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ALCANTAR & KAHL LLP

June 7, 2005

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Ms. Carole J. Washburn
Secretary
Washington Utility and Transportation Commission
1300 S. Evergreen Park Drive SW
P.O. Box 47250
Olympia, Washington 98504-7250

Re: Puget Sound Energy 2005 Least Cost Plan

Dear Ms. Washburn:

Enclosed please find the original and twelve copies of the comments of Sumas Cogeneration Company, L.P. and March Point Cogeneration Company on the 2005 Least Cost Plan filed by Puget Sound Energy on or about April 29, 2005. No formal docket was assigned to the Plan upon filing; we would request that copies of these comments be delivered to the Commissioners and appropriate staff for consideration during review of the Plan.

Respectfully,

Don Brookhyser

Donald Brookhyser
Counsel to Sumas Cogeneration and
March Point Cogeneration

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WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**COMMENTS OF SUMAS COGENERATION AND
MARCH POINT COGENERATION
ON
2005 LEAST COST PLAN OF PUGET SOUND ENERGY**

The March Point Cogeneration Co. and Sumas Cogeneration Company, L.P. ("Sumas and March Point") generally support the 2005 Least Cost Plan ("the 2005 LCP") of Puget Sound Energy filed with the Commission on April 29, 2005. Sumas and March Point support the Plan's intent to commence negotiations with the cogeneration facilities to replace the contracts that expire in 2011-2013. However, the Commission should provide some deadline for completing these negotiations within three years. In addition to Puget's obligation under PURPA to purchase from these QFs, these facilities provide many benefits, and should remain an important part of Puget's portfolio. They are existing plants, without the construction risk or additional environmental impacts of new plants, and have established their reliability as world class. In addition, they provide important economic and environmental benefits because of their cogeneration operation.

I. Identification of Facilities

Sumas and March Point operate cogeneration facilities in Washington State which are Qualifying Facilities under PURPA. As cogeneration facilities, these plants use one source of heat to produce electricity for sale to Puget Sound Energy, and thermal energy from the waste heat stream, which is sold to an industrial customer. This sequential use produces both environmental and energy efficiency benefits described more fully below.

Sumas and March Point each have a long-term power purchase agreement (PPA) with Puget to sell their generation output. The contracts expire in 2011-2013, which is a significant event in Puget's planning process. The Sumas and March Point facilities are:

- Sumas Cogeneration Company LP, in Sumas, which sells its thermal output to Socco Forest Products for use in its custom dry kilns, and generates 133 aMW for sale to Puget.
- March Point Cogeneration Company, Units I and II, in Anacortes, which provides steam to the Shell Oil Products Puget Sound Refinery, and generates 145 aMW for sale to Puget.

In addition to the PPAs to sell electricity to Puget, the cogenerators also have long-term contracts with their thermal hosts. The thermal hosts are industrial processes, and their production lines are generally in continuous operation. Their steam supply must match their production, so the contracts with the cogenerators generally require the provision of steam with a high capacity factor. The obligation to provide steam is significant; the sudden termination of process steam to a refinery, for instance, can create a serious interference with operations. Because the electricity and steam production are physically linked, the obligation to produce steam for the industrial process means that the cogenerator must also have a market for its electricity over all hours of the day.

Ensuring a market for this electricity was one of the purposes for the utility purchase obligation under PURPA.

II. Cogeneration Facilities Offer Multiple Benefits

Sumas and March Point provide many benefits as providers of power to Puget. First, there are a number of benefits arising from the fact that these are existing plants. Since Puget would not be contracting with a resource yet to be constructed, there is no risk of permitting, and no risk of construction delays or defaults. Puget can use existing transmission capacity to deliver these resources to load, so there is no risk or uncertainty inherent in waiting for new transmission capacity to be constructed. The siting and permitting demands for new transmission capacity can pose enormous risk and uncertainty. There also is no risk in permitting and constructing a pipeline to fuel the generator.

As existing resources, the environmental burdens of construction and of the permanent facility have been absorbed.

Finally, Puget has a long history with these resources and can be very confident of their reliability. Since the resources have contractual obligations to deliver both to their thermal host as well as to Puget, there is increased incentive to operate the units with high capacity factors.

In addition to benefits as existing resources, these facilities also provide significant economic benefits to their local communities and to the state. March Point employs about 32 people while the refinery to which it supplies steam employs 450. It is one of the largest taxpayers in Skagit County.

Sumas employs 17 people. Socco Forest Products, its thermal host, employs 14 persons directly. Another company, Cedarprime Inc. relocated its cedar siding operation from Vancouver, B.C. in 2002 and has a long-term contract with Socco for kiln drying and lumber re-sawing. Cedarprime employs 95 persons. Socco also provides custom kiln drying to a second major business, Teal Jones Sales, which started a high speed planer operation in Sumas in April 2005. Teal Jones has a long-term contract with Socco for wood drying and employs 80 people.

Together Sumas, Socco, Cedarprime and Teal Jones pay over $1 million in property taxes to Whatcom County, one of its largest taxpayers. These companies have located in Sumas, invested in new plants and employed over 200 people because of the steam efficiently provided by Sumas.

Finally, these facilities also provide the substantial efficiencies and environmental benefits produced by cogeneration. If the cogeneration plant ceases operation, the thermal host will have to install its own boiler and burn gas to generate the steam currently provided by the cogeneration facility. Because of the efficiencies from sequential use in cogeneration, the new boiler would burn a comparable amount of natural gas to the existing cogeneration unit. Society will have lost the benefit of the electricity generated but is still burning a comparable amount of gas and creating comparable amounts of pollutants and greenhouse gases. For instance, March Point supplies approximately 300,000 MMBtu per month to the refinery. That would require a significant amount of natural gas to replace the steam now provided by March Point.

III. Benefits and Need for Contract Certainty

Sumas and March Point support the provision in the Puget Plan for contract renegotiation. The Puget Plan provides that Puget will "explore contract renewal discussions" with CCW members over the next two years.[1] CCW members appreciate Puget's commitment to commence these negotiations expeditiously. However, the Commission should provide a deadline for Puget to complete the negotiations within three years.

Various business interests drive the need for Sumas and March Point to obtain some certainty about their future as soon as possible. This is necessary, first, to provide certainty to the industrial customer that the QF will continue to provide thermal energy, and allow those parties to renew their contracts.

Second, the utility has an obligation under PURPA to purchase from March Point and Sumas. Fulfillment of that obligation should not be left to the last minute.

Finally, there may be development opportunities for the QFs, such as re-powering, which would benefit from some lead-time and the certainty of contract renewal. The assumption made in Puget's plan is that these QFs are old facilities that are no longer efficient.[2] First, CCW contests that assumption. When one compares the energy input in natural gas to the energy output both in electricity and in thermal energy, these facilities remain very efficient. Society would increase its total consumption of energy if it had to burn separate streams

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1 Plan, Chap. XI, p. 8.
2 Plan, Executive Summary, p. 5.

of gas to produce the 278 MW produced by these plants and the BTUs supplied to the thermal hosts. The total amount of greenhouse gases produced by the two processes would also likely increase.

But even if the present generation facility was comparable or slightly less efficient than the current state of the art, the QF may wish to explore re-powering – replacing the existing turbine with a new one to attain a higher efficiency. This strategy retains most of the advantages of the existing facility, its gas supply and transmission infrastructure and its prior environmental impacts. It would allow the facility to continue providing the benefits of cogeneration while reducing the amount of gas consumed. Negotiation of a new contract would allow a facility considering this option to establish its projected revenue stream from Puget and determine whether the project is feasible. Clearly such an investigation must be conducted with sufficient lead time to design and construct the re-powering project.

For all of these reasons, both Puget and the cogenerators are benefited by determining within the next three years whether new contracts can be finalized.

IV. PURPA Obligation of Utility to Purchase

Puget's efforts to negotiate new contracts with Sumas and March Point are also consistent with Puget's obligations under PURPA. Puget is required by PURPA, 16 USC §824a-3, to purchase the electrical output of these QFs. The obligation is simple and absolute. The rates to be paid, based on avoided costs, and other terms and conditions remain to be determined through negotiations. Puget must commence that negotiation promptly, both to determine the revenues available for the QFs, and to determine for Puget what portion of its resource portfolio remains unfilled.

V. Conclusion

March Point and Sumas support the proposal in Puget's Action Plan to commence, within the next two years, efforts to negotiate new contracts with the cogeneration facilities. March Point and Sumas urge the Commission to set a deadline of three years to complete such negotiations. This will ensure that the economic, environmental and social benefits of these reliable, efficient resources are preserved, and all opportunities for facility upgrades are optimized.

Dated: June 7, 2005

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served this document upon the following parties by depositing a copy in the US mail, postage pre-paid.

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Dated at Portland, Oregon, June 7, 2005.

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