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BPA (Bonneville Power Administration) Variable Rate Hearing

Max S. Baucus

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STATEMENT BY SENATOR MAX BAUCUS  
BPA VARIABLE RATE HEARING  
COLUMBIA FALLS, MONTANA  
JANUARY 29, 1986  

Mr. Radcliffe, I am very pleased to be here this evening.  

It's been almost a year since you last came to Columbia Falls for a hearing on BPA's draft option study.  

Over 3,400 people from all across the Valley crowded into this gymnasium for that hearing. Their show of support for the Columbia Falls plant was, in a word, overwhelming.  

From the looks of the audience here tonight, it's clear that that support is still as powerful.
LAST SPRING, NO ONE KNEW WHAT THE FUTURE WOULD HOLD. WE WERE WORRIED. IN FACT, MANY OF US WERE DOWNRIGHT SCARED THAT A MAJOR, SOLID INDUSTRY THAT HAD ECONOMICALLY SUPPORTED THE VALLEY FOR SEVERAL DECADES WAS FACING POSSIBLE COLLAPSE.

BPA THEN TOOK THE COURAGEOUS STEP OF ASKING THE QUESTION — HOW DO WE GET THE ALUMINUM INDUSTRY IN THE NORTHWEST BACK ON TRACK?

I WANT TO COMMEND BPA FOR UNDERTAKING THE DIRECT SERVICE INDUSTRY OPTION STUDY. IT GAVE HOPE TO THE ALUMINUM INDUSTRY AND THE ENTIRE REGION FOR STABLE ELECTRICITY RATES.

IN THE MONTHS THAT FOLLOWED, THE MONTANA CONGRESSIONAL DELEGATION, THE GOVERNOR, PLANT EMPLOYEES, MANAGEMENT, AND MOST OF ALL, MONTANANS IN THE FLATHEAD VALLEY BANDED TOGETHER TO BEGIN EXPLORING WAYS TO KEEP THE PLANT OPEN.

HURDLES OVERCOME
Something exciting happened! Together, we overcame what at times looked like impossible odds:

- We found a buyer for the ARCO plant in Brack Duker and the employees.

- With the Governor's leadership, the State Board of Investments provided $8 million in operating capital for the plant.

- The unions representing the plant's employees negotiated a labor agreement that would keep the plant viable.

- Plant management renegotiated its contracts with Burlington Northern to help bring transportation costs down.

In a word, we've come a long way since last spring. And the ones who deserve much of the credit are the people here in Columbia Falls and across the Flathead Valley.
THE RESIDENTS OF THIS VALLEY HAVE SHOWN A UNSWERVING COMMITMENT TO MAINTAINING A VIABLE ALUMINUM INDUSTRY IN THE NORTHWEST.

HURDLES LEFT TO OVERCOME

BUT THERE ARE STILL THREE MAJOR HURDLES REMAINING. AND BPA PLAYS A CRITICAL ROLE IN DETERMINING WHETHER WE ARE SUCCESSFUL.

HURDLE #1

THE FIRST HURDLE IS REDUCING QUICKLY THE COST OF ELECTRICITY, WHICH ACCOUNTS FOR A BULK OF THE PLANT'S OPERATING COSTS.

BPA'S FINAL STUDY RECOMMENDS IMPLEMENTING A VARIABLE RATE, WHICH WOULD TIE THE PRICE OF ELECTRICITY TO THE PRICE OF ALUMINUM.

BPA MUST IMPLEMENT THIS VARIABLE RATE AS SOON AS POSSIBLE!

UNDER THE CURRENT TIMETABLE, BPA IS AIMING TO IMPLEMENT THE VARIABLE RATE BY JULY OR AUGUST.
THAT MAY BE TOO LATE TO HELP THE PLANT GET THE CONTRACTS IT NEEDS TO SURVIVE.

THE IMPLEMENTATION DATE SHOULD BE MAY 1!

IF BPA WAITS UNTIL JULY OR AUGUST, THERE EFFECTIVELY WILL NOT BE ANY RATE RELIEF FOR THE PLANT UNTIL MARCH 1987.

THE REASON: BPA'S SEASONAL PRICING. UNDER THIS PRICING SCHEME, BPA WOULD CHARGE A RATE OF 13.8 MILLS IN MARCH THROUGH JULY. THAT'S A PRICE THE PLANT CAN LIVE WITH.

BUT FROM AUGUST TO FEBRUARY, BPA WOULD SWITCH TO A HIGHER RATE -- 19 MILLS. THE PLANT CANNOT SUSTAIN THAT HIGH PRICE.

IF BPA DOES NOT IMPLEMENT A VARIABLE RATE BY MAY 1, THEN BPA MUST DROP ITS SEASONAL PRICING. I SUGGEST THAT BPA INSTEAD DESIGNATE THE RATE TO BE 16.7 MILLS, WHICH IS THE ANNUALIZED AVERAGE OF THE VARIABLE RATE.

HURDLE #2
The second hurdle we face is ensuring that the aluminum price BPA uses to set its variable rate is based on the future price of aluminum as quoted by the London Metals Exchange.

Currently, BPA plans to use a five-year, rolling historical average of aluminum prices as reported by Metals Week magazine.

But the purpose of the variable rate is to keep the aluminum industry viable in the future.

The future price reflects what buyers are willing to pay. The future should set the variable rate, not the past.

HURDLE #3

The third hurdle we face is even more immediate.

The plant is currently receiving an incentive rate from BPA. This rate was negotiated when ARCO was still owner of the plant. Under the terms of
THAT CONTRACT, THE INCENTIVE RATE WILL EXPIRE MARCH 31.

IF THIS HAPPENS, RATES WILL IMMEDIATELY RISE TO 22.8 MILLS. THAT WILL COST THE PLANT AN ADDITIONAL $1.5 MILLION OVER A THREE-MONTH PERIOD.

YESTERDAY, BPA ANNOUNCED THAT IT WOULD AGREE TO DEFER A PORTION OF THE PLANT'S POWER BILLS FOR APRIL, MAY AND JUNE.

I AM ENCOURAGED BY BPA'S WILLINGNESS TO ADDRESS THE SHORT-TERM RATE PROBLEM. BUT I AM DISAPPOINTED WITH THE PLAN BPA HAS OFFERED.

THE TERMS OF THE PLAN ARE SIMPLY NOT ACCEPTABLE. THE INTEREST RATE ON THE DEFERRED AMOUNT WOULD BE 18 PERCENT ON AN ANNUAL BASIS! THAT'S JUST TOO HIGH. IT BORDERS ON LOAN-SHARKING.

BPA MUST COME UP WITH A BETTER, MORE REALISTIC SOLUTION. THE PLANT DESPERATELY NEEDS A FINANCIAL ARRANGEMENT TO TIDE THEM OVER UNTIL THE VARIABLE RATE IS IN PLACE. BUT THE ARRANGEMENT MUST BE ONE THAT THE PLANT CAN LIVE WITH.
As a start, the plant should have an opportunity to continue the incentive rate until the end of June, an option that was originally offered to every company in the region.

CONCLUSION

We’ve all worked so hard to get this far. We must not stop now.

This is not just another rate case.

BPA was created to knit the people living in the Columbia River drainage area into a cohesive economic family.

The people of Columbia Falls and the Flathead Valley want to continue to be a part of this family.

The residents of this valley have shown a commitment to maintaining a viable industry in the Northwest. It’s now up to BPA to accept its responsibility to the region.
I was encouraged that last week Peter Johnson asked the Environmental Protection Agency to streamline the review time period of the draft environmental impact statement. I, along with the other Senators in the Northwest, wrote a letter in support of Mr. Johnson's request.

Happily, EPA agreed to shorten its 60-day comment period to 21 days for the draft EIS. EPA also tentatively agreed to reduce the final environmental review time to 15 days.

This action shows what we can accomplish when BPA, elected officials and the people of the region work together.

One final point:

The FERC has the authority to grant immediate interim approval of the variable rate. I am working to speed up the FERC process. BPA should join me in that task. And I call upon all of you tonight to help too!
FERC needs to be made aware now of our concerns. FERC will not exercise its special authority unless it fully appreciates the emergency nature of this situation.

If we all work together, in the spirit of cooperation, I am confident we can clear these final hurdles.

Together, I know we will succeed.

Thank you.