

### **Background:**

- Alcoa's Wenatchee Works plant has been curtailed since Dec. 2015
- Should the plant remain curtailed to June 2017, a \$67 million deferred contract charge would become due
  - This charge was designed to encourage Alcoa to operate the plant
- Alcoa has advised that, while improving, the current aluminum market does not support a restart of Wenatchee Works
- Alcoa has requested a restructuring of the deferred contract charge to preserve the opportunity for restart at a later date

### **Purpose:**

 Discuss potential payment restructuring terms and other conditions necessary for the District to consent to a restructuring

No action requested today



### Agenda

- Principle of neutral to positive impact to the District and our customer-owners
- Alcoa Corporation update
- Options for consideration
- Key contract terms remain
- Staff recommendation
- Next steps



# Principle of neutral or positive impact to the District and our Customer-Owners

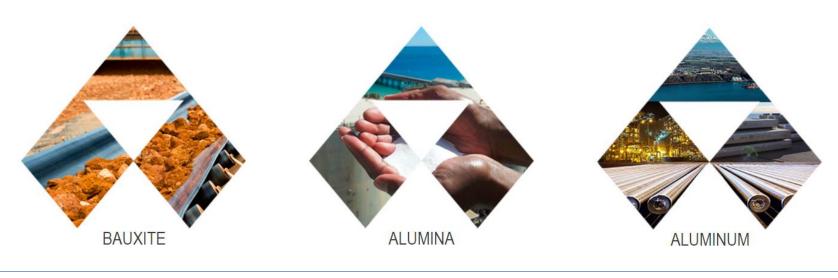
- Consistent with the recent separation of Alcoa into two companies and the resulting assignment of our Power Sales Agreement (PSA), starting from a shared principle was essential for a swift and satisfactory resolution of Alcoa's request for a restructuring of the contract payment terms
- The District and Alcoa share the primary interest to ensure that the District and our customer-owners interests in the PSA are preserved and protected in a manner that is neutral or positive to Alcoa's requested contract restructuring



#### Alcoa Business Units: Reducing from six to three



#### Streamlined company structure as of March 2, 2017



Prior Segments

Bauxite

Alumina

Aluminum, Cast Products Rolled Products & Energy<sup>1</sup>

Alcoa will report 1st Quarter Earnings on Monday, April 24.

#### Alcoa's Strategic Priorities



#### Reduce complexity, simplify the business

Drive returns, create value for our stockholders

Strengthen the balance sheet

## LME graph



- No contract changes and \$67 million payment becomes due in June 2017 should Wenatchee Works remain curtailed
- Renegotiate contract for a one-year deferral of contract payment terms in exchange for a payment from Alcoa



Option 1: No contract changes and \$67 million payment becomes due in June 2017 should Wenatchee Works remain curtailed

- Contract remains in place
- No further deferred charges
- While curtailed, power is sold on Alcoa's behalf, proceeds are applied to monthly contract costs and any shortfalls are paid by Alcoa

Option 1: No contract changes and \$67 million payment becomes due in June 2017 should Wenatchee Works remain curtailed

#### Pro

District would receive payment

#### Con

 Would remove any possibility of restart



Option 2: Renegotiate contract for a one-year deferral of contract payment terms

- Alcoa pays a deferral payment of \$7,325,000 in June 2017
  - Represents one year increment of Shutdown Settlement Amount of \$4,538,552
  - Includes ~\$2.8 million additional for value of delay
- District agrees to defer \$62 million remaining amount for 1 year
- Collateral extended to require \$83 million during the deferral period to further protect customer-owners
- If restart before June 2018, existing contract terms apply
- If remain curtailed, deferred payment due in June 2018 and existing contract terms apply

Option 2: Renegotiate contract for a one-year deferral of contract payment terms for a \$7,325,000 payment from Alcoa

#### Pro

- Preserves opportunity for restart
- Neutral impact as District receives partial payment + value for deferral
- Extends amount of collateral required to protect customers

#### Con

- Delays receipt of full payment
- Extends uncertainty of restart



### Key contract terms remain

- Contract recognizes Alcoa's value to the community and continues to incent restart
  - Deferral preserves opportunity for restart at a later date while overall contract charges are the same
- Power can only be used at Wenatchee Works
- While curtailed, power is sold on Alcoa's behalf, proceeds are applied to monthly contract costs and any shortfalls are paid by Alcoa
- Alcoa continues to provide a letter of credit for performance assurance
- We support restart and will serve the plant consistent with our contract



### Staff Recommendation

Option 2: Renegotiate contract for a one-year deferral of contract payment terms for a \$7,325,000 payment from Alcoa

- Has a neutral impact on the District and Customer-Owners
- Extends collateral required to further protect customers
- Key contract terms remain
- Preserves opportunity for restart
- Overall positive benefit for community



### **Next Steps**

Apr 17-May 1

 Customer and Commissioner questions and feedback

May 1

 Request Board approval of resolution, if needed

Ongoing

 Continue positive relationship to support restart of the Wenatchee Works for community benefit

