

September 12, 2002

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Steve Wright,
Administrator & CEO
Bonneville Power Administration
Portland, Oregon

**Re: Further Comments of Golden NW Aluminum on Post-2006 Matters:
GNA's Proposal for Limited Short-Term BPA Credit Support for GNA's
Purchases of Power from New Power Projects that are Being Developed by
GNA's Affiliates to Replace a Portion of GNA's BPA Power after 2006**

Dear Steve:

Attached please find a copy of the PowerPoint presentation that Golden Northwest Aluminum ("GNA") made to the Bonneville Power Administration ("BPA") last month regarding GNA's request for limited short-term BPA credit support for GNA's purchase of up to 320 MW of power from new generating resources that GNA affiliates are developing to help serve the portion of GNA's load requirements that BPA will no longer serve directly after 2006. In addition to having been presented to BPA, this document has already been made public. GNA asks that it be included and circulated for consideration in BPA's current proceeding.

The request is explained in the attached PowerPoint presentation. I will not repeat that explanation here. However, I would ask that the following additional points be noted in the context of this proceeding.

First, as you know, GNA has designed its request (and offered to enter into associated agreements) so that BPA's decision to grant this limited short-term credit support need not await, and will not prejudice, the outcome of your proceeding on post-2006 matters. We believe this matter is and can remain independent of that outcome. It does not prejudice or dictate the outcome of this proceeding in any way. The timing of the request is driven by the imminent completion of the permitting phase of power project development by GNA's affiliates, and the imminent commencement of the financing and construction phase.

Second, GNA's request is limited to a period of five (5) years, and therefore can be implemented pursuant to BPA's authority under the Federal Columbia River Transmission System Act. However, both the form and substance of the request would be consistent with Congressional intent and the authorities granted BPA to provide longer-term credit support for customer-owned generating resources under the Pacific Northwest Electric Power Planning & Conservation Act ("Regional Act"). The proposal fits the spirit as well as the letter of the laws that govern BPA action.

Finally, please note that GNA under separate cover is submitting jointly with the Aluminum Company of America ("ALCOA") more extensive comments for consideration in this proceeding.

Thank you very much for your time and consideration in this matter.

Very truly yours,

Eric Redman

Enclosure

Revised Proposal

Limited Short-Term BPA Credit Support for GNA Purchase from GNA Sponsored Generating Plants

Prepared by

- *Brett Wilcox (CEO of Golden Northwest Aluminum),*
- *Earl Gjelde (Managing Director, Summit Power NW)*
- *Eric Redman (Heller Ehrman White & McAuliffe LLP)*

August 28, 2002

Summary of Revised Proposal

- **Purpose:**
 - Help assure economic long term power supply to GNA as replacement for BPA historical supply (up to 320 MW).
 - Help assure adequate economic power supply for PNW economy and particularly BPA customers. Benefits PNW region economy.
- **Approach:** Help assure project completion by aiding financing.
- **Substance:**
 - BPA assures payment of debt service only (no variable costs, and no other fixed costs) for up to 320 MW of GNA power purchases from GNA's new gas-fired projects (Summit/Westward and/or Cliffs Project) for the first 5 years of commercial operation.
 - BPA never becomes responsible for or involved with project power, gas supply and sale, or other risks.

Summary of Revised Proposal

- **Form:**

For legal reasons, BPA credit support in form of a 5 year power sales agreement (PSA): BPA buys power, resells it to GNA. Terms of PSA will limit BPA's payments to debt service only.

- **Maximum BPA exposure:**

- 5 years of debt service payments on a maximum of 320 MW of GNA power purchases from the projects.
- Estimated annual dollar amount: \$12.9 M/year (2002 dollars).
- Total estimated amount for 5 years: \$64.6 M total (2002 dollars).
- Any actual BPA net outlay becomes an immediate lien on project to be repaid at first opportunity before any payment to equity.

Why Credit Support Is Needed

- In order to be financed today, new power plants need both:
 - Substantial percentages of equity (50% is likely), and
 - Power sales agreements with credit-worthy purchasers.
- The market won't treat GNA as a credit-worthy purchaser of power for project financing purposes even though GNA (thru Northwest Energy Development LLC – NWED) has invested some \$100 million in new power projects.
- Thus, to finance the projects, GNA needs credit support for its purchases of power sufficient to cover the debt service for at least the critical first 5 years of operation -- even from its "own" projects.

How Much Project Power Will GNA Buy?

- GNA plans to buy up to 320 MW from its own projects, which amount will no longer be an obligation for BPA direct service.
- Note: this no longer depends on GNA being offered 200 MW (or any other amount) of BPA power post-2006; that's a separate issue.
 - In early 2002, when we assumed no BPA direct service after 2006, we assumed need (and we asked) for 520 MW of BPA credit support.
 - Later, when the Utility Proposal emerged, we assumed 100 MW of BPA power per smelter post-2006 in arriving at the 320 MW credit support figure.
 - Now, our available investment capital effectively limits our equity share of the Projects to 320 MW or less; we won't be buying a larger share of the total.
 - The Projects will have other equity investors, of course, but they probably will want to sell their power on more favorable terms (or use it themselves).
 - Post-2006 BPA sales to GNA will be determined as part of regional process.
- Remainder of GNA's projects (500 MW) are being offered:
 - At cost (including agreed minimal return on equity),
 - To BPA, NW preference customers, IOUs, other DSIs & industry,
 - For long term purchases of capacity or output, and
 - For equity participation by those who wish.

BPA's Risk Minimization

- Arrangement begins with commercial operation (no dry hole risk).
- Project costs warranted by Siemens-Westinghouse plus contingency.
- BPA obligated to pay debt service only -- not any other costs.
- BPA support limited to 320 MW of GNA purchases for 5 years.
- GNA will pay BPA in advance each month the amounts BPA is obligated to pay; if GNA fails to do so, then Project share supplying GNA power must meet this obligation to BPA (i.e., bypasses GNA).
- BPA has no responsibility for power, gas, other project risks.
- The Project's favorable economics & performance (warranted by Siemens-Westinghouse) minimize the risk that BPA credit support will ever actually be called on (average variable power at \$21.4/MWh in 2002 dollars using PNW Planning Council forecasts of gas prices).
- There are no property taxes which lowers the power price required and enhances the probability of no call on BPA.
- Any BPA loss will be secured & repaid w/ interest by project owners.

How the Payment Stream Would Work

- Project management sets monthly payment amounts needed to cover debt service on GNA purchases (not to exceed 320 MW) in advance of each year.
- In each month during the 5-year period, GNA pays to BPA the debt service obligation in advance (remainder of GNA payments go directly to the Project).
- Then BPA pays this debt service amount (and nothing else) to the Project, after date for GNA payment to BPA but before actual due date of debt.
- If in any month GNA fails to pay BPA in advance, then:
 - Equity owners of the 320 MW share become responsible for marketing GNA's power and meeting the BPA obligations, including paying BPA the debt service amount in advance (in GNA's place) from Project revenues, to the extent available.
 - To the extent the equity owners fail to pay any of the prescribed amount to BPA in any month, then BPA still pays the debt service amount to the Project in that month, but
 - Equity owners of the 320 MW share are obligated to repay BPA payments w/ interest ASAP, and with payment ahead of any return to equity owners.
- This structure assures Project lenders that debt service on the 320 MW portion will be paid throughout the first 5 years of Project operation -- a key financing benefit.

Computation of Estimated BPA Exposure

- BPA's worst-case exposure = 5 years of the entire debt service payments on 320 MW of GNA power purchases only.
- Project capital costs and performance warranted by Siemens Westinghouse so no risk of cost overruns.
- Financing approach assumes 50% debt, excluding spare parts (\$9 million).
- Current financial markets dictate limited term with assumed 12 year mortgage style annual rate for first 7 years with a balloon at the end of year seven (or refinancing).
- Interest rate is assumed at a flat 7.5% annual although might vary year to year.
- BPA will get the benefit of its credit enhancement in the form of better interest rate and/or longer term for the debt (and thus smaller debt service obligation).
- Annual debt service for 320 MW share = \$12.92M (2002 dollars).
- Total BPA exposure = $5 \times \$12.92\text{M} = \64.6M (2002 dollars).

Supporting Financial Analysis re: Risk

- Capital cost of Summit Westward is \$650/kW with total capital cost for GNA portion (including financing costs) estimated at \$705/kW.
- Capital cost excluding financing warranted by Siemens Westinghouse.
- Spare parts of \$9 million are not financed, so are not covered by BPA credit.
- 50% of total capital cost and spare parts are covered by equity for which there is no return until after BPA is made whole.
- Debt service for BPA period is mortgage style with 12 year term at 7.5%.
- Annual debt service at Summit Westward for GNA purchase is \$40.38/kW-yr (\$12.92 M/yr for 320 MW) in 2002 dollars.
- Total debt service for first 5 years for 320 MW GNA purchase is \$64.6 M in 2002 dollars.

BPA Credit is Unlikely to be Called Upon

- Project economics & performance should keep Project "in the market" throughout all of first five years.
- Warranted performance and fixed price O&M for the period produce average power costs over the 5 years as follows in 2002 dollars:
 - Project variable cost using the PNW Power Planning and Conservation Council gas forecast averages 21.4/MWH.
 - Fixed annual costs add another average \$5/MWH (including gas transp).
 - The total price before debt service averages \$26.4/MWh. Therefore at least some if not all of the debt service payments will be safely produced.
 - Assumed Debt Service adds a final average \$5.1/MWh.
 - The total price against market averages \$31.5/MWh over the 5 years.
- If Project is "in the market," then:
 - GNA can pay for Project power (whether used to smelt or resold).
 - Equity owners of the 320 MW share can sell Project power profitably to avert or repay with interest any actual BPA outlay should GNA fail.

BPA Benefits

- Benefits to BPA offered as part of the transaction:
 - 100 MW "low water reserve" to protect fish & BPA finances: BPA could pre-empt this project power at cost, including a limited and agreed upon reasonable rate of return on equity.
 - Public credit to BPA for making projects and their benefits possible.
- Benefits to BPA from success of the arrangement:
 - Transition at least one DSI to largely non-BPA service.
 - GNA likely to remain viable assuming normal aluminum prices.
 - Other DSIs offered participation in Projects at cost, too.
 - Favorable load impacts (both GNA and preference utilities), regionally and in economically distressed communities.
 - Huge investment in new projects (and jobs) in WA and OR plus retention of critical tax base and jobs in economically distressed communities and states.

Benefit of Projects to PNW Region

- Projects enjoy strong support, National, State and local; no opposition.
- The lowest heat rate (marginal cost) of any gas fired resource in the PNW and perhaps the WECC; assuring short and long term economic strength and benefit to the PNW.
- Projects are west of the transmission divide so benefit BPA and other transmission users, with one project at site of GNA smelter (and sized proportionately) for even more transmission savings.
- Warranted cost and performance long term by Siemens Westinghouse, one of the world's largest companies.
- Projects are built in economically distressed counties and states.
- Projects come on line when needed in PNW and WECC to meet loads when many projects are being cancelled and postponed.
- Projects available to PNW utilities and industry AT COST with a minimal agreed upon rate of return on equity--unlike other IPP projects.

Status of GNA's "Separate Peace" Proposal

- In return for timely BPA credit support, GNA has offered to BPA's Utility Customers that GNA will:
 - Agree to limit post-2006 purchases of BPA power to 200 MW (including any power from utilities for GNA's process loads)
 - Support the "Utility Proposal"
 - Provide BPA the protections and benefits described above
 - Offer participation in, or power from, the GNA gas-fired projects to BPA, utilities, and other DSIs at cost (including agreed return)
- See "Separate Peace" letter (8/23/02 version) for details (we will revise letter and Term Sheet to reflect the changes in this revised credit support proposal and re-circulate)
- Expected timing of Utility action: before 9/12/02