Northwest CHP Advocates

Clean Cogen Works

Participating Members

Alan Meyer
Weyerhaeuser Company

Nate Carpenter
Boise Paper

David Hawk
J.R. Simplot Company

Kim Burt
West Linn Paper Company

John Martin
Pacific Energy Systems, Inc.

John Ryan
Washington State University Energy Program

May 13, 2005

Ms. Carole J. Washburn
Secretary
Washington Utility and Transportation Commission
P.O. Box 47250
Olympia, Washington 98504-7250

Re: Comments by the Northwest CHP Advocates regarding Resource Acquisition, Chapter 480-107 and Least Cost Planning Rulemaking, WAC 480-100-238; UE-030423 and UE-030311

Dear Ms. Washburn:

The Northwest CHP Advocates (NWCHPA) respectfully submit these comments on the proposed rule changes in Dockets No. 030423 and 030311 as referenced above.

The NWCHPA is an ad-hoc group of concerned professional who happen to be very familiar with the benefits of CHP to the Northwest and its economy. We believe it is simply one of the "right" power generating solutions to implement. We especially encourage development of new industrial CHP plants and the application of power enhancement technologies and capacity expansion at existing CHP plants in the Northwest. Over the past 18 months, we have: 1) facilitated two CHP stakeholder roundtables, 2) provided industrial CHP input for the NW Power Planning & Conservation Council's new five year plan, 3) assisted Commissions and staff at the Oregon Public Utility Commission (OPUC) who are attempting to reduce or remove existing barriers that prevent CHP development, 4) encouraged the Energy Trust of Oregon to establish a new industrial incentive, similar to that offered by BPA's Conservation Augmentation energy efficiency program to help tip the scales in favor CHP projects, and 5) provided input to the new Greenhouse Gas (GHG), Conservation and Renewable Energy policies by the Governors of Washington and Oregon.

We would like to share several thoughts and comments with the Commission regarding the current state of the CHP market, including recent developments in Washington and other states. We also will provide specific comments regarding the proposed PUPRA and IRP rule changes, and suggest several additional actions the Commission should consider to change the lack of CHP development here in our state over the past 15 years.

Washington's implementation rules discourage development of Qualifying Facilities (QFs) and CHP projects

QF development in Washington has been adversely affected by the Commission's competitive bidding rules, particularly over the past 15 years. Results include:

- Current QFs in Washington represent 1.7 percent of nameplate capacity compared with a 5.1 percent national average.
- CHP resources total 3.3 percent in Washington versus a 7.2 percent national average.
- PacifiCorp's load grew in Washington significantly since 1988. They do not appear to have entered into any new QF agreements in Washington during that same period.

Our state has forgone the benefits of CHP generation over that same period of time. However, CHP capacity – that came on-stream mainly during the 1980s – reduced the state's natural gas demand by about one-third, due its inherent thermal efficiencies. In California, EIA data shows estimates of natural gas savings of about 527 MMcf/d (192 million MMBtu per year) compared to the demand for gas if the same amount of thermal and electric energy were produced separately. These gas savings alone are almost 10 percent of the state's overall gas demand and result in gas cost savings to all consumers in the state. Washington figures could be similar. Estimates of savings in GHG emissions and forgone transmission costs would magnify these savings.

More recently, two specific CHP project examples come to mind. British Petroleum/TransCanada obtained its site permit for up to 720 MW plant at the BP Cherry Point refinery. The process took over three years and several millions of dollars to obtain the permit. Will the project be built given current market conditions and QF contract challenges on this QF project? On the other end of the spectrum, Grays Harbor Paper re-employed 240 people in the Hoquiam/Grays Harbor area when the pulp & paper mill was shutdown by former owners in 1992. A local limited partnership was formed to purchase the plant and restart production. They have survived tenuously over the past 13 years and have employed approximately 240 people in relatively high paying jobs. They want to expand their hog fuel CHP capacity by 7.5 MWs at an extraordinary cheap cost of power. Will they be able to build this project?

We painfully recall the wildly fluctuating electric and natural gas markets of the past four years (California/Enron, drought, et al). Now for the past 18 months we have crude oil and natural gas price escalations; they have more than doubled and important security concerns have emerged since September 11, 2001. One consoling thought during the recent East Coast blackout was the circles of lights that could be seen from the Sears Tower emanating from CHP plants due east of Chicago. Remember, CHP plants are very

reliable, more secure than the stand alone 500 MW natural gas fired plant and can be dispatchable, especially during state emergencies.

Other states are actively investigating QF and IRP rules with the intent to develop CHP policies and rules to encourage new CHP development, existing plant expansion and power enhancement

At the recent CHP workshop in California, the California Energy Commission (CEC) chairman expressed his frustration about the "years of supportive rhetoric, on top of rhetoric, from utilities and policy makers". He continued "the words of support have not added any CHP in 15 years". He added that in the absence of any guidance or recommendations from utilities, the CEC was going to work with the California PUC to resort to "command and control" regulatory intervention, such as establishing a state portfolio standard for CHP with directives to utilities on how to contract with and treat CHP projects. He concluded that there was a need to focus on larger projects.

We recommend that the Commission open an expedited investigation to revise the avoid cost rules to encourage cost effective QFs to sell electricity on a competitive long-term contract basis to utilities.

We recommend – similar to Oregon, Idaho and California – that the Commission also investigate expeditiously ways to undo the economic and regulatory barriers to CHP, with a goal of identifying ways to derive greater reliance on CHP in the near future. Consider starting the investigation with a substantially greater emphasis on the need to foster CHP in upcoming IRPs, including recommendations of how to do it.

New Idaho PUC rules have contributed to a renewal of development in Idaho. Oregon PUC is also conducting ongoing investigations regarding avoided cost rules. The existing Oregon rules have also allowed utilities to refuse to enter into contracts with cost-effective QF power resources. Almost all comments received have focused on reducing barriers for cost effective QF development. In addition, the Oregon Department of Energy has recognized the benefits of CHP development in its draft action plan. This plan calls for CHP to be accorded "the same status as renewable energy in state legislation, rules and miscellaneous programs or projects that benefit renewable energy resources." The plan notes that Oregon already has more than 800 MW of installed CHP capacity, and that the state has the "very cost-effective potential" for an additional 1,000 MW of CHP facilities.

Look north to our Canadian neighbors for creative solutions. BC Hydro's Power Smart Program includes a relatively new provincial policy that no new load generation will be built by utilities. As a result of their incentive program, the utility and industrial customers have been driven to develop mutually beneficial projects, especially at pulp & paper mills. The program has been successful, especially with larger end users that see the benefits of CHP.

The Commission and staff should collaborate with Idaho and Oregon PUCs. They have ongoing investigations into why PURPA is not working, with the goal of reducing important barriers and establishing increased plant size limits and rate incentives that

allow larger CHP projects to compete.

PURPA implementation rules should be further amended to remove important road blocks

PURPA contracts offered by utilities to potential CHP generators need to be at least 20 years in duration, or for the useful life of the generating asset. Reasonable, long-term contract options are required by the financial community. Existing CHP plants should be offered renewal options consistent with this policy.

The current process gives utilities an opportunity to refuse to enter into QF contracts. It enhances their superior bargaining positions and gives them incentive to refuse to purchase from QFs, The Commission should remedy this problem, in part, by allowing all QFs below 100 MW's to enter into standard contracts at published avoided cost rates. The Commission's amended rules continue to provide electric utilities with this option to refuse to enter into contracts with cost effective QFs. For example, a QF that participates in the competitive bidding process may be rejected, even if it is the lowest bid. This contradicts Congressional intent – when it enacted PURPA in 1978. The Commission's rules, as currently proposed, are likely to continue to allow utilities to impose onerous barriers to the development of QFs and harm ratepayers.

Standard avoided cost schedules need to be provided on at least an annual basis for QFs up to 100 MWs (rather than the current 1 MW limitation) with up-to-date avoided costs.

Increase the standard size eligible QFs for avoided cost schedules. Replace the emphasis on small CHP with a more balanced approach for larger plants of up to 100 MWs, which tend to be more efficient.

Reduce and unify back-up power costs levied by utilities by creating streamlined and creative ways of meeting demand (i.e. power pooling agreements).

Recognize – in the avoided cost calculations – the triple benefits of CHP to ratepayers: 1/3 more fuel efficient, produces significantly less GHG and reduces transmission constraints and line losses. Consider creating new rate-based incentives favorable for CHP projects and lower gas pipeline tariffs for CHP generators. NW Natural has submitted initial rates to OPUC for Oregon customers.

Utility contracts under PURPA for existing plants are soon expiring. Our existing CHP facilities are in danger of shutdown way before the normal life of their operating equipment. Impacts will be felt in the form of increased natural gas demands for the same amount of power generated, increased GHG emissions and additional burden on our already stressed transmission system. We recommend that existing contracts be extended for the remaining operating life of generating equipment at reasonable avoided cost rates.

The IRP process should be amended to prioritize CHP development and enhancement

One "command and control" option to consider is to: 1) set target CHP levels in IRPs, 2) add rate incentives and recovery rules with adjustments, and 3) conduct market bidding until targets are reached.

Washington seeks a greater emphasis on renewables, CHP should play a significant role in the resource mix included in utility IRPs. Utility IRPs should place CHP in the category with Renewables and Distributed Generation. One specific recommendation is to include pulp & paper plant spent pulping liquor as a renewable fuel option in a priority IRP renewable CHP category to obtain the full value from this biomass byproduct of the pulping process.

The Commission should also practically encourage increased penetration of CHP at such places as hospitals, large retail sites and university campuses. New policies and simple regulations are needed to encourage this market as well.

Conclusion

The NWCHPA appreciates the opportunity to comment on the Commission's proposed rule changes. We look forward to participating in the upcoming Commission's workshop on these matters.

Sincerely Yours,

John J. Ryan
On behalf of the NW CHP Advisors
c/o Washington State University Energy Program
925 Plum Street, Building #4
Olympia, Washington 98504-3165
Phone: 360 956-2123
Fax: 360 236-2123
ryanj@energy.wsu.edu