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May 8, 2007

James O. Luce
Chair, Energy Facility Site Evaluation Council
925 Plum Street SE, Building 4
Olympia, WA 98504-3172

Dear Chair Luce:

Subject: **PACIFIC MOUNTAIN ENERGY CENTER
REQUESTED DELAY IN START OF ADJUDICATORY PROCESS**

Now that Senate Bill 6001 (SB6001) "Mitigating the impacts of climate change" has been signed into law, I need to again express our critical need for precise clarity on the rules under which this new legislation will be implemented.

SB6001 is a significant departure from the CO₂ mitigation bill (RCW 80.70) passed just two years ago. RCW 80.70, the basis for our Pacific Mountain Energy Center (PMEC) development plans, requires a 20% carbon dioxide emissions reduction over the life of a project. It also allows for those reductions through certified mitigation projects.

The option to mitigate CO₂ was one of the keys to our PMEC planning. It provided project certainty to back up our sequestration efforts as well as actual reductions in greenhouse gas (GHG) emissions beginning at commercial operation. Had mitigation been retained in the SB6001 we would be able to proceed with PMEC at a rate that would support the regional power needs in 2012.

We are continuing our work with the US Department of Energy on sequestration research and a potential pilot sequestration site. However, sequestration research could take several years given the complexity of interactions between CO₂ and geological formations. The public policy questions are no less complex.

Like RCW 80.70, the new law requires us to submit a PMEC GHG reduction plan to the Energy Facility Site Evaluation Council (EFSEC) during the permitting process. If permanent carbon sequestration is not technically or economically feasible within five years, the new law allows for the purchase of carbon emissions credits from other power plants in the WECC to directly offset PMEC emissions.

The legislation's impacts on our plans for the PMEC at the Port of Kalama are indeed significant and the issue of rules clarity is critical to be able to proceed with financing.

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Therefore, the present state of uncertain costs and associated risk prevents us from moving forward on our original pace. Consequently, we have elected to slow our development process over the next few months in the hope that clearly defined rules for the implementation of SB6001 for PMEC will occur before mid-summer.

Meanwhile, we feel it is our obligation to public power utilities and their ratepayers to continue seeking options for meeting what we believe are inevitable power shortages as early as 2012. Given the uncertainty surrounding SB6001 implementation for PMEC and the time required to build major generation projects, we must immediately begin looking at alternative options for regional power supplies.

Our efforts to delay the process are extremely costly in many respects. Our sincere hope is that we find a predictable, reliable path forward that allows us to keep the substantial economic benefit of a \$1.5 billion construction project in Washington; especially given the economic challenges facing Cowlitz County in recent years.

We understand that rule making on complex legislation is not an overnight process. Nevertheless, we are prepared to move ahead quickly with PMEC if, and when, the definition of SB6001 for PMEC becomes clear and manageable within our financial parameters.

We commend the State for developing a clear environmental performance standard. Revising permitting criteria during the lengthy EFSEC process is poor and will have an impact on future development. Eliminating a cost effective option which is trying to bring more certainty to carbon sequestration is poor environmental policy.

In summary, we request that the Council defer the start of the adjudicatory process. In addition, we look forward to working with the Council and other stakeholders to expedite the development of a clear path forward for PMEC. We will report our progress to the Council at the Council's regular June meeting.

If you have any questions, please contact Tom Krueger at 509.377.4761 or Ted Beatty at 509.372.5531.

Respectfully yours,



J.W. Baker, Vice President
Energy/Business Services