

Lakeview Biomass Energy Facility: An Oregon Solutions Project

January 12, 2006

Declaration of Cooperation

1. Project Description and Background

The Lakeview Biomass Oregon Solutions Project is a community-based, multi-stakeholder effort to create an ecologically sound solution to forest restoration that includes an economically viable biomass energy facility.

The biomass energy facility (approximately 10-15 megawatts in size) would be adjacent to the Fremont Sawmill in Lakeview, Oregon. The sawmill is located in the center of the 492,642 acre Lakeview Stewardship Unit on the Fremont –Winema National Forest.

DG Energy is working with The Collins Companies, the owner of the Fremont Sawmill, to pursue the development of the biomass facility, and Collins and DG Energy have entered into initial development agreements and are progressing accordingly. DG Energy has participated in and contributed to the Oregon Solutions Project Team since its inception, and is supported by the Oregon Solutions Team in development of the project as long as DG Energy continues commercially reasonable pursuit of the success of the project as further addressed in this document.

2. Problems Addressed by the Biomass Energy Facility

The Lakeview biomass energy facility would have significant positive impacts on several pressing problems including:

- Improving resilience in forest and range lands
- Reducing CO₂ emissions into the atmosphere
- Creating a source of clean, sustainable energy
- Reducing the risk and cost of wildfire in and around human communities
- Revitalizing a struggling local economy

More than 90 million acres of western dry forests are at moderate to high risk of severe drought stress, insect and disease epidemics and uncharacteristically severe fires due to excessive levels of small diameter biomass from forest floor to canopy. In addition, thousands of acres of rangeland are being degraded by encroachment of western juniper due to fire suppression. The absence of utilization options for small diameter trees and western juniper makes its removal prohibitively costly, and therefore, this material is usually left on the site where it perpetuates unhealthy forest conditions. The biomass energy facility would provide a utilization option for small diameter trees and western juniper. Removing excessive fuel loads would improve forest and rangeland health.

Currently, the piled material is often disposed of in the forest in open burns that degrade air quality and release significant amounts of carbon into the atmosphere. The biomass energy facility would channel that carbon into long-term storage as wood products or offset it by reducing the need for fossil fuel energy sources and their associated carbon emissions.

The facility would generate clean, sustainable energy that would be sold to a utility, and would provide an important model for biomass energy development across the state. Biomass energy is likely to be a significant component of our transition from a fossil fuel based to a sustainable energy system. With dwindling oil reserves, increasing instability in global energy markets, and energy costs that are likely to continue to rise into the foreseeable future, there has never been a better time to develop effective, sustainable community energy projects.

The biomass energy facility would have a direct positive impact on local economic and community development. In Lake County, the local forest sector industry is dwindling. The biomass energy facility would revitalize the economy by creating jobs suited to the skills of forest sector workers. Furthermore, by providing a cost effective way to remove wildfire fuels, it would reduce the currently escalating risks and costs associated with severe wildfire in a region experiencing increasing urbanization and residential development near forested areas.

The Lakeview Biomass Energy Facility is a different resource management model than the model that contributed to the conditions that now place these forests and rangelands and, in urbanizing areas, human lives and property at risk. It entails creation and application of new governance models, new resource management techniques and tools, new processes for utilizing what have historically been unmerchanted forest and range products, and new methods to contain costs and account for the full array of benefits derived from forest restoration. This model will be of value to other western communities facing large magnitude forest health challenges.

3. Oregon Solutions Collaboration

Project success will depend on overcoming several economic and policy challenges through the collaborative efforts of a diverse group of stakeholders. To facilitate this collaboration, in January 2005, Governor Theodore Kulongoski designated the Lakeview Biomass Project an Oregon Solutions project, and appointed OSU College of Forestry Dean Hal Salwasser and Lakeview County Commissioner JR Stewart to serve as project co-conveners. The mission of Oregon Solutions is to develop sustainable solutions to community-based problems that support economic, environmental, and community objectives and that are built through the collaborative efforts of businesses, governments, and non-profit organizations.

The Oregon Solutions designation will help ensure successful implementation of the Lakeview Biomass Project. The Governor has assured participation of his staff and appropriate state agencies with other partners through the designation of this effort as an Oregon Solutions project. It is expected that the creation of an Oregon Solutions Team for this initiative will help make efficient use of available resources, accelerate the pace of the project, overcome potential impediments early on, raise awareness of the initiative on a statewide level and bring effective partners to the table. In this fashion, the Team will commit resources and time to develop and implement an integrated action plan focused on achieving a predictable and stable supply of small diameter material to enable investments in related timber-utilizing technologies and businesses.

To this end, a Lakeview Biomass Project Team was created, composed of individuals, agencies and organizations with a "stake" in ecosystem restoration, renewable energy production, and employment/job creation in Lakeview. Team members and contact information is presented in Appendix B. The team developed a set of ground rules, presented in Appendix A, which assisted them in developing an integrated and inclusive solution. During the course of four meetings, from May through November 2005, the CROP Team agreed on a series of Project Purpose and Goal Statements, and an Implementation plan. These documents were used to build sections 1, 2, 4, and 5 of this Declaration of Cooperation. Section 6 outlines the commitments and contributions to project success of project participants.

4. Goals and Objectives

Goals of the Lakeview Biomass Energy Facility Project include:

- ✓ Development of a biomass-based, renewable energy resource;
- ✓ Recovery of watershed health, including enhanced water flows and quality, improved fish and wildlife habitats, and resiliency to drought, insects, fire and invasive species;
- ✓ Return of natural ecosystem processes including restoring fire's natural role in forest and rangeland ecosystems;
- ✓ Reduced threats to forest and rangeland values, property, and human lives from uncharacteristically severe fire;
- ✓ Reduced future costs of fire suppression;
- ✓ Improved understanding of the role of forest and rangelands, forest and rangeland products and biomass energy as mitigation for carbon dioxide emissions;
- ✓ Creation of forest-based jobs and wealth for long-term residents of rural communities;
- ✓ Enhanced and improved economic resiliency and viability of the regional lumber mill and surrounding communities;
- ✓ Improved efficiency and efficacy of state and federal agencies to carry out their missions (e.g. ecosystem restoration, community economic development, renewable energy development, etc.);
- ✓ Enhanced social capacity to solve problems in ways that build and sustain desired environmental, economic and community conditions.

The product of the Lakeview Biomass Oregon Solutions process will be an Oregon Solutions Declaration of Cooperation signed by all of the partners including state and federal agencies, local government, businesses and non-profits. The Declaration of Cooperation includes an implementation plan for achieving the following objectives necessary to meeting project goals:

- ✓ Secure a predictable, economically and ecologically sustainable supply of biomass;
- ✓ Agree on expedited permitting processes, if appropriate, to avoid project delays
- ✓ Support increased valuation of biomass within energy incentives; maximize utilization of existing financial incentives;
- ✓ Designation of the Lakeview biomass project as a pilot project under various initiatives;
- ✓ Engage in a transparent process that encourages active public/community participation;
- ✓ Ensure a viable energy project by addressing key issues including: power purchase agreement, thermal demand, secondary products, and cost-effective interconnection;
- ✓ Create conditions necessary to make this an attractive investment to secure construction and operation for at least twenty years;
- ✓ Support the development and utilization of ecologically-friendly extraction techniques;
- ✓ Create a replicable template for similar future projects;
- ✓ Integrate into implementation of the Governor's Renewable Energy Action Plan goals.

During early discussions, the Project Team realized that the proposed biomass power facility may not be economically viable in the absence of "intermediate" small diameter tree utilization infrastructure¹ (the Fremont Sawmill cannot currently profitably process small diameter logs), due to the relatively high cost of transporting small diameter biomass from the forest to a site, and the relatively low prices that a biomass power facility can pay for this material. Therefore, the development of intermediate small diameter processing infrastructure is considered critical to the success of the Lakeview Biomass Project, and has been added to the list of project objectives:

¹ "Intermediate" SDT infrastructure would be able to profitably process approximately 4-12" DBH trees, such as a post and pole processor or a dedicated small diameter timber primary breakdown line at the Fremont Sawmill, and provide an additional residual fuel stream for the biomass power facility.

- ✓ Identify partners and investors to develop “intermediate” small diameter processing capacity, to derive maximum value and to assist in paying for the transport of biomass material from the woods to the biomass power site.

The graphic model in Appendix D illustrates the interconnection of many of these objectives.

5. Project Implementation Plan

The implementation plan addresses all of the key considerations for project success, and includes the following sections:

- I. Stakeholder Collaboration and Community Engagement
- II. Supply, Scale, and Design
- III. Associated Economic Opportunities
- IV. Power Purchase Agreement and Interconnection
- V. Credits and Incentives
- VI. Permitting
- VII. Implementation Team

The full Implementation Plan is presented in Appendix E.

6. Commitments and Contributions

These commitments represent a public statement of intent to participate in the project, to strive to identify opportunities and solutions whenever possible, to contribute assistance and support within resource limits, and to collaborate with other Team members in promoting the success of the project.

The Oregon Solutions Project team agrees to provide project policy oversight and to engage in efforts to enhance project visibility and acceptance.

The following commitments to the success of the project are made by the Project Team members:

Governor Theodore Kulongoski's Office

General Project Support and Policy Development

The Lakeview Project is an excellent example of a "lasting solution that simultaneously addresses economic, environmental, and community well-being," as stated in the Governor's 2003 Sustainability Executive Order. The Governor's Office created the Oregon Solutions approach to help address complex issues with sustainable solutions. To this end, Governor Kulongoski's Office will continue to support the Oregon Solutions Lakeview Project. In addition, the Governor has convened a blue ribbon work group from the public and private sectors to assess the barriers to financing and building forest biomass projects in Oregon. That work group has been charged with developing and coordinating proposed policy, in partnership with federal agencies, for long-term levelized small diameter timber supply from public and private lands, and more generally, finding solutions that simultaneously improve forest health, reduce wildfire risk, and benefit local economies. Furthermore, the Governor adopted a Renewable Energy Action Plan (REAP) for the state that identifies the development of forest biomass to energy as one priority. The Governor's Office will continue to work with state agencies and stakeholders to accomplish the goals set out in the REAP.



David Van't Hof, Sustainability Policy Advisor,
Governor Kulongoski's Office

Lakeview District Bureau of Land Management

The Lakeview District of the Bureau of Land Management, within constraints of available funding, will commit resources and personnel to:

- Participate in and support the development of a Coordinated Resource Offering Protocol (CROP) supply projection by providing data on juniper stand locations, volume, and size classes and other associated data to the contractor.
- Pursue the use of Stewardship Contracting Authorities in planning restoration of ecosystems where juniper encroachment has reached a point requiring treatment. The use of these long term contracting authorities may help level the supply.
- Work with collaborators to seek techniques for biomass removal that will minimize short term environmental damage.

- Participate on the ongoing Lakeview Biomass Implementation Team, which will meet once monthly in the Lakeview area.


Shirley Gammon, District Manager
Lakeview BLM

Fremont-Winema National Forest

The Fremont-Winema National Forests, within the constraints of available funding, will commit resources and personnel to:

- CROP Development: participate in and support the development of Coordinated Resource Offering Protocol CROP supply projection:
 - Volume, species, size classes
 - Location of supplyCROP will identify a minimum annual supply commitment.
- Stewardship Authorities: Pursue the use of stewardship authorities
 - to normalize annual supply of biomass – multi year contracts
 - facilitate the restoration of ecosystems and natural fire regimes – goods for services
- Collaboration: Work with collaborators:
 - for development of efficient small diameter trees extraction techniques
 - for the development of new markets for small diameter material
 - maintain involvement through the implementation phase of this project


Karen Shimamoto, Forest Supervisor
Fremont-Winema National Forests

Lake County

Lake County has always encouraged worthy productive projects for the benefit of the entire County. We readily assist projects by helping in planning and project permitting. Lake County is continually working for a long term solution for supplying the lumber mill and also the biomass plant when built.


JR Stewart, Commissioner
Lake County, Oregon

The Collins Companies

The Collins Companies commits the following support for the Lakeview Biomass project:

- Land Lease: Work with any energy developer on a land lease at our facility, The Fremont Sawmill in Lakeview, OR.
- Steam purchase: Work with any energy developer on a steam purchase agreement, taking the boiler at the Fremont Sawmill off line.
- Water: Provide access to an existing well on Fremont Sawmill property for the biomass plant usage.
- Sawmill Hogfuel: Negotiate the sale of hogfuel from the Fremont Sawmill to developer of Lakeview Biomass Plant.
- Chips: The Collins Companies will develop a long term contract to sell chips generated from normal logging operations at a negotiated price to the biomass plant.
- Log purchase: Should the biomass developer or a subsidiary fuel supply company be developed and long term contracts obtained by them from the Forest Service and BLM, the Collins Companies will purchase suitable sawlogs from them at a fair market value.



Paul Harlan, Vice President Resources
The Collins Companies

Oregon State University

Oregon State University will support the Lakeview Biomass Project in the following ways:

- Grants and Research: Seek grants to support research on major outcomes anticipated by implementation of the Project, including but not limited to water quality, fish and wildlife habitat, fire risk reduction, carbon sequestration, and biomass utilization.
- Project Implementation Assistance: Assist project implementers to secure scientific, technical, and educational assistance as requested.



Hal Salwasser, Dean
Oregon State University College of Forestry

Defenders of Wildlife

Defenders of Wildlife commits the following support for the Lakeview Biomass project:

- Long-Term Strategic Plan for the Lakeview Federal Stewardship Unit: Defenders will work with the Lakeview Stewardship Group to develop, publicize, and implement a long term strategy for the Lakeview Federal Stewardship Unit (Unit) that meets both the ecological and social goals of the Unit, as outlined in the 2001 reauthorization language.
- Outreach: Defenders will inform policy makers, media, and other environmental organizations of our support for an appropriately sized biomass facility that contributes to ecological

sustainability of the Unit by utilizing biomass material generated as a by-product of restoration-oriented treatments consistent with the Long-Term Strategic Plan for the Unit.

- Monitoring: Defenders will work with the Lakeview Stewardship Group to encourage and help oversee environmental monitoring programs designed to gauge the effectiveness of thinning and other treatments in achieving restoration objectives.
- Treatment Regimes: Defenders will work with the Lakeview Stewardship Group to identify appropriate types, scale and location of restoration-oriented treatments to achieve objectives of the Long-Term Strategic Plan.



Rick Brown, Senior Resource Specialist
Defenders of Wildlife

Lake County Resources Initiative

The Lake County Resources Initiative commits the following support for the Lakeview Biomass project:

- CROP/Supply Program Development: Work with COIC, Mater Engineering, the USDA Forest Service, the Bureau of Land Management, and other partners to create a sustainable long-term supply system focused on the Lakeview community.
- WESTCARB terrestrial carbon sequestration project: LCRI will provide local coordination between The Collins Companies, Jeld-Wen and Forest Service on this project.
- Goods for Services contracting: LCRI will work with The Collins Companies and Forest Service to gather field data off the Bull Stewardship Contract to verify economic assumptions utilized in the pro forma for the Lakeview Biomass Project.
- Long Term Strategic Plan for the Lakeview Federal Stewardship Unit: LCRI will work with the Lakeview Stewardship Group on a long term strategy for the Lakeview Federal Stewardship Unit that meets both the ecological and social goals of unit, as outlined in the 2002 reauthorization language.
- Pilot designation: LCRI will work with Sustainable Northwest and key congressional staff people on legislation for several pilots across the country to demonstrate biomass utilization.
- Energy Development Companies: LCRI will contact potential energy companies that can build and operate a biomass plant about locating a plant in Lakeview.
- Local Liaison: LCRI will serve as a liaison between energy company developer, The Collins Companies, and Federal, State and Local agencies for the purpose of establishing a biomass plant in Lakeview.
- Monitoring: LCRI will enter into a reciprocal agreement with COIC to share resources and findings regarding environmental, economic, community benefits, and programmatic monitoring related to CROP specifically and, as appropriate, ecosystem restoration projects in general.

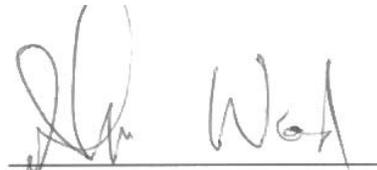


Jim Walls, Executive Director
Lake County Resources Initiative

DG Energy Solutions LLC

DG Energy Solutions commits the following support for the Lakeview Biomass project:

- Support and guidance for Oregon Solutions: DG Energy Solutions has provided and will provide a dedicated executive to serve on the Oregon Solutions team assembled to support the Lakeview Biomass project effort, including providing first-hand knowledge of biomass project requirements, and participation in follow-up efforts as appropriate.
- Development Agreements: DG Energy Solutions has executed a preliminary development agreement with the Collins Companies for development of the Lakeview Biomass project on the site of The Fremont Sawmill in Lakeview, OR. DG Energy has drafted or executed detailed documents outlining the terms of provisions including Land Lease, Steam Purchase, Water Supply, Sawmill Waste, Chip Sale, and Log Purchase.
- Biomass Supply Study/CROP: DG Energy Solutions has arranged for the study of detailed biomass fuel supply, contracting with and providing the majority of funding for Mater Engineering to advance on matters critical to the development of a reliable fuel supply plan for the Lakeview Biomass project.
- Green Credits and Incentives: DG Energy Solutions will work with other Oregon Solutions team members to maximize and secure Business Energy Tax Credits, Renewable Energy Credits, Carbon Mitigation Credits, and other applicable local and federal production or investment tax credits to facilitate the development and financing of the Lakeview Biomass project.
- Project Implementation: DG Energy Solutions anticipates leading the advancement of the planning, permitting, design, commercial contracting, financing, construction and long term operation of the Lakeview Biomass project, bringing the majority of the equity capital required to develop and construct the project.



John Wood, Vice President
DG Energy Solutions, LLC

Town of Lakeview

The proposed Lakeview Biomass Plant will be located on Fremont Sawmill land both lying within the city limits of the Town of Lakeview. The Fremont Sawmill is a major employer and very important to the economic well being of the town. The Lakeview Biomass Project is a great economic opportunity for the town and we are here to support its reality in any manner we can. Restoring forest and range health are both environmentally and economically beneficial for the citizens of Lakeview, and to the Fremont Sawmill and the Lakeview Biomass Project.

- The Town of Lakeview will actively participate in Lakeview Biomass Project implementation team.
- As it deems appropriate, the Town will assist the Lakeview Biomass Project in seeking funding opportunities at the state and federal level.
- The Town Planning and Air Quality Committees will assist the project through the permit process.



Rick Watson, Mayor
Town of Lakeview

Central Oregon Intergovernmental Council

The Central Oregon Intergovernmental Council commits the following support for the Lakeview Biomass project through September, 2007 (support after this timeframe will be subject to additional funding availability):

- CROP/Supply Program Development: Subject to available funding, COIC will provide facilitation and technical assistance services, as needed, in association with LCRI, Mater Engineering, the USDA Forest Service, the Bureau of Land Management, and other partners to help create a sustainable long-term supply system focused on the Lakeview community.
- Monitoring: COIC will share available resources and findings regarding environmental, economic, community benefits, and programmatic monitoring related to CROP specifically and, as appropriate, ecosystem restoration projects in general.



Tom M. Moore, Executive Director
Central Oregon Intergovernmental Council

Oregon Natural Resources Council

As part of its mission to protect and restore Oregon's wildlands, wildlife and waters, ONRC is committed to the conservation and restoration of:

- (1) *ponderosa pine and mixed conifer forests*, which have, as a result of logging, grazing and fire suppression, had their structure and composition degraded; and
- (2) *sagebrush steppe*, which has suffered primarily from livestock grazing and fire suppression.

The reintroduction of natural fire regimes and modification of commercial logging and grazing practices are necessary to conserve and restore these forest and steppe ecosystems. Because of the unnatural build-up of small-diameter ponderosa pine, white fir and other tree species in forests and the invasion of western juniper into sagebrush steppe, it may be appropriate for large-scale, and intensive efforts to remove undesirable biomass from these ecosystems, using environmentally appropriate methods. In some cases, the reintroduction of fire without prior silvicultural treatment is appropriate. In other cases, the careful execution of a scientifically based thinning regimen is desirable before the reintroduction of fire. Any forest and steppe restoration regime must strictly conserve soil, water, biodiversity, roadless areas, and large and/or old trees.

The utilization of this surplus biomass material in the generation of electricity and steam can be consistent with such conservation and restoration. A power plant could also help diversify the southern Lake County economy, produce electricity from non-fossil fuel sources and can make industrial processes more efficient. In the short term, biomass energy generation could also improve the economics of forest and steppe restoration.

A biomass energy facility should be scaled to size and duration commensurate with the amount of material that is ecologically desirable and economically feasible to remove from the forest and the steppe over the next few decades. As forests and steppes are restored to again include a natural fire regime, unnatural increases of out-of-place trees and vegetation should be regulated more by fire than logging. Given the slow growth rates of vegetation in the area, it is neither feasible nor desirable, to consider large-scale cultivation of biomass on public or private lands to supply such a facility. However, over the next few decades, a biomass energy plant could reduce the large backlog of vegetation on

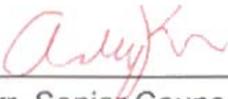
public lands that has accumulated through previous mismanagement practices. Based on current information, it appears that the amount of available biomass that is ecologically desirable to remove from the forest and steppe is adequate to amortize the facility and indeed, to operate the facility for the length of its engineered design life

The establishment and implementation of a comprehensive landscape conservation and restoration strategy is essential for development of a successful biomass energy facility and the achievement of a stable biomass sale program. Such a plan would specify which areas are available for thinning to achieve forest and steppe restoration and which areas are not. By agreeing beforehand as to the conservation and restoration of the LFSU:

- local residents can know with confidence as to how much biomass is technically, economically, socially and politically available for energy production and job creation;
- timber interests can know with reasonable certainty how much timber will be available; and
- conservation interests can gain increased confidence that the LFSU is being managed for conservation and restoration across the landscape and over time.

In exchange for a permanent landscape conservation strategy that places roadless areas, old-growth trees and other key resources off-limits to commercial logging, ONRC will support and defend:

- efforts (including legislative) to improve the administration and planning of restoration projects and timber sales; and
- new strategies to adequately fund public land administration, environmental restoration projects and commercial timber sales that are restorative in nature.



Andy Kerr, Senior Counselor
Oregon Natural Resources Council

Oregon Department of Energy

Oregon Department of Energy (ODOE) will support the Lakeview Biomass Project in the following ways.

- Grants: ODOE will help identify appropriate grant sources and assist with writing or compiling grants to support planning, research and development of the project.
- Incentives: ODOE can provide expedited access to 35 percent Oregon Business Energy Tax Credits for non-federally funded portion of the biomass utilization project.
- Financing: ODOE can provide fixed-rate, fixed-term financing for the project up to a limit of \$20 million dollars for an appropriately secured risk adequate for public bond underwriting.
- Technical Assistance: ODOE will provide data, analysis or help find others with information necessary to employ international best practices in biomass power facility design for optimized biomass use and highest return on investment.

- Communications: Upon request, ODOE will assist with communications, education or co-negotiation with federal, state or local government, utilities, consumers or neighboring public.



Michael Grainey, Director
Oregon Department of Energy

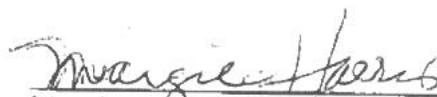
Energy Trust of Oregon

Energy Trust of Oregon's Strategic Plan includes a strong commitment to biomass energy, congruent with the Governor's *Renewable Energy Action Plan* and *Strategy for Greenhouse Gas Reduction*. We act on our commitment by investing in renewable energy projects that use eligible biomass resources to produce electric power for the benefit of Oregon customers of PGE and Pacific Power.

Forest and range biomass may be capable of playing a significant role in Oregon's clean energy future, provided that projects can be developed in an environmentally sustainable and economically viable manner. The time is right to explore this concept further.

To support the Lakeview Biomass Project, Energy Trust of Oregon makes the following commitment:

- Adam Serchuk, manager of Energy Trust's Biopower program, will serve on the Oregon Solutions team assembled to support the Lakeview effort, and participate in follow-up efforts as appropriate.
- When the project is closer to initial operation, Energy Trust will evaluate it as a potential recipient of funding through the Biopower or other appropriate program.
- To assist the development of the Lakeview project during 2006, Energy Trust will provide a 1:1 funding match to the Lake County Resources Initiative, up to a maximum Energy Trust contribution of twenty-five thousand dollars (\$25,000), to support specific, discrete tasks that remove barriers to the project's viability.



Margie Harris, Executive Director
Energy Trust of Oregon

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Oregon Department of Environmental Quality

The Oregon Department of Environmental Quality (DEQ) will support the Lakeview Biomass Project in the following ways:

- Assist in developing and reviewing air emission data to assess the extent of net emission reductions of biomass power facilities as compared to wildfires and open burning (e.g. slash burning).
- Provide regulatory assistance to the biomass power facility and small diameter timber-utilizing businesses through DEQ's Business Response Team and participation on the South Central Economic Revitalization Team.

- Contribute assistance and support, within resource limits, and provide applicable DEQ data to the Lakeview Biomass Project Team.



Stephanie Hallock, Director
Oregon Department of Environmental Quality

Oregon Economic and Community Development Department

The Oregon Economic and Community Development Department (OECDD) will support the Lakeview Biomass Project in the following ways:

- Appoint Larry Holzgang, Business Development Officer, to act as the agency's primary representative and serve on the Oregon Solutions team for the duration of the project; and appoint Glenn Montgomery, Sustainable Business Liaison, to assist in a supporting role.
- Assist project partners in identifying and developing economically viable small diameter timber processing operations to support an adequate feedstock supply for the biomass power facility.
- Work with and through the Governor's Economic Revitalization Team to assist with regulatory streamlining of the proposed biomass facility.
- Evaluate the Lakeview Biomass Project as a priority project for funding through the Department's Business Development and/or Community Development programs and other strategic financing alternatives.



Lynn Beaton, Interim Deputy Director
Oregon Economic and Community Development Dept.

West Coast Regional Carbon Sequestration Partnership (WESTCARB)

The West Coast Regional Carbon Sequestration Partnership (WESTCARB) has identified that reducing wildland fire fuel loads and reducing forest stocking levels to improve forest vigor and long-term productivity as a regional opportunity in reducing carbon dioxide emissions through the avoidance of emissions from uncharacteristically severe wildfire and through improved terrestrial sequestration. WESTCARB will support the Lakeview Biomass Project through the following:

- Develop methodology for determining carbon dioxide emission reduction benefits accruing to forestland treated for reduced wildland fire fuel and improved forest health and assist with the coordinated implementation of a fuels management plan providing biomass to the project.
- Evaluate the carbon dioxide emission offset and biomass supply benefits of growing hybrid poplar in the Lake County region.
- Test protocols by measuring the carbon dioxide emission reduction benefits from wild fuel reduction projects.

- Develop acceptable methods and procedures for reporting measured carbon dioxide emission reduction benefits accruing to agricultural, range and forestlands providing biomass to the project so as to achieve carbon offset market acceptance for these offsets.



Larry Myer, Technical Director, WESTCARB
California Energy Commission

Sustainable Northwest

Sustainable Northwest (SNW) will support the Lakeview Biomass Project in the following ways:

1. Fundraising and Capacity Building: SNW will help identify, secure and leverage financial resources. SNW will also assist local community groups to expand their knowledge base and network of peers on topics related to biomass utilization and associated community development at an appropriate scale.
2. Secure Sustainable Supply of Biomass: SNW will share successful models of stewardship contracting facilitating effective restoration and associated biomass removal
3. Intermediate Small Diameter Processing: SNW will provide assistance to help design and implement an integrated utilization network that encourages highest value use for material removed. This assistance may include training, product development, individual business & business cluster development, and marketing services largely delivered through SNW's *Healthy Forests, Healthy Communities Partnership*.
4. Coordinated Federal Policy Development: SNW will work to engage the Lakeview Biomass Project in the *Rural Voices for Conservation Coalition*, a regional policy advocacy network.



Ryan Temple, Program Director
Sustainable Northwest

Klamath County Economic Development Association

The City of Klamath Falls, together with Klamath and Lake Counties, launched the Southern Oregon Climate Sustainability Project as a means of exploring the emissions reduction opportunities associated with a wide-ranging portfolio of project, programmatic, and behavioral measures. The project was formally launched during the summer of 2005 in anticipation of procuring CO2 mitigation funding from the proposed COB and PPM natural gas projects

Preliminarily, project proponents expect to deliver a minimum of 3,000,000 metric tons of CO2 over a 15-year contract period, reflecting a combination of CO2 emissions avoidance and sequestration measures. As emissions reductions accrue they will be reported to the Climate Trust. The Project will require a combination of up-front and pay-on-delivery funding, as specified in the full project proposal.

- Commitment: KCEDA agrees to include the Lakeview Biomass Project in the package of projects submitted to the Climate Trust for mitigation credits as part of the Southern Oregon Climate Sustainability Project. These credits will be determined at \$/ton basis of carbon offsets.

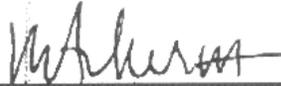


L.H. Trey Senn, Executive Director
Klamath County Economic Development Association

The Wilderness Society

The Wilderness Society commits the following support for the Lakeview Biomass project:

- Long Term Strategic Plan for the Lakeview Federal Stewardship Unit: TWS will work with the Lakeview Stewardship Group to develop, publicize, and implement a long term strategy for the Lakeview Federal Stewardship Unit that meets both the ecological and social goals of the Unit, as outlined in the 2001 reauthorization language.
- Outreach: TWS will inform policy makers, media, and other environmental organizations of our support for an appropriately sized and ecologically sustainable biomass facility that utilizes biomass material generated as a by-product of restoration-oriented treatments consistent with the Long Term Strategic Plan for the Lakeview Federal Stewardship Unit.
- Monitoring: TWS will work with the Lakeview Stewardship Group to encourage and help oversee environmental monitoring programs designed to gauge the effectiveness of thinning and other treatments in achieving restoration objectives.

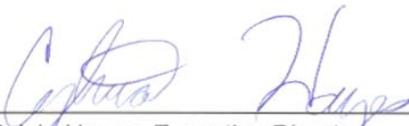


Michelle Ackerman, Pacific Northwest Regional Director
The Wilderness Society

3EStrategies / Business Alliance for Sustainable Energy

3EStrategies, through our Business Alliance for Sustainable Energy project will continue to support the Lakeview Biomass Energy Facility through the following measures. The degree of this support will be contingent upon funding availability.

- Networking and Liaison Services: 3EStrategies will continue to assist in convening the various stakeholders necessary for successful implementation of this project. 3EStrategies will aid LCRI in strategically working with elected officials, economic development interests and the media.
- Educational Leveraging: 3EStrategies will assist LCRI in documenting the process and outcomes of this project and creating educational materials to fully capitalize on the pilot project and model potential of this project.
- Connection to Larger Sustainable Energy Industry: 3EStrategies will assist the Lakeview Biomass Energy Facility in staying well positioned within the larger sustainable energy industry so as to effectively harness political and economic development leveraging opportunities.



Cylvia Hayes, Executive Director
3EStrategies

Oregon Department of Forestry

The Oregon Department of Forestry and the Klamath-Lake District will work with LCRI acting as a conduit of information regarding opportunities for private landowners and others to participate in the Lakeview Biomass Project. This will include distributing print and other material relating to biomass, and helping in developing and announcing meetings.

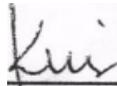


Greg Pittman, Lake Unit Forester
Oregon Department of Forestry

Oregon Department of Fish and Wildlife

Oregon Department of Fish and Wildlife will support the Lakeview Biomass Project in the following ways:

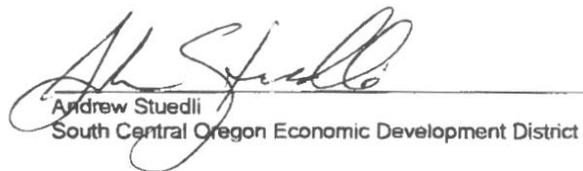
- Fuel Treatment Development ODF&W will provide relevant information related to wildlife impacts of fuel treatment projects providing supply to the biomass power facility;
- Ongoing Collaboration ODFW will designate a biologist to attend stakeholder meetings related to land management and wildlife considerations for the project.



Kristine Kautz, Deputy Director
Oregon Department of Fish and Wildlife

The South Central Oregon Economic Development District (SCOEDD)

SCOEDD supports the Lakeview Biomass Project and will work with LCRI in the future, as they have in the past, to do part in helping to ensure the proposed power plant is a successful project. An integral part of the Klamath and Lake County Regions strategy encourages the development of renewable energy and natural resource based projects. The Lakeview Biomass Project supports both of those aspects of the strategy.



Andrew Stuedli
South Central Oregon Economic Development District

Appendices

Appendix A. Glossary

economically viable

A market, product, or business in which an acceptable return on investment is derived over an acceptable timeframe.

(Source: COPWRR Steering Committee)

ecosystem, forest, or rangeland health

A condition where the parts and functions of an ecosystem are sustained over time and where the system's capacity for self-repair is maintained, such that goals for uses, values, and services of the ecosystem are met.

One of the signs of a healthy ecosystem in good working order is its ability to respond to disturbances such as fires, insects, or floods in a dynamic way. The system absorbs and recovers from disturbances without losing its processes or functions, although recovery may take varying amounts of time, or specific conditions may look different afterward. If the ecosystem is healthy, it will continue to produce populations of plants and animals that are diverse and viable, waters that are clear, air that is clean, and soils that remain productive.

(Source: Adapted from ICBEMP Draft EIS)

regional forest and rangeland biomass *inventory*

The total stock of biomass currently present on forest and rangelands in a defined region and/or, given growth rates and expected disturbances expectations, the total stock of biomass anticipated to be available annually over a period of time (e.g. 20 years).

(Source: OS Staff)

regional forest and rangeland biomass *supply*

A subset of biomass inventory: the annual volume of biomass from forest and rangelands in a defined region that, given economic (e.g. harvest and transportation costs, land management budgets, etc.), biophysical (e.g. sensitive habitats, steep slopes, etc.), and political considerations (e.g. Wilderness Areas, appeals, local community expectations, etc.) can be reasonably expected to be made available for utilization.

(Source: OS Staff)

sustainability

Using, developing and protecting our social, economic and environmental resources in a way, and at a rate, that enables people to meet their current needs without compromising the ability of future generations to meet their needs. It means increasing economic opportunities and improving social conditions by employing environmentally sound measures.

(Source: 3EStrategies)

Appendix B. Project Team Ground Rules

At their first meeting on May 12, 2005, the Oregon Solutions Project Team agreed to adopt the following Ground Rules for Collaboration:

General Principles

- We agree to approach problems with humility and adaptability. We will inevitably make mistakes and we will learn from these mistakes, make corrections, and not place blame.
- We recognize that we each have a unique perspective and contribution to make, whether it is expertise, labor, money, in-kind services, etc.
- We recognize that we must endeavor to involve any person or group who could help or hinder us to achieve our goals.
- We agree to focus on taking incremental “do-able” steps towards success.

Ground Rules

1. We recognize that the best outcome depends upon cooperation and collaboration by all entities at the table.
2. We commit to openly communicate ideas, potential contributions, and concerns, and also commit to engage in respectful, active listening to each other.
3. We are willing to creatively explore solutions.
4. We agree to commit to the agreed-upon solution, in whatever way we can. If we, individually, are unable to make a commitment for our organization, we will work to identify the person that can and determine if the commitment is possible.
5. We commit to building trust by doing what we say we will do, over and over.
6. We agree to notify each other before taking outside actions that might impact the process. (This does not mean that we will provide information that it would be inappropriate to share in a public venue.)
7. We agree that everyone shares in the solution, everyone shares in the credit.
8. The co-conveners and project staff commit to ensuring that this process does not result in “just a bunch of meetings.”

Appendix C. Project Team Member List

First Name	Last Name	Company	Phone	Email Address
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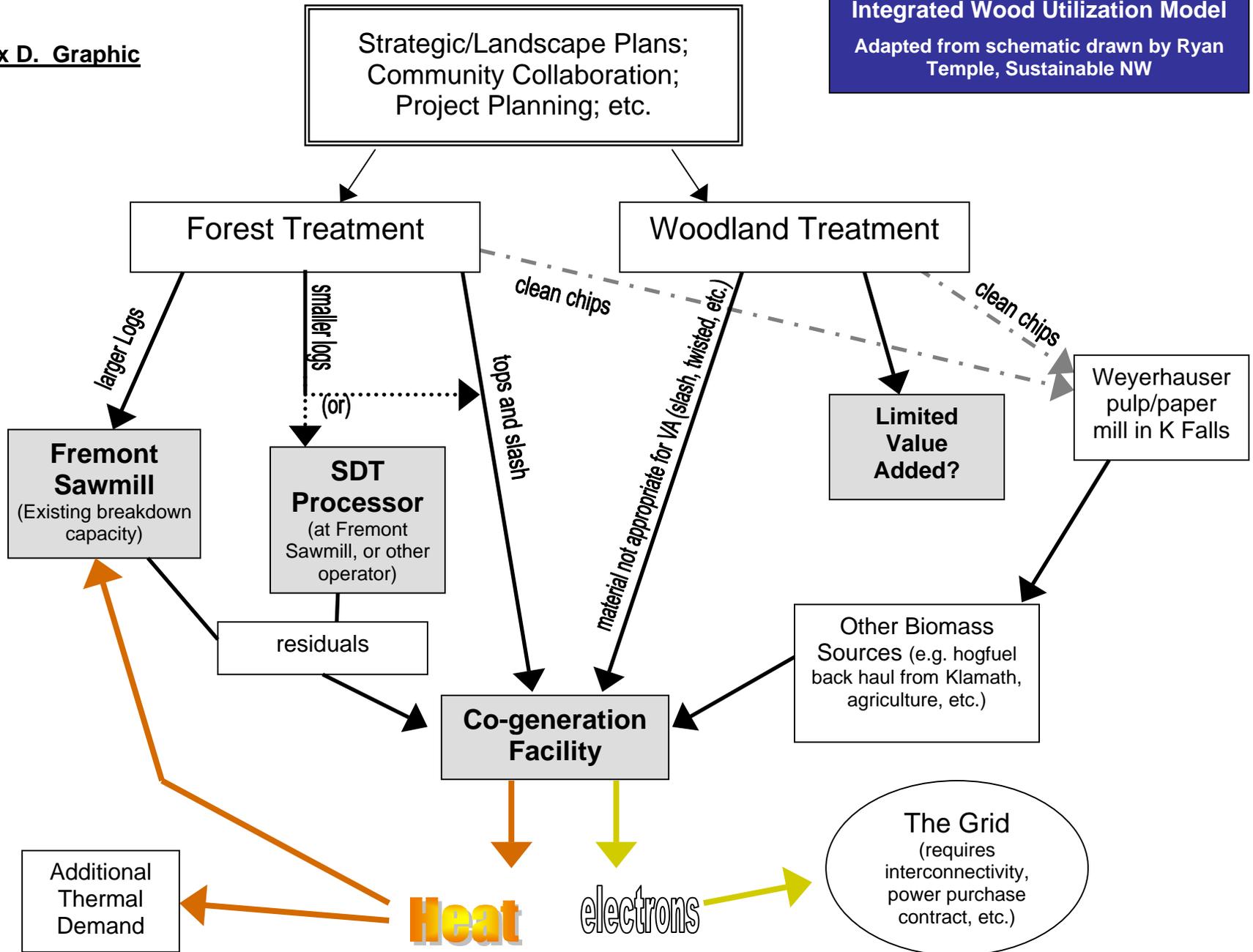
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Carolyn	Wisdom	Silver Lake Ranger District	541-943-4401	cwisdom@fs.fed.us
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Appendix D. Graphic

Integrated Wood Utilization Model
 Adapted from schematic drawn by Ryan Temple, Sustainable NW



Appendix E. Implementation Plan

TASK OR CATEGORY	RESPONSIBLE PARTIES	TIME FRAME	POTENTIAL SUPPORTING ROLES
I. STAKEHOLDER COLLABORATION AND COMMUNITY ENGAGEMENT			
1) <u>Identify “Ideal” Desired Future Condition</u> ; To help identify ideal treatment levels, regardless of current budgets, lack of markets, etc.	Public Land Agencies; Lakeview Stewardship Group, LCRI, Implementation Team	2006/2007	<ul style="list-style-type: none"> ▪ COIC/The Nature Conservancy FLN process under way in Central OR. ▪ Planning resources ▪ Foundations
2) <u>Ongoing Monitoring</u> ; Support existing monitoring effort, which may be threatened due to loss of Title II dollars. Ensure adaptive management by applying findings to practice (knowledge and technology transfer and uptake). Focus monitoring efforts on stewardship contracts, which already require it.	LCRI Implementation Team Lakeview Stewardship Group	Ongoing	<ul style="list-style-type: none"> ▪ Lakeview Stewardship Group ▪ COIC – existing process in Central Oregon ▪ OSU, other research institutions
3) <u>Community Outreach</u> ; Hold community and stakeholder meetings	LCRI, Public land Agencies	Ongoing	<ul style="list-style-type: none"> ▪ Implementation Team
4) <u>Pursue External Networks and Partnerships</u> ; Continue to work with external networks to leverage resources and share information	LCRI, Implementation Team, Lakeview Stewardship Group	Ongoing	<ul style="list-style-type: none"> ▪ COIC/CROP ▪ BASE ▪ Sustainable NW
II. SUPPLY, SCALE, DESIGN			
1a) <u>Perform CROP Supply Analysis</u> ; Identify supply most likely to be made available over at least a five year period, by at least species, diameter class, and source.	Mater Engineering; Fremont-Winema National Forest; Lakeview BLM (heretofore “public land agencies”); CA/NV USFS and BLM units; private sources	Fall/Winter 2005/2006	<ul style="list-style-type: none"> ▪ COIC can help with next steps for CROP (e.g. database) ▪ DG Energy ▪ Energy Trust of OR
1b) <u>Analyze projections</u> ; create Resource Offering Maps and apply business sensitivity/risk analysis to generate conservative estimates of supply.	Mater Engineering, DG Energy, other interested businesses	Winter/ Spring 2006	<ul style="list-style-type: none"> ▪ Input/assistance from public land agencies, LCRI ▪ Implemen. Team

TASK OR CATEGORY	RESPONSIBLE PARTIES	TIME FRAME	POTENTIAL SUPPORTING ROLES
2) <u>Appropriate Harvest Techniques</u> ; Support the development and utilization of ecologically-friendly extraction techniques suited to harvest and removal of small diameter material	Public land agencies; LCRI, Lakeview Stewardship Group	Spring 2006 – ongoing (monitoring)	<ul style="list-style-type: none"> ▪ Research grants; OSU; other institutions ▪ Implementation Team ▪ Foundations ▪ USFS Equipment Development Ctrs.
3) <u>Develop Public Land Supply</u> ; Develop stewardship contracts and other biomass contracts.	Fremont-Winema NFs, Lakeview BLM, LCRI, Implementation Team	Winter 2006 - ongoing	<ul style="list-style-type: none"> ▪ Knowledge transfer/etc. from stewardship contracts around the country² ▪ Governor's Office ▪ ODF
4) <u>Identify Sustainable Scale of Facility</u> ; based on work accomplished in tasks I.1-3, supply feasibility and costs, and business and power market considerations, etc.	DG Energy, Implementation Team, Lakeview Stewardship Group	Spring-Summer 2006	
5) <u>Design Facility</u> ; Select technology (e.g. gasification vs. incineration).	DG Energy	as per DG timeline	
6) <u>Funding for Supply</u> ; Develop additional resources to secure supply. ³	Implementation Group, other beneficiaries of restoration work (e.g. communities, other agencies); Fremont-Winema NFs, LCRI.	Winter, 2006 - ongoing	<ul style="list-style-type: none"> ▪ Foundations ▪ OR Delegation

² For example, the White Mountain stewardship project in Arizona helped to stimulate a biomass power facility.

³ Including, potentially, the use of special legislation to reduce costs and increase funding as outlined in the ONRC support statement.

TASK OR CATEGORY	RESPONSIBLE PARTIES	TIME FRAME	POTENTIAL SUPPORTING ROLES
7) <u>Secure Supply</u> : Decide who will bid on the public land supply. Also develop and secure private land supply, waste stream sources, etc.	Collins Companies, DG Energy, LCRI	Winter, 2006 - ongoing	<ul style="list-style-type: none"> ▪ Implementation Team ▪ ODF via SB 1072 (?) ▪ ODF could assist with private land supply
III. ASSOCIATED ECONOMIC OPPORTUNITIES			
1) <u>Develop an Economic Development Strategy</u> ; including a short list of SDT processing opportunities suitable to CROP-identified supply and supply costs.	LCRI; Implementation Team; Collins Companies; DG; local businesses; Chamber	February – Aug. 2006	<ul style="list-style-type: none"> ▪ OECDD ▪ EDA ▪ USDA Forest Products Lab ▪ OSU College of Forestry ▪ Sustainable NW
2) <u>Market Opportunities</u> ; If necessary (if local operators don't initiate on their own)	LCRI, DG Energy, Implementation Team	Summer-Fall 2006	<ul style="list-style-type: none"> ▪ Sustainable NW ▪ OECDD ▪ KCEDA ▪ BASE
3) <u>Secure Investments</u>	LCRI, DG Energy	Summer-Fall 2006	<ul style="list-style-type: none"> ▪ KCEDA ▪ OECDD ▪ BASE ▪ Collins Companies
4) <u>Negotiate waste heat purchase by Fremont Sawmill</u>	DG Energy, Collins Companies	Spring-Summer 2006	
5) <u>Market Excess Waste Heat</u> ; Depending upon power facility capacity and volume required by Collins, ID additional waste heat capacity and market it.	DG Energy, LCRI	Spring-Summer 2006	<ul style="list-style-type: none"> ▪ Tempo Foam, or other businesses ▪ OECDD ▪ KCEDA
6) <u>Market Other By-Products</u> ; ash, etc.	DG Energy, LCRI	Spring-Summer 2006	<ul style="list-style-type: none"> ▪ OECDD ▪ KCEDA

TASK OR CATEGORY	RESPONSIBLE PARTIES	TIME FRAME	POTENTIAL SUPPORTING ROLES
IV. POWER PURCHASE AGREEMENT AND INTERCONNECTION			
1) <u>Negotiate Power Purchase Agreement/Sales Contract</u>	DG Energy, Utility	as per DG timeline	<ul style="list-style-type: none"> ▪ BASE ▪ Governor's Office ▪ LCRI
2) <u>Negotiate Interconnection</u> ; Companies/model depends on the power purchaser	DG Energy, Utility, local utility (if required)	Upon completion of task III.1	
V. CREDITS AND INCENTIVES			
1) <u>Secure Business Energy Tax Credit and Production Tax Credit</u>	DG Energy, ODOE	as per DG timeline	<ul style="list-style-type: none"> ▪ Energy Trust
2) <u>Secure Business Development Incentives</u> ; including Enterprise Zone and Small City Income Tax Exemption	DG Energy, Lake County, OECDD	as per DG timeline	
3) <u>Apply for Energy Trust Biomass RFP</u>	DG Energy	as per DG timeline	<ul style="list-style-type: none"> ▪ Energy Trust⁴
4) <u>Secure Carbon Mitigation Credits for Direct Fossil Fuel Displacement at Facility</u>	KCEDA, DG Energy, LCRI	as per DG timeline	<ul style="list-style-type: none"> ▪ Climate Trust
5) <u>ID Carbon Mitigation Credit Potential for Fuel Treatment Mitigation of Uncharacteristically Severe Wildfires</u>	WESTCARB	2009(?)	<ul style="list-style-type: none"> ▪ LCRI ▪ Climate Trust
6) <u>Other Initiatives</u> – e.g. designation of the Lakeview project as a pilot under the Governor's REAP	Depends on the initiative	ongoing	
VI. PERMITTING			
1) <u>Secure Air Quality Permits</u>	DG Energy, ODEQ	as per DG timeline	<ul style="list-style-type: none"> ▪ With assistance of DEQ's Business Response Team
2) <u>Secure Land Use Permits</u>	DG Energy, City/County	as per DG timeline	

⁴ ETO is agreeing to provide up to \$25,000 in 1:1 match funds to help develop this project to become competitive for the RFP process.

TASK OR CATEGORY	RESPONSIBLE PARTIES	TIME FRAME	POTENTIAL SUPPORTING ROLES
VII. IMPLEMENTATION TEAM			
1) <u>Develop Implementation Team, Tasks, and Meeting Schedule</u> ; this team will take on the resolution of outstanding multi-stakeholder issues – including supply, ecologically-sensitive harvesting techniques, SDT processing opportunities, develop additional treatment funds, etc (Team is listed in appropriate places above). An early task should be to revisit this Implementation Plan.	LCRI (team coordinator), Public Land Agencies, DG Energy, ODF, Collins Companies, Lakeview Stewardship Group/Environmental Group	After DOC Signing through completion	<ul style="list-style-type: none"> ▪ BASE ▪ COIC ▪ Others

Appendix F. Background Reports, Documentation, Existing Efforts

(Placeholder)

- Reauthorization of the Lakeview Federal Sustained Yield Unit;
- Lakeview Stewardship Group collaborative effort since 1998;
- Long Range Strategy for the Lakeview Federal Stewardship Unit,
- Lakeview Biomass Feasibility Study;
- WESTCARB Grant;
- University of Washington Study;
- Investigation of Alternative Strategies for Design, Layout and Administration of Fuel Removal Projects;
- LCRI Monitoring program.