



Alcoa

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Alan Cransberg
Vice President, Alcoa
President, Global Manufacturing
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October 12, 2007

Board of Commissioners
Public Utility District No. 1 of Chelan County
327 N. Wenatchee Ave
Wenatchee, WA 98801

Dear Board:

Thank you for giving Alcoa the opportunity to discuss a long term Power Sales Contract. The term sheet we have discussed for hydro-power from 2011-2028 is the linchpin to assuring the long term survival of the Wenatchee Smelter and the associated family wage jobs that Alcoa brings to the Wenatchee Valley and its economy.

In order to ensure the long term operational viability of the smelter coincides with the proposed long term power contract, we are undertaking several strategic initiatives.

First of all, we have retained a consulting group, Life Cycle Engineering (LCE), to assist us with improving our maintenance practices. The purpose of the engagement is to improve our predictive and preventive maintenance practices, and ensure our maintenance processes are world class by industry standards.

Secondly, we have partnered with our union to implement Total Productive Manufacturing (TPM), a comprehensive system involving operators and maintenance personnel to improve operational effectiveness and efficiency of our equipment. This is a significant undertaking that we plan to take the next 5 years to fully implement. As part of this initiative, we aspire to rehabilitate and return our existing equipment to "like new" condition.

We currently spend approximately \$15 million annually on plant maintenance. In real terms, we anticipate at least this level of spending going forward (some \$250 million over the expected life of the contract). Our intent in partnering with LCE and in implementing TPM is to ensure we get optimal benefit from this spending and get improved reliability of our assets.

Finally, we are currently sponsoring an integrated facility assessment with internal and external resources to determine the long range capital and infrastructure needs of the plant. The work product of this assessment will be formal recommendations to address improvements in plant infrastructure, major systems and specific equipment through the end of the anticipated power contract in 2028. We hope to have this assessment concluded by early 2008. As you know, the facility was constructed in 1951, and was essentially re-capitalized in the 1990s with over \$100 million invested to modernize and improve the plant. This current assessment will guide our capital spending so that the plant can continue to prosper with sound infrastructure and reliable equipment in line with industry best practices.

The prospect of operating in Chelan County thru at least 2028 is exciting, and Alcoa is committed to maintaining the Wenatchee Works smelter as a reliable, cost effective and a safe place to work – just as we have done for the last 55 years.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Alan Cransberg', enclosed within a large, loopy, handwritten oval flourish.

Alan Cransberg
Vice-President, Alcoa
President, Global Manufacturing, Primary Products