

Merritt (Buz) Ketcham

September 10, 2006

Administrator Steve Wright
Bonneville Power Administration
PO Box 3621
Portland, OR 97208

Dear Mr. Wright

The Bonneville Power Administration conducted a public hearing yesterday, September 8th, on the future service to the Direct Service Industries. Commissioner Ned Piper and I attended representing Cowlitz PUD Board of Commissioners. For the first time I had a chance to examine the final report BPA had commissioned on **Regional Employment and Economic Impact** of four alternatives BPA was considering as future benefits of the DSIs. The report was authored by Professor Beyers, Lloyd O'Carrol and Paul Sorenson. All the researchers had excellent credentials.

Various public power and trade associations in which I participate, have resisted large future benefits to the DSIs. Until yesterday I was not entirely certain of the consequences of that position.

Among other things, the report revealed:

1. All of the local economies took a short term hit when their smelter was idled. What was especially of interest to me was that the authors found the hit to be short lived and within 3 years the macro employment numbers had recovered. Page 24
2. The Alcoa financial analysis indicated that the cost of power to break even (zero Return on Capital) was lower than the present cost of IP. They bring into focus how precipitously **"on the bubble"** these smelters operate. Alcoa did not achieve healthy financial statements by investing capital in sub marginal smelters just to keep them viable and local residents employed. Alcoa has never run a "Jobs Program" out of some benevolent corporate policy. Yet they are asking precisely that from BPA. We have seen many PCNW smelters run into disrepair because their owners could not justify capital upgrades but wanted a special benefit from BPA.
3. Bonneville is under no statutory obligation to provide benefits to the DSIs. Should Bonneville elect to provide benefits for the next 20 years as three alternatives require, the Agency will have succumbed to political pressure to provide benefits to smelters and have the cost born by other industrial and non-industrial customers.

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As the local guardian of electrical power rates, such upward rate pressure can and should be avoided. Therefore, I request Bonneville select Alternative #1 and provide no benefits to the DSIs.

In conclusion, Alcoa and Columbia Falls representatives present, failed to persuade me that regardless of the level of financial or power supply benefit being contemplated, their smelters would not be viable beyond a short two or three years. This is no way to begin a 20 year power supply contract.

Sincerely

A handwritten signature in cursive script, appearing to read "Buz Ketcham", with a long horizontal line extending to the right.

Buz Ketcham
Cowlitz PUD Commissioner District #1

cc:

Allen Burns of BPA
Ned Piper of COWPUD
John Searing of COWPUD
Brian Skeahan of COWPUD
Marilyn Shoalwater of PPC