ADMINISTRATOR'S RECORD OF DECISION

LONG-TERM EXTENSION OF CURRENT GENERAL (INTEGRATION OF RESOURCES) TRANSMISSION AGREEMENT WITH BONNEVILLE POWER ADMINISTRATION'S DIRECT SERVICE INDUSTRIAL CUSTOMERS

INTRODUCTION

The Bonneville Power Administration (BPA) has decided to offer a long-term extension (15 years) of the existing 5-year General (Integration of Resources) Transmission Agreement (IR Agreement) to BPA's Direct Service Industrial (DSI) Customers. BPA has decided to make this offer in order to continue to provide open and equitable transmission access to the DSIs and allow the DSIs to diversify their power supply to reduce risk. BPA recognizes that the DSIs likely have the ability to access the market indirectly through their local utilities. In making this offer, BPA is continuing its Market-Driven approach for participation in the increasingly competitive electric power market.

This decision is consistent with BPA's Business Plan, the Business Plan Environmental Impact Statement (BP EIS) (DOE/EIS-0183, June 1995) and the Business Plan Record of Decision (Business Plan ROD) (August 15, 1995). In response to a need for sound policy to guide its business direction under changing market conditions, BPA explored six alternative plans of action in the BP EIS. The six alternatives were: Status Quo (No Action), BPA Influence, Market-Driven, Maximize Financial Returns, Minimal BPA, and Short-Term Marketing. In the subsequent Business Plan ROD, the BPA Administrator selected the Market-Driven alternative. Although the Status Quo and the BPA Influence alternatives were the environmentally-preferred alternatives, the differences in total environmental impacts among alternatives were relatively small. Other business aspects, including loads and rates, showed greater variation among the alternatives. The Market-Driven alternative strikes a balance between marketing and environmental concerns. It also helps BPA to ensure the financial strength necessary to maintain a high level of support for public service benefits such as energy conservation and the fish and wildlife program.

The BP EIS and Business Plan ROD were also intended to guide BPA in a series of related decisions on specific issues and actions. This decision to offer DSI wheeling, as well as others to follow, is tiered to the Business Plan ROD. The

specific information on the IR Agreement extension and a summary of the environmental impacts associated with selecting this particular alternative are provided below.

DESCRIPTION OF THE DSIs

BPA's DSI Customers

The DSIs are a group of industrial firms that operate plants in the Pacific Northwest and purchase power directly from BPA. These plants use primarily electricity-intensive industrial processes to make products such as aluminum and other primary metals, pulp and paper, ferroalloys, and chlor-alkalies. They have purchased their power supplies directly from BPA for many years and have, as a result, become active players in Northwest and Westcoast wholesale power issues. The DSIs are described in Table 1 below.

Table 1: BPA's Direct Service Industry Customers

DSI	Location	Maximum BPA Energy Capacity (aMW)
Primary Aluminum		
Alcoa	Wenatchee, WA	215
Columbia Aluminum	Goldendale, WA	290
Columbia Falls Aluminum	Columbia Falls, MT	345
Northwest Aluminum	The Dalles, OR	165
Alumax -- Intalco	Ferndale, WA	455
Kaiser Aluminum	Mead, WA	390
Kaiser Aluminum	Tacoma, WA	150
Reynolds Metals Company	Longview, WA	415
Reynolds Metals Company	Troutdale, OR	250
Vanalco	Vancouver, WA	230
Aluminum Fabrication		
ACPC	Vancouver, WA	3
Kaiser Aluminum	Trentwood, WA	64
Magnesium/Ferrosilicon		
Alcoa -- Northwest Alloys	Addy, WA	83
Titanium		
Oremet	Albany, OR	15

Nickel		
Glenbrook Nickel	Riddle, OR	103
Pulp & Paper		
Port Townsend Paper	Port Townsend, WA	16
Chlor-Alkalies		
Georgia Pacific	Bellingham, WA	34
Elf Atochem	Portland, OR	84
Steel Plate		
Gilmore Steel	Portland, OR	No load placed at this time
Total BPA Energy Capacity		**3307 aMW**

DSI Loads and Revenues

Currently, DSI operations represent about 2500 aMW of BPA load, at an average rate of 25.9 mills. Starting in 1996, BPA expects the DSIs' total load (which BPA hopes to serve a majority of) will be over 3000 aMW, as commodity prices increase and as a worldwide memorandum of understanding to limit aluminum metal production for 2 years (1994-1995) expires. The DSIs constitute a substantial portion of BPA's loads and revenues. Even with the recent low commodity prices and limited aluminum production over the past several years, the DSIs accounted for 20 to 25 percent of BPA's revenues during the past 3 fiscal years.

STATUTORY BACKGROUND

BPA has the authority to provide transmission services to a wide array of wholesale market participants, including the DSIs. Though the DSIs are not eligible as power purchasers to obtain wheeling orders from FERC under section 211 of the Federal Power Act, BPA has the discretion to provide wheeling services to them.

PROCEDURAL HISTORY

On April 30, 1992, BPA published a Notice of Intent to prepare an EIS for new 20-year utility and industrial power sales contracts. This EIS was entitled the "Long-Term Requirements Power Sales Contracts EIS." On August 9, 1993, BPA published a notice declaring a broadening of the scope of the Long-Term Requirements Power Sales Contracts EIS to include power and transmission rate design and access to the federal transmission system within the Pacific Northwest. These topics were combined for the convenience of participants and for efficiency in analysis of issues and alternatives concerning related matters. The newly scoped EIS was entitled the "Pacific Northwest Commercial Services and Rates EIS."

On December 3, 1993, in response to public comments and the evolution of issues, BPA yet again expanded the scope of the EIS to encompass all aspects of BPA's Business Plan. Consequently, the Business Plan Draft EIS was circulated to the public for comment in June 1994. One of the key issues addressed in the Draft EIS was "Retail or DSI Wheeling." This was done in order to assess the impacts of this and other components of the "Framework for Implementing Comparability" which is a set of principles BPA and its utility and DSI customers negotiated in January 1995 to govern BPA's management of the federal transmission system. Those principles explicitly included a provision for providing wheeling services to the DSIs.

On December 28, 1994, BPA notified interested parties that, given the extensive comments on the Draft EIS and updated information and analysis, it would prepare a Supplemental Draft EIS. The Business Plan Supplemental Draft EIS was distributed to the public on March 7, 1995. After the close of the associated comment period, BPA issued the BP EIS.

On August 15, 1995, BPA executed the Business Plan ROD declaring that the Agency had decided to pursue the basic business direction outlined by the Market-Driven alternative, as described in the BP EIS. BPA selected this alternative in order to be a more active participant in the competitive market for power, transmission, and energy services. Success in the market will ensure the financial strength necessary to better provide the public benefits BPA affords to the Pacific Northwest.

The decision to select the Market-Driven alternative provides the necessary policy direction to decide a number of specific issues related to products and services, rate design, energy resources BPA will acquire, and transmission services BPA will offer. However, before taking specific action on any of these issues, BPA affirmatively stated that it would review the BP EIS to ensure that a

particular action was adequately covered within the scope of the BP EIS and, if appropriate, issue a Record of Decision. This Record of Decision, which summarizes and incorporates information from the Business Plan ROD, is the result of such a review.

DECISION TO EXTEND SHORT-TERM IR AGREEMENT

Rationale for Extension

In Spring 1995, BPA executed a short-term IR Agreement with each DSI; however, BPA made no commitment to a long-term arrangement, pending completion and full consideration of the Business Plan and the BP EIS. Now, having completed these processes and having considered the entire record, BPA has decided to execute a long-term (15-year) extension to the IR Agreement, consistent with the terms of the previously executed 5-year contract.

Reasons for Offering IR Agreement Extension to DSIs

BPA bases its decision to offer a 15-year extension to the existing IR Agreement on the following factors.

Open and Equitable Transmission Access

The BP EIS selected the Market-Driven alternative as the proposed action. The Market-Driven alternative assumes that BPA will provide long-term wheeling to DSI loads, but not to retail loads. As detailed in the BP EIS, the other alternatives evaluated by BPA (i.e., Status Quo, BPA Influence, Maximize Financial Returns, Minimal BPA Marketing, and Short-Term Marketing), considered a broad spectrum of DSI wheeling alternatives.

BPA's decision to provide wheeling to the DSIs results in part from the realization that BPA is now in a competitive market for the supply of electricity. The DSIs have the right to terminate their existing power sales contract with BPA on one year notice. Rather than trying to exercise market power by denying access to its transmission system, BPA is willing to put these long-standing wholesale customers on an equitable basis with its utility customers by providing open transmission access and competing for their load. In addition, BPA believes that it is in the best interests of its long-term business relationship with the DSIs to provide transmission service directly to them.

Ability of Other Suppliers to Obtain Transmission to Serve DSIs

Because of the nature of their operations, including high load factors, there is keen competition to serve the DSIs. BPA believes that if it were unwilling to

provide transmission access directly to the DSIs to reach other suppliers, such service could likely be secured by the DSIs indirectly through the utilities in whose service areas they are located after the DSIs terminate, in whole or in part, their purchases from BPA. For example, a number of the DSIs, including Alcoa, Columbia Falls, Intalco, and Northwest Aluminum, have had discussions with local utilities for power service. Some of these discussions began long before BPA entered into the short-term IR Agreement. Since it is likely that a DSI could secure transmission to the wholesale power market in any event, BPA believes it is in its best commercial interests to facilitate long-term transmission service directly to the DSIs and shape the service to meet some of BPA's own interests such as maintaining the right to use the DSI loads as stability reserves for the entire system.

Major Provisions of the IR Agreement

Standard IR Transmission Agreement Provisions

The DSI IR Agreement contains standard IR transmission agreement provisions, including the following:

Term. The term of the IR Agreement, as extended, will be 20 years.

Rates. BPA will provide transmission service over its main system transmission facilities at the IR (Integration of Resources) rate. The IR rate is a non-distance based, "postage stamp," rate. Service over low-voltage facilities will be at the UFT (Use-of-Facilities Transmission) rate.

Transmission of Power. Power will be made available at the point of integration by the DSI for transmission by BPA to the point of delivery at the DSI's plant.

Transmission Losses. The DSI will compensate BPA for losses associated with the transmission of power over BPA's main system facilities based upon BPA's standard loss factor for IR transmission. The DSI will also compensate BPA for losses incurred over low-voltage transmission facilities.

Power Scheduling. Schedules of power for the following day(s) must be submitted to BPA by 10:00 a.m.

Delivery Facilities. A reduction of transmission demand or the deletion of a point of integration or delivery will not decrease the DSI's obligation to pay charges for delivery facilities for the duration of the IR Agreement. The parties may, however, negotiate a termination charge in lieu of continued periodic payment of use-of-facilities charges.

Other Provisions

In addition to the standard provisions discussed above, the IR Agreement contains the following terms:

Stability Reserves. The DSIs provide BPA stability reserves under the IR Agreement. This right allows BPA to drop DSI load when emergencies occur on BPA's transmission system, thereby preserving reliability for BPA's utility customers. BPA pays reservation and use fees for this right. BPA would lose this valuable right if the DSIs obtained market access through their local utilities.

Power Services. The IR Agreement obligates the DSI to obtain power services, or ancillary services, for its resources and loads located in BPA's control area, as a condition to receiving service under the agreement.

Transmission Demand. The DSI has a right to a maximum total transmission demand equal to the contract demand in the current DSI's power sales contract with BPA, minus the amounts of power purchased from BPA. The DSI can request wheeling under the IR Agreement in an amount up to this maximum total transmission demand.

Request and Response Procedures. The request and response procedures in the IR Agreement provide rights to the DSI that are similar to the rights of an entity belonging to a regional transmission group. The procedures allow the DSI to request wheeling services from BPA, including services outside those that BPA is required to provide in the IR Agreement; obligate BPA to respond to such requests in a manner consistent with the Energy Policy Act of 1992; and provide a mechanism for resolving wheeling request disputes.

ENVIRONMENTAL ANALYSIS

Consistent with the Business Plan ROD (August 15, 1995), the BP EIS was reviewed to determine if DSI wheeling was adequately covered within the scope of the BP EIS. "Retail or DSI Wheeling" was one of the 19 key policy issues addressed in the BP EIS. The BP EIS alternatives analyzed a range of DSI and retail wheeling options. The Market-Driven alternative included providing wheeling to DSI loads, but not to retail loads.

The BP EIS showed that environmental impacts are determined by the responses to BPA's marketing actions, rather than by the actions themselves. These market responses include resource development, resource operation, transmission development and operation, and consumer behavior.

Environmental Impacts

Providing wheeling to the DSIs would increase the DSIs' power options and, potentially, could reduce the amount of load for which BPA would have to acquire resources in the future. Therefore, it could be an incentive for brokers, marketers, or other utilities to develop new CTs. These new CTs would have fewer environmental impacts--especially air and water impacts--than older, less efficient thermal resources. By using displaceable CTs to back up purchases of nonfirm power from BPA or other utilities, DSIs could firm nonfirm power. Increased resource development for DSI loads might effect transmission development. These new resources may require new transmission facilities. The operation of existing transmission facilities to serve the DSI load is not likely to change.

Marketing Impacts

The DSIs can reduce their power purchases from BPA under their current power sales contract upon one-year notice. To the extent that BPA can demonstrate to the DSIs that it is taking a Market-Driven approach to its business activities, and this Market-Driven approach includes competitive BPA power rates as well as opportunities for DSI wheeling, the DSIs would be less likely to reduce their power purchases from BPA.

Providing wheeling to DSI loads could mean the loss of some Federal power sales revenue. However, it would also reduce the revenue uncertainty associated with the relatively volatile DSI loads. In addition, to the extent that a Market-Driven BPA results in BPA retaining DSI loads, BPA's ability to meet its financial obligations is enhanced. Maintaining revenues from sales to DSIs would also help keep electricity rates lower for public and private utility customers. This would make it easier for BPA to keep its rates below the maximum sustainable revenue level.

Consistent with the Market-Driven approach, offering DSI wheeling strikes a balance between marketing and environmental concerns.

Mitigation

In offering DSIs wheeling under the Market-Driven approach, BPA understands that conditions that permit the agency to function successfully may change over time. Therefore, the Market-Driven approach contains preparatory mitigation measures (response strategies) to respond to change and to allow the agency to balance costs and revenues. Such mitigation will enhance BPA's ability to adapt to changing market conditions.

These response strategies--which include means to decrease spending, increase revenues, and transfer costs--could be implemented if BPA's costs and revenues did not balance. BPA has already decided in the Business Plan ROD to apply as many mitigation response strategies as necessary whenever BPA's costs and revenues do not balance. These mitigation strategies, or equivalents, will be implemented to enable BPA to best meet its public service and environmental obligations, while remaining competitive in the wholesale electric power market.

CONSIDERATION OF COMMENTS

Following the public comment period of the Draft BP EIS, comments were reviewed and responded to. The responses were documented in the Final BP EIS published in June 1995. Only one comment was submitted with regards to DSI wheeling. This response is located in Appendix F of the BP EIS, Volume 2 on page F-20.

No additional comments were made during the public comment period for the new draft power sales contract templates.

PUBLIC AVAILABILITY

This Record of Decision will be distributed to all interested and affected persons and agencies. Copies of the Business Plan, BP EIS, the Business Plan ROD and this Record of Decision are available from BPA's Public Involvement Office, P.O. Box 12999, Portland, Oregon 97212. Copies of these documents may also be obtained by using BPA's nationwide toll-free document request line, 1-800-622-4520.

Issued in Portland, Oregon on August 31, 1995.

/s/ Walter E. Pollock
Acting Administrator