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ALCANTAR & KAHL LLP

June 7, 2005

05 JUN -8 AM 11:30

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 Tenaska Ferndale Cogeneration Station 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 Tenaska Ferndale Cogeneration

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**WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

05 JUN -3 AM 11:30

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**COMMENTS OF TENASKA FERNDALE COGENERATION STATION ON 2005 LEAST COST PLAN OF PUGET SOUND ENERGY**

Tenaska Ferndale Cogeneration Station (Tenaska) generally supports the 2005 Least Cost Plan ("the 2005 LCP") of Puget Sound Energy filed with the Commission on April 29, 2005. Tenaska supports the Plan's proposal to commence negotiations with the cogeneration facilities to replace the contracts that expire in 2011-2013. 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. In addition, they provide important economic and environmental benefits because of their cogeneration operation.

## I. Introduction to Tenaska Facilities

Tenaska operates the Tenaska Ferndale Cogeneration Station, a cogeneration facility which is a Qualifying Facility under PURPA. As a cogeneration facility, this plant combusts natural gas 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.

Tenaska generates 245 MW for sale to Puget under the terms of a power purchase agreement which was executed in 1991, and provides process steam to ConocoPhillips Refinery. The power purchase agreement expires on December 31, 2011. The facility also has the capability to produce approximately 25 additional megawatts (above the contract amount) which has been made available to PSE under a separate agreement.

The obligation to provide steam is a significant business consideration for Tenaska; it must either provide steam or make a penalty payment. It is also a significant physical requirement for the refinery: the unscheduled termination of process steam to a refinery, for instance, can create serious disruptions. 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. Tenaska Offers Multiple Benefits

Tenaska provides many benefits as a supplier of power to Puget. There are a number of benefits that would arise from the extension of a contract for an existing facility. Since Puget would be contracting with an existing resource, there is no permitting risk, 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, a process which can pose enormous risk and uncertainty. There also is no risk in permitting and constructing a pipeline to fuel the generator.

As an existing resource, the environmental burdens of construction and of the permanent facility have already been absorbed.

Puget has a long history with this resource and can be very confident of its reliability.

In addition to benefits as an existing resource, this facility also provides significant economic benefits to its local community and to the state. The facility is one of the top ten taxpayers in Whatcom County and provides 23 full-time jobs with a payroll of over $2MM; and Conoco Phillips, the thermal host, employs over 250 people.

Finally, this facility also provides the substantial efficiencies and environmental benefits produced by cogeneration. If the cogeneration plant ceases operation, the thermal host will have to burn gas or other fuel to replace the steam currently provided by the cogeneration facility - a process with lower efficiency that would use a greater amount of fuel to produce an equivalent amount of steam. Society would have lost the benefit of the electricity generated while burning a comparable amount of gas to generate the steam, and creating comparable amounts of pollutants and greenhouse gases. Tenaska supplies up to 145,000 MMBtus per month to the refinery. It would require a significant incremental amount of fuel for the thermal host to replace the steam now provided by Tenaska.

## III. Benefits of Contract Negotiation

Tenaska supports the provision in the Puget Plan for contract renegotiation. The Puget Plan provides that Puget will "explore contract renewal discussions" with Tenaska and the other cogeneration facilities over the next two years.[1] Tenaska appreciates Puget's commitment to commence these negotiations expeditiously. Tenaska Ferndale's current contract provides for an 8-year extension of the contract term at Puget's option. Tenaska will pursue this option with Puget; however, an expeditious negotiation of a new long-term contract may provide more flexibility for both parties.

Contract extension or renewal would also provide certainty to the industrial customer (steam host) that the QF will continue to provide thermal energy beyond the current contract term, and allow those parties to renew their contracts accordingly.

## IV. PURPA Obligation of Utility to Purchase

Puget's efforts to negotiate a new contract with Tenaska would also be consistent with Puget's obligations under PURPA. Puget is required by PURPA, 16 USC §824a-3, to purchase the electrical output of a QF. The obligation is simple and straight-forward. The rates to be paid, based on avoided costs, and other terms and conditions remain to be determined through negotiations. Puget should be encouraged to 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.

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1 Plan, Chap. XI, p. 8.

## V. Conclusion

Tenaska supports the proposal by Puget to commence contract negotiations with the cogeneration facilities as a prudent and reasonable measure to ensure these facilities remain part of Puget's resource portfolio. An extended contract or new long-term contract with Tenaska will preserve for Puget and for the State the existing economic benefits and energy efficiencies of the Ferndale facility.

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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Hank McIntosh
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Dated at Portland, Oregon, June 7, 2005.

Donald Brookhyser

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