



Department of Energy

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

POWER BUSINESS LINE

November 28, 2005

In reply refer to: PT-5

Dear Customers, Constituents, Tribes and Other Regional Stakeholders:

The proposed draft prototype contract (the "Prototype") for service to the Bonneville Power Administration's Direct Service Industry (DSI) customers for the Fiscal Year 2007-2011 period is now available for your review and comment, through January 4, 2006. The Prototype is the culmination of broad regional discussions spanning several years on service by BPA to these BPA customers. Copies of the Prototype are available at: www.bpa.gov/power/regionaldialogue.

BPA's June 30, 2005, Record of Decision (ROD) regarding service to its DSI customers established that BPA would provide the DSIs up to 577 aMW of service benefits during FY 2007-2011. BPA decided to offer Alcoa Inc., Columbia Falls Aluminum Company, and Golden Northwest Aluminum Inc. (the DSI Aluminum Smelters) an aggregate of 560 aMW of service benefits at a capped annual cost of \$59 million. BPA also decided to offer Port Townsend Paper Corporation (Port Townsend) 17 aMW of surplus firm power through its local utility at a rate approximately equivalent to, but in no case lower than, the priority firm rate. The ROD indicated that BPA would structure the delivery of service benefits through a contractual arrangement that included the public utility vested in the local benefits provided by the DSI located in its service area. While the ROD concluded that the default mechanism for providing benefits to the DSI aluminum smelters would be through monetizing the value of a priority firm power rate equivalent to a surplus firm power sale, the final decision regarding how the benefits would be provided, along with other implementation details, were left to the contract negotiations. As you will see in the Prototype, BPA has elected to make benefits available to each of the DSI aluminum smelters through a monetization of the value of the power sales contract for the period FY 2007-2009.

This invitation to comment on the Prototype fulfills the promise in the ROD to make the Prototype contract for aluminum smelter benefits available for regional review and comment for the purpose of ensuring consistency with the decisions and policies contained in the ROD. In addition, due in large part to steadily rising forward power market prices, which effectively erode the value of the proposed benefits to the companies, the DSI Aluminum Smelters have requested additional flexibilities, principally to spread available benefits over lower operating levels. To date, BPA has not agreed to any flexibilities beyond those contained in the ROD, and the Prototype does not reflect greater flexibilities. In addition to any other comments you wish to make on the Prototype, we seek comment on the following questions:

- Does the Prototype conform to the decisions and policies contained in the June 30 ROD?
- In light of the fact that when the 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?

BPA will consider all comments before finalizing the Prototype that will be used to create a contract for each individual DSI. All of the DSI aluminum smelter contracts will be the same except for specific changes to address the unique characteristics of each company's smelter operations and its partner utility. The contract for Port Townsend will be unique since its contract will only provide for a physical power sale and will not include a BPA option to monetize the power sale. The Port Townsend draft contract should be available for review in mid-December and will be posted on the web site listed above. BPA will accept comments on the draft Port Townsend contract through January 31, 2006. BPA currently intends to finalize and offer these contracts in mid-February 2006.

The ROD noted that BPA would revisit its decision to offer service to the DSIs once the financial impact of changes in hydroelectric system operations stemming from court rulings early this year was better known. A court ruling on 2006 hydro operations is expected by the end of the year. BPA is committed to a top-to-bottom cost review of all BPA costs in light of this court ruling, but this review is not scheduled to conclude until April 2006. This date is not well matched to the DSIs' needs for a timely decision regarding the level of BPA service so they can plan and make necessary arrangements, including arranging market power supplies, for operations in October 2006. The sooner the companies know what service benefits will be offered, the better their negotiating position is to secure the best possible terms, at the lowest cost. For this reason, BPA intends to complete its reconsideration of its decision on DSI service in light of the costs of the court ruling on river operations before the rest of the cost review is completed so that the DSIs are able to make a timely commitment to purchase power if BPA decides to go forward with the contracts. BPA seeks your views on this issue as well.

How to Comment

BPA encourages your written comments regarding the Prototype, including the decision to maintain the benefit levels established in the ROD, through **January 4, 2006**. These comments can be made on-line at BPA's Web site: www.bpa.gov/comment, or through the mail at: BPA Communications, DM-7, P.O. Box 14428, Portland OR 97293-4428.

For more information

If you have questions or want more information about the DSI contracts, please call us toll free at (800) 622-4519. Additional information is available at our Web site at:

www.bpa.gov/power/regionaldialogue

Sincerely,

/s/ Paul E. Norman

Paul E. Norman
Senior Vice President