BPA Straw DSI Service Proposal

- In Paul Norman's February 4th Letter to the Region is BPA's straw proposal to provide up to 500 aMW of service benefits to the DSIs.
- Known and capped cost requirement.
- This straw proposal is capped at $40 million a year, which represents a benefit of approximately $10/MWh on a 500 aMW allocation. But BPA is interested in hearing what others think about what level of benefits should be provided.
- BPA Goal = to strike a reasonable balance between supporting DSI operations, attendant jobs, and the need for BPA to contain its costs.

Mechanism for Delivering Benefits

Straw Proposal

- BPA's straw proposal is to provide a power sale, that is subsequently translated to financial benefits in lieu of a power delivery.
- One alternative is monetizing a BPA surplus firm sale to a local utility to deliver benefits to eligible DSIs.
- BPA would attempt to price the surplus sale close to the flat Priority Firm (PF) rate, but a significant factor will be the price (relative to market) necessary to achieve the "capped DSI expense value".
- BPA, the DSI and the utility would agree to monetize the transaction.
- That would establish 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 that would reduce the cost of power used in their operation.

Merits of Straw Proposal – financial approach

- BPA would take no credit risk for the DSIs since each company would be responsible for arranging their own power supply;
- Costs would be known and capped;
- Concept would not require BPA to utilize the Federal Base System as a source of power supply to the DSIs;
- Payment occurs only if the DSI operates and workers are employed;
- When the contract is monetized, the direct sale of Federal power to DSIs is eliminated.
- The surplus sale through a local utility establishes the basis for a long term wholesale, non-federal power supply relationship.

Eligibility Criteria

- BPA's straw proposal centers on two criterion,
  - DSIs' creditworthiness
  - Evidence of each DSI's ability to operate and create employment in the future.

- Creditworthiness is critical to focusing service benefits where they can be best employed to promote BPA's goals of sustained smelter operations and attendant job creation and retention.

- BPA believes an evaluation of each DSI's past performance is important because it demonstrates the ability of various companies to develop robust business strategies in a wide array of market conditions.

- BPA wants to clearly understand each DSI's future business plans. It will be important how such plans create a high probability of future operation and employment in the PNW; and, for each potential DSI's business plan to explain the ability or inability of that DSI to operate under potential future market conditions.

Other Features/Considerations

- It is BPA’s intention that all customers share in the cost of DSI service. If BPA establishes a DSI benefit through a below market surplus sale, then how do Slice customers share in the cost of this approach?

- Under certain drought conditions, an additional feature would provide BPA the right to issue a one-year suspension of the delivery of benefits upon a 90 or 120 day notice.

- Should the draft concept be modified to allow the flexible use of the financial credit as long as the annual cap is not exceeded on average, as compared to a hard cap, such as a $10/Mwh credit?

Other Features/Considerations

- The DSIs will not pay less for power than other customers per MWh, and no financial payment in lieu of power sales would be provided where such payments would cause the DSI's net cost of power (for the portion supported through the BPA transaction) to drop below the flat PF rate equivalent.

- Contract terms will be no better than those offered to other customers.

- 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.