

FPSC DOCKET NO. 950110-EI
REDACTED REBUTTAL TESTIMONY EXHIBITS FOR
BRIAN A. MORRISON

ACK _____

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DOCUMENT NUMBER-DATE

01875 FEB 16 2008

FPSC-RECORDS/REPORTING

EXHIBIT NO.

DOCUMENT

- 1 FPSC DOCKET NO. 950010-EI
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FPSC DOCKET NO. 950110-EI
EXHIBIT NO. _____ (BAM-3)
CONSISTING OF TWO PAGES



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

June 15, 1994

TO: Ted
From: Pat
& 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
cvt178

Attachment

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

CC RWCARTER

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

APPRECIATED *[Signature]*

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

Construction was to start 4/1/94 (needs written confirmation of extension)

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)

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

The proposed QF is distilled water which may be challengeable

The electric revenues subsidize the water

The FPC PPA is only for 75MW, the project is designed around 100 MW

What is the status of the other 34MW?

At 75MW the project needed supplemental fire. Was this for the 8C?

Determine FPC attitude to the project in general

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?

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.

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-

Losing cash in the front years - *Overing for ISO conditions. is positive*
No, losing money on GAAP basis, still cash flow + or (over)

IRRs are unusual. Where/how derived? *Why - 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*

O&M is 1.2M - is this maintenance only? Where is operation cost? *selection*

It's low if really has all operating and maintenance costs included

- maintenance reserve itself should be \$1 MM/yr. if continuous duty operation.

1-year construction schedule - too short?

cvrpk614

variable O&M costs

Operation cost is cost of fuel, chemicals, etc. you will build into this arrangement on that basis.
6/14/94

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



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 Rensselaer 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. _____ 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
DETZ

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

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.

BRYAN
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?

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
URBAN

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

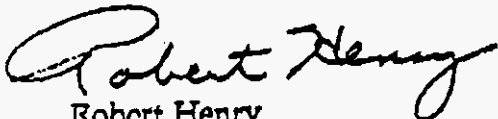
PETE
WRIGHT

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

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.

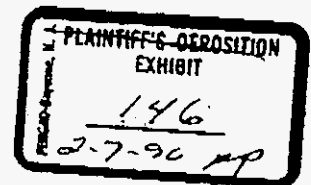
Best regards,



Robert Henry
Assistant General Counsel

SPECIALLY
RESTRICTED
PK 059526

**FPSC DOCKET NO. 950110-EI
EXHIBIT NO. _____ (BAM-19)
CONSISTING OF FIVE PAGES**



SPECIALLY
RESTRICTED
PK 057472

SPECIALTY
RESTRICTED
PK 057473

SPECIALLY
REGISTERED
PK 057474

SPECIALLY
PREPARED
PK 057475

SPECIALLY
PREPARED
PK 057476

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

**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 18, 1994

MESSAGE NO.: h:\panda\fax\panda\101894.doc

NUMBER OF PAGES: 11
(incl. Cover Letter)

TO: Mr. James D. Wright
Mr. John Burt
Mr. Tom Horn
Panda Energy Corporation

FACSIMILE NO.: (214) 980-8815

COPY TO: Ms. Mary Power
Bayerische Vereinsbank AG
(214) 270-0334
R. DeVincenzo, Esq.
L. Yamawaki - POT

FROM: Mr. Kirk Edelman
Vice President
(212) 782-3300

RE: Panda-Kathleen, L.P.

**SPECIALLY
RESTRICTED**

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

CONFIDENTIAL
PK 019528

OCT 18 '94 11:08AM BOT TRUST

FPSC Docket No. 950110-EI
FPC Witness: MORRISON
Exhibit No. _____, (BAM-23)
Sheet 2 of 11

P.2/11

PANDA-KATHLEEN, L.P.
October 18, 1994
Page 2

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

Best Regards,

Kirk

**SPECIALLY
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CONFIDENTIAL
PK 019529

The Bank of Tokyo Trust Company

Bayarische 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.

Mr. James D. Wright
October 18, 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 17, 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: _____

SPECIALLY RESTRICTED

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:

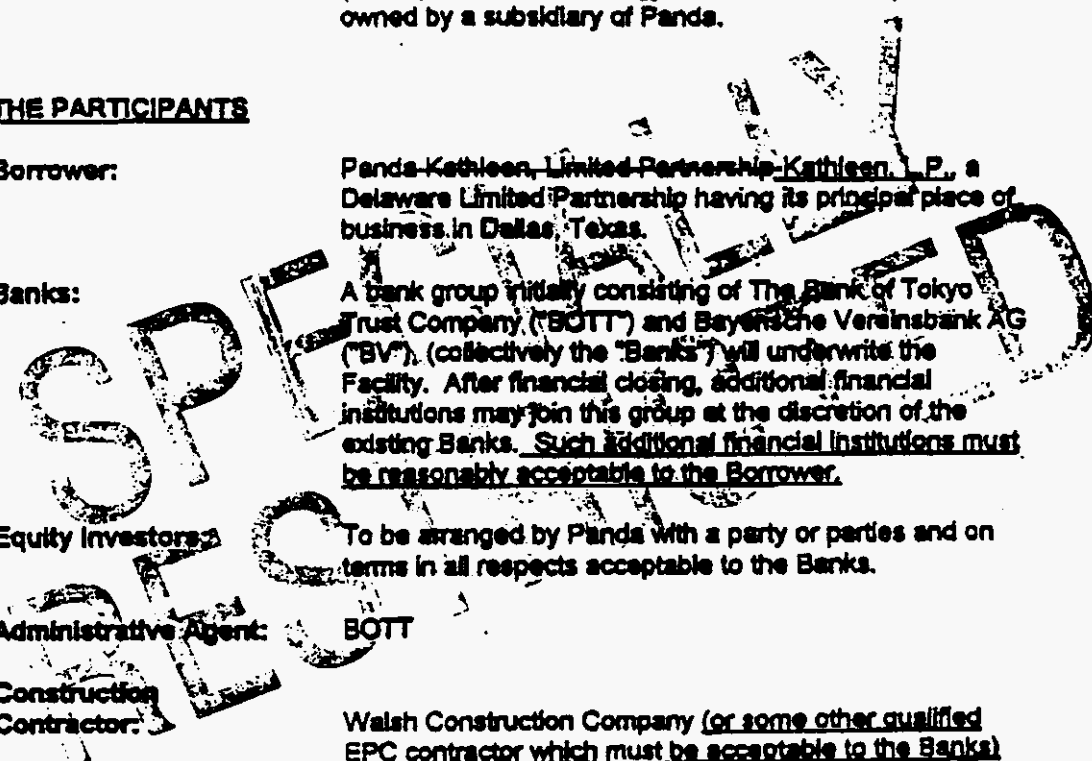
To be arranged by Panda with a party or parties and on terms in all respects acceptable to the Banks.

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.



Panda Kathleen, Limited Partnership
Exhibit A

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.

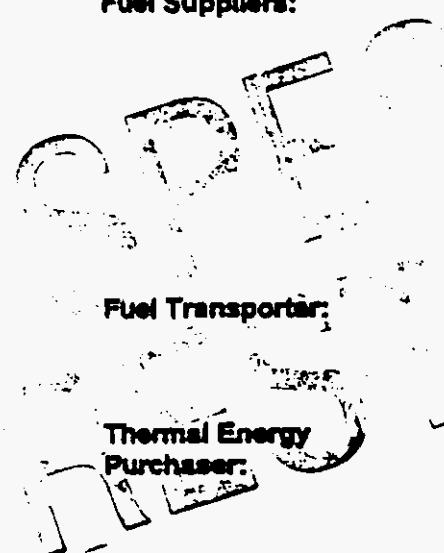
Fuel Transporter:

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 7 of 11

CONFIDENTIAL
PK 019534

FPSC Docket No. 950110-EI
FPC Witness: MORRISON
Exhibit No. _____, (BAM-23)
Sheet 8 of 11

CONFIDENTIAL
PK 019535

FPSC Docket No. 950110-EI
FPC Witness: MORRISON
Exhibit No. _____, (BAM-23)
Sheet 9 of 11

CONFIDENTIAL
PK 019536

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.

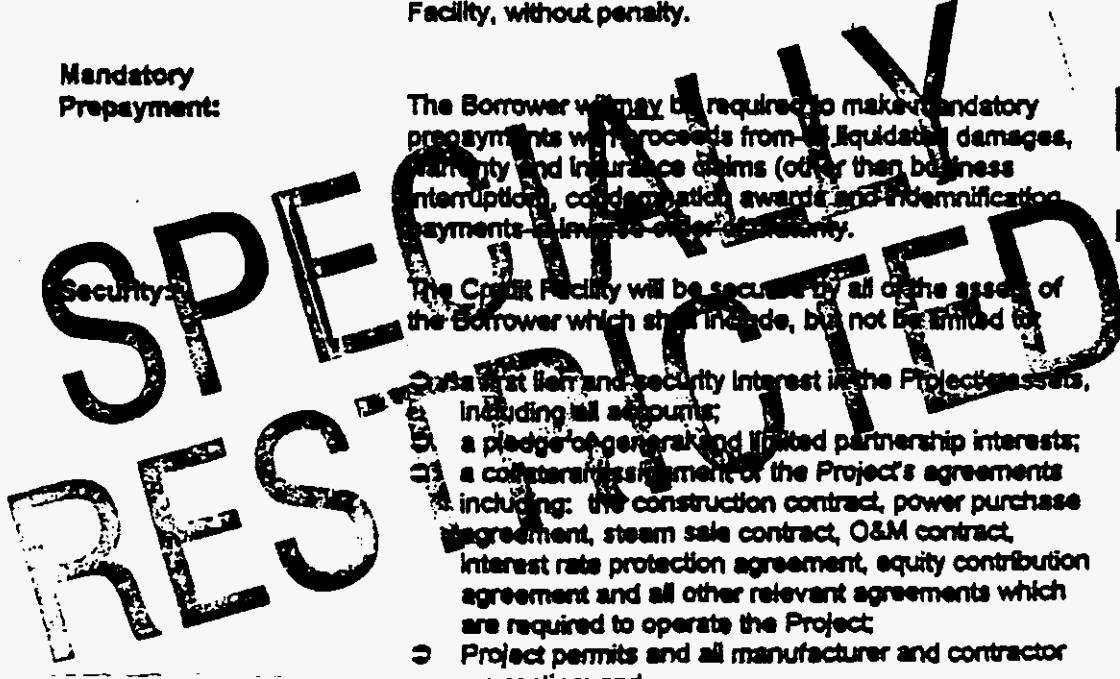
Mandatory Prepayment:

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

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.



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.

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10/18/94 10:57 AM

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

Facsimile Transmission Cover Letter

DATE: October 21, 1994

MESSAGE NO.: It:\panda\fpas\panda\102184.doc

NUMBER OF PAGES: 12
(incl. Cover Letter)

TO: Mr. James D. Wright
Mr. John Burt
Mr. Tom Horn
Panda Energy Corporation

FACSIMILE NO.: (214) 980-8815

COPY TO: Ms. Mary Power
Bayerische Vereinsbank AG
(212) 210-0354
R. DeVincenzo - BCT
R. Moyle - BCT

FROM: Mr. Kirk Adelman
Vice President
(212) 782-3350

RE: Panda-Kathleen, L.P.

DESCRIPTION AND 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

CONFIDENTIAL
PK 019540

DRAFT

October 21, 1994

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

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.

CONFIDENTIAL
PK 019541

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

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

h:\panda\proposal\cover4.doc

10/21/94 02:28 PM |

CONFIDENTIAL
PK 019542

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.

Banks:

A bank group initially consisting of The Bank of Tokyo Trust Company ("BOTB") and Bayerische Vereinsbank AG ("BVB"), (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:

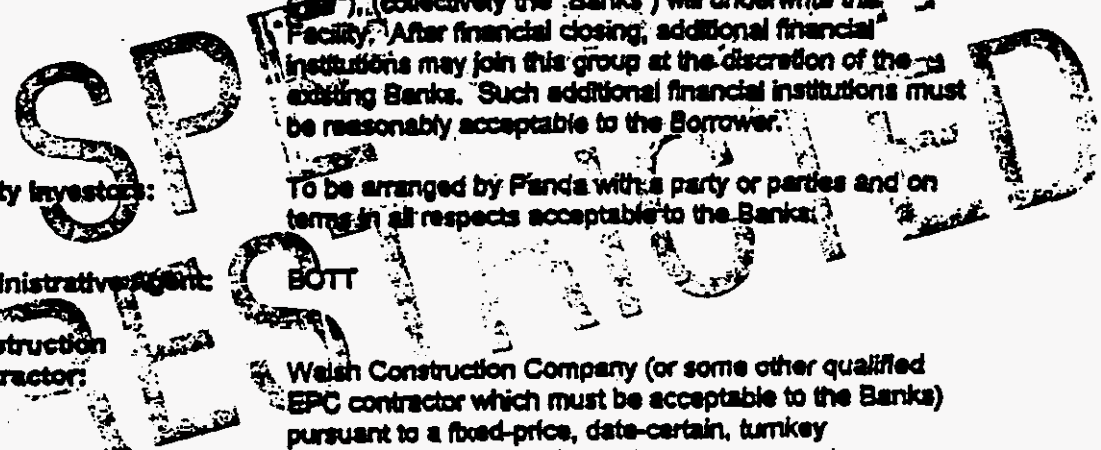
To be arranged by Panda with a party or parties and on terms in all respects acceptable to the Banks.

Administrative Agent:

BOTB

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

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 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 transportation service agreement with terms and conditions in all respects acceptable to the Banks.

Thermal Energy Purchaser:

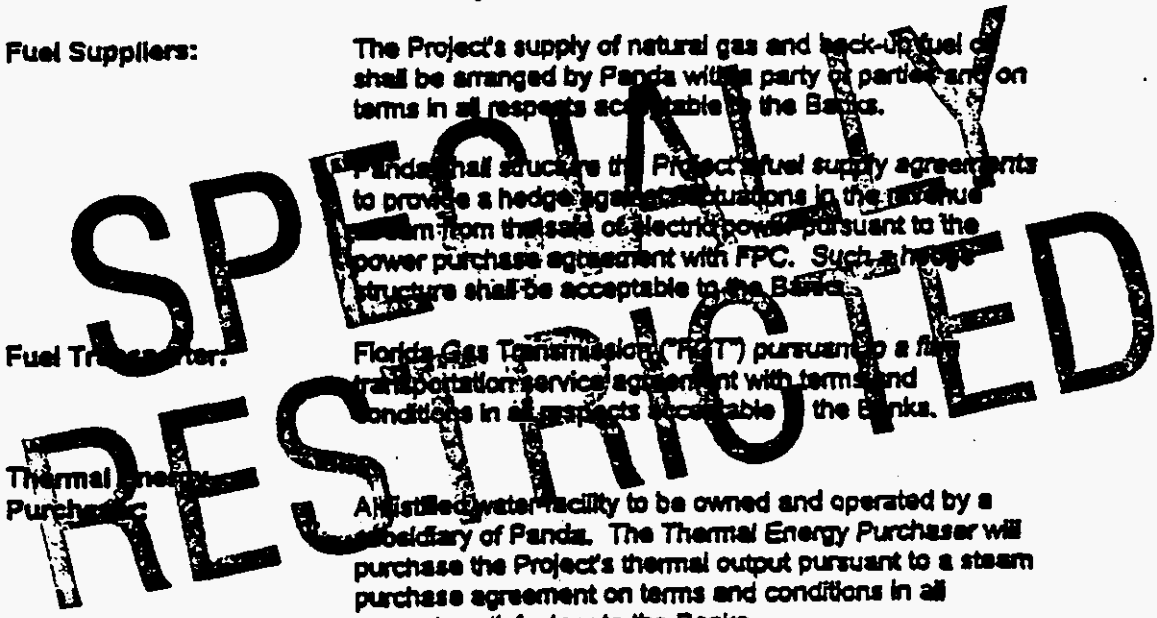
A distilled water facility to be owned and operated by a subsidiary of Panda. The Thermal Energy Purchaser will purchase the Project's thermal output pursuant to a steam purchase agreement on terms and conditions in all respects satisfactory to the Banks.

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FPC Witness: MORRISON
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FPC Witness: MORRISON
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FPSC Docket No. 950110-EI
FPC Witness: MORRISON
Exhibit No. _____, (BAM-24)
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PK 019547

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, awards 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's 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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FPSC Docket No. 950110-EI
FPC Witness: MORRISON
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FPSC Docket No. 950110-EI
FPC Witness: MORRISON
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PK 019549

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.

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EXHIBIT NO. _____ (BAM-25)
CONSISTING OF TWELVE PAGES

**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) 782-8442

Facsimile Transmission Cover Letter

DATE: November 17, 1994

MESSAGE NO.: h:\door\panda\fax\panda111794.doc

NUMBER OF PAGES: 12
(incl. Cover Letter)

TO: Mr. Tom Horn
Panda Energy Corporation

FACSIMILE NO.: (214) 980-8815

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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PK 019485

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"

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.

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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

Bayarische Vereinsbank AG

Kirk H. Edelman
Vice President

May Power
Vice President

Acknowledged and accepted by

Panda Energy Corporation

By: _____

Name: _____

Title: _____

Date: _____

attach.

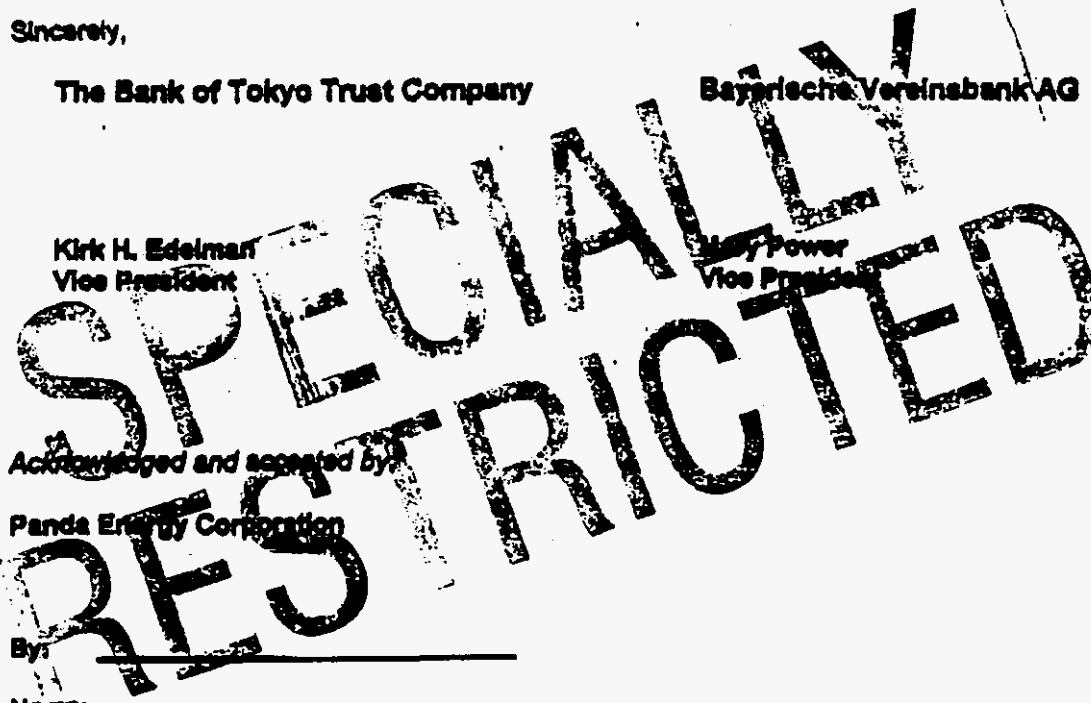


Exhibit A

**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 ("BOT") 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:

BOT

**Panda Kathleen, Limited Partnership
Exhibit A**

**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 guarantees 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, budgeted services/controls, cost 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:

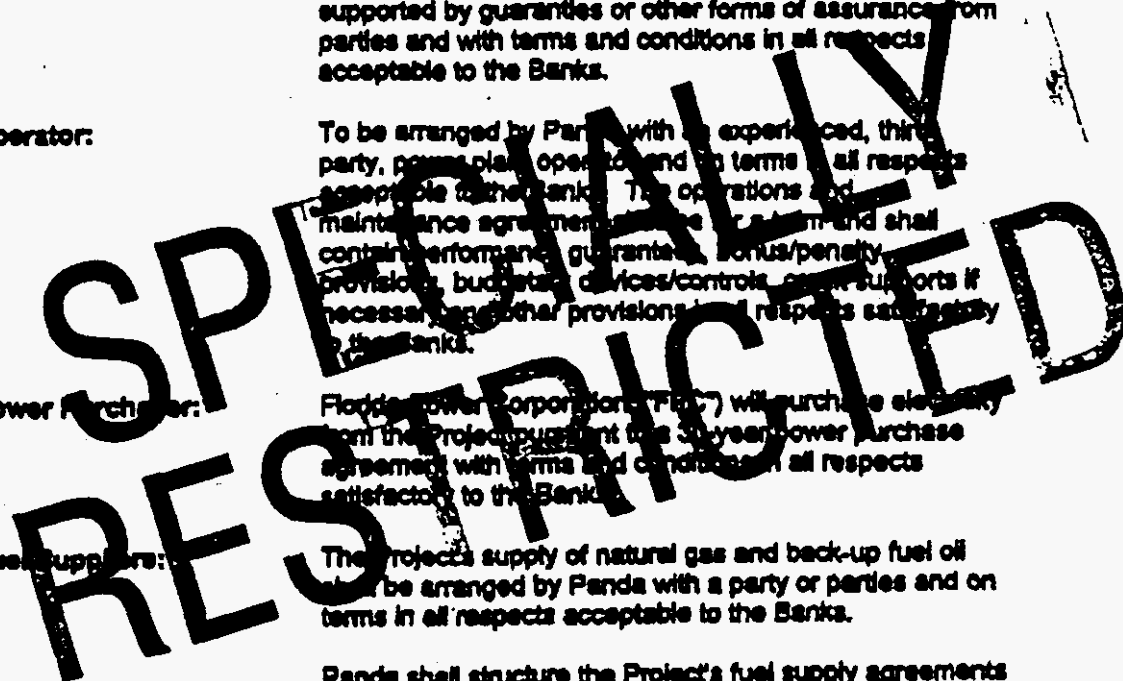
Florida Gas Transmission ("FGT") pursuant to a combination of firm and interruptible transportation service agreements with terms and conditions in all respects acceptable to the Banks.

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FPSC Docket No. 950110-EI
FPC Witness: MORRISON
Exhibit No. _____, (BAM-25)
Sheet 5 of 12

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PK 019489



FPSC Docket No. 950110-EI
FPC Witness: MORRISON
Exhibit No. _____, (BAM-25)
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PK 019490

FPSC Docket No. 950110-EI
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FPSC Docket No. 950110-EI
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PK 019493

**Panda Kathleen, Limited Partnership
Exhibit A**

Page 7

- ⊖ 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)
Sheet 11 of 12

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**Panda Kathleen, Limited Partnership
Exhibit A**

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.



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FPC Witness: MORRISON
Exhibit No. _____, (BAM-25)
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FPSC DOCKET NO. 950110-EI
EXHIBIT NO. _____ (BAM-26)
CONSISTING OF ONE PAGE

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.

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

ROUTING - REQUEST

BROWN & R

**ENGINEERING CONS:
P. O. B:
HOUSTON, TEXA**

FAX NUMBER (

Please

<input checked="" type="checkbox"/>	READ	To <u>DAVID</u>
<input type="checkbox"/>	HANDLE	<u>Brian</u>
<input type="checkbox"/>	APPROVE	<u>John</u>
and		
<input type="checkbox"/>	FORWARD	<u>Jim</u>
<input type="checkbox"/>	RETURN	<u>Daryl</u>
<input type="checkbox"/>	KEEP OR DISCARD	<u>[REDACTED]</u>
<input checked="" type="checkbox"/>	REVIEW WITH ME	
Date	<u>1/16/95</u>	From <u>Kyle</u>

The pages comprising this facsimile 1 INFORMATION from Brown & Root. The info individual or entity named as the recipient her 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.

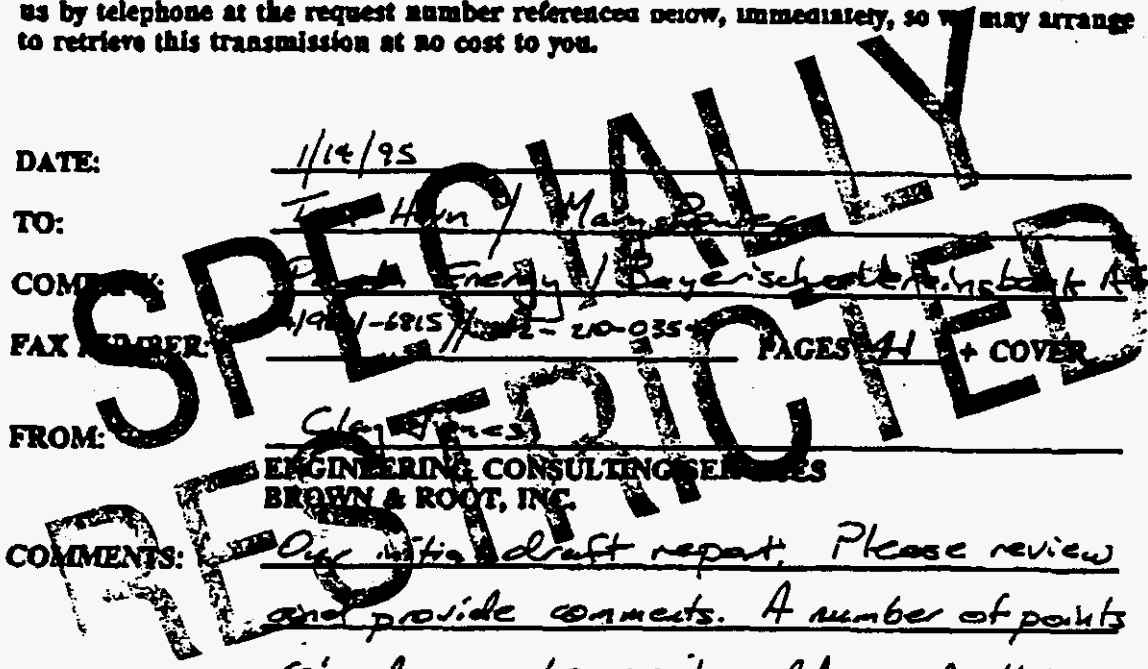
DATE: 1/14/95

TO: Tex Hun / Manager

COM: Energy / Bayerische

FAX NUMBER: 713-676-8260 PAGES 4 + 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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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 content of this report. This draft report does not necessarily constitute Brown & Root's final opinions. Information received as of the date of this report was not reviewed and therefore not incorporated into this draft report. We anticipate revisions and updates to this draft report.

The information contained herein is not meant to imply that every possible design 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,

Robert L. Cate, P.E.
Project Manager
Brown & Root Power

Sincerely,

N. Clay Jones
Project Consultant
Engineering Consulting Services

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NCJ

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A Halliburton Company

P. 2/42

JAN 14 '95 04:22PM BROWN & ROOT ECS

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TECHNICAL REVIEW

of

**Panda-Kathleen Limited Partnership
13 MW Cogeneration Facility
Lakeland, Florida**

**SPECIALLY
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prepared for

THE BANK OF TOKYO TRUST COMPANY

January, 1995

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PANDA-KATHLEEN COGENERATION

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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.

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 handled by the distilled water facility.

1.3 Project Cost/Schedule

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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 Forma. Based on Brown & Root's experience, the O&M costs presented in the Pro Forma 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.

BROWN & ROOT
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 2011. 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 only a portion of the fuel requirements for the facility, with the balance presumably to be provided through spot market purchases. These purchases are normally interrupted by the supplier which leaves 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 visibility 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.

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Panda-Kathleen Cogeneration Project
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1.0 Executive Summary
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2.0 DESCRIPTION OF FACILITIES **DRAFT**

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 19,100 lbs/hr low pressure process steam, and an ABB "VAK" axial exhaust condensing steam turbine with associated condensers. 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.

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):

- 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
 - City of Lakeland

 - Florida Power Corporation
 - Universal Ensco
- Proposed Gas Transportation
 - Prearranged Gas Capacity Release, and Electrical Interconnection between PKLP and Florida Power Corporation
 - Purchaser of Electrical Energy and Capacity
 - Pipeline Engineering

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2.0 Description of Facilities
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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 escalates 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 to "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 LP 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 @ 39 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^b 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 cost, 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 if 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.

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There are also several minor points which should be clarified:

- The Capacity Release Fee is unspecified
- The Discount Fee is unspecified
- The Fuel Oil Management Fee is unspecified

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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 gas transportation is significant, and as such, plays a role in the overall profitability of the facility.

The agreements reviewed to date include:

- December 6, 1994 draft Letter Agreement regarding Proposed Permanent Preferred 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.

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4.0 Fuel Agreements
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5.0 ENGINEERING/TECHNICAL REVIEW DRAFT

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 reviewed 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 on fire case mentioned above. The gross output at this point is 114.85 MW. The EPC guarantee is provided at 100.0 MW net less of 4.85 MW of auxiliary load. This auxiliary load represents 4.2% of the gross output of the facility. As Brown & Root's experience units of this type normally would use 2.4% 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 9.2. Disilled Water Plant/Zero discharge system should include system availability/reliability guarantees along with other performance guarantees. Section 7.4.4 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 06/13/94	Transmission Interconnect Agreement Prop. 69 kV Line Electrical One Line Lakeland Electric System Ten Year Plan Master Equipment/Load List

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 line connection and the intended operational procedures to be applied to it by City of Lakeland, including the following points:

- Protection Relaying Scheme
- Breaker Reclosing Scheme
- Three-way Switch Scheme at center of line
- Generator Synchronizing Scheme for 69 kV breaker, if applicable.

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 be 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 IEEE and ANSI as the basis for protection. IEEE should be included. 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 comments.

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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 Alamo/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, 6.1.1.9.1, 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 and bearing/pedestal instrumentation 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 DCS section. 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. Factors include test start operation, control, Alarm annunciation, etc. circuits should be specified to test circuit for the alarm condition indication.

10. Section 11.2.3, the last paragraph should be modified to provide a definition of the spare DCS manipulative 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 safety 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 Continuous 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 18.12, 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 lightning strikes 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 Method 1 calibration gas for the CEMS in sufficient blend and quantity for start-up, certification calibration, and initial operation.

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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 MMcf/d, 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 Elkland 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 (CO₂ or O₂). 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 O₂. SO_x, 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 are not ineffective for this source/emission unit." The applicability of the Acid Rain Program and CEMS should be established so the permit 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 with the 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 SO₂ 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.

6.2.1 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 1, 1995. Water shortages tend to develop during the April to May and the October to December periods. Water shortage is not currently a problem in Polk County because of recent heavy rainfall. 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.

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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 later 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.

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 Treatment 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 weeks 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 Pollution 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 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 I 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:

	<u>Contract Date</u>	<u>Target Date</u>	<u>Acceleration</u>
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, 1995	1 Month

Engineering

The total engineering duration for the project shown on the schedule is approximately nine (9) months. We opine that a typical engineering duration for this type of project will be a 12-13 month effort. Apparently little preliminary engineering effort by Gilbey has been undertaken for some time. Brown & Root was not able to determine how much engineering has been done to date. 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
HRSB	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.

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 availability 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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Panda-Kathleen Cogeneration Project
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7.0 Schedule Review
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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:

	<u>Typical</u>	<u>Panda</u>
Gas Turbine	5 months	3-1/2 months
Steam Turbine	4 months	3 months
HRSB	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. 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 accompanied 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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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 \$1.2M is indicated. We assume the majority of this billing represents down payment to equipment vendors. In month thirteen (13), October 1995, a 15% payment is due for delivery of the gas and steam turbines. This is considered reasonable.

The retention in the project cashflow, approximately 8%, 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.

For the contract, the Contractor will break down the scope of work into items with assigned payment value. The Contractor is also allowed to enter the payment value of these items during the project, but under the guaranteed maximum price. Review 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.

Section I. Definitions

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.

Section IV. Compensation

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, or"

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.

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 verified and explanatory notes added to the pro forma, as appropriate. The effect of degradation is not 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., $7,373 \times 1.11 = 8,184$. 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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Panda-Kathleen Cogeneration Project 9.0 Operation and Maintenance and 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)

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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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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10.0 EPC Contract Risk Analysis
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**FPSC DOCKET NO. 950110-EI
EXHIBIT NO. _____ (BAM-28)
CONSISTING OF ONE PAGES**

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**FPSC DOCKET NO. 950110-EI
EXHIBIT NO. _____ (BAM-29)
CONSISTING OF TWO PAGES**

FPSC Docket No. 950110-EI
FPC Witness: MORRISONS
Exhibit No. _____, (BAM-29)
Sheet 1 of 2

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FPSC DOCKET NO. 950110-EI
EXHIBIT NO. _____ (BAM-30)
CONSISTING OF FOUR PAGES

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

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FPC Witness: MORRISONS
Exhibit No. _____, (BAM-30)
Sheet 1 of 4

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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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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FPSC DOCKET NO. 950110-EI
EXHIBIT NO. _____ (BAM-32)
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*Bevan
FYI for
see #6*

*ASD
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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page -2-

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.

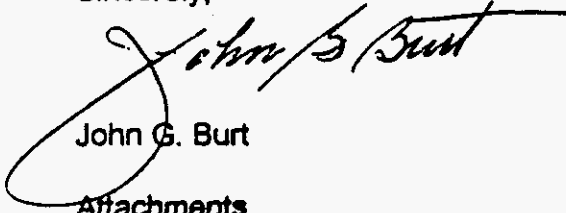
4) That you give us a little more time to analyze the option of using a Calpine LC or borrowing the \$20 Million during construction...some of our people are concerned that there will be costly paperwork and associated delays if we go the loan route.

5) That we prepare and execute a Commitment 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

Attachments

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PK 045265

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FPSC Docket No. 950110-EI
FPC Witness: MORRISONS
Exhibit No. _____, (BAM-32)
Sheet 5 of 5

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FPSC DOCKET NO. 950110-EI
EXHIBIT NO. _____ (BAM-33)
CONSISTING OF TWENTY-THREE PAGES

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PANDA-KATHLEN COGENERATION PROJECT, LP

Investment Memorandum

September 1994

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PK 018157

COPY NO: _____

PANDA-KATHLEEN COGEN PROJECT, LP

Confidential Investment Memorandum

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, there is not a trading market for such partnership interests. Investors may bear economic risks of the 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 advisors 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 retransmission 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 purport 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 omission 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.

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PANDA-KATHLEEN COGEN PROJECT, LP

Confidential Investment Memorandum

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Section I

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.

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 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 be 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 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.

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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 75244
214/980-7159

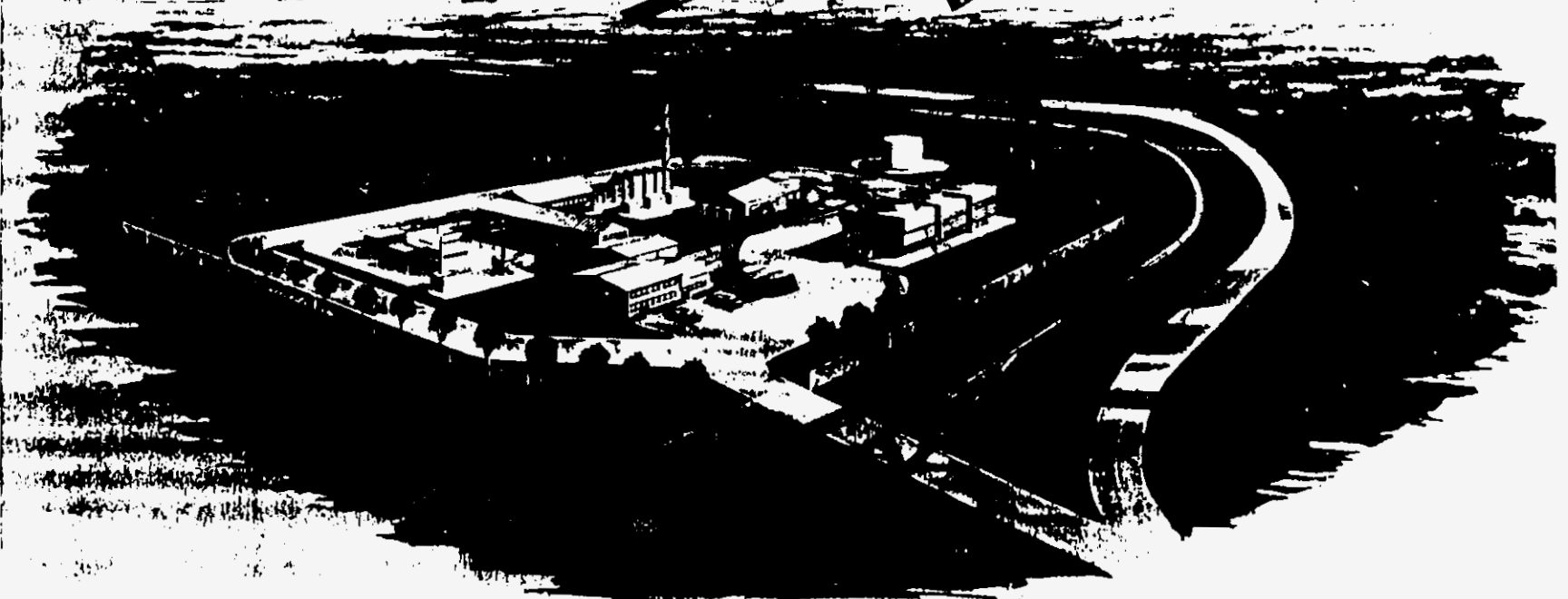
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PANDA-KATHLEEN COGENERATION PROJECT, L.P.

Page 7
8/30/94

RESERVED



**PANDA-KATHILEEN PLANT 75 MW
LAKELAND, FLORIDA
IN SERVICE DATE APRIL 1, 1996**

FPSC Docket No. 950110-EI
FPC Witness: MORRISONS
Exhibit No. _____, (BAM-33)
Sheet 8 of 23

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Kathleen Site-SW 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 to steam in the HRSG which, in turn, will drive a second generator. The equipment manufacturer 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 above that required to maintain the plant's C status. A portion of process steam will be condensed into distilled water and delivered to the distillation water plant located adjacent to the plant.

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 or 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 cover 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 new 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 a lower average cost and those costs are to be 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 eastern 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.

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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.

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 Facility's 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.

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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.

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.

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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).

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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 [\$1,000,000] 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 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;

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PK 018174

- 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.

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Section IV

PANDA-KATHLEEN COGEN PROJECT

Discussion of Certain Risks

System Performance

Pursuant to the turnkey construction contract, Walsh Engineering and the component and manufacturer 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, i.e., 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 unforeseen events during design and testing of the primary components or installation of same in the Facility, the 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 _____ 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 significant 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.

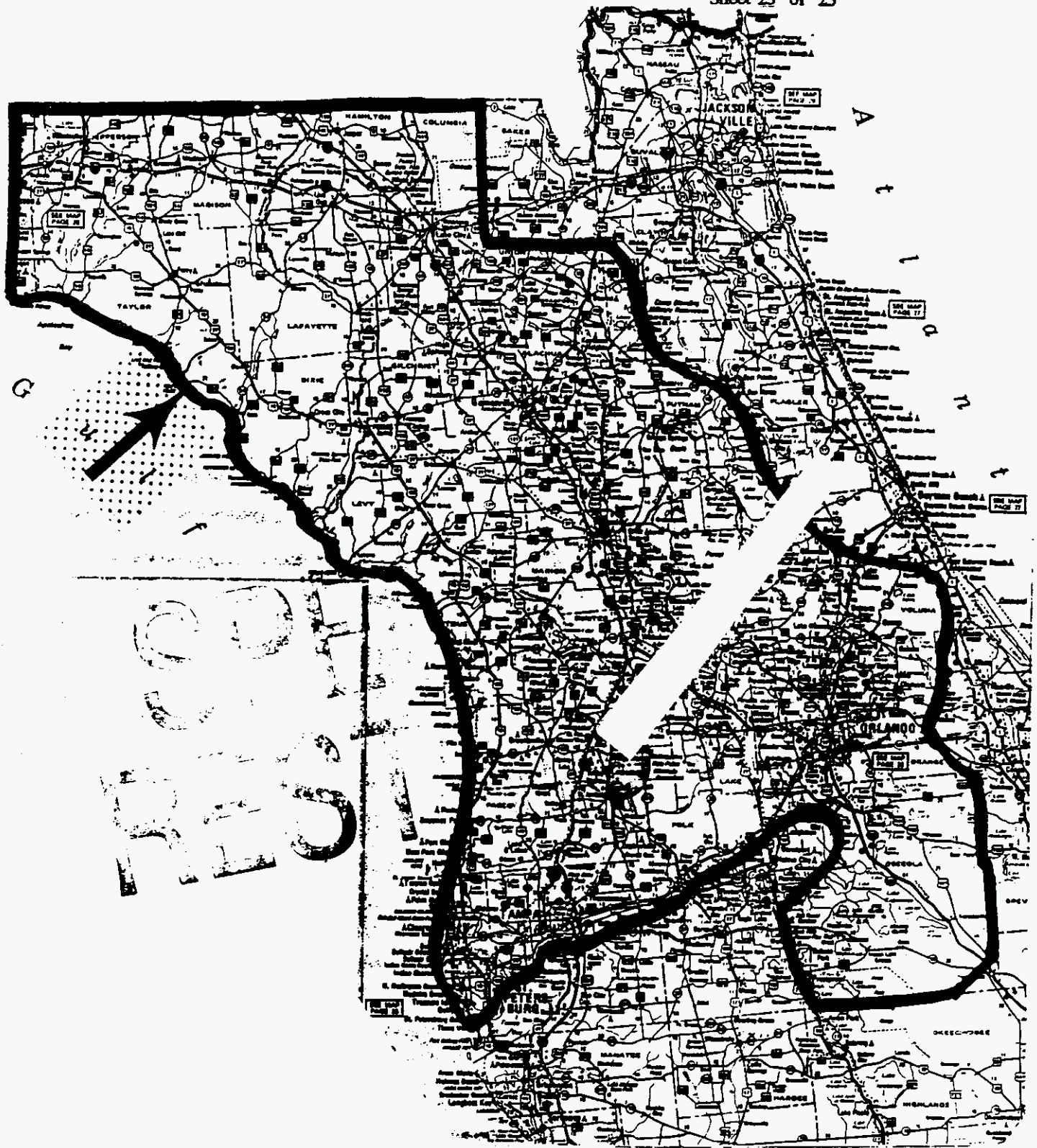
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Section V

Appendix

- Financial Projections
- Florida Power Service Area Map

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FLORIDA

Map Indicating Florida Power Service Area