

**ADMINISTRATOR'S
DRAFT EQUIVALENT BENEFITS
ANALYSIS DETERMINATION TO
EXTEND CONTRACT NO. 10PB-12175
WITH ALCOA (INITIAL PERIOD
EXTENSION REQUEST)**

October 6, 2010

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I. INTRODUCTION

On December 21, 2009, the Administrator signed a block power sales contract (the "Block Contract") with Alcoa Inc. ("Alcoa"). Under the Block Contract, BPA is selling up to 320 aMW of firm power to Alcoa at the Industrial Firm (IP) power rate over approximately 17 months. Power deliveries began on December 22, 2009, and are scheduled to end May 26, 2011 (the "Initial Period"). The Block Contract provides that BPA will evaluate extending such firm sale for one additional period of 3 to 12 months (the "Extended Initial Period") upon written request by Alcoa.¹ Alcoa submitted its request to BPA for an extension up to 12 months on September 2, 2010.² The sole subject of this document is BPA's draft determination granting Alcoa's request based on this evaluation of Equivalent Benefits for the requested Extended Initial Period.

Prior to the execution of the Block Contract, BPA provided the draft contract for public comment. BPA's record of decision (the "Alcoa ROD") dated December 22, 2009, addressed the comments received and provided the rationale supporting BPA's decision to enter into the Block Contract, in light of the comments received and the opinions of the United States Court of Appeals for the Ninth Circuit ("Court" or "Ninth Circuit") in *Pacific Northwest Generating Coop. v. Dep't of Energy*, 580 F.3d 792 (9th Cir. 2009) ("*PNGC I*") and *Pacific Northwest Generating Coop. v. BPA*, 580 F.3d 828 (9th Cir. 2009) ("*PNGC II*"). The Block Contract is currently being challenged in the Ninth Circuit.

Prior to making its final determination whether or not to extend the contract, BPA is providing an opportunity for public review and receiving comments regarding its draft evaluation of the Equivalent Benefits Test for the Extended Initial Period. The public review and comment period begins on the date this draft determination is made public and continues through October 21, 2010. The scope of review is limited to this draft determination and does not include the associated methodology. As established in the

¹ The Block Contract also provides for power sales to Alcoa for up to an additional 12-month (Transition Period) and an additional 5 years (Second Period) if certain specified conditions, applying appropriately to each period, are met. See Alcoa ROD at 18-19.

² Letter from Mike Rousseau, Plant Manager, Alcoa, to Mark E. Miller, Account Executive, Bonneville Power Administration (Sept. 2, 2010). See Attachment A.

Alcoa ROD, the Equivalent Benefits Test is intended to demonstrate that a decision to serve a DSI customer is, as described by the Court, consistent with sound business principles when it can be shown that the benefits to BPA of serving the DSI load would equal or exceed BPA's cost of serving the load during the period of service.³ Issues or comments pertaining to why BPA entered into the Block Contract, legal authority, BPA's reading of *PNGC II*, or any other related threshold matters, many of which were addressed in the Alcoa ROD and are pending review in current litigation, are not within the scope of this determination and will not be addressed.⁴ BPA agrees that issues raised in the litigation, and arguments and responses thereto, apart from those involving whether BPA has properly conducted and applied its Equivalent Benefits Test, are not waived by virtue of their not being raised and addressed in this comment forum.

In its notice requesting the extension of the Block Contract, Alcoa further requested that BPA make its determination within 30 days in order "to permit Alcoa to make operating and employment decisions on a timely basis" noting that "delays in the briefing schedule in *Alcoa v. BPA*, Ninth Circuit case No. 10-70211, make it extremely unlikely that the Court will rule on the lawfulness of the Equivalent Benefits Test prior to the time that Alcoa would have to make a shutdown decision affecting the Intalco Works smelter."⁵ Absent an Extended Initial Period or a ruling by the Court, the Block Contract would terminate in less than 8 months on May 26, 2011. In consideration of Alcoa's request, BPA plans to issue a final determination as soon as practicable, while still allowing reasonable time for public review.

II. BLOCK CONTRACT – PURCHASE AND SALE OF FIRM POWER FOR THE EXTENDED INITIAL PERIOD

a. Firm Power Amounts

Pursuant to the Block Contract, BPA agreed (subject to certain conditions described below) to make available to Alcoa, and Alcoa agreed to purchase from BPA (on a take-or-pay basis) up to 320 aMW on a take-or-pay basis for, potentially, a period of up to approximately seven years, at the Industrial Firm (IP) power rate.

As of the effective date, BPA would have made available 285 aMW to Alcoa, but Alcoa requested that BPA increase such amount to 320 aMW, pursuant to applicable contract provisions. *See* Block Contract section 5.2. As described more fully in the Alcoa ROD, BPA concluded that it will achieve Equivalent Benefits from the sale of 320 aMW to

³ See Alcoa ROD, December 22, 2009, at 8-9.

⁴ On January 22, 2010, Alcoa filed suit in the United States Court of Appeals for the Ninth Circuit contesting the Block Contract.

⁵ Letter from Mike Rousseau, Plant Manager, Alcoa, to Mark E. Miller, Account Executive, Bonneville Power Administration (Sept. 2, 2010). See Attachment A.

Alcoa during the Initial Period, and granted Alcoa's request.⁶ Pursuant to contractual provisions, BPA's determination is conclusive and binding on Alcoa, and may not be challenged by Alcoa in any forum. *See* Block Contract sections 5.2 and 25.1.

b. Initial and Extended Initial Periods

The term of the Block Contract is divided into two main periods, the Initial Period and the Second Period, with the Initial Period encompassing the approximately 17 month period from December 22, 2009, through May 26, 2011, and the Second Period encompassing a five-year period following expiration of the Initial Period. However, the Block Contract provides that the Initial Period may be extended (subject to certain conditions precedent) for an Extended Initial Period spanning an additional three months and up to an additional one year. Therefore, the Initial Period, if extended, could have a maximum term of 29 months, through May 26, 2012. *See* Block Contract, section 5.

Alcoa submitted its written request for an extension of the Initial Period to BPA on September 2, 2010, pursuant to section 5.1.1 of the Block Contract. The length of the Extended Initial Period of the Block Contract up to twelve months is the sole determination of BPA and may not be challenged by Alcoa. The extension of the Initial Period Alcoa has sought from BPA in its request is the sole subject of this draft determination.

III. THE EQUIVALENT BENEFITS TEST

A key element of BPA's response to *PNGC II* was to implement an Equivalent Benefits Test to determine whether BPA could make a power sale to a DSI consistent with the Court's opinion. As established in the Alcoa ROD, the Equivalent Benefits Test is intended to demonstrate that a decision to serve a DSI customer is consistent with sound business principles when it can be shown that the benefits to BPA of serving the DSI load would equal or exceed BPA's cost of serving the load during the period of service. In this evaluation of extending the Initial Period, BPA analysis indicates that it can supply firm power to Alcoa as requested and the need to acquire power to serve the Alcoa load during the Extended Initial Period will be limited because BPA anticipates serving the Alcoa load from inventory under most water conditions. BPA then followed the steps of the Equivalent Benefits Test to determine that it can provide service to Alcoa for an Extended Initial Period of 12 months, during which term the forecasted benefits of the sale equal or exceed forecasted costs.⁷

⁶ See Alcoa ROD; section IV(a), at 10.

⁷ Separately, BPA analysis indicates that thus far the benefits of the sale to Alcoa under the Block Contract from December 22, 2009, through September 30, 2010, exceed the costs by at least \$7.5 million (the benefits of the Demand Shift can only be evaluated on a forecasted basis and are not included in this evaluation of an historical period). See Attachment B. BPA analysis also indicates that the forecasted benefits of the sale from October 1, 2010, through May 26, 2011, exceed the forecasted costs by \$5.3 million. See Attachment C. As a result, BPA has determined that for the maximum 29-month term of the combined Initial and Extended Initial Period commencing December 22, 2009, through May 26, 2012, the forecasted benefits of the sales exceed the forecasted costs by \$17.6 million.

a. BPA expects to be surplus during the Extended Initial Period

BPA does not forecast the need to make purchases specifically to serve Alcoa during the Extended Initial Period under most water conditions, although, as explained below, BPA has forecast, and expects to forecast, the need to make some purchases, including some normal “balancing” purchases in some months, to meet its total load obligations during FY 2010 through FY 2013, particularly under critical (*i.e.*, very poor) water conditions.⁸

Pursuant to BPA’s most recent load and resources studies contained in the *2010 Pacific Northwest Loads & Resources Study* (the “2010 White Book”), which forecasts loads and resources for both the Federal system and the region as a whole for the 10-year period Operating Year (OY) 2011-2020, BPA is forecast to have a surplus of approximately 1,160 aMW and 1,542 aMW on an average annual basis under the middle 80 percent of historical water conditions for OY 2011 and OY 2012 respectively.⁹ The Extended Initial Period includes just over 2 months in OY 2011 (May 27, 2011, through July 31, 2011) and just under 10 months in OY 2012 (October 1, 2011, through May 26, 2012). *See* 2010 White Book, Table 8 at 39, and Exhibits 11-12 at 104-107. Alcoa’s load during the Extended Initial Period represents approximately 20 percent of the forecast surpluses. Moreover, the 2010 White Book reflects a deficit of 501 aMW and a surplus of 113 aMW on an average annual basis under 1937-Critical Water Conditions in OY 2011 and OY 2012 respectively, and does so assuming no augmentation and a DSI load of 271 aMW based on signed contracts for service to the DSIs (Alcoa and Port Townsend) through May 2011.¹⁰

The Equivalent Benefits Test is not based on 1937-Critical Water Conditions, but largely on BPA’s forecasts of average water in the 2010 White Book (Average Middle 80% Water Conditions) and BPA’s recent streamflow expectations for FY 2011 and FY 2012 that contributed to forecasts of hydroelectric generation – outputs of HYDSIM from late July and early August of 2010 – that better reflect lingering effects of the past two relatively dry water years. While BPA has established one of its costs captured in its power rates for FY 2010 and FY 2011 based on 1937-Critical Water Conditions as evidenced by Tables 2.3.1 and 2.3.2, WP-10-FS-BPA-01A at 10-13, the Secondary Sales revenues and Balancing Purchase costs, for FY 2010 and FY 2011 were set based on

⁸ Balancing purchases are market purchases that BPA makes either before or within a particular month in order to balance its forecast load and resource position within that month. Whether BPA makes any balancing purchases, and in what amounts, is dependent, among other things, on updated water flow forecasts which inform the amount of hydroelectric generation that can be expected in the month, and on within-month weather conditions impacting BPA customer load levels.

⁹ Operating Year (OY) in the 2010 White Book is the 12-month period August 1 through July 31. For example, OY 2011 is August 1, 2010, through July 31, 2011. The value of 1,160 aMW of surplus for OY 2011 includes a DSI load of 271 aMW based on signed contracts for service to the DSIs (Alcoa and Port Townsend) through May 2011. The corresponding value of 1,542 aMW for OY 2012 includes 0 aMW of DSI load. If the 271 aMW of DSI loads were removed from OY 2011 the surplus in OY 2011 would increase from 1,160 aMW to 1,431 aMW.

¹⁰ 2010 White Book, page 40.

average water, as evidenced by Tables 4.6.2, 4.8.1 and 4.8.2, WP-10-FS-BPA-05A at 77, 88-89. BPA expects this approach – using critical water for one component of its rate setting and average water for other portions of its rate setting – to continue in the upcoming WP-12 rate proceeding and beyond. As a result, BPA expects on an annual basis to be surplus under average water conditions, and as such does not anticipate the need to alter its purchasing strategy for the sales that would be made to Alcoa during the Extended Initial Period. This does not preclude the fact that BPA may have to make short term purchases during certain times of the year to balance BPA’s loads, including Alcoa, and resources.

b. Benefits to BPA will equal or exceed costs for the Extended Initial Period of the Block Contract.

BPA forecasts that the revenues it will accrue from the firm sale of 320 aMW to Alcoa at the IP rate during the Extended Initial Period would exceed by approximately \$4.8 million the forecast revenues BPA could otherwise obtain from selling that power into the market. See Tables 1-6 below. As a consequence, BPA’s preliminary finding is that service to Alcoa during the Extended Initial Period satisfies the Equivalent Benefits Test.

In the same manner described in the Alcoa ROD, BPA’s projected monthly revenues are determined by multiplying the heavy load hour (HLH) and light load hour (LLH) energy entitlements and demand entitlement by their respective IP rate components for each month. BPA has calculated revenues under the Block Contract based on a continuing sale of 320 aMW, as outlined in Table 1, of firm power each hour to Alcoa under the IP-10 rate schedule beginning May 27, 2011, and ending May 26, 2012. The energy and demand entitlements are the projected amounts to be sold by diurnal period each month in the Block Contract. Since the Block Contract sells the same number of megawatts in every hour of the month, the demand entitlement is the monthly megawatt amount specified in Table 1. BPA’s projected monthly revenues are then accumulated and the result is illustrated in Tables 1 and 2:

TABLE 1 - Usage and Rates

Month	Alcoa Ferndale Usage			Projected IP Rates		
	Demand (kW)	HLH (MWh)	LLH (MWh)	Demand (\$ / kW)	HLH (\$ / MWh)	LLH (\$ / MWh)
May-11	320,000	15,360	23,040	\$1.44	\$31.69	\$22.29
Jun-11	320,000	133,120	97,280	\$1.32	\$31.18	\$23.29
Jul-11	320,000	128,000	110,080	\$1.61	\$33.33	\$28.66
Aug-11	320,000	138,240	99,840	\$1.89	\$37.31	\$31.40
Sep-11	320,000	128,000	102,400	\$1.96	\$36.49	\$32.26
Oct-11	320,000	133,120	104,960	\$2.05	\$31.92	\$27.01
Nov-11	320,000	128,000	102,720	\$2.19	\$33.33	\$29.58
Dec-11	320,000	133,120	104,960	\$2.30	\$35.24	\$31.13
Jan-12	320,000	128,000	110,080	\$1.96	\$38.46	\$32.24
Feb-12	320,000	128,000	94,720	\$1.99	\$37.72	\$31.73
Mar-12	320,000	138,240	99,520	\$1.85	\$35.94	\$30.08
Apr-12	320,000	128,000	102,400	\$1.74	\$32.23	\$26.95
May-12	320,000	112,640	87,040	\$1.44	\$31.69	\$22.29

TABLE 2 - BPA's Projected Revenue

Month	Revenues by Rate Determinant			Projected IP Revenue	
	Demand (\$)	HLH (\$)	LLH (\$)	Month (\$)	Cumulative Total Contract-to-Date (\$)
May-11	\$74,323	\$486,758	\$513,562	\$1,074,643	\$139,031,163
Jun-11	\$422,400	\$4,150,682	\$2,265,651	\$6,838,733	\$145,869,896
Jul-11	\$515,200	\$4,266,240	\$3,154,893	\$7,936,333	\$153,806,229
Aug-11	\$604,800	\$5,157,734	\$3,134,976	\$8,897,510	\$162,703,739
Sep-11	\$627,200	\$4,670,720	\$3,303,424	\$8,601,344	\$171,305,083
Oct-11	\$656,000	\$4,249,190	\$2,834,970	\$7,740,160	\$179,045,243
Nov-11	\$700,800	\$4,266,240	\$3,038,458	\$8,005,498	\$187,050,741
Dec-11	\$736,000	\$4,691,149	\$3,267,405	\$8,694,554	\$195,745,294
Jan-12	\$627,200	\$4,922,880	\$3,548,979	\$9,099,059	\$204,844,354
Feb-12	\$636,800	\$4,828,160	\$3,005,466	\$8,470,426	\$213,314,779
Mar-12	\$592,000	\$4,968,346	\$2,993,562	\$8,553,907	\$221,868,686
Apr-12	\$556,800	\$4,125,440	\$2,759,680	\$7,441,920	\$229,310,606
May-12	\$386,477	\$3,569,562	\$1,940,122	\$5,896,161	\$235,206,767
Cumulative for the Period (May 27, 2011 through May 26, 2012)				<u>\$97,250,246</u>	

In this evaluation of a firm power sale to Alcoa during the Extended Initial Period, BPA has continued to use IP-10 energy and demand rates in Tables 1 & 2. The IP-12 energy and demand rates are not yet established, or proposed.

- c. **Forecast of revenues that would be obtained by selling an equivalent amount of surplus power.**

BPA routinely shapes its inventory to meet the need of its portfolio of contracts and sells its surplus inventory in the Pacific Northwest power market as described in BPA's WP-10 rate proceeding.¹¹ BPA routinely forecasts Mid-C electricity prices consistent with the methodology described in the WP-10 rate proceeding to value these purchases and sales.¹² For this analysis, BPA updated the inputs and assumptions used to forecast electricity prices as described in Attachment E. In particular, BPA updated its natural gas price forecast – one of the inputs used to forecast electricity prices – to reflect more contemporary natural gas fundamentals. This forecast of natural gas prices was used in BPA's final Resource Program released September 2010.¹³

In the absence of selling 320 aMW of firm power to Alcoa's Intalco Plant every hour, BPA would have one less firm power requirement sale in its aggregated portfolio load shape. As such, BPA would have approximately 320 aMW of surplus energy to sell in the market on an average annual basis. As illustrated in Table 3, BPA has forecast the revenues it would otherwise obtain from the market by incorporating BPA's updated inputs and assumptions in the development of the electricity price forecast used in this analysis of the Extended Initial Period.¹⁴

¹¹ Refer to section 2.4 of the *Risk Analysis and Mitigation Study* in the WP-10 rate proceeding for a more complete description of the operating risk factors BPA faces in the course of doing business – in particular “the variation in hydro generation due to the variation in the volume of water supply from one year to the next...” which significantly impacts market prices, our need for shaping purchases and our ability to make surplus sales. (See WP-10-FS-BPA-04 beginning on page 21.)

¹² BPA employed its electricity price forecast for multiple purposes in the WP-10 rate proceeding as outlined in the *Market Price Forecast Study*. The study also details how BPA established its forecast of Mid-C electricity prices in the WP-10 rate proceeding. (See WP-10-FS-BPA-03, beginning on page 1.)

¹³ BPA's natural gas forecast used in the WP-10 rate proceeding is outlined in section 3.3 of the *Market Price Forecast Study*. (See WP-10-FS-BPA-03, beginning on page 11.) BPA's more contemporary understanding of natural gas market fundamentals caused a lowering of its natural gas price forecast used in the final resource Program. The primary reasons for BPA's recent reductions became apparent in the progression of time since the natural gas price forecast for the WP-10 rate proceeding was constructed. These are: a) continued strength of natural gas production despite steep reductions in rig counts, b) continued slow recovery of natural gas demand – particularly on the industrial side – in that growth in natural gas demand is slower than growth in natural gas production, c) near record amount of natural gas in storage, d) reduced risk of hurricane impact on supply now that the 2010 hurricane season has one month remaining. (See also Short-Term Energy Outlooks from the EIA for September showing the EIA lowered its forecasted Henry Hub Spot Price average for 2011 to \$4.76 per MMBtu, *Short-term Energy Outlook*, DOE EIA, September 8, 2010, at 6.)

¹⁴ DSI load is assumed to include the total market load used to forecast the revenues obtained from the market at this stage. Please refer to the section on Demand Shift for how a shift in demand can affect BPA's surplus sales revenues.

TABLE 3 - BPA's Forecasted Revenues Obtained from the Market

Month	Forecasted Market		Forecasted Revenues Obtained from the Market			
	HLH Price (\$ / MWh)	LLH Price (\$ / MWh)	HLH (\$)	LLH (\$)	Month (\$) (HLH + LLH)	Cumulative Total Contract-to-Date (\$)
May-11	\$33.34	\$20.39	\$512,115	\$469,732	\$981,847	\$134,614,846
Jun-11	\$33.30	\$18.93	\$4,433,366	\$1,841,179	\$6,274,545	\$140,889,391
Jul-11	\$39.01	\$26.61	\$4,993,504	\$2,929,105	\$7,922,609	\$148,812,000
Aug-11	\$42.08	\$30.62	\$5,817,221	\$3,056,957	\$8,874,178	\$157,686,178
Sep-11	\$39.54	\$28.68	\$5,060,801	\$2,936,601	\$7,997,401	\$165,683,579
Oct-11	\$42.80	\$33.28	\$5,697,575	\$3,493,539	\$9,191,114	\$174,874,693
Nov-11	\$43.23	\$33.28	\$5,533,260	\$3,418,279	\$8,951,539	\$183,826,232
Dec-11	\$45.05	\$35.61	\$5,996,634	\$3,737,185	\$9,733,818	\$193,560,051
Jan-12	\$46.59	\$34.53	\$5,963,978	\$3,800,764	\$9,764,742	\$203,324,793
Feb-12	\$46.48	\$34.75	\$5,949,490	\$3,291,170	\$9,240,660	\$212,565,453
Mar-12	\$45.52	\$33.36	\$6,292,245	\$3,319,492	\$9,611,737	\$222,177,190
Apr-12	\$40.75	\$27.72	\$5,216,283	\$2,838,321	\$8,054,604	\$230,231,794
May-12	\$38.78	\$22.04	\$4,368,143	\$1,918,767	\$6,286,910	\$236,518,704
Cumulative for the Period (May 27, 2011 through May 26, 2012)					\$102,885,705	

As detailed in the Gas Price Forecast sub-section further below, BPA's forecasts of natural gas prices for the Henry Hub have been progressing steadily downward recently. The WP-10 forecast of natural gas prices was the highest. This was followed by a reduction for the draft Resource Program which was used in the Alcoa ROD. Subsequently, the natural gas forecast used in the final Resource Program was reduced further. As such, it is not unreasonable to assume that BPA's forecast of natural gas prices for the WP-12 rate proceeding could decline further given market developments since July, when the gas price forecast for the final Resource Program was completed. As a result, this is a conservative assumption not only because BPA's resulting forecast of market prices for electricity could decrease further, but also because BPA's \$102.9 million of Forecasted Revenues Obtained from the Market in Table 3 represents the entire opportunity cost contributing to this draft determination of equivalent benefits by BPA. In other words, if the forecast revenues BPA could otherwise obtain from selling power into the market declines further while the revenues BPA will accrue from the firm sale of 320 aMW to Alcoa at the IP rate remain the same then BPA's forecast of equivalent benefits will improve by the same amount.¹⁵

Net Benefit (IP – Market)

BPA determined its net benefit of serving Alcoa's Intalco Plant at the IP rate for each month by subtracting the opportunity cost forecast of revenues at market prices detailed

¹⁵ This pattern of forecasts of natural gas prices progressing steadily downward recently has been observed in the passage of time since the Alcoa ROD as illustrated on Figure 1 below. So, for example, if BPA's forecast of electricity prices declined 8.7% then BPA's analysis would demonstrate how the projected revenues BPA recovers from a 12-month IP sale to Alcoa during the Extended Initial Period (from May 27, 2011 through May 26, 2012) exceed by approximately \$37.6 million the forecasted revenues that BPA would otherwise obtain from the market – nearly 8 times the mean forecast of \$4.8 million. See also the Market Price Risk sub-section and Figure 2, both further below.

in Table 3 from the projected IP revenues described in Table 2. BPA's net benefit before adjustments is illustrated in Table 4:

TABLE 4 - BPA's Net Benefit before Adjustment

Month	Net Revenue or (Cost)	
	Month (\$)	Cumulative Total Contract-to-Date (\$)
May-11	\$92,796	\$4,416,317
Jun-11	\$564,188	\$4,980,505
Jul-11	\$13,724	\$4,994,229
Aug-11	\$23,332	\$5,017,561
Sep-11	\$603,943	\$5,621,504
Oct-11	(\$1,450,954)	\$4,170,550
Nov-11	(\$946,041)	\$3,224,509
Dec-11	(\$1,039,265)	\$2,185,244
Jan-12	(\$665,683)	\$1,519,561
Feb-12	(\$770,235)	\$749,326
Mar-12	(\$1,057,830)	(\$308,503)
Apr-12	(\$612,684)	(\$921,188)
May-12	(\$390,749)	(\$1,311,937)
Cumulative for the Period (May 27, 2011 through May 26, 2012)	(\$5,635,459)	

d. Calculation of the net financial value of tangible benefits of selling power to Alcoa as opposed to selling an equivalent amount of power on the market.

Consistent with the methodology described in the Alcoa ROD, BPA has identified a number of tangible benefits to BPA that would not be achieved by a market sale of power compared to selling to Alcoa at the IP rate during the Extended Initial Period. BPA conducted an economic analysis to determine the net value of those benefits for the Extended Initial Period. There were other, less tangible benefits accruing to BPA but assigning a financial value to those would have been more subjective, and based on the analysis below, doing so was unnecessary.¹⁶

Value of Reserves

The Block Contract requires that Alcoa make contingency reserves available to BPA, reserves that would not be available from making a typical market sale. BPA takes into account the value of the reserves Alcoa is required to make available to BPA during the Extended Initial Period. Sales at the IP rate reflect the value of BPA's right to obtain contingency reserves.¹⁷ Specifically, the energy rate tables in the IP-10 rate schedule

¹⁶ See Alcoa ROD, pages 72-82.

¹⁷ Sales at the IP rate require the provision of the DSI Minimum Operating Reserve – Supplemental. The Block Contract is an IP sale and, accordingly, it requires that Alcoa make such a contingency reserve

include an \$0.80 per MWh credit for the value of these reserves. Therefore, BPA’s net benefit above compares a surplus power sale to a sale of power at the IP rate with reserves. We have adjusted for this by adding back a value of reserves that provides an equal and opposite offset to the \$0.80 per MWh credit for the value of reserves in the IP-10 rate schedule.¹⁸ As illustrated by Table 5a, this is done for every megawatt hour not sold to Alcoa:

TABLE 5a - BPA's Net Benefit Adjustments
Value of Reserves

Month	Month (\$)	Cumulative Total Contract-to-Date (\$)
May-11	\$ 30,720	\$ 3,210,176
Jun-11	\$184,320	\$ 3,394,496
Jul-11	\$190,464	\$ 3,584,960
Aug-11	\$190,464	\$ 3,775,424
Sep-11	\$184,320	\$ 3,959,744
Oct-11	\$190,464	\$ 4,150,208
Nov-11	\$184,576	\$ 4,334,784
Dec-11	\$190,464	\$ 4,525,248
Jan-12	\$190,464	\$ 4,715,712
Feb-12	\$178,176	\$ 4,893,888
Mar-12	\$190,208	\$ 5,084,096
Apr-12	\$184,320	\$ 5,268,416
May-12	\$159,744	\$ 5,428,160
Cumulative for the Period (May 27, 2011 through May 26, 2012)	<u>\$2,248,704</u>	

In this evaluation, BPA has continued to use the \$0.80 per MWh credit for the value of reserves included in the IP-10 energy rates table. The IP-12 rates are not yet established, or proposed.

Avoided Transmission and Ancillary Services Expenses

When BPA makes a sale to a DSI, all DSI customers – including Alcoa – cover the cost of transmission and ancillary services through their own transmission contracts. Market prices, on the other hand, assume power is delivered by the seller to the Mid-Columbia trading hub (Mid-C); thus the seller pays for the cost of transmission. Power Services (PS) is the organization within BPA that is responsible for the management and sale of Federal power. PS must pay the transmission and ancillary services costs to move surplus power to the Mid-C delivery point in order to realize the full market value for its surplus sales. PS maintains an inventory of transmission products and services to deliver

available to BPA, as defined in section 2.19 and implemented by section 10.1 and Exhibit F to the Block Contract.

¹⁸ In other words, BPA has increased the IP rate by the value of reserves credit for purposes of this analysis so that the comparison to a surplus sale into the market is on an “apples to apples” basis.

the surplus power it intends to sell. However, this transmission product inventory is not sufficient to deliver all of the surplus power PS would sell under all load and resource conditions, especially under high stream flows. As a result, there is a subset of load and resource conditions under which PS would incur incremental costs for transmission and ancillary services to deliver incremental surplus energy sales, if PS did not sign contracts to serve the DSI loads. The planned transmission and ancillary services expenses to address both the expected expenses and their uncertainty were addressed in the WP-10 rate proceeding and are expected to be addressed in each subsequent BPA rate proceeding.¹⁹ Since PS's overall marketing strategy is to serve all its loads out of inventory and to balance its supply to meet any within-year deficits with short-term purchases, the incremental transmission and ancillary services costs are avoided when BPA makes firm power IP sales to the DSIs.

PS valued these avoided transmission and ancillary services costs for the Extended Initial Period using the same methodology used in the WP-10 rate proceeding to establish the total costs and risks associated with PS's inventory of transmission products and services. In these computations, both fixed, take-or-pay costs and variable incremental transmission and ancillary service costs were computed under 3,500 load and resource conditions for each month. Incremental transmission and ancillary services costs were computed by comparing the amount of surplus energy available to the monthly excess amount of firm transmission products in the PS inventory.

Tariff costs established by BPA's Transmission Services organization were applied to the amount of surplus energy in excess of the PS transmission products inventory. Total monthly transmission and ancillary services costs were computed assuming no service to the DSIs and DSI service of 340 aMW.²⁰ The average total monthly expense values of the 3,500 games were computed with and without service to the DSIs and the differences were taken to determine the avoided PS transmission and ancillary services costs when PS makes these 340 aMW of IP sale(s) to the DSIs. For purposes of this analysis, Alcoa has been allotted 94.1% of this PS benefit in each month as illustrated in Table 5b below. This percent allotment is the result of the proportion of the megawatt amounts during the Extended Initial Period, and as depicted in Table 1 above, as compared to the 340 aMW forecasted for all DSI customers.

¹⁹ Refer to section 4 of the *Revenue Requirement Study*, WP-10-FS-BPA-02 and section 2.4 of the *Risk Analysis and Mitigation Study* in the WP-10 rate proceeding. BPA does not anticipate changing the methodology for addressing planned transmission and ancillary service expenses in the WP-12 rate proceeding.

²⁰This number is comprised on 320 aMW for Alcoa and 20 aMW for Port Townsend Paper Company.

TABLE 5b - BPA's Net Benefit Adjustments
Avoided Tx and Ancillary Service Costs

Month	Month (\$)	Proportional Month (\$)	Cumulative Total Contract-to-Date (\$)
May-11	\$92,056	\$86,641	\$3,904,671
Jun-11	\$578,435	\$544,409	\$4,449,080
Jul-11	\$399,662	\$376,153	\$4,825,233
Aug-11	\$90,001	\$84,706	\$4,909,939
Sep-11	\$58,167	\$54,745	\$4,964,685
Oct-11	\$35,084	\$33,020	\$4,997,705
Nov-11	\$100,669	\$94,747	\$5,092,452
Dec-11	\$135,000	\$127,059	\$5,219,511
Jan-12	\$432,858	\$407,396	\$5,626,907
Feb-12	\$379,106	\$356,805	\$5,983,712
Mar-12	\$434,459	\$408,902	\$6,392,614
Apr-12	\$570,075	\$536,541	\$6,929,155
May-12	\$650,127	\$611,884	\$7,541,039
Cumulative for the Period (May 27, 2011 through May 26, 2012)		\$3,723,009	

BPA continues to value avoided transmission and ancillary services costs for the Extended Initial Period using the tariff costs adopted by Transmission Services in the TR-10 rate proceeding. The applicable tariff costs from the BP-12 rate proceeding are not yet established, or proposed.

Demand Shift

When BPA serves the DSI loads – including Alcoa – and they operate – as opposed to not operating if BPA does not sell to them – all of BPA’s surplus sales realize increased revenues because the mean value of prices for electricity in Western power markets are higher than they would otherwise be had the DSI loads not consumed electricity from Western power markets. BPA has forecasted these increased revenues by reducing loads in the PNW by 340 aMW in each month for each of the 3,500 games AURORA simulated for the forecast used in Table 3 above. This lowered the mean price forecast by a 12-month average of \$0.38 per MWh and by \$0.45 per MWh for fiscal years 2011 and 2012 respectively.²¹ The monthly difference resulting from this lower mean price forecast was then multiplied by BPA’s monthly surplus energy from BPA’s recent forecasts of hydroelectric generation for FY 2011 and FY 2012 – outputs of HYDSIM from late July and early August of 2010 – to determine the increased revenues available to BPA’s surplus sales when BPA makes an IP sale(s) to the DSIs – including a firm

²¹ AURORA is an electric energy market model that is owned and licensed by EPIS, Incorporated. The model assumes a competitive market pricing structure as the fundamental mechanism underlying how it estimates the wholesale electric energy market prices during the term of an analysis. In a competitive market, at any given time, electric energy market prices should be based on the marginal cost of production, which is the variable cost of the last generating unit needed to meet energy demand.

power sale to Alcoa during the Extended Initial Period. For the purposes of this analysis, Alcoa has been allotted 94.1% of this benefit to BPA in each month as illustrated in Table 5c below. This percent allotment is the result of the proportion of the megawatt amounts in the Block Contract, and as depicted in Table 1 above, as compared to the 340 aMW forecasted for all DSI customers.

**TABLE 5c - BPA's Net Benefit Adjustments
Demand Shift**

Month	Month (\$)	Proportional Adjusted Month (\$)	Cumulative Total Contract-to-Date (\$)
May-11	\$122,511	\$115,304	\$1,682,789
Jun-11	\$1,000,365	\$941,520	\$2,624,309
Jul-11	\$411,523	\$387,316	\$3,011,624
Aug-11	(\$19,968)	(\$18,794)	\$2,992,830
Sep-11	\$26,443	\$24,888	\$3,017,718
Oct-11	(\$59,599)	(\$56,093)	\$2,961,625
Nov-11	\$31,970	\$30,090	\$2,991,714
Dec-11	\$10,031	\$9,440	\$3,001,155
Jan-12	\$424,453	\$399,485	\$3,400,640
Feb-12	\$371,928	\$350,050	\$3,750,690
Mar-12	\$542,456	\$510,547	\$4,261,237
Apr-12	\$643,772	\$605,903	\$4,867,140
May-12	\$1,193,297	\$1,123,103	\$5,990,243
Cumulative for the Period (May 27, 2011 through May 26, 2012)		\$4,422,759	

Conclusion of Equivalent Benefits Test

The preceding analysis demonstrates how the projected revenues BPA recovers from a 12-month IP sale to Alcoa during the Extended Initial Period (from May 27, 2011 through May 26, 2012) exceed by approximately \$4.8 million the forecasted revenues that BPA would otherwise obtain from the market. See Table 6. BPA's methodology for making this draft determination is based, to the extent possible, on modeling tools used in BPA's rate cases. That process includes discovery, testimony, rebuttal testimony, and cross examination prior to a final determination by the Administrator. Further, the analysis is marked by thorough and thoughtful consideration of market fundamentals and other factors that insure the integrity of the results.

TABLE 6 - BPA's Net Benefit after Adjustments

Month	BPA's Adjusted Net Revenue or (Cost)					Cumulative Total Contract-to-Date (\$)
	Net Revenue or (Cost) (A) Month (\$)	Value of Reserves (B) Month (\$)	Avoided Tx Costs (C) Month (\$)	Demand Shift (D) Month (\$)	A + B + C + D Month (\$)	
May-11	\$92,796	\$30,720	\$86,641	\$115,304	\$325,461	\$13,213,953
Jun-11	\$564,188	\$184,320	\$544,409	\$941,520	\$2,234,437	\$15,448,390
Jul-11	\$13,724	\$190,464	\$376,153	\$387,316	\$967,656	\$16,416,046
Aug-11	\$23,332	\$190,464	\$84,706	(\$18,794)	\$279,709	\$16,695,755
Sep-11	\$603,943	\$184,320	\$54,745	\$24,888	\$867,896	\$17,563,651
Oct-11	(\$1,450,954)	\$190,464	\$33,020	(\$56,093)	(\$1,283,563)	\$16,280,088
Nov-11	(\$946,041)	\$184,576	\$94,747	\$30,090	(\$636,629)	\$15,643,459
Dec-11	(\$1,039,265)	\$190,464	\$127,059	\$9,440	(\$712,301)	\$14,931,158
Jan-12	(\$665,683)	\$190,464	\$407,396	\$399,485	\$331,662	\$15,262,820
Feb-12	(\$770,235)	\$178,176	\$356,805	\$350,050	\$114,797	\$15,377,617
Mar-12	(\$1,057,830)	\$190,208	\$408,902	\$510,547	\$51,827	\$15,429,444
Apr-12	(\$612,684)	\$184,320	\$536,541	\$605,903	\$714,080	\$16,143,524
May-12	(\$390,749)	\$159,744	\$611,884	\$1,123,103	\$1,503,982	\$17,647,506
Cumulative for the Period (May 27, 2011 through May 26, 2012)					<u>\$4,759,013</u>	

IV. ANTICIPATED ISSUES

In the Alcoa ROD, two of the more contentious issues raised by parties were related to the gas price forecast and certain risks. This section addresses BPA's approach here to those issues. Also included in this section is a review of the status of Equivalent Benefits from the beginning date of the Block Contract.

a. Gas Price Forecast

As described below, BPA's forecast of natural gas prices is based on sound analytics and reflects a reasonable approach and methodology. The gas price forecast component of BPA's electricity price forecast is important because natural gas price movements contribute to price movements in electric power markets in the Pacific Northwest, as a preponderance of the generating resources establishing marginal prices for electric power are fueled by natural gas. BPA's natural gas price forecast used in the WP-10 rate proceeding, the methodology for its development and its use as an input to BPA's electricity price forecasts, are outlined in section 3.3 of the Market Price Forecast Study (see WP-10-FS-BPA-03, beginning on p. 11). This natural gas price forecast was completed by BPA in May 2009, during BPA's third quarter of its fiscal year.

To analyze the Extended Initial Period, BPA used the most recent published natural gas price forecast it had developed using the same methodology. BPA updated its natural gas forecast with the natural gas price forecast used in BPA's final Resource Program released September 2010. With the exception of the fiscal first quarter, BPA typically updates its natural gas and electricity price forecasts during each quarter to support financial reports.

BPA's understanding of natural gas market fundamentals during the fiscal fourth quarter led BPA to lower its forecast of spot market natural gas prices at the Henry Hub in 2010-

2011, and maintain an increase in its forecast in 2012. BPA stated in the final Resource Program:

The effects of the economic recovery on short-term natural gas prices will be magnified by the cyclical nature of natural gas prices. An economic recession will first lower natural gas demand and therefore increase natural gas storage inventories. This will lower natural gas prices and lead to a decline in natural gas production. Typically, declines in natural gas production occur with declines in natural gas demand, but the production decline lags the decline in demand. The result is that when the economy and natural gas demand recovers, the recovery will occur during the downturn in natural gas production, and the natural gas price increase is magnified.

See final *Resource Program*, Appendix B: Market Uncertainties, Bonneville Power Administration, September 2010, at B-3, B-4).

BPA's fiscal fourth quarter natural gas price forecast also continues to reflect a more contemporary understanding of natural gas market fundamentals. The primary reasons for BPA's reductions in 2010-2011 remain apparent in the progression of time since the natural gas price forecast was constructed. These are: a) continued strength of natural gas production, despite steep reductions in rig counts since late 2008, b) continued slow recovery of natural gas demand – particularly on the industrial side – continues to reflect the lingering effects of “an economic recession that will first lower natural gas demand,” and c) near record amount of natural gas in storage continues to demonstrate the anticipated “increase in natural gas storage inventories” contemplated in the final Resource Program.²² Furthermore, with the majority of the hurricane season now over with no impacts on supply occurring, the reduction made in the fiscal fourth quarter natural gas price forecast appears to remain warranted.

BPA has also recently compared its latest forecasts of spot market natural gas prices at the Henry Hub to the forecasts produced by other forecasters in the industry. The comparison, shown in Figure 1 below, includes both a history of the Henry Hub spot prices – as opposed to the more frequently referenced NYMEX (now CME Group) forward market for Henry Hub natural gas prices – and other forecasters' views of the future. The forecasters, in alphabetical order, typically included in our comparisons are: Bentek Energy LLC (Bentek), Cambridge Energy Research Associates (CERA), the United States Department of Energy's Energy Information Administration (EIA), PIRA

²² In addition, BPA has detailed, with contemporary information from the Energy Information Administration in Attachment D (“Natural Gas Statistics”), the continued strength of natural gas production despite steep declines in rigs, the continued slow recovery of natural gas demand (in that growth in natural gas demand is slower than growth in natural gas production), and the near record amount of natural gas in storage. See also Short-Term Energy Outlooks from the EIA for September showing the EIA lowered its forecasted Henry Hub Spot Price average for 2011 to \$4.76 per MMBtu, *Short-term Energy Outlook*, DOE EIA, September 8, 2010, at 6.

Energy Group, and Wood Mackenzie.²³ The historical observations reflect the monthly average of the daily spot market prices for natural gas at the Henry Hub quoted on the Intercontinental Exchange (ICE) for the months from December 2009 through September 2010.

Figure 1: Henry Hub Natural Gas Spot Price Forecast

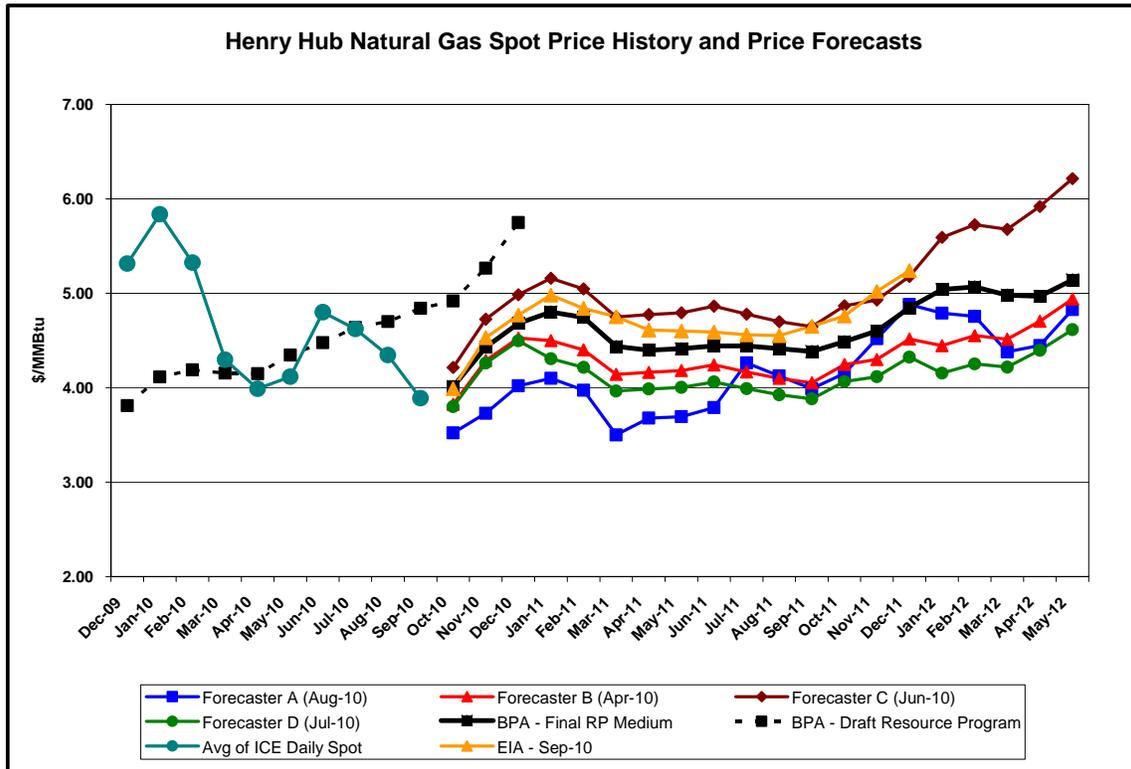


Figure 1 demonstrates that recent spot market prices for natural gas at the Henry Hub have been less than \$5 per MMBtu from March 2010 through September 2010. This illustration also demonstrates that the forecasts of five other industry experts are between \$3.69 per MMBtu and \$4.79 per MMBtu for May 2011 – the starting month of BPA’s evaluation of equivalent benefits for the Extended Initial Period – and their forecasts remain lower than \$5 per MMBtu through at least November 2011 the month in which the EIA forecasts that Henry Hub spot prices for natural gas will average \$5.02 per MMBtu. BPA’s updated forecast of spot prices for natural gas at the Henry Hub is consistent with the views reflected by these five industry experts. Only two of the five forecasters expect monthly average spot prices for natural gas at the Henry Hub to rise above \$5 per MMBtu during the winter of 2010-2011 in their most recent forecast. As a result, BPA believes its medium case natural gas price forecast from the final Resource

²³ With the exception of the EIA, each of these forecasters considers their information to be proprietary. The vintage of each forecast is late April to early August 2010. EIA forecast is from their *Short-term Energy Outlook* released September 8, 2010. The EIA’s next *Short-term Energy Outlook* is scheduled to be released on October 13, 2010.

Program is reasonable compared to a recent history of monthly average Henry Hub spot prices for natural gas and compared to what other industry experts are expecting.

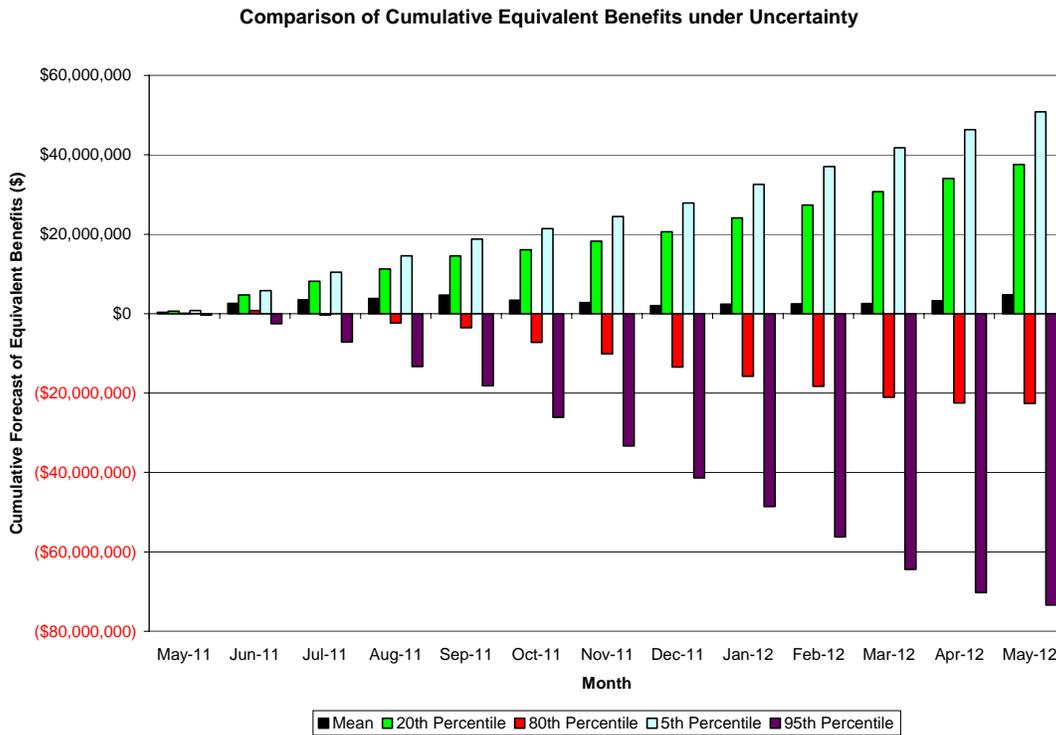
b. Risks are addressed in BPA’s Equivalent Benefits Test

Consistent with the Alcoa ROD, BPA continues to believe there are two primary elements of risk in this draft determination to extend the Initial Period of the Block Contract. First, is the risk of market prices for electricity deviating from the prices forecast by BPA during the Extended Initial Period. The second primary element of risk is the possibility of Alcoa curtailing during the period of the extension.

Market Price Risk

BPA examined the Extended Initial Period both in isolation and more broadly in consideration of BPA’s other risk factors. In examining the Extended Initial Period and the effects on the Equivalent Benefits Test in isolation, BPA applied the full probability distribution of market prices associated with its market price forecast to arrive at the net benefits for specific percentiles in that distribution.

Figure 2: Comparison of Cumulative Equivalent Benefits under Uncertainty



If market prices for electricity are less than expected, BPA is better off financially serving Alcoa during the Extended Initial Period than selling this power on the wholesale electricity market. This is reflected in Figure 2 above for the 5th and 20th percentiles. Conversely, if market prices for electricity are higher than expected during the Extended Initial Period, the outcome of this Equivalent Benefits Test changes such that BPA would

be relatively worse off by extending the contract with Alcoa relative to a market sale. This is reflected in Figure 2 above for the 80th and 95th percentiles. These results in isolation, however, do not reflect the impact of this transaction on BPA's overall probability distribution of net revenues, which among other things, takes into account conditions in which a loss from a DSI sale under higher prices than forecast is associated with higher surplus energy revenues for other surplus power sales.

Regarding the financial risk that market prices deviate from the average of BPA's price forecast more broadly, BPA analyzed the probability distribution of its net revenue risk consistent with the methodology used in the WP-10 rate proceeding. *See* WP-10-FS-BPA-04 at 34 and WP-10-FS-BPA-04B at 82. The advantage of this broader approach is that it takes into consideration the net revenue impacts to BPA in conjunction with all the other Operating and Non-Operating Risk Factors addressed in the WP-10 rate proceeding. *See generally* WP-10-FS-BPA-04. Our conclusion is unchanged from the Alcoa ROD in that the probability distributions of BPA's net revenues, one of its broadest measures of financial impact, are not materially different whether it serves 340 aMW of DSI load or does not serve any DSI load during the Extended Initial Period.²⁴

Curtailment Risk

Regarding the risk of curtailment, the net revenue risk analyses above indicate that BPA's financial risk exposure is not materially different depending on whether or not Alcoa's Intalco Plant operates in the Extended Initial Period. As assumed in the Alcoa ROD, BPA does not expect Alcoa will curtail the Intalco Plant once 320 aMW of service is made available to it at the IP rate, which is provided during all periods under the Block Contract including the Extended Initial Period, because Alcoa has consistently believed that a seven year contract is sufficient to "permit the Intalco [Plant] to survive through this difficult recession" and "will permit the Intalco smelter to survive."²⁵ Conversely, if Alcoa did shut the Intalco plant down during the Extended Initial Period, BPA does not expect, on a forecast basis, that this will have either a positive or negative impact on the Equivalent Benefits that BPA has determined above. This is because the correlation between aluminum prices set on the international market and Pacific Northwest electricity prices set regionally was computed to be very weak (.0826), based on historical data from January of 1997 through October of 2009, and very inconsistent over different time-contiguous subsets over this period of time.²⁶

For the foregoing reasons, BPA believes it has adequately addressed the risks associated with the Extended Initial Period. BPA has prudently accounted for, and expects to continue prudently accounting for, actual costs and risks associated with DSI service in

²⁴ *See* Alcoa ROD at 62.

²⁵ *See* Alcoa's December 15th letter requesting 320 aMW of firm power attached to the Alcoa ROD, Alcoa in DSL090057 at 5, and Alcoa in DCA090233 at 1, submitted comments for Alcoa ROD released December 22, 2009.

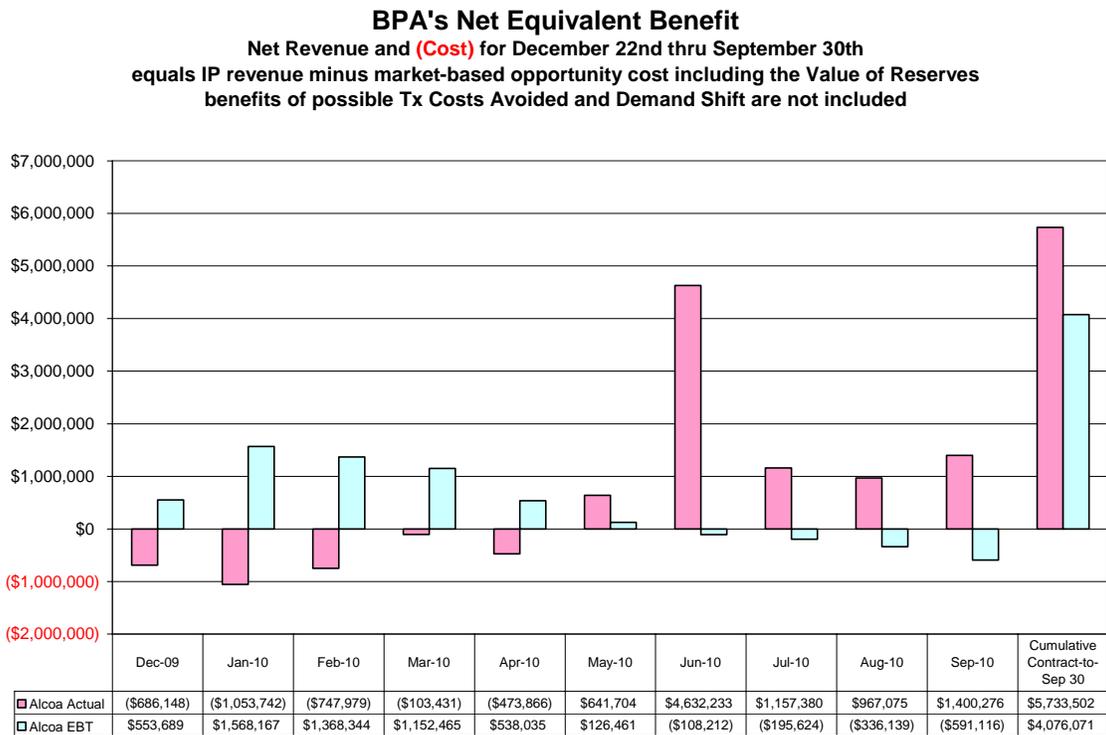
²⁶ *See* Alcoa ROD, section e(4)(ii)5.

setting its rates and has determined that it can reasonably expect to achieve Equivalent Benefits from this extension.

c. Alcoa ROD Equivalent Benefits Forecast Compared to Actual

To help better understand the conservative nature of this draft determination of Equivalent Benefits and its relation to BPA’s WP-10 rates, we have reviewed the progress of Equivalent Benefits to date.²⁷ There are two relevant periods for this review. The first is the period from December 22, 2009, through September 30, 2010, for which we have attempted to use actual data for costs and level of service. The second is the period from October 1, 2010, through the end of the Initial Period on May 26, 2011, for which we have used the updated forecasts with the same inputs and assumptions described above.

Figure 3: BPA's Net Equivalent Benefit (to date)

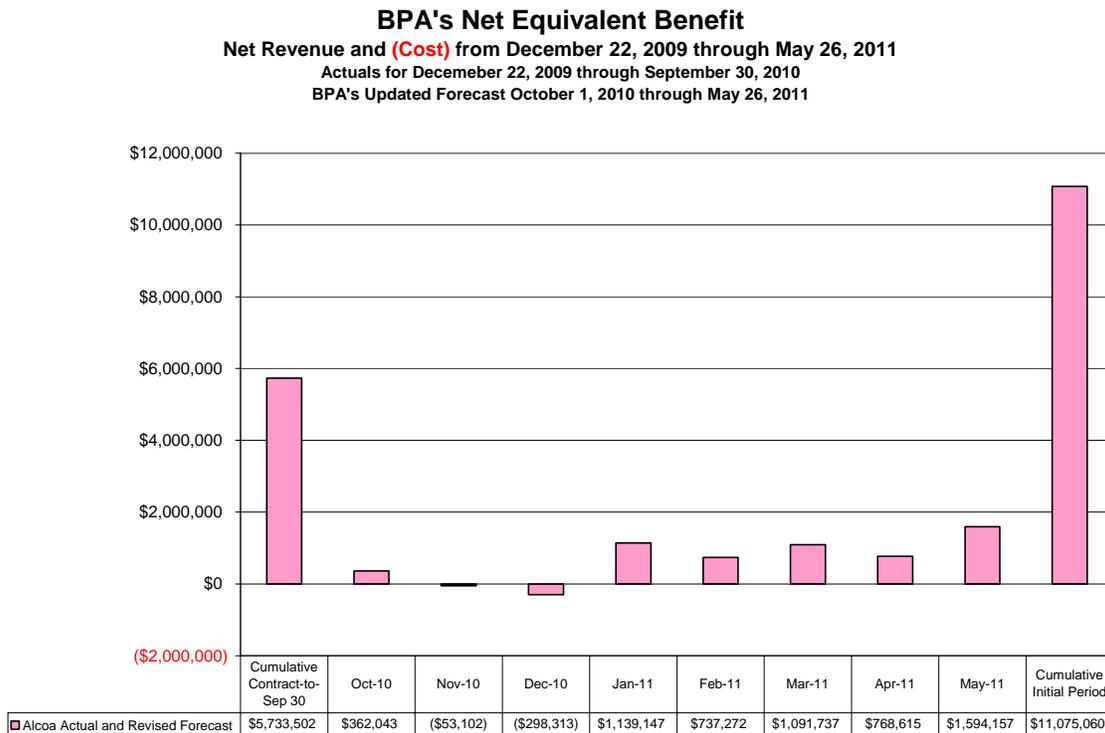


For December 22, 2009 through September 30, 2010, as illustrated in Figure 3 above, BPA has achieved \$5.7 million in net equivalent benefits. For the same period, this is \$1.6 million more than the \$ 4.1 million we had forecast in the Alcoa ROD.²⁸ Two

²⁷ As described in the Alcoa ROD: “To the extent BPA’s most recent forecast used in the Equivalent Benefits Test is correct and the net cost of DSI service is well below the \$38 million average annual that is already in rates (including the rates for both non-Slice and Slice purchasers), the benefits from such reduced costs would accrue solely to non-Slice purchasers.” See Alcoa ROD at 36.

significant events have contributed to our performance to date. First, even though we had a below average water year, the water flows experienced in June 2010 exceeded expectations contributing to prices for electricity at Mid-C that were near zero during significant portions of the month. Second, while the market price of electricity initially started out significantly higher than forecast in the Alcoa ROD, over the summer it has been significantly lower than we forecast. Lower than expected natural gas prices during April 2010 through September 2010 have contributed to actual electricity prices coming in lower than forecast as can be seen in Figure 1 above in that the average of the ICE Daily Spot Price for natural gas at the Henry Hub (the aquamarine colored line) is less than what we forecast for the same in the draft Resource Program (the dotted black line).

Figure 4: BPA's Net Equivalent Benefits (as forecast through May 26, 2010)



For October 2010 through May 26, 2011, as illustrated in Figure 4 above, BPA expects to achieve \$11.7 million in net equivalent benefits. For the same period, this is \$11.7 million more than the approximately \$10,000 we had forecast in the Alcoa ROD.²⁹ A significant contributor to the forecast of substantially higher cumulative net equivalent benefits for the Initial Period is a lower forecast of electricity prices. Lower expectations

²⁸ A complete set of Tables documenting the Equivalent Benefits for the period from December 22, 2009 through September 30, 2010 can be found in Attachment B. See also Alcoa ROD at 46 noting that the above calculation does not include benefits from the Avoided Tx Costs or the Demand Shift.

²⁹ A complete set of Tables documenting the Equivalent Benefits for the period from October 1, 2010 through May 26, 2011 can be found in Attachment C. See also Alcoa ROD at 45 and 46 noting that the above calculation does not include benefits from the Avoided Tx Costs or the Demand Shift.

of future natural gas prices October 2010 through May 26, 2011, included in the final Resource Program and used in this analysis, are contributing to a reduction in BPA's forecast of electricity prices as can be seen in Figure 1 above in that the natural gas price forecast from BPA's final Resource Program (the solid black line) is less than what we forecast for the same in the draft Resource Program (the dotted black line).

V. ENVIRONMENTAL EFFECTS

BPA's review of the Block Contract with Alcoa for potential environmental effects that could result from its implementation, consistent with the National Environmental Policy Act (NEPA), 42 U.S.C. § 4321 et seq, included review not just of the Initial Period but the Extended Initial Period, Transition Period, and Second Period, in the event any of these subsequent periods occur. Based on that review, BPA analysis indicates that the Block Contract falls within a class of actions excluded from further NEPA review pursuant to U.S. Department of Energy NEPA regulations, which are applicable to BPA.³⁰ More specifically, the Block Contract falls within Categorical Exclusion B4.1, found at 10 CFR 1021, Subpart D, Appendix B, which provides for the categorical exclusion from NEPA of actions involving "[e]stablishment and implementation of contracts, marketing plans, policies, allocation plans, or acquisition of excess electric power that does not involve: (1) the integration of a new generation resource, (2) physical changes in the transmission system beyond the previously developed facility area, unless the changes are themselves categorically excluded, or (3) changes in the normal operating limits of generation resources." Because BPA expects to provide service under the Extended Initial Period largely in the same manner and from the same types of sources as under the Initial Period, the Block Contract continues to fall within Categorical Exclusion B4.1. The December 14, 2009 Environmental Clearance Memorandum that documents this categorical exclusion for the Block Contract is posted at BPA's website at: http://www.efw.bpa.gov/environmental_services/categorialexclusions.aspx.

³⁰ See Alcoa ROD, section IX beginning at 107.

VI. DRAFT DETERMINATION

Based on the above application of the Equivalent Benefits Test, BPA's preliminary determination is that it can grant Alcoa's request to provide an Extended Initial Period of the Block Contract with Alcoa. Public review and comment period begins on the date of the issuance of this draft determination and continues through October 21, 2010. BPA currently expects to issue its final determination approximately one week after the conclusion of public comment.