Tradewinds Forest Products

June 4, 2008

Anita Lee

USEPA REGION 9
75 Hawthorne Street
Mail Code: AIR-3
San Francisco, CA 94105

Dear Ms. Lee,

As requested by Mr. Nolan Hirai, I am forwarding you a letter from Mr. Don Bryan to Mr. Hirai. This June 3, 2008 letter is in regards to the Building Green Veneer Mill Prior to Issuance of Covered Source Permit.

Thank you,

Sophia Cabral-Maikui

Cc: Nolan Hirai, Supervisor, State of Hawaii, Clean Air Branch

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Tradewinds Forest Products

June 3, 2008

Mr. Nolan Hirai, P.E.
Supervisor, Engineering Section
Clean Air Branch
Hawaii State Department of Health
919 Ala Moana Blvd., Suite 203
Honolulu, Hawaii 96814

RE: Covered Source Permit (CSP) No. 0625-01-C

Subject: Building Green Veneer Mill Prior to Issuance of Covered Source Permit

Dear Mr. Hirai,

Thank you again for taking the time to meet with Greg Retzlaff and me on May 2, 2008 and Bill Steiner (URS Corporation) and me on May 27th. Thank you, also, for your feedback regarding Tradewinds' revised construction plans for the O'okala Veneer Mill. In October 2007, Tradewinds decided to sequence the construction of the green veneer mill and the veneer dryer/cogeneration (cogen) plant. This letter will (1) describe the market forces that drove us to this decision; (2) explain the relationship between these two distinct elements of the O'okala project; and (3) document the reasons why construction of the "green" (wet, un-dried) veneer mill element of the project can proceed without the issuance of a final Covered Source Air Permit required for the dryer/cogen plant element of the project.

CHANGING DEVELOPMENT PLANS AND SCHEDULES

As you are aware, Tradewinds' Covered Source Permit application for the O'okala Veneer Mill was based on preliminary facility engineering, financial information, and market conditions that existed in 2005-2007. Conditions have changed significantly since that time and have caused us to adjust our development plans and schedules. Tradewinds' original plan was to co-locate two manufacturing facilities at O'okala, and to construct them concurrently after issuance of the Covered Source Permit. Those two facilities are:

- **A green veneer mill**, which includes log receiving and storage, log preparation and debarking, log peeling with a veneer lathe, green (wet) veneer storage and shipping, and storage of bark and residual wood (fuel) for sale; and
- **A veneer dryer with a cogeneration facility**, which includes a steam boiler, cooling tower, a steam turbine to generate electricity, and a diesel-powered emergency firewater pump.

It is sometimes convenient to co-locate these two manufacturing elements; however, co-location is by no means necessary. In fact, green veneer mills and dryers are usually sited separately and operated independently. Attachment A is a list of all veneer plants similar to Tradewinds' operation that are currently operating in the US Pacific Northwest. Note that seven out of ten do not include co-gen facilities. The Freres mill ran from 1952 through 2006 without a cogen facility, adding cogen in 2007.

At the time we filed our permit application, preliminary data indicated that a green veneer mill would not be financially viable without a dryer located somewhere on the Island of Hawaii. We believed that producing dry (vs. green) veneer was necessary to substantially reduce the weight of our veneer product (approximately 47% water by weight) and thereby permit economical ocean shipping of our veneer to US and international markets. We also anticipated that the dryer/cogen facility would be financially viable with only a single work shift. Additional engineering and financial studies were conducted after our application was submitted. Several crucial and evolving factors caused Tradewinds to reconsider our development plans and ultimate construction schedule for the O'okala project last October. These factors included:

- **Less Favorable Project Economics Resulting from Escalated Construction Costs and Depressed Veneer Markets.** During the processing of our permit application, project construction costs have increased substantially while veneer prices have steadily fallen to a 30-year low. In the fall of 2007, when capital cost estimates from more detailed engineering and procurement studies were received, and the then-current depressed veneer prices were factored into our financial model, we recognized that these circumstances necessitated an adjustment of project development schedule. Specifically, while the initial operating cash flow could support the required level of capital expenditure for the green mill, it could no longer also support the capital required to construct the dryer/cogen facility. To support the construction costs of the dryer/cogen facility, it was determined that Tradewinds must increase green veneer production.

- Tradewinds' Board of Directors decided on October 22, 2007 to develop a sequenced construction schedule, first building the green veneer mill with the dryer/cogen facility to follow at a later date. It is our intention to begin construction of the dryer/cogen facility immediately after start-up of the green mill. The decision to delay construction of the dryer/cogen facility was necessary to allow us to secure additional timber supply contracts, thereby increasing operating cash flow to support construction of the dryer/cogen facility; and to

begin green veneer mill operations that will generate revenue to support the capital expenditures for the dryer/cogen facility

Our revised construction schedule was communicated to HECO in December 2007 during negotiations to secure electric power for the green veneer mill.

Changes in Tradewinds' development plan described above occurred during the final stages of DOH's work on the draft Covered Source Permit, and our Board's decision was made prior to DOH's October 30, 2007 public hearing for the permit. We did not inform the DOH of this change as we expected that the final permit would be issued well before the start of construction of the veneer mill. We also understood that DOH frequently considers and accommodates reasonable project construction schedule changes after permits are issued. Subsequent developments at EPA and decisions by DOH that are beyond Tradewinds' control have significantly delayed issuance of the final permit well beyond DOH's statutory 18-month deadline.

- **New opportunities to economically ship and sell green veneer to U.S. and international buyers.** We have discovered feasible opportunities to dry veneer offshore. This strategy, however, is not energy efficient and we plan to use it only until we can establish local veneer drying capacity.

- **New potential partnering opportunities for developing a veneer dryer at another location on.** While Tradewinds strongly prefers to build a veneer dryer at O'okala, we are considering potential partnering opportunities with another party to assess potential economies of scale for an offsite dryer.

With these developments, Tradewinds' financial analyses in fall 2007 demonstrated that a stand-alone green mill is financially viable regardless of whether a dryer/cogen facility is built at O'okala. Our financial analysis continues to support that finding. Funding was subsequently secured for initial mill staffing, detailed design and procurement (which is nearly complete). Tradewinds' Board of Directors has approved construction of the green veneer mill, and has temporarily deferred construction of the dryer/cogen facility. For a variety of reasons, Tradewinds now needs to begin construction and operation of the green veneer mill.

EPA CIRCUMVENTION ANALYSIS

During our May meetings, you raised the question whether Tradewinds' plan to construct a stand-alone green veneer mill prior to issuance of the final Covered Source Permit might constitute permit circumvention. Following is a discussion of this topic which includes references to the EPA memos you indicated were precedents on the subject of circumvention.

Although you have explained that it is within DOH's purview to determine whether the Covered Source Permit is needed for our green mill construction, we understand that

DOH understandably looks to EPA for guidance/assistance with interpretations and policy issues in cases like this. We have carefully read and considered these documents. To the extent that they are relevant, these documents will be helpful as we continue to navigate Tradewinds' permitting and project development options.

We believe that the following analysis demonstrates that constructing the green veneer mill prior to issuance of the Covered Source Permit is in compliance with relevant principles and criteria outlined in these EPA memos. Although the EPA memos that you provided to us generally relate to early construction issues for projects seeking PSD permits (which is not the case for Tradewinds), we recognize that the principles outlined in the EPA memos are useful for evaluating non-PSD projects such as ours.

For the reasons summarized below, we believe that construction of the green veneer mill at O'okala does not require an air permit, and doing so does not constitute circumvention of the draft Covered Source Permit.

A. Boiler and Dryer Not a Necessary Part of Exempt Project

The EPA memo dated October 10, 1978, contains the most pertinent policy statement applicable to our situation because we believe the fact situation and policy questions addressed in that memo closely parallels our own. The second page of this memo addresses the question of whether a PSD-exempt wastewater treatment plant that includes a PSD-affected sludge incinerator could be built before the PSD permit for the sludge incinerator was obtained. In this memo, EPA states that construction of the wastewater treatment plant prior to receipt of the PSD permit is allowable ***if*** the sludge incinerator is not an integral part of the wastewater treatment facility. If the incinerator is optional, then the wastewater treatment facility can be constructed without the incinerator prior to issuance of the PSD permit provided certain other conditions are met as discussed below. "Optional" means that it could be operated without the incinerator.

The second paragraph on page 1 of this memo specifically states that *"a structure which is to house independent facilities, some of which are subject to PSD and some which are not, may be constructed before the PSD permit is issued only **[1]** if the building **is a necessary part** of the PSD-exempt project and **[2]** if it **is no way modified to specifically accommodate** the PSD-affected facilities" [Emphasis added.]* Tradewinds strongly believes that the two conditions of this policy statement are met in its plan to build the green veneer mill without first receiving the air permit and the dryer/cogen facility later, after the air permit is issued. This statement clearly identifies some important points that we believe are relevant to Tradewinds' case:

1. The green veneer mill will include equipment and structures that are necessary to manufacture green veneer. The stand-alone green veneer mill will initially operate independently, and is exempt from DOH permitting requirements.

2. The design of the green mill is not modified to accommodate the dryer/cogen emission unit that is subject to DOH permitting requirements. There are no

design features or elements planned for the green veneer mill that are contemplated to "specifically accommodate" the needs of the dryer/cogen facility.

CONCLUSION: The green veneer mill may be constructed prior to receipt of the Covered Source Permit and such construction does not constitute circumvention of the permitting process because: (1) the stand-alone green veneer mill is not a source of emissions (emissions unit) and is, therefore exempt from Covered Source Permit and all other DOH air permitting requirements (as evidenced by the arguments in paragraphs B and C below); (2) the green veneer mill is, can, and will be operated independently until the dryer/cogen facility is constructed onsite; and (3a) all elements of the green veneer mill are necessary to manufacture wet veneer, and (3b) the green mill design does not specifically accommodate the dryer/cogen emissions unit.

B. **Veneer Mill Will Not Emit any Pollutants**

The EPA memo dated March 28, 1986, page 2, third paragraph, refers to Section 52.21 (i) (1) of 40 CFR, which specifies that *"a source may not begin actual construction (on an emissions unit) until a PSD permit is obtained by the source."* Part of the criterion for a source to be an emissions unit according to Section 52.21 (b) (7) as outlined in the above reference, is that the source ***"must emit pollutants*** *subject to review under PSD..."[Emphasis added.]*

The green veneer mill is not a source of air emissions; thus, its construction without the dryer/cogen facility does not require an air permit. Tradewinds understands from previous communications with you that DOH intentionally excluded all of the green veneer mill equipment from sections II and V of Tradewind's Covered Source Permit draft because they are not sources of any emissions and are thus not subject to regulation under the Clean Air Act or the Covered Source Permit rules. The green mill facilities identified in our permit application documents were rightfully *excluded* by DOH in the draft Covered Source Permit's descriptions of emission sources/activities in:

1. Section II, "Equipment Description," which specifically names the boiler with dry ESP, the veneer dryer with wet ESP, and the cooling tower; and

2. Section V, "Insignificant Activities," which specifically lists the fuel oil storage tanks and the fire water pump diesel engine.

None of the equipment listed in the permit is needed for the green mill to be viable. The stand-alone green mill does not require heat or energy from the cogen facility, and it does not require fire water from the diesel firewater pump that are required for a dryer/cogen facility. Electricity will be purchased from HELCO and fire water will be served by an electric pump for the green mill.

CONCLUSION: The veneer mill emits no pollutants as evidenced by Tradewinds' Covered Source Air Permit Application and the lack of any veneer mill equipment listing in the draft Covered Source Permit issued by DOH. Therefore, an air permit is not required to construct the veneer mill. Furthermore, construction and operation of the veneer mill will not result in emissions of pollutants that are governed by the draft Covered Source Permit.

C. Not Part of Permitted Emissions Unit

The EPA memo dated March 28, 1986, page 2, third paragraph defines an *"emissions unit"* (and by inference *"source")* as defined in Section 52.21 (b) (7) as not only the units which emit pollutants, but *"to **any part of the source** which emits a pollutant..." [Emphasis added]*. For example a steam turbine generator is not an emitting source but it ***is*** an integral part of the source of a power plant. The EPA memo dated December 13, 1995, page 2, last paragraph, states that without a permit construction is prohibited on an emissions unit or equipment which *"is **an integral part of the source** or modification" [Emphasis added.]* The EPA memo dated May 13, 1993, first page, last paragraph, states that *"If the construction activity is **an integral part of** the PSD source or modification, the source must obtain a PSD permit." [Emphasis added.]*

In our case, the permitted source/emission unit is our proposed dryer/cogen facility. A green veneer mill and a dryer/cogen facility are each independent manufacturing units that can operate at a common site or separate sites. Each can be, and usually are, built as stand-alone projects with different products sold to different customers. Attachment A provides a list of all operating veneer mills (similar to the Tradewinds' planned facility) in the US Pacific Northwest. This list shows that seven out of 10 operating veneer mills do not include a boiler or a dryer (the two primary emission sources identified in the draft Covered Source Permit). Thus, building green veneer mills without dryer and associated boilers/cogen units is more common than building them with these components. Although a veneer mill may benefit by being located near a dryer/cogen facility and vice-versa, this does not mean that these facilities depend upon each other.

CONCLUSION: No elements of a green veneer mill are *"any part of a source*" or an *"integral part of the [PSD] source"*, and in the case of Tradewinds, the green veneer mill is not part of, and certainly not an integral part of the dryer/cogen plant (i.e., the source, or emission unit).

D. The Green Veneer Mill Will Serve its Original Purpose (Intent)

The EPA memos dated May 13, 1993 (page 2, first paragraph) and Dec 13, 1995 (last paragraph) state that, *"if the construction prior to such construction would not **serve in accordance with its original intent** except for inclusion of the emission unit, such construction is prohibited prior to obtaining a PSD permit." [Emphasis added.]* The Tradewinds green veneer mill will serve in accordance with its original intent by processing logs into green veneer for sale to customers just like the green veneer mills

listed in Attachment A that are operating without a boiler or dryer. The dryer/cogen plant is not necessary to serve this intent.

CONCLUSION: Tradewinds' veneer mill can be constructed without the Covered Source Permit because the veneer mill will serve in accordance with its original intent without the presence of the permitted source (dryer/cogen and associated equipment).

E. Constructing Veneer Mill is Not an Irrevocable Commitment to Build Emitting Source

The EPA memo dated November 4, 1993, page 1, fourth paragraph, states that *"activities that do not represent an irrevocable commitment to the project would be allowed..."* This memo is referring to elements of the same project that can only be utilized without the permitted project. Otherwise it would represent an irrevocable commitment to build the permitted project. But the same principal can be applied to any construction that creates such an irrevocable commitment. In our case, building a green veneer mill does not represent an irrevocable commitment to build a boiler or veneer dryer. Other references in the EPA memos to "permanent," "high cost" or "exclusive use" all relate to creating a financial or other commitment for which the EPA does not wish to become liable.

Construction of the green veneer mill will not initiate or facilitate construction of the permitted emission units (veneer dryer/cogen plant) that are yet to be authorized in the final Covered Source Permit. Furthermore, construction of the green veneer mill will not commit Tradewinds to construct the veneer dryer and cogen boiler. As demonstrated above, no part of the veneer dryer or cogen boiler (i.e., none of the equipment listed in draft Covered Source Permit sections II and V) or related structures will be built or installed during construction of the green veneer mill, unless and until the final Covered Source Permit is issued. This equipment does not have to be co-located or co-constructed with the green veneer milling operations at O'okala. We intend to start the O'okala green veneer mill as a stand-alone operation. While constructing and operating the green veneer mill, Tradewinds will continue to wait for receipt of the Covered Source Permit from the DOH to fulfill Tradewinds' desire to proceed with the dryer/cogen facility with a sequenced construction schedule.

CONCLUSION: Because the boiler and veneer mill are unrelated independent projects, no irrevocable commitment or reliance is present.

F. Constructing a Green Veneer Mill is Not Designed to Accommodate the Dryer/Cogen Emissions Unit

The EPA memo March 28, 1986, on page 2, last paragraph, states *"before issuance of the PSD permit, construction is prohibited on any emissions unit or on any installation designed to accommodate the emissions unit."*

As discussed above in Paragraph A, Tradewinds' green veneer mill and the veneer dryer/cogen plant are independent manufacturing facilities that do not need to be built together and are not designed or built in any special way to accommodate each other. Although some minor elements of the green veneer mill design will anticipate future development of the dryer/cogeneration facility, there are no necessary features that are *"specifically designed to accommodate the emissions unit."*

CONCLUSION: These facilities pass the "necessary to accommodate" criterion outlined in the EPA memo.

This letter thoroughly weighs Tradewinds' green veneer mill project plan developed in October of 2007 by its Board of Directors against the criteria presented in the EPA memos that DOH provided as the guiding documents for determining if circumvention of the Covered Source Permit would occur. Tradewinds has clearly demonstrated through six different criteria extracted from these EPA memos that building the green veneer mill before issuance of the Covered Air Permit does not constitute circumvention of the permit. Tradewinds requests DOH's written concurrence in this matter. We intend to initiate construction of the green mill as soon as we receive your concurrence, and we request DOH's expedited review and reply to this letter. We greatly appreciate your assistance, Mr. Hirai. Please call Greg, Bill or me if you have any questions or comments.

Sincerely,

Don Bryan
President and CEO

DPB:jb
c: Bill Steiner
Attachment

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Veneer Mills

A stand-alone veneer operation normally has no need for a boiler and less need for a co-generation operation. The economics of such equipment as described in the following memo may not provide an economic return, in all situations.

In the U.S. there are three reasons for a boiler in a plywood or veneer operation.

1. The first reason is to provide heat to steam logs prior to peeling this assists in making both a smoother and easier veneer peel. In colder climates it enables the mill to be able to peel cold or frozen logs in cold weather i.e. around 25 to 32 F degrees. This process can use either low-pressure steam or hot water but does not require the same size boiler needed to dry veneer in a plywood mill.

2. The second reason is that steam or gas heat is needed to provide the necessary energy to adequately dry the veneer. This process is normally accomplished at the plywood mills lay up operation and not at a stand-alone veneer plant although a certain amount of dry veneer is sold in the open market by veneer mills. The critical need for good moisture control is at the lay up operation at the plywood plant. Usually the drying control is at the plywood mill where the veneer pressing segment of the plywood construction process. This assures control of the gluing quality at the plywood lay up line.

3. The third option for a boiler would be co-generation. Co-Gen plants are needed for electricity generation at the plywood or veneer mill sites if the location is not serviced by a public utility or other adequate power source. Very few plywood and veneer plants have cogeneration facilities.

   Co-generation economics vary widely from one location to another and do not fit into a single one size fits all pattern. An independent analysis would be required for each specific location to assess economic viability of a specific project.

The following is a list of veneer operations in Oregon & Washington indicating their veneer processing capability with relation to green or dry veneer.

Operating Veneer Mills in Pacific Northwest

Mill Facility	Town	State	County	On site Dryers	On site Boiler	
Combined plywood facilities						
Roseburg Forest Products	Dillard	OR	Douglas	Yes	Yes	
Swanson Group	Glendale	OR	Douglas	Yes	No	
K-Ply/Klukwan	Port Angeles	WA	Clallam	Yes	No	Closed Reopening Not Likely
Roseburg Forest Products	Riddle	OR	Douglas	Yes	Yes	
Roseburg Forest Products	Roseburg	OR	Douglas	Yes	Yes	
Swanson Group	Springfield	OR	Lane	Yes	Yes	
Olympic Panel Products	Shelton	WA	Mason	Yes	No	
Pacific Veneer Ltd./Weyerhaeuser	Aberdeen	WA	Grays Harbor	Yes	No	Veneer Only
Stand alone veneer mills						
Freres Lumber	Lyons	OR	Linn	Yes	Yes	
Bald Knob	Creswell	OR	Lane	No	No	
Murphy Co.	Elma	WA	Grays Harbor	No	No	
Nordic Veneer	Roseburg	OR	Douglas	No	No	
Rainer Veneer	Spanaway	WA	Pierce	Yes	Yes	
Boise	St Helens	OR	Columbia	No	No	
Boise	White City	OR	Jackson	No	No	
Boise	Williamina	OR	Yamhill	No	No	
Timber Products	Yreka	CA	Siskiyou	No	No	
Roseburg	Weed	CA	Siskiyou	Yes	Yes