

DRAFT – Term Sheet
Block Power Sale to Alcoa¹
July 17, 2009

Basic Terms (subject to the Special Conditions below):

Product	Block, firm power, delivered on all hours.
Rate	Industrial Firm Power (IP) rate. Reserves provided consistent with law.
Amount	285 aMW during Initial 2-year Period 320 aMW during Subsequent 5-year Period
Term	October 1, 2009 – September 30, 2016 October 1, 2009 – September 30, 2011 (Initial 2-year Period) October 1, 2011 – September 30, 2016 (Subsequent 5-year Period).

Special Conditions:

1. BPA may provide Alcoa notice of termination prior to March 31, 2010, if, in BPA's sole discretion, it is unable to purchase FBS replacement resources sufficient to serve the Amount for the Subsequent 5-Year Period for less than or equal to \$64 per MWh. The cost cap represents a forecasted net cost of less than \$350 million for the Subsequent 5-year Period (defined as cost of purchases to serve Alcoa's Intalco Plant load less expected IP revenue from the same).
2. In the event that wholesale power market prices for power purchased by BPA for the Initial 2-year Period are sufficient to serve Alcoa 320 aMW at a cost less than or equal to \$48 per MWh, then upon Alcoa's 3-month request BPA will increase the Amount to 320 aMW for the balance of the Initial 2-year Period. Consistent with BPA's determination that it will not exceed the \$48 per MWh cost cap for DSI service, the cost cap represents a forecasted net cost of less than \$82 million for the Initial 2-year Period based on then current forecast of market price. To the extent any other aluminum smelter DSI notifies BPA of a curtailment, during the duration of such curtailment, the \$82 million cost cap will be increased and the \$48 per MWh cost cap will be increased accordingly.
3. Upon Alcoa's request BPA will conduct a public process between October 1, 2012, and October 1, 2014, to determine the feasibility of entering into a follow-on contract with Alcoa beginning October 1, 2016. In addition to examining the terms of service for any such follow-on contract, the public process will include a study analyzing the impacts on the regional economy associated with such a follow-on contract. This provision is not intended and shall not be construed as requiring BPA to offer any such follow-on

¹ This draft term sheet is for discussion purposes only, is subject to change, and is not binding on BPA or Alcoa for any purposes.

contract, irrespective of the conclusions or findings of any public process undertaken.

4. Any costs of carbon taxes or charges, greenhouse gas mitigation costs or other similar environmental or regulatory costs will be included in the net cost calculation, and, as set forth below, BPA intends to require any suppliers to include such costs (excluding costs directly imposed on BPA explained in section 5, below) in their offers of electricity.

The cost caps in Sections 1 and 2 above represent the maximum amount BPA will pay for average annual blocks of power to support sales to Alcoa, including any costs of carbon taxes or charges, greenhouse gas mitigation costs, or other similar environmental or regulatory costs, and costs incurred by BPA in connection with any credit requirements. Cost caps represent the weighted average of acquisitions made by BPA to support sales to Alcoa over all Fiscal Years comprising the particular delivery period. Further,

- a. BPA will not make a plant specific acquisition from a coal-fired resource.
 - b. BPA will not acquire power from a supplier that is unwilling to absorb any of the regulatory or environmental costs referred to above, that are imposed on the supplier after the date the acquisition contract is entered into.
5. In the event costs associated with either renewable energy portfolio standard obligations, if any, or costs imposed on BPA directly (in contrast with costs imposed upon suppliers to BPA) for carbon taxes or charges, greenhouse gas mitigation costs, or other similar environmental or regulatory charges, if any, are not recovered by BPA through rates but are to be paid by Alcoa under the terms of the contract, Alcoa shall have the option to terminate pursuant to Section 11 below, but without the obligation to pay the IP rate for the applicable Amount for the 12-month notice period.
6. Alcoa commits to employ an average of 528 full time equivalent employees (FTEs) at the Intalco Plant during the period that Alcoa receives 320 aMW (2 potlines) under the contract, measured on a 5-year rolling average basis. Equivalent pro rata FTE levels will be developed for different operating levels and addressed in the contract. "FTE" shall mean full time annual employment for both regular employees and on-site and local off-site contractors. If Alcoa fails to average FTE levels established in this section or the contract, BPA may terminate the contract; provided however, such minimum requirement shall not apply during periods of curtailment, or if notice of termination has been given.
7. In order to qualify for service beginning October 1, 2009, Alcoa's load at the Intalco Plant must have been 160 aMW or more in any one year of the Subscription Period (Fiscal Year 2007 through Fiscal Year 2009).
8. Following a notice of termination by Alcoa under Section 11 below (unless triggered under Section 5 above), Alcoa agrees that it will not request power service as a Direct Service Industry from BPA.

9. Alcoa agrees not to challenge the validity of the contract implementing this Term Sheet in the Ninth Circuit Court of Appeals, but reserves the right to intervene in any proceeding challenging the validity of the contract for the purpose of defending the validity of the contract or any portion thereof.
10. Alcoa may curtail deliveries up to twice during the Term. If Alcoa elects to curtail, then:
 - a) 3-month prior written notice is required, and the curtailment duration may be changed only with BPA's consent;
 - b) cumulative curtailment duration shall not exceed 24 months;
 - c) no take-or-pay obligation on appropriately noticed curtailed amounts and no compensation by BPA to Alcoa; and
 - d) provisions in Section 6 above shall be suspended for the duration of each curtailment, proportional to the amount curtailed.
 - e) curtailments of the Product may not be replaced by third-party power purchases
11. Alcoa may terminate upon 12-months prior written notice, but the provisions in Section 6 above shall be suspended during this period, and Alcoa shall be obligated to pay the IP rate (whether or not it takes power and without regard to any mitigation by BPA) for the applicable Amount for the 12-month notice period. Alcoa may switch from a curtailment to a termination at any time during a curtailment by providing notice of termination and agreeing to pay the IP rate for the applicable Amount for a period of not less than 12-months following the effective date of the notice of curtailment.