WEST PENN POWER
SUSTAINABLE ENERGY FUND

2003 ANNUAL REPORT TO THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION
AND TO THE JOINT PETITIONERS
(DOCKET NUMBER R00973981)

FOR THE PERIOD:
JANUARY 1, 2003 — DECEMBER 31, 2003

Prepared by:

Joel L. Morrison
Joseph S. Badin

Contact Info: (814) 865-4802 or wppsef@ems.psu.edu

West Penn Power Sustainable Energy Fund
450 South Main Street
Greensburg, PA 15601
(724) 830-3000
www.wppsef.org
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1.0 OVERVIEW

The West Penn Power Sustainable Energy Fund (WPPSEF) was created pursuant to the Order of the Pennsylvania Public Utility Commission (PUC) as part of the West Penn Power Restructuring Plan Settlement Agreement on November 3, 1998 – Docket Number R00973981. On May 21, 1999, the PUC approved the WPPSEF Board of Directors. The Fund was incorporated as a non-profit 501(c)3 corporation and its by-laws were approved on June 2, 2000. A strategic alliance was established with The Economic Growth Connection (EGC) of Westmoreland County to provide business development services. In December 2000, the WPPSEF Board competitively selected The Energy Institute of Penn State University, in partnership with Energetics Inc., to serve as the WPPSEF Fund Coordinator. PNC Bank was chosen to manage the non-invested assets.

The mission of the WPPSEF is comprised of three key elements:

1) Promote the use of renewable and clean energy;
2) Promote energy conservation and energy efficiency; and
3) Promote the start-up, attraction, expansion, and retention of sustainable energy businesses.

This report serves as the WPPSEF’s 2003 annual report to the Pennsylvania Public Utility Commission and to the Joint Petitioners for the period of January 1, 2003 through December 31, 2003.

2.0 WPPSEF ACCOMPLISHMENTS

Key accomplishments for the WPPSEF during this reporting period are summarized in this section. Section 2.0 contains a summary of the 2003 WPPSEF Board meetings, funding commitments, collaborative activities with Pennsylvania’s other regional sustainable energy funds, marketing/ networking activities, and WPPSEF organizational activities.
2.1 WPPSEF Board Meetings

The WPPSEF Board meets on a bi-monthly basis at Allegheny Power’s Corporate Office located in Greensburg, Pennsylvania. Board meetings for this reporting period were held on:

♦ February 13, 2003  ♦ August 14, 2003
♦ April 10, 2003      ♦ October 9, 2003
♦ June 12, 2003       ♦ December 11, 2003

2.2 Funding Commitments

During 2003, the WPPSEF Board committed $1,255,646 to support sixteen funding requests. The WPPSEF funding commitments can be categorized as either program related investment or grantmaking commitments.

**Program Related Investment Commitments**

The WPPSEF Board approved $1,025,000 to co-fund four program related investment requests in 2003. These program related investment commitments included:

♦ $350,000 loan commitment to Penns Valley Area School District (PSVD) for Act 57 Performance Based Efficiency Improvements to reduce energy costs in the Penns Valley High and Gregg Township Elementary Schools.

♦ $25,000 seed grant convertible to an equity investment to EBARA Solar and its successors for a market opportunity and prospect (strategic partners search) identification project. This investment was aimed at assisting the continued existence and operation of the only photovoltaic manufacturer in the West Penn Power market region.

♦ $450,000 loan commitment to the Susquehanna Energy Development Authority Council of Governments (SEDA-COG) to construct a LEED-Silver rated energy resource center. The WPPSEF worked closely with the Sustainable Energy Fund of Central Pennsylvania and the Penelec Sustainable Energy Fund which committed an additional $600,000 and $500,000 in funding to the project, respectfully.

♦ $200,000 royalty financing to Native Energy, LLC to work with Pennsylvania-based farms to install anaerobic digesters for on-site power generation. In addition to clean power generation, these digesters will reduce farm odors and be part of a nutrient management runoff program. The WPPSEF approved the entire Native Energy funding request of $200,000; however, the WPPSEF is collaborating with the Penelec Sustainable Energy and the Metropolitan Edison Company Sustainable Energy Funds to co-fund the Native Energy request.
Grantmaking Commitments

The WPPSEF Board approved $230,646 to co-fund twelve funding requests. In 2003, the WPPSEF grantmaking efforts were directed towards grants, sponsorships, and memberships. These grantmaking commitments included:

♦ $26,000 grant to the Central Pennsylvania Institute of Science and Technology (CPI), located in Centre County, to install an ENERPRO 20-30 kW wind turbine for on-site power generation and educational purposes. The CPI, a vocational school, desires to integrate emerging clean energy technologies into their teaching curriculum in an effort to train the next generation of energy technicians.

♦ $50,000 grant to Fayette County Community Action Agency (FCCAA), located in Fayette County, to deploy the use of internet-based, programmable smart thermostats to effectively manage energy use and costs in single and multi-dwelling low-income housing. Allegheny Power is donating up to 200 thermostats to the project, will monitor energy usage, qualify installers, and educate case-workers and consumers.

♦ $1,000 co-sponsorship for the “Getting to 10% Conference” organized by Penn Future. The conference was held in Harrisburg, Pennsylvania.

♦ $30,000 to State College Friends School, located in Centre County, to install a 3.6 kW photovoltaic (PV) system for on-site electricity production and to integrate solar energy into their teaching curriculum.

♦ $25,000 seed grant to the Westmoreland County Cooperative Extension Service for the installation of a Bergey Wind Turbine (10 kW Excel-S system) at the Donahoe Center. The Donahoe Center is located in Westmoreland County. The seed grant will be used to attract additional potential funding from the Pennsylvania Department of Environmental Protection Energy Harvest Grant Program.

♦ $12,000 grant to the Borough of Allenport, located in Washington County, for a lighting energy efficiency and improvement renovation at the Borough’s municipal building.

♦ $72,000 grant to Penn State’s Public Broadcasting (WPSX), located in Centre County, for the development, filming, and distribution of a multimedia educational program on sustainable energy.

♦ $5,246 to the Clean Energy States Alliance (CESA) to support joint projects and information exchange between various clean energy funds.

♦ $5,000 co-sponsorship to the U.S. Green Building Council (USGBC) GreenBuild International Conference & Expo which was held in Pittsburgh, Pennsylvania.


♦ $1,500 membership fee to the Alternative Fuels Council. The WPPSEF approved membership for 2003 and 2004 ($750/yr).

♦ $2,500 membership fee to Penn State’s Housing Research Center (PHRC) to develop a network of residential building contractors for offering EnergyStar compliant housing.
2.3 Collaboration With Pennsylvania Sustainable Energy Funds

The four regional sustainable energy funds in Pennsylvania work together to stimulate the development of sustainable energy technologies and businesses in Pennsylvania. The following collaborative activities were conducted in 2003:

Funding Collaborations

♦ Clean Energy States Alliance (CESA). All of the Pennsylvania’s Regional Sustainable Energy Funds committed funding to CESA in 2003 as a block grant. By pooling the funding, each of the regional funds reduced their overall funding commitment to CESA rather than providing sole funding.

♦ GreenBuild International Conference & Expo (November 11-12, 2003). All of the Pennsylvania Regional Sustainable Energy Funds committed funding towards a Silver-Level sponsorship for the GreenBuildExpo. The WPPSEF committed up to $5,000 in co-funding towards this sponsorship. A joint exhibit booth was designed by the WPPSEF and staffed by the SEFs. A small reception for Pennsylvania companies was held.

♦ The WPPSEF worked with the Sustainable Energy Fund of Central Pennsylvania and the Penelec Sustainable Energy Fund to provide a funding commitment to the Susquehanna Energy Development Authority Council of Governments (SEDA-COG) to construct a LEED-Silver rated energy resource center. The WPPSEF Board approved up to $450,000 to co-fund the SEDA-COG funding request.

♦ The WPPSEF has taken the lead role to secure funding for Native Energy, LLC which is seeking funding to assist Pennsylvania farmers to install anaerobic digesters. The WPPSEF is working with the Penelec Sustainable Energy and the Metropolitan Edison Company Sustainable Energy Funds to co-fund the Native Energy request. The WPPSEF Board approved up to $200,000 to fund the Native Energy request.

Meetings/ Conferences

♦ Kanaga House meetings (January 8 and November 25, 2003). Representatives from the four regional sustainable energy funds met at the Kanaga House located in New Kingstown Pennsylvania to discuss potential projects of mutual interest, and ways the regional funds could coordinate existing and planned activities.

♦ State College meeting (March 26, 2003). The funds met to discuss potential project investments and to have preliminary planning meeting for the upcoming Clean Energy Expo, which will be held at Penn State’s Bryce Jordan Center on April 2-3, 2004.

♦ “Getting to 10% Conference” (May 8, 2003). The funds met informally at the conference to discuss the upcoming Lake Wallenapupack meeting.

♦ Lake Wallenpaupack meeting (June 2-4, 2003). The three-day meeting concentrated on a wide array of fund management issues. Special emphasis was placed on potential wind projects. Other sustainable energy programs and private funds were present to share their experiences and outlooks.
2.4 Marketing/ Networking Activities

WPPSEF planned and organized several informational workshops in the West Penn Power service region to provide communities with a broad overview of the fund and its associated activities. Workshops were held in the following locations:

♦ St. Mary’s: January 27th
♦ State College: January 28th
♦ Uniontown: February 12th
♦ Washington: March 6th
♦ Chambersburg: March 7th
♦ Greensburg: March 12th

Throughout the reporting period, the WPPSEF worked with several organizations and businesses to discuss the WPPSEF activities and potential opportunities for collaboration. Meetings and/or presentations were made with the following organizations:

♦ AFC First Financial Corp.
♦ Alternative Fuels Council
♦ Duquesne University Small Business Development Center
♦ Ebara Solar
♦ General Electric Wind Energy
♦ Governors Action Team
♦ Letterkenny Army Depot
♦ Mid-Atlantic Renewable Energy Coalition
♦ PennFuture
♦ Penn State Small Business Development Center
♦ Pennsylvania Bioenergy Working Group
♦ Pennsylvania Department of Environmental Protection Fuel Cell Symposium
♦ Pennsylvania Turnpike Commission
♦ Slippery Rock University
♦ Team Ag
♦ U.S. Department of Energy, Philadelphia Regional Office
♦ U.S. Department of Energy, National Energy Technology Laboratory
2.5 Organizational Activities

The current WPPSEF Board members are:

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<tr>
<th>NAME</th>
<th>ORGANIZATION</th>
<th>WPPSEF BOARD POSITION</th>
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<tbody>
<tr>
<td>Linda McKenna Boxx</td>
<td>The Katherine Mabis McKenna Foundation</td>
<td>President</td>
</tr>
<tr>
<td>Pat O’Brien*</td>
<td>WesBanco</td>
<td>Treasurer</td>
</tr>
<tr>
<td>Robert J. Hosken</td>
<td>Three Rivers Association for Sustainable Energy</td>
<td>Secretary</td>
</tr>
<tr>
<td>Ed Johnstonbaugh</td>
<td>Allegheny Energy</td>
<td>Director</td>
</tr>
<tr>
<td>James M. Stark</td>
<td>Family Service Center</td>
<td>Director</td>
</tr>
<tr>
<td>Craig R. Kuennen</td>
<td>Glendale Water &amp; Power</td>
<td>Director</td>
</tr>
<tr>
<td>Bob Kramer</td>
<td>AK Steel Corporation</td>
<td>Director</td>
</tr>
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* Replaced William T. Hopwood who resigned June 12, 2003

The Board approved the formation of three working groups: 1) Administrative, 2) Investment, and 3) Granting. The effectiveness of these working groups will be evaluated annually.

On May 19, 2003, the Board filed its comments to the Pennsylvania Public Utility Commission concerning the April 10, 2003 dockets regarding the Pennsylvania Sustainable Energy Board (PASEB).

3.0 Financial Report

As of December 31, 2003, the WPPSEF’s PNC assets are $12,241,004.96. Audited financial statements for the year ending 2003 are currently being prepared.

4.0 Initiatives Under Development

WPPSEF will focus on moving more projects through the pipeline, and will continue to build alliances and market presence that will produce good future project flow. The Clean Energy Expo (April 2004) is a good example of such activity. The WPPSEF will concentrate on building a greater portion of equity and loans in our portfolio. WPPSEF will also continue to
create programs that meet the needs of the West Penn Power ratepayers in all market segments, including agricultural, industrial, and residential markets. Efforts to create a home/residential energy loan program that can be later applied to other sectors are currently under development. In addition to this loan program, the WPPSEF will become a formal partner in the U.S. Department of Energy’s Energy Star program.

5.0 CONCLUDING REMARKS

WPPSEF made satisfactory progress during this period, and is on course to fulfill its mission to develop a sustainable energy future in the West Penn Power service area. WPPSEF is increasing its deal flow to create opportunities for individuals, non-profits, and for profit businesses to use clean energy.