

RECORD OF DECISION

INDUSTRIAL INCENTIVE RATE III

Increased Incentive Rate Commitment Levels
for the Period March 1 through June 30, 1986

BONNEVILLE POWER ADMINISTRATION

U.S. DEPARTMENT OF ENERGY

February 27, 1986

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INCENTIVE RATE III RECORD OF DECISION

Regarding

Increased Commitment Levels

On August 22, 1985, the Bonneville Power Administration (BPA) and interested direct-service industrial customers (DSIs) executed the third Industrial Incentive Rate contract. This contract provided for reduced wholesale power rates to the DSIs in return for take-or-pay power purchase commitments over the 10-month incentive rate period. This particular incentive rate, however, differed in structure from previous such rates in one important respect. Under this incentive rate, a DSI's power purchases in excess of its Committed Demand (at 100% load factor) are subject to the Standard Industrial Rate -- not the lower incentive rate. This provision was included in the contract to equitably allocate the risks and benefits of the incentive rate by encouraging DSIs to request the full amount of power they expected to need.

The contract, however, also included a provision for a one-time increase in incentive rate commitment levels. This provision was included because BPA realized that DSIs were unlikely to subscribe heavily to take-or-pay incentive rate power in the later months of the 10-month incentive rate period, given the poor market for aluminum at the time the rate was adopted. Since aluminum prices were projected to rise during the incentive rate period, it seemed probable that BPA's revenues would be enhanced if DSIs were given a midterm opportunity to increase their commitments. The following language was therefore included in section 3 of the contract:

(c) After January 1, 1986, Bonneville at its discretion may allow each Industry one opportunity to increase its submitted Committed Demand and Committed Energy levels. Such increases shall be submitted by, and effective on, dates specified by Bonneville and in accordance with the appropriate procedures in subsection (a) above. If in its discretion, Bonneville accepts the Industry's request for an increase in Committed Demand and Committed Energy levels, Bonneville shall issue a revised Exhibit A. If the Power Sales Contract of an Industry is assigned during the term of this Agreement, Bonneville may allow the assignee an alternative date for its submittal.

In January, BPA examined the possibility of allowing the DSIs to increase their commitments, but decided that poor water conditions and projected snowpack levels precluded action at that time. In February, however, BPA determined it would be appropriate to solicit increased commitments from the DSIs. The increased commitments would be effective for the period March 1 through June 30, 1986. On February 11, 1986, BPA issued a notice asking DSIs to submit their proposed increased commitment levels. DSI responses to BPA's request were due on February 18.

This Record of Decision reflects the results of BPA's analysis of the proposed increased commitment levels submitted by the DSIs in response to BPA's February 11 solicitation. (Note, the contract precluded DSIs from reducing the commitment levels that they had previously established.)

Results of BPA's Solicitation

The following table summarizes the results of BPA's solicitation.

TABLE I
MARCH - JUNE 1986 INCENTIVE RATE INCREASES

The following DSIs chose not to increase their incentive rate commitments: Commonwealth Aluminum, Intalco, Reynolds Metals, Oregon Metallurgical, and Pacific Carbide. The requested increases of the other DSIs are shown below.

	<u>Committed Demand (MW)</u>		<u>Committed Energy</u> (load factor or MWH)	
	<u>Existing</u>	<u>Requested</u>	<u>Existing</u>	<u>Requested</u>
Alcoa				
March	383.5	Same	264,400	Same
April	306.6	378.6	204,300	252,590
May	306.6	378.6	211,100	261,010
June	306.6	378.6	204,300	252,590
Columbia Falls				
March	277.8	335.4	98.0%	98.0%
April	210.0	334.8	98.0%	98.0%
May	140.4	333.6	98.0%	98.0%
June	8.4	333.0	98.0%	98.0%
Kaiser				
March	396.0	406.0	97.4%	97.4%
April	396.0	408.0	97.4%	97.4%
May	396.0	416.0	97.4%	97.4%
June	396.0	417.0	97.4%	97.4%
Martin-Marietta				
March	0.0	2.0	0.0%	60.0%
April	0.0	2.0	0.0%	60.0%
May	0.0	2.0	0.0%	60.0%
June	0.0	Same	0.0%	Same

TABLE I (continued)

	<u>Committed Demand (MW)</u>		<u>Committed Energy</u> (load factor or MWH)	
	<u>Existing</u>	<u>Requested</u>	<u>Existing</u>	<u>Requested</u>
Georgia-Pacific				
March	22.6	25.75	90.0%	90.0%
April	28 1/2 @ 22.6 1 1/2 @ .3	28 1/2 @ 28.6 Same	90.0%	90.0%
May	22.6	28.6	90.0%	90.0%
June	22.6	28.6	90.0%	90.0%
Pennwalt				
March	53.40	58.95	37,346	41,227
April	53.10	58.95	35,888	39,892
May	52.05	58.95	36,402	41,227
June	52.05	58.95	35,227	39,897
Port Townsend				
March	11.0	14.5	6,547.2	8,630
April	11.0	14.5	6,336.0	8,352
May	11.0	14.5	6,547.2	8,091
June	11.0	Same	6,336.0	Same

BPA's Revenue Analysis

The General Rate Schedule Provisions (GRSPs) require BPA to conduct a study to determine whether implementation of the Industrial Incentive rate would increase BPA's revenue over the anticipated revenue if the Standard Industrial Rate were to remain in effect for the proposed Incentive Rate period. The required revenue analysis was conducted by BPA for the current Incentive Rate period in August 1985. However, because BPA is proposing to allow the DSIs to increase their commitments for the remainder of the incentive rate period, BPA determined that it would be appropriate to perform another revenue analysis at this time.

In order to study the effects of possible increased commitments on BPA's overall revenue level, it was necessary to establish an appropriate "base case." The GRSPs contemplated a base case which assumed that DSI purchases were made at the Standard Rate. However, the incentive rate is currently in place and will remain in place regardless of the outcome of this solicitation. As a result, BPA considered the two alternative "base cases" described below:

1. Assume that existing DSI commitment levels for the period March 1 through June 30 remain in effect and no additional DSI purchases are made (Case 1).

2. Identify expected DSI load assuming that DSIs will purchase no less than their existing commitments and will make Standard Rate purchases for any excess requirements. To be conservative, BPA assumed that the only DSI that would be unwilling to make its requested "increased commitment" purchases at the Standard Industrial Rate was Columbia Falls Aluminum Company (Case 2).

Case 2 appeared to BPA to better represent the intent of the GRSP directive to model the "Standard Rate" or "without Incentive Rate" conditions. However, both scenarios were studied and compared to the "increased commitment case" (Case 3).

The following table summarizes the results of BPA's revenue analysis:


TABLE II
Increased Incentive Rate Commitments -- Revenue Analysis
(in thousands of dollars)

	<u>Case 1</u>	<u>Case 2</u>	<u>Case 3</u>
Total EPA Revenues	\$884,647	\$887,801	\$896,002
Priority Firm Revenues	\$521,555	\$521,662	\$521,701
Industrial Firm Revenues	\$114,431	\$118,707	\$127,959
Curtailment Charges	\$555	\$548	\$473
Nonfirm Revenues	\$163,050	\$162,463	\$162,129
Surplus Power Revenues	\$8,813	\$7,770	\$7,546
Net Change in Total Revenue with respect to Case 1		\$3,154	\$11,355
Net Change in Total Revenue with respect to Case 2			\$8,201

Findings and Conclusions

After assessing the impact of increased industrial incentive rate levels on BPA's revenues for the months of March through June 1986, BPA has determined that the proposed increased commitment levels satisfy the revenue test prescribed by the GRSPs. Total BPA revenues are expected to be approximately \$8.2 million higher than they would otherwise have been expected to be -- even under the most conservative (Case 2) "base case" assumptions. As a result, BPA has notified the DSIs that their requested increases have been granted.

Issued in Portland, Oregon, on February 27, 1986.


Administrator

