

DEPARTMENT OF
PUBLIC WORKS

COUNTY OF SANTA CRUZ

GOVERNMENTAL CENTER

701 OCEAN STREET, SANTA CRUZ, CALIFORNIA 950604070

JOHN A. FANTHAM
DIRECTOR OF PUBLIC WORKS

(831) 454-2160

FAX (831) 454-2385

September 3, 1998

SANTA CRUZ COUNTY BOARD OF SUPERVISORS

701 Ocean Street
Santa Cruz, California 95060

SUBJECT: BUENA VISTA LANDFILL GAS POWER PROJECT

Members of the Board:

On January 13, 1998, your Board approved a contract with Brown, Vence and Associates (BVA) to assist the County with ongoing development of a landfill gas-to-energy project at the Buena Vista Landfill. Since that time Public Works staff and BVA have been defining and updating financial and operational information to more clearly define the options and risks associated with this endeavor. As you are aware from our department's previous correspondence to your Board, several key steps have already been taken to clarify the expense and revenue structure for the project. Preliminary engineering costs have been completed, power plant output and gas production rates have been finalized, proposals for power sales and tax credit investments have been analyzed and vendor selections completed, and an application for the Federal Department of Energy's Renewable Energy Production Incentives has been submitted.

On May 19, 1998, your Board received a report and staff presentation on the status of the Buena Vista Landfill Gas Power Project. Public Works was directed to submit an application for the California Energy Commission's (CEC) New Renewable Resources Account Auction (NRRA) on behalf of the County. On July 10, 1998, we were informed that the County's bid was successful. Attached you will find a copy of the CEC notification and a letter of acknowledgment from the Renewable Energy Marketing Board regarding our successful bid. As a point of information, 23 of the 56 projects receiving funding under the CEC's program were landfill gas power projects. Confirmation of the CEC funding is the first of several steps necessary to secure funding for this project.

A component of the bid process for the NRRA was the submittal of a bidder's bond equal to 10 percent of the bid value (\$76,800 for the County's bid bond). There are two steps that must occur in order for the County to have the bidders bond returned. First, the County must negotiate a final award acceptance package and agreement with the CEC, at which time 50% of the

SANTA CRUZ COUNTY BOARD OF SUPERVISORS

Page -2-

bid bond will be released. Award package negotiations with CEC staff are already underway and are anticipated to be completed for your Board's approval in October 1998. Secondly, the County must demonstrate that all applications for necessary development and operating permits have been submitted, at which time the final 50% of the bid bond will be released. Preliminary design and impact analyses are currently being completed for use in the permitting process. Applications for an amendment to the Buena Vista Landfill development permit and an operating permit with the Monterey Bay Unified Air Pollution Control District will be submitted in September 1998. We anticipate full release of the bidder's bond by late October 1998.

A Request for Proposal was also issued to several experienced companies who specialize in the development of the Federal Section 29 tax credit investments available to renewable energy projects such as ours. After extensive review of the proposals by staff and our consultant, Brown, Vence and Associates (BVA), National Landfill Gas Consortium (NLGC) was selected to place an investment for the County to recapture these tax credits available to renewable energy projects such as ours. A report on the selection process and summary of results is attached for your information (Attachment #2). NLGC and the other investors considered recognize that the County has not yet made a full commitment to move forward with this project. However, in order to place such an investment transaction, these companies are required to perform a due diligence review of the project economics and technical feasibility. The due diligence review requires an out-of-pocket expense on behalf of the investor groups, and as a condition of placing such an investment, all investors will require an up-front financial commitment on behalf of the County.

Attached you will find a letter of commitment for execution by the County. By executing this letter the County is committing to reimburse the due diligence expenses of NLGC in the event that the County elects to not complete development of the project or delays approval past December 31, 1998 (Attachment #3). If the County elects not to complete the project or delays past December 31, 1998, our maximum liability would not exceed \$12,500. This relatively low fee is the result of several weeks of negotiations between the County, BVA, and NLGC. NLGC's original proposal called for a maximum fee of \$70,000. Completion of the Section 29 tax credit investment is a critical financial component of this project and must be completed for the project to move forward.

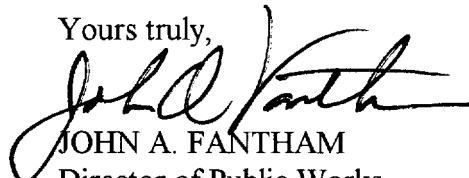
We are still on schedule to have all financial instruments in place by December of this year, at which time your Board would be given a final report and project recommendations, prior to making a final decision on the project. However, the power plant is scheduled to be on-line no later than the end of 1999 in order to meet the energy delivery schedule for the selected power sales agent, Foresight Energy. This energy delivery schedule dictates that a final decision on this project must be completed by December 1998 or early January 1999, in order to allow 10-11 months for facility design and construction.

We would like to remind your Board that this is not a final commitment to move forward with this project, but just a step toward clearer definition of the project economics, risks and benefits, and management strategies. The information being developed will be used in assisting our department in making a final recommendation to your Board later this year. At this time, the Department of Public Works is recommending that your Board authorize proceeding toward the next major project milestones including completing negotiations with the CEC for a project award package and agreement, initiating the required permitting processes, and completing the Federal Section 29 tax credits investment. We will continue to return to your Board with project status reports at each milestone prior to proceeding further.

It is therefore recommended that the Board of Supervisors take the following actions:

1. Accept and file the attached report on the proposed Buena Vista Landfill Gas Power Project.
2. Direct Public Works to complete negotiations with the California Energy Commission for a project award package and agreement, and return the agreement to the Board for final approval.
3. Direct Public Works to submit applications for all required development and operating permits for the project.
4. Authorize the Director of Public Works to sign the letter of commitment with National Landfill Gas Consortium to develop and place a Federal Section 29 tax credit investment on behalf of the County and return the final investment package to the Board for approval when completed.

Yours truly,

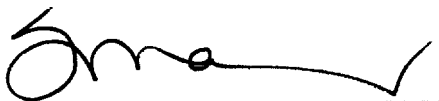


JOHN A. FANTHAM
Director of Public Works

RPM: bbs

Attachments

RECOMMENDED FOR APPROVAL:



County Administrative Officer

Copy to: Brown, Vence and Associates
General Services
Public Works Department

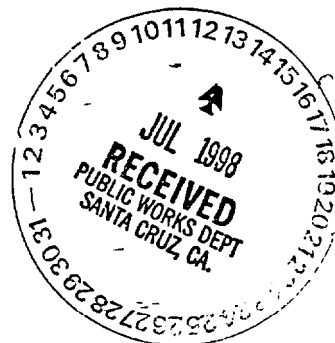
BVLGB

CALIFORNIA ENERGY COMMISSION

1516 NINTH STREET
SACRAMENTO, CA 95814-5512



218



July 10, 1998

Mr. Patrick Mathews
County of Santa Cruz, Department of Public Works
701 Ocean Street
Santa Cruz, CA 95060

RE: Results of New Renewable Resources Account Auction

Dear Mr. Mathews:

I am pleased to inform you that your bid under the California Energy Commission's (Commission) New Renewable Resources Account auction has been accepted as eligible for funding.

As described in the March 1998 Notice of Auction (NOA) No. 500-97-506, Amended May 11, 1998, (AD-1), your project's funding award is contingent upon adoption of a Project Award Package (PAP) by the full Commission documenting project eligibility, status as auction winner, applicable milestones and expected payment amounts and schedules. In addition, your project will be required to meet a series of project development and construction milestones and to submit quarterly status reports to the Commission as described in the NOA, *the Guidebook for the Renewable Technology Program, Volume 2 - New Renewable Resources Account* (Publication No. P500-97-011V2), and Chapter 3 of the *Overall Guidelines for the Renewable Resource Trust Fund* (Publication No. P500-97-012). If you do not have a copy of the guidebooks, please contact the Publications Office at the Commission at (916) 654-5200 for a copy.

A list of the 28 companies with 55 separate projects conditionally approved as auction winners is attached for your information. If you have any questions regarding your bid, please call Mr. Tim Tutt at (916) 654-4590. I and Commission staff look forward to working with you and assisting you in developing your Project Award Package.

Sincerely,

Cheryl Raedel
CHERYL RAEDEL
Office Manager
Contracts Office

NO.	ROUTE DATA	COPY ATT.
1	DIRECTOR	✓
	ASST. DIR. OPR.	
	OS/CLAIMS	
	OPR. PROJ/PRG	
	PERMITS/ENCR	
	RDS/DRAIN/ECOP	
	SANIT/LANDF	
2	ASST. DIR. PS.	✓
	CONSTRUCTION	
	DRAINAGE	
	SANIT. ENG	
3	SOLID WASTE	✓
	ASST. DIR. RE.	
	DESIGN	
	R.D.A.	
	R.D. PLAN/TRAFF	
	SURVEY	
4	CHIEF ADM. SVC	✓
	REAL PROPERTY	

CALIFORNIA ENERGY COMMISSION

1516 NINTH STREET

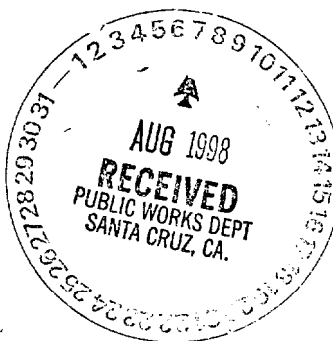
SACRAMENTO, C A 95814-5512



219

Conditional Funding Awards under
Notice of Auction 500-97-506

Name of Bidder	No of Bids	Conditional Funding Award Over 5 Years
Agrilectric Power, Inc.		3,939,938
Browning-Ferris Gas Services, Inc	3	6,289,669
California Energy General Corporation	1	28,239,438
Calpine Siskiyou Geothermal Partners, L.P.	1	20,792,000
CalWind Resources, Inc.	1	1,852,200
CE Turbo LLC	1	5,751,816
City and County of San Francisco	2	1,643,794
City of Sunnyvale Public Works Department	1	2,104,448
County of Santa Cruz, Department of Public Works	1	767,600
El Dorado County Environmental Management Dept.	1	450,049
Energy Developments, Inc.	3	4,491,830
Enron Wind Development Corp.	4	16,826,395
Mark Tech Corp./FORAS Energy, Inc.	1	5,470,000
MM Lopez Energy LLC	1	2,936,011
MM Miramar Energy LLC d/b/a MM San Diego LLC	1	977,616
MM Prima Deshecha Energy LLC	1	2,548,124
MM Tajiguas Energy LLC	1	911,708
MM Tulare Energy LLC	1	911,708
MM West Covina LLC	1	2,919,752
MM Woodville Energy LLC	1	287,908
MM Yolo Power LLC	1	1,031,928
Painted Hills Wind Developers	1	3,187,107
Riverside County Waste Resources Management District	6	3,983,846
Salton Sea Power L.L.C.	1	25,548,365
Venture Pacific, Inc.	15	8,515,111
Wheelabrator Shasta Energy Co, Inc.	1	2,154,600
Whitewater Energy Corporation	1	4,977,039
Windland, Inc		4,384,000
Totals	55	162,000,000



City of Santa Cruz Public Works
701 Ocean Street
Santa Cruz, CA 95060

Dear Mr. Mathews:

Congratulations on winning the California Energy Commission's auction for "new" renewables. Overall, over 550 MWs of new renewables are expected to be added to the marketplace.

Clearly, the entire renewable community advantages by creating a robust, demand driven marketplace for certified renewable products supplied through certified renewable generators such as yourself. Many of us in the renewable community firmly believe that a significant percentage of the customers (both residential and commercial) are willing to pay a premium for renewable resources. **The key to building this level of demand is marketing and advertising.**

The Renewable Energy Marketing Board (REMB) was formed specifically to promote renewables generically in the marketplace. The goal is to bring together private sector and public sector resources in the most cost-effective manner to blend aggressive, grass-roots outreach with targeted, paid media. I have provided you some information on the REMB.

The REMB extends an invitation to participate in its activities, lending your support to our efforts to build demand for renewable resources in California. For a modest investment, we expect to reap huge gains by leveraging public sector funding (e.g. CEC, USDOE, EPA) in order to implement cost-effective renewable information dissemination and promotional activities targeted to residential and commercial consumers. The REMB's collaborative efforts with other renewable stakeholders, including prominent non-profit environmental organizations, will directly improve your financial position and opportunities in the marketplace.

Please contact me if you are interested in joining the REMB or simply learning more about our plans and activities. Again, congratulations on your recent success.

Respectfully,

A handwritten signature in black ink that reads "Steven Kelly".

Steven Kelly
Executive Director



NO.	ROUTE	DATE	COUNT	ATT.
(DIRECTOR		✓	
	ASST. DIR. OPR			
	CSA/CLAIMS			
	OPR. PROJ/PKGG			
	PERMITS/ENCR			
	RDS/DRAIN/EOP			
	SANIT./LANDF			
12	ASST. DIR. PS.		✓	✓
	CONSTRUCTION			
	DRAINAGE			
	SANIT. ENG			
3	SOLID WASTE		✓	✓
	ASSC. DIR. R.E.			
	DESIGN			
	R.D.A.			
	RD. PLAN/TRAFF			
	SURVEY			
	CHIEF ADM. SVC			
	REAL PROPERTY			

ATTACHMENT #2

221

Brown, Vence &
Associates, Inc.
Energy and
Waste Management
Engineers
120 Montgomery Street
Suite 1000
San Francisco CA 94104
415/434-0900
415/956-6220 FAX
An Equal Opportunity
Employer

July 31, 1998

Patrick Mathews, Solid Waste Division Manager
County of Santa Cruz, DPW
701 Ocean Street
Santa Cruz, CA 95060

BVA Job No.: 95003.01
Subject: Section 29 Tax Credits

Dear Patrick:

To assist the County in availing of the financial benefits possible under Section 29 of the U.S. Tax Code, BVA issued a Request for Proposals to private investors in landfill gas facilities. BVA received three proposals and clarifications from the following entities: the National Landfill Gas Consortium (NLGC), Palmer Management Corporation, and Zahren Financial Corporation. The proposals are summarized in Attachment A. Upon review of the proposals, we recommend NLGC as the proposer best qualified to place, structure, and close a landfill gas investment transaction.

Each of the three proposers indicated that the due diligence phase of the investment transaction could go forward, provided the County was prepared to pay for the proposer's or the final investor's due diligence costs should the County elect not to complete the transaction. These due diligence costs represent the County's risk in going forward with a LFG investment transaction. The proposers' estimates of these due diligence costs were \$70,000 (NLGC), \$20-\$25,000 (Zahren Financial Corporation), and \$7,500 (Palmer Capital Corporation). However, BVA was able to negotiate NLGC's fees down to not exceeding \$12,500.

As shown on the attachment, the National Landfill Gas Consortium (NLGC) has proposed the highest PTC return to the County, both as a percentage of the total PTC eligibility (65%) and as a dollar amount (\$1,823,000). This proposed return, combined with NLGC's successful history in completing large landfill gas transactions, leads us to recommend NLGC as the best proposer for the County.

Sincerely,

Thomas D. Vence
Corporate Vice-President

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Paper

ATTACHMENT A. PTC PROPOSALS SUMMARY

Proposer	NLGC	Palmer Capital Corporation (1)	Palmer Capital Corporation (2)	Zahren Financial Corporation (1)	Zahren Financial Corporation (2)
Total PTC's	\$ 2,820,000	\$ 2,835,024	\$ 2,835,024	\$ 2,269,402	\$ 2,028,633
		All gas potentially eligible for PTC's for investor, but return to County depends on how much is beneficially used.	All gas potentially eligible for PTC's or investor, but return to County depends on how much is beneficially used.		
PTC Return to County (net of all applicable fees)	\$ 1,823,000	\$ 1,356,85	\$ 1,170,817	\$ 1,361,642	\$ 1,217,180
% Return to County	65%	48%	41%	60%	60%
Assumptions		All gas beneficially used beginning 2000.	Beneficial use of only gas required for power generation beginning 9/99, no other beneficial use of LFG	Assuming another beneficial end use is found, through 2007.	Assuming that engine requirements are the only beneficial end use, through 2007.
PTC period	9/99-200	1998-200	1998-2007	9/99-200	9199-200
Other Beneficial Uses	Any other use of the gas that replaces another energy source or eliminates or reduces other costs, are beneficial uses.	Will work with the County to explore additional beneficial uses.		"So long as the additional gas quantity is being purchased by the Genco and is being beneficially used, these would qualify for tax credits."	
Payment Structure	Option 1. Large payment at closing with reduced payment stream;	Net benefits \$.55/MMBtu for beneficially used gas, \$.15/MMBtu for non-beneficially used gas.		Option 1. Investor pays an upfront, one-time contribution (with substantial discounts of 50%+)	
	Option 2. Minimal/no payment at closing with larger payment stream.	County purchases gas at "market price, receives offsetting payments for acquiring (or leasing) gas collection system and gas rights.		Option 2. Investor pays over time on an on-going basis	
				(Option 3. A combination of Option 1 and 2.	
Privately Owned Power Plant	Gas sales agreement would be between investor and private owner, or between investor and County (for County's resale). O&M aspects wouldn't change.	County receives same stream of benefits b/c gas would be sold to the County for resale to power plant (preferred structure). Palmer willing to work out scenario where County is removed from transaction altogether.		Little impact on transaction structure. Private Genco would have to commit to maintain power station, O&M of wellfield must maximize tax credits (not just produce enough gas to run plant). Assurances to be included in O&M contract.	
				If County to provide O&M, little impact. However, ZFC feels that most power operators want to have some control over the gas field operations. Generally considered cost effective to have same staff do O&M for plant and gas field.	
Investment Structure			Gasco purchases wellfield system and gas extraction rights from County with upfront payment or periodic payments - OR- Gasco leases wellfield system and gas extraction rights from County, with payment flat or tied to gas production		

ATTACHMENT A. PTC PROPOSALS SUMMARY

Proposer	NLGC	Palmer Capital Corporation (1)	Palmer Capital Corporation (2)	Zahren Financial Corporation (1)	Zahren Financial Corporation (2)
Revenue to Offset Gas Price				Revenue would come from sale of electricity.	
Risks/Due Diligence	lo outstanding requirements	PTC availability: require a tax opinion on issues including binding contract for blower installation -OR- County could warrant validity of the contract and provide indemnity if IRS to disallow PTC's		PTC eligibility: require breakdown on gas production by well section, copies of binding contracts, and specific project information. Need independent engineer's report evaluating gas reserves, probability of gas production during PTC	
		Placed in Service deadlines: new wells and blower/flare must be placed in service before 6/30/98. Require tax opinion on PTC time period eligibility for LFG from old, new, and replacement wells:		period, and operating characteristics of the plant. Should be comprehensive, detailed, and include computer models to project gas generation and collection.	
		Historical and projected gas flows: require engineering examination of gas flows to determine project's viability, as well as a detailed review of O&M costs of gas collection system.		Economic projection: incorporating cost estimates to operate the gas field along with other project costs and expected revenues from the County for purchase of the gas.	
				Final usage of gas	
				Tax structure of underlying agreements	
Requirements for Due Diligence to go forward	ay NLGC's and target investor's reasonable due diligence expenses, County elects not to proceed, or by date specified if the decision has not yet been made. Costs could be added or specified.	Reimbursement of due diligence costs if 1) County opts not to complete an investment, or 2) Palmer opts not to complete investment b/c County or tax counsel cannot provide a clean opinion re: binding contract dates and placed in service dates,		Reimbursement of due diligence expenses including overhead.	
Shortest Time to Complete Due Diligence	0 days	60-75 days from selecting Palmer.		90 Days	
County's Due Diligence Risk	12,500.	\$7,500		\$20,000-\$25,000	
Marketing Period	Per letter of intent has been signed between NLGC and County, investor term sheet in 60 days. Term sheet commit the investor pending successful completion of due diligence.	N/A		SO days, following due diligence and structuring of transaction (combined offering would affect the due diligence and marketing periods). Plant start-up of 9/99, difficult to market investors until early 1999 unless a Genco construction contract in hand.	
Contractual Arrangements	Landfill gas lease, 2. Gas production facilities conveyance agreement, 3. Operations and management agreement, 4. Gas sales agreement	1. Facility Conveyance Agreement, 2. Landfill Gas Sales Agreement, 3. Landfill Gas Lease Agreement, 4. Operations and Maintenance Agreement		Landfill gas rights and collection assets purchase agreements, assets leasing agreements (potentially), O&M agreement, Gas sales agreement	223

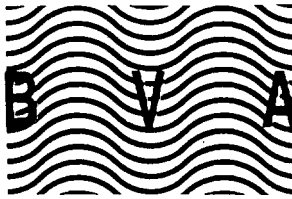
ATTACHMENT A. PTC PROPOSALS SUMMARY

Proposer	NLGC	Palmer Capital Corporation (1)	Palmer Capital Corporation (2)	Zahren Financial Corporation (1)	Zahren Financial Corporation (2)
Investor ID	Will identify potential investors upon County's acceptance of proposal	1+ principals of Palmer Capital, and possibly LKD Corporate Partners (partnership between Palmer Capital affiliate and GE Capital)		ZFC will identify best potential investors upon receipt of specific project information.	
Sample Agreement	Will provide upon acceptance of proposal	Will provide upon acceptance of proposal, or can provide copies of contract with City of Sunnyvale		Omitted	
Schedule	7/17/98 Engagement and fee agreement between County and NLGC	5/15/98 County selects Palmer for further negotiation		5/29/98 Award of RFP to ZFC and receipt of additional requested information	
	7/13/98 NLGC contacts potential investors	6/15/98 Draft documents submitted to County		8/31/98 Due diligence review by ZFC concluded	
	7/27/98 Selection of potential investors	6/30/98 New wells, blower & flare placed in service		1 1/31/98 Investor equity placed	
	8/10/98 Draft investor Term Sheet	7/15/98 Palmer's due diligence completed; County comments on documents received		12/31/98 Finalization of documents and closing	
	8/21/98 Final investor Term Sheet	8/1/98 Final drafting of documentation			
	1 OH196 Completion of initial investor due diligence'	8/15/98 Final documentation			
	10/5/98 Draft transaction document preparation	9/1/98 Transaction closes; tax and legal opinion received			
	11/2/98 Transaction closing				
Additional Proposer Fees	No additional fees.	N/A		No fees (excluding due diligence costs) unless County wants a different transaction structure.	
Proposer's Organization	3 firms: McGuire , Woods, Battle & Boothe (legal services); Public Financial Management (investment services); Energy Conservation Management (engineering services)	Private investment banking firm. Founded in 1974. Experience in developing and financing LFG-to-energy projects for 15 years. Majority of projects with public sector. Member of the Industry Ally Program for the EPA Landfill Methane Outreach Program.		Zahren Financial Corporation (ZFC) is a wholly-owned subsidiary of ZAPCO. ZFC formed in 1984, began structuring LFG offerings in 1990. ZAPCO has been involved in the development, financing, ownership, and operation of LFG-based projects since 1981.	
Key Personnel	Dick Sedgely (legal). Mike Levin (legal), Ted Ricci (financial), Brian Curran (engineering)	Gordon Deane, Donald Dargie, Scott Kaplan (finance). Jeffrey Bernstein (legal).		Bernard Zahren (Pres.), Martin Laughlin (Exec. VP, CFO), Michael Carolán (VP), Stephen Rosenberg (legal).	
Financial Information	Not Applicable	Privately held. Each proposed participant is separately established for financing.		Financial statements for the investor group to provide assurance of investor's financial ability.	
References	Daniel J. DiSanto , President, Bentech Group of Delaware, Inc.	Steve Zum, City of Glendale DPW.		J. David Myers, General Manager, Monterey Regional Waste Management District	
	Ed Wheless. Solid Waste Management Dept., Los Angeles County Sanitation Districts	Ed Wheless, Solid Waste Management Dept., Los Angeles County Sanitation Districts		Jeff Shields, General Manager, Emerald People's Utiliti District, Eugene, OR	
	Gary Beers, National Energy Resource Corporation	Dennis aRusso , Rhode Island Resource Recovery.		John Skinner, Exec. Dir., Solid Waste Association of North America	
		David Myers, Monterey Garbage & Refuse Disposal.			

ATTACHMENT A. PTC PROPOSALS SUMMARY

Proposer	NLGC	Palmer Capital Corporation (1)	Palmer Capital Corporation (2)	Zahren Financial Corporation (1)	Zahren Financial Corporation (2)
		Paul Ehinger, Portland Metro.			
		Richard Mandeville. Mandeville & Associates.			
		James Bier, SCS Field Services.			
		Bill Rowland, Natural Power, Inc.			
Representative Project	Represented the Los Angeles County investment transactions. Currently representing Bentech Group in transaction involving 4 public landfills in 4 states.	Exactly representative projects: Purchase of gas collection and gas rights from City of Sunnyvale (\$1.4 mil). Acquisition of gas collection system and gas rights from the County Sanitation Districts of Los Angeles County (\$55 mil and \$3.7 mil).		Short Mountain Landfill (Eugene, OR). Zapco Energy Tactics Corp. built the original Genco facility. ZFC structured PTC investment. ZFC commissioned engineering assessments and placed the transaction for \$1.9 mil in 3/92 , \$2.7 mil in 12/93 .	
Additional Information	Upon request	Has had extensive experience completing all aspects of LFG project development, financing, implementation, and operation. Has a flexible approach to project development.		Press releases.	
Other	Expects that investor would make \$500,000 up-front payment to the County upon signing of necessary contract documents (off-setting payment stream).	Would make a \$40,000 up-front payment to the County upon signing of necessary contract documents (off-setting payment stream).		PTC market offering may take the form of a bid process, private placement, Reg. D offering, or institutional syndication.	
	NLGC does not guarantee a closing of a PTC transaction. Assures that transaction would be brought to the attention of, and will be aggressively proposed to, the most suitable institutional investors.				

225



*Copies for your
records*

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Vence &

ites, Inc.

ind

Waste Management

Engineers

120 Montgomery Street

Suite 1000

San Francisco CA 94104

415/434-0900

415/956-6220 FAX

July 31, 1998

Richard Sedgely, NLGC
McGuire, Woods, Battle & Boothe, LLP
One James Center
901 East Cary Street
Richmond, VA 23219

BVA Job No.: 95003.01
Subject: Investment Transaction

An Equal Opportunity

Employer

Dear Richard:

We are pleased to notify you that the County has selected NLGC to place a landfill gas investment transaction with a private investor. NLGC proposed the highest PTC return to the County, both as a percentage of the total PTC eligibility (65 %) and as a dollar amount (\$1,823,000). This proposed return, combined with your successful history in completing large landfill gas transactions, lead the County to select NLGC.

The County understands that the due diligence phase of the investment transaction will go forward, provided the County is prepared to pay NLGC's fees up to \$12,500 should the County elect not to complete the transaction. The County would like to embark on and complete this due diligence phase as soon as possible, and is requesting that NLGC prepare a draft Letter of Intent for the County Board's approval by August 6, 1998. Please address the draft letter to Patrick Mathews at the following address:

Patrick Mathews
County of Santa Cruz, DPW
701 Ocean Street
Santa Cruz, CA 95060
408/454-2377 (ph).

Please fax a copy of the letter to my attention at BVA (415/956-0600). A final letter needs to be delivered to the County no later than August 10, 1998. If you have any questions, please do not hesitate to contact me. We look forward to working with you.

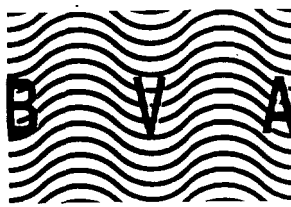
Sincerely,

Thomas D. Vence
Corporate Vice-President

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Recycled

Paper



227

Brown, Vence & --
Associates, Inc.
Energy and
Waste Management
Engineers
120 Montgomery Street
Suite 1000
San Francisco CA 94104
415/434-0900
415/956-6220 FAX

July 31, 1998

Gordon Deane, Executive Vice President
Palmer Capital Corporation
13 Elm Street, Suite 200
Cohasset, MA 02025-1828

BVA Job No.: 95003.01
Subject: Investment Transaction

An Equal Opportunity
Employer

Dear Gordon:

Thank you for submitting a proposal to enter into a landfill gas transaction with the County of Santa Cruz. We regret to inform you that the County has selected the National Landfill Gas Consortium (NLGC) to place a landfill gas investment transaction with a private investor. NLGC proposed the highest PTC return to the County, both as a percentage of the total PTC eligibility and as a dollar amount. If the County is unsuccessful in coming to an agreement with NLGC, we will contact you.

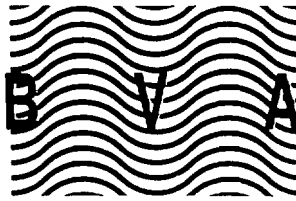
Thank you again for your interest.

Sincerely,

Thomas D. Vence
Corporate Vice-President

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Recycled
Paper

35



228

Brown, Vence &
Associates, Inc.
Energy and
Waste Management
Engineers
120 Montgomery Street
Suite 1000
San Francisco CA 94104
415/434-0900
415/956-6220 FAX

July 31, 1998

Rita King, Manager of LFG Investments
Zahren Financial Corporation
40 Tower Lane
Avon, CT 06001

BVA Job No.: 95003.01
Subject: Investment Transaction

An Equal Opportunity
Employer

Dear Rita:

Thank you for submitting a proposal to enter into a landfill gas transaction with the County of Santa Cruz. We regret to inform you that the County has selected the National Landfill Gas Consortium (NLGC) to place a landfill gas investment transaction with a private investor. NLGC proposed the highest PTC return to the County, both as a percentage of the total PTC eligibility and as a dollar amount.

Thank you again for your interest.

Sincerely,

Thomas D. Vence
Corporate Vice-President

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229

NATIONAL LANDFILL GAS CONSORTIUM, L.L.C.

August 17, 1998

Mr. Patrick Mathews
County of Santa Cruz
Department of Public Works
701 Ocean Street
Santa Cruz, California 95060

Re: Buena Vista Landfill Investment Transaction

Dear Mr. Mathews:

On behalf of National Landfill Gas Consortium, LLC ("NLGC"), we want to confirm NLGC's agreement to represent the County of Santa Cruz in placing an investment transaction involving a landfill gas-to-energy project for the Buena Vista Landfill. NLGC will represent the County in placing and structuring an investment transaction to secure for the County the benefits provided by Section 29 of the U.S. Tax Code. Our work will be consistent with our letter proposals of May 7, June 15, June 25, and July 21 of this year.

NLGC will approach several major U.S. corporate investors, all of whom routinely invest in transactions of this nature, on behalf of the County. We will attempt to obtain for the County the maximum practical return from an investor, consistent with a properly structured transaction which protects the interests of the County. NLGC has proposed a net return to the County of at least 65 percent of the total PTC eligibility (a return of 65 percent after NLGC's fee is subtracted). The dollar value of PTCs potentially available for your project are substantially less than the value that most of these investors typically seek as a threshold size for such investments. However, NLGC will attempt to bundle your project with one or more other projects in a manner that will interest one or more of the investors, and in a manner intended to induce the investor(s) to provide for the County a relatively high percentage return. Because of these and other factors inherent in a transaction of this nature, NLGC makes no guarantee that we will be able to place the transaction, or that we will be able to place the transaction at the yield to the County we have projected.

A Cooperative Effort of

McGuire, Woods, Battle & Boothe, L.L.P. / Michael H. Levin, Partner
1627 Eye Street, N.W., Suite 1000 • Washington, DC 20006 • Ph: 202-857-1706, Fx: 202-828-2978 • mhlewin@mwbb.com

Public Financial Management, Inc. / Edwin P. (Ted) Ricci, Managing Director
Plaza South One, 725 1st Engle Road, Suite 115 • OH 44130 • Ph: 216-239-7070, Fx: 216-239-7074 • riccit@cie.publicfm.com

Energy Conservation Management, Inc. / Brian O. Curran, President & CEO
518 North Charles Street • Baltimore, MD 21201 • Ph: 410-332-0644, Fx: 410-576-2280 • bcurran@ix.netcom.com

Mr. Patrick Mathews
August 17, 1998

Page 2

Immediately after both NLGC and the County execute this letter agreement, NLGC will identify to the County the potential investors. The County will, of course, have the right to identify and remove from NLGC's investor list any investor with whom it is currently dealing and to whom the County might turn for an investment transaction if NLGC is unable to place the investment transaction on the terms provided herein. The County agrees to supply reasonable confirmation on NLGC's request of its prior efforts with any such potential investors that the County may wish removed from NLGC's investor list. The County agrees that, if it enters into an investment transaction as contemplated herein with an investor on NLGC's list (or on any subsequent additions to NLGC's potential investor list approved by the County) within three years of the date of this agreement, the County shall owe to NLGC the fee provided herein as if NLGC had placed and closed the investment transaction.

Our representation of the County will include preparation, negotiation, and finalization of the principal transaction documents necessary to implement the investment transaction. If the County and an investor sign a term sheet, and if the County decides to go forward with its project, we anticipate a need for one or two face-to-face meetings with the investor to negotiate and finalize the transaction. The County agrees that those meetings will be held at NLGC's or its members' offices or other appropriate locations in the eastern U.S., or alternatively, the County agrees that it will reimburse NLGC's reasonable out-of-pocket expenses (in addition to and separate and apart from NLGC's fee addressed below) for any such meetings that may be required in California.

NLGC's fee for placing and closing the investment transaction shall be 7.5 percent of the total stream of payment for **PTCs**, such total stream of **PTCs** based on gas projections at closing over the term of the transaction, and a projected 3.0 percent per year increase in the value of **PTCs** in dollars per **MMBtu**. The base amount upon which our fee is based (the projected payments to the County) shall reflect the transaction from the closing date through 2007, and shall not be reduced to present value.

In reality, most PTC-enhanced investment transactions do not involve one specific stream of payments reflecting the agreed upon percentage return to the landfill owner. Rather, the true return to the owner is subsumed within a number of different payments addressed in our proposals. NLGC's fee will be based on the net return from the investor to the County. The County agrees that the fee owed to NLGC shall be due and payable at closing of the investment transaction. No fee will be due to NLGC unless the transaction closes, except as noted below.

NLGC will proceed with our engagement as soon as we have executed this letter **agreement**, and we will adhere generally to the schedule presented in our letter of June 25. Specifically, we will attempt to obtain a signed term sheet from an appropriate investor within 45 days of our agreement.

NLGC recognizes that the County has not made a final decision as to whether to proceed with its proposed landfill gas-to-energy project. In recognition of the efforts that

Mr. Patrick Mathews
August 17, 1998

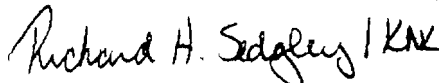
Page 3

NLGC will expend prior to that County decision, the County agrees to pay to NLGC a fee based upon NLGC's and its members' standard billing rates plus reasonable out-of-pocket expenses if NLGC obtains for the County an acceptable term sheet. However, such fee shall not exceed \$12,500. Such fee shall be due and payable to NLGC at the earlier of (1) December 31, 1998, or (2) a County decision not to proceed with the project. However, such fee amount (\$12,500) shall be deducted from NLGC's eventual fee at closing. Also, no fee shall be due to NLGC if we do not obtain an investor willing to execute a term sheet on the terms stated above. Some investors may also ask that their reasonable initial third party out-of-pocket costs be covered by the County if the County decides not to proceed with its project. However, NLGC will attempt to negotiate term sheet provisions for the County which do not include any such financial commitment to the investor, and the County is under no obligation to accept any investor proposal that includes such terms.

We look forward to working with the County on this environmentally beneficial project. If the County agrees with the provisions we have outlined, we will appreciate your acknowledgment by signing this letter and returning it to me at the address listed for McGuire, Woods, Battle & Boothe LLP on the first page. Facsimile signatures will be treated as originals by both of us for this purpose. Also, the document may be signed in counterparts, all of which will constitute one and the same agreement.

Please call if you have any questions.

Sincerely,



Richard H. Sedgley
McGuire, Woods, Battle & Boothe LLP
Member, National Landfill Gas Consortium, LLC

Approved as to form:



[Name]

18-18-98

Date

Asst. County Counsel
County of Santa Cruz Counsel

Agreed:

[Name]

Date

[Title], County of Santa Cruz, California