



ecoPower Generation

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COMMISSION

Commissioner David Armstrong, Chairman
Kentucky State Board on Electric
Generation and Transmission Siting
P. O. Box 615
Frankfort, KY 40602

DATE: May 14, 2015

SUBJECT: Annual Report of ecoPower Generation - Hazard, LLC
Case No. 2009-00530

Dear Chairman Armstrong:

This annual report is submitted by ecoPower Generation - Hazard, LLC ("ecoPower") to the Kentucky State Board on Electric Generation and Transmission Siting in compliance with the Final Order in the above referenced case issued May 18, 2010. That order granted ecoPower a construction certificate for a wood-fired biomass renewable energy electric generating facility ("Project") and 1.54 miles of 69 KV transmission line to connect the Project to the electric transmission grid at the Engle substation of Kentucky Power Company ("KPC"), an operating subsidiary of American Electric Power Company. The Project will be built in the Coal Fields Industrial Park approximately ten miles north of Hazard, Kentucky.

I. Overview

Since the previous annual report dated May 14, 2014, ecoPower has continued to make progress toward completing the prerequisite activities necessary to move the project to construction. This year's report is organized as follows:

- Power Purchase Agreement
- Legislation
- Economic Impact
- Engineering, Procurement & Construction ("EPC") contract
- Project Finance
- Air Permit
- Engineering and Construction
- Interconnection Agreement

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Power Purchase Agreement

ecoPower and KPC executed a Renewable Energy Purchase Agreement ("REPA") on March 15, 2013, subject to certain conditions precedent. One of the requirements is that the REPA must be supported by a final non-appealable order(s) of the Kentucky Public Service Commission ("Commission"). The Commission issued an order approving the REPA on October 10, 2013. On November 1, the Kentucky Industrial Utilities Consumers, an intervener in the case, appealed the order to the Franklin Circuit Court in accordance with KRS 278.410. On February 18, 2015, the Franklin Circuit Court entered an order affirming the Commission's approval. On March 13, 2015, a Notice of Appeal was filed appealing the order to the Kentucky Court of Appeals. The lack of a final non-appealable order denies ecoPower the ability to finalize the financing necessary to move the Project to construction and commercial operation.

Legislation

In February 2013, Senate Bill 46 was unanimously enacted by both chambers of the General Assembly. Upon the governor's signature, Senate Bill 46 was subsequently codified as KRS 278.271. The statute allows a jurisdictional utility to request approval of a long-term power purchase contract to purchase qualifying biomass energy. The statute is permissive and enables a utility to request Commission approval. It is the utility that decides to request approval. There is no mandate or requirement to purchase any power unless the utility so chooses.

Economic Impact

KRS 278.271 stipulates that the PSC may consider the economic impact and other policy directives of the Kentucky General Assembly when approving a long-term biomass power contract. As estimated in the original Siting Board application, the Project will inject over \$18 million annually into the local economy and create over 200 construction jobs and more than 500 full time permanent direct, indirect and induced jobs in Hazard and the surrounding area. It also conforms with the objectives of the Kentucky Incentives for Energy Independence Act (KRS 154.27-020) and Governor Beshear's *Intelligent Energy Choices for Kentucky's Future - Kentucky's 7-Point Strategy for Energy Independence*. The Project has received pre-approval for \$20 million in tax incentives from the Kentucky Economic Development Finance Authority ("KEDFA") through 2015. KEDFA approved an extension to the pre-approval in late 2014.

EPC Contract

ecoPower continues to evaluate a firm lump sum EPC price proposal for the construction of the Project. ecoPower will not be able to award an EPC contract until litigation over the Commission's October 10, 2013 Order is completed and financial closure is achieved. Once the delay associated with the appeal is resolved, a more defined schedule will allow detailed negotiations of the EPC contract terms and conditions.

Project Finance

ecoPower has periodically continued discussions with potential equity partners and is continuing to consider its options in the debt market. ecoPower's financial strategy and closing will be delayed pending resolution of the litigation over the Commission's October 10, 2013 Order.

Air Permit

As anticipated at the time of the issuance of the original air permit, in late 2012 ecoPower applied for a permit modification. The modifications were determined to be a "Minor Revision" and the modified permit was issued in March 2013. The original air permit was issued on April 23, 2010 and an eighteen month extension was granted in October 2011. Prior to the expiration of the extended permit, ecoPower received approval of the changes based on due the further design development of the boiler and air quality control systems. The minor revision was approved on April 24, 2013. The permit required commencement of construction by April 23, 2013. ecoPower timely began construction of foundations for certain fuel supply facilities prior to April 23, 2013. The Title V Operating Permit remains in place. An application for renewal of the Title V Operating Permit and approval of construction authority was filed on November 11, 2014. The Kentucky Division of Air Quality issued the proposed permit on April 22, 2015.

Engineering and Construction

ecoPower began a limited construction program to meet air permit requirements and has continued to work with local contractors to clarify the scope of the project work. ecoPower contracted with Balis Campbell, a local Hazard based contractor for the initial foundation work. Gray Construction Co. of Lexington, Kentucky coordinated the initial site development and foundation design and construction. Work on the fuel handling foundations, particularly the chipper building foundation, involved unique construction activities due to the site being a mine spoil site. The chipper required over excavating the mine spoil by 12-15 feet below the bottom of the foundation and replacing the soil and rock in carefully compacted 12 inch lifts to assure a stable base of support. This work was finally completed on October 24, 2013. No other construction has commenced due to the legal challenges discussed above.

Interconnection Agreement

The transmission network to which the Project will be connected is operated by PJM Interconnection, LLC. ecoPower has made application to PJM to connect to the grid through the KPC Engle substation approximately 1.5 miles from the Plant. Feasibility and a System Impact Study has been completed based on the most recent design parameters. PJM tendered a Facilities Study Agreement on October 6, 2014 requiring \$200,000 in additional security. ecoPower, after consideration of the status of the legal challenges, decided on November 10 to withdraw the interconnection request. ecoPower will re-apply at a later date commensurate

with the required project milestones. The preliminary cost estimate for the interconnection as indicated by PJM staff is \$10,651,300. An Interconnection Services Agreement will require a significant security deposit to be tendered within 60 days of receipt of the future ISA by ecoPower.

II. Implementation of Site Development Plan

Full site development has not been initiated pending financial closure and further construction is being held in abeyance due to continuing appeals of the Commission's Order in Case 2013-00144. In accordance with the REPA between ecoPower and Kentucky Power, a final non-appealable order is required to move the project to financial closure. A construction storm water drainage permit ("NOI") was obtained prior to initiating the initial construction and appropriate environmental compliance measures have been taken. Further amendment of the NOI will be initiated prior to additional site construction activity.

III. Local Hiring and Procurement

Local contractors have been used to support the foundation work that has been completed. No other hiring has taken place and none is expected until construction is resumed.

IV. Public Comments and Responses

There continues to be local enthusiasm for the project. ecoPower has received no formal comments since the filing of its last annual report in 2013.

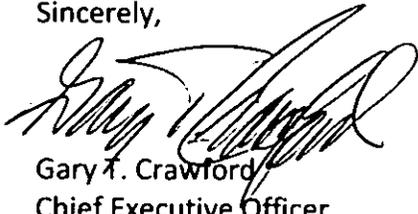
V. Specific Mitigation Conditions

ecoPower remains committed to fulfilling the obligations set forth in Appendix A to the May 18, 2010 Final Order of the Siting Board granting approval of the construction certificate. ecoPower is aware of the statutory requirement that the construction certificate is "valid for a period of (2) two years after the issuance date of the last permit required to be obtained from the Energy and Environment Cabinet" (KRS 278.704(1)). The KPDES operating permit is planned to be the last permit requested and is not required to be submitted for approval until approximately 180 days before the operating wastewater discharge occurs. Due to the appeal of the Commission's Order in Case 2013-00144, a timeline for this activity is not available.

VI. Summary

ecoPower continues to sustain its commitment to the project and believes that its vision to bring jobs to Eastern Kentucky and fuel diversity to the generation of renewable power in the Kentucky Power Company service territory is close to reality. While the delay brought on by the continuing appeal of the Commission's Order cannot be ignored, ecoPower remains confident that the final determination of the courts will allow the Project to proceed. ecoPower appreciates the consideration and support of the Kentucky State Board on Electric Generation and Transmission Siting and fully expects to make an important contribution to the economy of Eastern Kentucky over the life of the ecoPower Generation – Hazard Project.

Sincerely,

A handwritten signature in black ink, appearing to read "Gary F. Crawford". The signature is stylized and cursive, with a large, sweeping flourish at the end.

Gary F. Crawford
Chief Executive Officer
ecoPower Generation – Hazard, LLC