

Northwest Aluminum Industry Study Group
July 20, 2000
BPA Rates Hearing Room, Portland, Oregon

The Northwest Aluminum Industry Study Group met from 9:30 a.m. to 3:30 p.m. Seventeen study group members were present, with about 15 people in the audience. The group determined the scope for a three-phase study and decided on ways to gather information, including hiring a consultant to prepare a report on industry economics.

Introductions

Paul Norman, BPA, went over the day's agenda. He said Judi Johansen would join the group at 11:30 a.m. BPA called the group together after the DSIs came to the agency and said while they appreciated what they were being offered in subscription, "it was not enough," Norman explained. They told us that given the current power market, they will have a hard time surviving, and plant closures would have repercussions for the region, he continued.

It's pretty clear that anything additional BPA does for the DSIs would have effects on everyone in the room, so we want you to have a voice, Norman said. The courses of action that have regional support "will weigh heavily with us," he stated. In addition, we think if something needs to be done for the industry, it may be that BPA should not be the only "doer," and we wanted to broaden the discussion, Norman stated. We're also coming up on decisions on regionalization, and we see this group as an opportunity to test the ability of leaders in the Northwest's power community to grapple with decisions and issues, he said. Our intent is to make this "the Lamborghini of BPA processes" -- sleek, streamlined and fast, Norman added.

Our purpose today is to come to closure on a scope for this process, according to facilitator Dick Adams of PNUCC. First we need to resolve what it is we will study, along with the approach and time schedule; our second task is to decide what Phase 1 looks like – what information is needed, whether you want an outside consultant and what you want from them, he said.

Statement of the Problem

We all know there are 10 aluminum plants in the Northwest that provide 9,000 family-wage jobs, stated Steve Waddington, Reynolds Metals. The plants are critically important to the communities where they are located, and they are traditional BPA customers, he said. Under subscription, we can buy one-half of the power we need from BPA at a price that is 5 to 6 mills per kilowatt-hour (KWh) higher than what our worldwide competition is paying, Waddington explained. That price represents a 13 percent increase over what we are paying now, he said.

The rest of our power will have to come from the market, and as a result, our melded cost of power will be over 30 mills per KWh, Waddington continued. That will put our industry in peril because the Northwest plants will be the highest-cost production

in the world, he said. What's driving the problem is the high-priced power market, Waddington indicated. The high market is creating other problems, and we think a solution for us may solve some of these other problems, he added. Waddington pointed out that the DSIs question BPA's role in the high market and the level of reserves the agency should accumulate in such a situation. He suggested there is "political risk" for BPA if it markets power at high prices and uses the revenues to keep rates low for only some of its customers.

Aluminum is a worldwide commodity traded on the London Metal Exchange, explained Pete Forsyth, Kaiser Aluminum. There are 150 smelters in the world, and the pricing worldwide is based on supply and demand -- "it's a very simple business," he stated. The major costs of production are labor, raw materials and electricity, Forsyth continued. The price of raw materials is the same throughout the world, and labor costs are similar in developed countries, he pointed out. China has advantages, but otherwise, there is not a lot of differentiation, according to Forsyth. With regard to electricity, there continues to be low-cost generation in the world, and aluminum producers still buy for 8-9 mills in some developing countries, he stated. The high end of the power curve was traditionally in Eastern Europe, where prices were in the high 20s and low 30s, but contracts there have moved down into the mid 20s, Forsyth said. The average price that producers pay worldwide is 18-19 mills, he stated. "Electricity is what it's all about," Forsyth added.

The economics of aluminum are simply producing the product at a lower cost than you can sell it, according to Brett Wilcox, Goldendale and Northwest Aluminum. Alumina is the raw material, and it is bought on fixed contracts -- it's 13 percent of the metal cost, he said. It takes 9.4 pounds of alumina to make a pound of aluminum, Wilcox explained. The way the math works out, each mill of power cost equals one cent per pound in the finished cost of aluminum, he said. If power costs go from 22 mills to 32 mills, it's a 10-cent increase in the price of production per pound, according to Wilcox. The commodity price won't increase because our power price goes up, he stated. Wilcox offered to share his companies' "numbers" with the group to demonstrate "we have a serious problem related to power costs."

As for other things a company can do to increase efficiency and productivity, we're trying to do them -- we've made capital improvements in our plants, he stated. We aren't asking you "to just bail us out on power," according to Wilcox. We're doing a lot in other areas, too, he said.

What percent of national and worldwide capacity do the Northwest plants represent? asked Coe Hutchison, Snohomish County PUD. It's about 40 percent of the U.S. capacity and 5 to 10 percent worldwide, Forsyth answered. Hutchison asked the companies to provide a table that outlines the production capacity and power supply situation of each of the region's aluminum plants.

Ken Canon, Industrial Customers of Northwest Utilities, said he is interested in corporate ownership and the relative efficiencies of the 10 Northwest plants. Does the closure of one or two smelters in the Northwest have an impact on worldwide prices? he asked. A shutdown here should raise global prices, Wilcox responded. We can correlate price with the capacity that is on in the world, Forsyth said. The efficiency isn't that much different among the Northwest plants, he added.

Jim Stromberg, Columbia Falls Aluminum Company, pointed out that the impact of plant closures would be different from one local community to the next. Columbia Falls and Goldendale, for example, are “big fish in a small pond,” he said. We represent a lot of jobs with a lot of impacts to these communities, and regional averages don’t give the real picture, according to Stromberg.

Sara Patton, Northwest Energy Coalition, expressed interest in knowing which plants are unionized and where there are labor issues. All of the plants except Vanalco are organized, Gaylan Prescott of the United Steelworkers stated.

Dwight Langer, Northern Wasco County PUD, offered employment statistics from a report the PUD had done. The unemployment rate in Wasco County is now 7.8 percent, but if the local aluminum plant were to close, the figure would automatically jump to 12 percent, he said. There are 2.5 jobs for every one aluminum job in the county, so if the indirect impacts are considered, the unemployment rate could go up to 19 percent, according to Langer. In Goldendale, the unemployment rate is now 10.8 percent, and if the aluminum plant closed, the rate could get as high as 30.3 percent, if you consider indirect employment in the county, he said. There is nowhere else for these workers to go, especially where they could get family-wage jobs, Langer stated. Closures could mean “a total devastation in these communities,” he said.

John Hines, representing the state of Montana, said the study should look at local and statewide impacts of plant closures. That would be very telling for us in Montana, he stated.

Waddington said the DSIs are sponsoring an economic study of the Northwest industry by Washington economist Dick Conway. Conway’s work will be done in two or three weeks, and we could make it available, he stated. Waddington added that the companies could sketch out answers to most of the questions the committee members had asked. Adams suggested the Conway and Northern Wasco PUD studies be funneled into the information gathering in Phase 1 of the study group effort.

What Will the End Product Be?

I want to know about the end product of this effort, John Saven, Northwest Requirements Utilities, stated. Do you expect there will be a final report? Will we be asked to sign on to something? he inquired. I’d like to get a flavor for the outcome -- it has a bearing on my involvement, Saven said.

We are open to the group’s ideas on that, Norman responded. To determine what if anything should be done, it helps to have the facts on the table about where the industry fits into the local, state and regional economies, he said. Over the next two months, we would undertake an objective gathering of information and compile it into a report on the economic value of the industry, its economic health and how much risk there is, according to Norman. Phase 2 would be to decide, given the fact base, what is the right response, he continued. Our thought is that it will result in a written report, and ideally, it would be a report this group could sign on to, Norman said, adding that there might be minority and majority views.

Should Phases 1 and 2 be separate? asked Hutchison. He suggested the group should first answer the question in Phase 1: “should the region do something?” If the

answer is “no,” it would make a difference for Phase 2, Norman agreed. I think we need to get clearly to the first answer before we start developing the options, Hutchison said. Maybe we are talking about three phases, he added. So you are asking for a “go/no-go” determination, Canon observed. I propose setting things up so that in Phase 1, we answer the question “should the region do something about it?” Hutchison said. I would prefer that Phase 1 not be set up so that doing nothing is just one of a myriad of options -- “it could get lost in the shuffle,” he cautioned.

I don’t want to sign off on the facts, but I can weigh in on what to do, Saven said. He suggested the group get to the question of what the region wants to do, if anything, for the DSIs. I want a discussion about what is good for the region -- whether doing something for the DSIs “is good for me and for you,” Saven said.

Canon pointed out that aluminum is not the only industry affected by volatile power prices. Many industries are being affected by them, and the investor-owned utilities (IOUs) are likely to come into the public utility commissions (PUCs) for rate increases as a result, he said. Other industries that are electricity intensive are suffering the same problem -- newsprint and steel mills, industrial gas producers -- all are affected by what’s happening in the power market, Canon stated. This study needs to be more inclusive than just aluminum, he suggested.

Canon also said he is troubled by BPA’s list of guiding principles. You are taking a lot of stuff off the table before the discussion has begun, he said. We could start down the path on a certain option, and BPA could label it subscription or rate-case related, putting it outside the principles you’ve laid out, Canon noted. We need to be clear about what we can consider and what BPA will take seriously, he stated. Canon recommended the group “step quickly through Phase 1” and get on to the next phases.

John Savage, Oregon Energy Office, asked whether people are looking at the situation as strictly a power issue. Is this a power price and supply issue, or are we talking about economic development or something else? he asked. If it’s something else, maybe the wrong people are at the table, Canon observed. From my company’s perspective, there are opportunities for partnerships in communities and the potential for taxation discussions locally, Forsyth said. But it’s primarily a power problem -- “other issues pale in comparison,” he added.

The economic value issue includes things like jobs and whether they are at risk, Norman stated. We’ve been asking ourselves whether there are other approaches to the problem besides power rates, he said, adding that the study group discussion need not be limited to power. Three years ago no one would have predicted this would be a power issue, but given what happened with prices in June, it is, observed Steve Oliver of BPA. Different things will affect power at different times -- this is a temporal issue, he stated.

In the near term, our problem is fundamentally power, Waddington stated. We need lower-cost power to continue to operate, he said. “Is it just a power issue? It’s power and politics,” according to Waddington. The answer on either side of Coe’s question about whether the region should do anything will have consequences, he added.

We would be prepared to stipulate on the viability of the industry, Waddington continued. If we are facing power costs in the mid-30s, all 10 plants in the region are in trouble, he stated. We have not looked at the value of the aluminum industry to the power system for some time, and we need to, Waddington continued. I agree with Ken that

other industries are in trouble, he said. The issue of what benefits BPA provides in the region is intertwined with the discussion, according to Waddington. With regard to the principles, I did not see anything that would preclude BPA from providing low-cost power to the aluminum industry, he added.

In determining the value of the industry to the region, we need to consider the way the region uses its low-cost power, Patton stated. What are the other employment implications if that power is freed up? she asked. We also need to look at the non-monetary impacts to the region, such as environmental effects, Patton said. We need at least to look at quantifiable emissions from the plants, and “if we go beyond that, I’d be happy,” she stated. We should also consider the way the aluminum industry has responded to increased energy efficiency, Patton said. There are ways the power could be used for fish and wildlife restoration and for other BPA customers, she concluded.

As I see it, this region has an industry on the margin -- they’ve taken money, investment and power supply over time, Hutchison observed. Is the best solution to assist these industries or to do something else with our resource? he asked. One possibility would be to sell power to California and use the money to retrain people in these communities, Hutchison suggested.

“The stark reality is that if these plants were public utility customers, we would not be here today,” Forsyth asserted. We’d be served at the same rate as the PUD industrial customers, and that arrangement would put us within worldwide average power prices, he said. But you might be in the boardroom of a PUD having this discussion and asking whether you should get a price break, as opposed to some other customers, responded Denny Robinson, Cowlitz County PUD.

We’ve traditionally had rates similar to the publics, but we don’t today, and that’s a problem, Forsyth stated. We are getting into the question of how the benefits of the Federal Base System need to be allocated in the region, and that seems like too large a focus, Adams observed. Steve said that the issue is how do we get the aluminum companies cheaper power, but maybe that’s not the solution, Hutchison observed.

The DSIs are making a claim that they need additional financial support to survive, and they assume there is the money to provide it, Saven said. He indicated that he would have to look at providing the assistance in terms of the short and long-term consequences: do I forego benefits today for something beneficial in the longer term? Is there something the region could get long term? Saven asked. “I can’t go back to my membership and say, ‘look what we did for the DSIs,’” but I could go back and explain “if we do this now, in the longer term, this is what we get,” he said.

“I understand the need for a quid pro quo,” Waddington responded. We would be willing to support the idea that this would be in exchange for something long term, he said. With regard to the characterization of this as “financial assistance,” we don’t think of it that way, Waddington added. We think of it as BPA policy, and “I bristle at how it is being characterized,” he said. My members will characterize it that way, Saven responded. The question will be, if there is money, is this the best way to use it? he added.

If we are looking at the short-term/long-term benefit, we have to consider the broad regional context and “what makes the Northwest economy tick,” Tim Stearns of the National Wildlife Federation said. That is changing quickly, he stated. We are talking about 10 plants that are major economic factors in their communities, but only a few are

resilient enough to handle the transformation in the economy, Stearns observed. We all might be willing to invest for five years if the long term looked better; but unless the DSIs modernize their plants, I don't see them as viable long term, he stated. Stearns said he also wears "a wildlife hat" in the discussions and brings to the table concerns about how the region will live up to the Endangered Species Act.

It will be very difficult not to join the issues in Phases 1 and 2 in order to deal with policy, Savage observed. I have a hard time isolating the phases -- we are talking about power pricing and supply and who gets it, he said. The Citizens Utility Board noted that if you do something for the DSIs, you could eventually be asked to take this to the level of electricity-intensive households, Savage added.

A lot of union members and jobs will be impacted by power prices, but only one segment of our membership "absolutely depends on moderately priced power," Prescott said. We just had 330 aluminum workers lose their jobs at the Troutdale plant "just because of the price of power," he stated. We have 7,000 members that depend on making aluminum, according to Prescott.

I have members who don't get power at 21 mills; they buy from Portland General Electric at 40 mills, Canon said. Where do you make the cut? he asked. Chlor/alkali production is an electrolytic process, and three plants in the region have shut down, Canon added. "How will my members feel about a study that puts the aluminum industry on a pedestal?" he asked. "It looks like a set-up," and "that is not good for the aluminum industry or for BPA," Canon cautioned.

Should we broaden the study to include non-aluminum industries? Adams asked. The big question is what do you do in Phase 2, Canon responded. If you determine others are affected by the options, what do you do? he asked.

The big picture is that this is a power problem brought about because wholesale power supply has been deregulated, according to Wilcox. If everyone shared equally in a cost-based system, there would not be a problem, but some customers have been put outside that system, he said. Part of the region is still operating in the regulated environment, but a small part has been marginalized and must deal with the market, Wilcox continued. A few people are stuck between the fully competitive and regulated markets, and the question is what do you do for those customers "caught in never-never land," he said. As for including non-aluminum companies in the study, they would have to open their books, Wilcox added.

We'd like this to be about aluminum, Forsyth stated. He noted that Steve Oliver had said the problem was one of short-term costs. But "there is a public policy question here too," according to Forsyth. There are industries served at 20 mills and other industries are outside, he said. "You are kidding yourself if you think this year we can save the aluminum companies and next year we can save the chlor/alkali industry," Hutchison observed. If we don't do anything, we are by default creating economic and industrial policy, Forsyth stated. Paul Norman is the key person who can make an impact on industrial economics in the Northwest, he added. I think Bill Gates has a larger impact, Stearns quipped.

Can we define other electricity-intensive industries that are on the margin? Waddington asked Canon. Is that an easy net to cast? Waddington inquired. It's not hard, but it's not necessary, Canon responded. There is a range of industry located in the

Northwest because of historically low power costs, he said. A number of industries are in the circumstance of having to deal with the power market, and they have impacts on their local communities that are indistinguishable from those of the DSIs, Canon pointed out. All industries have value to the region, and in terms of picking the relative value, do we have time and why would it be necessary? he asked. We could spend a lot of time on Phase 1, but it's a power issue and a question of how much we want to make it a BPA power issue, Canon observed. The way I look at it is we can assume what the industry is telling us is true and get down to Phase 2, he recommended.

We are here because BPA said help us solve this problem and decide if there is anything BPA should do, according to Howard Schwartz, Washington Office of Trade and Economic Development. Shouldn't we focus on the BPA role rather than on what is the effect of market prices generally? Otherwise, this gets to be a comprehensive review instead of an inquiry into whether BPA should do something in its customer relationship with the DSIs, he said. That should be our focus, Schwartz stated.

If we do anything for the aluminum industry, won't it have implications for others? Stearns asked. Yes, but the question is whether BPA should do anything, Schwartz replied. If we get far from that focus, we won't get anywhere, he advised.

The Administrator's View

Adams summarized the morning's discussion for BPA Administrator Judi Johansen. He noted that the participants are eager to get into Phase 2 of the study to discuss options and whether the region should do anything for the DSIs.

If the scope is broadened beyond the DSIs, what about the timing of a solution? Johansen asked. I understood there was "a sense of urgency in this," and if the outcome is going to be timely, you may need to focus on the DSIs, she said. Would broadening the scope and taking more time defeat the purpose? Johansen asked.

I'm willing to stipulate that the aluminum industry and others are in trouble and that will have an impact on communities, in order to get on with the next phase, Canon said. Here is an industry "on the ragged edge, competing on a global level, for which power costs are crucial," Savage said. There are other industries in that situation, and it could be problematic to focus only on aluminum, he said.

If we go with a broader scope, we could get into things that require changes in legislation, Johansen pointed out. I view this as a discrete narrow focus on the aluminum companies; which are in trouble? why? and can something be done? she explained. BPA would do what's in its legislative authority, and if you broaden the study, you probably are making it a bigger endeavor than I envisioned, Johansen stated.

Phase 2 will involve a comprehensive look at the impacts on others and could involve bringing in other customers, Savage indicated. "It's an issue of cost shifts," Johansen responded. If we decide the industry needs help, "you shift dollars their way" -- it's a simple impact analysis, she stated. It's not simple in terms of the regional economy and environmental impacts, Patton responded. If this is "a zero-sum game," you have to look at the impacts on other customers, Todd Maddock of Idaho said.

Cost shifts are easy to discern, but it's a larger question to look at the impacts that will occur elsewhere, Johansen said. The question is, do we or don't we want BPA to

shift benefits to the aluminum companies, she continued. There are “a million ways to accomplish it, but I hope the first question gets answered,” Johansen stated.

I lean heavily toward broadening the study, but I recognize we have an industry with short-term needs, Maddock said. The aluminum industry may be “just the tip of the iceberg” in terms of industries that are affected, so perhaps we should view this as a pilot and get to the other industries later, he suggested.

The proximate question is what, if anything, should BPA do in response to the DSIs, Schwartz stated. These other questions will be relevant in terms of what you do for them, he added. For the most part, the issue involves those DSIs that chose to stay with BPA and the exposure they will have beginning October 1, 2001, when they will have to purchase 25 percent of their power from the market, Schwartz said. That is the question - I am taking a narrow perspective, but that is what we are here for, he stated.

I’ve heard that we are going to look at the viability of the industry, and while the DSIs are “in the forefront,” we have other industries in Montana to consider, Hines indicated. We could use viability as the first-cut threshold for the study, he suggested.

The primary question in Phase 2 is what does BPA need to do, assuming we need to do something, for the industry, Norman stated. Phase 1 is the time to look at the value and viability in relation to other industries, but ultimately in Phase 2, the question is what to do for the DSIs, he said.

What is the timing in which a solution is relevant? Canon asked. BPA does have some options in dealing with the DSIs and with public agency industrial customers, he said. Both chose the same power-supply option in the same time frame, Canon pointed out.

How about having “a self-selecting scope,” Waddington proposed. Any industry that is electricity intensive and “can show they’re in the same boat” could be within the scope, he said. Scope the study as a small set of industrial customers on the margin with the question of what should we do for them until things change, Waddington suggested. I’m not convinced BPA could help other industries in the same way as the DSIs without new legislation, he added.

If that type of study pushes the time frame out, would that work? Norman asked. A solution by October 1, 2001 is okay, Waddington replied.

There is a lot of information for this study that is already available, Patton observed. One of the questions to consider is if the region isn’t dedicating low-cost electricity to the aluminum industry, where would it flow, she said. What is the value to the region of continuing to dedicate this low-cost energy to the aluminum industry? Patton asked.

I’m principally interested in customers of BPA, Saven stated. BPA went through an extensive process in subscription that addressed the IOU small-farm and residential customers, he said. “It would be the wrong signal to indicate we want to save the world,” Saven added. Our study should be limited to DSIs and public agency customers, he stated. I’m prepared to start talking about the options -- my options involve the question, if I do something for you in the short term, what do you do for me in the long term, Saven continued. “You’ll never get a recommendation from me to use BPA resources to help other than BPA customers,” he added.

It has been a choice for 60 years to dedicate a regional resource to the aluminum industry, Patton said. To determine the value of the industry, you have to have a comparison of what else the power could do -- should it be distributed to residential and small-farm customers or small business customers, she stated. Those are questions that need to be looked at, and the data is there to do it, according to Patton.

What about sequencing the study? Johansen suggested. You could ask the value and viability questions of the DSIs without precluding other industries, she said. For us, the issue will be one of incremental costs that would be spread to others, Johansen explained. I would hate for this study to become a forum for the issue of regionalization or the Power Act, she indicated. We wouldn't get anywhere, and we wouldn't answer the aluminum company questions, Johansen added.

Why not leap into the discussion of options now? Savage asked. We can stipulate to the industry's situation and get the options on the table, he suggested. That may be the simple part, Johansen responded. The hard question is do you want to deliver aid, she stated. But it is difficult to look at that question in a vacuum, Savage replied.

"Everyone seems willing to stipulate to the problem, but I'm not sure I am," Johansen said. I'm not sure Alcoa, one of the biggest owners, is in trouble, she continued. Are Brett's plants in trouble? Is Troutdale in trouble? Alcoa wants to take Troutdale down, but does that mean the company is in trouble? Johansen asked. I think this group needs to understand the situation, she stated.

If we find there is a differential from one plant to the next, does it make a difference if half of the plants survive and half do not? Canon asked. Let's say that out of 10 smelters, plants A and B are in trouble, Johansen hypothesized. Is it the region's problem that A and B are in trouble, or is it the local community's problem? she asked. Maybe we don't need to differentiate, maybe we need to decide if it's the region's problem, Johansen suggested. Do we need Phase 1 to get to whether it is the region's problem? Hutchison asked. Maybe you'll find that the region won't feel the closure of an individual plant, but the state or community certainly will, Johansen said. If I live in Coos Bay and Columbia Falls goes down, does it matter? Probably not, but if the whole industry goes down, then it does, she continued. My point is, don't gloss over Phase 1, Johansen stated.

The initial thinking was to do Phase 1 and then Phase 2, but maybe we could do them simultaneously, Adams suggested. Dave Warren, Washington Office of Trade and Economic Development, agreed with developing both phases on a parallel track. Looking at the impacts of the options might cause us to revisit the question of whether to offer assistance, he suggested.

Our thought is that this is a regional advisory group to address the situation of long-standing customers, Oliver said. With IOUs, these discussions go on before a PUC, he added. We can advise utility boards, PUCs and states about how to deal with this situation, Oliver pointed out. If we broaden the study, we could offer advice back to others at various levels of government, he indicated.

Why are we so focused on companies that are at the margin? What about the companies that drive the economy? Stearns asked. "I'm troubled by looking at a smattering of companies that are teetering," he said. I have trouble thinking that 60-year-old plants are viable long term, Stearns stated. We may be better off investing in

diversifying the communities where these plants are located than in “propping up aging plants,” he said.

I’d like to make it clear that in this context “marginal” means getting forced into a high-cost power market, Waddington stated. A small percentage of the Northwest economy is on the margin because of being forced out into this power market, he said.

We have to ask what benefits this has for the region, Stearns replied. I’m struggling with whether electricity price is the way to help these communities, he said. I was asked at a recent editorial board whether we should save the aluminum industry or save fish, Stearns explained. I responded that we have to get beyond that question and have an economic future that includes fish, he said.

We are looking at relative values in this -- we can’t just look at these industries in isolation, Savage stated. We have to put the values in context, Stearns agreed. It’s a relatively small number of jobs in this industry, but it’s a large number in those communities, he acknowledged.

I’m from Longview, Prescott stated. There were layoffs at Reynolds in 1993, and after a two-year layoff, many people came back to work at the aluminum plant, he said. Retraining doesn’t necessarily work -- the statistics are astonishingly low for placing a workforce out at jobs of the same level, according to Prescott. Had it not been for the Alcoa acquisition of Troutdale, that plant would be operating today, but as it is, 330 people who worked at the plant are not doing very well, he added. “While I’m not sympathetic to the corporate bottom line, I’m very sympathetic to the workers,” Prescott stated.

I support doing Phase 1, Saven said. I hope that BPA and others don’t respond to it by saying “how do we get people to a healthy level,” he added. That’s one track, but there are others, such as asking what is the long-term benefit to the region, Saven said. I want to have time to debate the questions in Phase 2 and think about something other than just “how do we close that gap,” he said.

The big question is whether we want to do something, Hutchison reiterated. We need to get to that issue as soon as possible, he said. I’d like to add something to the guiding principles such that for any direct benefits the region gives, we get equal benefits back, Hutchison suggested. “I don’t want the costs to be immediate and real, with the benefits 20 years down the road,” he added. Another principle is that the companies ought to put in an equal amount of money, Hutchison proposed. “We are not the deep pocket,” he said.

There are benefits to the region of the DSIs -- you can assume that’s true, according to Jim Miller of Idaho Power. There are two ways to look at it, as strictly an issue of economics, or as Northwest customers on the margin because of the market, he said. Utilities are suffering, too, and it’s a question of whether you want to subsidize one industry, Miller pointed out. Some industries fought us to get out onto the market, and now they want to come back, he said. But I fear that as soon as resources start to be built, these customers will see lower prices in the market and want out again, Miller said. “Some purists would say the market is the market, and if you can’t survive, move to Mexico,” he stated. Then you have a national policy issue as to whether you want to import all of your aluminum, Miller added.

“We aren’t afraid of the market, but there isn’t a real market yet,” Forsyth responded. We need to keep this study focused, recognizing there are issues with other industries, he said. We don’t have time to solve other problems, but some issues we can solve tangentially with this study, Forsyth said. A couple of extra months for the study is no problem, he added. We could have a conflict if the study goes beyond December, Warren said, pointing out that the Washington State legislature convenes in January. Stick to the December time line and get it done, Wilcox recommended. You can do a simple study for Phase 1 and broadly add in other industrial customers, he said.

Johansen noted there wasn’t a tribal representative present. The hydro system has had impacts on their lives -- some tribal people don’t have electricity and some can’t afford to pay their power bill, she said. In thinking about how else you could spend these resources, that’s another perspective, Johansen pointed out.

So we are definitely going to look at Phase 1, with a focus on the aluminum companies, but with some other readily available data about other industries, Adams summarized. We will think about options simultaneously, he added.

How long term of a solution are you looking for? Miller asked. Zero to five or six years, Norman said. What does the industry say? Miller inquired. Nothing longer than 2006, but it has to be longer than a few years, Forsyth responded. Some options will have longer terms than others, Wilcox pointed out. I want to be in business for 20 years without a subsidy, he added.

I’d like to brainstorm Phase 2, Canon suggested. It would help our thinking, and it could affect my thinking about Phase 1, he added. Are you planning to bring in the non-DSI companies as part of Phase 1? asked Ken Corum, Northwest Power Planning Council staff. My idea is to incorporate a broad generalization of other companies, Canon said. In Phase 2, I suggest we not limit our thinking to the DSIs, he added. Some public agency industrial customers could receive the same treatment as the DSIs, Canon said.

Will this result in a Record of Decision (ROD)? Hutchison asked. This is an advisory, not a decisionmaking body, Norman responded. BPA may make a decision, and I would like there to be a link between what we do and what this group discusses, he said. Whether there is a ROD depends on what we decide to do, Norman said. If it looks likely we’ll do something that requires one, we’ll gear up for a ROD, he added.

Adams put the following tasks on the board for Phase 1: a) Focus on aluminum industry (value/viability) plant by plant; and b) Gather comparative data on other industries. Some facilities have done more capital investment and have greater efficiency than others, Stearns said. Do we prop up a company that has been outstripped by competition? he asked.

I don’t think the question is relative value in the abstract, DSI attorney Paul Murphy stated. The question is one of cause and effect -- who cares so long as the solution for the DSIs doesn’t affect other industries? he asked. “The value of what Bill Gates is going to do is not relevant here,” Murphy added. We shouldn’t be looking at the relative value of industries in the abstract, he stated.

I’m uncomfortable with the term “value” -- what are we talking about? Hutchison asked. I think we mean impacts such as jobs and dollars to communities, Canon responded. You could look at the issue of relative value as part of the solution, Savage suggested. We need to ask, what is the bang for the buck, Stearns urged. “Should we

give money to Wilcox or Gates?" he asked. "Gates will do what Gates wants to do," Michael Early of the DSIs said. "We can't compare the impacts," he added.

We have to talk about what BPA can do, Warren urged. Schwartz suggested the economic benefits include questions such as: if BPA's industrial load declines, would there be impacts to the region? You can't just look at aluminum in a vacuum -- you have to have both sides, Patton stated. If you don't have both, you can't answer the "go/no-go question," she added. If it all has to be in terms of what BPA can do, there are still questions such as whether to assist the DSIs or invest in low-income weatherization, Stearns pointed out.

Adams wrote the following suggested items on the board for Phase 2: 1) Start as soon as possible; and 2) Answer two questions: do we do anything and what can be done - focus on BPA. Phase 3 would be: 1) What can be done by whom - BPA and others; 2) Impacts to others.

We need to list the opportunities, according to Lyn Williams, Portland General Electric. We should keep them within the realm of what BPA could do, but brainstorm the possibilities, she said. The question of "do we do anything?" would be the end of Phase 1, Williams suggested. In framing the options, we're looking at what BPA can do now, Savage said, adding that he would like to hear BPA's list of options.

We'd really like to leave the door open to ideas other than BPA's, Norman said. We don't assume that it's a zero-sum game, he added.

There are two types of solutions, Williams said: actions that can be done immediately, which BPA can do with a sunset clause; and long-term actions. For the long-term actions, it's important to know for what duration others in the region will support them, she stated. It's not just a question of what BPA can do, "but what others will tolerate" for BPA to do, Williams added.

Murphy suggested the question of whether to do anything would need to be answered twice: first, in terms of whether there is enough of a problem to do anything; and second, after consideration of what could be done. I see it as first, based on the discussion in Phase 1, at which point you decide whether it is worth going on, Hutchison responded. Then you look at the options and narrow them down, he said. Williams suggested there would need to be a basis for deciding whether something should be done. We need criteria for deciding to do something, Hutchison agreed.

Savage suggested BPA write something up on the scope and send it to study group members for review. BPA agreed.

The group identified the following information needed for Phase 1: basic plant-by-plant information on size, power use, revenues, number of employees, ownership, plant capacity, efficiency (KWh/lb of metal), history, environmental issues (emissions), union status, supply contract information, customers and production costs. A second category of information pertains to Northwest aluminum production in the context of the worldwide market, including: the economics of smelting, survivability by plant, and the impact of plant closures on the local, state and regional economies.

In Phase 1, we want to know the impacts on the community, Savage said. And the environmental impacts, Patton added. I don't want to go too deep -- "I don't want to debate the relative value of a beer can versus a tank," Hutchison remarked. Warren asked about the effect plant closures would have on aluminum customers in the region. If the

Northwest industry went down, where are the nearest competitors? Boeing, for example, uses aluminum, he said, indicating that such information could be helpful to the study. Hutchison suggested the group might also want to know about a company's operating strategy. The strategy may be to have plants cycle up and down, he said.

The basic economics of smelting may be the place to start, Forsyth stated. Let's start with a 20-page consultant's report and get the consultant here to discuss it, Hutchison suggested.

Getting a Consultant on Board

Oliver said BPA contacted five consulting groups to solicit interest in conducting an economic study of the aluminum industry. BPA got responses from two of the five, CRU International Ltd./Resource Strategies Inc., and Metal Strategies, he reported, offering the group a handout outlining proposals from the respondents. As for the industry's impact on the economy, Battelle did a study in 1993 that addressed the contributions of the Northwest aluminum industry to the regional economy and power system, Oliver said. We could work with Battelle to update that report, he suggested.

Have we taken a huge step in a direction we don't want to go? Miller asked. Getting into the economic decisions a company makes is something we don't want to do, he advised. I don't think we can do that -- we can't negotiate that kind of a contract in this group, Miller stated. Judi raised the issue of differences between corporate entities, Canon pointed out. She had questions about how the power market situation affects the different entities, he said.

What would we get from the consultants? Schwartz asked. We tried to be efficient in taking a quick look at the consulting groups that could do this, and we were thinking of something with rapid turn-around, Oliver explained. We could augment their information -- we have some tools we could use to do that, he added. We could use the Conway study and Battelle as resources to look at economic impacts, Oliver continued, acknowledging that what BPA had in mind wouldn't take into account the detailed corporate strategy information. To look at the overall impacts, you could talk to ECONorthwest or Tom Power at the University of Montana, Patton suggested.

These consultants could give you "a quick and dirty economic picture" in a short time, Forsyth stated. You could retain either of these firms or both to get started, and then we could see what else we need, Waddington suggested. We could ask Battelle to revamp its study and take a look at the Conway study, when it is completed, he said. As for an analysis of our strategy, I'll write one up for my company, Wilcox stated. The emissions information is easy to come by, he added.

We should have a peer review of the Conway study, Savage stated. And the Battelle study was criticized at the time it came out, he added.

What about information on the other industries? Adams asked. I could narrow that down and provide SIC codes, Canon volunteered.

Where will we get into the benefits the aluminum industry provides to the power system? Waddington asked. The Conway report addresses jobs and economics, but power is another benefit the industry provides -- maybe the Council staff could look at that, he suggested. "It's an element of the value that needs to be on the table," Waddington

stated. Merrill Schultz did a study in 1990 on that, Oliver pointed out. Could the Council take a look at Merrill's work? he asked. Dick Watson of the Council staff said yes.

I'd like a bibliography of all of the studies that have been done on the DSIs, Canon said. It would be helpful to see what's been done in the past so we don't unnecessarily repeat things, he added. Oliver said BPA would try to compile one. He also asked the study group members to contact Carolyn Whitney with suggestions for consultants who could provide an analysis of aluminum industry viability. We would also like to get something from the DSIs on the scope they used for the Conway study, and maybe we could expand it for our purposes, Oliver said.

Stromberg said it would be important for the group to know whether the recommended consultants have the qualifications to conduct an analysis and whether "they have baggage on the issue." We need to be that filter, he stated. We will develop the list of recommended consultants and send it out, Oliver agreed.

I want to express my frustration about expanding this to a big study, Miller said. This is a contract issue between BPA and the DSIs, he stated. The questions are, do we have the available power supply? And if so, how do we price it? Miller said. We are burying ourselves in a lot of information we don't need, he cautioned.

Judi did not want to skip Phase 1, Canon said. CRU will not bury us -- they will get right to the point, Savage observed. Do we have the resources to serve the aluminum companies -- that's the first question, Miller reiterated. What do we want with this other data? What will we do with it? he asked. Your question is for Phase 2, Saven said. I want to get there, but we've agreed we need the data, he went on. I don't necessarily see that negotiations will be the result of this study group, Saven added.

Judi said the first step is to test the hypothesis that the companies are in trouble, Norman said. We need to verify the risk level and how much we care, he continued. We need to lay the groundwork of information, Norman stated. I don't know how data will help you in negotiating a contract, Miller responded. We get the message -- we should not get carried away, Norman acknowledged.

Brainstorming the Options

Norman described the options that have been suggested within BPA. We have contracts with the DSIs now that run through September, and after that, we're committed to 1,500 megawatts at 23 mills, he said.

Norman offered the following list: 1) More firm power at below-market fixed price; 2) non-firm power sold in region at average cost; 3) Purchase of reserves/interruptibility right from the DSIs; 4) BPA support for DSI resource development; and 5) Allowing companies to place 9.9 megawatts of load annually on the local public utility.

With the second item, it would change our practice of selling non-firm at market prices, Norman stated. Instead, we would sell non-firm at average costs in the region, and right now that is about one-fifth the market price, he said. BPA support for a DSI resource development could take one of several forms, Norman explained, including: a tax credit for a location that is beneficial to the transmission system; providing displacement energy; or "sleeving," under which BPA would take delivery of the power if

a smelter shuts down. With regard to the fifth item, we've said this fall we will look at our policy on this; the other option would be for the companies to be served at a new resources rate, he said. Canon suggested a sixth item: sell power to the DSIs as a "Slice product."

BPA is talking to Brett Wilcox about a DSI resource, Norman reported. The sleeving idea has BPA standing in as the risk-taker, and it would enable a company to finance construction at a lower cost, he continued. We would be taking the risk that if a smelter shuts down, the cost of the power is less than what we could sell it for, Norman said.

With regard to our talks with Brett, he has an option to secure a low-cost gas supply for a new plant, so it could be a lost opportunity if we don't act, Norman explained. What is the value of this deal to BPA and its customers? Hutchison asked. We are exploring those questions with Brett, Norman said. If it is an acquisition of resources, would it be subject to the Council's 6(c) process? Canon asked. Norman said it would. We need some consultation with the Council to get a sense about whether it's a reasonable idea, he added. I don't see that it's a lost opportunity for the region, but maybe it is for Brett, Hutchison remarked.

I can't survive if I have to go to the market, Wilcox responded. So I have been looking at other possibilities, and I came to BPA with this proposal, he explained. This is a potential win-win project; it happens to be in a good location for BPA in terms of system stability, Wilcox continued. The voltage support it could provide has value for BPA; it would be a reliability benefit, he stated.

I don't want to get between BPA and a customer's resource, Saven said, but I'm having trouble with the sleeving idea unless it is offered to everybody. We happen to believe the region needs more generation, and we have a role in facilitating that, Norman replied. We are willing to talk to others, and there may be others coming in -- "our door is open," he added. What is special about Brett's project is that he has a Memorandum of Understanding for the gas supply, and he was first to come to us, Norman said. What is the timeline for Brett's project? Schwartz asked. We've bought the land and are doing the permitting, Wilcox said. We intend to be operating by June 2002, he stated.

Hutchison offered another item for the options list. When an aluminum plant shuts down, BPA would sell the power into the high-priced market and use the proceeds to aid economic development in the local community, he suggested.

Canon asked if a DSI could use power purchased for one of its plants at a different location. Yes, that's allowed, Prescott said. Alcoa took the power from the Troutdale plant and is using it at Ferndale, he explained.

What's your advice on our involvement with Brett's CT? Norman asked. How broadly have you gone out to other customers? Canon asked. We haven't broadcast it, Norman responded. I don't think it should be treated as part of this process, Hutchison said. It's a resource supply issue, he added.

BPA has an obligation to help customers transition from the situation of leaving BPA and going to the market, Wilcox said. BPA is not serving my requirements -- the Regional Act said for BPA to serve everyone, he added.

I assume that any customer who came forward with a win-win proposal would get your attention, Murphy said. Yes, Norman responded.

Next Meeting

The group agreed they should meet again after the consultant's study is completed. That would be late August or early September, Adams stated.

Adjourn