



IGCC Working Group Meeting Summary

August 12, 2005

Richland, WA

Attendee List

Name	Customer Utility
Al Aldrich	Snohomish PUD
Richard Matzke	City of Forest Grove
Linda Boomer	Franklin PUD
Don McMaster	Franklin PUD
John Gottschalk	Benton PUD
Doug Miller	Pacific County PUD #2
Ken Mey	City of Richland
Chuck Wagers	Douglas PUD
Ted Beatty	Tacoma Power
Chuck TenPas	Commissioner, Lewis County PUD
John Kostick	Commissioner, Lewis County PUD
Dave Andrew	Cowlitz PUD
Paul Titus	Northern Wasco Co. PUD
Nancy Neraas	Preston Gates & Ellis
Dick Barnett	Calpine
Dan Porter	Energy Northwest, Project Development Manager
Sandi Edgemon	Energy Northwest, Sales & Marketing Manager
Barry Bush	Energy Northwest, E/BS Sales Representative
Tom Krueger	Energy Northwest, Project Manager II
Tiebe Harmala	Energy Northwest, Administrative Assistant II
Brad Peck	Energy Northwest, Communications Officer
Rich Trimble	Energy Northwest, Board Relations Manager
Jack Baker	Energy Northwest, Energy/Business Services Vice President
Pam Bradley	Energy Northwest, Senior Counsel
Dave Kobus	Energy Northwest, Project Manager II
Laura Schinnell	Energy Northwest, Licensing Project Manager
Doug Coleman	Energy Northwest, Regulatory Programs Manager
Glenn Edmonds	Energy Northwest, Contracting Officer
Bill Kiel	Energy Northwest, Regulatory Services Supervisor

Outline of Results

The meeting objectives were to provide IGCC project development updates, discuss project governance, describe the next steps, and outline the process for building the participants group.

Project Updates

Energy Northwest Executive Board passed a resolution authorizing the project July 27, 2005.

IGCC Preliminary Design/Feasibility Study

From the issued RFP, ConocoPhillips/Fluor was awarded the contract.

The study goals are to

- ◆ Validate project costs & economics.
- ◆ Verify site and infrastructure.
- ◆ Conduct performance analysis.
- ◆ Determine environmental permitting parameters.
- ◆ Conduct the fatal flaw analysis.

IGCC Preliminary Design Costs

The estimated design costs are as follows:

- ◆ \$920 million for engineer, procure, construct (EPC) contract.
- ◆ \$70 million for the spare gasification train.
- ◆ \$35 million for carbon sequestration.
- ◆ \$1.025 billion total.

IGCC Preliminary Design Performance

The anticipated availability and capacity factor is 92.8%. The cost of power is \$38 - \$42/MWh. The annual fixed and variable O&M costs are estimated to be \$36 million. The fuel costs are estimated to be \$59 million.

RW Beck Study

RW Beck has evaluated IGCC technologies for Northwest feedstocks and operating conditions. This is an independent review of the ConocoPhillips/Fluor study. The ConocoPhillips/Fluor study does not include benefits of full slurry quench which could improve plant performance by 2%. The IGCC plant performance improves with drier feedstocks.

Land Lease

EN is negotiating with one site and will ask the EN Board of directors to approve the lease in September. The lease will be based on an MAI appraisal. The lease costs are in line with pro forma.

EFSEC Permitting

EN issued an RFP for environmental services. Proposals are due August 19, 2005. EN anticipates a 20-month permitting process which will conclude with the governor's approval.

Development Funding

The EFSEC permitting process will cost \$3.75 million. EN secured a U.S. DOE grant through the Big Sky Carbon Sequestration Partnership, one of seven national partnerships in the United States. The \$1.5 million grant that will offset permitting and public outreach and education costs.

National Energy Policy

President Bush signed the 2005 Energy Policy Act which includes an energy bond credit provision through which bond buyers obtain energy tax credits. Instead of EN's paying the bond holder's interest, EN pays the bond holder back the principal. The bond holder has a tax write off equivalent to the interest rate.

IGCC Project Governance

The Working Group is evolving from an interest group to a participants group. EN's role is to

- ◆ Aggregate interest
- ◆ Develop
- ◆ Finance
- ◆ Construct
- ◆ Operate and maintain
- ◆ Create ownership options

EN's O&M manager Steve Wotruba is already involved in the project so EN can design the O&M program and refine O&M costs. Participants and EN will determine the level of ownership that participants have in the project. The PPA risk profile makes the participants look like owners. They will approve the annual budget. The PPAs will be take or pay and will require participants to liquidate the actual debt and O&M costs. Participants will receive power at cost. In addition, participants could have an equity position if they desire. PRM is involved to address the needs of purchasers taking a lesser output from the project.

EN proposed the Nine Canyon Governance model as the model for IGCC. The potential IGCC governance model will likely have the following provisions:

- ◆ Annual budget approval
- ◆ Operating plan approval
- ◆ Capital modifications/additions
- ◆ Quarterly meetings
- ◆ Weighted voting
- ◆ Dispute resolution provisions
- ◆ Fuel/risk management plan
- ◆ Provisions for public/private interface
 - Separate power block ownership
 - Joint gasifier/infrastructure ownership
- ◆ Provisions for aggregating "small" purchases
- ◆ Provisions for power management
 - "Full requirements" needs

Evolution of PPA

Participants can be PUDs, municipal electric utilities, coops, and IOUs. There are some issues with "non-utility" participants such as lending of credit limitations and tax-exempt financing limitations.

The commitments and timing are as follows:

- ◆ Expression of Interest 1st quarter 2006
- ◆ Confirm Nominations 4th quarter 2006
- ◆ Final PPAs 1st quarter 2007

EN will adjust this schedule as needed as the project develops.

Insurance, Risk, and Statutory Considerations

Nancy Neraas, Preston Gates & Ellis, discussed statutory considerations for WA and OR participants.

1. Joint operating agency statute

EN has broad statutory authority under RCW 43.52.300 to construct, acquire, lease, maintain, operate, and develop facilities for the generation of electric energy and to enter into contracts for the sale of electric energy. RCW 43.52.380 requires that members of EN shall have a preference right to purchase all electric energy generated by EN. RCW 43.52.410 requires that any power purchase contract between EN and a Washington city or public utility district contain a cap that limits the city or district from paying an amount in excess of an express dollar amount or in excess of an express rate per unit of electrical energy received.

2. Voter approval statute

RCW 80.52, the "Energy Financing Voter Approval Act," provides that no public agency may issue or sell bonds to finance the cost of construction or the cost of acquisition of a major public energy project, or any portion thereof, unless it has first held an election. The IGCC Development will consist of two combustion turbines, one owned by EN and one owned by an unrelated party. Most other facilities will be jointly owned. Bonds issued by ENW will finance EN's combustion turbines and only those portions of the joint facilities that serve EN's project.

3. Authority of Washington municipalities to participate

Washington municipal electric utilities can enter into power purchase contracts for or own generating facilities. There are limitations on a municipality who is not an owner of a facility assuming the risk that the project is not constructed. RCW 54.44 permits municipal utilities to own electric generating facilities jointly with JOAs, other municipal utilities, coops and investor-owned utilities regulated by the Washington or Oregon public utility commission.

4. Oregon law applicable to Oregon public participants

Oregon PUDs and cities are subject to a statute (261.253) that "No public contract entered into by a noninvestor-owned electric utility shall contain a clause or condition that imposes an unconditional and unlimited financial obligation on the electric utility that is party to the contract unless the terms and conditions of the contract are subject to approval and are approved by the electors of the people's utility district or city that owns the electric utility." "Unconditional and unlimited financial obligation" means a public contract containing a provision that the people's utility district or city that is party to the contract is obligated to make payments required by the contract whether or not the project to be undertaken there under is undertaken, completed, operable or operating notwithstanding the suspension, interruption, interference, reduction or curtailment of the output or product of the project.

Apparently, this statute has been interpreted to apply to power purchaser contracts involving municipalities, but does not apply when a municipality owns a project or a share of a project. It also may be possible to have a power purchase contract that contains a price cap (such as is required in the JOA statute) as well as have a provision requiring EN to find alternative power for the Oregon municipality in the event the power does not produce power.

Working Group Communication

EN will share information and updates with the Working Group using monthly IGCC Newsletters and email as needed. Extensive IGCC information is available at the EN website www.energy-northwest.com. Click on "Read more..." under Integrated Gasification Combined Cycle Development on the home page. Contact EN if you need us to meet with others at your utility. EN contact information follows.

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The date for our next IGCC Working Group Meeting is November 18, 2005 in Richland, WA.

Topics for the next meeting will include

- Procurement process
- EPC process
- Participants responsibility for mitigating environmental and regulatory issues
- Changes in the financing model if public power purchases the entire output of the first and second 300 MW units

Action Items

#	What Action	Who	Due	Done
1	Define participants responsibilities for mitigating environmental and regulatory issues	Dan Porter, Nancy Neraas, Laura Schinell	11/18/05-Topic for next Working Group meeting	
2	Keep Working Group members up-to-date	Brad Peck, Sandi Edgemon, Barry Bush	On-going via website, email, e-newsletters, customer visits	
3	Determine how EN will divide the cost and benefit of capacity and ancillary services	Dan Porter	11/18/05 -topic for next Working Group meeting	
4	Determine what changes in the financing model if public power purchases the entire output of the first and second 300 MW units	Nancy Neraas	11/18/05	
5	Add a glossary of terms to the website	Sandi Edgemon	8/31/05	