



Alcoa Power Generating Inc.
Yadkin Division
PO Box 576
Badin, North Carolina 28009-0576
Tel: 1-888-886-1063
Fax: 1-704-422-5776
www.alcoa.com/yadkin

July 19, 2006

Mr. Tony M. Dennis, Chairman
Stanly County Board Of Commissioners
1000 North First Street, Suite 10
Albemarle, NC 28001

RE: Relicensing of the Yadkin Project

Dear Tony,

I am writing in response to your letter of June 26, 2006 related to Stanly County's requests as part of the relicensing of Alcoa's Yadkin Project. Below, I have summarized the County's requests and Alcoa's response.

Improve Water & Sewer System

County Request: Help fund the necessary repairs and improvements to the aging Badin water and sewer system. Costs are estimated at \$10 million. This request is positioned as a water quality issue that could negatively affect future sustainability.

Alcoa Response: While Alcoa recognizes the need for repair to the current water and sewer system, this is not a water quality issue that falls within the scope of relicensing and Alcoa cannot agree to provide the requested funds. Some potential sources of funding the County may investigate include:

- The Department of Environment and Natural Resources
 - Water Resources Development Project Grant Program: This program is administered by the DENR's Division of Water Resources. It is designed to provide cost-share grants and technical assistance to local governments statewide. The website is www.ncwater.org, then click on financial assistance.
 - Clean Water State Revolving Fund: This program is administered by DENR's Division of Water Quality/Construction Grants and Loans section. Through the 1987 amendments to the Federal Clean Water Act, Congress provides states with grant funds to establish revolving loan programs to assist in the funding of wastewater treatment facilities. Projects must be included on a priority funding list. The website is www.nccql.net. Click on financial assistance programs, then CWSRF for more information.
 - North Carolina Revolving Loan and Grant Program: Administered by DENR's Division of Water Quality/Construction Grants and Loans section, the N.C. General Assembly set up this program to provide state financing of construction of wastewater facilities. Eligible applicants are limited to units of local government that may apply for funding from any of three available funds. The website is www.nccql.net. Click on financial assistance programs, then state grants for more information.

North Carolina Rural Economic Development Center: This center receives funding from the North Carolina General Assembly to assist local communities with infrastructure needs. Currently its Water 2030 initiative focuses on water resource needs in the state. The website is www.ncruralcenter.org and Billy Ray Hall is the president and he and his staff may be reached at 919.250.4314.

- The Clean Water Management Trust Fund was created by the N.C. General Assembly in 1996 to make grants to local governments, state agencies and non-profits to help finance projects that specifically address water pollution problems. The website is www.cwmtf.net. Bill Holman is the executive director and he and his staff may be reached at 919.733.6375.

Land Sales

County Request: Stanly County has requested the donation, lease, or sale of several parcels of land: (1) vacant lots within four blocks of the Town of Badin's village center; (2) a site suitable for the development of a historically styled lodge and corporate meeting facility in Badin; and, (3) a site in/near Badin that is suitable for new industrial development.

Alcoa Response: Alcoa has agreed to sell three vacant lots around the library at fair market value. Additionally, Alcoa has donated the Badin Library building to the City of Badin.

In the future, Alcoa will make available for sale additional property, including the Alcoa Conference Center or other nearby land. Badin will receive the first opportunity to purchase such land. The nearby land could serve as a location for a lodge.

Also, as we have discussed with County staff, if Stanly County or developers are interested in purchase of other land, Alcoa would encourage either party to have a letter on file with Alcoa expressing that interest. In the event land becomes available, Alcoa can contact the party.

Minimum Tax Revenue

County Request: Stanly County has requested a guaranteed minimum tax payment to offset declining property taxes at the Badin Works facility and to ensure proper funding of necessary infrastructure.

Alcoa Response: Alcoa is not able to provide a guaranteed minimum tax payment to Stanly County — or any other municipality where it does business. However, we will provide assistance where we can to help the County with economic development opportunities.

Donate Water Tanks

County Request: Donate existing water tanks, tied into the municipal water system, to the Badin Water/Sewer District.

Alcoa Response: Alcoa is willing to donate the water tanks to the Badin Water/Sewer District. However, the existing water tanks are located on property that may be sold to the State of North Carolina for the future expansion of Morrow Mountain State Park (which offers its own benefits to Stanly County in continuing conservation of property and important archaeological sites, along with possible increased employment and tourism). This will require coordination between Stanly County and the State of North Carolina as part of the negotiation for sale of the land. Alcoa has alerted the State about this issue.

Environmental Assessment of Transferred Properties

Request: Assure appropriate environmental studies on property Alcoa transfers.

Alcoa Response: Alcoa performs, or causes to be performed, an environmental assessment of all property it transfers. This requirement has been communicated to the State of North Carolina.

Other Issues Relevant To Stanly County

Within Alcoa's Agreement in Principle (AIP), dated June 23, 2006, there are several other issues important to the citizens of Stanly County.

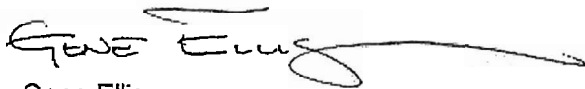
Albemarle withdraws water from Tuckertown and Narrows reservoirs, both part of the Yadkin Project, for industrial, commercial, and residential use in many parts of Stanly County. The water level in those reservoirs is important and the AIP proposes minimum levels and drought management for those reservoirs that helps protect continuity of service. In addition, Albemarle will pay less to Alcoa in the future for lost generation as a result of these negotiations, freeing those dollars for other purposes.

Alcoa will donate to Badin approximately 14 acres of land near the existing Badin Public Access Area for the development of a park.

Tuckertown and Narrows reservoirs, along with Falls Reservoir (also a part of the Yadkin Project) provide excellent recreation opportunities not only to Stanly County citizens, but to others who come to recreate and spend money in Stanly County.

I hope you can see Alcoa continues its contribution to Stanly County in many ways and the County can see benefit in signing the AIP and moving forward in the development of a relicensing settlement agreement.

If you have any questions, please contact me.



Gene Ellis
Licensing & Property Manager

cc: Mayor Whit Whitley, City of Albemarle
Mayor Jim Harrison, Town of Badin