



Chelan County PUD and Alcoa Power Sales Agreement

Alcoa, Inc.
Legal Separation
and
Contract
Assignment
October 17, 2016



CHELAN COUNTY

Background:

- In September 2015, Alcoa announced its intention to split into two stand-alone companies. One company to include the alumina and smelter “upstream” operations and the second to include engineered and other “downstream” products.
- The legal separation date has now been announced as Nov. 1st.
- Our contracts and credit assurance with Alcoa, Inc. will require our consent to assign to the new company: Alcoa Corporation. We have been working together with Alcoa to reach agreement on the contract assignment.

Purpose:

- The purpose of this presentation is to provide an overview of potential assignment terms and other conditions necessary for the District to consent to the requested assignment.

Agenda

- Overview of the Alcoa Inc. separation
- Principle of neutral to positive impact to the District and our customer-owners
- Items to be resolved for consent
- Form of consent agreement
- Key contract terms remain
- Next steps

Alcoa Inc Separation

- Alcoa Inc is separating into two independent companies:
 - Alcoa Corporation – upstream assets including mining, refining, smelting
 - Arconic Inc – downstream assets including rolling, extruding, forging
- Transaction steps
 - New entity Alcoa Upstream Corporation formed – Form 10 filed with SEC on June 29, 2016
 - Upstream assets, entities & contracts moved from Alcoa Inc to Alcoa Upstream Corporation; downstream assets, entities & contracts remain with Alcoa Inc
 - On legal day 1, name changes will occur
 - Alcoa Upstream Corporation will be renamed Alcoa Corporation
 - Alcoa Inc will be renamed Arconic Inc
 - Both companies will trade on the New York Stock Exchange
 - Legal day 1 will be Nov. 1, 2016



NYSE ticker "AA"

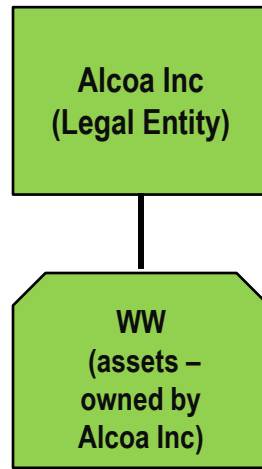


NYSE ticker "ARNC"

Alcoa Inc Separation

Change in Wenatchee Works' structure and ownership

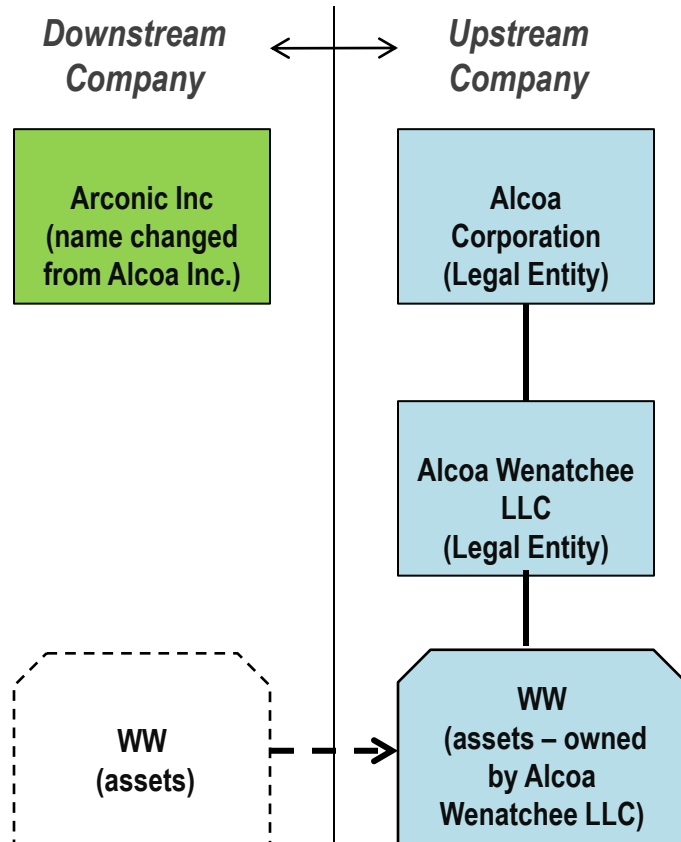
Wenatchee Works (WW) structure prior to separation



Transaction Steps:

- 1) Alcoa Inc forms a wholly owned subsidiary Alcoa Upstream Corporation
- 2) Alcoa Wenatchee LLC formed as a wholly owned subsidiary of Alcoa Upstream Corporation
- 3) WW assets will be transferred to Alcoa Wenatchee LLC
- 4) On Nov 1, Alcoa Upstream Corporation will change its name to Alcoa Corporation

WW structure post-separation



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

- The District and Alcoa share the primary interest to ensure that the District and our customer-owners interests in the Power Sales Agreement (PSA) are preserved and protected in a manner that is neutral or positive to Alcoa's proposed separation
- Starting from this shared principle was essential for a swift and satisfactory resolution of the assignment and related credit assurance issues

Items to be resolved for consent

1. Contract assignments to new Alcoa Corp
 - Power Sales Agreement
 - Collateral Deposit Agreement
 - Transmission Agreement
 - Interconnection Agreement

Items to be resolved for consent

2. Credit assurance reflective of new company credit rating
 - Alcoa Corp. rated BB- by S&P (Alcoa Inc. rated higher at BBB-)
 - Letter of credit to include new Alcoa Corp and extend expiry to July 2017 (no gaps in credit protection before or after separation)
 - Collateral requirement calculation modified to ensure adequate credit protection for the District (includes a \$40 million minimum amount)



Items to be resolved for consent

3. Contract to ensure power only used at Wenatchee Works plant
 - Provision for Alcoa Corp to use power at Wenatchee Works via an Alcoa Corp subsidiary
 - Retains requirement that power can only be used to operate the Wenatchee Works plant

Form of consent agreement

- Consent agreement is approved first and becomes effective when all required documents and certifications are completed:
 - Assignment agreement signed
 - Collateral Deposit Agreement amended
 - Letter of Credit in place including Alcoa Corp and expiry to July 2017
 - Power Sales Agreement amended
 - Transmission and Interconnection Agreements amended
 - Certifications and assurances from Alcoa
- If listed conditions aren't completed within set timeframe, consent becomes void



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Key contract terms remain

- Contract recognizes Alcoa's value to the community and continues to incent restart
 - Deferred contract charges are the same and are due if Wenatchee Works remains curtailed
- 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

Next Steps

- Alcoa to sign Consent and Assignment agreements
- Requesting Board action to:
 - Set the timing for approval of a resolution in advance of Nov. 1 to assure no gaps in contract coverage
 - Resolution will request delegation of authority to the General Manager to sign the relevant agreements consistent with the terms in this briefing
- Agreement would become effective upon completion of stated conditions