

February 27, 2008

Allen L. Burns  
Vice President, Bulk Marketing  
Bonneville Power Administration  
PO Box 3621  
Portland, OR 97208-3621

Re: Direct Service Industries

Dear Mr. Burns,

By letter of February 19, 2008 you have asked for comments from “interested parties” on the length of delay in “discussions” regarding a DSI benefits proposal for the post FY 2011 period.

Northwest Requirements Utilities (NRU) is an interested party in this matter because the cost, if any, of future DSI benefits would need to be paid in large measure by public power in the Tier 1 rate. Our current rates include about \$59 million of support to the DSIs which adds 1 mill/kWh to the cost of wholesale power. NRU, along with other public power organizations and other customer groups, has recommended in the Regional Dialogue process that benefits to the DSIs be terminated at the end of the current contract. We continue to support that position.

We assume your letter means that a break in discussions until late summer or early fall refers to the bi-lateral discussions between the Agency and the DSIs, rather than the rescheduling of a public process. While we are not a party to these discussions, we are concerned that your letter references the possibility of increased benefits to the DSIs to give them “*a reasonable chance of operation in the post 2011 timeframe, given the uncertainty of aluminum and power markets.*”

We do not believe there is a justifiable rationale for tying any level of financial support for the DSIs to the competitive markets they face. That simply is not BPA’s underlying purpose. In addition, given the volatility of world markets, and the continuing emergence of energy intensive heavy industries overseas with their own unique competitive advantages, further increments of BPA financial support will not resolve the competitiveness problem of the DSIs. Nor is further support fair to other BPA customers who also face intense global competition that may undermine the economic foundation of their community.

Assuming BPA extends the process, we would recommend that you set a date for making a final decision on this matter. It would be useful to have a decision from the Ninth Circuit on lawsuits challenging the legality of the existing DSI contracts. But given our experiences in the litigation regarding the IOU contracts, we know the court may move at a pace that is not conducive to good

regional planning. Public power customers should know the outcome of this issue well in advance of the deadline imposed on them for signing new wholesale power supply contracts for the post FY 2011 period. In addition, in the interim, public power customers should have the assurance from the Agency that any benefits to the DSIs will not reduce the High Water Marks set for post FY 2011 service or increase the cost of Tier 1 power.

Thanks for the opportunity to comment. If you have any questions or would like clarification of any of the points raised here, please give us a call at (503) 233-5823.

Best Regards,

John D. Saven  
Chief Executive Officer

CC: Scott Corwin, Executive Director, Public Power Council  
Members of NRU