

iv. The importance of base period final consumption (BPFC).

B. Stocks and other measures:

- i. Future work on monitoring stock levels and stock drawdown capabilities; and
- ii. Procedures for consultations on coordinated stock draw and other measures.
3. Future work program.

II. A joint meeting of Subcommittees A and C of the IAB will be held on July 8, 1986, at the offices of the IEA at the aforesaid address, beginning at 2:30 p.m. The agenda for the meeting is as follows:

1. Opening remarks.
2. U.S. Plan of Action.
3. Future work program.

III. A meeting of the IAB will be held on July 9, 1986, at the offices of the IEA at the aforesaid address beginning at 10:00 a.m. The agenda for the meeting is as follows:

1. Opening remarks.
2. Approval of record note of IAB meeting of February 11, 1986.
3. Correspondence and communications with IEA and Reporting Companies.
4. Report from Subcommittee A.
5. Report from Subcommittee C.
6. IAB organization, leadership and succession.
7. Date of next meeting and future business.

IV. A meeting of the IAB will be held on July 10, 1986, at the offices of the IEA at the aforesaid address beginning at 10:00 a.m. This meeting is being held in order to permit attendance by representatives of U.S. company members of the IAB at a meeting of the IEA's SEQ which is scheduled to be held in Paris on that date. The agenda for the meeting is under the control of the SEQ. It is expected that the following draft agenda will be followed:

1. Adoption of the agenda.
2. Summary record of the 52nd meeting.
3. Emergency preparedness.
  - A. Issues arising from AST-5:
    - i. Indigenous production increases in an emergency.
    - ii. Implications of oil market developments on the Emergency System.
    - iii. Revision to the emergency timetable.
    - iv. The importance of BPFC.
  - B. Review of member countries' emergency response programmes:
    - i. Australia.
    - ii. Portugal.
    - iii. Austria.
    - iv. Belgium.
    - v. Ireland.
    - vi. New Zealand.
    - vii. Spain.
  - C. 1987 program of work.
4. Stock and other measures.
  - A. Future work on monitoring stock levels and stock drawdown capabilities.
  - B. Procedures for consultations on coordinated stock draw and other measures.
  5. Other topics.

A. End June Oil Market Report.

B. BPFC (2Q85-1Q86).

C. Euroilstock.

6. Any other business.

7. Date of next meeting.

As provided in section 252(c)(1)(A)(ii) of the Energy Policy and Conservation Act, the IAB meetings are open only to representatives of members of the IAB, their counsel, employees of the Department of Energy, Justice, State, and Federal Trade Commission, and the General Accounting Office, representatives of committees of Congress, employees of the IEA, representatives of the Commission of the European Communities, and the invitees of the IAB or the IEA. The SEQ meeting is open only to the aforesaid persons, representatives of members of the SEQ, and invitees of the SEQ.

Issued in Washington, DC, June 25, 1986.

J. Michael Farrell,

General Counsel.

[FR Doc. 86-14850 Filed 6-30-86; 8:45 am]

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### Bonneville Power Administration

#### Record of Decision To Submit to the Federal Energy Regulatory Commission a Proposed Variable Industrial Power Rate; Direct Service Industry Options Environmental Impact Statement

**AGENCY:** Bonneville Power Administration (BPA), DOE.

**ACTION:** Record of Decision.

**SUMMARY:** BPA has decided to submit to the Federal Energy Regulatory Commission (FERC) a proposal to offer a variable electricity rate based on market prices for aluminum to its primary aluminum smelting Direct Service Industry (DSI) customers for the period August 1, 1986, through June 30, 1996. The Variable rate proposal contains an option for BPA to terminate the rate effective June 30, 1991, if the Administrator determines that the rate is no longer effective due to significant changes in the conditions and expectations under which the rate was initially offered. For the first year, when aluminum prices are below 61 cents per pound, the power rate decreases 1 mill for each 1 cent per pound decrease in aluminum price down to a minimum of 15.0 mills per kilowatthour. At aluminum prices above 72 cents per pound, the power rate increases 0.75 mills per kilowatthour for each 1 cent increase in aluminum price up to a maximum of 28.6 mills per kilowatthour. At and between aluminum prices of 61 and 72 cents per pound, the rate is the Industrial Firm

Power (IP) Standard rate, which may change in each general rate case. Additionally, the aluminum prices which define the decreases and increases in the rate will be adjusted annually to reflect changes in production costs, and, in the sixth and subsequent years, the upper point (initially 72 cents per pound) at which the rate begins to increase with aluminum price is adjusted to reflect the average aluminum price during the period the rate has been in effect. The minimum and maximum rates also will be adjusted based on any changes in the IP Standard rate level arising from each general rate case. Through a separate adjustment, the minimum rate (initially 15.0 mills) will be increased 1 mill per kilowatthour every other year.

Offering a variable rate to the aluminum smelting DSIs is one of three options, or actions, that BPA has been considering for the purpose of stabilizing DSI loads and thereby improving BPA's revenue stability and facilitating resource operational planning. One or both of the other two options, a conservation/modernization (Con/Mod) program and a formalized rate link between the rates charged the DSIs and rates to BPA's preference customers (IP-PF rate link), may also be implemented in addition to BPA's proposed Variable rate. However, no decision on the other two options has been made at this time.

BPA prepared the Direct Service Industry Options Environmental Impact Statement (EIS) (DOE/EIS-0123F) to analyze the impacts of each of the three options, no action, and the cumulative impacts of implementing more than one option. Three rate design alternatives pertaining to variable rate option were considered in the EIS: a variable rate emphasizing protection of BPA revenues (revenue protection); a proposed alternative which closely corresponds to BPA's proposed Variable rate being submitted to FERC; and aluminum smelter loads (load maintenance).

BPA based its decision to offer a variable rate to aluminum smelters, and the level and design of that rate, on legal requirements; ability to meet the need (i.e., to stabilize DSI loads in order to facilitate resource operational planning and to stabilize BPA revenues); BPA's rate design objectives; and consideration of physical and socioeconomic impacts.

The proposed Variable rate and the load maintenance alternative are environmentally preferred over no action and the revenue protection alternative. The socioeconomic benefits would outweigh any adverse physical environmental impacts which, in general, are insignificant. The proposed



Variable rate is superior to the no action, revenue protection, and load maintenance alternatives when evaluated on the basis of all the decision factors.

BPA does not plan any programs to monitor environmental effects of the proposed Variable rate, and is not proposing any specific mitigation.

**FOR FURTHER INFORMATION CONTACT:**  
Environmental Manager, Bonneville Power Administration, P.O. Box 3621-SJ, Portland, Oregon 97208, telephone (503) 230-5136.

**SUPPLEMENTARY INFORMATION:**

**Background**

The U.S. Department of Energy, Bonneville Power Administration, has been considering three options which would help to stabilize the electrical load of BPA's DSI customers in order to enhance BPA's revenue stability. The three options include: (1) A variable rate to the aluminum smelter DSIs based on market prices for aluminum; (2) a conservation/modernization (Con/Mod) program directed toward the aluminum smelter DSIs; and (3) a rate "link" between rates charged the DSIs and rates charged BPA's preference customers (the IP-PF rate link). The three types of options, or actions, are not alternatives to each other since each could be implemented independently.

BPA prepared an EIS to analyze the potential environmental impacts of no action and alternatives for each of the three options. The EIS also evaluated the cumulative effects of implementing more than one option. The major effects examined included aluminum smelter operations, resource operations and development, and socioeconomic impacts. BPA examined the effects of three variable rate design alternatives in the EIS: a revenue protection alternative, BPA's initial proposal, and a DSI load maintenance alternative. BPA also examined a number of rate design features.

The Draft EIS was circulated to the public for review in January 1986, and comments were accepted through February 21, 1986. The Final EIS, which was based on the Draft EIS and the comments received on the Draft EIS, was distributed on May 8, 1986. Copies of the Draft and Final EISs are available upon request from the BPA Environmental Manager (address above).

The Record of Decision pertains only to the Variable rate for aluminum smelters, and does not resolve issues relating to the Con/Mod program or the

IP-PF rate link, which still are under consideration by BPA. However, in arriving at its decision on the Variable rate, BPA considered potential impacts identified in the EIS of implementing a variable rate, as well as potential cumulative impacts associated with implementing a variable rate with Con/Mod, and/or the IP-PF rate link.

**Decision**

BPA has decided to submit to the Federal Energy Regulatory Commission (FERC) a proposal to offer a variable electricity rate to BPA's primary aluminum smelting DSI customers. The Variable rate is being proposed for the period August 1, 1986, through June 30, 1996, for those companies electing it. BPA's proposal includes an option for BPA to terminate the rate effective June 30, 1991, if the Administrator determines that the rate is no longer effective due to significant changes in the conditions and expectations under which the rate was initially offered.

The rate level would fluctuate with the price of aluminum. It would be below the industrial Firm Power (IP) Standard rate when aluminum prices are below a certain price and above the IP Standard rate when aluminum prices are above another price level defined by the Variable rate. The proposed Variable rate consists of several elements: the plateau rate, upper and lower pivot points, upper and lower slopes, and maximum and minimum rates. The plateau rate is equal to the IP Standard rate, currently 22.8 mills per kilowatt-hour. For the first year, the plateau rate would be in effect when the market price for aluminum is no lower than 61 cents per pound (the lower pivot point) and no higher than 72 cents per pound (the upper pivot point). When aluminum prices drop below 61 cents per pound, the rate to the aluminum DSIs would drop 1 mill for each 1 cent per pound decrease in the market price of aluminum. This defines the lower slope component of the proposed Variable rate. A lower rate limit, or minimum rate, is set initially at 15.0 mills per kilowatt-hour and increases 1 mill per kilowatt-hour every 2 years. The average minimum rate over the 10-year period will be 17.0 mills per kilowatt-hour. The rate to the aluminum DSIs will increase above the plateau rate when aluminum prices exceed 72 cents per pound. The upper slope component of the Variable rate, which defines the rate of increase, is set so that each 1 cent per pound increase in the market price of aluminum increases the rate 0.75 mills per kilowatt-hour, up to an upper rate limit,

or maximum rate, of 28.6 mills per kilowatt-hour.

The proposed Variable rate would be subject to several adjustments. The level of the plateau rate, which is equal to an average rate defined by sections 7(c)(2) and 7(c)(3) of the Pacific Northwest Electric Power Planning and Conservation Act (Pacific Northwest Power Act), will be determined in each general rate proceeding. The upper and lower rate limits also will adjust with the plateau. The aluminum prices which define the upper and lower pivot points would be adjusted annually on July 1 for changes in the primary costs of aluminum production. Specifically, the lower pivot point would be escalated based on changes in labor, power, alumina, and other costs. This adjustment will be made beginning in the second year, and will be applied to 59 cents per pound rather than to the first-year lower pivot point of 61 cents per pound. The upper pivot point would be escalated through the fifth year based on changes in power and other costs. Beginning in the sixth year, the upper pivot point would be adjusted annually to reflect the cumulative average of aluminum prices during the previous years that the rate has been in effect.

The proposed Variable rate that BPA has decided to submit to FERC corresponds to the proposal (based on BPA's initial proposal) presented in the Final EIS, with some differences. Specifically, the upper rate limit in the proposal analyzed in the EIS was 29.1 mills per kilowatt-hour; the upper slope component of the rate was set so that each 1 cent per pound increase in the market price of aluminum increased the rate 0.5 mills per kilowatt-hour; and the lower rate limit was seasonally differentiated (13.8 mills per kilowatt-hour for March through July, and 18.8 mills per kilowatt-hour for August through February) with an annual average rate of 16.8 mills per kilowatt-hour. The proposal analyzed in the EIS did not include an option for BPA to terminate the rate after 5 years. The upper and lower pivot points were assumed to be adjusted annually based on general inflation rather than production costs, and the aluminum price adjustments after the fifth year of the rate were assumed to be adjusted annually to reflect aluminum prices during the previous 5 years, rather than for all years that the rate was in effect. Also, for the proposal analyzed in the EIS, the inflation adjustments to the lower pivot point after the first year were assumed to be applied to the first-year lower pivot point of 61 cents per



pound, rather than to 59 cents per pound. The types of environmental effects of the Variable rate being submitted to FERC would be the same as those described for the proposal in the Final EIS and the differences in the significance of these impacts would be negligible.

#### Alternatives

A no-action alternative, three specific variable rate designs, and a number of additional rate design features were evaluated. BPA based its conclusions regarding environmental impacts of its

proposed Variable rate being submitted to FERC on the analysis of its initial proposal and various rate design features in the EIS.

A. *No-action alternative.* The no-action alternative assumed continuation of the current rate provisions for DSI power sales. That is, it assumed continuation of rate design features in the current IP-85 rate schedule. The level of the rate was presumed to change over time, however, as dictated by BPA costs and revenues computed by the Decision Analysis Model. Among the features of the current IP-85 rate

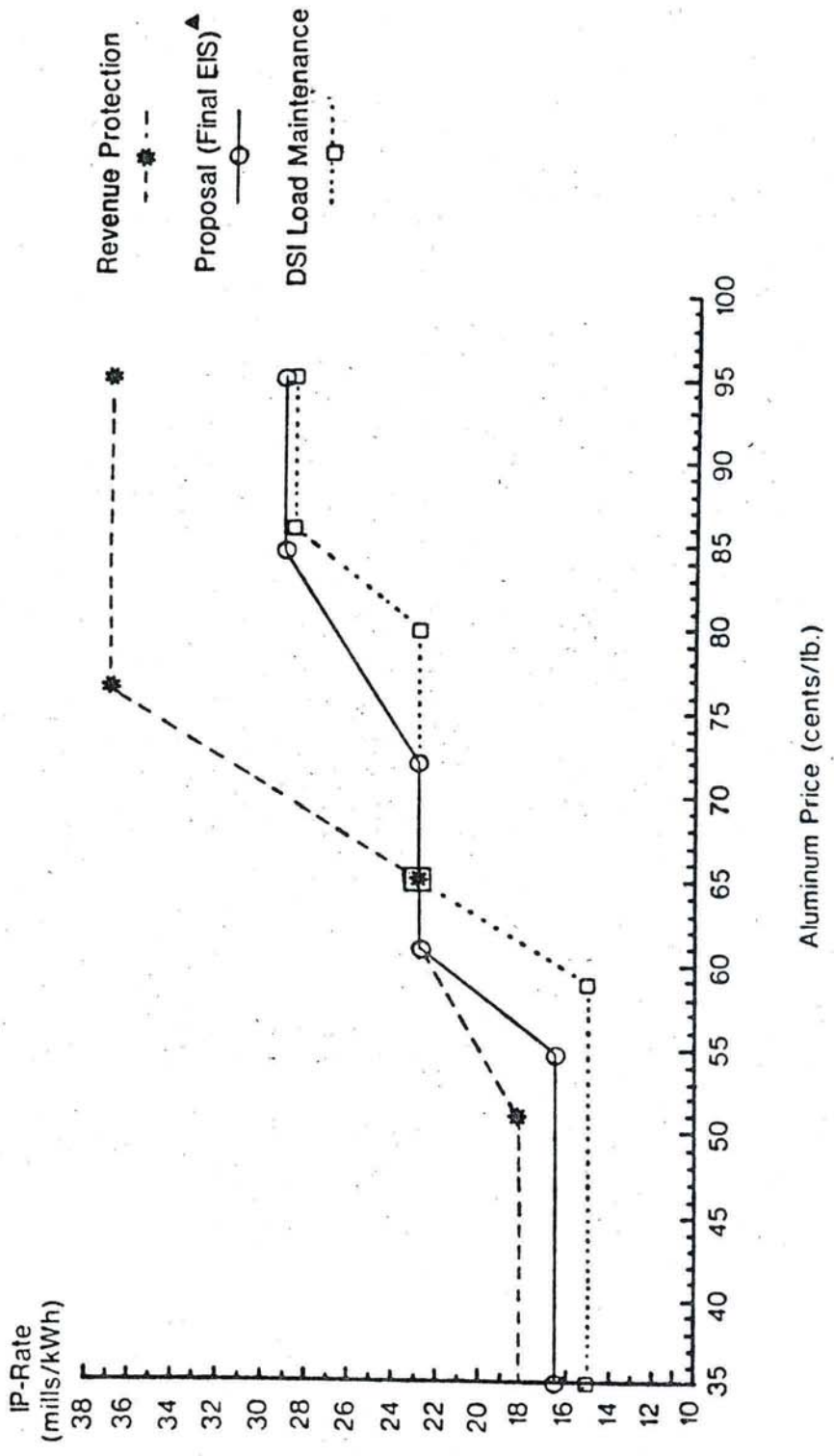
schedule encompassed in the definition of the no-action alternative is the provision for offering an Incentive rate when BPA revenues would be increased by such an offer.

B. *Variable rate alternatives.* The three alternative variable rate designs analyzed for the EIS were: (1) The revenue protection alternative; (2) the proposal (based on BPA's initial proposal); and (3) the load maintenance alternative. The parameters of the alternatives analyzed in the EIS are illustrated graphically in Figure 1.

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Figure 1

DSI VARIABLE RATE  
Alternative Proposals



▲ Proposal analyzed in the final EIS, illustrated here, differs somewhat from BPA's proposed variable rate being submitted to FERC. An explanation of these differences appears in the "Decision" section of this Record of Decision.

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Under each of the variable rate design alternatives, the rate charged the aluminum smelters would be sensitive to the market price of aluminum. Each alternative rate design included a plateau rate (the IP Standard rate), an upper and lower pivot point, an upper and a lower slope, and upper and lower rate limits. The duration of the variable rate for all cases was 10 years.

The revenue protection alternative represents a very cautious approach to a variable rate. Under the revenue protection alternative, the rate level charged aluminum DSIs would be least responsive to low aluminum prices as compared to the EIS proposal and the load maintenance alternative, and responds earlier to higher aluminum prices. Aluminum prices would have to drop to a lower level under the revenue protection alternative, relative to the other variable rate alternatives, before the aluminum DSIs would be charged less than the IP Standard rate, but aluminum prices would not need to be as high under the revenue protection alternative, as under the other alternatives, before a rate above the IP Standard rate is triggered. Under revenue protection, the electricity rate decreases more gradually than under the EIS proposal or the load maintenance alternative in response to lower aluminum prices, but increases more rapidly in response to higher aluminum prices. The upper and lower rate limits are also highest in the revenue protection alternative. The revenue protection alternative includes an annual adjustment for general inflation and, beginning in the sixth year of the rate, an annual adjustment based on an average of aluminum prices in the preceding 5-year period.

Under the proposal analyzed in the EIS (EIS proposal), aluminum prices need not drop as low as with the revenue protection alternative before the aluminum DSIs are charged a rate below the IP Standard rate. Also, aluminum prices must rise to a higher level under the EIS proposal than under the revenue protection alternative before electricity rates above the IP Standard rate are triggered. The electricity rates under the EIS proposal decrease more rapidly in response to low aluminum prices and increase less rapidly in response to high aluminum prices than under the revenue protection alternative. Upper and lower rate limits under the EIS proposal are lower than under the revenue protection alternative. The EIS proposal includes the same adjustments as those included in the revenue protection alternative.

The load maintenance alternative emphasizes retention of aluminum DSI loads. Under this alternative, aluminum prices would not have to drop as low as under either of the other alternatives before the rate charged aluminum DSIs drops below the IP Standard rate. Also, the aluminum price at which electricity rates above the IP Standard rate would be charged would be highest under this alternative. The upper and lower rate limits are lowest under this alternative. The load maintenance alternative includes an annual inflation adjustment, but does not include any adjustment for average historical aluminum price.

*C. Variable Rate Design Features.* The intent of the 5-year average aluminum price adjustment included in the EIS proposal and revenue protection alternative was to protect BPA revenues in the event aluminum prices did not recover and remained low. This adjustment is similar to the adjustment included in the proposed Variable rate (BPA's decision being submitted for FERC approval) which provides for adjusting the upper pivot point after the fifth year based on historical aluminum prices over the entire period that the rates has been in effect. The EIS also considered alternatives to the 5-year average aluminum price adjustment in conjunction with the numerical parameters of the EIS proposal and the inflation adjustment. These alternatives were: deleting the 5-year adjustment from the proposal; adjusting the pivot points to account for changes in the aluminum smelters' protection costs beyond inflation; including a revenue accounting mechanism; including a "take-or-pay" provision; and reducing the term of the rate.

#### Decision factors

BPA based its decision on legal requirements, ability to meet the need, rate design objectives, and a consideration of environmental impacts.

*A. Legal requirements.* Section 7(a) of the Pacific Northwest Power Act requires BPA to set rates "in accordance with sound business principles" to produce revenues that recover the Administrator's costs and allow BPA to meet its obligations to the U.S. Treasury. Section 7(a) directs that these rates be set in accordance with section 9 and 10 of the Federal Columbia River Transmission System Act of 1974 (Transmission Act), 16 U.S.C. section 638; section 5 of the Flood Control Act of 1944; and the other provisions of the Pacific Northwest Power Act. Section 9 of the Transmission Act requires that rates be established "with a view to encouraging the widest possible diversified use of electric power at the

lowest possible rates to consumers consistent with sound business principles," while having regard to recovery of costs and repayment to the U.S. Treasury. Substantially the same requirements are set forth in section 5 of the Flood Control Act.

Section 7(c)(1)(B) of the Pacific Northwest Power Act directs that rates to the DSIs be established after July 1, 1985, at a level the Administrator determines to be equitable in relation to the retail rates charged by public bodies to their industrial customers. The process for making that determination is outlined in section 7(c)(2). The determination is to be based on the rate BPA charges its preference customers plus an industrial margin, taking into account numerous cost and load characteristic factors. Section 7(c)(2) also states that the rates shall not be less than rates "in effect for the contract year ending June 30, 1985" (the "floor rate"). The rates "in effect for the contract year ending June 30, 1985" were set to recover a revenue level determined by the cost recovery requirements of section 7(c)(1)(A). Finally, section 7(e) states that "nothing" in the Pacific Northwest Power Act prohibits the Administrator from establishing any particular rate form.

BPA's focus has been to first apply the 7(c)(2) Standard rate to projected aluminum smelter loads to arrive at a projection of revenues that could be achieved under the 7(c)(2) Standard rate. Once that revenue level is established, it becomes a primary measure of a legally acceptable variable rate. As a matter of rate design and customer equity, however, BPA's rate design is further focused. To the extent power is freed up due to declining smelter loads under the 7(c)(2) Standard rate, BPA calculates the revenues it could obtain from secondary markets for the power freed up. BPA also calculates what additional revenues it would receive under any future Incentive rate offerings. These opportunity revenues and smelter revenues under the 7(c)(2) Standard rate and Incentive rate(s) are then totalled. The total becomes the minimum revenue threshold for an acceptable variable rate.

Under BPA's proposed Variable rate, the total BPA revenue projected to be recovered exceeds the revenues that would be received under no action. Greater protection thereby is provided BPA and its customers than could be achieved under no action. BPA's ability to repay the U.S. Treasury also is enhanced under BPA's proposed Variable rate, as compared to revenue



protection or loan maintenance. Therefore, BPA's proposed Variable rate is superior to no action and the other alternatives in meeting BPA's legal requirements.

**B. Ability to meet the need.** BPA evaluated the ability of the no action alternative and each of the variable rate alternatives under consideration to meet the underlying need; that is, to stabilize the DSI loan in order to facilitate resource operational planning and to stabilize BPA's revenues (Final EIS, DOE/EIS-0123F, p. 1).

The no-action alternative, which represents the status quo, does not meet the need for stabilizing the DSI load. Under no action, BPA presumably would offer DSI Incentive rates on a short-term basis (DOE/EIS-0123F, p. 12). However, these periodic Incentive rate offerings have been only partially successful in stabilizing DSI loads in recent years, and they do not provide long-term assurance of rates sensitive to market prices for aluminum that the aluminum companies would need to influence their long-term business decisions (DOE/EIS-0123F, p. 2).

Under the load maintenance alternative and the proposed Variable rate, there is a greater likelihood that the smelters at The Dalles, Oregon, and Columbia Falls, Montana, will operate. Also, operating levels at other smelters are likely to be highest under these alternatives (DOE/EIS-0123F, pp. 90, 97-102). Therefore, these alternatives present a greater potential for BPA revenue stability.

The revenue protection alternative does not appear to provide sufficient benefits to the aluminum companies to avert permanent aluminum smelting plant closures or to stabilize operations of remaining smelters (DOE/EIS-0123F, p. 89). Therefore, the revenue protection alternative does not meet the need for increased BPA revenue stability and increased certainty for future resource planning.

**C. Rate design objectives.** In addition to meeting legal requirements, BPA's rates generally are designed to: (1) Meet BPA's revenue requirement while distributing the burden in an equitable manner among recipients of the service; (2) encourage conservation and minimize environmental impacts; and (3) encourage efficient use of resources by reflecting costs incurred and benefits received. Additionally, consideration is given to rate continuity, ease of administration, revenue stability, customer acceptability, and ease of understanding.

The proposed Variable rate and the load maintenance alternative provide greater revenue stability than the no

action and revenue protection alternatives. With respect to the other rate design objectives, there is no significant difference among alternatives.

**D. Environmental impacts.** There are three principal environmental concerns relating to the implementation of a variable rate for aluminum smelters. First, a particular variable rate could influence the potential for further smelter closures, and the possible reopening of the smelter at The Dalles, Oregon. A variable rate also could affect operating levels of those smelters which would remain open even without a variable rate. These business decisions are directly related to environmental impacts, since smelter operating levels directly affect the amounts of air and water pollutants discharged, and amounts of solid waste requiring disposal. At the same time, low aluminum smelter operating levels could result in unemployment with its attendant, adverse socioeconomic effects in aluminum smelter communities. Closure of those smelters in smaller communities could have severe localized adverse socioeconomic effects. Secondly, a particular variable rate could effect BPA's rates to its other customers and could result in secondary socioeconomic impacts. Thirdly, a particular variable rate could influence the amount of DSI load BPA would serve in the future. The changes in the level of aluminum DSI load could affect future needs for new generating or conservation resources and operation of the region's hydroelectric dams and reservoirs. Changed operation of the dams and reservoirs potentially could affect anadromous fish, a resource important to the region. Changed generation needs could affect timing and amounts of impacts to land, water, and/or air quality.

In the long term, preserving aluminum smelter electrical load means that new generating or conservation resources might be needed sooner. Impacts of any of the variable rate alternatives on operation of the region's dams and reservoirs, and specifically on anadromous fish, could be either adverse or beneficial depending on circumstances such as time of year and river flow. Spilling water past turbines in the right quantities and at the right times of the year is important to the survival rates of downstream migrating fish. Too much spill, however, causes nitrogen supersaturation of the water, which is fatal to fish (DOE/EIS-0123F, pp. 76-77). However, the impacts of the variable rate alternatives cannot be divorced completely from the impacts of other actions BPA may take to market

the power made available if aluminum smelters close or reduce their production.

The potential adverse environmental impacts associated with the no-action alternative are strictly socioeconomic. With no action it is likely that at least one aluminum smelter currently operating would close, and that the other smelters would be risk of closure. Also, it is unlikely that the smelter at The Dalles would reopen. A number of smelters that would remain open would continue to be subject to large swings in production and employment with fluctuation in aluminum price. If additional smelters close, BPA revenues will be jeopardized and rate increases to its other customers in the near term are likely.

From the aluminum smelters' perspective, the revenue protection variable rate is the least desirable. The smelters' power costs are likely to be highest under this alternative. Therefore, the revenue protection alternative presents the highest probability of smelter closures if it were imposed on the smelters. If smelters operated under this rate, production levels on average would be lower than under the other alternatives, including no action (DOE/EIS-0123F, p. 89). In actuality, smelters simply are not likely to elect this optional rate, and impacts would be the same as for no action. Conversely, the load maintenance alternative has the most favorable prospects for the smelters. The smelters would have the highest production levels, on average, and the fewest closures would result under this alternative (DOE/EIS-0123F, p. 90).

The effects of the proposed Variable rate on aluminum DSI operation are intermediate to those of the revenue protection and load maintenance alternatives. The proposed Variable rate offers a better atmosphere than that provided under no action and revenue protection for aluminum companies to make long-term operational decisions based on electricity costs that are relatively responsive to market conditions (DOE/EIS-0123F, p. 13). The proposed Variable rate should reduce fluctuations in the production levels of the smelters, providing more stable employment.

The smelter at The Dalles, Oregon, now closed, may be able to reopen in the future under this alternative, and the smelter at Columbia Falls, Montana, at risk of closing, may remain open under this alternative. If these two plants operate, the physical impacts on their respective locales would be greater under the proposed Variable rate than



under the no-action alternative. Nevertheless, the physical impacts of these two plants would be within limits established by their environmental permits, and would not be excessively adverse. If The Dalles plant were to elect the proposed Variable rate and resume operation, this alternative could require greater levels of electrical energy generation and could require earlier development of new energy generating or conservation resources relative to the no-action alternative. However, there would be significant benefits to local employment and BPA revenues if these plants were to operate (DOE/EIS-0123F, pp. 97-102).

For purposes of comparison, if the proposed Variable rate were assumed to have no effect on potential reopening of The Dalles plant or continued operation of the Columbia Falls plant, smelter operating levels under the proposal would be very close to operating levels under no action. In that case, the proposed Variable rate could result in similar levels of air, water, and solid waste pollution from the Northwest aluminum industry as the no-action alternative (DOE/EIS-0123F, p. 90).

However, since the proposed Variable rate reduces aluminum smelters' power cost uncertainty relative to no action, the proposed Variable rate could avert losing at least a portion of this load permanently (DOE/EIS-0123F, p. 13). Under the proposed Variable rate, the regional aluminum industry might employ, on average, over 900 more people for the 10-year period ending Fiscal Year 1996 than under no action (DOE/EIS-01233F, p. 102). The proposed Variable rate would provide stability to aluminum smelter operations, dampening recent cyclical layoffs and rehiring and, therefore, provide a more stable employment market. Total regional employment in all sectors would not be significantly affected, and there would not be significantly electricity rate impacts to non-DSI consumers.

The inclusion in BPA's proposed Variable rate of an option for BPA to terminate the Variable rate after 5 years results in somewhat greater planning uncertainty for aluminum smelters than would exist without the provision. The possibility that the Variable rate may not be in effect through June 30, 1996, could discourage capital investment decisions among aluminum companies and could affect decisions regarding permanent closure (DOE/EIS-0123F, pp. 21-22, 96). However, the option for BPA to terminate the rate after 5 years adds protection to the region against significant adverse physical or

socioeconomic impacts that may arise from conditions not currently anticipated.

The annual production cost adjustment to the lower pivot point under BPA's proposed Variable rate is not expected to have a significant impact on smelter operations. This proposed adjustment is based on national indexes for major aluminum production costs: labor, alumina, power, and other costs. The proposed production cost adjustment will more closely track aluminum smelters' operating costs than would a general inflation index, and will tend to avoid any penalty or windfall to the smelters that could arise from significant differences between escalation in production costs and general inflation. Alternatively, if the production cost adjustment were based on an index of regional smelters' actual operating costs, it could serve as a disincentive for smelters to make capital investments or take other measures to decrease operating costs. This is because some of the benefits of increased efficiency could be lost through the production cost adjustment based on regional smelters' costs. The use of national cost indexes proposed by BPA greatly reduces the potential for this undesirable effect of smelter improvements, and largely preserves smelters' incentives for reducing operating costs.

The proposed Variable rate is not expected to significantly affect hydrosystem operations, and impacts to anadromous fish are not anticipated. The need for acquiring new generating resources may occur somewhat sooner if the proposed Variable rate results in operation of aluminum plants which might otherwise be closed under no action.

The load maintenance alternative would offer socioeconomic benefits similar to the proposed Variable rate from increased aluminum smelter employment, but would present a greater likelihood of BPA collecting less revenue than under the IP Standard rate. The revenue protection alternative would not offer similar socioeconomic benefits since aluminum smelters would find this rate less beneficial relative to the proposed Variable rate, and would be less apt to accept it (DOE/EIS-0123F, pp. 18-19, 89, 91-94, 97-98, 100-101).

None of the variable rate alternatives were found by the EIS to have other than insignificant effects on BPA's rates to its other customers (DOE/EIS-0123F, pp. 91-94, 96-98, 100-102).

A conservation/modernization incentive in combination with any of the

variable rate alternatives probably would result in a higher average level of aluminum production by the region's smelters than would a variable rate alone. The higher the level of Con/Mod incentive, the greater the potential effect on smelter operating levels (DOE/EIS-0123F, pp. 116-118). The actual physical modification to smelters associated with implementation of a Con/Mod program would not be expected to increase the smelters' production of various air and water pollutants per ton of aluminum production. A number of the modernization measures expected to be undertaken would tend to reduce emissions. Also, the smelters are subject to environmental regulation (DOE/EIS-0123F, pp. 102-105). Addition of a Con/Mod incentive to a variable rate is not expected to improve substantially the likelihood of reopening the smelter at The Dalles, nor to affect substantially a decision to close the smelter at Columbia Falls, Montana, since both plants already have undergone major investments to make them more energy efficient.

The amounts of fluoride, sulfur dioxide, and particulate air pollutants, water pollutants, and solid waste produced by Northwest aluminum smelters may be somewhat higher under combinations of the proposed Variable rate and a Con/Mod program than with the proposed Variable rate alone, since average aluminum production would tend to increase. These impacts are well regulated and the responsible regulatory agencies would not permit those effluents to be produced at levels which would cause significant harm to the environment.

Changes in operation of thermal and hydroelectric resources resulting from a variable rate are expected to be minor because of compensating actions BPA would take to market to others any power made available as a result of DSI load reductions. Effects on thermal or hydroelectric generating resource operation from the Variable rate in combination with Con/Mod or the IP-PF rate link also are not significant (DOE/EIS-0123F, p. 132).

The impact on future need for acquiring new generating or conservation resources of having available a Con/Mod program in addition to the proposed Variable rate is unclear. Compared to having the proposed Variable rate alone, smelter loads on average likely would increase with the Con/Mod program since the smelters would tend to operate more. On the other hand, the smelters would be more efficient, and assuming their production capacity stayed constant,



their loads at maximum production would decrease. The effect of having a Con/Mod program in addition to the proposed Variable rate on the need for future resources is dependent on whether smelters increase their production capacity with the Con/Mod program; which smelters choose to modernize; future aluminum prices, which greatly influence smelter operating levels; and the contractual terms chosen to secure the conservation savings. No definitive statement of impacts may be made without speculation (DOE/EIS-0123F, p. 109).

Cumulative impacts on Northwest aluminum industry employment of the combination of a Con/Mod program with the proposed Variable rate are dependent on the level of Con/Mod incentive provided. With a moderate (3 to 5 mills per kilowatthour) incentive, the impacts are little different than with the proposed Variable rate alone. With a high (10 mills per kilowatthour) incentive, substantial gains in Northwest aluminum industry employment are likely (DOE/EIS-0123F, p. 118). Cumulative impacts on BPA rates to other customer classes and total regional employment, as with the proposed Variable rate alone, are small (DOE/EIS-0123F, pp. 119-121).

The effect of implementing the IP-PF rate link would be to slightly augment any effects of a variable rate or combination of a variable rate with a Con/Mod incentive program (DOE/EIS-0123F, pp. 122).

In summary, the socioeconomic benefits of preserving, stabilizing, and possibly increasing aluminum smelter employment, and of preserving and stabilizing BPA revenues under the proposal, would outweigh any adverse effects of the proposed Variable rate on the physical environment, which generally are regulated to a level of nonsignificance. Furthermore, rate design features in BPA's proposal provides more protection against any severe potential adverse impacts that could arise. The load maintenance alternative would result in similar socioeconomic benefits to the proposal and slightly greater physical impacts. The adverse socioeconomic impacts of the no action and revenue protection alternatives would outweigh any positive physical impacts.

#### Conclusion Supported by the Decision Factors

The proposed Variable rate is superior to the no action, revenue protection, and load maintenance alternatives when evaluated on the basis of all the decision factors. Of the alternatives

considered, only the proposed Variable rate simultaneously fulfills BPA's legal requirements and meets the need for enhancing BPA revenue stability and resource planning certainty. The proposed Variable rate is superior to no action and revenue protection in meeting BPA's rate design objectives. Finally, any physical impacts resulting from the proposal will be only slightly greater than those resulting from no action, and these impacts will be outweighed by positive socioeconomic impacts associated with its implementation.

#### Environmentally Preferred Alternatives

Selection of an environmentally preferred rate design entails balancing negative physical impacts with positive socioeconomic benefits. The proposed Variable rate and the load maintenance alternative are environmentally superior to the no action and revenue protection alternative when taking into account socioeconomic and physical environmental effects.

The proposed Variable rate and the load maintenance alternative offer an improved atmosphere for aluminum companies to make long-term operational decisions based on electricity costs that are relatively responsive to aluminum market conditions (DOE/EIS-0123F, pp. 13, 90, 96-100). Under either of these alternatives, the currently closed smelter at the Dalles, Oregon, and the smelter at Columbia Falls, Montana, would have a higher probability of operating in the future than under no action or revenue protection. The proposed Variable rate and the load maintenance alternative also would reduce the probability of closures and fluctuations in production levels at the other smelters. Therefore, either of these alternatives would provide for higher, more stable employment in the region's aluminum industry (DOE/EIS-0123F, pp. 49-52, 97-102).

If the proposed Variable rate or load maintenance alternative would result in reopening of The Dalles plant and continued operation of the Columbia Falls plant, the physical impacts on their respective locales would be greater than under no action or revenue protection. However, the physical impacts of these two plants would not be excessively adverse. Avoiding permanent closure of those two plants probably would require earlier development of new generating or conservation resources than under no action or revenue protection. However, because BPA expects to have a resource surplus for several years, the real effect that continued operation of the Columbia Falls and The Dalles plants

would have on BPA's resource acquisition is somewhat uncertain. Finally, the load maintenance alternatives and the proposed Variable rate would not result in adverse physical impacts from hydro and thermal resource operation that would exceed those under no action or revenue protection. This is because of actions BPA would take to market power freed up by smelter closures.

In summary, the socioeconomic benefits of preserving, stabilizing and possibly increasing aluminum smelter loads under the proposed Variable rate or the load maintenance alternative outweigh any potential adverse effects these alternatives would have on the physical environment. The load maintenance alternative and the proposed Variable rate are environmentally preferred over no action and revenue protection.

#### Issues Raised during Proceedings

BPA received several comments from government agencies, organizations, and interested members of the public on the Draft EIS. Issues raised by these public comments were considered in preparation of the Final EIS. BPA's responses to all comments are provided in Chapter V of the Final EIS (DOE/EIS-0123F, pp. 135-213).

No party to the rate proceedings offered testimony relating to BPA's environmental analysis for the proposed Variable rate. The Washington Utilities and Transportation Commission (WUTC) cited the Draft EIS in addressing the desirability of a variable rate for the aluminum DSIs (Opening Brief, WUTC, B-WU-01, p. 23). However, the issues raised by WUTC relate to conclusions on the Variable rate itself and are dealt with in the proposal prepared for submittal to FERC.

Certain issues were raised by the Public Power Council (PPC) in its Opening Brief. These issues are addressed below.

**A. Issue No. 1.** Should BPA have analyzed the impacts of completely eliminating the IP-85 Incentive rate?

**1. Summary of positions.** For the Draft EIS, BPA assumed that the IP Incentive rate would continue to be offered on a short-term basis in the no-action alternative when aluminum prices are low, in order to protect BPA revenues. This assumption is consistent with the concept of no action, or status quo (Fox, BPA, E-BPA-06A, p. 10). BPA also assumed for the Final EIS that the Incentive rate would be implemented in the no-action case during periods of low aluminum prices (DOE/EIS-0123F, p. 12). BPA did not analyze a no-action



alternative that assumed no Incentive rate (i.e., in which the IP Standard rate would always be in effect).

PPC asserts that the alternative of completely eliminating the Incentive rate should be included in the Final EIS, and that the impacts of this alternative should be fully analyzed (Opening Brief, PPC, B-PP-01, pp. 18-19).

2. *Evaluation and decision.* The alternative of eliminating the Incentive rate is one which is inconsistent with the concept of no action, rather than a mere variation of the no-action alternative analyzed for the Draft EIS and the Final EIS. The IP Incentive rate is a feature of the IP-85 rate schedule currently in effect and is an integral component of the status quo, or no-action, alternative. Furthermore, BPA has implemented the Incentive rate in the recent past during periods when its implementation was determined to increase BPA's total revenues. The Variable rate option is being considered as a potential alternative to and improvement on the current Incentive rate (Metcalf-Moorman, BPA, E-BPA-02, p. 33). If the Variable rate were not implemented, the Incentive rate would remain as a potential option for enhancing BPA revenues during certain periods. Elimination of the Incentive rate from the IP-85 rate schedule altogether (without implementing a variable rate) would constitute an explicit action that is not under consideration by BPA in this proceeding. Therefore, BPA need not analyze elimination of the IP-85 Incentive rate, or the impacts associated with doing so.

B. *Issue No. 2.* Did BPA adequately identify potential impacts of implementing only the Variable rate option?

1. *Summary of positions.* BPA believes that it adequately analyzed impacts of each separate option, including the Variable rate, as well as potential cumulative impacts of implementing more than one option (Fox, BPA, E-BPA-06A, pp. 10-19, 57-67).

PPC asserts that the Draft EIS examines the Variable rate only in conjunction with the Con/Mod program, and that the Final EIS should provide detailed analysis of each option separately (Opening Brief, PPC, B-PP-01, pp. 18-19).

2. *Evaluation and decision.* BPA did, in fact, devote entire sections of the Draft EIS to impacts of the Variable rate by itself (i.e., without Con/Mod or the IP-PF rate link) (Fox, BPA, E-BPA-06a, pp. 10-18, 57-67). Public comments received on the Draft EIS were taken into account in preparing the Final EIS (DOE/EIS-0123F, pp. 135-213). These comments encompassed BPA's analysis

of impacts of the Variable rate. The Final EIS also includes entire sections on the Variable rate based, in part, on comments received on the Draft EIS (DOE/EIS-0123F, pp. 12-22, 85-102). Therefore, BPA's analysis of impacts of the Variable rate option in the EIS is adequate.

#### Mitigation

Significant adverse socioeconomic impacts are not likely to result from BPA's proposed Variable rate or cumulatively from the Variable rate with Con/Mod and/or the IP-PF rate link. Also, it is extremely unlikely that the proposed Variable rate would result in new aluminum plant production capacity in the region.

Physical impacts could result if aluminum plant operating levels increased. However, all of the aluminum plants are required to comply with Federal and State laws and regulations for protection of the environment. Air pollution control equipment already has been installed in the plants to comply with regulatory requirements. Existing groundwater pollution problems from past practices at some smelters are being addressed by State and Federal environmental agencies. Facilities for storage of spent potliners have been improved at some of the plants, reducing chances for further contamination from cyanide-containing leachate. Therefore, specific mitigation measures for the Variable rate are not needed and none are proposed.

BPA conducts fish and wildlife and conservation programs independent of any decision on a variable rate which would have the effect of mitigating any potential impacts of the variable rate related to electric power supply, as well as impacts of BPA's power marketing activities generally.

BPA's existing and ongoing conservation programs, begun in 1981, are targeted toward all consumer sectors in the region and will help to mitigate any need for additional generating resources.

Any changes in hydroelectric resource generation that might occur as a result of changes in aluminum smelter loads will be limited by factors constraining river operations. These factors include flood control, navigation, recreation, and mitigation for fish. Under the terms of the Pacific Northwest Power Act, BPA is required to protect, mitigate, and enhance fish and wildlife to the extent affected by development and operation of hydroelectric projects on the Columbia River or its tributaries. BPA, the U.S. Army Corps of Engineers, and the Northwest Power Planning Council will continue to develop and implement

effective spill, bypass, and transportation programs to facilitate passage of downstream migrating smolts.

Implementation of specific conservation and fish and wildlife plans, programs, and projects will be undertaken independent of BPA's decision on the Variable rate for aluminum DSIs and will undergo separate decisionmaking processes. Therefore, no monitoring or enforcement programs are specifically applicable for mitigation of any adverse impacts of the proposed Variable rate and none are adopted.

Issued in Portland, Oregon, on June 13, 1986.

Peter T. Johnson,  
Administrator.

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#### Near Term Intertie Access Policy; Extension

**AGENCY:** Bonneville Power Administration (BPA), DOE.

**ACTION:** Notice of extension of policy.

**SUMMARY:** BPA is extending its Near Term Intertie Access Policy (IAP) which is currently scheduled to expire September 30, 1986. The policy will be extended through June 30, 1987, or upon implementation of the Long Term IAP, whichever is first.

Extension of the Near Term IAP will provide certainty through the 1986-87 operating year (ending June 30, 1987) for contracts receiving Assured Delivery under the terms of the Near Term IAP. Upon implementation of the Long Term IAP, export sales contracts which have terms extending beyond the implementation date of the Long Term IAP and which have Assured Delivery will continue to receive Assured Delivery through June 30, 1987. This applies both to contracts currently receiving Assured Delivery, as well as to any new contracts for which BPA may grant Assured Delivery under the terms of the Near Term IAP.

Three contracts currently receiving Assured Delivery under the Near Term IAP will be affected: Montana Power Company's sale of 45 megawatts to the California cities of Burbank, Glendale, and Pasadena will receive Assured Delivery through January 31, 1987, the expiration date of the export sales contract; Longview Fibre Company's sale of 45 megawatts to the Western Area Power Administration (Western) will receive Assured Delivery through June 30, 1987; and Tacoma City Light's