

February 17, 2023

MEMORANDUM FOR WASHINGTON DEPARTMENT OF COMMERCE

SUBJECT: Misrepresentations and Omissions of Fact by Ponderay Industries LLC

I. Executive Summary.

The recent application for an Evergreen Manufacturing Growth Grant submitted by Ponderay Industries LLC sponsored by the Pend Oreille County Economic Development Council misrepresents or omits critical facts relevant to the approval process. These misrepresentations and omissions may result in the misallocation of taxpayer funds.

Here is a summary of the critical misrepresentations and/or omissions of relevant facts. A more detailed description of each item is provided in the body of this memorandum.

- a. Ponderay Industries LLC does not own the infrastructure they intend to spend the grant money on, as described in Attachment 1 – Explanation of use of funds.
- b. Ponderay Industries LLC has neither prepared nor presented a plausible business plan for operating the paper mill, nor does it appear such a business case exists.
- c. The existing power infrastructure supporting the former PNC mill site cannot support the operations of both the existing bitcoin mining center and the paper mill. According to already completed BPA Interconnection Studies, expanding power infrastructure to the necessary level would take at least 4-7 years.
- d. Ponderay Industries LLC grossly misrepresented the cost of investment necessary to restart the mill. The currently required investment will exceed \$100 million, not the \$1.4 million indicated in the grant application.
- e. Ponderay Industries LLC, which has no known assets or income, does not have the ability to finance the necessary investment. Its parent company, Allrise Capital Inc., has neither committed to financing the necessary investment nor does it appear to have the assets, income, or credit necessary to fund the required investment.
- f. Funding this project is inconsistent with state climate and environmental protection policies embodied in the Clean Energy Transformation Act and current House Bill 1416. The existing Bitcoin mining operating at the former PNC mill site purchases no e-tagged electricity, uses no clean, renewable power, and has repeatedly misrepresented the source and carbon cost of the electricity it uses.
- g. Neither the Pend Oreille County EDC nor the County Commissioners conducted appropriate due diligence on this project before sponsoring the grant application. The Pend Oreille EDC also has a significant conflict of interest. Two members of the EDC are executive officers of Merkle Standard LLC/Ponderay Industries LLC. At least three members stand to directly financially benefit from this grant. Two additional members have been identified as surrogates who have

historically acted under the direction of Ponderay Industries LLC/ Merkle Standard LLC/ Allrise Capital Inc/ Bitmain Inc. Furthermore, the Pend Oreille EDC has a history of failing to perform due diligence in previously applying for and receiving a \$300,000 grant that was wasted on a stillborn silicon smelter project.

Recommendation. As appropriate due diligence was not conducted by the sponsoring agencies, it may be appropriate to withhold consideration of this grant application until the following actions are completed:

- 1) Submission of a valid business plan demonstrating the economic viability of reopening the paper mill.
- 2) Completion of a pending BPA Interconnections Study expected in late February/March which will identify the specific cost and timeline of building out the 170 MW of required power infrastructure (previous studies were for 100 MW, 140 MW, and 600 MW – the key conclusions are unlikely to vary from the earlier studies)
- 3) Receipt of a written commitment by Allrise Capital Inc to fund the \$100+ million required to restart the mill.
- 4) Demonstration of the ability of Allrise Capital Inc to fund the \$100+ million required to restart the mill.
- 5) Demonstration of commitment to Washington’s climate goals by Allrise Capital Inc. and Bitmain Inc. to comply with CETA by immediately purchasing e-tagged renewable energy through the Pend Oreille PUD for their current operations (Note: they purchase power on a month-to-month basis).

II. Background.

a. Allrise Capital Inc. purchased the former Ponderay Newsprint Company paper mill in Usk, Pend Oreille County, WA, at a bankruptcy auction in April 2021 with the intention of converting the mill into a crypto currency mining facility. Despite representing to the Bankruptcy Administrator that they intended to restart the paper mill to make corrugated cardboard—which would have required around \$100 million in upgrades to the existing mill machinery— and only mine crypto currency mining on the side, shortly after taking ownership of the mill in June 2021, Allrise specifically instructed the Bonneville Power Administration that they would only be using electricity to power hyper-specialized computers for cryptocurrency mining, not to power the mill’s industrial machinery. Allrise subsequently announced that they had partnered with Beijing’s Bitmain to build the nations’ largest Bitcoin mining facility in Usk and planned to expand the facility to over 500 megawatts of bitcoin mining capacity. To date, Beijing’s Bitmain is the majority investor in the project and has installed over \$227 million worth of bitcoin mining computers in Usk and employs the majority of the small workforce.

b. Ponderay Industries is one of at least eight limited liability corporations operating at the former PNC Paper Mill site in Usk, WA. These LLCs are variously governed by combinations of Allrise Capital, INC., the Beijing-based crypto-mining corporation Bitmain Inc., and Mr. Ruslan Zinurov as an individual (former CEO of Allrise Capital, INC.).¹ These LLCs share employees and only do business with each other. For example, Mr. Todd Behrend, who identifies as the Chief Operating Officer for Ponderay Industries LLC, also identifies as the Chief Executive Officer for Ponderay Data LLC and Ponderay Real Estate LLC and as General Manager for Merkle Standard LLC. This LLC’s sole source of revenue is Bitcoin mining. They were previously also engaged in Ethereum mining until September 2022 when Ethereum stopped

using “proof of work” processes. One of these LLCs for holding future cryptocurrency earnings is domesticated in the Cayman Islands.

c. Allrise Capital Inc. is a small venture capital company with a troubling corporate history. In 2019 they were evicted from the State of Nevada for illegal business operations and have been litigated several times for breach of contract. In 2020 Ukrainian politicians and journalists publicly accused Allrise Capital Inc. of property laundering for pro-Russian Ukrainians loyal to Russian President Vladimir Putin. The specific individual Allrise Capital was allegedly partnered with was the chief of staff of the former pro-Russian leader whom was publicly reported to be the person Putin planned to install as the puppet president of the Ukraine had the failed Russian attack on Kiev in February 2022 succeeded.

d. Bitmain Inc. is based in Beijing, People’s Republic of China. They control approximately 27% of total global Bitcoin mining pools (down from nearly 50 percent in 2018). They have repeatedly failed attempts to become a publicly traded company in Hong Kong and United States after trade publications reported that Bitmain had concealed over \$1 Billion in losses in 2019 and was under investigation in 2021 by the US Department of Justice over the alleged involvement of bitcoin Ponzi scheme that defrauded investors of over \$700 million.

III. Details and Evidence.

a. Ownership. Ponderay Industries does not own the property/infrastructure they propose to use the grant money to upgrade. The property/infrastructure is owned by other LLCs or Corporations.

b. Business Case:

- 1) The former Pend Oreille Newsprint Company Paper Mill declared bankruptcy in June 2020. However, the mill had not been operating profitably for several years. It stayed in operation because the cost of breaching its power contract with the Pend Oreille PUD exceeded the benefits of bankruptcy until 2020. The bankruptcy caused \$32 million in uncontested damages to the Pend Oreille PUD and its ratepayers which resulted in double-digit rate increases for the residential ratepayers.
- 2) Prior to the bankruptcy auction on April 23, 2021, several paper companies evaluated the PNC Paper Mill to determine if the mill could profitable produce newsprint or other paper products. Each of these companies concluded that the mill could not become profitable even at the substantially discounted cost of capital due to the bankruptcy.
- 3) Ponderay Industries LLC has neither prepared nor presented a business plan demonstrating the viability of profitably operating the paper mill. In a presentation to the Pend Oreille County Commissioners on January 23, 2023, Ponderay Industries/Merkle Standard executive Laura Verity reported that, “We are still pursuing all that math and the business case around the paper mill.”ⁱⁱ
- 4) According to Mr. Todd Behrend, COO of Ponderay Industries LLC, the main inputs into paper making are pulp, power, and people. However, he stated the prices of all three inputs have increased.
 - a. Pulp: According to the Federal Reserve Economic Data (FRED), the Producer Price Index for Wood Pulp of 258 is at an all-time high and almost double the PPI of 149.5 in June

2020 when the PNC paper mill declared bankruptcy.ⁱⁱⁱ Mr. Behrend told the POC Commissioners, “The residual [wood] market that we live off of has also tightened up and probably will continue to tighten in the short term.” He also reported that Ponderay Industries had not been able to identify a potential pulp supplier.^{iv}

- b. Power: Mr. Behrend told POC Commissioners that power costs had increased since the PNC Mill declared bankruptcy. “There is a cost issue with the CETA compliance requirements. It appears there is a permanent shift in the cost of power and of course in the last few months it’s locally tightened here quite a bit. Economical access to power has tightened up quite a bit.”^v
- 5) The sale price of newsprint paper is declining. Mr. Behrend told the POC Commissioners that the sale price of newsprint had declined to \$700-750 per ton. Commissioner John Gentle responded that he was “shocked” that the sale price of newsprint had declined so much.^{vi}
- 6) Messers Monty Stahl, COO of Merkle Standard LLC, and Behrend told PCO Commissioners that there were three prerequisites for viable paper mill operations: upgrading the mill machinery to produce different weights and shades of paper, lower power prices, and bitcoin mining at the site. Mr. Behrend told the POC Commissioners, “Newsprint is a shrinking market.”^{vii}

c. Power and Timeline.

In their grant application, Ponderay Industries LLC claims the paper mill “is set to startup operations in a short timeframe.”^{viii} Mr. Stahl described the paper mill as “turn key.”^{ix} These statements misrepresent the time required. Even if there were a viable business case and sufficient capital funding for restarting the paper mill, the existing power infrastructure in Pend Oreille County simply cannot support restarting the mill. It is simply impossible to restart the mill while Allrise Capital and Bitmain continue to operate the site as a crypto mining facility or until the existing power infrastructure is significantly expanded. However, building the additional power infrastructure needed would require at least 4-7 years.

- 1) In December 2021, the Bonneville Power Administration (BPA) reported to Allrise Capital, the corporation governor of Ponderay Industries LLC, and the Pend Oreille County Public Utilities District that the power infrastructure supporting the former PNC paper mill:
 - a. could only support a maximum of 100 megawatts of power, and
 - b. because the very different characteristics of electricity required to power crypto-mining computers and large industrial machinery (specifically the Power Factor of the electricity), the existing infrastructure could not be used to power both crypto mining computers and the mills heavy industrial machines even if the total amount of power available was numerically sufficient for both.^x
- 2) The current bitcoin mining facility currently operated by Allrise Capital and Bitmain in the former mill requires all 100 megawatts of power.
- 3) In April 2022, the BPA reported to Allrise Capital and the Pend Oreille PUD that increasing the capacity of the power infrastructure supporting the former PNC mill site would take years to complete. “Depending on when the final environmental approvals are completed, construction

of the interconnection can be expected to be completed 36-48 months after the environmental approvals .^{xi} Obtaining the necessary environmental approvals and permits would add substantial time. For example, it took Allrise Capital/Bitmain eleven months to go through the process just to obtain a Conditional Use Permit and State Environmental Protection Act checklist approval to begin initial crypto mining operations, which required no significant construction or additions to the power infrastructure. In contrast, the BPA report indicated that in order to support the required load needed to run both their current crypto mining operations and restart the paper mill, the BPA would need to construct a new 48-mile 230 kV line to the Bell Substation in Meade, WA, from the paper mill site in Usk.^{xii}

d. Costs.

In their grant application, Ponderay Industries LLC indicates that only \$1,440,000 in capital investment would be needed to restart the paper mill. This assertion misrepresents the currently known cost of investment required to restart the mill. The actual cost exceeds \$100 million and could be as much as 100x more than the \$1.4 million described in the application.

- 1) Allrise Capital/Ponderay Industries would be responsible for the cost of expanding the power infrastructure supporting the former paper mill/ current bitcoin mining facility. The BPA reported to Allrise Capital and the Pend Oreille PUD in April 2022 that adding only 40 megawatts of capacity that could only be used for their crypto-mining computers (due to the power factor involved) would cost Allrise/Bitmain \$40,566,274 (and require many years). They quoted the cost of larger expansion necessary to meet Allrise/Bitmain's published crypto-mining capacity goals would cost \$106,036,816.^{xiii} Because the \$40.6 million option would meet neither the total power requirement of 170MW nor the ability to operate loads with two very different characteristics, the cost to upgrade the existing power infrastructure would be substantially more than \$40.6 million.
- 2) Allrise Capital, through its governed LLCs, has requested an additional power study by the BPA to determine the specific costs of an expansion to 170 megawatts, but the results of that study are not expected before March 2023.
- 3) Mr. Behrend reported to the POC Commissioners that upgrading the mill's machinery to produce additional weights and shades of paper, which was one of the necessary preconditions for viable operations, would cost \$30-50 million.^{xiv}
- 4) In order to secure contracts for the required amount of power after the power infrastructure is expanded, Allrise Capital would need to post substantial performance guarantees which would cost tens of millions of dollars in addition to the cost of the electricity itself.
- 5) Several former PNC engineers who have recently inspected the paper machinery at the mill have publicly and privately reported that, contrary to the assertions by the Ponderay Industries, much of the necessary machinery has not been maintained. They have estimated the costs of returning this machinery to working condition as being between several million and \$20 million, depending how much further the machinery has degraded.

e. Investment.

Ponderay Industries LLC does not have the assets, income, or credit to support the costs of restarting the paper mill. Allrise Capital Inc, it's governing corporation, has neither committed to funding a restart of the paper mill, nor does it have the financial resources to do so.

- 1) Allrise Capital is a small venture capital and real estate holding company incorporated in Delaware and doing business in Irvine, CA. They have eight venture capital investments.^{xv} According to Crunchbase, they are the lead investor in only one of these and their average investment is between \$1 and \$5 million. Their investments include the crypto companies Gemini, which halted customer withdrawals at the end of November 2022^{xvi}, and the crypto company Kraken, which was recently fined \$30 million in penalties to the SEC for marketing unregistered securities.^{xvii} The cost of restarting the mill appears to exceed the total value of investments and property currently owned by Allrise Capital.
- 2) According to Dun and Bradstreet, Allrise Capital's income in 2022 was only \$337,171.^{xviii} In 2021 their income was \$1.95 million. This income level would not support the amount of credit required to finance the more than \$100 million required to restart the mill.
- 3) Allrise Capital only has a single corporate officer, Mr. Mikhail Trubchik, who is the chief executive officer, chief financial officer, and secretary. Mr. Trubchik has not committed in writing, or otherwise, that Allrise Capital will commit the more than \$100 million startup investment required to restart the mill.
- 4) "Allrise Capital's Venture Capital and Direct Investment practice focuses on Technology companies with experienced entrepreneurs where exits or liquidity events can be achieved inside of five years."^{xix} They have no equivalent long-term projects in their portfolio. Unlike their crypto operations, operating a paper mill is not consistent with their current investments or property holdings.
- 5) In 2022 Allrise/Bitmain installed over 17,000 crypto mining computers and associated equipment with a market value of over \$227 million at the former paper mill, but this equipment belonged to Bitmain, not Allrise Capital. Furthermore, under current operating conditions, Allrise/Bitmain are operating their bitcoin mining facility at a loss and will never recoup the cost of their investment into the Usk facility.
- 6) Allrise Capital's interactions with the Pend Oreille PUD indicate that Allrise does not have or have access to the amount of money that would be required to restart the paper mill and fund operations.
 - a. In a letter to Merkle Standard CEO (among other positions) Steven Wood written in response to Allrise/Bitmain's efforts to secure an new power contract for additional power for their crypto mining facility dated October 17, 2022, former Pend Oreille PUD General Manager Collin Willenbrock made the follow observations about Allrise Capital's finances (Note: Allrise Capital is the financial guarantor of the Bitmain/Allrise power contract with the PUD through their subsidiary joint venture Cascade Digital Mining LLC).

- i. “How could Allrise possibly make contractual commitments spanning the next two decades, at a cost of more than \$400 million?” (page 1)
 - ii. “It is also inconceivable that such terms would even be acceptable to Merkle considering Merkle has yet to prove it will be able to meet the financial credit conditions of the short-term buy-sell arrangement that was being negotiated between the parties. (page 6)
 - iii. “[On] September 26 2022, I met with you and Mr. Trubchik at the District offices to discuss your plea to deviate from the requirements of the ESA just two weeks after execution because apparently your models were inaccurate. During that meeting... I specifically asked if Allrise would even have the ability to collateralize a deal of that magnitude and Mr. Trubchik indicated that he didn’t believe so” (page 6-7)
 - b. In an email from Mr. Wood to Mr. Willenbrock dated June 27, 2022, Mr. Wood complained that “securing \$18 million in Performance Assurance is a significant financial undertaking....” Securing the Performance Assurance was especially difficult for Allrise Capital because the PUD rejected Allrise’s primary creditor, Silicon Valley Bank, because, as crypto bank, SVB was heavily exposed to risky crypto assets.
 - c. In an email from Mr. Wood to Mr. Willenbrock dated September 14, 2022, Mr. Wood complained that they could not afford the power they had contracted for. “There is simply no way to economically operate 24/7 at the offered indicative pricing levels.... We are scrambling to minimize Cascade’s potential losses in October.” He further stated that, “this contract is untenable and unsustainable for Cascade.”
 - d. In an email from Mr. Wood to Mr. Willenbrock, Wood stated, “If the output of Box Canyon is not available to Cascade, we calculate the price premium of market power could approach upwards of \$243 million over the 16-year term of the District’s agreement with Clark PUD. This price premium is significant and an existential threat to our existing and future plans for expanding our operations, which would provide numerous benefits (e.g. jobs, taxes, etc.) to Pend Oreille County.”
 - e. Even though they admitted they could not afford the power from the Box Canyon Dam, they have repeatedly demanded that POPUD provide them the power, and the POPUD force the residential ratepayers of the county to collateralize the risk and subsidize the power rate at their expense.
- 7) On May 17, 2022, Allrise Capital’s hand-picked electricity provider, Brookfield Renewables, withdrew from negotiations indicating that they had “Know Your Customer” concerns with Allrise Capital.
- 8) The pending Bitcoin Block Reward Halving which will take place around March 2024 poses a significant going concern risk for Allrise/Bitmain and their bitcoin mining operation in Usk. Bitcoin miners earn bitcoin by being the first to guess the correct hash code (this guessing game is what the bitcoin mining computers do). The winner gets to create the next block on the blockchain (or in other words, set- or block- of data entries into the disturbed database) and

currently receive a block reward of 6.25 bitcoin. Next March, the block reward will halve from 6.25 to 3.125 bitcoin. The halving reduces the mining revenue by half and effectively doubles the cost and the amount electricity required to “mine” bitcoin. For example, with a maximum hashrate (a hash is a single guess) of 2.5 Exahashes (or 2.5 quintillion hashes or guesses per second), Allrise/Bitmain can currently expect to receive an average of 8 bitcoin per day if they are able to operate at maximum capacity. After the halving, this number would drop to 4 bitcoin per day if all other factors remained constant. Only bitcoin miners with low electricity rates (2-3 cents per kilowatt hour is the current industry standard for economical bitcoin mining) will be able to continue mining. Allrise/Bitmain’s Usk facility is not currently competitive compared to other large bitcoin miners due their higher electricity costs. There is a significant risk that Allrise/Bitmain will not be able to continue bitcoin mining in Usk after March 2024 without a substantial reduction in power costs that would have to be subsidized by the Pend Oreille PUD’s residential and other ratepayers.

f. Environmental Impact.

- 1) In early 2022, Allrise Capital publicly revealed that they had partnered with the Chinese cryptocurrency giant Bitmain build the largest bitcoin mining facility in the United States at the former PNC paper mill in Uks with planned future capacity of 600 megawatts.^{xx} According to recent reporting by Investigate West, Allrise/Bitmain remains committed to expanding their cryptocurrency mining operations to 500 megawatts.^{xxi}
- 2) The facility, which has been operating for nearly a year (although full capacity was not reached until September 2022) uses no clean, renewable energy. Zero. According to the Pend Oreille PUD, Allrise/Bitmain has not purchased any e-tagged electricity even though e-tagged power has been available for purchase.
- 3) Despite this, Merkle Standard, the subsidiary of Allrise Capital that acts as the public face for the Bitmain/Allrise bitcoin mining operation, publicly claimed to be using renewable power at its facility. In a letter from Pend Oreille PUD General Manager Collin Willenbrock to Merkle Standard CEO Steven Wood dated October 17, 2022, Willenbrock warned, “The District discovered that Allrise’s subsidiary, Merkle Standard, had published a website that falsely advertised: “Ponderay Site powered by local hydropower generation.” The website also stated that Merkle was “Projected to be net carbon-negative by 2022 YE.” At our meeting on January 27 [2022] meeting, we expressed our deep concern over falsely portraying the District’s power supply as being sourced from “local hydropower generation,” when the District has made it abundantly clear that was not the case. We also inquired how Allrise planned to be “net carbon negative by 2022 YE.”^{xxii}
- 4) When questioned by reporters, the company declined to answer “a question about what percentage of its total energy usage it is attempting to offset through renewable energy credits.”^{xxiii}
- 5) In testimony on House Bill 1416 to the Washington State House of Representatives Energy Committee hearing on January 30, 2023, Glenn Blackmon, energy policy manager for the Washington Office of Energy and the senior energy advisor to the state, when asked “Could you give me an example of what this bill is trying to address?” stated the Allrise/Bitmain crypto mining facility in Usk is the best example. “Under current law, they wouldn’t necessary have to

use clean electricity in compliance with CETA..., yet CETA says that all of the electricity that is used by customers in Washington should be clean...^{xxiv}

- 6) On February 9, 2023, Mr. Monty Stahl, COO of Merkle Standard LLC, reported at meeting of the North Pend Oreille Chamber of Commerce that HB1416 posed an “existential threat” to their future business operations and to Ponderay Industries LLC. This statement indicates that Allrise/Bitmain do not intend to voluntarily purchase CETA-compliant, e-tagged power going forward and indicates that their crypto mining could not afford the small additional cost of e-tagged power (roughly \$ 0.004 per kilowatt hour).
- 7) Water. According to their website, the Allrise/Bitmain bitcoin mining facility in Usk is the largest deployment of water-cooled bitcoin miners in the country. These machines consume enormous amounts of water drawn from the adjacent Pend Oreille River, especially during warmer months. This water is chemically treated and mixed with antifreeze. This chemically enriched water is frequently purged from machines to prevent scaling and is held in evaporation pools onsite where the added chemicals are more densely concentrated. Allrise/Bitmain has not disclosed how it plans to eventually dispose of the chemical concentrates. Nor is even is clear if the existing generous water rights to the Pend Oreille River associated with the mill site would be sufficient for both the mill and the hydro miners

g. Failure to conduct due diligence.

Neither the Pend Oreille Economic Development Council nor the County Commissioners have conducted an appropriate due diligence review of this project before providing endorsements.

- 1) The Pend Oreille EDC is fully aware of the misrepresentations and omissions referenced in the preceding paragraphs. Two members of the EDC are executive officers at Ponderay Industries LLC/ Merkle Standard LLC/ Etc. They are fully aware of the power infrastructure limitations, the lack of a viable business plan, and the actual amount of investment required to restart the mill. An additional two members of the EDC have been described by the Pend Oreille PUD as surrogates of Allrise Capital/Bitmain who have repeatedly acted under the direction of Allrise Capital/Bitmain.^{xxv}
- 2) The most significant misrepresentations and omissions have been publicly reported within Pend Oreille County and directly reported to the Pend Oreille County Commissioners.
- 3) The failure to conduct due diligence by the EDC can be explained by the fact that at least three members of the EDC will directly financially benefit from the Evergreen Grant—the two corporate officers of Ponderay Industries LLC/Merkle Standard LLC/Etc. and a member responsible for overseeing the proposed rail repair work at the facility included in the budget. This creates a clear conflict of interest between the EDC’s responsibility to the people of Pend Oreille County to conduct a thorough due diligence process the direct financial interests of members of the EDC.

- 4) The Pend Oreille EDC also failed to conduct a due diligence process for a previous grant of \$300,000 from the Governor's Strategic Reserve fund for a stillborn proposal to build a silicon smelter in the county.

IV. Conclusion

Over the last two years Allrise Capital Inc. and Bitmain Inc. have raised the prospect of restarting the paper mill three times to further their primary interest in cryptocurrency mining. The first time was to obtain ownership of the mill in April 2021 when they told the bankruptcy administrator that they intended to restart the mill and only conduct crypto currency mining on the side. The extremely short period of time between Allrise Capital learning about the mill site and the auction (they did not become a qualified bidder until 4 days before the auction in April 2021), their complete lack of due diligence in determining the power capabilities of the site (they did not contact the PUD about the power infrastructure until June 2021), and their nearly immediate direction to the BPA to only study providing them power suitable for operating their crypto mining operations suggest that their representation to the Bankruptcy Administrator was made in bad faith.

The second time was only a week after concluding their power contract with the Pend Oreille PUD in August 2022. Even though they had not even mentioned needing power to restart the mill during almost a year of power negotiations, when they realized they had failed to accurately forecast power costs and needed cheaper power for their crypto mining operations, they announced they could reopen the mill in three months but only if the Pend Oreille PUD agreed to a new power contract for Cascade Digital Mining LLC – their crypto mining arm. They made this claim even though it was physically impossible to power both the mill and the crypto mining facility or conduct the necessary repairs, hire staff, find pulp suppliers, etc.

The third time was at the end of January 2023 when they invoked restarting the mill as justification for asking for a special exception from HB1416—an exception that would financially benefit a Beijing Bitcoin mining company as the expense of Pend Oreille County's—and the State of Washington's—citizens.

V. The point of contact for this memorandum is Ben Richards at ProtectPendOreille@gmail.com.

Respectfully submitted,

Ben Richards
Pend Oreille County, WA

Endnotes on the following page:

ⁱ The other LLCs identified so far include Cascade Digital Mining LLC (which is the primary operating LLC), Merkle Standard Infrastructure LLC, Merkle Standard LLC, Ponderay Real Estate LLC, Ponderay Data LLC (formerly engaged in Ethereum mining), 32 Telephone Rd LLC, Allrise IP Holding LLC (based in the Cayman Islands), and Ponderay Industries.

ⁱⁱ Testimony of Ms. Laura Verity, Ponderay Industries LLC. Pend Oreille County Commissioners Meeting, January 23, 2023. Video and audio recording of testimony available by request.

ⁱⁱⁱ FRED Producer Price Index by Commodity: Pulp, Paper, and Allied Products: Wood Pulp. Available online at: <https://fred.stlouisfed.org/series/WPU0911>

^{iv} Testimony of Mr. Todd Behrend, Ponderay Industries LLC. Pend Oreille County Commissioners Meeting, January 23, 2023. Video and audio recording of testimony available by request.

^v Pend Oreille County Commissioners Meeting, January 23, 2023. Video and audio recording of testimony available by request.

^{vi} Pend Oreille County Commissioners Meeting, January 23, 2023. Video and audio recording of testimony available by request.

^{vii} Pend Oreille County Commissioners Meeting, January 23, 2023. Video and audio recording of testimony available by request.

^{viii} Ponderay Industries Evergreen Grant Application, Project Description and Parameters page 2

^{ix} Testimony of Mr. Monty Stahl, Merkle Standard LLC. Pend Oreille County Commissioners Meeting, January 23, 2023. Video and audio recording of testimony available by request.

^x Bonneville Power Administration Interconnection System Impact Study L0494 dated December 6, 2021. Section 2: Conclusions, page 3. Obtained through public records request.

^{xi} Bonneville Power Administration Interconnection Feasibility Study L0511 dated April 28, 2022 Section 2: Conclusion, pages 1-2. Obtained through public records request.

^{xii} *Ibid.*, page 3.

^{xiii} *Ibid.*, pages 1, 6.

^{xiv} Testimony of Mr. Todd Behrend, Ponderay Industries LLC. Pend Oreille County Commissioners Meeting, January 23, 2023. Video and audio recording of testimony available by request.

^{xv} <https://allrisecapital.com/>

^{xvi} <https://www.forbes.com/sites/qai/2022/11/30/gemini-crypto-pauses-withdrawals-fallout-continues-from-ftx-collapse/?sh=24049ece4a84>

^{xvii} https://www.wsj.com/articles/crypto-exchange-kraken-agrees-to-settle-sec-probe-over-staking-business-11675974055?mod=Searchresults_pos1&page=1

^{xviii} <https://creditbuilder.dnb.com/report/summary?duns=118108616>

^{xix} <https://allrisecapital.com/>

^{xx} <https://beincrypto.com/chinas-bitmain-gets-foothold-in-us-crypto-mining-operation/>

<https://www.seattletimes.com/business/inside-the-international-push-to-turn-a-bankrupt-rural-washington-newsprint-mill-into-a-crypto-capital/>

^{xxi} <https://www.invw.org/2023/02/07/why-pnw-officials-are-only-now-deciding-how-to-regulate-crypto-mining/>

<https://www.invw.org/2022/11/25/investors-make-a-massive-bet-on-crypto-mining-in-a-tiny-ne-washington-town/>

^{xxii} Willenbrock to Wood Oct 17

^{xxiii} <https://www.invw.org/2023/02/07/why-pnw-officials-are-only-now-deciding-how-to-regulate-crypto-mining/>

^{xxiv} <https://tvw.org/video/house-environment-energy-2023011770/?eventID=2023011770> quoted comments begin at time mark 45:22.

^{xxv} Letter Willenbrock to Woods Oct 17 page 8.