EES Consulting

February 22, 2005

Mr. Allen Fiksdal, Manager
Energy Facility Site Evaluation Council
Post Office Box 43172
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Dear Allen:

EFSEC has engaged EES Consulting to assess the financial capabilities of Invenergy Investment Company LLC and its related company's (Invenergy) with regard to its purchase of the Satsop Combustion Turbine Project. More specifically, we were asked to make a recommendation on what type(s) of assurances EFSEC should require of Invenergy Investment Company with regard to future site restoration, whether or not Invenergy has the resources to complete and operate the project and advise EFSEC as to the current state of the Northwest energy markets and how it applies to the Satsop Project.

Site Restoration Financial Review

We based our review on information provided by Invenergy along with our own knowledge of the industry and external research to validate the financial information provided by Invenergy. Since Invenergy is a privately held company and audited financial statements are not yet complete, we relied on an unaudited balance sheet dated December 31, 2004 which was prepared by Invenergy staff with no external assurances. We also had conversations with Kevin Smith, Sr. Vice President of Invenergy. While we requested additional financial information for 2003 and 2004, it became apparent after speaking with Mr. Smith that such information would not be helpful in re-assuring EFSEC as to the financial backing of Invenergy so no such information was provided.

The current owners of the Satsop Project, Duke Energy North America LLC (DENA), is a subsidiary of a large publicly traded organization that has assets in the billions of dollars and a variety of diversified business interests and activities. DENA currently provides a $5,000,000 corporate guaranty on behalf of its subsidiary, Duke Energy Grays Harbor LLC, for future restoration obligation on the Satsop Project. This current level of security was used as a baseline minimum risk for purposes of this analysis.

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Invenergy has proposed a similar arrangement whereby Invenergy Investment Company LLC would provide a guaranty to its subsidiary, Invenergy Grays Harbor LLC. As of December 31, 2004, Invenergy has total assets of $131 million dollars and total equity, including a minority interest, of $67 million dollars. The majority of its assets are property, plant and equipment with a net total of $109 million dollars, all invested in energy generation. Current liquidity, measured as current assets minus current liabilities, is $4.5 million dollars. Current liquidity is used to measure the ability of the company to pay its obligations in the near term, typically within one calendar year without liquidating any long term assets, incurring additional long term debt or requiring additional equity investments by the shareholders. While the current and long term financial health of Invenergy is not in question at this point based on the current funding from investors, because the current DENA guarantee is in the amount of roughly $5,500,000, Invenergy has less than that in current liquidity and EFSEC is looking for a very high degree of certainty, we would recommend that some other form of security be required of Invenergy. We do not believe that a corporate guaranty from Invenergy alone would provide the same security as that currently in place with DENA given the differences in their operating activities and the financial resources available to each company.

After reviewing possible alternatives, we narrowed it down to what we believe are the three most comparable options to what is currently in place. One option would be an irrevocable letter of credit, a second would be a performance bond and a third would be a multi-party guaranty. EFSEC could also request a cash collateral or trust account but we feel the above options, if properly structured, give similar assurances at a lesser cost to Invenergy.

A letter of credit is issued by a bank and gives an obligee party the right to draw a specified sum under certain pre-determined conditions, however it does not guarantee contract performance. Letters of credit typically have a term of one year with or without automatic renewals. A fee is paid at initiation and at each renewal, typically equal to roughly 1% of the credit amount. Letters of credit are typically listed as liabilities and/or stated in the footnotes of the financial statements of the obligor and collateral is typically required of the obligor after a pre-application review by the bank.

A surety bond is a performance bond that is issued by an insurance company that guarantees a specific contract performance, i.e. site restoration. These types of bonds typically run the length of the contract with a fee of roughly 0.5-2% of the contract amount. Surety bonds do not tie up the credit of the obligor and may not be required to be noted in the financial statements. An underwriting process takes place upon application and if a claim is made, the insurance company usually initiates a verification process before making restitution or taking responsibility for completing the contract according to its terms.

A guaranty should include a combination of Invenergy Investment LLC, Polsky Energy Investments LLC and GTCR Golder Rauner or a combination of Invenergy Investment

LLC, Polsky Energy Investments and Michael Polsky personally. The premise of the multi-party guaranty is to have some assurances from parties in addition to Invenergy- either Mr. Polsky himself or GTCR Golder Rauner as the both likely have financial resources capable of backing such a guaranty and have assets not invested in the energy business. Financial statements of the guarantors should be provided in advance of finalizing the guaranty to verify financial strength and diversification of assets and income. In addition, the guaranty should call for an annual review of all the guarantor's financial statements to verify ongoing financial strength and have a provision for conversion to a letter of credit or surety bond if a third party review concludes that the guarantors are no longer able to support such a guaranty based upon the standards set by EFSEC. In any case, if a guaranty is selected it should be replaced with a letter of credit or surety bond of like amount once construction begins or thereafter, similar to the current guaranty from DENA.

The benefit of the letter of credit is the easier access to restitution, with the downside being possible insufficient amount to provide site restoration. Also, EFSEC would need to make sure the letter of credit is not allowed to expire in any case, including bankruptcy or non-payment of renewal fees by Invenergy. The benefit of the surety bond is that it guarantees performance of site restoration regardless of the actual cost. The downside is that the surety company has a financial stake so an investigation of the case would most likely take place and could possibly lead to legal disputes and or delayed performance. The primary upside of the multi-party guaranty is the large amount of collateral assets and multiple parties would hold responsibility, however the downside is the likely collection cost and litigation in enforcing the guarantys

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We believe that any of the above options would provide similar financial security that EFSEC requires of the current project owners. A letter of credit or surety bond would need to be issued from a highly rated bank or insurance company. We also recommend that EFSEC request legal advice as to the specifics of whatever option is selected.

While a review of the site restoration costs is beyond the scope of this engagement, relying on the existing estimated costs would call for a financial instrument in the amount of $5,500,000, given the original $5,000,000 amount stated back in 2001 and adding in a 2.5% inflation factor through 2005. Whatever instrument or arrangement is chosen, it should take into account future inflation on the original principal amount and the costs of restoration should be reviewed periodically to make sure the appropriate security is in place.

Insurance Requirements

We have requested the current insurance coverage afforded to the project by DENA which we haven't received to date. It is our understanding the DENA is self-insured on the project so it may be difficult to measure what a comparable policy would be based

on the DENA coverage. We would recommend that Invenergy be required to propose policy types, amounts of coverage and exclusions/limits based on their other similar projects that EFSEC can compare to other projects in the state. We would be happy to provide further review of the insurance requirements if the requested information is provided to us.

Northwest Energy Market Review

According to documents DENA has on file with EFSEC, they intended to operate the Satsop Project as a peaking plant rather than a baseload plant. A peaking plant may start or stop operation several times a day. A peaking plant may operate only during the super-peak hours some days, during mid-peak hours on other days and during all hours on other days. The amount of run hours per day is dependent on the sparks spread (the differential between the electric and natural gas markets). The natural gas market operates on a 24-hour basis (i.e. there is one price per day). Electricity can be sold into the market at on-peak, off-peak, mid-peak and super-peak prices. Generating electricity at a merchant plant for sale into the power market may be profitable during on-peak hours but not profitable during off-peak hours.

In our analysis a heat rate of 6,980 Btu/kWh was assumed for the Satsop Project. A lower heat rate assumption would increase the sparks spread and make the project more competitive. A greater heat rate would result in greater fuel costs and make the plant less competitive. Running the plant at less than full load would decrease the efficiency of the project and increase the heat rate. Our analysis assumes that when the plant is running it is running all out.

In this analysis variable Satsop Project costs include fuel (natural gas) costs and variable operation and maintenance costs. Based on current forecasts a Sumas gas price of $5.5/MMBtu was assumed in 2007. This was escalated annually at 1.8 percent. Variable operation and maintenance costs were assumed to be $3.1/MWh in 2007, escalated annually at 1.8 percent.

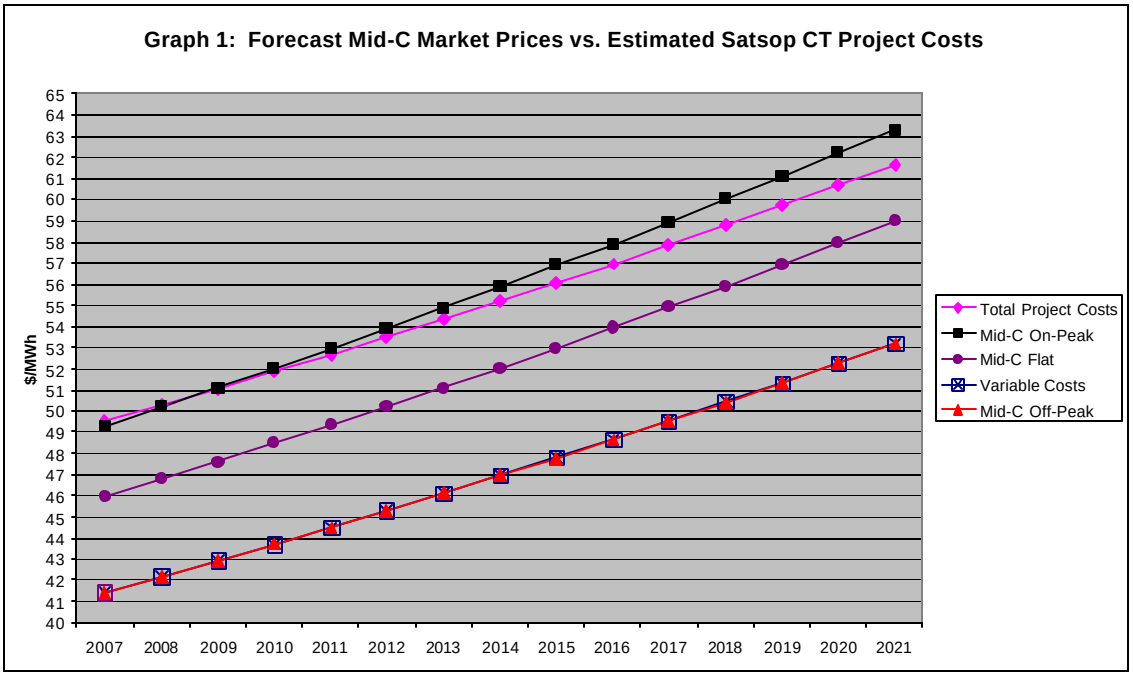
This analysis assumes a forecast Mid-Columbia on-peak price for 2007 of $49.3/MWh, which was also escalated 1.8 percent annually.

Given today's forecasts of the natural gas market at Sumas and the electric power market at Mid-Columbia if only the running or variable costs are considered (no fixed costs), it will be profitable to sell power in on-peak hours, but not off-peak hours. Market forecasts also show that it would be profitable to sell a flat (all hours) product. Given today's forecasts, Invenergy could sell the output for a profit via a long-term power contracts for flat or on-peak power.

The fixed costs associated with the Satsop Project include fixed operation and maintenance costs along with debt service costs. For this analysis fixed operation and maintenance costs of $11.7/kW-year were assumed, escalated at 1.8 percent annually.

Assuming a plant availability factor of 95 percent, the fixed operation and maintenance costs add $1.4/MWh in 2007 to the project costs. Capital costs were assumed to be $624/kW. Assuming a borrowing term of 30 years and a borrowing rate of 8 percent, debt service costs add near $6.7/MWh in all years to project costs. Given these estimates of fixed operation and maintenance and debt service costs, fixed costs add $8.1/MWh to total project costs in 2007.

Forecast variable and total project costs are shown below in Graph 1 along with forecast on-peak, off-peak and flat Mid-Columbia power prices for the 2007 through 2021 period.



The trends shown above in Graph 1 continue through the expected 30-year life of the Satsop Project. As shown above, the running (or variable) costs of the project are roughly equal to forecast Mid-Columbia off-peak prices. However, when fixed costs are added in, total project costs are slightly greater than forecast Mid-Columbia on peak prices in 2007 and slightly less beginning in 2009.

It should be noted that this analysis includes no transmission (power) or transportation (natural gas) costs. It should also be noted that the above analysis is based on forecast Mid-Columbia and Sumas market prices as of today. Actual prices will differ from those shown.

The ability of Invenergy to sign long-term power sales contracts at prices greater than the embedded project costs will ultimately depend on the market. The embedded project costs are most dependent on natural gas prices. The Sumas gas and Mid-

Columbia power markets tend to move in unison over the long-term. When gas prices drop, electric prices tend to follow. Natural gas prices are not expected to decrease dramatically while Mid-Columbia prices remain stable. The actual sparks spread is expected to be similar to that shown above in Graph 1. The spread is fairly tight, so the profitability of the project may depend on the timing of market transactions (gas purchases and power sales). However, given the fact that forecast Mid-Columbia on-peak prices are currently greater than the estimated total project costs, the probability of the Satsop Project being completed is fairly high, due to the potential profitability of the project. The fact that the project is 56 percent complete increases the likelihood that the current sparks spread can be taken advantage of due to the shorter construction period.

We trust our research and findings will help EFSEC make a decision. If any further research is needed or if you have any questions feel free to give me a call anytime. It's been a pleasure working with you all.

Sincerely yours,

Gary Saleba
President