



Department of Energy

Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208-3621

POWER SERVICES

October 10, 2008

In reply refer to: P-6

To Parties Interested in service to Direct Service Industries:

Today, BPA released for public review a proposed set of principles that, if adopted, would lead to a power sales contract with a regional aluminum smelter owned by Alcoa. BPA is pursuing such an offer to give Alcoa's Intalco plant, located in Ferndale, Washington, a reasonable chance of survival without causing significant economic impacts on other power customers.

Under the proposal, BPA would provide Alcoa 240 average megawatts (aMW) of power, beginning in 2012 for 10 years, and 160 aMW for another 7 years. This compares to Alcoa's current contract with BPA that provides financial benefits equivalent to 390 aMW. BPA expects the contract would cost an average \$65 million a year; Alcoa currently receives about \$39 million a year in benefits. The increase reflects expected higher future power prices.

We estimate the cost of this agreement would impact BPA's wholesale power rates to publicly owned Northwest utilities by less than 2 percent compared to BPA's current rates (or 3 percent if Columbia Falls Aluminum Company concludes a comparable proposal). Were BPA to provide all the power that both companies requested, the rate impact would be around 9 percent. If BPA did not serve the aluminum companies at all, the effect would be a 3 percent wholesale power rate decrease.

The proposal also calls for limiting BPA's financial exposure. For example, BPA would not buy power at prices above \$73 per megawatt hour in the first 5 years. If BPA buys power to serve Alcoa and Alcoa subsequently shuts down its plant, Alcoa would pay all liquidated damages. Any contract with Alcoa also would terminate if the company closes the plant for 36 months.

In addition, as part of the proposal, Alcoa would commit to maintain a minimum payroll of \$48 million that is expected to support about 480 jobs at the Intalco plant. If by December 2010, BPA is able to acquire 10 years' worth of power supply to support the 240 aMW of power sales to the plant, Alcoa will invest \$160 million in capital improvements at the plant.

This offer also will be available to Columbia Falls Aluminum Company, headquartered in Montana. BPA is in talks with CFAC, although CFAC is considering an agreement that provides benefits through a monetized power sale. Any agreement reached with CFAC would include comparable benefits to the proposed agreement with Alcoa and would be subject to a public review.

We understand that support for the direct service industries varies throughout the region. Some have stated they believe BPA no longer has the authority to provide power to the companies and

shouldn't. Others have said they believe that, since the aluminum companies have bought power from BPA since World War II, they deserve to be treated like any other long-time BPA customer. The proposal seeks to find a middle ground between these two positions.

How to Comment

BPA is requesting your comments on the proposed set of principles that would lead to a power sale contract with Alcoa described in this letter and in Enclosure 1 and posted at BPA's Website at <http://www.bpa.gov/power/pl/regionaldialogue/implementation/documents/>. BPA will hold a public workshop October 20, 2008, in Portland to discuss the proposed agreement.

Comments must be received by 5 p.m., Pacific Standard Time, November 10, 2008. Comments can be submitted on-line at: www.bpa.gov/comments; via e-mail to comment@bpa.gov; via mail to: Bonneville Power Administration, Public Affairs Office-DKC-7, P.O. Box 14428, Portland, OR 97293-4428; or faxed to 503-230-3285. You may also call us with your comments, toll free, at 1-800-622-4519. Please reference "17-year agreement with Alcoa" with your comments.

Following the close of comment November 10, BPA will consider all comments received and may decide to issue a draft contract. If the decision is to move forward with a contract, the draft contract also will be released for public review and comment. After the close of comment on the draft contract in late December, BPA would announce its final decision on whether to pursue the long-term agreement with Alcoa and release a final Record of Decision. BPA is conferring with the Northwest Power and Conservation Council to assure consistency with the Council's power plan.

Sincerely,

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Paul E. Norman
Senior Vice President
Power Services