Northwest Power and Conservation Council

November 6, 2008

MEMORANDUM

TO: Power Committee

FROM: Terry Morlan

SUBJECT: Background on Proposed Principles for Power Sale to Alcoa

Bonneville released a paper on proposed principles for negotiating a power sales contract with Alcoa Aluminum. The sales would cover the same 2012 - 2028 time period as the Regional Dialogue contracts with Bonneville's utility customer. Bonneville is asking for comments on the principles through November 10.

Council members have been sent the proposal and additional information over the past 2 weeks. At this Council meeting, Alcoa Aluminum will make a presentation to the Council supporting the principles. In addition, we have invited the Public Power Council to provide a Bonneville utility customer perspective on the proposal. The proposal, if implemented, would increase the cost of Bonneville's tier-one power.

The Council's main interest in this proposal is that Bonneville would be attempting to acquire 240 megawatts of power, which would be a section 6(c) event if acquired for a period greater than 5 years. Because a 6(c) process can be time consuming, Bonneville and Alcoa are looking for ways to expedite the process so that an acquisition can be completed during a perceived low-cost window of opportunity in electricity markets.

The attached letter describes the basic proposal. The proposed principles are also attached. The details become complicated, but Bonneville has structured the proposal to limit the cost and risk to its other customers. If Bonneville can purchase power under the proposed price limits and for at least 10 years, Alcoa would guarantee a certain level of employment, and invest substantially in their Bellingham smelter to improve its efficiency and productivity. A representative from Bonneville will describe the proposed principles for the Power Committee.

This agenda item will allow the Power Committee to hear about the proposal from Bonneville staff and ask questions prior to the Council presentations by Alcoa and PPC.

Attachments

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EXHIBIT A

Framework for Negotiation

I. BPA and Alcoa (the "Parties") will explore the feasibility of a transaction whereby BPA would serve a portion of the electric power requirements of the Intalco Plant (the "Alcoa Load"), during the period FY 2012 through FY 2028, with firm energy delivered flat over all hours, under the Industrial Firm Power (IP) rate schedule, but only if BPA acquires power sufficient in amount to serve the Alcoa Load at or below the prices specified in this MOU (the "Price Cap").

While the Parties would execute a single Block Power Sales Contract (the "Block Contract") covering the entire period FY 2012 through FY 2028, the transaction would be broken into two phases. Phase 1 would cover the 10-year period FY 2012 through FY 2021, and Phase 2 would cover the 7-year period FY 2022 through FY 2028.

While the Parties contemplate executing the Block Contract in January 2009, BPA's obligation to deliver energy to Alcoa during Phase 1 or Phase 2 would be contingent on BPA acquiring power at or below the applicable Price Cap, in the time frame and manner contemplated by this MOU and as provided in the Block Contract. This Framework contemplates a number of different power purchase and delivery period scenarios under which BPA could serve the Alcoa Load. Therefore, references herein to the Price Caps in Table 1 should be read to refer to the weighted average of purchases made by BPA to serve the Alcoa Load over all fiscal years comprising the particular delivery period encompassed by each section of this Agreement. In some cases, the Price Cap is established at a level different from that contained in Table 1. For example, under the service scenario described in section II.A. the proposed Price Cap for BPA purchases would average $73/MWh, notwithstanding that the average Price Cap for that period in Table 1 is $80/MWh.

The expected cost to BPA of serving the Alcoa Load is based on an average purchase price, times the applicable number of megawatt hours (8760 hours times either 240 MW or 160 MW) times the year(s) in the delivery period, minus revenues for each year in the delivery period based on a projected FY 2012 IP rate of $38/MWh that escalates at 2.5 percent each year for the term of the Block Contract. The Price Caps were set based on this expected cost divided by the megawatt-hours sold to Alcoa in the applicable period. The average purchase price for the applicable period shall not exceed the applicable Price Caps for such period. As described in IV. below, the escalation rate of 2.5% is not intended to reflect or influence the actual level of the IP rate which shall be set in accordance with all legal requirements.

II. Phase 1: FY 2012 through FY 2021

The Parties' objective for Phase 1 would be to identify, on or before March 31, 2009, one or more power purchases totaling 240 aMW, for the full 10-year period of Phase 1, at an average price of $73/MWh or less (the "10-Year Purchase"). BPA will proceed, consistent with the Block Contract and BPA's statutory obligations, to consummate purchases to serve the Alcoa Load following execution of the Block Contract and consistent with this MOU.

In the event that this 10-Year Purchase objective is not achieved, then, as further described below, Phase 1 would, at Alcoa's election, be broken into two five-year periods.

A. 10-Year Purchase

1. BPA and Alcoa will meet with the Northwest Power and Conservation Council (NWPCC) concerning BPA's acquisition of resources to meet the Alcoa Load. BPA would then investigate and pursue completion of (consistent with the Block Contract and BPA's statutory obligations) one or more power purchases totaling 240 aMW to serve the Alcoa Load, at or below the Price Cap. For the initial 10-Year Purchase period the Price Cap would be $73/MWh.

2. BPA would pursue completion of such purchase or purchases jointly with Alcoa, but BPA will consummate a transaction, so long as such transaction is otherwise consistent with the Block Contract and BPA's statutory authorities, including NEPA, BPA's then existing risk policies and any additional supplier credit and collateralization requirements BPA and Alcoa agree are necessary and as specified in the Block Contract.

3. Unless BPA has already completed the 10-Year Purchase, Alcoa may provide written notice to BPA any time prior to March 31, 2009, to proceed pursuant to B. and C. below. Upon receiving such notice, BPA shall no longer be obligated to pursue a 10-Year Purchase.

4. Unless Alcoa has instructed BPA by written notice to proceed pursuant to B. and C. below, the Block Contract will terminate on March 31, 2009, if BPA has not completed the 10-Year Purchase. The 10-Year Purchase shall be considered completed even if it is subject to specified contingencies that have not been satisfied or waived by March 31, 2009.

5. In the event BPA has purchased 160 aMW or more to serve the Alcoa Load, Alcoa shall be liable to BPA for liquidated damages for all such power purchases (including all amounts below 160 aMW) pursuant to IX. below; provided, however, that if BPA has purchased less than 160 aMW (BPA does not expect to purchase an amount less than 160 aMW for any given

fiscal year in any phase), BPA may either (i) retain such power for its own use and account, and relieve Alcoa of the liquidated damages under IX below, or (ii) sell to Alcoa (and Alcoa shall be obligated to buy) such power in question at BPA's cost.

B. First Five Year Purchase (FY 2012 through FY 2016)

If BPA has not completed the arrangements under II.A. above, and in the event that Alcoa has instructed BPA proceed to B. and C., then Phase 1 would be divided into two five-year periods.

The following major elements and conditions would form the basis for the sale by BPA to Alcoa for the first five years of Phase 1 in such event. A 10-year arrangement consisting of two five-year periods shall be considered completed even if it is subject to specified contingencies that have not been satisfied or waived by the dates set forth below.

1. BPA would sell 240 aMW of power to Alcoa at the IP rate for the operation of the Alcoa Load for FY 2012 through FY 2016, on the condition that prior to December 1, 2010, BPA has acquired 240 aMW of power for the full five-year period at an average price at or below $73 MWh.

2. If BPA has not acquired the 240 aMW of power purchases for service to Alcoa for the entire five-year period by June 30, 2009, then from July 1, 2009, through December 31, 2009, Alcoa will attempt to acquire and offer to sell to BPA the unprocured balance needed to achieve the 240 aMW of annual flat amounts of power for this period, and BPA must, subject to all statutory requirements being met, accept Alcoa's offer at a price such that the weighted average price of all BPA purchases for this five-year period equals $73/MWh or at Alcoa's purchase price for such power, whichever is lower.

3 Except as provided above, the Block Contract shall terminate on December 1, 2010 unless BPA has purchased, on its own or from Alcoa, 240 aMW for the full five-year period at an average price of $73 per MWh or less.

4. In the event BPA has purchased 160 aMW or more to serve the Alcoa Load, Alcoa shall be liable to BPA for liquidated damages for all such power purchases (including all amounts below 160 aMW) pursuant to IX. below; provided, however, that if BPA has purchased less than 160 aMW (BPA does not expect to purchase an amount less than 160 aMW for any given fiscal year in any phase), BPA may either (i) retain such power for its own use and account, and relieve Alcoa of the liquidated damages under IX. below, or (ii) sell to Alcoa (and Alcoa shall be obligated to buy) such power in question at BPA's cost.

5. BPA shall purchase power offered by Alcoa pursuant to this section B. as long as the power offered meets BPA's requirements as specified in VI. below.

C. Second Five Year Purchase (FY 2017 through FY 2021)

The following major elements and conditions would form the basis for the sale by BPA to Alcoa for the second five-years of Phase 1 in the event the 10-Year Purchase is not completed, and in the event that the Block Contract has not been terminated by December 1, 2010.

1. BPA would deliver up to 240 aMW of power to Alcoa at the IP rate for the operation of the Alcoa Load for FY 2017 through FY 2021, on the condition that prior to the dates set forth below, BPA has acquired 240 aMW of power for such rate period at or below the applicable 240 aMW Price Caps (averaged for the years in the rate period), as provided in Table 1, and all applicable statutory requirements have been met.

2. BPA will seek to acquire at least 160 aMW (and up to 240 aMW) of power purchases for service to Alcoa for the second five-year period by March 31, 2010. If BPA has purchased at least 160 aMW, Alcoa will either utilize such 160 aMW at the Intalco Plant, or be subject to liquidated damages under C.4 below. If by March 31, 2010, BPA has not purchased the entire 240 aMW, then between April 1, 2010 and June 30, 2014 (but only in the event that BPA has completed the purchase of 240 aMW of power for the full term of the first five-year period), Alcoa will attempt to acquire and offer to sell to BPA the full unprocured balance of annual flat amounts of power for this period, and BPA must, subject to all statutory requirements being met, accept Alcoa's offer at a price such that the weighted average price of all BPA purchases for the second five-year period equals $73/MWh or at Alcoa's purchase price for such power, whichever is lower.

3. From July 1, 2014 through the beginning of the rate case for the applicable rate period(s) in this second five-year period, BPA may either (a) subject to all statutory requirements being met, purchase five years of power for service to Alcoa at a price such that the weighted average price of all BPA purchases equals $73/MWh or less for the 10-year period encompassing October 1, 2011 through September 30, 2021, or (b) purchase for BPA's 2-year rate period at, as applicable, the 240 aMW Price Cap (averaged over the rate period) specified in Table 1, or the 160 aMW Price Cap (averaged over the rate period) specified in Table 1.

4. In the event BPA has purchased 160 aMW or more to serve the Alcoa Load, Alcoa shall be liable to BPA for liquidated damages for all such power purchases (including all amounts below 160 aMW) pursuant to IX. below; provided, however, that if BPA has purchased less than 160 aMW (BPA

does not expect to purchase an amount less than 160 aMW for any given fiscal year in any phase), BPA may either (i) retain such power for its own use and account, and relieve Alcoa of the liquidated damages under IX. below, or (ii) sell to Alcoa (and Alcoa shall be obligated to buy) such power in question at BPA's cost.

5. BPA shall purchase power offered by Alcoa pursuant to this section C. to make up the difference between BPA's power purchases and 240 aMW as long as the power offered meets BPA's requirements as specified in VI. below.

D. Fallback Negotiation

If the Block Contract has been terminated under A. or B. above, the Parties will negotiate in good faith to arrive at a mutually acceptable alternative arrangement, and BPA will propose an IP rate schedule for the next rate period, unless prohibited by the order of a court of competent jurisdiction.

III. Phase 2: FY 2022 through FY 2028

A. BPA would sell 160 aMW of power to Alcoa at the IP rate for the operation of the Alcoa Load for the period FY 2022 through FY 2028, on the condition that prior to the first year of any rate period falling in whole or in part within the period FYs 2022-2028 BPA has acquired 160 aMW of power at an average price at or below the 160 aMW Price Cap specified in Table 1 (or the average thereof for the applicable period).

B. If BPA has not made the full amount of 160 aMW of power purchases to serve the Alcoa Load nine months prior to the beginning of any rate period falling in whole or in part within the period FYs 2022-2028, BPA shall provide Alcoa notice in writing at such time.

C. Alcoa may attempt to acquire and offer to sell to BPA the full unprocured balance of power for a rate period and BPA must accept such offer, subject to all statutory requirements being met, at a price such that the average price of all purchases for the rate period, inclusive of the proposed Alcoa sale to BPA, are at or below the 160 aMW Price Cap specified in Table 1(or the average thereof for the applicable period), or at Alcoa's purchase price for such power, whichever is lower.

D. In the event BPA has purchased 160 aMW to serve the Alcoa Load, Alcoa shall be liable to BPA for liquidated damages for all such power purchases (including all amounts below 160 aMW) pursuant to IX. below; provided, however, that if BPA has purchased less than 160 aMW (BPA does not expect to purchase an amount less than 160 aMW for any given fiscal year in any phase), BPA may either (i) retain such power for its own use and account, and relieve Alcoa of the liquidated damages under IX below, or (ii) sell to Alcoa (and Alcoa shall be obligated to buy) such power in question at BPA's cost.

E. BPA shall purchase power offered by Alcoa pursuant to this section III. as long as the power offered meets BPA's requirements as specified in VI. and X. below.

F. In the event that power prices are considerably below those expected for this Phase 2 of the Block Contract, BPA shall conduct an economic study of the Regional impacts of providing Alcoa with additional power that may be available within the Price Caps. This provision shall not be construed as requiring BPA to offer any such additional power.

IV. BPA will propose an IP rate schedule for any of the rate periods during the term of the Block Contract unless prohibited by the order of a court of competent jurisdiction. Alcoa would purchase any power provided by BPA under the Block Contract at the applicable IP rate, as established by BPA in its rate-setting processes. Alcoa would acknowledge in the Block Contract that BPA is not guaranteeing that the IP rate will not exceed a maximum level, and that BPA is not seeking to establish the IP rate at any particular level (other than as provided by BPA's statutory rate directives), for any rate period during the Block Contract term. Alcoa would acknowledge that it bears all risk associated with any increase in the IP rate.

V. BPA would establish a schedule for commencement and completion of any required administrative hearings, and any public processes and other review, including any required environmental review, of any purchase contemplated herein.

VI. Any proposed sales by Alcoa to BPA must meet BPA's statutory requirements, including NEPA, and its credit and other applicable risk requirements. Any such sale by Alcoa to BPA would be under a separate contract, such as the Western System Power Pool Agreement.

Notwithstanding anything else in this MOU to the contrary, any sales of power by Alcoa to BPA referred to in this MOU must be, in the aggregate, at or below Alcoa's actual and reasonable purchase cost at the time the purchase in question is made. Alcoa will obtain three broker quotes for any power purchase and may proceed to make such purchase. In the event that Alcoa is unable to obtain three broker quotes from qualified parties, Alcoa will present any offered price to BPA's representative to obtain prior approval of the purchase and BPA shall respond to such request in a timely manner. In either event Alcoa shall make a purchase at the lowest price tendered by a qualified counterparty. Alcoa will retain and, upon BPA's request, provide its records documenting the reasonableness of such purchase, and BPA would have the right to verify such cost by audit to ensure that BPA did not pay more than the actual cost of power acquired by Alcoa.

The parties will work in good faith to specify in the Block Contract the timing, procedures and cost parameters that would apply to any proposed power sale by Alcoa to BPA, including the possibility of BPA stepping in and purchasing directly large blocks of power for the full period that Alcoa would otherwise plan to purchase, or the use of BPA's system power, at BPA's discretion and as permitted by law, to support sales to Alcoa under the Block Contract in lieu of the parties making market power purchases.

VII. If BPA is unable to purchase 160 aMW to serve the Alcoa Load at the Price Cap specified in Table 1 (or the average thereof for the applicable period) for any period on or after FY 2017 (a "BPA Curtailment"), BPA would restrict deliveries to the Alcoa Load and:

A. BPA will pay Alcoa $5.0 million for each BPA Curtailment to cover shutdown/start-up cost, plus $2.9 million (in 2012$) to offset labor expenses for each month of any BPA Curtailment, up to but not including the 25th month.

B. If and when accumulated BPA Curtailment payments exceed $85 million (in 2012$), the Block Contract shall terminate.

VIII. Prior to FY 2022, BPA shall determine the amount by which the cost to serve the Alcoa Load during the period FY 2012 through FY 2021 exceeded revenues from sales to meet the Alcoa Load, based on BPA's forecasted IP rate at the time the Block Contract was signed. The 160 aMW Price Caps specified in Table 1 for the remaining fiscal years will be reduced, pro rata, by the amount, if any, such total cost has exceeded $650 million. In determining such total cost, BPA will adjust any purchases that are not flat blocks of power based on the applicable BPA Resource Support Service charges in effect during the year of the purchase.

IX. Alcoa shall pay BPA liquidated damages, if any, for power purchased by BPA to serve the Alcoa Load as provided herein, including any event of termination or default. Such liquidated damages will be 100% of the positive difference of the then current market price for power minus the original purchase price multiplied by the MWh of undelivered IP power, provided however, BPA will make reasonable efforts to mitigate any liquidated damages. In the event such liquidated damages are negative (i.e., the market price obtained for the remarketed power exceeds the original purchase price), such amount will be placed in an account and disbursed for certain allowable Intalco Plant expenditures; provided, however, (a) any such amounts placed in the account will be limited to (i) of the first $140 million, 67% of the negative liquidated damages obtained from such remarketed power, with the balance of 33% retained by BPA; (ii) of the next $140 million, 33% of the negative liquidated damages obtained from such remarketed power, with the balance of 67% retained by BPA; and (iii) of any amounts above $280 million, 50% of the negative liquidated damages obtained from such remarketed power, with the balance of 50% retained by BPA; (b) any such amounts will first be used to offset any BPA Curtailment payments; and (c) any such amounts will not include revenues obtained following a breach of the Block Contract by Alcoa. Such allowable expenditures for the Intalco Plant would be defined in the Block Contract, but would include costs associated with restart, capital upgrades, environmental remediation, decommissioning, and employment expenditures (including, but not limited to worker severance) at the Intalco Plant. Details regarding the establishment and maintenance of the account will be negotiated by the parties and described in the Block Contract.

X. If BPA purchases from a supplier, other than Alcoa, with a credit rating of "A" or better and BPA includes other credit requirements mutually agreeable to both Parties (such requirements will be specified in the Block Contract), and such supplier defaults under its agreement with BPA, then Alcoa shall either (i) terminate deliveries under the Block Contract in the amount of the defaulted purchase, or (ii) pay BPA the positive difference of a replacement purchase by BPA minus the original purchase price times the undelivered MWh minus any default payments or performance assurance payments received by BPA.

XI. The Price Caps in Table 1 or as otherwise specified herein (or the average thereof for any applicable delivery period) represent the maximum BPA would pay for average annual blocks of power to serve the Alcoa Load, and include any costs, imposed at any time, of carbon taxes or charges, or other similar environmental or regulatory costs and costs incurred for any credit requirements pursuant to X. above.

XII. For any amount of power Alcoa does not use for 36 consecutive months, Alcoa would lose its right to purchase an equal amount power for the remaining term of the Block Contract.

Upon Alcoa's request, BPA shall reallocate up to 70 aMW of the power lost by another Direct Service Industry smelter customer pursuant to the corresponding section of such other smelter customer's contract, if the costs of such reallocation is or can be supported by a power purchase at or below $73 per MWh in Phase 1 and in Phase 2 at or below $80/MWh in 2021$.

XIII. BPA will provide power to Alcoa raw (without transmission). Alcoa will be responsible for the delivery of power to its load. At Alcoa's request and for the purposes of Alcoa obtaining a long-term transmission contract, BPA shall provide Alcoa with the points on the Pacific Northwest transmission system where IP power is forecast to be made available by BPA. Such points shall be limited to existing points in Alcoa's current transmission contract, and additional points that are added on a temporary or permanent basis at no additional incremental transmission cost to Alcoa. If required by the Transmission Provider for purposes of transmission scheduling, BPA shall provide Alcoa with points on the Pacific Northwest transmission system where IP power is made available by BPA to Alcoa for purposes of daily and hourly transmission scheduling.

XIV. Alcoa would commit to the capital investments in Table 2 if BPA has made a 10-year purchase pursuant to either II.A or the combination of II.B. and II.C.2. or II.C.3. Alcoa commits to employment expenditures at the Intalco Plant through the term of the Block Contract as provided in Table 2 (the "Annual Employment Expenditures"). Failure to meet such Annual Employment Expenditures would be a default under the Block Contract.

If Alcoa fails to make at least 66% of the 1.5 line capital investment described in Table 2, then the Block Contract shall terminate October 1, 2021. If Alcoa makes 66% to 100% of the 1.5 line capital investment described in Table 2, the Parties will negotiate a provision in the Block Contract to adjust the 160 aMW Price Cap in Table 1 for FY 2022 through FY 2028 commensurate with the level of capital investment that was actually made. In such negotiations BPA shall take into account any Alcoa capital expenditure commitments for the FY 2022 through FY 2028 period.

XV. The Block Contract will provide for termination in the event that BPA is obligated by court order or decision to offer Alcoa any other additional power sales, and the parties subsequently enter into such other additional power sales. Alcoa shall pay BPA liquidated damages, if any, for power purchased by BPA to serve the Alcoa Load prior to such a termination. At BPA's option, it may either retain the power for its own use and account, and relieve Alcoa of the liquidated damages, or Alcoa shall buy the power in question at BPA's cost. In case of such a termination, the provisions of this Section XV., rather than those of Section IX., shall apply.

Table 1

Fiscal Year	160 aMW price cap ($/MWh)	240 aMW price cap ($/MWh)
FY12	n/a	$ 73.00
FY13	n/a	
FY14	n/a	
FY15	n/a	
FY16	n/a	
FY17	$ 103.00	$ 83.00
FY18	$ 106.00	$ 85.00
FY19	$ 108.00	$ 87.00
FY20	$ 110.00	$ 89.00
FY21	$ 113.00	$ 91.00
FY22	$ 98.00	n/a
FY23	$ 101.00	n/a
FY24	$ 103.00	n/a
FY25	$ 105.00	n/a
FY26	$ 108.00	n/a
FY27	$ 110.00	n/a
FY28	$ 113.00	n/a

Table 2

Lines	Annual Employment Expenditures (2012$)	5-yr Capital Investment $)	10-yr Capital Investment*
1 line	$38 million	$0 million	$125 million
1.5 lines	$48 million	$0 million	$160 million
2 lines	$56 million	$0 million	$200 million

*Notes: Alcoa may initiate its capital spending in 2009 in anticipation of the contract. Annual Employment Expenditure amounts will be escalated to account for inflation.

Department of Energy

Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208-3621

POWER SERVICES

October 10, 2008

In reply refer to: P-6

To Parties Interested in service to Direct Service Industries:

Today, BPA released for public review a proposed set of principles that, if adopted, would lead to a power sales contract with a regional aluminum smelter owned by Alcoa. BPA is pursuing such an offer to give Alcoa's Intalco plant, located in Ferndale, Washington, a reasonable chance of survival without causing significant economic impacts on other power customers.

Under the proposal, BPA would provide Alcoa 240 average megawatts (aMW) of power, beginning in 2012 for 10 years, and 160 aMW for another 7 years. This compares to Alcoa's current contract with BPA that provides financial benefits equivalent to 390 aMW. BPA expects the contract would cost an average $65 million a year; Alcoa currently receives about $39 million a year in benefits. The increase reflects expected higher future power prices.

We estimate the cost of this agreement would impact BPA's wholesale power rates to publicly owned Northwest utilities by less than 2 percent compared to BPA's current rates (or 3 percent if Columbia Falls Aluminum Company concludes a comparable proposal). Were BPA to provide all the power that both companies requested, the rate impact would be around 9 percent. If BPA did not serve the aluminum companies at all, the effect would be a 3 percent wholesale power rate decrease.

The proposal also calls for limiting BPA's financial exposure. For example, BPA would not buy power at prices above $73 per megawatt hour in the first 5 years. If BPA buys power to serve Alcoa and Alcoa subsequently shuts down its plant, Alcoa would pay all liquidated damages. Any contract with Alcoa also would terminate if the company closes the plant for 36 months.

In addition, as part of the proposal, Alcoa would commit to maintain a minimum payroll of $48 million that is expected to support about 480 jobs at the Intalco plant. If by December 2010, BPA is able to acquire 10 years' worth of power supply to support the 240 aMW of power sales to the plant, Alcoa will invest $160 million in capital improvements at the plant.

This offer also will be available to Columbia Falls Aluminum Company, headquartered in Montana. BPA is in talks with CFAC, although CFAC is considering an agreement that provides benefits through a monetized power sale. Any agreement reached with CFAC would include comparable benefits to the proposed agreement with Alcoa and would be subject to a public review.

We understand that support for the direct service industries varies throughout the region. Some have stated they believe BPA no longer has the authority to provide power to the companies and shouldn't. Others have said they believe that, since the aluminum companies have bought power from BPA since World War II, they deserve to be treated like any other long-time BPA customer. The proposal seeks to find a middle ground between these two positions.

How to Comment

BPA is requesting your comments on the proposed set of principles that would lead to a power sale contract with Alcoa described in this letter and in Enclosure 1 and posted at BPA's Website at http://www.bpa.gov/power/pl/regionaldialogue/implementation/documents/. BPA will hold a public workshop October 20, 2008, in Portland to discuss the proposed agreement.

Comments must be received by 5 p.m., Pacific Standard Time, November 10, 2008. Comments can be submitted on-line at: www.bpa.gov/comments; via e-mail to comment@bpa.gov; via mail to: Bonneville Power Administration, Public Affairs Office-DKC-7, P.O. Box 14428, Portland, OR 97293-4428; or faxed to 503-230-3285. You may also call us with your comments, toll free, at 1-800-622-4519. Please reference "17-year agreement with Alcoa" with your comments.

Following the close of comment November 10, BPA will consider all comments received and may decide to issue a draft contract. If the decision is to move forward with a contract, the draft contract also will be released for public review and comment. After the close of comment on the draft contract in late December, BPA would announce its final decision on whether to pursue the long-term agreement with Alcoa and release a final Record of Decision. BPA is conferring with the Northwest Power and Conservation Council to assure consistency with the Council's power plan.

Sincerely,

/s/ Paul E. Norman

Paul E. Norman
Senior Vice President
Power Services