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July 28, 2005

MEMORANDUM

TO: Power Committee

FROM: Terry Morlan

SUBJECT: Bonneville's Direct Service Industry (Aluminum Companies) Offer

One of the issues in the Regional Dialogue is Bonneville's sales to the Direct Service Industries (DSIs). The DSIs are nearly synonymous with aluminum companies. The issue is how much power should be made available to the DSIs, at what price, and under what conditions? In its comments on Bonneville's role in the power system, the Council said that the main rationale for providing power to the DSIs should be preserving local employment opportunities. Council comments stated,

"If power is to be made available to DSIs, the amount and term should be limited; the cost impact on other customers should be minimized; and Bonneville should retain rights to interrupt service for purposes of maintaining system stability and addressing temporary power supply inadequacy."¹

Bonneville issued a record of decision on service to DSIs for the period 2007 to 2011 on June 30, 2005.² Bonneville's offer is substantially consistent with the Council's recommendations. The amount of power made available was limited to 577 average megawatts and the financial costs were limited to \$59 million. It is expected that Bonneville will provide these benefits in the form of financial payments rather than physical power. Bonneville did, however, retain an option to deliver physical power. In the case that physical power is delivered, Bonneville would require some type of long-term interruption rights. An unpopular provision might be that a company taking service from Bonneville must take a minimum of 50 percent of their allocation.

Staff will describe how the financial benefits are structured using the megawatt allocation and the benefit ceiling and explore some of the implications of the policy. There is no decision required on this agenda item; it is for information and discussion.

¹ <http://www.nwcouncil.org/library/2004/2004-5.pdf>

² http://www.bpa.gov/power/pl/regionaldialogue/06-2005_dsi_rod.pdf

Bonneville's DSI Service Offer For 2007-2011

Power Committee
August 9, 2005

Amount of Energy

- Total 577 megawatts

- Allocation:

– Alcoa	320 MW
– Columbia Falls	140 MW
– Goldendale	100 MW
– Port Townsend Paper	17 MW

Financial Limit

- \$ 59 Million limit for aluminum companies
560 MW allocation
 - Increase PF rates less than \$1 per MWh
- Port Townsend to receive 17 MW at approximately priority firm rate
- Benefits provided as financial payment, unless Bonneville chooses power

How Does It Work ?

Maximum Use

560 MWa = 4,905,600 megawatt-hours of energy

\$59,000,000 cap /
4,905,600 MWhr =
\$12 per MWhr
Operating Credit

Market Price	\$45/MWhr
Maximum Benefit	<u>\$12</u>
Price to DSI	\$33

If the DSIs operated at less than the 560 MWa level, a greater rate reduction could be provided under the dollar cap.

But rate cannot go below PF rate

How Does It Work ?

One Half Use

280 MWa = 2,452,800 megawatt-hours of energy

\$59,000,000 cap /
2,452,800 MWhr =
\$24 per MWhr
Operating Credit

Market Price	\$45/MWhr
Maximum Benefit	<u>\$24</u>
Price to DSI	\$21 BUT

But rate cannot go below PF rate
If PF rate is \$31 price to DSI would be \$31.

How do Allocations Compare to Current Contracts and Capability of Plants?

	Allocation	Capacity	Current Contract
Alcoa	320 MW _a	885 MW _a	438 MW _a
CFAC	140 MW _a	324 MW _a	171 MW _a
Goldendale	100 MW _a	484 MW _a	236 MW _a

Other Provisions

- Unused allocations can be picked up by other smelters, but limited to current contract demand
- Minimum use is one half of allocation
- Offer applies to the 2007-2011 contract period. Post 2011 service is topic for the regional dialogue.
- May be affected by spill requirements