



DSIs: What is the Right Balance?

The Bonneville Power Administration (BPA) provides wholesale power to most non-profit member-owned utilities, like Peninsula Light Company, located in the Northwest through a system of dams on the Columbia and Snake Rivers and one nuclear plant. Consumers and small businesses have a “preference” first right to purchase this cost-based power.

The largest customer groups of BPA include public power utilities and heavy industrial customers (called Direct Service Industries, or DSIs).

In July, BPA proposed terms for 7-year power sales to two DSIs: Alcoa, Inc. and Columbia Falls Aluminum Company. Under the proposed sale, BPA would expect to incur financial losses of up to \$412 million over the 7 year period. BPA’s proposal includes buying power at a higher price on the market and selling it to Alcoa at much lower prices. These losses would be passed on to BPA’s consumer-owned utility customers to absorb.

Under similar circumstances – buying power on the open market, where prices are often volatile – the Northwest experienced massive rate increases in 2000-2001. Unlike prior proposals for serving Alcoa, BPA now proposes to allow Alcoa to terminate or decrease its operations, leaving BPA and its consumer-owned utility customers responsible for the price risks associated with selling the power BPA bought to serve the DSIs. BPA should not revert to market risk-taking that cost the region so much during the 2000-2001 market crisis.

On August 27, 2009 the Ninth Circuit Court of Appeals offered the opinion that BPA has no legal obligation to supply DSIs with power, and that BPA can only do so if it would further a legitimate business interest of BPA. BPA has not explained how incurring over half of a billion dollars in losses to benefit Alcoa and CFAC serves a legitimate interest of BPA.

BPA presented an economic analysis that tries to show how the proposed power benefits to Alcoa would assist the region with a net increase of 312 jobs. Even assuming BPA’s calculation of a gain of 312 net jobs at Alcoa is correct, at \$412 million potential loss over 7 years these jobs would come at a cost of \$187,000 per year, per job, thereby benefitting Alcoa’s shareholders, not the region.

The losses to BPA that would result from the proposal could raise consumer-owned utility power rates in order to benefit Alcoa. According to BPA's calculations, the increased rates would result in the loss of over 1,300 jobs in service territories of consumer-owned utilities throughout the region. BPA's analysis does not take into account the current regional economic crisis; therefore this job loss figure probably is substantially understated.

Consumer-owned utilities and grassroots networks, like PenLight's Electric Ambassador Program have strived to educate customers about this unfair subsidy to the aluminum companies. Nevertheless, BPA seems committed to finding a way to serve the aluminum companies at consumers' expense.

The question on everyone mind is what is in it for BPA? BPA juggles a complicated balancing act in the region in trying to meet the power needs of the consumer-owned utilities (like PenLight), and then the DSIs, which are for-profit businesses. As an mutual cooperative that is owned by its members, PenLight wants to make sure that BPA focuses on BPA's core mission: to provide cost-based power first and foremost to non-profit utility consumers' homes and businesses in the Northwest.

PenLight opposes BPA's efforts to voluntarily incur significant financial losses to benefit DSIs at preference customers' expense. The families, businesses and jobs in our community are just as important as those that BPA is targeting. PenLight remains committed to providing reliable power at the lowest cost possible it its members. Recently outside pressures – BPA's recent wholesale power rates and state-mandated investments in renewable energy - have raised the cost of doing business for PenLight.

The History of Preference Power

Teddy Roosevelt was the first president to recognize our nation's rivers as a public resource. President Roosevelt and the U.S. Congress said that consumer-owned utilities should have the first right, or "preference," to purchase electricity from federal dams built on these waterways. This preference clause was first spelled out in the Reclamation Act of 1906.

Thirty years later, President Franklin D. Roosevelt made Teddy Roosevelt's vision of affordable federal hydropower a reality. The federal government built a system of multi-purpose dams on American rivers that generate power for the public benefit. The intent behind the federal power program was that public resources should benefit the public - not private individuals or corporations.