April 26, 2004

Northwest Power and Conservation Council
851 SW 6th Ave, Suite 1100
Portland, OR 97204

Submitted to:
comments@nwcouncil.org

Re: Comments of Alcoa on the April 8, 2004 Draft Recommendation for the Future Role of BPA in Power Supply.

These comments are submitted on behalf of Alcoa Inc. which owns and operates two aluminum smelters in the Northwest. Alcoa appreciates the Council's efforts on the important and necessary task of defining BPA's future role in power supply. Alcoa has joined with other BPA customers in submitting joint comments and also submits the following additional comments.

1. The list of "goals" for BPA's future role in power supply should begin with "assure a low-cost, economical power supply to support the Northwest economy".

The Council's list of goals provides that BPA should "accomplish the [other] goals at the lowest possible cost to the region's consumers". This list does not give appropriate weight to BPA's role in the Northwest economy. BPA's future role in power supply must be linked to the strength of the Northwest economy, i.e. BPA's central role in power supply is to provide power at rates that will support the Northwest's economy which was developed and depends on low power costs.

BPA's fundamental job is to manage its programs to create a low-cost power supply, not to manage its rates to support a growing list of non-core activities.

2. It may be difficult for rulemaking to provide a durable alternative, so the option of new legislation should be kept on the table.

The Council believes that new legislation redefining BPA's role in power supply is "risky" and "should be considered only as a last resort". The Council proposes rulemaking as an alternative. However, the proposed rulemaking does not provide a complete answer to customers' concerns and, in fact, if it is not a viable option for legal or other reasons, illustrates the need for legislation:

- The proposed rulemaking does not address the customers' concerns with statutory limitations regarding any meaningful customer role in BPA cost control and governance, BPA contract enforceability, or judicial review of BPA's decisions. Each of these is a material barrier that must be resolved so utilities and DSIs can meet their own fiduciary responsibilities and agree to new long-term contracts with BPA. The Council suggests "options" that "all parties" should consider to overcome this impediment to customers signing new, long-term contracts, (e.g., including costs in the §7(i) rate hearing or reducing the scope of 9th Circuit exclusive jurisdiction and, thus, expanding the types of issues that can be arbitrated). But it is not clear whether these options are sufficient to address the customers' concerns or whether they can be implemented without legislative changes.

- The Council believes that the law requires BPA to serve new public utilities and that such public utilities are entitled to an allocation of the existing federal system after a "waiting period of sufficient duration . . . to allow existing customers and Bonneville to make the necessary resource decisions". In effect, advocates for potential municipalization of IOU service territory may still argue (and perhaps argue with greater certainty than before) that municipalization is economic because the new public utility would be entitled to purchase "its share" from BPA at BPA's lowest rate. This resolution does not meet the region's need for a predictable future. Any new public utility allocation will be made either by (1) increasing BPA's footprint in the market (i.e. purchases to expand the "existing" system to meet the new publics utility's power allocation), or (2) reducing the existing publics utility's and Alcoa's prior allocations. Neither provides a durable solution and planning certainty.
- The Council contends that the objective of the IOU exchange "was, at heart, an equitable sharing of the benefits of the low-cost federal power to the residential and small farm consumers of the region, no matter who served them, publicly-owned utilities or investor-owned". But, the Council also believes that "the [statutory] mechanism for the sharing of benefits established in the Act has operated in such a way that it satisfies no one".

The Regional Power Act provides a mechanism for equalizing generation costs between BPA and each IOU, i.e. BPA makes an exchange payment to an IOU based on the difference between the IOU's average system cost of generation and BPA's generation cost. The exchange payment increases the applicable BPA rate to its public utility customers and to Alcoa. In some cases, an IOU received no payment because its average system cost was less than BPA's costs. This statutory exchange mechanism is different than saying the benefits of the federal system are measured as the difference between market prices for power and BPA's lowest PF rate, and that this benefit should be shared between BPA's power customers and the IOUs by a payment based on the difference between market prices and the PF rate, without regard to the IOUs' average system costs. This approach can result, and has resulted, in IOU power costs lower than BPA costs and, yet, a payment still being made by BPA to the IOU. In effect, the Council contends that the exchange provision of the Regional Power Act does not match the current political will. If so, then legislation will fix this. But, without legislation, an allocation that is, at heart, fundamentally different from the exchange established in the Act will not be sustainable.

- The Council states that appropriate resource adequacy policies "need to be in place prior to implementation of new long-term contracts". There is currently no federal or state authority to impose such a requirement on all Northwest utilities; nor should BPA, through contract provisions, assume the duty to police such resource adequacy provisions.

The Council should not simply wave its arms and dismiss new legislation as too risky. Rather, the Council should lead a public discussion of what legislation would help to solve the region's problems, and how any risks can be managed. Because legislation may be the only way to provide the certainty the region needs, the Council should support a contract and rate methodology extension for 2-3 years as a bridge to durable, long-term solutions.

3. We agree that Alcoa should receive an allocation of the existing system.

Alcoa has been a "responsible customer", as defined by the Council, under its current power supply contract with BPA. Alcoa wants to continue to operate its Northwest facilities and to offer the manufacturing jobs that the Northwest needs. But to do so, Alcoa needs reasonable access to BPA's low-cost power.

The Council recommends that BPA offer responsible DSI customers a new power supply contract with an allocation of the low-cost federal system. Alcoa agrees, and offers the following recommendations:

- Alcoa needs at a minimum an allocation of 625 MW from the low-cost federal system to operate its Northwest plants at economic production levels.
- Alcoa needs reliable power delivered to its plants at a cost of less than $30/MWh.
- Alcoa shares the other customers' concerns with long-term, take-or-pay contracts if cost control and governance issues are not addressed.
- A take-or-pay contract may be acceptable, but Alcoa will need to carefully review the terms of such an agreement. Entering a contract with unknown pricing is not a practical solution for Alcoa.
- Alcoa provides, and will continue to provide, stability reserves.
- Alcoa does not need "credit support". To the contrary, Alcoa is willing to agree to reasonable credit terms in the new power supply contract.

- Alcoa is willing to discuss options for non-firm service or “market” interruptions, but the end result has to be a combination that is economic for our plants.
- The Council suggests a financial package as an alternative to an allocation of the federal power system. Alcoa is willing to discuss this alternative, but is uncertain what such a package would include. We are concerned that a financial payment may misalign risks and benefits which could lead to further problems.
- Finally, the Council recommends that no DSI should be allowed to migrate to its local public utility and be included in the utility’s allocation. Because the Council’s recommends that the allocation should be based on a historic period, Alcoa is not sure of the Council’s concerns. Moreover, BPA’s NLSL policy with regard to DSI loads is under review and BPA has taken comments on the issue. Any public utility’s allocation, or later adjustment to that allocation, should be consistent with BPA’s NLSL policy or any revision to that policy.

4. Conservation should not be funded through Tier 1 after the allocation.

The Council recommends that in the rulemaking BPA commit to conservation budgets based on the Council’s plan and that BPA use its authority to capture “all” cost-effective conservation. The Council’s premise is that a utility’s requirement to purchase a market-based Tier 2 product (or other market alternative) to serve at least a portion of its load after the allocation is not a sufficient reason for utilities to capture all cost-effective conservation. The implication is that “cost-effective” would be based on market prices, but that costs to fund conservation would be recovered in Tier 1. Alcoa is concerned that this recommendation would misaligns risks and benefits, and could cause future problems.

Alcoa appreciates the opportunity to work with the Council on these issues.

Very Truly Yours,

Jack Speer
Northwest Energy Director

cc: All Council Members.