectives, which vary over time and may differ from BPA’s.

So it seems to me that we all have some work to do before drawing conclusions. I'm pretty sure that "load uncertainty" and "capacity benefits" are red herring issues, but remain open to learning that I am wrong. On the other hand, I can imagine we have a lot more to learn about constraints to "operating flexibility," and I look forward to better definition of these sorts of problems. I think it would be unfortunate if the good work that has gone into this product is overlooked due to misunderstandings and an unwillingness or inability to adequately communicate the product's attributes – including cost allocations – to all of BPA's customers.

Sincerely,

/s/

Scott C. Spettel
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