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5 BEFORE THE STATE OF WASHINGTON
6 ENERGY FACILITY SITE EVALUATION COUNCIL
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10 In the Matter of Application No. 99-1:

**DECLARATION OF
CHARLES MARTIN**

11
12 SUMAS ENERGY 2 GENERATION
13 FACILITY
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18 CHARLES MARTIN hereby declares under penalty of perjury as follows:
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20 1. My name is Charles Martin. I am treasurer of Sumas Energy 2, Inc. (SE2) and
21 vice president of National Energy Systems Company (NESCO). In those capacities, I am
22 involved in the development and permitting of electrical generation facilities, in the purchase
23 and marketing of natural gas, and the marketing of electric power from NESCO facilities. In
24 connection with those activities, I monitor information regarding the load-resource balance in
25 the Pacific Northwest and the price of electric power in the region.
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32 2. The Energy Facility Site Evaluation Council (EFSEC or the Council) held the
33 principal sessions of adjudicatory hearings regarding the proposed SE2 facility from July 24,
34 2000 through August 4, 2000. A significant portion of testimony and evidence presented
35 during those hearings concerned the need for additional electrical generating capacity in the
36 Pacific Northwest and the effect of inadequate capacity on power prices and power
37 availability in the region. The Council then resumed the hearings on September 28-29, 2000,
38 but only for the limited purpose of addressing the Canadian governments' positions regarding
39 the project, and new issues arising from the issuance of the draft PSD permit. Since the
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1 Council's hearings concluded, the electricity supply situation in the Northwest has worsened.

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3 Several events have occurred in particular:

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5 3. Electricity prices and price volatility have increased dramatically. For
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7 example, a year ago, in late-1999, prices for electricity purchased at Mid-C generally ranged
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9 from \$25 - \$35 per megawatt hour, but in December 2000, peak prices reached \$1400 -
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11 \$5000 per megawatt hour. See Exhibits A, B, C, D, and T. BC Hydro, the power utility
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13 owned by the Canadian province of British Columbia, made power export revenues of \$2.2
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15 billion (CAN) in the six months ending September 30, 2000 -- \$1.65 billion (CAN) over the
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17 prior year. See Exhibits S and T. In my opinion, the price increases are due in large part to
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19 that fact that there is insufficient generating capacity relative to demand for power. See
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21 Exhibits A, B, C, F, G. More generating capacity would exert downward pressure on prices
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23 and dampen price volatility.

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25 4. Numerous industrial facilities in Washington and throughout the Northwest
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27 have curtailed operations as a result of electricity shortages and price increases. For example,
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29 Georgia Pacific has shutdown its paper mill in Bellingham laying off 800 workers. See
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31 Exhibits H, I. Intalco has reduced production at its Ferndale facility, Kaiser Aluminum has
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33 shutdown its Spokane aluminum smelter laying off 400-545 workers, Goldendale Aluminum
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35 has drastically reduced production at its two facilities, and every other aluminum smelter in
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37 the region has significantly curtailed operations. See Exhibits F, I, J, O and P. As Governor
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39 Locke recently stated, "[w]ithout action to bring wholesale power costs down to just and
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41 reasonable levels, the prosperity we have worked so hard to achieve during the past decade
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43 could be undermined in a matter of weeks or months." See Exhibit A. Increasing generating
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45 capacity in the State is an important step toward providing reasonably priced power to
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47 Washington consumers.

1 5. Regional utilities also curtailed service to numerous commercial customers for
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3 three days in mid-December, and bought back power from industrial customers. See Exhibits
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5 E and N. Governor Locke warned of blackouts, and directed state agencies to curtail power
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7 consumption by 5-10%. See Exhibit E. Significantly, the Governor's office predicted that
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9 similar power "alerts" were "virtually guaranteed" to occur in January and February. See
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11 Exhibit E.

12 6. Peak electricity demands have also brought electrical generating facilities with
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14 greater air emissions back into service. In California, for example, regulators agreed to allow
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16 the operation of power plants that were off-line because they had reached their pollution
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18 limits. See Exhibit K. In a similar move, Governor Locke allowed a Spokane-area facility to
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20 operate in violation of its air emissions limit to help keep Bellingham Cold Storage operating
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22 in the face of peak electricity prices last August. See Exhibits L and R. The suspension of
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24 air quality limitations may become more common as the power situation grows more acute.
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26 See Exhibit M. Meanwhile, other industrial users are trying to fill short-term needs with
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28 inefficient diesel-powered generators. See Exhibit Q. If more state-of-the-art facilities like
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30 the proposed SE2 facility were built, peak demand could be met without using these greater-
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32 emitting facilities and without waiving existing environmental requirements.
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34 7. As a result of the energy crisis, several Western Washington and Whatcom
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36 County utilities and large industrial power users (including Bellingham Cold Storage,
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38 FiberCloud, a high-speed Internet data center, and others) have recently contacted SE2 to
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40 inquire about long-term agreements to purchase reasonably priced power produced at the SE2
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42 facility. Like other businesses, these companies are interested in trying to strike long-term
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44 power purchase agreements to avoid having to buy power on the increasingly volatile
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46 electricity spot market. In light of occurrences in the past few months, SE2 has decided to
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1 give priority to regional businesses that want to enter into long-term power purchase
2 agreements. SE2 is beginning discussions with these entities now, and is actively seeking
3 buyers.
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6 8. Much of our economy, especially in Whatcom County, is dependent on a
7 reliable, affordable supply of electricity. When the demand far outstrips the supply – as is
8 happening now – prices skyrocket. In these situations, businesses cannot afford the
9 electricity and have no alternative but to shut down, and employees get laid off. SE2 could
10 help resolve this situation. With long-term contracts with regional businesses, the SE2
11 facility could provide enough electricity to support hundreds of jobs. For example, the
12 Georgia Pacific plant in Bellingham that closed in December 2000 and laid off 800 workers
13 because of soaring electrical costs uses about 40 megawatts of power. We hope to make the
14 SE2 facility part of the long-term solution to Washington's power needs.
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17 9. Attached as Exhibits A, B, C, D, E, F, G, H, I, J, K, L, M, O, P, Q and T are
18 true and correct copies of newspaper articles obtained via the Internet. Attached as Exhibit N
19 is a true and correct copy of a press release obtained from the Bonneville Power
20 Administration Internet site. Attached as Exhibit R is a true and correct copy of a press
21 release issued by Governor Locke, available on the Internet. Attached as Exhibit S is a true
22 and correct photocopy of an article from the National Post, January 3, 2001, at pages C1 and
23 C6.
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25 DATED: January ___, 2001
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44 By _____
45 Charles Martin
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