



## Department of Energy

Bonneville Power Administration  
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POWER BUSINESS LINE

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In reply refer to: P-6

To Parties Interested in Benefits to Direct-Service Industries:

The Bonneville Power Administration (BPA) today issued a supplement to the Administrator's Record of Decision (ROD) on BPA's Service to Direct-Service Industrial (DSI) Customers for Fiscal Years 2007-2011. The original ROD was signed on June 30, 2005, and outlined BPA's tentative decision to offer a surplus power sales contract to each of its remaining three aluminum company DSI customers totaling in aggregate 560 aMW at a capped cost of \$59 million per year and a 17 aMW surplus power sales contract to its one remaining nonaluminum company DSI customer, which would not be subject to the cost cap. A copy of this ROD is available on the BPA Web site at [www.bpa.gov/power/pl/regionaldialogue/06-2005\\_dsi\\_rod.pdf](http://www.bpa.gov/power/pl/regionaldialogue/06-2005_dsi_rod.pdf).

Upon signing this ROD, BPA made clear that the decision to offer contracts to the aluminum companies was contingent on a further review of the cost impacts to BPA associated with the biological opinion litigation. BPA stated in the DSI ROD that a final decision to reduce the amount of service benefits to the DSIs, up to and including a decision not to serve any aluminum company load, was possible. The DSI ROD also stated that, following negotiations with the DSIs and the local public utility districts whose service territory includes an aluminum smelter, the contracts would be available for public review and comment.

On November 28, 2005, BPA issued a letter announcing the public review and opportunity to comment on the Draft Prototype – Block Power Sales Agreement. In this letter, BPA noted that steadily rising forward market prices for electric power were eroding the value of the proposed benefits to the companies and that the DSIs had requested additional flexibilities be built into the contract to allow them to access benefits under a wider range of circumstances. The letter posed the following questions for comment:

- Does the Prototype conform to the decisions and policies contained in the June 30 DSI ROD?
- In light of the fact that when service benefits are monetized each aluminum company DSI may obtain such benefits only if it is operating at certain minimum levels is the level of operating flexibility provided to the DSIs in the Prototype reasonable? Should DSIs have access to benefits at lower minimum operating levels than discussed in the ROD or higher levels? Should BPA maintain the \$59 million annual limit or should smelters be given additional flexibility to draw benefits early from future fiscal years?

The letter also noted that the DSI ROD indicated BPA would revisit its decision to offer service to the DSIs once the financial impacts of changes in hydroelectric system operations stemming from the BiOp litigation were better known but that waiting until the end of the Power Function

Review II process may not be timely. On January 18, 2006, BPA stated that its review of BiOp litigation impacts would be part the Power Function Review II (PFR II).

The PFR II Final Closeout Report is now available on the BPA Web site at [www.bpa.gov/power/review](http://www.bpa.gov/power/review). Changes to hydro operations have significantly impacted BPA's revenues and costs. However, BPA concluded in the PFR II process that these costs are not enough to require a change in the balance originally proposed on this issue and that the maximum benefit level should remain at \$59 million per year.

As more fully explained in the DSI ROD, BPA believes it has struck a fair balance between providing a level of power system benefits to the DSIs that will enhance the prospects for smelter operation under a reasonable number of power and aluminum market scenarios but not substantially increase rates to other customers.

Subsequently, BPA has reviewed all comments and issued a final decision on benefits to DSIs in FY 2007-2011. These decisions are outlined and addressed in further detail in the Supplement to Administrator's Record of Decision on Bonneville Power Administration's Service to Direct-Service Industrial (DSI) Customers for Fiscal Years 2007-2011. A copy of the supplement to the DSI ROD can be found on the BPA Web site at [www.bpa.gov/corporate/pubs/RODS/2006/](http://www.bpa.gov/corporate/pubs/RODS/2006/).

BPA will now move forward on signing contracts with the DSIs for the FY 2007-2011 period. DSI service for the post-2011 period will be addressed in the upcoming Regional Dialogue public process. During this process, BPA intends to conduct at least one public meeting that centers on DSI benefits after FY 2011. BPA has also commissioned a study to explore both the economic benefits of regional support for DSI jobs through BPA service and the economic impact of rate increases that result from that support.

If you would like additional information please contact your Power Account Executive, Constituent Account Executive, Tribal Account Executive or me at (503) 230-5399.

Sincerely,

/s/ Allen L. Burns

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