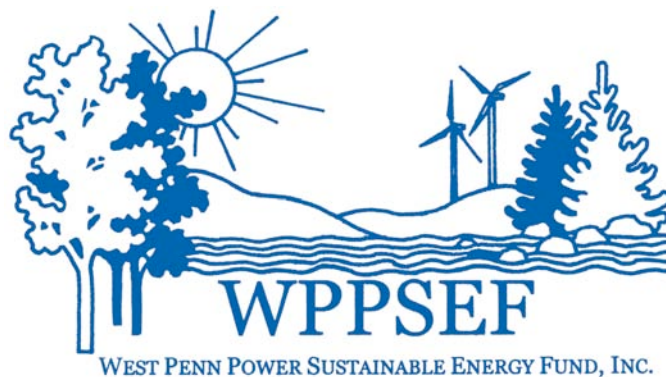


The 2006 Annual Report of the West Penn Power Sustainable Energy Fund



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INTRODUCTION AND HIGHLIGHTS

In 2006, the West Penn Power Sustainable Energy Fund (WPPSEF) entered its fifth year of providing funding to:

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

The WPPSEF activities continued to increase from previous years as its programs and initiatives became more visible within the West Penn Power (WPP) service region and across the Commonwealth. Key accomplishments in 2006 include:

Investing in clean energy. During 2006, the WPPSEF committed \$1,912,878 to fund co-fund 21 funding initiatives. Of the 21 in investments, approximately 60% was committed to expand the capacity of three manufacturing/ processing facilities (Agricultural Commodities to produce clarified soy oil from PA grown soybeans for biodiesel feedstocks, SureTight Panels Corporation to expand their production of ultra-efficient housing construction materials, and LMF Manufacturing to expand the production of biomass furnaces).

Investing in energy efficiency. The activity of the Keystone Home Energy Loan Program (Keystone HELP) increased dramatically as the program grew to over 500 participating contractors, provided over \$7 million in loans, supporting over 1,200 funding requests. The WPPSEF is extremely proud of this program, which was launched in 2005. This program would not have been possible without the generous base funding from the Pennsylvania Treasury Department, which worked with the WPPSEF to expand WPPSEF's regional pilot program into a broader statewide program.

Investing in education and public outreach. The 2006 PA Clean Energy Expo drew over 15,000 attendees from across Pennsylvania and beyond for the 2-day event. The WPPSEF worked to fill over 270 exhibit spaces, conduct 9 workshops, and worked with 29 Expo sponsors to enable this event to be free to the general public.

FINANCIAL APPROVALS

Investments

| Business | Amount | Comments |
|--------------------------------|---------------------------|--|
| Agriculture Commodities | \$500,000 | Expansion of soybean oil extrusion facilities, oils used to produce biodiesel. Biodiesel made from PA soybeans and sold locally. Plant is located in New Oxford, PA |
| LMF Manufacturing | \$150,000 | Purchase, renovation, and expansion of facility to manufacture biomass furnaces (100,000 and 170,000 Btu). Primary fuel is shelled corn but also can utilize fruit stones and a variety of grains. |
| SureTight Panels Corporation | \$481,500 | Purchase new equipment to manufacture structural insulation panels (SIPs) that is used in home construction. Equipment will increase plant capacity approximately 5X. |
| GreenForge Building | \$400,000 | Financing of LEED designed and built commercial office building. This building is part of the Donahoe campus, which showcases numerous clean energy technologies such as residential-scale wind and solar PV, geothermal heating and cooling, and green roof technologies. |
| <i>Investment Total</i> | <i>\$1,531,500</i> | |

Strategic Initiatives Developed by WPPSEF

| Business | Amount | Comments |
|--|-------------------------|---|
| PA Native Grasses | \$64,500 | WPPSEF launched this program to pull together the state's expertise into the use of native grasses (e.g. switchgrass, Big Bluestem) to produce feedstocks for residential, commercial, and light industrial heating applications. |
| Interet/ Gemstone Group | \$5,000 | WPPSEF launched this program with the Gemstone Group. The program is centered on developing financial models on how to optimize the financing of commercial-scale PV. |
| Westmoreland Human Opportunities/ Envinity | \$7,500 | Supports the South Sixth Street neighborhood revitalization program by facilitating the construction of new homes to Energy Star standards. |
| Powdermill Nature Reserve | \$25,000 | Supports the installation of Carnegie Mellon University's 2008 solar decathlon home to be permanently located at the Powdermill Nature Reserve. |
| Apollo Design Group | \$20,000 | Program showcase for the WPPSEF |
| GreenForge Building | \$75,000 | Installation of solar PV, geothermal heating/ cooling, green roof technologies |
| <i>Total Strategic Initiatives</i> | <i>\$197,000</i> | |

WPPSEF Grants/ Memberships/ Sponsorships

| Business | Amount | Comments |
|--|------------------|---|
| Solar Decathlon (Penn State University) | \$25,000 | Supports Penn State's Department of Energy's solar decathlon entry |
| Solar Decathlon (Carnegie Mellon) | \$25,000 | Supports Carnegie Mellon Department of Energy's solar decathlon entry |
| PA Foundry Association | \$25,132 | Funds 6 demand side response workshops for Pennsylvania's industrial sector |
| Affordable Comfort, Inc. | \$10,000 | Supported Energy Star home program in Uniontown, PA. |
| Air Liquide | \$35,000 | St. Mary's plant energy efficiency improvements (advanced process control for air separation) |
| Solar Strategies | \$50,000 | Supports the installation of solar PV at a planned rural town center, which will be comprised of residential housing and commercial properties. The site is planned to have 1.2 MW of solar PV installed. |
| American Wind Energy Association (AWEA) | \$250 | 2006 calendar membership |
| Alternative Fuels Renewable Energy Council | \$750 | 2006 calendar membership |
| Citizen for Pennsylvania Future (Penn Future) | \$7,500 | 2006 calendar membership |
| Clean Energy States Alliance (CESA) | \$5,246 | Membership dues (June 2006 to May 2007) |
| Regional Economic Development District Initiatives (REDDI) | \$500 | Sponsorship for biofuels conference |
| | | |
| Grants/ memberships/ sponsorship Total | \$184,378 | |

WPPSEF ADMINISTRATION

The WPPSEF administration consists of a seven-member board of directors that provides oversight to the Fund and an administrative staff that oversees the day-to-day operations. Individual board members are selected by the Fund through a search process and then are nominated for approval by the Pennsylvania Public Utility Commission. All board members serve on a volunteer basis.

The WPPSEF Board of Directors as of December 31, 2006, was:

- Ed Johnstonbaugh, *President*
 - ▶ New York Power Authority

- Michele Ponchione, *Vice President*
 - ▶ World Kitchen

- Rob Hosken, *Secretary*
 - ▶ Three Rivers Association for Sustainable Energy
- Pat O'Brien, *Treasurer*
 - ▶ WesBanco Washington
- Linda Boxx
 - ▶ Katherine Mabis Foundation
- Jim Stark
 - ▶ Fayette County Community Action Agency
- Cassandra Robinson
 - ▶ Allegheny Power

The WPPSEF Board of Directors selected The Pennsylvania State University to serve as the Fund's administrator and the Economic Growth Connection of Westmoreland County to provide financial services to the Fund. In addition, the Fund utilizes the services of Energetics and the Gemstone Group on an as-needed basis.

The WPPSEF staff as of December 31, 2006, was:

- Joel Morrison, Fund Administrator
 - ▶ The Pennsylvania State University (The Energy Institute)
- John Skiavo and James Smith
 - ▶ Economic Growth Connection of Westmoreland County

Additional support to the WPPSEF is provided by:

- Joe Badin
 - ▶ Energetics
- Gary Kleiman and Adam Stern
 - ▶ Gemstone Group

WPPSEFBOARD MEETINGS

The WPPSEF schedules its board meetings at the beginning of each calendar year. Full board meetings are scheduled for every two months. In addition, the WPPSEF Board has developed three working groups (administrative, investment, and grantmaking) that meet on an as-needed basis.

In 2006, the WPPSEF Board of Directors met on:

- February 9
- March 31
- June 8
- August 15
- October 12
- November 17
- December 14

WPPSEF WEB SITE

The WPPSEF Web site is updated throughout the calendar year as new projects are funded and programs developed. The WPPSEF Web site is at <http://www.wppsef.org>.

PLANNED 2007 ACTIVITIES

The WPPSEF Board held a strategic planning meeting on November 17 to develop a two-year program development plan. The WPPSEF will focus on two broad categories in the 2007-2008 timeframe. They are:

Bioenergy. The WPPSEF continues to be enthusiastically support the use of Pennsylvania indigenous biomass resources for the production of clean power generation and clean transportation fuels (primarily biodiesel). The WPPSEF will expand its efforts to seek out investment opportunities in residential, commercial, and light industrial applications for bioenergy.

Energy Efficiency. The WPPSEFs seeks to develop a robust residential home energy efficiency program by mid-2007. Efforts are now underway to build infrastructure and to develop a marketing strategy. The WPPSEF will also work with the Keystone HELP to support the program. In addition to the home energy efficiency efforts, the WPPSEF will also seek out innovative programs to support industrial programs. One possible scenario is to explore the use of small-scale biomass combined heat and power technologies to reduce plant-operating costs. This effort is only in the preliminary planning stage.