

Steam Plant Work-Out Plan

DRAFT 2/28/07

Background:

Menasha Utilities (MU) converted a Steam Generation Plant to a centralized steam generating utility in 2006, serving 3 steam customers and generating electricity. The plant currently burns PRB coal and has installed a baghouse for air emission control. Major new components included in this project: steam and condensate piping system to the customers, customer metering, steam conditioning equipment with pump skids, coal unloading and storage system, 7MW backpressure T/G, new DCS, internal plant low pressure valves and piping. During this project, the original consulting engineer was replaced by Marathon Engineering. MU is currently arbitrating this matter.

Prior to bond issuance, Poyry performed a Due Diligence check of the Menasha Utilities Business Plan, issued in November 2007. The assumptions used in the model were incorrect and revenues are insufficient to meet long term debt requirements. As a result Menasha Utilities and the City of Menasha are now faced with \$40M debt. The Workout Plan is goal is to recommend options for Menasha Utilities and the City.

Work-out Plan:

Considering the current position, Menasha Utilities and/or the City of Menasha is seeking professional advice to guide the Council through the next analysis. The analysis will include renegotiation of various contracts, review of current operations, and comment on exiting situation.

Menasha Staff Activities and Analysis: MU staff has completed the following tasks:

- 1) Revised Poyry model to reflect current conditions, including real time links to steam sales and electric generation, such that better financial estimates of current operations. MU has a good understanding of the technical and economic components impacting the bottom line.
- 2) RFPs sent and received for coal contract, both annual and multi-year.
- 3) Identified and recommended reliability and efficiency projects.
- 4) Modified the WPPI electric Purchase Power Agreement to now include capacity payments and Day Ahead MISO market.
- 5) Contracted to study and recommend solutions to resolve Coal Building vibration issues.

Issues to be resolved:

- 1) The business model overestimated steam and MISO revenues.
- 2) About 15% less steam is sold on an annual basis than expected in the Business Plan.
- 3) Additional capital was required to correct a variety of issues including desuperheater problems, RO system startup, backpressure turbine startup, and ID fan repairs. These systems are currently working.
- 4) There were delays in revenue from the backpressure turbine startup and commissioning issues must be resolved by the turbine manufacturer.

- 5) There are excessive vibrations in the coal unloading building.
- 6) Capital and spare parts are insufficient.
- 7) Coal contract will require to be extended from June 1, 2007.
- 8) Coal quality issues existed Nov to Jan- high moisture and low BTU.
- 9) In-plant steam loads more than expected.
- 10) Steam contracts will require renegotiation. The present steam rates are based on selling 200K lbs. per hour- actual peak 140K.
- 11) Review potential new customers (SCA or Gunderson Cleaners)

Criteria:

Must be willing to submit a report to either the Commission and/or City Council. This may include the following. Future tasks may include assistance in implementing any or all of the listed items.

- Debt Coverage
- Financial and technical analysis of why the current business plan is not working.
- Specific recommendations to improve the current cash flow situation.
- Recommendation to sell the steam utility.

List of Potential Candidates:

individuals:

1. **Benetech** (vendor) and **Ray Osness**
2. **Bill Dunlap**- AMEC, worked on Minergy project concept
3. **Steve Sherner/Bruce Bowers**- retired Minnesota Power employees
4. **Richard Garcia***- economic/financial viability, \$300/hr.
5. **Witt Russel**- consultant Wash, DC
6. **George Henefield***- retired Southern Co./ WE Energies
7. **John Michels***- freelance worker with Poyry, knowledge of MU project

firms:

8. **Sargent and Lundy***- WPPI is using for project in Michigan
9. **Baisch Engineering***- local, Kaukauna, similar to Poyry
10. **RMT***- Brookfield, WI, respected energy consultant
11. **Burns and McDonald***- Kansas City, MO large world wide consulting firm
12. **Stanley Engineering***- Muscatine, IA, worked on similar municipal utility steam project and was used in the '70's precipator installation at the Menasha Plant
13. **Framatone, ANP (Areva)***- Minneapolis, MN- worked on a 2002 dispatching enhancement study for the Menasha Plant

* MU has limited bio information available