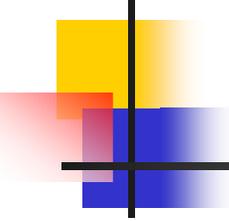


Alcoa Perspective

BPA Role Policy Proposal
August 16, 2006

The logo graphic consists of a vertical black line on the left, a horizontal black line below it, and a cluster of overlapping colored squares (yellow, red, blue) to the left of the text.

Alcoa Inc

- World's Leading Aluminum Producer
 - 129,000 Employees in 43 Countries
- Owns and Operates 2 NW Aluminum Plants
 - Intalco Plant near Ferndale
 - Historically Relied on BPA Power
 - Currently Operating at 1/3 Capacity
 - Wenatchee Plant
 - Historically Relied on BPA for Half of its Power
 - Currently Operating at ½ Capacity Using Chelan PUD Power

Primary Aluminum Industry

Major Cost Elements

A global commodity, with prices set on the London Metals Exchange (LME)



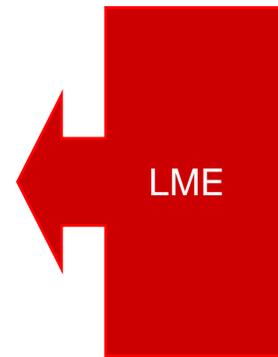
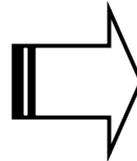
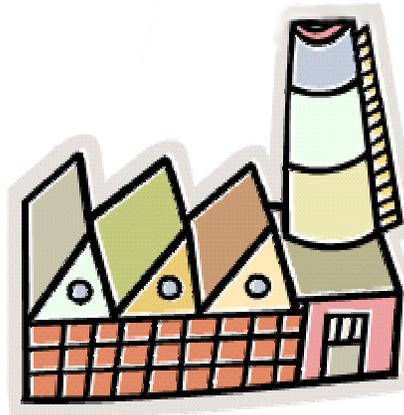
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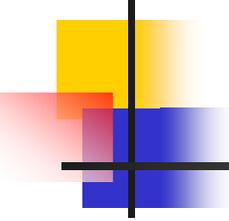


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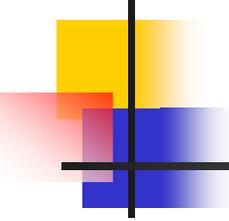
Global Supply

Global Demand



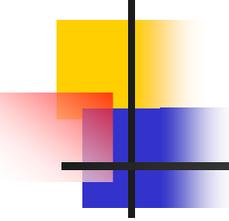
How Did Alcoa Become A DSI?

- BPA Was Created in 1937
- Alcoa Announced Vancouver Aluminum Plant in 1939
 - Clark County PUD Did Not Exist
 - Alcoa Became a Direct Service Industrial (DSI) Customer



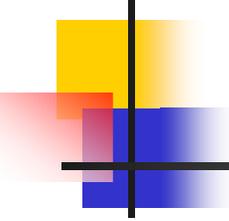
The End of Abundance

- By 1970's
 - 10 Aluminum Smelters in the Northwest
 - Over 3000 MW of BPA Power
 - Hydroelectric Potential Was Developed
 - Not Enough Power to Meet Utilities' Growing Demands



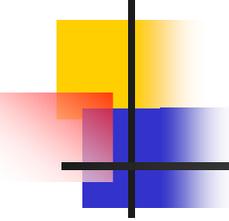
The Fair Solution in 1980

- The 1980 Northwest Power Act
 - Avoided Allocation of BPA Power
 - Authorized BPA to Purchase Power
 - Provided Power to DSIs
 - Required BPA to Serve Preference Utilities
 - Created the IOU Exchange
 - Established Fairness Standards
 - Fish and Wildlife
 - Conservation
 - Rates



What is BPA Proposing?

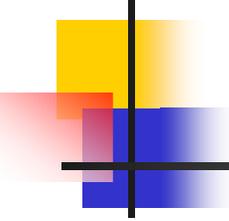
- A New Way to Share the Costs and Benefits of The Federal Investment
- **Finding a Fair Way to Accomplish this Task has to be the Number 1 Priority**



What is BPA Proposing for Aluminum Companies ?

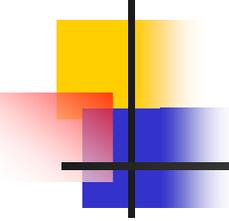
- 2006-2011
 - Financial Benefits
- Post 2011
 - Minimum – Zero
 - Maximum – 560 MW of Power at PF Rate

What Does the Next 5-Years Look Like?



- Alcoa Will Not Receive BPA Power
 - Will Receive a BPA Discount from Market
 - Unlike Port Townsend Paper Co. (Also a DSI)
- Alcoa Will Receive 320 MW of BPA “Benefit”
 - Power Rates for Intalco
 - Full Operation of Intalco – Net Power Rate \$52/MWh
 - 2/3 of Intalco Plant - Net Power Rate \$48/MWh
 - 1/3 of Intalco Plant - Net power rate \$36/MWh
- BPA is Expected to Sell Power to Utilities at \$27/MWh
- Alcoa Power Rate Will be 33% to 92% Higher

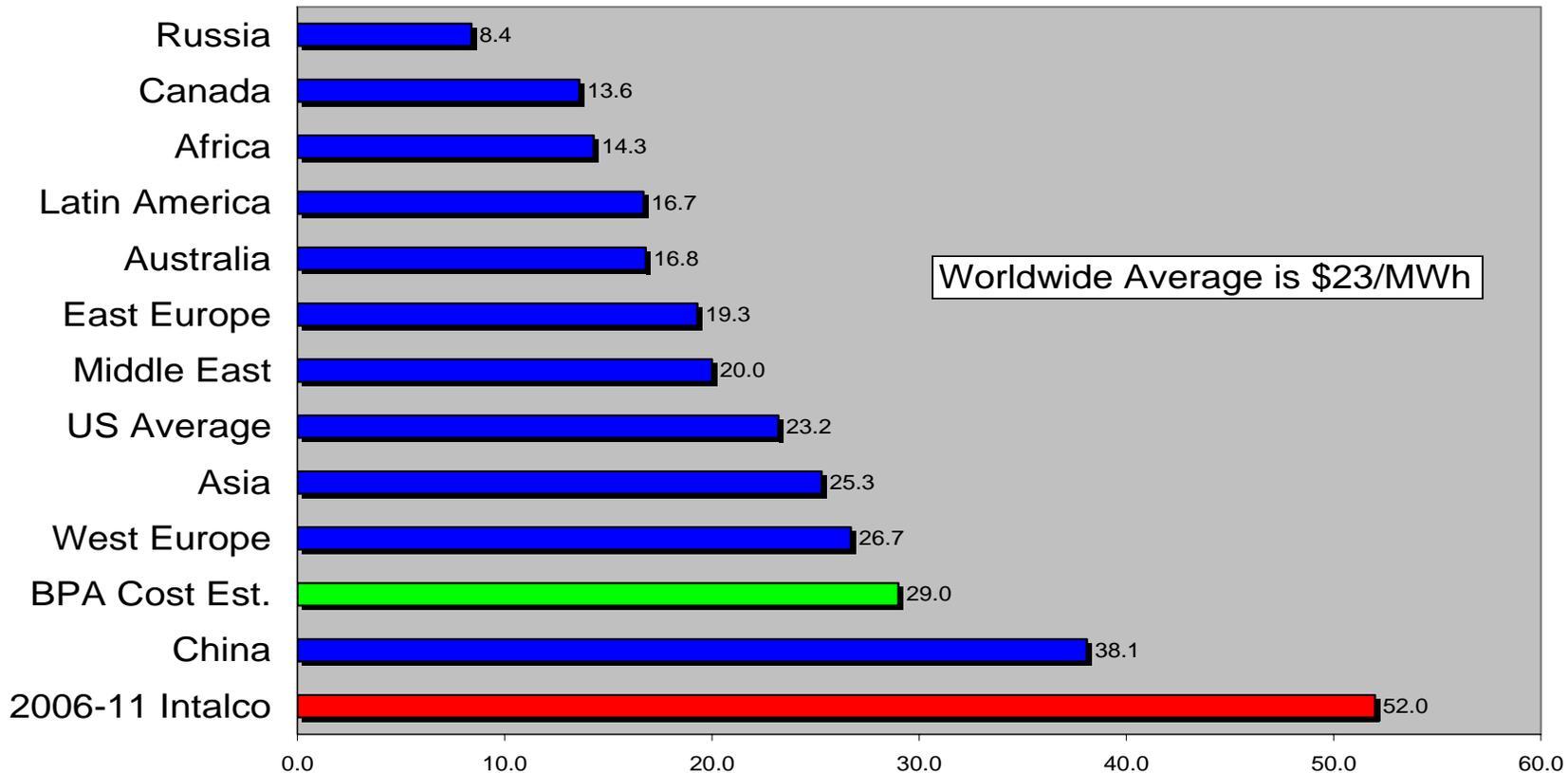
What Does the Next 5-Years Look Like?



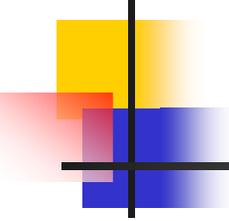
- Alcoa Announced Power Purchase
 - Adequate for 1/3 of Intalco Capacity
 - Higher Power Rate Works in the Short-Term
 - Currently High Aluminum Prices
 - This Formula Will Not Work in the Long-Term
 - Short-Term BPA Contract is a Bridge
 - Post-2011 Contract is Vital
- Wenatchee Will Continue to Operate
 - Less than Full Capacity
 - Using Chelan PUD Power

Comparison of World Wide Aluminum Power Rates

Delivered Power Rate for Aluminum Smelters (\$/MWh)

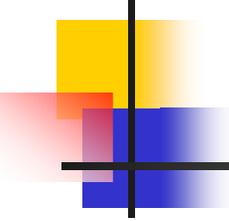


Source (except for BPA and Intalco): CRU International -2004



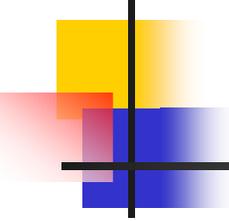
Its All About Fairness

- Federal Government
- Tribes
- Fish and Wildlife Interests
- Environmental Interests
- The Northwest Economy (Jobs)
- Consumers of Federal Power
 - Residential, Commercial and Industrial customers of Consumer-Owned Utilities
 - Residential Customers of Investor-Owned Utilities
 - Direct Service Industrial Customers



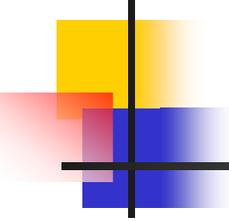
What is Fair for DSI Service?

- Our Plants are Like Other Industries that Purchase Cost-Based BPA Power from Local Utilities
- It is an Historical Accident that Aluminum Plants Bought Directly from BPA
- Aluminum Plants:
 - Helped Pay for the Construction of the Federal System
 - Lowered Power Rates for Everyone
 - Provided Metal for WWII Ships and Airplanes
 - Provided Economical Power Reserves
- Alcoa Continues to Provide Jobs and Economic Value
- Alcoa Should be Treated Like Other Industries



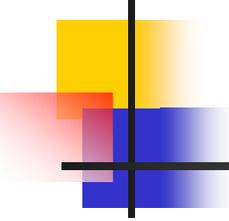
What Will Happen After 2011?

- CRU Strategies Study
 - The World-Wide Aluminum Industry Will Grow
 - If BPA Sells Enough Cost-Based Power to Alcoa:
 - Our Plants Will Likely Operate at Capacity and Provide Over 5,600 Jobs (Conway)
 - If BPA Provides no Post-2011 Benefits:
 - Intalco Will Likely Close
 - Wenatchee Operations Will Depend on Chelan PUD



How Should BPA Serve Aluminum Companies after 2011?

- BPA Should Sell Tier 1-Priced Power to Preference Utilities to Sell to Aluminum Companies in their Service Territories
 - Same as Port Townsend Paper
 - Same as Other NW Industries
- Alcoa Needs 625 MW of BPA Power to Operate at Capacity
 - Above Chelan PUD Amounts
- Alcoa Recognizes that All Stakeholders Must Compromise to Make the New BPA Policy Work



How Should BPA Serve Aluminum Companies after 2011?

- 560 MW is a Reasonable Amount
 - BPA Once Sold More Than 3000 MW of Power to Northwest Aluminum Companies
 - Will give Alcoa a Chance to Operate at Economical Levels
 - Will Limit Risks on Other BPA Customers