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News Release

Framework proposed for extending long-term Alcoa energy supply

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WENATCHEE -- Chelan County Public Utility District staff briefed the Board of Commissioners Monday afternoon on a possible framework for long-term energy supply to the Alcoa Wenatchee Works that could keep three pot lines operating until at least 2028. Alcoa officials have endorsed the proposed plan.

PUD commissioners will carefully review terms of the proposed term sheet and other information before deciding whether it meets the needs of the PUD. Public meetings will be scheduled to present full details of the proposal, to receive comment from the community and to answer questions. At least one meeting will be an evening session.

Commissioners decided to follow up on the proposal quickly, agreeing to begin their next regular meeting early at 9 a.m. Oct. 22 for continuing discussion of the terms and also to meet at 9 a.m. Tuesday (Oct. 23) to hear further from Alcoa representatives.

If approved as presented, staff for both the PUD and Alcoa would work to develop terms of a final agreement that would provide Alcoa's Wenatchee Plant with approximately 25 percent of the combined output of Rocky Reach and Rock Island dams until 2028. The percentage could vary a few points depending on other agreements that may be reached for what's known as a capacity exchange.

Alcoa anticipates that an approximate 25-percent share of output in an average water year would be enough to fuel three pot lines. Alcoa is now operating two pot lines under a power contract that provides the company the equivalent of 23 percent of the output from Rocky Reach Dam until 2011. Alcoa also is entitled to about 42 megawatts of additional power from the PUD under various conditions.

If Alcoa continues operating the Wenatchee Works for at least the 12 months prior to October 2011, then the new agreement would run through Oct. 31, 2028, a term of 17 years. Alcoa would pay the percentage of costs from Rocky Reach and Rock Island dams that matches the percentage of power allocated, regardless of how much power is actually produced at the hydroelectric projects. The PUD would have the right to interrupt service or curtail output for operational and reliability reasons.

In addition, Alcoa would pay the PUD an up-front capacity reservation charge of between \$17.5 million and \$21 million, depending on the percentage of power allocated in the final terms. As outlined in the proposed term sheet, \$72 million is a deferred capacity reservation charge to be paid if the Wenatchee plant shuts down. The amount of the payment will depend upon the number of years the Wenatchee plant continues to operate and provide jobs to the community.

PUD staff who negotiated this proposed term sheet indicated that it recognizes the economic value Alcoa provides to the overall Chelan County community with an annual payroll that pumps approximately \$45 million into the local economy, taxes paid and for its other community investments. It's expected that a three-pot-line operation would employ between 460-490 people. About 390 are employed now in the two-pot-line operation.

Under terms that have been proposed, Alcoa would be required to use the energy locally for the Wenatchee Works and would be prohibited from shipping it elsewhere or from selling it on the open energy market.

"This is good for the District and good for the community," said PUD General Counsel Carol Wardell who introduced the terms of the possible agreement along with help from her team of negotiators.

"This is a good contract for Alcoa," added Bob Wilt, Alcoa vice president of Energy Development and former manager of the Wenatchee Works who attended the board meeting to speak on behalf of the company. "It enables us to make long-term strategic decisions. We want to make aluminum here."

The proposed terms speak to numerous contingencies that could occur in coming years with Alcoa and its position in the world aluminum markets. If Alcoa is forced to shut down or reduce its operations, the PUD would be able to take the power and sell it on the open market. The PUD also would have the option to terminate the contract after 18 months of the plant being shut down. This would allow the PUD to find another purchaser as it sees fit.

This proposal for new terms of an Alcoa agreement is the second new long-term power sales arrangement worked on by PUD staff in recent years. A new **20-year contract** with Puget Sound Energy was approved by the Board of Commissioners early in 2006 that calls for Puget to receive 25 percent of the combined output of Rocky Reach and Rock Island in exchange for paying 25 percent of all costs.

The contracts provide the PUD certainty of having a portion of hydro project costs covered (regardless of how much power is produced) and still allow enough energy to be reserved for local load growth in the future. Local customers (not including Alcoa) use about 15 percent of the energy created by the PUD's three hydro projects, including Lake Chelan Dam.

For access to the full proposed term sheet and other background documents, click [here](#). For further information, contact Steve Lachowicz (509) 661-4639, steve.lachowicz@chelanpud.org or Jim Baxter (509) 669-5486, jim.baxter@alcoa.com.

In other business, PUD commissioners:

- Set a special meeting for 9 a.m. on Tuesday, Oct. 23, in the boardroom at PUD headquarters to discuss the potential power sales contract with Alcoa.

Commissioners adjourned Monday's meeting and continued it to 5:30 p.m. Monday at the Highlander Golf Club for a Mid-Columbia PUD commissioners' meeting.

The next regular meeting of the PUD commission is at 9 a.m. on Monday, Oct. 22, in the boardroom at PUD headquarters, 327 N. Wenatchee Ave. The morning session will cover the potential sales contract with Alcoa. Regular business will start at 1 p.m.

Most PUD commission meetings are recorded, and a link to the audio is available on the PUD's home page at www.chelanpud.org.

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