

Chelan County PUD and Alcoa Power Sales Agreement



CHELAN COUNTY

**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

26%
of Rocky Reach &
Rock Island output

Deferred charges
are due if plant
shuts down

Some charges were
deferred up front
recognizing value to
community

Brief Overview of Power Sales Agreement

Deferred charges
reduced over time
as plant operates,
provides jobs and
community benefits

Power can only be
used at Wenatchee
Works

Alcoa pays actual
costs of O&M plus
amounts for capital
and debt reduction

Deferred contract charges encourage restart

Initial shutdown amount paid Dec. 2016	\$8.6 million
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Amount due if not restarted by June 2017 (balance of deferred charge)	\$67 million
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Amount paid in June 2017 for 1-year delay	\$7.3 million
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Amount due if not restarted by June 2018 (balance of deferred charge)	\$62 million
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What happens to the power while the plant is curtailed?

Alcoa continues to have contractual rights to the 26% share of output

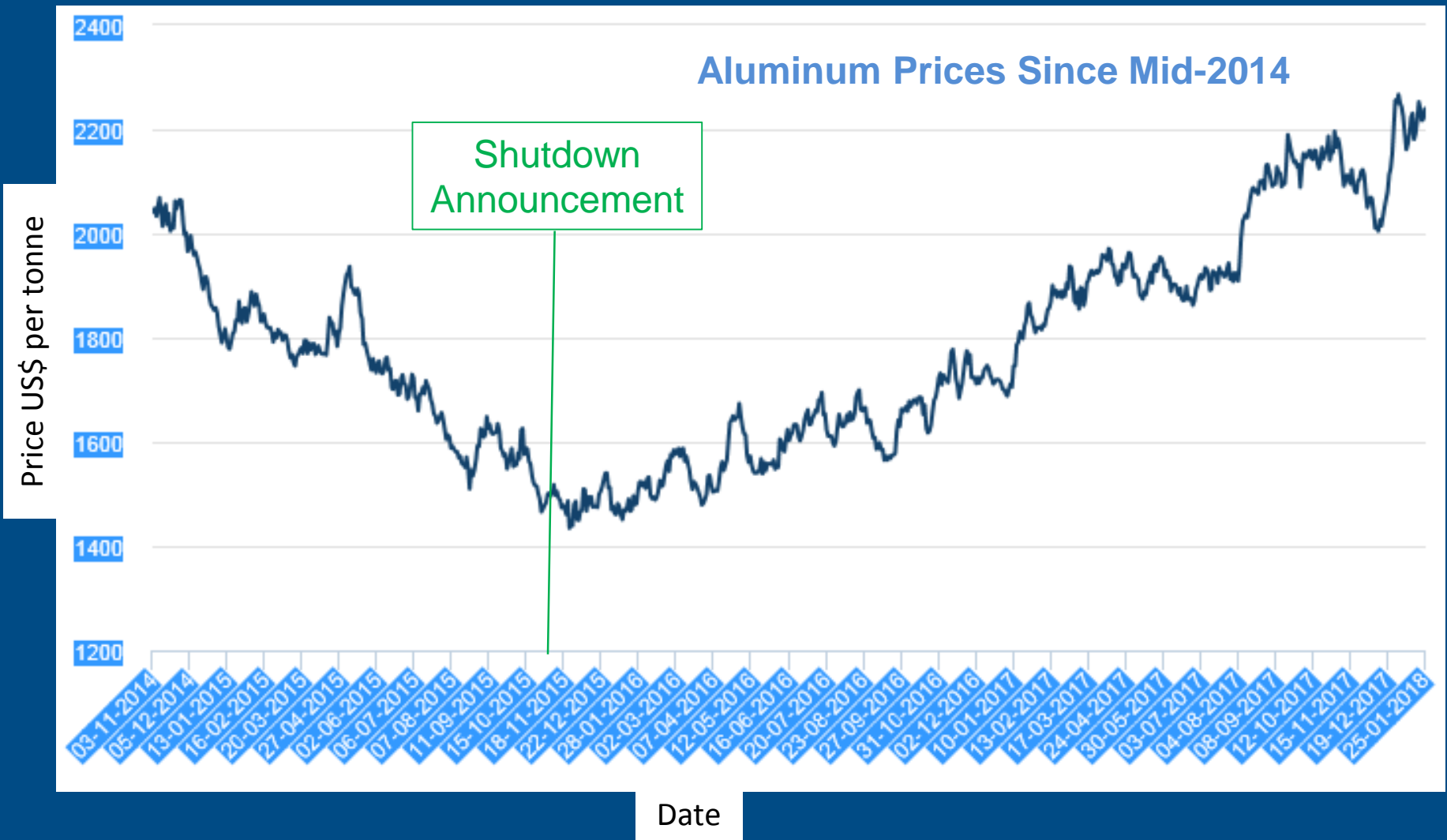
District sells unused power in the wholesale market on Alcoa's behalf

Proceeds from sales first applied to the monthly contract costs owed by Alcoa

Any surplus proceeds above contract costs would be retained by the District

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?