

Minutes
Energy Facility Siting Council Meeting
Klamath Falls
September 21, 2007

Energy Facility Siting Council

David Ripma, Chair
Martha Dibblee, Vice Chair
Jake Polvi
Robert Shiprack
David Tegart
Bryan Wolfe

Oregon Department of Energy:

Tom Stoops, Council Secretary
Adam Bless, Project Officer
John White, Project Officer
Jill Hendrickson, Administrative Assistant

Oregon Department of Justice:

Jan Prewitt, Assistant Attorney General

Others:

Thor Hibbeler
Andrew O'Connell, PPM Energy (PPM)
Sarah Parsons, PPM
Michael Roberts, PPM
Jeff Ball, City of Klamath Falls
Victoria Tenbrink
Peter Van Alderwerelt, Klamath Cogen & PPM

Chair David Ripma called the meeting to order at 8:34 a.m.

I. Consent Calendar:

A. Announcements.

Tom Stoops stated there would be one more item added to the agenda.

II. Action Items:

A. Leaning Juniper II – Site Certificate Decision

John White, Oregon Department of Energy, stated the last meeting covered the details of the draft proposed order for Leaning Juniper II. The date of September 7th was the contested case deadline to request party status. No requests were received, and so the matter is ready for the Council to take final action.

Mr. White explained there were two items from the last meeting that were questioned and he proceeded to review these. Chair Ripma had asked about the tax revenue for Gilliam County; Mr. White explained this would be in the millions of dollars over a ten-year period. The issue isn't completely settled though because the Oregon Department of Revenue is in the process of adopting a new approach to assessing wind facilities. Mr. White said this information has been inserted on page 50 of the final order.

Lori Brogoitti asked at the last meeting whether any of the land in the north area is CRP land. Mr. White stated it is in private ownership and is not CRP land. Most of the land is not currently cultivated and is characterized as grassland.

Sarah Parsons and Andrew O'Connell of PPM Energy introduced themselves and thanked Mr. White and the ODOE staff for the work that has been done.

Martha Dibblee moved to approve the Leaning Juniper II Wind Power Facility Final Order and site certificate; David Tegart seconded the motion and Council was polled:

Martha Dibblee	Yes	Bob Shiprack	Yes
Jake Polvi	Yes	David Tegart	Yes
David Ripma	Yes	Bryan Wolfe	Yes

B. Klamath Generating Facility – Request for Amendment #1 (Extension Request)

John White, Project Officer for the Klamath Generation Facility (KGF), reviewed the Final Order on Amendment #1. The site certificate, which was effective November 16, 2005, contained conditions stating that construction must begin within 2 years of the effective date and that construction must be completed within 5 years. Construction has not started, and according to Council rules, OAR 345-027-0030, a certificate holder can

request an extension. Klamath Generation LLC, a subsidiary of PPM, submitted a request for an extension in May. A request to extend the construction deadline requires the Council to review whether the facility complies with all Council standards. In the Proposed Order each standard was reviewed and the staff recommended approving the extension request, subject to the revisions of the site certificate conditions.

Mr. White next reviewed the proposed revisions, which start at page 29 of the Draft Final Order and included 29 revisions, discussed as follows:

Revisions 1 and 2: This incorporates reference to Amendment #1.

Revisions 3 through 14: These are changes to language in conditions taken verbatim from Council rules. In May Council rules changed and so these revisions make the site certificate conform to the new rules.

Revision 15: At the bottom of page 33 a reference is made to a Council rule which has been struck.

Revisions 16 through 22: These are more changes to conform the conditions and language of the amended rules.

Revisions 23 through 26: Mr. White said that these revisions, starting on page 37, address compliance with the CO₂ emission standard. The changes provide that the conditions conform to the increase in the monetary offset rate that the Council adopted in May of 2007. He further explained the calculations for the offset rate.

Revisions 27 and 28: The conditions extend the deadline to begin construction of the facility to November 16, 2009 and the completion deadline to November 16, 2012. The certificate holder could come back and request another extension if needed and the Council would review it once again.

Revision 29: This addresses the financial assurance amount based on a recalculation of the estimated cost of the site restoration. Mr. White stated that Staff applied the cost guide approach which has been the standard practice to determine the accuracy of the amount. The original amount was based on the applicant's estimate of cost along with the Council's comparison of similar facilities prior to that time. Mr. White stated that the estimated cost would be lower under the cost guide approach.

Bob Shiprack asked about the timeline of construction, and also questioned the fact the applicant could come back again for another extension. Mr. White stated if the applicant does not request an extension within the deadline the application would be terminated.

Martha Dibblee asked about the scrap metal value. Mr. White said the restoration cost estimate did not include an offset for scrap value. He commented that the issue of scrap

value was still an open issue that should be discussed by Staff and Council at another meeting.

Michael Roberts, PPM, introduced himself. He stated that at this time the market will not support construction of a gas-fired facility on a merchant basis.

Martha Dibblee asked what the threshold would be. Mr. Roberts stated it would depend on the cost of construction. Ms. Dibblee also asked how long it would take to complete. Mr. Roberts stated on this one the mid-point target for construction is thirty months, which is from groundbreaking to commercial operation, although a lot more work would have to be completed.

Chair Ripma asked about the financial assurance, and the fact that the applicant did not ask for a review of the finances. Ms. Prewitt, ODOJ, stated that the rules for an extension specifically operate as a general re-opener of all the Council's standards. She also stated that the financial assurance is a basis for the letter of credit, so keeping it at the right size is a matter of fairness.

Martha Dibblee moved to approve the Final Order on Amendment #1 of the Site Certificate for the Klamath Generation Facility; Bryan Wolfe seconded the motion and Council was polled:

Martha Dibblee	Yes	Bob Shiprack	Yes
Jake Polvi	Yes	David Tegart	Yes
David Ripma	Yes	Bryan Wolfe	Yes

(There was a short break to sign papers)

C. Klamath Cogeneration CO₂ Offset Plan

Adam Bless, Project Officer for the Klamath Cogeneration Project (KCP), stated that Pacific Power Marketing (PPM) has submitted a request to transfer the Site Certificate for the Klamath Cogeneration Plant from the City of Klamath Falls to PPM. Currently the facility is operated by PPM on behalf of the City, which holds the site certificate and owns the facility. If the transfer is approved, PPM would own the facility and become the site certificate holder.

Mr. Bless said this facility was first permitted in 1997. The Council's standards were very different then compared to what they are now. There were no CO₂ standards at that time and the Need for Power standard applied to power plants. He further explained the exemption from the Need standard that was awarded to KCP and that a factor in the exemption was KCP's proposal to sell an average of 200,000 pounds per hour of process steam to the nearby Weyerhaeuser wood products facility (which was later sold to Collins). Actual steam sales have averaged about 70,000 pounds per hour, requiring KCP to make up the shortfall by other means.

Mr. Bless stated that PPM has proposed a plan to make up the shortfall in its carbon dioxide offsets (CO₂). Without this plan to make up the shortfall in CO₂ offsets, KCP would be out of compliance with Condition IV.B.1 of the site certificate.

PPM and ODOE staff established the magnitude of KCP's CO₂ shortfall and Mr. Bless reviewed the components of KCP's offset plan.

Bob Shiprack asked for clarification on what the steam involvement is with the offsets. Mr. Bless explained that the end requirement is to preserve the net result of emissions as in the original permit.

Mr. Bless talked about the monetary path, and the fact that it didn't exist when KCP was originally permitted. It is a proven way to offset CO₂ emissions and is included in KCP's CO₂ offset plan.

Jake Polvi asked about the CO₂ offsets and the shortfall. Mr. Bless said the shortfall in steam did not occur because of KCP's operation. It is because the wood products facility scaled back its wood products production; in fact Collins has closed a portion of its business and will not be restarting.

Jan Prewitt discussed this further by talking about KCP being a base load plant and this discussion pertains to their continuing to operate as a base load plant. Mr. Bless said if KCP were to come in with an amendment and re-license as non-base load plant their projected CO₂ emissions would go down because they would be operating less.

Mr. Bless discussed past CO₂ standards and power plant operations. He said there is give and take with offsets because of the fluctuation in operations. The Oregon Climate Trust has an obligation to report to the Council for accountability.

Jan Prewitt discussed more details regarding the Council's responsibility with the shortfall. The existence of the monetary path is a legislative policy that gives the Council additional options. Mr. Bless discussed duct firing also.

Mr. Bless stated that approval by the Council to accept this plan is contingent upon Staff finalizing calculations with the applicant and getting the Department of Environmental Quality (DEQ) concurrence on the particulates and nitrogen oxide issue.

Chair Ripma asked about the monetary payment and whether it is all paid up front or after the five-year basis. Jan Prewitt stated it is paid up front and then after five years, continuing to sell the 70,000 lbs, then the applicant would true up the amount at that time.

Chair Ripma asked how long it would take to actually true up the numbers ahead of time. There was more discussion about this, and how it involves the site certificate transfer and

sale from the City to PPM. Mr. Bless said the monetary path used here is not the normal path, which is why there are more details to work out.

David Tegart suggested making a motion that includes a condition of approval within ten percent of the monetary amount. There was discussion about crafting the motion to add a condition.

Chair Ripma asked Staff if the monetary amount would go up or down. There was discussion and he did state he was comfortable with leaving the order as is, without adding a condition. Mr. Bless stated Staff has been working with PPM for a few months to craft the order.

Michael Roberts, PPM, stated he had a lot of confidence in the calculations and has been encouraged by the discussion. PPM is looking for certainty and is prepared to make the payment. He also discussed capacity factors in regards to the amounts of electricity and steam the plant has been selling and the offsets involved.

Jeff Ball, City of Klamath Falls, said this is an important business issue and thanked Staff and Council for their work.

Martha Dibblee moved to approve the Order on the Program to Offset Emissions of Carbon Dioxide, Nitrogen Oxides and PM-10 of the Klamath Cogeneration Project Site Certificate; Bryan Wolfe seconded the motion and Council was polled:

Martha Dibblee	Yes	Bob Shiprack	Yes
Jake Polvi	Yes	David Tegart	Yes
David Ripma	Yes	Bryan Wolfe	Yes

D. Klamath Cogeneration Information Hearing on Transfer Request

Adam Bless, Project Officer for Klamath Cogeneration, stated that Pacific Power Marketing (PPM) has submitted a request to transfer the Site Certificate for the Klamath Cogeneration Plant from the City of Klamath Falls to PPM. Currently the facility is operated by PPM on behalf of the City, which holds the site certificate and owns the facility. If the transfer is approved, a subsidiary of PPM, Klamath Energy LLC, would own the facility and become the site certificate holder.

Mr. Bless said this is not a typical amendment and follows OAR 345-027-0100 which lists standards to be reviewed. This is a shorter process than an amendment process. There was discussion about third party permits, which the City of Klamath Falls would be the third party. One condition Staff is attaching to the transfer would be to continue the permits obtained by the City of Klamath Falls.

There is also an agreement from Collins that has been considered in the Order. Not only was the steam sold to Collins in the past, but water was obtained from Collins.

Mr. Bless reviewed the Financial Assurance Standard. In this instance the current estimated retirement cost is \$8.6 million in 1997 dollars, which is higher than the estimate for Klamath Generation. PPM has not requested a change in that number so they would be required to provide the surety of \$8.6 million, adjusted with inflation. A fund held in escrow was how the original financial assurance was provided. The site certificate does allow for a letter of credit to be provided instead, and PPM is requesting this.

Chair Ripma asked if there were any questions.

Peter C. van Alderwerelt, Senior VP with PPM introduced himself. He stated he has been with the project from the beginning and in seeing the projections of financial difficulty for the City of Klamath Falls, PPM's commitment to customers lead to a restructuring solution with a single goal of putting the project on a firm financial footing for the future. He also thanked the Staff and Council for considering this on short notice.

Jake Polvi moved to approve the Final Order on the Transfer of the Site Certificate of the Third Amended Site Certificate for the Klamath Cogeneration Project subject to the conditions recommended in the Final Order; Martha Dibblee seconded the motion and Council was polled:

Martha Dibblee	Yes	Bob Shiprack	Yes
Jake Polvi	Yes	David Tegart	Yes
David Ripma	Yes	Bryan Wolfe	Yes

Chair Ripma asked if there were any other comments from the public. There were none.

III. Information Items

A. ORS Contracting Services

Jan Prewitt, Oregon Department of Justice, stated there is a request for proposals to replace the consultants. This has never been done before, but there is specific contracting in the Council's authority that should be used more thoroughly than it has been in the past.

Ms. Prewitt referred to ORS 469.360 says that in an evaluation of a site certificate, the Council may commission an independent study done by an independent contractor. She further discussed the process and asked the Council to authorize Staff to identify and put under contract consultants to help with site certificates.

Ms. Prewitt explained it would be an umbrella contract and then at the request of Staff a task order for particular work as the applications and notices of intent are received.

Bryan Wolfe asked if there would be one contractor or several contractors, depending on the contractor's expertise. Ms. Prewitt stated there would be more than one contractor. Martha Dibblee asked about using state agencies for this work. There was discussion about the agreement between agencies within the state.

Tom Stoops asked if the anticipation is that the Council would approve the task order. Ms. Prewitt said she would like to see the Staff review the applications and decide which expert consultants would be needed on the following issues and request the Council approve the Staff issue task orders. Staff will be able to see at the outset what is necessary.

Chair Ripma asked if this procedure is coming up because of a contract coming to an end. Ms. Prewitt agreed, and stated the Staff has done this in the past for the Council. The statute says the Council should be taking an active role in the procurement process.

Bryan Wolfe made a motion to authorize the Department of Energy to initiate procurement for consulting services pursuant to ORS 469.360; David Tegart seconded the motion and Council was polled:

Martha Dibblee	Yes	Bob Shiprack	Yes
Jake Polvi	Yes	David Tegart	Yes
David Ripma	Yes	Bryan Wolfe	Yes

B. Klondike III Update

Tom Stoops, Council Secretary, reported on the wind turbine collapse at the Klondike III Wind Facility, which involved one injury and one fatality. There was a debriefing with both Siemens and PPM. Mr. Stoops read a series of notes from that and verified with Siemens and PPM the notes to be included in the record. Information is to be presented to the Council, a technical briefing of how the facility operates, why they believe it occurred and if there was any particular action the Council should take differently in the future. Mr. Stoops read his notes:

“The wind turbine was fully constructed in an undergoing initial startup systems check when the tower collapsed on August 25, 2007. Authorities were notified along with PPM and Siemens management. Top management and technical experts were on the site on Sunday, August 26 to participate and facilitate the investigation. Oregon Occupational Safety and Health staff was also on site and conducting investigations. Siemens provided initial information to all its relevant operating utilities and turbine owners. The ‘I-box’, which is similar to a ‘black box’ in that it records certain operating and other data from the wind turbine, was recovered. Some data was downloaded and the ‘I-box’ was sent to Siemens in Denmark for evaluation. Additionally, portions of the rotor control system were recovered and sent to Denmark for evaluation. While the investigation is ongoing Siemens has indicated that based on the information they have gathered so far, that after a sequence of procedures was performed by service personnel,

the turbine began operating at a rotating speed above the normal operating parameters. This caused significant stress on the turbine which ultimately resulted in the tower collapse. While Siemens continues to analyze the available information they have found nothing to indicate there is a structural design issue with the tower.

Oregon OSHA released the site on Wednesday, August 29th; however the family asked that it be left in the state that it was in. For now that request is being honored. Klondike III has a total of forty four of the Siemens 2.3 megawatt turbines and that was the turbine that was involved. So the investigation is continuing. PPM told the Department of Energy that no construction, operations or maintenance work is being done at the Siemens portion of the Klondike III site and they do not have any other Siemens turbines at any other facilities in Oregon.”

Mr. Stoops stated there will be a fairly detailed briefing in November so there will be a better understanding.

Anita Marcum, PPM Energy, said that what happened was the turbine folded at mid section. Bob Shiprack asked where the tower was manufactured. Ms. Marcum said she did not know because there are various locations where they are manufactured. She said there are approximately 20,000 wind turbine towers installed in the United States and this is the first time this has happened. Mr. Shiprack said he noticed in his travels through the Gorge he has seen “China” on the side of them. Ms. Marcum stated this is being carefully studied.

Chair Ripma asked if the collapsed tower is visible from a public road. Mr. White discussed where the turbines are located.

Mr. Shiprack asked why the manufacturer has been allowed to take the I-box out of the country, and not investigated here. Ms. Marcum stated it could be because of where the expertise is located. Mr. White discussed OSHA’s investigation which probably won’t be complete until next year.

Martha Dibblee asked if the activities are stopped at Klondike III. Ms. Marcum stated it has been stopped completely where the Siemens turbines are located.

Chair Ripma asked if Siemens is new in this field. Ms. Marcum stated Siemens is one of the larger turbine manufacturers in the world and this is the first time this has happened.

Chair Ripma asked for other comments; there were none.

There was discussion with Staff and Council members about the next meeting date. Mr. White stated he will have an amendment for Klondike III and will need at least 30 days for public comment.

Chair Ripma adjourned the meeting at 12:46 p.m.

