STATE OF INDIANA
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Mitchell E. Daniels, Jr.
Governor

News Release
For immediate release

Southwest Indiana aims to be home to large natural gas plant

EVANSVILLE, Indiana (October 27, 2006) – Governor Mitch Daniels today announced there are plans to build a $1.5 billion coal gasification plant that would be the first in the country to make pipeline quality natural gas from eastern coal. Several sites are being considered, and the governor said all of them are in the southwestern corner of the state.

U.S. Senator Richard Lugar**,** in the midst of an energy tour of Indiana, confirmed the significance of the announcement.

“I’m proud my home state and governor are taking a leadership role in developing the sustainable energy technologies which I have advocated for many years,” Senator Lugar said**. “**The coal gasification process at the heart of this project offers a long-term solution to our nation's growing need for clean, reliable power."

The plant, which is scheduled to be online in 2011, would create 300 new jobs to mine Indiana coal and 125 permanent jobs at the plant as well as about 1,000 construction jobs for four years beginning in 2008.

The project is being developed by Indiana Gasification, LLC, and will include a methanation process to produce pipeline quality substitute natural gas (SNG), which has an identical molecular structure to that of natural gas. It would produce 40 billion cubic feet of pipeline quality SNG annually, which is enough to supply 15 to 20 percent of Indiana’s residential and commercial gas demand. Its use is projected to save consumers more than $3.7 billion over the next 30 years versus the price of conventional natural gas, according to a study by Carnegie-Mellon University faculty.

“We said Indiana would become a leader in homegrown clean energy, but not even I thought we’d get there so fast. With our charge to the first tier in ethanol and biodiesel production, the clean coal electrical generation proposed for Edwardsport, and now this first-in-America commercial SNG plant using eastern coal, we’ve moved to a leadership position virtually overnight,” said Daniels.

According to the letter of intent for 30-year supply contracts signed by the utilities this week, about two-thirds of the SNG produced by the new plant would be purchased by Indiana’s three largest gas utilities, Vectren Corporation, NIPSCO (Northern Indiana Public Service Company), and Citizens Gas to help meet residential and commercial gas demand. NIPSCO would purchase the remainder of the gas to fuel electric generation for its service territory to meet seasonal demands.

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The governor said the plant developer and the three utilities, which provide 80 percent of Indiana's residential and commercial supply, have agreed to permit any of the smaller commercial and municipal gas utilities to participate in the transaction on the same terms they have negotiated.

The project is negotiating with several coal producers for a long-term contract for Indiana coal.

The ambitious schedule for the project calls for filing a joint petition today with the Indiana Utility Regulatory Commission to seek approval for the gas purchase contracts, and meeting a deadline of later this year for applying for federal loan guarantees available under the Energy Policy Act of 2005.

"The Indiana coal industry is pleased with the governor's leadership to bring this innovative new coal facility to Indiana. This project shows the wide-ranging use of Indiana's coal beyond electric production only, and paves the way for new jobs and a much needed economic boost for coal country," said J. Nathan Noland, president of Indiana Coal Council, Inc. "Strategically, Indiana is ripe for new coal developments, which the governor has recognized in his strategic plan and is now putting words into action."

The plant will use GE Energy's gasification technology which converts hydrocarbon feedstock into synthesis gas, a mixture of hydrogen and carbon monoxide. Gasification is one of the key technologies used in Integrated Gasification Combined Cycle. In this project's application, rather than producing electricity as the primary output, the methanation processes will produce SNG. The plant will operate with extremely low emissions of regulated air pollutants and will isolate carbon dioxide (CO2) so that it can be captured. The project will work with the Indiana Geological Survey to develop a CO2 sequestration demonstration project.

"GE Energy is proud to be involved in this project. GE gasification technology is well proven, having been used in various applications worldwide since our first installation in 1948. Currently, there are 62 plans – including more than 120 gasification vessels – operating GE's technology," said Edward Lowe, general manager of gasification for GE Energy.

Indiana Gasification LLC, the project developer and owner, has involved several team members, including E3 Gasification LLC, headed by William Rosenberg, former assistant administrator of the U.S. Environmental Protection Agency (EPA) and the Federal Energy Administration, and current senior fellow at the Harvard University Kennedy School of Government; and Johnston Development Company, LLC, headed by Bennett Johnston, former United States Senator from Louisiana.

Rosenberg and his colleagues at the Kennedy School's Belfer Center for Science and International Affairs completed pioneering work in devising a new regulatory construct – the Three Party Covenant – that would permit the financing of large coal gasification

plants. Johnston is the former chairman of the Senate Energy and Natural Resources Committee.

"This investment opens the way to advanced clean technology that will reduce our reliance on imported energy. Extracting clean hydrocarbons from Indiana coal will make it clear that we can compete with the Middle East for future energy supplies," said Johnston, "and on terms that eliminate the risk of hurricanes and terrorism."

"We identified Indiana as an ideal location for our state-of-the-art coal gasification facility because of its abundant coal supply, progressive utility regulatory structure, and engaged political leadership that understands the benefits of developing homegrown energy supplies," said Rosenberg.

According to project leaders, efficient financial engineering is crucial to producing the gas at a low price. The project owner would contribute 20 percent of the project costs and the remainder would be financed with debt backed by a federal loan guarantee. This structure, along with the long-term contracts to supply coal and purchase the gas should result in a gas price in the $6 per decatherm range (2006 dollars). That is 22 percent less than the average price of natural gas delivered to Indiana over the past three years.

The Carnegie-Mellon University faculty study projects that Indiana gas and electric consumers could expect to save more than $3.7 billion just in the reduced costs of natural gas over 30 years compared to conventional pipeline sources. Other expected benefits include reduced natural gas price volatility.

"The Indiana economy gets another several hundred jobs. The Indiana coal industry gets a major boost. Indiana gas consumers get some protection against the kind of price spikes we saw last winter and are sure to see again," said Daniels.

A number of steps are necessary for the project to proceed:

- Today, Indiana Gasification and the three utilities will file a joint petition with the Indiana Utility Regulatory Commission to seek approval of the gas contracts following public hearings.
- Indiana Gasification will file an application with the Department of Energy later this year to obtain a federal loan guarantee under the 2005 Energy Policy Act to back $1.2 billion of debt.
- Final terms of the gas purchase contracts will be negotiated.
- Legislation in the 2007 General Assembly that would assure the state's regulatory approval may be relied on by the financial markets – similar to language that already exists for electric plants.

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