Attachment to August 19th Letter to the Region
Summary of Changes BPA has Made in the Draft Contract in Response to the Public Comment Process on the Alcoa Term Sheet

BPA published a term sheet July 17, 2009, outlining the principles for the negotiation of a long-term power sale contract with Alcoa. This term sheet was a step in the public discussion of service to the aluminum direct service industries (DSIs) commencing in FY 2010 and beyond. This attachment to BPA's August 19th letter to the region releasing the draft long-term power sales contract with Alcoa summarizes changes BPA has made in the draft contract in response to input received during the public comment process on the Alcoa Term Sheet:

1) <u>Lowered the Cost Cap:</u> Special Condition 1 of the Term Sheet proposed a $350 million ($70 million/year or $64/MWh) cost cap for service in the FY2012 to FY2016 period and this has been reduced to $300 million ($60 million/year) in section 3 of Exhibit B to the draft contract. When combined with the lower IP rate, the unit cost cap is reduced to $58.51/MWh. There is potential to increase to $330 million ($66 million/year or $60.61/MWh) if Alcoa increases it jobs commitment commensurately.
2) <u>Reduced Curtailment:</u> The draft contract reduced the cumulative length of curtailment in the last 5-years of the contract term from 24-months to 18-months in section 8 and added the commitment by Alcoa in Exhibit G to provide at least 120 jobs over the duration of each curtailment. When combined with the lower cost cap, BPA's revised jobs assessment indicates that net jobs would at least remain neutral to slightly positive under the assumption that Alcoa were to curtail its maximum amount for 18-months during the last 5-years of the proposed contract.
3) <u>Termination:</u> There are four changes to clarify the intent of the termination rights in term sheet:
    a. First, section 21.1.5 clarifies that if Alcoa terminates then they are prohibited from operating the Intalco plant (e.g. by purchasing power from the market) for what would have been the remaining duration of the contract.
    b. Second, section 21.1.1 restricts Alcoa's right to provide notice of termination to no earlier than October 1, 2011 in the event that BPA has committed to serve the Intalco plant with 320 average megawatts from October 1, 2011 through Sept. 30, 2016 by not issuing a notice pursuant to section 6.2.
    c. Third, section 21.1.4 clarifies that Alcoa's right to terminate in the event that renewable energy requirements or carbon mitigation costs attributable to the Alcoa Load are imposed on BPA directly is conditioned on non-rate based payments to BPA by Alcoa for such costs exceeding $2 million. BPA has the right to direct charge Alcoa under this contract for these costs and Alcoa must pay such costs in addition to paying the IP rate to continue performance.

    d. Fourth, the contract also makes it clear that Alcoa's employment commitment still applies – as prorated to their operating level – during the 12-months prior to date the contract terminates.

4) Lowered IP rate: The IP rate proposed in the term sheet to test the cost cap in the FY2012 to FY2016 period was $38 per MWh in 2012 escalating at 2.5% per year. Section 3 of Exhibit B to the draft contract reduces this IP rate by approximately $2/MWh by escalating the prevailing $34.60 per MWh IP rate for FY2010 by 2.5% per year.
5) Reserves: Exhibit F details that all sales under the IP rate must provide a reserve to respond to system contingencies equal to 10% of the net firm power under the agreement that is available at any time within 10-minutes notice from BPA for up to 105 minutes – consistent with the IP-10 rate and GRSPs.
6) No resale: Section 19.1 of the draft contract explicitly prohibits Alcoa from reselling IP power.
7) Damages Waiver: Section 20.11 of the draft contract waives Alcoa's right to damages under this agreement, consistent with the damages waiver in the Subscription contract.
8) Credit Assurance: The term sheet was silent on Alcoa's provision of credit assurance and the draft contract increases BPA right to credit assurance to $30 million, 50% more than was in the January contract and it is no longer contingent upon whether BPA has made purchases to support sales to Alcoa.