



PUBLIC UTILITY DISTRICT NO. 1 of CHELAN COUNTY

P.O. Box 1231, Wenatchee, WA 98807-1231 • 327 N. Wenatchee Ave., Wenatchee, WA 98801
(509) 663-8121 • Toll free 1-888-663-8121 • www.chelanpud.org

March 4, 2005

DSI-091
MAR 15 2005

Mr. Paul E. Norman
Senior Vice President
Bonneville Power Administration
P. O. Box 14428
Portland, OR 97293-4428

Dear Mr. Norman:

Thank you for the opportunity to provide Bonneville with Chelan County PUD's comments on proposed terms and conditions for DSI service after October 1, 2006. Chelan County PUD works closely with the Alcoa Aluminum Company in order to serve a portion of Alcoa's Wenatchee Works aluminum smelter.

Alcoa's Wenatchee Works aluminum smelter has been a major contributor to the economic well-being of Chelan County for over 60 years. Even during the three-year plant shutdown that ended in December 2004, Alcoa continued to employ 390 people, thereby maintaining family wage jobs with benefits in an area that was already experiencing a high rate of unemployment.

Chelan County PUD values Alcoa as a business partner. We recognize that Alcoa needs competitively priced Bonneville power in order to maintain and enhance the long-term economic viability of the Wenatchee Works smelter, in addition to the low cost power generated by Chelan County PUD's hydroelectric resources. Accordingly, Chelan County PUD supports Alcoa in its effort to secure adequate amounts of Federal power to serve the Wenatchee Works smelter in the years of 2007-2011 and beyond. The staff and management of Chelan County PUD look forward to working with Alcoa and Bonneville on the required commercial arrangements to deliver Federal power directly to the Wenatchee Alcoa plant.

If you or your staff wishes to discuss these comments further, please contact Steve Fisher at (509) 661-4347 or Janet Jaspers at (509) 661-4548.

Sincerely,

Charles J. Hosken
General Manager

cc: Jack Speer - Alcoa

DSI-092
MAR 16 2005

March 11, 2005

BY ELECTRONIC MAIL

Paul E. Norman
Senior Vice President
Bonneville Power Administration
Post Office Box 3621
Portland, OR 97208-3621

Re: Service to the Direct Service Industries

Dear Paul;

Attached are the comments of the Western Montana Electric Generating and Transmission Cooperative, Inc. (WMTG&T), regarding Bonneville's request for comments on continued Bonneville service to the Direct Service industries (DSIs).

In summary, the members of WMTG&T support a limited power sale to qualifying DSIs for the period 2007-11 up to a maximum cost to PF customers of \$40 million/year. Each DSI would be required to meet standard counter-party prudential requirements and also indemnify the other Bonneville customers against any reductions in the load placed on Bonneville for the term of the contract. Arbitrage of federal power would be prohibited and any power sale to a DSI must be for actual production. The attached paper outlines our proposal in more detail.

If you have any questions, please contact me.

Sincerely,

/s/

William K. Drummond
Manager

WMG&T Proposal for BPA Service
To the DSIs
March 11, 2005

The members of Western Montana Electric Generating and Transmission Cooperative (WMG&T) submit this proposal in response to a request for comments by Bonneville concerning service to the Direct Service Industries (DSIs) for the 2007-11 period. While there appears to be no disagreement among regional parties that the DSIs are not legally entitled to service from Bonneville, we acknowledge that they provide significant employment in certain communities. They have also been important supporters of efforts to fend off attacks on Bonneville and to help hold Bonneville's rates down. While this proposal will cause Bonneville's PF rate to be higher, we offer this alternative in the interests of trying to help maintain those jobs.

We have several observations about Bonneville's request for comments on service to the DSIs. First, it is extremely difficult to consider any subsidy for the DSIs in the abstract. In isolation, we want to help preserve the jobs these companies provide. In the context of a \$27-32/MWh Bonneville PF rate, our ability to provide much help is extremely limited. Second, no job is more important than any other job in the region. We appreciate the family-wage jobs the DSIs have provided, but they are no more important regionally than other family-wage jobs. The jobs lost from the recently-announced closure of a sawmill in northwestern Montana are just as important to that community as any lost DSI jobs in their communities. Subsidizing one industry at the expense of others is a fool's bargain.

The principles that underlie our proposal are as follows. First, Bonneville's financial exposure must be limited. This cannot be an open-ended obligation. Second, the proposal must be reasonable. Proposals that provide 900 MW or cost exorbitant amounts are unacceptable. Conversely, the proposal must work for the DSIs or it is not worth pursuing. Third, the program must provide the correct incentives. There can be no arbitrage of federal power by the DSIs, the DSIs should be incented to make efficiency investments in their plants and we want the DSIs to join us in helping to keep Bonneville's costs down. Finally, simplicity is a virtue that should be encouraged.

Additionally, the members of WMG&T believe that a power sale to the DSIs is superior to providing financial benefits. We do not believe it is good public policy to provide financial subsidies to industries. Completing the financial transaction also appears to require too many manipulations to try to implement. Despite having several positive attributes, it is a little too tricky.

The WMG&T proposal is as follows:

- Bonneville would offer to make a power sale to qualifying DSIs for a 5-year period. Bonneville would obtain quotes from power suppliers on a 5-year fixed price product. The volume offered to the DSIs would be a function of the difference between the market price of power and the PF rate, up to a maximum of \$40 million/year.

- Qualifying DSIs would have the opportunity to indicate how much power they wanted to buy at the PF rate. If there were more demand for power from the qualifying DSIs than Bonneville has available assuming the \$40 million/year cap, each qualifying DSI would get their proportionate share of the total DSI demand times the megawatts Bonneville has available to sell to them.
- In order to qualify to purchase power from Bonneville, each DSI would have to meet the same credit requirements as any other purchasing counter-party. Additionally, each DSI would have to provide prudential support up to the total amount purchased at the PF rate for the term of the contract. In the event a DSI wants to reduce its Bonneville purchase, it could financially liquidate its obligation. That way, every other Bonneville customer is indemnified against a reduction in any individual DSI demand over the term of the contract.
- A qualifying DSI could only obtain power from Bonneville for actual production. Arbitrage of federal power would be prohibited under the contract.
- In no event would the program cost other Bonneville customers more than \$40 million per year over the term of the contract.

Any DSI unable to meet the qualifications listed above would be ineligible to obtain power from Bonneville.

Kuehn,Ginny - DM

From: Larson,Cheryl A - P
Sent: Tuesday, March 15, 2005 2:43 PM
To: Kuehn,Ginny - DM; Burbank,Nita M - PL; Dowty,Phyllis M - PL; Tetnowski,Sonya M - PL; Williams,Laura E - T; Oliver,Stephen R - PT; Wilson,Scott K - PS
Subject: FW: DSI comments

-----Original Message-----

From: Bill Drummond [mailto:wmgt@montana.com]
Sent: Tuesday, March 15, 2005 12:42 PM
To: Norman,Paul E - P
Subject: DSI comments

Paul;

It is not clear to me that my DSI comments were accepted in the BPA comment queue as I did not get an e-mail back indicating it was included. Thus, I will burden you with them directly. If you have any questions, feel free to give me a call.

Regards,
Bill

Tom J. Stromberg @
CFAC

DSI-093
MAR 17 2005

to: S. Olivier, BPA
3-11-05

cc. H. Clark
S. Wilson
M. Miller
S. Tetnawski
as DSI comment
Files

2007-11 DSI SERVICE

Principles

1. Total amount available = 517 MW (500 + 17 for Port Townsend)
2. Need physical base amount of power for success
3. Significant credit requirements
4. 100% of power and financial benefits are used by operating companies

5 DSI Contract Holders

Alcoa
CFAC
Evergreen
Golden NW
Port Townsend

Power Allocation

Each contract holder gets the lesser of 100 MW or their 2002 contract demand as an allocation of power at the PF rate charges.

Alcoa, CFAC and Golden NW = 100 MW each
Evergreen = 6 MW
Port Townsend = 17 MW

Total = 323 MW of physical power at the PF rate (=62% of total)

Financial Allocation

Financial = 194 MW = 517 MW less 323 MW of PF power (=38% of total)
Alcoa, CFAC, Golden NW each offered 65 MW with \$10/MWH limit

Credit

Apply credit requirements from 2000 Slice contracts

Reallocations

Initial Offer Window = Reallocate any rejected/not qualified benefits pro rata over initial accepted/qualified allocations

Operational Curtailments = During 2007-11 contract period companies may curtail like in 2002 contracts but curtailed amounts first offered to operating DSIs. If curtailed amount not accepted by other companies then use 2002 curtailment calculations.

03/11/05

DSI-094

MAR 23 2005

Kuehn,Ginny - DM

From: Roger or Maria Ryan [deerpath@icehouse.net]
Sent: Wednesday, March 23, 2005 9:17 AM
To: BPA Public Involvement
Subject: Proposed BPA Support to DSI Users

Dear BPA Managers,

I am a member of Kootenai Electric Cooperative and, as such, I am quite concerned over a proposal I recently heard about which would result in BPA subsidizing aluminum companies with electric power.

It seems to me if BPA were to undertake such action, it would inevitably result in the degradation of support, increased costs, or probably both, to the private citizen consumers in the Northwest, which are BPAs primary customers and are the basis for the existence of BPA. I believe all private commercial organizations, including the aluminum companies in the Northwest, must stand and prosper on their own and not be subsidized at public expense. In addition, power subsidies in an era of policy uncertainty at the national level sets a horrible example and could easily set a precedent which we could all greatly regret in the future. I realize this is a controversial issue with obvious political overtones, but BPA must do what is right for the private citizens and non-profit electric cooperatives which it serves. Subsidizing private companies is not right, and I believe you know this. Please do right for the citizens you support.

Thank you for the opportunity to comment on this issue. BPA continues to do a remarkable job as you have for many years; I recognize this and commend you for it.

Roger M. Ryan
4850 West Deer Path Trail
Coeur d'Alene, ID 83814