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Marc Pereira
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Primary

January 9, 2008

Ms. Nita Burbank
Via e-mail to nmburbank@bpa.gov
Bonneville Power Administration

Re: BPA Discussion Paper on Tier Rates Methodology dated December 21, 2007

Dear Ms. Burbank:

Thank you for the opportunity to comment on BPA's draft discussion paper on BPA's Tier Rates Methodology. These comments are filed on behalf of Alcoa Inc. ("Alcoa"), a company that has been a BPA customer since 1939.

Alcoa fully appreciates the effort that BPA has expended in its continuing Regional Dialogue process and in this Tiered Rates Methodology in an attempt to better fulfill its mission. To the extent that the resulting tiered rates are simply a preferred form of providing services required under applicable statutes we applaud that effort. However, we must continually remind BPA that establishing tiered rates does not alter BPA's statutory obligation to provide power to its DSI customers using specified rate standards. Without definition of DSI service and rates in this Methodology it is impossible to judge whether or not BPA is meeting that obligation. To the extent that this Methodology results in proposed services or rates that do not meet BPA's statutory requirements, Alcoa reserves the right to object at the time such proposals are made.

The draft paper states at Section 9.3 that:

> ...BPA reserves the option to provide some level of physical power to the DSIs under a Regional Dialogue contract. If BPA were to make such a sale, it might be necessary for BPA to purchase FBS replacement resources so that such sales would not result in a decrease to the publics' HWMs. These system replacement costs would be allocated as FBS costs. It is expected that the non-Tier 2 rates will reflect the costs of these purchases. This power sale would be priced at the Industrial Firm Power (IP) rate in accordance with section 7(c). BPA does not intend to tier the IP rate.

Alcoa has consistently demonstrated that BPA is obligated to provide physical power to Alcoa (and the other remaining DSIs). This position is based on the authorities cited in Alcoa's briefs filed at the Ninth Circuit Court of Appeals relating to BPA's offer of Monetary Benefits to Alcoa for the FY 2007-2011 period (9th Circuit Case No. 05-75638 et al., consolidated). Those arguments are found in publicly available briefs that have been served on BPA, and we will not repeat those arguments here. It is sufficient to state that Alcoa believes that its position in that case is consistent with the law and removes from BPA the discretion to elect not to provide physical power service to Alcoa. This is particularly true when BPA has power from its system that would otherwise be surplus and before BPA makes such power available for sale outside the Pacific Northwest. Thus, Alcoa appreciates the staff's position of holding open the means of providing Alcoa with physical power (although Alcoa differs with BPA's interpretation that such service is an "option" under present circumstances).

As BPA is aware, its Annual Reports regularly report "Sales Outside the Northwest region" because of the requirements of Public Law 88-552. BPA recognizes that "surplus power" constitutes a special category of power subject to differing legal reporting obligations. The following table reflects BPA's sales of power within the Northwest region to the DSIs, DSI Monetary Benefits (during 2007 when BPA monetized power sales to the aluminum DSIs) and "Sales outside the Northwest region" reflecting sales subject to Public Law 88-552 and successor statutes.

BPA Power Sales Reported In BPA Annual Reports (in thousands of $)[1]

Category	2001	2002	2003	2004	2005	2006	2007
DSI sales	420,694	58,454	18,480	92,424	82,454	80,021	0
DSI Benefits	-	-	-	-	-	-	$54,306 (forecast '08)
Sales Outside the NW Region	1,084,076	638,261	628,242	489,063	600,765	691,508	460,656

The foregoing table reveals that in virtually all water years BPA will have substantial amounts of secondary energy available for sale to the DSIs in order to meet the DSIs regional load, and that in most years, even when BPA is making power sales to the DSIs, BPA will have substantial amounts of surplus power that it may sell outside the region. This is particularly true now that only three smelters are operating in the Pacific Northwest. While it may be possible for BPA to monetize a sale of power to the DSIs, the level of that monetization should be based upon the amount of DSI load remaining in the Pacific Northwest region, and not premised upon an artificial measure of monetary benefit that BPA believes the region can "afford." The issue of BPA's obligation to the DSIs is dictated by the Northwest Power Act and Public Law 88-552, and is not subject to manipulation based on BPA's perception of "affordability."

We appreciate this opportunity to provide comments on the staff paper and urge BPA to adopt its (purported) "option" to provide either physical electric power service to the DSIs, or a monetized contract based on actual power loads sufficient to give the aluminum DSIs power at rates to which they would be eligible under the Northwest Power Act and Public Law 88-552.

Sincerely,

Marc Pereira
Vice President, Energy
Alcoa Inc.

[1] Copies of the pages from the FY 2007, 2006 and 2003 Annual Reports from which this table is derived are attached to these comments. The 2008 DSI Benefits forecast is equivalent to the payments actual made in FY 2007 (based on downward adjustments to the Monetary Benefits to reflect forward purchases by the DSIs as permitted by the contracts).