



April 21, 2016

Ms. Suzanne Cooper
Vice President, Bulk Marketing
Bonneville Power Administration
P.O. Box 3621
Portland, OR 97208-3621
Submitted via www.bpa.gov/comment

RE: Proposed Amendment No. 3 to BPA Power Sales Agreement with Alcoa

Dear Ms. Cooper:

The Public Power Council (PPC) appreciates your outreach to preference power customers, and this opportunity to comment on the proposed Amendment No. 3 to BPA's long-term power sales contract with Alcoa. The pricing, terms, and conditions of BPA's decisions with regard to Direct Service Industry (DSI) power sales have a direct and substantial impact on the cost paid by BPA's preference customers. Given the cost and financial challenges faced by BPA in both the short and long-term, this is a particularly important time for BPA to make sound business decisions regarding its sales to Alcoa.

Amendment Public Process

Before addressing the substance of the proposed amendment, it is necessary to address the developments around unusual and highly compressed nature of the public process surrounding this issue in recent months. Amendment No. 2 was negotiated between Alcoa and BPA without public input or process. A full description of the terms and BPA business rationale for Amendment No. 2 was not released until several weeks after the amendment was signed. Some terms of the agreement were never publicly released by BPA. Our interpretation of the judicial guidance on the issue is that BPA has an affirmative obligation to demonstrate a sound business case in serving DSI customers, and the status of economic conditions at any particular point in time does not lessen that requirement. A retrospective justification, as in the case of Amendment No. 2, does not meet this standard.

As part of the decision letter for Amendment No. 2, BPA explained that “it was not feasible to provide a public comment period due to time constraints” because it “needed to act quickly due to the approaching curtailment date to obtain the benefits created by this transaction.” However, having signaled the possibility of additional amendments, BPA helpfully noted that “[n]either the lack of public comment period nor the short term nature of the Amendment should be viewed as setting precedent for the future, either promoting public involvement or entering into future transactions with Alcoa.”

The process around the release of proposed Amendment No. 3 is an improvement relative to Amendment No. 2. PPC appreciates BPA’s efforts to make public all relevant terms of Amendment No. 3 rather than referring to a confidential confirmation agreement. Still, ten days is a burdensome timeline to analyze data and synthesize meaningful comment on a complicated amendment to an already dense contract that is subject to numerous prior amendments. We encourage BPA to allow more time for future public comment.

Analysis of Proposed Amendment No. 3

BPA states in its letter regarding Amendment No. 3 that “Commenters should bear in mind that there are only two alternatives under consideration: proposed Amendment No. 3 or Alcoa Intalco operations to [sic]10 MW during the period covered by Amendment No. 3.” This characterization of the possibilities as having only two choices is inappropriately oversimplified. The proper inquiry for a business case for this amendment should be whether, under the circumstances, BPA is obtaining the best benefit of this bargain with Alcoa. This should include a full analysis of all risks and benefits and an explanation of why the benefits outweigh the risks.

While BPA’s discussion of the proposed amendment offers some analysis of the potential benefits, it presents no analysis of counteracting risks and offers no insight into why BPA believes that this is the best possible bargain it could strike with Alcoa. Such information would aid PPC’s evaluation of the proposed amendment. However, based on the information BPA has presented, it appears that the proposed amendment would provide a modest amount of benefit relative to BPA’s presented alternative of status quo. And, at least of equal importance, the proposal appears to have a tolerable degree of risk.

Some of the benefits BPA cites in support of the proposed amendment are highly suspect, while others can be attributed to any power sales contract and cannot be

credibly cited in support of this particular amendment. For example, BPA cites a quantitative net benefit of approximately \$5.3 million for the over nineteen month term of the proposed Amendment. PPC is concerned about the inclusion of approximately \$570,000 of net benefits from “potential” oversupply cost reductions as a quantitative benefit. There is no analysis of how this represents an expected value of oversupply cost reduction and it is based on a variety of apparently arbitrary assumptions. The “insurance” factor of the amendment for oversupply costs is a valid benefit, but it is of a qualitative nature on a projected basis.

BPA’s letter also erroneously cites “Future Net Benefits” as a qualitative feature of the proposed amendment. It is true that under the proposed amendment Alcoa’s take or pay obligation at the IP rate increases to 75 MW, but this would be the case regardless once Alcoa had used up all of its 24 months of curtailment rights. Any future net benefits that might be achieved on this basis are therefore not a benefit of the proposed amendment.

BPA does not explain the equity of the proposed amendment relative to Amendment No. 2 and it is generally unclear how the value proposition for Amendment No. 3 was reached. It is our understanding that the central benefit of the agreement to Alcoa is the ongoing ability to operate the Intalco facility at the 2.5 potline level during the amendment period. For the timeframe of Amendment No. 2, approximately four and a half months, BPA estimated a net value of \$5.2 million. For the nineteen and a half month timeframe of Amendment No. 3, BPA estimates net benefits of \$5.3 million. In terms of cash paid by Alcoa above the market price of power, Amendment No. 2 included approximately \$2.3 million and Amendment No. 3 would include approximately \$2.1 million.

BPA’s analysis does not contain, but would benefit from, an explanation of how it reached an agreement where the restriction on Alcoa’s market purchases during curtailment is waived for a period over four times longer than in Amendment No. 2 for essentially equal compensation.

Given that the only large commitment of physical power by BPA is in the spring runoff period, there is little chance of BPA incurring incremental costs to serve Alcoa under the proposed amendment. Further, because the pricing of the surplus power is at a market index, there is minimal chance of BPA foregoing better sales opportunities. Therefore PPC believes that the proposed amendment has an acceptably low level of risk.

Conclusion

PPC appreciates the opportunity to comment on the proposed Amendment No. 3 to the Alcoa power supply contract. The relative transparency of the terms and low risk nature of the proposed amendment are positive features. PPC believes there are positive net benefits to the proposal relative to the status quo, but that BPA has overstated the quantitative value of those benefits with regard to oversupply costs. Finally, in response to BPA's request for comment on the benefits achieved, while the proposal is better than the status quo alternative, PPC has not seen analysis to support the statement that the proposed amendment represents the "best" outcome that could have been reached.

Based on the information BPA has presented, PPC does not object to the proposed Amendment No. 3. We thank you for your consideration of these comments.

Sincerely,

Michael Deen
Senior Policy Advisor