



STATE OF IOWA

THOMAS J. VILSACK, GOVERNOR
SALLY J. PEDERSON, LT. GOVERNOR

DEPARTMENT OF NATURAL RESOURCES
JEFFREY R. VONK, DIRECTOR

May 21, 2002

Alan Arnold
Senior Environmental Specialist
Alliant Energy
200 First Street, SE
PO Box 351
Cedar Rapids, IA 52406-0351

Re: Chariton Valley Biomass Project
Ottumwa Generating Station
Plant No. 90-07-001

Dear Mr. Arnold:

Over the past several years, the Department has been working with Alliant Energy, the Chariton Valley Resource Conservation and Development, Inc. (CVRCD), and other Chariton Valley Biomass Project (CVBP) partners to study the feasibility of burning a renewable energy source in the boiler at the Ottumwa Generating Station. As you know, the Department has been supportive of this project and has worked with the CVBP partners to find the best way to proceed within the confines of the various environmental regulations. To this end, a testing program was undertaken beginning with Cofire Test 1 to evaluate the emission changes that may occur while burning switchgrass. Unfortunately, the information from Cofire Test 1 was not as conclusive as the CVBP had hoped. It is generally believed that initial operational problems with feeding the alternative fuels, and the relatively short duration of the test burns, did not allow for an adequate evaluation. Therefore, it is difficult to understand the emissions implications that would be associated with commercial cofiring. To this end, it will be necessary to conduct additional emissions testing as it is planned during Cofire Test 2. The Department looks forward to the opportunity to continue working with the CVBP partners involved to resolve the remaining questions regarding emissions, while at the same time allowing for the evaluation of the project from energy and holistic standpoints.

The Department fully supports opportunities for burning alternative fuels, such as the opportunity offered by the CVBP project. As you know, any large generating station has very significant air emissions. There are potential positive environmental effects from this project - not only in regard to air pollution, but also in regard to other environmental media, even positive wildlife benefits. In addition, the Department does not overlook the non-environmental impacts associated with the CVBP - the benefits to the overall state energy balance and to the Iowa economy are not insignificant.

The first draft of the CVBP permitting plan submitted to the Department did not allow for sufficient time between the CVBP's planned request for the Campaign 2 construction permits and the desired issuance date. In addition, after the submittal of the first draft plan, for internal

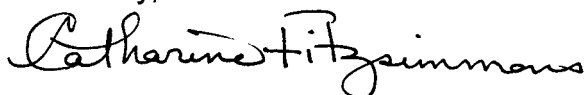
reasons the CVBP has delayed its target permit issuance date from July 31, 2002 to March 3 2003. As a result, the final CVBP permitting plan that you have submitted, which this letter endorses, reflects an updated schedule and provides for the 60-day period preferred by the Department for the Campaign 2 construction permit application review.

The first draft plan indicated that the Department would issue a variance to allow for the cofiring/testing of switchgrass during Cofire Test 2 concurrently with issuing the construction permits for Campaign 2. To be clear, the variance will need to be issued after the Department has an opportunity to review the applications and issue the construction permits for any equipment that needs to be added to the OGS site. The final CVBP environmental permitting plan that you have submitted reflects this change. The construction permit applications should reflect all equipment existing at the plant, and also all equipment associated with the biomass project. This comprehensive information will be needed in order to properly make the determination of whether any emission changes from the boiler during switchgrass cofiring, when added to any emission increases associated with the processing of alternative fuels, could result in emission increases that might trigger PSD.

The construction permits for the 2nd Campaign construction will establish a federally enforceable restriction on the amount of switchgrass that can be cofired annually (6000 tons/year). An evaluation of the emission data after Cofire Test 2 will be needed in order to determine how the project will proceed from that point forward. One possibility, assuming best-case Cofire Test 2 emissions results, would be for the Department to allow Campaign 3 construction (after processing the Campaign 3 construction permit application) while also relaxing the switchgrass quantity restriction from 6000 tons/year to 25,000 tons/year to enable Cofire Test 3. The Cofire Test 3 emissions results would then be evaluated in order to decide how to best proceed to commercial operation. It is noted that if Cofire Test 2 emissions results are not positive, PSD revision may be necessary. This is the nature of the flexible permitting plan that you have proposed.

In summary, the IDNR fully supports proceeding with this project through Cofire Test 2. In regard to air pollution permitting issues and stormwater permitting issues (the stormwater permitting issues are a routine matter), the CVBP environmental permitting plan provides many potential paths to commercial switchgrass cofiring. While none of the paths are guaranteed because they depend upon intermediate cofiring test outcomes, the plan presents a comprehensive and viable roadmap for potentially acquiring the environmental permits necessary for the CVBP to operate commercially. After Cofire Test 2, both the Department and the CVBP will be in a better position to identify the appropriate permitting path going forward. If you have any questions regarding this project, or if the Department can be of further help in the near future, please do not hesitate to call.

Sincerely,

A handwritten signature in black ink that reads "Catharine Fitzsimmons". The signature is written in a cursive, flowing style.

Catharine Fitzsimmons
Interim Air Quality Bureau Chief