

MEETING MINUTES
LIGNITE RESEARCH COUNCIL
May 18, 2006
Best Western Doublewood Inn, Bismarck, ND

MEMBERS (or their authorized alternates) PRESENT:

Steve Benson, Energy & Environmental Research Center
Warren Candy, Minnesota Power
Randel Christmann, State Senate – Dist. 33
Kevin Cramer, ND Public Service Commission
Carroll Dewing, The Falkirk Mining Company
John Dwyer, Lignite Research Council
Joe Friedlander, The Coteau Properties Company
Shane Goettle, ND Department of Commerce
Daniel H. Hagemeister, ND Coal Conversion Counties Association
Mark Hager, International Brotherhood of Electrical Workers
Carlyle Hillstrom, ND Farm Bureau
Mike Hummel, BNI Coal, Ltd.
Scott Klara, U. S. Department of Energy/National Energy Technology Laboratory
Luther Kvernen, Minnkota Power Cooperative, Inc.
Vernon Laning, Basin Electric Power Cooperative
Ed Murphy, ND Geological Survey
Jan Rudolf, Otter Tail Power Company
Dave Smith, SaskPower
Andrea Stomberg, Montana-Dakota Utilities Co.
Fred Stern, Dakota Gasification Company
Rich Voss, Great Northern Power Development
Bill Weaver, Dakota Westmoreland
John Weeda, Great River Energy

OTHERS PRESENT:

Dave Allard, Lignite Energy Council
Mike Briggs, The Falkirk Mining Company
Jeff Burgess, Lignite Research Council
Al Christianson, Great River Energy
Jim Deutsch, ND Public Service Commission
Karlene Fine, North Dakota Industrial Commission
Vicki Gilmore, Lignite Energy Council
Dennis James, The North American Coal Corporation
Mike Jones, Energy & Environmental Research Center
Al Kuntz, Lignite Energy Council
Jim Lepinski, Headwaters Incorporated
Larry Morris, Ironworkers Local 512
Clark Moseley, North American Coal
Floyd Robb, Basin Electric Power Cooperative
Steve Van Dyke, Lignite Energy Council

Lignite Research Council (LRC) chairman John Dwyer called the LRC meeting to order at 12:05 p.m. (Central Time) May 18, 2006 at the Best Western Doublewood Inn, Bismarck, ND.

Approval of November 17, 2005 LRC Meeting Minutes

Dwyer asked for a motion to approve the minutes of the November 17, 2005 LRC meeting. Warren Candy so moved; seconded by Vernon Laning. Motion carried. Dwyer said that the minutes of the April 6, 2006 LRC Executive Committee were for information only. They are to be approved by the LRC Executive Committee at its next meeting. The April 6, 2006 LRC Executive Committee meeting concerned the FutureGen grant application submitted by the Energy & Environmental Research Center on behalf of Westmoreland Power, Inc.

Funding Options re: Demonstration Projects; Proposed Future Allocation of R&D and Marketing Income

Karlene Fine gave overview summaries of funding options regarding demonstration projects, and proposed future allocation of R&D and marketing income. As of 3/31/06, the cash balance summary of available funds is as follows for the Lignite Research, Development and Marketing Program (Program): Administration: \$284,978; Non-Matching: \$1,370,000; Small Research Projects: \$651,618; Demonstration Projects: \$5,651,279. She said that construction commitments for Lignite Vision 21 (LV21) projects will be funded from the demonstration projects line item. The North Dakota Industrial Commission has made a \$7.15 M commitment to MDU/Westmoreland for construction (Phase III). The Program's unobligated balance as of 7/1/05 was \$1,900,000. Projected income for the 2005-2007 biennium is \$9,350,000. She said that if the \$800,000 funding for the "Implementation of Regional Lignite Energy Marketing Plan" proposal (LRC-LVII (57)-A) is approved, available funding will be \$6,350,000. She summarized funding options regarding the \$10,000,000 request for proposal LRC-LVII-B ("Lignite Vision 21 Project Coal-to-Liquids Plant, McLean County, North Dakota".)

The LRC will vote at today's (5/18/06) meeting concerning recommendations for the allocation of the Program's proposed annual budget of \$3,725,000.

She summarized funding options regarding the \$10,000,000 request for proposal LRC-LVII-B ("Lignite Vision 21 Project Coal-to-Liquids Plant, McLean County, North Dakota").

Lignite Research, Development and Marketing Program Updates

Jeff Burgess, technical advisor for the North Dakota Industrial Commission (NDIC) and the LRC, summarized the Lignite Research, Development and Marketing Program (Program) financial information. From 1987 to present, there have been 120 small research projects (\$13.3 M from NDIC for the 120 projects; \$92 M total project costs; \$1 in state funds to \$7 total investment); 12 demonstration projects excluding LV 21 projects (\$14.7 M from NDIC for the 12 projects; \$206 M total project costs; \$1 in state funds to \$13.9 total); and five LV 21 projects (\$12.9 M from NDIC; \$746 M total project costs.) He said that the current technical advisor activities involve 31 projects (\$18.3 M in project funds). There 22 small research projects, eight demonstration projects and one marketing project.

Motion to Close LRC Meeting for Confidential Session to Consider Grant Round LVII (57) Grant Application LRC-LVII-A: "Implementation of Regional Lignite Energy Marketing Plan"; Submitted by: Lignite Energy Council; Principal Investigator: Floyd Robb, Chairman, Lignite Energy Council Marketing Task Force; Request for:\$800,000 Annually for Three Years for a Total of \$2,400,000; Total Project Costs: \$4,800,000; Project Duration: Three Years.

Dwyer requested a motion to close the LRC meeting for the LRC members to proceed into confidential session to discuss confidential proposal LRC-LVII-A ("Implementation of Regional Lignite Energy Marketing Plan"), pursuant to ND Century Code 54-17.5-06. Luther Kvernen so moved; seconded by Mike Hummel. Motion carried. The confidential session started at 12:30 p.m. (Central Time).

Motion to Open LRC Meeting

After a presentation and discussion concerning proposal LRC-LVII-A, Dwyer requested a motion to end the confidential session and open the LRC meeting. Kevin Cramer so moved; seconded by Andrea Stomberg. Motion carried. The meeting returned to open session at 1:05 p.m. (Central Time).

Grant Round LVII (57) Grant Application LRC-LVII-B: "Lignite Vision 21 Project Coal-to-Liquids Plant, McLean County, North Dakota"; Submitted by: Great River Energy, Headwaters Incorporated, The North American Coal Corporation, and The Falkirk Mining Company; Principal Investigator: James Lepinski, Headwaters Incorporated; Request for: \$10,000,000; Total Project Costs: \$50,000,000; Project Duration: 30 Months.

Burgess said that the objective of this proposal is the design, construction and operation of a coal-to-liquids (CTL) plant in McLean County, ND. The partners (Headwaters Incorporated, Great River Energy, The North American Coal Corporation, and The Falkirk Mining Company) intend to expand the Falkirk Mine to supply lignite to the CTL plant which will utilize proven gasification and indirect liquefaction technologies to convert the lignite to a high-quality, low emissions diesel or jet fuel, generate electricity and produce other co-products. The project would include a front-end engineering and design (FEED) process study as part of the plan to construct and operate the coal-to-liquids plant.

Burgess said that the three technical peer reviewers gave the proposal an average weighted score of 194 out of 250 points. (The weighted scores were 212 out of 250 points from reviewer 06-4, 208 out of 250 points from reviewer 06-5 and 161 out of 250 points from reviewer 06-6.) Technical peer reviewers 06-04 and 06-05 recommended that the project be funded; technical peer reviewer 06-6 recommended that funding may be considered.

As technical advisor, Burgess' recommendation is that the proposal be funded at a level not to exceed \$10,000,000 (demonstration funds from the Lignite Research Fund) subject to the following conditions:

- In accordance with Section 43-03-05-08 of the North Dakota Administrative Code, Great River Energy, Headwaters Incorporated, The North American Coal Corporation and The Falkirk Mining Company (Partners) agree to provide written status reports on a quarterly basis through the end of the pilot plant testing period and semi-annual reports thereafter for the duration of the project to the North Dakota Industrial Commission (Commission) summarizing the progress and expenditures up to the date of each status report on the Lignite Vision 21 Project Coal-to-Liquids Plant McLean County, North Dakota and further, to provide a special report to the Industrial Commission if substantial progress on the project occurs earlier than anticipated. In accordance with Section 43-03-05-08 of the North Dakota Administrative Code, the Partners further agree to provide a final report substantially in the form described in Section 43-03-05-08(3) of the North Dakota Administrative Code.
- Should the Commission through the North Dakota Industrial Commission Technical Representative, upon consideration of a Report, reasonably believe that the Report is inadequate or that the Partners are not complying with the Agreement or satisfactorily carrying out the work, the Commission may withhold all or part of a scheduled payment until the Partners, in the reasonable opinion of the Commission, have remedied the problem causing the withholding.
- Each report shall provide non-confidential technical summary information and documentation and a Partners' Certificate verifying investment of industry matching funds at a ratio of a minimum of one-to-one.
- Funds must only be used for the development and use of North Dakota lignite and for the construction and operation of a McLean County coal-to-liquids plant and, specifically, the coal-to liquids activities and FEED study can only include usage of North Dakota lignite-fueled coal-to-liquids options, and activities and studies must promote economic, efficient and clean use of only North Dakota lignite that can create jobs and economic growth in North Dakota.
- The Commission will disburse \$10,000,000 to the Contractor by interim payments. Payments shall be made according to the following schedule: Upon execution of the contract on or about June 15, 2006, the Commission shall disburse up to \$1,200,000 for work as described on pages 66 and 67 of the application. On or about Oct. 1, 2006, upon the Partners making a decision to proceed beyond the first decision point described on pages 66 and 67 in the application and upon receipt of commitment for the remaining \$30,000,000 referenced on page 66 of the application, the Lignite Research Council, with approval of the Commission, shall determine the conditions for disbursing the remaining \$8,800,000.
- The Partners agree that the project will be completed substantially as outlined in the Application and as the same may be modified from time to time, and in accordance with applicable requirements of law. If after the first decision point, referenced on page 66 and 67 of the application, the Partners do not agree to proceed with the project as outlined in the application, the Partners agree to reimburse the Commission 17.5% of the Commission's contributions; total reimbursement would not exceed \$210,000 of the \$1,200,000 contributed by the Commission.
- The Partners agree that the banking and accounting (receipts and distributions) pertaining to the Commission's funds distributed for the Coal to Liquids activities and FEED Study will be based in North Dakota.
- The Partners will invite the Commission representative to the Project Management Executive Committee meetings. To the extent possible, the Commission representative will attend, at a minimum, the quarterly meetings of the Project Management Executive Committee. The Partners are strongly urged to include North Dakota-based Partner industry representation on the Executive Committee.

Burgess said that the conflict-of-interest parties for this proposal are The North American Coal Corporation, The Falkirk Mining Company, and Great River Energy. John Weeda gave a short summary of the proposal, and James Lepinski of Headwaters Incorporated gave a presentation in support of the proposal.

Proposed Future Allocation of R&D and Marketing Income

Dwyer asked for a motion that the LRC recommend that NDIC approve allocating the Lignite Research Funds (\$3,725,000) as follows: 1) 17.4% for small research projects; 2) 21.4% for marketing projects; 3) 55.8% for demonstration projects (13.4% for Lignite Vision 21 Program projects (non-matching); 42.4% for other demonstration projects); and 4) 5.4% for administration. Rich Voss so moved; seconded by Warren Candy. Karlene Fine conducted a roll-call vote of the LRC. (Andrea Stomberg was not present for the roll-call vote.)

The roll-call results regarding the motion were as follows (yes: 21; no: 0; abstain: 1). Motion carried. -

Benson, Steve: YES.
Candy, Warren: YES.
Christmann, Randel: YES.
Cramer, Kevin: YES.
Dewing, Carroll: YES.
Dwyer, John: YES.
Friedlander, Joe: YES.
Goettle, Shane: YES.
Hagemeister, Daniel: YES.
Hager, Mark: YES.
Hillstrom, Carlyle: YES.
Hummel, Mike: YES.
Klara, Scott: YES.
Kvernen, Luther: YES.
Laning, Vernon: YES.
Murphy, Ed: YES.
Rudolf, Jan: YES.
Smith, Dave: ABSTAIN.
Stern, Fred: YES.
Voss, Rich: YES.
Weaver, Bill: YES.
Weeda, John: YES.

Confidentiality Request for LRC-LVII-A (“Implementation of Regional Lignite Energy Marketing Plan”)

Dwyer requested a motion that the LRC recommend to the NDIC that the grant application and reports for which a confidentiality request was received in relation to LRC-LVII-A (“Implementation of the Regional Lignite Energy Marketing Plan”) are confidential pursuant to North Dakota Century Code 54-17.5-06. Carlyle Hillstrom so moved; seconded by John Weeda. Karlene Fine conducted a roll-call vote of the LRC. (Andrea Stomberg was not present for the roll-call vote.) The roll-call results regarding the motion were as follows (yes: 22; no: 0). Motion carried. -

Benson, Steve: YES.
Candy, Warren: YES.
Christmann, Randel: YES.
Cramer, Kevin: YES.
Dewing, Carroll: YES.
Dwyer, John: YES.
Friedlander, Joe: YES.
Goettle, Shane: YES.
Hagemeister, Daniel: YES.
Hager, Mark: YES.
Hillstrom, Carlyle: YES.
Hummel, Mike: YES.
Klara, Scott: YES.
Kvernen, Luther: YES.
Laning, Vernon: YES.
Murphy, Ed: YES.
Rudolf, Jan: YES.
Smith, Dave: YES.
Stern, Fred: YES.
Voss, Rich: YES.
Weaver, Bill: YES.
Weeda, John: YES.

FutureGen Presentation

Mike Jones, Ph.D. of EERC gave an update/presentation concerning the FutureGen proposal that was approved by the LRC Executive Committee at its April 6, 2006 meeting. FutureGen is a U. S. Department of Energy \$1 billion public/private partnership to design, build and operate the world’s first coal-fueled, “zero emissions” power plant. The FutureGen proposal was submitted on behalf of the NDIC to FutureGen Industrial Alliance, Inc. The state’s proposal offers a site and lignite reserves controlled by Westmoreland Power, Inc. near Gascoyne, ND, for the location of the FutureGen power plant. The North Dakota FutureGen site is one of 12 sites that have been proposed in seven states. FutureGen Industrial Alliance, Inc. will make the final site selection.

Ballot Results re: Grant Round LVII (57) Proposals

Dwyer announced the LRC’s confidential ballot results concerning recommendations for NDIC funding of the two Grant Round LVII (57) proposals:

Grant Round LVII (57) Grant Application LRC-LVII-A: “Implementation of Regional Lignite Energy Marketing Plan”:
Fund: 21 votes. Do Not Fund: 1 vote. Abstained: 1.

Grant Round LVII (57) Grant Application LRC-LVII-B: “Lignite Vision 21 Project Coal-to-Liquids Plant, McLean County, North Dakota”: **Fund: 22 votes. Do Not Fund: 1 vote.**

NDIC Meeting – May 22, 2006

The LRC's recommendations concerning the Grant Round LVII (57) requests will be considered by the NDIC on May 22, 2006.

Additional Grant Round Requested for 2006

Dwyer said that Oct. 1st is the remaining Lignite Research Development and Marketing Program grant round application deadline date for 2006, and that the LRC meeting will be held November 21, 2006. Great River Energy has requested an additional grant round for 2006 for their proposal for a power plant project at the Spiritwood Energy Park near Jamestown, ND. John Weeda spoke briefly about Great River Energy’s proposal. Dwyer asked for a motion that the LRC recommend that the NDIC approve a July 1, 2006 grant round. Kevin Cramer so moved; seconded by Shane Goettle. Karlene Fine conducted a roll-call vote of the LRC. (Andrea Stomberg was not present for the roll-call vote.) The roll-call results regarding the motion were as follows (yes: 22; no: 0). Motion carried. -

- Benson, Steve: YES
- Candy, Warren: YES
- Christmann, Randel: YES
- Cramer, Kevin: YES
- Dewing, Carroll: YES
- Dwyer, John: YES
- Friedlander, Joe: YES
- Goettle, Shane: YES
- Hagemeister, Daniel: YES
- Hager, Mark: YES
- Hillstrom, Carlyle: YES
- Hummel, Mike: YES
- Klara, Scott: YES
- Kvernen, Luther: YES
- Laning, Vernon: YES
- Murphy, Ed: YES
- Rudolf, Jan: YES
- Smith, Dave: YES
- Stern, Fred: YES
- Voss, Rich: YES
- Weaver, Bill: YES
- Weeda, John: YES

Adjournment

There being no further business, Dwyer requested a motion to adjourn the LRC meeting. Mark Hager so moved; seconded by Warren Candy. Motion carried.

Vicki Gilmore, Recording Secretary
