BUSINESS PLAN FOR MENASHA POWER PLANT CONVERSION

Menasha Utilities
THE POWER OF COMMUNITY

June 22, 2006

EXECUTIVE SUMMARY

Project

The Menasha Power Plant was originally designed to burn Appalachian coal to produce and distribute electricity. This project will upgrade the existing plant to provide steam to neighboring paper mills. Following the sharp increase in Appalachian coal price, Menasha Utilities undertook the conversion of its plant to now burn cheaper PRB (Powder River Basin) coal and consequently offer a more long term economical source of energy to its industrial steam customers.

In addition, the conversion requires the implementation of specific environmental changes to achieve compliance with newly enacted MACT (Maximum Achievable Control Technology) regulations. The implementation of the compliance plan together with the conversion to low sulfur PRB coal will allow the Menasha Utilities' power plant to operate in a very responsible environmental manner, with stack emissions of particulates and sulfur significantly lower than current level.

Market

Historically, the Menasha industrial base has been built around the paper industry. The manufacturing of paper and related products requires a considerable amount of steam. Currently, there are three (3) paper mills located in close proximity to the Menasha Power Plant. These Mills are:

1. Sonoco U.S. Mills Inc. (Sonoco)
2. George A. Whiting Paper Company (Whiting)
3. Alcan (Pechiney Plastics) Packaging Americas (Alcan)

The above mills are currently producing steam by burning natural gas in their respective boilers. The sharp and long-term increase in natural gas prices motivated the mills to look for cheaper alternative options. The benefits of PRB generated steam is a significant cost savings for the mills. In October 2004 Sonoco and Whiting signed steam sales agreements ("SSA") and Alcan signed in October 2005. In May 2006 we renegotiated amendments with Sonoco, Whiting and rewrote the contract with Alcan. Additionally the WPPI Power Sales Agreement (PSA) has been revised from an annual renewable contract to a 20 year PSA.

Milestone

As of the end of May 2006, the work to convert the Menasha Power Plant from an electric generating facility to a steam supply facility is nearly complete. The following summarizes progress:

- Boiler modification work and repairs have been completed.
- New coal handling equipment has been ordered, manufactured, delivered and installed.
- Underground steam supply and on customer premises piping has been designed and installed.
- New plant control system is being configured and installed.
- The existing plant ash handling system has been rebuilt.
- The existing steam turbine generator #3 and #4 has been rebuilt.
- Backpressure turbine generator #5 is being installed so all steam is sold to the mills can also be used to generate profitable electric power.

Based on the present level of completion, it is planned to deliver steam to the Sonoco Paper Co. by the end of June, 2006, with steam deliveries commencing to Alcan and Whiting in July 2006.

Funding

The total dollar amount being sought is **$37,785,000** in debt financing. The total estimated direct construction cost for implementation of the project includes the following:

- conversion of the Menasha Power Plant to an industrial steam supply facility
- concurrent conversion from Appalachian to PRB coal
- implementation of MACT compliance

Authors

Menasha Utilities Management personnel authored this Business Plan. Marathon Engineers/Architects/Planners, LLC and Jaakko Pöyry Consulting Inc. contributed to the development of the Business Plan by advising Menasha Utilities on its structure as well as including relevant publicly available information.

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I - MENASHA UTILITIES

A) Provide Customers with the Best Services at the Lowest Possible Cost.

Menasha Utilities (MU) owns and operates the electric distribution system in the City of Menasha, serving 8,700 electric customers. Electricity is supplied under a wholesale contract by Wisconsin Public Power Inc. (WPPI).

Menasha Utilities also supplies water to the City through its water filtration plant, reservoirs and water distribution system. The water filtration plant and water distribution system serves 5,000 commercial, industrial and residential customers in Menasha. Menasha Utilities also provides wholesale water services to the Menasha Utility District located in the Town of Menasha.

Both utilities serve within the boundaries of the City of Menasha, which is bounded on the west by Little Lake Butte des Morts, on the south by the City of Neenah, partially to the east by Lake Winnebago and the remaining by the city limits. An area north of Ninth Street, which was annexed during the 1960s, is generally served with water by the Town of Menasha Utility District. In 1996, the electric utility entered into a formal boundary agreement with We Energies to serve all electric customers within the city limits.

B) A History of Achievements.

Menasha Utilities is one of this country's 2,200 public power systems - a utility owned by the people and the community it serves. Menasha has a long history of meeting its customers' needs while helping to make the community a better place to live and work. The following milestones testify to MU historical ability to successfully identify and implement breakthrough projects:

1906: the Electric Utility began operations by installing a city street lighting system.

1912: the City installed a 225 hp. diesel-generating unit and began furnishing electric light and power, and water, for domestic and commercial purposes.

1928: Menasha Utilities Superintendent John H. Kuester and Clerk John Jebwabny, along with three superintendents from Kaukauna, Algoma and Sturgeon Bay founded the Municipal Electric Utilities of Wisconsin which provides for a stronger and unified approach for all Wisconsin municipally-owned utilities.

1949: The first two River Street steam turbines went on line and were rated at 4000 kW each. This provided the Utility with additional capacity and for maintenance outages and emergencies.

1969: The Melissa Substation was constructed to facilitate the Kaukauna-Menasha interconnection and serve new development in the city. The Utility operated as an isolated system. The interconnection was put into service in 1970 and was the first electrical interconnection between municipally owned systems.

1980: Menasha Electric Utility becomes one of the 30 member-owners of Wisconsin Public Power Inc. (WPPI). WPPI has supplied the electric requirements of Menasha since November 1981. WPPI has now grown to 40 members.

1991: The Operations and Office Complex facility was constructed. This brought the Distribution, Customer Service and Administrative Offices under one roof.

By 1995: Menasha Utilities completed TEAM training for all its employees with Commission participation to prepare for a more competitive future, and to improve customer service. Presently, every department is participating in a Quality Assurance Program with overview from a Quality Assurance Focus Team.

In 2005 Menasha Utilities celebrated 100 years of providing electricity and water to the City of Menasha.

C) Menasha Power Plant

The Menasha Power Plant has been a part of Menasha Community for over half of a century. In prior years, the Menasha Power Plant supplied electricity to Menasha in addition to providing jobs for many Menasha citizens. Until late 2004, the plant operated as a peaking plant, operating about 200-300 hours per year, providing peak capacity under contract to Wisconsin Public Power Inc. (WPPI). In 2004 WPPI terminated its' contract with Menasha Utilities.

The Menasha plant built its' reputation on operational reliability and customer service. In line with this legacy, a comprehensive review of the steam plant was completed in 2003. This included an assessment of all major components and systems within the plant. A matrix was developed which listed each component, its' condition, and estimated cost of repair or replacement to make the plant operate reliable. As part of this steam project, all of the equipment listed was either repaired or replaced, so there should be no unforeseen reliability issues.

II - THE NEW PROJECT

This new project is motivated by the need for cheaper energy & cleaner environment.

A study was undertaken in 2003 that focused on alternative uses for the Menasha Power Plant. The study included a review of the site, existing infrastructure and their general condition. The study examined several options which included:

1. Rebuilding existing boilers and steam turbine generators and continue operating the plant as a base load, coal fired plant: this alternative was not economically viable because of the relatively low operating efficiency of electric-power-only production.

2. Re-powering the plant by installing a combustion turbine generator unit and a new heat recovery steam generator to generate steam through two existing turbine generators. The re-powering required endorsement and support from WPPI who would also be required to purchase the electric power from the plant, and make the capital investment.

3. Demolishing the Plant and constructing a new plant using combustion turbine technology on the site was not a viable option because of the existence of more suitable sites that would offer better configuration and greater cost effectiveness than the Menasha plant.

4. Operating the plant as a steam utility and supply steam to several nearby paper mills.

The best alternative use of the plant was identified in late 2003. MU decided in mid 2004 that the Menasha Power Plant should be modified to operate as an industrial steam supply facility including the installation of a steam distribution system that would allow the distribution of steam to neighboring paper mills. The Menasha Power Plant was originally designed to burn Appalachian stoker grade coal.

When the steam supply agreements were signed with three paper mills, Appalachian coal cost was approximately $60/ton (more than 40% below current price). The steam supply agreements with the Mills require Menasha Utilities to source the lowest cost coal. However, Appalachian coal prices have increased dramatically since the beginning of 2004. Current prices of Appalachian coal delivered to Menasha are in the range of to $3.50 per one million British thermal units (MMBTU), or over $105 per ton. Given the sharp upturn in Appalachian coal prices, the mills requested that MU investigate sourcing lower cost coal. The lowest cost coal was found to be Powder River Basin (PRB) coal. This coal is a sub-bituminous coal from the Power River Basin area of Wyoming.

The operational conversion of the plant to PRB coal creates the obligation to implement certain environmental changes to achieve compliance with newly enacted Maximum Achievable Control Technology (MACT) regulations. The implementation of the MACT compliance plan together with the conversion to low sulfur PRB coal allows power plants to operate in a very responsible environmental manner, with stack emissions of particulates and sulfur significantly reduced when compared to previous operations.

Due to the mill's request under the long-term steam supply agreements and the environmental benefits it would produce, the decision was made in the spring of 2005 to convert the Menasha Power Plant to burn PRB coal. Benefiting from a low cost coal, the plant will now:

1. Improve the competitiveness of its customers by providing them with low cost steam (coal generated steam will be around 30% cheaper than natural gas-generated steam)
2. Enable long-term price stability as coal price is subject to less variability than any other energy source
3. Improve environmental control of stack emissions with lower sulfur 0.3 to 0.5% vs. 1.2% for Appalachian coal
4. Meet current MACT requirements

In November 2004, a business plan was developed by PCI Management & Consulting and Menasha Utilities and helped raise $12.66MM in Revenue Bond Anticipation note to finance the changes needed to provide steam to the surrounding mills. The original capital borrowing contemplated that the plant would continue to burn Appalachian coal. MU now requires additional funds to complete the conversion to PRB coal. The objective of this business plan is to demonstrate the robustness and economic viability of MU's value – including the re-negotiation of all three (3) steam contracts and an additional guaranteed purchase of the electrical energy into the MISO Market by WPPI as well as the environmental and social benefits it would provide to the local community.

III. DEMAND

A) Benefits from Outsourcing Steam Production

This section is to demonstrate the long lasting price benefits for the mills to use outsourced coal-generated steam rather than in-house natural gas-generated steam.

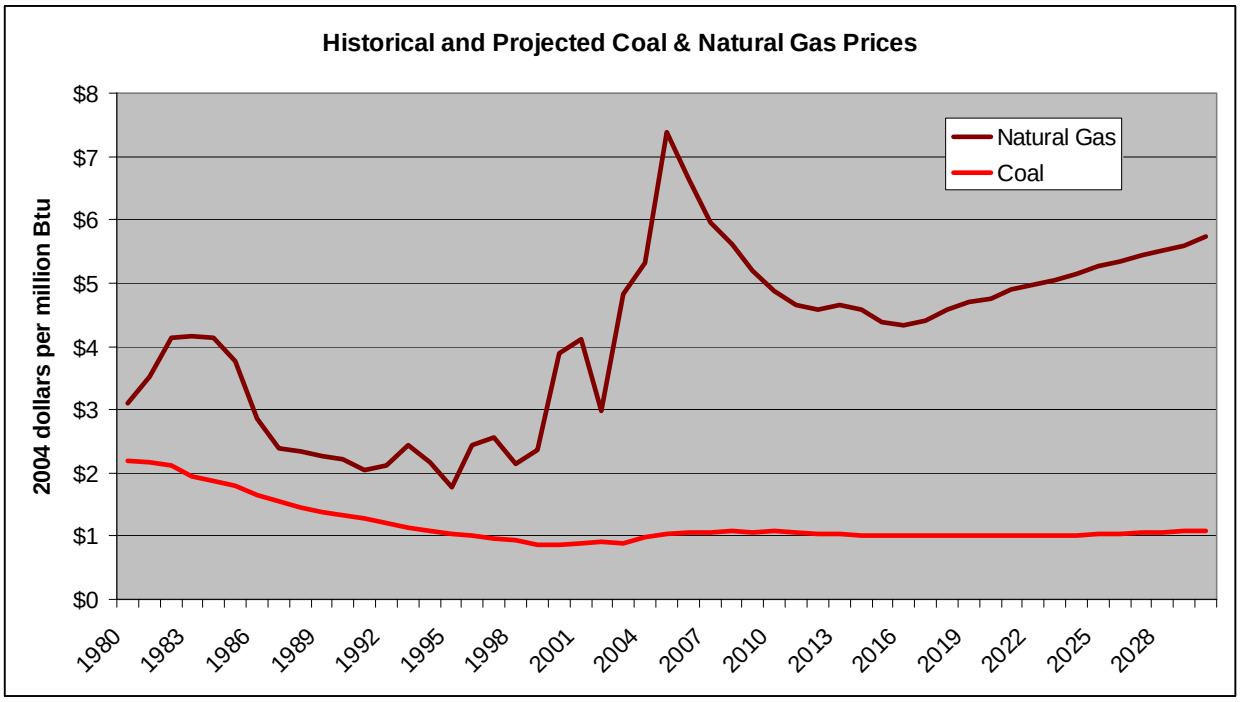
The Energy Information Administration (EIA) is a governmental agency that evaluates a wide range of trends and issues that could have major implications for U.S. energy markets between today and 2030. The EIA is the most authoritative source of information regarding energy. EIA publications were used to demonstrate the short and long-term benefit of using coal-generated energy rather than natural gas.

The projections made by the EIA support the need for energy intensive industry to choose coal-fired generated energy over any other types of energy. The EIA predicts that although the average U.S. wellhead price for natural gas is likely to gradually decline from its current level, it will rise steadily from 2006 onward. The EIA states that "LNG imports, Alaskan natural gas production, and lower 48 production from unconventional sources are not expected to increase sufficiently to offset the impacts of resource depletion and increased demand".

In contrast, the EIA says that "the combination of slow but continued improvements in expected mine productivity and a continuing shift to low-cost coal from the Powder River Basin in Wyoming leads to a gradual decline in the projected average mine mouth coal price".

The graph below clearly illustrates three factors that will benefit Menasha Utilities' project:

1. Coal is expected to be 4 to 5 times cheaper than natural gas
2. The price differential between natural gas and coal price is expected to widen
3. Coal price is less volatile than natural gas price



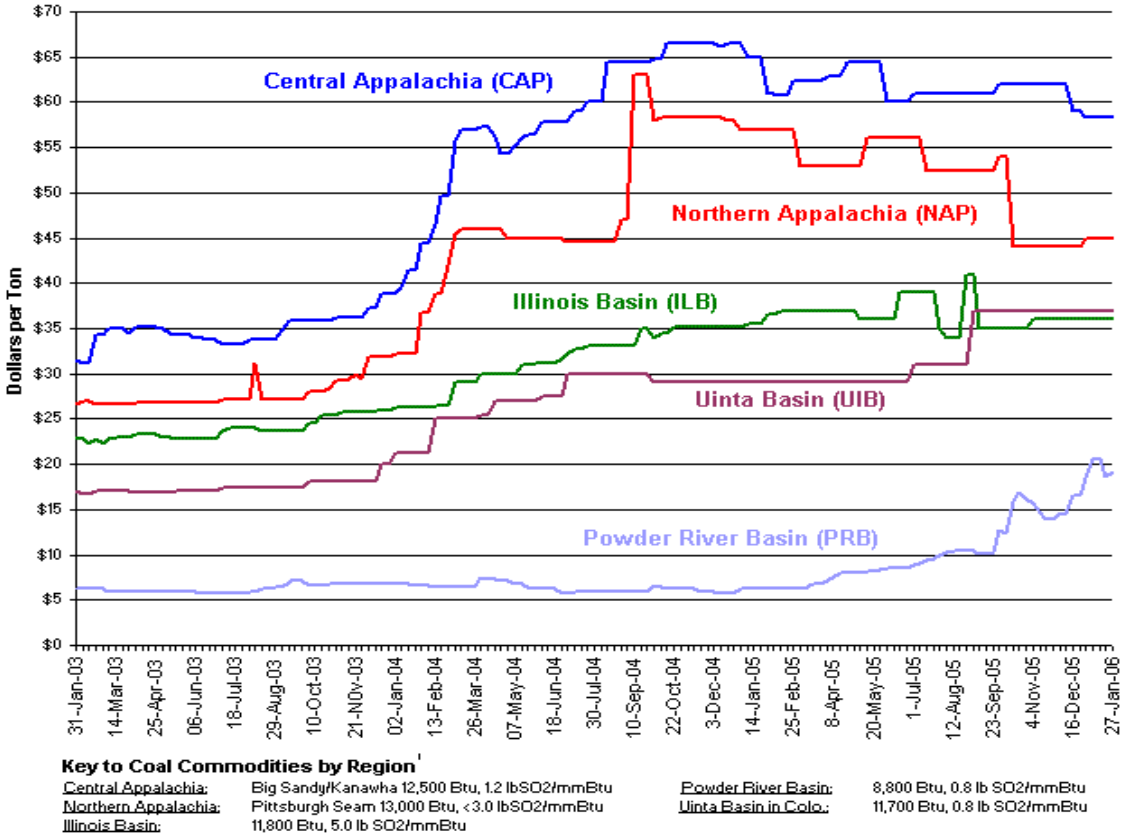
Source: Annual Energy Outlook 2006 from the Energy Information Administration.

As a result, the purchase of steam generated from coal-fired source provides significant competitive advantages to paper mills and other energy intensive companies. These economic advantages stem from the following:

1. Lower steam cost directly equates to significant cost savings per ton of paper produced considering the heavy energy consumption of paper mills
2. Significant cost savings results from reducing operation and eliminating maintenance staff originally dedicated to on-site steam production
3. Costs associated with repairs and maintenance of the mill's gas fired boilers are eliminated
4. Costs associated with purchase of chemicals, supplies and consumables for steam generation are removed
5. Future steam price can be directly indexed to coal price rather than to increasingly more expensive natural gas

B) Cheaper PRB Coal

The following graph was produced by the EIA and shows the cost competitiveness of Power River Basin coal compared to other types of coal.



For the business week ended January 27, 2006, the average spot "minemouth" coal prices for Central Appalachia (12,500 Btu <1.2 SO_2) was $58.25 per short ton or $2.33 per MMBtu (MU paid a delivered price of up to $92.75 per ton in 2004 for 13,300 BTU/1.5 SO_2 or $3.49 per MMBtu). The expected delivered price for PRB 8,800 Btu/0.8 SO_2 is $2.30. This represents a saving of more than 34% that can be passed to the Menasha plant's customers.

C) A Captive and Energy Intensive Customer Base

The manufacturing of paper and related products, including tissue products or other paper products requires a considerable amount of steam. For example, steam processing represents 80% of the plant total cost.

Historically, the Menasha industrial base has been built around the paper industry. Currently, there are four paper mills located in close proximity to the Menasha Power Plant. These Mills are:

1. Sonoco U.S. Mills Inc. (Sonoco)
2. George A. Whiting Paper Company (Whiting)
3. Alcan (Pechiney Plastics) Packaging Americas (Alcan)
4. SCA Tissue North America LLC (SCA)

The above mills are currently producing steam by burning natural gas in their respective boilers. The sharp and long-term increase in natural gas prices motivated the mills to look for cheaper alternative options. The benefits of PRB generated steam highlighted above. In October 2004 Sonoco and Whiting signed steam sales agreements ("SSA") and Alcan signed in October 2005. In May 2006 we renegotiated amendments with Sonoco, Whiting and rewrote the contract with Alcan.

Appendix A shows a map of the area as well as steam lines to the mills.

D) Steam Sales Agreements (SSA)

The SSA contract terms provide for the steam customers to pay for all fuel and operations/maintenance costs and capital recovery of the costs relating to the conversion of the plant to PRB coal. In addition, MU has also entered into a leased contract with the water treatment equipment vendor, to supply the Reverse Osmosis (RO) water treatment system. The leased costs are included under the SSA operations/maintenance expenses. Included also with each SSA are penalties for early contract termination by the steam user.

The key terms of the SSA are highlighted below:

1. Pass through cost of coal. This is an important aspect of the contracts. Annually the coal contracts will be renegotiated. As this component escalates, costs will be passed directly to the steam customers.
2. Recovery of capital investment for PRB coal conversion and MACT compliance. A capital adder has been included with each SSA. Recognizing the benefits of the lower cost PRB fuel, each steam customer has agreed to an adder to offset the costs not originally anticipated under the original business plan.
3. Amount for annual operation and maintenance costs (O/M) is adjustable annually. Provisions to adjust these costs on an annual basis will ensure adequate cost recovery. The additional costs for makeup water (RO) and the water treatment system have been considered as part of O/M.
4. Amendments of the contracts are for a term of 20 years and for steam pricing adjustments.

E) Steam Customers

The three mills identified as customers, as well as the potential customer, all have been long term, stable electric and water customers.

Sonoco: Formally U.S. Paper Mills, Sonoco Paper is a privately owned core stock manufacturer (paper rolls). Sonoco's mills in Menasha and DePere are among more than 30 paper mills in 13 countries that provide paper for its fiber-based packaging that includes engineered carriers, composite cans and protective packaging. The firm, based in Hartsville, S.C., is one of the world's largest consumers of recovered paper, collecting more than 2.5 million tons of fiber annually. Recent announcements have been made which indicate increased production at the Menasha Sonoco mill due to lower electric and steam energy pricing.

Sonoco's debt is rated A3 by Moody's. The most recent assessment of Sonoco's financial strength is as follows: "Sonoco Products Company Sonoco's senior unsecured rating is A3, its commercial paper rating is Prime-2 and the ratings outlook is stable. The ratings are supported by the company's conservative financial policies, good quality liquidity arrangements, and relatively stable and strong debt protection measurements. Pricing for Sonoco's key products is relatively more stable than commodity grade materials. Sonoco was easily in compliance at March 31".

Whiting: Whiting Paper is a 125-year old privately owned custom paper matting producer. This business has been family owned for six generations. It produces up to 100 percent recycled grade text and cover papers in a wide variety of colors found in greeting cards, commercial printing paper and art reproduction papers. The last two years have been strong years for the firm and its 53 employees. In a mature industry, Whiting managed to increase its sales and production, and run a record number of days. Normally, Whiting does a two-week summer shutdown and a Christmas week shutdown. For the first time in a long time, they closed down only one week last summer.

A new five-year labor agreement with 41 union members is expected to give stability. Tom Danz, Whiting president and chief operating officer, was recently quoted saying that "it tells our customers that we have a stable work force and outlook for five years and it gives our employees that same stability." Tom Danz recognizes that the Menasha plant conversion is critical to Whiting competitiveness: "We expect that it will give us some relief given that they're on coal and we're using (higher cost) natural gas," he said. "It will be a savings and significant savings for us." Danz said Whiting is undergoing some engineering studies on the planned rebuilding of its paper machine to use some relatively new dryers purchased from the old Gilbert Paper mill. "We didn't do a major rebuild this year partly because we were so busy," he said. "We'd be looking at a minimum of three weeks down for that, and that definitely plays into our decision".

Going forward, Whiting's strategy is to look for niches for its' short-run colors.

Alcan: Formerly Pechiney Packaging, Alcan is a Canadian-based, vertically integrated global aluminum enterprise involved in nearly all aspects of the aluminum industry. Alcan Inc. is the second largest aluminum producer in the world. Moody's has commented that "following its recent restructuring and acquisition activity Alcan's primary aluminum capacity has strengthened considerably".

In a press release dated December 2004, Alcan Inc. announced that recent reports stating that its packaging business is for sale are false. The company declared that "it is Alcan's practice to not comment on rumors, but we find that we must do so at this time, since recent speculation is not only wrong but could also be damaging to the interests of our customers, employees and shareholders," said Travis Engen, President and CEO of Alcan. "Our packaging business is not for sale and any speculation to the contrary is unfounded. It is a high value-added, high-growth business that will continue to create value for our shareholders," he added.

"Alcan is focused on continuing the integration of the company's and Pechiney's packaging businesses, which is on schedule and proceeding well," concluded Engen.

Furthermore, Alcan renewed its long-term commitment to the mill in January 2006. Alcan broke ground to add new buildings to the existing mill and improve operations. The community has agreed to reroute a road so that Alcan Packaging can expand the facility. Alcan will spend over $3 million and tack on 40,000-square feet for a project to be completed in the third quarter of 2006. The city contributed $1.2 million to that effort.

The plant serves Alcan's growing natural cheese segment. Pechiney spent $17 million upgrading and modernizing that plant for a project that was completed in 2003 — that investment included the new printing equipment. "It's a nice story of continuing investment in that site," the spokeswoman said, and it's in line with Alcan making strategic investments to grow businesses where it has a leadership position.

SCA (A Potential Customer): Formerly Wisconsin Tissue (Georgia Pacific), SCA produces tissue paper. SCA is an international company incorporated in Sweden. Moody's rating for SCA is A3.

Historically, SCA has always maintained a very steady production by operating twenty-four hours a day for three hundred and sixty-three days a year. Benefiting from a strong tissue market, SCA has announced a process will be added to the Menasha mill in 2006.

Although Menasha Utilities is capable of providing 50% of SCA's steam requirement, the Menasha plant would be 100% sold out if SCA becomes a customer.

F) Selling Electric Power

The total steam output from the Menasha Plant, on an annual average basis is 57% sold. Actual steam consumption of each mill will vary depending on the season of the year, with maximum steam consumption occurring in the winter and lesser consumption occurring in the summer. Using this consumption pattern to its advantage, MU's operational flexibility will enable the company to use any surplus steam capacity to generate electric for sale to WPPI under a negotiated contract. As steam is available, more electric power will be generated through refurbished Units #3 or #4.

Menasha Utilities has a 20 year term electric Purchase Sales Agreement (PSA) with WPPI for the sale of the electric output of the plant. The electricity will be sold into the MISO (Midwest Independent System Operator) market by WPPI. Menasha Utilities could sell electricity directly into the market but has elected to use this PSA to avoid operational issues related to startup of the steam utility. Future consideration will consider dealing directly within the MISO market.

MISO is a regional organization charged with managing the transmission system for most of the Midwest as of April 1, 2005. The MISO centrally dispatches generation within its footprint, under a mandate from the Federal Energy Regulatory Commission. It is designed to promote wholesale competition, provide price transparency and send high price signals where new infrastructure is needed. The MISO market requires all generators to bid to run their generation a day in advance or as part of the real time market. All utilities have to bid to purchase their load needs in the similar day ahead or real time markets. Generator bids are accepted to the point needed to meet the load and everyone gets paid the highest bid that must be accepted under this Locational Marginal Price (LMP) system.

Menasha Utilities is located in Eastern Wisconsin, which has a highly constrained transmission grid and this results in a higher than average system price or LMP. WPPI, who deals in this market on a daily basis, has stated, "Prices in Wisconsin and the Upper Peninsula of Michigan are usually higher than elsewhere in MISO due to the transmission constraints that plague our area. The LMP price varies on an hour by hour basis depending on system load, availability of generation, and transmission system configuration. The Eastern Wisconsin has averaged about $62/MWh for June, $75 for July, and $79 for August 2005. The electric futures are estimated to remain high." This business plan recognizes the electric generation will be ramped according to the market conditions which vary continuously.

G) Future Business Opportunities

Although no public announcements or offers have been made, other potential customers with smaller steam loads have been considered. Dry cleaners and large buildings located close to the steam line represent small steam loads or heating loads. Only a moderate investment would be required to acquire these customers and sell them steam.

IV. Business Model

A business model has been developed for supplying steam to Sonoco, Whiting and Alcan from the Menasha Utilities Steam Supply Facility.

The business model and associated data is shown in the financial section of the plan. Tabulations and key assumptions are provided in the Financing section. The operating scenario selected for the business model is based upon current steam sales contracts.

The Steam Sales Agreements require that the Menasha Steam Utility provide 100% of the steam requirements of these three mills.

The plant export steam generating capacity is approximately 200,000 lb/hr. Any excess steam capacity will be used by steam turbine generator #3 or #4 to generate electric power and associated revenue. Should SCA enter into a contract for steam service, the steam sales capacity of the power plant will be fully subscribed.

The Business Model provides for the following operating scenario:

> The Menasha Steam Utility will supply all of the steam required by Sonoco, Whiting and Alcan. All surplus steam generated will be used by the existing steam turbine generator #3 and #4. The new backpressure steam turbine generator #5, will provide additional electrical power generation and associated revenue.

The Business Model also includes heat balances which were used to calculate the fuel consumption, make up water requirements and expected electrical generation.

A copy of the heat balance is included in Appendix B.

The Business Model also includes:

1. Steam production, boiler #3.
2. Steam production, boiler #4.
3. Total boiler heat input and total boiler fuel input.
4. Steam turbine status i.e., operation of the new backpressure steam turbine generator #5 and the operation of the existing steam turbine generator #3 or #4.
5. Electric production.
6. Steam sales.
7. Steam sales rate(s).
8. Annual operating hours.
9. Revenues, including steam revenue and electric revenue.
10. Expenses, including fuel costs and O&M expenses.
11. Operating margins.

The finance part of the report includes an annual O&M budget. The annual O&M budget includes labor, payroll burdens and related annual costs, consumables supplies, repair expenses, reserves, insurance, and taxes.

The O&M budget is based upon actual labor and payroll charges incurred by Menasha Utilities during the previous years operating the plant. Additional staff has been added together with adjustments in all other O&M categories to reflect anticipated O&M expenses when operating the Menasha Power Plant's boilers #3 and #4 as a steam production facility.

In addition, the Business Model includes a list of all assumptions including: costs for coal based upon the actual coal contract, ash disposal costs, city water costs, makeup water costs, and related costs.

When applying all of the operating expenses to the expected revenues, the gross operating margins were developed. The projected gross operating margins of the steam utility, based on the assumptions listed in this Business Plan are shown in the financial section of this report.

V. COMPETITION

Situated less than a mile away from the Menasha plant, Minergy Energy produces steam for two paper mills. Although relatively close to Menasha, Minergy does not represent a competitive threat to the Menasha plant. The distance between Minergy and the mills as well as the investment required to service them, represent colossal physical and financial obstacles that would not make this project viable. Furthermore, there would be additional right of way issues that would necessitate the approval of The City of Neenah and The City of Menasha – the approval is extremely unlikely since the Menasha Utilities' project is a city owned project. Currently the Minergy Energy facility is up for sale.

The Menasha plant enjoys a unique dominant position to service its' market and benefits from high barriers to entry that protect this market. The barriers can be identified as follows:

1. Public Service Commission requirements: the PSC has ruled this is a non-regulated business for Menasha Utilities i.e. there is no basis for the Commission to assert jurisdiction over Menasha's steam operations. At this point it is not clear what the process would be for any potential entrant to the market, however, the PSC does approve We Energy rates in Milwaukee.
2. Environmental compliance: This is very important to the project because Menasha Utilities has operated a coal-fired power plant at its current location for the past fifty years. Although this project has required some minor modifications for the air and water permits to be granted, it is extremely unlikely that a coal-fired power plant could be constructed anywhere, let alone as close to key mills as the Menasha plant.
3. Location: the Menasha plant is located within walking distance to each of its customers. Two mills have adjacent property line to the plant and all mills can be seen from the plant. This proximity implies close client relationship as well as capital optimization.
4. Capital requirements: the nature of the energy industry makes any competitive ambitions difficult to realize. The conversion of the plant requires considerable capital expenditure despite the existing infrastructure and equipment. The investments that would be required to build a similar plant would be close to $100 million dollars and would not be viable under the current market condition and in the context of Menasha's existing position.
5. Customer relationship: Menasha Utilities already enjoys good relationships with the mills. Menasha Utilities also provide water and electricity to these same customers. Wisconsin Public Power (MU's wholesale electricity provider) keeps a close relationship with the mills through customer service representatives who listen to and act upon their needs. It would take years for a new competitor to build the existing level of trust between Menasha Utilities and its client base. In addition, there are currently 20 year steam contracts in place.

VI. OPERATIONS & MAINTENANCE PLAN

Menasha Utilities has developed a detailed operation and maintenance plan for operation of the completed steam supply facility. The operation and maintenance plan provides for Menasha Utilities staff to operate the plant on a 24/7 basis. This plan includes:

1. Five additional staff positions have been added.
2. Annual maintenance and repair budget.
3. Annual estimated reserves required for future major maintenance and repairs on all related plant equipment.
4. Training of staff.
5. Preparation of new operating procedures.

The following sections highlight MU's key operational strengths for this project.

A) Repairs and Improvements of Boilers #3 and #4.

Work commenced in January 2005 on the repairs, improvements and upgrades necessary to convert the Menasha Power Plant from an electric supply facility to a steam supply facility. This work includes certain repairs of boilers #3 and #4, certain replacements and upgrades to allow #3 and #4 boilers to operate at high levels of reliability as a steam supply facility and conversion of the boilers to PRB coal. This includes upgrades to the boilers including:

- Repair the boiler tubes, #4 boiler.
- Repair of superheater tubes, #3 boiler.
- Implementation of deferred maintenance and repair work.
- Installation of the in-plant steam delivery system including new backpressure steam turbine generator unit and extensive in-plant piping system.
- The installation of half a mile of underground steam supply and condensate return piping.
- The installation, on the steam customer's premises of additional piping, pumps, controls, steam metering and related equipment.
- The addition of a new water treatment system.

In the spring of 2005 additional work commenced on the conversion to PRB coal and MACT compliance including:

- The installation of a new coal handling system including conveyors and related equipment.
- Installation of coal dust control system.
- The addition of a coal system fire protection system.
- The conversion of the plant's electrostatic precipitator to a high efficiency baghouse to allow for capture of the ash from burning PRB coal and to obtain MACT compliance.
- Major repairs to the ash collection system.
- The addition of a soot blower system on both boilers.
- The addition of a new computer based, combustion and plant control system.

Two studies were conducted during the conversion process by Riley Power (the original manufacturer of boiler #4) on each of the two existing boilers. The studies confirmed the operating assumptions of converting each boiler from Appalachian coal to PRB. Specific recommendations were implemented as a result of these studies to ensure the reliability and performance of the boilers.

Each existing turbine-generating unit #3 and #4 has been mechanically refurbished, and supervised by Dresser Rand, to ensure safe and reliable future operation. Modifications were also made to the generators excitation system, protective relays and controls during this conversion. These are important upgrades considering the electric revenues that will result from the operation of these units. The steam system design has also been modified so the Unit #3 generator can be operated from either boiler.

B) Backpressure Steam Turbine Generator

A new 6 MW back pressure steam turbine generator was purchased from the Dresser Rand Company in late December 2004. The new steam turbine was purchased at the price of $3 million. The new (#5) steam turbine generator unit will take steam from the power plants existing boilers, reduce steam pressure and temperature to the levels required for delivery to the paper mill customers and at the same time generate up to 6 MW of electric power depending on the steam load. This will displace power currently being purchased by Menasha Utilities from its wholesale power supplier, Wisconsin Public Power Inc. ("WPPI").

The steam turbine, generator and related electrical apparatus are expected to be installed in May 2006 and will be operational by June 2006.

In addition, an extensive refurbishment of the plants electrical system was completed with this project. In part this was done to accommodate the new backpressure turbine generator. All high voltage electrical switchgear has been replaced. This included protective relays, distribution circuit reconfiguration and control scheme to interconnect the plant to the electrical distribution network. Since the electrical system reliability is critical to the plant's operation, a dual substation design has been implemented.

C) Underground Steam Distribution System and Condensate Return System

The underground steam distribution and condensate return system has been designed, purchased and is installed. The steam supply and condensate return system consists of an underground piping system designed to deliver steam to, and receive condensate from, all steam customers; this system has been completed to three customers. The steam distribution system includes underground and on-premises piping which will supply steam to Sonoco, Alcan and Whiting. Interconnection piping, pumps, metering, and controls were completed at each customer site. A fiber optic control cable was also buried along with the steam system piping. The fiber optic control cable is used for purposes of communicating with each customer site. Important steam system operation parameters can then be monitored with the new control system by the Menasha Utilities plant operation personnel.

D) Power Plant Fuel Considerations

The proposed reconfiguration of the Menasha Power Plant will capitalize on the plants ability to burn low cost PRB coal as fuel. The current air quality operating permit with the Wisconsin Department of Natural Resources allows the plant to operate both boilers (units #3 and #4) with a combined boiler steam output of approximately 220,000 lbs/hour. This permit is valid and allows continued operation of the boilers on coal.

Because of the increasing price of Appalachian coal and the responsibilities of Menasha Utilities under the Steam Supply Agreements with the Mills, an evaluation of alternative fuels was made in the spring of 2005. This evaluation included the alternative fuels listed below including Western or Powder River Basin coal. For the reason cited below, PRB coal is the preferred fuel for the project based upon the following:

- Wide use and experience with burning PRB coal by many Midwest coal fired electric utilities.
- The abundant supply at current production rates.
- The relative long-term price stability.
- Environmentally, a lower sulfur (0.3 to 0.5 %) coal compared to 1.2% sulfur Appalachian coal.

A coal contract with C. Reiss fuel supply of Green Bay, Wisconsin was signed in early August. Under this contract, C. Reiss will source, store and deliver coal to the power plant for the initial 12-month period. The contract provides for the sourcing of PRB coal from the Arch mine in Wyoming. The delivery of the coal at the quantity of approximately 140,000 tons per year to a reloading terminal in the Chicago area by rail, delivery of the coal by lake vessel to the C. Reiss coal dock in Green Bay, Wisconsin, storage, reloading and truck delivery of the coal to the Menasha Power Plant for an initial amount of approximately $40.50 per ton, delivered.

In addition to coal, other solid fuels can be burned on the stoker type fuel combustion systems found on boiler #3 and #4. A list of alternative fuels can be found in Appendix C.

To summarize, the current fuel plan for the Menasha Steam Utility includes:

- Conversion of the boilers #3 and #4 and related auxiliary systems to burn PRB coal for the long-term.
- Sourcing and identifying a supply source for PRB coal to support an annual consumption of approximately 140,000 tons which amount is significantly less than a large electric utility would purchase i.e.; 4 to 5 million tons per year for a typical large utility coal fired power plant.
- Entering into a “turn key” coal supply contract with C. Reiss of Green Bay Wisconsin under which contract C. Reiss will source, deliver, store and transport by truck to the Menasha Plant site. The required coal for a 1-year term is under a fixed contract with options to extend it.

After initial operations have begun, sources of alternative fuels including TDF, biomass, and paper pellet fuels may be identified and further evaluated. An optimum mixture of the fuels, fuel handling methods, and storage requirements will then be addressed. This will also provide time to acquire necessary operating permits and resolve operating methods to burn these fuels. The conversion of the plant from an electric producing facility to an industrial steam facility includes an alternative fuel design, capable of using either TDF, biomass or paper pellet fuels up to approximately 20% of the heat input, be included in future scopes of work.

This fuel plan will strategically position the Menasha Power Plant to be a producer of energy from low cost PRB coal and in the future, possibly renewable fuels. The use of renewable fuels will further reduce the annual fuel cost to the facility, which in turn will improve the plant’s operating margins. Using renewable fuels will have the added benefit, providing a “good neighbor” image and steward of the environment.

Based upon a going forward contract coal price of $2.30/MMBTUs, if an alternative fuel such as TDF, paper pellets or biomass can be procured for approximately $1.50/MMBTUs, with up to 20% of the alternative fuel, then additional fuel savings would accrue. In addition electric power produced from biomass fuel will command a premium price in the electric power market, estimated to be on the order of $60-$70/MWh. We have indication from WPPI that the electrical energy produced from such a project could be purchased under a renewable energy contract.

E) Long-term outlook

Menasha Utilities successful history is the best proof of its capacity to anticipate change and sustain long-term performance. Menasha Utilities has a seasoned operation and maintenance staff that has operated the generation plant. With the additional new equipment, operational procedures have been implemented to enable the plant to operate long-term. Several new employees with paper mill and steam plant experience will ensure operational stability and familiarity with paper mill operations.

VII. REGULATORY CONSIDERATIONS

Discussions have been held with the Wisconsin Department of Natural Resources ("WDNR") to confirm that the existing air permits for both boilers #3 and #4 will allow the boilers to operate on a 24/7 basis on coal. In addition, new stack emission standards known as maximum achievable control technology ("MACT"), 2005 clean air compliance, is implemented. The Menasha Power Plant boilers are classified as industrial boilers and are subject to the newly enacted MACT regulations. The PRB coal conversion will also include an upgrade of the Menasha Power Plants air pollution control equipment to provide compliance with newly enacted MACT standards. A modification to the existing operating permit has been completed and filed for the MACT compliance implementation.

In addition modifications to water permits has been completed. The Public Service Commission of Wisconsin (PSCW) has confirmed that conversion of the Menasha Power plant to a steam production enterprise is exempt from regulation by the PSCW.

VIII. MILESTONES

As of the end of May 2006, the work to convert the Menasha Power Plant from an electric generating facility to a steam supply facility is nearly complete. The following summarizes progress:

- Boiler modification work and repairs have been completed.
- New coal handling equipment has been ordered, manufactured, delivered and installed.
- The new steam turbine generator has been ordered, manufactured, delivered and installed. The steam turbine is expected to operate in June, 2006.
- Underground steam supply and on customer premises piping has been designed and installed The installation of steam piping to furnish SCA steam is not complete due to the contract finalization of the SSA. Design and construction could begin in the summer 2006. Other related systems (controls, pumps, etc.) will also need to be modified.
- Electrical systems including new switchgear have been ordered and installed.
- New plant control system including computerized DCS and new instruments have been purchased and are presently being configured and installed.
- The plants electrostatic precipitator has been converted from a precipitator to a baghouse for MACT compliance.
- The existing plant ash handling system has been rebuilt.
- The existing steam turbine generators #3 and #4 have been rebuilt in order to use the surplus steam to be used to generate profitable electric power.
- Number 4 boiler has been successfully started and steam blows completed.
- All remaining work is occurring on a fast track schedule.

Based on the present level of completion, it is planned to deliver steam to the Sonoco Paper Co. by the end of June 2006, with steam deliveries commencing to Alcan and Whiting shortly thereafter.

IX. ORGANIZATIONAL STRUCTURE

It has been determined that Menasha Utilities will continue to own the Menasha Power Plant, Steam Distribution System, new backpressure, steam turbine generator, and PRB coal equipment and related facilities. The ownership structure includes the formation of a steam utility ("Steamco"). Steamco will own the steam production and steam supply systems.

Steamco is a separate business operation of Menasha Utilities. All revenues, expenses, and assets are accounted for and tracked separate of the existing electric and water operations. A five member Commission is responsible to oversee the electric, water, telecommunication, and now Steamco businesses. Staff submits monthly business and operations reports or as directed by the Commission. An annual capital and operating budget is approved by the Commission.

Menasha Utilities' key strengths lie in its experienced management and operational staff. Organizational Chart and Biographies of key managers are provided in Appendix D.

X. FINANCING

A) Sources and Use of Funds

Menasha Utilities have issued various short term financing notes that will be coming due by 2009. A portion of these notes will be bought down with revenues of the system. The total long term permanent dollar amount being sought is $37,785,000 in debt financing which is a combination of Revenue and General Obligation debt. The total estimated direct construction cost of $37,032,952 for implementation of the project includes the following:

- conversion of the Menasha Power Plant to an industrial steam supply facility
- concurrent conversion from Appalachian to PRB coal
- implementation of MACT compliance on both boilers #3 and #4

The initial project cost estimate provided for a complete installation including conversion of the existing Menasha Utilities' power plant to a steam supply facility burning Appalachian coal. Subsequently, the PRB coal conversion and associated work together with the MACT compliance plan has resulted in the additional required capital investment.

B) Debt Servicing Capacity

A detailed analysis of the cash flow generated by the new project demonstrates its capacity to maintain a debt coverage ratio for revenue debt ranging from 1.50 to 2.75 throughout the life of the 20-year financing terms with 3 customers (Sonoco, Alcan, and Whiting) and the electric revenues sold to WPPI. It shows that the project can rely on strong operating margins, before depreciation and tax equivalents, ranging from $3.8MM to $6.9MM.The cash flow also demonstrates the ability to repay all of the GO debt. The calculations are shown at the end of this section.

The following is a simplified representation of the assumptions used to derive the projected cash flows over a period of 20 years. A detailed breakdown of each item is available upon request.

Table 1
Operating costs for 1 year with 3 steam customers and electric sales:

	Cost
Coal	$5,052,231
Labor & Payroll Burden	$1,755,012
Ash Disposal	$74,885
Steam Expenses + Chemicals	$100,000
Electric Expenses	$25,000
Misc. Steam Power Expenses	$30,000
Maintenance of Structions	$15,000
Maintenance of Boiler Plant	$200,000
City Water & Sanitary	$198,899
RO Lease	$349,992
RO Chemicals & Service	$134,000
Maintenance of Electric Plant	$50,000
Auxiliary Power	354,610
Taxes	$597,000
TOTAL OPERATING EXPENSES	$8,936,629

The total operating expenses would be $10,008,705 for the first year of operation at full steam and electric capacity. Table 1 illustrates that the operating costs would be $8,936,629 with 3 steam customers and 66% electric generation. The operating costs that are variable for the steam component are the Auxiliary Power, City Water and Sanitary, and the RO Chemicals. The operating expenses that are variable with the percentage of generation output are the coal and ash disposal.

Coal expense is projected to increase by 3% a year for the duration of the financing program. The heating value of the PRB coal is 299 MMBtu/hr @$2.30 per MMBtu.

Labor costs are expected to increase at a rate of 5% per year during the same period. This increase is based on our bargaining contract which includes wages and benefits with the two largest benefits costs being health insurance and the state retirement. The maintenance and steam supply expense components were adjusted by 2.5% which is the current regional consumer price index, the auxiliary power is based on the current electric tariffs which are expected to increase by 4.8%, and the city water and sanitary rates which will increase in 2008 by 30% per the tariffs because of the Water Plant construction project and then estimated at 3% thereafter.

The operating costs and the coal costs are each a component of the steam price to each of the mills and will be adjusted annually.

D) Revenue Assumptions

Table 2
Revenues for year 1 with 3 steam customers with electric generation:

Unit #3 or #4 – condensing	
MW load	12
$/MW	Variable
Operating Days	Variable
Hours/day	16
#3 or #4 Revenue:	$3,964,813
Unit #5 – backpressure	
MW load	3.5
$/MW	$53
Operating Days	360
Hours/day	24
#5 Revenue:	$1,602,720
Steam Revenue	$6,629,106
Interest Income	$81,483
TOTAL REVENUE	$12,278,122

Considering the electric revenue assumptions, Menasha Utilities expects to sustain an average growth of 3% on Unit #3 or Unit #4 and 4.8% on Unit #5. The difference between the Unit #3/4 pricing and Unit #5, is that Unit #3/4 will be sold to WPPI on the MISO market versus Unit #5 which will offset electrical purchases. The forecasted energy sales and peak demand increase of 4.8% was based on WPPI's load forecast for its 40 members. This wholesale power is made up of various components and it assumed the WP&L tariffs rates would escalate 4.5%, WEPCO rates would increase 7%, Natural gas prices at 3%, transmission costs increase 11.98% and it also includes a resources expansion plan.

Table 3
Revenue with annual operating hours of 5,782 and 12MW on Units #3 or #4:

LMP range	Annual %	PSA Revenue
<$35	34%	$0
$36-$49	17%	$669,591
$50-$59	16%	$692,588
$60-$69	9%	$546,040
$70-$79	7%	$463,003
$80-$89	6%	$420,663
$90-$99	3%	$320,105
$100-$110	4%	$371,023
>$110	4%	$481,800
Total Revenues		$3,964,813

Table 3 reflects the LMP market conditions and the corresponding revenue we would receive from the PSA with WPPI. It considers the varying MISO market conditions and unit (MW) loading conditions. As the MISO market price increases the electric generation unit(s) output will be economically dispatched or increased to take advantage of the higher market rates. Similarly, units will be reduced or taken off line when the economic conditions do not warrant their operation. The variable expenses of fuel, chemicals, ash disposal and auxiliary power will be affected as a result of changes in the unit loading. Historically, the low market price of energy (i.e. <$35/MW) occurs about 34% of the time. Similarly, the high market conditions (>$100/MW) occur about 8% of the time on an annual basis. Table 1 and Table 2 reflect operating the condensing turbine when the LMP market is greater than $35/MW.

The specific operating parameters of each system major component: boiler, turbine, generating unit, will be analyzed to create an economic dispatch model and operating parameters. Flexibility of the digital control system (DCS) will permit the economic model to be programmed into the system.

Menasha Utilities Steam Co.
20 Year Operating Margin Forecasts

Escalation Assumptions

Electric Revenue		**4.8%**
MISO Electric Revenue		**3.0%**
Coal Escalation		**3.0%**
Labor and payroll burdens		**5.0%**
O&M expenses, non labor		**3.2%**

Total Project Costs	**$ 37,032,952**

Revenues	**Year 1 startup**	**Year 1 base**	**Year 2**	**Year 3**	**Year 4**	**Year 5**
Electric Sales	0	1,602,720	1,679,651	1,760,274	1,844,767	1,933,316
MISO Electric Sales	2,839,819	3,964,813	4,083,757	4,206,270	4,332,458	4,462,431
Steam Sales	2,861,653	6,629,106	7,231,816	7,134,512	7,350,578	7,574,711
Investment Income	81,483	81,483	75,000	75,000	75,000	135,000
Total Revenue	5,782,955	12,278,122	13,070,224	13,176,056	13,602,803	14,105,458
Operating Expenses						
Coal	3,158,898	5,052,231	5,203,798	5,359,912	5,520,709	5,686,330
Labor and Burden	1,233,976	1,755,012	1,842,763	1,934,901	2,031,646	2,133,228
O&M Expenses	1,262,572	1,625,725	1,661,269	1,757,776	1,803,716	1,851,289
Total Expenses	5,655,447	8,432,968	8,707,829	9,052,588	9,356,071	9,670,847
Gross Operating Margin	**127,508**	**3,845,154**	**4,362,395**	**4,123,467**	**4,246,732**	**4,434,611**
Depreciation	0	0	130,702	131,761	136,028	141,055
PILOT	503,661	503,661	517,764	532,261	547,164	562,485
Revenue Financing						
Interest Expense	0	275,355	1,627,110	1,544,310	1,544,310	1,871,675
Principal Payment	0	0	0	0	0	1,075,000
Total Debt Service	0	275,355	1,627,110	1,544,310	1,544,310	2,946,675
GO Financing						
Interest Expense	405,747	405,747	463,783	539,400	539,400	539,400
Principal Payment	0	0	0	0	0	220,000
Total Debt Service	405,747	405,747	463,783	539,400	539,400	759,400
Net income after debt service	-781,900	2,660,391	1,623,036	1,375,736	1,479,829	24,996
Debt Coverage		13.96	2.68	2.67	2.75	1.50

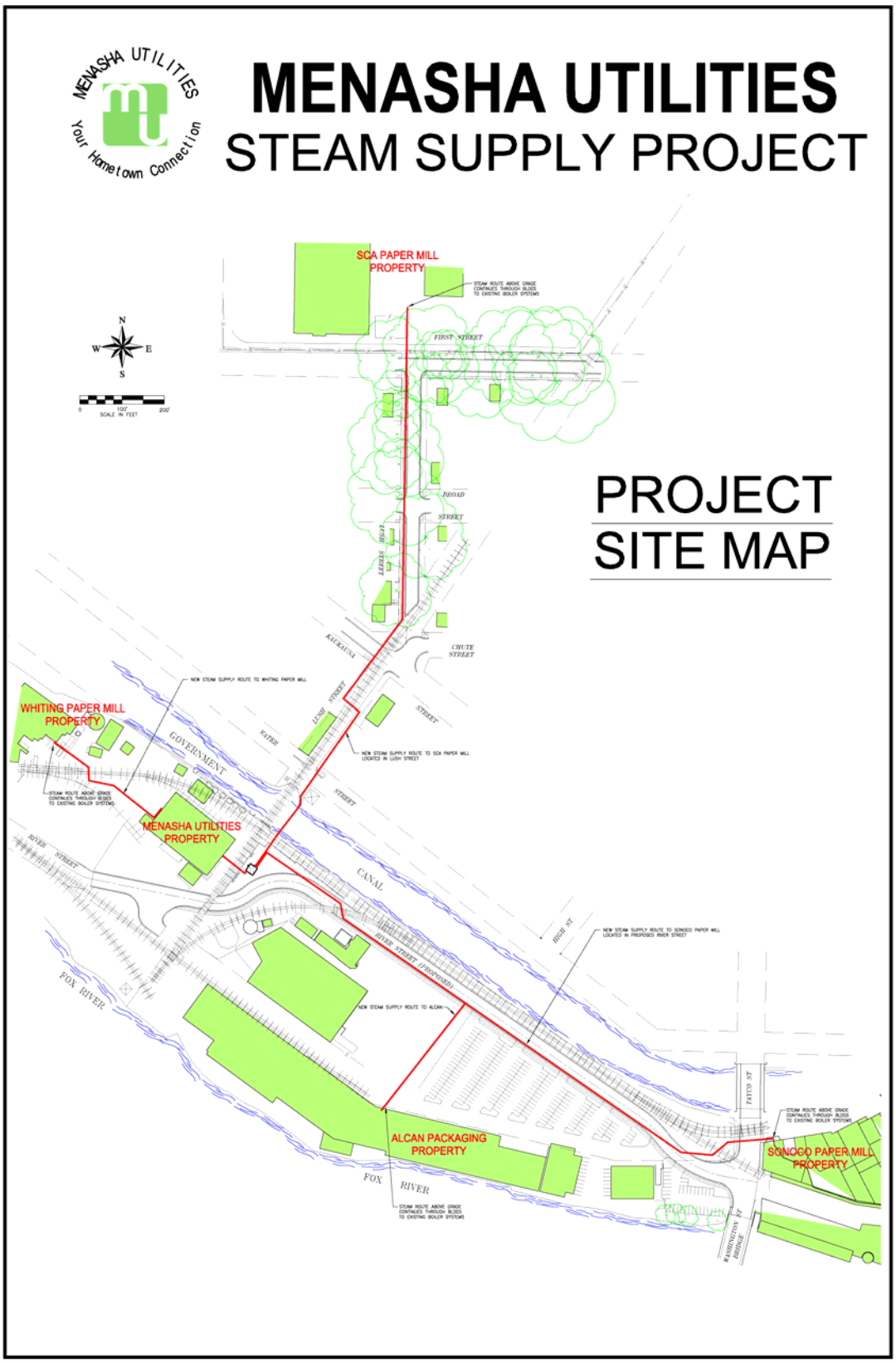
In Year 4 which will be 2009 we are anticipating a buydown of $3,100,000

Revenues	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**	**Year 11**	**Year 12**	**Year 13**
Electric Sales	2,026,115	2,123,368	2,225,290	2,332,104	2,444,045	2,561,359	2,684,304	2,813,151
MISO Electric Sales	4,596,304	4,734,193	4,876,219	5,022,506	5,173,181	5,328,376	5,488,228	5,652,875
Steam Sales	7,806,511	8,046,624	8,295,364	8,553,055	8,820,039	9,096,667	9,383,307	9,680,339
Investment Income	135,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000
Total Revenue	14,563,931	15,039,186	15,531,873	16,042,665	16,572,265	17,121,403	17,690,839	18,281,365
Operating Expenses								
Coal	5,856,920	6,032,628	6,213,607	6,400,015	6,592,015	6,789,776	6,993,469	7,203,273
Labor and Burden	2,239,889	2,351,884	2,469,478	2,592,952	2,722,600	2,858,730	3,001,666	3,151,749
O&M Expenses	1,900,557	1,951,585	2,004,443	2,059,201	2,115,934	2,174,719	2,235,636	2,298,770
Total Expenses	9,997,366	10,336,097	10,687,528	11,052,168	11,430,549	11,823,224	12,230,771	12,653,793
Gross Operating Margin	**4,566,565**	**4,703,090**	**4,844,346**	**4,990,498**	**5,141,716**	**5,298,179**	**5,460,067**	**5,627,572**
Depreciation	145,639	150,392	155,319	160,427	165,723	171,214	176,908	182,814
PILOT	578,234	594,425	611,069	628,179	645,768	663,849	682,437	701,545
Revenue Financing								
Interest Expense	1,801,800	1,727,375	1,648,075	1,563,575	1,473,550	1,377,675	1,275,625	1,166,750
Principal Payment	1,145,000	1,220,000	1,300,000	1,385,000	1,475,000	1,570,000	1,675,000	1,780,000
Total Debt Service	2,946,800	2,947,375	2,948,075	2,948,575	2,948,550	2,947,675	2,950,625	2,946,750
GO Financing								
Interest Expense	526,200	504,600	480,300	454,800	427,500	398,700	368,400	336,300
Principal Payment	360,000	405,000	425,000	455,000	480,000	505,000	535,000	570,000
Total Debt Service	886,200	909,600	905,300	909,800	907,500	903,700	903,400	906,300
Net income after debt service	9,691	101,298	224,583	343,517	474,176	611,740	746,697	890,163
Debt Coverage	1.55	1.60	1.64	1.69	1.74	1.80	1.85	1.91

Revenues	**Year 14**	**Year 15**	**Year 16**	**Year 17**	**Year 18**	**Year 19**	**Year 20**
Electric Sales	2,948,182	3,089,695	3,238,000	3,393,424	3,556,309	3,727,012	3,905,908
MISO Electric Sales	5,822,461	5,997,135	6,177,049	6,362,360	6,553,231	6,749,828	6,952,323
Steam Sales	9,988,162	10,307,188	10,637,846	10,980,583	11,335,865	11,704,175	12,086,016
Investment Income	135,000	135,000	135,000	135,000	135,000	135,000	135,000
Total Revenue	18,893,805	19,529,017	20,187,895	20,871,368	21,580,405	22,316,014	23,079,247
Operating Expenses							
Coal	7,419,371	7,641,952	7,871,211	8,107,347	8,350,568	8,601,085	8,859,117
Labor and Burden	3,309,337	3,474,804	3,648,544	3,830,971	4,022,520	4,223,646	4,434,828
O&M Expenses	2,364,209	2,432,042	2,502,365	2,575,278	2,650,883	2,729,289	2,810,607
Total Expenses	13,092,917	13,548,798	14,022,120	14,513,597	15,023,971	15,554,019	16,104,552
Gross Operating Margin	**5,800,889**	**5,980,220**	**6,165,775**	**6,357,771**	**6,556,434**	**6,761,995**	**6,974,695**
Depreciation	188,938	195,290	201,879	208,714	215,804	223,160	230,792
PILOT	721,189	741,382	762,141	783,480	805,418	827,970	851,153
Revenue Financing							
Interest Expense	1,051,050	927,550	796,250	656,500	507,650	349,050	180,050
Principal Payment	1,900,000	2,020,000	2,150,000	2,290,000	2,440,000	2,600,000	2,770,000
Total Debt Service	2,951,050	2,947,550	2,946,250	2,946,500	2,947,650	2,949,050	2,950,050
GO Financing							
Interest Expense	302,100	266,100	227,700	187,200	144,300	99,000	51,000
Principal Payment	600,000	640,000	675,000	715,000	755,000	800,000	850,000
Total Debt Service	902,100	906,100	902,700	902,200	899,300	899,000	901,000
Net income after debt service	1,037,612	1,189,898	1,352,805	1,516,877	1,688,262	1,862,815	2,041,700
Debt Coverage	1.97	2.03	2.09	2.16	2.22	2.29	2.36

Appendix A:

Map of Area/Steam Lines to Steam Customers
&
Conceptual Diagram of Steam Supply System

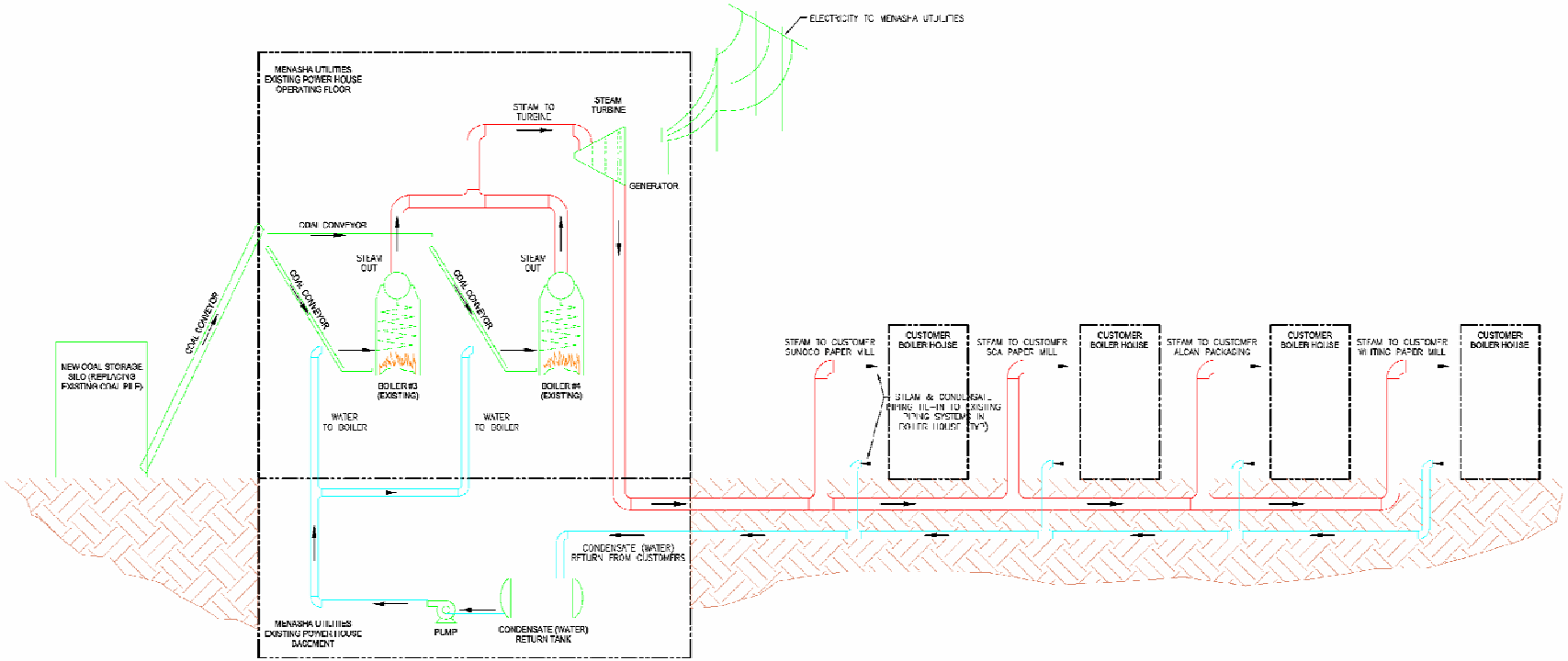

MENASHA UTILITIES
STEAM SUPPLY PROJECT
PROJECT
SITE MAP
SCA PAPER MILL PROPERTY
WHITING PAPER MILL PROPERTY
MENASHA UTILITIES PROPERTY
ALCAN PACKAGING PROPERTY
SONOCO PAPER MILL PROPERTY
FIRST STREET
BROAD STREET
LEEDAS HOUSE
KALKAUSKA
CHUTE STREET
LUSH STREET
WATER STREET
GOVERNMENT
RIVER STREET
CANAL
FOX RIVER
TAYCO ST
WASHINGTON ST BRIDGE
NEW STEAM SUPPLY ROUTE TO WHITING PAPER MILL
NEW STEAM SUPPLY ROUTE TO SCA PAPER MILL LOCATED IN LUSH STREET
NEW STEAM SUPPLY ROUTE TO SONOCO PAPER MILL LOCATED IN PROPOSED RIVER STREET
NEW STEAM SUPPLY ROUTE TO ALCAN
STEAM ROUTE ABOVE GRADE CONTINUES THROUGH BLOCK TO EXISTING BOILER SYSTEMS

visited 11/30/2010

MENASHA UTILITIES

STEAM SUPPLY PROJECT

PROCESS DIAGRAM



Appendix B:

Heat Balance

STEAM PLANT HEAT BALANCE

	Boilers #3 and #4 at full load, Steam sold to SONOCO, Alcan and Whiting only with Power sales to WPPI	
Boiler #3		
	Boiler #3 Steam Flow, lb/hr	90,000
	Boiler #3 Efficiency, %	80
	Boiler #3 Heat Input, MMBtu/hr	120.48
Boiler #4		
	Boiler #4 Steam Flow, lb/hr	130,000
	Boiler #4 Efficiency, %	80
	Boiler #4 Heat Input, MMBtu/hr	177.60
Total Boiler Heat Input		
	Fuel Cost, $/MMBtu	2.30
	Total Boiler Heat Input, MMBtu/hr	298.08
Steam Turbine Status		
	Steam Turbine #3	off
	Steam Turbine #4	on
	Steam Turbine #5	on
Electric Production		
	Steam Turbine #3, kW	0
	Steam Turbine #4, kW	12,000
	Steam Turbine #5, kW	3,500
	Gross Generation, kW	15,500
Steam Sales		
	SONOCO, lb/hr	98,000
	ALCAN, lb/hr	7,800
	Whiting, lb/hr	7,800
	Total Steam Sales, lb/hr*	113,600

* Balance steam to #4 Boiler

Appendix C:

Alternative Fuel Discussion

Alternative Fuel Discussion

In addition to coal, other solid fuels can be burned on the stoker type fuel combustion systems found on boilers # 3 and #4. These alternative fuels have been researched and can include:

- Biomass Fuel - Biomass, is defined as renewable wastes including tree trimmings, pruning's, and related urban waste wood including qualified construction demolition debris (non-lead containing) and related materials that are available in the local area. It is estimated that up to 10% to 20% of the total fuel input of this material could be burned together with coal in the existing boilers. This biomass is not a high BTU fuel, therefore storage requirements would be considerably more, compared to other fuels. The requirements to burn biomass fuel include: a separate fuel handling and storage system, modification to the plants Air Permit and securing a long-term, sustainable supply of biomass fuel under a long-term contract.

  Menasha Utilities staff has discussed the availability of biomass fuel with Winnebago County, the city of Menasha, and Asphlund tree services. Each of these sources indicates there is an available source of biomass fuel in the area. Winnebago County indicated they could probably provide up to 1000 tons of "urban waste wood" on an annual basis. Outagamie County could be another source; however it does not have a means to separate the material at this time. This fuel supply should be further investigated.

- Tire Derived Fuels ("TDF") - Tires from motor vehicles and related equipment are typically sent to land fills. In some cases a market exists for chipped tires (TDF). TDF is similar to coal and can be burned in a stoker fired boiler of the type as unit # 3 and #4 at the Menasha Power Plant. TDF fuel can be blended with coal up to a maximum of 10% to 20%. Modifications would be required including a TDF receiving area (typically TDF is transported by truck) conveyers, storage bin and related equipment to permit TDF to be blended with the coal. TDF would require securing a sustainable long-term supply of TDF fuel with a supplier in the Green Bay, Appleton, Fond du Lac areas. TDF has a fairly high heat value and would require much less storage area compared to biomass fuel.

  Menasha staff has discussed availability of TDF with a plant located west of Stevens Point. At this time the Capital Heating Plant in Madison burns up to 30% TDF fuel. There appears to be no significant environmental impact, however use of TDF would require a modification to the plant's Air Permit. TDF should be further investigated as a fuel supply in the future.

- Paper Pellets – Menasha Staff has also investigated availability of Paper Pellets used by other utilities, including Manitowoc, as a supplemental fuel. There is a provider in Appleton that could supply the product. Paper pellets burn relatively clean and have a fair heat value. The DNR indicated probably very little would be required to modify the existing air permits to burn paper pellets. The burning of paper pellets in the boilers would require modifications to the fuel feed system and require a fuel storage facility. This fuel supply should be further investigated.

- Municipal Solid Waste – Municipal solid waste (MSW) is not suitable for burning in the Menasha Power Plant's boilers. Municipal solid waste typically is disposed of in landfills and consists of a wide range of combustible and non-combustible products. MSW also contains a very high percentage of moisture and consequently a cubic foot of municipal solid waste contains less than a third of the usable energy as a cubic foot of coal. In addition, the burning of MSW requires a specific type of combustion system followed by a high-efficiency scrubber to remove unacceptable contaminants from the stack gases. An MSW combustion system for the Menasha Power Plant would be cost prohibitive and would require a sustainable supply of municipal solid waste delivered to the plant site at a tipping fee in the range of $50 to $60/ton. Because of

these reasons conversion of the Menasha Power Plant to a municipal solid waste energy facility is not practical from an economic, environmental and operations stand point.

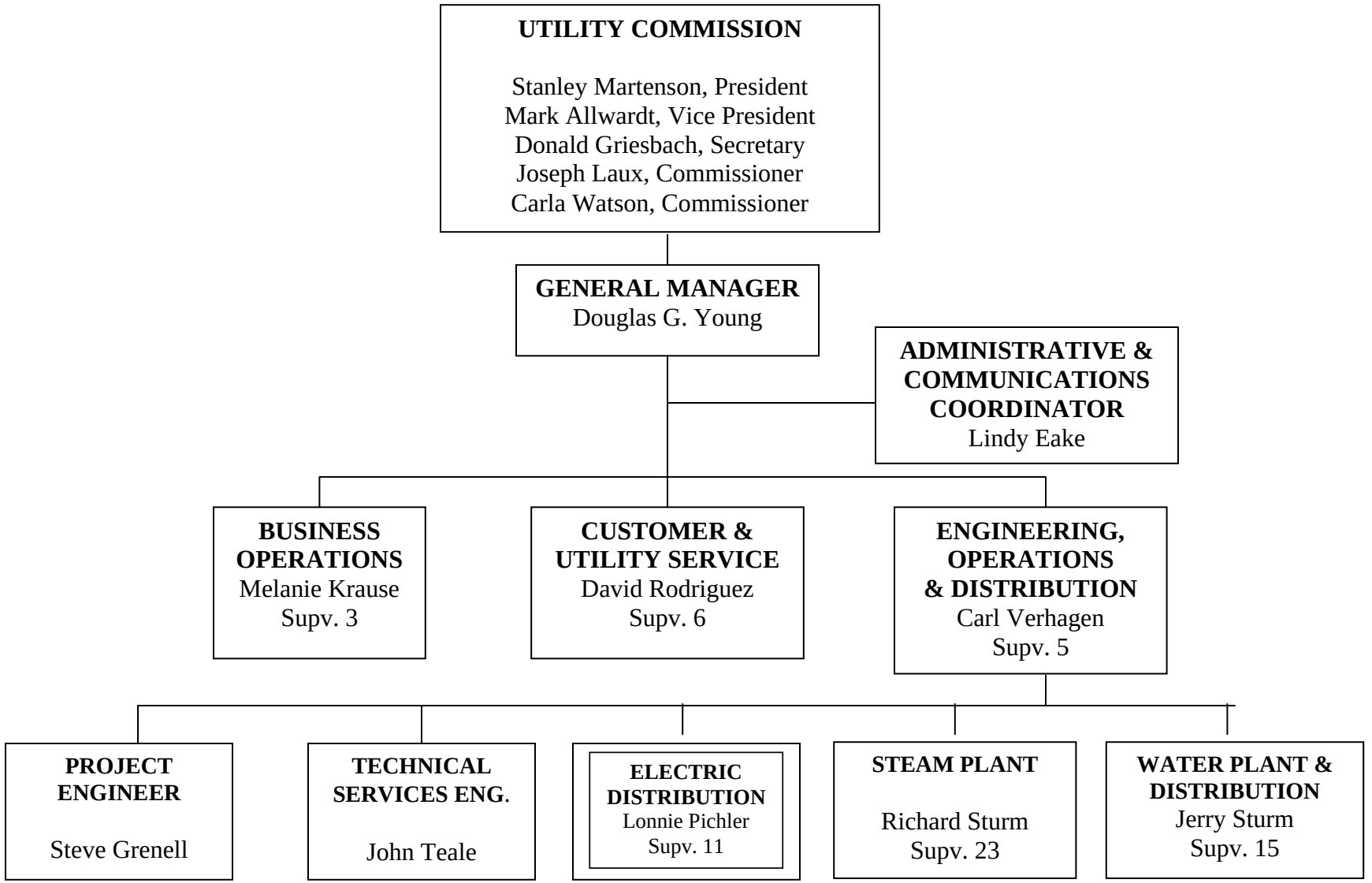
- RDF – Municipal solid waste can be converted to a usable fuel referred to as refused derived fuel or "RDF". In this case, municipal solid waste is processed through a series of conveyors and screens that remove non-combustibles including metals and glass, separates non-combustibles and concentrates the municipal solid waste into combustible and non-combustible streams. The noncombustible stream is sold as recycled materials including glass, iron, aluminum, etc. The combustible material is further processed into a fuel pellet. The fuel pellets are then sold as an alternative fuel. This type of fuel, RDF could be burned in combination with coal on the Menasha boilers #3 and #4. The burning of RDF in the boilers would require modifications to the fuel feed system, fuel storage, modifications to the Air Permit and possible installation of a flue gas scrubbing system.

  Permitting is the major obstacle to burning RDF in the United States. Dioxin and furan emissions are all but impossible to meet when burning RDF. Benzene and chlorides from plastics in the refuse waste stream combine to produce the dioxin and furans. Stack emission guarantees, when burning RDF, are difficult to obtain. Due to the high risks and costs of such a project, this fuel (RDF) is not recommended at this time.

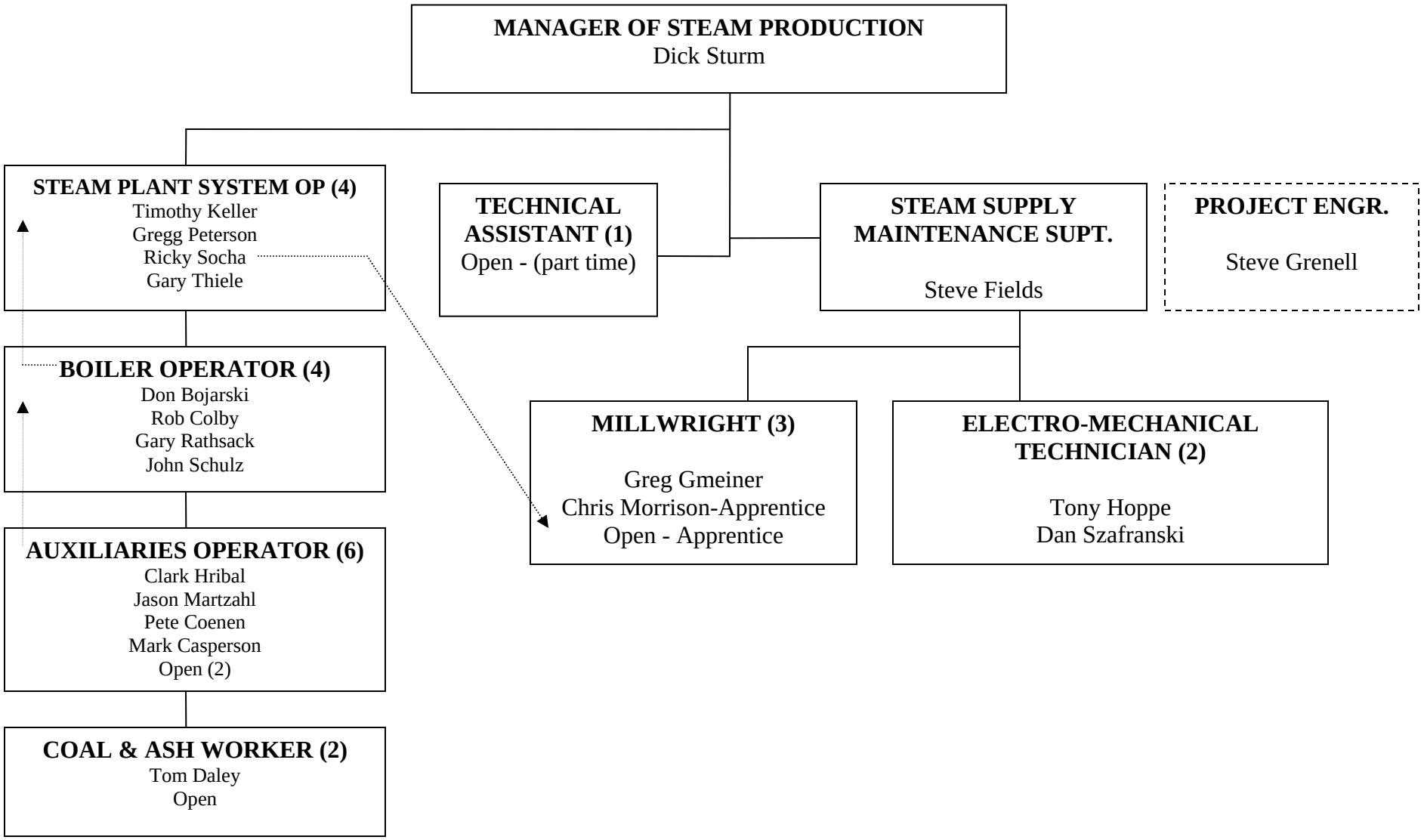
Appendix D:

Organizational Chart & Biographies

MENASHA UTILITIES
ORGANIZATIONAL CHART



MENASHA UTILITIES
PROPOSED ORGANIZATIONAL CHART



MANAGERIAL QUALIFICATIONS

Douglas G. Young, is General Manager for Menasha Utilities. Mr. Young has over 26 years of electric and water utility experience. His expertise is in management, and engineering for: distribution, transmission, generation, controls, SCADA systems, water systems and safety. He previously held the position of Manager of Engineering and Operations for the Menasha Utilities for six years. Before joining Menasha Utilities, Mr. Young held positions as Manager of Engineering and Construction for Muscatine (IA) Power and Water, Technical Services Engineer, and Electrical Engineer for Board of Public Utilities, Jamestown, New York.

Mr. Young has an Associate Electrical Engineering Technology degree from Alfred State College (NY) and a Bachelor degree in Electrical Engineering Technology from Rochester Institute of Technology (NY). He has also completed graduate work in Electrical Engineering from Iowa State University. He serves on the WPPI Executive Committee, Corporate Communications Advisory Group for WPPI, member of the MEUW Board of Directors, and Legislative and Regulatory Committee.

Carl J. Verhagen is Manager of Engineering and Operations for the Menasha Utilities. Mr. Verhagen has over 36 years of electric utility experience. His expertise is in management, engineering, distribution, transmission, SCADA systems, hydro and gas generation, water system and safety. Prior to joining Menasha Utilities, Mr. Verhagen held positions of Director of Distribution Services for WPPI, Sun Prairie, Wisconsin, Assistant General Manager and Electric Superintendent for Kaukauna Utilities, Kaukauna, Wisconsin, Engineer and Lineman for Wisconsin Michigan Power (now WE Energies), Appleton, Wisconsin.

Mr. Verhagen is a registered Professional Engineer in the State of Wisconsin with a Bachelor degree in Applied Science and Engineering from the UW-Milwaukee. He has completed numerous technical courses in power engineering as well as graduate courses in a MPA (Master Public Administration) program at UW-Oshkosh.

David J. Rodriguez is Customer and Utility Services Manager for Menasha Utilities. He has over 25 years of experience in the electric utility industry. His expertise is in accounting, plant accounting, customer service, facilities and fleet management, computer network management, demand-side management, energy services, rates, and large customer relations.

Mr. Rodriguez attended the UW Fox Valley with a focus on general studies and accounting, and he had extended training in accounting from Virchow Krause, MEUW and Fox Valley Technical College. He completed extensive energy services training with the Wisconsin Center for Demand-side Research. He is a member of WPPI's Customer & Energy Services Advisory Group, and Association of Energy Services Professionals.

Melanie S. Krause, CMA, is Manager of Business Operations for Menasha Utilities. She has over 13 years of accounting experience with 9 years in the utility industry. She previously held the title of Business Operations Accountant for the Menasha Utilities. Her expertise and experience is in financial reporting, budgeting, cash management, plant accounting, internal auditing and financial analysis.

Mrs. Krause has a Bachelor of Science degree in Managerial Accounting and Business Administration with an emphasis in Finance from the University of Wisconsin - Stevens Point. She was awarded the Division of Business and Economics Meritorious Graduate and the Outstanding Graduate in Accounting. She has earned the designation of Certified Management Accountant from the Institute of Management Accountants (IMA). She is a member of the local IMA chapter, Chair of the Solomon Accounting Users Group for WPPI, and a WPPI Benefit Plan Trust Board Member.

Richard Sturm, Manager of Steam Production for Menasha Utilities. Mr. Sturm has over 28 years of experience in the utility industry. His expertise is in management, maintenance and operations of boiler plant, electric generation, substations, transmission and distribution.

Mr. Sturm is a graduate of Northeast Wisconsin Technical College with a degree in Power Engineering and Boiler Operations. He holds a license of Master Chief Engineer with the American Society of Power Engineers and Chief Engineer with the National Institute for Uniform Licensing of Power Engineers. He has over 10 years experience as a licensed instructor in Power Engineering and Boiler Operation with Fox Valley Technical College.

Steven Grenell, Project Engineer for Menasha Utilities. Mr. Grenell has over 15 years of electrical engineering experience. His expertise is in designing, programming and managing control systems, power boiler controls, turbine generator controls, electrical distribution systems, and paper process systems.

Mr. Grenell is a graduate of Michigan Technical University with a degree in Electrical Engineering and an emphasis in Power Distribution and Machinery.

Appendix G:

Balance Sheet

Menasha Utilities
Balance Sheet
Steam Summary
December 31, 2005

	Current Month Balance	12/31/04 Balance	Difference
ASSETS AND OTHER DEBITS			
UTILITY PLANT			
Utility Plant (101-107)	30,652,751.78	7,654,631.74	22,998,120.04
Less: Accum. Provision for Depr and Amortization (111-116)	(6,655,440.39)	(6,646,203.82)	(9,236.57)
Net Utility Plant	23,997,311.39	1,008,427.92	22,988,883.47
Total Net Utility Plant	23,997,311.39	1,008,427.92	22,988,883.47
OTHER PROPERTY AND INVESTMENTS			
Special Funds (125-128)	6,383,945.09	52,081.81	6,331,863.28
Total Other Property and Investments	6,383,945.09	52,081.81	6,331,863.28
CURRENT AND ACCRUED ASSETS			
Cash and Working Funds (131-135)	305,883.69	(7,116.68)	313,000.37
Notes Receivable (141)	500,000.00	0.00	500,000.00
Customer & Other Accounts Receivable (142-143)	3,500.00	0.00	3,500.00
Materials and Supplies (151-163)	7,309.80	5,250.00	2,059.80
Prepayments (165)	995.65	1,335.97	(340.32)
Interest and Dividends Receivable (171)	32,226.13	0.00	32,226.13
Total Current and Accrued Assets	849,915.27	(530.71)	850,445.98
DEFERRED DEBITS			
Unamortized Debt Discount and Expense (181)	345,351.33	0.00	345,351.33
Other Deferred Deits (182-186)	60.47	0.00	60.47
Total Deferred Debits	345,411.80	0.00	345,411.80
Total Assets and Other Debits	$31,576,583.55	$1,059,979.02	$30,516,604.53
LIABILITIES AND OTHER CREDITS			
PROPRIETARY CAPITAL			
Capital Paid in by Municipality (200)	3,371,774.53	871,774.53	2,500,000.00
Unappropriated Earned Surplus (216)	(2,685.64)	(2,685.64)	0.00
Current Earnings (217)	83,565.61	0.00	83,565.61
Total Proprietary Capital	3,452,654.50	869,088.89	2,583,565.61
LONG-TERM DEBT			
Bonds (221-222)	12,660,000.00	0.00	12,660,000.00
Advances from Municipality (223)	11,000,000.00	0.00	11,000,000.00
Other Long-Term Debt (224)	1,494,725.01	0.00	1,494,725.01
Total Long-Term Debt	25,154,725.01	0.00	25,154,725.01
CURRENT AND ACCRUED LIABILITIES			
Accounts Payable (232-235)	2,656,360.29	134,856.96	2,521,503.33
Taxes Accrued (236)	12,776.40	0.00	12,776.40
Interest Accrued (237)	183,569.50	0.00	183,569.50
Miscellaneous Current and Accrued Liabilities (242)	3,101.62	1,425.50	1,676.12
Total Current and Accrued Liabilities	2,855,807.81	136,282.46	2,719,525.35
DEFERRED CREDITS			
Other Deferred Credits (253)	113,396.23	54,607.67	58,788.56
Total Deferred Credits	113,396.23	54,607.67	58,788.56
Total Liabilities and Other Credits	$31,576,583.55	$1,059,979.02	$30,516,604.53