

Reviewed June 13, 2010

Project Fact Sheet: HEALY CLEAN COAL PROJECT (HCCP)

CURRENT STATUS: On February 19, 2010 GVEA and AIDEA executed a “soft close” on the sale of HCCP to GVEA by executing “Soft Close” Sale Documents. Final closing and transfer of ownership of the asset will be accomplished once conditions are met as stipulated in the Sale Documents.

DESCRIPTION: The Healy Clean Coal Project (HCCP) is a 50 megawatt coal fired power plant adjacent to Golden Valley Electric Association’s (GVEA) Healy No. 1 (Unit 1) 25 megawatt coal fired power plant in Healy, Alaska. HCCP grew out of a nationwide competition sponsored by the Department of Energy (DOE) to test new technologies that would help solve the international problem of acid rain.

The HCCP consists of a power plant utilizing a combustion system that burns coal in stages to minimize the formation of nitrogen and sulfur oxides. Pulverized limestone is added to the combustor and converted by heat in the flue gas to lime, which reacts with the sulfur dioxide in the gas and removes it as a sulfate. A second technology catches the unreacted lime and sulfates, which are recycled to scrub the flue gas, and further reduce the sulfur dioxide content. The process uses a conventional boiler that produces steam for a conventional turbine to produce a nominal 50 megawatts of electricity.

HISTORY: In 1991, GVEA entered into a 30-year power purchase agreement with AIDEA. GVEA’s obligation to purchase power was subject to a demonstration that the plant could be operated on a sustained basis on commercial standards as defined in the power purchase agreement.

Construction and testing of HCCP was completed in December 1999. The following table presents a summary of capital costs by funding source (in thousands) associated with the construction and development of HCCP:

<u>Funding Source</u>	<u>Dollars (000s)</u>	
State appropriation		\$25,000
Federal grant		\$117,327
Contractor contributions:		
Golden Valley Electric Association (GVEA)		\$9,428
TRW, Inc.		\$532
Usibelli Coal Mine, Inc.		\$2,639
Components of AIDEA funding:		
AIDEA ¹	\$135,664	
Earnings on State appropriation	\$4,030	
Power Sales revenues	(\$13,260)	\$126,434
Net Capital Costs ²		\$281,360

(1) Includes funds from net proceeds of \$85 million of bonds.

(2) Not all costs were capitalizable by AIDEA.

General construction of the power plant began in May 1995 and was completed on November 21, 1997. Coal firing start-up and the demonstration testing phase, required under the federal grant provisions, began in January 1998 and was comprised of several test series, including performance guarantee acceptance tests, environmental compliance tests, major system characterization tests, integrated system commercial operating condition tests,

and collection of commercial operating data. During demonstration testing from January 1998 through December 1999, GVEA purchased approximately 456,000 MWh of electricity from HCCP for \$13.4 million.

A 90-day test of the power plant and its new technology was completed in December 1999. Although AIDEA found that the new technology met the technical and environmental objectives that were established for the project, GVEA maintained that the plant did not meet its requirements in terms of operations and maintenance cost, reliability and safety.

Prior to the completion of testing in 1998, GVEA commenced litigation, raising various claims relating to the then-pending determination of commercial operability. As a result in March 2000 AIDEA and GVEA entered into a Settlement Agreement, which provided for the interim shutdown of HCCP, however, due to various complications, HCCP has been idle since.

From 2000 to 2005 the parties tried various ways to bring HCCP back into operations. For one reason or another, these efforts were not successful.

In November 2005, AIDEA brought suit against GVEA, alleging various breaches of the March 2000 Settlement Agreement related to HCCP. GVEA filed an answer which asserted counter claims against AIDEA for damages. GVEA successfully moved to stay the litigation pending mediation over disputed issues, including disputes over a land lease and other agreements necessary for AIDEA to restart and operate HCCP. In March 2008 the Parties finished mediated negotiations on five agreements. GVEA did not execute the agreements and as a result the case moved back to active litigation.

SALE NEGOTIATIONS: In 2009 the parties reached agreement on the sale of HCCP to GVEA. Among other positive outcomes, this sale would settle the suit between the parties. On December 14, 2009, GVEA and AIDEA finalized negotiating documents as specified in the Asset Purchase Sales Agreement signed by the parties on August 25, 2009.