

NON-BINDING SUMMARY PROPOSAL

Reflecting Points of Discussion

Between

Chelan PUD

And

Alcoa, Inc. and Alcoa Power Generation Inc.

BACKGROUND

This is a Term Sheet developed between Public Utility District No. 1 of Chelan County, Washington (the "District") and Alcoa, Inc., and Alcoa Power Generation Inc. (collectively, "Alcoa" or "Purchaser"), and summarizes the discussions between their respective representatives.

This Term Sheet is intended to serve only as the basis for further negotiation and is not intended as an offer capable of acceptance by any party, and does not and will not create any obligations of any party hereto, and no such obligation will exist unless and until the final terms of the transactions contemplated hereby have been reviewed, negotiated and approved by the boards and other appropriate parties of the District and Alcoa, respectively, and definitive agreements have been duly executed and delivered by the parties thereto.

The parties acknowledge that material provisions are still under discussion and negotiation and the terms set forth herein are not intended to be binding in any respect, or create any right or permit any action in reliance, whether or not this form may be signed or initialed, and each party may elect to deviate from any concept or term contained herein in its sole and absolute discretion without any liability to the other parties hereto whatsoever.

The parties are contemplating an arrangement for the sale and purchase of power from the District's Rock Island and Rocky Reach projects to support (not guaranteeing power for operation) Alcoa's operation at the Wenatchee Works facility. This term sheet outlines the terms that might be included in that contract.

The District entered into a power sales agreement ("PSA") with Puget Sound Energy ("Puget") executed February 1, 2006. The terms of that agreement have been determined by the District's Board of Commissioners (Resolution No. 06-12830) to be "template" in nature and the definitive agreement between Alcoa and the District will reflect those same terms/conditions as appropriate to the circumstances. Alcoa has received a copy of the PSA (including the Transmission and Interconnection Agreements) with Puget. The definition of any terms not defined herein are contained in the Puget PSA.

As explained, any proposed agreement must be approved by the District's Board of Commissioners. The District's negotiating team makes no representations as to the success of any such approval if agreement is reached by the negotiating teams for Alcoa and the District, respectively. District staff and Alcoa staff will work together to present the proposed agreement (if one is reached) to the Board and community.

Alcoa agrees that once the negotiating teams reach a consensus on this non-binding term sheet, the provisions of the term sheet may be discussed publicly. The District agrees that prior to any public discussion of the term sheet, the District will provide Alcoa with notice of the timing of that discussion. Thus, this term sheet, once agreed upon, will not be subject to any confidentiality agreement between the parties.

Alcoa will provide a letter signed by Alan Cransberg or other appropriate officer of Alcoa, Inc. with budget and decision-making authority as to the commitments made in the letter. The letter should have the same content as the attached draft outlining Alcoa's commitment to upgrade, modernize and maintain the Wenatchee Works plant for at least the next 21 years.

BASIC TERMS

1. Term. The term of any long term power contract would commence for Rocky Reach output on November 1, 2011, and for Rock Island output, on July 1, 2012, each such date being the Effective Date as that term is used in this term sheet and would continue until October 31, 2028..

2. Conditions to Effectiveness. The definitive Agreement would not become effective (at the District's option) unless, among other conditions specified in the definitive agreement: (a) the existing contract between the parties remains in effect and no material default has occurred and is continuing, as of each respective Effective Date; (b) no Event of Default or Potential Event of Default exists under the new agreement; (c) the Purchaser's credit quality remains at or above investment grade as determined by each of the three national rating agency services; (d) that Purchaser's credit quality is at least investment grade and has not been placed on negative watch indicating a view to lowering the Purchaser's credit rating to below investment grade by any of the three national rating agency services; or (e) that Wenatchee Works has been operating at or above Level 3 (as defined in Section 5.4 below) for the twelve (12) calendar months prior to each Effective Date, taking into consideration adjustments to operating criteria arising from an Uncontrollable Circumstances (as contemplated in Section 5.8 below).

3. Termination. The Agreement would be terminable by the District, among other circumstances, upon the occurrence of any Event of Default by the Purchaser or if a governmental authority declares the Agreement to be invalid.

4. Purchaser's Share. The Purchaser's power entitlement would be 27.5%¹ of the Output² of Rocky Reach through June 30, 2012 and then, as of July 1, 2012, 25%³ of the

¹ This is the percentage without considering any capacity/energy exchange. The parties both intend and believe that the percentage should be lower with capacity/energy exchange included.

² "Output" would be defined to mean an amount of Energy and Capacity, and certain rights related to project transmission facilities, pond/storage (90% pond storage), non-spinning operating reserves, certain Chelan Power System rights and obligations, and load following/regulation available from the Chelan Power System, in each case as described in and determined pursuant to an appendix to the agreement. A graphical depiction of certain components of Output to be included, excluded or available under supplemental contractual arrangements is set forth in Appendix B to this Term Sheet.

combined Output of Rocky Reach and Rock Island (each a “Project” and collectively, the “Chelan Power System”) over which the District has direct operating responsibility and control. The 25% share (Purchaser’s Percentage) of the combined Output would include capacity rights that Alcoa may use to negotiate a capacity/energy exchange arrangement with a third party.

Chelan shall be a party to any such negotiations and shall have the right to approve or disapprove any exchange or sale of capacity in its discretion. Alcoa and Chelan agree to negotiate in good faith to reach an agreement on this arrangement. If the parties are unable to reach agreement regarding the exchange or sale of capacity or energy/capacity within three (3) years of the signing of the definitive Power Sales Agreement, then the share of the combined Output of Rocky Reach and Rock Island that the District will sell to Alcoa under these terms will increase to 26%, effective as of July 1, 2012 and the District will be entitled to keep for its own sole use and benefit, all capacity rights associated with that 26% share of Output that exceeds what is necessary to serve Alcoa’s load for any given hour.

Output would be dependent upon a variety of factors including availability of water and operable generation units of each Project, events of force majeure, and other events that affect performance. The District would not be liable for the failure to deliver any Output that is not otherwise available from the Chelan Power System, regardless of the reason for such unavailability (i.e., scheduled or unscheduled maintenance, operational restrictions, outages, equipment failure, regulatory requirements, force majeure or otherwise).

5. Share Limitations and Operational Criteria. Except as specifically set forth herein, Purchaser would not be entitled to receive or resell any portion of its share that is not needed to run the Wenatchee Works Project. The Output provided pursuant to this Agreement shall be used solely at the Alcoa Wenatchee Works for aluminum smelting operations. Any Output in excess of those needs would be retained by the District and sold in a manner that the District in good faith determines to be commercially reasonable. Proceeds from such excess energy sales shall be applied as set forth herein. The operational criteria for accumulating and using credits that may become available from the sale of power in excess of operational requirements are set forth below. The share limitations and the operational criteria do not affect Purchaser’s take or pay obligations or its payment obligations specified in the Agreement

The intent of the District is to provide Alcoa with power to operate three pot lines at Alcoa’s Wenatchee Works based upon an average water year. However, this contract does not guarantee any amount of power to Alcoa. It is the intent of the parties that Alcoa would fully utilize the power available to the extent reasonably possible given smelter operational issues to produce aluminum. The parties recognize that there will be variability in available energy on a year to year basis. The parties also recognize that there will be times that the power will be insufficient and market purchases will be necessary to meet operational criteria and there will also be times that there is surplus energy made available to Alcoa which may be sold on the market as set forth in the definitive agreement. The parties have worked diligently at arriving at operational criteria that protects the District’s interests but at the same time provides some operational flexibility to Alcoa.

³ Same note as footnote 1.

The Parties recognize that the following principles support the concepts in this Section 5: (1) The District should not be in the business of forecasting available energy for Alcoa but rather provide information available to the District for Alcoa to make its own operating decisions. Forecasting is not an exact science and can be expected to be wrong; (2) Alcoa should make its own economic operating decisions knowing the consequences of those decisions in terms of the credit and operational issues. (3) The District is most interested in Alcoa operating at a full 3 pot line operation (due to the jobs and other economic value provided by such operation to the community) which has been the basis for these discussions. Thus the District is interested in providing contractual incentives for Alcoa to run at that level. Alcoa has its own reasons for running at the highest level possible to reduce the “per unit” costs of energy for its production; and (4) Both parties want this contract to be for the least percentage possible to allow operation of the smelting plant at the 3 pot line level. In setting the appropriate percentage of System Output to be sold to Alcoa, the District doesn’t want to sell more energy to Alcoa than necessary due to the District’s resource needs and Alcoa does not want to pay for more energy than needed.

5.1 Capacity/Exchange Energy. The energy received by Alcoa from any capacity/energy exchange arrangement shall be utilized solely in the operation of the Wenatchee Works project.

5.2 Excess Energy Sales and Supplemental Power Purchases. Excess energy not needed in the operation of Wenatchee Works will be sold by the District on a daily basis, or on a forward basis at the written request of Alcoa. The District will remarket such excess energy in accordance with certain criteria and limitations set forth in Exhibit E to the 2004 Power Sales Contract, as the parties may agree, and with the District’s policies and procedures for marketing power, as in effect from time to time.

Alcoa shall not have the right to remarket any excess energy or use Output from the System other than as set forth herein to meet the energy needs of the Alcoa Wenatchee Works aluminum smelting operations and as set forth in this term sheet and the definitive agreement.

The District shall not be liable to Alcoa for any damage, loss or liability associated with any remarketing of excess energy under the Agreement, whether or not the excess energy could be sold at higher prices or to more creditworthy purchasers.

It may be necessary to make sales of excess energy on a preschedule and/or real time basis. The sales shall be subject to certain of the terms set forth in Exhibit E of the 2004 Power Sales Contract. The sales prices for these sales shall be determined as follows:

(i) The price for daily sales shall be the Mid-Columbia Firm Peak and Off-Peak prices, for the respective hours covered by the indices for Monday through Saturday, and for the ‘Sunday and NERC Holiday’ index for all hours on Sunday.

(ii) In the event that the Mid-Columbia Firm Peak index differs by more than 10% from the Non-Firm Peak index or the Firm Off-Peak index differs from the Non-Firm Off-Peak index by more than 10% evidencing highly volatile markets, the daily price for sales shall be the actual weighted average of all sales, done during the preschedule and the real-time trading at Mid-Columbia marketing hub, by the District for that day in the respective Peak and Off-Peak

periods. Other mutually agreeable triggers may be used if the Non-Firm index does not have sufficient volume to make it relative of the actual real-time market.

At Alcoa's request, the District will enter into third party contracts of more than seven (7) days duration under which the District will make on Alcoa's behalf, Supplemental Power Purchases as contemplated in Section 5.5. Such request may be oral for contracts less than thirty (30) days in duration and shall be in writing for contracts for thirty (30) days or more. Alcoa shall notify the District in writing of the identity of all persons authorized to request such contracts on behalf of Alcoa. Alcoa shall be strictly liable for all payments, costs and expenses arising under any such contracts and shall hold the District free and harmless therefrom.

5.3. No reliance upon District information. The District will periodically make available to Alcoa at its request, existing data readily available to the District regarding water, weather and generation forecasting as well as known System outages, scheduled maintenance and other operational information. The District shall not be liable for any inaccuracies in the information or forecasting information. Alcoa shall be solely responsible for determining the energy available to it from the System and the amount of third party power purchases that may be required for its operation of the Wenatchee Plant.

5.4. Post-Operation review. On or about November 15th of each year, beginning November 15, 2012, the District will generate a report setting forth the average monthly MW energy consumption of Alcoa's Wenatchee Works facility for the 12 month period ending the preceding October 31st (each such period being referred to herein as a "Contract Year") or, in the case of the period ending October 31, 2012, the four month period commencing July 1, 2012 (such four month period being referred to as the "Initial Contract Year"). The parties will then determine the operating level of Wenatchee Works for such Contract Year or Initial Contract Year, as the case may be (the respective "Operating Level"), based on the lowest three consecutive months of average MW usage at the Wenatchee plant, using the table below.

Operating Level of Wenatchee Works

250 aMW plus	Level 1
215 to less than 250 aMW	Level 2
175 to less than 215 aMW	Level 3
less than 175 aMW but not Shutdown	Level 4

Special Rules for Initial Contract Year Operating Level of Wenatchee Works

215 aMW plus	Level 1
less than 215 aMW but not Shutdown	Level 4

5.5. Use of Revenues from Power Sales within a Month to offset the cost of Supplemental Power Purchases within the same Month. If, within any one calendar month and at certain times, the District sells energy from Alcoa's Percentage of Output that is not needed in the operation of Wenatchee Works ("Excess Energy"), and, at other times, Alcoa makes arms

length on-market third party power purchases to maintain the operating level at Wenatchee Works within such month (“Supplemental Power Purchases”), the District will reimburse Alcoa for its documented costs (documentation shall include original confirmations) of such Supplemental Power Purchases related to such month not otherwise netted out from Excess Energy within such month, from and to the extent of the proceeds actually received by the District from the sale of such Excess Energy related to that month, less the District’s administrative charges with respect thereto.

5.6. Accumulation of Surplus Proceeds.

(a) Within each month during a Contract Year, the District will sell Excess Energy not needed for the operation of Wenatchee Works. On or about the 25th of the following Month, the District shall determine the proceeds actually received from the sale of such Excess Energy properly allocable to such month, and shall deduct therefrom: (i) all costs, obligations and expenses to third parties associated with such sales including, without limitation, all broker fees, transmission costs, line loss charges, scheduling fees, rebates, losses (including losses arising from payment defaults), damages, liabilities and related expenses (including collection costs) and all other cost items related thereto, whether or not expressly set forth herein, (ii) the amounts distributed or otherwise made available to Alcoa pursuant to Section 5.5, and (iii) the amount of the District’s Sales and Administrative Charges with respect to such Excess Energy sales (such net amounts being referred to herein as “Surplus Proceeds”).

For purposes of the foregoing, “Sales and Administrative Charges” shall mean the sum of (i) the amount of the District’s 1.5% administrative fee with respect to such Excess Energy sales and (ii) an amount equal to \$0.50 times the sum of the Excess Energy sales in MWhs during each Qualifying Day, where a “Qualifying Day” means any day during which Alcoa has placed daily sales of greater than 50 aMW of the Excess Energy Allocation for such day.

(b) The District will maintain records of such Surplus Proceeds received within a Contract Year and disbursements made by the District to Alcoa within such Contract Year to reimburse it for Supplemental Power Purchases to determine the net amounts available within a Contract Year from which Alcoa can be reimbursed for further Supplemental Power Purchases. (“Alcoa’s Current Year’s Credit Pool”). Within each such Contract Year upon proper documentation, the District will reimburse Alcoa for its substantiated arms-length costs of Supplemental Power Purchases occurring within such Contract Year (documentation shall include original confirmations), to the extent not reimbursed pursuant to Section 5.6(a), without regard to the Operating Level of Wenatchee Works, from and only to the extent of the net accumulated amounts then remaining available in Alcoa’s Current Year’s Credit Pool.

(c) On or about November 15th of each year, the District will determine the applicable Operating Level of Wenatchee Works for the preceding Contract Year pursuant to the criteria set forth in Section 5.4. The District will also compute the cumulative amount, if any, of Surplus Proceeds remaining in Alcoa’s Current Year’s Credit Pool which were not distributed to Alcoa during such Contract Year. The cumulative Surplus Proceeds, if any, for such Contract Year remaining in Alcoa’s Current Year’s Credit Pool (the “Annual Cumulative Surplus Proceeds”), shall be allocated for future credit to Alcoa (“Alcoa’s Long Term Credit Pool”), or shall be retained by the District, or both, in accordance with the following criteria:

(i) If Wenatchee Works operated at Operating Level 1 for such Contract Year, all Annual Cumulative Surplus Proceeds for such Contract Year shall be allocated to Alcoa's Long Term Credit Pool.

(ii) If Wenatchee Works operated at Operating Level 2 for such Contract Year, 50% of the Annual Cumulative Surplus Proceeds for such Contract Year will be allocated to Alcoa's Long Term Credit Pool and the remaining 50% shall be retained by the District.

(iii) If Wenatchee Works operated at Operating Level 3 for such Contract Year, 30% of the Annual Cumulative Surplus Proceeds for such Contract Year will be allocated to Alcoa's Long Term Credit Pool and the remaining 70% shall be retained by the District.

(iv) If Wenatchee Works operated at Operating Level 4 but is not Shutdown as defined in this term sheet for such Contract Year, all of the Annual Cumulative Surplus Proceeds for such Contract Year will be retained by the District.

5.7. Use of Surplus Proceeds.

(a) If during any operating month Alcoa makes Supplemental Power Purchases for which it is not reimbursed pursuant to Sections 5.5 or 5.6, it shall be entitled to reimbursement from the District, on or before the 25th of the following month, of its substantiated costs thereof, from and to the extent of amounts available in Alcoa's Long Term Credit Pool. Alcoa shall also be entitled to reimbursement from Alcoa's Long Term Credit Pool for substantiated costs incurred in connection with Excess Energy purchases that occurred within a period of two (2) years preceding the date reimbursement is requested. All such reimbursements shall be subject to the submission by Alcoa of such reasonable and appropriate documentation as the District may request to substantiate the required criteria.

(b) The District shall not be obligated to segregate or separately manage or account for any Surplus Proceeds as and when received or at any time thereafter, no interest shall accrue or be deemed to accrue thereon, and any amounts allocated to the District pursuant to Section 5 may be used for any purpose, without restriction.

5.8. Adjustments to Operating Performance. Notwithstanding the foregoing, if the operation of Wenatchee Works is adversely affected by an Uncontrollable Circumstance, Alcoa will notify the District of the occurrence thereof and the parties will agree on the extent to which such event adversely affected plant operating performance and energy usage. To the extent the Uncontrollable Circumstance occurs within any of the months used to calculate Wenatchee Works Operating Level for a Contract Year, the District, upon consultation with Alcoa, shall determine the operating level Wenatchee Works would have achieved had such event not occurred so that Alcoa will not be penalized for purposes of the calculations contemplated in this Section 5.

"Uncontrollable Circumstance" as used in the foregoing paragraph shall mean the occurrence of one or more of the following causes beyond the reasonable control of Alcoa, provided that, as the result thereof, at least one-half pot line is rendered inoperable:

- (a) Earthquake, storm, lightning, fire, explosion, or act of God; or
- (b) war (regardless of whether declared), act of public enemy, act of civil or military authority, civil disturbance, riot, sabotage or terrorism; or
- (c) expropriation, requisition confiscation, export or import restrictions, closing of ports, roadways, waterways, or rail lines imposed by Government Authorities; or
- (d) catastrophic or major equipment failure in the Alcoa Wenatchee Works due to causes beyond Alcoa's control and not due to the negligence or lack of diligence by Alcoa or its employees; or
- (e) sudden unforeseen interruptions in power flows from the Chelan Power System for which third party power purchases and/or transmission are not immediately available.

If Alcoa claims the existence of an Uncontrollable Circumstance, it shall promptly and diligently make such commercially reasonable efforts as may be necessary and practical under the then-existing circumstances to remove the cause of failure and resume full operations at Wenatchee Works as soon as possible. Alcoa shall not be entitled to assert an Uncontrollable Circumstance to the extent it has failed to remedy the condition and to resume the performance of such covenants or obligations with reasonable dispatch, or failed to prevent or mitigate the effects of an Uncontrollable Circumstance by following commercially reasonable procedures generally utilized in the industry.

Alcoa may not assert the existence of an Uncontrollable Circumstance hereunder unless it notifies the District orally or in writing or by facsimile of the existence of such condition as soon as reasonably possible; however, any oral notification shall be followed by a written notice or facsimile within a reasonable time. The notice shall specify the nature of the Uncontrollable Circumstance, the date of its commencement, the measures to be taken to alleviate such Uncontrollable Circumstance and the estimated time such corrective action is expected to take. The notice shall include a full explanation of the events or circumstances giving rise to the Uncontrollable Circumstance.

Notwithstanding anything to the contrary contained herein, any Uncontrollable Circumstance described in (d) above affecting the operation of Wenatchee Works shall be deemed to terminate within one hundred eighty (180) days after the initiation of the Uncontrollable Circumstance unless the District, in its sole discretion, agrees in writing to a specific extension.

Uncontrollable Circumstance shall not include changes in law, Taxes, costs, regulatory requirements or market conditions, including, but not limited to, changes that affect the cost, transportation or availability or quality of raw materials or supplies, economic hardship, strikes, lockouts and other labor difficulties, economic factors, including prices of alumina, aluminum, labor, regulatory compliance, energy or other utilities, or any other event or circumstance not expressly listed above.

The District shall have the right to inspect Wenatchee Works and related properties, along with books, records and other data in the possession of Alcoa, to make inquiries of its officers, consultants, agents and employees, and to conduct tests and analysis on or off the

premises in a reasonable and not materially disruptive manner, all as necessary in the District's reasonable judgment to verify the existence of the Uncontrollable Circumstance, the remedial steps Alcoa intends to take and is taking with respect thereto, and the potential duration thereof.

5.9. Net Costs. Alcoa will remain responsible for the payment of all Net Costs associated with its Purchaser's Percentage of Output, regardless of power availability or usage of the surplus funds generated by surplus power sales.

Any Surplus Proceeds to which Alcoa would otherwise be entitled hereunder will be subject to set off and counterclaims arising from a default by Alcoa in the performance of its obligations hereunder.

Surplus Revenues and all Alcoa credits at the expiration or termination of the Agreement shall be subject to forfeiture pursuant to Section 14 below.

5.10 Special Rules During Shutdown Period. The parties recognize that the Capacity Reservation Charge contemplated in Section 11(a) is substantially below that paid by Puget Sound Energy and the District has agreed to this reduced amount in consideration of the jobs the full operation of Wenatchee Works would mean to the community, along with other factors. If the plant becomes idle, particularly in connection with an extended plant shutdown, the benefits anticipated by the District will be lost. Consequently, the parties have agreed to certain procedures, accumulation and use of surplus proceeds, payments and other results in the event of a Shutdown of Wenatchee Works as set forth in Section 11(a) of this term sheet.

6. Reserved

7. Chelan Transmission Points of Delivery. Output would be made available at specified Points of Integration.⁴ The parties will execute a definitive transmission agreement that provides for transmission of Output from such Points of Integration, across the Chelan Power System, to specified Transmission Points of Delivery. Purchaser would be responsible for Output transmission from the Transmission Points of Delivery to its own electric system or other designated electric system. Transmission charges shall be based upon the District's entire system and reflect the same charges as contained in the Transmission Agreement with Puget Sound Energy.

The parties are discussing equipment upgrades at the District's McKenzie substation necessary to serve Alcoa and/or the potential acquisition of the Valhalla low-voltage system from BPA. The parties agree that such arrangements are intended to occur before 2011. Alcoa agrees any such upgrades/acquisitions shall be fully funded by Alcoa. Post 2011, Alcoa will be responsible to pay all costs associated with equipment and upgrades necessary to transfer power via McKenzie and/or Valhalla to Wenatchee Works.

⁴ Particular Points of Integration (i.e., interconnection points between each Project and the Chelan transmission system) and applicable transmission charges from those points to the Transmission Points of Delivery (i.e., interconnection points between the Chelan transmission system and the Purchaser's transmission or a third party transmission provider) will be specified in a definitive transmission agreement between the District and the Purchaser that will be substantially similar to the Puget Transmission Agreement.

8. Interconnection. An Interconnection Agreement would be executed to address interconnection facilities necessary to interconnect the Chelan transmission system with Purchaser's system or third party transmission provider, and to clarify related issues with respect to such interconnection. Points of delivery, types of service, scheduling of energy deliveries and fees associated with such services would be negotiated as part of that Interconnection Agreement. See Section 7 above as well. The parties may combine the Transmission Agreement and Interconnection Agreement into one document.

9. Mandatory Step-Up. If another power purchaser (a "defaulting participant") who has signed a power purchase agreement similar to that of the definitive agreement between the Purchaser and the District, as outlined in this Term Sheet, defaults under its related power purchase agreement and the District elects to terminate that defaulting participant's entitlement to Output, the Purchaser would be obligated to purchase its pro rata share of the defaulting participant's share of the Output on the terms and conditions set forth in the Purchaser's (not the defaulting participant's) agreement with the District, for a term equal to the lesser of the defaulting participant's remaining contract term or the remaining term of the Agreement. In the event Alcoa is required to step up to take additional power due to the default of another party, Alcoa shall be entitled to sell the incremental power received as a result of the step up. The sales will be made in accordance with and subject to the provisions of the definitive agreement. Net proceeds related to these sales only will be made available to Alcoa monthly following receipt, as soon as the applicable calculations can reasonably be made and the proceeds are collected. The resale of this power will be subject to the provisions in the definitive agreement similar to those contained in Exhibit E to the 2004 Agreement, other criteria as agreed by the parties and the District's policies and procedures for marketing power, as in effect from time to time. With regard to this subsection, the District agrees not to initiate any material changes to its policies and procedures, other than those required by any accounting, regulatory or legal requirements, unless (i) such changes are not projected by the District, in its reasonable judgment, to material adversely affect the net sales proceeds that otherwise could be realized by Alcoa without such changes, or (ii) Alcoa consents to such changes, which consent shall not be unreasonably withheld, conditioned or delayed, or (iii) the District compensates Alcoa for any loss resulting from and directly attributable to such change, as determined by the District in its reasonable judgment.

10. Curtailement and Decommissioning. The District could temporarily interrupt, reduce or suspend delivery of Output for any reason including, without limitation, system emergencies, relocation, repair or maintenance of equipment, force majeure, operating constraints, regulatory requirements, Purchaser defaults and other events and would not be responsible for payment of any penalty or cost incurred by the Purchaser during or as a result of such suspension, regardless of the cause. Over the term of the Agreement, the District could, in its sole discretion, cause components of the Chelan Power System responsible for not more than 20% of the Output in the aggregate to be permanently retired. The District could also cause the Chelan Power System or any components thereof, to be permanently retired if, as a result of changes in law, it would be required to make material modifications to the Chelan Power System or components in order to continue its operation and the District determines in good faith that it would not be economical or cost effective to comply with statutory or regulatory requirements. Decommissioning would not reduce Purchaser's payment obligations under the definitive agreement.

11. Payments. In consideration of the District's agreement to provide Purchaser with Purchaser's percentage of Output, the Purchaser would pay the District the following charges:

(a) Capacity Reservation Charges. A non-refundable capacity reservation charge in an amount of \$17.5 Million (2006\$) shall be payable in lump sum at the time of signing the definitive Agreement. The parties agree that in negotiating this charge, (a) it is currently appropriate to discuss the charge being applicable to the amount of power actually committed post-2012 that exceeds 20% in recognition of the economic value that Alcoa operations and resulting jobs produce for the entire Wenatchee Valley Community; and (b) the amount payable by Alcoa should be similar (pro rata) to that paid by Puget Sound Energy.

If pursuant to Section 4 hereof, Alcoa's share of Output (Purchaser's Percentage) is increased to 26%, Alcoa will pay the District \$3.5 Million (in 2006\$) upon execution of the amendment or restated definitive agreement as an additional non-refundable Capacity Reservation Charge. This additional payment, if any, shall not reduce the amount due in the event of Shutdown as described below.

If pursuant to Section 4 hereof, Alcoa's share of Output (Purchaser's Percentage) is reduced to below 25%, the parties specifically agree that Alcoa is not entitled to any reimbursement, credit or payment by the District of any monies paid. The \$17.5 Million capacity Reservation Charge represents a minimum payment regardless of Alcoa's Purchaser's Percentage.

The parties recognize that the District has agreed to defer a significant portion of the Capacity Reservation Charge based on the expectation of continuous operation of Wenatchee Works after the Effective Date and that, if Shutdowns (as defined below) occur during the Term, additional Capacity Reservation Charges would become due, as follows:

- i) Upon the occurrence of an initial Shutdown during the Term, Alcoa would pay the District, as part of the Deferred Capacity Reservation Charge, the Initial Shutdown Amount. Such payment would be due in immediately available funds on the first anniversary of the Shutdown Date (the "Shutdown Payment Date").
- ii) Once the occurrence of a Shutdown has been determined, and during the remaining Shutdown Period, in lieu of the application of Surplus Proceeds described in Section 5.6(c), the District shall reduce Alcoa's monthly Net Costs by the amount of Surplus Proceeds actually received from the sale of Surplus Power for that month during the Shutdown Period. The District would be entitled to retain all Surplus Proceeds above such monthly Net Costs, and Alcoa would remain liable for all Net Costs that exceed such collected Surplus Proceeds.
- iii) If the initial Shutdown Period extends for more than eighteen (18) months or if a Shutdown occurs after the first Shutdown Period, the Shutdown Settlement Amount would become due and payable by Alcoa. Such payment would be made in immediately available funds on and as of (i) the first day of the nineteenth (19th) month of the initial Shutdown Period,

or (ii) on the day following the determination that a second Shutdown has occurred, whichever shall first occur, in each case without any annual deferral and regardless of any subsequent startup of Wenatchee Works. The payment of the Initial Shutdown Amount shall not reduce any Shutdown Settlement Amount that may become due.

- iv) Once the Shutdown Settlement Amount has been paid in full, no further Deferred Capacity Reservation Charges shall be due under this Section 11(a) and during the remainder of the then existing Shutdown Period and for each subsequent Shutdown Period during the Term, the District will reduce Alcoa's Net Costs by the Surplus Proceeds actually received from the sale of Surplus Power during each respective Shutdown Period, and the rules described in Section 5.6(c) during each respective Shutdown Period shall not apply. District shall retain the remainder of such Surplus Proceeds during such Shutdown Period.
- v) For purposes of this Section 11(a), the rules of Section 5.8 will apply, meaning that a shutdown caused by an Uncontrollable Circumstance will not, in and of itself, trigger a Shutdown for purposes of these provisions. In addition, solely for the purposes of the application of this Section 11(a), a labor dispute arising in connection with the good faith negotiation of Alcoa's collective bargaining agreement at Wenatchee Works (and arising from factors or circumstances unrelated to, and made without regard to, the effect of this provision) which results in a strike or lockout determined by the National Labor Relations Board and/or court of competent jurisdiction to have been reasonable, in good faith and in compliance with applicable laws, that causes Shutdown of the Wenatchee Works, will also be considered an "Uncontrollable Circumstance."

If a Shutdown has not occurred during the Term, no Deferred Capacity Reservation Charges will become due.

For purposes of this Section 11(a):

"Shutdown" means the consumption of Output by Wenatchee Works of not more than 60 aMW for 90 consecutive days, as determined by the District.

"Initial Shutdown Amount" means the amount shown in column A on Appendix C hereto for the respective Fiscal Year in which a Shutdown has occurred, multiplied by a fraction, the numerator of which is the number of whole and partial months from the beginning of the Shutdown Period to the date that startup has occurred (but not to exceed eighteen (18) months) and the denominator of which is twelve (12).

"Shutdown Date" means the first day of the ninety (90) day period giving rise to a determination that a Shutdown has occurred.

"Shutdown Period" means the period commencing on the Shutdown Date and ending on the date the Startup Conditions have been satisfied.

“Shutdown Settlement Amount” means (i) if the initial Shutdown Period extends at least eighteen (18) months, the amount shown in column B on Appendix C hereto for the Fiscal Year in which the first day following the end of such eighteenth (18th) month falls, and (ii) for any subsequent Shutdown, the amount shown in column B on Appendix C hereto for the respective Fiscal Year in which the first day of such Shutdown Period falls.

“Startup conditions” means the use of more than 60aMW for more than 30 consecutive days and a plan for ramping up potline operation that can be verified by the District as will be more fully developed in the definitive agreement.

(b) Working Capital Charges. Two initial working capital charges payable, respectively on each effective date with respect to Rock Island and Rocky Reach in amounts the District deems necessary to provide an adequate working capital balance for each respective Project. Currently, the total for each project is \$10 million in 2004 dollars. The District could require additional working capital payments during the term of the agreement to the extent determined by the District to be necessary in accordance with Prudent Utility Practice. The working capital requirements will also be adjusted by the CPI. Alcoa would be required to pay upon the effective dates their pro rata share of the working capital fund. As to the Rocky Reach fund, Alcoa’s pro rata share [25/26%] would be payable November 1, 2011. Alcoa’s pro rata share [25/26%] of the Rock Island fund would be payable July 1, 2012.

(c) Net Costs. An amount equal to the Purchaser’s Percentage of Net Costs as generally described in Appendix A hereto.

(d) Coverage Fund Charge. A coverage amount to be determined based the Purchaser’s pro rata share of 15% of the District’s maximum annual debt service (computed on an actual and an assumed debt service basis as described in Appendix A). The District would notify the Purchaser of the initial required amounts at least 30 days prior to the first effective date, and additional amounts as additional debt obligations are incurred. Coverage amounts would be available for use for any lawful purpose as determined by the District in its sole discretion.

(e) Credit Rating Premium. If the lowest District credit rating from any rating agency is greater than one rating category (including for this purpose, all sub-rating categories of each such rating agency) above the Purchaser’s lowest credit rating (or equivalent rating) from any rating agency (a “Credit Spread Condition”), the Purchaser would pay the District monthly, 1/12th of a Credit Rating Premium, determined by netting the long term taxable interest rates that the District determines would result from each such credit rating under then current market conditions, and multiplying the difference in such rates by the Purchaser’s pro rata share of the outstanding principal amount of the debt obligations as of December 31st of the year preceding the date of calculation. Such payments would continue until a different calculation is made based on a change in rating of either party.

(f) Debt Reduction Charge. A monthly “debt reduction charge” equal to one twelfth (1/12th) of the Purchaser’s pro rata share of a percentage (ranging from 0% to 3%), as announced annually by the District, at least twelve (12) months in advance of each Contract Year, of the debt obligations assumed to be outstanding in accordance with Appendix A. Funds collected for this purpose would be used only to purchase, redeem or defease debt of the Chelan

Power System, to fund required deposits to reserve and contingency funds, or to fund capital improvements related to the Chelan Power System, in each case as determined by the District. If the District fails to announce the percentage within twelve (12) months of any Contract Year, the percentage will automatically be set at the higher of the percentage in effect for the Contract Year in which the twelve (12) month notice was to be given, or 2 1/2%.

(g) Capital Recovery Charge. A monthly “capital recovery charge” equal to one twelfth (1/12th) of the Purchaser’s pro rata share of a percentage (ranging from 0% to 50%), as announced annually by the District at least twelve (12) months in advance of each Contract Year, of \$25,000,000 (in 2004 dollars), as adjusted (i) by an inflation factor and (ii) by the District based on the District’s estimate, made in good faith, of its average annual capital improvement requirements over the next ensuing thirty (30) fiscal years. This base amount, as adjusted, is referred to as the “Capital Recovery Charge Base.” If the District fails to announce the percentage within twelve (12) months of any Contract Year, the percentage will automatically be set at the higher of the percentage in effect for the Contract Year in which the twelve (12) month notice was to be given, or 25%. The capital recovery charge would be used only to fund capital improvements related to the Chelan Power System, to purchase, redeem or defease debt of the Chelan Power System, or to fund required deposits to reserve and contingency funds, in each case as determined by the District.

(h) Limit on Capital Recovery Charge and Debt Reduction Charge. The Purchaser’s obligation to pay the capital recovery charge and the debt reduction charge would be suspended if the amounts collected by the District under clauses (F) and (G), together with actual interest earnings thereon, which had not theretofore been expended or committed for expenditure, exceed five (5) times the Capital Recovery Charge Base. The Puget PSA provided for a cap on the aggregate value of unspent cash and investments on deposits in the Capital Recovery Charge and Debt Reduction Charge, Section 7.01(H). The caps set forth in Sections 7.01(H)(i) and (ii) of the Puget PSA would be included in Alcoa’s definitive agreement: 5 times the Capital Recovery Charge Base for the monthly periods during the term ending prior to November 1, 2027; and 4 times the Capital Recovery Charge Base for the monthly period beginning November 1, 2027 and ending prior to November 1, 2028.

12. Load Shedding. The District would have the right to curtail deliveries of energy to Purchaser when needed to meet Chelan’s power load, provided that such curtailment would be limited to durations of not more than 1 hour in any 24 hour period, not more than twice in any rolling twelve (12) month period and for not more than 40 MW per hour.

13. Use of Funds by District. Generally, the District would not be restricted in its use of funds received from the Purchaser under the definitive Agreement.

14. Disposition of Fund Balances Upon Expiration or Termination of Agreement. Upon the expiration or prior termination of the Agreement at any time for any reason, all amounts collected pursuant to the Agreement, including but not limited to, amounts deposited and on hand in any debt service, reserve, capital, coverage, working capital or other fund or account maintained by or on behalf of the District, would be retained by the District. Purchaser would have no right, interest or claim in or to any such amounts or any interest or earnings thereon, except as set forth in the Agreement

15. Unconditional Obligations. All Payments would be due on an “assured payment basis” and would be payable whether or not the Purchaser could receive, accept, take delivery of or use all or any portion of such Output, regardless of curtailments, shutdowns or Force Majeure events that may affect the Purchaser or the District, and whether or not either Project or Alcoa’s Wenatchee Works is operable or operating or the operation thereof is interrupted, suspended, interfered with, reduced or curtailed, in whole or in part, at any time for any reason during the term of the Agreement.

16. Invoices. The District would invoice the Purchaser monthly for payments due under the definitive Agreement and the Purchaser would be obligated to pay each monthly invoice by the 20th day of month. An annual true-up of the District’s reimbursable costs is contemplated.

17. No Rights to Facilities or Components. The Agreement would be for the sale of Output only and would not entitle the Purchaser to any rights in, or in respect of, the Chelan Power System or to any funds or accounts held by the District.

18. Exclusive Control. The District, and not the Purchaser, would have exclusive control over the operation and maintenance of and repairs, renewals, additions, improvements, retirements, decommissions of and replacements to, either of the Projects and all of the District’s generation, transmission or distribution facilities, all units and components thereof, and the financing related to such activities. The District would agree to meet semi-annually with the Purchaser after the effective date to discuss operational issues and to receive recommendations. However, the District would not be obligated to accept or follow such recommendations. The Purchaser would, however, have the right annually to audit the District’s records.

19. Relicensing Support. Purchaser would agree to use reasonable efforts to support the District’s efforts to obtain a new license for each of the Projects, at such times and in such manner as the District reasonably requests. In addition, Purchaser would be responsible for a proportionate share of the relicensing costs, as and when incurred by the District, all as contemplated in Appendix A.

20. Title and Risk of Loss. Title to the Output sold under the Agreement would remain with the District until it reaches the Point of Delivery, at which time such title would transfer from the District to Purchaser. The status of title to Output pursuant to the foregoing would not reduce or otherwise affect the Purchaser’s periodic payments as described in the Agreement. The District would not be liable to Purchaser for any damages or losses (direct, consequential or otherwise) sustained by Purchaser or third parties as a result of the failure to deliver, curtailment, reduction or interruption of Output or any failure of transmission or interconnection equipment.

21. Disclaimers. The District would disclaim any and all warranties beyond the express terms of the Agreement and neither party would be liable for incidental or consequential damages.

22. Assignments. The Purchaser would not be able to assign the Agreement or any of its rights thereunder without the District’s prior written consent, which consent shall be in the sole discretion of the District. The District would be permitted to make certain assignments without the Purchaser’s consent, and would be authorized to enter into certain sale/leaseback

transactions, provided, that any such assignment or transfer by the District would not impair this agreement or the sale of Output to Purchaser.

23. Insurance. Purchaser would be required to maintain, at its expense, certain types and amounts of insurance.

24. Defaults, Remedies, Suspension of Performance and Termination. Various events of default would be specified, and if a default occurs, the party not in default would have the right to suspend performance (other than any payment obligations) and to maintain successive proceedings against the defaulting party for recovery of damages or exercise other remedies. If, during the continuation of a default by Alcoa, Wenatchee Works is operating at or above Level 3, payments or distributions from Alcoa's Current Year's Credit Pool and Alcoa's Long Term Credit Pool to which Alcoa would otherwise be entitled under Section 5.6 shall be suspended until the default has been cured. If, during such default, Wenatchee Works is operating at Level 4, or is Shutdown, all Annual Cumulative Surplus Proceeds shall be retained by the District. In either case, Alcoa would remain liable for and shall pay Net Costs and any initial Shutdown Amount and Shutdown Settlement Amounts that may become due. In addition, the District would have the right to terminate the Agreement and collect a termination payment upon an Event of Default by the Purchaser. The termination payment would be designed to quantify the District's loss arising from such default and termination (determined without regard to the mandatory step-up provisions). The Purchaser would not be entitled to terminate the Agreement upon a District default, and instead would be limited to claims for damages, specific performance or injunctive relief. The termination payment would be in addition to amounts due and owing on the date of termination payment, including any initial Shutdown Amount and Shutdown Settlement Amount that may be come due under Section 11.

25. District's Right to Terminate Due to Alcoa's Failure to Meet Operating Criteria. The District would have the right to terminate the definitive agreement, if (i) Alcoa's operations at Wenatchee Works consumes less than 175 aMW for 18 consecutive months regardless of the cause or circumstance and without any adjustment of any type; or (ii) Alcoa formally announces that it has elected to abandon Wenatchee Works or to permanently shutdown its Wenatchee Works operations, or (iii) Alcoa announces that Wenatchee Works operations have been sold to a third party operator (unless the District has agreed in writing and in its sole discretion to the assignment in the event of such a sale). The District's termination of the agreement pursuant to this provision shall not be deemed to be a default by either Party.

26. Dispute Resolution. It is contemplated that the Agreement would contain standard dispute resolution provisions but that it would not contain arbitration provisions.

27. Purchaser Deliverables. The Agreement would contain provisions requiring the Purchaser to deliver annual audited consolidated financial statements and quarterly unaudited financial statements, and public announcements made by the Purchaser of a financial nature. Purchasers shall also be required to immediately notify the District of any material changes in Purchasers' ability to perform under this contract.

28. Collateralization Requirements. If the District has reasonable grounds to believe that the Purchaser's creditworthiness or performance under the Agreement has become unsatisfactory, the District would have the right to require the Purchaser (I) to post collateral or

provide a letter of credit equal to the sum of (a) *the greater of* (i) the highest three (3) months of payments due under the Agreement in the twelve (12) months preceding the date of calculation, *or* (ii) the amount that the District estimates will be the sum of the highest three (3) months of payments that would become due under the Agreement in the twelve (12) month period immediately following the month in which such calculation is made and (b) an amount equal to the Shutdown Settlement Amount for the applicable fiscal year in which the calculation is made (to be adjusted each fiscal year thereafter during which collateralization is required, based on the amounts shown in Column B of Appendix C), or (II) to provide the District with other assurances of performance satisfactory to the District. The failure of the Purchaser to provide such assurances would be grounds for termination.

29. *Managing Resources and Control Area Services.* The District currently manages Alcoa's output of Rocky Reach per the 2004 Power Sales Agreement. The following provisions of that agreement may be included in the definitive agreement as other terms are negotiated and agreed to:

- (a) the provisions similar to those in Exhibit A.
- (b) the provisions of Exhibit D.
- (c) other control area services to be discussed.

30. *Environmental Attributes.* Although the amount of Output to which Purchaser is entitled hereunder, and the cost thereof, will be determined in reference to the Chelan Power System, the District may source the Output from any source within that System. The District retains for its own use and benefit any environmental attributes (as those terms may be defined under any applicable federal or state law, rule or regulation or by any market or otherwise) generated as part of the Output of the Chelan Power System.

The Energy Independence Act, RCW 19.285, referenced herein as Initiative 937, was recently enacted into law by the voters in Washington State. Initiative 937 requires utilities to meet a certain percentage of its load to retail customers through acquisition of renewable resources or renewable energy credits. The parties agree that under Initiative 937 or any other similar federal or state law, this term sheet and any definitive agreement shall be considered a wholesale arrangement and that Alcoa is not a "retail customer/load" of the District. The parties agree to cooperate to ensure that this interpretation is upheld in the context of any applicable legislation, rules or regulations and that it is clearly communicated in political and legal forums as the District may direct. However, if that interpretation fails for any reason, Alcoa will take all steps necessary to put the District in the same economic and operational condition as it would have been in had the interpretation been upheld. Without limiting the foregoing, Alcoa shall fund the District's acquisition of appropriate resources or credits and pay any costs of integrating such resources into the District's system necessary for the District to comply with Initiative 937 or any other law with respect to the sales of Output to Alcoa. Prior to taking any such action, the District and Alcoa will discuss the potentials options and solutions for compliance. Alcoa shall have the right to acquire a resource or credits as defined in the law to ensure the District's compliance in lieu of the District acquiring the same. If Alcoa acquires the resource, the parties shall agree upon the terms for integration of the resources, including the costs to be paid to the

District for such integration and on-going maintenance/operation, and Alcoa shall assign its rights to the resource to the District to the extent necessary for the District to comply with the applicable law during the term of this agreement.

31. 1995/2000 Power (42 MW). The parties currently have in place an Industrial Power Sales Agreement (Restated and Amended executed April 1, 1996 and also contained in the 2004 Power Sales Agreement). Pursuant to that agreement, the District agrees to make “1995 and 2000 power” (total 42 average megawatts) available to Alcoa for use at its Wenatchee Works at a price equal to the District’s “average industrial rates” as defined in the agreements. As a part of these negotiations for power to be made available to Alcoa post-2011 and 2012 including an increase in the Output share being made available for Alcoa’s operation, the parties have agreed to modify the rate to be paid by Alcoa for the 1995 and 2000 power. The parties agree that for any power used by Alcoa to operate the Wenatchee Works at an increased level above the two pot lines that have been in operation in 2006, Alcoa will pay the “average industrial rate” as defined plus an additional \$7.00 per MWh for that additional power. Further, the parties have discussed the potential for energy surcharges to be imposed by the District and Alcoa understands and agrees that any surcharge will increase the average industrial rates and thus increase the cost of all 1995/2000 power used by Alcoa. Further, there is no intent to extend the Industrial Power Sales Agreement beyond its current term (October 31, 2011).

APPENDIX A

DETERMINATION OF CHELAN POWER SYSTEM NET COSTS

1. **Definitions.** The following definitions shall apply throughout the Agreement and this Appendix A whenever the term is capitalized.

“*Assumed Debt Service*” means:

(i) with respect to any Debt Obligation issued after the Signing Date and before the first Project Availability Date, the amount for each applicable Contract Year calculated as of the date of issuance or incurrence thereof, that would be sufficient to fully amortize the original stated principal amount thereof, together with interest thereon at the Index Rate (using semi-annual compounding and a year of 360 days), for such Debt Obligation, on an annual level debt service basis over an amortization period commencing on the In Service Date of the Capital Improvements expected to be financed from the proceeds of such Debt Obligation and ending on the last day of such Capital Improvements’ Average Service Life.

(ii) with respect to any Debt Obligation issued on or after the first Project Availability Date, the amount for each applicable Contract Year calculated as of the issuance or incurrence thereof, that would be sufficient to fully amortize the original stated principal amount thereof, together with interest thereon at the Index Rate (using semi-annual compounding and a year of 360 days) for such Debt Obligation on an annual level debt service basis over an amortization period commencing on the date of issuance or incurrence of such Debt Obligation and ending on the Deemed Maturity thereof.

“*Average Service Life*” means, with respect to any Debt Obligation issued after the Signing Date, the estimated weighted average economic service life of the Capital Improvements that the District expects to finance from proceeds of such Debt Obligations issued or incurred after the Signing Date, as determined by the District on or as of the date of the issuance or incurrence thereof. For purposes of the foregoing, land shall be deemed to have a weighted average economic service life of 25 years.

“*Debt Obligation*” means a bond, note (including a commercial paper note or bond anticipation note), installment purchase agreement, financing lease, inter-fund loan or any other obligation for borrowed money, or portion thereof, issued or incurred by or on behalf of the District for either or both Projects, the proceeds of which were or will be applied to finance Capital Improvements with respect to such Project or Projects and which has been or is designated by the District in its discretion as a Debt Obligation with respect to such Project or Projects. For the avoidance of doubt, the obligations listed or referred to in Schedule A-1 shall constitute Debt Obligations for purposes of this Agreement. Debt Obligations shall not include any Refunding Obligations, or the principal portion of any obligations issued after the Signing Date that otherwise would fall within the definition of Debt Obligations, to the extent such principal portion is or was used to pay costs of issuance or to fund debt service reserves with respect to Debt Obligations, all as determined by the District in its discretion. To avoid double counting, if the District designates inter-fund loans from the District Enterprise Units of the District to the Chelan Power System as Debt Obligations, the corresponding third party

obligations of the District shall not be included as Debt Obligations for purposes of this Agreement. For purposes of this Appendix A, “Debt Obligations” will include inter-fund loans from the District Enterprise Units that otherwise qualify as Debt Obligations; however, transfers from the District to the Chelan Power System derived from payments made by the Purchaser in respect of Capital Recovery Charges or Debt Reduction Charges, as determined by the District, shall not be treated as Debt Obligations for purposes of this Agreement. For purposes of this Agreement, the principal amount of Debt Obligations issued after the Signing Date shall be deemed to amortize in accordance with the Assumed Debt Service with respect thereto, and not on the actual principal amount of the District’s Debt Obligations that may be outstanding on the date of calculation.

“*Deemed Maturity*” means that date determined by the District as of the issuance or incurrence of a Debt Obligation, by adding to the date of issuance or incurrence of such Debt Obligation, *the lesser of* (a) twenty-five (25) years, or (b) the Average Service Life of the Capital Improvements expected to be financed by the District from the proceeds thereof, as determined by the District.

“*Independent Investment Banker*” means an investment banking firm selected by the District in its discretion that is nationally recognized for its knowledge and experience in the pricing and sale of debt securities and that has, or whose parent company has, a rating from at least two of the Rating Agencies of not less than “A-” in the case of S&P and Fitch, and “A3” in the case of Moody’s.

“*Index Rate*” means, with respect to each Debt Obligation, as of the applicable date of calculation, the fixed interest rate, as determined by the District in consultation with an Independent Investment Banker as of the date of issuance or incurrence thereof, equal to 110% of the weighted average annual interest rate that such Debt Obligation would bear (i) based on the then current underlying long term credit rating of the District; (ii) assuming that interest on such Debt Obligation would be includable in the income of the holders thereof for federal income tax purposes; and (iii) assuming that such Debt Obligation were amortized on a level debt service basis over the applicable amortization period described in the definition of “Assumed Debt Service.” In determining the Index Rate of any Debt Obligation, the District may consider interest indices and other market data generally available as of the date of calculation.

“*In Service Date*” means the estimated weighted average date the Capital Improvements expected to be financed from proceeds of a Debt Obligation are or are expected to be placed in service, as determined by the District.

2. **Determination of Net Costs.** For purposes of this Agreement, the District’s Chelan Power System net costs (“Net Costs”) for any given month shall include all costs and expenses of every kind and description, both direct and indirect, paid or accrued by the District in such Month with respect to its ownership, operation, maintenance, repair and improvement of, and the production, sale and delivery of Output from, the Chelan Power System, as determined by the District, including without duplication (whether under this Agreement, the Transmission Agreement or the Interconnection Agreement), the items of cost and expense described below in this Section 2, plus any cost or expenses incurred by the District in such month in administering

this Agreement that are unique to Purchaser or Purchaser's performance (or failure to perform) hereunder. Net Costs shall not include any depreciation expense. Such Net Costs shall include, without intending to limit the generality of the foregoing:

- (a) **Operating and Maintenance Costs.** All operating and maintenance costs of every kind and description, both direct and indirect ("Operating Costs"), paid or accrued by the District with respect to the operation, maintenance and repair of, or the production, sale or delivery of Output from, the Chelan Power System or any part thereof, including allocable District overhead and administrative costs, and costs of generation integration for the Chelan Power System provided by the District's distribution system, all as the District may reasonably determine consistent with GAAP, FERC regulations (including FERC's Uniform System of Accounts) and the District's accounting policies, practices and procedures. Without limiting the generality of the foregoing, Operating Costs shall include those items of cost described in subsections (i) through (iv) below.
 - (i) **Taxes and Assessments.** All governmental taxes, assessments or other similar charges with respect to its ownership, operation, maintenance or repair of, or the production, sale or delivery of Output from, the Chelan Power System or any part thereof, including payments by the District in lieu of such governmental taxes, assessments or other similar charges.
 - (ii) **Certification, Relicensing and Decommissioning Costs.** All costs determined by the District to be reasonably allocable to the certification, re-licensing or decommissioning of any of the Projects or any part thereof. The District agrees that it will not accelerate payment of costs associated with measures required or agreed upon, in the District's sole discretion, for the relicensing of either Project in advance of the date(s) necessary to comply with existing and anticipated FERC and other regulatory requirements or settlement agreements related to relicensing.
 - (iii) **Litigation.** All judgments, claims, settlements, arbitration awards and other similar costs and liabilities with respect to its ownership, operation, maintenance, repair or improvement of, or the production, sale or delivery of Output from, the Chelan Power System, including attorneys' fees and costs, in each case to the extent not paid from proceeds of insurance.
 - (iv) **Loss Prevention.** All costs for the prevention of any loss or damage to the Chelan Power System, and all costs of the correction of any loss or damage to the Chelan Power System to the extent not paid from proceeds of insurance covering such loss or damage.

Notwithstanding anything to the contrary, if an item of cost or expense referred to above or any part thereof shall relate to less than all of the Share Participants, or shall clearly not be applicable to a Share Participant, such item shall only be included as an item of Net Costs with respect to those Share Participants to which such cost or expense relates.

Anything in this Appendix A to the contrary notwithstanding, Operating Costs shall not include costs paid or deemed paid from the proceeds of Debt Obligations or to the extent the costs of Capital Improvements were paid from Capital Recovery Charges or Debt Reduction Charges as contemplated in Sections 7.01 (F) and (G).

The Purchaser agrees that the District may, in its sole discretion, determine what Operating Costs shall be incurred in connection with the ownership, operation, maintenance and improvement of, and the production, sale and delivery of Output from, the Chelan Power System.

- (b) **Financing Costs.** Financing Costs (“Financing Costs”) for each Month shall consist of the monthly accrual, as determined by the District, of the following costs payable or deemed payable by the District or the Chelan Power System, as the case may be, in connection with the issuance, incurring and carrying of Debt Obligations:
- (i) **Outstanding Debt Obligations.** With respect to Debt Obligations that are outstanding as of the Signing Date (“Outstanding Debt Obligations”), the Purchaser will pay Financing Costs based on the payment and amortization schedule attached hereto as Schedule A-1, and regardless of actual payments owed by the District and regardless of any subsequent changes in such Debt Obligations, whether as a result of prepayments, refundings, restructuring or otherwise.
 - (ii) **Future Debt Obligations.** With respect to Debt Obligations that are incurred after the Signing Date (“Future Debt Obligations”), the Purchaser will (a) pay, commencing November 1, 2011, the monthly amortization of the Assumed Debt Service on such Debt Obligations attributable to Rocky Reach, and (b) pay, commencing July 1, 2012, the monthly amortization of the Assumed Debt Service on such Debt Obligations attributable to Rock Island. Following the issuance or incurrence of any Debt Obligation, the District will make available to the Purchaser, at its request, a written schedule showing the Capital Improvements expected to be financed by the District from the proceeds thereof, the estimated Average Service Life of such Capital Improvements as determined by the District and the scheduled monthly Financing Costs associated with such Debt Obligations.
 - (iii) **Refunding Obligations.** The Purchaser’s Financing Costs with respect to Debt Obligations shall be determined as of the Signing Date or the date of original issuance or incurrence thereof, as the case may be, and will not be affected by any subsequent direct or synthetic refinancing of such obligations.

Except as provided in Section 2(c) below, no adjustment will be made to the Purchaser’s scheduled Debt Obligations payments as calculated in

accordance with this Section as a result of the payment, purchase, defeasance, tender, acceleration, redemption or other restructure or modification of Debt Obligations after the initial issuance or incurrence thereof.

- (c) **Capital Recovery Charge and Debt Reduction Charge Adjustments.** If the District purchases, redeems or defeases outstanding debt of the Chelan Power System from moneys on deposit in the Capital Recovery Charge Fund or Debt Reduction Charge Fund, or from proceeds of insurance received with respect to components of the Capital Improvements that the District elects not to repair, rebuild or replace, all as determined by the District, the District shall provide the Purchaser with a credit against its monthly Financing Costs otherwise due from time to time hereunder, spread over a 25 year period from the month following the month of calculation (which the District agrees to complete as soon as reasonably practical following such purchase, redemption or defeasance), computed on a level monthly credit basis, using the following criteria, all as determined by the District: (i) the interest component of the credit shall be the actual weighted average interest rate applicable to Debt Obligations included in the Purchaser's Financing Costs (as set forth in Schedule A-1 and as determined in accordance with Section 2(b)(ii)), and (ii) the principal component of the credit shall equal the principal amount of debt of the Chelan Power System that was purchased, redeemed or defeased with such funds.

Anything in this Appendix A to the contrary notwithstanding, the District's determination of Net Costs, Operating Costs and Financing Costs shall be binding and conclusive on the Purchaser absent manifest error.

Notwithstanding the foregoing, the District, in its discretion, may adjust the Financing Costs contemplated in this Section 2 as it deems necessary, from time to time, to correct any error in the computation thereof, or to reflect a material change in the District's reasonable estimate of the In Service Date or the Average Service Life with respect thereto, and shall either add to or credit the amounts otherwise due in such month under this Section 2, to reflect the cumulative effect of any such adjustment.

Anything in this Appendix A to the contrary notwithstanding, except as provided in Section 15.02 of this Agreement, no credits shall be given for any income or revenues from the sale or other disposition of Output to any person.

3. **Use of Funds; Separate Accounts.**

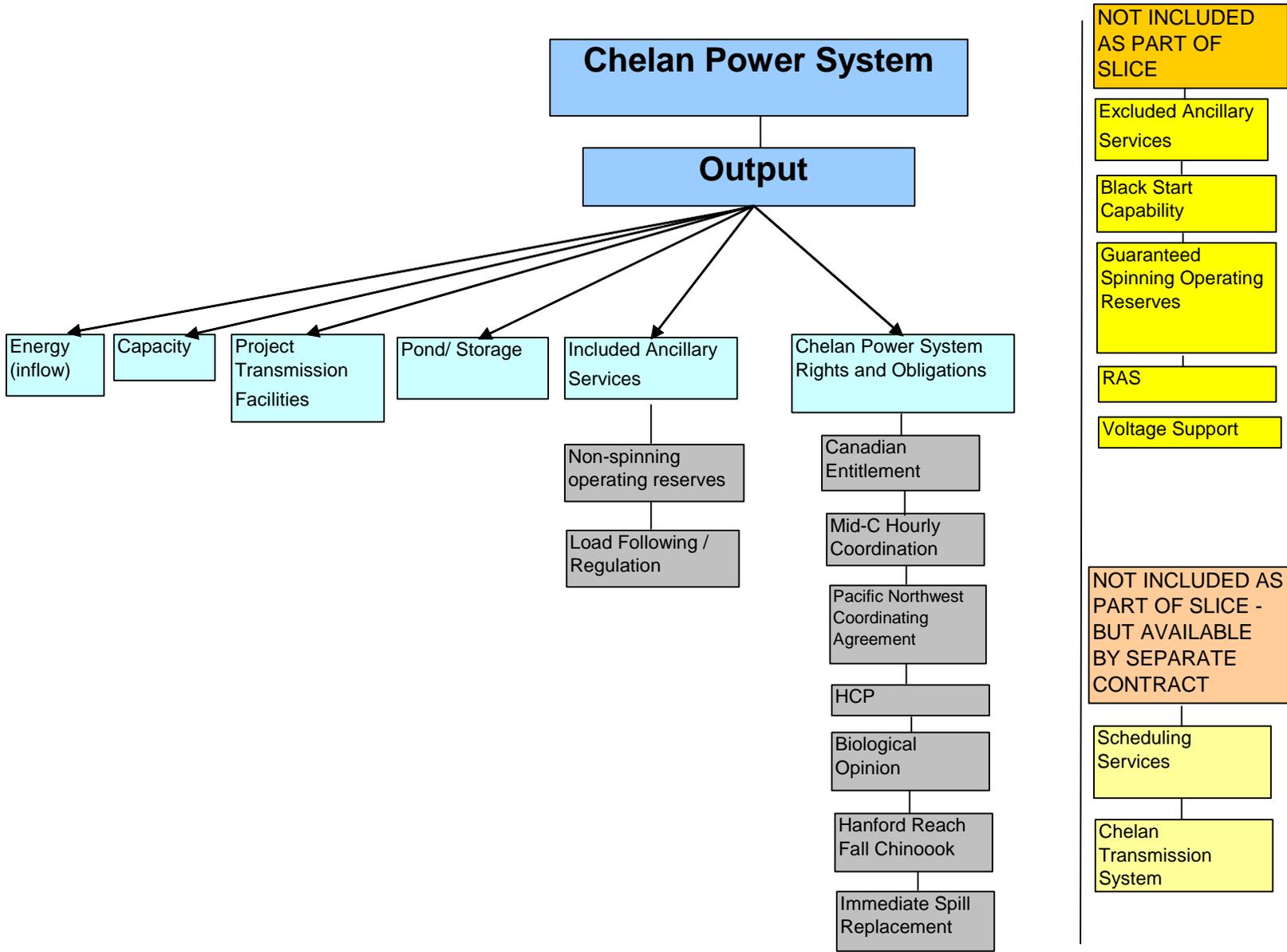
- (a) Except as otherwise expressly set forth in this Agreement, the District, in its sole discretion, may use payments received from the Purchaser under this Agreement in any manner that the District shall determine.
- (b) The moneys in any fund or account established pursuant to this Agreement may be deposited and invested on a commingled basis by the District; provided, that

the District shall maintain adequate accounting records to reflect any restricted applications of the moneys on deposit therein.

- (c) The designation of any fund or account herein shall not be construed to require the establishment of any independent, self-balancing fund as such term is commonly defined and used in governmental accounting, but rather is intended solely to constitute an earmarking of certain funds for certain purposes and to establish certain priorities or requirements for application thereof as provided herein.

4. **Issuance and Incurrence of Debt Obligations and Refunding Obligations.** The District in its discretion may issue and incur Debt Obligations for the purpose of financing Capital Improvements to the Chelan Power System and may issue or incur Refunding Obligations to Refinance Debt Obligations and Refunding Obligations.

Anything in this Agreement to the contrary notwithstanding, the covenants, agreements, terms and provisions of all Debt Obligations and Refunding Obligations, including all bond resolutions, loan resolutions, trust agreements and indentures, loan agreements, reimbursement agreements, leases, bonds, notes and other similar instruments, adopted or executed by the District with respect to such Debt Obligations and Refunding Obligations shall be determined by the District in its sole discretion.



APPENDIX C

**Term sheet - power sales
agreement
Between Chelan PUD and Alcoa
Exhibit C**

Column	A	B
	Initial Shutdown Amount	Shutdown Settlement Amount
2012	8,615,526	87,067,603
2013	8,615,526	83,676,133
2014	8,615,526	80,081,175
2015	8,615,526	76,270,520
2016	8,615,526	72,231,225
2017	8,615,526	67,949,573
2018	8,615,526	63,411,021
2019	8,615,526	58,600,156
2020	8,615,526	53,500,640
2021	8,615,526	48,095,152
2022	8,615,526	42,365,335
2023	8,615,526	36,291,729
2024	8,615,526	29,853,707
2025	8,615,526	23,029,404
2026	8,615,526	15,795,642
2027	8,615,526	8,127,855
2028	8,615,526	8,127,855