



ecoPower Generation

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

DATE: June 3, 2013

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

Dear Chairman Armstrong:

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

I. Overview

Since the previous annual report submitted on May 11, 2012, ecoPower has made significant progress toward completion of the project. The overview summarizes accomplishments and 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.

Legislation

In February 2013, Senate Bill 46 was unanimously enacted by both chambers of the General Assembly. The bill was signed by the Governor, and became law, on March 5, 2013. Senate Bill 46 eliminates the regulatory uncertainty of a long-term power purchase contract by assuring the ability of a utility to recover the costs of a power purchase contract between a Kentucky based biomass facility and a jurisdictional utility throughout the full term of the contract once approval is initially given by the PSC. The bill stipulates that the costs of such a contract approved by the PSC cannot be disallowed by the Commission in a subsequent proceeding during the initial term of the contract.

Economic Impact

Senate Bill 46 also stipulates that the PSC can consider the economic impact and other policy directives of the Kentucky General Assembly when approving a long-term biomass power contract. As reported in the original Siting Board application, the ecoPower project will inject over \$18 million annually into the local economy and create an estimated 200 construction jobs and more than 500 full time permanent direct and indirect jobs. It also conforms with the objectives of the Kentucky Energy Independence Act (KRS 154.27-020) enacted by the General Assembly in 2007 and has received pre-approval for \$20 million in tax incentives from the Kentucky Economic Development Finance Authority.

EPC Contract

ecoPower has an EPC price proposal from Shaw Power that is firm through June 30, 2013. Shaw Power was recently acquired by Chicago Bridge & Iron (CB&I). ecoPower will not be able to give the EPC contractor a final notice to proceed until financial closure is achieved. ecoPower is negotiating an extension of the firm price proposal with CB&I, who is having vendors refresh price quotes. CB&I has expressed optimism that they will be able to hold the current price proposal through December 31, 2013.

Project Finance

ecoPower has had discussions with several potential equity partners and is currently evaluating the offerings of financial advisors. ecoPower will adopt a financial strategy and enter into an agreement(s) with the appropriate financial entity or entities in the immediate future.

Air Permit

As anticipated at the time of the issuance of the original air permit, ecoPower applied for a modification based on the final boiler specifications. The modifications were determined to be “Minor Modifications” and the modified permit was issued in March 2013.

The original air permit was issued on April 23, 2010 and a one-time, eighteen month extension was granted in October 2011. The revised expiration date of the air permit therefore required commencement of construction by April 23, 2013. ecoPower timely began construction of foundations for certain fuel supply facilities earlier this year.

Engineering and Construction

ecoPower has begun a limited construction program to meet air permit requirements. Gray Construction Co. of Lexington, Kentucky is in charge of site development and foundation design and construction.

Interconnection Agreement

The transmission network to which the Plant 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. A feasibility study has been completed and a system impact study is underway based on the most recent design parameters. This will determine the cost of interconnection. An interconnection services agreement should be available in September that will require a significant security deposit to be tendered within 60 days.

II. Implementation of Site Development Plan

Site development will not be initiated until financial closure and construction is authorized. A construction storm water drainage permit was obtained prior to initiating the current limited construction and appropriate environmental compliance measures have been taken.

III. Local Hiring and Procurement

A local surveyor was used to establish the coordinates for the foundation work that is underway and a local construction company is performing the work. No other hiring has taken place and none is expected until financial closure and construction.

IV. Public Comments and Responses

There is local enthusiasm for the project. However, ecoPower has received no formal comments since the filing of its last annual report.

V. Specific Mitigations Conditions

ecoPower is committed to fulfilling the obligations set forth in Appendix A to the May 18, 2010 Final Order granting approval of the construction certificate.

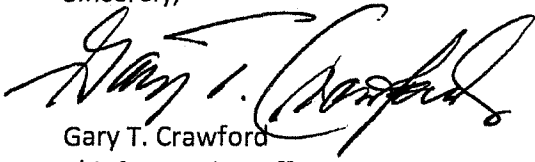
VI. Summary

ecoPower has sustained its commitment to the project and believes that its vision is close to reality. While significant benchmarks remain to be achieved, huge accomplishments have been made. ecoPower appreciates the consideration and support of the Kentucky State Board on

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Electric Generation and Transmission Siting and expects to make an important contribution to the economy of Eastern Kentucky.

Sincerely,

A handwritten signature in black ink, appearing to read "Gary T. Crawford". The signature is fluid and cursive, with a large initial "G" and "C".

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