

10/9/07

**SLICE CUSTOMER RESPONSES AND PROPOSALS
IN RESPONSE TO THE 8/28 BPA SLICE WORKSHOP**

The following is the response of the BPA customers currently taking requirements service from BPA under the Slice rate and Block/Slice contract. It is response to some, but not all, of the issues raised at the 8/28 BPA Regional Dialogue Workshop. The issues raised in that workshop that are not addressed in this paper will be addressed by Slice customers at a later date. The issues discussed in this paper are not necessarily presented in their order of importance.

1. Permitted Shape and Maximum/Minimum Limits on Amount of Block

BPA Proposal

BPA has initially proposed to offer Slice customers a Block/Slice product in which the Block product would be flat (Block product not shaped to customer's net requirement load), and limited by a minimum and a maximum amount.

Slice Customer Response

Block/Slice purchasers should be offered the same choices regarding the shape of the Block product made available to other Block purchasers, subject to whatever charges that may be applicable to the shape selected under the rate design finally adopted by BPA. In addition, there should be no maximum/minimum limitations placed on the amount of Block that can be purchased by customers in conjunction with the Slice product.

Rationale for Response

Shape Limitations – Limiting the shape of the Block product that can be purchased with the Slice product is a major departure from the combined Block/Slice product currently available, and is more restrictive than the Block product that BPA has initially offered to its other customers.

Offering a Block product shaped to the customer's net requirement with Slice will not result in detrimental impacts to non-Slice customers. One of BPA's primary objectives in the Regional Dialogue process is to offer balanced products that do not result in material cost shifts among customers choosing different products. Since BPA has offered a shaped Block as a stand alone product, it is clear that this shaped Block product does not materially shift costs to non-Block customers. If that is the case with a stand alone shaped Block product, it is also the case for a shaped Block product with Slice.

This conclusion is reinforced by the fact that whatever rate design BPA ultimately adopts, it will likely result in some charge (or credit) depending on the shape of the product purchased by the customer. Hence, BPA will be financially neutral to the shape of the Block product sold to Slice customers, and non-Slice customers will not experience a cost shift as a result of BPA offering Slice customers the same shaping options as all other Block purchasers.

Lastly, BPA has suggested that limiting Slice purchasers to a flat Block purchase is in response to “uncertainty”. This assertion is illogical. If the shaped Block product imposes uncertainty on BPA, this rationale would dictate against offering it to any customer, not just Slice purchasers. Yet it is only Slice purchasers that are denied access to a shaped Block product. A shaped Block product imposes very minimal uncertainty on BPA, since the amounts to be purchased in each month (and each diurnal period) are established years in advance. In fact, the Block product, including a shaped Block product, provides BPA with far *more* certainty regarding its service obligation than any of the load following products.

As discussed in Section 2 below, the annual net requirement determination is not workable in the context of the Block/Slice product, and actually reduces the ability of the purchaser to bring its full net requirement to load. In light of BPA staff statements that it is considering modifications to the existing Slice product that will reduce the flexibility available under the Slice product, the opinions offered by staff at the BPA Slice workshop in support of new limits for the Block product available to Slice purchasers were largely unpersuasive.

Maximum/Minimum Block Amounts – The suggested maximum and minimum Block amounts appear to be predicated on the notion that BPA is a better judge than the purchasing customer on what is the appropriate ratio of Block to Slice for each purchaser. This is a faulty assumption. Further, given the fact that there will be some limit on the amount of Slice made available for purchase, there is an implicit corollary limit on the amount of Block that each purchaser must take. Rather than attempt to micromanage this fundamental business decision for its customers, BPA should leave this to the good judgment of its customers, who understand their systems and long-term load service needs far better.

2. Annual Net Requirement Determination

BPA Proposal

Although not included in the BPA handout, it was proposed during BPA Slice workshop that the determination of whether sufficient Requirements Slice power has been brought to the purchaser’s retail load should be made on an annual (and not monthly) basis.

Slice Customer Response

The current practice of determining whether sufficient Requirements Slice power has been brought to load on a *monthly* basis should be retained.

Rationale for Response

The process for determining compliance with the Requirements Slice to retail load obligation is more complicated under Slice than other products. This is due to the fact that the Slice product makes available to the purchaser federal power that is both requirements power as well as surplus power. As a consequence, the determination of compliance with the requirements power to load obligation entails deciding how much of the federal power delivered to a customer falls into each of these categories. For the seven years that the Block/Slice contract has been in place (and for the entire term of the 1982 BPA Power Sales Contract), this determination has been made on a monthly basis.

Shifting to a new and untested annual test for determining compliance with the Requirements Slice to retail load obligation entails risks to BPA and the Slice customers. In particular, use of an annual requirements determination in combination with a flat Block product (not shaped to the customer's net requirement) will impose an artificial limit on the customer's ability to bring requirements Slice to load, and will likely result in Slice customers being unable to take delivery of their entire Requirements Slice. In contrast, the monthly test more appropriately addresses issues caused by the fact that the firm Slice resource is shaped differently within the year than the customer's net requirement.

The manner in which these determinations are now made is well understood by BPA and the customers, and has worked without major controversy since 1982. If a compelling interest had been articulated for making a major departure from current practice, it would have warranted consideration.

3. Limitation on the Availability of the Slice Product

BPA Proposal

The amount of Slice product available to customers to purchase will be limited to 25% of the planned FBS firm resource in FY2012.

Slice Customer Response

BPA should indicate that the amount of Slice product available to customers to purchase will, *if sufficient customer demand for the product exists*, increase above the stated 25% of the planned FBS firm resource in FY2012 to serve such customer demand up to the amount at which it can be shown to have a material detrimental impact on FBS system operations.

Rationale for Response

The tiered rate construct presented to BPA for consideration by public power will provide customers strong motivation to develop non-federal power resources and integrate them for load service. Because the Slice product is useful in integrating non-federal resources, there is a strong likelihood that more customers will want to purchase the Slice product. Without the possibility of an increase in the amount of Slice product available to purchase, there is a risk that increased demand will serve to reduce the amount of Slice product available to each customer to such a point that only customers with a large, existing non-federal resource base will be able to make use of this product. This would be an unfortunate and unfair outcome.

BPA should commit to increase the amount of Slice available for purchase, if required to meet customer demand for the product. BPA should only impose a limit on the amount of Slice product made available when it can be demonstrated that such limit is necessary to avoid detrimental impacts on the operation of the FBS.

It suggested that BPA commit to increase the amount of Slice available for purchase, if required to meet customer demand for the product. BPA should only impose a limit on the amount of Slice product made available when it can be demonstrated that such a limit is necessary to avoid detrimental impacts on the operation of the FBS.

4. Allocation of Available Slice

BPA Proposal

BPA proposed a formula for allocating the Slice available for customers to purchase. This proposed formula does not include any mechanism for reallocation of Slice product that might be left over at the end of the allocation process.

Slice Customer Response

The BPA offer of the Slice product should explicitly anticipate a customer meeting at which the customers interested in purchasing the Slice product will voluntarily and by mutual agreement allocate among the utilities the Slice product available. Such voluntary allocation will be communicated to BPA in writing signed by all participating utilities. If the voluntary allocation effort fails to result in a mutually agreed upon allocation, the proposed BPA allocation formula will be applied as a default mechanism.

Regardless of the mechanism used to allocate the available Slice product (mutual agreement or BPA formula), if after actual contract execution there is Slice product available and unsubscribed, the Slice contract should provide those who elected the Slice product an opportunity to purchase the unsubscribed Slice. This contract provision should give Slice purchasers a finite period within which to amend their Slice amount to elect additional amounts of unsubscribed Slice in proportion to their share of Slice amounts actually purchased under executed contracts.

Rationale for Response

During the last Slice subscription process, some utilities that indicated an initial interest in the Slice product ultimately elected to sign contracts for products other than Slice. This left some Slice product unsubscribed, even though there were customers who were ready, willing and able to purchase this unsubscribed Slice product. The press of events made it impracticable to reallocate this unsubscribed Slice product. This unfortunate outcome should not be repeated.

There will be about three years between the execution of the tiered rate contracts and the first deliveries under them. As a consequence, there will be more than adequate time to reallocate any Slice product that goes unsubscribed due to any late change of heart by a customer. There is no policy reason for not making provision for such a reallocation, given the fact that BPA has determined to place a limit on the amount of Slice product it will offer to customers.