

# Backgrounder

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- In 1997, as part of the claim settlement arrangements related to the British Columbia Government's cancellation of the Kemano Completion Project, Alcan received the right to transfer a portion of a power supply contract with BC Hydro to a third party.
- In 1997, Alcan sold the right to supply power until 31 December 2014 (167 MW to the end of 2002 and 81 MW for the remaining period) to Enron Power Marketing Inc. (EPMI), a subsidiary of Enron Corporation (Enron) for a cash consideration.
- In order to obtain the consent of BC Hydro to this sale, Alcan was required to retain residual liability for EPMI's performance of the power supply contract in the event that EPMI became unable to perform.
- This contingent obligation was subject to a maximum aggregate amount of \$100 million, with mitigation and subrogation rights. It was also guaranteed by Enron.
- On 2 December 2001, EPMI and Enron filed for protection under Chapter 11 of the U.S. Bankruptcy Code. Powerex, the BC Hydro affiliate which now holds the rights to the portion of the power supply contract transferred to EPMI, maintained that it terminated the power supply contract and as a result filed a claim for \$100 million against Enron on 15 March 2002.
- On 20 February 2002, Powerex announced its intention to pursue a claim and Alcan announced its intention to contest.
- The status of the Powerex claim was described in Alcan's Annual Report for 2001 and in the quarterly financial statements for the first, second and third quarters of 2002.
- The arbitration proceedings took place in Oregon during December 2002 and the arbitrator's decision was issued on 17 January 2003, and was received by Alcan after the close of markets, supporting the claim by Powerex ordering Alcan to pay the sum of US\$100 million.
- Given the strength of its defense, Alcan is surprised by the ruling and is reviewing the arbitrator's decision, in order to determine the extent of the Company's rights, obligations and future courses of action,