

April 15, 2010

VIA ELECTRONIC MAIL AND U.S. MAIL

S. Derek Phelps
Executive Director
Connecticut Siting Council
10 Franklin Sq.
New Britain, CT 06051

Re: Docket No. 225 Kleen Energy Systems, LLC – Quarterly Report

Dear Mr. Phelps:

I am writing to provide the Siting Council with an update as to the progress of the construction for the Kleen Energy Systems, LLC's ("Kleen Energy") 620 MW project in Middletown, Connecticut. This is the eighth such update for the Siting Council, and provides the Siting Council with an update of the activities at the Kleen Energy site for the past quarter.

As you are aware, on February 7th, the Facility experienced an explosion caused by the release and combustion of natural gas during the process known as "gas blows," which were undertaken for the purpose of cleaning debris from the newly constructed natural gas lines located between the gas compressor station and the heat recovery steam generators. Since the time of the explosion, Kleen has been cooperating with federal, state, and local authorities as they have been conducting investigations regarding the cause of the explosion. While the extent of damage to the facility has not yet been finally assessed, based on information to date, Kleen and its primary contractor, O&G Industries, Inc ("O&G" and/or the "Contractor"), expect that Kleen and O&G will begin repairing and restoring the Facility in the coming months ahead.

Investigations and Site Control and Access

Since the explosion occurred, Kleen has fully cooperated with federal, state, and local investigating authorities. From the early moments after the explosion until February 26, 2010, the site was controlled by the Middletown Police Department and the Middletown South Fire District, after which time site control was relinquished to the U.S. Chemical Safety Board and subsequently to the federal Occupational Safety and Health Administration ("OSHA"). OSHA, along with other federal, state and local authorities,

have limited access to the site by Kleen and O&G in order to conduct their investigations. In addition, Kleen and the Facility have been the subject of several personal injury law suits associated with the explosion. As part of this on-going litigation, Judge Holzberg, sitting in the Superior Court for the Judicial District of Middletown, issued a court order that limited access to certain parts of the facility to allow plaintiffs' attorneys and experts to view an undisturbed site. Agreements were reached with the plaintiffs' attorneys which allowed this restriction to be lifted prior to April 13th.

As a result of these multiple investigations and the associated control parameters placed on the site, Kleen and the Contractor have had limited access to the Facility's power block, until recently. Therefore, only distant visual inspections of the explosion zone have been possible within this specific area. Importantly, these inspections initially disclosed significant damage to relatively minor equipment near an area between the Heat Recovery Steam Generators ("HRSGs") where it is believed the explosion occurred. In addition, these distant visual inspections did not indicate obvious major damage to longer lead-time items or primary equipment.

While this preliminary damage assessment appears positive, it must be stressed that it is preliminary in nature. As is discussed in greater detail elsewhere in this letter, O&G is coordinating a series of inspections and damage assessments with the subcontractors that are responsible for the Facility. For example, Siemens Power Generation is on the site this week to begin its assessment of the Facility's combustion and steam turbines. Similarly, Vogt Power International began its assessment of the Facility's heat recovery steam generators on April 12, 2010. Other contractors have begun or will begin their damage assessments shortly. These full "hands-on" inspections by the Contractor and equipment suppliers will provide Kleen with a full estimation of the damage to the Facility. The full nature and extent of damage will be more accurately known once the vendors have concluded their inspection work, which is targeted for the end of April, at the earliest. After the assessments are completed, O&G has advised Kleen that it will take approximately one month for all of the assessment teams to provide O&G with final damage assessment reports.

Damage Assessment & Vendor Visits

In addition to continuing to complete non-restoration related work, the scope of activities since February 7th has primarily included "make-safe" work around the power block, damage assessment (physical inspection in most areas), procurement, scheduling and vendor management. Further, on March 12, 2010, O&G received the only two new permits required to complete the Facility, namely City of Middletown permits for demolition of several outbuildings, and the necessary permits for the reconstruction of those buildings and the repair work to the main power building structure. Copies of those permits are enclosed with this letter. To date, O&G has not uncovered any damage to the foundations of any of the structures at the Facility. It is anticipated that O&G will

conduct confirmatory testing of the foundations at the Facility, as other assessments are taking place, however, we do not anticipate that foundations will be an issue at this time.

At this juncture, the top two completion critical path items include: 1) delivery and installation of the four feedwater pumps and, 2) evaluation of the HRSGs. In March, O&G concluded that based on its visual inspections of the four boiler feed pumps that it would need to order four new pumps. Although physical inspection was not feasible at the time, representatives of Kleen's insurers agreed to the cost of such replacement, understanding that the lead time for such would be approximately twelve months, so ordering sooner rather than later was deemed appropriate. Further, all parties agreed to pay the expediting fee to reduce the delivery time by an additional four months.

During the week of April 5th, Kleen's representatives toured the bottom of HRSG-2 and noted structural damage that may not be reflected in O&G's current analysis. The area had previously been covered with debris but was cleared during the week providing the group with the opportunity for a better inspection. The impact of this damage on schedule and scope has not yet been determined. Vogt, the HRSG manufacturer, began its on-site evaluation this week and will have a total of 17 professionals on-site to quickly assess their equipment.

Additional damage assessment to date has identified substantial damage to the outside sheet metal covering the main power building (the "skin"), as well as damage to certain outbuildings including the ammonia and cooling tower chemical feed buildings, and other loss related to structural support steel, balance of plant piping systems, and various electrical components. Importantly, no material structural or foundation damage has been identified by any of the various experts on-site. Although O&G anticipates a robust list of replacement parts, none represent a long-lead time item or an impediment to completing the construction of the Facility.

It should be noted that there are significant elements of the Facility that suffered no impact as a result of the explosion. These areas include, but are not limited to: the water well systems, the booster pump system, the water storage and preliminary water treatment facility (IWTP) and the oil storage facility. In addition, other areas of the Facility sustained relatively minor damage and are not anticipated to adversely impact the Facility's critical path schedule.

In order to provide a complete picture of a restoration schedule, O&G still needs to conclude its OEM visits and inspections. To this end, O&G continues to schedule visits for its other OEMS, including, but not limited to, General Electric (generator step-up "GSU" transformers and ISO-phase buss), Virginia Transformer (auxiliary transformers), Atlas Copco (air compressors), and Christ Water Technology America (demin water system).

Additionally, Siemens has begun its assessment of combustion turbine 1 and combustion turbine generator 1 this week. After the completion of that assessment, Siemens will assess the steam turbine generator while O&G makes safe the area around combustion turbine 2. Assessment of combustion turbine 2 and combustion turbine generator 2 will commence after the steam turbine generator assessment and the area is deemed safe. In total, it is expected that Siemens will require approximately 3 weeks on-site to conduct its assessment. Although Siemens final report will be issued within 2 months after its on-site work, they have reassured the EPC Contractor that it will provide current damage assessment results so as to allow O&G additional time should new parts be required.

Although the current assessments are preliminary in nature and subject to further testing and evaluation, O&G is currently estimating a substantial completion/turnover of the Facility on April 2, 2011. This schedule targets commercial operation in April of 2011 and is currently based on milestones which incorporate known damage at this time. Kleen anticipates further refinement of the completion schedule to occur in the coming weeks as the vendor assessments conclude and any associated damage and procurement needs become known.

We trust that this progress report is sufficient for your needs at this time. We will provide you with timely updates as events warrant, and will provide you with a quarterly update on or before July 15, 2010. Should you have any questions concerning the foregoing, please feel free to contact the undersigned at your convenience.

Sincerely,



Lee D. Hoffman

Attachments

cc: Robert Mercier
Service List Docket 225

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