BPA signs power sales contract with Alcoa

Local News

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Portland, Ore. - The Bonneville Power Administration announced today that it has signed a power sale contract with Alcoa that begins tomorrow. The contract provides a stable power supply to Alcoa’s Intalco smelter near Ferndale, Wash., giving the smelter a reasonable chance to maintain operations and provide critical family-wage jobs.

BPA officials say the power sale provides benefits to the region that equal or exceed costs during the first phase of the contract, consistent with a recent U.S. Ninth Circuit Court of Appeals ruling. BPA Administrator Steve Wright signed the contract in one of Alcoa’s Ferndale facilities in the presence of Alcoa executives, Washington Governor Christine Gregoire and other state officials.

“Our approach maintains family wage jobs for now while faithfully addressing the high hurdles the Ninth Circuit Court of Appeals established,” Wright said.

The first phase of the contract lasts 17 months, until May 26, 2011. The amount of power provided will increase from 285 average megawatts to 320 average megawatts in March of 2010, enough power for Alcoa to operate two potlines. All power will be priced at BPA’s industrial power rate, which is $34.60 per megawatt hour. A second, five-year phase of the contract is contingent on several factors, including resolution by the court concerning the level of benefits BPA must receive from providing service to Alcoa.

“Due to the court’s opinion, we have had to structure the contract so that service for the last five years is less than certain,” BPA Administrator Steve Wright said. “Though this complies with what we understand the direction from the court to be, we believe the court should change that direction upon further consideration. We are hopeful that litigation over this contract will provide clarification that will allow the contract to be fully implemented over its approximate seven year term.”

Benefits to the region will come primarily through revenues from the power sale, avoiding additional transmission costs to market the power since Alcoa purchases transmission from BPA to deliver the energy to the plant, and the value of the power reserves Alcoa has committed to help balance the system. For example, if reserves were needed because of a large generating resource failure, BPA would have a limited right to partially curtail Alcoa’s power use to help maintain system reliability.

An important issue raised by the court decision is whether BPA must structure contracts and rates with direct service industries like Alcoa such that there is no net cost to BPA’s other customers and without regard to the public benefits that may accrue from the contracts such as employment impacts. BPA does not believe this is what the law or sound public policy should require.

Aluminum smelters are among BPA’s oldest customers. The Alcoa Intalco plant started up in 1966. Historically, aluminum smelters have provided significant benefits to the region by offering flexibility in the form of interruptible load when the region's power supply was tight and by using power in consistent blocks during light load hours, such as very early morning. BPA believes the remaining plants can continue to provide these benefits to the system.

BPA is a not-for-profit federal electric utility that operates a high-voltage transmission grid comprising

more than 15,000 miles of lines and associated substations in Washington, Oregon, Idaho and Montana. It also markets more than a third of the electricity consumed in the Pacific Northwest. The power is produced at 31 federal dams operated by the U.S. Corps of Engineers and Bureau of Reclamation and one nuclear plant in the Northwest and is sold to more than 140 Northwest utilities. BPA purchases power from seven wind projects and has more than 2,200 megawatts of wind interconnected to its transmission system.