Chelan County PUD and Alcoa Power Sales Agreement

Community Perspectives on Potential Future Paths

January 31, 2018
Meeting Tonight

Listen to community in anticipation of next Alcoa decision period for 2018

Include tonight’s discussion as part of our analysis

No decisions tonight
Background

- Alcoa Wenatchee Works curtailed operations in Dec. 2015
- Incentive to re-start prior to June 2017 or pay $67 million deferred contract charge
- Contract amended in April 2017 at Alcoa’s request to delay June 2017 restart
- In June 2017, Alcoa paid $7.3 million in exchange for a 1-year delay
- If plant remains curtailed to June 2018, a $62 million deferred contract charge will become due
Agenda

• Overview of Alcoa contract
• Update on aluminum market prices
• Potential paths for Alcoa Wenatchee Works
  – Restart
  – Shut down
  – Request another delay
• Community input
Brief Overview of Power Sales Agreement

- Deferred charges are due if plant shuts down
- Deferred charges reduced over time as plant operates, provides jobs and community benefits
- Alcoa pays actual costs of O&M plus amounts for capital and debt reduction
- Some charges were deferred up front recognizing value to community
- Power can only be used at Wenatchee Works
<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Initial shutdown amount paid Dec. 2016</td>
<td>$8.6 million</td>
</tr>
<tr>
<td>Amount due if not restarted by June 2017 (balance of deferred charge)</td>
<td>$67 million</td>
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<tr>
<td>Amount paid in June 2017 for 1-year delay</td>
<td>$7.3 million</td>
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<td>Amount due if not restarted by June 2018 (balance of deferred charge)</td>
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What happens to the power while the plant is curtailed?

1. Alcoa continues to have contractual rights to the 26% share of output
2. District sells unused power in the wholesale market on Alcoa’s behalf
3. Proceeds from sales first applied to the monthly contract costs owed by Alcoa
4. Any surplus proceeds above contract costs would be retained by the District
5. Any shortfalls would be paid by Alcoa
Plant future is dependent on global aluminum prices

Source: London Metals Exchange (LME)
Potential Future Paths

1 - RESTART

- Wenatchee Works restarts by mid-June 2018
- Contract remains in place
- Community economic benefits
- Family wage jobs
- Uncertainty of future curtailments
Potential Future Paths

2 – SHUT DOWN

- Wenatchee Works closed (likely permanent)

+ Deferred charge becomes due ($62 million)

+ Contract remains in place: power is sold on Alcoa’s behalf, proceeds are applied to monthly contract costs and any shortfalls are paid by Alcoa

+ Contract could be terminated at District’s discretion making power available for other purposes

+ Allows community to move forward without uncertainty of Wenatchee Works operations

- Closes opportunity for restart and associated economic boost and family wage jobs

- Adds economic uncertainty if not selling power to Alcoa
Potential Future Paths

3 – ADDITIONAL DELAY

+ Preserves opportunity for restart

+ Only renegotiate contract terms resulting in a neutral to positive impact on customers-owners

+ Alcoa would pay an additional deferral payment in exchange for delay of remaining deferred charges

- Extends uncertainty of restart

- Delays receipt of full payment of deferred charges

- Alcoa power not available for other purposes
What are your thoughts?