



Chelan County PUD and Alcoa Power Sales Agreement

Potential Contract
Restructuring to
Preserve an
Opportunity for
Restart
April 17, 2017



CHELAN COUNTY

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



BAUXITE



ALUMINA



ALUMINUM

Prior Segments

Bauxite

Alumina

Aluminum, Cast Products
Rolled Products & Energy¹

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

1. Excluding Afobaka which has been moved into Transformation.

Reduce complexity, simplify the business

Drive returns, create value for our stockholders

Strengthen the balance sheet

LME graph



Options for consideration

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

Options for consideration

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

Options for consideration

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



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Options for consideration

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

Options for consideration

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