




SUNFLOWER ELECTRIC POWER CORPORATION

A Touchstone Energy® Cooperative 

State of Kansas/Sunflower Electric Power Corporation Settlement Agreement as of February 2013

- KDHE agrees to facilitate the timely issuance of a permit for one new 895 MW supercritical coal generating unit (H2), and Sunflower agrees to withdraw the application for a second new coal generating unit (H3).
 - Sunflower withdrew the H3 unit from consideration and formally proposed an 895 MW unit as the Holcomb Expansion Project on June 19, 2009. The permit for one 895 MW unit was issued by KDHE in December 2010.

Modifications to Holcomb Unit 1

- Sunflower agrees to an additional limitation of NO_x (nitrogen oxides) emissions from 0.50 lb/mmBtu to 0.22 lb/mmBtu on a twelve-month rolling average basis.
 - This limitation was incorporated into the H1 construction permit on December 30, 2011, following the conclusion of public comment on the proposed permit.
- Sunflower will install new Low-NO_x burners or other equivalent equipment to achieve the objective of reducing emissions no later than December 31, 2018.
 - The installation of new deep-staged NO_x reduction system that included new Lo-NO_x burners and a new over-fire air system was completed in February 2012. The improvements were installed under the PSD construction permit identified above. This installation occurred during the first available outage of sufficient duration following the 2009 settlement agreement. This installation was also part of Sunflower's response to the now vacated Cross State Air Pollution Rule (CSAPR).
- Sunflower agrees to an additional limitation of sulfur dioxide (SO₂) emissions from 0.48 lb/mmBtu to 0.12 lb/mmBtu on a 30-day rolling average basis within 12 months of the commercial operation of H2.
 - Neither a permit condition nor the equipment necessary to achieve this limitation has been implemented on H1.
- Sunflower will meet a mercury emission limit of 0.020 lb/GWh on a 12-month rolling average basis within 12 months of commercial operation of H2. Total mercury emissions from units H1 and H2 shall be less than 327 pounds, the data reported by Sunflower for H1 on the 2005 toxic release inventory to EPA.
 - EPA issued entirely new requirements under the EGU MATS regulation for both new and existing units on February 17, 2012. Requirements for existing units must be achieved by April 16, 2015.
 - EPA has reconsidered the new unit mercury limitation and is expected to make it final in March 2013. The final EGU MATS for existing units is also being appealed. If the final level is upheld, the H1 limitation will be established at 0.013 lb/GWh.

Additional Conditions Placed on Sunflower within Two Years of Commercial Operation of H2

- Sunflower will meet the 20% RPS renewable energy requirement by 2016.
 - As of 2012, Sunflower and Mid-Kansas have purchased power agreements in place for 229 MW of wind energy when available. With these Kansas resources the Sunflower system exceeds the 2016 commitment of 20%.

- Wind – Sunflower and project partners will facilitate additional Kansas wind resources equal to 20% of production capability of H2. This will be in addition to any Kansas RPS requirement for Kansas utilities.
 - Sunflower was a founding member of the National Renewables Cooperative Organization, a cooperative formed to develop wholesale renewable energy projects.
 - NRCO facilitated a 51 MW purchase power agreement for NRCO member Arkansas Electric Cooperative, Inc., from the Flat Ridge Wind Farm in 2012.
 - Sunflower and Mid-Kansas currently have 1,595 MW of wind resources interconnected to the transmission system. This wind development has resulted in \$66 million investment in new transmission facilities directly associated with the wind interconnection. Sunflower and Mid-Kansas have assumed the responsibility to operate and maintain these transmission facilities into the future.
- Biomass - Sunflower will use biomass as a fuel source in the production of electricity in the amount of 10% of the full load heat input of H1 and H2, if such facility is economically and technologically feasible and all necessary regulatory approvals are obtained.
 - Sunflower actively negotiated to purchase electricity from a biomass-based generating project located in southwest Kansas. Unfortunately, the structure of the project changed, and plans to generate electricity for sale were dropped.
- Transmission – Sunflower and the participants will work to develop two high voltage transmission lines operating at not less than 345 kV from H2 to the eastern border of Colorado.
- Energy Efficiency – Sunflower will implement enhanced energy efficiency and demand side management programs and invest 1% of gross revenue for Sunflower and Mid-Kansas for a 5-year period commencing in the year of initial construction of H2.
 - A study of energy efficiency and demand side management programs is currently being conducted.
- Integrated Bioenergy Center – Sunflower will use reasonable efforts to support development of an integrated bioenergy center, which may include an ethanol plant, bio-diesel plant, anaerobic digester, a dairy, and an algae reactor. Any funds expended on the IBC may be credited against the requirements for energy efficiency expenditures but will not reduce the funding for energy efficiency below .5% of gross revenues.
 - The downturn in biofuel markets impacted the ability to attract capital to the project.
- Decommission Plants - Sunflower will decommission Garden City 1 and Garden City 2 from the generating fleet.
 - Completed. A third unit, Garden City 3, has since been decommissioned and is no longer claimed for system capacity.

Effective Date, Suspension & Termination

- The Agreement becomes effective when comprehensive energy legislation is passed that would modify the Kansas Air Quality Act, establish a renewable portfolio standard and net metering for investor-owned utilities, and mandate energy efficiency for state-owned facilities. The Agreement is contingent both on the energy legislation and when the PSD permit for H2 becomes final and non-appealable.
- In the event H2 is not constructed or the PSD permit is revoked, remanded, or vacated, the agreement is terminated.
 - Per the terms of this agreement, requirements are suspended until the appeal of the permit is decided. Compliance dates are tolled.