DSI Workshop

- Agenda

– Introductions / Overview	1:00 – 1:05pm
– Relationship to Other Processes	1:05 – 1:20pm
– Updated Timeline	1:20 – 1:30pm
– Recap of the Draft Contract	1:30 – 1:45pm
– Why Smelters' needs have changed	1:45 – 2:00pm
– Why BPA thinks objectives can still be met	2:00 – 2:15pm
– Break	2:15 – 2:30pm
– Facilitated Discussion	2:30 – 3:50pm
– Recap / Next Steps	3:50 – 4:00pm
– Adjourn	4:00pm

DSI Workshop
Relationship to Other Processes

- Processes planned to be underway simultaneously that regard past and future service to the DSIs:
  - WP-10 Rate Proceeding: To set the IP rate for FY10 & 11 and consider a variable rate for the IP-10 Rate Schedule.
  - DSI Lookback Process: To determine whether, and in what amount, BPA or a DSI is entitled to payments as a consequence of benefits provided by BPA to the DSIs beginning in October 2006.
  - Long-Term DSI Service Process: To develop a contract(s) and establish service level(s) for the FY2010 through FY2011 period and the Regional Dialogue period that begins October 2011, or perhaps combine the two periods.
  - Potential Long-Term Variable Rate Proceeding: To establish a long-term variable rate in 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.
  - Port Townsend Contract(s) Process: To develop a contract(s) and establish service level(s) for the FY09 period and beyond.

DSI Workshop
Updated Timeline

Month	WP-10	Lookback	DSI Service	Long-term Variable Rate
June	•Oral Argument •Draft ROD	Letter announcing Lookback process	•Workshop •Comments Due	
July	▪Briefs on Exceptions ▪Final ROD/Studies	Draft ROD		If WP-10 decision is yes, begin separate 7(i) process
August		Comments Due	•Draft Contract •Comments Due	
September		Final ROD	▪Final ROD ▪Contract Offer	Initial Proposal
October		Second Phase begins (as necessary)	Power Deliveries Start	
Spring 2010				Final ROD

DSI Workshop
Recap of Draft Contract

- While BPA and Alcoa were unable to settle on terms that would adequately serve the interests of both parties in January, BPA committed to continue discussing with the aluminum smelter DSIs and the region the potential for future service.
- What are the objectives of a draft contract?
  – Provide a balanced approach to DSI service
  – Offer Smelters reasonable chance of survival, but not a guarantee, while producing a small but positive net employment impact for the region
  – Limit BPA's financial exposure, thereby mitigating impacts on other power customers

DSI Workshop
Recap of Draft Contract

- The Major Terms of the January Draft Contract:
  - Seventeen year contract (FY2012 – FY2028) with Alcoa and commensurate benefits and costs for CFAC (mechanism to provide service benefits may differ)
    - Up to 345 aMW physical power sale at the IP rate for first 10-years & up to 230 aMW for an additional 7-years (240 and 160 aMW respectively for Alcoa). Down from 560 aMW-equivalent financial benefit now (390 aMW-equivalent for Alcoa).
  - BPA would purchase from the market to meet its need:
    - BPA would not be obligated to sell IP power if it could not purchase within predefined price caps.
    - If BPA does not make market purchases to serve Alcoa, BPA pays certain shutdown costs.
  - Price Caps limit BPA's purchase cost – averaging $93 million per year ($65 million for Alcoa):
    - $93 million annual cost in the first 10-years is equal to market purchase cost minus forecasted IP revenue.
    - $73 per MWh market purchase cap represents $65 million per year divided by MWh sold to Alcoa plus average of the forecasted IP rate for a 10-year deal.
  - Alcoa will pay the IP rate set in each rate case
  - Alcoa Assumes Supplier Risk
  - Alcoa Assumes market price risk if it curtails through Liquidated Damages calculation

Note: The final version of the January draft contract reduced the price cap in the first 5-years from $73 to $72 per MWh. This price cap was established to limit BPA's purchase cost such that BPA's market purchase cost less forecasted IP revenue would be less than $100 million per year for the first 5-years.

DSI Workshop
Why Smelters' needs have changed

- Alcoa indicated in the January 23rd letter to the region that "the current economic recession, which has reduced worldwide demand for aluminum and cut the price of aluminum by more than half in the last several months, has caused them to reassess the risks of operating its facilities at less than optimum levels" – or less than 2- pot lines at Alcoa's Intalco smelter in Ferndale, WA.
- Alcoa's description of why its needs have changed.
- CFAC's description of why its needs have changed.

DSI Workshop
BPA still believes objectives can be met

- The combination of lower price caps and reduced market power prices may allow the sale of more power within the same net cost objective – even if we initiate deliveries two years earlier.
  - The price cap on BPA purchases of 345 aMW of power – enough to serve 1.5 pot lines at each of aluminum smelter DSIs – was $72 per MWh in the first 5-years and the price cap was equivalent to a net cost of $100 million per year.
  - The equivalent price cap for BPA purchases of up to 460 aMW of power to serve the aluminum smelter DSIs would be $64 per MWh in FY2012 through FY2016. This cap is also equivalent to a net cost of $100 million per year.
  - Current market quotes indicate prices for power are approximately $55 per MWh for the 5-year period, resulting in a average net cost of approximately $59 million per year in FY2012 through FY2016.

DSI Workshop
BPA still believes objectives can be met

- Reducing the term may allow for simpler solutions compared to the complexities associated with the 17-year term of the January draft contract:
  - BPA actually purchasing power? (e.g. contingent acquisitions to accommodate 6c & NEPA, different price caps in later years, Alcoa's put options in sections 5, 6, 7)
  - Alcoa actually taking and paying for power that BPA purchased? (e.g. Alcoa curtailments in sections 10.4, 10.5, 10.6)
  - Alcoa assuming Supplier risk? (ie. third party supplier credit and collateralization requirements in sections 8.4 and 11.3)
  - Alcoa assuming market price risk if it curtails through Liquidated Damages calculation? (ie. the liquidated damages calculations in sections 11.1, 11.2)

BREAK

DSI Workshop
Facilitated Discussion

- 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 the contributions of the other processes that will move BPA forward in developing a DSI service strategy.
- Please note that BPA is taking notes today, but not comments. Public comments for the record on this issue should be submitted via BPA's public comment Web site at:

  http://www.bpa.gov/applications/publiccomments/OpenCommentListing.aspx

  or by calling (800) 622-4519. BPA is accepting written comments through June 22, 2009.

DSI Workshop
Facilitated Discussion

- Today, BPA is looking for specific feedback on changes to the draft contract from the smaller group assembled here:
  - Should the amount industrial firm power (IP) offered increase from 345 aMW to 460 aMW – an amount sufficient to operate two potlines at Alcoa's Ferndale smelter and the Columbia Falls Aluminum Company smelter located in Montana?
  - Should the contract term be shortened from 17 years to 5 years, 7 years or maybe 10 years?
  - 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?
  - 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?

DSI Workshop
Recap / Next Steps

Thank you