Declassified
950110-EI

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Standard offer Contract for the purchase of firm capacity and energy from a qualifying facility between Panda-Kathleen, L.P. and Florida Power Corporation.

Docket No. 950110-EI

Submitted for filing:
February 8, 1996

CONFIDENTIAL

AMENDED
REBUTTAL TESTIMONY OF
BRIAN A. MORRISON

ON BEHALF OF

FLORIDA POWER CORPORATION

Unredacted Version - Contains
<u>CONFIDENTIAL INFORMATION</u>

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 950110-EI EXHIBIT NO. 32
COMPANY/ WITNESS: FPC / Morrison
DATE: 1/29/96

DOCUMENT NUMBER-DATE
01584 FEB-9 96
FPSC-RECORDS/REPORTING

FLORIDA POWER CORPORATION

DOCKET NO. 950110-EI

AMENDED
REBUTTAL TESTIMONY OF
BRIAN A. MORRISON

Q. Please state your name and business address.

A. Brian A. Morrison, 800 Third Avenue, Suite 2300, New York, NY 10022.

Q. By whom are you employed and in what capacity?

A. I am employed by Morrison & Kibbey Ltd. as a Managing Director.

Q. What type of an organization is Morrison & Kibbey, Ltd.?

A. Morrison & Kibbey Ltd. is an investment banking firm.

Q. What specifically do you do for Morrison & Kibbey?

A. Like my other partners, I am responsible for assisting our clients in developing new corporate financing strategies and the implementation of these strategies.

Q. Please describe your educational and business background.

A. <u>Education</u>

1971-1975	Georgetown University	BS - Mathematics
	Scholarships:	George F. Baker Trust
		Francis Ouimet Foundation

1977-1979	Harvard Business School	MBA - Finance
	Scholarships:	George F. Baker Trust
		Danforth Memorial Fellowship

<u>Business</u>

1993-Present	Morrison & Kibbey Ltd.	Managing Director
1986-1993	Hicks Morrison & Co.	Managing Director
1985-1986	Amvest Capital Corp.	Senior Vice President
1982-1985	Dean Witter Reynolds	First Vice President
1979-1982	Shearson/American Express	Assist. Vice President
1976-1978	Citibank, N.A.	

A copy of my resume is attached as Exhibit No.___ (BAM-1).

Q. Have you worked in the area of financing of cogeneration projects?

A. Yes extensively.

Q. In what capacity?

A. In our role acting as financial advisor and placement agent we have developed and/or implemented financing plans for over 40 power projects representing in excess of 1,350 MW of generating capacity.

Q. For how many cogeneration projects have you worked on financing?

A. 16, totalling over 540 MW.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to rebut the direct testimony pre-filed by Panda-Kathleen, L.P., that stated that "Panda's ability to meet the construction start date of January 1, 1996, and the in-service date of January 1, 1997, has been jeopardized <u>solely as a result of Florida Power's actions</u> in attempting to disown the contract." (Emphasis added.) Testimony of Ralph Killian, page 37, lines 9-13.

Q. On what do you base the testimony contained herein?

A. I based my testimony on my review of the Panda/Florida Power Standard Offer Contract, the Commission's Rule 25-17.0832, F.A.C., documents produced by Panda in discovery, and on my direct experiences in representing numerous private power developers in assisting in the development and implementation of various types of project financing structures.

Q. Are you familiar with Panda's corporate structure as it pertains to this proceeding?

A. Yes. Three corporate entities appear in the documents: Panda-Kathleen, L.P.; Panda-Kathleen Corporation; and, Panda Energy Corporation. Florida Power entered into a Standard Offer Contract with Panda-Kathleen, L.P., a Delaware Limited Partnership. Panda-Kathleen Corporation is the general partner to Panda-Kathleen, L.P. and is a subsidiary of the parent corporation, Panda Energy Corporation. Except where my testimony pertains specifically to one of these entities, I will refer to these various Panda corporations as Panda.

Q. Are you aware that Panda-Kathleen, L.P., has failed to meet the construction start date of January 1, 1996?

A. Yes.

Q. Are you also aware that on January 25, 1995, Florida Power filed a Petition for Declaratory Statement with the Florida Public Service Commission raising issues of the interpretation and application of Rule 25-17.0832, F.A.C., with respect to the Panda/Florida Power Standard Offer Contract?

A. Yes.

Q. Based on your review of documents and your experience in the financing of the development of power facilities, was Panda-Kathleen, L.P.'s, failure to meet the construction start date "solely the result of Florida Power's actions?"

A. No.

Q. What reasons would you cite for Panda-Kathleen, L.P.'s failure to meet its construction start date?

A. Panda was experiencing difficulty in a number of areas prior to January 25, 1995. I've outlined below some of the issues that lenders were aware of and expressed concern about regarding the Panda-Kathleen project. The first issues involved the regulatory issues of whether Florida Power would be required to purchase power in excess of 74.9 MW under the Panda/Florida Power Standard Offer Contract and the

Commission's Cogeneration Rules, and whether Florida Power would have to make capacity payments to Panda after 20 years under that same contract. Second, Panda-Kathleen, L.P., had been unable to secure an independent thermal host and had decided to use a subsidiary of Panda Energy Corporation to build and operate the thermal host for its own facility. Finally, the economics of the project in general lead to Panda-Kathleen, L.P., "mothballing" the project for a period of time. These issues would lead any lender to more carefully analyze both the project and the financial condition of the developer. See Exhibit No.___ (BAM-2); Exhibit No.___ (BAM-3); Exhibit No.___ (BAM-4); Exhibit No.___ (BAM-5); Exhibit No.___ (BAM-6); Exhibit No.___ BAM-7); Exhibit No.___ (BAM-8); Exhibit No.___ (BAM-9); Exhibit No.___ (BAM-10); Exhibit No.___ (BAM-11); Exhibit No.___ (BAM-12); Exhibit No.___ BAM-13); Exhibit No.___ (BAM-14); Exhibit No.___ (BAM-15); Exhibit No.___ (BAM-16); Exhibit No.___ (BAM-17); Exhibit No.___ (BAM-18); and, Exhibit No.___ (BAM-19).

Q. Please describe the steps typically followed by the developer of a cogeneration project in obtaining financing for the project.

A. Typically, a developer will have completely finalized the site acquisition, the power purchase agreement, the outstanding permit issues, the fuel supply, the equipment configuration, the Engineering Procurement & Construction contract, the insurance policies and the thermal contract, if any.

Q. Based on the documents produced by Panda which you have reviewed, at what stage in the process of obtaining financing was Panda-Kathleen, L.P., on January 24, 1995?

A. Based upon my review of the documents provided, there still seemed to be a significant number of items to be resolved in all of the aforementioned areas which would be of concern to any institutional lender from a due diligence standpoint. One of the potential investors, Calpine, citing among other issues the overall economics of the project and the distilled water plant issues, informed the Kathleen Project Team on January 23, 1995, that it had dropped out of the project as Panda-Kathleen Corporation's equity partner. As to the other lenders, I did not see detailed term sheets or indications of interest from Morgan Stanley or ABB Capital which outlined their specific intent on providing financing to this project at this time under certain terms and conditions. See Exhibit No.___(BAM-3); Exhibit No.___ (BAM-4); Exhibit No.___ (BAM-6); Exhibit No.___ (BAM-20); Exhibit No.___ (BAM-21); Exhibit No.___ (BAM-22); Exhibit No.___ (BAM-23); Exhibit No.___ (BAM-24); Exhibit No.___ (BAM-25); and, Exhibit No.___ (BAM-26).

Q. In terms of the time required to obtain financing, was this project on track to obtain the necessary financing in order to meet the contractual milestones for commencing construction and commencing operation?

A. No. In order to meet the commercial operations date of January 1, 1997, Panda-Kathleen, L.P.'s, management readily admits that the financing for the project needed to be in place before December 31,

1994. See Exhibit No.___ (BAM-20); Exhibit No.___ (BAM-21); Exhibit No.___ (BAM-22); Exhibit No.___ (BAM-23); Exhibit No.___ (BAM-24); Exhibit No.___ (BAM-25); and, Exhibit No.___ (BAM-37).

Q. To your knowledge, was Panda-Kathleen, L.P.'s, financing for the project in place by that date?

A. No. Lenders were still conducting due diligence without having issued a firm commitment to the fund project. See Exhibit No.___ (BAM-20); Exhibit No.___ (BAM-21); Exhibit No.___ (BAM-22); Exhibit No.___ (BAM-23); Exhibit No.___ (BAM-24); Exhibit No.___ (BAM-25); Exhibit No.___ (BAM-26); and, Exhibit No.___ (BAM-27).

Q. Do you believe that Panda-Kathleen, L.P., would have been able to obtain financing after January 24, 1995, if Florida Power had not filed the Petition for Declaratory Statement on January 25, 1995?

A. No. The regulatory issues concerning the size of the facility and the length of time that Florida Power would be required to make capacity payments had to be resolved before a lender would likely agree to finance the project. Even before Florida Power filed its Petition, lenders were aware of and concerned about those issues. The letter dated June 23, 1994, from Ted Hollon of Panda to David Gammon of Florida Power outlines concern on behalf of prospective lenders regarding the issue of what price, if any, Florida Power was going to pay for power delivered by the project in excess of the 74.9 MW limit in the standard offer contract. See Exhibit No.___ (BAM-5); Exhibit No.___ (BAM-6); Exhibit

No.___ (BAM-23); Exhibit No.___ (BAM-24); Exhibit No.___ (BAM-25); and, Exhibit No.___ (BAM-27).

Q. What does the concern of lenders expressed in Ted Hollon's letter indicate to you?

A. Since this issue had still not been resolved prior to the January 25, 1995 filing by FPC, I would have to believe that this was still a major, unresolved due diligence item for any of the prospective financial institutions, since these excess power sales appear to represent approximately 35% of the project's total revenue stream. See Exhibit No. ___ (BAM-27); and, Exhibit No.___ (BAM-28).

Q. Would the concern expressed by these prospective lenders be sufficient to interfere with financing for the project?

A. Definitely. Financial institutions would not close on non-recourse financing of this magnitude without having satisfactory answers to these questions.

Q. Would other lenders be likely to have similar questions?

A. Certainly.

Q. You stated previously in your testimony that the lack of a secured thermal host would have interfered with Panda-Kathleen, L.P.'s, meeting its milestone dates. Please elaborate.

A. It is clear from the documents that Panda-Kathleen, L.P., had a problem securing a thermal host for the project. Panda-Kathleen, L.P., first attempted to contract with Erly Juice. When those efforts were unsuccessful, Panda-Kathleen, L.P., apparently decided it would have a subsidiary of Panda Energy Corporation be the thermal host for the facility. Several problems remained, however. The thermal host facility had yet to be designed, and financing had to be obtained, not only for the cogeneration facility, but also for the thermal host facility. Lenders would have to have the design in hand to review, and would also have to look even more carefully at Panda's financial structure before approving the lending for Panda's enhanced needs. See Exhibit No.___ (BAM-6); Exhibit No.___ (BAM-7); Exhibit No.___ (BAM-8); Exhibit No.___ (BAM-13); Exhibit No.___ (BAM-14); Exhibit No.___ (BAM-16); and, Exhibit No.___ (BAM-17).

Q. You referred previously to the fact that Panda-Kathleen, L.P., "mothballed" the project for a period of time. What does "mothballing" the project mean to you?

A. It means stopping all progress on the project until certain obstacles could be surmounted.

Q. Do you often see developers "mothball" their projects as Panda-Kathleen, L.P., did?

A. Occasionally, but usually the project is "shelved" because of economic reasons and these projects typically never get completed in the original configuration. For instance, if fuel costs or availability became an issue, a developer may shelve a project until they could resolve the outstanding fuel issues. One resolution might take the form of changing fuels or co-firing with another less expensive or readily available fuel. This could also be done in the event that the project loses its thermal host. This seemed to be the case with Panda-Kathleen, L.P., and its negotiations with Erly Juice.

Q. **What does the fact that the project was mothballed for a period of time indicate to you in terms of Panda-Kathleen, L.P., meeting its milestone dates?**

A. While one cannot directly relate Panda-Kathleen, L.P.'s, mothballing of the project to its failure to meet the construction start date, the mothballing is an additional symptom of a troubled project.

Q. **In addition to the issues already discussed, did you see any evidence that Panda-Kathleen, L.P., would not likely be able to obtain financing for its project?**

A. Yes.

Q. **Please describe those issues.**

A. The evidence that I saw that would indicate that Panda-Kathleen, L.P., would not be likely to obtain financing for the Panda-Kathleen project is as follows:

- Panda-Kathleen, L.P.'s, initial 1994 financing plan was to fund the project with rated, senior taxable debt via the public or private (144a) markets with a term of 25+ years through the firm of Smith Barney. This term, especially for non-investment grade, taxable debt, seems quite long. (The 144a debt market which is comprised primarily of institutional debt investors has been very active in the private placement of rated, corporate debt issues. It wasn't until early 1993 that independent power projects began to test the viability of this market for project financing. Even then, many investors did not think that independent power projects belonged in the 144a marketplace because of the complexity of issues involved with these types of project financing.) Also, by the latter part of 1994, all discussion of Smith Barney and this financing had disappeared which would lead anyone to believe that there was no market for this type of issue with the interest rate and amortization schedule required by the Panda-Kathleen project. <u>See</u> Exhibit No.___ (BAM-29); and, Exhibit No. ___ (BAM-30).
- I reviewed several draft Indication of Interest letters from Bank of Tokyo (BOT) over a period of several months beginning in October 1994 and continuing into 1995. The actual scope of the BOT financing structure changed from (i) an approximate 18 month construction loan with a 13-15 year permanent loan; into, (ii) a construction loan with a 2 year bridge loan. These documents comprise a series of draft terms sheets that continue discussions into early 1995 with no firm commitment letter from BOT. <u>See</u>

Exhibit No.___ (BAM-23); Exhibit No.___ (BAM-24) and Exhibit No.___ (BAM-25).

- In the latter half of 1994, after Smith Barney was unable to market a long-term debt issue with a 25+ year term for the project, Merrill Lynch was hired to arrange a Medium Term Note (MTN) issue with a term of 25-30 years. This seems a bit puzzling since a MTN issue would typically have a term of only 3-7 years and require the issuer to have an investment grade rating. See Exhibit No.___ (BAM-30); and, Exhibit No.___ (BAM-31).
- In August of 1994, Panda Energy Corporation took it upon itself, without the assistance of any of its many financial advisors, to issue an Investment Memorandum in order to place $15 million in limited partnership interests in the Panda-Kathleen project. This effort seems to have come up empty since there is no further discussion on the topic except for reference to Calpine as a potential equity investor. See Exhibit No.___ (BAM-32); and, Exhibit No.___ (BAM-33).
- In a letter dated January 23, 1995, Calpine dropped out as a potential equity investor citing, among other things, numerous concerns such as the capital cost of the project, the operating costs of the project, issues revolving around the distilled water plant, and the overall inadequate economics of the project. See Exhibit No.___ (BAM-26).

Any of these factors alone could cause any financial institution to pass on this transaction until such issues were resolved.

Q. Are you familiar with the original configuration for the facility proposed by Panda-Kathleen, L.P., at the time Panda-Kathleen, L.P., submitted its standard offer?

A. Yes. The various documents indicated that Panda-Kathleen, L.P., considered several different equipment configurations in order to generate a net capacity delivered of not more than 75MW.

Q. Have you analyzed those original configurations from a financial perspective?

A. Yes. I reviewed a truncated spreadsheet analysis dated December 23, 1993 for the 75MW Panda-Kathleen project. See Exhibit No.___ (BAM-19).

Q. Was the project as originally configured a viable project?

A. No. The project proforma analysis had significant negative cashflows for the first four years (1997-2000) and coincidentally had debt service coverage ratios of less than 1.0x during each of those four years. This analysis showed that the project would not be able to make all of its scheduled debt payments during each of those four years. See Exhibit No.___ (BAM-19).

Q. Have you analyzed the internal financial structure of Panda Energy Corporation?

A. Yes.

Q. Did you find any problems with the internal financial condition of Panda Energy Corporation which would make it unlikely that Panda-Kathleen, L.P., would be able to obtain the necessary financing for the project?

A. Yes. Panda Energy Corporation continually lost money over the period 1991-1994 recording a significant cumulative net income loss, and it posted a sizeable negative net worth position by December 31, 1994. This also indicates that Panda Energy Corporation has accumulated substantial losses during its operating years prior to 1991. So, the fact that Panda Energy Corporation had continually lost money could possibly limit the arena for potential project equity partners since Panda Energy Corporation would probably continue to be in dire need of operating capital at the corporate level. See Exhibit No.___ (BAM-34); Exhibit No.___ (BAM-35); and, Exhibit No. ___ (BAM-36).

Q. In your opinion, was the Panda-Kathleen project a viable candidate for financing on January 24, 1995?

A. No. The project had gone through so many changes since the "mothballing", including several different financial advisors, that it appears that the Panda-Kathleen management team was grasping at straws during the last quarter of 1994 in order to come up with some structure that was bankable. This concludes with Merrill Lynch proposing a medium term note financing on January 19, 1995, with a 30 year term and interest only for 7 years, a highly unorthodox proposal which indicated the desperate straits of Panda-Kathleen, L.P. in obtaining financing. See Exhibit No.___ (BAM-31).

Q. Does this conclude your testimony?

A. Yes.

FPSC DOCKET NO. 950110-EI
EXHIBIT NO. _____ (BAM-1)
CONSISTING OF ONE PAGE

BRIAN A. MORRISON

EXPERIENCE:

1993 - Present	Morrison & Kibbey Ltd. *Managing Director* Leasing and project finance specialists with industry focuses in power generation, environmental, natural resources, forest products, pulp and paper and food processing.
1986 - 1993	Hicks Morrison & Company Inc. *Managing Director* Leasing and project finance specialists with industry focuses in power generation, environmental, natural resources, forest products, pulp and paper and food processing.
1985 - 1986	Amvest Capital Corporation *Senior Vice President* Leasing, project finance and real estate finance.
1982 - 1985	Dean Witter Reynolds, Inc. *First Vice President* Investment banking with a focus on private placements of equity and debt.
1979 - 1982	Shearson/American Express Inc. *Assistant Vice President* Investment banking/Corporate finance.
1976 - 1978	Citibank, N.A. International banking/Institutional investment.

EDUCATION:

1977 - 1979	Harvard Business School MBA - Finance
1971 - 1975	Georgetown University BS - Mathematics

FPSC DOCKET NO. 950110-EI
EXHIBIT NOT. _____ (BAM-2)
CONSISTING OF FOUR PAGES

PANDA HAS ASSERTED A CLAIM OF
CONFIDENTIALITY FOR EACH
PAGE OF THIS EXHIBIT

16.2.1

FPSC Docket No. 950110-EI
FPC Witness: MORRISON
Exhibit No. ______, (BAM-2)
Sheet 1 of 4

J.A. JONES
CONSTRUCTION

TELECOPY TRANSMITTAL

DATE: June 16, 1994

NO. OF PAGES ~~3~~ 4
(Including Cover Sheet)

DELIVER TO: Ted Hollon

COMPANY: Black & Veatch

TELECOPY NO.: 214/980-6815

FROM: Jim Walker

Kyle resolved in phone con with Jim Walker. IE B&V has most of info.

COMPANY: **J. A. Jones Construction**
J. A. Jones Drive
Charlotte, NC 28287

TELECOPY NO.: **(704) 552-8719**

SUBJECT: Panda Kathleen Proforma Review

If you do not receive all the pages sent, please call (704)553- 3440 **as soon as possible.**

COMMENTS: ______________________________

SPECIALLY
RESTRICTED
PK 049705

FPSC Docket No. 950110-EI
FPC Witness: MORRISON
Exhibit No. ______, (BAM-2)
Sheet 2 of 4

METRIC
CONSTRUCTORS

June 16, 1994

Mr. Ted Hollon
Panda Energy Corporation
4100 Spring Valley
Suite 1001
Dallas, TX 75244

RE: Panda Kathleen Proforma Review

Dear Mr. Hollon:

We have undertaken the first phase of our review of the Proforma for the Kathleen Project. We find certain problems with the information presented as it relates to our knowledge of the market. Several of the assumptions that are being made require supporting, and these are given below. It is the lack of capacity payment on 35 megawatts that causes us the most concern on the financiability of the project; therefore, your indications of any changes in that area are most important to us.

Please provide information on the following:

*1. Copy of the change to the Power Sales Agreement giving the revised dates for commercial operation. PROVIDED TO BEV

*2. The status of all project permits. PROVIDED TO BEV

3. For the distilled water facility, please explain status of product sales, permitting, financing, and operations. NO SALES AGREEMENT AT THIS TIME WILL BE PERMITTED, FINANCED, & OPERATED W/GEN FACILITY

*5. The fuel supply and transportation commitments; backup fuel assumptions.
DENNIS REED DISCUSSED WITH RALPH KILLIAN, PANDA ENERGY

*6. Further explanation on FPC acceptance of "as available rates."
"AS AVAILABLE RATES" ARE WHAT THEY ARE, ICF STUDY - MORE ACCURATE STUDY

*7. Schedule and cost assumptions do not match the proposal submitted by Metric/Black & Veatch. CORRECT BASED ON PANDA Schedule & COST
JAN 1, 1996 - JAN 1, 1997 ?

FPC WILL PURCHASE "AS AVAILABLE" ENERGY NEGOTIATING

*8. Scope and quotations for "Pipeline Construction," "Transmission Construction" and "Water Interconnect." Electrical & WATER INTERCONNECT BEING NEGOTIATED W/CITY OF LAKELAND; PIPELINE CONST COST ESTIMATED

* PER PHONE CONVERSATION WITH J.M. WALKER 6/17/94

One SouthExecutive Park
Charlotte, NC 28287
Telephone 704 554-1415

SPECIALLY
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PK 049706

9. Operations and Maintenance Agreement/Estimate. SEE PROFORMA

10. Wheeling arrangements. SEE #8

11. Availability assumptions without major overhauls are optimistic, please explain. ?

12. Electricity revenues involve certain assumptions on ambient conditions for "on peak" and "off peak" hours. Also the time periods for each rate should be explained along with the high capacity factors for "Bartow Peaker," "On Peak", and "Off Peak" generation.
SEE ICF STUDY PROVIDED TO B&V

13. Explain "Other Development Costs" and "Operating Expenses During Construction." ?

14. Basis for "Sales Tax on Equipment." ?

Any other data or documentation that will support the underlying basis necessary to convince the lending markets to support this deal would be appreciated as we conclude our due diligence effort. Please let me know when we might receive your response on these items.

Very truly yours,

METRIC CONSTRUCTORS, INC.

James M. Walker

James M. Walker

JMW/els

cc: S. Niles - B&V
B. Mallory - Metric

bcc: Steve Burt - Jones Capital Corp.

9. Operations and Maintenance Agreement/Estimate.

10. Wheeling arrangements.

11. Availability assumptions without major overhauls are optimistic, please explain.

12. Electricity revenues involve certain assumptions on ambient conditions for "on peak" and "off peak" hours. Also the time periods for each rate should be explained along with the high capacity factors for "Bartow Peaker," "On Peak" and "Off Peak" generation.

13. Explain "Other Development Costs" and "Operating Expenses During Construction."

14. Basis for "Sales Tax on Equipment."

Any other data or documentation that will support the underlying basis necessary to convince the lending markets to support this deal would be appreciated as we conclude our due diligence effort. Please let me know when we might receive your response on these items.

Very truly yours,

METRIC CONSTRUCTORS, INC.

James M. Walker

James M. Walker

JMW/els

cc: S. Niles - B&V
B. Mallory - Metric

bcc: Jim Bowden

SPECIALLY
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PK 049708

FPSC DOCKET NO. 950110-EI
EXHIBIT NO. _____ (BAM-3)
CONSISTING OF TWO PAGES

PANDA HAS ASSERTED A CLAIM OF
CONFIDENTIALITY FOR EACH
PAGE OF THIS EXHIBIT

FPSC Docket No. 950110-EI
FPC Witness: MORRISON
Exhibit No. ______, (BAM- 3)
Sheet 1 of 2

ABB

June 15, 1994

TO: Ted
From: Pete
& Dietz

Mr. Ted Hollon
Vice President-Construction & Project Management
4100 Spring Valley Rd., Suite 1001
Dallas, TX 75244

REF: Kathleen - Development Loan

SPECIALLY
RESTRICTED
PK 050418

Dear Mr. Hollon,

Attached is the first cut at our comments.

Could you send me additional documentation on the questions raised here?

Our review is continuing, and I expect a full list of comments in a few days.

Very truly yours,

Cort Van Rensselaer

Cort Van Rensselaer
Director, Business Development

CVR:emb
cvr178

Attachment

TO: RALPH KILLIAN
PETE WRIGHT
BILL NORDLUND
KYLE WOODRUFF
BRIAN DIETZ

CC RW CARTER

ABB HAS ASKED FOR ADDITIONAL INFORMATION PER THE ATTACHED. I HAVE DESIGNATED (IN THE LEFT HAND MARGIN) THE RESPONSIBLE PARTY FOR SUPPLYING THIS INFORMATION. BEING THAT THIS EXERCISE IS PART OF ABB's DUE DILIGENCE, I NEED YOUR REPLIES (HANDWRITTEN) BY 5pm, Thursday 6/16/94. ABB REPRESENTS $2 MILLION IN DEVELOPMENT FUNDING AND YOUR COOPERATION IS APPRECIATED

ABB Power Generation Inc.
Turbine Power Division
Post Office Box 6005
1460 Livingston Avenue
North Brunswick, New Jersey 08902
Telephone: (908) 932-6000
Telefax: (908) 932-6194

FPSC Docket No. 950110-EI
FPC Witness: MORRISON
Exhibit No. ______, (BAM-3)
Sheet 2 of 2

PANDA KATHLEEN PROJECT

PPA

A contract exists between PANDA and Florida Power Corp.
- It is a standard offer for QFs under 75MW
- Contract looks normal
- Term is 30 years
- PANDA — Construction was to start 4/1/94 (needs written confirmation of extension) ~~PAN~~
- DITTO — Commercial operation is to be 4/1/95 (needs written confirmation of extension)
- Apparently there was an extension for a year or ________(in return for a change on the capacity payment rate)
- LEGAL — Sections 10.2 & 10.3 refer to credits/charges on taxes and operational dispatch
  - These seem to be an unknown risk
- It needs to be a QF or it can be canceled ✓
- Unclear as to what payment schedule will be made and what actual dollars are today.

GENERAL

LEGAL — The proposed QF is distilled water which may be challengeable
The electric revenues subsidize the water
KILLIAN — The FPC PPA is only for 75MW, the project is designed around 100 MW
- What is the status of the other 34MW?

DIETZ/Kyle — At 75MW the project needed supplemental fire. Was this for the 8C?
Determine FPC attitude to the project in general

KILLIAN — FUEL

There are a lot of unknowns concerning the fuel supply
- Where is gas coming from?
- Who set the price?
- What are the terms?
- What is the schedule?
- Pro forma shows $1.78 delivered in 1997?

SPECIALLY RESTRICTED PK 050419

One would assume gas supply would be well advanced since that is PANDA's strong suit
- We need more evidence of probable success.

LE/TCH Need to check out the interconnect costs ($3-1/2 M pipeline. $1/2 M electric) ← FILES

PRO FORMA

Plant capacity is 110 -113 MW in pro forma- Overrated for ISO conditions.
Losing cash in the front years - No, losing money on GAAP basis, still cash flow + is positive (over)
IRRs are unusual. Where/how derived? Wrong - explain
PANDA equity is 5% (out of 20%) yet PANDA gets 55% of the cash. Need to discuss who has accepted this. - Equity is done for illustration purposes, the sharing arrangements will be targeted at an IRR and we will build into sharing arrangements on that basis.
DIETZ — O&M is 1.2M - is this maintenance only? Where is operation cost? salaries
- It's low if really has all operating and maintenance costs included
- maintenance reserve itself should be $1 MM/yr. if continuous duty operation.

HOLLON — 1-year construction schedule - too short?

in variable O&M costs

Operation cost is cost of fuel, chemicals, etc

cvrpk614

6/14/94

FPSC DOCKET NO. 950110-EI
EXHIBIT NO. _____ (BAM-4)
CONSISTING OF THREE PAGES

PANDA HAS ASSERTED A CLAIM OF CONFIDENTIALITY FOR EACH PAGE OF THIS EXHIBIT

FPSC Docket No. 950110-EI
FPC Witness: MORRISON
Exhibit No. ______, (BAM-4)
Sheet 1 of 3

ABB
ASEA BROWN BOVERI

FAX
Number of Pages (including this one) = 3
214-980-6815

June 20, 1994

Mr. T. C. Hollon
VP-Construction & Project Management
Panda Energy Corporation
4100 Spring Valley, Suite 1001
Dallas, TX 75244

Dear Mr. Hollon,

Thank you for your letter of June 16th which Cort Van Rensellaer relayed to ABB Energy Ventures. It shortened the following information request considerably.

BILL

1. Where does the PPA require FPC to accept capacity and energy greater than 75MW? Can you provide correspondence between Panda and FPC evidencing FPC's intention to take this additional energy and on what terms?

TED

2. The EPC cost of $60M seems low. We typically see prices of $700/kW which equate to approximately $78.5M in this project. May we obtain the basis for your capital costs estimates? Do you have term sheets, quotes or offers from contractors for a lump sum contract price? If so, may we see these offers? Do the estimated capital costs include the cost to build the distilled water plant?

BRIAN DIETZ

3. The provision for O&M appears light. Your letter dated June 16th explains this by mentioning a "Variable O&M" line item? I see the "Fixed O&M" line item in the expense portion on Schedule A of the *pro forma* but I do not see the "Variable O&M" line item. I see "Variable O&M" payments, but I do not see "Variable O&M" expense? Where do I find "Variable O&M" expenses? In any event, please provide the basis for your O&M cost estimates including staffing, maintenance parts and labor, and initial spare parts.

RALPH

4. Please provide copies of contracts, terms sheets, letters of intent, memorandums of understanding, precedent agreements and other evidence of firm gas supply and transportation arrangements. Your June 16th letter indicates that final agreements are in the offing. What is the cutoff date for reserving, applying for or contracting for pipeline capacity? Is this project contingent on the completion of the Sunshine Pipeline? Have you performed optimization studies re: the interaction among MDQ, output, transportation costs?

ABB Energy Ventures Inc.

SPECIALLY RESTRICTED
PK 059524

FPSC Docket No. 950110-EI
FPC Witness: MORRISON
Exhibit No. ______, (BAM-4)
Sheet 2 of 3

ABB
ASEA BROWN BOVERI

Mr. T. C. Hollon
June 20, 1994
Page 2 of 3

TED 5. Have you applied for certification as a QF? If so, may we see a copy? Can you cite the regulation, order or written decision by which FERC approved water distilling plants as legitimate steam hosts as mentioned in your June 16th letter?

BRYAN URBAN 6. Construction seems to occur at a very rapid pace, i.e., one (1) year. Your June 16th letter explains that 18 months will elapse from Notice to Proceed to the completion date. Why then make a one assumption? Is *pro forma* IDC predicated on the basis of 12 months? Must one now allow for additional IDC? What draw down schedule has been assumed? What interest rate is assumed for the construction period?

TED 7. Please provide your permitting plans for gas pipeline, plant construction and operation and the transmission line. That is, identify required permits, the issuing governmental authority, emissions limits (including noise) and estimated time to acquire permits. Also, please explain which configurations and types of turbines as well as the associated emission levels (including noise) were assumed in permit applications. Further, please advise of current status of permits not yet in hand, whether the vicinity is in a non-attainment area and with respect to what pollutants, whether wetlands are implicated, and the extent of local opposition. What technological standards will be imposed? Please provide a copy of all permits in hand.

BYRAN URBAN 8. May we learn Panda's methodology for projecting avoided costs for 1997 and beyond? Is this the result of an internal study or did Panda use an outside consultant? Regardless, may we obtain copies of supporting workpapers?

URBAN 9. Can you explain or offer a citation for the assumed depreciation method? We are having difficulty reconciling to schedules and methods we typically employ.

URBAN 10. Why does the *pro forma* not recognize early years NoL's? That is, why do you not assume that the partners will enjoy a reduction in taxable income on their individual tax returns?

PETE WRIGHT 11. Has Panda presented the project to any lenders? Have they commenced due diligence reviews? What commitments has Panda received to date from potential lending institutions? If so, what was the reaction? Has Panda offered or received any term sheets for negotiation? What equity commitments has Panda received to date from investor-partners?

SPECIALLY
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PK 059525

FPSC Docket No. 950110-EI
FPC Witness: MORRISON
Exhibit No. ______, (BAM-4)
Sheet 3 of 3

ABB
ASEA BROWN BOVERI

Mr. T. C. Hollon
June 20, 1994
Page 3 of 3

PETE WRIGHT 12. May we see a statement as to the latest balance (principal and interest) of the escrow deposit?

TED 13. Please furnish copies of the progress reports mentioned in Section 3.5 of the PPA.

URBAN 14. What is the balance in the Capacity account over time? Maximum, minimum and average? Ref: Section 8.6.3 of the PPA.

PETE WRIGHT 15. What plans do you have to protect against rising interest rates? The assumed rate in the *pro forma* seems to be on the bubble.

Thank you in advance for your responses.

Best regards,

Robert Henry

Robert Henry
Assistant General Counsel

SPECIALLY
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PK 059526

FPSC DOCKET NO. 950110-EI
EXHIBIT NO. _____ (BAM-5)
CONSISTING OF ONE PAGE

PANDA HAS ASSERTED A CLAIM OF CONFIDENTIALITY FOR EACH PAGE OF THIS EXHIBIT

FPSC Docket No. 950110-EI
FPC Witness: MORRISON
Exhibit No. ______, (BAM-5)
Sheet 1 of 1

1.1

PANDA-KATHLEEN L.P.

A Panda Company

June 23, 1994

Mr. David Gammon, P.E.
Senior Cogeneration Engineer
Florida Power Corporation
3201 34th Street South
St. Petersburg, FL 33711

Dear David:

As we discussed in our meeting on June 22, 1994, Panda-Kathleen, L.P. is permitting two equipment configurations- a GE 7EA and an ABBIIN for its Lakeland project. These machines are the most economical units that allow Panda-Kathleen, L.P. to supply the committed capacity of 74.9 MW at all times. The net output of the selected turbine will be 100-115 MW under certain conditions.

A prospective lender has raised the question as to the price that Panda-Kathleen, L.P. would be paid for power in excess of 74.9 MW. The contract provides for payment of the as-available energy prices at times when the avoided unit would not have otherwise run. When the avoided unit would have run, two options exist . FPC would pay either (1) the as-available energy rate or (2) the avoided unit rate. FPC agrees that Panda-Kathleen L.P. shall be paid the "avoided unit rate" under the contract for all energy above 74.9MW during times when the "avoided unit" would have been dispatched, since Panda-Kathleen, L.P. did not elect the "Performance Adjustment" specified in Section 9.1.3 of the contract.

In order to clarify this question and maintain our development schedule, please signify your concurrence on this interpretation in the space provided below on or before July 8, 1994.

Yours truly,

Ted Hollon

Ted Hollon
Vice President
Project Management and Construction

Accepted and Agreed to as of ________, 1994

FLORIDA POWER CORPORATION

By:________________________

Title:______________________

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PK 082787

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FPSC DOCKET NO. 950110-EI
EXHIBIT NO. _____ (BAM-6)
CONSISTING OF TWENTY-SIX PAGES

PANDA HAS ASSERTED A CLAIM OF
CONFIDENTIALITY FOR EACH
PAGE OF THIS EXHIBIT

MEMORANDUM

DATE: **January 16, 1995**

TO: **DISTRIBUTION**

FROM: **Kyle Woodruff**

SUBJECT: **Panda Response to Various Letters & Memos**

This letter responds to a series of memos and letters we have received from Brown & Wood and White & Case and supersedes our previous memorandum dated January 11, 1995.

To prepare for our call on Tuesday, January 17, 1995 at 9:00 a.m. (Dallas time), we wanted to send you this letter responding to a series of memos and letters that we received from Brown & Wood and White & Case. The below responses are preliminary and are not intended to be representations or warranties of Panda or opinions of its counsel. This letter has not been fully reviewed by our various counsel and remains subject to revision to reflect their comments.

Letter from White & Case to Cornelius J. Golden of Chadbourne & Parke, dated December 28, 1994. (PK001)

1.Q Our first area of inquiry concerns the amendment of the Contract as set forth in the letter agreement of April 19, 1993 between FPC and the Company (the "Amendment"), whereby the in-service date was postponed and the early payment procedures waived. This letter is before the FPSC in the "Mega-Docket" in which FPC is requesting approval. Could the outcome of this proceeding affect the validity of the contract or the Amendment, or could it only affect the ability of FPC to pass through to its customers the rates paid to the Company under the Contract?

1.A **The April 29, 1993 letter from FPC to Panda, verifies Panda's election to change from a 1995 on-line date to a 1997 on-line date. This was done at FPC's behest and simply made the switch from Rate Schedule 3, Early Payment Option, columns 5, 6 and 7, pages 2 of 5 to Rate Schedule 3, to Normal Payment Option, columns 1, 2, 3 and 4, page 1 of 5. The Net Present Value of both options is the same and the payments pre-calculated in accordance with the formulas set forth in FPSC Rules 25-17.0832(5). The impact to the ratepayer is identical; will in no way affect the validity of the Contract; and in no way can be construed as a**

reason to convert the Standard Offer in to a Negotiated Contract. The Avoided Unit Reference Plant cited in Appendix C, Schedule 2, page 1 of 1, states the approved on-line date for the avoided Bartow CT units is 1997. There are no other changes, modifications or revisions, to our knowledge, which have not been brought to the PSC's attention.

2.Q FPC has filed a petition (the "Curtailment Docket") requesting PSC approval of FPC's plan to curtail its purchase of electricity from certain Qualifying Facilities ("QFs") during periods in which FPC is experiencing minimum load conditions. It is our understanding that FPC's curtailment plan would impose curtailment obligations on three categories of Qfs. Our question in this regard also arises from the Company's plan to shut down the Project during Off-peak hours when the as-available energy rate payable under the Contract would be less than the marginal fuel and other operating costs to run the Project during such hours. If the Curtailment docket is approved by the PSC, would the minimum-load periods when FPC would be entitled to curtail the Project match the off-peak periods when the Company is already planning not to operate the Project?

2.A **The Plan will have no effect on the Project's operation or projected revenues. FPC has the right under FPSC Rule No. 25-17.086 of the Standard Offer Contract to stop our operations under the conditions set forth in the Curtailment Plan (which we believe merely implement the terms of this Rule). Secondly, during the times when the low load conditions occur and the curtailments enacted we generally expect that the Facility will already have been shut down.**

According to the Standard Offer Contract, the Project is paid a Peaker Capacity Payment based on a Open Cycle Combustion Turbine burning No. 2 distillate fuel oil, during on-peak hours.

During peak hours when that unit would have been called on to run, the Project will receive an energy payment based on the price of No. 2 fuel oil times an open cycle heat rate of 11,610 BTU/KWH (the Project's energy cost is based on Natural Gas Pricing times a combined cycle heat rate of 8100 BTU/KWH) for 74.9 MW. For all other energy and at all other times, as a QF under the Standard Offer, the Project paid on an hour-by-hour basis, the "As Available" energy price in accordance with FPSC Rule No. 25-17.0825, which is an Appendix to the Standard Offer Contract.

According to the Curtailment Plan, Group C (QF's selling as-available energy on a non-firm basis) is reduced; and then Group B (QF's including the Project, selling firm energy and capacity) is curtailed by 50%. Before either such curtailment, FPC will:

1.) Reduce baseload units (mostly coal) to normal minimum operating levels; and

2.) Cycle off any remaining oil and gas-fired units.

Revenue from the sale of "As Available Energy" completely tracks the incremental cost of peaking (gas) and oil-fired contribution to FPC's energy price mix. The Project revenues do not track or compete with incremented coal or nuclear. When the price paid for "As Available Energy" is reduced to the coal threshold, the Project's operation would be uneconomical and thus shut down. Using FPC's As-Available Forecast, as projected beginning in 1997, the Project's proforma calls for some 2100 hours of shut down due to the above pricing conditions.

From October 1993 to May of 1994, FPC has, to our knowledge, cited a possible eight (8) occasions when the Facility could have been evoked (at a 2-3% per year load growth projection, this would be substantially reduced by 1997). The plan was enacted once during a shoulder month of 1994 for a 2 hour time period. From this it follows that the worst-case curtailments of 16-20 hours per year during the time period 1993-1994, will easily be swallowed up by the 2100 hours of proforma projected down time after 1997.

3.Q The third proceeding before the PSC (the "Energy Pricing Docket") deals in general with the calculation of energy payments based on a hypothetical proxy plant under several of FPC's negotiated power purchase contracts. However, we understand that the Energy Pricing Docket probably will not affect the Project, since (a) the proxy plant under the contract is different from the hypothetical proxy plant that is the subject of the Energy Pricing Docket and (b) we understand that, as a practical matter, the projected energy payments for the Project will be based on the as-available rates rather than on the proxy plant-based measure of payments.

3.A As stated in question No. 2, the Project's revenues under the Standard Offer Contract are based on the Avoided Unit specifically stated as the 1997 Bartow Open Cycle Peaking Units burning No. 2 distillate fuel oil. The proxy units contemplated under the Energy Pricing Dockets are understood to be gas fired combined cycle combustion turbine, base loaded units slated for 1998-2002 time frame.

4.Q The fourth proceeding before the PSC that could have an effect on the Project is a proceeding whereby the PSC is considering revisions to its cogeneration rules (the "Cogeneration Rulemaking Docket"). It is unclear what direction the PSC will take in the Cogeneration Rulemaking Docket, however the final result of this proceeding could have an impact on the Project. Do you have any information regarding whether the Cogeneration Rulemaking Docket will affect the Project?

4.A **Panda's position would clearly be that the Contract is made on the basis of the FPSC rules in affect at the time of the Public Offering and the selection process in November of 1991. Any attempt by the Utility or the Commission to change those rules would be unconstitutional. Our understanding is that the Rule Making Docket will institute changes for future Standard Offer and Negotiated Contracts and mostly addresses the dispatchability of those future contracts rather than the must run conditions that have existed before.**

5.Q This question arises from the fact that the Standard Offer contract is for the Company to provide, and receive capacity payments for, 75 MW, but the Company anticipates selling, and receiving energy payments for, up to 115 MW. Is there any basis under PSC or FERC regulations for another entity (such as a QF which is party to a FPC negotiated contract and which is being curtailed under the plan set forth in the Curtailment Docket) or the PSC itself to challenge the company's ability either to sell more than 75 MW under the Standard Offer Contract or to avail itself of the Standard Offer Contract in the first instance?

5.A First of all, the approval and permitting processes were carried out in forums that invited intervention and none occurred. Those opportunities are past. Secondly, the Contract, under FPSC Rule No. 25-17.0825 gives the Project the right to sell this excess energy on an hour by hour at "As Available" Rates. This is a good deal for the rate payers because they get the advantage of this low cost energy without having to pay for the associated Capital Capacity Charge. Thirdly, this concept has been signed off on by the Commission Staff in consultation with Florida Power Corp.

6.Q Are you (or the Company's Florida counsel) aware of any other matter on the PSC docket, or likely to be placed on the PSC docket in the future, which could have an adverse effect on the Project?

6.A The aforementioned items constitutes all of the FPSC docket consideration which potentially impact the Project.

Brown & Wood Memo dated December 27, 1994 From Robert L. Vitale And Robert J. Donatucci regarding Status of Florida Regulatory Issues (PK002)

1.Q Which, if any, of the topics before the PSC could adversely affect the Project's viability or economics following completion, if adversely determined from the Project's perspective?

1.A **We do not foresee that any of the topics before the Florida Public Service Commission (FPSC) will in any way adversely affect the Project. Please see the answers given in response to the White and Case letter dated December 28, 1994 regarding the four Docket issues being questioned.**

2.Q What is the best method (from an enforceability standpoint) for incorporating the various comments and issues now reflected in correspondence among Panda, FPC and the PSC (dated January 26, 1993, March 23, 1993, April 29, 1993, August 23, 1994 and August 24, 1994) into the PPA itself?

2.A **We do not see any benefit to be derived from trying to incorporate the letters mentioned in this question formally into the Standard Offer Contract. In fact, we do not know if that would be possible due to the autonomy of the Contract and the FPCS rules which are the basis for the Contract. The Standard Offer stand alone. We have made certain elections within the framework of that Contract. Please see answer to the White and Case letter dated December 28, 1994; first question dealing with the concern about the "Mega Docket" and how the FPSC would view the on-line date election. At this point any additional formal activity before the commission on this pre-approved Contract is not believed to be necessary nor desirable.**

3.Q Given that the Project's pricing is tied to the inefficient Bartow plant, is there any risk to Project pricing if the Bartow plant is repowered to become more efficient?

3.A **The avoided unit which serves as the proxy plant and basis for payment under this Contract does not exist, nor will it ever exist. The basis for the payment streams set forth in the Contract, under Appendix C, Schedule 2, page 1 of 1, are locked in with their escalation factors and will not change.**

Memorandum from R.L. Vitale and R.J. Donatucci of Brown & Wood, dated December 20, 1994 regarding comments to the EPC Agreement. (PK003)

The comments in this letter must each be addressed with the Contractor. In general, Panda is amenable to considering the changes requested, but would appreciate receiving specific language suggestions to provide to the Contractor.

Memorandum from Gerald Drumm of White & Case dated December 16, 1994 referencing the Construction Contract between Panda-Kathleen, L.P. and Walsh-Gilbert/Commonwealth. (PK004)

1.Q The design capacity of the power plant (stated to be 110 MW net) needs to be clarified.

1.A The design capacity of the power plant is 110 MW net. This is the nominal output of the power plant at the design conditions of 95 degrees F and 45% relative humidity and 19,000 lbs/hr of steam to the thermal host. The nominal output of this power plant at 72 degrees F and 60% relative humidity and 20,000 lbs/hr of steam to the thermal host is 115 MW net. 115 MW is the output of the power plant at the average ambient yearly temperature.

2.Q Aside from an occasional reference in the Construction Contract and the Scope of Work Exhibit, the distilled water plant design and construction does not appear to be addressed.

2.A The distilled water plant design and construction appears in Section 9 of the Scope of Work. The distilled water plant serves as the Zero Discharge Facility as well. They are one and the same. The proper term should be the Zero Discharge/Distilled Water Plant.

3.Q The insurance provisions seem to negate Walsh-Gilbert's assumption of the risk of loss prior to Substantial Completion.

3.A Walsh-Gilbert retains the risk of loss until the Substantial Completion Date. However, that risk is limited only to the extent Builders' Risk Insurance covers a specific loss.

4.Q The basis for change orders initiated by Walsh-Gilbert needs clarification.

4.A Further delineation of this question is needed.

5.Q Walsh-Gilbert's rights to access retention should be clarified.

5.A A 10% retainage is taken from all payments to the Contractor except the Engineering Design Fee and Contractor's Fee. It was negotiated that this profit portion of the payments would be unaffected by the retention since the original retention was 5% instead of 10%.

6.Q The scope and duration of Performance Testing may be inadequate.

6.A The scope and duration of Performance Testing is adequate to meet the requirements of the PPA and to determine that the Contract guaranties have been met. Specific areas of concern should be delineated.

7.Q The payment of performance bonuses and the mechanics of the use of shared savings for warranty claims needs clarification.

7.A Further delineation of this question is needed.

8.Q There is a need to understand that the GMP mechanism assures a lump-sum arrangement for the entirety of the Work.

8.A The Guaranteed Maximum Price (GMP) is a turnkey not to exceed price. The Total Cost of the Work plus Construction and Engineering fee can not exceed this amount except as adjusted by Change Order.

9.Q The limitation on certain of Walsh-Gilbert's liabilities should be clarified.

9.A Further delineation of this question is needed. However, the 30% and 50% limitations were heavily negotiated and we do not expect to be able to make any substantive changes.

10.Q The payment schedule may need to address monthly maximum payments in order to adequately provide for capitalized interest during construction.

10.A No maximum payment is provided. However request for payment is based on actual work performed, equipment delivered to the Facility Site the previous month, progress payments to substantial vendors, and prorated Engineering, Design and Contractor's fees. The largest impact to payment schedule will be delivery of power island equipment occurring in September through November of 1995.

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Memo from Robert Vitale and Robert Donatucci of Brown & Wood to Distribution, dated December 29, 1994. (PK006)

Re: **Land Purchase Agreement**

Q.1 Closing Date. Section 2.01 indicates a January 1, 1995 closing date, with options to extend. Has the extension option been exercised, or will the purchase be completed on or before January 1, 1995?

A.1 The purchase of the Ruthven property was completed December 30, 1994.

Q.2 Title & Approvals. Please provide us, H&K and W&C with copies of the relevant title commitment mentioned in Section 2.04. Please also provide the same parties with copies of (i) the Approvals (and applications therefore) mentioned in Section 2.03 (to the extent such applications and Approvals have not otherwise been provided for review) and (ii) the proposed Special Warranty Deed mentioned in Section 2.04 (B).

A.2 (i) Approvals can be obtained from Dennis Sughrue with Chadbourne & Parke. (ii) A copy of the Special Warranty Deed is attached.

Q.3 Other Acquisitions. Please confirm that, with the exception of the real property acquisitions contemplated by the interconnection arrangements and the gas pipeline, there are no other real property interests required for the Project or the steam host.

A.3 There are no other real property acquisitions. The real property required for the electrical interconnection will be acquired by the City of Lakeland.

Memorandum from Robert Vitale and Robert Donatucci of Brown & Wood dated December 29, 1994. (PK007)

QF Application & Order:

1. No comment required.

2.Q The application refers to Panda as the "operator" of the Project. To the extent that these facts change (i.e., another thermal host is used of Calpine acts as operator of the facility) , we would expect the Project to be re-certified, reflecting the correct facts.

2.A Panda is not seeking, and has no plans to provide thermal energy to an alternative thermal host. Panda Kathleen will lease the thermal host facilities to

Lakeland Water and provide contract O&M services for the host Facility. Panda Kathleen will operate both the cogeneration Facility and the thermal host Facility and will subcontract certain O&M responsibilities to Calpine. Therefore, Panda believes there will be no necessity for QF recertification.

3.Q It appears that in C&P's request for expedited processing of the QF application, a statement to the effect that "the ownership of the two Projects (i.e., Panda and Brandywine) is identical, as is the steam use . . .", is not quite accurate.

3.A The Panda-Kathleen QF Application and Panda Brandywine QF Order clearly define the owners of the two facilities as limited partnerships which are each wholly owned subsidiaries of Panda Energy Corporation. The applicants, in each case, are clearly identified as being different entities. The second part of the concern, the identical use of steam, is absolutely correct.

Transmission Construction Agreement:

1.Q Section 3.1 (1) contemplates a Notice to Proceed for construction work to be given by January 1, 1995, with a corresponding completion deadline of December 1, 1995. Will the NTP be given by this date? If the date is later than January 1, 1995, and construction completion occurs after December 1, 1995, will this have an adverse consequence on other construction or operation deadlines for the Project?

1.A The NTP was given to the City of Lakeland on January 4, 1995. Thus, in accordance with the construction contract the completion date is now December 4, 1995. This will not have any adverse consequences on other construction or operation deadlines since the EPC contract specifies that the electrical interconnect does not need to be complete until January 1, 1996. See attached letter dated January 4, 1995.

2. No comment required.

3.Q Section 3.5 indicates that Lakeland will own the facilities notwithstanding Panda's payment for their construction. It is recommended that provisions should be added to the Interconnection Agreement which addresses requirements for insuring, maintaining, repairing, and upgrading or modifying the facilities being constructed.

3.A Refer to the attached City of Lakeland facsimile dated january 12, 1995 (COL Fax), Item 3 under Transmission Construction Agreement (TCA).

4.Q The force majeure provisions in this Agreement do not match precisely with the force majeure concepts as embodied in the FPC PPA. The force majeure concept should be tied to the force majeure standard contained in the FPC PPA.

4.A **Under review by COL**

5. No comment required.

6. No comment required.

7.Q We noted the mutual representations set forth in Article 9 of the Agreement and would recommend inclusion of corresponding representations in the unfinished Interconnection Agreement.

7.A **This matter is being pursued with the City and it is not anticipated that it will be a problem to make this addition to the Interconnect Agreement. Refer to COL Fax, Item 7, TCA.**

8.Q Exhibit 4 to the Agreement summarizes certain Standby Services to be provided to the Project. It is not clear to us where these services are contracted for, nor the meaning of the language which states that "This offer is in effect until January 31, 1995." We would appreciate some guidance from Panda on this topic.

8.A **Under normal operating conditions power for the generating facility will be supplied by the facility. Start-up power will normally be backfed through the 69kv interconnection facilities. In the event the interconnection facilities are out of service or maintenance is being performed on the main power transformer (black-out condition), standby electrical service for the office and maintenance facilities of the plant will be provided via this Standby Service. This was included as an option until the need for this service could be adequately evaluated with regard to engineering feasibility, plant operations, and cost effectiveness. This evaluation is in progress and will be complete prior to January 31, 1995.**

9.Q Reference is made to a December 7, 1994 fax from the Bond Counsel regarding the question of tax exempt status in the Interconnection Agreement. A copy of this letter was not included with the Agreement. Is this the same as the 1992 Mudge, Rose opinion?

9.A **The referenced fax states that the 1992 opinion still applies. However, after further discussions with the City regarding the tax issue a new opinion has been requested from Bond Counsel to specifically address the Panda-Kathleen use of the City's system. A new opinion is expected to be forthcoming shortly. m Refer to COL Fax, Item 1 under Transmission Interconnection Agreement (TIA).**

Memorandum from R. L. Vitale and R. J. Donatucci of Brown & Wood, dated December 28, 1994 regarding Comments to undated draft of the Interconnection Agreement. (PK008)

1.Q Attached to the Agreement is a letter from Mudge, Rose dated January 24, 1992 acting as bond counsel to the City of Lakeland giving some comfort to the utility regarding the impact on the tax exempt status of the bonds in light of several proposed Projects, including Panda-Kathleen. At a minimum, it is likely that an updated opinion will be required from Mudge, Rose.

1.A Refer to answer to Question 9 in response to Brown & Wood memorandum dated December 29, 1994. (PK007)

2.Q Section 5.2 indicates that the transmission priority for the Project follows that of certain wholesale and retail customers and other existing firm commitments. Is there any possibility that transmission services could be curtailed in light of this order of priority?

2.A This is consistent with FPSC Rule 25-17.089 (3) which allows electric utilities to deny, curtail, or discontinue transmission service if the provision of such service would adversely affect the safety, adequacy, reliability, or cost of providing electrical service to the utility's general body of retail and wholesale customers. Refer to COL Fax, Item 2 under TIA for further explanation regarding restoration of service.

3.Q Section 5.3 refers to force majeure concepts as embodied in the FPC PPA. In contrast, Section 5.1 contains no such cross-reference. Force majeure should be tied to the force majeure concepts in the PPA.

3.A Refer to COL Fax, Item 3, under TIA.

4.Q Section 11.2 imposes certain limitations on the Project's remedies against Lakeland which seem inconsistent.

4.A Refer to answer to Question 5 in response to Brown & Wood memorandum dated December 29,1994. (PK007) Refer to COL Fax, Item 4, TIA.

5.Q The terms of Section 12.1 allow changes in the rates to be charged for providing transmission services. Were these changes accounted for in the financial projections?

5.A The Rate Schedules referred to in Section 12.1 and contained in Exhibit 1 do not apply to the charge for Firm Transmission Service. The charge for Firm Transmission Service is based on the rate set forth in Appendix A as stated in Section 5.1. The Rate Schedules in Section 12.1 is for Auxiliary Service which is

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electrical energy and capacity used by Panda for backup, supplemental and maintenance requirements (i.e.: minimal usage when Panda is not generating). Refer to COL Fax, Item 5, TIA.

6. **No response required.**

7.Q Shouldn't the reference in Appendix C to Capacity Reserved at 74,900 kW +/- 10% be instead to 115,000 kW +/- 10%?

7.A **Yes, the Capacity Reserved should be 115,000 kW +/- 10%.**

Re: Permits

For Questions 1-8 refer to the attached ECT letter of January 5, 1995 to Kyle Woodruff.

Memo from Robert L. Vitale of Brown & Wood to David Mayer, Panda Energy, and Cornelius Golden, Chadbourne and Parke, dated December 22, 1994. (PK009)

No comment required. Materials requested are being prepared and will be forwarded when complete.

Letter from Brown & Wood to Robert Liander of Alexander & Alexander, dated December 22, 1994. (PK010)

No comment required.

Memorandum from R. L. Vitale and R. J. Donatucci of Brown & Wood dated December 26, 1994 referencing Model Consent, Officer's Certificate and Legal Opinions; Environmental Assessment Report and Power Purchase Agreement (PK011)

Model Consent and Agreement

This form, as recently revised, may be presented to the appropriate parties for consideration. Panda will require further input once the Project-specific portions are being negotiated. Panda does not necessarily agree with all of the terms of the form, but will generally await responses of applicable parties.

Form of Opinion of Project Participants

This form may only be considered fully when the financing and applicable Project documents become more complete. Legal issues relating to the opinions are being considered as they arise.

Chadbourne & Parke Legal Opinion

Preliminary review has begun. However, this form may only be considered fully when the financing and applicable Project documents become more complete.

Model Officer's Certificate

Preliminary review has begun. However, this form may only be considered fully when the financing and applicable Project documents become more complete.

Environmental Assessment Report

No response required.

Correspondence Related to Power Purchase Agreement

Refer to response to Question 1 of White & Case letter to Cornelius J. Golden dated December 28, 1994.

Panda Kathleen: Consent of FPC from Laurence Pettit of White & Case, dated January 5, 1995. (PK012)

No response required.

Memorandum from R.L. Vitale and R.J. Donatucci of Brown & Wood dated January 3, 1995 regarding O&M Agreement. (PK013)

1.Q Regarding the three year term, Brown & Wood indicated that rating agencies may associate market risk with respect to hiring a new operator at the end of the initial term which may not be acceptable to rating agencies and noteholders.

1.A **Since Panda's equity partner, Calpine, is willing to perform the O&M Contract duties at cost, Panda will change the term to match the Power Purchase Agreement. This will be reflected in the next contract draft.**

2.Q. Final compensation package and Force Majeure provisions needs further review.

2.A **Panda is revising the compensation package and Force Majeure provisions to reflect the "at cost" approach for providing O&M services. This will be reflected in the next contract draft.**

3.Q Detailed suggested contract language was provided.

3.A **This language will, with one exception, be incorporated in the next contract draft.**

Brown & Wood Memorandum dated January 3, 1995 From Robert L. Vitale and Robert J. Donatucci regarding Gas Purchase Contracts. (PK014)

1.Q We would appreciate some comfort from ICF and Brown & Root regarding their technical analysis of the Contract's terms, including calculation of nominated quantities and prices, timing of delivery notices, and use of indicated indexes.

1.A **These can be found in Section 3 of the Gas Contract, as well as Exhibits C and D of the Gas Contract ("GPC").**

2.Q We would also appreciate some comfort from ICF and Associated regarding the sufficiency of the Seller's gas supplies. Depending upon the strength of this review, we may need further backup to keep the rating agencies happy, but we would expect this level of comfort to be no more rigorous than what the banks will require.

2.A **Attached is Thom Hirsch's letter to Associated's General Counsel with mark up of GPC according to Lender's request. Note, supply base and credit.**

3.Q If the Seller requires permits and authorizations for future performances of the Contract (as indicated in its representations), we will need some help from the Seller in understanding what risk, if any, this presents to the Project, particularly in the post-completion phase.

3.A **What permits and authorizations are needed by Seller for performance - risks to the Project? This has been requested of Seller to give Panda an answer, few permits that I'm aware: 1) agency agreement between Panda/FGT/ANGI and act as Panda's agent to a) transport, b) make nominations and c) capacity release.**

4.Q Under Section 3.4.1, there is a (perhaps highly technical) possibility that the damage formula will not yield an intended result if replacement gas is not available in the market (and thereby rendering the loss to be quantified under clause (a) unascertainable); perhaps the use of oil would provide a satisfactory substitute fuel. There are other ways to solve this problem as well, and we would be happy to provide other solutions to Panda if it would like to pursue this point further. Otherwise, we would not expect the rating agencies to focus on this point much more, particularly if our other changes to this Section are acceptable to the parties.

4.A Comments to GPC in this area may add some clarification, but as pointed out by Brown & Wood (B&W), the area is minimal and remote. Panda feels we are covered.

5.Q The rating agencies may question why the term of the Contract is not longer; if this cannot be addressed now, we can wait to see if they raise this as a material issue.

5.A Twenty years as requested, with three year successive ("evergreen") roll over periods unless terminated.

6.Q We suspect that the rating agencies may also question Sections 10.5 and 17.2, to the extent these clauses contemplate revised pricing for the gas; again, if this issue cannot be addressed today, we can wait to see how the agencies will react, but we think the better course of action would be to narrow these provisions as much as possible.

6.A Changes contemplated in Section 10.5 are if an Index is no longer published or the "integrity" of the Index no longer reflects "market conditions". Change in Section 10.5 on the premium paid ($.03/minimum) would only be if either party perceives a real change in the service costs being reflected in the industry. Neither of the above allow for: 1) termination of the GPC; nor 2) a change from a methodology calculated on "current market conditions" for a "monthly/daily current pricing." Section 17.2 allows that if a loss were to affect either Party, the Parties will either: 1) proceed as changed or 2) renegotiate to attempt to place both Parties at "as near the economics" they were at, prior to the change in law.

7.Q Will the banks be providing the Buyer's LOC, and if so, on what terms?

7.A Will respond when information is available.

8.Q If the guaranty to be provided by Seller's parent represents the real credit in the transaction, we may need to tighten up the default provisions further to reflect the presence of the guaranty and making it an immediate default if the guarantor's credit slips without some additional credit support in the form of a Seller LOC or replacement guarantor.

8.A **See Thom Hirsch's letter to Associated and comments.**

9.Q Will test gas be purchased on the spot market, and if so, will sufficient transportation facilities exist at the time when needed?

9.A **Test gas will be purchased from ANGI via capacity from Lakeland, Florida with sufficient capacity (FGT and Lakeland see more than adequate capacity).**

10.Q We would recommend adding provisions permitting execution in counterparts, permitting severability of provisions, waiver of jury trial in any proceeding not settled by arbitration, and the right to terminate the Contract due to bankruptcy or insolvency or either Party or the Guarantor.

10.A **These requests have been added to the other contract revisions asked of ANGI.**

Brown & Wood Memorandum dated January 4, 1995 From Robert L. Vitale and Robert J. Donatucci regarding Gas-Related Contracts. (PK015)

1.Q What is the status of FGT's application to approve the new tariff relating to its Phase III expansion? Are we correct in assuming that if the tariff is not approved, the relinquishment transaction cannot be consummated? If that is so, what is the contingency plan? When we will know whether such approval will be given or denied?

1.A **Thom Hirsch will address.**

2.Q As you will see, we modified Section 1 to emphasize that the contract is <u>effective</u> when executed, although services thereunder will not commence until June 1, 1996.

2.A **This is acceptable.**

3.Q As we interpret the Agreement, under Section 3 Panda will be paying to Lakeland those sums which Lakeland is in turn required under Section 4 to pay to FGT, to the extent related to the relinquished capacity. This is being done because the Project is not sufficiently creditworthy, and therefor Lakeland is interjecting its credit on behalf of the Project. If, for any reason, Lakeland is prevented from remaining as an intermediary, or no longer satisfies FGT's credit standards in its own right, can the Project contract directly with FGT, permitting the Project to make such payments directly to FGT, while leaving Lakeland "on the hook" in name only, and insuring (as far as the Project is concerned) no unexpected interruption in payments to FGT? Will FGT provide notice to the Project or any missed payment, with an opportunity to cure in favor of the Project?

3.A **Thom Hirsch to address.**

4.Q What is the status of the conditions precedent mentioned at the end of Section 7, which were to be satisfied by January 1, 1995?

4.A **The conditions precedent have been met and are now being changed to reflect this.**

5.Q Section 8 establishes a best efforts basis to replace the Agreement if it is not approved by FERC or if it cannot be implemented within FGT's tariff; what other options are available in that scenario?

5.A **Other shippers will be sought.**

6.Q Consider adding a severability provision to the document and a waiver of jury trial for those disputes which are adjudicated in court. If the role of Lakeland as paying agent intermediary cannot be circumvented, it would be helpful if additional language was added in which Lakeland agreed to act as paying agent on a hell or high water, no setoff or reduction, no interfering claim basis, to the extent the Project has provided Lakeland with the necessary funds. The indemnification we added in Section 4 is a start on these concepts.

6.A **Changes are being reflected in agreement.**

7.Q Considering also adding some form of provision whereby Lakeland will enforce its rights against FGT to the extent required to protect the Project's rights under the Agreement, particularly if the Project does not have such rights directly against FGT because of the intermediation of Lakeland.

7.A **Changes are being reflected in agreement.**

Notice of Request Under Blanket Authorization:

1.Q Have any notices of protest been filed in respect of this request? We understand that the protest period expires on January 9, 1995; is this correct? The Notice provides that "FGT states that it would deliver 17,260 MMBtu of gas on an average day and 6,300,000 MMBtu of gas per year to Panda-Kathleen under new interruptible and released firm transportation service agreements." Where is this statement derived from?

1.A **Notice to protest were timely filed with FERC. January 9, 1995 was last date to timely protest. 17,260 MMBtu per day and 6,300,000 annually deliveries by FGT to Panda? I don't know where this came from, will ask FGT/Thom Hirsch.**

Letter Agreement with FGT Re: Construction of Delivery Points:

1.Q What is the status of the construction tasks mentioned in this Agreement, as well as the permits required of FGT to perform its obligations thereunder? Is there any significant risk that such permits will not be granted? Besides the FERC approval discussed above, what other permits or authorizations are required?

1.A **Notice to protest construction is past. FGT has requested any and all permits, which check status. Little risks we are aware of, of not receiving permits, not sure what other permits are required.**

FTSA-1:

1.Q When will the exhibits to this Agreement be completed?

1.A **Thom Hirsch is addressing.**

2.Q What is the status of the comments set forth in Article IV (which should be numbered as Article V)?

2.A **Thom Hirsch is addressing.**

3.Q What is the status of the regulatory approvals referred to in Article VIII; when will they be obtained?

3.A **Thom Hirsch is addressing.**

4.Q What is the business deal regarding FGT's right to review the Project's creditworthiness, as indicated in handwritten comments marked onto Article X?

4.A **Thom Hirsch is addressing.**

5.Q Please provide a copy of the relevant Request referred to in the recitals.

5.A **Thom Hirsch is addressing.**

FTSA-2:

1.Q When will Exhibit A and B be prepared?

SPECIALLY RESTRICTED PK 056177

1.A **Thom Hirsch is addressing.**

2.Q Will the same changes marked onto Article V of FTSA-1 be made to Article IV of this Agreement?

2.A **Thom Hirsch is addressing.**

3.Q Please confirm that the new facilities referred to in Article VII are in addition to the facilities to be built under the Construction of Delivery Point Letter Agreement referred to above, and are not needed to operate the plant.

3.A **Thom Hirsch is addressing.**

4.Q What is the status of the regulatory approvals referred to in Article VIII; when will they be obtained?

4.A **Thom Hirsch is addressing.**

5.Q The last sentence in Article X seems to be some form of cross-default provision to the Construction Letter Agreement, without any form of grace or cure rights. Given the importance of both agreements, we would recommend some notice, grace and cure rights be added. Are the "conditions" referred to in this Article the receipt of money, and if so, that should be clearly stated.

5.A **Thom Hirsch is addressing.**

6.Q Please provide a copy of the relevant Request referred to in the recitals.

6.A **Thom Hirsch is addressing.**

Mutual Termination and Release

1.Q What is the status of this document?

1.A **Thom Hirsch is addressing.**

2.Q Why are the releases not more reciprocal?

2.A **Thom Hirsch is addressing.**

3.Q What is the percentage concept contained in the document? How can it work?

3.A **Thom Hirsch is addressing.**

4.Q If this document is to be executed, we would recommend adding some additional "boilerplate" provisions to insure its enforceability (e.g., governing law, some form of authorization representation, successors and assigns, etc.

4.A Thom Hirsch is addressing.

5.Q The document should be addressed to the partnership, not the general partner.

5.A Thom Hirsch is addressing.

Letter Agreement Regarding Prearranged Permanent Capacity Release

1.Q The draft of this letter agreement is somewhat difficult to interpret, given various comments written on the document. Please provide us with the current form of this document to review. We note, however, that the draft we were supplied seems to constitute some form of waiver in Section 2, wherein Lakeland and the Partnership agree that their "sole and exclusive remedy" against FGT is to apply for administrative relief, and the parties seem to waive other claims against FGT even attributable to FGT's actions. We will need a better understanding of the reason for this provision and its impact on the Project.

1.Q Thom Hirsch is addressing.

2.Q As a general matter, the document suffers from the same problem as the other letter agreements referred to above, insofar as it lacks certain "boilerplate" provisions to make it more enforceable; we would suggest adding this language, which we can supply to you if necessary.

2.Q Thom Hirsch is addressing.

Draft of June 7, 1994 Letter Agreement Regarding Disputes Between Panda and FGT

1.Q We have reviewed a June 7, 1994 draft of a letter agreement which discusses some disputes between Panda and FGT, including some form of termination notice issued in respect of the 1991 FTS-2 agreement. We would like further information regarding this dispute and the other terms and provisions set forth in this letter, as well as some indication as to whether the letter will be signed in some form.

1.A Thom Hirsch is addressing.

Letter from N. Clay Jones of Brown & Root, Inc. to Kirk H. Edelman of the Bank of Tokyo Trust Company, dated January 6, 1995. (PK016)

1.Q Contract tenure - The gas purchase, power purchase agreement (standard offer with amendments), and proposed loan tenure do not match.

1.A **The chart is incorrectly drawn by showing the Power Purchase Agreement (Standard Offer Contract) as 20 years. Please refer to the Contract, Article IV,**

Term and Milestones, Section 4.1 which the term of the Agreement as beginning on the execution date (November 25, 1991) and expiring on the last day of March 2025.

Standard Offer:

2.(a)Q The payment provisions in the standard offer (PPA) are absent after the 20th year. There are no assurances that consistent payment provisions will apply. We note this in the above graph at year twenty (20).

2.(a)A **According to the FPSC Rules, the time period over which firm capacity and energy shall be delivered is at a minimum of 10 years and at a maximum period of time equal to the anticipated plant life of the avoided unit. The quoted provisions require illustrative calculations for at least 10 years. According to the rules "upon request .... each utility shall provide within 30 days, its most current projection of fuel forecasts, as well as any other information reasonably required .... to Project avoided cost prices".**

Hence, the utility must run its illustrative projected numbers for 20 years even though the minimum contract term is 10 years. The 20 year term of the payment tables does not imply a 20 year limit to the contract term.

Rule 25-17.083 (3)(e)6. specifically states "At a maximum, firm capacity and energy shall be delivered for a period of time equal to the anticipated plant life of the avoided unit, commencing with the anticipated in service date of the avoided unit.

Payments beyond 20 years are calculated using the same formulas as those which generated the tables. For example, 25-17.0832 (5)(a) provides the formula for calculating the year by year value of deferral. The formula yields the utility's monthly value of avoided capacity in dollars per kilowatt month for each month of the year n, where n is defined as: "year for which the avoided unit is deferred

SPECIALLY RESTRICTED
PK 056180

starting with its original anticipated in service date and ending with the termination of the contract. In this case, the ending of the contract is March 31, 2025.

2.(b)Q The agreed delay in the amendment to 1/1/97 is confusing. The facility is expected to be completed 7/1/96. We do not see in the amendment provisions for capacity payments from FPC prior to 1/1/97. FPC may not accept as-available energy from Panda-Kathleen prior to 1/1/97.

2.(b)A The second sentence of this paragraph is correct. There are no capacity payments from FPC prior to the avoided unit on-line date which was amended (or better stated, election of normal payment option instead of early payment option). However, according to the Florida Public Service Commission Rules, Supplement No. 157, Rule Number 25-17.0832, Section 4(a). page 17-41, "Prior to the in-service date of the avoided unit, the qualifying facility may sell as-available energy to the utility pursuant to Rule 25-17.0825."

2.(c)Q There are no specific provisions as to the maximum amount of energy FPC will take. Ordinarily we would expect some upper limit.

2.(c)A The maximum amount of energy FPC will take is defined as the maximum output of the power generation equipment as presented to the FPSC (and confirmed by them and FPC), in accordance with the Barrett Johnson letter to the FPSC dated August 23, 1994 and the FPSC letter from Joseph Jenkins dated August 24, 1994. Payment for this energy is assured under FPSC Rule No. 25-17.0825, As Available Energy, page 17-41 of the supplement No. 157, appendix to the Contract.

Gas Purchase Contract (supply)

3.(a)Q First year volumes under contract (10-12 MMBtu/d) will not fuel the facility for 6500 hours as suggested in the pro forma projections. Also, during the performance testing and reliability runs (three days and seven days respectively) the Project is subject to spot gas availability and not firm supply.

3.(a)A The 6500 hours run time includes both "on-peak" and "off-peak" hours. The 10-12 MMBtu/d is the amount of capacity presently contracted for which is the amount needed to fuel the facility at full load for the "on-peak" hours. Additional capacity will be purchased as required. During performance testing if after June 1, 1996, gas capacity and supply will be available. Prior to June 1, 1996, City of Lakeland will provide capacity as required.

3.(b)Q The maximum available quantity of 20,000 MMBtu/d is insufficient to fuel the facility at full load (22,800 MMBtu/d).

SPECIALLY RESTRICTED PK 056181

3.(b)A **Yes, the maximum quantity under contract is 20,000 MMBtu/d. ANG will supply up to 22,800 MMBtu/d if firm capacity is purchased for that volume. It is anticipated that firm capacity or interruptible capacity will be available to meet the full amount.**

Gas Transportation Agreements

4.Q Only references to Panda Kathleen's ability to obtain firm transportation for the full quantity of gas required by the facility to fuel full load are made. Granted, excess capacity for Phase II and Phase III expansions of FTC's line are currently available. These capacity reservations should be obtained prior to financial closing.

4.A Please clarify "capacity reservations". Are these options or is the recommendation to purchase firm capacity for the full amount; thus requiring payment of transportation charges for the full amount for the life of the plant.

EPC Contract

5.(a)Q Scope Definition - Control of contract costs is a potential problem since the plant is to be built on general specifications. For example, the distilled water facility describes the system as a whole, but is not specific regarding redundance, materials of construction, etc. Other cost increases may occur as design progresses for things such as pavement for maintenance access that may be desired by the O&M Contractor. Although these cost extras may not be major increases, the cumulative effect may be significant. The owner's costs in the budget may or may not have considered these items.

5.(a)A Cost is controlled through the not-to-exceed Guaranteed Maximum Price (GMP) for the work on a turnkey basis to provide a facility that meets the Performance Guarantees, the requirements of the PPA, all applicable Permits and Codes as well as the Scope of Work. The Scope of Work provides a level of Quality, Operability and Maintainability which must be met in the engineering and design not only of the Contractor but any of its subvendors and contractors (Refer to Section 2.1; Section 2.7 for general requirements and Sections 9.1.1, 9.2.2, 9.3.3, 9.4.2, 9.4.3, 9.4.4 for the distilled water facility).

5.(b)Q Distilled Water Plant - Waste water is cycled through the distilled water plant where solids are removed for disposal. Reliability of this system is essential to operation of the cogeneration facility, however, as discussed above, the system is not well defined.

5(b)A This is essentially the same question as (a). See above response.

6.Q No response required.

Fax from Laurence Pettit of White & Case to Kirk Edelman of the Bank of Tokyo, dated January 5, 1995 regarding Draft Calpine Term Sheet. (PK017)

1.Q Are you concerned that Panda has an option to buy out Calpine stake - is there any reason to require that Calpine continue to have a stake in the project?

The Credit Agreement may contain restrictions on transfer of partnership interests and an event of default for a Change of Control, which we can discuss at greater length in the context of the Credit Agreement as a whole.

1.A There should be no concern if Calpine is replaced, the new player will have as much, if not more, at stake than Calpine.

As to change of control being an element of default, same answer, Lender's position is not changed by new partner. After all, the loan/credit facility is non-recourse, and banks look to the facility only for repayment.

2.Q If the Calpine ceases to be a partner, a fee component will be added to the O&M Agreement, which will increase the operating expenses payable pre-debt service.

2.A This is true, and, increased O&M fee is senior to (ahead off) debt service... Will have to be worked out.

3.Q The equity should be contributed at the closing into the Construction Account established pursuant to the Disbursement Agreement and will be disbursed pursuant to the Requisition mechanism to be set forth in the Credit Agreement.

Will the equity be withdrawn from the Construction Account and expended on Project costs before any loans or MTN proceeds, or will it be expended on a pro rata basis during construction?

3.A Yes, equity contributed at closing. Intended to "spend" <u>it</u> <u>first</u> to minimize fees and interest during construction.

4.Q It should be clear that the equity return is payable only out of, and to the extent of, Project cash flow after payment of all expenses and reserve deposits with priority.

4.A No response required.

5.Q There will be conditions in the Credit Agreement to payment of the first partner distribution above and beyond the mere occurrence of the "Contract In-Service Date" under the PPA, for example a final survey, a permit opinion, independent engineer's certificate, initial deposits into the debt service reserve account and occurrence of the "Final Acceptance Date" under the EPC Contract.

5.A **Please clarify. We pay all third party bills not submitted at closing.**

6.Q During construction, the equity will essentially be pay-in-kind and there will be no cash payments under any circumstances. Is this Panda's understanding too?

6.A **Please clarify.**

7.Q We assume the equity will be contributed at closing, although in one or two places the term sheet refers to the possibility of the equity being funded at "conversion". Presumably, the equity will come in at closing.

7.A **Yes, equity will come up front, unless for some compelling reason we use Calpine Letter of Credit instead...unlikely.**

Letter from Laurence Pettit of White & Case to Cornelius J. Golden of Chadbourne & Parke, dated January 9, 1995 regarding Standard Offer Contract between Panda-Kathleen, L.P. (the "Company") and Florida Power Corporation ("FPC") for the Sale of Electricity from the Company's Proposed Gas-Fired Cogeneration Facility in Polk County, Near Lakeland, Florida. (PK018)

To be referred to Panda's legal counsel, Barrett Johnson.

Memorandum dated January 9, 1995 to Robert L. Vitale from Louis A. Evans of Brown & Wood regarding Merrill Lynch/Panda-Kathleen Environmental Permits. (PK019)

See attached ECT letter dated January 16, 1995.

Letter to Distribution List regarding Revised Gas Transportation Contracts from Robert L. Vitale and Robert J. Donatucci dated January 9, 1995. (PK020)

Comments will be addressed with FGT.

Facsimile dated January 10, 1995 from Laurence Pettit of White & Case to Various Individuals regarding Consent and Agreement between Bank of Tokyo, Panda-Kathleen, L.P., and Florida Power Corporation. (PK021)

No response required.

Draft of a Letter to Panda-Kathleen, L.P. from Florida Power Corporation regarding Qualifying Facility Status Pursuant to Standard Offer Contract for the Purchase of Firm Capacity and Energy From a Qualifying Facility less than 75 MW or a Solid Waste Facility, Between Panda-Kathleen, L.P. and Florida Power Corporation, Effective September 20, 1991. (PK022)

No response required.

Draft of a Letter to Panda-Kathleen Corporation from Florida Gas Transmission Company regarding Mutual Termination and Release Agreement Between Panda-Kathleen, L.P. ("Partnership") and Florida Gas Transmission Company ("FGT"). (PK023)

Comments will be addressed with FGT.

Memorandum from Thom Hirsch to Gerald Drumm, Robert Vitale, and Rick Stephens dated January 10, 1995 regarding Panda-Kathleen Documents. (PK024)

No response required.

Memorandum to Distribution List from Robert L. Vitale and Robert J. Donatucci regarding Panda-Kathleen Project dated January 10, 1995. (PK025)

Barrett Johnson to address during phone conversation.

Facsimile from Laurence Pettit to Various Individuals dated January 12, 1994 regarding Panda-Kathleen. (PK026)

No response required.

FPSC DOCKET NO. 950110-EI
EXHIBIT NO. _____ (BAM-7)
CONSISTING OF FIVE PAGES

PANDA HAS ASSERTED A CLAIM OF CONFIDENTIALITY FOR EACH PAGE OF THIS EXHIBIT

4.10

PANDA ENERGY CORPORATION
The Independent Power Company

FPSC Docket No. 950110-EI
FPC Witness: MORRISON
Exhibit No. ______, (BAM-7)
Sheet 1 of 5

January 16, 1991

Secretary
Federal Energy Regulatory Commission
825 North Capital Street
Washington, D.C. 20426

RE: Panda Energy Corporation
Notice of Self-Certification
As A Qualifying Facility
150 MW Gas Fired Facility
Lakeland, Florida

Gentlemen:

Enclosed herewith you will find four (4) copies of subject Notice. We would appreciate receiving a copy of this Notice from you reflecting the assigned QF Number.

If you have any questions, please let me know.

Very truly yours,

Edward R. Gwynn

Edward R. Gwynn
General Counsel

ERG/tb

Encls.

CONFIDENTIAL
PK 017314

4100 Spring Valley, Suite 1001 Dallas, Texas 75244
214/980-7159 FAX 214/980-6815

8 f. FERC Qualification

Self qualification for the Panda Kathleen facility has been filed (see attached) formal filing will be made after final design has been determined. Preliminary design calculations are given below based on and average annual steam commitment to Erly Juice of 30,000,000 BTU's/hr.

$$\frac{\text{Thermal}}{\text{Thermal} + \text{Electrical}} = \frac{30{,}000}{511{,}950 + 30{,}000} = \frac{30{,}000}{541{,}950} = 5.5\%$$

$$\frac{\text{Electrical} + 1/2\ \text{Thermal}}{\text{Total BTU Input}} = \frac{511{,}950 + 15{,}000}{1070.400} = 49.2\%$$

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Panda Energy Corporation Docket No. QF____________

Notice of Self-Certification As a

Qualifying Cogeneration Facility

Pursuant to Section 292.207 of the regulations of the Federal Energy Regulatory Commission (the "Commission"), Panda Energy Corporation ("Panda") hereby files a notice of self-certification as a qualifying cogeneration facility.

Location of the Facility And

Identification of the Applicant

The cogeneration facility (the "Facility") will be located at the plant site of Erly Juice, Inc., 4100 Frontage Rd. South, Lakeland, Florida 33802-2004.

The owner of the Facility will be Panda Energy Corporation, a corporation existing under the laws of Texas.

The address of Panda Energy Corporation is:

Panda Energy Corporation
4100 Spring Valley Road
Suite 1001
Dallas, Texas 75244

Description of the Facility

The Facility is a combined cycle cogeneration facility, incorporating one (1) gas fired combustion turbine generator, one (1) waste heat recovery steam generator and one (1) extraction induction steam turbine generator.

The Facility will have an estimated net maximum capacity at design conditions of 150 MW. The electrical output of the Facility will be sold to Florida Power Corporation (FPC) with an interconnect directly into the FPC transmission system. The Facility will generate approximately 50,000 lbs. per hour of steam which will be sold to Erly Juice, Inc. and used in the dye process and drying of orange juice and by-products.

Primary Energy Source

The Facility will be fueled by Natural Gas and is expected to commence operation in 1993.

Panda Energy Corporation has submitted this notice of self-certification as a qualifying cogeneration facility to be executed by its corporate official and general counsel on this 16th day of January 1991.

Respectfully submitted,

PANDA ENERGY CORPORATION

Edward R. Gwynn
General Counsel

ERG/tb

9. Panda would prefer Wednesday, January 30, 1991 as our meeting date. A suggested alternate date would be Thursday, January 31st.

FPSC DOCKET NO. 950110-EI
EXHIBIT NO. _____ (BAM-8)
CONSISTING OF TWO PAGES

PANDA HAS ASSERTED A CLAIM OF CONFIDENTIALITY FOR EACH PAGE OF THIS EXHIBIT

PANDA
ENERGY CORPORATION
The Independent Power Company

January 17, 1991

Erly Juice, Inc.
4100 Frontage Rd., South
P.O. Box 32004
Lakeland, Florida 33802-2004

LETTER OF INTENT

Gentlemen:

This letter, when accepted by you, will acknowledge (i) that you are considering entry into an Agreement with Panda Energy Corporation ("Panda") relative to the construction of a Cogeneration facility to serve your Erly Juice/Lakeland Plant; (ii) that considerable time, effort and resources will be expended by you and by Panda in the course of this consideration; and (iii) that certain confidential information will be exchanged between you and Panda in the course of this consideration whether or not a Cogeneration Agreement is eventually entered between us. In consideration for this exchange of information and expenditure of time, effort, and resources, the parties hereto agree as follows:

1. All data (electrical, steam, financial, price, contracts and other data and written information) exchanged between the parties will be used for evaluation purposes only.

2. All such data and information will be treated as confidential data by the Parties hereto. It will not be shown to or otherwise disclosed to any third party (other than to employees or consultants of the Parties) without express written consent to do so.

3. All such data and information (and all copies thereof which may have been made) shall be immediately returned upon the other Party's request to do so.

4. Panda Energy Corporation (Panda) is preparing a proposal for Florida Power Corp. which requires that the location of the plant be identified to facilitate interconnection studies. Panda is granted exclusive authority to identify, in such request for proposal submittal within twelve months of the date of this Letter Agreement, your Lakeland, Florida Plant as the possible host for a cogeneration facility to be built by Panda.

130513

5. If Panda is successful in any such bid proposal, it is agreed that Erly Juice and Panda will enter into negotiations to attempt to consummate a cogeneration agreement which would parallel the contract term with Florida Power Corp.

6. Panda would agree to deliver steam to Erly Juice up to 50,000 pounds of steam per hour, at 150 PSIG, for $2.00 per thousand pounds. (Escalation rate to be negotiated)

7. The facility will be located on 12 acres owned by Erly Juice at the Lakeland site. The property will be purchased or leased by Panda.

8. Each party hereto agrees that they will not contact third parties with whom the other party is in privy without permission to do so.

9. In consideration for the time and expense necessary to achieve project completion, this agreement can be extended for an additional twelve month period if progress, satisfactory to both parties, is being accomplished.

Nothing herein shall obligate either party to enter a Cogeneration Agreement. If the foregoing is acceptable to you, please execute, date and return a copy of this Letter Agreement to the undersigned to indicate your acceptance thereof.

Very truly,

PANDA ENERGY CORPORATION

By______________________
Hans R. van Kullenburg
President

By______________________
Tom Bagby
Manager, Sales/Business Development

It is expressly agreed and acknowledg that Erly Juice, Inc. shall have liability for any expenses incurred Panda Energy Corporation arising out or relating in any way to this Agreemer Further, any agreements with respect Cogeneration, property sale or lease, related matters shall be subject further negotiation.

Accepted and Agreed to:

Erly Juice, Inc.

By:______________________

Title: Vice President, Finance

Date: January 16, 1991

CONFIDENTIAL

FPSC Docket No. 950110-EI
FPC Witness: MORRISON
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Sheet 2 of 2

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FPSC DOCKET NO. 950110-EI
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FPSC Docket No. 950110-EI
FPC Witness: MORRISON
Exhibit No. ______, (BAM-9)
Sheet 1 of 1

INTEROFFICE MEMORANDUM

DATE: September 9, 1992

TO: Ralph Killian
Robert Wolf
Tom Bagby
Mark Bentley

FROM: Joe Brinson

SUBJECT: Erly Juice Negotiations and Contacts

As you are all aware, we have reached an active and sensitive negotiation stage with Erly Juice. It is important that we maintain a single point of contact with Erly Juice during this stage. To do otherwise would afford Erly Juice multiple and unnecessary opportunities to elicit information and to gain negotiation advantages.

Accordingly, I have designated Mark Bentley of the Legal Department as our single contact point during the period of negotiations. All other Panda employees are requested to initiate no contacts (written, in person or by phone) with Erly Juice or their representatives without my prior approval or Mr. Bentley's prior approval.

I am not suggesting that such contacts should never be made. I'm only asking that they be cleared with me in advance. Neither am I suggesting that you refuse to talk if an Erly Juice representative contacts you or that you say you aren't the proper contact point. I am suggesting, (if information or your opinion on a negotiation point is sought) that you politely and adroitly promise that you will obtain the necessary response and that you then refer the request to me or to Mark.

I'd also appreciate (i) receiving copies of all of your correspondence from or concerning Erly Juice or the Erly Juice situation and (ii) having the opportunity to approve letters to Erly Juice before they are mailed.

I would like to maintain a similar control after negotiations are completed.

Your cooperation will be greatly appreciated.

Joe Brinson
Project Manager

cc: Robert Carter
Hans van Kuilenburg
Ed Gwynn

FPSC DOCKET NO. 950110-EI
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CC MARK B.

FPSC Docket No. 950110-EI
FPC Witness: MORRISON
Exhibit No. ______, (BAM-10)
Sheet 1 of 1

MEMORANDUM

DATE: March 19, 1993

TO: Ann Burgr

FROM: Ted Hollon *TH*

SUBJECT: Panda-Kathleen Cogeneration Plant - Lakeland, Florida

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A trip report on Mark's and my recent visit to St. Petersburg and Lakeland is forthcoming. In the interim, there are several key issues that need to be resolved in an expeditious manner in order to move forward. These issues are FYI and are as follows:

1) FPC- While FPC and Panda informally agree that a 1997 COD is in the best interest of all concerned, our contractual obligation calls for a 4/1/95 COD. Clarifications and modifications to this agreement need to be formally resolved as soon as possible. Without a confirmed date, the EPC contract cannot be finalized.

2) Erly Juice - The energy supply agreement needs to be finalized. There is a possibility that action taken to modify the FPC agreement (see item 1) may leave Panda vulnerable, especially if we do not have a steam host under contract.

   Additionally, it may be prudent to investigate possible alternate steam hosts in the area as a precautionary backup measure.

3) City of Lakeland - FPC indicated that the City is serious about Panda using their substation and that the City can be a formidable obstacle (and opponent) in our permitting and zoning efforts.

   Panda owes the City of Lakeland a response to their 2/8/93 letter. This issue needs to be addressed and handled with kid gloves so that we do not provoke a conflict that would impact time and costs, not to mention goodwill. Mark feels we have a strong case for not utilizing the City's substation thus avoiding their "wheeling" charges. However, resolving this issue would eliminate the Gay property site and allow us to focus on one corridor.

These issues need Panda's immediate attention. Mark is knowledgeable of the above and is working toward their resolution.

P-K001133

FPSC DOCKET NO. 950110-EI
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MEMORANDUM

DATE: March 23, 1993

TO: Ann Burgr

FROM: Ted Hollon

SUBJECT: Panda-Kathleen
Project Status Meeting

The following is a brief synopsis of today's project status meeting.

In attendance:
Mark Bentley
Ralph Killian
Brian Dietz
Darol Lindloff
Ted Hollon

1) Panda is contractually obligated to FPC for a 4/1/95 COD.

2) FPC- Panda needs to resolve COD extension. Mark Bentley is to write a letter (by 3/23/93) to FPC establishing our position with regard to a 1997 COD. Panda is to proceed with a 1995 schedule unless our sales agreement with FPC is modified to reflect a different date.

3) ERLY JUICE- Ted Hollon will draft a letter (by 3/23/93) to Bronson Schultz for Mark's review.

-Darol will make initial contact with NECO as an alternative Steam Host. Panda will investigate other sources, too.

-Panda could save approximately $5 million in capital cost by relocating cogen plant and steam host closer to the pipeline and power line intersect.

-Mark to investigate the effect of relocation with regard to our site specific location in the FPC sales agreement.

4) CITY OF LAKELAND - Mark is to send a written response to the City's 2/8/93 letter by 3/23/93.

5) GAY PROPERTY – The real estate agent was asked to inform Mrs. Gay of Panda's intentions not to renew the property option. Mark is to formally notify Mrs. Gay before the 3/29/93 deadline.

6) ABB– Need to resolve Erly Juice and FPC before any decision can be made.

7) GAS COMMITMENT – Hold off any sales agreement for one week. We will review 3/29/93.

8) WATER CONSUMPTION– ECT needs the water consumption rate for the cogen plant permitting effort. Dietz said it is too early in the design stage to determine this requirement. I will explore with Century/Bibb.

9) NEXT MEETING – Date to be established.

cc: Attendants

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Sheet 2 of 2

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FPSC DOCKET NO. 950110-EI
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PANDA-KATHLEEN L.P.
A Panda Company

March 24, 1993

Mr. Bronson Schultz
Vice President – Finance
Erly Juice, Inc.
16825 Northchase Dr., Ste 1600
Houston, TX 77060

RE: **Thermal Host Contract**
Panda–Kathleen
74.9 MW Plant

Dear Bronson:

As you are aware, Panda Kathleen, L.P. has a power sales agreement with Florida Power Corporation. This contract calls for a construction start date of 1 April 94. In order to meet this contractual obligation, Panda must start its permitting and engineering efforts by 1 April 1993.

Therefore, Panda and Erly Juice need to finalize the Thermal Host Contract in a timely manner that is consistent with our overall project schedule. I have been unable to reach you by telephone despite repeated attempts.

We would appreciate your earliest attention to this matter. Please let me know as soon as possible when you will be able to meet us and conclude this agreement.

Sincerely,

Mark Bentley

Mark Bentley
Attorney

MB/em

cc: Ted Hollon

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4100 Spring Valley, Suite 1001 • Dallas, Texas • 75244 • 214/980-7159 • Fax 980-6815

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FPSC Docket No. 950110-EI
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Sheet 1 of 1

''E M O R A N D U M''

''DATE:'' May 6, 1993

''FROM:'' Stephen Argenbright

''TO:'' Anne Burgr, Bill Nordlund, Ted Holland

''RE:'' Erly Juice Contract Negotiations

Joe Brinson confirmed this morning that Randy, the Plant Manager for Erly Juice, is in possession of all ECT's enviromental reports. Hence, I do not believe that we should use the reports to obtain an option to purchase the site, especially if Panda waits until after the Erly Juice sale closes.

Panda would be wise in pushing for a thermal/option agreement with the new owner of Erly Juice prior to the sale transaction. After the sale transaction, the new owner would have no more incentive to deal with Panda than the current management of Erly Juice; and those negotiations have dragged on for over 18 months.

It is my opinion that the current management of Erly Juice has advanced significant added value to the plant as a result of Panda's offer to supply cheap thermal energy. Panda should capitalize on this by subtly hinting that a thermal agreement is not an absolute, and that Panda is considering other sites. At the same time, Panda should indicate an overt willingness to enter into a thermal agreement with the new owners.

Lets meet on these issues as soon as possible.

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MEMORANDUM

FPSC Docket No. 950110-EI
FPC Witness: **MORRISON**
Exhibit No. ______, (BAM-14)
Sheet 1 of 1

DATE: December 8, 1993

TO: Distribution

FROM: Ted Hollon JL

SUBJECT: Panda-Kathleen Action Items

The following are action items identified in the Kathleen project status meeting (12/7/93):

1) Ruthven Property: Tom Bagby is to reach agreement on price and terms for the 7.53 acre Ruthven site by 12/10/93.

2) Development Budget: All department heads are required to provide development funding requirements (if applicable) to Ted Hollon by 12/10/93.

3) Permitting Strategy: Panda is not going to permit under the Power Plant Siting Act. ECT will direct permitting efforts. Engineering must commence soon to support permitting.

4) EPC Negotiations: Century is to come in 12/13/93 to discuss EPC contract. Terms directed by Panda management will be discussed with Century, ie. $1.5 million development loan and at-risk engineering.

5) Steam Host: Ted Hollon shall be responsible for marketing the distilled water. Tom Bagby will pursue neighboring plant, Dynaplast, as a potential alternative host.

6) Project Budget: Bryan Urban and Ted Hollon are to update the proforma. Financial closing is now scheduled for December 1994. Financial markets need to be explored ASAP as the margins are tight.

7) Project Equipment: Brian Dietz to investigate the Frame 6/LM 6000 upgrade as alternatives to reducing capital plant expenditures.

Distribution:

Tom Bagby
Ralph Killian
Brian Dietz
Bryan Urban

cc: Bob Carter
Pete Wright

P-K001166

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Lakeland / FPC

To: Ted Harland

From: Tom

Date: 1/25/94, Tues.

I spoke with Nelson Husby of Apache Hyplast Foam Insulation in Lakeland. They have a very small steam load of about 10,000# a day. But they do have property that might be available for purchase or long term lease. Nelson will run it by HQ. and call me back.

Thursday 1/27/94

will not sell have expansion plans that will not require steam. Nor will they sell just a portion!

Tom

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Mike Roddy says Early Juice has the same problems as Southern. They will send us cost estimate to fill in to acceptable levels on intermediate (Lal Park) & Early

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FPSC Docket No. 950110-EI
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Sheet 1 of 2

PANDA-KATHLEEN PROJECT
STATUS MEETING NOTES
MEETING DATE APRIL 12, 1994

Attendees:	Ted Hollon	Ralph Killian
	Brian Dietz	Bill Nordlund
	Kyle Woodruff	Todd Carter

cc: Taylor Cheek, Tom Bagby

---

1. CITY OF LAKELAND

- Paul Elwing, Manager of Systems Planning for the City has requested additional information for their evaluation of Panda's proposal for 35 MW. (See Taylor Cheek's internal memo of 4/12/94). Paul Elwing should provide the City's analysis of our proposal by Friday 4/15/94.

  Action: Todd to provide information to Paul by Wednesday 4/13/94.

- A letter is to be drafted requesting the basis of the City's firm price for wheeling and the terms of amortization of up front capital for interconnect cost for electricity and water.

  Action: Ted/Kyle to draft letter.

2. STEAM HOST

- Florida Juice should provide new steam consumption numbers by Friday April 15, 1994. Numbers are required to see if QF status can be met with Florida Juice alone. "Off-Peak" steam production will have to be provided by F.J.'s existing boilers since no auxiliary boiler is planned at the Kathleen facility.

  Action: Kyle to follow up with Randy Delliveniri at Florida Juice.

  Todd to run cost of steam vs. power.

- Distilled water plant output should be based on 3/4/94 water balance; not water balance in RFP.

3. FPC INTERCONNECT

- No response is required to FPC letter of 3/21/94 at this time.

  Action: Bill will review letter with Barrett Johnson.

4. RUTHVEN PROPERTY

- Panda plans to purchase 60' addition to property on the south side of the present site.

  Will a permit to cut trees be required from the County?

  Action: Kyle to pursue with Mike Roddy at ECT.

5. FLORIDA GAS

- Signing of contract delayed.

FPSC DOCKET NO. 950110-EI
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UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Panda-Kathleen, L.P.	)	Docket No. QF94-150-000
Small Power Production and Cogeneration Facilities -- Qualifying Status	)))	

FPSC Docket No. 950110-EI
FPC Witness: MORRISON
Exhibit No. ______, (BAM-17)
Sheet 1 of 4

ORDER GRANTING APPLICATION FOR CERTIFICATION
AS A QUALIFYING COGENERATION FACILITY
(Issued October 20, 1994)

Summary:

On August 23, 1994, Panda-Kathleen, L.P. (Panda-Kathleen) filed an application for certification of a cogeneration facility as a qualifying facility (QF) pursuant to Section 292.207(b) of the Commission's Regulations. The facility will be located in Lakeland, Florida, and will consist of a combustion turbine generator, an unfired heat recovery boiler and a steam turbine generator. The primary energy source will be natural gas. The maximum net electric power production capacity of the facility will be approximately 125.9 MW. Steam recovered from the boiler will be used for the production of high quality distilled water. Electric power produced by the facility will be sold to Florida Power Corporation. Installation of the facility is scheduled to commence in January of 1995.

Based on these facts, the facility is a topping-cycle cogeneration facility within the meaning of Section 292.202(d) of the Commission's Regulations.

Notice of the application was published in the Federal Register with comments, protests or motions to intervene due on or before October 11, 1994. 1/ No responses were received.

Discussion:

A. Ownership:

Section 292.206 of the Commission's Regulations requires that no more than 50% of the equity interest in a QF be held, directly or indirectly through subsidiaries, by electric utilities and/or electric utility holding companies (collectively, electric utility entities). Panda-Kathleen, which will own and operate the facility, is a wholly-owned subsidiary of Panda Energy Corporation, a privately-held company. Panda

1/ 59 Fed. Reg. 46,408 (1994).

Energy Corporation is engaged in the business, through its subsidiaries, of developing, owning, and operating QFs and exempt wholesale generators (EWGs), 2/ and development and exploration of hydrocarbons. Neither Panda-Kathleen nor Panda Energy Corporation, nor any of their affiliates, is engaged in the generation or sale of electric power, or has any ownership or operating interest in any electric facilities other than QFs and EWGs. Since no electric utility entities have any ownership interests in the facility, it satisfies the Commission's QF ownership criteria.

B. Use of Thermal Output:

According to Panda-Kathleen, the thermal output from the facility will be used by Lakeland Water Company, an affiliate of Panda-Kathleen, to produce high quality distilled water for use in industrial processes. Panda-Kathleen's application of the thermal energy output for this purpose is common and, thus, is presumptively useful under the criteria set forth in Electrodyne Research Corporation, 32 FERC ¶ 61,102 (1985), as clarified in LaJet Energy Company (LaJet), order denying rehearing, 44 FERC ¶ 61,070 (1988). 3/

2/ An EWG is not considered an electric utility company under Section 2(a)(3) of the Public Utility Holding Company Act of 1935 (PUHCA), as amended by the Energy Policy Act of 1992, and ownership of an EWG does not result in primary engagement in the generation or sale of electric power under Sections 3(17)(C)(ii) and 3(18)(B)(ii) of the Federal Power Act (See Sections 32(e) and 32(j) of PUHCA).

3/ If the use of a cogeneration facility's thermal output constitutes a common industrial or commercial application, it is presumptively useful and the Commission performs no further analysis regarding the usefulness of the thermal output. If, on the other hand, the use of the thermal output involves a technology which is not common, separate standards apply depending upon whether the user is or is not an affiliate of the cogenerator. In the case of a thermal host that is not affiliated with the cogenerator, plausible evidence of either an arm's-length market for the thermal output or an end product produced with the aid of that thermal output establishes usefulness. In the case of a thermal host that is an affiliate of the cogenerator or where the thermal host is the cogenerator itself, quantitative economic justification established usefulness. See LaJet.

FPSC Docket No. 950110-EI
FPC Witness: MORRISON
Exhibit No. ______, (BAM-17)
Sheet 2 of 4

C. Operating and Efficiency Standards:

Based on the information provided by Panda-Kathleen, the facility satisfies the operating and efficiency standards established in Section 292.205 of the Commission's Regulations.

Finding:

The topping-cycle cogeneration facility, as described in the application submitted by Panda-Kathleen, meets the requirements established in Section 292.203(b) of the Commission's Regulations regarding certification as a qualifying cogeneration facility.

The Director:

Grants certification of qualifying status to the facility referenced in the submittal filed on August 23, 1994, by Panda-Kathleen pursuant to Section 292.207(b) of the Commission's Regulations and Section 3(18)(B) of the Federal Power Act, as amended by Section 201 of the Public Utility Regulatory Policies Act of 1978 (PURPA), provided that the facility is owned and operated in the manner described in the application and this order. 4/ To the extent that facts or representations which form the basis for this order change, this order cannot be relied upon. While the facility might still be a QF under the changed circumstances, self or Commission recertification at that point will be necessary. 5/

4/ Certification as a QF serves only to establish eligibility for benefits provided by PURPA, as implemented by the Commission's Regulations, 18 C.F.R. Part 292. It does not relieve a facility of any other requirements of local, state or federal law, including those regarding siting, construction, operation, licensing and pollution abatement. Certification does not establish any property rights, resolve competing claims for a site, or authorize construction.

5/ See Citizens for Clean Air and Reclaiming our Environment v. Newbay Corporation, 56 FERC ¶ 61,428 (1991), and Midland Cogeneration Venture Limited Partnership and CMS Midland, Inc., 56 FERC ¶ 61,361 (1991).

Authorities:

Authority to act on this matter is delegated to the Director, Division of Applications, pursuant to Section 375.308 of the Commission's Regulations.

This order constitutes final agency action. Requests for rehearing by the Commission may be filed within 30 days of the date of issuance of this order, pursuant to 18 C.F.R. Section 385.713.

Donald J Gelinas

Donald J. Gelinas, Director
Division of Applications

FPSC Docket No. 950110-EI
FPC Witness: **MORRISON**
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Sheet 4 of 4

FPSC DOCKET NO. 950110-EI
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MEMORANDUM

FPSC Docket No. 950110-EI
FPC Witness: **MORRISON**
Exhibit No. ______, (BAM-18)
Sheet 1 of 1

DATE: April 7, 1993

TO: Ann Burgr

FROM: Ted Hollon TH

SUBJECT: Panda-Kathleen
Lakeland, Florida

Due to the in-service date election granted by FPC, the 74.9 MW facility in Florida is in the process of being "mothballed."

A new project schedule is being formulated to depict a 1/1/97 Commercial Operation Date to FPC. Correspondingly, a new "drop-dead" construction date (to be included in the revised FPC rate agreement) shall be 1/1/96. However, Panda will need to start 3 or 4 months earlier to allow for testing, training, etc, before coming on line.

Whilst most project related development activities are being slowed or postponed, there are several activities that would be prudent and cost effective for Panda to continue. These activities include air and water use/discharge permitting and right of way surveying, environmental audit, and land options.

ECT has advised that new, more stringent regulations for emissions are being considered for Florida, especially in the Polk County area due to heavy concentrations of industrial emissions. Should Panda delay this permit to coincide with the in-service date slippage, our air permit may be more difficult (and costlier) to obtain. Additionally, the water use/discharge permit is critical activity that needs to be determined at an early stage of the project to avoid surprises, later on.

Panda has previously approved a $47,000 NTE agreement with ECT for the above permitting effort. We need to continue this effort as it corresponds to the revised FPC schedule and the validity of the permits ensuring that they are in effect before construction begins.

Unless otherwise instructed, I will proceed in this direction.

cc: R. Carter
M. Bentley
D. Lindloff
B. Dietz

A.B. 4/12/93

P-K001149

FPSC DOCKET NO. 950110-EI
EXHIBIT NO. _____ (BAM-19)
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Sheet 1 of 5

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Schedule C
Page 1 of 1

Panda Energy Corporation
Kathleen (FPC) - 75 MW Project
Financing Sources and Uses Statement

Sources Of Cash:		
Senior Debt Financing	81,350,000	
Subordinated Debt Financing	0	
Equity Investment	20,337,500	
Other Sources	0	
Total Sources of Cash	101,687,500	
Uses Of Cash:		
Turnkey Construction Contract	64,800,000	
Contractor Contingency	3,000,000	
Pipeline Construction Costs	~~3,500,000~~	*2,000,000
Transmission Construction Costs	5,500,000	
Distilled Water Facility	1,500,000	
Total Construction Costs	78,300,000	+1,500,000
Permitting Costs	500,000	
Development Fee	2,000,000	
Engineering Costs	500,000	
Security Deposits	749,000	
Operating Expenses During Construction	700,000	
O&M During Construction	500,000	
Fuel Costs During Construction	200,000	
Initial Spare Parts Purchases	1,900,000	
Initial Fuel Oil Fill	500,000	
Other Development Costs	500,000	
Sales Tax on Equipment	2,268,000	
Import Duties on Equipment	0	
Total Development Costs	10,317,000	
Interest Expense	7,739,904	
Financing Deal Costs	3,254,000	
Performance Letter of Credit Fees	42,038	
Initial Debt Service Reserve	2,000,000	
Excess Cash Flow	34,558	
Total Financing Costs	13,070,500	
Total Cash Uses	101,687,500	

HHV - 8200

- VALUE ENGR'G
- USED EQUIPT
- RE-BID PROJECT
  W/ SCOPING DOCUMENT
- OWNER CONSTRUCT +
- EQUIPT - NEW EQUIPT
  . W/LOWER HEAT RATE.

1/3/94

PROJECT FINANCING MEETING

- NORDLUND
- URBAN
- WRIG
- KILLIAN
- HOLLON

identify size /combining plants
WT + DISTILLED WAT

- SMALLER PLANT
- ADD'L PROCESS TO MAKE CASE (EQ
- ADD STG TANKS TO ACCOMODAT
  RUN HRS

POTENTIAL PARTNERS - UTILITY
AFFILIATES

- DESTEC
- ENTERGY
- CALPINE
- SOUTHERN

FPSC Docket No. 950110-EI
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Sheet 2 of 5

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Schedule D
Page 1 of 1

Panda Energy Corporation
Kathleen (FPC) - 75 MW Project
Development Assumptions

Financing Assumptions:

Senior Debt:			
% of Total Financing	80.00%		
Amount	$81,350,000	34,558	
Interest Rate	9.00%	1.54	
Amortization Term (Yrs)	18		
Amort Method (Straightline, Mortgage, Variable)	Mortgage		
Subordinated Debt:			
% of Total Financing	0.00%		
Amount	$0		
Interest Rate	0.00%		
Amortization Term (Yrs)	0		
Amort Method (Straightline, Mortgage, Variable)	Straightline		
Equity Investment:	Outside	Panda	Equity Flip
% of Total Financing	10.00%	10.00%	
Amount	$10,168,750	$10,168,750	12.00% IRR
Cash Flow Allocation %	50.00%	50.00%	10.00% Final %
After Tax Equity IRR (25 Yrs)	13.11%	16.25%	19 Flip Year
Financing Deal Costs:			
Senior Debt	3.00%		
Subordinated Debt	0.00%		
Equity Investment	4.00%		
Total Financing Deal Costs	$3,254,000		
Other Financing Assumptions:			
Expected Financial Closing Date	Jan-96		
Initial Debt Service Reserve	$2,000,000		
Construction Interest Negative Carry	1.50%		
Performance Letter of Credit	$3,363,000		
Annual Letter of Credit Fee	1.25%		
Interest Income Rate	4.00%		

Tax Assumptions:

Federal Tax Rate	34.00%
State Tax Rate	1.00%
Foreign Withholding Tax	0.00%
Sales & Use Tax (Based On Annual Revenue)	0.00%
Property Tax Rate	1.400%
Assessed Property Value (85% of Turnkey)	$55,080,000
Tax Depreciation Rate (Declining Value)	150.00%
Tax Depreciation Period	20
Amortization Rate - Deal Costs	5.56%
Amortization Period - Deal Costs	18

Development Assumptions:

Plant Capacity (kw)	112,100	
Construction Costs:		
Turnkey Construction Contract	$64,800,000	$578 /kw
Construction Contingency	$3,000,000	$27 /kw
Pipeline Construction Costs	$3,500,000	$31 /kw
Transmission Construction Costs	$5,500,000	$49 /kw
Distilled Water Facility	$1,500,000	$13 /kw
Total Construction Costs	$78,300,000	$698 /kw
Development Costs:		
Permitting Costs	$500,000	
Development Fee	$2,000,000	
Engineering Costs	$500,000	
Security Deposits	$749,000	
Operating Expenses During Construction	$700,000	
O&M During Construction	$500,000	
Fuel Costs During Construction	$200,000	
Initial Spare Parts Purchases	$1,900,000	
Initial Fuel Oil Fill	$500,000	
Other Development Costs	$500,000	
Total Development Costs	$8,049,000	
Other Development Assumptions:		
Construction Period (6, 12, 18, or 24 Months)	12	
Expected On-line Date	Jan-97	
Sales Tax on Equipment	5.00%	
Import Duties on Equipment	0.00%	
Base Value of Equipment (70 % of Turnkey)	$45,360,000	

Notes to Assumptions:

Equipment Description:
One ABB 11N, Steam Turbine, HRSG

Fueling Description:
Frim Transportation on FGT Phase III Expansion

Other Project Information:
Steam host - Distilled water facility (Cost: $1,500,000)

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PK 057473

12/22/93 4.22 PM

Panda Energy Corporation
Kathleen (FPC) - 75 MW Project
Projected Cash Flow Statement

	(2) Year Ended 1994	(1) Year Ended 1995	0 Year Ended 1996	1 Year Ended 1997	2 Year Ended 1998	3 Year Ended 1999	4 Year Ended 2000	5 Year Ended 2000	6 Year Ended 2001	7 Year Ended 2002	8 Year Ended 2003	9 Year Ended 2004	10 Year Ended 2005
Net Income	$0	$0	$0	($9,306,690)	($5,654,576)	($4,236,607)	($3,541,248)	$415,986	$4,174,088	$5,517,258	$6,765,634	$7,168,183	$5,890,091
+ Senior Debt Financing	0	0	81,350,000	0	0	0	0	0	0	0	0	0	0
+ Subordinated Debt Financing	0	0	0	0	0	0	0	0	0	0	0	0	0
+ Equity Investment	0	0	20,337,500	0	0	0	0	0	0	0	0	0	0
+ Depreciation & Amortization	0	0	0	7,379,820	6,839,892	6,362,197	5,922,948	5,552,763	5,182,485	4,843,169	4,657,043	4,687,337	4,719,525
+ Interest Expense	0	0	0	7,321,500	7,144,230	6,951,005	6,740,390	6,510,820	6,260,589	5,987,836	5,690,536	5,366,479	5,013,257
+ Release of Turbine Overhaul Reserve	0	0	0	749,000	0	0	110,000	826,200	987,400	972,400	972,400	972,400	251,400
+ Release of Debt Service Reserve	0	0	0	0	0	0	0	0	0	0	0	0	0
(-) Construction Costs	0	0	(78,300,000)	0	0	0	0	0	0	0	0	0	0
(-) Development Costs	0	(1,249,000)	(10,317,000)	0	0	0	0	0	0	0	0	0	0
(-) Financing Costs (Including Capitalized Interest)	0	0	(13,035,942)	0	0	0	0	0	0	0	0	0	0
(-) Additions toTurbine Overhaul Reserve	0	0	0	(1,250,800)	(1,406,800)	(1,326,200)	(1,326,200)	(1,326,200)	(1,487,400)	(1,487,400)	(1,487,400)	(1,487,400)	(1,487,400)
(-) Additions to Debt Service Reserve	0	0	0	0	0	0	0	0	0	0	0	0	0
Cash Flow Available for Debt Service	0	(1,249,000)	34,558	4,892,829	6,922,745	7,750,395	7,905,891	11,979,570	15,117,162	15,833,263	16,598,214	16,707,000	14,386,873
Debt Service:													
Interest Expense:													
Senior Bonds	0	0	0	(7,321,500)	(7,144,230)	(6,951,005)	(6,740,390)	(6,510,820)	(6,260,589)	(5,987,836)	(5,690,536)	(5,366,479)	(5,013,257)
Subordinated Loan	0	0	0	0	0	0	0	0	0	0	0	0	0
Principal Payments:													
Senior Bonds*	0	0	0	(1,969,670)	(2,146,940)	(2,340,165)	(2,550,780)	(2,780,350)	(3,030,581)	(3,303,334)	(3,600,634)	(3,924,691)	(4,277,913)
Subordinated Loan	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Debt Service	0	0	0	(9,291,170)	(9,291,170)	(9,291,170)	(9,291,170)	(9,291,170)	(9,291,170)	(9,291,170)	(9,291,170)	(9,291,170)	(9,291,170)
Net Cash Flow	$0	($1,249,000)	$34,558	($4,398,341)	($2,368,425)	($1,540,775)	($1,385,279)	$2,688,400	$5,825,992	$6,542,093	$7,307,044	$7,415,830	$5,095,703
Foreign Withholding Tax				$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
	IRR - 25 yrs												
Equity Distribution	13.11%			($2,199,170)	($1,184,213)	($770,388)	($692,639)	$1,344,200	$2,912,996	$3,271,047	$3,653,522	$3,707,915	$2,547,852
IRR %													2.13%
Panda Distribution	16.25%			($2,199,170)	($1,184,213)	($770,388)	($692,639)	$1,344,200	$2,912,996	$3,271,047	$3,653,522	$3,707,915	$2,547,852
IRR %													2.13%
	Avg												
Senior Debt Coverage Ratio	1.54			0.53	0.75	0.83	0.85	1.29	1.63	1.70	1.79	1.80	1.66
Sub Debt Coverage Ratio													

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PK 057474

FPSC Docket No. 950110-EI
FPC Witness: MORRISON
Exhibit No. ______, (BAM-19)
Sheet 4 of 5

12/22/93 4:22 PM

Panda Energy Corporation
Kathleen (FPC) - 75 MW Project
Projected Cash Flow Statement

	11 Year Ended 2006	12 Year Ended 2007	13 Year Ended 2008	14 Year Ended 2009	15 Year Ended 2010	16 Year Ended 2011	17 Year Ended 2012	18 Year Ended 2013	19 Year Ended 2014	20 Year Ended 2015	21 Year Ended 2016	22 Year Ended 2017	23 Year Ended 2018
Net Income	$6,656,626	$7,505,416	$8,401,478	$9,346,409	$10,355,294	$11,370,551	$12,497,868	$13,671,253	$15,024,419	$15,822,076	$19,353,715	$20,202,819	$21,065,669
+ Senior Debt Financing	0	0	0	0	0	0	0	0	0	0	0	0	0
+ Subordinated Debt Financing	0	0	0	0	0	0	0	0	0	0	0	0	0
+ Equity Investment	0	0	0	0	0	0	0	0	0	0	0	0	0
+ Depreciation & Amortization	4,801,925	4,838,711	4,878,326	4,922,530	4,970,753	5,098,061	5,157,000	5,223,306	5,120,580	5,211,641	1,179,166	1,315,757	1,497,878
+ Interest Expense	4,628,245	4,208,582	3,751,149	3,252,547	2,709,071	2,116,682	1,470,978	767,161	0	0	0	0	0
+ Release of Turbine Overhaul Reserve	972,400	972,400	956,950	956,950	214,320	956,950	956,950	941,037	941,037	176,128	941,037	941,037	941,037
+ Release of Debt Service Reserve	0	0	0	0	0	0	0	2,000,000	0	0	0	0	0
(-) Construction Costs	0	0	0	0	0	0	0	0	0	0	0	0	0
(-) Development Costs	0	0	0	0	0	0	0	0	0	0	0	0	0
(-) Financing Costs (Including Capitalized Interest)	0	0	0	0	0	0	0	0	0	0	0	0	0
(-) Additions toTurbine Overhaul Reserve	(1,487,400)	(1,487,400)	(1,487,400)	(1,487,400)	(1,487,400)	(1,487,400)	(1,487,400)	(1,487,400)	(1,487,400)	(1,487,400)	(1,487,400)	(1,487,400)	(1,487,400)
(-) Additions to Debt Service Reserve	0	0	0	0	0	0	0	0	0	0	0	0	0
Cash Flow Available for Debt Service	15,571,795	16,037,708	16,500,503	16,991,036	16,762,038	18,054,844	18,595,396	21,115,356	19,598,635	19,722,444	19,986,517	20,972,213	22,017,183
Debt Service:													
Interest Expense:													
Senior Bonds	(4,628,245)	(4,208,582)	(3,751,149)	(3,252,547)	(2,709,071)	(2,116,682)	(1,470,978)	(767,161)	0	0	0	0	0
Subordinated Loan	0	0	0	0	0	0	0	0	0	0	0	0	0
Principal Payments:													
Senior Bonds*	(4,662,926)	(5,082,588)	(5,540,021)	(6,038,623)	(6,582,099)	(7,174,488)	(7,820,192)	(8,524,009)	0	0	0	0	0
Subordinated Loan	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Debt Service	(9,291,170)	(9,291,170)	(9,291,170)	(9,291,170)	(9,291,170)	(9,291,170)	(9,291,170)	(9,291,170)	0	0	0	0	0
Net Cash Flow	$6,280,626	$6,746,538	$7,209,333	$7,699,866	$7,470,868	$8,763,674	$9,304,226	$11,824,187	$19,598,635	$19,722,444	$19,986,517	$20,972,213	$22,017,183
Foreign Withholding Tax	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Equity Distribution	$3,140,313	$3,373,269	$3,604,666	$3,849,933	$3,735,434	$4,381,837	$4,652,113	$5,912,093	$9,799,318	$1,972,244	$1,998,652	$2,097,221	$2,201,718
IRR %	4.26%	5.98%	7.39%	8.55%	9.43%	10.24%	10.93%	11.61%	12.47%	12.61%	12.73%	12.84%	12.94%
Panda Distribution	$3,140,313	$3,373,269	$3,604,666	$3,849,933	$3,735,434	$4,381,837	$4,652,113	$5,912,093	$9,799,318	$17,750,200	$17,987,865	$18,874,991	$19,815,465
IRR %	4.26%	5.98%	7.39%	8.55%	9.43%	10.24%	10.93%	11.61%	12.47%	13.59%	14.40%	15.02%	15.52%
Senior Debt Coverage Ratio	1.68	1.73	1.78	1.83	1.80	1.94	2.00	2.27					
Sub Debt Coverage Ratio													

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PK 057475

FPSC Docket No. 950110-EI
FPC Witness: MORRISON
Exhibit No. ________, (BAM-19)
Sheet 5 of 5

12/22/93 4:22 PM

Panda Energy Corporation
Kathleen (FPC) - 75 MW Project
Projected Cash Flow Statement

	24 Year Ended 2019	25 Year Ended 2020	26 Year Ended 2021	27 Year Ended 2022	28 Year Ended 2023	29 Year Ended 2024	30 Year Ended 2025	Total Contract
Net Income	$21,914,567	$22,621,960	$25,198,389	$26,155,146	$27,264,762	$28,370,497	$29,302,273	$354,502,637
+ Senior Debt Financing	0	0	0	0	0	0	0	81,350,000
+ Subordinated Debt Financing	0	0	0	0	0	0	0	0
+ Equity Investment	0	0	0	0	0	0	0	20,337,500
+ Depreciation & Amortization	1,771,060	2,333,814	112,551	450,204	637,788	919,166	1,498,803	118,086,197
+ Interest Expense	0	0	0	0	0	0	0	85,891,057
+ Release of Turbine Overhaul Reserve	924,646	924,646	136,789	924,646	924,646	907,763	3,907,763	25,360,328
+ Release of Debt Service Reserve	0	0	0	0	0	0	0	2,000,000
(-) Construction Costs	0	0	0	0	0	0	0	(78,300,000)
(-) Development Costs	0	0	0	0	0	0	0	(11,566,000)
(-) Financing Costs (Including Capitalized Interest)	0	0	0	0	0	0	0	(13,035,942)
(-) Additions to Turbine Overhaul Reserve	(1,487,400)	(1,487,400)	(1,487,400)	(1,487,400)	(1,487,400)	(1,487,400)	(1,487,400)	(43,821,200)
(-) Additions to Debt Service Reserve	0	0	0	0	0	0	0	0
Cash Flow Available for Debt Service	23,122,872	24,393,020	23,960,329	26,042,595	27,339,796	28,710,025	33,221,439	540,804,577
Debt Service:								
Interest Expense:								
Senior Bonds	0	0	0	0	0	0	0	(85,891,057)
Subordinated Loan	0	0	0	0	0	0	0	0
Principal Payments:								
Senior Bonds *	0	0	0	0	0	0	0	(81,350,000)
Subordinated Loan	0	0	0	0	0	0	0	0
Total Debt Service	0	0	0	0	0	0	0	(167,241,057)
Net Cash Flow	$23,122,872	$24,393,020	$23,960,329	$26,042,595	$27,339,796	$28,710,025	$33,221,439	$708,045,634
Foreign Withholding Tax	$0	$0	$0	$0	$0	$0	$0	$0
Equity Distribution	$2,312,287	$2,439,302	$2,396,033	$2,604,260	$2,733,980	$2,871,003	$3,322,144	$81,988,941
IRR %	13.03%	13.11%	13.18%	13.25%	13.31%	13.36%	13.41%	
Panda Distribution	$20,810,585	$21,953,718	$21,564,296	$23,438,336	$24,605,816	$25,839,023	$29,899,295	$297,579,688
IRR %	15.92%	16.25%	16.51%	16.74%	16.93%	17.09%	17.24%	
Senior Debt Coverage Ratio								
Sub Debt Coverage Ratio								

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FPSC DOCKET NO. 950110-EI
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FPSC Docket No. 950110-EI
FPC Witness: MORRISON
Exhibit No. ______, (BAM-20)
Sheet 1 of 2

MEMORANDUM

DATE: **August 16, 1994**

TO: **Ralph Killian, Bill Nordlund, Pete Wright, Ted Hollon, Jim Adams, Todd Carter, Tom Horn, Brian Dietz, Bryan Urban**

FROM: **Kyle Woodruff** KW

SUBJECT: **Panda Kathleen Project**
Preliminary Schedule for Support of Financial Closing

Attached is a preliminary schedule for support of a 12/15/94 financial closing for the Panda-Kathleen Project. This is a very aggressive schedule due to the "hold" which has been placed on many activities. Now that the issue of plant size appears to be resolved with FPSC, we need to proceed immediately with the following activities:

1) File QF Application

2) Sign Walsh Letter of Agreement and begin EPC negotiations.

3) Pay invoices which are in arrears so environmental permitting and engineering support can progress unimpeded.

4) Begin contract negotiations with the City of Lakeland for construction of electrical interconnection.

5) Begin acquisition of pipeline R.O.W.

6) Sale of distilled water.

A meeting is scheduled for 3:00 PM today, August 16, 1994 to discuss these items.

cc: Bob Carter
Janice Carter

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FPSC Docket No. 950110-EI
FPC Witness: MORRISON
Exhibit No. ______, (BAM-20)
Sheet 2 of 2

SPECIALLY RESTRICTED
PK 043240

PROJECT DOCUMENTS COMPLETION SCHEDULE
FOR
FINANCIAL CLOSING OF 12/15/94
PANDA -KATHLEEN

ACTIVITY	DUE DATE	LATE DATE	RESPONSIBILITY	STATUS
ORGANIZATIONAL MEETING WITH SBS		10/7/94	PETE WRIGHT	
FPSC CAPACITY RESOLUTION		8/12/94	BILL NORDLUND	MEETING WITH FPSC 8/15/94
EPC CONTRACT	9/30/94	10/14/94	KYLE WOODRUFF	AGREEMENT LTR-SIGN REQ'D
POWER SALES AGREEMENT		DONE		
QF CERTIFICATION	9/30/94	10/14/94	KYLE WOODRUFF	SUBMITTAL ON HOLD
PIPELINE ROW	9/30/94	10/14/94	KYLE WOODRUFF	NEED OPTIONS AS MINIMUM
GAS TRANSMISSION	9/30/94	10/14/94	JIM ADAMS	
GAS SUPPLY	9/30/94	10/14/94	JIM ADAMS	
ELECTRICAL INTERCONNECT	9/16/94	10/1/94	KYLE WOODRUFF	CONTRACT COMMENTS REQ'D
STEAM SALE AGREEMENT	9/30/94	10/14/94	BILL NORDLUND	
DISTILLED WATER AGREEMENT	9/30/94	10/14/94	TODD CARTER	
RAW WATER SUPPLY	9/30/94	10/14/94	KYLE WOODRUFF	
ENVIRONMENTAL PERMITTING	12/1/94	12/14/94	KYLE WOODRUFF	
AIR	11/1/94	12/14/94		
WATER USE	10/20/94	11/3/94		
INDUSTRIAL WASTEWATER	12/1/94	12/14/94		
STORMWATER	9/15/94	10/5/94		
ECOLOGICAL	12/1/94	12/14/94		
LANDUSE/ZONING	10/14/94	10/28/94		
O & M CONTRACT	9/30/94	10/14/94	BRIAN DIETZ	
COMPLETE ENGINEER'S REVIEW	10/14/94	11/1/94	SBS	
FINANCIAL CLOSING		12/15/94	PETE WRIGHT	

8/16/94

FPSC DOCKET NO. 950110-EI
EXHIBIT NO. _____ (BAM-21)
CONSISTING OF FIVE PAGES

PANDA HAS ASSERTED A CLAIM OF
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MEMORANDUM

DATE: **September 26, 1994**

TO:

Ted Hollon	**Pete Wright**
Ralph Killian	**Tom Horn**
Darol Lindloff	**Carlos Campo**
Brian Dietz	**Steve Studebaker**
Todd Carter	**David Mayer**
	Sallie Gray

FROM: **Kyle Woodruff** KW

SUBJECT: **Panda Kathleen**

A Kathleen project meeting will be held this afternoon in the main conference room at 4:00 PM.

Attached is a schedule of activities and assignments to support financial closing. This schedule will be used as the meeting agenda.

Your participation is essential for the success of this project and the completion of financial closure by 12/15/94.

cc: Bob Carter

Panda-Kathleen, L.P.

September 26, 1994

Financial Closing - December 15, 1994

SPECIALLY RESTRICTED PK 037162

ACTIVITY	DUE DATE	LATE DATE	RESOURCES	COMMENTS
Construction/Permanent Financing				
1) Lender Selection	**09/15/94**	**10/05/94**	**Pete Wright**	Construction loan will be required.
EPC Contract				
1) Complete negotiation of EPC Contract.	**09/30/94**	**10/14/94**	**Kyle Woodruff**	Need revised EPC Contract from Walsh by 09/26/94.
2) Conform Scope of Work for EPC.	**09/30/94**	**10/14/94**	**Darol Lindloff**	Need Scope of Work conformed to LOI of 08/03/94 and proposal of 07/01/94.
3) Prepare attachments for EPC Contract.	**09/30/94**	**10/14/94**	**David Mayer**	Prepare attachments for EPC Contract by 10/01/94.
4) Revise EPC Contract and Scope of Work.	**09/30/94**	**10/14/94**		
5) Soils Testing	**10/14/94**	**10/31/94**		Make final selection of GeoTech.
QF Certification				
1) Monitor progress and follow up.	**11/23/94**	**11/23/94**	**Kyle Woodruff Chadbourne & Parke**	
Pipeline ROW				
1) Acquire options.	**09/30/94**	**10/14/94**	**Todd Carter Tom Turner**	In progress. All land owners contacted.

FPSC Docket No. 950110-EI
FPC Witness: MORRISON
Exhibit No. ______, (BAM-21)
Sheet 2 of 5

Panda-Kathleen, L.P.

Financial Closing - December 15, 1994

September 26, 1994

ACTIVITY	DUE DATE	LATE DATE	RESOURCES	COMMENTS
2) Acquire FPC approval of easement utilization.	09/30/94	10/14/94	Kyle Woodruff ECT, Inc.	Revised request form to be submitted 09/26/94.
3) Prepare plats for property owners.	09/30/94	10/14/94	Universal Ensco	As required.
Pipeline Engineering & Construction				
1) Prepare and issue Scope of Work.	01/01/95	02/01/95	Carlos Campo	
Gas Transmission				
1) Complete Transmission Agreement.	09/30/94	10/14/94	Jim Adams Chadbourne & Parke	In progress. Finalized wording by ____________.
2) Complete Construction Reimbursement Agreement.	09/30/94	10/14/94	Jim Adams Chadbourne & Parke	In progress. Finalized wording by ____________.
Gas Supply				
1) Select gas supplier.	09/30/94	10/14/94	Jim Adams	Bid proposals received.
2) Negotiate Supply Agreement.	09/30/94	10/14/94	Jim Adams Chadbourne & Parke	
Electrical Interconnect				
1) Negotiations with city regarding Construction Contract.	09/16/94	10/01/94	Ralph Killian Steve Studebaker	Meeting on 10/04/94 with the City of Lakeland.
2) Negotiations with city regarding Wheeling Agreement.	09/16/94	10/01/94		

SPECIALLY RESTRICTED PK 037163

FPSC Docket No. 950110-EI
FPC Witness: MORRISON
Exhibit No. ______, (BAM-21)
Sheet 3 of 5

Panda-Kathleen, L.P. **September 26, 1994**

Financial Closing - December 15, 1994

ACTIVITY	DUE DATE	LATE DATE	RESOURCES	COMMENTS
Steam Sales Agreement	**09/30/94**	**10/14/94**	**David Mayer**	
Distilled Water Sales Agreement				
1) Identify potential users.	**09/30/94**	**10/14/94**	**Todd Carter**	Contacts made with Publix, Florida Juice. Bottling of water being considered.
2) Prepare offer.	**09/30/94**	**10/14/94**	**Carlos Campo**	
3) Negotiate Sales Agreement.	**09/30/94**	**10/14/94**		
4) Evaluate delivery system (i.e., truck, pipe, etc.).	**09/30/94**	**10/14/94**		
Environmental Permitting	**11/15/94**	**12/01/94**		
1) Air	**11/01/94**	**11/14/94**	**Kyle Woodruff ECT, Inc.**	Draft Air Permit issued. To be revised by FDEP at Panda request prior to Public Notice (10/01/94).
2) Water Use	**11/01/94**	**11/15/94**		Recommendation made to SWFWMD Board to grant permit (08/26/94). Board meets 10/31/94.
3) Industrial Wastewater	**11/21/94**	**11/16/94**		Public notice in progress.
4) Stormwater	**09/15/94**	**10/05/94**		Public notice in progress.

SPECIALLY RESTRICTED PK 037164

FPSC Docket No. 950110-EI
FPC Witness: MORRISON
Exhibit No. ______, (BAM-21)
Sheet 4 of 5

Panda-Kathleen, L.P. September 26, 1994

Financial Closing - December 15, 1994

ACTIVITY	DUE DATE	LATE DATE	RESOURCES	COMMENTS
5) Ecological	11/15/94	12/01/94		COE approved. FDEP reviewing.
6) Land Use/Zoning	10/14/94	10/28/94		Review of Board of County Commissions on 09/27/94 to be rescheduled 10/18/94 or sooner.
O&M Contract				
1) Add to Brandywine Contract.	09/30/94	10/14/94	Brian Dietz	
Support Lender's Due Diligence	10/14/94	11/01/94	Financial Technical Oil/Gas Owner's Eng	
Financial Closing		12/15/94	Pete Wright	

SPECIALLY RESTRICTED PK 037165

FPSC Docket No. 950110-EI
FPC Witness: MORRISON
Exhibit No. ______, (BAM-21)
Sheet 5 of 5

FPSC DOCKET NO. 950110-EI
EXHIBIT NO. _____ (BAM-22)
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9.14.3

Panda-Kathleen, L.P.

Financial Closing - December 15, 1994

September 30, 1994

ACTIVITY	DUE DATE	LATE DATE	RESOURCES	COMMENTS
Construction/Permanent Financing				
1) Lender Selection	**09/15/94**	28 **10/~~[illegible]~~/94**	**Pete Wright**	Construction loan will be required. *Due diligence required.*
2) Equity Commitment		28 **10/~~[illegible]~~/94**	**Pete Wright**	
3) Due Diligence		**12/01/94**	**Pete Wright**	
4) Loan Commitment Letter		**10/31/94**	**Pete Wright**	
5) Lender Due Diligence		**11/15/94**		
EPC Contract				
1) Complete Negotiation of EPC Contract	**09/30/94**	28 **10/~~[illegible]~~/94**	**Kyle Woodruff**	Need revised EPC Contract from Walsh by 09/26/94.
2) Conform Scope of Work to Revised EPC Contract	**09/30/94**	28 **10/~~[illegible]~~/94**	**Darol Lindloff**	Need Scope of Work conformed to LOI of 08/03/94 and proposal of 07/01/94.
3) Prepare Attachments for EPC Contract	**09/30/94**	28 **10/~~14~~/94**	**David Mayer**	Prepare attachments for EPC Contract by 10/01/94.
4) Soils Testing	**10/14/94**	**10/31/94**		Make final selection of GeoTech.
QF Certification				
1) Monitor Progress and Follow Up	**11/23/94**	**11/23/94**	**Kyle Woodruff**	*Awaiting 30 day period. Public Notice issued on 08/31/94.*

SPECIALLY RESTRICTED PK 057561

Panda-Kathleen, L.P.

September 30, 1994

Financial Closing - December 15, 1994

ACTIVITY	DUE DATE	LATE DATE	RESOURCES	COMMENTS
Pipeline ROW				
1) Acquire Options	09/30/94	10/31/94	Todd Carter	In progress. All land owners contacted.
2) Acquire FPC Approval of Easement Utilization	09/30/94	10/14/94	Kyle Woodruff	Revised request form to be submitted 09/26/94.
3) Prepare Plats For Property Owners	09/30/94	10/14/94		As required.
Pipeline Engineering & Construction				
1) Prepare And Issue Scope Of Work	01/01/95	02/01/95	Carlos Campo	*± 10% Engineer's estimate required for lender.*
Gas Transmission				
1) Complete Transmission Agreement	09/30/94	10/~~14~~ 31/94	Jim Adams	*Selected FGT. Negotiations in progress.*
2) Complete Construction Reimbursement Agreement	09/30/94	10/~~14~~ 31/94	Jim Adams	
3) Optional Lateral Construction Agreement	09/30/94	10/14/94		Held
Gas Supply				
1) Select Gas Supplier	09/30/94	10/~~14~~ 31/94	Jim Adams	Bid proposals received. *Anticipate award week of 09/26/94.*

Panda-Kathleen, L.P.

Financial Closing - December 15, 1994

September 30, 1994

ACTIVITY	DUE DATE	LATE DATE	RESOURCES	COMMENTS
2) Negotiate Supply Agreement	10/14/94	~~10/01/94~~ 11/15/94	Jim Adams	
Electrical Interconnect				
1) Negotiations with City Regarding Construction Contract	09/16/94	10/01/94	Kyle Woodruff	Meeting on 10/04/94 with the City of Lakeland.
2) Negotiations with City Regarding Wheeling Agreement	09/16/94	10/01/94		
Steam Sales Agreement				
1) Steam Sales Agreement	09/30/94	10/14/94	David Mayer	*To be modeled after Brandywine Agreement.*
Distilled Water Sales Agreement				
1) Identify Potential Users	09/30/94	11/01/94	Todd Carter	Contacts made with Florida Juice, Zephyr Hills and Bitco. Bottling of water being considered.
2) Prepare Offer	09/30/94	11/01/94	Todd Carter	
3) Negotiate Sales Agreement	09/30/94	12/01/94	Todd Carter	
4) Evaluate Delivery System (i.e., truck, pipe, etc.)	09/30/94	11/01/94	Todd Carter	

FPC Witness: MORRISON
Exhibit No. ______, (BAM-22)
Sheet 4 of 4

Panda-Kathleen, L.P.

Financial Closing - December 15, 1994

September 30, 1994

SPECIALLY RESTRICTED PK 057564

ACTIVITY	DUE DATE	LATE DATE	RESOURCES	COMMENTS
Environmental Permitting	**11/15/94**	**12/01/94**		
1) Air	**11/01/94**	**11/14/94**	**Kyle Woodruff**	Draft Air Permit issued. To be revised by FDEP at Panda request prior to Public Notice (10/01/94).
2) Water Use	**11/01/94**	**11/15/94**	**Kyle Woodruff**	Recommendation made to SWFWMD Board to grant permit (08/26/94). Board meets 10/31/94.
3) Industrial Wastewater	**11/21/94**	**11/16/94**	**Kyle Woodruff**	FDEP Deemed Complete 09/02/94.
4) Stormwater	**09/15/94**	**10/05/94**	**Kyle Woodruff**	Received. Complete.
5) Ecological	**11/15/94**	**12/01/94**	**Kyle Woodruff**	COE approved. FDEP reviewing.
6) Land Use/Zoning	**10/14/94**	**10/28/94**	**Kyle Woodruff**	Review of Board of County Commissions on 09/27/94 to be rescheduled 10/18/94 or sooner.
O&M Contract				
1) Add to Brandywine Contract	**09/30/94**	**10/14/94**	**Brian Dietz**	Negotiations started with U-Tech 09/28/94.

FPSC DOCKET NO. 950110-EI
EXHIBIT NO. _____ (BAM-23)
CONSISTING OF ELEVEN PAGES

PANDA HAS ASSERTED A CLAIM OF
CONFIDENTIALITY FOR EACH
PAGE OF THIS EXHIBIT

The Bank of Tokyo
New York Group

Project Finance - 12th Floor
1251 Avenue of the Americas
New York, New York 10116-3138
Fax No: (212) 782-6442

Facsimile Transmission Cover Letter

SPECIALLY RESTRICTED

DATE:	October 18, 1994
MESSAGE NO.:	h:\panda \faxs\panda\101894.doc
NUMBER OF PAGES: (incl. Cover Letter)	11
TO:	Mr. James D. Wright Mr. John Burt Mr. Tom Horn Panda Energy Corporation
FACSIMILE NO.:	(214) 980-6815
COPY TO:	Ms. Mary Power Bayerische Vereinsbank AG (21[illegible]) 2[illegible]0-03[illegible]4 R. DeVincenzo - BOT M. Yamawaki - BOT
FROM:	Mr. Kirk Edelman Vice President (212) [illegible]330
RE:	Panda-Kathleen, L.P.

DESCRIPTION AND/OR REMARKS:

I have attached a copy of the second draft of the Indication of Interest for the Panda-Kathleen, L.P. credit facility for your review. Changes from the earlier first draft have been blacklined.

The attached draft is being distributed to all parties simultaneously and has not been reviewed in detail by Bayerische Vereinsbank AG. Accordingly, the attached draft is being distributed to you subject to the further review and comment of the Banks.

FPSC Docket No. 950110-EI
FPC Witness: MORRISON
Exhibit No. ______, (BAM-23)
Sheet 1 of 11

Once you have reviewed the Indication, please call me to discuss it in detail.

Best Regards,

Kirk

SPECIALLY RESTRICTED

The Bank of Tokyo Trust Company **Bayerische Vereinsbank AG**

October 18, 1994

DRAFT

Mr. James D. Wright
Vice President & Chief Financial Officer
Panda Energy Corporation
4100 Spring Valley
Suite 1001
Dallas, Texas 75244

Re: Panda Kathleen, Limited Partnership (the "Project")

Dear Pete:

Based upon our recent discussions in connection with the above-referenced Project and your Confidential Memorandum dated September, 1994, the undersigned banks (the "Banks") are pleased to present this indication of interest (the "Indication") to seek to provide a credit facility (the "Credit Facility") for the Project.

Attached as Exhibit A are indicative terms regarding the proposed Credit Facility. Exhibit A presents one possible credit facility structure for the Project. At the request of Panda Energy Corporation ("Panda"), the Banks would be willing to discuss alternative credit facility structures which might also satisfy Panda's financing requirements. Such alternatives might include facilities with shorter tenors and partial amortizations; characteristics which in turn could affect pricing and other terms.

This Indication should not be construed as either a commitment to provide a credit facility or a comprehensive statement of the terms and conditions under which the Banks would commit to provide a credit facility. Rather, the Indication should be used by Panda and the Banks to facilitate further discussions with respect to the terms and conditions of such a facility. A commitment to provide a credit facility would be subject to the completion of the Banks' necessary due diligence and the receipt of individual bank credit committee approvals.

The Banks acknowledge Panda's concern that time is of the essence and will negotiate in good faith in an attempt to be responsive to deadlines dictated by project agreements and participants.

Please be advised that the contents of the Indication are confidential and may not be released to a third party without the prior written consent of the Banks.

DRAFT

If the terms and conditions contained in this letter are acceptable to you, please countersign all three originals on the appropriate line below and return two executed originals to The Bank of Tokyo Trust Company by no later than October ~~17~~28, 1994. Upon receipt of this executed proposal, the Banks will proceed with their due diligence activities.

By countersigning this document, you agree to reimburse the Banks for all their costs and expenses incurred in connection with the transaction *(such expenses are understood to be reasonable "out-of-pocket" disbursements and fees owed to third-party consultants and advisors)* contemplated hereby whether or not such a transaction is consummated and whether or not the Banks request or receive credit approval from their respective organizations.

Sincerely,

The Bank of Tokyo Trust Company	Bayerische Vereinsbank AG
Kirk H. Edelman Vice President	Mary Power Vice President

Acknowledged and accepted by:

Panda Energy Corporation

By: ____________________

Name: ____________________

Title: ____________________

Date: ____________________

attach.

DRAFT

Exhibit A

Indication of Interest for a Credit Facility *

for

Panda ~~Kathleen, Limited Partnership~~ Kathleen, L.P.

**: The following document is a non-binding, indication of interest of what terms and conditions might be contained in a definitive credit agreement. It is not a commitment to provide a credit facility and should not be relied upon as such. Such a commitment would be subject to due diligence and credit committee approval.*

THE PROJECT

A 115 Megawatt ("MW"), gas-fired, combined-cycle cogeneration plant ("Kathleen" or the "Project") to be located in Polk County, near Lakeland, Florida. Kathleen will supply electrical power to Florida Power Corporation ("FPC") and thermal energy to a distilled water plant owned by a subsidiary of Panda.

THE PARTICIPANTS

Borrower: Panda ~~Kathleen, Limited Partnership~~ Kathleen, L.P., a Delaware Limited Partnership having its principal place of business in Dallas, Texas.

Banks: A bank group initially consisting of The Bank of Tokyo Trust Company ("BOTT") and Bayerische Vereinsbank AG ("BV"), (collectively the "Banks") will underwrite the Facility. After financial closing, additional financial institutions may join this group at the discretion of the existing Banks. Such additional financial institutions must be reasonably acceptable to the Borrower.

Equity Investors: To be arranged by Panda with a party or parties and on terms in all respects acceptable to the Banks.

Administrative Agent: BOTT

Construction Contractor: Walsh Construction Company (or some other qualified EPC contractor which must be acceptable to the Banks) pursuant to a fixed-price, date-certain, turnkey construction contract with performance guarantees, liquidated damage provisions, warranties and other provisions usual and customary for this type of agreement and in all respects satisfactory to the Banks.

The construction contract shall provide for aggregate liquidated damages with a cap acceptable to the Banks.

The Construction Contractor's obligations will be supported by guaranties or other forms of assurance from parties and with terms and conditions in all respects acceptable to the Banks.

Operator: To be arranged by Panda with an experienced, third-party, power plant operator and on terms in all respects acceptable to the Banks. The operations and maintenance agreement shall be for a term and shall contain performance guarantees, bonus/penalty provisions, budgetary devices/controls, credit supports if necessary and other provisions in all respects satisfactory to the Banks.

Power Purchaser: Florida Power Corporation ("FPC") will purchase electricity from the Project pursuant to a 30-year power purchase agreement with terms and conditions in all respects satisfactory to the Banks.

Fuel Suppliers: The Project's supply of natural gas and back-up fuel oil shall be arranged by Panda with a party or parties and on terms in all respects acceptable to the Banks.

Panda shall structure the Project's fuel supply agreements to provide a hedge against fluctuations in the revenue stream from the sale of electric power pursuant to the power purchase agreement with FPC. Such a hedge structure shall be acceptable to the Banks.

Fuel Transporter: Florida Gas Transmission ("FGT") pursuant to a firm transportation service agreement with terms and conditions in all respects acceptable to the Banks.

Thermal Energy Purchaser: A distilled water facility to be owned and operated by a subsidiary of Panda. The Thermal Energy Purchaser will purchase the Project's thermal output pursuant to a steam purchase agreement on terms and conditions in all respects satisfactory to the Banks.

~~The output from the distilled water facility will be sold under contract to a third party and on terms and conditions in all respects acceptable to the Banks.~~

FPSC Docket No. 950110-EI
FPC Witness: MORRISON
Exhibit No. ______, (BAM-23)
Sheet 6 of 11

CONFIDENTIAL
PK 019533

Prior to financial closing, ~~Panda shall develop a strategy, in all respects acceptable to the Banks, to identify and arrange an alternate thermal energy purchaser to ensure that the Project can maintain its Qualifying Facility ("QF") status should the ownership structure of the distilled water facility~~ the Banks shall have reviewed the regulatory status of the Project, including its relationship to, and the presumptively useful nature of, the Thermal Energy Purchaser. The Project's relationship with the Thermal Energy Purchaser shall allow it to maintain its ~~be challenged or its economic viability become uncertain.~~ Qualifying Facility ("QF") status in a manner which shall be in all respects acceptable to the Banks.

THE CREDIT FACILITY A construction/term loan facility, in an amount not to exceed ~~the lesser of 80% of the development cost of the Project or $90~~ $91 million.

Use of Proceeds: Proceeds of the Credit Facility shall be used to finance the costs associated with the Project including, without duplication (i) the design, site acquisition, manufacture, permitting, construction, installation, testing, start-up and initial operation (but in an amount not exceeding the turnkey cost plus additional costs authorized by change orders under the construction contract plus such additional amounts that may be agreed to by the Banks); (ii) financing fees, developer fees and all other fees, expenses and costs associated with the Project and the cost of interest rate protection arrangements as budgeted in the construction budget; (iii) debt service on the outstanding construction loan until the conversion date; and (iv) funding of the reserve accounts and working capital account, required by, and agreed to by the Banks.

SPECIALLY RESTRICTED

The Project ~~construction budget and disbursement schedule~~'s construction budget, including all soft costs, and fees, disbursement schedule and projected financial statements shall be subject to review by, and be satisfactory in all respect to, the Banks.

Proceeds of the term loan will be used to repay the construction loan and fund certain other requirements as agreed to by the Banks on the conversion date.

Arrangement Fee: 1% to 1-1/2% of the Credit Facility amount, payable to the Banks upon financial closing.

FPSC Docket No. 950110-EI
FPC Witness: MORRISON
Exhibit No. ______, (BAM-23)
Sheet 7 of 11

CONFIDENTIAL
PK 019534

Administrative Fee:	$100,000 per annum payable to the Administrative Agent yearly in advance; the Administrative Fee will be adjusted annually in accordance with the increase or decrease in the Consumer Price Index
Commitment Fee:	3/8% per annum of the unutilized Credit Facility commitment, payable to the Banks quarterly in arrears.
Interest Rates:	Principal outstanding under the Credit Facility will bear interest at a margin above LIBOR ranging from 1-1/4% to 1-1/2%. Such interest rate provisions may incorporate periodic changes within the aforementioned range as will be set forth in the definitive credit agreement. Borrowings will have interest periods of one, two, three, six and if available, nine or twelve months, as the Borrower may select. Interest shall be paid in arrears at the end of the relevant interest period and will be calculated on the basis of actual number of days elapsed in a year of 365 or 366 days, as the case may be. Base rate or prime rate options will also be made available.
Term:	The construction loan shall convert on the earliest of the following: (a) the conversion date, (b) in an event of default or (c) a predetermined commitment termination date. The term loan shall be payable quarterly based upon a schedule providing for 13- to 15 year, mortgage-style, full amortization.
Interest Rate Risk Protection:	The Banks may require that the Borrower execute interest rate risk protection agreements either at closing or at some future date on terms and conditions satisfactory to the Banks.
Additional Collateral Account:	The Additional Collateral Account shall be established as a restricted cash account. Project cash which is restricted as a result of the provisions of the Credit Facility shall be deposited in this account.

Funds held in the Additional Collateral Account may be released to the Project with the consent of the Banks once the Project's financial performance has satisfied certain performance standards which shall in all respects be satisfactory to the Banks.

Debt Coverage Ratio Provisions:

The Credit Facility will contain debt coverage ratio provisions usual and customary for this type of facility and satisfactory to the Banks.

These provisions will require that a portion of the Project's excess cash flow be used to either repay debt or fund the debt service reserve account based upon the following calculated debt coverage ratio schedule:

DCR	Excess Cash Restricted
> 1.25	0%
≤ 1.25 & ≥ 1.15	50%
< 1.15	100%

The mechanism for calculating debt coverage ratios shall be usual and customary but in all respects be acceptable to the Banks.

Reserve Accounts: Reserve accounts including, but not limited to, debt service, maintenance and additional collateral will be required by the Banks upon terms and conditions usual and customary for transactions of this type.

Representations and Warranties: Usual and customary for such facilities.

Borrower's Covenants: Usual and customary for such facilities.

Events of Default and Remedies: Usual and customary for such facilities.

Indemnities: Usual and customary for such facilities, including but not limited to, environmental indemnities which shall be in all respects satisfactory to the Banks.

Equity Funding: The Borrower shall be required to provide Equity of no less than ~~20~~15% of the total Project cost, funded in a manner acceptable to the Banks.

The Borrower shall provide an irrevocable and unconditional commitment by the equity investors to provide the Equity Funding with adequate credit support in form and substance in all respects acceptable to the Banks.

Conditions Precedent to Closing:

In addition to those which are stated in this indication, the definitive credit agreement will contain conditions precedent to closing which are deemed appropriate in the context of the proposed transaction. These conditions will include, but not be limited to, the Banks' review of Project documents, satisfaction with the legal and regulatory status of the Project and receipt of the necessary credit committee approvals.

Optional Prepayment:

Upon providing 90 days written notice, the Borrower may prepay the outstanding balance of the Credit Facility, in whole or in part together with accrued interest thereon plus any breakage costs associated with the Credit Facility, without penalty.

Mandatory Prepayment:

The Borrower ~~will~~ may be required to make mandatory prepayments with proceeds from all liquidated damages, warranty and insurance claims (other than business interruption), condemnation awards and indemnification payments ~~in inverse order of maturity~~.

Security:

The Credit Facility will be secured by all of the assets of the Borrower which shall include, but not be limited to:

- a first lien and security interest in the Project assets, including all accounts;
- a pledge of general and limited partnership interests;
- a collateral assignment of the Project's agreements including: the construction contract, power purchase agreement, steam sale contract, O&M contract, interest rate protection agreement, equity contribution agreement and all other relevant agreements which are required to operate the Project;
- Project permits and all manufacturer and contractor warranties; and
- assignment of proceeds of the insurance coverage for the project facilities through a loss payee clause endorsement.

FPSC Docket No. 950110-EI
FPC Witness: MORRISON
Exhibit No. ______, (BAM-23)
Sheet 10 of 11

The total security package shall be in all respects satisfactory to the Banks.

Other Credit Facilities: The Banks shall consider providing other ancillary credit facilities, such as performance letters of credit, as may be required by third parties to guaranty the performance of the Project. Such Other Credit Facilities shall be provided on terms and conditions in all respects acceptable to the Banks.

Assignments and Participations: The Banks may assign their rights and obligations under the credit agreements or grant participations therein to other banks. Each assignee will become a party to the credit agreements and will relieve the selling Bank of its obligations with respect to the assigned portion of its commitment.

Bank Consultants: The Banks may retain the services of consultants, as required in their sole discretion, to advise them on matters relating to the proposed Credit Facility. Such entities may include, but not be limited to, insurance and fuel supply consultants, independent engineers and outside legal counsels.

Transaction Expenses: All costs and expenses incurred by the Banks in connection with the negotiation, review, documentation, closing, syndication and administration of the proposed transaction, including the fees and expenses of the Banks' Consultants and the Banks' reasonable out-of-pocket expenses, shall be paid by the Borrower, whether or not the proposed transaction is consummated.

Documentation: All documentation executed in connection with this transaction, including all project agreements and financial models, shall be satisfactory in all respects to the Banks.

The Credit Facility documentation shall be drafted by the Banks' counsel and shall be governed by New York law.

Duration of Proposal: The Banks reserve the right to withdraw or amend the indication after November 1, 1994.

SPECIAL RESTRICTED

FPSC DOCKET NO. 950110-EI
EXHIBIT NO. _____ (BAM-24)
CONSISTING OF TWELVE PAGES

PANDA HAS ASSERTED A CLAIM OF CONFIDENTIALITY FOR EACH PAGE OF THIS EXHIBIT

The Bank of Tokyo
New York Group

Project Finance - 12th Floor
1251 Avenue of the Americas
New York, New York 10116-3138
Fax No: (212) 782-6442

Facsimile Transmission Cover Letter

DATE:	October 21, 1994
MESSAGE NO.:	h:\panda\faxs\panda\102194.doc
NUMBER OF PAGES: (incl. Cover Letter)	12
TO:	Mr. James D. Wright Mr. John Burt Mr. Tom Horn Panda Energy Corporation
FACSIMILE NO.:	(214) 980-6815
COPY TO:	Ms. Mary Power Bayerische Vereinsbank AG (212) 210-0354 R. DeVincenzo - BOT R. Moyle - BOT
FROM:	Mr. Kirk Edelman Vice President (212) 782-4330
RE:	Panda-Kathleen, L.P.

SPECIALLY RESTRICTED

DESCRIPTION AND/OR REMARKS:

I have attached a copy of the third draft of the Indication of Interest for the Panda-Kathleen, L.P. credit facility for your review. Changes from the earlier second draft have been blacklined.

The attached draft is being distributed to all parties simultaneously and has not been reviewed in detail by Bayerische Vereinsbank AG. Accordingly, the attached draft is being distributed to you subject to the further review and comment of the Banks.

FPSC Docket No. 950110-EI
FPC Witness: MORRISON
Exhibit No. ______, (BAM-24)
Sheet 1 of 12

CONFIDENTIAL
PK 019539

Once you have reviewed the Indication, please call me to discuss it in detail.

Have a nice weekend!

Best Regards,

Kirk

The Bank of Tokyo Trust Company **Bayerische Vereinsbank AG**

DRAFT

FPSC Docket No. 950110-EI
FPC Witness: MORRISON
Exhibit No. ______, (BAM-24)
Sheet 3 of 12

October 21, 1994

Mr. James D. Wright
Vice President & Chief Financial Officer
Panda Energy Corporation
4100 Spring Valley
Suite 1001
Dallas, Texas 75244

Re: Panda Kathleen, Limited Partnership (the "Project")

Dear Pete:

Based upon our recent discussions in connection with the above-referenced Project and your Confidential Memorandum dated September, 1994, the undersigned banks (the "Banks") are pleased to present this Indication of Interest (the "Indication") to seek to provide a credit facility (the "Credit Facility") for the Project.

Attached as Exhibit A are indicative terms regarding the proposed Credit Facility. Exhibit A presents one possible credit facility structure for the Project. At the request of Panda Energy Corporation ("Panda"), the Banks would be willing to discuss alternative credit facility structures which might also satisfy Panda's financing requirements. Such alternatives might include facilities with shorter tenors and partial amortizations; characteristics which in turn could affect pricing and other terms.

This Indication should not be construed as either a commitment to provide a credit facility or a comprehensive statement of the terms and conditions under which the Banks would commit to provide a credit facility. Rather, the Indication should be used by Panda and the Banks to facilitate further discussions with respect to the terms and conditions of such a facility. A commitment to provide a credit facility would be subject to the completion of the Banks' necessary due diligence and the receipt of individual bank credit committee approvals.

The Banks acknowledge Panda's concern that time is of the essence and will negotiate in good faith in an attempt to be responsive to deadlines dictated by project agreements and participants.

Please be advised that the contents of the Indication are confidential and may not be released to a third party without the prior written consent of the Banks.

Mr. James D. Wright
October 21, 1994
Page 2

DRAFT

If the terms and conditions contained in this letter are acceptable to you, please countersign all three originals on the appropriate line below and return two executed originals to The Bank of Tokyo Trust Company by no later than October 28, 1994. Upon receipt of this executed proposal, the Banks will proceed with their due diligence activities.

By countersigning this document, you agree to reimburse the Banks for all their costs and expenses incurred in connection with the transaction *(such expenses are understood to be reasonable "out-of-pocket" disbursements and fees owed to third-party consultants and advisors)* contemplated hereby whether or not such a transaction is consummated and whether or not the Banks request or receive credit approval from their respective organizations.

Sincerely,

The Bank of Tokyo Trust Company

Bayerische Vereinsbank AG

Kirk H. Edelman
Vice President

Mary Power
Vice President

SPECIALLY RESTRICTED

Acknowledged and accepted by:

Panda Energy Corporation

By: ____________________

Name: ____________________

Title: ____________________

Date: ____________________

attach.

FPSC Docket No. 950110-EI
FPC Witness: MORRISON
Exhibit No. ______, (BAM-24)
Sheet 4 of 12

CONFIDENTIAL
PK 019542

DRAFT

Exhibit A

Indication of Interest for a Credit Facility *
for
Panda-Kathleen, L.P.

*: *The following document is a non-binding, indication of interest of what terms and conditions might be contained in a definitive credit agreement. It is not a commitment to provide a credit facility and should not be relied upon as such. Such a commitment would be subject to due diligence and credit committee approval.*

<u>THE PROJECT</u>	A 115 Megawatt ("MW"), gas-fired, combined-cycle cogeneration plant ("Kathleen" or the "Project") to be located in Polk County, near Lakeland, Florida. Kathleen will supply electrical power to Florida Power Corporation ("FPC") and thermal energy to a distilled water plant owned by a subsidiary of Panda.
<u>THE PARTICIPANTS</u>	
Borrower:	Panda-Kathleen, L.P., a Delaware Limited Partnership having its principal place of business in Dallas, Texas.
Banks:	A bank group initially consisting of The Bank of Tokyo Trust Company ("BOTT") and Bayerische Vereinsbank AG ("BV"), (collectively the "Banks") will underwrite the Facility. After financial closing, additional financial institutions may join this group at the discretion of the existing Banks. Such additional financial institutions must be reasonably acceptable to the Borrower.
Equity Investors:	To be arranged by Panda with a party or parties and on terms in all respects acceptable to the Banks.
Administrative Agent:	BOTT
Construction Contractor:	Walsh Construction Company (or some other qualified EPC contractor which must be acceptable to the Banks) pursuant to a fixed-price, date-certain, turnkey construction contract with performance guarantees, liquidated damage provisions, warranties and other provisions usual and customary for this type of agreement and in all respects satisfactory to the Banks.

FPSC Docket No. 950110-EI
FPC Witness: MORRISON
Exhibit No. ______, (BAM-24)
Sheet 5 of 12

CONFIDENTIAL
PK 019543

The construction contract shall provide for aggregate liquidated damages with a cap acceptable to the Banks.

The Construction Contractor's obligations will be supported by guaranties or other forms of assurance from parties and with terms and conditions in all respects acceptable to the Banks.

Operator: To be arranged by Panda with an experienced, third-party, power plant operator and on terms in all respects acceptable to the Banks. The operations and maintenance agreement shall be for a term and shall contain performance guarantees, bonus/penalty provisions, budgetary devices/controls, credit supports if necessary and other provisions in all respects satisfactory to the Banks.

Power Purchaser: Florida Power Corporation ("FPC") will purchase electricity from the Project pursuant to a 30-year power purchase agreement with terms and conditions in all respects satisfactory to the Banks.

Fuel Suppliers: The Project's supply of natural gas and back-up fuel oil shall be arranged by Panda with a party or parties and on terms in all respects acceptable to the Banks.

Panda shall structure the Project's fuel supply agreements to provide a hedge against fluctuations in the revenue stream from the sale of electric power pursuant to the power purchase agreement with FPC. Such a hedge structure shall be acceptable to the Banks.

Fuel Transporter: Florida Gas Transmission ("FGT") pursuant to a firm transportation service agreement with terms and conditions in all respects acceptable to the Banks.

Thermal Energy Purchaser: A distilled water facility to be owned and operated by a subsidiary of Panda. The Thermal Energy Purchaser will purchase the Project's thermal output pursuant to a steam purchase agreement on terms and conditions in all respects satisfactory to the Banks.

FPSC Docket No. 950110-EI
FPC Witness: MORRISON
Exhibit No. ______, (BAM-24)
Sheet 6 of 12

Prior to financial closing, the Banks shall have reviewed the regulatory status of the Project, including its relationship to, and the presumptively useful nature of, the Thermal Energy Purchaser. The Project's relationship with the Thermal Energy Purchaser shall allow it to maintain its Qualifying Facility ("QF") status in a manner which shall be in all respects acceptable to the Banks.

THE CREDIT FACILITY A construction/term loan facility, in an amount not to exceed $91 million.

Use of Proceeds: Proceeds of the Credit Facility shall be used to finance the costs associated with the Project including, without duplication (i) the design, site acquisition, manufacture, permitting, construction, installation, testing, start-up and initial operation, (but in an amount not exceeding the turnkey cost plus additional costs authorized by change orders under the construction contract plus such additional amounts that may be agreed to by the Banks); (ii) financing fees, developer fees and all other fees, expenses and costs associated with the Project and the cost of interest rate protection arrangements as budgeted in the construction budget; (iii) debt service on the outstanding construction loan until the conversion date; and (iv) funding of the reserve accounts and working capital account, required by, and agreed to by the Banks.

~~The Project's construction budget, including all soft costs and fees, disbursement schedule and projected financial statements shall be subject to review by, and be satisfactory in all respect to, the Banks.~~

~~Proceeds of the term loan will be used to repay the construction loan and fund certain other requirements as agreed to by the Banks on the conversion date.~~

Arrangement Fee: 1% to 1-1/2% of the Credit Facility amount, payable to the Banks upon financial closing.

Administrative Fee: $100,000 per annum payable to the Administrative Agent yearly in advance; the Administrative Fee will be adjusted annually in accordance with the increase or decrease in the Consumer Price Index

Commitment Fee: 3/8% per annum of the unutilized Credit Facility commitment, payable to the Banks quarterly in arrears.

FPSC Docket No. 950110-EI
FPC Witness: MORRISON
Exhibit No. ______, (BAM-24)
Sheet 7 of 12

Interest Rates:

Principal outstanding under the Credit Facility will bear interest at a margin above LIBOR ranging from 1-1/4% to 1-1/2%. Such interest rate provisions may incorporate periodic changes within the aforementioned range as will be set forth in the definitive credit agreement.

Borrowings will have interest periods of one, two, three, six and if available, nine or twelve months, as the Borrower may select. Interest shall be paid in arrears at the end of the relevant interest period and will be calculated on the basis of actual number of days elapsed in a year of 365 or 366 days, as the case may be. Base rate or prime rate options will also be made available.

Term:

The construction loan shall convert on the earliest of the following: (a) the conversion date, (b) in an event of default or (c) a predetermined commitment termination date.

The term loan shall be payable quarterly based upon a schedule providing for 13 to 15 year, mortgage-style, full amortization.

Interest Rate Risk Protection:

The Banks will require that the Borrower execute interest Rate Risk Protection agreements with the Banks either at closing or at some future date. The Banks shall provide such agreements with pricing and terms and conditions <u>which are competitive with similar arrangements available in the market. The Banks will make Interest Rate Risk Protection arrangements available to the Borrower at financial closing.</u>

Debt Coverage Ratio Provisions:

The Credit Facility will contain debt coverage ratio provisions usual and customary for this type of facility and satisfactory to the Banks.

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CONFIDENTIAL
PK 019546

These provisions will require that a portion of the Project's excess cash flow be used to either repay debt or fund the debt service reserve account based upon the following calculated debt coverage ratio schedule:

DCR	Excess Cash Restricted
> 1.25	0%
≤ 1.25 & ≥ 1.15	50%
< 1.15	100%

The mechanism for calculating debt coverage ratios shall be usual and customary but in all respects be acceptable to the Banks.

Additional Collateral Account: The Additional Collateral Account shall be established as a restricted cash account. Project cash which is restricted as a result of the provisions of the Credit Facility shall be deposited in this account.

Funds held in the Additional Collateral Account may be released to the Project with the consent of the Banks once the Project's financial performance has satisfied certain performance standards which shall in all respects be satisfactory to the Banks.

Reserve Accounts: Reserve accounts including, but not limited to, debt service, maintenance and additional collateral will be required by the Banks upon terms and conditions usual and customary for transactions of this type.

Representations and Warranties: Usual and customary for such facilities.

Borrower's Covenants: Usual and customary for such facilities.

Events of Default and Remedies: Usual and customary for such facilities.

Indemnities: Usual and customary for such facilities, including but not limited to, environmental indemnities which shall be in all respects satisfactory to the Banks.

Equity Funding: The Borrower shall be required to provide Equity of no less than 15% of the total Project cost, funded in a manner acceptable to the Banks.

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Exhibit No. ______, (BAM-24)
Sheet 9 of 12

The Borrower shall provide an irrevocable and unconditional commitment by the equity investors to provide the Equity Funding with adequate credit support in form and substance in all respects acceptable to the Banks.

Conditions Precedent to Closing:

In addition to those which are stated in this indication, the definitive credit agreement will contain conditions precedent to closing which are deemed appropriate in the context of the proposed transaction. These conditions will include, but not be limited to, the Banks' review of Project documents, satisfaction with the legal and regulatory status of the Project and receipt of the necessary credit committee approvals.

Optional Prepayment:

Upon providing 90 days written notice, the Borrower may prepay the outstanding balance of the Credit Facility, in whole or in part together with accrued interest thereon plus any breakage costs associated with the Credit Facility, without penalty.

Mandatory Prepayment:

The Borrower may be required to make mandatory prepayments with proceeds from liquidated damages, warranty and insurance claims (other than business interruption), condemnation awards and indemnification payments.

Security:

The Credit Facility will be secured by all of the assets of the Borrower which shall include, but not be limited to:

- a first lien and security interest in the Project assets, including all accounts;
- a pledge of general and limited partnership interests;
- a collateral assignment of the Project's agreements including: the construction contract, power purchase agreement, steam sale contract, O&M contract, interest rate protection agreement, equity contribution agreement and all other relevant agreements which are required to operate the Project;
- Project permits and all manufacturer and contractor warranties; and

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- assignment of proceeds of the insurance coverage for the project facilities through a loss payee clause endorsement.

The total security package shall be in all respects satisfactory to the Banks.

Other Credit Facilities: The Banks shall consider providing other ancillary credit facilities, such as performance letters of credit, as may be required by third parties to guaranty the performance of the Project. Such Other Credit Facilities shall be provided on terms and conditions in all respects acceptable to the Banks.

Assignments and Participations: The Banks may assign their rights and obligations under the credit agreements or grant participations therein to other banks. Each assignee will become a party to the credit agreements and will relieve the selling Bank of its obligations with respect to the assigned portion of its commitment.

Project Budget: The Project's construction budget, disbursement schedule and projected financial statements shall be subject to review by, and be satisfactory in all respect to, the Banks.

Fees payable to Panda and other Project sponsors shall be subject to the review by the Banks and their advisors. The Banks will not unreasonably withhold their consent to the payment of said fees to the extent that they are market-based and do not impose an unreasonable economic burden on the Project.

The Banks will allow Panda to be paid a development fee equal to 3% of the Project Budget. Said development fee will be payable in two installments. The first installment, equal to 1.5% of the Project Budget, will be paid at the financial closing of the Credit Facility. If funds are available upon construction completion, a second installment, equal to 1.5% of the Project Budget, will be paid at conversion. The funds to be used to pay Panda the second installment of the development fee shall be treated as contingency funds during the construction of the Project.

SPECIFIED RES

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The Banks will allow Panda to be reimbursed for its reasonable out-of-pocket expenses incurred during the development of the Project. Reimbursable expenses incurred prior to the financial closing of the Credit Facility shall be subject to the review by, and be acceptable to, the Banks.

Bank Consultants: The Banks may retain the services of consultants, as required in their sole discretion, to advise them on matters relating to the proposed Credit Facility. Such entities may include, but not be limited to, insurance and fuel supply consultants, independent engineers and outside legal counsels.

Transaction Expenses: All costs and expenses incurred by the Banks in connection with the negotiation, review, documentation, closing, syndication and administration of the proposed transaction, including the fees and expenses of the Banks' Consultants and the Banks' reasonable out-of-pocket expenses, shall be paid by the Borrower, whether or not the proposed transaction is consummated.

Documentation: All documentation executed in connection with this transaction, including all project agreements and financial models, shall be satisfactory in all respects to the Banks.

The Credit Facility documentation shall be drafted by the Banks' counsel and shall be governed by New York law.

Duration of Proposal: The Banks reserve the right to withdraw or amend the indication after November 1, 1994.

RESTRICTED

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PK 019550

FPSC DOCKET NO. 950110-EI
EXHIBIT NO. _____ (BAM-25)
CONSISTING OF TWELVE PAGES

PANDA HAS ASSERTED A CLAIM OF
CONFIDENTIALITY FOR EACH
PAGE OF THIS EXHIBIT

The Bank of Tokyo
New York Group

Project Finance - 12th Floor
1251 Avenue of the Americas
New York, New York 10116-3138
Fax No: (212) 782-6442

Facsimile Transmission Cover Letter

DATE:	November 17, 1994
MESSAGE NO.:	h:\docs\panda\faxs\panda\111794.doc
NUMBER OF PAGES: (Incl. Cover Letter)	12
TO:	Mr. Tom Horn Panda Energy Corporation
FACSIMILE NO.:	(214) 980-6815
COPY TO:	Ms. Mary Power Bayerische Vereinsbank AG. (212) 210-0354 R. DeVincenzo - BOT R. Moyle - BOT
FROM:	Mr. Kirk Edelman Vice President (212) 782-4330
RE:	Panda-Kathleen, L.P.

DESCRIPTION AND/OR REMARKS:

I have attached a copy of the fifth draft of the Indication of Interest for the Panda-Kathleen, L.P. credit facility for your review. I have also sent a copy of this proposal to Pete at his hotel here in NYC.

The attached draft is being distributed to all parties simultaneously and has not been reviewed in detail by Bayerische Vereinsbank AG. Accordingly, the attached draft is being distributed to you subject to the further review and comment of the Banks.

Once you have reviewed the Indication, please call me to discuss it in detail.

Best Regards,

Kirk

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Sheet 2 of 12

The Bank of Tokyo Trust Company **Bayerische Vereinsbank AG**

November 17, 1994

Mr. James D. Wright
Vice President & Chief Financial Officer
Panda Energy Corporation
4100 Spring Valley
Suite 1001
Dallas, Texas 75244

Re: Panda Kathleen, Limited Partnership (the "Project")

SPECIALLY RESTRICTED

Dear Pete:

Based upon our recent discussions in connection with the above referenced Project and your Confidential Memorandum dated September, 1994, the undersigned banks (the "Banks") are pleased to present this Indication of Interest (the "Indication") to seek to provide a credit facility (the "Credit Facility") for the Project.

Attached as Exhibit A are indicative terms regarding the proposed Credit Facility. Exhibit A presents one possible credit facility structure for the Project. At the request of Panda Energy Corporation ("Panda"), the Banks would be willing to discuss alternative credit facility structures which might also satisfy Panda's financing requirements.

This Indication should not be construed as either a commitment to provide a credit facility or a comprehensive statement of the terms and conditions under which the Banks would commit to provide a credit facility. Rather, the Indication should be used by Panda and the Banks to facilitate further discussions with respect to the terms and conditions of such a facility. A commitment to provide a credit facility would be subject to the completion of the Banks' necessary due diligence and the receipt of individual bank credit committee approvals.

The Banks acknowledge Panda's concern that time is of the essence and will negotiate in good faith in an attempt to be responsive to deadlines dictated by project agreements and participants.

Please be advised that the contents of the Indication are confidential and may not be released to a third party without the prior written consent of the Banks.

Mr. James D. Wright
November 17, 1994
Page 2

If the terms and conditions contained in this letter are acceptable to you, please countersign all three originals on the appropriate line below and return two executed originals to The Bank of Tokyo Trust Company by no later than December 1, 1994. Upon receipt of this executed proposal, the Banks will proceed with their due diligence activities.

By countersigning this document, you agree to reimburse the Banks for all their costs and expenses incurred in connection with the transaction *(such expenses are understood to be reasonable "out-of-pocket" disbursements and fees owed to third-party consultants and advisors)* contemplated hereby whether or not such a transaction is consummated and whether or not the Banks request or receive credit approval from their respective organizations.

Sincerely,

The Bank of Tokyo Trust Company **Bayerische Vereinsbank AG**

Kirk H. Edelman
Vice President

Mary Power
Vice President

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Acknowledged and accepted by:

Panda Energy Corporation

By: ______________________

Name: ______________________

Title: ______________________

Date: ______________________

attach.

Exhibit A

Indication of Interest for a Credit Facility *
for
Panda-Kathleen, L.P.

**: The following document is a non-binding, indication of interest of what terms and conditions might be contained in a definitive credit agreement. It is not a commitment to provide a credit facility and should not be relied upon as such. Such a commitment would be subject to due diligence and credit committee approval.*

THE PROJECT — A 115 Megawatt ("MW"), gas-fired, combined-cycle cogeneration plant ("Kathleen" or the "Project") to be located in Polk County, near Lakeland, Florida. Kathleen will supply electrical power to Florida Power Corporation ("FPC") and thermal energy to a distilled water plant owned by a subsidiary of Panda.

THE PARTICIPANTS

Borrower: Panda-Kathleen, L.P., a Delaware Limited Partnership having its principal place of business in Dallas, Texas, as well as the entity, which owns the distilled water plant, on a joint and several basis. The identity of the Borrower will be in large part contingent upon both the ownership structure of the Project and the distilled water plant as well as the manner in which the construction of the distilled water plant is financed.

Banks: A bank group initially consisting of The Bank of Tokyo Trust Company ("BOTT") and Bayerische Vereinsbank AG ("BV"), (collectively the "Banks") will underwrite the Facility. After financial closing, additional financial institutions may join this group at the discretion of the existing Banks. Such additional financial institutions must be reasonably acceptable to the Borrower.

Equity Investors: To be arranged by Panda with a party or parties and on terms in all respects acceptable to the Banks.

Administrative Agent: BOTT

Construction Contractor:

Walsh/Commonwealth, a joint venture between Walsh Construction Company and Gilbert Commonwealth (or some other qualified EPC contractor which must be acceptable to the Banks), pursuant to a fixed-price, date-certain, turnkey construction contract with performance guarantees, liquidated damage provisions, warranties and other provisions usual and customary for this type of agreement and in all respects satisfactory to the Banks.

The construction contract shall provide for aggregate liquidated damages with a cap acceptable to the Banks.

The Construction Contractor's obligations will be supported by guaranties or other forms of assurance from parties and with terms and conditions in all respects acceptable to the Banks.

Operator:

To be arranged by Panda with an experienced, third party, power plant operator and on terms in all respects acceptable to the Banks. The operations and maintenance agreement [illegible] for a term and shall contain performance guarantees, bonus/penalty provisions, budgetary devices/controls, credit supports if necessary and other provisions in all respects satisfactory to the Banks.

Power Purchaser:

Florida Power Corporation ("FPC") will purchase electricity from the Project pursuant to a 30-year power purchase agreement with terms and conditions in all respects satisfactory to the Banks.

Fuel Suppliers:

The Project's supply of natural gas and back-up fuel oil shall be arranged by Panda with a party or parties and on terms in all respects acceptable to the Banks.

Panda shall structure the Project's fuel supply agreements to provide a hedge against fluctuations in the revenue stream from the sale of electric power pursuant to the power purchase agreement with FPC. Such a hedge structure shall be acceptable to the Banks.

Fuel Transporter:

Florida Gas Transmission ("FGT") pursuant to a combination of firm and interruptible transportation service agreements with terms and conditions in all respects acceptable to the Banks.

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FPC Witness: MORRISON
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Thermal Energy Purchaser: A distilled water facility to be owned and operated by a subsidiary of Panda. The Thermal Energy Purchaser will purchase the Project's thermal output pursuant to a steam purchase agreement on terms and conditions in all respects satisfactory to the Banks.

Prior to financial closing, the Banks shall have reviewed the regulatory status of the Project, including its relationship to, and the presumptively useful nature of, the Thermal Energy Purchaser. The Project's relationship with the Thermal Energy Purchaser shall allow it to maintain its Qualifying Facility ("QF") status in a manner which shall be in all respects acceptable to the Banks.

<u>**THE CREDIT FACILITY**</u> A construction/term loan facility, in an amount not to exceed $94 million.

Use of Proceeds: Proceeds of the Credit Facility shall be used to finance the costs associated with the Project including, without duplication (i) the design, site acquisition, manufacture, permitting, construction, installation, testing, start-up and initial operation, (but in an amount not exceeding the turnkey cost plus additional costs authorized by change orders under the construction contract plus such additional amounts that may be agreed to by the Banks); (ii) financing fees, developer fees and all other fees, expenses and costs associated with the Project and the cost of interest rate protection arrangements as budgeted in the construction budget; (iii) debt service on the outstanding construction loan until the conversion date; and (iv) funding of the reserve accounts and working capital account, required by, and agreed to by the Banks.

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Arrangement Fee: 1% to 1-1/2% of the Credit Facility amount, payable to the Banks upon financial closing.

Administrative Fee: $100,000 per annum payable to the Administrative Agent yearly in advance; the Administrative Fee will be adjusted annually in accordance with the increase or decrease in the Consumer Price Index

Commitment Fee: 3/8% per annum of the unutilized Credit Facility commitment, payable to the Banks quarterly in arrears.

Interest Rates:

Principal outstanding under the Credit Facility will bear interest at a margin above LIBOR ranging from 1-1/4% to 1-1/2%. Such interest rate provisions may incorporate periodic changes within the aforementioned range as will be set forth in the definitive credit agreement.

Borrowings will have interest periods of one, two, three, six and if available, nine or twelve months, as the Borrower may select. Interest shall be paid in arrears at the end of the relevant interest period and will be calculated on the basis of actual number of days elapsed in a year of 365 or 366 days, as the case may be. Base rate or prime rate options will also be made available.

Term:

The loan shall convert to term on the earliest of the following: (a) the conversion date, (b) in an event of default or (c) a predetermined commitment termination date.

Following conversion, the term loan shall be payable quarterly based upon a schedule providing for 13 to 15 year, mortgage-style, full amortization. The outstanding balance of the loan shall be due in full two years following the conversion date.

Interest Rate Risk Protection:

The Banks may require that the Borrower executes Interest Rate Risk Protection agreements with the Banks, which shall in all respects be satisfactory to the Banks, at some future date should LIBOR exceed some predetermined level (the "Trigger Rate").

The Banks shall make interest rate protection agreements available to the Borrower during the term of the Credit Facility with pricing and terms and conditions which are competitive with similar arrangements available in the market. Prior to LIBOR exceeding the Trigger Rate, the Borrower will have the option of entering into such arrangements at any time.

Debt Coverage Ratio Provisions:

The Credit Facility will contain debt coverage ratio ("DCR") provisions usual and customary for this type of facility and satisfactory to the Banks.

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PK 019491

These provisions will require that a portion of the Project's excess cash flow be used to either repay debt or fund the debt service reserve account based upon the following calculated actual debt coverage ratio schedule (such ratios to be calculated prior to required contributions to reserve accounts):

DCR	Excess Cash Restricted
> 1.25	0%
≤ 1.25 & ≥ 1.15	50%
< 1.15	100%

The mechanism for calculating debt coverage ratios shall be usual and customary but in all respects be acceptable to the Banks.

Additional Collateral Account: The Additional Collateral Account shall be established as a restricted cash account. Project cash which is restricted as a result of the provisions of the Credit Facility shall be deposited in this account.

Funds held in the Additional Collateral Account may be released to the Project with the consent of the Banks, after the Project's financial performance has satisfied certain performance standards (such performance standards to be linked to the Project's capacity to generate DCR's in excess of 1.25X) which shall in all respects be satisfactory to the Banks.

Reserve Accounts: Reserve accounts including, but not limited to, debt service, maintenance and additional collateral may be required by the Banks upon terms and conditions usual and customary for transactions of this type.

Representations and Warranties: Usual and customary for such facilities.

Borrower's Covenants: Usual and customary for such facilities.

Events of Default and Remedies: Usual and customary for such facilities.

Indemnities: Usual and customary for such facilities, including but not limited to, environmental indemnities which shall be in all respects satisfactory to the Banks.

Equity Funding:

The Borrower shall be required to provide Equity of no less than 15% of the total Project cost, funded in a manner acceptable to the Banks.

The Borrower shall provide an irrevocable and unconditional commitment by the equity investors to provide the Equity Funding with adequate credit support in form and substance in all respects acceptable to the Banks.

Conditions Precedent to Closing:

In addition to those which are stated in this indication, the definitive credit agreement will contain conditions precedent to closing which are deemed appropriate in the context of the proposed transaction. These conditions will include, but not be limited to, the Banks' review of Project documents, satisfaction with the legal and regulatory status of the Project and receipt of the necessary credit committee approvals.

Optional Prepayment:

Upon providing 90 days written notice the Borrower may prepay the outstanding balance of the Credit Facility in whole or in part together with accrued interest thereon plus if applicable, any swap breakage or break LIBOR funding costs associated with the Credit Facility, without penalty.

Mandatory Prepayment:

The Borrower may be required to make mandatory prepayments with proceeds from liquidated damages, warranty and insurance claims (other than business interruption and certain liability insurance and indemnity payments to be agreed to by the Borrower and the Banks) and condemnation awards.

Security:

The Credit Facility will be secured by all of the assets of the Borrower which shall include, but not be limited to:

- a first lien and security interest in the Project's assets, including all accounts;
- a pledge of general and limited partnership interests;

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- a collateral assignment of the Project's agreements including: the construction contract, power purchase agreement, steam sale contract, O&M contract, any interest rate protection agreement, equity contribution agreement and all other relevant agreements which are required to operate the Project;
- Project permits and all manufacturer and contractor warranties; and
- assignment of proceeds of the insurance coverage for the project facilities through a loss payee clause endorsement.

The total security package shall be in all respects satisfactory to the Banks.

Other Credit Facilities: The Banks shall consider providing other ancillary credit facilities, such as performance letters of credit, as may be required by third parties to guaranty the performance of the Project. Such Other Credit Facilities shall be provided on terms and conditions in all respects acceptable to the Banks.

Assignments and Participations: The Banks may assign their rights and obligations under the credit agreements or grant participations therein to other banks. Each assignee will become a party to the credit agreements and will relieve the selling Bank of its obligations with respect to the assigned portion of its commitment.

Project Budget: The Project's construction budget, disbursement schedule and projected financial statements shall be subject to review by, and be satisfactory in all respect to, the Banks.

Fees payable to Panda and other Project sponsors shall be subject to the review by the Banks and their advisors. The Banks will not unreasonably withhold their consent to the payment of said fees to the extent that they are market-based and do not impose an unreasonable economic burden on the Project.

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Exhibit No. ______, (BAM-25)
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PK 019494

The Banks will allow Panda to be paid a development fee equal to 3% of the Project Budget. Said development fee will be payable in two installments. The first installment, equal to 1.5% of the Project Budget, will be paid at the financial closing of the Credit Facility. If funds are available upon construction completion, a second installment, equal to 1.5% of the Project Budget, will be paid at conversion. The funds to be used to pay Panda the second installment of the development fee shall be treated as contingency funds during the construction of the Project.

The Banks will allow Panda to be reimbursed at financial closing for reasonable out-of-pocket expenses incurred, and security deposits provided, during the development of the Project. Reimbursable expenses incurred, and security deposits provided, prior to the financial closing of the Credit Facility shall be subject to the review by, and be acceptable to, the Banks.

Bank Consultants: The Banks may retain the services of consultants, as required in their sole discretion, to advise them on matters relating to the proposed Credit Facility. Such entities may include, but not be limited to, insurance and fuel supply consultants, independent engineers and outside legal counsels.

Transaction Expenses: All costs and expenses incurred by the Banks in connection with the negotiation, review, documentation, closing, syndication and administration of the proposed transaction, including the fees and expenses of the Banks' Consultants and the Banks' reasonable out-of-pocket expenses, shall be paid by the Borrower, whether or not the proposed transaction is consummated.

The Banks shall provide the Borrower with: (1) an estimate of the fees to be charged, and (2) an outline of the work to be performed, by the Banks' outside counsel in connection with the proposed transaction. Prior to financial closing, the Banks shall also provide the Borrower with monthly reports of the fees and expenses incurred to date by their outside counsel which are to be reimbursed by the Borrower. The Banks' outside counsel shall also agree to promptly alert the Banks when it is requested to perform tasks which fall outside the scope of work upon which its original estimate was based.

FPSC Docket No. 950110-EI
FPC Witness: MORRISON
Exhibit No. ______, (BAM-25)
Sheet 11 of 12

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PK 019495

Documentation:	All documentation executed in connection with this transaction, including all project agreements and financial models, shall be satisfactory in all respects to the Banks. The Credit Facility documentation shall be drafted by the Banks' counsel and shall be governed by New York law.
Duration of Proposal:	The Banks reserve the right to withdraw or amend the indication after December 1, 1994.

FPSC Docket No. 950110-EI
FPC Witness: MORRISON
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FPSC DOCKET NO. 950110-EI
EXHIBIT NO. _____ (BAM-26)
CONSISTING OF ONE PAGE

PANDA HAS ASSERTED A CLAIM OF CONFIDENTIALITY FOR EACH PAGE OF THIS EXHIBIT

FPSC Docket No. 950110-EI
FPC Witness: **MORRISON**
Exhibit No. ______, (BAM-26)
Sheet 1 of 1

TO: Kathleen Project Team
FROM: John, Tom
RE: Calpine Status as Equity Partner
DATE: January 23, 1995

At noon today, John Rocchio and Bob Kelly of Calpine called to advise that they were dropping out of the project as our equity partner.

They cited a number of concerns including our capital and operating cost projections, the distilled water plant and zero discharge, lack of detailed design information from the EPC contractor, the impact of cycling the facility on and off upon O & M costs, and overall economics, ie, the deal being too thin.

They did not mention their previously referenced "tax problem", preferring to limit the discussion to the project. We are not sure but suspect that any other transaction with a partnership structure could conceivably have adverse tax consequences for the money partner.

We requested and they agreed to 1) return all confidential information concerning the project , and, 2) refrain from discussing the project with outside parties so as to avoid creating problems for Panda with the Bank of Tokyo and other potential equity participants.

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FPSC DOCKET NO. 950110-EI
EXHIBIT NO. _____ (BAM-27)
CONSISTING OF FORTY-TWO PAGES

PANDA HAS ASSERTED A CLAIM OF
CONFIDENTIALITY FOR EACH
PAGE OF THIS EXHIBIT

FPSC Docket No. 950110-EI
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Sheet 1 of 42

[redacted]

[redacted] routing request pad 7664

ROUTING - REQUEST

Please		
☒ READ	To DAVID	
☐ HANDLE	Brian	
☐ APPROVE	John	
and		
☐ FORWARD	Jim	
☐ RETURN	Darol	
☐ KEEP OR DISCARD	[redacted]	
☒ REVIEW WITH ME		
Date 1/16/95	From Kyle	

BROWN & R

ENGINEERING CONS
P. O. B
HOUSTON, TEX

FAX NUMBER (

The pages comprising this facsimile t INFORMATION from Brown & Root. The info individual or entity named as the recipient he hereof, be aware that any disclosure, copying, transmission is prohibited. If you have receive us by telephone at the request number referenced below, immediately, so we may arrange to retrieve this transmission at no cost to you.

SPECIALLY RESTRICTED

DATE: 1/14/95

TO: [illegible] Hein / Mary [illegible]

COMPANY: [illegible] Energy / Bayerische [illegible] AG

FAX NUMBER: [illegible]/961-6815 // [illegible]-210-0354 **PAGES** 41 **+ COVER**

FROM: Clay Jones
ENGINEERING CONSULTING SERVICES
BROWN & ROOT, INC.

COMMENTS: Our initial draft report. Please review and provide comments. A number of points raised can be easily addressed thru discussion. Plse call either Bob Cate at 713-676-5682 or Clay Jones at 713-676-8260 for replies.

If there is a problem with the copy, please contact Bettye Taylor (713) 676-7861.

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FPSC Docket No. 950110-EI
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Exhibit No. ______, (BAM-27)
Sheet 2 of 42

Brown & Root, Inc.

Post Office Box 3
Houston, TX 77001-0003

January 12, 1995

Mr. Kirk H. Edelman
The Bank of Tokyo Trust Company
1251 Avenue of the Americas
New York, New York 10116-3138

Re: Panda-Kathleen L.P.
Draft Independent Engineering Report

Dear Kirk,

Attached you will find a draft technical review of the above referenced facility performed by Brown & Root, Inc. ("Brown & Root"). In accordance with Brown & Root's Scope of Services, as detailed in the contract for this engagement, Brown & Root has evaluated all documentation made available for review to date. Brown & Root's preliminary findings relative to this engagement comprise the majority of this report. This draft report does not necessarily constitute Brown & Root's final opinions. Information received after Wednesday, January [illegible] was not reviewed and therefore not incorporated into this draft report. We anticipate revisions and updates to the [illegible] draft report.

SPECIALLY RESTRICTED

The information contained herein is not meant to imply that every possible design [illegible] or condition of existing equipment has been identified, or that no other problems exist. This draft report is issued subject to the terms and conditions set forth in the agreement between The Bank of Tokyo Trust Company and Brown & Root, including the limitations on the liability of Brown & Root contained therein.

We trust that you will find this draft report to be informative and helpful in gaining a greater understanding of the technical issues involved. We are available to discuss this draft report with you.

Sincerely,

R. L. Cate

Robert L. Cate, P.E.
Project Manager
Brown & Root Power

Sincerely,

N. Clay Jones

N. Clay Jones
Project Consultant
Engineering Consulting Services

LTR002
NCJ

CONFIDENTIAL
PK 019661

DRAFT

TECHNICAL REVIEW

of

Panda-Kathleen Limited Partnership
115 MW Cogeneration Facility

Lakeland, Florida

SPECIALLY RESTRICTED

prepared for

THE BANK OF TOKYO TRUST COMPANY

January, 1995

CONFIDENTIAL
PK 019662

PANDA-KATHLEEN COGENERATION

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- 6.3 Polk County Zoning & Planning Approvals
- 6.4 Phase 1 Environmental Site Assessments

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7.0 SCHEDULE REVIEW

8.0 BUDGET REVIEW

- **8.1 Capital Cost**
- **8.2 Project Cash Flow**

9.0 OPERATION AND MAINTENANCE AND PRO FORMA

- **9.1 O&M Agreement**
- **9.2 Pro Forma**

10.0 EPC CONTRACT RISK ANALYSIS

- **10.1 Key Provisions**
- **10.2 Performance Testing**
- **10.3 Liquidated Damages**

APPENDICES

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1.0 EXECUTIVE SUMMARY

1.1 Overview

Brown & Root has completed on behalf of the Bank of Tokyo Trust Company ("BOT") a "due diligence" review of documents related to the Panda-Kathleen Cogeneration Project submitted by Panda Energy Corporation ("Panda Energy") and BOT. The Panda-Kathleen Cogeneration Project is a nominally rated 115 megawatt (110 MW guaranteed net output) cogeneration facility and 60,000 GPD distilled water facility that will be located in Polk County near Lakeland, Florida. The facility, to be owned by Panda-Kathleen L.P., a Delaware limited partnership, will derive revenue primarily from the sale of electrical capacity and energy to Florida Power Corporation with a secondary revenue stream from the sale of distilled water to other third parties (to be identified).

Substantial completion of the facility is scheduled for July 1, 1996.

1.2 Performance

Based upon the documentation reviewed, the facility should be technically capable of generating electrical power as required to satisfy the Power Purchase Agreement. Brown & Root found no "fatal flaws" in the technical specifications, systems and equipment described. Although the cogeneration facility is generally well defined, some additional considerations particularly related to availability/reliability have been recommended in this report.

Contractual provisions for performance testing and liquidated damages associated with the cogeneration facility are in accordance with industry practices. Specific provisions for performance testing and liquidated damages associated with the distilled water facility were not defined. This is considered significant only from the effect that the distilled water facility reliability has on the operation of the cogeneration facility. The cogeneration facility is permitted to operate as a "zero discharge" facility. All water effluent is handed by the distilled water facility.

1.3 Project Cost/Schedule

The EPC Contract Guaranteed Maximum Price of $63.5 MM appears to be very competitive. As would be expected in this point in the project, the detailed design has not progressed to the extent as to preclude Change Orders. If prudently controlled by the Owner, these Change Orders should represent only

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a relatively small increase in the Guaranteed Maximum Price. It is currently unclear from the documents reviewed as to the parties ultimately responsible for payment of price adjustments.

The sixteen (16)-month schedule from time of financial closing (assumed to be no later than March 1, 1995) to Guaranteed Substantial Completion on July 1, 1996, is very aggressive but in our opinion achievable. Schedule risks appear to be mitigated by the Contractor having already performed some engineering at risk, preselection of major equipment, and six (6 months of project "float" until the Power Purchase Agreement "sunset" date of January 1, 1997, before which the facility must be fully operational. It is expected that the Contractor will be required to accelerate work schedules and equipment deliveries in order to meet the target dates.

1.4 Operating Cost, Budget, Pro Forma

The Operation and Maintenance Agreement submitted to Brown & Root for review appears to be in accordance with industry standards and supportive of the long term facility operational objectives. The O&M contract cost information had not yet been entered in the draft submitted, so it can only be presumed that the final negotiated contract amounts will support the O&M costs presented in the Pro Formas. Based on Brown & Root's experience, the O&M costs presented in the Pro Formas appear reasonable.

There appear to be two technical errors in the implementation of the performance data (output and heat rate) in the pro forma. These items are performance degradation and heat rate and its conversion into fuel consumption and cost. This is discussed in detail in Section 9.2. These items should be reviewed and adjusted as necessary, since they both directly relate to project profitability.

1.5 Permits

The permitting process appears to be progressing well with reasonable constraints being placed upon the facility. Permits for air, water use, industrial wastewater treatment system, management and storage of surface waters, and construction of the natural gas pipeline have either been issued or are pending. A conditional site approval has been received from the Polk County Board of Commissioners; and a "Certificate of Concurrency Determination" was issued certifying that adequate transportation, solid waste, drainage, parks, water, and sewer facilities are available. Phase I Environmental Assessment Reports have been prepared for the cogeneration site and the natural gas pipeline

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Although some issues must be addressed during detailed design of the facility, it is Brown & Root's opinion that no major obstacles to obtaining the necessary construction and operating permits have been identified in the documents reviewed.

1.6 Contracts

The EPC and O&M Agreements appear to be commercially and technically in accordance with industry standards. Minor considerations have been presented by Brown & Root in this report.

It is Brown & Root's opinion that significant discrepancies exist among the Standard Offer Contract. Gas Purchase Contract, and the Pro Formas primarily regarding tenures. The Pro Formas are based upon a 25 year loan term, whereas the tenure for the Gas Purchase Contract is through May 31, 2016 with a three (3) - year evergreen provision, and the PPA provides defined pricing provisions only through contract year 2016. There is also no provision in the PPA that guarantees the facility will receive capacity payments prior to January 1, 1997.

The Gas Purchase Contract provides for only a portion of the fuel required by the facility, with the balance presumably to be provided through spot market purchases. These purchases are normally interruptible by the supplier which could leave the facility without fuel for periods of time.

These contractual issues have already been identified and will hopefully be immediately resolved.

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1.7 Conclusions

In Brown & Root's opinion, the following conclusions can be drawn from the documentation presented:

- Contractual discrepancy issues as discussed above are the only major concerns identified, and adequate responses should be obtained prior to financial closing.
- The facility as described should be capable of performing as required by the Contracts
- Environmental permitting is apparently progressing well and should not impact project viability or economics.

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- The project schedule is aggressive but achievable based upon financial closing no later than March 1, 1995.

- The EPC Contract Guaranteed Maximum Price is competitive but vulnerable to Change Orders. Change Orders can and must be controlled by the Owner.
- The Pro Forma should be adjusted to reflect the effects of normal equipment performance degradation.

- The O&M Agreement appears to be in accordance with industry standards and long term operational objectives of the facility; however, final negotiated contract amounts must support the Pro Formas (or vice versa).

- Performance testing and liquidated damages provided in the EPC Contract for the cogeneration facility are in accordance with industry standards and should protect the Lenders' interests.

2.0 DESCRIPTION OF FACILITIES

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2.1 Project Description

The Panda-Kathleen Cogeneration Project is a nominally rated 115 megawatt (110 MW guaranteed net output) natural gas/fuel oil-fired, combined cycle cogeneration plant and distilled water facility. The facility will be located in Polk County on a 7.5 acre site in an industrial park adjacent to US highway 92 west of Lakeland, Florida. Kathleen will supply electrical power to Florida Power Corporation under a 30 year power purchase agreement, and provide thermal energy to a steam host, which is a distilled water plant to be owned by a subsidiary of Panda Energy Corporation. Output from the distilled water plant will be sold under contract to a third party. The cogeneration facility has received certification from the Federal Energy Regulatory Commission as a Qualifying Facility (QF).

The cogeneration facility incorporates a single-train, dual-fuel combustion turbine, ABB Model GT11N1, with "dry low NOx" combustors, an unfired heat recovery steam generator producing approximately 275,000 lbs/hr high pressure steam to the steam turbine and a minimum of 19,10[illegible] lbs/hr low pressure process steam, and an ABB "VA[illegible]" axial exhaust condensing steam turbine with associated condenser. A cooling tower will supply circulating water to the condenser and closed cooling water system. Natural gas will be the primary fuel for the combustion turbine with No. 2 fuel oil as backup. Electrical power generated will be 13,800 V, 3 Ph, 60 Hz.

The facility will be designed as a "zero discharge" installation which produces distilled water by evaporating approximately 73,400 GPD of effluent from the cogeneration systems.

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2.2 Key Project Participants

Panda Energy Corporation is the Sponsor of the Panda-Kathleen Cogeneration Project. Panda-Kathleen L.P. (PKLP) will own and be responsible for operation of the facility. Services will be provided to PKLP by the following entities (see attached Organizational Chart):

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- Walsh-Gilbert Commonwealth (joint venture) - EPC Service
- Calpine - O&M Contractor
- Lakeland Water Co. (subsidiary of Panda) - Steam Host (distilled water producer)
- Associated Natural Gas (ANG) (Parent of Associated Gas Services, Inc.) - Proposed Natural Gas Supplier

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• Florida Gas Transmission	- Proposed Gas Transportation
• City of Lakeland	- Prearranged Gas Capacity Release, and Electrical Interconnection between PKLP and Florida Power Corporation
• Florida Power Corporation	- Purchaser of Electrical Energy and Capacity
• Universal Ensco	- Pipeline Engineering

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3.0 POWER AGREEMENTS DRAFT

3.1 Electric Power Sales

PKLP will sell electric power to Florida Power Corporation (FPC) under a Standard Offer Contract between Panda-Kathleen L.P. and Florida Power Corporation, effective September 20, 1994, and executed November 25, 1991; as amended by Letter Agreement dated April 29, 1993, between Florida Power Corporation and Panda-Kathleen L.P. The primary term of the agreement extends from January 1, 1997, through March 31, 2025.

Under the terms of the agreement, as amended, PKLP will be paid for 74.9 MW of electrical capacity at a rate which escalate from $5.79/kW/month in 1997 to $14.90/kW/month in 2016. PKLP is required to reestablish its ability to deliver the contract capacity in two ways: First, by its performance over the course of any contract year, and second, if requested to do so by FPC. The capacity payment will be reduced if PKLP fails to demonstrate its ability to deliver the contract capacity. At no time can the contract capacity exceed 75 MW.

PKLP will sell (up to 115 MW) of electric energy under the same agreement. The rate at which PKLP will be paid for electric energy will be set on an hour by hour basis by FPC's "As-Available energy rate". If FPC chooses to ask (dispatch) PKLP for energy, the rate will be those rates included in the Standard Offer Contract. It is expected that this scenario will occur less than 5% of the time in the early years of the project. At other times, PKLP can self-dispatch electric energy to FPC and receive the As-Available rate. Due to the variability of this rate, PKLP commissioned ICF Resources to undertake an "Independent Assessment of Florida Power Corporation's As-Available Rate." ICF's thorough analysis predicted the on-peak and off-peak rates over the term of the agreement, and confirmed that there are times, possibly during each day, when it will not be economically attractive to operate the facility. For this reason, PKLP assumed that the facility will operate for only 6,500 hours the first year (74%), cycling on and off as economics dictate. When the facility does operate, the probable operating level will be full load.

(Note: The pricing comments assume Panda and FPC fill in the pricing gap after the year 2016. Also, Brown & Root assumes Panda and FPC have agreed that Panda can produce and sell 115 MW under the Standard Offer Contract. No maximum amount or ceiling is stated in the contract. Panda and FPC must clarify that energy and capacity payments will start when the facility achieves Commercial In-Service status, not necessarily January 1, 1997 as amended.)

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There are also references in the Standard Offer Contract the "emissions credits or debits." Due to the high thermal efficiency of this combined cycle facility, and the low emission rate of the ABB combustion turbine, PKLP may receive benefit from its ability to displace electric power generated by sources with higher emissions rates.

There are several minor points which should be clarified:

- In Paragraph 8.6.1, there is a reference to a "value of deferral payment option" which affects the value of the Capacity Account, which is, in turn, owed by Panda to FPC. We could find no definition of this option.

- In Paragraph 10.2, the "normal value of deferral payments" is unclear and undefined.

- In Paragraph 10.3, the "value of emission credits or debits" is undefined.

3.2 Electric Power Transmission

Electric power from the facility will be delivered to FPC via an electrical interconnection between PKLP and the City of Lakeland. Terms of this arrangement are included in the Draft Transmission Interconnection Agreement between Panda-Kathleen L.P. and the City of Lakeland. In general, this agreement serves the intended purpose, however, there are several minor points which should be clarified.

- Section 5.1 - Firm transmission service for 115,000 kW @ 69 kV conflicts with Appendix C in the agreement which indicated capacity reserved as 74,000 kW. Further, there are times when the facility can deliver power in excess of 115,000 KW. Lakeland's desire and ability to transmit the additional power is unclear.

- Section 5.4 - CHARGES FOR TRANSMISSION LOSSES, the second paragraph and the last paragraph are identical.

- Panda will be paid for power generated during start-up and testing at Lakeland's as-available energy rate. We assume that Lakeland's system can accept 115,000 KW of electric power during the testing periods.

- Section 6.2 - REACTIVE KVA, Lakeland anticipates that Panda will operate at unity (1.0) power factor. There is no language describing Lakeland's position if Panda operates at less than a unity power factor.

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4.0 FUEL AGREEMENTS

4.1 Gas Supply

The primary supply of natural gas to fuel the facility will be supplied under a Gas Purchase Contract between Panda-Kathleen L.P. and Associated Gas Services, Inc. (AGSI). (At the time of this review, the agreement was in draft form only.) AGSI will provide firm volumes of up to 20,000 MMBtu/d for a primary term extending from June 1, 1996, through May 31, 2016. AGSI will additionally provide fuel management services for the dispatching of gas supply and transportation, the purchase and transportation of additional quantities of gas as requested by PKLP, the purchase and delivery of fuel oil as backup fuel, and the sale of gas supply and transportation rights committed to PKLP but not required for operation on a day-to-day, or even hour-by-hour, basis. The price of the gas will be the "spot" price as established by a formula involving published spot prices, plus a small premium. (The spot price relates to interruptible sales agreements for short terms, usually thirty (30) days or one month.)

In Brown & Root's opinion, the pricing structure seems very favorable to PKLP. PKLP gets a lot of value and a lot of flexibility for a twenty (20) - year commitment of gas backed by a parent guarantee for a few pennies per MMBtu above the spot price.

PKLP is very well protected against under deliveries, referred to as Deficiency Quantities. AGSI is liable for replacement gas costs, administrative costs (unspecified), increased transportation fees, and reduced revenues due to PKLP's inability to generate electricity for sale. The full extent of the damages due to PKLP are a little unclear in that AGSI also has the obligation to manage the delivery of gas and backup fuel oil to the facility. It is unclear what mechanism PKLP would utilize to obtain alternate fuel supplies when AGSI is charged with this responsibility.

We assume Panda will reconcile the fact that the gas contract tenure (20 years) is shorter than the loan tenure (25 years) as proposed. We further assume that the volume discrepancies will be adequately addressed. At 100% load, the facility can use up to 22,800 MMBtu/d. As earlier stated, the Gas Purchase Contract provides firm volumes up to 20,000 MMBtu/d. Extended periods at full loads can exceed the supply contract agreement.

There are also several minor points which should be clarified:

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- The Capacity Release Fee is unspecified
- The Discount Fee is unspecified
- The Fuel Oil Management Fee is unspecified

4.2 Gas Transportation

Natural gas will be delivered to the facility from a nearby FGT pipeline. This is expected to be a high pressure (900+ psig) pipeline, and supply pressure is not expected to be a problem. However, it is customary for the gas transportation contract to specify a minimum delivered gas pressure, this would be on the order of 400 psig for this facility. It would be beneficial to have this spelled out in the gas transportation agreement.

PKLP has a number of draft agreements in process (see list below), and one executed agreement, which, in sum are designed to provide the firm transportation of gas to the facility from designated points of supply. At this time it appears that, if successfully concluded, the firm transportation that PKLP requires will be in place. Brown & Root notes, however, that the completion of these agreements should be a priority for PKLP at this time. Assuming firm transportation is available, the cost of this transportation is significant, and as such, plays a role in the overall profitability of the facility.

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The agreements reviewed to date include:

- December 6, 1994 draft Letter Agreement regarding Proposed Permanent Prearranged Capacity Release Agreement between the City of Lakeland and Panda-Kathleen L.P.
- December 6, 1994 draft Capacity Relinquishment Agreement between Panda-Kathleen L.P. as "Acquiring Shipper", and the City of Lakeland, as "Relinquishing Shipper".
- Draft Firm Transportation Service Agreement, Rate Schedule FTS-1, between Florida Gas Transmission Company and Panda-Kathleen L.P.
- Draft Firm Transportation Service Agreement, Rate Schedule FTS-2, between Florida Gas Transmission Company and Panda-Kathleen L.P."

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- June 7, 1994 draft Letter Agreement regarding "Proposed Permanent Capacity Release Agreement Between Florida Gas Utility and Panda-Kathleen L.P.; Proposed Mutual Termination and Release of Liability Between Florida Gas Transmission Company and Panda-Kathleen L.P."

- Draft Transmission and Release Agreement between Panda-Kathleen L.P. and Florida Gas Transmission Company.

- Executed Letter Agreement dated November 8, 1994, between Florida Gas Transmission Company and Panda-Kathleen L.P. for the construction and reimbursement of Panda-Kathleen L.P. delivery point.

5.0 ENGINEERING/TECHNICAL REVIEW

The basic thermal cycle for PKLP is based on an ABB 11N1 Gas Turbine/Generator (GTG) in single-shaft, combined cycle cogeneration configuration. A two pressure, unfired Heat Recovery Steam Generator (HRSG) is provided to generate steam from the exhaust heat of the GTG. The steam is used for process and/or sent to the Steam Turbine/Generator (STG) to generate additional electric power. The cycle is typical of most combined cycle plants. In Brown & Root's opinion the equipment and configuration selected are suitable for the service intended and the facility should provide many years of reliable operation. No unusual operating problems are foreseen over the expected operating range of the equipment.

Several ABB heat balance diagrams were sent for review. These included 95°F, 59°F, and 20°F ambient cases on both natural gas and #2 fuel oil, or six (6) total. These indicate that the gross output of the facility varies from 114 MW at 95°F on gas to 133 MW at 20°F on oil. There is also a hand-drawn (not ABB verified) heat balance diagram at 72°F, the nominal annual average ambient temperature, in the QF application. This case indicates that the average net output of the facility is a nominal 115 MW. We note that none of the cases received specifically correspond to the summer and winter average cases that were used as the basis of the Pro Forma performance projections.

The EPC guarantee case is the 95°F gas fired case mentioned above. The gross output at this point is 114.85 MW. The EPC guarantee is provided at [illegible] MW net based on 4.[illegible] MW of auxiliary load. This auxiliary load represents 4.2% of the gross output of the facility. In Brown & Root's experience units of this type normally would use 2.[illegible]% to 3.0% auxiliary load. Therefore, the EPC contractor should easily be able to meet the contract guarantee. With this extra margin, it is likely that the EPC contractor will qualify for some capacity bonus, as well. The same general comments also apply to the guaranteed heat rate.

It is our understanding the plan for this facility is to operate on a cyclic basis, starting and stopping the cogeneration equipment almost on a daily basis. From a technical perspective, combined cycle systems such as this one are capable of operating in this manner without harm to the equipment. O&M costs would be expected to be somewhat higher than for a unit operated continuously at base load, as discussed in Section 9 of this report.

Brown & Root has reviewed Exhibit F, Scope of Work, to the EPC Contract and find this document to be substantially complete as a general specification for a cogeneration system to be provided. In most areas, the Scope of Work provides appropriate equipment definition, redundancy requirements, materials of construction, and Codes and Standards which must be followed by the Contractor. It is recognized that further detail will evolve during the course of detailed engineering design.

Brown & Root offers the following comments to Exhibit F of the contract which we recommend be considered relative to Scope completeness and facility reliability.

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5.1 Mechanical

1. **Section 5.1.3 requires a water spray desuperheater. The desuperheater should be located between a primary and a secondary superheater to protect against water carry over to the steam turbine.**

2. **Section 7.5.1 requires plate and frame type heat exchangers for the closed cooling water system. The circulating water side of these exchangers will probably need a continuous self cleaning strainer or at least a fairly large duplex strainer. Most plate type heat exchangers have narrow passages and will not pass solids larger than 1 or 2 mm. This requires straining down to 10 to 20 mesh.**

3. **Section 8.1 describes the make-up water treatment system. There are no material requirements specified for the demineralized water tank, piping and valves, and pumps. Stainless steel for the pumps and piping would be necessary. There are three tanks called out in this section, and the only requirements are "bolted design epoxy painted". The demineralized water tank should be lined, welded seam construction. The appropriate Standard (AWWA for example) should be referenced.**

4. **Section 9.[illegible] Distilled Water Plant/Zero Discharge System should include [illegible] availability/reliability guarantees along with the other performance guarantees. Section 9.4.4 statement that materials of construction "shall be suitable for the design conditions and intended service" leaves too much room for the Supplier's interpretation from a longevity and reliability point of view. The same comment applies to the requirement for a "guarantee against material corrosion and/or erosion."**

5. **Section 6.1.1.9.g specifies stainless steel lube oil pipe be used downstream of the oil filters as is normally required. Section 6.4.2.15.2, which specifies carbon steel lube oil pipe should probably be modified to agree.**

6. **Sections 6.7.1 and 9.5 refer to "bolted design epoxy painted" tanks, the same as Item 3. There needs to be a more complete description of tank requirements.**

7. **Section 6.3.5 references Paragraphs 6.9 through 6.11. These sections don't seem to exist.**

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8. Section 10.5 calls for a fuel oil unloading pump relief valve connection. There is no mention of an unloading pump anywhere in this section. Also, there is no connection listed for an overflow.

9. Section 12.12.2.4.8.2, It is recommended that oil heaters in outdoor oil reservoirs be provided to inhibit water condensation in the reservoir when the equipment is idle.

10. Section 16.3.1, Items 10 and 11 are fuel oil unloading area and fuel oil pump building. This equipment is not described elsewhere in the scope. Section 14.6.4 states that the fuel oil pumps will be located outdoors. This needs to be clarified.

5.2 Electrical

The following documents were reviewed in addition to the appropriate sections of the Scope of Work as the basis of this opinion:

Date	Title/Description
12/15/94	Transmission Interconnect Agreement
06/13/94	Prop. 69 kV Line
	Electrical One Line
	Lakeland Electric System Twenty-Year Plan
	Master Equipment/Load List

1. The City of Lakeland 69 kV transmission line which will carry the Panda-Kathleen power to FPC is shown on the city's twenty (20) year plan as "future". If the line does not yet exist, the schedule for the planning, acquisition of right of way, design and construction of this line should be reviewed. As sale of power from the plant is dependent on this line being in service, the city's commitment to its construction should be assessed and its progress should be monitored closely to meet the planned July, 1996 in-service date of the Panda-Kathleen plant..

The design of the 69 kV interconnection for reliability from the standpoint of power export should be considered. As currently planned, the Panda-Kathleen plant connection to the Lakeland 69 kV system will form a three terminal line between the Sutton and Winston substations and the cogeneration plant. A total of three (3) circuit breakers will be required for this line with one located in each substation and one at the cogeneration plant. Although the length of this line is short (approximately 3.5 to 4 miles total) and the exposure to faults is therefore limited, this arrangement will impose a certain limitation upon the plant power export reliability. For

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example, a lightning strike on any portion of this three terminal line will require tripping all three breakers, resulting in disconnection of Panda-Kathleen from the 69 kV system. Fast breaker reclosing cannot be allowed due to the possibility of damage to the generator from an out of phase connection. The usual scenario is for the utility to reconnect between its own substations first, and after a suitable time delay to "prove" a secure connection, the breaker at Panda-Kathleen can then be closed. A plant trip may occur during this time due to loss of load. If so, the plant will have to be restarted and reconnected with the 69 kV line and then ramped up to the desired output.

A more reliable arrangement would include two independent paths for power export from the plant to the buyer, FPC. This would provide the ability for the plant to remain on line and in synchronization with the utility system if one of these connections is momentarily opened such as can be expected during a storm.. Automatic reclosing of a simple line segment (one containing no isolated generation) within a few seconds is a generally accepted practice. With this arrangement the two (2) connections can be maintained during normal operation and the likelihood of an interruption in power export is low. However, such an arrangement would require some additional capital expense and the cooperation of the City of Lakeland.

Careful consideration should be given to the design of the 69 kV interconnection and the intended operational procedures to be applied to it by City of Lakeland, including the following points:

- Protective Relaying Scheme
- Breaker Reclosing Scheme
- Three-way Switch Scheme at center of line
- Generator Synchronizing Scheme for 69 kV breakers, if applicable.

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2. Electrical equipment ratings will for the most part be determined during detailed design. Some discrepancies exist in the data available for review. Referring to the one-line diagram drawing EE-320-001, the ratings of the main and auxiliary transformers are identified as OA/FA class, but only the OA rating is shown. The main transformer is apparently to be rated 150/200 MVA and the auxiliary transformer 3750/4687 KVA. The transformer temperature rise above 30 degrees C average ambient should be stated (typically 55 or 65 degrees).

3. At 150/200 MVA the main transformer will be adequately rated to carry the maximum expected export power. The auxiliary transformer rating also appears adequately rated based on the Total House Service Load of 3905 KW shown on the Load List.

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4. The value for house load is larger than the expected 2.5 to 3.0% of gross generator output and seems quite conservative. One reason for this may the assumption of 1.5% losses for the main transformer and 1.9% for the auxiliary transformer. Transformer losses should not normally exceed 0.5%. However, it is possible that isolated phase bus losses and other conductor losses are included in these figures since they are not listed separately.

5. The Master Equipment/Load List describes the main transformer as being of three winding configuration - It should be two winding type as shown on the one line.

6. The Master Equipment/Load List and the one line diagram disagree on the rating of the Startup/Standby Transformer. One says 2000 KVA, the other 2500 KVA.

7. No mention was found of the control scheme related to switching between the startup/standby transformer and the auxiliary transformer. Suitable safeguards must be employed to prevent out of phase switching between these two sources. Such conditions could damage equipment and endanger personnel. The presence of a generator breaker as shown on the one line diagram implies that the SU/SB transformer will be used infrequently.

8. Appendix J, page J-1, first paragraph identifies the NEC and ANSI as the codes for protection. IEEE should be identified. Page J-2, first paragraph, last sentence reads "The following short-circuit calculating standards shall be used where appropriate in the study" but no standards are listed thereafter. This sentence should probably be deleted in view of the above comment.

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5.3 Civil

Our review of the Civil/Structural aspects of the planned power plant, at this stage, has revealed no apparent flaws with the proposed design. Only conceptual layouts and descriptions are available at this time, and design criteria presented are still rather general; however, based on a limited review of the materials currently available, Brown & Root believe the concepts, criteria and methods described reflect conventional engineering practice and normal power plant industry design. As to codes and standards that have been referenced, the South Florida Building Code should be added to the list, especially regarding wind loads.

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Two areas that will have to be addressed in the final plant design include:

1. Additional geotechnical/geophysical investigations will be required to evaluate deep soil and rock conditions where subsurface caverns may exist at the site. The geotechnical report prepared by Alomo/Saxena Consultants, Inc., dated 2, September 1992, was for a proposed warehouse/distribution facility and not a cogeneration power plant. The power plant will include heavy static and vibration equipment loads which are settlement sensitive. Existing soil borings were only 6 feet deep (hand augered) and 25 feet deep (drilled).

2. Site grade elevation and drainage patterns will have to be adjusted to insure the plant area is above the 100-year flood plane. As indicated in Section 13.2 of the Scope of Work document, "Polk County is currently conducting a flood study of the creek basin and now considers the entire subject property to be below the 100-year flood stage." Results of this study need to be incorporated into the final plant design.

5.4 Instrumentation and Controls

1. Section 2.1, Codes and Regulations - ISA should be added to Mechanical. NFPA and SAMA (Scientific Apparatus Manufacturers Association) should be added to Electrical.

2. Section 2.3 should identify the party that is to prepare the "FLUE GAS CONTINUOUS EMISSIONS MONITORING PLAN" for the Owner/Operator to file with the USEPA prior to plant start-up.

3. Section 5.7.2, It is recommended that each oil lubricated journal bearings and thrust bearing on the feedwater pumps have bearing metal temperature detectors installed and monitored by the DCS. The temperature detectors may warn of impending conditions that might lead to bearing failures which could cause unscheduled outages and equipment damage.

4. Temperature transducers such as those specified in Sections 6.1.1.6.6.b, 6.1.1.9.i, 6.4.1.5.1.1, and 12.12.2.4.14 should be standardized to enhance design, construction and maintenance. ABB has quoted PT100 (Platinum 100 ohm RTDs) transducers for their equipment bearings.

5. There appears to be some contradiction among Sections 6.1.1.7.k, 6.2.5b, and 6.4..5.1.3 regarding location and method of mounting the STG vibration monitors. Section 5.7.2 does not address a location for the HRSG feedwater pumps' bearing vibration monitoring equipment. Proximity type vibration monitoring for all rotating equipment needs to be

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coordinated. Bently-Nevada vibration monitoring instrumentation should be specified for the HRSG feedwater pumps bearings since that is the instrumentation which has been specified for the STG.

6. Sections 6.2.9.2 and 6.2.13 should agree regarding how the GTG start-up and supervisory control will be done, with the DCS or with the GTG control processor.

7. Section 6.4.1.5.1.1 should specify the requirement for generator cooling air heat exchanger air in and air out temperature sensing.

   Section 6.4.2.4.3 should read: Bearings <u>and bearing/pedestal instrumentation</u> shall be insulated where necessary to prevent the flow of "shaft currents".

8. Section 10.0 should be clarified to state how many high accuracy metering stations are required to be provided by the Contractor, one for each point of consumption or one serving all points of consumption.

9. Section 11.0, the I&C sections. This section should describe the Main Control Room, the Control Room panel(s) and the DCS Console. There should be a general panel description and general specification included in this section. There should be some discussion of the relationship between the Control Room panel(s) and the DCS Console relative to plant operation and control. Alarm annunciation type circuits should be specified to [illegible] circuit for the alarm condition indication.

10. Section 11.2.3.3, the last paragraph should be [illegible] to provide a definition of the spare DCS quantitative and functional I/O requirements that is clearly understood by both the Owner and the Contractor.

11. Section 11.3.7.3, the first sentence should be corrected to read: Tubular gauge glasses shall "not" be used for high pressure applications.

12. Section 11.3.12, Brown & Root recommends that copper tubing not be used on odorized natural gas instrumentation. Sulfur in the odorizer attacks the copper.

13. Section 11.4, Binary type logic diagrams should be added to describe sequential, interlocking and tripping operations.

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14. Sections 14.6.6 and 17.13, Since proper operation of the Continous Emissions Monitoring System (CEMS) is essential to operation of the GTG, CEMS building air conditioning should be 100% redundant. The a/c units described are small and the CEMS analyzers are extremely temperature sensitive.

15. Section 17.6, The Continuous Emissions Monitoring Building should be pressurized with filtered conditioned air to provide the same type of environment provided for the Control Room.

16. Section 18.18, It is recommended that the CEMS be of the extractive flue gas type to provide a controlled environment for the gas analyzers and to minimize the risk of instrument damage should lightening strike the stack.

17. Section 19.5.1.1.3, The Contractor should be required to provide a guarantee that the CEMS will certify to USEPA and Florida Department of the Environment requirements. The CEMS vendor should be required to provide the initial supply, as a minimum, of EPA Protocol I calibration gas for the CEMS in sufficient blends and quantity for start-up, certification calibration and initial operation.

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5.5 Pipeline

5.5.1 Comments Related to the Confidential Memorandum

The Vicinity Map (Attachment 1) to the Construction and Reimbursement Agreement shows the pipeline meter station located on the FGT right-of-way. Locating the meter station at the proposed cogeneration plant site would eliminate the need (cost) for acquiring additional space adjacent to the right-of-way on which to build the meter station and any requirements for an access road.

As shown on the Vicinity Map, the proposed delivery pipeline apparently parallels the existing FGT St. Petersburg lateral line a distance of one mile before leaving the existing right-of-way and departing south towards the cogeneration plant. It appears that the tap into the existing FGT lateral line cannot be made at this departure point thus saving about one mile of pipe. A preliminary hydraulic analysis performed by Brown & Root indicates a six (6) inch pipeline will be adequate to transport 22.75 MMcfd, the approximate maximum summer flow rate.

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6.0 ENVIRONMENTAL AND PERMITTING REVIEW

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6.1 Environmental Review

Brown & Root has reviewed information provided on the project scope, environmental permits, Phase I environmental assessment reports for the cogeneration plant site and the natural gas pipeline route, and local zoning/planning/site approval. The permitting processes for the proposed facility and natural gas pipeline are nearly complete. Acceptable permits have been negotiated and public notices have been published. Comments are provided on the permits and the permit status as well as local planning approvals and the status of these approvals. Brown & Root has minor concerns related to Continuous Emission Monitoring System (CEMS) requirements, Title V Federal Operating Permit requirements, Title IV Acid Rain Program requirements, water use, historical & archaeological issues, gopher tortoise relocation, and noise issues. Environmental issues associated with the transmission line to be provided by the City of Lakeland should be reviewed as soon as information becomes available.

6.2 Environmental Permits

6.2.1 Air Permits

The State of Florida Department of Environmental Protection (DEP) issued a Notice of Intent to Issue an air permit for the Panda-Kathleen 115 MW Cogeneration Facility on October 11, 1994. The required public notice was published on October 21, 1994 to initiate a 30-day public comment period. A Notice of Permit and the final permit are expected shortly.

The proposed combination state and federal Prevention of Significant Deterioration (PSD) air permit is based on the June 6, 1994 air permit application and a September 19, 1994 letter with attachments. Representations made in the air permit application and the September letter and attachments are by reference part of the permit. Any unauthorized deviation from the approved drawings or exhibits could constitute grounds for revocation of the permit or enforcement action by the DEP. The final plant design and operation should be consistent with the air permit and the associated air permit application and modifying letter with attachments. A copy of the air permit application and modifying letter with attachments for review and for future comparison with the final plant design and operation should be provided for review by Brown & Root.

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Customary General Conditions are included as part of the air permit. Specific Conditions included in the air permit limit back-up fuel oil firing to the equivalent of 500 hours per year of full load operation and limit fuel oil sulfur content to 0.05%. Emission limitations in lbs/hr are favorably based on blocked 24-hour averages (midnight to midnight). The NO_x emission limit of 15 ppmvd may be adjusted per Specific Condition B.5 to less than 15 ppmvd (20% over the demonstrated concentration rounded to the next higher number) if a required (Specific Condition B.4) engineering report demonstrates that lower NO_x levels have been achieved.

Monitoring requirements stated in Specific Condition D require a continuous emission monitoring system (CEMS) for NO_x and, if necessary, for a diluent gas (CO_2 or O_2). We note that the proposed Scope of Work section 18.18 states that the facility shall have monitors for opacity, NO_x, SO_x, CO, and O_2. SOx, CO and opacity monitors are not required by the air permit or existing regulation. We note that section 18.18 does not specifically state requirements for the data acquisition system. The draft permit notes that "the Federal Acid Rain Program requirements of 40 CFR 75 shall apply if those requirements become effective for this source/emission unit." The applicability of the Acid Rain Program and 40 CFR 75 should be established so the CEMS design and reporting requirements can be finalized and reported to the DEP's Bureau of Air Regulation as required by Special Condition E.3.

In general, the General Conditions, Specific Conditions, and the Best Available Control Technology (BACT) determination prepared for this combination state and federal PSD permit provide a favorable basis for the construction and the operation of the Panda-Kathleen facility.

The Panda-Kathleen facility will be required to obtain a Federal Operating Permit per the Title V requirements of the Clean Air Act Amendments (CAAA) of 1990 and the State of Florida State Implementation Plan. An annual fee of approximately $25 per ton of pollutants is charged to fund this permit program. This would equate to $10,300/year based upon the permitted total pollutant emission limitations of 412 tons/year (TPY). Brown & Root believes the Panda-Kathleen facility is a new "affected" utility unit that is subject to the permitting and other requirements of the CAAA Title IV Acid Rain Program. The Title IV permit and compliance plan requirements would be handled as part of the comprehensive Title V permitting process. In addition to the annual fee for this permit, SO_x allowances would have to be purchased for approximately $2,500 per ton for the small amount of SO_x emissions coming from this facility and the CEMS provided would have to satisfy the equipment, certification testing, quality assurance, and reporting requirements of 40 CFR 75. This would equate to $60,000 based upon the total permitted SO_2 emission limitation of 24 TPY. In Brown & Root's

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opinion, there should not be any problem obtaining the Federal Operating Permit or the SO_X allowances when required.

Although relatively small amounts, it is assumed that Panda has considered these environmental fees in the Pro Forma costs.

6.2.2 Water Use Permit

The water use permit was issued on October 31, 1994 by the Southwest Florida Water Management District.

The permit notes that the proposed project is in the Southern Water Use Caution Area. The permit transmittal letter notes "that the Governing Board has formulated a water shortage plan as referenced in Condition 4 of the Standard Water Use Permit Conditions (Exhibit A), and will implement such a plan during periods of water shortage." It is possible that during the life of this project water use could be restricted or suspended during a declared water shortage. It is most likely, however, that water use would only be restricted. Reclaimable water resources are available in the project area that may be suitable for cooling tower make-up. We note that Special Condition 2 requires the permittee to investigate the feasibility of using reclaimed water as a water source and to submit a report describing the feasibility to the Permits Data Section by July [illegible], 199[illegible]. Water shortages tend to develop during the April to May and the October to December periods. Water is not currently a problem in Polk County because of recent heavy rainfalls. Water shortages can develop when periods of below normal rainfall fail to recharge the local aquifers. In Brown & Root's opinion, this appears to be a manageable risk.

6.2.3 Industrial Wastewater Treatment System Permit

The Florida DEP issued a draft permit and a Notice of Intent to Issue a permit for construction of the Panda-Kathleen Cogeneration Facility and the associated zero discharge water treatment system on October 19, 1994. A public notice was published on November 10, 1994. A 14-day period is allowed for petitions to challenge the permit. The Florida DEP issued a Notice of Permit and issued the permit on December 6, 1994. Any party to this permit has a right to seek judicial review of the permit by filing a Notice of Appeal within thirty days of the Notice of Permit. Brown & Root does not know if any appeals have been filed.

We note the permit states the capacity of the facility as 110 MW while the air permit and other project documents state the facility's capacity as 115 MW.

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The permit's Specific Condition 3 notes that "If historical or archaeological artifacts, such as Indian Canoes, are discovered at any time within the project site, the permittee shall immediately notify the District Office and the Bureau of Historic Preservation..." While the risk may be small it is recommended that an historical and archaeological survey of the cogeneration facility site and the natural gas pipeline route be performed to ensure problems do not develop latter that could impact the project's schedule.

Specific Condition 5 requires that the permittee ensure that construction of the facility is as described in the application and supporting documents unless proposed and approved prior to implementation. Major changes could result in a reapplication being required. A copy of the industrial wastewater treatment system application and any supporting documents should be provided to Brown & Root for review and for establishing a basis for evaluating the final system design and operation.

Specific Condition 30 requires the permittee to submit an application to operate the industrial wastewater treatment facility. This requirement is not considered a problem and is only noted to completely identify all permits required to operate the facility.

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6.2.4 Management and Storage of Surface Waters - General Construction Permit

This permit was issued on August 26, 1994 based on an application submitted July 1, 1994. The permit abstract references a 110 MW cogeneration facility. Specific Condition 3 addresses historical and archaeological artifacts in a manner similar to the Industrial Wastewater Treatment System Permit's Specific Condition 3.

Specific Condition 8 prohibits construction "within the project area for any facilities or activities associated with or directly relating to the surface water management facilities until such time as the permittee has obtained ownership or control of those areas necessary for the surface water management system, including all rights-of-way, easement locations, upland conservation buffer areas and wetlands." We have requested a copy of the Surface Water Management General Construction Permit Application and the construction plans submitted August 5, 1994 for review, for future reference, and for determining the status of land needed to construct the surface water management system.

The Specific Conditions, Limiting Conditions, and Standard Conditions contained in the permit appear to be reasonable and customary.

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6.2.5 Construction Permit for Pipeline to Cogeneration Facility

In response to the Joint Application for Works in the Waters of Florida for Panda-Kathleen, L.P. Panda-Kathleen Cogeneration Facility and Natural Gas Pipeline Project dated September 2, 1994, the Corps of Engineers issued a permit that is valid for two (2) years authorizing installation of the natural gas pipeline on September 16, 1994. The Florida DEP conducted a field review of the project on November 10 and issued a Notice of Intent to Issue a permit on November 22, 1994. A public notice is required. We are investigating to determine if the notice has been published. A 14-day public comment period is required.

General Conditions and Specific Conditions have been provided with the State permit. Specific Condition 2 addresses historical and archaeological artifacts in a manner similar to the Industrial Wastewater Treatement System Permit's Specific Condition 3 and the Management and Storage of Surface Waters - General Construction Permit Specific Condition 3.

Specific Condition 11 requires that "the permittee submit to the Department a Gopher Tortoise relocation plan approved by the Florida Game and Freshwater Fish Commission (FGFWFC) prior to initiation of construction." The joint application had noted the presence of a small number of gopher tortoise burrows and had proposed coordinating the relocation with the local FGFWFC Lakeland area office. A FGFWFC permit is required and the application can not be submitted any sooner than two [illegible] prior to construction. Coordination is in progress and no problems are anticipated.

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6.2.6 Stormwater Pollution Prevention

A Notice of Intent (NOI) for the cogeneration site will need to be filed before construction starts to satisfy National Pollutant Discharge Elimination System (NPDES) requirements for stormwater discharges during construction. An additional NPDES NOI will need to be submitted before operation begins at the cogeneration site for stormwater discharge associated with an industrial activity. A Stormwater Pollution Prevention Plan (SPPP) and a Spill Prevention, Control, and Countermeasure (SPCC) plan will need to be prepared, submitted, and maintained on the site.

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6.3 Polk County Zoning & Planning Approvals

6.3.1 Certificate of Concurrency

An application for concurrency review was submitted on August 8, 1994. A Certificate of Concurrency Determination was issued on September 9, 1994, to certify that adequate transportation, solid waste, drainage, parks, water, and sewer facilities were available.

6.3.2 Site Approval

In response to Panda-Kathleen's July 29, 1994, Application for Non-Certified Electric Power Generating Facility Site Approval, the Polk County Board of Commissioners issued Site Approval for a Non-Certified Electric Generating Facility on October 25, 1994. The Board's approval was subject to ten (10) conditions. The project is required to undergo a commercial site plan review. Fuel oil use beyond that initially permitted by the Florida DEP in the air permit would require an application for and approval of modifications and copies of permits, data, and records associated with the facility. Compliance with "Polk County Flood Protection and Surface Management Code", Ordinance 88-04 (as amended) is required in Condition 8.

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Condition 9 requires that "prior to commencement of operation of the facility, the applicant shall submit to Polk County Development Services Division a copy of their existing background noise level study," as referred to in their Response 19 (d) to the Impact Review by County staff. Brown & Root requests a copy of the Applications Appendix G – Impact Assessment Statement and a copy of the county's questions and Panda-Kathleen's responses to the Impact Review for review to evaluate any representations made regarding noise and other environmental issues. Noise appears to be an issue of concern to Polk County. The project's Scope of Work Section 20.5 makes the Contractor responsible for all noise abatement and states "the noise levels for the plant shall not exceed 80 dBA weighted sound level at any property line. The noise levels shall be calculated using the actual noise levels measured and subtracting the ambient noise levels measured previously". An 80 dBA sound pressure level is a relatively high level. Additional noise abatement may be required depending on the nature and location of critical receptors. Brown & Root notes a motel complex is located to the south of the cogeneration site.

Condition 10 allows County staff to terminate disposal of crystalizer solids in Polk County landfills if it is determined that the crystalizer solids do not allow the landfill leachate collection system to function properly. In the unlikely event this becomes a problem, alternative solid waste disposal options could be investigated and could be used. This could impact disposal costs, but with

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only 1,400 pounds per day of crystalizer solids for disposal, this should have virtually no impact on overall project costs.

6.4 Phase 1 Environmental Site Assessments

A Phase I Environmental Assessment Report has been prepared for the cogeneration site. A small amount of solid waste and debris was noted during a site inspection on the previously undeveloped cogeneration site. No discharges, surface staining, or abandoned containers were observed on the 7.5 acre cogeneration site. The results of the Hazardous Materials Survey was noted as follows: "Although visual observation of the property was limited by dense vegetation, no hazardous materials were seen on the property. The presence of abandoned containers or electrical transformers was not detected on the property." A regulatory database review was performed for the 0.5 mile radius around the site. The cogeneration site property did not appear on any of the databases. Environmental problems noted for adjacent properties are not expected to have any impact on the cogeneration site. Standard qualifications and disclaimers were stated.

A Phase I Environmental Assessment Report was prepared for the natural gas pipeline corridor. The report summary and conclusions state that "Inspection of the corridor properties revealed only a small amount of solid waste, one abandoned container, a waste oil storage tank, and a few waste oil containers. No discharges or surface staining was noted." A regulatory database review was performed for a 0.5 mile distance around the pipeline corridor. The corridor properties did not appear on any of the databases. The same environmental problems for adjacent properties noted in the cogeneration site review were identified in this review. Standard qualifications and disclaimers were stated in the report.

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7.0 SCHEDULE REVIEW

Brown & Root reviewed the provided EPC schedule for the project, Exhibit A – 1 of 1 of the EPC Contract. The review is intended to examine the overall validity of the schedule and comment on any potential problem areas.

The EPC schedule is accelerated and is targeting a substantial completion six (6) months earlier than the PPA "sunset" date of January 1, 1997. This is accomplished by accelerating the overall schedule and major milestones. The accelerated milestones are listed below:

	Contract Date	Target Date	Acceleration
Mobilize on Site	Sep. 1, 1995	Mar. 1, 1995	6 Months
Major Equipment on Site	Jan. 1, 1996	Oct. 15, 1995	2-1/2 Months
Hydro HRSG	Jun. 1, 1996	Jan. 1, 1995	5 Months
Substantial Completion	Jul. 1, 1996	Jun. 1, 1996	1 Month

Engineering

The total engineering duration for the project shown on the schedule is approximately nine (9) months. We opine that a project engineering duration for this type of project will be a 12 – 13 month effort. Apparently some preliminary engineering effort by Gilbert has been under way for some time. Brown & Root was not able to determine how much engineering has been done to date at risk. The remaining nine (9) months could complete the engineering with some acceleration.

The major vendor selection is complete and vendor engineering is indicated to be in process. The balance of plant equipment vendors apparently have been selected as the purchase orders are scheduled to be released for manufacturing at financial closing. The receipt of information from the major equipment vendors is very important so the facility engineering can fully start. The power island equipment foundations are scheduled to complete design in mid-December, 1995. This will allow time to purchase the bulk materials required for the concrete construction. At notice to proceed, the facility design will have started five (5) months prior to construction mobilization. Brown & Root's evaluation is the engineering could be as much as 40-45% complete at this time, dependent upon the amount of "at risk" work. Considering the type of facility, this should provide sufficient information for construction to proceed without delays.

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Equipment Procurement / Deliveries

Review of the equipment delivery durations indicates that most are in-line with normal expectations. The durations required from start of vendor information to the delivery on site were compared to typical fabrication lead times for this type of facility. Some the major equipment acquisition times are:

	Typical	Panda - Kathleen
Large Transformers	12 months	6-1/2 months
Steam Turbine	12 months	12 months
Gas Turbine	12 months	12 months
HRSG	10 months	10-1/2 months

The power block equipment purchase orders were scheduled to be issued for manufacturing in mid February, two (2) weeks before the completion of the proposed March 1 financial closing. The vendors were scheduled to start their engineering and providing of information four and one-half months prior to this. The turbine manufacturer could accelerate the equipment delivery with selection of "In production machines." This acceleration could possibly require the vendor to release material for forging or casting prior to financial closing at their own risk. Brown & Root would have to review the vendor proposal information to confirm.

The generator transformer delivery appears to be aggressive at 6 1/2 months , but could be achievable. Additional information concerning the purchase order details would be required to evaluate.

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Construction

The construction strategy for this project is currently for Walsh to have a construction management team at the site. Walsh currently plans to self-perform some of the work, probably less than 50%. The remaining work will be subcontracted probably from major construction firms in the southeast. Construction firms have been contacted for subcontracting services during the estimate phase. Subcontracting philosophy is expected to be on merit shop basis.

Brown & Root reviewed the manpower requirements for the project. It is expected that approximately 250,000 work hours be required to complete the works over a fifteen (15) month construction period. Peak construction manpower should be approximately 200 people. In our opinion, labor availablility in the area is currently adequate. Walsh plans to have an adequate management staff at the site to support construction. Gilbert Commonwealth plans to have at least two (2) people to perform resident engineering functions at the site.

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Brown & Root believes the the Walsh/Gilbert Commonwealth joint venture has a good plan which meets industry standard for construction services to build the project. Walsh and Guy F. Atkinson have the necessary construction resources (staff, labor, construction equipment, tools, etc.) to support the project.

The construction duration from mobilization to substantial completion appears to be achievable. The duration is fifteen (15) months compared to a typical of eighteen (18) months for this type of facility. The acceleration is evident in the erection of some of the major pieces of equipment. A comparison is below:

	Typical	Panda
Gas Turbine	5 months	3-1/2 months
Steam Turbine	4 months	3 months
HRSG	5 months	2 months

The erection timing of these pieces of equipment within the schedule could allow for an increase of duration and not impact the overall project schedule.

Conclusion

The development of an accelerated target schedule is prudent to allow a contingency for unexpected delays. The engineering effort is in progress and with vendor information delivered on time, progress should be sufficient to support construction. Some of the major equipment fabrication durations appear short, but could be accomplished with early involvement by the vendors in the project. The overall construction and startup duration is sufficient. The EPC schedule has a good probability of success considering the schedule contingency of the target dates.

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8.0 BUDGET REVIEW

8.1 Capital Cost

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It is Brown & Root's opinion that the EPC Contract value of $63,500,000 is very competitive. A combined cycle cogeneration facility of this size will generally range $500-$600/kW. The cost of this facility producing 110,000 kW net is $577/kW which also includes the cost of the distilled water plant.

8.2 Project Cash flow

Brown & Root reviewed the Gross Billing Estimate represented in Exhibit L. The billing schedule is separated into engineering and design, pre-construction, cost of work and Contractor's fee. The Engineering payment is distributed over a ten (10) month period with reasonable application to value of work performed. The pre-construction payments total to $73,000 before financial closing and is reasonable considering planning and project setup expense. In February, 1995, at financial closing a billing of approximately [illegible] is indicated. We assume the majority of this billing represents down payment to equipment vendors. In month thirteen (13), October 199[illegible], a 15% payment is due for delivery of the gas and steam turbines. This is considered reasonable.

The last payment in the project cashflow, approximately 5%, is more than the value of construction accomplished during the period and is probably retention held from equipment suppliers. In summary the Gross Billing Estimate reflects a reasonable payment schedule for value of work in place.

Per the contract, the Contractor will break down the scope of work into items with assigned payment value. The Contractor is also allowed to alter the payment value of these items during the project while under the guaranteed maximum price. Reviews of the break down should be performed to assure proper values are assigned, keeping payment relative to the value of work accomplished.

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9.0 OPERATION AND MAINTENANCE AND PRO FORMA

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9.1 O&M Agreement

The draft O&M agreement is a "services" agreement for operation and maintenance of the facility by the Operator. All purchased materials, services and identified reimbursable costs are to the Owner's account and are considered variable O&M costs.

Provisions are included, in the form of a bonus/penalty incentive, to encourage the Operator to operate and maintain the facility in a manner consistent with that of a prudent Owner when operating and maintaining its own facility.

In reviewing the draft Operation and Maintenance Agreement, there are several items that, in Brown & Root's opinion, require attention by Panda-Kathleen, L.P.

<u>Section I. Definitions</u>

There are two specific dates identified ("Commencement Date and Scheduled Commercial Operation Date), which have possibly changed due to the amended dates in the Power Purchase Agreement.

<u>Section IV. Compensation</u>

Item 4.01 provides for the compensation to be paid to the Operator during the time from the Commencement Date to Contract-In-Service date. Under Item 4.01(c), Item (ii) should read "the actual overtime hours worked multiplied by the applicable overtime hourly rate, <u>or</u>"

The draft of the agreement reviewed did not have any monies identified under Section IV, "Compensation" and Section V "Contract Price Adjustment". Consequently, no review and evaluation of the reasonableness of the costs have been made at this time. The monies identified in the Pro Forma for the "fixed O&M cost" of $0.0016/kwh and "variable O&M costs" of $0.0028/kwh appear to be reasonable. It should be noted that daily cyclic (i.e. on/off) operation of the cogeneration equipment will decrease the time between overhauls, particularly of the turbines, and increase the maintenance cost of these components by as much as 20% above normal base load operations.

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9.2 Pro Forma Technical Comments

In Brown & Root's opinion, there appear to be two technical errors in the Pro Forma regarding the implementation of the performance data. The first has to do with performance degradation. The second is related to heat rate and its conversion into fuel consumption and cost.

It is customary to include in a Pro Forma projection estimates of output and heat rate degradation that are expected to occur over time. This degradation is due to the fouling and wear of the power generation equipment, primarily the GTG and STG. Degradation follows a cyclical pattern and most of the losses are recovered each time the machines are overhauled and the old parts replaced with new ones. For Pro Forma purposes, the degradation is usually shown as levelized for the purposes of simplicity. Average output capacity is typically degraded (reduced) about 2% to 3%. Average heat rate is degraded (increased) about 1% to 2%. These figures are normally shown directly in the Pro Forma in order to avoid any confusion. The implementation of degradation in the Pro Forma cannot be explicitly checked at this time, since heat balance diagrams that correspond to the summer and winter periods used in the Pro Forma have not been provided to the reviewer. However, based on the data provided at other ambient temperatures, it appears that degradation has not been included. This should be clarified and explanatory notes added to the pro forma as appropriate. The effect of degradation is real and material to the long term financial performance of the project.

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The heat rates used in the Pro Forma are on the order of 7,800 Btu/kWh. It does not state whether these are in units of LHV or HHV. Fuel is measured in two different sets of units, i.e., lower heating value (LHV) and higher heating value (HHV). The difference for natural gas is about 11%, i.e., HHV/LHV = 1.11. For oil, the ratio is about 1.06. Equipment manufacturers usually use units in LHV terms (reference the ABB heat balance diagrams). The significance of this is that fuel is almost universally quoted and purchased in HHV units. In order to get the correct fuel usage and cost, it is imperative that the heat rate and unit fuel cost be in consistent units, i.e., either both in LHV or both in HHV units (HHV is usually used). In the case here, using the guarantee net heat rate of 7,373 Btu/kWh (LHV), it can be seen that this is equivalent to 8,184 Btu/kWh (HHV), i.e., 7,373 * 1.11 = 8,184. Therefore, in HHV terms, the heat rate should be on the order of 8,100 to 8,200 Btu/kWh. However, the figures used in the Pro Forma are about 7,800 Btu/kWh. With the addition of degradation, the heat rate should be in the 8,300 to 8,400 Btu/kWh range. This matter should be investigated and corrected if needed, since it directly affects the quantity and cost of fuel projected which directly impacts the financial projections. It is possible that these adjustments were made within the Pro Forma spreadsheet and were not available to the reviewer, but there were no notes to indicate such. In addition, a few check calculations

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made by the reviewer indicated that the annual cost of fuel shown in the Pro Forma appears to be in error to the low side.

It is also noted that the pro forma does not include any operation on more expensive fuel oil, which is most likely to be used in the winter when gas could be in short supply. It would be expected that this fuel would be used at least part of the time over the long term and should be reflected in the pro forma.

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10.0 EPC CONTRACT RISK ANALYSIS

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In general, the EPC Contract is in accordance with industry standard practice for this type of facility. The following opinions are offered regarding the provisions of the Contract relative to Lenders' risks.

10.1 Key Provisions

Compensation (reference Article 7)

The engineering and construction fees are covered by lump sum amounts of $3,500,000 and $5,600,000 respectively. The balance of the Contract value is reimbursed to the Contractor on a "cost reimbursable" basis up to the Guaranteed Maximum Price of $63,500,000 (plus approved Change Orders). Although the Guaranteed Maximum Price provides a cap on the costs reimbursed , there are no specific formulas on how the Contractor's cost is calculated. This could lead to somewhat "front-end loaded" payments to the Contractor that are not truly representative of the work performed. Verification can be made by the Lenders' Engineer by comparing physical percent progress against the percent of the Guaranteed Maximum Price that is invoiced by the Contractor.

Additional Compensation (reference Article 6)

The Contractor has fourteen (14) days to respond to the Owner's request for change with an estimate of the cost and schedule impact, or else lose the opportunity for Contract adjustment. The Contract does not specifically state a time duration in which scope changes which are non-Owner initiated must first be identified by the Contractor. The Contract stipulates that sufficient documentation is to be supplied by the Contractor for the Owner to verify amounts requested. There is no cap stipulated for the total amount of all change orders to the Guaranteed Maximum Price.

Schedule & Extensions (reference Articles 1, 5, and 6)

The Contract defines Guaranteed Substantial Completion Date as "July 1, 1996 (subject to extension for Force Majeure or Change Order) but in no event later than January 1, 1997 unless and to the extent such January 1, 1997 date is duly extended by FPC." Conditions of approval for schedule extensions are the same as for additional compensation. The Contract provisions for a Force Majeure adjustment are customary, however "storm" is defined as a Force Majeure event, which may lead to abuse of this provision.

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Article 5, Section 5.2.3 identifies 9/1/96 as the milestone date for "Achieve Substantial Completion", which appears to contradict the definition of Guaranteed Substantial Completion.

Warranties (reference Article 11)

The term provided for correction of defects is a period of one year after Substantial Completion Date or one year from the discovery of such defect or deficiency (but in no event later than the first anniversary of Final Acceptance Date), which is extended if an item is replaced during the warranty period. This warranty period is considered a minimum compared to industry standards. However, in Brown & Root's opinion, the warranty period is sufficient to identify any significant defect or deficiency. The Contractor is required to "promptly" correct any such defect or deficiency at its own expense.

10.2 Performance Testing

Provisions for performance testing are presented in Section 19 of Exhibit F, Scope of Work, of the EPC Contract. Section 19.5 stipulates testing required for the cogeneration facility including the following:

- Electrical power output averaged over a 48 continuous hour period, while exporting steam to the distilled water plant as designed.
- Heat rate is to be verified over a 4 hour period of the electrical output test.
- Reliability run during which the unit must demonstrate better than a 95% availability over 200 continuous hours of operation (Note: This provision should be clarified to state that results must be corrected to design conditions).
- Stack emissions testing to demonstrate compliance of the gas turbine with the air permit.

It is Brown & Root's opinion that these tests are customary for cogeneration systems and should adequately prove the cogeneration systems capability to perform as designed. There are no specific performance tests identified in the Scope of Work for the distilled water plant. The plant will evidently be purchased from a third party Supplier and will carry the Supplier's guarantee/warranty, which is also not specifically stated. The system will be indirectly tested as the cogeneration system is tested.

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10.3 Liquidated Damages

Provisions for liquidated damages for failure to meet schedule and/or cogeneration performance are stipulated in Articles 12 and 13 of the EPC Contract as follows:

<u>Schedule (reference Article 12)</u>

Liquidated damages of $35,000 will be assessed for each day that actual Substantial Completion is delayed beyond the Guaranteed Substantial Completion Date, up to a maximum of 30% of the EPC Contract value. This daily assessment should cover a significant portion (if not all) of the monetary impact due to the delay. The 30% cap is within the industry norm of 25-35% for this type of facility. Article 7 allows the Contractor to recover some or all of any liquidated damages as a reimbursable expense as long as the total amount paid to the Contractor does not exceed the Guaranteed Maximum Price. This provides incentive to the Contractor to control costs and maintain a reserve. Conversely, it also provides pressure to request Change Orders throughout the project to increase the Guaranteed Maximum Price.

<u>Performance (reference Article 13)</u>

Liquidated damages of $1,000 per kilowatt will be assessed for shortfall in electrical power output (with a tolerance of ± 1.5% allowed primarily for cumulative instrument accuracy deviations) below the Guaranteed Net Facility Output of 110,000 kW as corrected to Design Conditions. This should be sufficient to recover investment costs associated with a shortfall.

Liquidated damages of $30,000 will be assessed for each Btu/kWh actual heat rate above the Guaranteed Net Heat Rate of 7373 Btu/kW (with a tolerance of ± 2%) based on the low heating value (LHV) of the natural gas. This should be more than adequate to cover projected additional fuel costs caused by a less efficient (i.e. higher heat rate) unit.

The EPC Contract provides bonuses for additional net power output and lower heat rate of $300/kW and $15,000/Btu/kWh, respectively. This provides incentives for the Contractor to design the unit to be more productive and efficient. This is favorable to the Lenders up to the point where the bonus exceeds the potential for the facility to recover by increased energy sales (there are no caps on the bonuses).

There are no provisions in the EPC Contract for liquidated damages associated with shortfalls in the output of distilled water. The Confidential Memorandum dated September, 1994, discusses an output from the distilled water plant of 60,500 gallons per day (GPD). The EPC Contract requires that the distilled

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water plant be capable of treating water flows identified in the Conceptual Water Balance, Appendix F to the Contract. However, there are specified guaranteed distilled water capacities. With a inlet cogen effluent water flow of 73,400 GPD and a reasonably low moisture content of the solid waste stream, it is probable that the distilled produced would be in excess of 60,500 GPD based on Brown & Root's experience..

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Sheet 1 of 31

Panda Energy Corporation
Kathleen (FPC) - 115MW Project
Project Summary

11/21/94 8 52 AM

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Project Cost Information:	Amount ($)	$/kW	%
Turnkey Construction Contract	$63,500,000	$552	68%
Other Construction Costs	$8,047,000	$70	9%
Development Costs	$9,699,000	$84	10%
Financing Costs	$12,504,000	$109	13%
Total	$93,750,000	$815	100%

Operating Assumptions:	
Capacity In Kilowatts	115,000
Avg Plant Heat Rate (Btu/kWh)	7,813
Avg Hrs/Yr Running Generation	7,147

Financial Information:	Amount ($)	D/E Split	Maturity/Flip Yr	Rate / IRR	Payout Ratio	PV @ 12%
Debt	$75,000,000	80%	25	10 00%		
Equity	$18,750,000	20%	31	17 09%	100%	$34,910,955
Total	$93,750,000	100%			100%	$34,910,955

Notes: BASE CASE
Equipment:
One ABB 11N1, Steam Turbine, HRSG
Fuel:
20 Year Gas Contract, Gas Prices Based on Market Index
ICF Projected Fuel Prices
Firm Transportation on FGT Phase II and Phase III
Other Information:
ICF No-Coal As-Available Energy Rates
Steam Host - Distilled Water Facility
Investment Grade (BBB) Debt (25 Year Maturity)
Inflation is assumed to be 3 5% unless otherwise noted

	Year 1 1997	Year 2 1998	Year 3 1999	Year 4 2000	Year 5 2001	Avg 6-10 2002-06	Avg 11-15 2007-11	Avg 16-20 2012-16	Avg 21-25 2017-21	Avg 26-30 2022-26	Average/Total
PRICING											
Capacity Rate ($/kW Year)	$69 48	$72 96	$76 68	$80 64	$84 72	$98 64	$126 53	$162 24	$208 41	$267 91	$156 77
Capacity Rate ($/kWh)	$0 01071	$0 01130	$0 01135	$0 01259	$0 01301	$0 01482	$0 01792	$0 02166	$0 02749	$0 03534	$0 02150
Avg Energy Rate ($/kWh)	$0 03647	$0 03951	$0 04230	$0 04153	$0 04202	$0 04581	$0 05500	$0 06854	$0 08257	$0 09807	$0 06506
Variable O&M Rate ($/kWh)	$0 00255	$0 00269	$0 00282	$0 00297	$0 00312	$0 04581	$0 05500	$0 06854	$0 08257	$0 09807	$0 06506
Total Electricity Rate ($/kWh)	$0 04973	$0 05349	$0 05648	$0 05708	$0 05815	$0.06426	$0 07757	$0 09617	$0 11771	$0 14322	$0 09232
Natural Gas Cost - Firm Contract ($/MCF)	$2 26	$2 43	$2 65	$3 01	$3 12	$3 53	$4 70	$6 39	$7 84	$9 31	$5 74
Incremental Fuel Cost ($/MCF)	$2 43	$2 61	$2 83	$3 19	$3 31	$3 74	$4 95	$6 67	$8 16	$9 68	$6 01
FINANCIAL RESULTS											
Revenues	$32 886 332	$35 331,869	$39 343 983	$36,197,722	$37,321,442	$41,762,227	$52,829,021	$64,767,316	$76,937,928	$92,785,394	$1,826,490,775
Fuel & Other Variable Expenses	14 749 085	15,732 803	17,849,492	17,855,670	18,807,451	21,601,179	30,103,184	38,503,586	44,957,608	53 334,925	1 027 496 906
Firm Transportation	3 947,501	3 994 871	4 042,810	4,091,323	4,140,419	4,291,881	4,555,649	4,835,627	5,132,812	5,448,261	141 538 070
Fixed O&M	1,200 000	1 242,000	1 285,470	1,330,461	1,377,028	1,528,543	1,815,429	2,156,160	2,560,842	3 041 477	61 947 213
Management Fee, Insurance & Other	2,362 500	2,411,850	2,462,927	2,515,792	2,570,507	2,748,537	3,085,629	3,485,988	3,961,489	4 526,235	101,362,975
EBITDA	$11,376,245	$11 950,344	$13,703,284	$10,404,476	$10,426,037	$11,592,087	$13,269,131	$15,785,955	$20,325,177	$26,434,496	$494 145 612
Interest Expense	(7 500 000)	(7,500,000)	(7 500 000)	(7,500,000)	(7,500,000)	(7 292,500)	(6,460,000)	(4,655,000)	(1 842 500)	0	(139,750 000)
Principal Payments	0	0	0	0	0	(1,050,000)	(2,300,000)	(4,400,000)	(7 250 000)	0	(75 000 000)
Net Reserve Adjustment	(1 297 400)	(1 291 800)	(661,800)	(1 200 000)	(500 000)	(655 400)	(524 745)	(693 083)	(317 340)	(299,084)	(19 399 262)
Income & Other Taxes	0	0	0	0	0	0	(269 978)	(2,225,450)	(5 968 109)	(9 104 806)	(87 841 715)
Net Cash Flow	$2 578 845	$3 158 544	$5 541,484	$1,704,476	$2,426,037	$2 594,187	$3,714,408	$3,612 422	$4 947 228	$17,030 606	$175 055 526
Equity Distribution	$2 578 845	$3 158 544	$5 541 484	$1 704 476	$2,426,037	$2 594 187	$3 714,408	$3 612 422	$4 947 228	$17 030 606	$174 903 636
Debt Coverage Ratio	1 52	1 59	1 83	1 39	1 39	1 39	1 51	1 71	2 27		1 68

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Sheet 1 of 2

MEMORANDUM

TO: Bob

FROM: Pete

DATE: July 14, 1994

RE: Issues raised at Smith Barney Presentation for Panda-Kathleen

SBS recommends that we stretch to achieve BBB- or better in a debt rating for the Kathleen project. Primary benefits associated with BBB- versus BB+ or lower include:

(1) At least 150 basis point savings on the interest/coupon rate (9-9½% for BBB-, versus 10½%-11% for BB+) and;

(2) Longer amortization for the debt (25 years for BBB- versus 20 years for BB+).

Neither investment grade (BBB- or better) or below investment grade (BB+ or worse) will need credit enhancement such as a letter-of-credit. To stretch to a BBB- we will need to focus on the following, according to SBS:

Item	Action	Responsible
Construction	Secure acceptable EPC contractor.	Ted Hollon Kyle Woodruff
Fuel	Secure 10-15 year delivery of gas volumes plus firm transportation.	Ralph Killian Jim Adams
Thermal Host	Secure host and prove economics and QF status are viable.	Ted Hollon Ralph Killian
Capacity	Determine energy above 74.9 megawatts will be accepted by FPC.	Ted Hollon Ralph Killian Bill Nordlund
Energy Payments	Show Kathleen will initially run economically/ efficiently against other gas plants.	Brian Dietz via ICF study
Rating	Make rating presentation to S&P incorporating above items.	Pete Wright

There was some confusion on SBS' part regarding self performance vis a vis the thermal host. The two projects they have done bond offerings on had economics more heavily predicated on steam host revenues--Kathleen treats the steam host primarily as a cost center and that was a point SBS was having trouble absorbing.

Regarding the capacity oversizing issue we need to proceed with due haste regarding either the FPC letter we thought was forthcoming or a PSC ruling. I see no third option for this issue which is the most difficult.

JDW/ce

cc: Ralph, Bill, Ted, Bryan
Brian, Kyle, Stephen

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Summary of Terms for a 144A Debt Project Financing

Project	The proposed Panda-Kathleen Project (the "Project") is comprised of an approximately 75 MW gas fired electric and steam plant (the "Facility") to be built in West Lakeland, Florida. The Project will be operated by Panda-Kathleen Limited Partnership ("Panda-Kathleen" or the "Partnership").
Parent Company	Panda Energy Corporation is a Dallas-based independent power company. The Company is engaged in the development, construction, management and ownership of electric power generating facilities and other energy related projects in the U.S. and abroad.
Project Participants	
Power Purchaser	Florida Power Corporation ("FPC" - senior debt ratings Aa3/AA-)
Steam Purchaser	Lakeland Water Company (to be formed - owned by Panda Energy Corporation)
Fuel Supply	To be announced, pursuant to a 15-year firm gas supply contract having indexing provisions which substantially track FPC's future avoided costs.
Fuel Transportation	To be announced
Contractor	To be announced, pursuant to an EPC, backed with substantially liquidated damages that are backed by an investment grade credit or letter of credit.
Operator	Panda Kathleen L.P. or its designee

Summary of Terms for a 144A Debt Project Issue

Financing Arrangements

Issuer	Panda-Kathleen Funding Corporation - a wholly-owned subsidiary by Panda-Kathleen Limited Partnership
Guarantor	Panda-Kathleen Limited Partnership - a wholly-owned special purpose subsidiary of Panda Energy Corporation (the "Company")
Security	Senior Secured Notes (the "Notes")
Size	$70.0 million
Maturity	See page on Structure
Interest Rate	See page on Structure
Debt Service Payment Dates	Semiannually, each December 15th and June 15th
Optional Redemption	Non-Callable for life, except for Extraordinary Optional Redemption
Ranking	Senior secured obligations of the Issuer, non-recourse to the Company
Collateral	The Notes and the Guarantee will be secured by a lien on substantially all assets of the Partnership, including: a first mortgage on the Project, assignment of all receivables, inventories, contracts and insurance policies of the Partnership, assignment of all permits and approvals of the Project, pledge of the stock of the Funding Corporation, all limited and general partnership units in the Partnership, and the stock of any corporate owners of such partnership units other than Panda Energy Corporation.

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Sheet 2 of 4

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Summary of Terms for a 144A Debt Project Issue

SEC Registration	The Partnership agrees to use its best efforts to file and to cause to become effective within [30] days a registration statement. In the event that a registration statement is not declared effective within [90] days following the closing date of the Notes, the interest rate on the Notes shall increase by 50 basis points effective on the 91st day until a registration statement is declared effective.
Exchange Listing	None
Limitation on Transferability	The Notes will be offered only to institutions that qualify as "accredited investors," as defined in Rule 501(a)(1)-(3) under Regulation D ("Accredited Investors"), or "qualified institutional buyers," as defined in Rule 144A under the Securities Act of 1933 ("Qualified Institutional Buyers"). All investors will be required to undertake that they will not transfer the Notes except pursuant to an effective registration statement or an exemption from registration.
Indenture Trustee	To be announced
Denominations	$100,000 minimum and any integral multiple of $1,000 in excess thereof
Settlement	Book-entry only. Same day funds ("Fed Funds") five business days after pricing, unless otherwise determined at the time of the offering
Underwriter	Smith Barney Inc.

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Sheet 3 of 4

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Summary of Terms for a 144A Debt Project Issue

Structure

	Investment Grade	High-Yield
Assumed ratings	Baa3/BBB-	Ba2/BB+
Principal amount	$70,000,000	$70,000,000
Interest rate (bps over ~~interpolated 15~~ 30 year UST)	150-175	275-300
30-year UST (as of July 11, 1994)	7.770%	7.770%
Final Maturity (years)	27	20
Average Life (years)	20	15

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9.5

Kyle Woodruff

From: Thomas Horn
To: *FINANCE
Cc: Brian Dietz; Darol Lindloff; David Mayer; Jim Adams; Kyle Woodruff; Ralph Killian
Subject: COSTUP2.XLS
Date: Thursday, January 19, 1995 2:40PM

<<File Attachment: COSTUP2.XLS>>

The attached Excel spreadsheet gives a summary of the major changes to the Kathleen proforma over the last two months. If there are any mistakes that need to be corrected or further revisions that need to be made, please let me know. Thanks.

Regards,

Tom Horn

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Panda-Kathleen, L.P.
Proforma Revision Sheet

Component	Old (11/29/94)	New (1/19/95)	Change	Comments
MTN Financing				
Debt Maturity	25	30	5	Merrill feels that the 30 year market is achievable; equal to life of PPA
Interest-Only Period	7	7	0	Merrill says that the market will be receptive to 7 years interest-only
Interest Rate	10%	9.5%	-0.5%	Revised to reflect current rates based on Merrill's indicated spreads
Project Cost				
Total Construction Costs				
Pipeline Construction	$2,000,000	$1,600,000	($400,000)	Pipeline ROW cost moved to Land Purchase section
Transmission Construction	$794,000	$894,000	$100,000	Revised estimate of cost
Water Interconnect	$300,000	$200,000	($100,000)	Revised estimate of cost
Land Purchase	$0	$760,000	$760,000	Moved and consolidated from Pipeline Construction and Other Development
Sales Tax on Equipment	$1,778,000	$1,714,500	($63,500)	Slight recalculation of cost
Total Development Costs				
Permitting Cost	$700,000	$765,908	$65,908	Revised estimate of cost
Engineering	$750,000	$1,006,877	$256,877	Revised estimate of cost
Operating Exp During Const.	$700,000	$400,000	($300,000)	Revised estimate of cost
Initial Fuel Oil Fill	$500,000	$265,000	($235,000)	475,000 gallon tank at approximately $.55 per gallon
Construction Insurance	$0	$500,000	$500,000	Moved from Other Development Cost and revised
Legal	$0	$500,000	$500,000	Moved from Other Development Cost and revised
Administrative	$0	$500,000	$500,000	Moved from Other Development Cost and revised
Other Development	$1,000,000	$180,000	($820,000)	Only includes miscellaneous items such as office furniture
Total Financing Costs (1)				
Interest During Construction	$7,820,859	$9,388,438	$1,567,579	Revised to reflect MTN drawdown structure and Construction Equity
Financing Deal Costs (2)	$2,531,250	$2,398,500	($132,750)	Slight revision to reflect new structure
Initial Debt Service Reserve	$2,000,000	$3,705,000	$1,705,000	Revised to account for first debt service payment
Operating Assumptions/Cost				
Avg. Heat Rate	7810	8045	235	Difficult to substantiate anticipated improvement; accounts for degradation over time
Operating Hours	NA	NA	NA	Changed in the Operations Section to reflect "true" run hours not just available hours
Inflation Escalator	3.5%	4.0%	0.5%	Changed to reflect historical inflation rate of 4%
Distilled Water Rate	$20.00	$0.01	($19.99)	No longer bottling distilled water; new strategy results in lower operating costs
Gas Trans. - Commodity (1997)	$0.08	$0.07	($0.01)	Revised estimate of cost
Gas Trans. - Fuel %	3.20%	2.15%	-1.05%	Revised to reflect new quantities to be required on FGT
Gas Management Fee	$0.02	$0.03	$0.01	Revised to reflect negotiated rate with ANG
Distilled Water O&M	$50,000	$0	($50,000)	Consolidated with Fixed O&M
Distilled Water Trans. & Delivery	$150,000	$0	($150,000)	No transportation under new strategy; water delivered via pipeline
Firm Wheeling Escalation	3.5%	3.0%	-0.5%	Revised to reflect contract limit
Other Fixed O&M	$0	$450,000	$450,000	Consolidated and revised from other sections
Start-Up Costs	$0	$175,000	$175,000	Added to recognize the cost of frequent shut-downs
Management Fee	$500,000	$400,000	($100,000)	Revised estimate of cost
Other Fixed Expenses	$200,000	$175,000	($25,000)	MTN on-going expenses added; other fixed o&m costs removed
Turbine Overhaul	NA	NA	NA	Revised estimate of cost

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(1) Total interest during the life of the project is lower using MTN's versus other 144A or bond-type financing which is not reflected here.
(2) The old Financing Deal number was calculated for one financing; an estimated $2-3 million on a second financing was saved by using the MTNs.

1/20/95 10:55 AM

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PANDA
ENERGY CORPORATION
The Independent Power Company

12/12/94

December 12, 1994

Mr. Robert D. Kelly, Vice President
Calpine Corporation
50 West San Fernando -5th Floor
San Jose, Ca 95113

RE: Kathleen Project

Dear Bob:

This will confirm our conversations regarding Calpine's interest in participating in the Kathleen Cogeneration Project scheduled for construction in Lakeland, Florida. In particular, this communication sets forth the fact that Calpine and Panda have reached an understanding, in principal, regarding terms of Calpine's investment in the project of up to $20 Million.

The particulars of our proposed transaction are more fully set forth in your December 2, 1994 Term Sheet (copy attached) and are subject to refinement during due diligence and preparation of a Definitive Agreement between our companies.

We are very much looking forward to working with you and all the key personnel at Calpine in the coming months as we push toward financial closing, with a target date of February 1, 1995. We will appreciate your suggestions and assistance in dealing with the lenders as we proceed.

As suggested in our conversation earlier today, we would ask that Calpine address a few matters within the next few days, as follows:

1) Provide a comfort letter from your bank indicating that the $20 Million is available for commitment to the project.

2) That you indicate the attorney and firm that will represent Calpine during negotiations...it is understood that each party pays for legal expenses incurred in finalizing the transaction and that the Definitive Agreement is subject to review and approval by the lenders.

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4100 Spring Valley, Suite 1001 Dallas, Texas 75244
214/980-7159 FAX 214/980-6815

3) In the section dealing with Buydown, that you consider how we will determine the market rate for comparable projects if, in fact, there are no domestic projects available for comparison.

4) That you give us a little more time to analyze the option of using a Calpine LC or borrowing the $20 Million during construction...some of our people are concerned that there will be costly paperwork and associated delays if we go the loan route.

5) That we prepare and execute a Committment Letter which sets forth our intent to consummate the transaction and a few terms and conditions that address failure by Calpine to complete the deal...our people would like to have this resolved within the next five business days.

6) We need to negotiate the O & M contract which should be market-based (competitive) but with bonus opportunities if results exceed established criteria.

Please feel free to contact either Tom Horn or myself regarding questions and to set up meetings between your associates and our technical and engineering staff.

Sincerely,

John G. Burt

John G. Burt

Attachments

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**PANDA-KATHLEEN L.P.
TERM SHEET**

Entity:	Panda-Kathleen Limited Partnership; to own the Facility and all tangible assets associated with the project.
Partners:	Panda-Kathleen Corporation, a Delaware corporation, and Calpine Corporation or a wholly owned subsidiary will be the partners.
Structure:	Panda-Kathleen Corporation to be the General Partner and Calpine Corporation or a wholly owned subsidiary to be the sole Limited Partner.
Construction Loans:	Calpine will provide up to $20 million of construction loans to the partnership at LIBOR plus 2.5%.
Equity Investment:	The Limited Partner will fund up to $20 million of equity to the Partnership at such time as the construction loan is replaced with permanent financing.
Cash Flow Sharing:	Calpine will receive the following annual percentages of the distributable cash flow during the first five years:

Year	%
1	60
2	67
3	74
4	81
5	88

Thereafter, Calpine will receive 90% of the distributable cash flow until it has received a 12% after-tax return. For calculation purposes, a 35% tax rate will be utilized in calculating the after-tax return.

Buydown Provision: The General Partner shall have the right at any time after the commencement of commercial operations to buy down or buy out the partnership interest of the Limited Partner in the project. In the event that the buydown or buyout occurs within 24 months, Calpine would receive the following compensation at the date of the buydown or buyout:

(a) $200,000 plus

(b) an amount which provides Calpine a 12% after-tax internal rate of return for 24 months, plus

(c) Calpine would receive 18 annual payments equal to the difference between a 12% after-tax internal rate of return and a mutually agreeable "market" after-tax internal rate of return for similar projects, including development and construction risk, times the principal portion of the buydown or buyout.

In the event that the buydown or buyout occurs after 24 months, Calpine would receive the following:

(a) At the date of the buydown or buyout, Calpine would receive a lump sum payment in an amount which provides Calpine a 12% after-tax internal rate of return on its investment from conversion to the date of the lump sum payment, plus

(b) From the date of the lump sum payment to the end of the 20-year term, Calpine will receive an annual payment equal to the difference between a 12% after-tax internal rate of return and a mutually agreeable "market" after-tax internal rate of return for similar power projects, including development and construction risk, times the principal portion of the buydown or buyout. In the event the parties are unable to agree to an after-tax internal rate of return, the parties will agree to utilize an independent industry expert for the determination of the after-tax internal rate of return, plus

(c) $200,000

Due Diligence: The Limited Partner will have 30 days to conduct its due diligence examination of the project.

Operations and Maintenance Contract: Calpine and Panda will negotiate an operations and maintenance contract wherein Calpine will provide operations and maintenance services to the Facility. The contract will include a condition whereby, in the event Panda exercises the buydown or buyout option, Calpine will receive an operations and maintenance fee for its services.

This term sheet does not constitute a formal commitment on the part of Panda Energy Corporation and/or Calpine, and any such commitment shall be subject to a more definitive agreement being executed by the parties and the approval of same by Panda and Calpine.

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FPC Witness: MORRISONS
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PANDA-KATHLEEN COGENERATION PROJECT, LP

Investment Memorandum

September 1994

COPY NO:________

PANDA-KATHLEEN COGEN PROJECT, LP

Confidential Investment Memorandum

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The limited partnership interests being offered herein have not been registered under the Securities Act of 1933, as amended (the "Act"), or under any state securities laws in reliance upon exemptions from registration for transactions not involving a public offering. Transferability of the limited partnership interests are therefore restricted. Accordingly, since there is no trading market for such partnership interests, investors may bear the economic risks of this investment for an indefinite period of time. Neither the Securities and Exchange Commission nor any state securities agency or commission has passed upon or endorsed the accuracy, adequacy or completeness of this private placement memorandum or approved or disapproved these securities.

This private placement memorandum does not constitute an offer to sell or a solicitation of an offer to buy and the limited partnership interests offered herein are not being offered to any person to whom it is unlawful to make such an offer under the Act or any applicable state securities law. This private placement memorandum has been prepared solely for the use of investors interested in the proposed private placement of these limited partnership interests and their representatives. This private placement memorandum constitutes an offer only if a memorandum number appears in the appropriate space provided above.

Prospective investors are not to construe the contents of this placement memorandum or any prior, contemporaneous or subsequent communication from Panda Energy Corporation and/or Panda-Kathleen, L.P., (collectively the "Sponsors"), their agents or affiliates as legal, investment or tax advice. Each prospective investor should consult its own adivsors as to legal, investment, accounting, tax and related matters concerning the transaction described herein.

Each prospective investor receiving this private placement memorandum agrees that it will not use the information set forth herein for any purpose other than in connection with evaluating the investment and that it will not disclose the contents hereof to persons other than its advisors who are similarly bound to maintain the confidentiality of such information. Any other use, reproduction or distribution of this private placement memorandum, or retransmittal of its contents, in whole or in part, without the prior written consent of the Sponsors is prohibited. Each prospective investor agrees to return this memorandum and any related materials if it chooses not to participate in this transaction.

The descriptions contained in this private placement memorandum of the terms and conditions of certain agreements are brief summaries of certain provisions of such agreements. They do not proport to be complete and are qualified in their entirety by reference to the complete, final text of such agreements. Copies of all such agreements are available to prospective investors and should be reviewed carefully before a decision is made to invest. All forecasts and projections of future operations and the economic results thereof contained in this private placement memorandum and the attachments hereto have been prepared with due care on the basis of present knowledge and assumptions which appear reasonable to the Sponsors and fairly present their expectations as to matters covered thereby. However, the knowledge and assumptions upon which such information is based are subject to change by virtue of circumstances throughout the term of the financing. Therefore, no representation is made, or implied, nor should any be inferred, with respect to the likely existence of any particular future set of facts or circumstances.

This private placement memorandum does not purport to be all-inclusive or to contain all of the information which a prospective investor may require. While the information contained herein is believed to be accurate, the Sponsors expressly disclaim any and all liability for representations or warranties, expressed or implied, contained in, or for omissions from, this private placement memorandum or any other written or oral communication transmitted to any interested party in the course of evaluation of the transaction described herein.

PANDA-KATHLEEN COGEN PROJECT, LP

Confidential Investment Memorandum

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PANDA-KATHLEEN COGEN PROJECT

Introduction

This offering involves the proposed sale of $15.0 million of limited partnership interests in a 115 Megawatt, gas fired, combined cycle cogeneration plant ("Kathleen" or the "Facility") to be located in Polk County, near Lakeland, Florida (see map which follows this section). Kathleen will supply electrical power to Florida Power Corporation and thermal energy to a distilled water plant owned by Panda Energy co-located at the site. Florida Power, the electrical utility of Florida Progress (symbol "FPC", NYSE) an AA rated public utility, will purchase electricity from the Facility under a 30 year Power Purchase Agreement ("PPA") executed on November 1991. The 60,500 gal per day output from the distilled water plant will be sold under contract to a third party.

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The Facility will be constructed pursuant to a fixed-price, turnkey contract with Walsh Construction Company ("Walsh"). Walsh has extensive experience in the construction of large, sophisticated projects including cogeneration systems and combined cycle power plants.

Kathleen will consume natural gas obtained under long term gas purchase contracts and delivered via transportation agreements negotiated with Florida Gas Transmission. Although the Facility is designed to utilize gas as the primary fuel, it will have the ability to use oil as a backup energy source.

The Facility will operate as a Qualifying Facility ("QF") plant under regulations promulgated under the Public Utility Regulatory Act of 1978 ("PURPA") which creates opportunities for cogeneration companies to operate as unregulated utilities which supply) electric power to public utilities and in thermal energy private "host" companies.

Construction of Kathleen is scheduled to commence during July 1995 with commercial operation projected to begin in January 1997. The Power Purchase Agreement ("PPA") with Florida Power addresses, in addition to the production and sale of electrical energy to FPC, capacity payments which relate to Kathleen's generating capacity availability to Florida Power's system.

The Facility will funded from ground-breaking through completion with a construction loan obtained on commercial terms, which loan will be replaced with a term loan having interest and principal and payments synchronized with revenues derived from energy sales and capacity payments from Florida Power. The Limited Partners will provide equity to the project above amounts financed with the construction loan (and, subsequently, the term loan) and will share in proceeds generated by operation of the Facility.

Income and cash flows from Kathleen will be sheltered by depreciation of the plant during the early years of operation. A summary schedule of projected revenues, income and cash flows by year are reflected in Exhibit xx which follows. Forecasts indicate that the Limited Partners can expect to obtain a _____% after tax return on their investment and should recoup their investment during the _____ year of operation.

It is anticipated that the term loan will receive a BBB rating from the rating agencies since the Facility will be completed before the term loan is put into place...thus eliminating the construction risk for the noteholders and increasing the rate of return to the limited partners.

Project Financing

Initial financing for construction of the Facility is anticipated from the proceeds of a $_____million construction loan obtained from a bank or syndicate of banks. Terms of the loan, which will cover approximately 85% of the cost of constructing the Facility, are expected to be prime plus 250 basis points. The remaining 15%, or $15.0 million required to construct the Facility with be in the form of equity provided by the Limited Partnership. Following completion of the Facility in January 1997, the construction loan will be taken with proceeds from a taxable 144A debt issue having a term of 25-[illegible] years and an estimated interest rate of U.S. treasurier plus 150 to 175 basis points. Debt service on the debt will be arranged to coincide with cash flows generated by the Facility so as to insure adequate coverage plus an attractive return to the Limited Partnership.

Proposed Limited Partnership

Panda Energy Corporation ("Panda"), Sponsor of the project and General Partner of the Limited Partnership has established the following guidelines for the Partnership:

(i.) total partnership investment of $[illegible]5.0 million; 1500 units of $10,000 each

(ii.) the initial percentage interest in profits, losses, cash flow and tax benefits will be allocated [illegible]% to the Limited Partners and 10% to the General Partner, until such time as the Limited Partners have recouped their initial investment and achieved a 15% pretax return on their investment ("Initial Return").

(iii.)subsequent to the Limited Partners achieving the initial return in ii) above, the allocation formula will change to 50% to the Limited Partners and 50% to the General Partner.

Panda will give priority to investors that submit subscription without modifications to the proposed terms of the Limited Partnership Agreement. It should be noted that modifications to the power purchase agreement, the gas purchase and transportation agreements and the construction loan cannot be considered, however, copies of these documents will be furnished to qualified investors.

Panda reserves the right to enter into negotiations with one or more potential investors at any time and to enter into a binding agreement with any party without prior written notice. Panda also reserves the right to terminate negotiations with any party at any time.

Parties interested in specifics of the Limited Partnership should direct all inquiries to:

Mr. James D. Wright
Vice President & Chief Financial Officer

Mr. Bryan J. Urban
Vice President & Controller

Panda Energy Corporation
4100 Spring Valley, Suite 100
Dallas, TX 7524[illegible]
214/980-[illegible]159

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FPSC Docket No. 950110-EI
FPC Witness: MORRISONS
Exhibit No. ____, (BAM-33)
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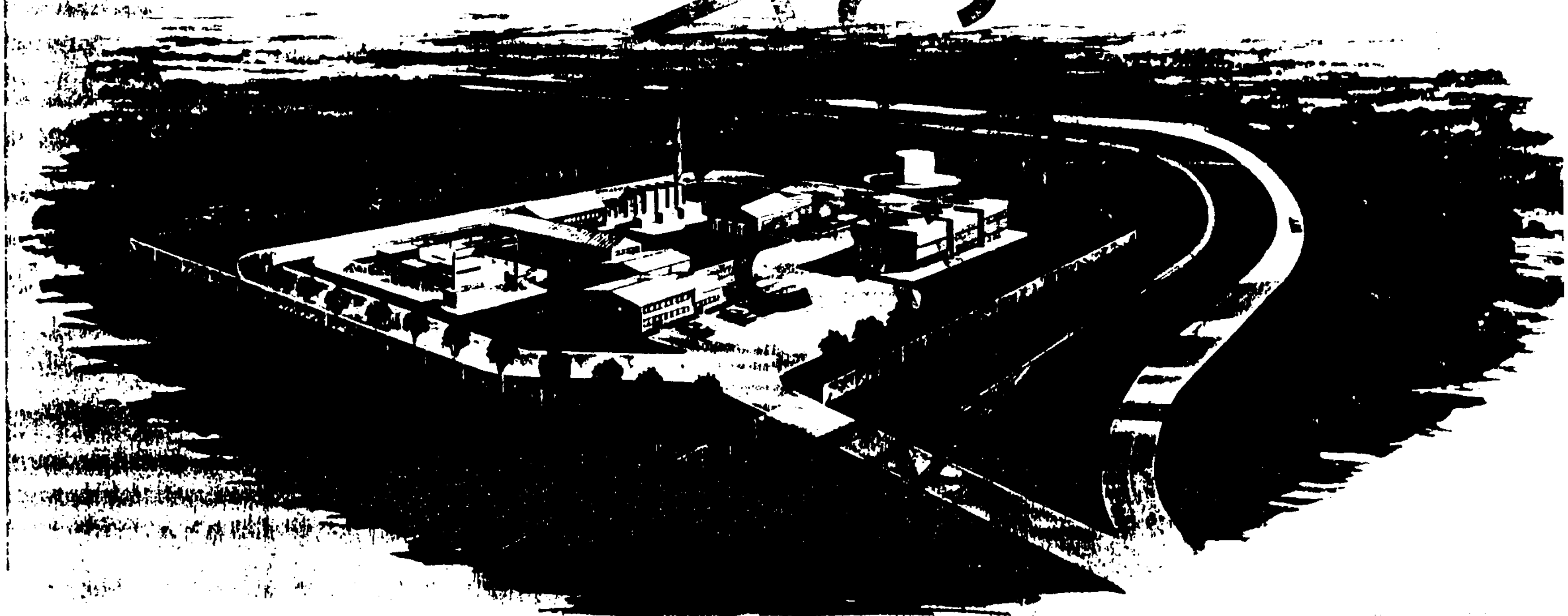

PANDA-KATHLEEN PLANT 75 MW
LAKELAND, FLORIDA
IN SERVICE DATE APRIL 1, 1996

FPSC Docket No. 950110-EI
FPC Witness: MORRISONS
Exhibit No. ____, (BAM-33)
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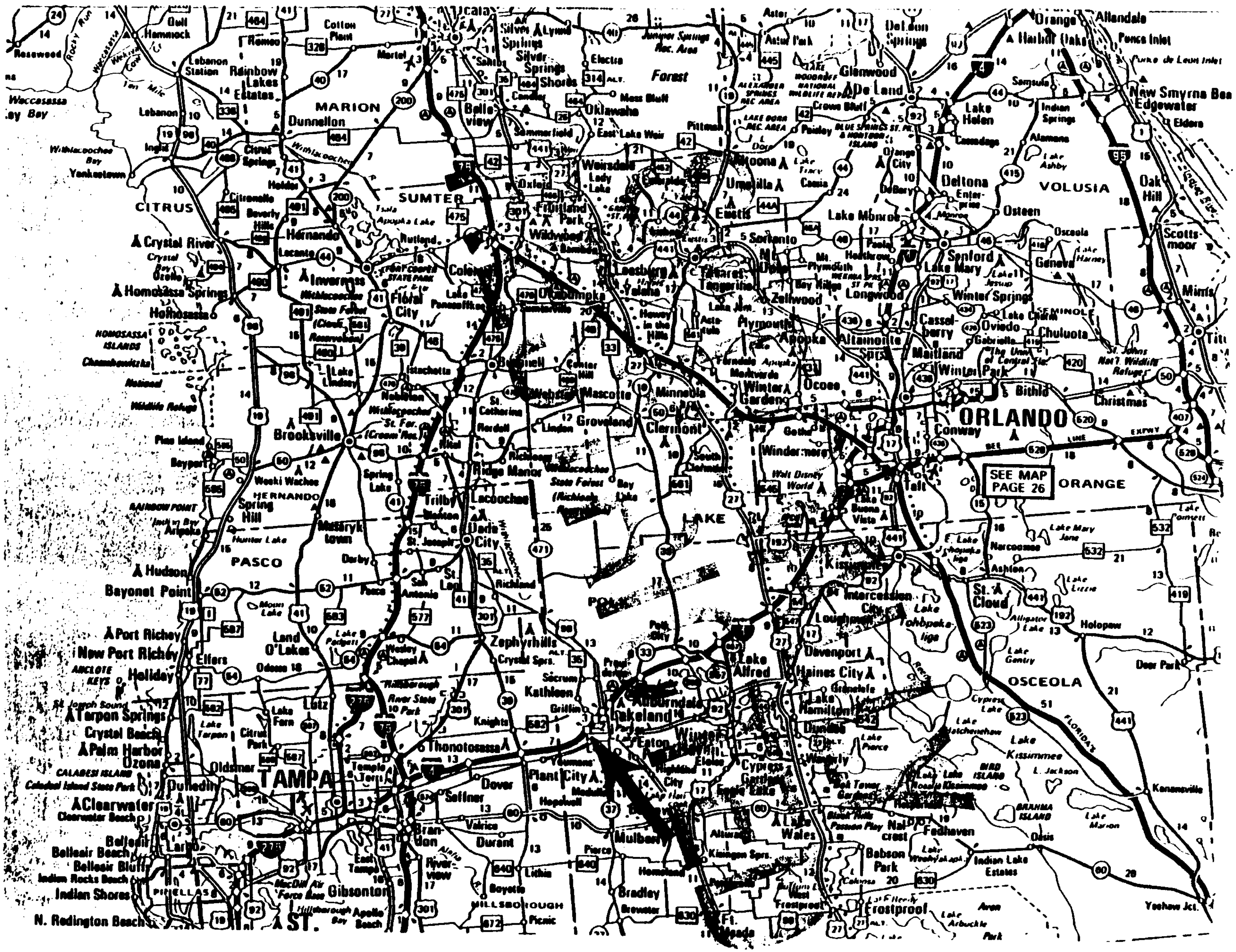

Kathleen Site-S/W of Lakeland

Section II

PANDA-KATHLEEN COGEN PROJECT

Project Overview

Physical Description

Kathleen is a combined cycle natural gas-fired intermediate-load cogeneration plant, the design of which is based on proven technology. It is to be located on an approximately 7.5 acre purchased site positioned in an industrial park just off US Highway 92 west of Lakeland, Florida. Construction will commence during July of 1995 and commercial operations will begin in January, 1997.

The Facility will be constructed pursuant to a fixed-price, turnkey construction contract with Walsh Construction, a $____ engineering, planning and construction firm with an established history on projects of this type. Energy conversion components will include a natural gas (or fuel oil) fired combustion turbine manufactured by either General Electric or Asea Brown Boveri, and a heat recovery steam generator ("HRSG"). The gas turbine will drive the generator directly, while thermal energy remaining in the exhaust gas stream will be converted into steam in the HRSG which, in turn, will drive a second generator. The equipment manufacturers will guarantee that the Facility will convert hydrocarbon energy into electrical energy at a rate of 8000 British Thermal Units ("BTU") per kilowatt hour ("Kwh"), or better, a conversion efficiency well above that required to maintain the plant's QF status. A portion of process steam will be condensed into distilled water and delivered to the distilled water plant located adjacent to the plan.

Florida Power Corporation will construct the electrical utility interconnect facilities to Kathleen at a cost of about $2.0 Million. This equipment will consist of a [ ] kilovolt transmission line and the related switching gear required to tie the plant into FPC's system.. Panda will arrange for a gas transmission line interconnection to the Florida Gas Transmission trunkline. Fuel tanks for #2 diesel, the backup fuel, with sufficient capacity for ___ hours of plant operation will be located at the site and fuel requirements will be met by truck The electrical and pipeline connections should be complete by ________.

The combustion turbines are designed to be fired on either natural gas, the primary fuel, or # 2 diesel, the backup fuel. Natural gas will be transported to the Florida Gas interconnection via various natural gas carriers. The electrical interconnection point is less than two miles from the Facility and the route has been surveyed and environmental impact studies are underway. The route is across industrial and rural areas and will follow an existing electrical transmission right-of-way for most of its distance.

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The steam host will be a distilled water generation facility owned and operated by Panda. The distilled water generation facility will be capable of producing 60,500 gallons of water per day from process wastewater and is required for the Project to obtain QF status.

Regulation

As a QF facility under the Federal Energy Regulatory Commission ("FERC") regulations and the Public Utility Regulatory Policies Act of 1978 ("PURPA"), Kathleen is exempt from regulation under certain provisions of the Federal Power Act and the Public Utility Holding Company Act("PUHCA"). The pertinent regulations restrict a utility, or utility holding company or its wholly owned (or joint venture subsidiaries) from owning more than 50% of a QF facility. The QF regulations will be satisfied by Kathleen throughout the term of the project to avoid have operation of the plant subject to FERC, PURPA of PUHCA.

Power Purchase Agreement

The PPA between Kathleen and Florida Power specifies, among other things, the pricing of electrical energy delivered to FPC as well as the consideration paid for having the Facility's electrical capacity to produce energy available to FPC. The following paragraphs convert a few of the primary points:

- Capacity payments;
- Energy payments;
- Dispatch Provisions;
- Maintaining QF Status;
- Achieving construction and completion deadlines.
- Avoided Cost

Capacity Payments

Under terms of the PPA, Florida Power makes capacity payments based on the Kathleen's dependable capacity, that is Kathleen's demonstrated ability to provide generating capacity to FPC's system. Dependable capacity is determined by periodic testing of the plant by Florida Power, and is without reference to performance guarantees and tests conducted by the prime and sub-contractors upon completion of the plant. It is anticipated that Kathleen will have dependable capacity of 115 Megawatts, and there will be liquidated damages paid to FPC if subsequent semiannual tests result in a dependable capacity of less than [90%] of the initial dependable capacity.

Capacity payments to Kathleen will aggregate about $69.00 per kilowatt year (one kilowatt power for one year) during the first year of operation (($5.2 Million for 75 Megawatts of demonstrated capacity), with an escalation provision of 5.1% per year over the 30 year life of the contract. Of the $69.00 total, $61.00 relates to the capital cost of constructing the plant while the balance of $8.00 covers operations and maintenance ("O & M") expense incurred to keep the Facility's capacity available to FPC on short notice.

Energy Payments

Energy payments are computed on the basis of metered, net electrical energy delivered to Florida Power at their interconnection and are to compensate the Facility for the) cost of hycarbon fuel ("Fuel Compensation Price") and ii) the variable portion of operation and maintenance expense ("O&M" Cost), which, together comprise the energy purchase price incurred to generate electricity. The base fuel compensation price as of January 1, 1997, the date for initial operations of Kathleen, is $.0371 per Kilowatt. The fuel compensation price is adjusted quarterly to reflect an annual escalation rate of 5.1 %.

Dispatch Provisions

Kathleen is a "self dispatching" Facility, which means that Kathleen nominates when it will deliver power to FPC's grid. This is opposed to a plant dispatched by the utility itself, which usually occurs during periods of peak loading when the utility's base and intermediate capacity is insufficient for demand. Florida Power does, however, have the right to "dispatch" the Facility within certain guidelines. Their primary obligation is to "economically dispatch" the Facility, that is, to distribute their total generating requirements among available sources for optimum system economy.

Kathleen expects to operate as an intermediate loaded plant during periods when nuclear and coal fired base loaded capacity plants are insufficient but before high cost single cycle peak loading plants are called upon to operate. Florida Power will have the right to dispatch the Project within its "design limits," which are based upon the engineering specifications of Kathleen's principal equipment components. These limits also specify start-up and shutdown times, minimum run times and minimum down times.

Panda anticipates that the Facility's initial dispatch priority, as well as the number of hours dispatched each year will improve as other plants with higher operating costs and more stringent environment requirements come on line, and, as Florida Power's system load demands increase. Florida Power projects that it will require additional <u>new</u> capacity of about ____ Megawatts to meet projected system load demands through the year 2000.

Maintaining QF Status

The Facility will be built and operated as a Qualifying Facility ("QF") plant under provisions of section 210 (e) of the Public Utility Regulatory Policies Act ("PURPA") of 1978. Specifically, this Act exempts QF facilities from regulations promulgated by the Public Utility Holding Company Act of 1935, which regulations are applied to electrical utilities. QF status also exempts the Facility from certain state laws concerning rates and ownership of power plants.

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Achieving Construction and Completion Deadlines

As with all large construction projects, Kathleen will be subject to specific deadlines as the project is completed and brought on-line. At present, there do not appear to be any problems that would delay the ground-breaking, construction milestones nor completion and startup.

Avoided Cost

One of the primary considerations in the operation of a cogeneration plant falling under PURPA regulations is the concept of "Avoided Cost". Very simply, avoided cost is the unit cost of producing electrical energy "avoided" by the utility when it purchases the next increment from a third party as opposed to generating the increment with one of its own facilities. Avoided cost has two components; the actual cost of producing the next increment of energy, that is fuel cost plus O & M cost, and, the capital cost of building additional facilities (or capacity) necessary to meet the incremental demand.

Generally, when the avoided cost of incremental energy generation or the avoided cost associated with new plant and equipment is more than the cost incurred to purchase energy from a third party, the utility is required to purchase the energy. In doing so, the utility incurs lower average cost and those costs are to passed along to the rate-payer. This concept is at the heart of the policies promulgated by the various regulating agencies and is the reason for the growth in the cogeneration market.

Florida Power Corporation Overview

Florida Power Corporation, FPC, Kathleen's primary customer, is the electrical utility owned by Florida Progress, a holding company involved in several other lines of business. FPC is a $2.0 Billion utility that services the western one-half of the Florida panhandle and the western one-half of North Florida (see map in Appendix). The service area extends from Tampa-St. Petersburg on the south to the Georgia border on the north and covers the rapidly growing Orlando area. FPC's market for energy sales is expected to grow as the area surrounding Orlando continues to develop. Florida Power is one of the six major utilities providing electricity to the peninsular Florida System and is AA rated.

Distilled Water Purchase Agreement

Panda will sell approximately 60,000 gallons per day of distilled water produced as a by-product of the electrical power generation to a packaging plant located adjacent to the Facility pursuant to a 25-year sales agreement. The initial sales price is $2.50 per 1000 gallons, with escalation provisions over the balance of the term. The water will be sold to
a third party for distribution to end users.

Fuel Purchase Agreement

A 15-year, firm fuel contract will be negotiated by Panda to supply the Kathleen with a minimum of 20.5 million cubic feet of natural gas per day (20,500 MCF/D). The contract quantity amounts to approximately 90% of the maximum daily fuel requirement, and the balance will be purchased on an interruptible basis in the spot market. Negotiations covering the fuel contract are currently underway. Panda estimates that the cost of gas will be about $2.40 per MCF, starting at the date of commercial operations and escalating at a fixed 4% per year for 15 years.

After year 15, Panda could either negotiate another firm contract or switch to a contract that tracks the market rate. Other fuel supply alternatives available include the purchase of natural gas reserves at the well head or the participation in natural gas developmental drilling within or near established fields.

Fuel Transportation Agreements

Fuel supplies will be delivered to Kathleen under a firm transportation service agreement with Florida Gas Transmission ("FGT"). Panda has already signed an agreement covering 18.5 MCF per day, well over 90% of the Facilities maximum requirement. This transportation capacity is being created as part of FGT's Phase III 550 MMCFD expansion which was certified by the Federal Energy Regulation Commission ("FERC") in 1993 and is presently under construction with an in-service date of late 1994.

Fuel Oil Supply

As noted, the Kathleen has been designed with dual fuel capability and can operate on both gas as a primary fuel as well as #2 diesel oil as a backup. The diesel would only be used during an interruption of natural gas deliveries. The Facility will have on-site oil storage capacity of ______ gallons, which will provide for at least ____ hours of back-up fuel as required by Florida Power and the PPA. Since No. 2 (diesel) oil is readily available in the spot market, Panda, in the near term, does not intend to enter into any long-term oil supply contracts.

Engineering, Planning and Construction

Panda is currently negotiating pricing and other terms of a construction contract with Walsh Construction Company, a qualified prime contractor for construction of the Facility. Panda projects the turn key price to be at or below [$543] per kilowatt-hour of capacity, or approximately [$62,500,000] for the 115 Megawatt facility.

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Operations and Maintenance (O & M) Contract

Prior to the commercial operations date, Panda will identify an O&M contractor to be responsible for the daily operations of the plant. Panda, however, will continue to supervise the overall operation of Kathleen during the life of the PPA. Panda anticipates that a request for proposals from the O & M contractors will be issued on or before October 1, 1994, with final selection occurring by mid-November of the same year.

Plant Water

On-site well water will be utilized for operation of the cooling tower and for boiler make-up. The cooling tower blowdown wastewater stream will be used to supply the distilled water facility.

Permitting and Environmental Considerations

Except for the ecological permit application, all applications for the Project have been filed. It is anticipated that the ecological permit request will be filed by September 1, 1994 and that all permits will be issued by the regulatory agencies no later than December 1, 1994.

Ecological surveys are in progress with no major impact anticipated.

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Project Background

In [1989], Florida Power solicited proposals from qualifying cogeneration and small power production facilities to supply power to meet its projected needs in the 1990's. Panda was selected by Florida Power to build [one of two] cogeneration facilities to be located in Florida.

Panda Overview

Panda, a Dallas-based independent power company, was established in 1982. Panda is involved in the development, construction, management and ownership of cogeneration facilities and other energy related projects. The 175 megawatt Panda-Rosemary Cogeneration Project located in Roanoke Rapids, North Carolina is its first completed project. Panda-Rosemary has been providing both capacity and electrical to Virginia Electric power since December 1990.

Panda has executed a Power Purchase Agreement with Potomac Electric Power Company covering construction and operation of a [230] megawatt cogeneration plant to be located in Prince George's County, Maryland. The project, designated the Panda-Brandywine facility, is scheduled to commence construction in early 1995 and go on-line in June 1996.

In addition, Panda is actively engaged in the acquisition, exploration and production of natural gas reserves, including coal bed methane deposits. Panda is also developing infrastructure projects, including power generation, transportation and telecommunications, in Indonesia.

Section III

PANDA-KATHLEEN COGEN PROJECT

Summary of Limited Partnership Agreement

Kathleen Limited Partnership

A new entity, (the Partnership) a Delaware limited partnership, will be formed to own and operate the Facility. The general partner of the partnership will be a special purpose, wholly owned subsidiary of Panda Energy Corporation (the "G.P."). The limited partners will be a combination of another special purpose, wholly owned subsidiary of Panda, and third party investors.

The G.P. will own a 1% general partnership interest in the Partnership, while the Limited Partners own the balance.

Authority of the General Partner

The G.P. will possess the authority to conduct and manage all business and operations of the Partnership and, in addition, will possess specific authority to do the following:

- to open and to maintain bank accounts;
- to decide tax matters; and
- to delegate its powers (but not its responsibilities).

The G.P. can be removed for cause by vote of the majority in interest of the limited partners and with approval of the bondholders. Upon the valid removal of the G.P., the G.P.'s interest in the Partnership shall remain the same as before the removal, although the G.P.'s new status will be that of a limited partner.

Parties who subsequently become a G.P. must accept the obligations, under the terms of the Power Purchase Agreement, of the existing or prior G.P.(s).

Matters Requiring Limited Partner Vote

Major decisions requiring the approval, not to be unreasonably withheld or delayed, of limited partners are the following:

- the dissolution and winding up of the Partnership;
- the admission of new or additional partners (other than pursuant to an approved transfer);
- the removal of the G.P.;
- the election of a liquidating partner;
- the transfer or mortgaging of any material asset except as otherwise provided in the Partnership Agreement;
- the making of any material modifications to the annual operating budgets except as otherwise provided in the Partnership Agreement;
- the amendment, modification or waiver of any material provision of any material project document or loan instrument that could have a material adverse affect on the financial condition of the Partnership;
- the approval of any prepayment or modification of indebtedness of the partnership in excess of [$10,000,000] other than the incurring of indebtedness required to refinance the construction loan;
- the amendment, modification, or waiver of any material provision of the partnership agreement of the Partnership;
- the settlement of any dispute that would materially and adversely affect the Partnership or require payment by the Partnership in excess of [$1,000,000]; and
- the taking of certain major actions relating to the fuel procurement and transportation arrangements of the Partnership having a material adverse affect on the financial condition of the Partnership.

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Cash Distributions

Available funds will be distributed [quarterly] in accordance with the terms of the Partnership Agreement and long term debt restrictions.

The amount of distributable funds will be determined by the G.P. and are defined as the amount of cash and cash receipts available less the obligations of the Partnership during the period. The G.P. also is entitled to withhold a reasonable cash reserve for contingencies and for partnership working capital.

Once funds have been distributed, no partner shall be required to restore such funds to the partnership, except as required by law.

Transfers of Partnership Interests

General and limited partner interests are transferable, except for some restrictions ("Basic Conditions") that protect the ongoing legality and existence of the partnership. These restrictions forbid any transfer that would:

- result in the termination of the Partnership for Federal income tax purposes;
- violate the Securities Act of 1933 or any other applicable Federal or state laws;
- violate or cause a default or acceleration of any debt instrument or similar document to which the Partnership is a party;
- cause the Partnership to become involved in a "prohibited transaction" or to become a "party in interest" or a "disqualified person" under ERISA, or to become liable for tax under chapter 42 of the Internal Revenue Code ("the Code");
- convey an interest to someone who is not legally competent or who has not reached legal majority;
- disqualify the Partnership from classification as a partnership under the Code;
- cause the Partnership of any partner to be subject to any excise tax pursuant to chapter 42A of subtitle D of the Code;

- cause the Partnership to be deemed to be, or subject to regulation as, an "electric utility," "electric corporation," "electric company," a "public utility" or a "public utility holding company"; and

- cause any non-recourse debt that is not already Partnership non-recourse debt to become Partnership non-recourse debt.

Transferees of limited partner interests will be admitted as limited partners, only upon the consent of the G.P. in its sole discretion.

Any sale of a limited partner's interest will be first subject to a right of first refusal, for a period of 120 days, in favor of [ ]. Thereafter, all partners possess a first right to purchase any interest in the partnership put up for sale by any other partner on a pro rata basis. This first right to purchase is to remain open for 45 days after the giving of offering notice. if no partners accept the offer within the 45-day offer period, the interest is freely transferable on the terms set forth in the offer notice for a period of one year.

No partner shall be prohibited from investing in or operating any other business, whether or not in competition with the Partnership.

Section IV

PANDA-KATHLEEN COGEN PROJECT

Discussion of Certain Risks

System Performance

Pursuant to the turnkey construction contract, Walsh Engineering and the component and manufacturere provide certain performance guarantees that must actually be met in the determination of firm capacity available to FPC. As noted previously, FPC will conduct periodic tests to verify that Kathleen does indeed meet the stated capacity. Preliminary analysis of components to be utilized in construction of the plant, ie, the gas fired turbine, the heat recovery steam generator and the two electrical generators, indicate that the Facility will meet or exceed contractual obligations.

Consequently, the risk that Kathleen will not be able to perform as anticipated is minimal. Nevertheless, there is some risk that due to unforseen events during design and testing of the primary components or installation of same in the Facility, that either the efficiency or the available capacity will not reach projected levels. In this event, there is the potential that fuel costs per unit of electrical output will exceed plan and/or that capacity payments will be reduced. In either event, financial returns to the Limited Partnership will be impaired.

Operating Risks

The Facility is an intermediate load generating plant and should be cost competitive vis a vis most if not all peak loaded plants and a number of other intermediate load sources of energy. Accordingly, it is anticipated that Kathleen will dispatch itself (or be dispatched by FPC) for at least [illegible] hours per year, based upon current estimates of the Facility's avoided cost. There is no guarantee, however, that demand will continue to grow as forecast nor is there certainty that there will not be other more cost efficient plants brought onstream over the life of the project. While this risk is, again, minimal, there is no way to predict for certain the number of hours each year that the plant will be dispatched.

Rate Risks

While the project has already secured a long term source of natural gas to fuel the plant and fuel cost escalation provisions are covered by contractual arrangements, there is some potential, particularly in the later years of the project, for fuel costs to increase faster than the unit price of electrical energy sold to FPC. In the event, fuel cost were to increase at a faster rate than the unit price of energy sold to FPC, the profit margins would be eroded and returns to the Limited Partnership reduced.

Reduction in the Capacity Payment

Although the risk is slight, there is some finite potential for the regulating agencies to amend existing rules and regulations governing capacity payments to be made by FPC during the life of the contract. Although the bulk of Kathleen's revenue stream is generated by the sale of electrical energy, capacity payments represent a signifint portion of income and, if reduced or eliminated, the impact on the project and the Limited Partnership would be negative.

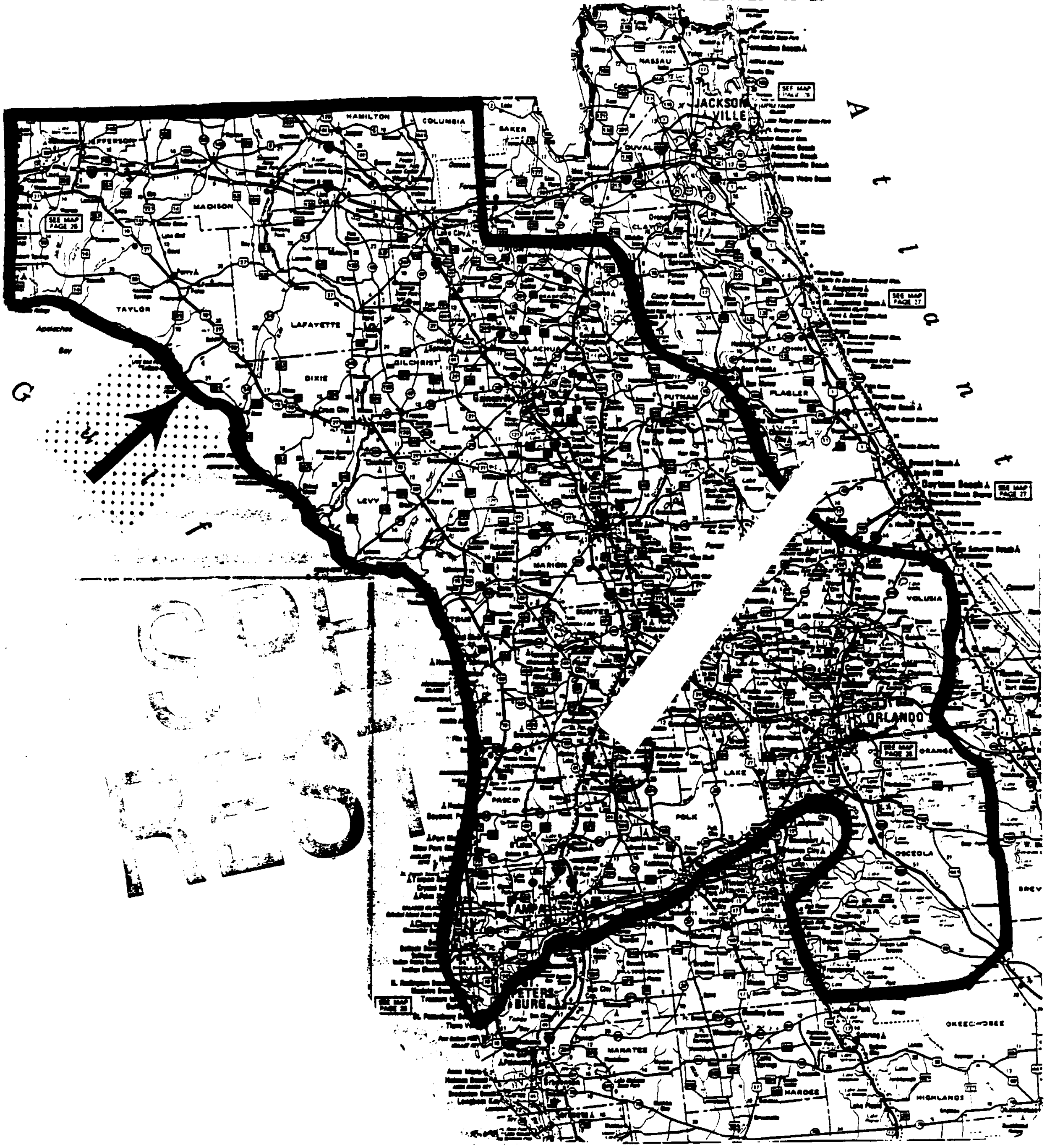
In summary, while Panda believes that the risk attendant to building and operating the plant over the 30 year contract is modest and has been addressed by virtue of the power purchase agreement on the revenue side and long term, firm gas purchase agreements on the supply side, potential investors should be aware that these risks exist and that if they materialize, their return of capital could be slowed and the return on invested capital substantially reduced.

Section V

Appendix

--Financial Projections
--Florida Power Service Area Map

FPSC Docket No. 950110-EI
FPC Witness: MORRISONS
Exhibit No. ______, (BAM-33)
Sheet 23 of 23



Map Indicating Florida Power Service Area

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FPSC DOCKET NO. 950110-EI
EXHIBIT NO. _____ (BAM-34)
CONSISTING OF FOURTEEN PAGES

PANDA HAS ASSERTED A CLAIM OF
CONFIDENTIALITY FOR EACH
PAGE OF THIS EXHIBIT

FPSC Docket No. 950110-EI
FPC Witness: MORRISONS
Exhibit No. ______, (BAM-34)
Sheet 1 of 14

PANDA ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1993 AND 1992

Price Waterhouse

SPECIALLY RESTRICTED
PK 074939

FPSC Docket No. 950110-EI
FPC Witness: MORRISONS
Exhibit No. ______, (BAM-34)
Sheet 2 of 14

PANDA ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1993 AND 1992

[illegible] Dallas Texas 75201-4698 Telephone 214 [illegible]

Price Waterhouse

FPSC Docket No. 950110-EI
FPC Witness: MORRISONS
Exhibit No. ______, (BAM-34)
Sheet 3 of 14

April 27, 1994

REPORT OF INDEPENDENT ACCCOUNTANTS

To the Board of Directors and
Shareholders of Panda Energy Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of shareholders' equity (deficit) and of cash flows present fairly, in all material respects, the financial position of Panda Energy Corporation and its subsidiaries at December 31, 1993, and the results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsiblity is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accorandance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the opinion expressed above. The financial statements of Panda Energy Corporation and Subsidiaries for the year ended December 31, 1992 were audited by other independent accountants whose report dated February 26, 1993 expressed an unqualified opinion on those statements.

As discussed in Note 7, effective January 1, 1993, the Company changed its method of accounting for income taxes.

Price Waterhouse

PANDA ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1993 AND 1992

FPSC Docket No. 950110-EI
FPC Witness: **MORRISONS**
Exhibit No. ______, (BAM-34)
Sheet 4 of 14

ASSETS

	1993	1992
Current assets:		
Cash and cash equivalents	$3,115,557	$2,316,528
Restricted cash - current	5,419,255	5,088,367
Accounts receivable	3,216,134	5,954,583
Fuel oil, spare parts and supplies	3,311,986	3,492,852
Other current assets	56,139	21,364
Total current assets	15,119,071	16,873,694
Electric generating facility	106,375,706	104,814,387
Furniture and fixtures	200,997	174,897
Unproved natural gas properties	1,003,925	1,032,500
	107,580,628	106,021,784
Less: accumulated depreciation	(12,737,950)	(8,426,453)
Total property, net	94,842,678	97,595,331
Restricted cash-noncurrent	8,993,755	8,185,229
Debt issuance costs, net of accumulated amortization of $2,014,592 and $1,511,979, respectively	4,312,676	4,709,935
Partnership formation costs, net of accumulated amortization of $1,066,208 and $533,104, respectively	1,599,332	2,132,436
	$124,867,512	$129,496,625

The accompanying notes are an integral part of these balance sheets.

PANDA ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 1993 AND 1992

LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)

	1993	1992
Current liabilities:		
Accounts payable and accrued expenses:		
Construction costs	$ -	$1,425,000
Interest and letter of credit fees	2,462,116	2,488,250
Operating expenses and other	2,372,517	1,769,281
Development Loan	1,050,000	-
Current portion of long-term debt	6,246,096	4,400,000
Total current liabilities	12,130,729	10,082,531
Long term debt, less current portion	98,453,904	103,200,000
Minority interest in consolidated partnership	32,763,215	32,449,716
Commitments and contingencies	-	-
Shareholders' equity (deficit):		
Common stock, $.01 par value; 20,000,000 shares authorized; 10,586,363 and 10,515,863 shares issued, respectively	105,864	105,159
Additional paid-in capital	3,263,934	3,245,342
Receivable from chairman	(265,596)	(264,796)
Accumulated deficit	(21,448,331)	(19,185,120)
	(18,344,129)	(16,099,415)
Treasury stock, at cost, 54,700 shares	(136,207)	(136,207)
Total shareholders' equity (deficit)	(18,480,336)	(16,235,622)
	$124,867,512	$129,496,625

The accompanying notes are an integral part of these balance sheets.

PANDA ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 1993 AND 1992

	1993	1992
Revenue:		
Sales of electric capacity and energy	$29,856,269	$29,536,930
Sales of steam	617,598	623,422
Interest income	445,354	783,357
	30,919,221	30,943,709
Expenses:		
Cost of sales	7,676,470	7,534,383
Marketing, project development and administrative	4,252,278	4,138,191
Natural gas exploration costs	185,388	274,038
Interest expense and letter of credit fees	11,065,648	11,477,999
Depreciation	4,311,497	4,204,618
Amortization of debt issuance costs	502,613	436,433
Amortization of partnership formation costs	533,104	533,104
	28,526,998	28,598,766
Income before taxes and minority interest	2,392,223	2,344,943
Minority interest in earnings of consolidated partnership	(4,655,434)	(4,352,386)
Provision for income taxes	-	-
Net loss	($2,263,211)	($2,007,443)

FPSC Docket No. 950110-EI
FPC Witness: MORRISONS
Exhibit No. ______, (BAM-34)
Sheet 6 of 14

The accompanying notes are an integral part of these statements.

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PANDA ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 1993 AND 1992

	Common Stock		Additional Paid-in Capital	Receivable From Chairman	Accumulated Deficit	Treasury Stock	Total Shareholders' Equity (Deficit)
	Shares	Amount					
BALANCE, December 31, 1991	10,487,563	$104,876	$3,216,212	($212,060)	($17,177,677)	($136,207)	($14,204,856)
Issuance of shares for interest payment	19,300	193	2,220	-	-	-	2,413
Issuance of shares for services as director	9,000	90	26,910	-	-	-	27,000
Advances to Chairman	-	-	-	(52,736)	-	-	(52,736)
Net loss	-	-	-	-	(2,007,443)	-	(2,007,443)
BALANCE, December 31, 1992	10,515,863	$105,159	$3,245,342	($264,796)	($19,185,120)	($136,207)	($16,235,622)
Issuance of shares for interest payment	64,500	645	12,652	-	-	-	13,297
Exercise of stock options	6,000	60	5,940	-	-	-	6,000
Advances to Chairman	-	-	-	(800)	-	-	(800)
Net loss	-	-	-	-	(2,263,211)	-	(2,263,211)
BALANCE, December 31, 1993	10,586,363	$105,864	$3,263,934	($265,596)	($21,448,331)	($136,207)	($18,480,336)

The accompanying notes are an integral part of these statements.

FPSC Docket No. 950110-EI
FPC Witness: MORRISONS
Exhibit No. ______, (BAM-34)
Sheet 7 of 14

PANDA ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 1993 AND 1992

	1993	1992
Operating activities:		
Net loss	($2,263,211)	($2,007,443)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Minority interest in earnings of consolidated partnership	4,655,434	4,352,386
Depreciation	4,311,497	4,204,618
Amortization of debt issuance costs	502,613	436,433
Amortization of partnership formation costs	533,104	533,104
Write-off of unproved natural gas properties	34,617	-
Issuance of stock for services as director	-	27,000
Issuance of stock for interest payment	13,297	2,413
Changes in assets and liabilities:		
Accounts receivable	2,738,449	(2,963,444)
Fuel oil, spare parts and supplies	180,866	(843,369)
Other current assets	(34,775)	(21,364)
Accounts payable and accrued expenses	577,102	(2,511,977)
Net cash provided by operating activities	11,248,993	1,208,357
Investing activities:		
Additions to property, plant and equipment	(3,012,419)	(3,162,080)
Purchase of unproved natural gas properties	(6,042)	(944,459)
Net cash used in investing activities	(3,018,461)	(4,106,539)
Financing activities:		
Contributions from minority interest owner	-	30,948,987
Distributions to minority interest owner	(4,341,935)	(2,851,657)
Proceeds from sales of common stock	6,000	-
Increase in receivable from Chairman	(800)	(52,736)
Proceeds from project development loan	1,050,000	-
Proceeds from long term debt	1,500,000	-
Repayment of subordinated loan	-	(5,413,333)
Repayment of net profits note	-	(13,100,000)
Repayment of long term debt	(4,400,000)	(4,800,000)
Debt issuance costs	(105,354)	(20,522)
Partnership formation costs	-	(2,665,540)
Net cash provided by (used in) financing activities	(6,292,089)	2,045,199
Increase (decrease) in cash, including restricted amounts	1,938,443	(852,983)
Cash, including restricted amounts, beginning of period	15,590,124	16,443,107
Cash, including restricted amounts, end of period	$17,528,567	$15,590,124
Supplemental cash flow information:		
Interest paid	$11,078,485	$12,633,906
Income taxes	$8,189	$196,294

The accompanying notes are an integral part of these statements.

FPSC Docket No. 950110-EI
FPC Witness: MORRISONS
Exhibit No. ______, (BAM-34)
Sheet 8 of 14

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PANDA ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION

Panda Energy Corporation (collectively with its subsidiaries, "Panda"), was incorporated on October 27, 1982, and began project development efforts in 1985. Panda is engaged in the development, construction, management and ownership of cogeneration facilities and other energy related projects, primarily in the United States and Mexico. In addition, Panda is actively engaged in the acquisition and exploration of proven and potential natural gas reserves.

The accompanying consolidated financial statements include the accounts of Panda and its subsidiaries. All material intercompany accounts and transactions have been eliminated. Certain prior year amounts have been reclassified in order to conform with the 1993 presentation.

2. SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents - Included in cash and cash equivalents are highly liquid investments with original maturities of three months or less.

Restricted Cash - Restricted cash includes cash held by the bank to pay debt service, operating expenses and capital improvements related to the Rosemary Project.

Fuel Oil, Spare Parts and Supplies - These items include fuel oil stored on-site, chemical inventory and various spare parts and supplies necessary for plant maintenance. The items are valued at cost, which approximates the fair market value, and are expensed, as operating expenses, when used.

Unproved Natural Gas Properties - Panda follows the successful efforts method of accounting for oil and gas producing activities. Under this method, property acquisition costs, costs of productive exploratory wells and all development costs are capitalized. All costs associated with unsuccessful exploratory wells, geological and geophysical costs, and delay rentals are expensed as incurred. Unproved natural gas properties are periodically assessed for impairment of value and, if necessary, a loss is recognized by providing an allowance.

Depreciation - Electric generating facility assets are being depreciated using the straight-line method over the estimated useful lives of the assets, generally twenty-five years. Depreciation of office furniture, equipment, and leasehold improvements is provided using the straight-line method over the estimated useful lives of the assets, generally five years. Maintenance and repair costs are charged to expense as incurred.

Revenue Recognition - Revenue generated from the sale of electric capacity and energy is recognized based on the amount billed under the power purchase agreement.

Income Taxes - Effective January 1, 1993, Panda adopted Statement of Financial Accounting Standards No. 109 (SFAS 109) which requires deferred tax liabilities or assets to be recognized for the anticipated future tax effects of temporary differences that arise as a result of the differences in the carrying amounts and the tax bases of assets and liabilities. SFAS 109 also requires a valuation allowance for deferred tax assets in certain circumstances. The adoption had no impact on current period earnings or cash flow.

In prior years, Panda's provision for income taxes was calculated in accordance with Accounting Principles Board Opinion No. 11 (APB 11). Under APB 11, deferred income taxes were provided for the tax effects of timing differences in the recognition of revenue and expense for income tax and financial reporting purposes.

3. ROSEMARY PROJECT

Effective May 5, 1989, Panda formed a wholly-owned subsidiary, Panda-Rosemary Corporation ("Panda-Rosemary"), to develop, construct, and operate the 175 megawatt Rosemary Complex cogeneration facility in Roanoke Rapids, North Carolina ("Rosemary Project"). Construction on the Rosemary Project began in September 1989, and commercial operation of the facility began on December 27, 1990.

Sales of electric capacity and energy are based on the terms of the Power Purchase Agreement between Panda-Rosemary and Virginia Electric and Power Company ("VEPCO"). The agreement requires Panda-Rosemary to provide VEPCO with all the available capacity of the Rosemary Project on an as-needed basis with VEPCO obligated to pay for the power delivered and dependable capacity of the facility. The term of the agreement is 25 years and it expires in December 2015.

On January 6, 1992, Panda-Rosemary consummated a transaction which restructured the ownership and capitalization of the Rosemary Project. Panda-Rosemary contributed substantially all project assets and liabilities to a limited partnership ("Panda-Rosemary L.P.") in exchange for general partnership and certain limited partnership interests. An institutional investor ("Investor") contributed cash in exchange for the remaining limited partnership interests. Panda-Rosemary is the managing general partner of Panda-Rosemary L.P. and is responsible for the operations and management of the Rosemary Project.

For its investment, the Investor receives percentage allocations of income, expense, and cash flow which decline over time as certain rate of return hurdles are achieved. The allocations to the Investor begin at 90%, then decrease to 60%, 30%, and finally 15% based upon designated rate of return requirements. The corresponding remainder of the cash flow (10%, 40%, 70%, and finally 85%) is allocated to Panda. In addition, Panda is entitled to a disproportionately higher share of income, expense, and cash flow if certain operating criteria are met.

Proceeds contributed by the Investor were used to repay the $5,413,333 of outstanding principal under the subordinated debt, the $13,100,000 outstanding principal under the Heller subordinated net profits note and the related accrued interest.

The partnership's balance sheet as of December 31, 1993 and 1992 and results of its operations the year ended December 31, 1993 and for the period from inception to December 31, 1992, have been consolidated in the accompanying financial statements. The contributions made by the Investor and partnership's net income allocated to the Investor are presented as minority interest in the accompanying financial statements.

Summary Financial Information - Certain summary financial information for Panda-Rosemary L.P. as of December 31, 1993 and 1992 and for the years then ended is presented as follows:

	1993	1992
Revenues	$ 30,839,143	$30,292,424
Cost of sales	7,676,470	7,456,880
General and administration	763,830	589,774
Interest expense	10,962,656	11,289,309
Depreciation and amortization	5,353,428	5,124,409
Net income	$ 6,082,759	$5,832,052
Cash and cash equivalents	$ 685,986	641,038
Restricted cash	14,413,010	10,338,112
Other current assets	6,563,574	9,437,664
Property, plant and equipment, net	95,542,331	99,819,739
Other non-current assets	5,513,677	6,442,371
Total assets	$122,718,578	$126,678,924
Current liabilities	$ 9,408,083	9,821,982
Taxable revenue bonds	97,200,000	103,200,000
Partners' capital	16,110,495	13,656,942
Total liabilities and partners' capital	$122,718,578	$126,678,924

4. OTHER PROJECTS

Brandywine Project - On August 9, 1991, through a wholly-owned partnership, Panda-Brandywine L.P. ("Panda-Brandywine") Panda entered into a Power Purchase Agreement with Potomac Electric Power Company ("PEPCO") to build a 230 megawatt gas-fired facility. The Brandywine Project, which is scheduled to be operational in mid-1996, will be built in Brandywine, Maryland. The agreement requires Panda-Brandywine to supply all available capacity from the facility for the 25-year term of the contract with a combination of fixed dispatch and as needed basis. Development costs are being funded through Panda's working capital and project related development loans. Management anticipates that long-term funding for the Brandywine project will be provided primarily through non-recourse project debt and that such funding will be available on acceptable terms.

Kathleen Project - On September 20, 1991, through a wholly-owned partnership, Panda-Kathleen L.P., ("Panda-Kathleen") Panda entered into a Standard Offer Contract with Florida Power Corporation, ("FPC") to build a 75 megawatt gas-fired facility. The Kathleen Project will be built in Lakeland, Florida and is expected to be operational in early 1997. The contract extends for 30 years and requires Panda-Kathleen to provide 75 megawatts of capacity on an as-needed basis. Management anticipates development cost will be funded through Panda's working capital, third party equity investment, or project related development loans. In addition, management anticipates long-term funding for the Kathleen project will be provided primarily through non-recourse project debt and that such funding will be available on acceptable terms.

5. DEBT

Taxable Revenue Bonds - In October 1989, Panda-Rosemary obtained long-term financing for the Rosemary Project in the form of $116 million of taxable revenue bonds ("Bonds") issued by the Halifax Regional Economic Development Corporation ("Issuer"), a nonprofit corporation organized in North Carolina. The Bonds bear interest at a fixed rate of 9.25% payable semiannually. Scheduled principal payments are required annually and began on October 1, 1991 and will continue through maturity on October 1, 2005. The Bonds are subject to mandatory redemption prior to maturity under certain conditions.

The proceeds of the Bonds were loaned to Panda-Rosemary by the Issuer. The payment terms under the loan agreement are similar to those of the Bonds. Such principal and interest payments paid by Panda-Rosemary to the Issuer are used to make required payments on the Bonds.

The Bonds are fully guaranteed by an irrevocable, direct-pay letter of credit issued by The Fuji Bank, Limited, Houston Agency ("Fuji"). The letter of credit has a term equal to the term of the Bonds. Panda-Rosemary pays to Fuji certain fees and charges for maintaining the letter of credit. The letter of credit is secured by the Rosemary Project as well as all of the outstanding capital stock of Panda-Rosemary.

During the Rosemary Project's operating period and while amounts are outstanding under the long-term financing arrangements, all revenues of Panda-Rosemary L.P. are paid to a collateral agent, acting on behalf of Fuji. On a quarterly basis, the collateral agent remits to Panda-Rosemary L.P. remaining funds available after payment of all expenditures relating to the Rosemary Project, including debt service. Funds held by the collateral agent have been reflected as restricted cash in the accompanying consolidated balance sheets.

Fuji has also provided a letter of credit for approximately $5 million guaranteeing Panda-Rosemary's performance under the power purchase agreement.

Term Loan - On August 31, 1993, Panda obtained a term loan in the amount of $1,500,000 from Nova Northwest, Inc. ("Nova"). The loan bears interest at a rate of Libor plus 6.5% and matures on June 30, 1998. Principal and interest in the amount of $97,600 is paid quarterly based on a fixed amortization schedule with remaining unpaid principal and accrued interest due upon maturity. The loans are secured by Panda's interest in the Rosemary Project and the management fee received by the general partner, Panda-Rosemary. Under the loan agreement Nova also receives a 4.33% cash flow participation in the distributions from the Rosemary Project received by Panda.

Development Loan - On December 2, 1993, Panda-Brandywine entered into a $3,000,000 development loan agreement with Raytheon Engineers & Constructors to provide funding of development cost on the Brandywine Project. An initial drawing of $1,050,000 was provided on the agreement date and future drawings are funded through an escrow arrangement. The loan bears interest at 10% and all outstanding principal and interest is payable at the earlier of construction loan closing or June 30, 1995. On March 23, 1994, the Raytheon development loan was combined with an additional $7,300,000 provided by General Electric Capital Corporation with substantially the same terms.

Long-term Debt Maturities - The maturities of long-term obligations for each of the five years succeeding December 31, 1993 and thereafter, are as follows:

1994	$6,246,096
1995	7,466,282
1996	8,491,478
1997	8,122,642
1998	8,573,502
Thereafter	65,800,000
	$104,700,000

6. NATURAL GAS PROPERTIES

Panda acquired $1,003,925 of leasehold interest in unproved natural gas reserves since 1991, with the intent to participate in exploratory drilling programs. Panda also intends to acquire proved natural gas reserves in the next 2-3 years which will be used to fuel a portion of the needs of Panda's current and future cogeneration facilities.

7. FEDERAL INCOME TAXES

Panda did not record a provision for income taxes for 1993 and 1992 since it incurred net operating losses (NOLs) for both years. The difference between the effective rate reflected in the provision for income taxes on continuing operations (0%) and the amount which would be determined by applying the statutory federal income tax rate (34%) is attributable to NOLs incurred during the year.

Panda has $9.8 million of NOL carry-forwards at December 31, 1993 which will expire during the years 2000 to 2007. Panda may become subject to a limitation on the amount of NOL carry-forwards which may be used annually to offset income should certain changes in its ownership occur in the future.

The tax effects of temporary differences that give rise to significant portions of deferred tax assets for 1993 were as follows:

	December 31, 1993	January 1, 1993
Deferred Tax Assets:		
Non-current -		
Property, plant and equipment	$ 301,000	$ 441,000
Geological and geophysical costs	126,000	126,000
Net operating loss carryforward	3,330,000	2,786,000
Current -		
Accrued liabilities	34,000	51,000
Gross deferred tax assets	$ 3,791,000	$ 3,404,000
Valuation allowance	(3,791,000)	(3,404,000)
Net deferred (liability) asset	$ -	$ -

8. STOCK OPTION PLAN

Panda's Non-qualified Stock Option Plan (the "Plan") provides for the granting of stock options to officers and employees for the purchase of Panda's common stock. The Plan allows for up to 1,500,000 shares of common stock to be issued upon exercise of the options granted. The Board of Directors grants options to officers and employees solely on a discretionary basis and generally with a vesting period of up to five years. On January 11, 1990, options covering 950,000 shares were granted to officers and employees at various prices and in specified increments over a five-year period. On September 1, 1992, options covering 400,000 shares were granted to the Chairman and a director at $3.00 per share and immediately became vested. On November 18, 1993 options covering 110,000 shares were granted to employees at various prices and in specified increments over a five-year period. During 1993, options covering 6,000 shares were exercised and options covering 25,000 shares expired. No options were exercised or expired during prior years.

9. COMMITMENTS

Panda leases certain office facilities and equipment under operating leases. Rent expense charged to operations under these leases was $184,895 and $165,724 for the years ended December 31, 1993 and 1992, respectively. Panda leases the property for the Rosemary Project under a twenty-five year lease for a nominal amount.

The future minimum lease commitments for each of the five years succeeding December 31, 1993 and thereafter are as follows:

1994	$170,195
1995	159,772
1996	166,056
1997	165,238
1998	57,279
Thereafter	3,300
	$721,840

10. LITIGATION SETTLEMENT

In March 1993, a settlement agreement between Panda and Hawker Siddeley Power Engineering ("HSPE") was reached in litigation relating to the construction of the Rosemary Project. The settlement required Panda to pay HSPE $4,025,000, which approximated the amount owed under the original contract. In addition, HSPE indemnified Panda of all remaining claims by a subcontractor of HSPE.

A settlement payment of $2.6 million was made in July 1992. The remaining $1.425 million was presented as accounts payable construction costs in the accompanying balance sheet at December 31, 1992 and was paid in 1993. Panda management believes no further costs will be incurred with respect to this litigation.

FPSC DOCKET NO. 950110-EI
EXHIBIT NO. _____ (BAM-35)
CONSISTING OF THIRTEEN PAGES

PANDA HAS ASSERTED A CLAIM OF
CONFIDENTIALITY FOR EACH
PAGE OF THIS EXHIBIT

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PANDA ENERGY CORPORATION
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1994 AND 1993

FPSC Docket No. 950110-EI
FPC Witness: MORRISONS
Exhibit No. ______, (BAM-35)
Sheet 1 of 13

REPORT OF INDEPENDENT ACCOUNTANTS

May ___, 1995

To the Board of Directors and
Shareholders of Panda Energy Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of shareholders' equity (deficit) and of cash flows present fairly, in all material respects, the financial position of Panda Energy Corporation and its subsidiaries at December 31, 1994 and 1993, and the results of their operations and their cash flows for the years then ended, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As discussed in Note 8, effective January 1, 1993, the Company changed its method of accounting for income taxes.

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PANDA ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1994 AND 1993

FPSC Docket No. 950110-EI
FPC Witness: **MORRISONS**
Exhibit No. ______, (BAM-35)
Sheet 3 of 13

ASSETS

	1994	1993
Current assets:		
Cash and cash equivalents	$ 6,203,288	$ 3,115,557
Restricted cash - current	2,571,826	5,419,255
Accounts receivable	5,671,373	3,216,134
Fuel oil, spare parts and supplies	3,345,684	3,311,986
Other current assets	39,148	56,139
Total current assets	17,831,319	15,119,071
Plant and equipment:		
Electric generating facility	113,584,065	106,375,706
Furniture and fixtures	363,748	200,997
Less: accumulated depreciation	(17,013,489)	(12,737,950)
Total plant and equipment, net	96,934,324	93,838,753
Natural gas properties:		
Property acquisition costs	939,190	1,003,925
Exploration costs	3,953,583	-
	4,892,773	1,003,925
Restricted cash-noncurrent	9,451,293	8,993,755
Debt issuance costs, net of accumulated amortization of $2,614,974 and $2,014,592, respectively	4,210,575	4,312,676
Partnership formation costs, net of accumulated amortization of $1,599,324 and $1,066,208, respectively	1,066,216	1,599,332
	$ 134,386,500	$ 124,867,512

The accompanying notes are an integral part of these balance sheets.

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PANDA ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1994 AND 1993

FPSC Docket No. 950110-EI
FPC Witness: MORRISONS
Exhibit No. ______, (BAM-35)
Sheet 4 of 13

LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)

	1994	1993
Current liabilities:		
Accounts payable and accrued expenses:		
Construction costs	$ 1,489,412	$ -
Interest and letter of credit fees	2,623,715	2,462,116
Operating expenses and other	3,463,649	2,372,517
Current portion of long-term debt	7,200,000	7,296,096
Total current liabilities	14,776,776	12,130,729
Long term debt, less current portion	106,342,894	98,453,904
Minority interest in consolidated partnership	32,114,677	32,763,215
Commitments and contingencies	-	-
Shareholders' equity (deficit):		
Common stock, $.01 par value; 20,000,000 shares authorized; 10,809,386 and 10,586,363 shares issued, respectively	108,095	105,864
Additional paid-in capital	4,572,572	3,263,934
Receivable from chairman	(265,596)	(265,596)
Accumulated deficit	(23,126,711)	(21,448,331)
	(18,711,640)	(18,344,129)
Treasury stock, at cost, 55,700 shares	(136,207)	(136,207)
Total shareholders' equity (deficit)	(18,847,847)	(18,480,336)
	$ 134,386,500	$ 124,867,512

The accompanying notes are an integral part of these balance sheets.

PANDA ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 1994 AND 1993

FPSC Docket No. 950110-EI
FPC Witness: MORRISONS
Exhibit No. ______, (BAM-35)
Sheet 5 of 13

	1994	1993
Revenue:		
Sales of electric capacity and energy	$ 30,664,096	$ 29,856,269
Sales of steam	650,575	617,598
Interest income	654,718	445,354
	31,969,389	30,919,221
Expenses:		
Cost of sales	8,460,146	7,676,470
Marketing, project development and administrative	4,698,743	4,252,278
Natural gas exploration expenses	121,612	185,388
Interest expense and letter of credit fees	11,017,418	11,065,648
Depreciation	4,275,538	4,311,497
Amortization of debt issuance costs	600,382	502,613
Amortization of partnership formation costs	533,116	533,104
	29,706,955	28,526,998
Income before taxes and minority interest	2,262,434	2,392,223
Minority interest in earnings of consolidated partnership	(3,940,814)	(4,655,434)
Provision for income taxes	-	-
Net loss	$ (1,678,380)	$ (2,263,211)

The accompanying notes are an integral part of these statements.

PANDA ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 1994 AND 1993

	Common Stock		Additional Paid-in Capital	Receivable From Chairman	Accumulated Deficit	Treasury Stock	Total Shareholders' Equity (Deficit)
	Shares	Amount					
BALANCE, December 31, 1992	10,515,863	$ 105,159	$ 3,245,342	$ (264,796)	$ (19,185,120)	$ (136,207)	$ (16,235,622)
Issuance of shares for interest payment	64,500	645	12,652	-	-	-	13,297
Exercise of stock options	6,000	60	5,940	-	-	-	6,000
Advances to Chairman	-	-	-	(800)	-	-	(800)
Net loss	-	-	-	-	(2,263,211)	-	(2,263,211)
BALANCE, December 31, 1993	10,586,363	105,864	3,263,934	(265,596)	(21,448,331)	(136,207)	(18,480,336)
Issuance of shares for interest payment	223,023	2,231	66,826	-	-	-	69,057
Issuance of warrants	-	-	1,241,812	-	-	-	1,241,812
Net loss	-	-	-	-	(1,678,380)	-	(1,678,380)
BALANCE, December 31, 1994	10,809,386	$ 108,095	$ 4,572,572	$ (265,596)	$ (23,126,711)	$ (136,207)	$ (18,847,847)

The accompanying notes are an integral part of these statements.

FPSC Docket No. 950110-EI
FPC Witness: MORRISONS
Exhibit No. ______, (BAM-35)
Sheet 6 of 13

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PANDA ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 1994 AND 1993

FPSC Docket No. 950110-EI
FPC Witness: MORRISONS
Exhibit No. ______, (BAM-35)
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	1994	1993
Operating activities:		
Net loss	$ (1,678,380)	$ (2,263,211)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Minority interest in earnings of consolidated partnership	3,940,814	4,655,434
Depreciation	4,275,538	4,311,497
Amortization of debt issuance costs	600,382	502,613
Amortization of partnership formation costs	533,116	533,104
Write-off of unproved natural gas properties	88,080	34,617
Issuance of stock for interest payment	69,057	13,297
Changes in assets and liabilities:		
Accounts receivable	(2,455,239)	2,738,449
Fuel oil, spare parts and supplies	(33,698)	180,866
Other current assets	16,991	(34,775)
Accounts payable and accrued expenses	1,252,731	577,102
Net cash provided by operating activities	6,609,392	11,248,993
Investing activities:		
Additions to property, plant and equipment	(5,881,697)	(3,012,419)
Acquisition costs of natural gas properties	(23,345)	(6,042)
Exploration costs of natural gas properties	(3,953,583)	-
Net cash used in investing activities	(9,858,625)	(3,018,461)
Financing activities:		
Contributions from minority interest owner	1,002	-
Distributions to minority interest owner	(4,590,354)	(4,341,935)
Proceeds from sales of common stock	-	6,000
Proceeds from issuance of warrants	1,241,812	-
Increase in receivable from Chairman	-	(800)
Proceeds from long term debt	15,292,894	2,550,000
Repayment of long term debt	(7,500,000)	(4,400,000)
Debt issuance costs	(498,281)	(105,354)
Net cash provided by (used in) financing activities	3,947,073	(6,292,089)
Increase in cash, including restricted amounts	697,840	1,938,443
Cash, including restricted amounts, beginning of period	17,528,567	15,590,124
Cash, including restricted amounts, end of period	$ 18,226,407	$ 17,528,567
Supplemental cash flow information:		
Interest paid	$ 10,786,762	$ 11,078,485
Income taxes	$ 8,067	$ 8,189

The accompanying notes are an integral part of these statements.

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PANDA ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION

Panda Energy Corporation (collectively with its subsidiaries, "Panda"), was incorporated on October 27, 1982, and began project development efforts in 1985. Panda is engaged in the development, construction, management and ownership of cogeneration facilities and other energy related projects, primarily in the United States, China, India and Mexico. In addition, Panda is actively engaged in the acquisition and exploration of proven and potential natural gas reserves.

The accompanying consolidated financial statements include the accounts of Panda and its subsidiaries. All material intercompany accounts and transactions have been eliminated.

2. SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents - Included in cash and cash equivalents are highly liquid investments with original maturities of three months or less.

Restricted Cash - Restricted cash includes cash held by the bank to pay debt service, operating expenses and capital improvements related to the Rosemary Project.

Fuel Oil, Spare Parts and Supplies - These items include fuel oil stored on-site, chemical inventory and various spare parts and supplies necessary for plant maintenance. The items are valued at cost, which approximates the fair market value, and are expensed, as operating expenses, when used.

Plant and Equipment - Electric generating facility assets are being depreciated using the straight-line method over the estimated useful lives of the assets, generally twenty-five years. Depreciation of office furniture, equipment, and leasehold improvements is provided using the straight-line method over the estimated useful lives of the assets, generally five years. Costs related to projects in advanced stages of development and construction are capitalized as electric generating facility assets. Maintenance and repair costs are charged to expense as incurred.

Natural Gas Properties - Panda follows the successful efforts method of accounting for oil and gas producing activities. Under this method, property acquisition costs, costs of productive exploratory wells and all development costs are capitalized. All costs associated with unsuccessful exploratory wells, geological and geophysical costs, and delay rentals are expensed as incurred. Natural gas properties are periodically assessed for impairment of value and, if necessary, a loss is recognized by providing an allowance.

Revenue Recognition - Revenue generated from the sale of electric capacity and energy is recognized based on the amount billed under the power purchase agreement.

Income Taxes - Panda records income taxes according to Statement of Financial Accounting Standards No. 109 (SFAS 109) which requires deferred tax liabilities or assets to be recognized for the anticipated future tax effects of temporary differences that arise as a result of the differences in the carrying amounts and the tax bases of assets and liabilities. SFAS 109 also requires a valuation allowance for deferred tax assets in certain circumstances.

3. ROSEMARY PROJECT

Effective May 5, 1989, Panda formed a wholly-owned subsidiary, Panda-Rosemary Corporation ("Panda-Rosemary"), to develop, construct, and operate the 180 megawatt Rosemary cogeneration facility in Roanoke Rapids, North Carolina ("Rosemary Project"). Construction on the Rosemary Project began in September 1989, and commercial operation of the facility began on December 27, 1990.

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Sales of electric capacity and energy are based on the terms of the Power Purchase Agreement between Panda-Rosemary and Virginia Electric and Power Company ("VEPCO") dated January 24, 1989. The agreement requires Panda-Rosemary to provide VEPCO with all the available capacity of the Rosemary Project on an as-needed basis with VEPCO obligated to pay for the power delivered and dependable capacity of the facility at a rate per kilowatt which decreases in certain periods as defined by the agreement. The term of the agreement is 25 years and it expires in December 2015.

On January 6, 1992, Panda-Rosemary consummated a transaction which restructured the ownership and capitalization of the Rosemary Project. Panda-Rosemary contributed substantially all project assets and liabilities to a limited partnership ("Panda-Rosemary L.P.") in exchange for general partnership and certain limited partnership interests. An institutional investor ("Investor") contributed cash in exchange for the remaining limited partnership interests. Panda-Rosemary is the managing general partner of Panda-Rosemary L.P. and is responsible for the operations and management of the Rosemary Project.

For its investment, the Investor receives percentage allocations of income, expense, and cash flow which decline over time as certain rate of return hurdles are achieved. The allocations to the Investor begin at 90%, then decrease to 60%, 30%, and finally 15% based upon designated rate of return requirements. The corresponding remainder of the cash flow (10%, 40%, 70%, and finally 85%) is allocated to Panda. In addition, Panda is entitled to a disproportionately higher share of income, expense, and cash flow if certain operating criteria are met.

The partnership's balance sheet as of December 31, 1994 and 1993, and results of its operations for the years then ended have been consolidated in the accompanying financial statements. The contributions made by the Investor and partnership's net income allocated to the Investor are presented as minority interest in the accompanying financial statements.

Summary Financial Information - Certain summary financial information for Panda-Rosemary L.P. as of December 31, 1994 and 1993 and for the years then ended is presented as follows:

	1994	1993
Revenues	$ 31,864,394	$ 30,839,143
Cost of sales	8,940,146	7,676,470
General and administration	746,483	763,830
Interest expense	10,557,897	10,962,656
Depreciation and amortization	5,286,542	5,353,428
Net income	$ 6,333,326	$ 6,082,759
Cash and cash equivalents	$ 760,287	$ 685,986
Restricted cash	12,023,119	14,413,010
Other current assets	9,006,002	6,563,574
Property, plant and equipment, net	91,280,104	95,542,331
Other non-current assets	4,578,510	5,513,677
Total assets	$117,687,170	$122,718,578
Current liabilities	$ 10,466,810	$ 9,408,083
Taxable revenue bonds	90,000,000	97,200,000
Partners' capital	17,220,360	16,110,495
Total liabilities and partners' capital	$117,687,170	$122,718,578

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4. BRANDYWINE PROJECT

On August 9, 1991, through a wholly-owned partnership, Panda-Brandywine L.P. ("Panda-Brandywine"), Panda entered into a Power Purchase Agreement with Potomac Electric Power Company ("PEPCO") to build a 230 megawatt gas-fired facility. The Brandywine Project, which is scheduled to be operational in October, 1996, will be built in Brandywine, Maryland. The agreement requires Panda-Brandywine to supply PEPCO with all available capacity from the facility for the 25-year term of the contract with a guaranteed dispatch level of at least 60 hours per week for the first 15 years. Development costs have been funded through Panda's working capital and project related development loans.

On April 10, 1995, Panda-Brandywine closed the funding of a $215,000,000 construction loan with General Electric Capital Corporation. The construction loan is considered non-recourse project debt and should provide for all capital costs of the project. Upon completion of the Brandywine facility the construction loan will be converted to a single-investor lease with GE Capital which will have a 20-year initial term and two 5-year renewal options.

5. OTHER PROJECTS

Kathleen Project - On September 20, 1991, through a wholly-owned partnership, Panda-Kathleen L.P., ("Panda-Kathleen") Panda entered into a Standard Offer Contract with Florida Power Corporation ("FPC"), to build a 75 megawatt gas-fired facility. The Kathleen Project will be built in Lakeland, Florida and is expected to be operational in early 1997. The contract extends for 30 years and requires Panda-Kathleen to provide 75 megawatts of capacity on an as-needed basis. Management anticipates development costs will be funded through Panda's working capital until closing of construction financing. In addition, management anticipates long-term funding for the Kathleen project will be provided primarily through non-recourse project debt.

Luannan Project - Panda, through joint venture agreements with two Chinese national entities, China Machinery Corporation and Luannan County, is developing a 100 megawatt coal-fired project in Tangshan, China. Management anticipates the power purchase agreement with the North China Electric Power Administration, when complete, will extend for 23 years with operations expected to start in late 1997. In addition, management anticipates development costs to be funded through Panda's working capital or third-party equity investment and that long-term funding for the Luannan project will be provided through non-recourse project debt.

La Panga Project - In August 1994 Panda signed a joint venture agreement with Pioneer Services, Inc. in which it acquired a 90% interest in a project under development in the State of Orissa, India. At that time, Panda assumed the role as lead developer of the project and the responsibility of all future development costs. The power purchase agreement dated January 11, 1994 with Orissa State Electricity Board calls for Panda to build a 500 megawatt coal-fired facility on a site in La Panga, India. The agreement extends for 30 years and management expects the project to be in operation during early 1999. Management anticipates development costs to be funded through Panda's working capital or third-party equity investment. Management also expects the long-term funding for the La Panga project will be provided through non-recourse project debt.

6. DEBT

Long-term debt of Panda as of December 31, 1994 and 1993 is summarized as follows:

	1994	1993
Taxable Revenue Bonds for Rosemary project	$ 97,200,000	$103,200,000
Development Loan for Brandywine project	10,084,706	1,050,000
Term Loan with TCW, net of discount	6,258,188	-
Term Loan with Nova	-	1,500,000
	113,542,894	105,750,000
Less, current portion	(7,200,000)	(7,296,096)
	$106,342,894	$ 98,453,904

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FPC Witness: MORRISONS
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Taxable Revenue Bonds - In October 1989, Panda-Rosemary obtained long-term financing for the Rosemary Project in the form of $116 million of taxable revenue bonds ("Bonds") issued by the Halifax Regional Economic Development Corporation ("Issuer"), a nonprofit corporation organized in North Carolina. The Bonds bear interest at a fixed rate of 9.25% payable semiannually. Scheduled principal payments are required annually and began on October 1, 1991 and will continue through maturity on October 1, 2005. The Bonds are subject to mandatory redemption prior to maturity under certain conditions.

The proceeds of the Bonds were loaned to Panda-Rosemary by the Issuer. The payment terms under the loan agreement are similar to those of the Bonds. Such principal and interest payments paid by Panda-Rosemary to the Issuer are used to make required payments on the Bonds.

The Bonds are fully guaranteed by an irrevocable, direct-pay letter of credit issued by The Fuji Bank, Limited, Houston Agency ("Fuji"). The letter of credit has a term equal to the term of the Bonds. Panda-Rosemary pays to Fuji certain fees and charges for maintaining the letter of credit. The letter of credit is secured by the Rosemary Project as well as all of the outstanding capital stock of Panda-Rosemary.

During the Rosemary Project's operating period and while amounts are outstanding under the long-term financing arrangements, all revenues of Panda-Rosemary L.P. are paid to a collateral agent, acting on behalf of Fuji. On a quarterly basis, the collateral agent remits to Panda-Rosemary L.P. remaining funds available after payment of all expenditures relating to the Rosemary Project, including debt service provided that Panda-Rosemary L.P. is in compliance with covenants under the letter of credit. Funds held by the collateral agent have been reflected as restricted cash in the accompanying consolidated balance sheets.

Fuji has also provided a letter of credit for approximately $5 million guaranteeing Panda-Rosemary's performance under the power purchase agreement.

Term Loan - On November 8, 1994 Panda obtained a term loan in the amount of $12,300,000 from Trust Company of the West ("TCW"). The loan bears interest at a rate of 11% and matures on November 8, 2004. The loans are secured by Panda's interest in all its various projects through the pledge of the common stock of Panda Holding, Inc., a wholly-owned subsidiary of Panda which has ownership of the project entities.

Panda received $7,500,000 on November 8, 1994, closing date and has the option to complete the second funding of $4,800,000 when certain conditions are met. As of December 31, 1994, $7,500,000 in principal was outstanding under the term loan.

Under the loan agreement, TCW also receives warrants to purchase shares of Panda stock, which are recorded as additional paid-in capital on the accompanying consolidated balance sheet at the estimated fair value as determined by management. A loan discount of $1,241,812 was created as a result of the allocation to the warrants. The amount of shares to be purchased under the warrants ranges from 1,003,978 to 1,595,477 based on whether certain conditions exist, including the completion of the second funding. The warrants are exercisable at $8 per share, subject to adjustment, and expire on November 8, 2004. If a public offering of the Company's stock has not occurred, the Company is obligated to repurchase each warrant at the holder's option for $2.18 and $2.91 at November 8, 1999 and 2001, respectively. The warrants are callable in total by Panda, if a public offering of stock has occurred for $12 per warrant during a call period during which the closing price for the Company's common stock has equaled or exceeded 250% of the exercise price of the warrants.

The term loan contains certain restrictive covenants including limitations on indebtedness, limitations on corporate investments and others. Subsequent to December 31, 1994, Panda was not in compliance with certain of these covenants, however, has obtained waivers of compliance with these covenants from TCW until January 1996.

Proceeds from the loan were used to pay unpaid principal and accrued interest in the amount of $1,431,781 on an existing term loan with Nova Northwest Inc. ("Nova"). Under the agreement with Nova they will continue to receive 4.33% of cash flow participation in the distributions received by Panda from the Rosemary Project for the term of the Panda-Rosemary L.P. partnership agreement.

Development Loan - On December 2, 1993, Panda-Brandywine entered into a $3,000,000 development loan agreement with Raytheon Engineers & Constructors to provide funding of development cost on the Brandywine Project. On March 23, 1994, the Raytheon development loan was combined with an additional $7,300,000 provided by General Electric Capital Corporation for a total of $10,300,000. The loan bears interest at 10% for the Raytheon portion and libor plus 4% for the GE Capital portion. All outstanding principal and interest is payable at the earlier of construction loan closing or June 30, 1995. On April 10, 1995 the outstanding principal and accrued interest of the Development loan was paid with the proceeds from a $215,000,000 construction loan provided by GE Capital (note 4).

Long-term Debt Maturities - The maturities of long-term obligations for each of the five years succeeding December 31, 1994 and thereafter, are as follows:

1995	$ 7,038,682
1996	8,571,731
1997	8,168,918
1998	8,870,907
1999	8,182,443
Thereafter	72,710,213
	$113,542,894

7. NATURAL GAS PROPERTIES

Property acquisition costs consist of leasehold interests in unproved natural gas reserves which Panda acquired with the intent to participate in exploratory drilling programs. During 1994, Panda incurred $3,953,583 in exploratory drilling and completion costs for one well in Mobile County, Alabama. Completion efforts on this well continue during 1995.

8. FEDERAL INCOME TAXES

Panda did not record a provision for income taxes for 1994 and 1993 since it incurred net operating losses (NOLs) for both years. The difference between the effective rate reflected in the provision for income taxes (0%) and the amount which would be determined by applying the statutory federal income tax rates in 1994 and 1993 (35% and 34%, respectively) is attributable to unbenefited NOLs incurred during those years.

Panda has $13.9 million of NOL carryforwards at December 31, 1994 which will expire during the years 2000 to 2008. Panda may become subject to a limitation on the amount of NOL carryforwards which may be used annually to offset income should certain changes in its ownership occur in the future.

The tax effects of temporary differences that give rise to significant portions of deferred tax assets (liabilities) as of December 31, 1994 and 1993 were as follows:

	1994	1993
Deferred Tax Assets:		
Property, plant and equipment	$ 889,000	$ 301,000
Geological and geophysical costs	130,000	126,000
Net operating loss carryforward	4,867,000	3,330,000
Other	11,000	34,000
	5,897,000	3,791,000
Deferred Tax Liabilities:		
Intangible drilling costs	1,384,000	-
Net deferred tax assets	4,513,000	3,791,000
Valuation allowance	(4,513,000)	(3,791,000)
Net deferred tax asset (liability)	$ -	$ -

The net change in the valuation allowance reflects an increase of $722,000 in 1994 and $387,000 in 1993 prim... related to additional net operating loss carryforwards.

9. STOCK OPTION PLAN

Panda's Non-qualified Stock Option Plan (the "Plan") provides for the granting of stock options to officers and employees for the purchase of Panda's common stock. The Plan allows for up to 1,500,000 shares of common stock to be issued upon exercise of the options granted. The Board of Directors grants options to officers and employees solely on a discretionary basis and generally with a vesting period of up to five years. During 1990, options covering 950,000 shares were granted to officers and employees at various prices and in specific increments over a five-year period. During 1992, options covering 400,000 shares were granted to the Chairman and a director at $3.00 per share and immediately became vested. During 1993 options covering 172,000 shares were granted to employees and directors at various prices and in specified increments over a five-year period, options covering 6,000 shares were exercised and options covering 415,000 shares expired. During 1994, no options were granted or exercised. Options covering 10,000 shares expired during 1994.

10. COMMITMENTS

Panda leases certain office facilities and equipment under operating leases. Rent expense charged to operations under these leases was $178,749 and $185,895 for the years ended December 31, 1994 and 1993, respectively. Panda leases the property for the Rosemary Project under a twenty-five year lease for a nominal amount.

The future minimum lease commitments for each of the five years succeeding December 31, 1994 and thereafter are as follows:

1995	$205,470
1996	206,817
1997	205,999
1998	98,041
1999	44,062
Thereafter	6,794
	$767,183

FPSC DOCKET NO. 950110-EI
EXHIBIT NO. _____ (BAM-36)
CONSISTING OF THIRTEEN PAGES

PANDA HAS ASSERTED A CLAIM OF
CONFIDENTIALITY FOR EACH
PAGE OF THIS EXHIBIT

ARTHUR

FPSC Docket No. 950110-EI
FPC Witness: **MORRISONS**
Exhibit No. ______, (BAM-36)
Sheet 1 of 13

PANDA ENERGY CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements As Of December 31, 1992 And 1991

Together With Auditors' Report

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FPC Witness: MORRISONS
Exhibit No. ______, (BAM-36)
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PANDA ENERGY CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements As Of December 31, 1992 And 1991

Together With Auditors' Report

SPECIALLY RESTRICTED

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of
Panda Energy Corporation:

We have audited the accompanying consolidated balance sheets of Panda Energy Corporation (a Texas corporation) and subsidiaries as of December 31, 1992 and 1991, and the related consolidated statements of operations, shareholders' equity (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Panda Energy Corporation and subsidiaries as of December 31, 1992 and 1991, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

Arthur Andersen & Co.

Dallas, Texas,
February 26, 1993

PANDA ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 1992 and 1991

ASSETS

	1992	1991
Current assets:		
Cash and cash equivalents	$ 2,316,528	$ 7,739
Restricted cash - current	5,088,367	9,480,312
Accounts receivable	5,954,583	2,991,139
Fuel oil, spare parts and supplies	3,492,852	2,649,483
Other current assets	21,364	-
Total current assets	16,873,694	15,128,673
Electric generating facility	104,814,387	103,235,857
Furniture & fixtures	174,897	166,347
Unproved natural gas properties	1,032,500	88,041
	106,021,784	103,490,245
Less: accumulated depreciation	(8,426,453)	(4,221,836)
Total property, net	97,595,331	99,268,409
Restricted cash-noncurrent	8,185,229	6,955,056
Debt issuance costs, net of accumulated amortization of $1,511,979 and $1,075,546, respectively	4,709,935	5,125,847
Partnership formation costs, net of accumulated amortization of $533,104	2,132,436	-
	$ 129,496,625	$ 126,477,985

The accompanying notes are an integral part of these balance sheets.

PANDA ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (con't)
AS OF DECEMBER 31, 1992 and 1991

LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)

	1992	1991
Current liabilities:		
Accounts payable and accrued expenses -		
Construction costs	$ 1,425,000	$ 3,000,000
Interest and letter of credit fees	2,488,250	3,644,157
Operating expenses and other	1,769,281	3,125,351
Current portion of long-term debt	4,400,000	23,313,333
Total current liabilities	10,082,531	33,082,841
Taxable revenue bonds, less current portion	103,200,000	107,600,000
Minority interest in consolidated partnership	32,449,716	-
Commitments and contingencies	-	-
Shareholders' equity (deficit):		
Common stock, $.01 par value; 20,000,000 shares authorized; 10,515,863 and 10,487,563 shares issued at December 31, 1992 and 1991, respectively	105,159	104,876
Additional paid-in capital	3,245,342	3,216,212
Receivable from chairman	(264,796)	(212,060)
Accumulated deficit	(19,185,120)	(17,177,677)
	(16,099,415)	(14,068,649)
Treasury stock, at cost, 54,700 shares	(136,207)	(136,207)
Total shareholders' equity (deficit)	(16,235,622)	(14,204,856)
	$ 129,496,625	$ 126,477,985

The accompanying notes are an integral part of these balance sheets.

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PANDA ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 1992 and 1991

	1992	1991
Revenue:		
Sales of electric capacity and energy	$ 29,536,930	$ 31,395,996
Sales of steam	623,422	409,001
Interest income	783,357	856,335
	30,943,709	32,661,332
Expenses:		
Cost of sales	7,534,383	7,772,515
Marketing, general and administrative	4,138,191	2,538,510
Natural gas exploration costs	274,038	211,250
Interest expense and letter of credit fees	11,477,999	15,413,889
Depreciation	4,204,618	4,153,883
Amortization of debt issuance costs	436,433	492,640
Amortization of partnership formation costs	533,104	-
	28,598,766	30,582,687
Income before taxes and extraordinary items	2,344,943	2,078,645
Minority interest in earnings of consolidated partnership	(4,352,386)	-
Provision for income taxes	-	(1,197,431)
Income (loss) before extraordinary items	(2,007,443)	881,214
Extraordinary loss from early extinguishment of debt	-	(8,435,297)
Extraordinary gain from utilization of NOL carryforwards	-	1,062,454
Net loss	$ (2,007,443)	$ (6,491,629)
Income (loss) per common share:		
Income (loss) before extraordinary items	$ (.19)	$ .08
Extraordinary items	-	(.70)
Net loss	$ (.19)	$ (.62)
Weighted average common shares outstanding	10,506,538	10,484,751

The accompanying notes are an integral part of these statements.

PANDA ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 1992 and 1991

	Common Stock		Additional	Receivable			Total Shareholders'
	Shares	Amount	Paid-In Capital	From Chairman	Accumulated Deficit	Treasury Stock	Equity (Deficit)
BALANCE, DECEMBER 31, 1990	10,484,263	$ 104,843	$ 3,201,395	$ (120,426)	$(10,686,048)	$(136,207)	$(7,636,443)
Shares sold	3,300	33	14,817	-	-	-	14,850
Advances to Chairman	-	-	-	(91,634)	-	-	(91,634)
Net Loss	-	-	-	-	(6,491,629)	-	(6,491,629)
BALANCE, DECEMBER 31, 1991	10,487,563	104,876	3,216,212	(212,060)	(17,177,677)	(136,207)	(14,204,856)
Issuance of shares for interest payment	19,300	193	2,220	-	-	-	2,413
Issuance of shares for services as director	9,000	90	26,910	-	-	-	27,000
Advances to Chairman	-	-	-	(52,736)	-	-	(52,736)
Net loss	-	-	-	-	(2,007,443)	-	(2,007,443)
BALANCE, DECEMBER, 31, 1992	10,515,863	$ 105,159	$ 3,245,342	$ (264,796)	$ (19,185,120)	$ (136,207)	$(16,235,622)

FPSC Docket No. 950110-EI
FPC Witness: MORRISONS
Exhibit No. ____, (BAM-36)
Sheet 7 of 13

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The accompanying notes are an integral part of these statements.

PANDA ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 1992 and 1991

	1992	1991
Operating activities:		
Net loss	$(2,007,443)	$(6,491,629)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Minority interest in earnings of consolidated partnership	4,352,386	-
Depreciation	4,204,618	4,153,883
Amortization of debt issuance costs	436,433	492,640
Amortization of partnership formation costs	533,104	-
Amortization of deferred interest	-	1,310,150
Accelerated amortization of deferred interest (extraordinary item)	-	8,435,297
Issuance of stock for services as director	27,000	-
Issuance of stock for interest payment	2,413	-
Changes in assets and liabilities:		
Accounts receivable	(2,963,444)	(2,828,814)
Fuel oil, spare parts and supplies	(843,369)	(872,883)
Other current assets	(21,364)	-
Restricted accrued interest receivable	-	178,693
Accounts payable and accrued expenses	(2,511,977)	5,303,049
Net cash provided by operating activities	1,208,357	9,680,386
Investing activities:		
Additions to property, plant and equipment	(3,162,080)	(4,994,891)
Purchase of unproved natural gas properties	(944,459)	(88,041)
Net cash used in investing activities	(4,106,539)	(5,082,932)
Financing activities:		
Contributions from minority interest owner	30,948,987	-
Distributions to minority interest owner	(2,851,657)	-
Proceeds from sales of common stock	-	14,850
Increase in receivable from Chairman	(52,736)	(91,634)
Repayment of subordinated loan	(5,413,333)	(386,667)
Repayment of net profits note	(13,100,000)	-
Repayment of taxable revenue bonds	(4,800,000)	(3,600,000)
Debt issuance costs	(20,522)	(375,801)
Partnership formation costs	(2,665,540)	-
Net cash provided by (used in) financing activities	2,045,199	(4,439,252)
Increase (decrease) in cash, including restricted amounts	(852,983)	158,202
Cash, including restricted amounts, beginning of period	16,443,107	16,284,905
Cash, including restricted amounts, end of period	$ 15,590,124	$ 16,443,107
Supplemental cash flow information:		
Interest paid	$ 12,633,906	$ 13,983,169
Income taxes	$ 196,294	$ -

The accompanying notes are an integral part of these statements.

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PANDA ENERGY CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 1992 and 1991

1. ORGANIZATION

Panda Energy Corporation (collectively with its subsidiaries, "Panda"), was incorporated on October 27, 1982, and began project development efforts in 1985. Panda is engaged in the development, construction, management and ownership of cogeneration facilities and other energy related projects, primarily in the United States and Mexico. In addition, Panda is actively engaged in the acquisition and exploration of proven and potential natural gas reserves.

The accompanying consolidated financial statements include the accounts of Panda and its subsidiaries. All material intercompany accounts and transactions have been eliminated. Certain prior year amounts have been reclassified in order to conform with the 1992 presentation.

2. SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents - Included in cash and cash equivalents are highly liquid investments with original maturities of three months or less.

Depreciation - Depreciation of office furniture, equipment, and leasehold improvements is provided using the straight-line method over the estimated useful lives of the assets, generally five years. Rosemary Project assets are being depreciated using the straight-line method over the estimated useful lives of the assets, generally twenty-five years. Maintenance and repair costs are charged to expense as incurred.

Revenue Recognition - Revenue generated from the sale of electric capacity and energy is recognized based on the amount billed.

3. ROSEMARY PROJECT

Effective May 5, 1989, Panda formed a wholly-owned subsidiary, Panda-Rosemary Corporation ("Panda-Rosemary"), to develop, construct and operate the 175 megawatt Rosemary Complex cogeneration facility in Roanoke Rapids, North Carolina ("Rosemary Project"). Construction on the Rosemary Project began in September 1989, and commercial operation of the facility began on December 27, 1990.

On January 6, 1992, Panda-Rosemary consummated a transaction which restructured the ownership and capitalization of the Rosemary Project. Panda-Rosemary contributed substantially all project assets and liabilities to a limited partnership ("Panda-Rosemary L.P.") in exchange for general partnership and certain limited partnership interests. An institutional investor ("Investor") contributed cash in exchange for the remaining limited partnership interests. Panda-Rosemary is the managing general partner of Panda-Rosemary L.P. and is responsible for the operations and management of the Rosemary Project.

For its investment, the Investor receives percentage allocations of income, expense, and cash flow which decline over time as certain rate of return hurdles are achieved. The allocations to the Investor begin at 90%, then decrease to 60%, 30%, and finally 15% based upon designated rate of return requirements. The corresponding remainder of the cash flow (10%, 40%, 70%, and finally 85%) is allocated to Panda. In addition, Panda is entitled to a disproportionately higher share of income, expense, and cash flow if certain operating criteria are met.

Proceeds contributed by the Investor were used to repay the $5,413,333 of outstanding principal under the subordinated debt, the $13,100,000 outstanding principal under the Heller subordinated net profits note and the related accrued interest. Accordingly, these amounts are presented as current liabilities in the accompanying consolidated balance sheet at December 31, 1991. In connection with the repayment of the Heller notes, Panda recorded an $8,435,297 loss due to the early extinguishment of these debt instruments. This loss is reflected as an extraordinary item in the accompanying consolidated statement of operations for 1991.

The partnership's balance sheet as of December 31, 1992 and results of its operations for the period from inception to December 31, 1992, have been consolidated in the accompanying financial statements. The contributions made by the Investor and partnership's net income allocated to the Investor are presented as minority interest in the accompanying financial statements.

Summary Financial Information -

Certain summary financial information for Panda-Rosemary L.P. as of December 31, 1992 is presented as follows:

Revenues	$ 30,292,424
Cost of sales	7,456,880
General and administration	589,774
Interest expense	11,289,309
Depreciation and amortization	5,124,409
Net Income	$ 5,832,052
Cash and cash equivalents	$ 2,793,921
Other current assets	9,437,664
Property, plant and equipment, net	99,819,739
Other noncurrent assets	14,627,600
Total Assets	$126,678,924
Current liabilities	$ 9,821,982
Taxable revenue bonds	103,200,000
Partners' capital	13,656,942
Total liabilities and partners' capital	$126,678,924

4. LONG-TERM DEBT

In October 1989, Panda-Rosemary obtained long-term financing for the Rosemary Project in the form of $116 million of taxable revenue bonds ("Bonds") issued by the Halifax Regional Economic Development Corporation ("Issuer"), a nonprofit corporation organized in North Carolina. The Bonds bear interest at a fixed rate of 9.25% payable semiannually. Scheduled principal payments are required annually and began on October 1, 1991 and will continue through maturity on October 1, 2005. The Bonds are subject to mandatory redemption prior to maturity under certain conditions.

The proceeds of the Bonds were loaned to Panda-Rosemary by the Issuer. The payment terms under the loan agreement are similar to those of the Bonds. Such principal and interest payments paid by Panda-Rosemary to the Issuer are used to make required payments on the Bonds.

The Bonds are fully guaranteed by an irrevocable, direct-pay letter of credit issued by The Fuji Bank, Limited, Houston Agency ("Fuji"). The letter of credit has a term equal to the term of the Bonds. Panda-Rosemary pays to Fuji certain fees and charges for maintaining the letter of credit. The letter of credit is secured by the Rosemary Project as well as all of the outstanding capital stock of Panda-Rosemary.

During the Rosemary Project's operating period and while amounts are outstanding under the long-term financing arrangements, all revenues of Panda-Rosemary L.P. are paid to a collateral agent, acting on behalf of Fuji. On a quarterly basis, the collateral agent remits to Panda-Rosemary L.P. remaining funds available after payment of all expenditures relating to the Rosemary Project, including debt service. Funds held by the collateral agent have been reflected as restricted cash in the accompanying consolidated balance sheets.

Fuji has also provided a letter of credit for approximately $5 million guaranteeing Panda-Rosemary's performance under the power purchase agreement.

Long-term Debt Maturities -

The maturities of long-term obligations for each of the five years succeeding December 31, 1992 and thereafter, are as follows:

1993	$4,400,000
1994	6,000,000
1995	7,200,000
1996	8,200,000
1997	7,800,000
Thereafter	74,000,000
	$107,600,000

5. NATURAL GAS PROPERTIES

Panda acquired $944,459 and $88,041 of leasehold interest in unproved natural gas reserves during 1992 and 1991, respectively, with the intent to participate in exploratory drilling programs. Panda also intends to acquire proved natural gas reserves in the next 2-3 years which will be used to fuel a portion of the needs of Panda's current and future cogeneration facilities.

6. FEDERAL INCOME TAXES

The statutory tax rate for 1992 and 1991 was 34%. Panda's effective tax rate for 1992 was zero due to the net operating loss incurred by Panda in that year. In 1991, the effective tax rate was 58% as a result of state income taxes attributable to the Rosemary Project.

The income tax provision (benefit) for the years ended December 31, 1992 and 1991 consists of the following:

	1992	1991
Current federal tax provision	$ -	$1,245,735
Deferred federal tax benefit	-	(470,460)
Current state tax provision	-	422,156
	$ -	$1,197,431

The current tax provision represents estimated taxes to be paid for those years. The deferred benefit primarily results from differences between depreciation and amortization for financial reporting and income tax reporting purposes. The offsetting income tax benefit of $1,062,454 from the utilization of the net operating loss carryforwards in 1991 is presented as an extraordinary item in the consolidated statement of operations. At December 31, 1992, Panda has net operating loss carryforwards of approximately $6.6 million and $5.1 million for regular federal income tax purposes and alternative minimum tax purposes, respectively, expiring in the years 2000 through 2006.

In December 1987, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 96 ("SFAS No. 96"), "Accounting for Income Taxes". SFAS No. 96 requires a change from the deferred method to the liability method of computing the provision for income taxes. In February 1992, the FASB issued SFAS No. 109 which supersedes SFAS No. 96 and is to be adopted for fiscal years beginning after December 15, 1992. When adopted, the provisions of SFAS No. 109 are not expected to have a significant effect on Panda's consolidated financial position or results of operations.

7. LITIGATION SETTLEMENT

On January 27, 1993, a preliminary settlement was reached in litigation relating to the construction of the Rosemary Project. The litigation involves (i) a suit by a subcontractor against Hawker Siddeley Power Engineering, Inc. ("HSPE"), the Project's turnkey contractor, and Panda, (ii) a suit by Panda against HSPE, and (iii) a suit by HSPE against Panda. The settlement that was reached between Panda and HSPE directs Panda to pay HSPE $4,025,000, which approximates the amount owed to HSPE under the original contract.

The settlement does not release Panda from the suit with the subcontractor; however, HSPE has fully indemnified Panda of all remaining claims by the subcontractor. A settlement prepayment of $2.6 million was made in July 1992. The remaining $1.425 million is presented as accounts payable construction costs in the accompanying consolidated balance sheet at December 31, 1992 and will be paid upon completion of the settlement agreement. Panda management believes the completed settlement agreement will be received within the near future.

8. STOCK OPTION PLAN

Panda's Nonqualified Stock Option Plan (the "Plan") provides for the granting of stock options to officers and employees for the purchase of Panda's common stock. The Plan allows for up to 1,500,000 shares of common stock to be issued upon exercise of the options granted. The Board of Directors grants options to officers and employees solely on a discretionary basis and generally with a two-year vesting period. On January 11, 1990, options covering 950,000 shares were granted to officers and employees at various prices to be awarded in specified increments over a five-year period. On September 1, 1992, options covering 400,000 shares were granted to the Chairman and a director at $3.00 per share and immediately became vested. As of December 31, 1992, no options have been exercised.

9. COMMITMENTS

Project Development Commitments-

Panda has entered into two contracts to provide capacity and energy to two utility customers. The contracts will require Panda to build a 230 megawatt gas-fired facility in Maryland and a 75 megawatt gas-fired facility in Florida to be operational in 1996 and 1995, respectively. Development costs for these projects are expected to be approximately $4 million in 1993. Management anticipates these costs will be funded through either Panda working capital, the sale of additional common stock, third party equity investment in the projects or project related debt, or a combination thereof. In addition, management anticipates that long-term funding for these facilities will be provided primarily through non-recourse project debt and that this funding will be available on acceptable terms. At this time, the terms and availability of this funding cannot be assured.

Lease Commitments -

Panda leases certain office facilities and equipment under operating leases. Rent expense charged to operations under these leases was $165,724 and $170,716 for the years ended December 31, 1992 and 1991, respectively. Panda leases the property for the Rosemary Project under a twenty-five year lease for a nominal amount.

The future minimum lease commitments for each of the five years succeeding December 31, 1992 and thereafter are as follows:

1993	$138,389
1994	129,321
1995	123,878
1996	131,957
1997	134,650
Thereafter	44,883
	$703,078

FPSC DOCKET NO. 950110-EI
EXHIBIT NO. _____ (BAM-37)
CONSISTING OF FIVE PAGES

PANDA HAS ASSERTED A CLAIM OF CONFIDENTIALITY FOR EACH PAGE OF THIS EXHIBIT

Panda-Kathleen, L.P.
Due Diligence List

Doc #	ITEM	PARTY	STATUS	BOTT	BV	W & C	B & R	MERRILL	B & W	CALPINE
001	Due Diligence List	Anne Kjellgren	Ongoing							
	Construction & Operations Agreements:									
101	EPC	Walsh-Gilbert	Final	11/21	11/29	11/29	12/6	12/6	12/6	12/13
102	O&M	Calpine	Draft	12/15	12/15	*	12/15	12/15	*	12/14
	Electrical Transmission Agreements:									
201	Transmission Construction	City of Lakeland	Final	12/15	12/15	12/15	12/15	12/15	12/15	12/14
202	Transmission Interconnection (Wheeling)	City of Lakeland	Draft	12/27	12/27	*	12/27	12/27	*	12/27
	Environmental Documents:									
301	Environmental Site Assessment, Pipeline Right-Of-Ways	ECT	Copy	12/15	12/15	12/15	12/15	12/15	12/15	12/15
302	Environmental Site Assessment, Project Site	ECT	Copy	12/15	12/15	12/15	12/15	12/15	12/15	12/15
303	Survey - Pipeline Right-Of-Ways	ECT	Copy	@	@	@	12/27	@	@	12/27
304	Survey - Project Site	ECT	Copy							
	Financial Agreements & Related Documents:									
401	Equity Commitment	Calpine	Draft			*			*	
402	Prospectus for MTN Issue	Merrill								
403	Rating Agencies Letters Regarding Investment Grade Rating	S&P, Moody's								
	Fuel & Transportation Agreements:									
501	Capacity Relinquishment	City of Lakeland	Draft	12/15	12/15	*	12/15	12/15	12/6	12/14
502	Construction & Reimbursement of Delivery Point Facilities	FGT	Final	12/6	12/6	12/6	12/6	12/6	12/6	12/13
503	Firm Transportation Service	FGT	Draft	12/15	12/15	*	12/15	12/15	*	12/14
504	Gas Purchase	ANGI	Draft	12/15	12/15	*	12/15	12/15	12/6	12/14
505	Mutual Termination & Release	FGT	Draft	11/21	11/29	*	12/6	12/6	12/6	12/14
506	Pipeline Engineering	Universal Ensco	Draft			*			*	
507	Prearranged Permanent Capacity Release	City of Lakeland/FGT	Draft	12/15	12/15	*	12/15	12/15	*	12/14
	Legal & Regulatory Documents:									
601	Lakeland Water Company Ownership Agreements	David Mayer								

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Panda-Kathleen, L.P.
Due Diligence List

Doc #	ITEM	PARTY	STATUS	BOTT	BV	W & C	B & R	MERRILL	B & W	CALPINE
602	Panda-Kathleen General Partner Ownership Agreements	David Mayer								
603	Panda-Kathleen L.P. Agreements	David Mayer								
604	Public Service Commission Letter	FPSC	Copy	11/21	11/29	11/29	12/6	12/6	12/6	12/13
605	Title Commitment	David Mayer								
	Maps:									
701	Vicinity Map	Kyle Woodruff	Copy	11/29	11/29	11/29	12/6	12/6	12/6	12/13
	Miscellaneous:									
801	Current Status On All Project Agreements	Tom Horn	Ongoing							
802	Distilled Water Marketing Study	B&R or Other Entity								
803	Insurance Commitment	Bryan Urban								
804	Insurance Requirements Information From Borrower's Consultant	Bryan Urban								
805	Project-Related Press Releases and News Articles		Ongoing							
806	Timeline of Key Project Agreement Dates	Tom Horn								
807	Panda-Kathleen Permitting Plan & Schedule	ECT								
808	Project Organizational Chart	Tom Horn	Ongoing	12/15	12/15	12/15	12/15	12/15	12/15	12/14
	Permits:									
901	Air (PSD) / Construction	FDEP	NOI	11/21	11/29	11/29	12/6	12/6	12/6	12/13
902	Concurrency	Polk County	Final	12/15	12/15	12/15	12/15	12/15	12/15	12/14
903	Dredge/Fill (Works in the Waters of Florida) - Application	FDEP	Copy	11/21	11/29	11/29	12/6	12/6	12/6	12/13
904	Dredge/Fill (Works in the Waters of Florida) - Permit	FDEP	NOI	12/15	12/15	12/15	12/15	12/15	12/15	12/14
905	Dredge/Fill (Works in the Waters of Florida) - Permit	Army Corps of Eng.	Final	11/21	11/29	11/29	12/6	12/6	12/6	12/13
906	Industrial Wastewater	FDEP	Final	12/15	12/15	12/15	12/6	12/15	12/15	12/14
907	Management & Storage of Surface Water (Storm Water)	FDEP	Final	11/21	11/29	11/29	12/6	12/6	12/6	12/13
908	QF Application	FERC	Copy	12/15	12/15	12/15	12/15	12/15	12/15	12/14
909	QF Certification	FERC	Final	11/21	11/29	11/29	12/6	12/6	12/6	12/13
910	Site Approval (Land Use-Zone) - Application	Polk County	Copy	11/21	11/29	11/29	12/6	12/6	12/6	12/13

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Panda-Kathleen, L.P.
Due Diligence List

Doc #	ITEM	PARTY	STATUS	BOTT	BV	W & C	B & R	MERRILL	B & W	CALPINE
911	Site Approval (Land Use-Zone) - Permit	Polk County	Final	12/15	12/15	12/15	12/15	12/15	12/15	12/14
912	Water Use (Site Water Wells)	SWFWMD	Final	12/15	12/6	12/6	12/6	12/6	12/6	12/14
	Proforma & Related Documents									
1001	Proformas (hardcopy)	Tom Horn	Draft	11/21	11/29	11/29	12/6	11/10	12/6	12/13
1002	Proformas (diskette)	Tom Horn	Draft	11/21	11/29	*		11/10	12/6	12/15
1003	GRI 1994 Baseline Forecast	ICF								
1004	As-Available Analysis	ICF	Final	11/21	11/29	11/29	12/6	11/10	12/6	12/13
1005	Study of Project Revenue/Cost Linkage	ICF								
1006	Energy Service Forecast (1993)	ICF								
	Project Participant's Financial Statements									
	Panda Energy									
1101	General Information	Tom Horn								
1102	1992 Financials	Tom Horn								
1103	1993 Financials	Tom Horn	Copy	11/21	11/29	11/29	12/6	12/6	12/6	12/15
1104	1994 to date Financials	Tom Horn								
	Calpine [Electrowatt]									
1111	General Information	Tom Horn	Copy	12/15	12/15	12/15	12/15	12/15	12/15	12/15
1112	1992 Financials	Tom Horn								
1113	1993 Financials	Tom Horn	Copy	12/15	12/15	12/15	12/15	12/15	12/15	12/15
1114	1994 to date Financials	Tom Horn								
	Florida Progress Corporation									
1121	General Information	Tom Horn								
1122	1992 Financials	Tom Horn								
1123	1993 Financials	Tom Horn	Copy	11/21	11/29	11/29	12/6	12/6	12/6	12/15
1124	1994 to date Financials	Tom Horn								
	Associated Natural Gas									

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Sheet 4 of 5

Panda-Kathleen, L.P.
Due Diligence List

Doc #	ITEM	PARTY	STATUS	BOTT	BV	W & C	B & R	MERRILL	B & W	CALPINE
1131	General Information	Tom Horn								
1132	1992 Financials	Tom Horn								
1133	1993 Financials	Tom Horn	Copy	11/21	11/29	11/29	12/6	12/6	12/6	12/15
1134	1994 to date Financials	Tom Horn								
	Walsh Construction Company [Guy F. Atkinson]									
1141	General Information	Tom Horn								
1142	1992 Financials	Tom Horn								
1143	1993 Financials	Tom Horn	Copy	11/21	11/29	11/29	12/6	12/6	12/6	12/15
1144	1994 to date Financials	Tom Horn								
	Gilbert Commonwealth, Inc.									
1151	General Information	Tom Horn	Copy	12/27	12/27	12/27	12/27	12/27	12/27	12/27
1152	1992 Financials	Tom Horn								
1153	1993 Financials	Tom Horn								
1154	1994 to date Financials	Tom Horn								
	Florida Gas Transmission									
1161	General Information	Tom Horn								
1162	1992 Financials	Tom Horn								
1163	1993 Financials	Tom Horn								
1164	1994 to date Financials	Tom Horn								
	Real Estate:									
1201	Land Purchase	Ruthven	Final	11/21	11/29	11/29	12/6	12/6	12/6	12/13
1202	Pipeline Right-of-Ways	Various Parties	Options							
	Sales Agreements:									
1301	Power Purchase Agreement	FPC	Final	11/21	11/29	11/29	12/6	11/10	12/6	12/13
1302	Steam Sales	Lakeland Water Co.	Draft	12/15	12/15	*	12/15	12/15	*	12/14

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Due Diligence List

Doc #	ITEM	PARTY	STATUS	BOTT	BV	W & C	B & R	MERRILL	B & W	CALPINE
	Technical Documents:									
1401	Electrical One-Line Diagrams	Kyle Woodruff	Copy	@	@	@	12/27	@	@	@
1402	Piping & Instrument Drawings	Kyle Woodruff								
1403	Mass & Heat Balance Diagrams	Kyle Woodruff	Preliminary	@	@	@	12/27	@	@	12/27
1404	ABB Proposal (Priced & Unpriced)	Kyle Woodruff	Preliminary	@	@	@	12/27	@	@	12/27
1405	Plot Plan	Kyle Woodruff	Copy	@	@	@	12/27	@	@	12/27
1406	Structure Diagram	Kyle Woodruff								
1407	Process Flow Diagram	Kyle Woodruff								
1408	Independent Engineer's Report For Prospectus	Brown & Root								
1409	Independent Engineer's Report For Banks	Brown & Root								
1410	Plant Operating Procedures / Manual	Brian Dietz								
1411	Gas Purchasing / Plant Dispatching Procedures	Brian Dietz								
1412	Equipment & Electrical Load List	Kyle Woodruff	Copy	@	@	@	12/27	@	@	12/27

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