

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

RE: Puget Sound Energy, WAC)
480-107 Compliance Filings)

Docket No. UE-051162

COMMENTS OF COGENERATION COALITION OF WASHINGTON ON PUGET DRAFT RFP

The Cogeneration Coalition of Washington (CCW)¹ provides the following comments on the draft Request for Proposals filed by Puget Sound Energy on July 29, 2005.

The power purchase agreements between Puget and the three CCW projects all expire in 2011 – 2013, creating a large part of the significant supply deficit that Puget faces in that time frame. To meet that deficit, Puget's 2005 Least Cost Plan expressed the intent to pursue negotiation of replacement contracts to keep these resources within Puget's portfolio. CCW filed comments on the Least Cost Plan reiterating the substantial benefits provided by cogeneration resources both to Puget and to the State of Washington generally.² These comments generally supported the expressed intent of Puget to pursue negotiations for the renewal of those contracts with cogeneration resources. In response to those comments, the Commission advised Puget:

utilities should appropriately value any special attribute that alternative resources would bring to their portfolio when making resource acquisition decisions.³

¹ CCW represents the cogeneration and customer interests of March Point Cogeneration Company, Sumas Cogeneration Company, LP, and Tenaska Ferndale Cogeneration.

² *Comments of Cogeneration Coalition of Washington*, filed on June 1, 2005 in Dkt. 050664.

³ WUTC Letter to Steve Reynolds, August 29, 2005, p. 7, in Dkt. 050664.

That directive provides the focus for CCW's review of the draft RFP: does the RFP define criteria which will allow Puget to assess the substantial benefits of cogeneration resources? The answer is: no, the criteria proposed by Puget are not sufficient for an accurate and fair assessment of cogeneration, in the several areas described below.

1. Environmental benefits

The first area of benefits provided by cogeneration is environmental benefits. But the RFP fails to provide for adequate consideration of these positive environmental benefits. Cogeneration supplies both electric energy to the utility and thermal energy to an industrial process by using the same fuel. If Puget did not contract with the cogenerator, then additional gas would be burned both to fuel the generator Puget did contract with and to provide the thermal energy needed by the industrial process. The failure to select the cogeneration project would mean the loss of both the overall fuel savings and the reduction in total emissions. The consideration of environmental impacts under the Public Benefits criterion in the RFP must be expanded to include recognition of these societal benefits which may not be captured simply in evaluating the environmental impact of the generating facility. Sec. 2.3 of Exhibit IV of the RFP should be modified to include a comparison of the gross energy input to the facility with the energy consumed in other industrial processes for an equivalent amount of electrical and thermal energy output. In addition, the inventory of emissions in Section 4 of Exhibit IV should require not just the total emissions. It

should also include the industrial emissions that are supplanted by the cogeneration process.

2. Existing facilities and the elimination of risk

The second major area of benefits from the CCW facilities arises from the fact that these are existing facilities embedded in Puget's service area, rather than proposed plants with all of the risks of permitting, construction and fuel acquisition. The criteria for evaluation must be enhanced to properly consider these benefits. For instance, Section 3.1 of Exhibit 4 requests information about proposed sources of natural gas. However, it does not ask for any information from the bidder about the likelihood of entering into a supply contract, or the likelihood of actually permitting and constructing a proposed pipeline.

Existing projects within Puget's service area may also relieve transmission constraints. The evaluation criteria do recognize the negative effect of a project proposed to deliver power over a constrained path. But it does not recognize the savings to Puget produced by a project that is on the other side of the constraint, which saves Puget the cost of transmitting power across the constraint. The evaluation process should include use of a production costing model which determines the total cost to Puget to meet its customers' needs both with and without a particular project.

3. Community benefits

Another benefit which the CCW projects provide is a broad range of community benefits. These were also detailed in the June 1 comments on the Puget LCP. To summarize, these projects provide substantial financial benefits

to their communities through substantial professional payrolls and property taxes. They also support the economic viability of their industrial hosts including oil refineries and custom dry kilns supporting the wood products industry. In the RFP, the Community Impacts element within the Public Benefits criterion⁴ may very generally encompass such benefits, but they should be fully and rigorously quantified and considered.

Finally, CCW objects to any consideration of imputed debt, at least as to purchase agreements with QFs. In the Resource Cost element of Cost Minimization,⁵ Puget proposes to consider the “cost to rebalance debt/equity ratio for imputed debt...” The application of imputed debt is intended to consider the financial risk of long-term purchase agreements that may require payments that should be treated as fixed costs like debt service. However, with QF contracts any such risk is minimized. Federal law requires that utilities be provided with the opportunity for full cost recovery of the costs of contracts with QFs.⁶ In addition, Puget has instituted its Power Cost Adjustment mechanism by which it has the opportunity to adjust rates to recover actual power costs incurred, including purchase power costs. The costs of QF contracts should be fully recovered, and there should be no debt equivalence imputed to QF contracts.

CONCLUSION

The draft RFP filed by Puget should be revised to require:

⁴ Pg. 5 of Exhibit II of the RFP.

⁵ Pg. 2 of Exhibit II to the RFP.

⁶ Sec 1253(a) of the Energy Policy Act of 2005, enacted August 8, 2005.

- 1) a more detailed quantification of the environmental benefits and energy efficiency provided by cogeneration;
- 2) more information from which to assess the development risks for proposed projects, and the transmission benefits of existing facilities; and
- 3) quantification of the community benefits such as payroll and property taxes provided by existing facilities.

Respectfully submitted,

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