



## **Joint Customer Response to Comments**

October 21, 2002

Stephen J. Wright  
Administrator  
Bonneville Power Administration  
P.O. Box 3621  
Portland, OR 97208

Frank L. Cassidy, Jr.  
Chair  
Northwest Power Planning Council  
851 SW 6th Ave. Suite 1100  
Portland OR, 97204-1248

### **RE: Joint Customer Response to Comments by Others on the Future Role of BPA**

Dear Mr. Wright and Mr. Cassidy:

On behalf of consumer and investor-owned utilities of the Pacific Northwest (Joint Customers), we submit the following as our response to certain of the comments that you received regarding the future role of BPA. The Joint Customers include the vast majority of BPA's preference customers and all of the region's investor-owned utilities. We are the same group of utilities that submitted the *Joint Proposal of the Northwest Utilities for the Future Role of BPA Regarding Power Supply*. This proposal is being modified in response to specific questions and concerns and will be resubmitted for your consideration in the near future.

As you know, the Joint Customers attended all of your hearings around the region and we have also continued discussions with public interest groups, the DSIs and BPA's staff. Based on the comments that we have seen submitted to you and the additional conversations we have had, we want to point out the large amount of consensus that has been achieved since the process, requested by the Administrator, began last spring. We are confident that the basic approach presented by the Joint Customers provides a sound redefinition of BPA's role and achieves all of the goals articulated by the Administrator. We stand ready to provide additional assistance to both of your organizations as you move forward in your deliberations on this very important topic.

In the remainder of this document we highlight specific comments and suggestions by others that you have received in writing. We understand that just as we are fine tuning our proposal, others are doing the same and that specific suggestions by any of the groups cited here may change in their final submittals to the Council and BPA. Because of this changing environment we suggest that you continue to encourage dialog between the various interest groups and with your staff. This will offer all of us the opportunity to further close any gaps that remain in key policy recommendations that you have received.

Sincerely,

-- s --

C. Clark Leone  
Manager

**Northwest Energy Coalition \* Renewable Northwest Project \*  
Sierra Club \* Natural Resources Defense Council \* Citizens' Utility  
Board of Oregon \* Climate Solutions**

**Comment:** The Northwest Power Act establishes regional stewardship obligations that accompany the economic benefits of the BPA system.

**Response:** The Joint Customer proposal is based on the principle of self-determination for BPA's customers. However, in working with the public interest groups, the Joint Customers have agreed to delegate specific BPA responsibilities for acquiring future conservation and renewable resources identified in the Northwest Power Planning Council's "Northwest Conservation and Electric Power Plan" (power plan) to local utilities. The Joint Customers have also proposed that BPA "backstop" this obligation through an enhanced Conservation and Renewables Discount (C&RD) program.

**Comment:** The Northwest Power Act explicitly assigns top priority to energy efficiency and renewable energy in meeting regional resource needs. Any delegation by BPA of its obligation to meet any regional load placed upon it requires a concurrent customer commitment to finance sufficient stable investments in conservation and renewable resources as a way of meeting system needs.

**Response:** The Joint Customer proposal agrees with the public interest recommendations that cost-effective conservation and renewable resources should be given high priority. However, portions of the public interest proposal appear to be inconsistent with the requirements of the Northwest Power Act because they seem to call for achieving specific conservation and renewable targets without regard to the Council's power plan and the need and cost-effectiveness determinations it contains. Recommendations to acquire resources that are not consistent with the Council's plan are inconsistent with the directives in the Northwest Power Act and are not supported by the Joint Customers.

**Comment:** The Public Interest Groups propose 8 general principles.

**Response:** The Joint Customers have spent the summer in discussions with the Public Interest Groups over a number of principles. Based on these discussions, we support achieving similar principles as modified below. Specifically the Public Interest Group's principles have been slightly modified with substantive changes highlighted in italics. The principles supported by the Joint Customers are:

1. BPA must meet its stewardship obligations.
2. Any delegation by BPA of its obligations to meet *utility* loads requires a concurrent customer commitment to finance sufficient stable investments in *cost-effective* conservation and renewable resources *included in the Council's power plan*.

3. Funding for cost-effective energy efficiency, conservation, renewables, RD&D and low-income efficiency services must be enhanced and stabilized.
4. BPA must retain *backstop* responsibility and necessary acquisition authority to implement verifiable, cost-effective conservation programs, cost-effective renewable resource acquisitions, RD&D and low-income efficiency programs *for customers that directly receive benefits from the federal system*.
5. Any proposal must *encourage* an appropriate measure of local control, creativity and flexibility *and respect the decisions of appropriate governing boards and regulators*.
6. The portfolio of conservation investments must include implementation of regional market transformation, and centralized programs such as low income, RD&D and CFL-type programs.
7. Meaningful performance and accountability standards, including energy savings, and new renewable energy production, must be established *consistent with the Council's plan*, and *verified by the improved RTF*, to ensure appropriate and adequate investment results.
8. Strong, regional least-cost (*integrated resource*) planning must continue with a commitment to providing adequate funding to support the Council's responsibility to develop its power plans. This commitment must include the assistance of an *improved Regional Technical Forum (RTF)*.
9. The proposal must achieve the legal obligations set forth by salmon recovery laws and treaties, and must provide adequate funding for recovery efforts.<sup>1</sup>

**Comment:** BPA will retain ultimate responsibility and accountability to meet the conservation, renewables, low income, and RD&D obligations.

**Response:** The Joint Customers agree with BPA retaining its backstop responsibility and commit to providing the necessary data and information for BPA to accurately account for acquisition of BPA's resource targets established in the Council's plan.

**Comment:** The overall aMW goals for conservation, renewables, and financial obligations for RD&D and low-income efficiency services will be based on regional potentials and need, and established up front (with the limited flexibility discussed below) and represent a minimum obligation for the life of the contracts. The Council will establish the conservation target based on achieving all the cost-effective energy efficiency and conservation available over the next 20 years, taking into account new technology potential.

**Response:** The Joint Customers agree with this policy recommendation which is rooted in the Council's power plan. The Council's plan provides a reasonable basis for determining the appropriate targets for acquisition of cost-effective conservation and

---

<sup>1</sup> Fish and Wildlife requirements are not changed by the customer proposal and are not part of the conservation and renewable principles from the customer's perspective. This principle is included here because the Public Interest proposal included it and we recognize the need for the larger proposal to insure that fish and wildlife obligations are met. The Joint Customers provide more details on this principle later in response to other comments.

renewable resources for BPA. The Public Interest Proposal appears to vary from this principle when it recommends that 350 aMW of conservation and renewables be acquired each year, regardless of the Council's recommendations or the level of resource need or cost-effectiveness. The Joint Customers support acquisition of cost-effective conservation and renewables that are consistent with the standards and criteria included in the Council's plan.

The Joint Customers propose that the Council determine in its power plan the appropriate conservation and renewable targets for the region as a whole and specifically for those customers that are served by the federal system. For utility loads that are not served by BPA, the utilities will continue to prepare integrated resource plans that will be submitted to the appropriate regulatory agencies or oversight boards. The specific recommendations in these plans will be cross-checked with the Council's power plan. Ultimate decision-making responsibility for implementation of the recommendations in specific utility integrated resource plans must continue to reside with the appropriate regulatory or decision-making body.

**Comment:** Preliminary estimates from new regional studies show that the baseline obligation for conservation is reasonably expected to be about 175 aMW per year. Using an estimated average investment of \$2 million/aMW, the total minimum annual investment for this savings level is estimated to be approximately \$350 million. Assuming an estimate of all cost-effective conservation of 175 MWa annually, 175 MWa of renewables would be needed each year. We estimate that the maximum average annual above market cost of implementing 175 MWa of renewables per year is \$98 million.

**Response:** Development of the Fifth Energy Plan is underway and will determine the appropriate level of resource acquisitions and the necessary targets for BPA and the utilities. The Joint Customers recommend that the region not short-circuit the Council's energy planning. The Joint Customers will acquire appropriate conservation and renewable resources that are based on the Council's power plan which contains rigorous analysis of need, cost-effectiveness, risk, resource diversity and system reliability.

**Comment:** Certain ancillary service capability may be critical for system stability and fish migration needs. The services may also be more useful in aggregated regional form for shaping and firming certain renewable resources. Thus BPA should retain first call on the ancillary services capability of the FCRPS to meet regional needs with customers then receiving appropriate allocations.

**Response:** The Joint Customer proposal is that those customers choosing to enter into "slice" contracts be given their proportionate share of all of the power products produced by the system. The fact that these "ancillary" products are allocated to a slice customer does not mean that they will be used to the detriment of fish or that they can't be aggregated and used to support renewable development. However, it is unreasonable to request that slice customers agree to pay a percentage share of BPA's costs and not be allowed to share equally in the system flexibility that the federal system provides BPA. All available power products that are produced by BPA for meeting its obligations must be provided to slice customers for meeting their obligations.

## **Golden Northwest Aluminum**

The Joint Customers have been involved in extensive negotiations with Golden Northwest Aluminum (GNA) over the last five months. These have been productive negotiations that have resulted in a much better understanding of the needs of all parties. Through these discussions, an agreement in principle has been reached and is conceptually described in Eric Redman's comments to the Council and BPA. The details of the specific arrangements necessary to implement the short-term credit support needed from BPA to allow GNA to develop planned new generation are still under discussion, but there do not appear to be any insurmountable hurdles at this time. Discussions are continuing between the customers, BPA and GNA.

**Comment:** GNA requests limited short-term BPA credit support for development of up to 320 MW of power from new generating resources to help serve the portion of GNA's load not served by BPA after 2006.

**Response:** The Joint Customers support BPA providing the limited short-term credit support described in GNA's proposal. Many details have yet to be worked out, but we are ready to work with GNA and BPA to define these details in a way that is acceptable to all parties.

**Comment:** GNA has designed its request (and offered to enter into associated agreements) so that BPA's decision to grant this limited short-term credit support need not await, and will not prejudice, the outcome of your proceeding on post-2006 matters.

**Response:** The proposal made by GNA is consistent with the approach recommended by the Joint Customers for treatment of the DSIs as a group. It is for this reason that the Joint Customers concur with GNA's conclusion that moving ahead with the details of short-term credit support will not prejudice the larger issues associated with BPA's long-term role. The Joint Customers appreciate GNA's willingness to work on resolving its specific needs in the context of the larger customer proposal and we are prepared to continue discussions with GNA and BPA.

## **United Steelworkers**

The Joint Customers have had several meetings and numerous communications with the Steelworkers on their goals, objectives and principles for BPA's future role in the region. These discussions have been very productive and have helped to find significant areas of agreement on how BPA should proceed with future service to the DSIs.

**Comment:** The United Steelworkers (USWA) therefore believe more than ever that it is imperative to develop a comprehensive Northwest energy policy that meets all stakeholder needs by providing adequate, reliable, affordable, and diversified supplies of energy in an environmentally sound manner that also preserves the Northwest's aluminum industry.

**Response:** The Joint Customers agree that a comprehensive energy plan needs to be developed! This is the primary reason that it is vitally important to all customers in the region to establish a clear, well-defined role for BPA that resolves the question “Who has the obligation to serve?”

**Comment:** USWA recommends a 100 MW allocation to operating plants post-2006. Given the degree of uncertainty about the future operations of aluminum companies including possible new ownerships and reorganizations, it would be prudent to leave the door open for all operating smelters to have access to this limited amount of power.

**Response:** The Joint Customers agree with the substance of the USWA’s recommendation. That is the allocation of 100 MW per smelter for the period after 2006. However, the Joint Customers continue to be concerned that there is not enough federal power to meet the needs of BPA’s preference customers, so any amount of power provided to the DSIs will require new resources to be acquired by BPA. The acquisition of new power supplies by BPA is likely to be more expensive than the embedded cost of the federal system, so the customers recommend that BPA limit the amount of power for smelters beyond 2006 to 600 aMW total with an additional 50 aMW for non-smelter DSI loads. The difference between the open-ended USWA recommendation and the 600 aMW limit proposed by the Customer’s is not likely to be very large due to plant closures and the depressed condition of world aluminum prices. When asked at one of the hearings, the USWA representative said that they could see possibly 8 smelters that might wish to contract for BPA power post-2006.

**Comment:** If energy curtailments do occur with Direct Service Industries due to low water years, limited energy supplies, or prohibitively high energy prices, USWA would support reimbursements that allow businesses to remain viable in the Northwest, provided that specific conditions are met:

- BPA will make a commitment toward full salary and benefits compensation for all affected workers during any energy curtailment;
- Curtailments will be limited to six-month increments to allow for periodic reviews of the ever-changing energy situation, such as snow pack levels and new energy production;
- Aluminum smelters will be allowed back on the BPA system for the remainder of their subscription period once financial and/or hydro-related conditions allow;
- Aluminum companies will demonstrate long-term viability with stable outside power contracts or independent production of matching energy generated in an environmentally sound manner to augment the limited BPA power that falls short of serving the smelters’ needs.

**Response:** The Joint Customers appreciate the recognition by the USWA that it may be necessary to curtail smelter loads in the future. Through discussions between the Joint Customers and the Steelworkers, we concur in general that BPA should follow these principles in the event it is necessary to interrupt DSI operations. The only difference that may exist between the Joint Customers and the USWA is that curtailments may be driven by external events, such as a drought, that can last longer than six months. For

this reason, the Joint Customers recommend that a curtailment be reviewed no less frequently than every six months but that it may be necessary to continue the interruption until the electric power crisis has past.

**Comment:** BPA should reinstate the conservation acquisition program offered to the DSIs during the 1980s and 1990s and offer a comparable conservation rate. Modulation agreements, where less power is used during peak times and more during off times, should be rewarded with relief on the Cost Recovery Adjustment Clause. Financing should be made available for efforts to improve energy efficiency where the energy savings down the road will far outweigh any investments.

**Response:** The Joint Customers agree that BPA should provide the DSIs a rate design that will provide the appropriate economic incentives for those smelters that can “modulate” their power consumption to shift from on-peak to off-peak periods. However, the reinstatement of the conservation modernization programs previously offered by BPA could be problematic. The Joint Customers recommend that if BPA offers smelters a conservation modernization program, any projected power savings from the program flow back to BPA. This will reduce the BPA power allocation by the amount of any conservation savings.

**American Rivers \* Friends of the Earth \* Idaho Rivers United  
\*Institute for Fisheries Resources \* National Wildlife Federation \*  
Northwest Sportfishing Industry Association \* NW Energy Coalition  
\* Pacific Coast Federation of Fishermen’s Associations \* Save Our  
Wild Salmon \* Sierra Club \* Trout Unlimited**

**Comment:** All plausible recovery scenarios require a reduction of output from federal hydroelectric dams, and require an assured steady stream of revenue from ratepayers.

**Response:** The region has paid and will continue to pay for fish and wildlife obligations under the Northwest Power Act and the Endangered Species Act, no matter what future role is established for BPA. This is precisely why the Joint Customer proposal did not recommend changes to the current fish and wildlife program or operational requirements under the NMFS Biop. In our view the presentation by the salmon advocates misrepresents the current scientific knowledge about which recovery measures are working, which are providing no biological benefits and those that are actually increasing mortality. The Council is currently engaged in a review of Mainstem operational requirements. There is substantial uncertainty with respect to the biological benefits provided by many of the current operational requirements for the federal dams. The most recent scientific research suggests that augmentation of spring flows and increased spills are either not producing measurable survival benefits, or in some cases, are actually leading to increased mortality. The Joint Customers recommend that the region continue to rely on the best independent scientific research to determine the effectiveness of



recovery measures at achieving the region's goals. These issues are currently under review and changes will be made in the appropriate forums -- not in this process which is focused on BPA's future role in the region and its power supply contract obligations.

**Comment:** BPA and other federal agencies have largely failed to meet their legal requirements under the Endangered Species Act, the Northwest Power Act, and tribal and international treaties.

**Response:** The Joint Customers disagree with this assertion, yet we recognize and will defer to the appropriate federal agencies with statutory responsibilities to determine future recovery measures and requirements. The requirements of the Biops and the Council's Fish and Wildlife Program are being implemented as determined by the appropriate federal and interstate agencies. The record return of adult salmon and steelhead to the Columbia and Snake rivers over the last couple of years is a clear indication that the pessimism in these comments is not justified.

**Comment:** The current draft Allocation Proposal underestimates the relationship between power production and salmon protection; increases pressure on the Columbia and Snake rivers to produce power; and at best, maintains an operating structure for the next 20 years that has yet to produce self-sustaining, harvestable populations of wild salmon.

**Response:** We disagree. The Joint Customers were very careful to insure that nothing in the Customer Proposal changes the requirements established by appropriate regulatory and planning bodies for fish and wildlife protection. The Joint Customers recognize the importance of ensuring that mandated recovery measures are implemented and that the requirements under the Northwest Power Act, as determined in the Council's Fish and Wildlife Program, are followed by BPA. These requirements will be met with, or without, the Joint Customer Proposal and the costs of these actions will be included in BPA's rates to the extent they are attributable to power operations. The allocation of federal power to various customers and the nature of the power sales contracts that BPA ultimately signs with its customers will not change the fish and wildlife requirements or the statutory mandate that these requirements must be met.

**Comment:** Simply allocating power based on a "slice" or percentage of the federal system does not guarantee that even minimum salmon restoration measures will be achieved.

**Response:** This is a correct statement because the Joint Customer Proposal to allocate some of the federal system to BPA's customers through a slice contract does not alter or change in any way the requirements for salmon restoration measures. The Joint Customers did not try to determine what salmon restoration measures are necessary because these are currently determined by the appropriate federal or regional bodies under federal statute.

**Comment:** There will no longer exist any justification for BPA to declare a “hydro emergency” based on financial concerns.

**Response:** The Joint Customers disagree with this conclusion. The need for a hydro emergency can occur under a number of situations. These situations do not neatly fall into categories such as “financial concerns” because if BPA becomes financially insolvent then power system reliability is in jeopardy. If BPA is unable to purchase the power supplies required to meet the loads it serves in the region due to financial constraints, power system reliability will suffer. The Joint Customers support the use of emergencies for any conditions that can significantly impact power system reliability because of the associated impacts on human health and safety. A financial emergency could present such a risk to the region.

**Comment:** BPA has stated its belief that the outdated environmental impact statement prepared for the 1996 Business Plan will meet the need for any environmental assessment. To the contrary, any new changes to BPA’s power supply role will necessitate a new environmental impact statement.

**Response:** The Business Plan EIS does provide appropriate environment review of the scope of changes anticipated in the Joint Customer proposal. First, this EIS investigated a wide range of possible energy futures for the region. Second, in this investigation BPA’s role varied and the environmental impacts were appropriately evaluated. Finally, the region needs clarity as to who is obligated to serve loads in 2006 and beyond, and this determination needs to be concluded soon so that the appropriate parties can begin to acquire the needed resources. A lengthy EIS process will not serve to protect the environment and will only serve to force parties to implement short-term resource solutions. There will be insufficient lead time to develop the longer, more efficient resources such as conservation, renewables and combined cycle combustion turbines.

**Comment:** We propose that customers be passive recipients of energy from BPA and not control how the river is run, how much power they would receive or when they would receive it, even as changes to the system are made over time. Each customer (including BPA, on behalf of its full requirements customers) would receive a "slice," or percentage, of the energy output of the system, but not an allocation of capacity, storage or pondage, as is the case in the customers' Allocation Proposal.

**Response:** The Joint Customers agree that the customers would not determine how the “river is run”. This does not mean that the customers would not be able to enjoy the same degree of system flexibility that BPA uses currently. Hydro system flexibility allows the hydropower system to meet the region’s loads. To the extent this flexibility continues to exist, the Joint Customers propose that it be allocated to the slice customers on exactly the same basis as BPA uses these same products to meet its other obligations.

**Comment:** The duration of any contracts to implement changes to BPA’s power supply role must not extend more than five years.

**Response:** Short-term contracts provide insufficient certainty to support long-term resource acquisition. This requirement forces whoever is obligated to serve loads to purchase power for five years or less, because at the end of the contracts the obligations might change. The Joint Customers strongly recommend 20-year contracts to provide the planning certainty and clarity of the obligations so that long-term resources can be acquired. Long-term contracts provide the region with a higher degree of certainty because fundamental business relationships are established and known.

**Comment:** We suggest that the Columbia River Treaty Tribes be vested with explicit authority equal to the federal agencies in all river operations forums and decisions.

**Response:** In all likelihood this recommendation would require not only fundamental changes in numerous federal statutes, but also may require changes to the federal supremacy clause of the US Constitution. This type of recommendation exceeds the scope of BPA's future role in power sales contracts and is unrealistic. The Joint Customers oppose any attempt to secure new federal legislation and support BPA's goal to achieve long-term contracts without the need for new legislation.

**Comment:** The allocation agreement must include an independent third party contract enforcement mechanism to ensure that salmon requirements are met.

**Response:** It is unclear what is intended by this comment. The power sales contracts envisioned by the Joint Customer proposal are between BPA and the customers. This is not a change from current or previous power sales contracts. This contractual relationship has nothing to do with BPA obligations to follow applicable Biological Opinions and other fish and wildlife mitigation required by other statutes and BPA's Treaty and Trust responsibilities to the Tribes. These power sales contracts do not involve other "third" parties, nor should they. The Joint Customers do not support efforts by others to insert their particular interests into the contractual relationship between BPA and its customers.

## **Congressional Representatives and Senators**

**Comment:** We are encouraged by the efforts of a number of BPA customer representatives to come together to begin this discussion. As members of the Northwest Congressional delegation, we value the level of consensus that has thus far been reached, which in the very least demonstrates that agreement on these often thorny issues is in fact possible.

**Response:** The Joint Customers appreciate that these members of the Northwest Congressional delegation recognize the tremendous amount of hard work put in by all the customers to achieve this unprecedented level of consensus on BPA's future role. The Joint Customer proposal does demonstrate that the region's customers can come together to address these most difficult and "thorny" issues.

**Comment:** Specifically we request that proposals discussed during this process be evaluated against four key criteria: (1) compliance with existing law and policy; (2) legal and practical certainty that proposed solutions will remain durable over the course of their term—20 years or otherwise; (3) impact on social benefits provided by BPA--including fish and wildlife, conservation and renewables; and (4) impact on reliability and optimization of the FCRPS.

**Response:** The Joint Customer proposal was designed with the five BPA goals firmly in mind. BPA's goals at the beginning of this process are closely aligned with the criteria suggested by these Congressional members. BPA's goals are:

- Preserve or enhance long-term benefits of the FCRPS for the region
- Outcomes must endure under a range of political and economic conditions
- No additional risk for U.S. taxpayers or Treasury
- Should not require legislative changes and should minimize legal risks
- Provide clarity regarding BPA load obligations post-2006

The Joint Customer's believe that our proposal not only achieves BPA's goals, but that it also is in compliance with all existing laws and maintains BPA's and the region's commitment to fish and wildlife, and conservation and renewables (as explained elsewhere in this document). Further, the Joint Customers have had several discussions with BPA to resolve perceptions of impacts on system reliability and optimization. We believe that these issues have largely been resolved by a mutual understanding of how the current slice contracts function and a clearer articulation of how the customers expect BPA to step in during emergencies to maintain system reliability, not only in the region, but with neighboring regions in the Western US and Canada.

## **Alcoa**

The Joint Customers have had extensive negotiation with representatives from Alcoa. These discussions have helped to identify the areas of mutual agreement and where differences remain. The fundamental difference is rooted in Alcoa's recommendation that BPA should return to the historic methods of implementation of the Northwest Power Act.

Under the Northwest Power Act, BPA has an unconditional default power supply role for the entire region. Yet customers retain the ability to remove loads from BPA and serve them with their own resources when it is economic to do so. This has led BPA to be heavily reliant on purchasing power from the competitive market. BPA's customers have an incentive to remove load when competitive market prices are below BPA's rates and to greatly increase the load that they place on BPA when the market is high. The consequence of this behavior is that BPA is placed in an unfavorable position of facing massive load increases in high market conditions, and load loss, surplus resources and stranded costs when the market is low. This has led to cost, load and rate instability that is detrimental to the region and BPA. Alcoa's recommendation is that we ignore these

fundamental problems and return to the historic methodology of implementation of the Northwest Power Act.

**Comment:** There is no doubt that BPA has the legal authority to continue to serve our electrical loads at rates that reflect costs from vintage power plants. The only question is whether their values tell them it is the right thing to do.

**Response:** The question of legal authority will not be debated here. Instead the Joint Customers want to make it clear that there are fundamental, structural problems with returning to Alcoa's view of how the Northwest Power Act should be implemented. The addition of a large amount of expensive new generation to the federal system, so that Alcoa and other DSIs can be offered all the power they might want, is not without costs and risks for the entire region. First, this could result in large rate increases for all of BPA's customers. Second, it is not clear that many, if not all, the DSIs could not afford to pay the resulting BPA rates necessary to support this level of resource development. This could lead to plant shutdowns and closures that would plunge BPA back into a financial crisis like the region experienced in the 1990s where BPA faced stranded costs. Finally, the region is at a crossroads where we can no longer ask BPA to be everything for everyone. The capability of the federal system is finite and attempts to augment our way out of this problem will lead to blending high-cost new resources with the lower-cost existing federal system. This will water down the benefits of federal power such that no one will benefit and the entire regional economy will suffer, not just Alcoa.

**Comment:** The Northwest Power Act provided a balance between many interests that could only be accomplished legislatively. BPA should not, and cannot materially change that balance without legislative authorization.

**Response:** Alcoa seems to have a sense of regional balance in the Northwest Power Act that the Joint Customers do not share. All of BPA's decisions to incur costs, acquire new resources and establish rates affect the "balance." The Joint Customer proposal recognizes that there are far more competing demands for low-cost federal power than BPA can possibly fulfill. It is from this recognition of reality that the Joint Customers propose to allocate the available federal benefits within limits. It is for this reason that an open-ended commitment to serve all of the DSI loads cannot be met without large impacts on other customers. The Joint Customers have proposed a cap of 650 aMW for DSI loads with the understanding that there are not sufficient federal resources to meet this and the needs of BPA's preference customers. The costs of providing this additional power to the DSIs will be spread to all BPA customers. This approach provides an equitable balance between the demands of the DSIs and is within BPA legislative and statutory authorities.

**Comment:** We would like to receive an offer from BPA to purchase up to a total amount of 700 MW of power to meet our incremental needs at our Intalco and Wenatchee plants for a period of not less than 10 years from the expiration of our current contract. To keep a workable planning horizon, we believe the contract should be extended in 5-year increments well before its expiration date.

**Response:** The Joint Customers recommend that no more than 650 aMW be provided for service to DSI loads. This is a reasonable amount given the costs to all of BPA's customers of securing the resources needed for this level of commitment. The Joint Customers cannot support Alcoa's 700 aMW request due to the impacts on BPA power rates to its other customers. Further, the Joint Customers are striving, in our proposal of 100 MW per smelter, to spread the benefits around the region of melding high cost new resources with federal power. This would help to create jobs in a diverse set of regional communities. Alcoa's request will concentrate the jobs at only two smelters and leave those jobs dependent on the decisions of a single multinational corporation.

**Comment:** Under the Alcoa plan, Alcoa would purchase our electrical requirements beyond existing commitments from other suppliers (up to 700 MW) from BPA at the equitable rate, and offer to sell to BPA the same amount of power from sources not currently committed to the region.

**Response:** While the Joint Customers have a serious problem with the amount of power demanded by Alcoa, we agree with Alcoa's proposal to bring a new resource to BPA that will match the load that they place on BPA. Alcoa proposes to remove this resource if Alcoa fails to buy an equal amount of power from BPA. This arrangement will help to address the stranded cost problem that threatened BPA when the DSIs wanted to go to market instead of purchasing higher cost BPA power in the 1990s. There are many issues that would need to be resolved before Alcoa's resource proposal could be implemented. One of these is how the resource could be assured to be consistent with the Council's Power Plan.

## **COLUMBIA RIVER INTER-TRIBAL FISH COMMISSION (CRITFC)**

**Comment:** The tribes' energy vision includes alternatives, including a strong reliance on natural-gas fired resources, that will take pressure off the river, benefit fish and wildlife, stabilize and lower long-term rates, and generally leave the region's resource portfolio in a much safer and healthier position for ratepayers and the environment.

**Response:** The Joint Customers disagree with much of this report which proposes to be able to replace the four Lower Snake River dams and return to a normative hydrograph by replacing approximately 2000 aMW with a variety of new resources. This report challenges the strategic and economic underpinnings of the Council's power plan. For this reason, the Joint Customers recommend that the issues raised by CRITFC be addressed by the Council in its next energy plan.

## Central Montana Electric Cooperative

**Comment:** Central Montana G&T proposes that Central should be permitted to step forward with an arrangement that would allow Central to work in concert with BPA to meet Central's needs. Central's letter suggest that one alternative would be for them to purchase and take title to some power that would be delivered to Bonneville's system. Bonneville would sell Central ancillary services such as load shaping, scheduling and resource delivery, at no cost to Bonneville's existing customers.

**Response:** One of the main issues is that because Central is an extra-regional entity, they cannot purchase power from BPA except after it is offered first to in-region entities. This requirement stems from "regional preference" which is a statutory right that allows in-region utilities a right of first refusal on any BPA extra-regional sales. In the case of Central's proposal, BPA would have to allow an in-region utility the opportunity to step in front of any ancillary services sale to Central. Additionally, if BPA ever actually took title to the power Central is purchasing from the third party, the entire sale would have to be offered first to in-region utilities before it can be offered to Central.

Assuming that the statutory requirements of regional preference can be met, there does not appear to be any impact to BPA's customers from the Central proposal, as long as BPA sells its ancillary services at or above cost. The Joint Customers recommend that BPA use an opportunity cost calculation in setting the price of these services, and Central will be at risk of an in-region utility stepping in front of their purchase from BPA if it is needed to meet in-region needs. Finally, since Central's proposed purchase of ancillary services from BPA is not until 2007, no specific actions are necessary by BPA at this time.