



Department of Energy

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

POWER SERVICES

December 5, 2008

In reply refer to: PT-5

To Regional Customers, stakeholders and other interested parties:

The Bonneville Power Administration received and considered nearly 650 comments from the region on a proposed framework for a power sale to Alcoa's Intalco Plant near Ferndale, Washington.

Those comments contained strong support for an effort to give the plant a chance to continue operations and maintain employment, but they also contained significant opposition to a contract based on cost and perceived fairness issues.

While BPA has not made a decision to offer Alcoa a contract, the agency is taking the next step toward developing an acceptable vehicle for providing service to Alcoa's Intalco Plant by issuing a draft contract for public review and comment. We have included an attachment with this letter that outlines areas where comments on the proposed framework have been incorporated into the draft contract.

This draft contract contemplates service to Alcoa from FY 2012 through FY 2028. BPA recognizes the proposed transaction with Alcoa is complex, and BPA is continuing to refine the draft, but is seeking comments at this time to help ensure BPA has adequately addressed the specific terms and the financial safeguards necessary to limit BPA's financial exposure, while providing Alcoa an opportunity to sustain its smelter operations at the Intalco Plant. The comments provided at this time will be an important component of the Administrator's decision-making process.

In addition, to facilitate the public comment process, BPA will hold a public workshop to:

- provide clarification on the terms and safeguards in the draft contract,
- identify specific changes incorporated in response to the earlier round of comments, and
- offer an opportunity for the public to ask questions and provide input.

The draft contract template is posted on BPA's Web site at <http://www.bpa.gov/power/pl/regionaldialogue/implementation/documents/>.

While BPA will listen and consider any feedback received at the public workshop, public comments should also be submitted via BPA's public comment Web site at Comment@BPA.gov or by calling (800) 622-4519 in order to assure that they will be included as part of the administrative record. BPA will accept written comments through Dec. 22, 2008.

The workshop will be held on December 16th in the Rates Hearing Room, 911 N.E. 11th Ave., in Portland, Ore., from 1:30 to 4:30 p.m.

If you have additional questions about this meeting, please call Mark Miller at (503) 230-4003 or Heidi Helwig of the Public Affairs Office at (503) 230-3458.

Sincerely,

//s// Allen L. Burns

Allen L. Burns,
Vice President, Bulk Marketing

Attachment – Summary of How the Draft Contract Incorporates Public Comments

The following is a high-level summary of items in the draft contract addressing comments that were made in response to comments BPA received on the proposed framework. Where these items can be found in the draft contract is noted parenthetically in each paragraph below.

- 1) *BPA should base the true-up for the last seven years of the contract based on the actual costs of the deal, not on a forecasted industrial power rate.* BPA has made this change in the draft contract. (Exhibit C)
- 2) *BPA has not sufficiently contained the actual cost of the sale to Alcoa.* In addition to the other protection outlined in the framework, the draft contract requires Alcoa to post a letter of credit as security immediately after BPA makes its initial market purchase. (Sections 5.5 & 6.2.5)
- 3) *It is very important that Alcoa be prohibited from reselling the power.* In the draft contract, BPA prohibits Alcoa from resale of firm power. (Section 21.1) Further, resale of firm power is an event of termination. (Section 23.6 (5))
- 4) *Sales to Alcoa must provide a portion of the Administrator’s reserves for firm power loads within the region.* The draft contract requires Alcoa to provide a portion of the reserves BPA requires to serve firm power loads within the region. (Section 10.2)
- 5) *BPA should affirmatively commit to only purchasing flat blocks for service to Alcoa.* The draft contract indicates that all power acquisitions to support its obligations to Alcoa will be flat blocks of power acquired for periods of one month or longer. (Section 4)
- 6) *The agreement needs to clarify what constitutes a curtailment.* BPA has clarified what constitutes a curtailment in the draft contract by distinguishing a) BPA curtailments if it is unable to acquire power (section 10.1), b) BPA Restriction for Reserve Obligations (10.2), c) Temporary Load Reductions, (section 10.3), and d) curtailments initiated by Alcoa (section 10.4).
- 7) *If BPA proceeds, it should require Alcoa to commit to a certain minimum number of jobs in addition to the “annual employment expenditures” commitment.* BPA has limited the types of specific employment expenditures that qualify and has provided that if those conditions are not met, BPA may terminate the agreement. (Section 9.1) BPA has the right to verify through an audit that the expenditures meet those conditions in section 9.1. (Section 9.3)
- 8) *The small carbon footprint of FBS resources is important to public utility purchasers and should not be adversely affected by the Alcoa arrangement.* BPA has endeavored to limit its carbon mitigation costs by requiring those costs to be included in the price caps, and the draft contract specifies that BPA is not required to make any acquisition that

increases BPA's carbon or greenhouse gas mitigation obligations. The draft contract also specifies that BPA will not make a plant specific acquisition from a coal-fired resource to support its obligations to Alcoa contemplated in the draft contract. (Section 8.2) Further, BPA is not obligated to convey to Alcoa any value associated with environmental attributes absent an order to do so. (Section 17.2.4)

9) *BPA needs to clarify the impact on Alcoa if Columbia Falls Aluminum Company chooses not to participate.* The draft contract indicates that BPA shall only reallocate up to 70 average megawatts of any firm power made available by the reduction of another direct-service industry smelter customer's entitlement pursuant to a corresponding section of such other customer's contract in effect after September 30, 2011. (Section 10.6)