

**To:** Board of Commissioners  
**From:** Alcoa Contract Negotiating Team  
**Date:** October 25, 2007

**Re:** Request was made at the October 22 Board meeting for a summary of the provisions regarding proceeds from the sales of surplus energy. See Section 5 of the Proposed Term Sheet for specifics

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Within each calendar month, supplemental market purchases and actual receipts from surplus sales will be netted. Before the receipts are netted, the District will receive: reimbursement of all broker fees or other costs associated with the purchases/sales; 1.5% administrative fee; and a fee for months in which Alcoa sells over a certain amount of power in a month (the \$0.50 charge, Section 5.6(c)). Further, the District will only offset sales proceeds actually received. In other words, Alcoa takes the risk of non-payment by the market purchasers. If the costs of market purchases exceed the net receipts from surplus sales within a month, money in the credit pool may be used to reimburse Alcoa for these purchases or Alcoa must pay the amounts due.

At the end of each month, the District will record the net surplus proceeds amounts received and not used to offset purchases within that month. If there is a surplus amount in the year overall, the District will reimburse Alcoa for market purchases made within that year, again after deduction of the amounts as described above. Reimbursement within a year is not dependent upon operating levels.

In November of each year, the District will review the average monthly MW energy consumption of Alcoa's Wenatchee Works facility for the prior 12 month period. The operating level of Wenatchee Works will be determined for that year (Nov. 1 to Nov. 1) based on the lowest three consecutive months of average MW usage.<sup>1</sup> At that time, the District will also compute the cumulative amount, if any, of surplus proceeds which were not distributed to Alcoa during the year. The cumulative surplus proceeds, if any, remaining will then be allocated to the "Long Term Credit Pool" or shall be retained by the District, or both, as follows:

<b>Operating Level</b>	<b>Pot Line Operation</b>	<b>Surplus Proceeds</b>
Level 1, 250a MW +	approx. 3 pot lines	100% to Long Term Credit Pool
Level 2, 215 to 250 aMW	approx. 2 ½ - 3 pot lines	50% to Long Term Credit Pool 50% to District
Level 3, 175 to 215 aMW	approx. 2 – 2 ½ pot lines	30% to Long Term Credit Pool 70% to District
Level 4, less than 175 aMW but more than 60 aMW (shutdown definition)	less than 2 but not less than power for anode production, plant power and approx. ½ pot line	100% to District Also, if this operating level lasts for 18 consecutive months, the District has the option to terminate the contract (Section 25)

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<sup>1</sup> There are some special rules for the initial year, 2012, that are not summarized in this memo.

Shutdown (less than 60 aMW). In the event the plant is shutdown (See Section 11 for details), the net proceeds of surplus sales will be applied as follows: (1) pay for the costs associated with Rocky Reach and Rock Island production; (2) District retains 100% of remaining proceeds; (3) Alcoa would pay to District a pro-rata amount of the “Initial Shutdown Amount (\$8.6M for 12 months) depending upon the length of the shutdown; and (4) If there is a second shutdown or the first shutdown lasts more than 18 months, Alcoa would owe the total Shutdown Settlement Amount (\$87M in 2012 which decreases over time).

Amounts accumulated in the Long Term Credit Pool can only be used by Alcoa to make future market purchases or for reimbursement to Alcoa for market purchases that occurred within the prior two-year period (again, if not already netted or reimbursed as described above).

If an Uncontrollable Circumstance occurs within any of the months used to calculate the operating level, the District will determine the operating level the plant would have achieved had the event not occurred. That “assumed operational level” is used for the calculations and division of surplus. See Section 5.8 (page 7, 8 and 9) of the proposed term sheet for details of this concept of Uncontrollable Circumstances.

The District is not obligated to separately account for any surplus proceeds. No interest will accrue on any surplus proceeds. Any interest earned on the amounts is retained by the District. Further, at the end of the contract term, if there are any proceeds in the Long Term Credit Account, the money will be retained by the District.