Bonneville Power Administration
Regional Dialogue Direct Service Industries Open Forum

March 1, 2005

Sheraton Portland Airport Hotel, Portland, Oregon
Approximate Attendance: 75

Welcome and Opening Remarks

Paul Norman, Senior Vice President, Power Business Line, welcomed the participants to the meeting.

BPA has been talking with the region about serving the Direct Service Industries since 2002. Norman said it is time to decide what level of service BPA may provide to the DSIs because BPA is putting together an initial rate proposal soon for the rate case. Norman said BPA wants to make a decision that is as sustainable as possible, and needs to reach a consensus with the parties affected so that it will be sustainable. That is why BPA pulled this issue out of the Regional Dialogue process and decided to have this process.

To get to a consensus, Norman asked that everyone listen to each other and talk about solutions. BPA has read the comments and knows the concerns of parties, and now wants to focus on solutions. BPA will take comments until March 11, and then write a supplemental ROD to the Regional Dialogue decision as soon as possible.

Steve Wright, BPA Administrator, also welcomed participants to the meeting. He stated that this is an unusual session, and that the Administrator doesn't usually spend a whole day at a public involvement session, but BPA is trying something different because this is such an important issue. The issues are tough and complex and it is not going to be easy.

Wright said he has talked with workers in the aluminum industry and he takes the impacts to them seriously. These plants are also important to other parts of the region, such as schools, businesses and local governments.

He asked that the members of the panels and commenters not make the same arguments made before, but rather move the process forward. BPA is going to offer benefits, but will cap those benefits at some level.

The focus today should be on three things:

- The magnitude of benefits
- The criteria for eligibility
- And the contract mechanisms for the benefits.

Magnitude of benefits

Wright said the benefits will not be zero, nor will they be at the current level. BPA has the authority to supply the DSIs, but not the legal responsibility. The DSIs are a historical load on BPA, not different from other industrial customers. The issue of jobs is important and is a key factor. BPA needs to hear from the companies about how they will operate and supply jobs. Contract amounts have been reduced to 1500 MW from the original 3000 MW in the last decade. At the same time, BPA needs to increase service of about 700 MW to public customers and about 300 MW to IOUs under existing contracts. The loads of aluminum companies are difficult to serve in a global market and that creates risks for others. BPA must take into consideration the costs to other customers when making its decision. The costs for DSI serve are one of the biggest decisions for the upcoming power rate case.

Eligibility

BPA is proposing to consider creditworthiness and the ability of a plant to operate. BPA wants the jobs to be there. BPA is considering looking at past performance and believes it is relevant, but not the only factor. BPA is also considering the remarketing benefits that were shared, about $150 million, but BPA's goal is not to pay that back.

Mechanism for Contracts

BPA is looking for a mechanism that fits into existing legislation and is not looking for a legislative solution. The contracts need to be business-like and straightforward to everyone.

Wright also expressed the need for the region to work together on issues as the region faces low water and other recent events.

Panel 1

Terry Mundorf, Western Public Agencies Group, summarized the history of the DSIs in the region and what lessons could be learned from that history.

The DSIs have been around for a long time and have helped the power system over the years. When Grand Coulee and the Bonneville project were added to the Columbia River system, there was more supply than load and there was a threat in Congress to privatize the power system. Alcoa and Reynolds Aluminum stepped up and put an end to the effort to privatize. During World War II and the Korean War, smelters were built and they provided a market for the power. These revenues kept power rates down and provided additional rationale for more dams on the system. In the 1970s, they were proponents of the Regional Power Act and were instrumental in getting it passed. They also contributed reserves and picked up the costs of the residential exchange.

What we can draw from that is that the long history of transactions is based on mutual benefits, that when the system is in surplus and rates are low, these plants can compete. But finding that circumstance today will be tough.

We also learn that old smelters don't die, they just go dormant. If the rates are low and the price is high for aluminum, they will operate again. If the supply of power is at a low rate, we can keep the open ones in business and some of the others will come back.

We also learned that once contracts are signed, companies are motivated to seek concession for business reasons and they will continue to try to find ways to reduce the price of power.

In summary, there seems to be benefits in both directions, for the aluminum plants and for the power system. Political power also plays into transactions.

Randy Hardy, former BPA Administrator and consultant, was second on the panel. He began with some history of the DSIs and the Northwest Power Act. The DSIs were prime movers in getting the Act passed and they got 20-year contracts out of it. The IOUs got the residential exchange and the public power customers got BPA the ability to build resources. By 1986, when rates jumped to 22 mills, the DSIs were in trouble. Jim Jura, then BPA Administrator, made a decision to introduce the variable rate. This was the first region to do so, and it was copied elsewhere. From 1987-96, the rate was $50 million to the good for BPA and it kept the companies in business.

In 1995-96, deregulation hit the market and the market rate was 15-17 mills which was below BPA's rate. BPA gave the DSIs stranded costs protection, a decision that was not without controversy. Most DSIs signed back up for most of their load but some diversified because the market was lower.

In 2000-01, the market goes up precipitously. The remarketing provision was a boon to some companies and others got curtailment deals. The results of that were mixed. Some companies kept the money, stayed in business and some went bankrupt. Alcoa came out the best and is still operating today. Different strategies had different outcomes and they are difficult to predict. Our ability to predict is about zero.

So, what have we learned? As far as benefits, the DSIs are public power's best friends when it comes to keeping rates low. If a threshold is reached, then the system can cut off their load. A rate increase or decrease more or less depends on the DSIs. DSIs did spend time and effort on fish and wildlife cost controls. They put forth effort when they are financially able to do so, but that effort is very watered down at current levels

As far as liabilities, giving them anything gets you a political black hat. BPA has to explain why the region should do anything for them. It is also a cyclical industry and a volatile revenue source. It cannot be too high a percentage of your revenue.

In the 1960-90s, when all the DSIs were online and BPA could interrupt the top quartile, that was a tremendous benefit. That benefit went away with the 2000 Biological Opinion and that benefit won't come back. The jobs issue is important but not just jobs per se. Jobs in rural areas are important when the plant is the most important employer.

Understanding how the economy of an area is dependent on a number of plants for employment, a tax base, etc., BPA has to serve these other purposes as well as others.

Conclusions

A zero benefit is not acceptable. BPA should provide a level of service that allows the companies to have a chance at survival, but does not guarantee survival. Survival is a matter of global factors that the region cannot control.

Looking at past performance is not a good predictor of future performance. Trying to predict the future is impossible. Basing the winners or losers on plant efficiency or political power is not a productive exercise either. BPA should set the criteria and see who can meet them and not try to predict the winners.

There is no perfect answer and we must realize that it is a balancing act at best.

The next panel member was **Marty Kanner**, consultant. Kanner had a series of questions to ask of the participants.

His first question was, from what point do you look at things from?

Mundorf said that the current situation is different from the past, so that might not be the point. Hardy said the benefits from the DSIs are not just operational and economic, but rather economic and political and if we look at these two things, then we can weigh the costs and benefits.

Kanner's second question: What is the regional rate impact of the service to DSIs? How much is the service? Where do you draw the line? We cannot distinguish between those who will survive.

If the benefit is political support, then the deal should give the DSIs the same stakes in BPA decisions as other customers.

Is this a short-term bridge or continuation of a long-term policy? Are we giving them a chance to survive until some milestone is reached or just the latest maneuver for a long-term relationship? That will determine structure.

Can we do it legally? Is it politically sustainable? Are we within the statutes, or are we creating additional risks?

Are we doing this for real political benefits or out of political fear? What is the motivation? Are we helping a historical friend or are we dealing with the devil? We need to enter the discussion with our eyes wide open.

Jeff Morris, a member of the Washington State Legislature, was the next panelist. He said he believes this is a good process and a change for the good. State legislatures have the same kinds of discussions.

The utilities and DSIs are licensed, etc. through the states, so they are tied to the states also. Washington has passed tax credits to get the DSIs to 2006. About $1.5 million in benefits for the industry were designed to provide a bridge until they can have a piece of the federal system pie.

Economic and reliability issues are important for the system. We have to consider the value of savings to manage the grid, need to realize what the value is to system operations.

The delivery method has created inherent resentment over the DSIs customers and we should consider delivery through existing local utilities.

From the state perspective we've got to be sure we don't lose the concept of regional benefit of BPA to deliver power to the region. The state doesn't ask for certain things like property tax. Why not? Because the DSI benefit and residential exchange is there. Absent that, the state might ask those things.

We need to benefit all ratepayers in the region. The amount of allocation might be 25 percent too low for the DSIs to continue operating. It is a volatile market. The state perspective is that they have value for the system. We need to recognize the value and give them the appropriate valuation to operate.

Mundorf asked the panel how to keep a deal from creeping upwards. If we start with 500 MW, then can we make it stay there?

Hardy said that the deal creep happens everywhere and it works both ways. There are no guarantees. They leverage you when they can. But, there aren't as many companies today and some won't ever come back. The amount of political clout will be less because they will be swing plants, not base load for the region.

We have to try to manage as best we can. Maybe we find a short-term solution, hold the line based on your political judgment. There is a problem if we try to go too far too fast. It is up to the Administrator.

Mundorf asked Kanner if the DSIs have political clout. Kanner said that there have been letters in support of DSIs from Rep. Cantwell and Senator Murray, when the DSIs have been good friends to public power. A key question is where do we draw the line and do we include all facilities or just a few? Each state in the region is affected differently too.

Norman asked Mundorf if he thought there is potential for mutual benefit in the future. Mundorf's opinion is that there is, but it will be harder because the plants are not operating as base load and will be operating as swing plants, with less benefit for the system.

Kanner believes there is less room for operational benefit.

Steve Weiss, Northwest Energy Coalition, said that the panelists were relating selective history and that the DSI presence has not always been positive. Building the dams has not been positive, the WPPSS plants did not benefit anyone in the region. In 1996 when the DSIs threatened to leave, there were lots of legal issues and BPA had to cut costs for programs like conservation. About 100 MW of conservation were lost. The question is can we come up with a deal that will work well? The so-called benefit of DSIs pushing costs down can be read another way, that is, some public purposes get cut.

The DSIs are just interested in rates and that causes the Northeast to think that BPA just subsidizes those industries. We need to remove the line between the DSIs and the potential political clout. If we discount the market rate, it takes them out of the other interests and turns them into swing plants. It takes away their political clout. If prices are high, they will shut down. That could be a benefit to fish, and act as a natural hedge.

Hardy asked Mundorf if there are things about the BPA' straw proposal that cause legal problems.

Mundorf replied that the proposal relies on the continuation of a direct sale from BPA and converts the power obligation to cash payments. It appears to be an expansion of the settlement authority BPA used in recent settlements with the IOUs. There are concerns about stretching the envelope of interpreting the settlement authority. We should find a way to do it that won't have any legal problems.

Jim Woodward, Steelworkers Union, asked Hardy if the smelter got enough power to survive could they develop resources with a utility and could that be beneficial.

Hardy replied that that strategy could be beneficial in the future because BPA couldn't supply everyone if they were all operating. That is the only way they could operate at full contract demand. He hopes they can operate at full production.

Hugh Diehl, Machinists Union, asked Hardy if he would offer power to bankrupt plants that haven't paid their bills.

Hardy replied that there are lots of factors to consider, that he would weigh all those things because their political clout is diminishing. It's really about preserving rural jobs, that's one of the public benefits serving DSIs provides. The judgment is less about the past then jobs in the future. Our ability to predict is between 0-5 percent. The best you can do is offer general benefits and see who can operate their plants.

Kanner asked Hardy if he would just pick rural plants.

Hardy said no, but he would see who could qualify, but he wouldn't allocate the benefits, but would see who shows up. Allocation will spell trouble. It will present political problems and winners and losers.

Kevin O'Meara, Public Power Council, asked Hardy if this would be a long-term solution.

Hardy replied that he is not sure you can predict a long-term solution, because now to 2011 is an eternity to the DSIs. It would be geared toward a bridge solution and then we could see if we could find a long-term solution.

Panel 2

Steve Oliver, BPA, presented the second panel to discuss BPA's Straw Proposal. BPA pulled together a team to determine where to go with the DSIs. BPA is very interested in other proposals and has seen some. He also noted that not all DSIs are aluminum plants and that the proposal needs to fit industries beyond smelters.

Oliver reviewed the straw proposal.

- BPA is interested in a known and capped cost requirement. This is a key driver in a new, more volatile market.

- 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's goal is to strike a reasonable balance between supporting DSI operations, attendant jobs, and the need for BPA to contain its costs.

- BPA's straw proposal is to provide a power sale that is subsequently translated to financial benefits in lieu of a power delivery. BPA does not want to change the New Large Single Load (NLSL) policy. Using the Industrial Power Rate is complicated and may get tied up in other issues.

- 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 the straw proposal

- BPA would take no credit risk for the DSIs since each company would be responsible for arranging their own power supply; each company would make its own business decision and buy from the market.

- Costs would be known and capped; once monetized the amount would be put into an account; at the point it can't go up, it is locked in. This is very important to BPA. It has less risk than a regular power sale with physical delivery.

- This concept would not require BPA to utilize the Federal Base System as a source of power supply to the DSIs; this allows discussion to continue for others without taking out the allocation.

- Payment occurs only if the DSI operates and workers are employed; this wouldn't allow for a windfall through remarketing or take or pay requirements;

- When the contract is monetized, the direct sale of Federal power to DSIs is eliminated. This is a step to get the industries out into the market in a positive progression.

- The surplus sale through a local utility establishes the basis for a long-term wholesale, non-federal power supply relationship. It is important to have a relationship with suppliers especially when the local utility relies on the smelter.

- For eligibility criteria, BPA's straw proposal centers on two criteria,

    - 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 DSIs business plan to explain the ability or inability of that DSI to operate under potential future market conditions.

- Other considerations include 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 could potentially be for DSIs to provide BPA the right to issue a one-year suspension of the delivery of benefits upon a 90 or 120-day notice. It is difficult to agree on reserves except planning reserves.

- 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? We think this will sustain the companies under many but not all market conditions and wonder if we should make it more flexible based on the time periods to operate.

- 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 to receive any Federal Columbia River Power System (FCRPS) benefits.

Oliver wanted to discuss the settlement authority question that had come up in earlier discussions. BPA considered the Industrial Power Rate for the proposal. There was discussion about links to the 7b(2) and other rate directives. If BPA went with a proposal for the IP rate implementation it would be challenged and then all the debates from the past would surface again. The team did not want to take that approach.

Section 7f of the Northwest Power Act has broad authority for surplus sales. BPA has been doing something similar for Slice customers. BPA delivers surplus power at cost, then the parties can resell the power on the market.

We heard that local utilities want to work with the smelters. BPA could make surplus 7f sales to local utilities and then agree to settle for the value. This way does not use the broad settlement authority of the Administrator.

Paul Murphy, MBLLP, asked how would planning reserves work, would the company physically stop operating?

Oliver said if BPA did a surplus sale on a physical basis BPA would be interested in planning reserves. We are interested in spreading the costs, but we haven't worked out all the details yet.

Tom Karier, Northwest Power and Conservation Council, asked if once you have allocation, what happens if some plants shutdown such that BPA would not spend the $40 million, would the amount not being spent be available to others?

Oliver said if the plant could not operate, we are not looking at reallocation, but BPA would realize a lower expense at the end of the year.

Karier asked if BPA moves to monetizing the benefit, would there be a separate contract issued to interrupt the power and buy it back?

Oliver said that curtailment would be moved to the demand-side management arena, and other programs to manage brief interruptions.

Tom Miller, BPA, said that there could be a separate contract for reserves or curtailment from the DSI and through a local utility or other program.

Irene Ringwood, Ball Janick, asked if the cash payments could have a negative impact related to trade laws on the companies.

Miller said that BPA hadn't considered that issue before but that BPA ahs previously made load buydown payments and curtailment payments to the DSIs under their BPA contracts. We not sure there is any relation to NAFTA but would look into it.

Mark Hellman, OPUC, asked if the proposal has any risk of the NLSL for other customers?

Oliver said BPA's view is not to modify the NLSL policy, not to create that opportunity. Service to DSIs focuses on a specific customer class with unique attributes that are important to the economic viability of service areas. This proposal is bounded and it would be difficult to do for other than the DSIs.

Hellman asked if the sale to a DSI from a local utility could be classified as a wholesale sale.

Oliver said that it depends on the charters of local utilities and laws of the governing state. The DSIs have marketing arms with FERC licenses and have 20-year transmission contracts. They are considered wholesale customers.

Hellman asked if there are other ways of measuring creditworthiness such as surety bonds or payment prior to delivery.

Oliver said yes, there are other ways to remedy creditworthiness. What BPA is proposing is to assure that BPA does not have that risk unless we are going to a physical basis.

Hellman asked what were the considerations for not going after operational and stability reserves.

Oliver said that that area has become more difficult. The plants have been operating at 300 MW over the past years. The parties have turned to other sources for those reserves. Transmission has been purchasing stability reserves from the market. With separate business lines, that may be difficult to do.

Panel 3

Jack Speer, ALCOA, led off the third panel. Speer stated that his company would like to be treated as other companies that have been here a long time. ALCOA is determining what its operations would be like under melded or market rates. Under market rates, their plant must make sense in the worldwide market. Our plants operate at near capacity all the time and we don't want to be swing plants. At market rates, survival is not good.

Treat us like other long-standing industries in the Northwest, sell to local utilities and have them sell to us. That has a lot of benefits. It eliminates the special category. We want the same deals that others have gotten. We want the same amount of power – 438 MW. Our contracts expire before others do and we want our current amount. We would like a short-term bridge to long-term operation. We see our future as operating with BPA power.

We are willing to offer a catastrophic insurance polity. As for planning reserve operation, we have methods to curtail loads if prices go up. This could provide a backstop and limit the exposure in bad market conditions.

We believe the straw proposal doesn't work because it sets rates differently from other parties. That's not fair.

Terry Smith, Union Representative, appreciates that BPA understands how important jobs and good benefits are. He believes we need to preserve good jobs, and hopes these plants can be good customers of BPA again.

Bruce McComas, Port Townsend Paper Corporation, needs something different than the aluminum companies. The paper plant was built in 1928 and employs 325 people, with another 425 employed in other facilities. It provides $127 million to the local economy. The plant cogenerates 30 percent of its power and purchases the rest from BPA (16.6 aMW, 20 MW at peak). The plant runs at a 90 percent load factor 24 hours a day, 360 days a year. For 77 years it has operated in good and bad markets. They have also participated in conservation and demand reduction programs. It has stuck with BPA when others left. The company has to compete with other companies who have access to power from public utilities and who pay 20-25 percent less for their power.

The plant cannot scale up or down. The company could support the proposal if the market stays about the same. If the company were forced to pay the NR rate, then jobs would be at risk.

Jim Stromberg, Columbia Fall Aluminum Company, thinks that the proposal could work. While CFAC wants to operate the plants all the time, sometimes plants are going to swing because of other factors. He believes they need enough power for some kind of base load so they don't have to go to zero. A cost-based PF rate agreement for half the capacity of the plants would come to 170 MW for Columbia Falls and 115 MW for Evergreen. They are open to talking about planning reserves, but the other reserves are already available out in the market.

They prefer power through the local utility to a financial payment and do not see any reason the local option wouldn't work.

The $40 million cap may not work if the goal is to maintain production and jobs. The market will be high the next couple of years and the cap might be a detriment. They need enough to maintain the workforce and that is a real concern.

Brett Wilcox, Golden Northwest Aluminum, announced that his company has just had a judge confirm their reorganization to get them out of bankruptcy. He is doing everything he can to get the smelters up and running again.

He proposes being treated like everyone else, but knows because of politics, that's not possible. Instead he is willing to agree to a cap of 100 MW at each smelter. The 500 MW of power or financial benefits should be priced to maintain the core workforce and align interests with other groups.

The eligibility criteria will determine which smelters will die. Four smelters are closed; six have a chance of running. His two smelters need a chance and it is not appropriate for government entities to decide. Do not adopt requirements that pick the winners. The goal is to support jobs so allocate the power based on who can actually provide jobs. Base it on actual jobs, not on forecasting.

As to creditworthiness, you don't need this if you are providing financial benefits, it is built in. Past performance is not as relevant as future performance. Hardy was right; past performance does not predict the future.

Our company did remarket power and gave BPA $100 million. We kept workers, and we invested in new resources. We shouldn't be harmed from going forward based on decisions that Wilcox personally made.

Our smelters are very competitive when it comes to conversion costs. We developed a strategy to swing loads up and down. We need a minimum base for operations, but we will be able to vary loads based on market conditions. We have a very viable business plan.

Please do not try to pick winners and losers, give benefit to the plants that actually have jobs. We have a plan that makes sense.

Speer asked Wilcox about his business plan and how he can swing and be competitive.

Wilcox said that the plant minimum is one potline. We can cover our fixed costs if we get a rate below 30 mills and a reasonable aluminum price. Our goal is to maintain a base all the time and leverage to 5 lines when the market allows.

Norman asked to what extent BPA should take into account past performance.

Stromberg said that CFAC has been in continuous production. We would rather be at 2 or more base load potlines. Creditworthiness is not an issue for us because of our own good credit, and it is fine to consider it.

Speer said if you are selling you want to make sure you will get paid.

The panel was asked how many jobs each company could provide. Columbia Falls has about 150 jobs now, could be 500 at full production; Evergreen would provide 300 jobs at half production, 600 at full production; Port Townsend has 325 now, about 20 jobs/MW; ALCOA has close to 900 total at its two plants at less than 50 percent capacity; Golden has about 400 jobs now, could be 1200 at full production.

Oliver asked Wilcox to review his proposal.

Wilcox said his proposal has two caps that define the benefits. The rate is never below the PF rate. In any given month, a company would buy power, submit it to BPA, and then get the benefit from BPA. BPA doesn't have to guess in advance about the amount. The benefits go to a company that is actually operating. There is less certainty to the company, but more certainty to BPA and the region.

McComas said he didn't like that proposal because they wouldn't know what the costs would be and they need to know.

Speer suggested that BPA should go to smelters that are operating. Stromberg said the cap is an issue because it doesn't get to the same rate that others pay. The price should be in the 20's or it won't maintain production.

Scott Levy, Bluefish.org, asked if this would be considered a subsidy by others.

Speer said that in other parts of the country utilities typically sell power at cost and it is not a subsidy. In the Northwest the cost of power has been low, and so people believe it is a subsidy.

Norman asked Speer to comment about why others can run at half production but ALCOA cannot.

Speer said you have to look at the aluminum market and that he believes their business model is sounder.

Oliver noted that Speer was saying that they should be treated the same as others in the region, but they have been treated differently and have more market freedom than others. Why now that prices are higher you want to negotiate to get the PF rate?

Speer said he was old enough to remember mechanisms when the panelists could use interruptible power and that was why they were put in a separate category because the region wanted it. We are willing to give up the market freedom to have our entire load served by local utilities and get the same rate as other industries.

Stromberg said this would not work for CFAC since they need access outside this BPA block of power that we are talking about for full production.

Wright said he is concerned about what rates are going to be especially being in the 6th year of drought and if the publics and IOUs need more power. He is concerned about the expectations of rates. He is also hearing different proposals from the companies. It might add up to 800 MW instead of 500 MW and cost up to $80 million.

Speer answered that they are asking for 438 MW when they used to have 1300 MW. They have been here, have participated and it is time to say enough is enough for reductions.

Stromberg said that running two potlines is more than twice as good as one potline. Different smelters are different.

Wilcox said it is not good to keep rates down by throwing people off the system. Serve loads at average cost. What I offer is bare bones minimum so we have a chance to survive.

Dwight Langer, Northern Wasco PUD, asked if we take the investment that BPA has, what can we do to make the investment larger? Are there other places to go for help such as states, federal government, etc.?

Stromberg said that he is looking for cost-based power supply. If the debate in 1980 had gone so that we were customers of local utilities, we would not be here today. The State of Montana is looking for money so it probably is not a place to look.

Wilcox said the steelworkers have already made sacrifices too.

Panel 4

John Saven, Northwest Requirement Utilities, started the fourth panel. He prefaced his remarks with a caveat that he was not necessarily speaking for his organization.

He has a slightly different view of the straw proposal. It is the type of transaction that public power has challenged in the 9th Circuit Court. BPA should be in the power business and not the financial services business.

He has assumptions about a proposal:

- The proposal should have support for augmentation of the federal system for the DSIs.
- They are going to work toward future rates at $27 MWh and some service could be accommodated within that.
- 2002-06 DSI purchasing was less than 300 MW of actual purchases for this class.
- With this in mind, the criteria for moving forward should be to keep them as a separate class, emphasize keeping existing jobs, and fulfill contractual obligations.
- The DSIs should be able to close for economic reasons.
- They should have no rights to remarket the power if they close
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- There should be no special programs for non-working employees
- This should not reduce power from PF post 2011
- The cost should not exceed $40 million.

The power supply offer would be as follows:

- Up to 300 aMW to DSIs who have purchased $10 power 2002-06 at the same basic rate as other customers except for a risk premium.
- An additional 200 aMW as an actual power purchase with a $10 difference between the price and the market. BPA would go out to market to get the 200 MW and would make it available to any DSI. If the price exceeds the $10 differential, then DSIs would not have to decide whether they could sign up for power at that price.

The financial implications of this are $40 million for the first 300 MW and $17-18 million for the next 200 MW. They would work hard to get the $17-18 million down. This allows the people who are employed to stay employed, provided hope for the future, is reasonably balanced, and keeps BPA in the power business instead of the financial business.

Pat Reiten, Pacific Northwest Generating Cooperative, also prefaced his remarks with a caveat that he was not necessarily speaking for his organization. He said they could live with the $40 million, but rates affect more than the individual jobs at the plants, they affect other rural jobs and businesses too. The question is whether we should provide service and benefits. They believe that the responsibility ended to provide DSI service in 2001 and that they should only be served when there are surpluses.

Costs could shift to priority customers and that in his view would violate the law. This is a tough message.

He acknowledged the importance of plants to the local communities. So in order to support some service, there must be a reasonable assurance that the DSIs will help save the equivalent of $40 million, that there is a long-term solution and that the deal works for DSI and PF customers.

He is concerned about the timing and that an agreement is contingent on long-term contracts.

In order to do it right, BPA must adequately screen out companies that haven't honored their commitment because we have already borne the costs of bad DSI debt; don't serve companies it has sued to recover money; and limit risks with terms in straw proposal.

Kevin O'Meara, Public Power Council, also prefaced his remarks with a caveat that he was not necessarily speaking for his organization. He said there is a range of opinion in public power. He agrees that the DSIs bring some benefits to public power such as political power, and pressure on BPA to keep rates down and protect jobs in the industry. The question is how expensive it is going to be.

If what we heard is that they want 943 MW, then we are potentially looking at about $160 million and about 2 mills. Our fear is that once you accede to the idea, the price goes up.

We need to design a structure so benefits mirror the rates and benefits provided to public power. Without a cap any proposal would likely be dead on arrival with public power. The problem with caps though is it decouples it from the PF rate once the cap is met. If the cap fluctuates, that is more favorable. We need assurances that the benefits in the straw proposal are what they are.

Bill Drummond, Western Montanan Electric G&E also prefaced his remarks with a caveat that he was not necessarily speaking for his organization. He said that after 20 years working on these issues, it is difficult to deal with them in the abstract. We all have to consider water, the Power Function Review, the Administration's budget proposal, etc. Of course we want to keep jobs. And the DSIs are going to get something because they are a political force. But no job is more important than any other job. Other industries are losing jobs too.

We will provide help but there has to be a limit to BPA's exposure. It has to be a reasonable program that has to provide some benefit. It has to provide the right incentives, to be efficient, stay with us to fight the Administration's budget proposal, and limit fish and wildlife costs. We do not want to go to the 9th Circuit.

We are inclined to favor power over cash. The financial benefits are too hard to implement. About $40 million seems reasonable. The new contracts should be for 5 years starting October 2006. BPA could go to the market and buy a 5-year strip of power and get as much as possible. BPA could offer it take or pay to companies and if there is not enough, then do it proportionally. The contract should require the plant to operate, or if not then the DSI can liquidate the remaining part of the contract. After 5 years, we could see if it worked.

Speer asked what is the basis for the 500 MW number?

Saven said that it is based on the current load of 300 MW and the possibility to get a few more potlines going. Then you have to reach some cutoff point. Other people have lost jobs and we can't have rates going up.

Drummond said it is also a function of the subsidy level you choose.

Reiten said it isn't a magic number, but we need a certain number.

Norman stated that we have a big divide between this panel and the last panel. Is there a middle ground?

Speer said they are trying to compromise, but if we don't get a certain level, the plants will be out of business.

Wilcox said he can live with the 500 MW with the allocation between the plants. And that it is not all or nothing in his case.

Saven said the key factors are what will the rates be? We have other issues that cost more than this.

O'Meara said that is the question at the end of the day.

Wilcox said that he paid BPA $100 million of remarketing sales, and that BPA actually made more because it didn't have to sell power to his companies in high markets.

Stromberg said that not paying more than anybody else is the key. As far as megawatts, we asked, what makes sense? Operating at 20 percent doesn't make sense.

McComas said they need the full amount because we compete with others who get their power at the PF rate. We can live with PF plus 20-25 percent.

Oliver asked if Saven had some ideas about risk.

Saven said that he proposes an augmentation purchase for 300 MW at whatever cost that needed to be. The remaining 200 MW would be limited to a 10 mill differential, no definite cap.

Oliver asked under what rate schedule (IP or surplus rate) would you put the power sale?

Saven said he needed to have further discussions with his staff on that issue.

Wright asked why is it fair to serve new loads and not these historical loads?

O'Meara said the part of the issue is that we had lower rates before the energy crisis and that the DSIs can't be viewed in isolation.

Saven said that we have to honor existing contracts and the DSIs are requesting new contracts. We also don't have the finances for a rebirth of the DSIs like they were before.

Drummond said that the contracts allow for step-ups to occur. The question is how much of a subsidy do we want to offer to support this industry.

Reiten said that intellectually it is attractive to serve this as any other load, but we have a body of statutes and history of how you distribute public good. It is a difficult thing to move onto local utilities' systems.

Panel 5

Ken Cannon, Industrial Customers of Northwest Utilities, started the fifth panel. He said he is often confused about BPA's responsibilities and doesn't see any difference between DSIs and his customers except that they pay money to utilities rather than directly to BPA.

BPA's responsibilities are narrow and they should not pick winners and losers. Many people have lost jobs, some through federal policies. They do not know how long they are going to survive. It is a benefit to have any industrial customers on the system. They are cost conscious, so they help hold down costs and they can go to Washington D.C.

If the argument is that the cap for DSI benefits should be extended, then members will say the target should be zero. We are not going to play that game. We would not want to be known as political bullies in the region and they should not either. We need to work this out in the region, not elsewhere.

Sara Patton, Northwest Energy Coalition, said that her organization, together with the steelworkers, passed a resolution in 2002. It came from new relationships with labor and the companies and changing attitudes. That resolution called for 700 aMW. It called for protection of workers rights, short and long-term interruptibility, public purposes, credit worthiness and credit support, no transfers between plants, no resale of power, pricing to take into account the market prices of aluminum and electricity and the affect on BPA's public purposes budget, and acknowledged that the DSIs do not have a right to power.

She could support a financial incentive instead of power because it takes away the take or pay risk.

Tom Karier, Northwest Power and Conservation Council, read a small paragraph from the Council's new Power Plan. The Council has no great sense of amounts, but there is a bit of convergence to a range and that's encouraging. Why are there limits? Because the driving force is the benefits of local jobs and the potential benefits in the future. In the future we may need to interrupt industrial customers instead of building new power plants. They could also use surplus power that we might have. We have been blessed with a comparative advantage in economic terms, but now we have moved into the scarcity range because the advantage is fading.

Our responses now are based on the energy crisis. We do not want to be exposed to risk. We don't want the DSIs to do better than the public customers. There should be a total cap on the costs and a floor on the benefits. There should be a $10 MWh cap. We need to do stress testing to see how it affects things during low and high market prices, fluctuating prices, gas prices, aluminum prices, BiOp remedies and Administration proposals for market rates.

Jim Lobdell, Portland General Electric, does not have an opinion on the level of benefit. Any benefit must be based on the principle of "no harm." We must limit the cost impact to other customers. We should retain interruptible rights. This should not undermine NLSL policies and other policies. There should be no potential for resale.

The benefits and caps should be known. They should be moved into alignment with other customers. They should encourage job creation. The contracts should be for no longer than 5 years. Creditworthiness is important, as is satisfaction of prior obligations.

The mechanism for delivery should again be based on no harm. Explore the IP rate; it might be a way to move from power to monetary benefits.

Norman asked Lobdell to describe the no harm principle.

Lobdell said that we are dealing with finite resources and if there are more benefits, then the costs shift to others. Put the benefits in the right place for the region.

Wright asked why would other new loads be treated differently from these and why that is fair.

Cannon said you have to start with the statute and go with what is in it. Decisions were made and that was that there are differences between publics and privates.

Lobdell said he comes from a different perspective. We're self-sufficient. It is a difficult decision to have to consider. There are different customer classes and in my case there are relationships between customers.

Public Comment Session

Jeff Garrard, representing Congressman Denny Rehberg, Montana, thanked BPA for facilitating this kind of meeting. In Montana this issue is about jobs for the state. We appreciate that you are considering that. We want you to develop a mechanism for cost-based power to maintain the current level of production and the possibility of increasing the production in the future.

Jasper MacSlarrow, representing Representative Rick Larsen, echoed the comments of support for the forum. Rep. Larsen supports the Alcoa plants. He notes that there are real consequences on real people at stake. He supports family wage jobs for workers of Intalco. We will feel the impact if the jobs go away. We don't want a better deal than others, but also don't want to be treated as outsiders. We want a real deal with real power and these plants are strongly supported by the community and others. The families have endured a roller coaster of rate instability and workers' families deserve better. Give the plants the opportunity to survive.

Steve Weiss, Northwest Energy Coalition, responded that there is a difference. In 1996 rates were above the market and the DSIs wanted to leave the system. FERC gave them the right for utilities to get stranded costs. The DSIs argued that they didn't have to, and they left the system and got a shield. If they come back, that shield should disappear. In Oregon, we passed a law that if they leave, they must pay. They did. NWEC is supportive of your proposal. They can operate if the price is low. When the price is high, they would be swing plants. We think it is a good way to go.

Doug Erickson, a member of the Washington State Legislature, said that we are faced with a major decision in a short time that will affect what his district will look like. We need to protect rural jobs. He is impressed by the commitment of ALCOA to staying in Washington and the oil refineries have not had the same kind of presence. ALCOA is committed to the region. We are committed to keep those jobs here. There is a commitment of local officials to keep those jobs here also. See where these jobs fit into the vision of our future and rural jobs. We are here to support you.

Vicki Henley, Steelworkers, said that power rates have not always been our focus that for too long we took rates for granted. We have changed our way of thinking and ways of doing work. We are thinking of ways to conserve at work and at home. We need to take this personally. We are trying to grow like the whole region. BPA's proposal won't work for all of us, there is not enough power. Partially running does not allow us to run efficiently or competitively. The power belongs to the Pacific Northwest. Every citizen needs to conserve power. I support Alcoa's solution.

Jim Woodward said the industry was once a robust industry, now it is a devastated industry. We are now down to 5 smelters that could be viable but not without access to BPA power. I applaud that you are working with the public.

It doesn't matter what a business plan looked like yesterday. It is subject to variables to survive. Power is the prominent variable. Plants live or die by the price of power. There is variability of power and raw materials.

The smelters that have survived should be creditworthy. Don't pick winners and losers by an artificial credit hurdle. Provide 100 MW to each of the smelters. Let them transfer no more than 20 percent to another smelter. Retain curtailment rights. Provide compensation to employees for curtailment. Partner with utilities to preserve jobs.

Conservation and renewables will also play a huge role besides hydro. Providing today will ease dependence on hydro in the future and preserve jobs.

Mike Keith, Steelworkers, said that currently there are 100 jobs that provide $5-6 million in payroll. The 100 MW looks like a fair shake to us. Put people back to work. Creditworthiness is a tough issue, an agreement is an agreement but the Goldendale plants finally got through bankruptcy. GNA took care of its workers, built resources and is sacrificing to keep the company going, even sold it at a loss. Get people to work in The Dalles.

Geoffrey Cromer, Alcoa, said that he is responsible for 10 smelters across the U.S. All locations are in a fight for survival. There are 4600 employees, down 20 percent. When we look at costs we look at three issues, raw materials, power, and labor and conversion costs. Intalco has a problem because of power costs and conversion costs. Intalco has the highest costs of all U.S. smelters and is now in trouble because of power costs. We don't control the cost of aluminum; we can't predict where the price will be. Businesses are in different conditions, that's why you heard different options for the proposal. We are looking at the long term and our proposal demonstrates that we have a continuing commitment to work with BPA and others on a successful outcome.

Steve Knight, CFAC, said this is the most important issue for Columbia Falls. We are committed and we need your help.

Gil Hayes, USWA, said that we need to reenergize Northwest jobs and Northwest communities, mostly rural communities. There is a 3-1 or 4-1 offshoot of jobs from these jobs. A lot more than the numbers the DSIs want to employ. Go with the 100 MW with a 20 percent transferable if that's economic. Unless the power is sold to another smelter and used for wages with the okay of the local labor group. Reward the DSIs for helping to build the system. They use power during off-peak times also and make generators more stable. They are the public utilities' best friends for stable rates. Repay one owner for $100 million that allowed BPA to repay the Treasury. He also moved forward on energy project on his own.

Mark Petersen, USWA, echoed the previous comments on the job market and Goldendale and Klickitat County high unemployment rates. The $100 million from Wilcox has the potential for power to come on line from new resources, about 500 MW with Summit Westward and about 300 MW from the Klondike project. These wouldn't have happened without those proceeds. Give us a fighting chance.

Gaylan Prescott, USWA, supports all comments from steelworkers. He has worked in smelters and has friends who have lost their jobs. As to the eligibility criteria, if you went back to 1987 and looked at CFAC, they were on the verge of extinction and weren't very creditworthy at the time. Now it continues to operate. This is a testament to workers and owners to keep it running. Had this test been applied, maybe they wouldn't have received BPA power. NW Aluminum has the same kind of history. It has survived to provide good jobs. Goldendale had the same kind of history then Wilcox came along. Reynolds Longview in 1941 operated at full capacity, changed hands prior to the energy crisis to Alcoa then shut down leaving workers without pensions and benefits being dismantled. Applying that test to that facility would have come out on the short-end. It is a dangerous road, don't go down there. Don't reward owners, reward workers.

Scott Levy, Bluefish.org, said there is a new problem walking around that no one is talking about. What are the DSIs providing to BPA and the publics? That are providing a political shield that's why we are here considering giving them something. Is this considered a subsidy? How will it be perceived? From the Bush Administration proposal, "reduce subsidies, more level playing field for electricity suppliers." This is a big threat to BPA and will impact jobs if BPA goes to market rates. Now is the time for the DSIs to influence politically, the influence should be used to encourage the Bush Administration to drop its budget proposal.

Hugh Diehl said this is a useful forum and the machinists are not in favor of 100 MW per smelter. We endorse Alcoa's proposal.

Wrap up

Steve Wright thanked everyone for coming and participating in the open forum. This is a policy decision and there is some discretion there for a decision. He agreed with Randy Hardy's thoughts about giving the companies a chance to succeed, but not a guarantee, while minimizing rate impacts.

In the Regional Dialogue process there wasn't enough focus on the BPA proposal, so we decided to pull it out and highlight it and try to push the parties together. We made progress today. We are in a better place than we were in December, but there is work to be done to reach consensus.

There are questions. Why should the DSIs be treated on the margin? The arguments aren't ironclad. It looks like the answer isn't a zero benefit, but public power needs to be clear on how the various proposals are putting forward will impacts rates.

We heard three different proposals from the companies today. The Alcoa and CFAC proposals are what works for these companies, but if they are extrapolated they could get very expensive. That scared a lot of folks today and it moves us away from consensus. The Golden Northwest proposal, will it stop at 500 MW or end up a bigger number?

We will take your comments through March 11. We don't want to drag it out because we must prepare our initial rates proposal. In the meantime, we would like the parties to engage each other to reach a solution. John Saven's proposal needs to be looked at. We need to have conversations amongst ourselves and be open to all kinds of conversations. Some compromise positions would be helpful. There is a lot going on in D.C. and they want us to solve this in the region.

Port Townsend is a unique problem. We need a way to work on that problem.

The meeting adjourned at 4:45 p.m.