

Grays Harbor Energy Center

Jim Luce, Chair
Energy Facility Site Evaluation Council
P.O. Box 43172
Olympia, Washington 98504

RECEIVED

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**ENERGY FACILITY SITE
EVALUATION COUNCIL**

Re: Satsop Combustion Turbine Project – CO2 Mitigation Plan

Dear Chairman Luce:

Grays Harbor Energy LLC owns and will soon begin operating the Satsop Combustion Turbine Project ("the Project"). The Site Certification Agreement for the Satsop site actually dates back to 1976, when a nuclear facility was proposed for the site. An SCA amendment in 1996 authorized construction of a gas-fired combustion turbine facility at the site, and several amendments since that time reflect subsequent changes in the Project design and ownership.

As you know, the Project was permitted before the Legislature adopted the CO2 mitigation requirements that are now found in RCW chapter 80.70. However, as part of one of the SCA Amendments, the Council required the Certificate Holder to develop a CO2 mitigation plan. Duke developed the "Satsop Combustion Turbine Project Greenhouse Gas Mitigation Plan," and the Council approved that Plan on June 9, 2003. A copy of the approved plan is enclosed.

This letter provides a summary of the approved Mitigation Plan, and then explains two proposals that Grays Harbor Energy will present for the Council's consideration at the Council's February 2008 meeting.

The Approved Mitigation Plan

The approved Mitigation Plan contemplates that the Certificate Holder will make annual payments to a qualifying organization to be used to implement CO2 mitigation projects. The first payment is due within 30 days after the Project begins commercial operation, and annual payments are to be made on the anniversary of that date in each of the following 29 years.

Calculating the annual payment due under the Plan requires several steps.

Step One: Calculate the Maximum Annual Potential Emissions from the Project.
This calculation is based upon the assumption that the Project operates at 100% capacity for 8,760 hours per year.

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We have calculated the Maximum Annual Potential Emissions for the Project to be 2,391,480 tons.

$$\frac{635,000 \text{ kW} \times 8,760 \text{ hours} \times 0.859843 \text{ lb/kWh}}{2000 \text{ lbs/ton}} = 2,391,480 \text{ million tons}$$

Step Two: Calculate the Amount of Emissions to be Mitigated.

The Plan requires the Project to mitigate only a portion of its CO2 emissions. To determine the Amount to be Mitigated, the amount of emissions that would be generated if CO2 were emitted at a rate of 0.675 lbs/kWh is subtracted from the Maximum Annual Potential Emissions calculated in Step One.

We have calculated the Amount of Emissions to be Mitigated each year to be 514,103 tons.

$$2,391,480 \text{ tons} - \frac{635,000 \text{ kW} \times 8,760 \text{ hours} \times 0.675 \text{ lb/kWh}}{2000 \text{ lbs/ton}} = 514,103 \text{ tons}$$

Step Three: Calculate the Mitigation Funding Due.

In Year One, the Project is required to provide funding at a rate of \$0.57 per ton of CO2 Emissions to be Mitigated. In future years, the \$0.57 mitigation rate increases according to the increase in the Producer Price Index.

For Year One, the Project is required to provide \$293,038.43 in Mitigation Funding.

$$514,103 \text{ tons} \times \$0.57 = \$293,038.43$$

Step Four: Calculate the Total Payment including Administrative Fee

Each year, in addition to the Mitigation Funding calculated in Step Three, the Project must pay an additional 7.5% to be used toward administrative costs.

For Year One, the Total Payment due would be \$315,016.31.

$$\$293,038.43 \times 1.075 = \$315,016.31$$

Council members will recognize that the approved Mitigation Plan is somewhat similar to the Oregon requirement that was in effect several years ago and it is also somewhat similar to the mitigation requirement that the Council included in the Sumas 2 SCA. However, the approved Mitigation Plan also included some important differences. Most notably, it allows the Project to make annual mitigation payments over 30 years, rather than requiring a single lump sum payment at the start of operation.

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Requested Approvals

With that background about the Project's CO2 mitigation obligation, Grays Harbor Energy LLC requests the Council to approve two matters concerning the implementation of and compliance with the Mitigation Plan.

(1) Administering Organization

At least 30 days prior to the commencement of Commercial Operations, the Mitigation Plan requires Grays Harbor Energy LLC to propose for EFSEC's approval an organization that will manage and administer the Mitigation Funds. We request that the Council approve The Climate Trust as that organization.

We know the Council is familiar with The Climate Trust and as you know, The Climate Trust has extensive experience in administering CO2 mitigation funds. We are enclosing some additional information about The Climate Trust.

We are prepared to start making payments to The Climate Trust in April, if the Council approves it as the administering organization. The Climate Trust has expressed an interest in administering these Mitigation Funds, as indicated by the enclosed letter. We are in the process of finalizing a Memorandum of Understanding that we expect to be able to execute soon after EFSEC approves the Climate Trust as the administering organization under the Mitigation Plan.

(2) Modify Funding Schedule

As explained above, the approved Mitigation Plan requires the Certificate Holder to make mitigation payments each year for 30 years. Grays Harbor Energy LLC is prepared to comply with this payment schedule. However, when we approached The Climate Trust, The Climate Trust asked us to consider pulling forward some of the payments on a discounted net present value basis. The Climate Trust explained that it is easier for it to place larger amounts of money, and those larger projects mitigate more CO2 per dollar spent than smaller projects.

The Climate Trust has proposed that Grays Harbor Energy LLC make a lump sum payment in Year 1 to cover the first 7 years of operation, and then make annual payments for the remaining 23 years thereafter. The initial lump sum would be calculated based on the assumption that the \$0.57 per ton rate mitigation funding would increase by 2.5% per year (our estimate of the average expected annual increase in the Producer Price Increase), and a net present value determination using a 10% discount rate.

Based on The Climate Trust's assumptions about mitigation costs over time, we have compared the CO2 mitigation expected to be achieved with this proposal to the CO2 mitigation expected to be achieved through the original payment schedule. During the first 7 years, the comparison is as follows:

FIRST 7 YEARS	CO2 Climate Change Expects to Offset	Mitigation Funds Paid (including admin. fee)
Approved Plan	130,343 tons	\$2,384,763
Modified Payment Plan	174,618 tons	\$1,642,505

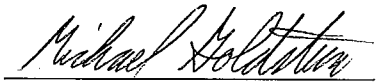
Attached is a spread sheet that provides further details on these calculations.

After the first seven years, the Mitigation Payments would be made annually, so there would be no difference between the two approaches.

We want to emphasize that Grays Harbor Energy LLC is willing to comply with the funding schedule as set forth in the Mitigation Plan, making payments each year. However, Grays Harbor Energy LLC is also willing to make a lump sum payment of \$1,642,505 to cover its obligation for the first seven years, and asks the Council to approve that alternative approach. A representative from the Climate Trust will join us at the Council's February meeting to further explain the advantages of the lump sum approach from their perspective.

We look forward to discussing these matters with you and other Council members at your February meeting.

Sincerely,



Invenergy Services LLC
Authorized Representative For
Grays Harbor Energy LLC