



Chelan County PUD and Alcoa Power Sales Agreement

Potential Contract
Restructuring to
Preserve an
Opportunity for
Restart
May 1, 2017



CHELAN COUNTY

Next Steps From Apr. 17 Meeting

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

Apr 17-
May 1

- Customer and Commissioner questions and feedback

- April 21 – Morning session with Alcoa Working Group sub-team and Alcoa (~15 attendees)
- April 25 – Evening session with Alcoa Working Group and Alcoa (~50 attendees)
- Various service groups (60+ total)
- Received two customer-owner emails through chelanpud.org
- Prepared frequently asked questions “FAQ”

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Frequently Asked Questions

Q. WHY NOT JUST HOLD ALCOA TO THE TERMS OF THE AGREEMENT IT SIGNED?

- A. Serving our customer-owners is our highest priority. In our strategic planning process, we heard from our customer-owners that economic development and jobs are a high priority. Staff recommends a contract amendment that allows Alcoa to "buy time" for a potential restart of the Wenatchee Works plant to preserve the opportunity for a return of family wage jobs. This option also has a neutral financial impact to our customer-owners.

Alcoa has advised us that paying the \$67 million due in June of this year would likely lead to a decision to shut the plant permanently.

The option staff has recommended includes paying a one-year portion of the payment in June. Alcoa then retains the ability to avoid all or part of the remaining \$62 million payment that would be due in June 2018 if they restart in the next year. The payment Alcoa would make in mid-June this year would total \$7.3 million - \$4.5 million for the one-year portion of the deferred payment plus an additional \$2.8 million to "buy time." If, however, Alcoa chooses not to restart the plant by June 2018, Alcoa will have paid the PUD \$2.8 million more than if the payment is made this June.

Q. DOES THE PUD CONTRACT RESTRICT ALCOA TO USING PUD POWER ONLY FOR THEIR OPERATIONS? OR, COULD ALCOA LEASE THEIR PROPERTY OR A PORTION OF THEIR PROPERTY FOR ANOTHER USE AND TAKE ADVANTAGE OF THE PUD CONTRACTED POWER?

- A. PUD power is restricted only to smelting operations at the Wenatchee Works. Any alternative use would require the District's agreement.

Q. IF ALCOA DECIDES TO CLOSE THE WENATCHEE WORKS PLANT PERMANENTLY, WHAT HAPPENS TO THE CONTRACT AND THE POWER THAT IS ALLOCATED TO THE PLANT?

- A. The Alcoa contract continues in force until 2028 even if the deferred payments are made in full and the plant is idle. Alcoa is still obligated to pay their power costs (about \$65 million a year currently). While idle, the power is sold on Alcoa's behalf and the proceeds are used to offset their monthly power costs. Any shortfalls are paid by Alcoa - any surplus is retained by the PUD.

Q. HOW IS THE "NEUTRAL TO POSITIVE IMPACT TO THE DISTRICT AND THE CUSTOMER-OWNERS" MEASURED? DOES IT INCLUDE INDIRECT BENEFITS TO THE LARGER COMMUNITY (I.E. PROPERTY TAXES, SALES AND USE TAX FROM SPENDING BY ALCOA WORKERS, REVENUE TO OTHER SUPPLY CHAIN BUSINESSES IN THE COMMUNITY)?

- A. We studied the neutral impact to the District and customer-owners based on the direct impacts to PUD customer-owners. The indirect benefits identified in the question were not quantified. We did however, consider those indirect benefits in determining staff's recommendation.

See separate FAQ
handout provided

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May 1

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Additional FAQ's

- Would Alcoa be willing to discuss property that is not needed for plant operations (*Yes - contact information for Pat Jones, Port Executive Director provided to Alcoa*)
- Do Alcoa laid-off employees lose any benefits due to the potential of a 1-year delay?
- Update from Alcoa on activities over the last 2 weeks
- Action item from April 25 evening meeting for Alcoa and Union
 - Is Alcoa willing to extend supplemental unemployment benefits to laid off workers?

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 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

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



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afternoon



May 1

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Ongoing

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