



Department of Energy

Bonneville Power Administration
P.O. Box 3621
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EXECUTIVE OFFICE

May 29, 2009

In reply refer to: D-7

To regional customers, stakeholders, and other interested parties:

BPA is conducting a meeting to have an open public discussion for determining long-term service to the aluminum direct service industries (DSIs). The meeting is scheduled for 1-4 p.m., June 8, in the Rates Hearing Room, 911 N.E. 11th Avenue, Portland, Ore.

BPA is seeking to find a balance between providing the DSIs a chance to continue operating in the Pacific Northwest and minimizing impacts to BPA rates. BPA wants to hear from the region on this issue and would like to explain other processes that will move BPA forward in developing a DSI service strategy.

Included in this letter is clarification of the different processes that will be underway during the next several months regarding service to DSI customers.

Long-Term DSI Service Process

BPA is looking to the region to help it decide if the amount of power previously negotiated between Alcoa and BPA under the unsigned, draft contract released in January 2009 should be changed, and what changes are needed for the term of future contracts. The end goal is to be able to develop a contract or contracts that provide power to DSIs as early as Oct. 1, 2009 and beyond.

BPA and Alcoa Inc. worked several months last year and early this year to develop a long-term contract to provide service to the company's Intalco plant near Ferndale, Wash. While both BPA and Alcoa worked diligently to reach agreement, the parties were unable, given the sudden collapse of world aluminum prices, to settle on terms that serve the long-term interests of both parties. Since that time a couple of things have changed. The most significant development is that wholesale power prices are now considerably lower than they were last fall, including forward markets for future years. Also, while aluminum prices still have not rebounded significantly, they are no longer in a free fall and prices have remained fairly stable for the past several weeks. The draft contract was posted Jan. 23, 2009 on BPA's external Web site at www.bpa.gov/power/pl/regionaldialogue/implementation/documents/2009/DSI/2009-01-23_09PB-13268.pdf.

BPA is looking for specific feedback on changes to the draft contract:

1. Increasing industrial firm power (IP) to an amount sufficient to operate two potlines at Alcoa's Ferndale smelter and the Columbia Falls Aluminum Company smelter located in Montana (460 aMW).
2. Should the contract term be shortened to 5 years, 7 years or maybe 10 years?

3. Should there be a short-term contract/amendment for FY2010 – FY2011 followed by a long-term contract with some type of off-ramp or a single contract extending beyond FY2011? If both a short-term and long-term contract are decided upon, what linkages should be put in place between the two?
4. If the contract term is shortened, can there now be less risk mitigation in the contract from that proposed in the Jan. 23 draft contract?

While this will be a meeting open to the public, it is not intended to be a forum to solicit broad public input and comment. The primary purpose is to enable a limited group of participants from the DSIs, BPA and other interested parties to engage in an in-depth discussion of these issues. The goal is to allow parties who have closely followed and participated in the previous development of the contract to find common ground and enable BPA to more fully understand the views and concerns of the parties. BPA will listen and consider any feedback received at the meeting, but written public comments should also be submitted by close of business June 22, 2009, via BPA's public comment Website at www.bpa.gov/applications/publiccomments/OpenCommentListing.aspx or by calling (800) 622-4519 to have them included as part of the administrative record. Additional opportunities for broad public participation will be provided later in the process.

Different Processes Related to DSI Service

Because there will be several processes simultaneously underway that regard past and future service to the aluminum DSIs we have listed these processes with a brief explanation. The three processes listed below are in addition to the WP-10 rate case in which a variable rate is being considered for the IP-10 Rate Schedule.

1. Lookback Process

As a result of the United States Court of Appeals for the Ninth Circuit's December 17, 2008 opinion in *Pacific Northwest Generating Cooperation et al. v. Bonneville Power Administration*, 550 F.3d 846 (9th Cir. 2008) (PNGC), BPA is undertaking this process, to determine whether, and in what amount, BPA or a DSI is entitled to payments as a consequence of payments made by BPA to the aluminum DSIs from October 2006 through November 2008. BPA will issue a separate letter to announce the start of this process very soon.

2. Long-Term DSI Service

BPA is undertaking this process to develop a contract(s) for the FY2010 through FY2011 period and the Regional Dialogue period that begins October 2011, or perhaps combine the two periods. This process will start with the June 8 public meeting announced earlier in this letter. BPA is interested in the region's thoughts about what changes that might be made to the draft contract that was shared with the region Jan. 23, particularly considering the fact wholesale market prices are lower than when the contract draft was initially negotiated.

3. Long-Term Variable Rate Process

BPA may be undertaking this course to establish a long-term variable rate. This decision will be made as part of the WP-10 rate case. It is intended that this long-term variable rate take into consideration any over or under recovery of revenue from a variable IP-10 rate, if one is adopted. This process has not formally begun but would be an additional section 7(i) rate process that

begins when BPA issues the Initial Proposal for this process sometime prior to the end of September 2009. The final record of decision for this 7(i) process would plan to be completed during the spring of 2010.

If your group or organization wishes to have primary spokesperson who will participate in the limited group discussion please notify BPA by close of business June 4. If you have additional questions about this issue, please call BPA's Harry Clark at (503) 230-3662.

Sincerely,

//s// Allen Burns, 5/29/09

Allen Burns
Acting Deputy Administrator
Bonneville Power Administration