BEFORE THE

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION Complainant, v. PUGET SOUND ENERGY, INC. Respondent.	)	DOCKET UE-031725

INITIAL BRIEF OF THE
COGENERATION COALITION OF WASHINGTON

Pursuant to the procedural schedule adopted by Order No. 6 in this case, the Cogeneration Coalition of Washington (CCW)[1] hereby files its initial brief.

There are two issues in this case of importance to CCW: 1) the acquisition of an ownership interest in Frederickson, and 2) the disallowance of a portion of the costs of Tenaska based on the Commission's original prudence review in 1992.

I. Puget's Resource Acquisition Strategy Should Include Consideration of QFs

A. Introduction

CCW has no objection to Puget's acquisition of an ownership interest in the Frederickson unit, and its inclusion in the power cost rate in this proceeding.

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

The acquisition of Frederickson, however, signals a new strategy by Puget of owning more generation resources to serve its load. As Puget approaches the time period in 2011 – 2012 when its long-term contracts with CCW's members will expire, CCW wishes both Puget and the Commission to remain mindful both of Puget's obligations under PURPA, and of the benefits of encouraging cogeneration. Puget's resource acquisition strategy for 2011-2012 and beyond should include the renewal of these contracts.

B. PURPA Requires Procurement from QFs

In 1978, the Public Utility Regulatory Policies Act[2] was passed to encourage the conservation and efficient use of energy and to spur development of alternative power supplies.

PURPA required the Federal Energy Regulatory Commission (FERC) to prescribe rules necessary to encourage cogeneration. Among the adopted rules was a mandatory purchase obligation, requiring electric utilities to purchase electric power from and sell electric power to cogeneration facilities.[3]

According to Puget's Least Cost Plan, filed on April 30, 2003 with the Commission in Docket 03-0549, Puget's contracts with the QF members of CCW provide approximately 500 MW, or 22% of Puget's energy supply. These contracts will all expire in 2011 and 2012.[4]

As these expiration dates approach, the compliance with PURPA obligations must be considered. These resources represent a significant generation source within Puget's service area. As Puget conducts further least

[2] Pub. L. No. 95-617, 92 Stat. 3117 (codified in U.S.C. §§ 15, 16, 26, 30, 42 and 43).
[3] 18 C.F.R. § 292.303.
[4] Chapter 8, pp. 5, 8, of Least Cost Plan.

cost planning and considers new resource additions, these QF resources must be considered by Puget.

C. Long-Standing Policy Encourages Cogeneration Technology

The Washington State Legislature has specifically directed the Commission to encourage cogeneration. RCW 80.28.25 states: *"the commission shall adopt policies to encourage meeting or reducing energy demand through cogeneration…."*

One of cogeneration's greatest benefits is the increased energy efficiency arising from satisfying both thermal and generation needs from the same energy source. The two functions must be operated in a coordinated manner. Continuing to satisfy the industrial host's thermal needs requires a customer for the generation output. The State encourages cogeneration by requiring the utility to purchase the output. The increased efficiencies of cogeneration would be lost if the customer could not sell electricity, and used its steam boiler only to satisfy the industrial host's thermal requirements.

Cogeneration provides many other significant benefits to both the state and the electric industry. Some of these benefits are unique to cogeneration, while other benefits are shared with other forms of independent power generation:

- *Cogeneration enables companies to manage and stabilize energy costs*.
- *Cogeneration efficiently and cleanly uses fuel.*
- *Cogeneration increases electricity dedicated to serve Washington.*
- *Cogeneration enhances the reliability of the State's transmission grid.*

- *Cogeneration results in customer self-sufficiency and creates private investment, jobs and tax revenues for Washington.*
- *Cogenerators assume the financial risks of both construction and operation.*

II. Full Recovery of Tenaska Costs Should Be Allowed

Both Staff, through Mr. Schooley, and the Pubic Counsel, through Mr. Lazar, advocate disallowances of costs related to the Tenaska plant, based on the Commission's original Prudence Review. Mr. Schooley's disallowance (Ex. 304C), which was adopted by Mr. Lazar (Ex. 271C Corrected), argues that Commission determined "a reasonable level of costs" (Ex. 301HC, pg. 7, line 1-2) in the Prudence Review, and that such costs should be enforced as a cap on prices for the contract term.

Such a proposal is contrary to the clear language of the 19th and 20th Supplemental Orders in Dockets UE-920433, UE-920499, and UE-921262 (Exs. 82 and 83). At page 22 of the 20th Supplemental Order, the Commission clarified that the 1.2% is to be multiplied by the net cost of the contract, and then specifies what is included in "net cost." The language seems clear that the Commission was imposing a percentage disallowance to be applied to the net costs, not a capping mechanism.

The Commission should apply the 1.2% disallowance to the net costs of the contract, as proposed by Mr. McIntosh (Ex. 291) and as agreed to by Mr. Story (Ex. 220), as the only adjustment flowing from the original prudence review of the Tenaska contract.

III. CONCLUSION

As Puget's procurement of resources to meet its load continues over the next few years, the utility's obligation to purchase QF resources and the benefits of fully utilizing cogeneration resources must be kept in mind.

In this case, the disallowance of Tenaska costs proposed by Mr. Schooley should be denied.

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