

September 11, 2002

Stephen J. Wright, Administrator and CEO, BPA
Frank L. Cassidy, Jr., Chairman, NW Power Planning Council
Bonneville Power Administration
P.O. Box 12999
Portland, OR 97212

Dear Steve and Frank,

I am writing to submit comments in response to BPA's discussion of power marketing and benefits of the Federal Columbia River Power System in the PNW for the post 2006 period. These comments pertain in particular to BPA allocations to the Direct Service Industry. We understand that you will be discussing submissions received prior to September 12th at your upcoming series of public meetings.

As you are aware, the Northwest aluminum industry is facing great challenges. During the period between late 2000 to early 2001, operations at 10 smelters were curtailed. Over 5,000 people were laid off with a significant number receiving absolutely no compensation. Currently, 7 smelters are still inactive with only 3 partially restarted.

The United Steelworkers therefore believes 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.

Ongoing DSI Access to BPA Power

DSI access to cost-based BPA power has been a contentious issue for many years due to allocation conflicts with the utilities and the perception that the industry is only committed to the BPA system to the extent that BPA can provide power at below market costs. In spite of these problems, both BPA and various customer groups have recently acknowledged that long-term power contracts with DSIs are valuable to the system.

By providing a consistent base-load demand for BPA power and a constant revenue source, DSI participation enables BPA to avoid selling energy to the market at low rates in years where there is excess power. According to the Tri-City Herald (May 8, 2002), "(BPA) is losing money this year because demand has subsided as energy-guzzling aluminum plants and other factories have closed, and the agency is selling its surplus on a market where prices are five to 10 times below what they were a year ago."

DSI's Contribution to the Regional Economy

When the Bonneville dam system was developed, industrial customers, such as the aluminum industry were sought in order to provide a revenue base while the public utilities were being formed. As the above demonstrates, this revenue base is still needed. According to the Bonneville Power Act of 1937, the intent was to "...ensure that the facilities for the generation of electric energy at the Bonneville project shall be operated for the benefit of the general public..."

Given the economic benefits aluminum smelters provide to the region's workers, suppliers, and neighboring communities, plus the millions of dollars in property tax benefits that support public services and government agencies, investing in the DSIs provides substantial returns. According to the WA State Aluminum Industry Economic Impact Study (August, 2000), in Washington state alone, the aluminum industry contributed \$129 million (0.9 %) in state and local taxes in 1998.

Aluminum plants are especially significant to the Northwest's economically depressed rural communities, where they provide up to 20% of the area's jobs. This can be most clearly seen in Klickitat County, where Golden Northwest Aluminum's Goldendale smelter supports nearly 15% of the total employment, including direct and indirect positions. Any job loss here is disastrous, as there is no replacement for the aluminum industry.

The high rate of pay for aluminum industry jobs also stimulates the region's economy. With an average salary of nearly \$50,000 per year, or 1.7 times the state average and a high level of in-state spending, the industry's employment multiplier effect is a high 3.9, where every industry job supports 2.9 jobs elsewhere in the economy. Aluminum industry curtailments of significant length can therefore mean a significant loss to the state's economy.

Short and long-term Allocation Issues

Between 1995-2000, BPA allocated 2000 MW for the direct service industry, which constituted approximately two-thirds of what was needed for the DSIs to operate. Starting October 1, 2001 and extending to September 30, 2006, the DSI allocation was reduced to 1500 MW. Due to a high level of uncertainty about the Northwest's aluminum industry at this time, it is unclear what the level of operation or energy needs will be in the future. However, every effort should be made to retain operations in the Northwest and to keep businesses viable by making cost-based and other affordable power accessible.

The amount of BPA power that the aluminum industry will need in the future cannot be quantified at this point. If all 10 Northwest smelters were operating, approximately 3000 MW of power would be needed. However, both the world price of aluminum and the average cost of power will affect how many of the Northwest smelters can operate profitably. The price of non-BPA power to the aluminum industry will also fluctuate according to general market factors, principally the general level of economic activity in the western region.

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.

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.

BPA Financing for New Power Resources

The United Steelworkers strongly urges BPA to provide credit support for the development of additional power capacity that will create stable power pools in the Northwest for a variety of users. This financial arrangement would allow the aluminum companies to build new renewable energy and state of the art natural gas plants using their remarketing dollars in accordance with their 16(k) contract provisions. In return, BPA, regional utilities, and industrial customers would have the right to buy energy *at-cost* and allow BPA to draw on the power during periods when snow pack is low and spill is needed to protect threatened fish.

This arrangement would provide new energy capacity developed in an environmentally sound fashion, create less dependence on BPA hydro power, help preserve the aluminum industry and vulnerable fish populations in the Northwest, and save and create thousands of high-paying jobs.

In low water years, advance arrangements would be made for minimum payment when the plants are shut down. District 11 would support interruptibility agreements in times of extreme weather and/or power market conditions provided that they are contingent upon mitigation payments of full salary and benefits compensation for affected workers. Aluminum companies that are partially or completely shut down during these emergencies would also be compensated for actual start-up and fixed costs during curtailments. Maximum curtailment periods would be limited to six months.

This arrangement between BPA and the participating aluminum companies would help reduce industry reliance on the BPA hydro system and yet retain the beneficial elements of a large industrial user on a power system with significant fluctuations in costs and production levels. While some aluminum companies believe they can do this independently of BPA power, we are not as convinced of the advisability of that view. We believe the smelters ought to have access to a block of BPA power in the belief that a well managed hydro system will still provide some of lowest costs in the region for the industry, and the industry in turn will help stabilize BPA's economic future.

Additional Credits

The United Steelworkers further recommends that BPA provide financial credits for efforts that minimize energy use. 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.

Conclusion

The United Steelworkers believes the aforementioned steps would help to create a flexible Northwest energy system that would provide new sources of highly efficient energy at-cost to BPA, keep rates low for all customer groups, help stimulate the region and state's economies, with particular emphasis on economic development to depressed rural areas, and keep workers and fish from being threatened during low-water years. These enormous benefits would help BPA achieve its own goals of serving the public interest by providing low cost power, stimulating growth and new jobs, and protecting fish populations.

Thank you for your consideration.

Sincerely,

David A. Foster
Director, District 11