



Department of Energy

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

EXECUTIVE OFFICE

August 19, 2009

In reply refer to: A-7

To Regional Customers, Stakeholders, and Other Interested Parties:

In its May 29 letter to the region, the Bonneville Power Administration (BPA) initiated a public discussion with parties to help the agency decide the amount of power that it should offer to the direct-service industries (DSIs) and the terms of such offer. BPA published a term sheet July 17, 2009, outlining the principles for the negotiation of a long-term power sale contract with Alcoa. This term sheet was a step in the public discussion of service to the aluminum DSIs in FY 2010 and beyond. BPA and Alcoa have now finished the negotiation of a draft long-term power sales contract. This does not represent a decision to offer service to the DSIs, which would be made later in the process.

The DSI current contracts are monetized power sales which terminate Sept. 30, 2009.

BPA is proposing a power sale of up to 320 average megawatts at the Industrial Firm Power rate (IP rate) sufficient to meet a portion of Alcoa's load at its Intalco smelter. The proposed power sale would begin Oct. 1, 2009, and extend through Sept. 30, 2016, unless BPA determines it can not provide the service within the cost caps established in the agreement. While no cost cap applies to the sale of 285 average megawatts during the first two-years of the agreement, the costs of such service have been addressed in BPA's WP-10 rate proceeding. If Alcoa requests that BPA increase the power sale from 285 to 320 average megawatts, then the increase through Sept. 30, 2011, would be subject to an \$82 million cost cap. Thereafter, BPA's 320 average megawatt power sale to Alcoa would be subject to a cost cap of up to \$300 million (\$60 million/year) with the potential to increase to \$330 million (\$66 million/year) if Alcoa increases its jobs commitment. This is a reduction from the \$350 million cost cap included in the term sheet published on July 17.

Columbia Falls Aluminum Company (CFAC) had expressed a desire for a shorter term option that, in return, could provide them more flexibility. However, BPA and CFAC have not been able to agree on principles needed to release a term sheet for a shorter term. If BPA decides to move forward and offer a contract to Alcoa, CFAC will have the option to execute a contract under these same terms. However, CFAC has indicated that it does not intend to sign such an offer.

The proposed power sale contract with Alcoa will be available for public review and comment from Aug. 20, 2009, through Sept. 9, 2009, on BPA's Web site at <http://www.bpa.gov/power/pl/regionaldialogue/implementation/documents/>

The attachment to this letter summarizes changes BPA has made to the draft contract in response to input received during the public comment process on the Term Sheet. In addition, BPA will be posting a revision to the “Revised Summary of BPA’s Use of the Region Economic Study to Contemplate the Service Concept” to reflect changes made in the draft contract. This revision continues to demonstrate a small net gain in jobs from this proposed power sale to Alcoa compared to the proposal that was under consideration earlier in January 2009 and further demonstrates that net jobs remain at least neutral to slightly positive under the assumption that Alcoa were to curtail entirely for 18-months during the last five years of the proposed contract.

We look forward to any comments you may have, which should be provided via BPA’s electronic comment system at www.bpa.gov/comment by 5 p.m. Sept. 9, 2009. If you have additional questions about this issue, please call Harry Clark at (503) 230-3662 or Heidi Helwig of the Public Affairs Office at (503) 230-3458.

Sincerely,

//s// Allen Burns, 8/19/09

Allen Burns
Acting Deputy Administrator
Bonneville Power Administrator