

# Slice of System

July 28, 1998

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**PROPOSED SLICE OF THE SYSTEM:  
PRODUCT DESCRIPTION  
Draft of 7/28/98**

**General Description**

- The product is defined as a power sale that reflects by formula the attributes of BPA's existing generation resources. BPA may offer and customers may buy additional services from BPA.
- The product includes the right to modify the rate of delivery of such energy within the hour, day, week, month and year, consistent with legal and contractual constraints that BPA must observe in the management of the FCRPS. The purchaser's rights to modify the rate of delivery are proportional to BPA's own capability at any point in time, where capability is defined as the maximum and minimum rate of delivery in any given hour which BPA must itself observe in combination with its ability to store and release energy.
- No ownership or "quasi-ownership" rights to federal or nonfederal resources are conferred by purchase of the Slice.
- The firm energy component of Slice offered under section 5(b) authority will have all the preference characteristics as other power products BPA offers to preference customers under section 5(b). Each Slice purchaser will agree to provide its own real time, monthly, and seasonal load following and to cover its own load growth for the term of the Slice contract. A Slice purchase will not affect purchasers' rights to BPA power after the Slice contract period.
- The Slice will be consistent, and not interfere, with BPA's legal, contractual, and Treaty obligations.
- The Slice would be offered on a standard basis effective 10/1/2001.
- The term of a Slice purchase would be 5 to 20 years.

**Amount of Slice Purchase**

- The Slice will be used to meet requirements loads in the Northwest.
- The firm component of Slice purchases will be limited by the customer's net requirements, as determined by forecasted firm loads and declared resources on an annual basis, and by any policies or rules necessary to implement power allocations in the subscription process.
- A customer's formula purchase of Slice will be contractually expressed as a percentage (as determined above), which will be applied to actual output of the FCRPS to determine energy deliveries over time.
- Any customer's forecasted purchases of the Slice, expressed as a percentage, will not exceed the customer's firm net requirements divided by the FELCC of the FCRPS.
- No linkages to other BPA power products are required. The product may not be purchased in combination with "full service" or "partial service" products that cover the difference between the customer's loads and resources.

### **Basis for Payment**

- Payment for this product shall be on a formula basis. The formula is a percentage of BPA's power business line (PBL) revenue requirements for each year of the contract. Such revenue requirements shall include ALL line items in BPA's PBL revenue requirements with the exception of short-term power purchases (i.e., within an operating year), payments to the transmission business line, net revenues for risk, and new long-term resource acquisitions unless those are for "public purposes".
- Slice customers will pay those reasonable costs necessary to implement the Slice.
- The percentage of BPA PBL revenue requirements which the purchaser is obligated to pay is equal to the percentage share of the FCRPS power as determined above in "Amount."
- The value of any BPA surplus or other sales shall not be subtracted from the BPA Slice revenue requirement.
- The initial cost period for the Slice is five years, consistent with the expected rate period for BPA's other power products.
- BPA and Slice purchasers would re-examine the budget for subsequent five-year cost periods.
- Within each cost period, an annual cost adjustment mechanism (plus or minus) will reflect BPA's actual costs, will ensure full recovery of BPA's costs, and thus will substitute for other stranded cost recovery mechanisms.
- Purchaser shall be subject to any standard end-of-contract "stranded cost" provisions for post-2001 sales that apply to other subscription products.
- Transmission will be contracted and paid for separately.

### **Risks**

Purchaser assumes all of the following risks:

- weather conditions
- retail access
- changes in operations due to fish and wildlife obligations
- availability of energy needed to meet loads above the Slice
- load growth
- costs of replacement of resources that are terminated
- costs of additions
- costs of betterments
- spill of fuel due to non-power constraints
- fuel supply on the federal system
- market prices
- retail and wholesale load variations
- acquiring energy and capacity to meet loads and load growth
- unforeseen fish and wildlife costs, including mandated changes in flow for fish or other purposes during the term of the contract

- changes in generation capability
- changes in non-power constraints on the system
- changes in repayment methodologies
- unforeseen maintenance costs of the generation system
- costs of equipment replacements, betterments, and additions (other than resource acquisitions), including those for efficiency improvements and environmental purposes

**Operational**

- BPA will operate the federal system within non-power constraints as determined by other entities.
- If the customer chooses to signal its use of the Slice, BPA may impose limits by return signal that reflect the customer's contractual rights.
- BPA has the right to adjust the rate of power delivery to reflect actual operating constraints on the FCRPS.
- The purchaser will either maintain "7 X 24" operational staffing or contract for such service.
- In order to permit Slice customers to make use of the product on the same basis as BPA's use of the system, BPA must provide information on the bounds constraining the Slice customers' use of the product, but not on forecasted actual generation by BPA.
- Forecasts will be for the FCRPS as a whole, not for the individual projects and will extend far enough into the future for the purchaser to effectively manage the product. Such forecasts will be BPA's best "good-faith" forecasts but are non-binding upon BPA.
- Purchaser is responsible for operating reserves for the Slice. Such operating reserves may be provided from the Slice or from other resources.

## **Other**

### **1. Residential Exchange and 7(b)(2)**

- Residential exchange program costs are part of the Slice revenue requirement.
- Any costs shifted away from preference customers due to the 7(b)(2) rate test can be recovered through a surcharge on the PF-Exchange rate, if that rate is used to calculate residential exchange payments to IOUs. If IOUs are purchasing Slices of power for service to residential loads, the rate for their Slice would have to reflect the surcharge as well.

### **2. Notice and Termination Rights**

- There would be no notice and termination right within the first rate period of the contract for either party.
- Assuming that agreement can be reached on budgetary parameters for subsequent rate periods, there would be no notice and termination right within the contract term for either party.

### **3. Dispute Resolution**

- The dispute resolution process should apply to situations where Slice customers are subject to arbitrary or inconsistent application of constraints on the use of the Slice product, or where BPA has withheld information from the Slice purchaser.
- The process should be graduated: mediation, non-binding arbitration, and binding arbitration to the extent permitted by law.
- Either party may sue for breach of contract (venue to be discussed).
- Remedies will be limited to consequential monetary damages.

### **4. Priority of Slice**

- The Slice should be offered to the preference customers first, and then to other customers, on the same basis as other subscription products are offered.
- Oversubscription should be managed by an allocation policy that applies equally to all purchases from BPA.

### **5. Recall**

- BPA can recall non-requirements Slice sales to serve all requirements sales, including purchases of the Slice to meet requirements load.

## **Slice** **Unresolved Issues and Questions of a Larger Scope**

(This document restates questions posed by BPA, and provides answers from the PGP.)

1. **Basic Slice Product** Is Slice defined as the minimum product desired by any purchaser, and additional services that may be needed by some Slice purchasers developed outside of Slice? (For example, generation reserves for non-control area operators.)
  - Slice is a power sale that reflects by formula the attributes of BPA's existing generation resources. BPA may offer and customers may buy additional services from BPA.
2. **Versions and Variants** Is there just one Slice product, or are there multiple products?
  - From an operational perspective, Slice is a single standard product, with choices that allow customers within and outside BPA's control area to notify BPA of their use of the product (i.e., schedules or signals).
  - From a legal perspective, BPA may offer Slice under sections 5(b), 5(c), 5(d) or 5(f) of the Northwest Power Act. Contractual differences may arise out of the provisions of the Northwest Power Act.
  - From a pricing perspective, Slice customers will make payments consistent with section 7 of the Northwest Power Act.
3. **Pre-2002 Slice.** No longer an issue; not under consideration.
  - The Slice would be offered on a standard basis effective 10/1/2001.
4. **Costs Included/Excluded** What costs are included in/excluded from Slice, including costs specifically incurred to implement the Slice? What future costs will be included/excluded?
  - Slice customers will pay a percentage of BPA's power business line revenue requirement, with the exception of short-term power purchases (i.e., within an operating year), payments to the transmission business line, net revenues for risk, and new long-term resource acquisitions unless those are for "public purposes".
  - Slice customers will not pay for the costs of new long-term resource or power acquisitions, except for those under contract as of 1/1/98.
  - Slice customers will pay those reasonable costs necessary to implement the Slice.
5. **Additional Costs.** If Slice shifts FCRPS power demands from LLHs to HLHs, how will the increased costs be collected from Slice purchasers?
  - After 2001, every preference customer has the right to put its HLH loads on BPA, notwithstanding the shape of loads on BPA before 2001.
  - Any calculation of a "load shift" or "cost shift" requires an understanding of load levels and load shape "with and without the Slice". BPA has not yet identified its pricing structure for the post-2001 period, so we do not have an understanding of "without Slice" load levels and load shapes to use as a "baseline".
  - If we can agree to a baseline, and if BPA is concerned about load and cost shifts from such a baseline, the test of "shifting" should be applied to all customers and all products, so that all increases in costs due to load shifts are collected from the customers with the loads that differ from the shape of the FCRPS.

6. **Cost Periods.** What is the initial cost period for Slice? How often do Slice purchasers and BPA look at the prospective budgets, and for what period of time?
  - The initial cost period for the Slice should be five years, consistent with the expected rate period for BPA's other power products.
  - BPA and Slice purchasers would re-examine the budget for subsequent five-year cost periods.
  - Within each cost period, an annual cost adjustment mechanism (plus or minus) will reflect BPA's actual costs, will ensure full recovery of BPA's costs, and thus will substitute for other stranded cost recovery mechanisms.
7. **Residential Exchange and 7(b)(2)** How will Residential Exchange program costs and 7(b)(2) cost shifts be handled?
  - Residential exchange program costs are part of the Slice revenue requirement.
  - Any costs shifted away from preference customers due to the 7(b)(2) rate test can be recovered through a surcharge on the PF-Exchange rate, if that rate is used to calculate residential exchange payments to IOUs. If IOUs are purchasing Slices of power for service to residential loads, the payment for their Slice would have to reflect the 7(b)(2) surcharge as well.
8. **Mapping Requirements to Slice Percentages** How do Requirements/Subscription rights translate to Slice percentages? How do capacity rights affect Slice percentages? How do customer 5(b)(1)(A) resources affect the customer's Slice?
  - The Slice will be used to meet requirements loads in the Northwest.
  - The Slice purchases will be limited such that the firm energy component will not exceed the customer's net firm energy requirements, as determined by (a) forecasted firm loads and declared resources on an annual basis, and (b) by any policies or rules necessary to implement power allocations in the subscription process.
  - A customer's purchase of Slice will be contractually expressed as a percentage, which will be applied to actual output of the FCRPS to determine energy deliveries over time.
  - The Slice purchases will be subject to curtailment *pro rata* as necessary to reflect the capability of the system in real time, irrespective of BPA's decisions to market energy as "nonfirm" or "firm".
  - Purchase of the Slice will require waiver of the customer's rights to purchase load following power products from BPA for the term of the Slice purchase.
9. **Mapping to Storage and Flexibilities.** Not an issue.
  - Good.
10. **Notice and Termination Rights** What are the notice and termination rights for Slice purchasers and for BPA?
  - There would be no notice and termination right within the first rate period of the contract for either party.
  - Assuming that agreement can be reached on budgetary parameters for subsequent rate periods, there would be no notice and termination right within the contract term for either party.
11. **Dispute Resolution.** What is the dispute resolution process and what are the remedies?
  - The dispute resolution process should apply to situations where Slice customers are subject to arbitrary or inconsistent application of constraints on the use of the Slice product, or where BPA has withheld information from the Slice purchaser (see issue 16).
  - The process should be graduated: mediation, non-binding arbitration, and binding arbitration to the extent permitted by law.
  - Either party may sue for breach of contract (venue to be discussed).
  - Remedies will be limited to consequential monetary damages.

12. **Transmission Business** There are issues for the BPA Transmission Business Line regarding required Federal transmission, over-subscription of paths, control area, dynamic signals, and reserves. Who must be responsible for reserves?
  - The customer is responsible for reserves, and for contracting for transmission services from the TBL or other transmission suppliers.
13. **Signals.** Do customer-controlled dynamic signals allow BPA, the Corps and the Bureau to fulfill their duties to operate the FCRPS? Can Slice be operated with interruptible dynamic signals? Can acceptable safeguards prevent disputes over use of signal capabilities?
  - Yes, to all questions.
  - The choice between use of the Slice by preschedule or signal should be made by the customer, in light of the costs and benefits of both options.
  - BPA may impose limits by return signal on the use of the Slice.
14. **Preschedule Changes** Should Slice nominations be fixed in the day-ahead time frame versus hour-ahead to support implementation of Public preference, in the event that a PNW IOU purchases a Slice share?
  - There is no preference issue in the preschedule period. Preference rights are exercised at the time the product is offered and contracts are executed.
15. **Treaty Obligations.** May be no issue.
  - Good.
16. **Forecast and Data Needs** Can BPA and Slice purchasers agree on the necessary and appropriate system and forecast information that would accommodate BPA's marketing and purchasers use of a Slice share?
  - In order to permit Slice customers to make use of the product on the same basis as BPA's use of the system, BPA must provide information on the bounds constraining the Slice customers' use of the product, but not on forecasted actual generation by BPA.
17. **Independent Organization** Should an independent and confidential organization be established to "operate" the shares of Slice purchasers?
  - No. Any decision to aggregate Slices will be made independently by Slice customers.
18. **Priority of Slice** What is the priority of Slice if there is over-subscription of standard products? If some Slice shares were not for Requirements, should those shares be interruptible to assure reliability of service for Requirements loads?
  - The Slice should be offered to the preference customers first, and then to other customers, on the same basis as other subscription products are offered. Oversubscription should be managed by an allocation policy that applies equally to all purchases from BPA.
  - No.
19. **Recall.** Would non-requirements Slices be recallable to serve load-defined requirements?
  - BPA can recall non-requirements Slice sales to serve all requirements sales, including purchases of the Slice to meet requirements load.

20. **Additional Slices.** If standard products are under-subscribed, can additional Slice shares be offered? Must additional Slice purchases be recalled to serve load growth?
- Yes.
  - If Slice is sold on a non-requirements basis, it should be recallable on the same basis as other non-requirements sales.
21. **Exclusive Use.** Does Slice surrender a portion of a Federal asset to exclusive use by a customer or group of customers?
- No. The Slice is a right to purchase energy, capacity, and associated products based on a formula that reflects the capability of federal resources and resources under existing long-term contracts.
22. **BPA/Customer Relationship.** Would Slice require a restructuring of the relationship between BPA and customers that would be incompatible with enabling statutes or with orders from federal department Secretaries that have the effect of law?
- No.
23. **Section 7 Ratemaking.** Is Slice consistent with Section 7 ratemaking directives?
- BPA has sufficient flexibility within the directives of section 7 to sell the Slice.
24. **Public Responsibilities.** Are there public responsibilities of BPA and the FCRPS that Slice might interfere with?
- No. For example, BPA will operate the federal system within non-power constraints as determined by other entities.
  - The Slice will be consistent, and not interfere, with BPA's legal, contractual, and Treaty obligations.
25. **Requirements Power.** Is Slice requirements power (vs. Surplus or Excess Federal Power)?
- The firm (primary) component of the Slice on a forecasted annual basis is a requirements power product, which will be tested against the customer's forecasted net requirements.
  - The secondary component of the Slice is a surplus product, not subject to a requirements test under section 5(b).
  - At preschedule, the customer's use of the Slice will not exceed the customer's rights to purchase federal power.
26. **Bond Obligations.** Does Slice affect BPA's responsibilities to back bond obligations? Could Slice have an adverse impact on the tax-exempt status of Supply System bonds if purchasers were not municipalities or PUDs?
- The Slice provides greater security for BPA's fixed costs than other types of sales, because the revenue requirement for the Slice explicitly includes all of BPA's debt service.
  - In the extremely unlikely event that BPA is unable to deliver any power from the FCRPS to a Slice customer, the customer would have no obligation to pay BPA, and therefore there would be no adverse impact on the tax-exempt status of Supply System bonds.
27. **Net Requirements.** Could an hourly variable Slice, or one administered by dynamic signal, work with a net-requirements contract for a purchaser in BPA's control area? If Slice could be purchased along with net requirements service, how could BPA's risks be contained? (May also be a risk with multiple Slice products.)
- The combination of Slice and net-requirements sales raises significant issues of risk sharing between BPA and the customer, and the Slice should not be offered in combination with net-requirements sales.

28. **Define/Quantify Risks** What risks will Slice purchasers bear, and can the risk reductions be quantified?
- Slice purchasers bear all risks associated with market prices, fuel supply on the federal system, weather conditions, retail access, changes in repayment methodologies, changes in operations due to fish and wildlife obligations, changes in generation capability, changes in non-power constraints on the system, changes in retail loads, availability of energy needed to meet loads above the Slice, load growth, unforeseen fish and wildlife costs, unforeseen maintenance of the system, costs of replacement of resources that are terminated, costs of additions, costs of betterments, and spill of fuel due to non-power constraints.
  - Yes. All shifts of risks to Slice customers can be quantified through the rate-making process.
29. **Other Implementation Issues** (There are many implementation issues that, although not “show stoppers”, will require resolution.)
- (To be addressed as they are identified.)
30. **FCRPS Obligations to Transmission Business** Would generation services previously committed to the TBL be a preexisting FCRPS obligation or come from BPA’s remaining share?
- First, previous commitments should be demonstrated.
  - If BPA takes the reserves “off the top”, and the Slice is a percentage of the remainder, then the Slice customers have already purchased reserves through the reduction in system capability, and should not be required to demonstrate operating reserves for the Slice when purchasing transmission for the Slice.
  - If BPA does not take reserves “off the top”, the Slice customer will receive a larger amount of energy for its percentage of the Slice, but will be required to demonstrate operating reserves for the Slice when purchasing transmission for the Slice.
31. **Percent Limit to Slice** Is there a minimum size limit to the remaining system that would allow BPA to continue to meet its obligations to non-Slice customers.
- At this point, there appears to be no need to limit the size of the remaining system. Sales of the Slice will not affect BPA’s ability to meet its obligations to other customers.
32. **Firming Nonfirm** If BPA were to firm nonfirm energy, would that reduce the nonfirm available to Slice purchasers, or reduce BPA’s share only?
- In the future, “firming nonfirm energy” will most likely be a combination of sales and purchases in short-term energy markets. Under the basic definition of the Slice, BPA and Slice customers will make all short-term marketing decisions independently. Therefore, any decision by BPA to “firm nonfirm energy” will be based on BPA’s share of secondary energy, not the Slice purchasers’ share.
  - BPA’s need to consider strategies such as firming nonfirm will be reduced by the sale of the Slice.
  - If BPA decides to “firm nonfirm” through a long-term purchase and sale of energy, that is an incremental decision defined to be outside the Slice.

Forecasted Constraints and Data to be Supplied by BPA to the Slice Purchaser

*Draft of July 28, 1998*

All forecasts are “best efforts” and “good faith”, and are not binding upon BPA or the Purchaser as forecasts. Reciprocal commitments to provide forecasts of use of the Slice by purchasers can be negotiated.

Item	Within Day	Next Day	Next Week	Next Month	Next six months
1. Actual FCRPS generation (MWH): Slice resources only, excluding imports and exports (not BPA's loads or short-term purchases)	after-the-fact each hour	x	x	x	x
2. Maximum rate of delivery (MW)	next hour	x	x	x	
3. Minimum rate of delivery (MW)	next hour	x	x	x	
4. Maximum daily HLH-energy deviation, for sustained peaking adjustment (MWH)	forecasted HLH generation for the day	x	x		
5. Maximum upward storage deviation (MWH)		x	x	x	
6. Maximum downward storage deviation (MWH)		x	x	x	
7. Expected storage content (MWH)		x	x	x	x

# SCHWABE, WILLIAMSON & WYATT, P.C.

## MEMORANDUM

**TO:** PGP Administrative and Operating Committees  
**FROM:** Raymond S. Kindley  
**DATE:** July 26, 1998  
**SUBJECT:** Legal Description of Slice  
**FILE NO.:** 071000.111798

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This memorandum provides a legal description of the Slice product and an explanation of how the Slice fits within BPA's authorities to offer and price power. For the most part, this description reflects the legal issues that BPA counsel has raised concerning the Slice product. Additionally, I have attempted to provide a description of the Slice product that offers sufficient detail to determine just how the Slice product will operate and comply with statutory requirements.

### **Slice Power Product**

The Slice power product is a sale of power in an amount that reflects, by formula, a percentage of the power generation capability and operational flexibility of BPA's existing generation resources. It is not a purchase of federal generation resources. BPA may offer, and qualifying customers, may purchase additional services from BPA.

BPA can provide energy for the Slice power product in real time from any or all of the Federal Columbia River Power System (FCRPS) resources. Slice power purchasers will not obtain: (1) any rights to any part or component of the FCRPS resources, individually or collectively, for their exclusive use(s), (2) any rights to preclude BPA from using the entire FCRPS to meet preference customers' loads as directed by section 5(b)(5) of the Pacific Northwest Power Planning and Conservation Act (Northwest Power Act), or (3) any rights to preclude BPA from allocating the FCRPS to only preference customers' loads in accordance with section 5(b)(6) of the Northwest Power Act in the event of an insufficiency.

General Components: The Slice product can be categorized into two basic components - energy and system flexibility for the purpose of determining the rate of delivery of that energy. Slice purchasers will receive energy in real time with rights to change the rate of delivery of that energy. In real time, in keeping with BPA's actual operational practices, the Slice energy purchased is not differentiated into firm, nonfirm or surplus power. For the purpose of this memo, however, the Slice power product is described in terms of the power provisions of the Northwest Power Act, which include references to requirements power and surplus power.

The energy component of the Slice will, from a statutory perspective, include firm energy, surplus firm energy, and non-firm energy. The Slice purchasers' right to variability in the delivery

rate of the energy will depend upon the percentage the Slice purchaser buys, the then-current generation capability of the FCRPS, operating constraints, and the Slice purchasers' energy storage rights. BPA will have the right to limit the delivery of the Slice power product if the requested rate of delivery exceeds any of those limits.

Firm Component: BPA can offer the Slice product under authority granted by sections 5(b), 5(c), 5(d), and 5(f) of the Northwest Power Act. Under section 5(b) authority, BPA may offer an amount of Slice product to qualifying customers where the firm energy component, based on a percentage of the forecast FCRPS's firm energy capability, does not exceed each customers' forecast net load requirement. Each Slice purchaser will agree to provide its own real time, monthly, and seasonal load following and to cover its own load growth for the term of the Slice contract.

BPA will offer the firm energy component of the Slice power product consistent with the restrictions set forth in sections 5(b)(5) and 5(b)(6) of the Northwest Power Act. BPA will include contract provisions in the Slice power sales agreements that allow BPA to restrict Slice power sold under section 5(b) authority if BPA is unable to assure, on a planning basis, that it can obtain sufficient resources to meet requirements loads. All Slice power purchase contracts that BPA offers to preference and federal power customers under section 5(b) will include provisions that reflect section 5(b)(6) requirements of the Northwest Power Act. This will be no different from any other power product offered by BPA under 5(b), all of which must be subject to the restriction rights of sections 5(b)(5) and 5(b)(6).

If BPA decides to offer the Slice power product under sections 5(c) and 5(d) of the Northwest Power Act, those sales will comply with all the restrictions and provisions required by those sections. For instance, if BPA agrees that an investor owned utility (IOU) participating in the residential exchange program will purchase power instead of receiving monetary payments, BPA can offer the Slice power product with the same restrictions that would apply to all other power products that BPA may offer under the residential exchange. Additionally, if BPA offers the Slice under section 5(d) to direct service industries, then the Slice product will be subject to the same limitations as all other power sold to the DSIs.

Slice purchasers will not be allowed to execute out of region sales of Slice power that are inconsistent with sections 9(c) of the Northwest Power Act and 3(d) of the Northwest Preference Act. If a Slice power purchasers makes such sales, BPA will have a contract right to proportionately reduce the amount of Slice power product delivered to that utility in accord with BPA statutory authority.

Non-Firm Energy Component: BPA can offer the non-firm energy component, if any, under section 5(f) of the Northwest Power Act. Deliveries of Slice in real time will be subject to pro rata reductions that reflect system capability, irrespective of BPA's decisions to market

energy on a “surplus firm” or “nonfirm energy” basis. This helps ensure that the Slice purchasers’ decisions to use the Slice and BPA’s own marketing decisions are independent of each other.

Delivery Flexibility: The Slice power purchasers can request variability in the delivery rate of the Slice power product. The amount of variability for each Slice purchaser will be limited by that purchaser’s percent share, applicable operating constraints on the FCRPS, the then-current operating capability of the FCRPS, and the Slice purchaser’s energy storage rights.

### **Payment for Slice**

Share of Revenue Requirement: Each Slice purchasers will pay a share of BPA’s revenue requirement in proportion to the share of FCRPS energy output that it has purchased. That portion of BPA’s revenue requirement will include all components of BPA’s customary revenue requirement for the Power Business Line except for: (1) costs associated with BPA’s long and short term power purchases for other requirements loads, (2) net revenues for risk, and (3) resource acquisitions, provided that Slice purchasers will pay for resources that BPA “acquires” for public purposes. Consequently, Slice purchasers will pay their share of BPA debt to the U.S. Treasury, third-party debt, costs of the residential exchange (including costs of “in lieu” sales of power), and other line item costs that comprise BPA’s revenue requirement for other power products. BPA’s offering of the Slice power product should not result in any undue, inequitable, or discriminatory cost shifts to BPA’s other power customers.

Slice purchasers’ obligation to pay a share of BPA’s revenue requirement proportion to their Slice purchase will remain constant through out the contract purchase period, except when BPA recalls Slice power. Slice purchasers also will be relieved from their payment obligation only if BPA fails to deliver any power. This provision is required to ensure that BPA’s sales maintain the tax exempt status of the Supply System and Trojan bonds and to ensure that preference Slice purchasers will comply with their statutory limitations with respect to the purchase of power.

### **Slice Rate Development**

Procedure: BPA will develop a payment level for the Slice power product within the procedures set forth in section 7(i) of the Northwest Power Act. BPA should not have to modify the existing 7(i) process at all for the Slice product.

Cost Allocation: BPA will develop the payment for the Slice product consistent with the allocation requirements of section 7(g) of the Northwest Power Act. Pursuant to section 7(g) requirements, BPA will include in its Slice revenue requirement a share of all costs and benefits not otherwise allocated under section 7, including conservation, fish and wildlife measures, uncontrollable events, operating reserves, the excess costs of experimental resources acquired under section 6, the costs of credits granted under section 6, and operating services. Except for the exclusions noted below, Slice purchasers will pay their share of the costs not otherwise allocated under section 7. Thus, BPA will be able to comply with the requirements of 7(g) of the Northwest Power Act.

PGP has proposed that Slice purchasers will not pay for net revenues for risk. The Slice purchasers will pay their proportionate share of BPA's revenue requirement, however, which will automatically increase as BPA's actual costs increase during a contract year. The Slice purchasers should not be obligated to pay BPA twice for the same risks - once through "net revenues for risk" and, again, through a surcharge triggered when the risk event actually occurs.

Slice purchasers will neither pay for BPA's inability to sell excess power nor share in any additional revenues that BPA realizes from excess power sales. Their revenue requirement obligation will not change due to BPA's sale of excess power to other customers. BPA will realize, however, a constant level of revenue for the sale of the excess power to the Slice purchasers. That revenue stream is determined by the revenue requirement Slice purchasers pay. As such, BPA sells it to the Slice purchasers entirely independent of market prices, market demand, and availability. For instance, if no excess power is available, the Slice purchasers will still pay their share of BPA's revenue requirement.

Section 7 Requirements: The Slice products offered by BPA under sections 5(b), 5(c), and 5(d) will comply with the current rate development process set forth in section 7 of the Northwest Power Act. BPA will project the total revenue payments that Slice purchasers, under sections 5(b), 5(c), and 5(d), will pay for the Slice product. In the rate process, BPA will enter that amount of Slice payments as a revenue credit prior to the rate allocation and rate design process. BPA will follow its normal rate procedures to develop rates, including the application of the section 7(b)(2) rate test, the IP-PF link, and the DSI floor rate test.

If the 7(b)(2) rate test results in different PF preference and PF exchange rates, then BPA will use the difference between those rates to adjust the payments that the section 5(b) and section 5(c) purchasers make for their Slice purchases. For instance, if the PF exchange rate is five percent greater than the PF preference rate, due to the operation of the 7(b)(2) rate test, then the Slice purchasers who purchase under section 5(c) will pay a revenue requirement that is five percent greater per share of Slice than the revenue requirement per share paid by the customers who purchase under section 5(b), all measured in dollars. BPA will adjust accordingly the revenue requirement payment obligations for the 5(b) and 5(c) customers, and run those revenue credits through the rate process again to arrive at the final rates. This is similar to the process currently used to set BPA's rates. BPA will develop a separate rate schedule for Slice products offered to the different customer classes.

cc: Lon Peters

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