

Good afternoon and thank you for the opportunity to participate in this technical conference. I am Walter Brockway – Manager of Regulatory Affairs – Energy for Alcoa. Alcoa is a member of ELCON. However, the following remarks are only on behalf of Alcoa.

As the nation's largest manufacturer of aluminum and aluminum products, Alcoa is one of the largest consumers of electricity on the North American continent. The bulk of that consumption, more than 2800 MW in the US alone occurs at aluminum smelters which consume at a very high load factor 24 hours a day 7 days a week. "Steady state" loads like these form part of the "base load" of the bulk electric power system because they do not contribute to the variability of system demand.

Aluminum smelting is both electricity intensive and capital intensive. Because electricity is on the order of 30% to 40% of our product cost, it is a raw material. When we determine where to locate our manufacturing facilities to smelt aluminum, a key factor is our ability to secure long term electricity supply at a relatively low price. In our case, long term is 20 years or more. Most of the facilities we have in North America are self-supplied by generation we either own outright and/or in partnership with a supplier, supplemented by long-term electric supply contracts with a local electric utility.

However, if we cannot secure certainty of supply and pricing we cannot economically operate smelters and compete in the global market. The latest example of this is our smelting facility in Frederick Maryland, where unfortunately we were completely dependent upon outside electric suppliers. The facility was well run, technically up to date, having excellent

access to the North American market (still one of the largest markets) as well as being located near a port for import of ore and export of finished product. Yet, our inability to negotiate a longer term economically acceptable electricity contract led to a curtailment of operations at the end of 2005. The plant now lies idle while we continue to pursue viable options for electricity.

World aluminum markets have been relatively strong the last few years so we really did not want to shut that facility down. But in the end we had no choice. We found no supplier willing to discuss supplying us with anything other than electricity priced to reflect peak load generation, as well as placing on us all the risk of transmission congestion. Because we are a non-variable base load customer, we had expected that a competitive market would have at least brought us contract offers reflecting the cost of new base load supply, but we received no such offers. The contracts that were offered were short term (3 years or less) and completely based upon marginal pricing reflecting the most inefficient peaking units. Had we accepted any of them, the price for electricity at this facility would have doubled.

The purpose of a long term contract is to provide a security to both buyers and sellers. The seller gets the security of a long term revenue stream with which to finance the capital costs of base load generation. The buyer receives the security of locking in those capital costs for the term of the contract. Long term bilateral contracts can be used to finance long term investments eliminating the risks of recovering capital cost by means of spot markets or regulatory proxies.

Long term forward markets are generally absent from FERC approved organized markets. Bilateral contracts exist in

these markets but are little more than pass through mechanisms of purchases in the spot market at peak market prices, generally gas-fired combustion turbines. The buyer receives generation priced to reflect the least efficient producers of power as well as bearing the full risk of spot market price volatility. What a buyer does NOT receive is recognition from the supplier as to the nature of his load. These markets make the mistake of treating all customer loads as being equal in terms of the cost of serving them, which they are not.

Long term forward markets and long term bilateral contracts would make the spot market smaller as we originally envisioned it would be. We had understood the goal to be to create a market based on long term bilateral contracts, with a relatively small spot balancing market. The opposite has happened.

Generators ignore the forward market because they expect and get higher prices in the spot market, and there is nothing in the market structure that compels them or gives them incentive to recognize differences in load characteristics. Moreover, the Commission's policies have yet to create a situation in which additional transmission investment is occurring that will relieve the increasing congestion.

Manufacturing loads such as aluminum smelters have different characteristics than other load types. Their large size and high load factor provide certainty that permit base load generating units to run on a continuous basis at their more efficient operating levels. Yet we found this no longer makes a difference to suppliers functioning in organized markets where high marginal prices are paid for all generation. Marginal pricing based on natural gas is unnecessarily lucrative for existing coal and nuclear base

load facilities, rendering present average cost long term contracts obsolete, and yet is not producing construction of new base load generation. Our smelter loads are not creating the need for running peaking generation, yet in this scenario we are forced to pay for it or curtail our facilities.

We would like the opportunity to enter into a long term bilateral contract at prices that allow us to compete globally. We can provide assurances that load will be present at a constant level and in return seek reasonable price certainty. At the same time our loads provide benefits to the bulk power system in the form of significant flexibility to curtail load when reliability needs arise.

Initiatives that FERC should continue to pursue include:

Address inadequate transmission infrastructure

Continue to encourage price responsive load. This will overall tend to moderate spot prices.

Assure that capacity payments are structured in a way that encourages the development of base load capacity and encourages long term bilateral contracts that fairly reflect base load characteristics.

We are committed to continuing operation in the US market and are working hard to be more efficient in how we purchase and use electricity here.

Thanks you and I look forward to your questions.