Chapter 53

CFAC shuts down

As California's energy crisis became a West Coast problem by summer 2000, management at the Columbia Falls Aluminum Co. smelter considered different strategies to deal with volatile market prices for wholesale power – from small steps like peak shaving, lowering pot voltages and cleaning buss connections on anodes to big steps like shutting down potlines. CFAC didn't have a secure power contract to cover the plant's entire load for February and March 2001, and the break-even point for power was about $30 per megawatt-hour, managers said. But by early December 2000, the Mid-Columbia Index power price was running from $190 to $260 per megawatt-hour. [1] The market didn't improve through the first month of winter – by late January 2001, the price of non-firm power on the Mid-Columbia index ran from $290 to $500 per megawatt-hour for peak or heavy demand and $240 to $260 for off-peak or light demand. [2] The Bonneville Power Administration found itself needing power for California and turned to Pacific Northwest aluminum companies for it. Three of the aluminum companies had contracts that enabled them to sell their BPA-contracted power on the open market if they shut down their plants – huge blocks of power that could be sold for 10 times or more what the companies had contracted to pay the BPA. The potential windfall-profits sparked outrage and politicized the power deals. The BPA, a federal agency coming to the aid of Californians, needed the power and was willing to cut deals, but there was serious concern about impacts to workers and local communities.

The BPA deal

On Jan. 18, 2001, CFAC and the BPA signed a remarketing agreement in which CFAC agreed to completely shut down its aluminum plant so the BPA could remarket the 171 megawatts of power from the plant's contract which ended on Sept. 30, 2001. CFAC also agreed to remain shut down during October through December. The company was allowed to sell the contracted power to third parties, but the BPA retained the right to remarket the power to itself or another qualified purchaser with public preference. CFAC agreed to use a portion of the money from the deal to compensate laid-off workers through 2001, meet obligations with raw material suppliers, meet fixed operating costs and tax liabilities, and pay for power transmission and other remarketing costs. Money made from remarketing the power would also pay for planning, licensing, siting, acquisition or construction of conventional or renewable power-generating sources for future CFAC operations, as well as for upgrading the plant

to achieve energy conservation. The BPA retained the right to conduct limited audits to ensure these obligations were met. CFAC also agreed "that it will not argue in any legal or political forum that (it) has a statutory right to or should be allocated, any direct or indirect service of federal power after Sept. 30, 2006." [3]

Curtailments were not new – the smelter in Columbia Falls had shut down potlines since it began operating in August 1955. But it had never completely shut down. During negotiations, BPA Spokesman Ed Mosey told media that CFAC would model its plan on one adopted by Golden Northwest Aluminum, which had smelters at The Dalles, Ore. and Goldendale, Wash. In the Golden Northwest model, 25% of the proceeds would go to the BPA to defray costs of operating in a volatile market and 25% would go to building a new gas-fired turbine generating plant, paying wages and benefits to laid-off employees, cover costs of curtailing production and making long-term investments that would improve production at the plants. Mosey said CFAC had been very cooperative, and he pointed out that high demand for power in wintertime created a good opportunity for CFAC to sell its power. "If they desire to curtail production and take advantage, the sooner the better," Mosey said about the CFAC negotiations. "If they want to be off-line, now's the time to do it." When temperatures dipped into the 30s, each degree of temperature drop equaled about 300 megawatts of additional power needed by the region, Mosey said. [4]

The agreement signed on Jan. 18 by CFAC's power manager, James Stromberg, was a remarketing addendum to the company's 1996 power contract, which ended Sept. 30, 2001. CFAC would not be billed for their take-or-pay obligations from January through September, and the BPA would be entitled to at least $60 million from the proceeds of remarketing the power, paid at the rate of $6,666,666 per month. If for some reason revenues from remarketing dropped too low, the BPA's share would decrease proportionally. According to the new deal, the BPA was obligated to supply CFAC with power under a block power agreement beginning Oct. 1, 2001, and CFAC planned to restart half or more of its completely idled potlines during 2002. CFAC, however, would waive its right to 165 megawatts of power from Oct. 1 through Dec. 31, 2001. CFAC was obligated to use earnings from remarketing its power to pay: 1) existing compensation, insurance, medical, pension, earned-vacation and other benefits related to employee layoffs or to maintaining employees at the plant through Dec. 31; 2) the cost of cancellation penalties for contracted supplies of alumina or other raw materials; 3) fixed operating costs; 4) costs associated with planning, licensing, siting, acquisition, construction, etc. of a conventional or renewable power source; 5) costs for energy conservation measures at the plant; and 6) tax liabilities from the remarketing of the power. The BPA retained the right to conduct limited audits to ensure these conditions were met. [5]

On Jan. 22, CFAC announced it would shut down its remaining potlines by Jan. 26 and sell its power on the open market. General Manager Steve Knight said the company intended to keep the plant shut down through all of 2001 and hoped to restart the potlines in January 2002 at 50% capacity. Half of the company's 585 workers were already laid off, and they would be paid all of their wages and benefits through 2001. The other half would continue to work at the plant through 2001 on improvement projects, training and preparing the potlines for re-energizing. "They might average fewer hours than they would normally work, but they're still going to be paid 100 percent of their wages," Knight said. Wages and benefits for all of CFAC's employees through 2001 were estimated to cost about $30 million, which would be recovered through the sale of power. [6]

CFAC was one of eight aluminum smelters in the Pacific Northwest that had reduced operations during the West Coast Energy Crisis in 2000. More than 900,000 tons of production was idled by regional producers. CFAC, Kaiser and Golden Northwest had provisions in their 1996 power contracts allowing them to resell BPA power on the open market in event they were forced to curtail production for any reason. CFAC could sell about 345 megawatts of power on the open market, with prices ranging as high as $500 per megawatt-hour, or about 20 times what the company paid for the power in its long-term contracts. At $500 per megawatt-hour, the company could gross nearly $1.2 billion in power sales through 2001, or about six times the value of the aluminum the plant could produce in a year's time. A more reasonable estimate suggested by the BPA was $125 per megawatt-hour, which would equal about $300 million for 2001. [7]

Plant workers expressed concern about their future as a result of CFAC's closure. Bill Speer said he would consider a job change and going back to school. He began working at the plant in 1974 only three days after leaving high school. "It's all I know," he said. Kenny Gochanour, a brick mason at the plant for 24 years, said he was glad to have a job but was unsure about the company's future. "I'm going to ride it out until they close the doors," he said. "I don't understand this power thing at all. How can so much money run through a company?" He said other workers considered themselves in limbo and were looking ahead to new jobs. Terry Mitton, director of human resources at CFAC, said the company had not yet decided how many salaried employees would be laid off. If he was laid off, he planned to take a temporary position or go back to school for additional training. Mitton believed most of CFAC's employees were being careful with their money, and many of them began conserving when they received their settlement from the profit-sharing lawsuit in 1998. "I have to give them credit," Mitton explained. "Most of them spent their money wisely and paid bills." Darrell Olson, manager of Glacier Bank's branch in Columbia Falls, said the shutdown was not surprising because of the

seriousness of the electrical shortages. “It appears people will hold back on spending until they see what happens,” he said. “This could have a major effect on the valley.” [8]

Vic Cordier, who had worked at the plant in a wide variety of jobs from the day it began making aluminum in 1955 until he retired in 1986, said he was “just shocked” that the CFAC plant was shutting down. Cordier said he had a good-paying job at the plant, and he took pride in the fact that he was able to send his son to college on the money he earned there. “Those were some of the best-paying jobs in the valley,” he said. As an hourly employee, Cordier was happy to go to work and collect his pay without having to think about the financial matters that kept the plant running. He expressed doubt that the smelter would ever start up again. “I feel bad for the people working there,” he said. “Some of those people are getting up in age.” Cordier was sure the shutdown would affect the valley. Leonard Secord started working at the plant on Aug. 27, 1955, after working as a welder and maintenance worker during construction of the Hungry Horse Dam. He had retired in 1994 just shy of 40 years. “I feel bad as heck about it,” he said of the plant’s closing. “I’ve got friends still working there, and I’d like to have seen them have the same opportunity I did.” He pointed out that the plant’s closing would affect suppliers in Columbia Falls and throughout the Flathead Valley. “What if they don’t reopen that plant?” he asked. “It’s very scary.” [9]

Public reaction

By Jan. 30, local residents were reacting to the news with a mixture of fear, anger and optimism. Long-time resident Robert McClanahan was angry at the news. “The Hungry Horse Dam was built for an aluminum plant,” he said, not for California. A CFAC employee told local media he was concerned that he was four years from retirement, not in the best of shape and not very useful to the Flathead County workforce. “Who’s going to hire me?” he asked. He also wanted to know about all the politicians who came to Columbia Falls to support the plant in 1985 when there was talk that the Atlantic Richfield Co. might close the plant. “Where are they today?” he asked. “I’m losing my livelihood so some idiot in California can keep his swimming pool heated.” Steve Marquessen, owner of The Nite Owl Restaurant in Columbia Falls, said he was concerned about the plant’s closure. “There are not a lot of good paying jobs with retirement and benefits in the valley,” he said. Columbia Falls real estate broker Karen Moore said the consensus in her office was that the real estate market would not be badly hurt. She explained that Columbia Falls had become a bedroom community for Whitefish and Kalispell, since it was cheaper to buy property in Columbia Falls. [10] In a Feb. 8 letter to the Hungry Horse News, Dave Wilkening, an engineer at the plant, blamed politics and environmentalists for stopping construction of new power plants, which led to the power crisis and CFAC’s decision to shut down. “By sacrificing just one

plant in the Flathead Valley, the environmental lobby not only sidestepped the power shortage but also mothballed an environmental liability in one fell swoop," Wilkening said. He provided Gov. Judy Martz's phone number in his letter and encouraged readers to tell her what they thought. [11]

Columbia Falls Mayor Gary Hall expressed optimism. He was confident the plant would keep good on its plan to restart in January 2002. [12] Hall worked for the Anaconda Aluminum Co. plant in 1968 when he returned from Vietnam – his first civilian job. "I'm very optimistic that we are going to be OK," Hall said. "I don't buy into the general conversation that they'll never open again." He pointed out that now was a good time for other companies to consider moving into Columbia Falls and setting up shop because of the job pool and available industrial sites. Columbia Falls City Manager John Dove said he sensed caution among the city's residents. While laid-off workers would continue to receive wages and benefits through 2001, residents were still waiting for CFAC to provide more information. "The turnover in spendable money will decrease," he said. He noted that the city had backed plans to build a power-generating facility to keep the smelter running and for legislation that would hold down power costs for the plant. [13] Meanwhile in Helena, Gov. Judy Martz's new Advisory Council on Electricity Prices recommended that the state consider subsidizing industries in Montana to help them deal with unusually high power prices. Opponents pointed out that subsidies were politically sensitive and that the government's budget was already hard-pressed to support existing programs. [14]

On Jan. 23, Steve Knight talked to media about CFAC's long-term strategy in closing down the aluminum plant for the rest of the year. The company had a firm-power contract with the BPA for 50% of the plant's power for 2002 through 2006, but that contract's power price was expected to be too high to be economical. By selling power at the market's high prices through 2001, the company reasoned, CFAC could build up enough money to help pay for operating at unsure prices beginning in January 2002 until the deregulated power market straightened itself out. The power CFAC had purchased in 1996 under a long-term contract in a big block would be broken up and marketed on the open market through the BPA, but the BPA would be able to step in and buy the power for its own needs. A hard and fast $60 million of the remarketing revenue would go to the BPA; another portion would go to the costs of shutting down the plant, including taxes, restarting costs and paying for laid-off employees; and whatever was left would go to subsidizing future power purchases. Knight estimated the amount left over would be about $60 million. [15] The company had contracted to purchase 165 megawatts from the BPA at about $25 per megawatt-hour and would begin selling that power to the open market for as much as $140 to $500 per megawatt-hour, Knight said. "The power is just so much more valuable than the metal," he told

local media. “What we’re trying to do is buy time for this power market to settle itself out.” [16]

Knight explained that about 950,000 tons of aluminum production capacity was idled in the Pacific Northwest, equivalent to about 25% of the total aluminum production capacity in the U.S. He also noted that aluminum prices had moved upwards on the London Metal Exchange to 75 cents per pound from an average of 65.5 cents in 1998 and 1999. Knight responded to suggestions that the plant would not start back up in January 2002. The new contract that would be in effect by then would not allow CFAC to resell the power, “so it only makes sense that we would restart,” he told local media. If, however, the power market was worse in January 2002 than at present, the BPA could ask to change the contract. He also acknowledged that the plant’s long-term viability was in doubt. While Pacific Northwest aluminum producers had long argued that their smelters depended on federal cost-based power, the BPA had publicly stated that it would no longer provide cost-based power to the smelters after 2006. [17] While some Pacific Northwest aluminum plants could expect to be back on line by Oct. 1, 2001, CFAC’s deal with the BPA would require the plant to remain shut down through the end of the fourth quarter of 2001. Knight said he was optimistic about the plant’s future because the drop in production by Pacific Northwest aluminum plants should drive up aluminum prices, and CFAC would be restarting at the right time. “It looks bleak right now,” he noted. Aluminum Workers Trades Council President Terry Smith said he approved of the effort by CFAC and the BPA to save good-paying jobs in the future. [18]

The Daily Inter Lake addressed the closure in a Jan. 23 editorial. “Fortunately, the Flathead Valley doesn’t depend quite as heavily on CFAC paychecks as it did in the good old days,” the newspaper said. “Those were the days when the local economy consisted of the plant, the lumber mills and not very many other jobs. Economic diversity has at least made the Flathead better able to weather the aluminum industry’s periodic upheavals. And there have been many of those. In its 45 years of operation, the plant and the community have endured enough cutbacks, layoffs, threatened closures, ownership changes and wild rumors to give ulcers to anyone connected to CFAC. But never has the plant stopped all production.” [19] The Hungry Horse News gave its opinion in an editorial a week later. “Many think it will never open again, and they may be right,” the newspaper said. “Plant managers time and time again have said they need cheap power to operate.” Despite the high cost of power in current markets, the newspaper was optimistic about the future of the plant and Columbia Falls. “The United States needs aluminum producers,” the newspaper said. “But the Columbia Falls community is resilient and resourceful. We are more than just a CFAC. We are a community of smart individuals who have taken a punch to the mouth. We can and we

will pull through this. There will be some pain. Plenty of pain." The editorial concluded by suggesting that high-tech firms might come to Montana to build businesses. [20]

Several participants in past rallies to save the aluminum plant were asked why there were no big rallies to save the plant in 2001. The Flathead community had turned out in large numbers at BPA hearings in Columbia Falls in 1985 and 1993 when high rates proposed by the BPA threatened to shut down the plant. Lee Smith, who worked in management at the plant since the 1950s, said the BPA had more flexibility in the past to negotiate because more power was available. Even in drought years, the BPA could turn to the open market. By 2001, the BPA had oversold its capacity, a situation that was compounded by drought. "A huge outpouring of community support will not help the situation," Smith said. "BPA is between a rock and a hard place." Former Columbia Falls Mayor Colleen Allison was often credited as the driving force behind the successful rallies in 1985 and 1993. Organizing community support in the past "was a marvelous thing to see," she said. "Everybody was interested, so it was easy to put together." Allison explained that Gov. Ted Schwinden had worked with her daily. "It was a positive effort because everyone wanted the same thing – city, county, state – there were no dissenters," she said. Allison said she was afraid the Pacific Northwest aluminum plants might not restart if they remained shut down for two years, and she said she had contacted Congressional delegates about the situation. She said she still harbored distrust of the BPA and called for maintaining a close watch on the government. "If I was 20 years younger, I would take on the BPA again," she said. [21]

Steve Marquessen was a member of the Columbia Falls Chamber of Commerce during the earlier rallies and considered his participation as "my job." He credited Allison with organizing the rallying effort. "She got me to do things," he said. Marquessen said the BPA was acting heavy-handed in the past because of the huge debt the agency had accumulated through the Washington Public Power Supply System fiasco, which resulted in several unfinished nuclear power plants. The county's economy was less diversified then, and when businessmen in the valley realized the impact of the plant's closing, they quickly joined the cause, Marquessen said. Another difference was that plant workers in the past faced layoffs without compensation and joined the rallying effort. Laid-off workers this time would be compensated for a year by the resale of electrical power by CFAC. The power market was also different. "It's hard to fight city hall now," he said. "I believe the community is still supportive of the plant, but we don't know what to do." [22]

Roger Elliot was a state senator in 1983 when he introduced legislation in support of the plant. He said the power market was different now, but the BPA "hasn't seen the full wrath of the public yet." Elliot disagreed with the claim that the current Flathead

economy was more diversified, calling the emphasis on tourism a “Hollywood economy.” The aluminum plant was still essential to the local economy, he said. John Harp was also a state senator during the earlier rallies, and he had introduced legislation to help the plant. The state’s per capita income was “spiraling down” at the time, and places like the aluminum plant needed to be saved, he said. The Flathead community was more fragmented now, and Harp blamed the company’s instable management for not communicating the plant’s long-range goals to the community. Harp said he was an optimist, and he pointed to declining power prices. “We can’t compete with other nations if we can’t produce aluminum.” [23]

Alida Wright had been a School District 6 employee since the days of the earlier rallies. She recalled how Harp’s tax-reduction legislation helped the aluminum plant at the expense of residential taxpayers who were willing to absorb the extra burden to help the plant. She said the community might not be willing to do that now. She also noted that more than a thousand employees worked at the plant in the past, which created a larger impact on the Flathead economy and a larger tax base for the school system. Columbia Falls was too small to supply that many workers, so they came from all over the valley. As for the current power crisis, “Frankly, there’s not a whole lot we can do about it, but back then there was,” Wright said. She pointed out that Flathead residents had grown tired of hearing about the plant shutting down, but the economic significance of the plant was still high. [24]

Jack Canavan was a company spokesman during the past rallies. “Other aluminum plants in the Northwest have always been amazed at the amount of support the people of Columbia Falls demonstrated for the plant over power issues,” he said. “When you think about it, it was amazing.” Canavan said he believed more community support existed. “I don’t doubt that they would continue to demonstrate that support if needed today,” he said. R. Glenn Kennedy helped build the plant in the 1950s and retired after working at the plant for 30 years. He joined the We Want The Plant grassroots group because “the power company wanted to put us out of business,” he said. “In this town, it’s the aluminum plant and Plum Creek, and that’s it.” Kennedy said he believed CFAC would start up again because the reduction pots were “good producers” and the plant had a good workforce that never went on strike over the decades. “It all depends on management, if they don’t know their onions,” he said. [25]

The big layoff

Soon after the layoffs were announced, the Flathead Valley Job Service and Project Challenge sent a rapid response team from its Dislocated Worker Program to speak to the workers. CFAC provided space and free lunch. The team’s first task was to assess the workers’ needs by conducting a survey. “Our goal is to catch them as quickly as we can,”

explained Pat Hulla, the Job Service's assistant manager. "We want to get them going before the salary runs out." Workshops were organized to provide laid-off workers with information on schools, retraining and relocation funding. One requirement of the program was that laid-off workers make at least 80% of the salary they previously had at any new jobs they found. This posed an obstacle for CFAC employees since their average pay was around $39,000 per year, so the Job Service turned to using federal grant money to pay for schooling, retraining and relocation. [26] By May, as money from the Workforce Investment Act was used up, about $3.18 million in National Emergency Grant money was approved for use in retraining programs for workers laid off at both CFAC and the Montana Resources mine in Butte. According to Kay Mitchell at the Kalispell Job Service, former aluminum plant workers were pursuing a wide variety of retraining goals, from a master's degree at the University of Montana to truck driving school. [27]

A survey of 216 laid-off workers found that 94 were from Columbia Falls and 79 were from Kalispell, with the rest coming from across the valley. A total of 109 were laborers; 46 were clerical, managers or professionals; 35 were mechanics, millwrights, electricians or in other trades; and 18 were technicians, computer workers or machine operators. It was definitely an older workforce, with 111 laid-off workers between 35 and 50 years old and another 38 workers over 50. A total of 189 surveyed workers were heads of their household, with 151 spouses and 254 dependents under 18 years old. Twenty-three of the workers were female, and 50 were veterans. Nearly 70% of the surveyed workers were high school graduates, and nearly 80% expressed interest in attending a community college or vo-tech center for less than two years. Among the comments made by the surveyed workers: "want this to be my last job switch," "want to enjoy my next job," "interested in work at Stream, teaching, financial services," "want to go back to school but need financial help," "want to relocate to Alaska," "want to start my own business," "I'd rather keep the job I have," "didn't expect to be laid off this soon – just found out" and "please hurry." One worker commented, "I went through this situation in 1980 and 1993. In the latter I took advantage of the various lectures, programs, counselors, etc. and we benefited greatly. Ultimately it was good for the plant, too. Good care of dislocated workers shows them someone cares and teaches them that they do have skills and ability they had forgotten about or didn't even realize." [28]

Allen Jimmerson, who was a potman at CFAC when he was laid off, said he planned to use the year-long pay to support his move into a new career as a wildlife artist. His father had worked at the plant for 33 years. Jimmerson had worked at the plant for 27 years, starting in the reline crew ramming cathode paste in rebuilt pot bottoms. He first worked at the plant in 1972 while still in high school. "I really didn't like it," he said. He had never expected to return, but he needed a job in 1974 and, with a relative at the

plant, it was easy for him to land a job there. Over the years, Jimmerson paid off his house and was able to live comfortably, but when asked if he wanted to return to his job at the plant should it reopen in January 2002, the answer was no. Jimmerson's life was a "dichotomy" – half spent in the darkness of the plant and half painting Montana wildlife and scenery. In recent years, his paintings were given exposure in galleries, and a firm in Minnesota published one of his works as 2,500 prints. [29]

Outside workers involved in raw material shipping also were impacted by aluminum plant closures. By late February, about 18 longshoremen were laid off in Everett, Wash., where as many as 15 ships a year offloaded alumina at a special CFAC port facility. Other workers whose jobs were at risk included several CFAC employees at the five-acre site, three Port of Everett employees, half a dozen foremen and clerks and two weighmasters. The port director said CFAC had told him not to expect any more ships in 2001. Although the alumina shipments accounted for a large portion of the port's tonnage, it did not account for a large portion of its revenue. The huge storage dome was nearly half-filled with alumina at the time of the plant closure. [30] On Sept. 9, 2001, BNSF Railway announced it would eliminate 18 switchyard positions at its yards in Whitefish by consolidating positions in Shelby, Havre, Spokane and Pasco. The Whitefish railroad operation employed about 250 workers. BNSF Spokesman Gus Melonas attributed some of the reduction to production curtailments at CFAC and Kaiser in Spokane. "Now the Spokane yard doesn't handle the same number of cars it once did," he said. "There's a trickle-down effect. And with more than a year-long slowdown in the economy, overall (freight) volumes are down." BNSF reported net income for the second quarter was down 29%. [31]

The 203 workers CFAC laid off on Jan. 12 would receive wages and benefits through the end of 2001, at which time they would be considered permanently laid off. According to the Flathead County Job Service, some of the laid-off workers had applied for retraining and career assistance. The idea that the laid-off workers were receiving wages and benefits for 11 months, however, created a morale problem with the remaining workers at the plant who considered it a "year's paid vacation." By Jan. 26, workers at the plant continued to keep busy as the last of the reduction pots were shut down for the rest of the year. According to Lyle Phillips, CFAC's human resource manager, department heads were developing lists of projects to keep the remaining half of the plant's workers busy in 2001. Now was the time to get work done that was often left behind in busier times, Phillips told media. "But we can't be sweeping and cleaning," he said. "That would demoralize everyone. I'd rather just send people home." The company expected to decide in the next few weeks about layoffs for the salaried workers. [32] Pat Driscoll, a compliance officer with the Montana Department of Environmental Quality, sent a letter to CFAC in January advising the company to take advantage of its downtime to do

preventive maintenance on its pollution control equipment. The DEQ was in the process of developing a "maintenance rule" that would specify routine repair schedules so CFAC would not need to apply for air pollution variances to make repairs that caused emissions to exceed limits. [33]

By May, with the smelter completely shut down, workers still employed at the CFAC plant put their idle time to work for volunteer charity projects in the local communities. Company managers posed the idea to the employees, who then suggested ideas. Potman Keith Kastner worked every Thursday loading and delivering food at the North Valley Food Bank. "If I can help out, I'm glad to do it," Kastner said. "These folks really need the help." Randy Lawson, a 23-year veteran at the plant, delivered groceries to elderly and handicapped people in Kalispell. Four CFAC workers were building dugouts at baseball fields in Whitefish, and other employees worked with the Christmas In April program repairing homes for the needy. "When we're running at full production, it's hard to find time to let workers off to do community service," Jim DeWaters, the plant's human resources director, said. "As long as we have an opportunity to do it now, we'll take advantage of it. CFAC has donated lots of dollars through the years, but not bodies." Downsizing in the mid-1990s had increased the difficulty in finding time to do community service. [34] During the summer of 2001, CFAC employees worked on Habitat for Humanity houses in Whitefish and a community home in Kalispell. They also built baseball fields and fixed up a Boy Scout camp near Echo Lake. According to Skip Beardsley, who was in charge of the community home project, CFAC was the only big source of volunteer labor in the valley. "If any angels exist, they wear CFAC hard hats," he said. [35]

The rumor mill among laid-off and working employees churned out more or less believable stories in the first half of 2001. CFAC volunteers working at the Columbia Falls baseball fields spoke of a letter reportedly from the State of Montana informing CFAC that all necessary repair work to the dry scrubbers must be done while the plant was shut down because the state would be reluctant to issue a variance for emergency repairs to pollution control equipment once the plant restarted. A laid-off millwright spoke of a lawsuit that might be filed by laid-off workers to force the company to pay them over the next two years if the plant did not restart. He also said he was told CFAC would call back laid-off workers to rotate them in with employed workers in 2002. One of the plant's managers said the lax summer schedule for the remaining workers at the plant would end in September and they would be put to work on a more full-time schedule to get important capital projects and other maintenance needs completed in time for a restart. Many of the CFAC workers had worked one week on and one week off during summer 2001, and since many of them had high seniority, they also were owed four or five weeks of vacation time. According to the rumor mill, not much work was

accomplished during the summer. Some workers said they would be put back to work at a more serious level beginning Sept. 1, but once the cold winter months arrived many of them would be sent home again. [36]

On Dec. 10, 2001, the Montana Benefits and Life Co. notified laid-off CFAC workers that their health insurance would soon end and that they were eligible for COBRA coverage. [37] By the time paychecks for laid-off workers drew to a close, many workers had found new jobs or were in school. With $3.18 million in federal assistance money available and with help from the AFL-CIO's Project Challenge, many laid-off workers were able to go to college or take vocational training. "They've all done well," said Kay Mitchell, who was in charge of administering the grant money for the Kalispell Job Service. "There are guys in school all over the place in a wide variety of things. We don't tell them what to take – it's their future." Mitchell said 64 laid-off workers were using federal money and an equal number were using Project Challenge aid. Training or schooling included business school at the University of Montana, surveying and chef school at Flathead Valley Community College, truck driving, heavy equipment operating, and on-the-job training at construction sites. Mitchell said the average pay upon leaving the program was $16.52 per hour, "which is good, considering the Flathead Valley." [38] The last of the paychecks for the 235 hourly and 42 salaried laid-off workers were issued on Dec. 31. Another 305 hourly and salaried workers remained at the plant. "We understand we're in a survival situation," Terry Smith said. "It's another sad day in Montana. These are 300 good-paying jobs being lost." The unemployment rate in Flathead County was 6.1%, about 0.3% higher than in December 2000. "It isn't about people and their lack of skills," said Virginia Sloan, a business advocate at Kalispell Job Service. "It's that we don't have enough jobs to employ everybody." [39]

Rolling blackouts

While CFAC was shutting down pots and laying off workers, the energy crisis in California only got worse. By Jan. 4, 2001, California regulators had approved emergency rate hikes of 7% to 15% for the state's two largest utilities, Southern California Edison and Pacific Gas & Electric, after they warned of bankruptcy caused by billions of dollars of debt. On Jan. 11, California's Independent System Operator declared a Stage 3 alert but managed to avert rolling blackouts. U.S. Energy Secretary Bill Richardson extended emergency orders requiring out-of-state generating companies to continue selling power to California utilities. On Jan. 16, the Independent System Operator declared another Stage 3 alert as several generating plants reported natural gas shortages. Southern California Edison announced it didn't have the $596 million needed to pay its weekly bill to power generators. The next day, the Independent System Operator ordered rolling blackouts in northern and central California. Gov. Gray Davis signed an

emergency order allowing the state's Department of Water Resources to buy power as part of a plan to save California's utilities from bankruptcy and prevent further blackouts. [40] The Jan. 17 rolling blackouts took place in San Francisco and came to an end after the state received 500 megawatts of power from Canada. [41]

In his State of the State speech to the legislature on Jan. 8, Gov. Davis called the structure of the deregulated power market "a colossal and dangerous failure." No major power-generating plants had been built in California in more than 12 years while power demand grew, led by Silicon Valley's high-tech industry. The statewide power system was capable of handling about 56,000 megawatts of demand, but peak demand over the past three years had ranged between 53,000 and 54,000 megawatts, leaving little margin for unexpected conditions. Restructuring for the deregulated market had forced the state's two main power utilities, Pacific Gas & Electric and Southern California Edison, to pay an average of $300 per megawatt-hour for power from generating companies but limited what they could charge their 15 million customers to $65 per megawatt-hour. The two utilities ran up $11 billion in debt as a result. Critics of deregulation noted that bidding in the wholesale market was required to take place one day prior to purchase, and no long-term contracts were allowed between utilities and generators. According to one expert, the one-day-ahead market was much too risky for any commodity trading. The disaster in California's deregulated market created concerns in other states where deregulation of power markets were in progress. [42]

From January through March 2001, the BPA helped California avoid blackouts through a two-for-one power exchange – for every megawatt BPA sent south, California was required to return two megawatts. [43] But on Jan. 11, when Richardson ordered generating plants in the Pacific Northwest to continue selling surplus power to California, experts responded that no surplus power was available. BPA Spokeswoman Dulcy Mahar advised Pacific Northwest residents and businesses that the BPA didn't expect the region to be affected by Richardson's order because "we don't have a surplus." A storm that hit the California coast on Jan. 11 nearly caused rolling blackouts after it caused a nuclear power plant to shut down. The BPA was scheduled to send 1,500 megawatts to California on the Pacific Northwest-Pacific Southwest Intertie during the storm, but Southwest end-users were required to send twice as much back to Northwest suppliers – 1,500 megawatts within 24 hours and 1,500 megawatts again within 21 days. The BPA power loan to California was voluntary, Mahar said – the Northwest was only required to sell surplus power to the Southwest. The BPA interpreted its statutory mandate as requiring it to "do nothing to jeopardize our Northwest power resources," Mahar explained. [44]

On Jan. 18, 2001, the BPA announced that because of increasing demand and dry weather draining its system's reservoirs, California could no longer rely on the Pacific Northwest for extra power. Spokesman Ed Mosey said the BPA could provide power to California only if it was returned within 24 hours. BPA Interim Administrator Steve Wright noted that despite California's energy crisis, the state was meeting its obligation to return power to the BPA. Meanwhile Rep. Peter DeFazio of Oregon announced that he intended to introduce a bill into Congress to halt deregulation of the nation's power industry. DeFazio said he warned Congress about problems with deregulation eight years earlier when Congress first authorized deregulation. He called the California energy crisis a preview of what was in store for the rest of the nation. "This deregulation scheme has brought the sixth-largest economy in the world, the state of California, to its knees," he said. [45]

In a Jan. 23, 2001, editorial, the Missoulian argued that federal intervention in California's electrical power crisis caused the problem to spread north into the Pacific Northwest. The editorial urged the new Bush administration to cancel the Clinton administration's order requiring Pacific Northwest generators to transmit surplus power to California. "That order isn't solving anything," the newspaper said. "It's merely staving off the crisis California ultimately can't escape. Meanwhile, the order helps drive up electricity prices elsewhere in the West and creates the likelihood that high electricity prices will persist for months to come." Sending power to California was only a short-term solution which led to additional draining of the Pacific Northwest's hydroelectric reservoirs during a potential drought year, the editorial said. The high prices California utilities were willing to pay for power was driving up prices in the Pacific Northwest. The editorial further argued that the state of Montana was particularly vulnerable because it faced its own power deregulation crisis. The Montana Power Co. had already sold off its generating plants and would have to negotiate new power contracts with independent generators starting July 2002. [46]

The Daily Inter Lake discussed the need for federal intervention in a Feb. 11, 2001, editorial. A 15% rate hike by the BPA in April was nothing compared to future rate hikes, the newspaper warned. Already there was strong talk of 90% to 100% rate hikes by fall 2001, while rumors suggested rate hikes as high as 300%. The newspaper pointed out that CFAC was already out of business because of high power prices, and suggested Plum Creek's timber mills might be next. The newspaper blamed the power crisis on California's deregulation bungling, drought and the fact that the BPA had sold more power than it could supply. The editorial suggested that only federal intervention could solve so large a regional problem, but it also warned that other problems usually came with federal help. So far, the federal government and President George Bush had been reluctant to intervene in the problem. [47]

A posse of opinion

Ten governors from the Western Governors Association requested that the federal government impose temporary price caps on soaring wholesale electrical prices during an "Energy Policy Roundtable" in Portland on Feb. 2, 2001. Energy Secretary Spencer Abraham and President Bush, however, rejected their plea. Much of the blame for soaring electrical prices was blamed on deregulation in California, and most of the governors criticized the federal response. "This is a growing crisis that's going to sweep across the United States," Gov. Locke said, "and that's why the Bush administration needs to get involved now and has to provide some immediate relief and stabilize the situation." Gov. Davis was able to defuse much of the anger directed at him by other governors by pointing out that the California Legislature recently had approved a $10 billion bill that would allow the state to make long-term power purchasing contracts, build new power-generating plants at "warp speed" and impose mandatory conservation measures on retail businesses. Abraham cited the California bill as proof that the federal government didn't need to step in and impose caps on power prices. [48]

Abraham did agree on Feb. 2 to not renew federal orders requiring Pacific Northwest power suppliers to send surplus energy to California. "California has proven it can stand on its own," Abraham said. Federal Energy Regulatory Commission Chairman Curt Hebert Jr. agreed with the Bush administration's response. "Price controls don't work," he said. "They do long-term damage and provide no benefit." Suspicion over the role of power generators in the energy crisis was expressed by Gov. Davis, who questioned why so many generating plants had been taken off line, worsening a shortage and sending prices sky-high. "There are 5,000 to 15,000 megawatts of generation off line in California in any given day," Davis said. "Normal is more like 2,000 to 3,000. You have to ask yourself whether something funny is going on. We've not found any specific instances of abuse, but we are looking. Clearly we have 6,000 to 7,000 megawatts down for no apparent reason, and that's meant we have to ask our neighbors for help." The BPA, which had announced it might raise wholesale rates by 60% averaged over five years beginning in October, pointed out that price caps cut both ways. The BPA provided about 45% of the power in the Pacific Northwest, and it would benefit from caps when purchasing power and would lose when selling power. [49]

Montana joined California in court on June 11, 2001, when Attorney General Mike McGrath filed a friend of the court brief siding with the California's petition requesting the Federal Energy Regulatory Commission set just and reasonable rates. "FERC's refusal or failure to ensure a 'just and reasonable' rate is causing irreparable harm to human health, safety and welfare throughout the state of California and likely will have deleterious effect throughout the state of Montana," McGrath said. "FERC's delay is

unreasonable under the circumstances present." [50] The California lawsuit was filed May 22, 2001, and a week later a three-judge panel on the Ninth Circuit Court of Appeals initially denied the request to force FERC to act. In his friend-of-the-court brief, McGrath argued that "when there is no regulation of wholesale power rates at the state level, the Federal Power Act mandates that FERC act on electric rates but, so far, that agency has ignored its legal responsibilities." [51] McGrath said FERC's "arbitrary and unreasonable failure to set clear standards for assessing whether wholesale electricity rates are 'just and reasonable'" resulted in denying "due process and equal protection to industrial electricity users in Montana and likely will cause such harm in the future to consumer electricity users in Montana." He cited the loss of jobs for 585 CFAC workers after the smelter shut down because of high electric prices and similar impacts to other industries and agriculture. McGrath argued that the Federal Power Act "imposes on FERC a duty to ensure just and reasonable rates" and "further mandates that when FERC determines that a rate is 'unjust, unreasonable, unduly discriminatory or preferential,' FERC shall determine a just and reasonable rate." [52]

McGrath cited a Nov. 1, 2000 FERC order made in response to a complaint filed by San Diego Gas & Electric Co. which found "that under certain conditions, short-term wholesale power rates in the California market were 'unjust and unreasonable' within the meaning of the Federal Power Act," McGrath said. "FERC refused to act at that time, however, on the grounds that it had not yet made 'findings about whether particular rates charged by particular sellers' were unjust and unreasonable." McGrath noted that the California Power Exchange, which had caused the West Coast Energy Crisis in the first place, had already been removed, so FERC could not use the California Power Exchange as an excuse for not setting just and reasonable rates. He also noted that the petitioners were not asking FERC to set any specific rates. "Each of the displaced workers in Montana discussed in the statement of facts represents a family," McGrath said. "These families have mortgages, bills to pay, and obligations that cannot be deferred until such time as the court decides upon a final resolution of this matter that FERC abrogated its statutory duty to set just and reasonable rates for electricity. The court cannot turn back the clock and restore those workers to their former lives simply by providing electricity refund checks to their employers. The court must act now to provide any meaningful relief in this case." McGrath then cited FERC Commissioner William L. Massey, who had said that electricity prices have "had a breathtaking and staggering effect on the Western economy and there is no end in sight." [53]

As for the BPA, the agency told media it was a victim of circumstances – drought, tight power supplies and devastating open-market power problems brought on by California's deregulation, but its statutory obligations were putting the agency in a serious bind. In 2001, the BPA estimated the cost of buying power on the open market

for its investor-owned utility customers at $1.5 billion in 2002 – more than 10 times the 2000 estimate of $140 million. The BPA's obligation to the investor-owned utilities angered public utilities, who argued the benefit was too high. Aluminum companies also criticized the investor-owned utilities, claiming they stood to make $3.4 billion through 2006, or 17 times the amount they earned in the previous five years. But the Public Power Council, which represented 120 public utilities, criticized the aluminum companies, claiming 42,000 jobs were at risk if the BPA hiked power costs in order to continue providing power to the aluminum smelters. The aluminum companies called for a tiered-rate plan that would share the expense of the BPA's open-market power purchases, but the BPA wanted to shut down the aluminum plants for two years, which would reduce the regional power load by 14% through 2003. The BPA also wanted the aluminum companies to provide limited compensation for affected workers. [54]

During a Feb. 7, 2001, hearing, BPA officials told the Northwest Power Planning Council that expensive salmon-saving conservation measures might be sacrificed so the BPA could meet its regional power needs without going bankrupt. "The situation is grim," Council President Frank Cassidy said. "At least Bonneville is being honest." Salmon conservation measures limited water flows to turbines, reducing federal output by about 980 megawatts. The council also heard that Oregon Gov. John Kitzhaber had petitioned President Bush to relieve the BPA of its debt to the U.S. Treasury in order to set aside money for salmon conservation programs. Drought had reduced water levels in the Columbia River system by 37%, and the BPA had spent $200 million purchasing 1,300 megawatts back from aluminum companies, the council learned. The BPA said it supported the regional governors' call to save 1,000 megawatts through energy conservation measures. [55]

In early 2001, facing 3,300 megawatts in demand beyond its supply, the BPA acknowledged the impossibility of purchasing the additional needed power at reasonable prices. Wholesale open-market power prices for five-year contracts were averaging about $100 per megawatt-hour, so the BPA asked customers to reduce loads. By June 2001, after a "strenuous push by the BPA," the agency's customers agreed to reduce loads by about 1,330 megawatts for the 2002-2006 contract period for an average payment of $30 per megawatt-hour. Some direct-service industry customers agreed to keep all their load off the BPA for periods of up to two years for payments of $20 per megawatt-hour, with most of this payment going to salaries and benefits for laid-off aluminum plant workers. [56]

By mid-June 2001, the BPA reached an agreement with two California agencies to send excess power south to California if summer blackouts became imminent. "We want California to know that we're prepared to help them if we can, as long as it does no

harm to the Pacific Northwest," BPA Administrator Steven Wright said. The promise did not offer a complete solution to California's problems, especially in light of the Pacific Northwest's own power problems. Under the agreement, power transactions would take the form of energy exchanges, not actual sales. For each megawatt sent south, the BPA would receive slightly more in return, but the ratios and return dates would be set at the time of the transaction. In earlier California blackouts, the BPA had exchanged power on a 2-to-1 basis and often got the power back within 24 hours. Under the new agreement, the ratio would not be so high and the return dates could vary from 24 hours to seven days to even next fall, depending on the BPA's needs. While officials at the California Department of Water Resources and the California Independent System Operator applauded the promise, fish advocates criticized the plan. Spills over federal dams in the Columbia River system to help salmon halted in mid-June, and federal agencies would not decide whether to conduct summer spills until June 29. BPA officials had said they would not spill water over the dams in the summer because of low water levels. "We're slipping," BPA Spokesman Ed Mosey said. "We're literally teetering on the edge of going into deficit this winter." A study by the Northwest Power Planning Council predicted a 17% likelihood of power shortages in the Pacific Northwest in the upcoming winter. [57]

One impact of the West Coast Energy Crisis on Montana was expected but perhaps under-reported. In 2000 through 2001, toxic industrial air pollution in Montana declined from about 122 million pounds to about 65 million pounds, according to the EPA's Toxic Release Inventory. As a result, Montana dropped in national ranking for toxic industrial air pollution from 18th in 2000 to 25th in 2001. Most of the decline was attributed to reductions in primary manufacturing, particularly the closing of the ASARCO smelter in East Helena in April 2001. [58] On Jan. 19, 2001, the University of Montana's Bureau of Business and Economic Research reported the results of a survey on the impact of skyrocketing energy costs on Montana's manufacturing companies. The survey found that energy prices had increased tenfold since summer 2000, and the unusually high power prices were expected to force major changes on more than half of the state's manufacturers. Nineteen companies said they would curtail production, 50 said they would modify their production processes, and 40 said they would renegotiate their power contracts. About 500 workers had already been laid off as a result of the prices, including at CFAC's aluminum plant, Smurfit-Stone's paper plant in Missoula and Exxon-Mobil's oil refinery in Billings. [59] In 2001, taxes on the CFAC plant site were voided entirely. The amount that would have been paid was $1,646,268. [60]

As aluminum companies sold power and jockeyed loads in 2000 and 2001, they also looked ahead for ways to stay in business starting in 2002. With 1,500 megawatts of power allocated to the aluminum industry in the upcoming BPA power contracts, the

direct-service industries began to lobby for a credit for power they didn't use that would lower the cost of power they did use. Opponents of the plan, including the Public Power Council, argued that the credit would cost public and private utilities about $3 billion over the new contract's five-year span. The BPA called the plan a "tiered rate scheme" in February 2001 and said that kind of plan was illegal because it punished growing businesses and utilities by favoring older customers. The BPA was required by the 1980 Northwest Power Act to supply aluminum plants with enough power to operate at full capacity, but that provision would expire on Sept. 30, 2001. However, after heavy lobbying by the direct-service industries, the Energy Department agreed to provide the DSIs with a significant amount of power. After the next five-year contract ended in 2006, Mosey said, the aluminum industry was on its own. The BPA wanted the direct-service industries to use some of the windfall profits they earned from remarketing BPA-supplied power to offset future higher power costs. [61]

Economic studies

The direct-service industries' major argument for more BPA power was that the aluminum industry was an important component in the Pacific Northwest economy, but studies disputed that claim. A BPA-commissioned study by George Barkus and Susan Kleeman concluded that the Pacific Northwest aluminum industry had "relatively little impact" on the regional economy other than providing about 7,000 jobs, and that the aluminum industry "appeared to be an industry almost separate from the rest of the Pacific Northwest." Olympia-based Crown, Cork and Seal, for example, which made 1.4 billion soft-drink cans per year, bought its aluminum from Alcoa rolling mills in Indiana and Tennessee. Aluminum ingots were a "world commodity," and rolling mills and other downstream customers were "relatively unaffected by the loss of the smelters," Barkus and Kleeman said. "They're not that tied to the regional economy anymore," BPA Senior Vice President Paul Norman said. "The raw product doesn't come from here, and the bulk of the product isn't used here." The direct-service industries countered with studies of their own, arguing that in Washington alone the smelters did business with 1,500 suppliers and contributed $4.4 billion a year to the Washington economy. One thing the studies did seem to establish were reasons for closing some of the older and less efficient smelters in the region. [62]

On March 1, 2001, the BPA issued a summary of several studies it had sponsored on the economic impacts of aluminum plant closings in the Pacific Northwest. The resilience of the regional economy was an important factor. "Economists, but fewer politicians, also understand that the economy is extremely dynamic," the BPA said. "Employees change jobs and relocate continuously. Without such a dynamic workforce our economy would be far less robust. Similarly, businesses and their associated jobs are created and

destroyed continuously. Production strategies change as economic conditions change. Businesses shift production geographically, change products, and shift their purchases of inputs. Thus, were an aluminum smelter to close, it would set in motion a series of adjustments in the economic structure of the economy." A study on "The Survivability of the Pacific Northwest Aluminum Smelters," conducted by Metal Strategies LLC, found that some regional smelters were competitive with smelters around the world. While newer smelters in some parts of the world were more efficient and had lower labor costs, older plants in the Pacific Northwest had lower annual capital repayment costs. The high cost of closing a plant in the Pacific Northwest made permanently shutting down a plant relatively rare, the study said. The region's aluminum smelters generally ranked among the top half of the world's smelters in terms of production costs. During the 1990s, about half of the region's aluminum smelters operated as swing plants, and the other half operated at full capacity. [63]

The Metal Strategies study forecasted the region's smelters would survive under several assumptions: 1) the smelters consumed 3,145 megawatts at full capacity, but only would be provided 1,400 megawatts by the BPA on take-or-pay contracts for $29.50 per megawatt-hour; 2) additional long-term take-or-pay privately-supplied power would cost $42 or $87; and 3) short-term spot market power after 2002 would be available at $35. The Metal Strategies study expected no regional aluminum smelters would purchase additional power at $42 or $87 regardless of aluminum prices. Only two plants were expected to operate at full capacity during the 2001-2006 contract period – the Intalco plant in Ferndale and the Kaiser plant in Tacoma. Five plants were not expected to operate at all – the Reynolds plant in Troutdale, the CFAC plant in Montana, the Kaiser plant in Spokane, the Vanalco plant in Vancouver and the Golden Northwest plant at The Dalles. The Michigan Avenue Partners plant in Longview and the Golden Northwest plant in Goldendale were expected to operate using BPA-supplied power, but not at full capacity. The Alcoa plant at Wenatchee had 214 megawatts of power available from its stake in the Rocky Reach Dam. The Metal Strategies study forecasted that after 2003, spot-market power prices might drop to about $35 per megawatt-hour. If aluminum prices stayed above $1,650 per ton, plants could afford to operate to a certain extent with power selling at $35. Aluminum prices had bottomed out at $1,342 per ton during the 1990s. [64] Many of the Metal Strategies forecasts never came close to playing out.

Another BPA-sponsored study was conducted by Dick Conway & Associates, which used multipliers based on previous studies. The Conway study found that the Pacific Northwest aluminum industry directly employed 10,370 workers, of which 7,100 were employed at smelters. This amounted to about 0.12% of the region's total employment. Employment at the CFAC smelter accounted for about 0.1% of Montana's total

employment. Because aluminum smelters paid relatively high wages and salaries, a smelters' share of labor income was much higher, and at the county level the impact of a smelter was much more significant. The Conway study reported that the region's aluminum industry supported a total of 39,550 people using an economic multiplier of 3.8, which was much higher than the normal 2.0 multiplier used with other economic sectors. Overall, the region's aluminum industry supported about 0.65% of the region's workers, but regional employment had grown at 2.6% per year between 1990 and 1998, netting on average about 153,000 new jobs per year. Therefore direct and indirect employment by the region's aluminum industry amounted to about one-fourth of the new jobs created in a typical year during the 1990s, the Conway study noted. [65]

The Policy Assessment Corporation conducted a more detailed and complex study for the BPA and found economic impacts to be about half as severe as the Conway study. [66] The Policy Assessment Corporation study concluded that the Pacific Northwest would rebound from the loss of the aluminum industry. "While the loss of high paying jobs is certainly difficult for those that lose them, closing the aluminum smelting industry does not cause cataclysmic impacts in any state or the Pacific Northwest in general," the study reported. When averaged over a 20-year period, impacts from the closures "blend into the background noise of the other business shutdowns and start-ups that naturally occur in a vibrant economy." The study forecasted that the regional economy would recover in about five years, and it compared the loss of the aluminum industry to major setbacks in the timber industry during the 1990s. A major benefit from the loss of the aluminum industry would be the large amount of electrical power made available to the rest of the economy. Electrical prices should go down, which would stimulate other energy-intensive industries, the study reported. The Policy Assessment Corporation estimated that the cheaper power would reduce the economic impact of the aluminum industry's closure by about 50% of what it would have been otherwise. [67]

According to Ernie Niemi of ECONorthwest, an Oregon-based economic consulting firm cited in the Policy Assessment Corporation study, local economies would be forced to make major changes in order to successfully rebound from the loss of a smelter. A noticeable exception to the regional rebound from the loss of timber jobs in the 1990s was in Coos Bay, Ore., which not only was unable to meet the transportation and energy needs of high-tech industry but also resisted changing its economy. When Gov. Judy Martz visited Columbia Falls in December 2000, she pointed out that locals needed to open their minds to new businesses or else be left behind. "You want new business, but you don't want new people," she said. The Policy Assessment Corporation study similarly concluded that local economies at the county level would need to change. "This analysis indicates that the county may be better off in the long term if it is forced to find a more diversified economic base that releases the county economy from the

tenuous dependence it has on the smelter industry," the study said. "Unique circumstances may indicate that a county really does have marginal economic viability, in which case the departure of the smelters is just changing the timing of the county's inevitable decline." The study suggested that the loss of an aluminum smelter would lead to the departure of workers and a reduction of local wage rates, but the reduced land and labor costs would make the area attractive to new business. [68]

While much of the Policy Assessment Corporation study's forecasts seemed accurate for counties spread across the Pacific Northwest, the state of Montana, Flathead County and Columbia Falls had the most to lose. The study calculated that the economic multiplier for the CFAC plant could be in excess of 4 to 1 because of the rural nature of the economy and its relative isolation. The fact that federal tax dollars were used to build the Hungry Horse Dam, which led to construction of the Columbia Falls aluminum plant, helped explain why the BPA felt an obligation to help CFAC's laid-off aluminum workers. According to University of Montana economics professor Tom Powers, the Columbia Falls aluminum plant had not created a notable difference on the growth of employment and wages for the rest of Flathead County. The only substantial spurt to the economy from the plant in decades came from the profit-sharing settlement in 1998. "If you look at growth, it clearly hasn't been driven by aluminum," Powers said. "Given that (the aluminum industry) hasn't been the economy's engine of growth, there's nothing to say it doesn't digest the hit and continue to expand for years to come." Powers suggested the loss of the Columbia Falls aluminum plant might only stall the local economy for a year or more. [69]

New power rates

In addition to economic studies by professional analysts, the West Coast Energy Crisis brought doomsday predictions. "The entire Northwest aluminum industry is decimated," CFAC manager Tom Payne told media in mid-February 2001. [70] Referring to the remarketing deal CFAC signed with the BPA, state Sen. Bob Keenan claimed in an April 6 opinion column that the BPA had forced CFAC to sign a "gag order" stopping the company from arguing in the future "in any legal or political forum that it has a statutory right to, or should be allocated, any direct or indirect service of federal power." Keenan believed that condition in the contract spelled the end of aluminum smelting in Montana. "Few, if any, believe CFAC will ever fire up again," he said. [71] The Aluminum Association suggested in March 2001 that high energy costs could kill the aluminum industry in the Pacific Northwest. The BPA estimated that power costs for aluminum smelters would increase from $22 per megawatt-hour in the current contract to about $41 over the next two years. According to a Washington state report, aluminum companies indicated they could not operate profitably if costs exceeded $35. A

Washington state economist said the demise of the aluminum industry likely would be permanent. “Our plant has been basically flushed down the toilet,” said Wayne Bentz, head steward for Steelworkers Local 329 at Kaiser’s Mead smelter in Spokane. [72]

The BPA cited surging demand in announcing a wholesale power rate hike of 60% in March 2001. By then, the impact on parts of the Pacific Northwest aluminum industry appeared to be permanent to some analysts. The region’s smelters were capable of producing 1.8 million tons of aluminum per year, about 43% of the nation’s total capacity, but high energy costs had idled more than 1.2 million tons over the past eight months. Sales of power to aluminum plants accounted for about a quarter of the BPA’s $2 billion in annual revenue. [73] Industry leaders, politicians and concerned citizens searched for solutions to the permanent loss of the Pacific Northwest aluminum industry. On March 29, the Steelworkers issued a press release calling for all Pacific Northwest aluminum smelters to be off the grid and totally self-sufficient by 2006, using environmentally-responsible generating sources like wind power. The idea was called a “win-win” situation because it maintained good jobs while providing power for other customers. [74]

The cost to build a new aluminum smelter with a capacity of 250,000 tons per year was estimated at about $1.5 billion in 2000, based on recently constructed plants. Building an electrical generating plant for a new smelter would add another $300 million to $406 million. The estimates assumed that a suitable site location was available with all the necessary support services, permits and clearances from the government. [75] By mid-summer 2001, several smelters were contemplating building power plants. Kaiser had plans for building two 100-megawatt power plants at its smelters in Tacoma and Spokane. Longview Aluminum was studying the possibility of building a $150 million 280-megawatt power plant for its Longview smelter. Golden Northwest was planning on building several gas-fired generating plants for its smelters at The Dalles and Goldendale totaling 720 megawatts. Golden Northwest also was looking at building a wind farm project. [76]

By March 11, Haley Beaudry, CFAC’s external affairs consultant, was still searching for cheap electrical power so the company’s aluminum smelter could reopen on Jan. 1, 2002. “This is a good mill, an efficient mill because of the employees we have,” Beaudry told local media, but the plant would not reopen if prices stayed above $40 per megawatt-hour. Industry across Montana was either closed, closing or thinking about closing as a result of high power prices, he said. With copper selling at 82 cents per pound, the Montana Resources mine in Butte remained closed. Electrical power had to sell for about $30 per megawatt-hour in order for the mine to reopen, Beaudry said. Louisiana Pacific’s timber plant in Missoula and Smurfit-Stone’s linerboard plant near

Missoula had laid off workers because of high power prices. Plum Creek's eight Montana mills continued to run with more than 1,000 employees, spending about $10 million on power, but a proposed BPA rate increase posed a serious threat to continued operation, Beaudry said. [77]

Electrical generating companies were reluctant to sign long-term power supply contracts because the spot market was so lucrative, Beaudry said. As industries in the state closed, workers were expected to move to new locations to find work. Already some miners had left the Butte area for work in mines at Gillette, Wyo., and near Columbus, Mont. Growth and increasing diversity of the Missoula economy was expected to help absorb major layoffs at the Smurfit-Stone plant, despite the high pay the workers had received at the linerboard plant. For CFAC, the migration of workers out of the area threatened the aluminum plant's future success. "That's probably our biggest concern," Beaudry said. "We've got an old plant, but it's an efficient plant because of the people who work there. We don't want to lose them. That and power are our biggest dangers." CFAC could possibly sign a BPA contract with a base price of $23 per megawatt-hour beginning January 2002, but with a cost-recovery adjustment clause tacked on, the actual price could be as high as $85 per megawatt-hour, he said. [78]

CFAC General Manager Steve Knight was upbeat when he spoke to the Columbia Falls Chamber of Commerce on April 10, 2001. "Don't write us off," he said. As to whether the plant would restart as early as January 2002, Knight said, "I'm not going to answer that question today." He pointed out that power prices were averaging $200 to $300 per megawatt-hour, and he didn't expect them to come down to manageable levels for several years. "The only thing that's going to correct the situation is more power generation," Knight said. "And that's happening – there's probably 10,000 to 15,000 megawatts of new generation being installed or planned in the West." Knight explained that CFAC planned to sell its power while it was shut down and build up a savings account for future use. "We're hoping it will be big enough to create two to five months of run time for every month we've (been idle)," he said. [79]

On April 9, 2001, BPA Acting Administrator Steve Wright told media that unless serious conservation efforts took place soon to reduce demand, a rate hike of 250% was possible. As part of that conservation effort, the BPA would pay the region's aluminum smelters to stay off line for two more years following the expiration of their contracts in October 2001, Wright said. Negotiations with aluminum producers were continuing, but BPA payments to the aluminum plants would be sufficient to pay laid-off workers their full wages and salaries through the next two years and not much more. The BPA would not pay the aluminum companies market prices for their power. The BPA also asked for a 5% to 10% load reduction from public and investor-owned utilities within the next 60

days, by which time California's summertime air conditioning loads would be on line. The BPA was committed to supplying 11,000 megawatts of power to 130 regional customers during the five-year period from Oct. 1, 2001 through Sept. 30, 2006, which was about 3,000 megawatts more than the federal system was capable of producing. The additional 3,000 megawatts would have to be purchased on the open market at high prices. Wright said he believed power prices would come back down in one to three years, but conservation efforts were necessary until then. CFAC General Manager Steve Knight described Wright's announcement as "nothing new, as it pertains to us." CFAC's future plans hinged on the BPA's October rate adjustments. "The whole thing hinges on how much power Bonneville will have to buy on the open market," Knight told local media. In the meantime, CFAC continued to build up a "war chest" from sales of power in 2001 for use in the coming years. [80]

The Pacific Northwest aluminum industry used enough electricity to power nearly all 3.2 million homes in Washington and Oregon. The region's 10 smelters were capable of producing about 40% of U.S. primary aluminum at full production but only 5% of global primary aluminum. Alcoa operated in 37 nations, in many cases with power costing even less than BPA prices before the West Coast Energy Crisis. Aluminum could be the first example of an energy crisis triage in U.S. industry, energy economist Philip Verlager said in April. If an industry consumed a great deal of power but contributed little to the U.S. economy's productivity, it might lose out. "There are going to be two kinds out there – the quick and the dead," BPA Spokesman Ed Mosey said. "The dead will be the ones that didn't move quickly to find some other way to make this work." By April, one cause of the steep increase in demand in West Coast power markets had been identified publicly – high-tech computers and the Internet, particularly server farms. Power demand in Silicon Valley had increased by 6% per year since 1994, and each generation of microprocessors consumed more power than the last one. [81]

Over the next few weeks, the aluminum companies rejected the BPA's rate proposal and organized to fight the plan, arguing that they wanted 75% of their contracted power supply at traditionally low rates. The aluminum industry proposal was met with strong resistance by the region's public utilities, which argued that their power bills would climb significantly if the smelters got cheap power. During the ensuing debate, the aluminum industry blamed the BPA for over-contracting power, but Ed Mosey said it was the aluminum companies who were to blame for the over-contracting. The BPA had 8,000 megawatts of power available from the federal system but had contracts to supply 11,000 megawatts. The BPA was legally obligated to provide power to the region's public utilities, and new contracts were negotiated in 2000. But as the West Coast Energy Crisis became widespread, the public utilities called for more power from the BPA rather than the open market, Mosey said. The BPA's obligation to supply power

to the region's aluminum industry was set to expire Oct. 1, 2001, but the industry lobbied hard with the Clinton administration and succeeded in getting an order from Energy Secretary Bill Richardson directing the BPA to contract with the aluminum companies for another five years, Mosey said. With a power shortfall of 3,000 megawatts, the BPA turned to the aluminum industry on April 9, requesting that they remained shut down for two more years, thereby freeing up about 1,500 megawatts. [82]

The aluminum sacrifice

John Arthur Wilson of the Northwest Power Alliance, which represented several aluminum plants, said the BPA was unfairly targeting an industry that had operated in the region for 60 years. "When they say, 'We want to shut you down for two years,' that's not curtailment, that's forcing an industry out of business," he said. The aluminum industry proposed a new rate structure that was tiered to spread the impact of soaring energy prices among all classes of customers. The structure would sell low-cost power first, enough to supply about 75% of the commitment, and then sell the remainder at market rates. [83] The Northwest Power Alliance claimed 6,000 jobs were at risk under the BPA plan, but the BPA said the number was actually closer to 3,000. Ed Mosey also pointed out that six jobs in other industries could be lost for every one job saved in the aluminum industry. Public utilities criticized the tiered-rate power plan, saying it would impact their customers. A spokesman for the Snohomish Public Utility District in Washington said the plan could cost their residential customers $247 more per year in power bills, while small businesses could pay on average about $1,500 more per year. [84]

In May 2001, the National Center for Public Policy Research's John Carlisle argued against the BPA's plan to stop selling power to the aluminum smelters effective Oct. 1, 2001, which would end 7,400 direct jobs and another 23,000 indirect jobs. "The BPA made the mistake of over-promising electricity to customers – pledging to sell more than it can produce," Carlisle said. "To rectify its error, the agency now faces the option of refusing to sell energy to certain customers or to spread the pain among all customers equally. It has chosen the former." Carlisle noted that the BPA had promised to sell power to the smelters after two years, assuming the energy crisis had abated by then, but Carlisle warned about the harm of being shut down for that long. A lengthy shut down could drive up costs associated with maintenance, utilities, debt service, insurance, taxes and environmental upkeep, as well as disruptions with suppliers and loss of experienced workers who would move on, Carlisle said. He noted that some writers "believe the sacrifice of these workers is for the greater good," citing a Seattle Times editorial that claimed the death of the regional aluminum industry would keep wholesale price increases down to 35% over a five-year period rather than 91%, while keeping aluminum jobs would be an "unfair tax" on the region. [85]

Typical aluminum jobs paid $58,710 per year in salaries and benefits in rural and economically challenged areas, Carlisle said. For example, if the Goldendale plant closed, unemployment would increase to 30%. “The energy crisis is a serious issue for people all over Washington and the Northwest, but one thing we should not do is to pit electrical ratepayers or communities against each other,” Goldendale Mayor Mark Sigfrinius said. “Unfortunately, that is exactly what is happening.” Carlisle blamed the BPA, not the aluminum industry, for what happened. “The aluminum industry did nothing to deserve this treatment,” he said. “All parties agree that BPA is at fault for over-promising power.” He cited Jerry Leone, of the Northwest Public Power Planning Council, who said, “They promised everything to everybody. Bonneville got themselves into one horrible mess, and it is harming their customers because of it.” Carlisle also claimed the regional aluminum industry had made great gains in conservation, cutting its consumption by one half from 3,000 megawatts to 1,500 megawatts, while the biggest regional load increase came from Internet usage. [86]

In April 2001, the BPA published a question-and-answer fact sheet on issues surrounding the agency’s request that its direct-service customers remain shut down for two years to help reduce regional load and keep rates down. If the direct-service industries refused the BPA’s load reduction offer, the result would be a $1.5 billion increase in costs to the BPA for spot-energy purchases in 2002 alone, an increase in the risk of blackouts in the Pacific Northwest, an increased chance that the BPA would not be able to keep rates down in October 2002, a much greater loss of jobs due to higher energy costs across the regional economy, no compensation to aluminum plant workers, and the need for more water to generate power and not help fish restoration efforts, according to the BPA. Furthermore, for every dollar paid to aluminum workers, there would be $10 in BPA rate increases to regional ratepayers, the agency claimed. The BPA said it didn’t believe the direct-service industries could operate profitably after Oct. 1, 2001, if rates increased by 250% or more because aluminum plants needed power costs under $30 per megawatt-hour – market rates could go as high as $210, while BPA rates with a 250% increase would be $80. [87]

The BPA noted in its question-and-answer fact sheet that it didn’t want to see the direct-service industries put out of business. “The BPA would like to see at least some of the DSIs continue to be a viable part of the region’s economy,” the BPA said. Prices could fall enough in one or two years to allow profitable operation for some regional aluminum plants, but “the BPA is not required by law to continue to serve them after 2006, and three of the companies have agreed contractually that they have no right to direct service with federal power after that time,” the BPA said. The BPA had not ordered the direct-service industries to shut down for two years – it was a request – and the BPA didn’t say that 7,000 aluminum workers must sacrifice their jobs for the

collective good of the region. There were only 3,000 affected aluminum workers, and far more workers would be affected by high power costs if the aluminum plants remained operating, the BPA said. According to the BPA's request to the direct-service industries, the aluminum plant workers would be compensated during the two years the plants were not operating. The BPA also noted that shutting down the Pacific Northwest aluminum industry for two years was not a national security issue because the smelters periodically curtailed operations due to economic conditions over the past 50 years and then restarted without problems. [88]

On May 18, 2001, Ed Mosey announced that CFAC was close to agreeing to remain closed for another two years in a deal similar to one struck between the BPA and Alcoa's Intalco aluminum plant. Intalco was the first aluminum plant in the Pacific Northwest to agree to the arrangement. In exchange for remaining shut down, the BPA agreed to pay aluminum plants $15 to $20 per megawatt-hour for employee compensation and another $1.75 million to help pay for local taxes. CFAC had a contract to buy 171 megawatts from the BPA from January 2002 through September 2006. At the buy-back prices of $15 to $20 per megawatt-hour, CFAC could earn $22.5 million to $22.9 million per year. Negotiations with CFAC and other big power users, including utility customers, need to be completed by the end of May, Mosey said. "One of the stipulations Alcoa made was that we wouldn't sign an agreement with the other aluminum plants that was sweeter than what it got," Mosey said. [89] Three days later, the BPA announced that a deal had been struck with CFAC. According to the agreement, CFAC would give up 167 megawatts of power at its aluminum plant through Sept. 30, 2002, and then give up 100 megawatts from Oct. 1, 2002 through Sept. 30, 2003. The BPA agreed to provide money to compensate affected workers during the time periods. BPA Acting Administrator Steve Wright said the agreement "should dispel the notion that BPA's call for a temporary curtailment of aluminum production will ultimately lead to the demise of the industry." [90]

Steve Knight told media that CFAC had agreed to delay start-up of the aluminum smelter on Jan. 1, 2002, at 50% capacity and instead would start one potline on Oct. 1, 2002, followed possibly by another 1 1/2 potlines by Oct. 1, 2003, to bring the plant up to 50%. The company contracted to buy 171 megawatts of power from the BPA from Jan. 1, 2002, through Oct. 1, 2006, and would use about 4 megawatts to operate lights and basic equipment for maintenance, capital projects and improvement projects. The new deal provided that the BPA would pay CFAC $19.50 per megawatt-hour for unused power, including 167 megawatts from Jan. 1, 2002 through Oct. 1, 2002, and 100 megawatts from Oct. 1, 2002, through Oct. 1, 2003, which totaled about $38.4 million. At average peak-firm prices of $360 per megawatt-hour, the unused power from CFAC would have cost the BPA about $600 million to purchase on the open market. Knight

explained that he wanted the plant to restart soon to keep up employee morale and to improve the plant's image. The longer the plant remained closed, the harder it would be to restart, he said. CFAC Power Manager Jim Stromberg explained that no firm arrangements to purchase power after 2006 had been made, and BPA's power price during the 2002-2006 period were unsure. If the price was too high, the plant would remain shut down during the two-year period. [91]

The crisis eases up

On June 29, 2001, the BPA announced that it had been able to avoid a triple-digit rate increase. Facing 3,000 megawatts in demand beyond its supply, below normal water levels and abnormally high market prices, a BPA-initiated load-reduction program had reduced load commitments by 2,227 megawatts. As a result, the forecasted 250% rate increase had dropped to about 45%. [92] On Oct. 1, 2001, the BPA raised rates 46% to cover the cost of new power supplies that it been forced to arrange on a moment's notice. [93] Two weeks later, the Hungry Horse News reported that wholesale power prices in the Pacific Northwest had dropped as low as $20 per megawatt-hour on the open market and that CFAC managers were beginning talks with power suppliers about restarting the idled smelter in Columbia Falls. "We are very optimistic about restarting this plant," Haley Beaudry said. "It's more than just optimism, we fully intend to (restart)." No long-term power contracts were on the horizon, but there were short-term power contracts available, Beaudry said. Industry leaders were surprised that power prices came down as quickly as they did in the past few weeks, he said. BPA Account Executive C.T. Beede said the drop in prices resulted from conservation and lower natural gas prices. The BPA's hydropower resources, however, were suffering from the driest year in modern history, second only to 1977, he said. It was possible the 46% BPA rate hike could be reduced as a result of the lower wholesale prices, Beede said. "That 46 percent cost adjustment could disappear," he said. The BPA had power to sell, but it was currently priced at about $7 per megawatt-hour above the market rate at $30. [94]

Beaudry told the Daily Inter Lake in early November that CFAC's decision to restart would depend on the price of electricity and aluminum. Long-term electricity prices had fallen as low as $36 to $43 per megawatt-hour, which was still above the profitability threshold of $30 per megawatt-hour, he said. At the same time, the London Metal Exchange reported primary aluminum prices had fallen 25% from 75 cents per pound to less than 57 cents. A restart would cost CFAC about $1 million per potline, as it would take several months for the pots to begin producing metal again. [95] In mid-December, an economic study presented to the Northwest Power Planning Council reported that the West Coast power market had stabilized dramatically. "We think the power system is in

good shape now, as far as reliability is concerned," said John Hines, an economist for the council's Montana office. Power prices had fallen from $320 to $520 per megawatt-hour in March to $25 to $27. Hines said a 23% fall in demand and new generating capacity caused the turnaround. Hines said California had 7,000 more megawatts of generation coming on line, and about 1,000 megawatts had found their way to the Pacific Northwest. [96] CFAC remained shut down at the end of 2001 because of depressed global aluminum prices. Beaudry told local media that the BPA announced new wholesale prices every six months, and the next announcement would be in March 2002. "The question is how much the BPA is going to charge for the power," Beaudry said. A global recession was hurting aluminum prices, which were determined on the London Metal Exchange. "The price is not negotiated," Beaudry said. "You take it or leave it." He also noted that the aircraft-manufacturing industry, a major aluminum consumer, had been hurt by the Sept. 11, 2001 terrorist attacks in New York and Washington, D.C. "Some cancellations include several planes at a whack," Beaudry said. [97]

Claims of profiteering

Opposition to the Pacific Northwest's aluminum plants had existed long before the West Coast Energy Crisis brought havoc to the region. Some opponents claimed the industry was getting subsidized by the rest of the BPA's customers – mostly residential, farm and small business consumers. Environmentalists believed the smelters polluted the air and the water and should be shut down for those reasons. Often the economic and environmental arguments overlapped. The Northwest Energy Coalition, an environmental watchdog organization, had long been critical of breaks given to some industries that caused rates to go up for other customers. "There are some power customers who receive special breaks in their power costs," the organization said. "For many years, Northwest aluminum smelters, which use enormous amounts of power, have received their power at rates below what it costs to produce in the first place. The result is higher rates for residential electric customers and a large amount of energy waste." The organization cited an economic study that claimed Pacific Northwest smelters used 14% more energy to produce one ton of aluminum than smelters elsewhere in the world. The organization also blamed large irrigators who paid "about 50 times less" for power than average homeowners, calling it a $35 million subsidy. [98]

The idea that some aluminum companies could profit from the energy crisis by reselling federal power at outrageously high prices inevitably became political. On April 19, 2001, Rep. Peter DeFazio of Oregon released a report using BPA data that described "huge" profits made by direct-service industries in the Pacific Northwest by selling power back to the BPA. The report said the DSIs, primarily aluminum smelters, made $1.4 billion in 2001. The "largest windfall recipients" were Kaiser with $485 million, Golden Northwest

with $480 million and CFAC with $384 million. DeFazio was critical of attempts by the direct-service industries to negotiate another contract allowing power remarketing. [99] DeFazio cited an estimate that for every 100 megawatts the BPA was forced to buy on the open market, other ratepayers would see a 10% hike in rates. [100] According to the DeFazio report, CFAC earned $384 million from remarketing most of its unused power forward through the year, but it owed $32 million for past power and owed $60 million to the BPA for remarketing revenue sharing, leaving a net revenue of $292 million. CFAC could earn another $92 million in fiscal year 2001 by selling any remaining unused power at prices averaging $350 per megawatt-hour. Pacific Northwest aluminum companies that earned money for curtailing operations without selling back their power included Longview at $173 million, Alcoa at $210 million and Vanalco at $900,000, the DeFazio report said. [101] The exact details were withheld by the BPA under a confidentiality agreement intended to protect the direct-service industries' business interests and competitiveness. [102]

In an Oct. 18, 2001 talk on CBS Radio, Charles Osgood described how some Pacific Northwest aluminum companies made $1.5 billion to $2 billion by reselling power to the BPA rather than using the power to produce aluminum. "Their windfall is generated from selling power they don't use, guaranteed by a five-year contract with the BPA – on the open market, which is more profitable than if they used the energy themselves to produce aluminum," Osgood said. He said Kaiser made $28 million in 1998, lost $5 million in 1999, and made $460 million in 2000. Paul Norman, a senior vice president at the BPA, said the contracts were signed in 1996 when nobody could foresee the 2000-2001 West Coast Energy Crisis. [103]

Steven Weiss, a senior policy associate at the Northwest Energy Coalition, described the close relationship between direct-service industries and the BPA in an Oct. 23, 2001, article. Weiss said the direct-service industries historically consumed as much power as three Seattle-sized cities and exerted a powerful lobbying influence in Washington, D.C. "A revolving door of key BPA executives who end up working for the DSIs, including Randy Hardy, a recent BPA administrator, and Ray Bliven, a senior rates modeler, a host of sweetheart deals and special treatment at the expense of other BPA customers and the environment continue to compromise the interests of residents of the Northwest," Weiss said. In a thumbnail history, Weiss said energy analysts had forecasted energy shortages in the early 1970s, which meant problems for the direct-service industries because they were not preference customers and couldn't afford to build their own generating plants. In 1974, the direct-service industries lobbied BPA Administrator Don Hodel to renew their contracts through 1985, but the BPA found itself with a possible energy shortage and issued a "Notice of Insufficiency" in 1977, informing its preference customers that there would not be enough power for them in seven years. [104]

According to Weiss, the BPA's announcement of a shortage led to a rush for new generation by public and private utilities. It also led to the creation of the Washington Public Power Supply System, which later went into bankruptcy with only one of five planned nuclear plants completed and the largest bond failure in U.S. history. It also led to passage of the 1980 Northwest Power Act, which gave the BPA authority to acquire additional power from new power plants and which gave the direct-service industries another power supply contract through 2001. During the decades following passage of the Act, the BPA gave the direct-service industries numerous special contracts, Weiss said, including variable rates based on global aluminum prices, discounts for interruptible power, and freeing the direct-service industries to pursue cheaper open-market power in 1995. [105]

Nervous about losing all the direct-service industries to the open market and being left with stranded costs for new power sources, the BPA offered the direct-service industries "sweetheart deals" to get them to stay, Weiss said, including "slashing" its conservation budget from $200 million to $20 million, offering the direct-service industries a "perpetual stranded cost shield" and access to the BPA's transmission system, which provided the direct-service industries with a means to later sell their power for a total of $2 billion. By 2001, as the BPA began its subscription process to define who would receive federal power, BPA Administrator Judi Johansen announced a preference priority system that included providing the direct-service industries with their traditional 3,000 megawatts, according to Weiss. Anything left after that would go to out-of-state buyers. When market prices skyrocketed during the 2000-2001 West Coast Energy Crisis, the demand for cheap federal hydropower quickly became overwhelming. Investor-owned utilities were reduced to half their demand. Under pressure from labor unions associated with the direct-service industries, Energy Secretary Bill Richardson ordered the BPA to provide 1,500 megawatts to the direct-service industries. The result was that the BPA had to provide 11,000 megawatts when it only had a firm supply of 8,000 megawatts from the federal power system, Weiss said. [106]

Todd Wilkinson cited CFAC in a Feb. 9, 2002, Christian Science Monitor article about Pacific Northwest aluminum companies reselling BPA power. "For some public-policy experts, the turn of events in Columbia Falls, Mont., raises a pointed question: Should aluminum manufacturers, who for decades enjoyed publicly subsidized power on the justification that their product was contributing to America's national security, now be allowed to hawk their electricity?" he asked. Jim Jensen, executive director of the Environmental Information Center in Montana, answered the question for the article. "Americans built dams and a power grid so that these companies could produce aluminum at a profit, and now they are turning around and taking advantage of the public again by hitting consumers when they're most vulnerable," he said. Former Rep.

Pat Williams, a senior fellow at the Center for the Rocky Mountain West in Missoula, called the power sales "profiteering" and a violation of the public trust. American taxpayers were spending tens of millions of dollars each year to save salmon runs that were endangered by the hydroelectric dams that provided power to the aluminum smelters, Williams said. The BPA disagreed with those conclusions. "The power is not subsidized," Ed Mosey said, noting that the BPA was paying back its debt, unlike most federal agencies. [107]

An energy forum at Portland State University on April 23, 2002, drew opponents and supporters of aluminum smelters that continued to use cheap and reliable power from federal hydroelectric dams on the Columbia River system, especially in light of the West Coast Energy Crisis. Critics of deals for Pacific Northwest aluminum smelters argued it was time for the BPA to stop supplying them power. Eric Redman, a Seattle attorney who had represented the aluminum industry in the past, called for the BPA to utilize the 1980 Northwest Power Act to support and stimulate new energy sources. "There is nothing in the law that is pushing aluminum companies off the system," he said. "It is a policy decision." Steve Weiss argued public and private utilities would continue to compete with direct-service industries for a limited amount of federal power with the result that fish in the river system would suffer. "You're always going to be leaning on the river during tough times," Weiss said. [108]

While aluminum plant critics hammered away at windfall profits, the BPA was trying to get Kaiser to meet its obligations in the power-remarketing agreements. On May 10, 2001, the BPA reported that Kaiser had not participated in finalizing power negotiations between the BPA and regional aluminum producers. BPA Spokesman Mike Hanson said other aluminum companies had cooperated with the BPA in talks throughout the entire West Coast Energy Crisis and were investing money earned from remarketing their power for new power generation, paying employees, modernizing plants and paying off existing debt. "In other words, they have been putting their plants in a position to be able to reopen with a viable work force," Hanson said. "We don't know what Kaiser's been doing." Hanson said a pact between Kaiser and the BPA stipulated that Kaiser spell out how it would use windfall profits from remarketing its power. "Well, they haven't done that," Hanson said. "Since Feb. 1, they have said nothing. We don't know what they're doing with the money. We don't know where it's going. And it's close to the tune of half a billion dollars." A Kaiser spokesman denied the allegation, saying the company was 100% in compliance. [109]

By early August, Kaiser still did not have a power-reduction agreement with the BPA. The BPA was obligated to provide power to Kaiser, but the company had not decided whether to take it in October. Kaiser, which posted annual sales of $2 billion, made

about $468 million from remarketing power for its Tacoma and Spokane smelters during the energy crisis. The BPA wanted Kaiser to use some of the profits to compensate laid-off workers, but Kaiser said it had no such obligation. [110] On Dec. 20, Kaiser announced that it planned to close the Trentwood rolling mill near Spokane for two weeks. The mill had been producing aluminum plate and sheet for aerospace users, an economic sector that was weakened by the ongoing recession. Officials also said the company was selling its Tacoma smelter but hanging on to its smelter in Spokane, which remained closed due to low aluminum prices and high electricity prices. [111] On Feb. 12, 2002, Kaiser filed for Chapter 11 protection in federal bankruptcy court. The company claimed it lost $583.3 million in the fourth quarter of 2001 and attributed the company's financial problems to an economic recession that reduced aluminum demand, depressed prices for alumina and primary aluminum, lowered shipments of primary aluminum out of Kaiser's two Pacific Northwest smelters, and lowered shipments from the Gramercy, La., alumina refinery that was still shut down after it blew up in July 1999. [112]

The BPA had mixed results in dealing with other aluminum companies as the West Coast Energy Crisis wound down. The agency sent bills to three Pacific Northwest aluminum companies in November 2002 for money owed on take-or-pay electrical supply contracts incurred between October 2001 and September 2002. Longview Aluminum was billed $16 million, Golden Northwest was billed $13 million, and Glencore was billed nearly $1 million for its Vanalco and CFAC smelters. BPA and open-market power rates were at about par by this time. The BPA said it fully expected Glencore to pay its bill but was unsure about the other two companies. [113] CFAC paid its $365,000 bill before the Dec. 1 deadline. "We were never really concerned that (CFAC) wouldn't be able to meet their obligations," Ed Mosey said. "The others, well, there's more concern there." The BPA spokesman said the agency would likely only recover a fraction of the $70 million to $80 million owed by Kaiser, which was seeking bankruptcy protection. The BPA continued to pay CFAC not to use 171 megawatts of federal power. Since Oct. 1, 2001, the BPA had begun to pay CFAC at the rate of about $29 million a year for unused power. [114] In mid-December, the BPA said CFAC had agreed to stay off line and was not obligated to the BPA for any unused power. [115] On March 3, 2003, officials at Longview Aluminum announced it would postpone construction of a $150 million gas-fired power plant for its aluminum smelter until it settled its dispute with the BPA over how much money the company owed for its take-or-pay power contract. Longview initially announced plans to build the power plant in 2001 at the height of the West Coast Energy Crisis. [116]

Looking for answers

While aluminum plant opponents went after the power remarketing benefit, other critics saw problems with how deregulation was implemented and how the BPA dealt with the crisis. In a March 26, 2001 column in Business Week, Peter Coy had six suggestions for bringing electrical power to the free market: 1) make prices reflect costs, do not insulate customers; 2) ensure the transmission grid meets the needs of users and generators; 3) control abuse by generators, do not allow generators to shut down plants in order to drive up prices; 4) promote conservation; 5) do not overbuild in reaction to a supply shortage, focus on a practical mix of conservation and new generation; and 6) study the success of other deregulated markets around the world. [117] The Northeast-Midwest Institute, which was backed by members of Congress from the Northeast and Midwest states, criticized the BPA in May 2001 for not raising power prices even higher than it had during the West Coast Energy Crisis. The institute argued that federal money was used to subsidize the region's "lowest-in-the-nation" energy rates, and it called for hiking rates to open-market levels. "The BPA is selling federal property that rightfully belongs to every U.S. taxpayer to a favored minority of businesses and communities for less than two-thirds of its market value," the institute said. "It's almost as though there are 46 states in the United States of America and another four in the United States of Bonneville." BPA officials said they had heard the allegations in the past, calling the criticism "just a rehash of the same old, tired arguments we have heard over the years." [118]

Gov. Gray Davis said the state of California was willing to take some of the blame for the West Coast Energy Crisis in a May 17, 2001 opinion column reprinted in newspapers across the U.S., but with the crisis continuing, he believed it was time for the Federal Energy Regulatory Commission and the Bush administration to take steps to help control wholesale energy prices. Davis criticized the notion that generating companies needed to make huge amounts of profits in order to build new power plants, noting that California consumers paid Reliant Energy of Houston $1,900 per megawatt-hour one week earlier for 100 megawatts of power. "Where is that money going?" he asked. "Simply put, into the pockets of the generators and marketers – almost all of them in the South and many of them located in Texas. It is one of the most massive transfers of wealth from the consumers of one state to companies located in another region of the country in our nation's history." [119]

CFAC Spokesman Haley Beaudry responded to criticism of deregulation in a Nov. 1, 2002, letter to the Daily Inter Lake. "Deregulation did not idle CFAC," Beaudry said. "In fact, deregulation had absolutely no effect whatsoever on the operations or the temporary idling of CFAC. In fact, the aluminum plant had never been under the control

of the (Montana Public Service Commission) because power to operate the plant came from the electric cooperative and the federal Bonneville Power Administration systems." [120] The purpose of his statement is unclear – Beaudry was clearly referring to power deregulation inside Montana and not deregulation in California and federal deregulation, which affected power sales across the BPA power grid and the Pacific Northwest-Pacific Southwest Intertie to California.

As the West Coast Energy Crisis became increasingly politicized, measures were proposed in Congress to address its causes and impacts. On April 26, 2001, six of the Pacific Northwest's eight U.S. senators endorsed the BPA's proposal to hold down power rates by shutting down the region's aluminum smelters for two years. The bipartisan letter to BPA Administrator Steven Wright was signed by Sens. Larry Craig and Mike Crapo of Idaho, Sen. Gordon Smith of Oregon, Sens. Max Baucus and Conrad Burns of Montana, and Sen. Patty Murray of Washington. It was not signed by Sen. Maria Cantwell of Washington and Sen. Ron Wyden of Oregon. "What you outlined… is certainly strong medicine for the region," the letter said. "While we wish you didn't have to take such drastic steps, we understand that the strategy you have outlined – if successful – will reduce next year's rate increase to below 100 percent." [121] On the other side, Rep. Joe Barton of Texas introduced the Electricity Emergency Relief Act into Congress in May. Overall, the goal of the bill was to provide BPA customers an opportunity to sell power on the open market that they had saved through conservation efforts, but it also applied to aluminum companies, and critics said it would undermine the BPA's effort to wean the region's aluminum companies off federal power. Rep. DeFazio of Oregon opposed Barton's bill because it would perpetuate the arrangement where regional aluminum companies stood to earn $1.4 billion remarketing power in 2001. [122]

By May 2001, the BPA was urging the White House to increase the agency's borrowing authority with the U.S. Treasury by $2 billion so the BPA could build new power transmission lines and improve power-generating facilities. The proposal was sharply criticized by the Northeast-Midwest Institute, which claimed the BPA was already being subsidized by U.S. taxpayers. When the BPA was restructured in 1974, Congress granted the agency the ability to borrow up to $1.25 billion from the Treasury for capital improvements. The figure was increased twice since that time and was capped at $3.75 billion. The BPA was considering spending $2 billion on capital improvements between 2002 and 2006, but unexpected costs related to the energy crisis could mean the BPA to would hit its ceiling in 2003. Plans included 20 new projects for a 500-kilovolt transmission line and substations that would be online between 2003 and 2006. [123]

During a Congressional subcommittee meeting in Tacoma on May 20, 2001, BPA Acting Administrator Steven Wright described the ongoing West Coast Energy Crisis as a "calamity" that resulted from near record-low streamflows in the Columbia River system, extraordinarily high and volatile wholesale power prices and an extremely tight power supply. The factors were "challenging Bonneville's ability to meet its public responsibilities," he said. Golden Northwest CEO Brett Wilcox warned that the power crisis could "de-industrialize" the Pacific Northwest. "Low power costs have traditionally been the only significant competitive advantage Northwest industry and agriculture enjoy," he said. Rep. DeFazio repeatedly attacked deregulation. "Two things bring us here," he said. "One is an act of God (the drought), and the other is the 1992 Energy Act, which provided for deregulation. I told people it was a mistake, and it was. Deregulation has led to power prices nobody can afford." [124]

Open-market power prices came down some through summer and early fall 2001, but professionals had concerns about the coming winter. The Northwest Power Planning Council discussed the market changes and other factors in late October. "We've learned some things from last year's power crisis," said John Harrison, the council's information officer. "We've shown that we can react quickly to a crisis here in the Northwest, that we can do things to keep the lights on… However, there's a caveat: Some of those things are not the sorts of things we would want to do for the long run." Among those impacts – shutting down 10 aluminum plants, leaving workers without jobs; placing mobile generators on line near industrial businesses which polluted the air; and reducing dam spills in the Columbia River intended to help fish. Helping the power-supply picture for the coming winter was 900 megawatts of new power generation that went on line in August, but another 450 megawatts of new power that was permitted had been canceled as power prices dropped. Meanwhile, 1,400 megawatts had been saved through conservation by residents and small businesses. Harrison noted that "the biggest reason for optimism coming into the winter remains the darkened aluminum plants," the Missoulian reported. [125]

BPA explains the crisis

With more information available in November 2002, BPA Deputy Administrator Stephen Hickok spoke about the causes of the West Coast Energy Crisis and what steps were being taken to prevent it from happening again. Hickok still regarded the California power market as unstable – only half the needed emergency power generation had been installed, and he was concerned the BPA had spent more than $400 million curtailing industrial load in 2001. There was a need for the BPA, the states and the private sector to expedite the siting, construction and integration of new power plants, but interest in those measures had dried up, he said. About 2,238 megawatts of new

generation had been built, with another 1,028 megawatts “limping along,” but power companies had been badly hurt by energy-trader Enron’s collapse. The owners of the region’s high-voltage transmission lines needed to make at least 20 major reinforcements by 2007, adding about 700 circuit lines, but the BPA was short on capital, he said. The BPA and investor-owned utilities also needed to complete work on developing a “regional transmission organization” to assure electrical system stability in a world of merchant suppliers and retail choosers, Hickok said. [126]

California was a “staggering, almost paralyzing lesson in how to screw up in this area,” Hickok said, and “FERC and the states are reeling in confusion, not sure how to move ahead” with establishing a regional transmission organization. The states, power users and power suppliers also needed to execute a retail restructuring that would reconnect the retail and wholesale markets, something “California failed abysmally” in doing, Hickok said. California had created day-ahead markets that eliminated long-term power contracts, which put its power plants in the hands of merchants with no load-serving obligations. California also had lowered and froze retail rates so utilities could not recover their day-to-day costs. “It is hard to imagine a more wrong-headed strategy – a more confounding combination of initiatives that fed on each other to produce an explosion of price and an implosion of supply,” he said. [127]

Hickok advised against California completely eliminating its power exchange and rushing ahead to sign long-term power contracts, or selling $12 billion in bonds to pay for power that had already been consumed. “I fear this chilling litany is still incomplete,” he said. “California is careening wildly. It is a frightening spectacle.” Hickok said revelations about abuses by Enron and other power suppliers were being misinterpreted by officials in California and other places. Rather than conclude that the power suppliers were to blame, “in fact, it is the other way around,” Hickok said. “A power system that was stretched to the edge, and a neophytic market system with flawed rules, created the opportunity for marketers to push it closer to the edge and make more money.” Hickok expressed pessimism about the future. “The wild volatility of the wholesale power markets was not a passing, anomalous event that is unlikely to be repeated,” he said. “Quite to the contrary, all the necessary ingredients are still close at hand and come together very quickly to send spot power prices to the moon, or Mars, and back.” [128]

On April 18, 2003, the BPA issued a 29-page report detailing the history and impacts of the 2000-2001 West Coast Energy Crisis. In 1994, market prices for wholesale power in the Pacific Northwest were dropping, and conventional wisdom was that deregulation of the power market would likely deliver consistently lower wholesale prices. By 1995, many BPA customers called for reducing their BPA power purchases and going to the open market. The Pacific Northwest’s direct-service industries reduced their take from

the BPA by about 800 megawatts, and public utilities followed suit in 1996, reducing their take by about 1,000 megawatts. By 1997, as the BPA lost customers and market prices fell below the BPA's rates, the agency offered competitive, fixed-rate five-year contracts to attract customers. Some utilities signed on to "pre-subscription" contracts, which were still good for $22 per megawatt-hour through 2006, although they were considered risky back in 1997. The BPA completed its Regional Cost Review process in 1998 that set cost targets that later were included in the agency's May 2000 rate case. The goal of the cost review was to drive costs down and get the entire Federal Base System committed under long-term power sales contracts. The rates in the BPA's proposal to the Federal Energy Regulatory Commission in May 2000 averaged about $22 per megawatt-hour for preference power, roughly the same as for the 1997-2001 period, and the BPA expected to earn about $414 million in net revenues for the 2002-2006 period. [129]

But then everything changed. "As we filed our rates, our world was changing," the April 2003 report stated. "May 2000 was the beginning of the 2000-2001 West Coast Energy Crisis and marked the transition from a period of low wholesale power prices, minimal concern on the West Coast in general for adequacy of supply and minimal spending on electric infrastructure to a period of skyrocketing power prices, blackouts in California, fear of blackouts throughout the West Coast, and a renewed focus on electric infrastructure and adequacy of supply." By October 2000, when the BPA completed signing its new power sales contracts, it had oversold its federal power supply by about 3,300 megawatts. The BPA had decided not to limit public utilities' requests for BPA power and agreed to sell 1,500 megawatts to the direct-service industries. The latter was in response to the direct-service industries' "fervent argument that to do otherwise would devastate many communities," according to the BPA's 2003 report. "The DSIs made this argument strongly and effectively – both in the Northwest and at the national level. At the same time, we believed we could accommodate them without significantly raising rates." The BPA was confident it could handle the extra 3,300-megawatt demand by purchasing power on the open market for about $28 per megawatt-hour, but skyrocketing open market power prices convinced them otherwise. "Against the backdrop of the West Coast Energy Crisis, increased load placed on us and extremely high and volatile market prices, we asked the Federal Energy Regulatory Commission to stay the review of our rate filing while we conducted a supplemental rate case to reflect the new situation," the 2003 BPA report said. [130]

Power prices finally started to come down in June 2001, helped along by a struggling economy that lowered demand and the completion of several new power plants, the BPA's 2003 report said. But still unable to meet its supply needs, the BPA raised rates by 46% in October for everyone except "pre-subscription" customers. The sluggish

economy continued, with commodity prices lower for agriculture and aluminum, and BPA loads didn't pick up. The BPA paid its direct-service industry customers a total of $260 million in 2002 to 2003 to reduce their load. The cost to the BPA to augment its supply by 3,300 megawatts was about $3.9 billion. The 2001 drought was also a problem for the BPA, which had anticipated losing only $9 million in net revenue but instead lost $418 million. "The severity of the drought highlighted the firm energy shortage in the Northwest and drove prices higher than we or the region at large had ever seen previously," the BPA said in its 2003 report. Water in the rivers in 2002 was used to refill reservoirs emptied in 2001. The 2003 water year was projected to be about 70% of average, meaning two years of drought in three years. All told, the direct costs of drought over the three years were estimated at $600 million. [131]

The BPA's 2003 report noted that as a result of bankruptcy proceedings and investigations of the California power market, about $90 million in power payments were unavailable to the BPA. In the Pacific Northwest, three direct-service industry customers owed the BPA about $34 million, and two of them were in bankruptcy. By the time of the 2003 report, the BPA was facing financial problems. From 1997-2001, the average preference power rate had stayed steady at about $22 per megawatt-hour, and the agency's financial reserves rose from $278 million at the end of 1996 to $625 million at the end of 2001. Despite higher rates imposed during the West Coast Energy Crisis, the BPA continued to lose money in the first two years of the five-year rate period that started in October 2001. Costs for the rate period were about $5.3 billion more than the previous five-year rate period, and revenues in 2003 were expected to be about $1.4 billion less than in June 2001, when cost-recovery adjustment clauses (CRACs) were developed for power-sales contracts to address unexpected market-price increases. Lower revenue from secondary power sales due to lower market prices after the West Coast Energy Crisis ended was expected to cause a shortfall of $715 million over five years, the BPA said. In hindsight, the BPA realized it paid too much for load reduction in 2001 – it would have been better to let the industries keep paying for power – and the BPA had tried to reduce too much load – it only needed to reduce about 1,600 megawatts, not 3,300 megawatts, the BPA said. The BPA also felt it overestimated its ability in 1999 and 2000 to purchase additional power before the West Coast Energy Crisis even started. [132]

"The 2001 drought and the West Coast Energy Crisis were external factors that substantially damaged the agency financially," BPA Administrator Stephen Wright summed up the findings of the 2003 report. The 2001 drought cost the BPA about $600 million, and low water in fall 2002 and winter 2002-2003 was projected to cost the BPA another $200 million. "The costs associated with 2001 would have been substantially worse if the BPA had not declared power system emergencies," Wright said. BPA costs

increased about $1 billion since 2001, he said. “The bulk of this increase, 75 to 80 percent, is due to our decision to serve 3,300 megawatts beyond our resource base,” he said. Revenues from the sale of seasonal surplus hydropower also did not materialize, he said. The BPA’s self-critical report was written to address these issues and find out what the BPA could do to avoid such a disaster again. “The BPA has several internal process issues that must be improved to provide higher value to the region,” Wright said. “Principal among them is our need to substantially improve our risk management systems. Given our size, it has made sense historically for the BPA to take on risk. But, with wild price volatility, the level of risk the BPA can take on is finite. The primary risks the BPA took on were service to 3,300 megawatts of load beyond our resource base and committing to fixed funding based on projections of secondary revenue. A particularly important finding in the report is that the BPA’s culture is one in which we seek to find ways to say ‘yes’ to a variety of requests from our stakeholders while also seeking to avoid rate increases. This traditionally has resulted in the agency taking substantial risks.” [133]

Eight years later, the Northwest Power Planning Council’s John Harrison looked back at the history of the BPA leading up to the West Coast Energy Crisis. When the Bonneville Power Act was passed in 1937, public utility districts and electrical cooperatives were given preferential treatment because developing the rural areas of the Pacific Northwest was a national policy goal, he said. The act was modified 43 years later by the Northwest Power Act. When the 1980 act was being drafted “in Henry Jackson’s kitchen, with his staff doodling on napkins,” the idea was that aluminum smelters and other direct-service industries would consume large amounts of surplus power from the BPA and help pay for the dams, Harrison said. This idea was not specifically expressed in legislation but was widely understood, and it worked for several decades. But in 2001, when the 10 Pacific Northwest aluminum smelters needed 3,000 megawatts to produce one-third of the nation’s aluminum, the BPA decided not to renew the companies’ long-term contracts, he said. BPA rates had increased so fast since 1980 that some aluminum companies had opted to purchase power on the open market. At the same time, new and efficient aluminum smelters appeared in foreign countries, and the older Pacific Northwest smelters could no longer compete effectively. If the 1937 and 1980 acts had been written differently, the BPA might have sold its power on the open market, stopped financing energy conservation programs, or sold Pacific Northwest power to other regions two decades before the West Coast Energy Crisis happened, Harrison noted. [134]

Investigations and lawsuits

Historical reviews were one thing. Investigating alleged wrong-doing was another. The targets of investigation included Kaiser, which had earned windfall profits remarketing power once intended to power aluminum smelters on the open market, and power generators accused of playing the power system during a crisis. On Feb. 17, 2001, the Tacoma News Tribune reported that Kaiser stood to earn as much as $500 million from remarketing BPA-supplied power from its Tacoma and Spokane smelters. The BPA sold the power to Kaiser at $23.50 per megawatt-hour, but the power could be sold on the open market for 20 times that price. The newspaper reported that most of the earnings would go to Kaiser's headquarters in Oakland or to Houston, home of Kaiser's parent company Maxxam. BPA Spokesman Ed Mosey said the agency wanted at least 25% of the money earned from remarketing. Kaiser contended it would only earn about $300 million by Oct. 1, when the power supply contract ended. BPA officials claimed Kaiser's contract required the company use some of its windfall to help pay laid-off workers and help Kaiser prepare for power costs in a new contract, but they conceded to media the existing contract did not require Kaiser to share its wealth with BPA ratepayers. The BPA said some of the 180 to 190 megawatts Kaiser was already selling went to utilities in the region, but some might have gone outside the Pacific Northwest. In a public relations move, Kaiser claimed to be helping the region cope with the energy crisis. [135]

On Feb. 20, 2002, Sens. Maria Cantwell and Patty Murray of Washington began an investigation into how Kaiser spent the $465 million it made remarketing BPA-supplied power in 2001. The investigation was prompted by Kaiser's filing for Chapter 11 protection in federal bankruptcy court, and officials recognized that the investigation could be hampered by the bankruptcy case. Ed Mosey said the terms of the BPA contract with Kaiser were vague about how the company could use its power-sales windfall. "We do intend to review their use of funds," Mosey said. The money could be used to shore up the company's domestic facilities, but its use was not restricted to the Pacific Northwest, the BPA concluded. Some of the remarketing money reportedly was going to the $278 million reconstruction project at Kaiser's Gramercy alumina refinery in Louisiana, which was severely damaged in a 1999 explosion. [136]

An investigation into power-generating companies lasted several years. In August 2000, as the crisis in California worsened and power prices continued to climb, California Gov. Gray Davis called for an investigation into possible price manipulation in the wholesale power market. [137] In September, the Northwest Power Planning Council reported it had found no "smoking gun" indicating market manipulation in the Pacific Northwest's power market. The governors of Montana and Washington had asked for the council's report. Instead of a single controlling factor in the power market, the council had found

a number of contributing factors acting in concert, including an unusual heat wave in California and the Northwest, planned and unplanned outages of thermal generating plants, and recent deregulation in the California power market. The report called for studying the need for increasing power-generating capacity in the Pacific Northwest. Washington Sen. Slade Gordon had also asked the Federal Energy Regulatory Commission to look into price hikes since early summer 2000. [138]

In February 2001, Gary Zarker, superintendent of Seattle City Light, suggested publicly that a plot existed among power suppliers to drive up the cost of electrical power and take advantage of market volatility resulting from deregulation in California. Zarker noted that in summer 2000, California's power load reached 47,000 megawatts. "Somehow, the lights stayed on, which meant they had generating capacity somewhere," he said. By February 2001, the California load was only 30,000 megawatts "and they're operating in a perpetual state of emergency," Zarker said. "What happened to all that generation? Someone needs to answer that question." Reliant Energy of Houston became a suspect after its wholesale energy sales increased from $27 million in 1999 to $482 million by 2000. [139]

But another explanation was less conspiratorial and had more to do with the way the California system was deregulated, a Feb. 12, 2001, Associated Press article suggested. Power was bought on day-ahead spot markets run by the California Power Exchange, which gave all suppliers an equal opportunity and enabled utilities to buy only what they needed at the time. The Power Exchange market also rewarded power suppliers with the highest daily price. According to an analogy used in the Associated Press article, a supplier offers to fill a swimming pool halfway for $1 per gallon, and a second supplier offers to fill most of the remaining pool for $5 per gallon. The bidding continues until the last gallon is filled for $400. If the final bid is accepted, then all the suppliers who contributed are paid $400 per gallon. When the Power Exchange system was initially developed, power suppliers were expected to bid early to get higher volume, but the system evolved into one where power suppliers waited until a near crisis situation emerged to get the highest possible price. This became obvious to market analysts in light of a simple observation – everyone knew how much power was needed all the time. There was no cyclical supply and demand situation – power needs were steady. The 24-hour spot market would never work for electrical power, the Associated Press article concluded. Steven Klein, a superintendent of Tacoma Power, also noted there was no law requiring power generators to put their power on the market. "On the surface, not wanting to sell power from day to day is not breaking the law," Klein said. "But the day that you learn how to affect the market, you're exercising market power." [140]

On March 26, 2003, Federal Energy Regulatory Commission Chairman Pat Wood reported that a FERC judge had recommended that power generators refund about $1.8 billion to California utilities for manipulating natural gas and electrical prices during the West Coast Energy Crisis. A FERC spokesman said the exact amount to be refunded could be as high as $3.3 billion. The state of California was seeking about $9 billion. Overall, the energy crisis cost the state of California as much as $45 billion over two years. FERC singled out six companies to blame – Reliant Energy, BP Energy, Bridgeline Gas Marketing, Citrus Trading, ENA Upstream and seven subsidiaries of Enron. Following a 13-month investigation, FERC investigators said they found a close link between natural gas and electricity prices. FERC estimated Enron made more than $500 million in online trading in 2000 and 2001. FERC deferred action on California's request to renegotiate about $20 billion in long-term power contracts. [141] On April 8, 2004, a federal grand jury in San Francisco returned a six-count indictment charging Reliant Resources Inc. and four of its employees with manipulating energy prices during the energy crisis. The wire fraud, conspiracy and commodity-manipulation charges alleged Reliant shut down four of its five power plants for a two-day period to create a phony energy shortage that drove up electricity prices for the remainder of the week. Reliant then sold power at the higher prices, earning $32 million in overpayments, the charges alleged. Reliant already had agreed to return $13.8 million it made by cutting back energy production, and it paid an $836,000 fine to FERC. [142]

In June 2004, transcripts of telephone calls made by Enron commodities traders during the West Coast Energy Crisis were made public, revealing an arrogance and an attitude that showed an "unbridled drive for profit," the Associated Press reported The taped calls were obtained by the government and then transcribed by the Snohomish County Public Utility District in Washington, which was suing Enron for allegedly manipulating energy prices during the crisis. "Everything about the conversations is excessive," attorney Michael Aguirre said. "The language is excessive and the whole mindset is excessive." The transcripts prompted outrage by West Coast politicians who were demanding that the Federal Energy Regulatory Commission compensate ratepayers billions of dollars for years of price-gouging. According to the transcripts, traders openly and gleefully discussed creating congestion on transmission lines and taking generating plants off line, among other things, as a way to manipulate California's deregulated power market. Enron traders also referred to hefty political contributions to President Bush by Enron and how they "stole from those poor grandmothers of California." FERC was reviewing a FERC administrative law judge's ruling that Enron should forfeit $32.5 million in unjust profits, but the Snohomish County Public Utility District wanted Enron to forfeit as much as $2 billion. Sens. Barbara Boxer and Dianne Feinstein of California wanted $8.9 billion in refunds and existing long-term contracts to be renegotiated. Enron, however, had filed for bankruptcy in 2001. [143]

The state of California filed lawsuit against bankrupt Atlanta-based Mirant on Aug. 18, 2004, claiming the energy company rigged electricity markets during the West Coast Energy Crisis. California Attorney General Bill Lockyer called Mirant "without question, the worst offender in the energy crisis." The state accused Mirant of using trading schemes pioneered by Enron to create fake congestion on transmission lines. Three former Enron traders by then had pleaded guilty to manipulating the state's energy market. Altogether, the state had filed 67 lawsuits against energy generators and traders, accusing them of overcharging and manipulating prices. Federal energy regulators so far had approved about $3 billion in refunds to the state, but California officials claimed the state was owed about $8.9 billion. Mirant had agreed to pay $4 million, but the Federal Energy Regulatory Commission had not yet approved the deal. [144]

On Jan. 31, 2005, a Federal Energy Regulatory Commission analyst told a FERC judge that Enron made more than $1.6 billion from 11 Western states during the energy crisis, and that the bankrupt company should be required to pay much of that back. Montana Attorney General Mike McGrath said the report was good news for the state's lawsuit against a number of energy traders, but he noted that Enron was bankrupt and that California, which claimed Enron owed them about $2.8 billion, would get the "lion's share" of any settlement against Enron. [145] California officials said the FERC estimate was about $1.2 billion too low. They based their estimate on the Enron's impact on the market as a whole, as other energy companies imitated Enron's "gaming schemes." In July 2004, FERC ordered Enron to forfeit $32 million in profits stemming from an illegal business relationship with El Paso Electric Corp. from 1997 to 2003. [146] In August 2005, Reliant agreed to pay $445 million to settle lawsuits filed by investor-owned utilities in California that claimed Reliant manipulated prices during the energy crisis. "I will continue to fight for justice from companies that took advantage of California residents and businesses during the energy crisis," California Gov. Arnold Schwarzenegger said. [147]

Montana's pursuit of market manipulators began on Feb. 5, 2004, when the Montana Public Service Commission gave Montana Attorney General Mike McGrath authorization to pursue a lawsuit against 15 out-of-state energy companies McGrath accused of stealing millions of dollars from Montana consumers and businesses. The lawsuit, which McGrath filed in July 2003, relied heavily on information from the Federal Energy Regulatory Commission's investigation. McGrath claimed the manipulation extended over the entire West Coast. "Our role is to try to determine how that impacted Montana consumers," McGrath said. "Let's face it, Enron was acting all over the country." One business that was impacted by the manipulation, McGrath said, was the Flathead Electric Cooperative. [148]

The West Coast Energy Crisis also became a political issue in the 2004 gubernatorial race in Montana, which featured two candidates from Whitefish. In mid-October, the website for Democratic Brian Schweitzer's campaign posted a position paper with 18 reasons why Montanans should vote against Republican candidate Bob Brown – many of them false. "As a lobbyist for CFAC, Brown lobbied in favor of electrical deregulation, which resulted in skyrocketing energy bills for Montana families," the paper said. "Columbia Falls Aluminum took advantage of deregulation to close its plant, lay off its workers, and make over $300 million in profits selling its electricity out of state." [149] The Montana Democratic Party began airing a TV ad that attacked Brown for his ties with CFAC. Among the allegations, the ad claimed CFAC had "laid off hundreds of employees to make millions selling power out of state." [150] Mike Dennison responded to Schweitzer's allegations in an Oct. 14 column in the Great Falls Tribune. "A few of the allegations are just flat-out wrong," Dennison said, noting that the energy crisis that led to CFAC's decision to shut down and remarket its power resulted from federal deregulation, not state deregulation, and that decision helped keep CFAC viable for a restart. [151] Charles Johnson likewise responded in an Oct. 17 column in the Missoulian, noting that Brown could not be blamed for CFAC laying off hundreds of workers and then remarketing its power because he had left CFAC in late 2000 to take his new job as Montana Secretary of State in Helena. [152]

CFAC General Manager Steve Knight responded to Schweitzer's claim in an Oct. 18 press release. Knight said the company "did curtail production when the value of its electricity was higher than the value of aluminum," but the company retained its entire work force during the curtailment. "What's more, the money generated by electricity sales helped CFAC to restart production and avoid a permanent plant closure," he said. All 10 Pacific Northwest smelters shut down during the energy crisis, and CFAC was one of two still operating in 2004, he noted. As for the claim that Brown lobbied for deregulation for CFAC, Knight said "Brown never worked for the company before the passage of electric deregulation. He joined CFAC afterwards." [153] On Oct. 18, CFAC attorney Steven Wade wrote to Bob Ream and Brad Martin, chairman and executive director of the Montana Democratic Party, requesting the party stop airing the anti-Brown TV ad that claimed CFAC laid off workers so it could remarket BPA-supplied power. The claim "ignores the fact that although operations at the plant were stopped, CFAC continued to pay their employees their salaries, wages and benefits, as well as ensure operations at the plant were able to be reinitiated as soon as economic conditions permitted," Wade said. [154]

Schweitzer took his campaign to the CFAC plant in early October 2004, where he spoke to 30 of the 150 workers still at the smelter. "These guys are probably mostly for Brown," he told a Missoula Independent reporter. Schweitzer talked to the workers about how his mint-farming business was affected by foreign competition. "We were

outsourced," he said. "They sent our jobs to China. So, you roll over and you make more hay instead. But you folks don't have that opportunity here. You can't just turn this into a copper plant." Schweitzer promised the workers that if elected he would try to help CFAC with the cost of electrical power, but he couldn't do much about global metal prices. He also said he would travel to Switzerland to speak with Glencore about a long-term commitment for CFAC, promising to keep tax breaks for Glencore, but only on a "pay-as-you-go" basis. So long as Glencore continued to provide good-paying local jobs, the tax cuts would remain in effect, he said. [155] Tax breaks, however, were not going to be enough. The West Coast Energy Crisis had marked a cusp in the history of the Pacific Northwest aluminum industry. Seven of the region's 10 plants never reopened, and the remaining three, including CFAC, were facing their final years, as they struggled against high power and raw material costs and low metal prices. The collapse of Wall Street in 2008 and the resulting recession was the final nail in the coffin.

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