



## Department of Energy

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

POWER BUSINESS LINE

February 4, 2005

In reply refer to: PT-5

Dear Customers, Constituents, Tribes and Other Regional Stakeholders:

In order to address issues regarding service by Bonneville Power Administration (BPA) to its customers during the 2007-2011 period, BPA and the region conducted the Regional Dialogue public process. One question raised was continued service by BPA to its direct service industry (DSI) customers. Based on the comments received by BPA to the DSI service questions raised, it is clear that the region has many strong and conflicting opinions on this issue.

Although there was not consensus, BPA decided in its February 2005 Regional Dialogue Record of Decision (ROD) that it would serve some level of DSI load during the 2007-2011 period at a known and capped cost. BPA intends to provide DSI benefits because of the industries' important historic role as a source of family wage jobs that are very important to many communities in the region. However, we are also mindful of the costs of this decision to other BPA customers. Finding the balance between supporting DSI jobs and minimizing rate impacts is an important and worthwhile regional initiative.

This letter notifies you that BPA has established an additional public process to take further comment regarding the appropriate 2007-2011 DSI benefit level, details regarding how such benefits should be delivered, and criteria to guide BPA in its determination of which DSIs will be eligible for the benefits. A DSI open forum to discuss this issue has been scheduled for March 1, 2005. The comment period on the proposal outlined in this letter is open through March 11, 2005. We strongly encourage parties involved in this extended public process to participate in a constructive deliberation to create a balanced and durable solution for the provision of DSI benefits in the 2007-2011 period. We have opened this additional process to determine if there is an opportunity to forge consensus. We urge parties to meet prior to the close of this extended DSI Regional Dialogue policy review period to see if they can reduce their differences.

After the extended DSI Regional Dialogue comment period closes on March 11, 2005, BPA will issue a supplement to the Regional Dialogue ROD containing final policies and decisions regarding the level of DSI benefits, the general mechanism to be used to provide those benefits, and eligibility criteria to be used to determine whether a DSI will qualify for these service benefits. The supplemental ROD may also contain decisions specifying which DSIs BPA believes meet the eligibility criteria. Final decisions regarding specific contract language and, if necessary, the qualifying DSIs will be made in the fall of 2005, subject to any decisions BPA must make in a rate process. This letter begins the next phase of public input on service to DSIs during the 2007-2011 period, informing you on how you may participate, and describing a BPA

straw proposal with respect to the service level, eligibility criteria, and delivery mechanism issues.

### BPA Straw Proposal

This BPA straw proposal has been constructed based on internal and external perspectives in order to focus the continued Regional Dialogue discussions on this issue. It should be recognized that the Administrator will make the final decision on these issues and that our straw proposal simply represents our preliminary view of approximately the correct balance and approach, and this is all parties' chance to recommend modifications, or distinct alternatives.

BPA's straw proposal is to provide up to 500 aMW of service benefits to the DSIs. To meet the known and capped cost requirement, the importance of which has been underscored consistently by customers, BPA is proposing to cap the cost of DSI service at \$40 million a year, which represents a benefit of approximately \$10/MWh on a 500 aMW allocation. BPA believes this amount of benefits is in line with the level of support many non-DSI customers indicated they are willing to accept, and strikes a reasonable balance between supporting DSI operations and attendant jobs and the need for BPA to contain its costs.

With respect to the mechanism for delivering these service benefits, BPA's straw proposal is to provide financial benefits in lieu of a power sale. This mechanism monetizes, or converts to cash, the financial value of a physical power sales contract. One alternative that will be considered and discussed is monetizing a BPA surplus firm sale to a local utility to deliver benefits to eligible DSIs. Many comments in the Regional Dialogue process favored serving the DSIs through local utilities. Under this approach, BPA would first make a surplus firm power sale to a public utility interested in serving a DSI on either a retail or wholesale basis, for the purpose of passing through the benefits of the sale to eligible DSIs. BPA would attempt to price the surplus sale close to the flat Priority Firm (PF) rate paid by public utilities. BPA, the DSI, and the utility would agree to monetize the transaction, basically taking the difference between the surplus power contract sale price and the forecasted market price and establishing a credit fund to reduce the DSI's cost of buying power from the market for their operations. If and when an eligible DSI fulfills certain, as yet to be established, purchase and operating requirements, it would receive payments from this fund that would reduce the cost of power used in their operation. BPA believes a delivery mechanism that monetizes the service benefits enables BPA reliably to meet the requirement that the benefits be capped, although other mechanisms may meet this requirement as well.

With respect to eligibility criteria, BPA's straw proposal centers on the DSIs' creditworthiness, and evidence of each DSI's ability to operate and create employment in the future. BPA believes that creditworthiness is critical to focusing service benefits where they can be best employed to promote BPA's goals of sustained DSI operations and attendant job creation and retention. BPA believes an evaluation of each DSI's past performance is an important piece of the overall creditworthiness evaluation, both as a basis to evaluate future creditworthiness, and as an objective record of each DSI's ability to perform its obligations in times of challenged industry and company economics. An objective measurement of past performance could include the amount of energy used by each DSI during the current rate period to produce its product. In addition, BPA wants to clearly understand each DSI's future business plans, and whether such

plan creates a high probability of future operation and employment. It will be important to demonstrate how any business plan explains the ability or inability of that DSI to operate under the market conditions that existed over the past 5 years.

In examining this straw proposal, and all alternatives that may be proposed, we would like parties to consider these proposed principles:

1. The DSIs will not pay less for power than other customers per MWh, and no financial payments in lieu of power sales would be provided where such payments would cause the DSIs' net cost of power (for the portion supported through the BPA transaction) to drop below the flat PF rate equivalent.
2. Contract terms will be no better than those offered to other customers.
3. The power or financial benefit will only be provided in support of actual DSI operations and employment, and the DSI must be purchasing and consuming an amount of power in support of production operations to receive any Federal Columbia River Power System (FCRPS) benefits.
4. There will be no resale potential by DSIs if there are power deliveries.
5. Service through local utilities is the preferred path.

### **How To Participate**

BPA will host an open forum on March 1, 2005, at the Sheraton Portland Airport Hotel, 8235 NE Airport Way, Portland, OR 97220. BPA Administrator Steve Wright will attend. The forum will begin at 9 a.m. and conclude at 4:30 p.m. Since the regional discussion of post-2006 service has been going on for well over a year, BPA wishes to focus this forum and public comment on specific proposals for amounts of DSI service, mechanisms for providing service benefits, and eligibility criteria. BPA is seeking your input regarding all aspects of this straw proposal. We are also interested in other alternative concepts. However, BPA would note that proposals that either suggest zero level of DSI benefits, or levels of DSI benefits approaching present period contractual obligations, would likely be considered impractical. Areas in which we are particularly seeking input are:

1. What are the potential costs to other customers or constituent interests of BPA serving DSI loads at various levels of benefits; the implications of such cost burdens; and, how this might direct us in terms of sizing DSI benefit levels?
2. What are the implications of this decision for retaining relatively high paying jobs? We would like to hear more about the business plans of the companies, the potential number of jobs at stake and the relationship of power costs, terms and conditions to plant operations.

3. What are the appropriate eligibility criteria, and the rationale for such criteria? Should DSI contract performance during the current rate period, and DSI choices with regard to the disposition of remarketing benefits in 2001, be considered in 2007-2011 eligibility criteria? If so, how?
4. What is the most logical and sustainable method of providing these benefits?
5. What terms and conditions can increase or decrease risk for other BPA customers?

### **Comment Opportunities**

BPA will accept written comments regarding these and other DSI related issues, through March 11, 2005. You have several opportunities to provide comments to BPA:

1. Attend the March 1 forum and give BPA your comments.
2. Submit written comments to:  
Bonneville Power Administration  
P.O. Box 14428  
Portland, OR 97293-4428
1. Submit comments via e-mail to [comment@bpa.gov](mailto:comment@bpa.gov), or submit on-line at <http://www.bpa.gov/comment>
2. Comment via fax to 503-230-3285.

BPA looks forward to hosting the forum and gathering your insights into this very challenging issue throughout this extended comment period for DSI issues.

Sincerely,

/s/ Paul E. Norman

Paul E. Norman  
Senior Vice President

Enclosure: [Tentative agenda for March 1 DSI forum](#)