



July 14, 2008

Alcoa power sales contract summary

On June 16, 2008, a proposed long-term wholesale power sales agreement with Alcoa Inc. for the Wenatchee Works aluminum smelter was presented to Chelan County PUD commissioners. State law requires power sales agreements to be introduced and then tabled at least 10 days before final consideration. The proposed agreement is based on terms approved by PUD commissioners in December 2007 following board discussion and gathering comments from the community at a series of public meetings.

The new contract will provide Alcoa with electricity equal to 26 percent of the output of Rocky Reach and Rock Island dams, in exchange for Alcoa paying 26 percent of the costs of producing and delivering the power, plus other amounts.

Contract period

The new agreement goes into effect on Nov. 1, 2011, and runs through Oct. 31, 2028. The 17-year contract replaces the current 50-year power sales agreement which expires Oct. 31, 2011.

Estimated power

Alcoa now gets the equivalent of a 23-percent share of Rocky Reach output, plus up to 42 average megawatts of energy under an Industrial Power Sales Agreement first signed in 1992. The equivalent of a 23-percent share of the output of Rocky Reach in an average water year is about 145 average megawatts. The equivalent of a 26-percent share of the output of Rocky Reach and Rock Island Dam in an average water year is estimated at 260 average megawatts. With an average water supply, Alcoa officials have said that 26 percent of the dams' output would supply approximately enough energy to operate three pot lines. The plant located near Malaga, south of Wenatchee, is now running two lines. The 26 percent would be effective July 1, 2012. Between November 2011 and July 2012, Alcoa will receive energy equivalent to a 27.5-percent share of Rocky Reach (approximately enough to serve two pot lines).

Payments

Within 30 days of the contract being signed, Alcoa will pay Chelan County PUD a capacity reservation charge of \$22.9 million. The initial amount differs from the long-term contract with Puget Sound Energy (PSE) approved in 2007 due to the jobs and the economic value of the Alcoa plant to the community. The difference between the capacity reservation charge paid by Alcoa and the \$89 paid by PSE is *deferred*. If Alcoa remains in operation, there will be no further payment of the deferred amount. However, if Alcoa curtails operations, it will pay the deferred amount under the circumstances defined and according to a formula in the contract.

Alcoa will pay 26 percent of the costs of producing and delivering the power, financing costs, a capital recovery charge of up to 50 percent of capital improvements in any year, a

debt reduction charge of up to 3 percent of the outstanding debt balance in any year, a credit rating premium and other charges.

In a separate amendment to the Industrial Power Sales Agreement, Alcoa has agreed that if it uses power to run a third pot line between now and 2011, Alcoa will pay market rates for that electricity, instead of the contracted average industrial rate. If there is a surcharge imposed by the PUD, it would be applied to all of the power used by Alcoa under the Industrial Power Sales Agreement.

Ownership and control

Chelan County PUD retains all ownership of the hydro projects and control over all operating, cost and financing decisions.

Power use

Alcoa is required to use the electricity supplied under the new contract at the Wenatchee Works and cannot send it to another plant and can only resell the energy under certain circumstances described in the contract.

No assignment

Alcoa cannot assign the contract to anyone without the express written consent of the PUD.

Other benefits

This agreement provides the PUD with financial certainty due to the “take-and-pay” nature of the contract. Chelan County PUD is guaranteed payment for 26 percent of the costs of operating and maintaining the hydro projects, no matter how much power is actually generated. The contract places 100 percent of the cost and production risk on the purchaser. This is insurance for the District against spiraling costs due to known and unforeseen circumstances including the cost of ever-increasing regulation.

Further, the District retains all environmental attributes associated with the renewable hydropower produced at Rocky Reach and Rock Island projects for its own use and benefit.

Future power supply

After many years of discussion about future power sales strategies, it was determined that a prudent portfolio of power sales would include selling about half the PUD’s surplus power in cost-based, take-and-pay sales agreements and using the remaining portion to maximize market returns in some fashion. The execution of this agreement guarantees that half of the PUD’s Rocky Reach and Rock Island hydro costs will be covered by the Alcoa and PSE wholesale power sales contracts even if there is no output from the dams.

The PUD still has ample electricity available to meet its own load growth for the foreseeable future.