DS2-004

GOLDEN NORTHWEST ALUMINUM HOLDING COMPANY
3313 West 2nd Street
The Dalles, Oregon 97058

December 22, 2005

BY FIRST CLASS MAIL

Mr. Paul Norman
Bonneville Power Administration
P.O. Box 3621
Routing: P-6
Portland, OR 97208-3621

Re: PT-5: Proposed Draft Prototype Contract for Service to the Bonneville Power Administration's Direct Service Industry Customers for the Fiscal Year 2007-2001.

Dear Mr. Norman:

The following comments to the proposed draft prototype ("Prototype") for service to BPA's DSI customer for Fiscal Year 2007-11 are submitted on behalf of Golden Northwest Aluminum Holding Company, Inc. ("GNAH"), the new owner of the Goldendale and Northwest Aluminum smelters. We address only the new questions posed by BPA regarding the appropriate level of operating flexibility in light of steadily rising forward power market prices.

GNAH's views on the issue of operating flexibility is highly influenced by the fact that the benefits BPA allocated to GNAH (100 aMW) is a far smaller percentage of its total operating needs than are the amounts allocated to Alcoa (320 aMW) or Columbia Falls Aluminum (140 aMW). One hundred MW is not enough power to operate one full pot-line at the Goldendale smelter, and with the benefit level set at the $12/MWhr cap, it simply is not economical to purchase power at the prices we anticipate for FY 2007. If GNAH were to operate at a 50 MW level, it could operate less than one-half of one pot-line, which is below the minimum practical level of operations for the Goldendale smelter. But forward power prices are too high to make power purchases economical for GNAH even with a $24/MWhr benefit. As it is not feasible to operate at any lower level, GNAH cannot benefit at all in FY 2007 from any decision by BPA to allow it to spread its relatively small share of the available benefits over reduced amounts of power.

On the other hand, BPA's generous grant of 320 aMW to Alcoa is large enough to allow Alcoa to operate in the 110 to 80 MW range, an operating range

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that is feasible, which could create a benefit level up to $48/MWhr. If Alcoa is permitted to operate because of the large size of its allocation and GNAH is prevented from operating due to the small size of its allocation, then Alcoa will have the ability to acquire GNAH's allocation in FY 2008 through the Option to Acquire Unused Benefit Amounts under section 8 of the Prototype. This will extinguish GNAH's ability to use its benefits at an earlier point in time than otherwise would be the case under the Prototype. Given that forward power prices are likely to decline in FY 2008 below the expected levels for FY 2007, if BPA modifies the Prototype in a manner that helps Alcoa operate in FY 2007 but does not help GNAH, any such change actually harms GNAH by cutting off its ability to restore operations in FY 2008.

Therefore, GNAH opposes the proposal to allow companies to access benefits at lower operating levels unless BPA makes other modifications to the Prototype or BPA's benefit proposal to protect GNAH's interests. The very high power prices that are harming the smelters also increase significantly the value of BPA's secondary energy, making it feasible for BPA to increase GNAH benefit allocation to a level that would support a minimum level of operations at the Goldendale smelter without any significant rate impact on other customers. BPA should grant GNAH a benefit allocation that is comparable to what BPA granted Alcoa. At a minimum, if BPA allows the flexibility to reduce the amount of power for greater benefits per kwh, it should eliminate the "use it or lose it" provisions that would allow the other companies that can operate at the reduced levels also to acquire GNAH's allocation.

BPA's second option of allowing a smelter to draw benefits early from future years potentially could allow GNAH to operate a portion of one pot-line in FY 2007, and thus to protect its access to benefits thereafter. GNAH would support a modification to the Prototype that would allow GNAH such flexibility.

We are pleased that BPA is considering additional flexibility in light of the prevailing high forward power prices, but we urge you not to further aggravate the effects of the disproportionably low allocation to GNAH by modifying the initial proposal so as to benefit only the other companies at GNAH's expense.

Sincerely,

William R. Reid
Chief Financial Officer

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