



STATE OF WASHINGTON
DEPARTMENT OF ECOLOGY

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August 8, 2011

Katherine Austin Price
603 South 9th Street
Shelton, WA 98584

RE: Separate Source Determination for Solomon Renewable Energy Company

Dear Ms. Price:

On April 7, 2011 I received your letter asking Ecology to reconsider our August 2010 determination that the proposed Solomon Renewable Energy Co. (SREC) facility is separate from Simpson Timber. I apologize that it has taken me longer than anticipated to respond to your request.

Ecology's August 2010 determination was based on analysis of the information submitted to us in August 2010 and EPA guidance on common control and ownership. In response to your request to revisit the determination, we requested and received additional information on the corporate relationships of SREC and the Simpson family of companies.

After a careful review of Secretary of State records and the additional information provided by SREC, Ecology continues to believe that the contractual relationship between SREC, Simpson and Olympic Panel products meets the EPA criteria to demonstrate that SREC and Simpson do not have a common control and ownership relationship. We acknowledge, however, that the relationships are complicated by the fact that Simpson Timber is part of a family owned private company and shares silent stockholders with SREC. Olympic Panel Products is owned by a group of investors operating under the name of Atlas Holdings LLC based in Connecticut.

At this time it is our understanding that SREC has stopped pursuing any environmental and other permits required to construct and operate its proposed cogeneration power plant.

The attachment to this letter includes more detailed information on what we learned about the relationships between the companies and some of the people involved.

Sincerely,


Jeff Johnston
Science & Engineering Section Manager
Air Quality Program

cc: Mark Goodin, ORCAA

**COPY FOR YOUR
INFORMATION**



**Simpson Companies and Solomon Renewable Energy Co.
Single or Separate Source Re-analysis**

The analysis was originally done in 2010 based on contractual materials and layout/design drawings produced for acquiring other permits. The material was provided by the Company. The analysis followed Environmental Protection Agency (EPA) guidance to base the determination. A citizen of Shelton has questioned the analysis due to the apparent ties between Solomon Renewable Resources Co. and Simpson Timber.

Brief History of Simpson:

S. G. Simpson Co. originally incorporated as a sole proprietorship in 1890 by Solomon Simpson. The company originally supplied construction equipment but by 1895 had become a contract logging company called Simpson Logging Company, working for the Port Blakely Mill Company. In 1897 Mark E. Reed joined the company as a foreman and eventually married one of Solomon Simpson's daughters.

After Mr. Simpson's death in 1906, Mr. Reed took on management of the company's operations and in 1914 became the president of the company. Through family tragedy, by the late 1940's the majority ownership was held by the William Reed Sr. (Mark Reed's surviving son) on behalf of his family, with a minority interest held by other Simpson heirs.

Through a concerted effort by Mr. Reed's son William G. Sr., the minority ownership was slowly acquired until in the 1980's the Simpson family of companies became wholly owned by the Reed family. At this time the major Simpson companies were Simpson Investment Co, Simpson Timber, Simpson Paper Products, Simpson Extruded Plastics, and a number of smaller enterprises.

Records at the Secretary of State's office indicate that family members have formed and dissolved a number of companies over the last decade (the extent of the on-line records). The only thing these companies have in common is their listing of various Reed heirs and others such as Simpson company upper management as members of their governing board.

Currently the Secretary of State includes 5 or 6 companies that list board members or company officers with names in common with the Simpson Investment, Simpson Timber, Simpson Tacoma Kraft, or Simpson Paper corporate listings. Some of these other companies are live and others are defunct.

The Simpson family of companies is best characterized as a privately held corporation. All outstanding shares are held by the family.

Single /Separate Source analysis revisited

The common control analysis was performed using EPA guidance developed for the federal New Source Review programs. This guidance was used because Ecology does not have any guidance on how to make such an analysis. The federal guidance is common sense and has survived court challenges at the federal level.

The Solomon Renewable Energy Co. (SREC) was represented as a new company developed by Mr. Douglas Reed Jr. for the sole purpose of entering the renewable energy market. Simpson Timber had previously contemplated entering the renewable energy the market by constructing a new wood fired power boiler at the Simpson Shelton mill site (see Business Examiner article from May 17 2010). The new wood fired boiler contemplated by Simpson would operate as a topping cycle cogeneration facility where steam produced by the boiler would first be used to produce electricity and the steam/hot water mix remaining after the steam turbine would be supplied to Simpson Timber's Shelton mill and to Olympic Panel Products for industrial uses drying lumber and plywood manufacture. The contemplated Simpson boiler/power plant would replace the old existing unit and provide both industrial steam to Olympic Panel Products and Simpson's Shelton lumber mill and produce electricity for sale. The existing, Simpson operated boiler already provides steam to these two operations.

Subsequent to the spring 2010 discussions contemplating Simpson building a new boiler/power plant to be owned and operated by Simpson, Mr. Reed decided to form a company for the sole purpose of constructing and operating wood fired power plants. The first plant would be sited in Shelton.

Contract documents were provided to Ecology by SREC to demonstrate that SREC does not have a common control or ownership relationship with Simpson Timber. The documents specify the transfer of land rights, the provision of separate management, and separate contracting. The contracts do identify a number of common corporate activities that are often subcontracted to other entities such as payroll and project development permitting services. No management, operating, or maintenance staff are to be shared between the facilities, each operation is separately responsible for environmental, and health and safety requirement compliance. From the contract documents it is clear that, according to EPA guidance, a common control or ownership relationship does not exist.

With the exception of payroll services and Mr. McIntee's services, the contractual relationships between the three companies relate to steam production purchase and fuel supply contracts. SREC contracts with Simpson to have the option to operate the existing Simpson boiler at times of high electrical demand, when SREC would be requested to supply its maximum electrical output capacity. Based on the boiler design specifications supplied to us, the fuel supply available from Simpson and Olympic would not be adequate to supply all the fuel required by the SREC facility and external fuel contracts would be required. Without external fuel purchase, it would be impossible to operate both the existing Simpson boiler and the SREC facility for any extended period of time.

The contracts also make it clear that money is exchanged between SREC and Simpson and Olympic Panel Products for fuel purchase and steam. Under the steam supply contracts with Olympic Panel Products and Simpson, SREC would be contracted to Olympic Panel Products to supply steam at a set price. The contracts provide that SREC has to supply steam or pay for lost production. As a backstop for the steam production, SREC contracted with Simpson to operate the existing Simpson boiler to provide that steam. However, SREC has to supply the staff and fuel to operate the boiler, not Simpson.

SREC also has to pay Olympic Panel Products and Simpson for the fuel purchased from them just as SREC would have to pay another fuel supplier.

An analysis of a support facility relationship, again using EPA guidance, was performed last year and that analysis showed that the three companies do not have a support facility relationship between them. Nothing except the benefit of supplying waste steam from the making of electricity to Olympic Panel Products and Simpson dictate the location of the SREC plant. The cogeneration aspect of this electric generating plant improves the overall thermal efficiency from the use of biomass.

The apparent family ownership of SREC by Reed family members, who individually are also part owners of Simpson Investment or one of the other Simpson companies, is another aspect that gives an appearance of common control and ownership. The papers of incorporation indicate 9 investors, with only one active participant, none of which are named in the documents provided last year. The active participant is the initial Operational Manager. The incorporation papers put all operational authority into the Operational Manager. At incorporation, the Operational Manager was Douglas Reed, then by the end of 2010, Barry Cosme, and now the post is empty. The Operating Manager has sole power to manage the plant, including construction, operation, production, emission control, and other environmental compliance requirements.

While the documents provided in 2010 identified Mr. Douglas Reed as the Operating Manager of SREC, he is not listed in Secretary of State documents collected in April 2011 as a board member or operating officer of any Simpson company except Ginseng II, LLC. He has been characterized in a May 17, 2010 Business Examiner article as a vice president and general manager of Simpson Timber. SREC was registered as a Washington State corporation with the Secretary of State July 13, 2010.

In further investigating common employment or other common control by Mr. Douglas Reed over Solomon and Simpson, Mr. Dave McIntee of Simpson contacted me and stated that at no time was Mr. Reed an employee of both Simpson and Solomon. Mr. Reed resigned his position with Simpson to work exclusively for Solomon on business development power sales and raw material acquisition. As business opportunity in the renewable energy from biomass combustion opportunities dried up last fall he quit Solomon and was replaced by Barry Cosme, a former employee of Kamilche Company, another apparent Reed Family enterprise. Subsequently, Mr. Cosme left SREC. At this time (June 2011), SREC has no employees as the ownership contemplates its future.

Olympic Panel Products

The citizen inquiry also implies that Olympic Panel Products is a Simpson company. This however is untrue. Olympic Panel Products is a wholly owned subsidiary of Wood Resources LLC, a portfolio company of Atlas Holdings LLC, a Connecticut based private investment group, focused on specialty manufacturing businesses. See their internet Web site http://olypanel.com/company/about_us.php.

Previously Olympic Panel Products was a plywood manufacturing facility that was part of the Simpson Shelton mill. Simpson sold the plywood plant to Wood Resources/ Olympic Panel Products a number of years ago.

Conclusion

Based on my re-review of the information, the pertinent federal guidance used in the analysis, additional information on corporate relationships acquired since March 2011, I am still of the opinion that SREC does not have a legal common control and ownership relationship with Simpson Timber, Simpson Paper, or Simpson Investment. That lack of a legal control or ownership relationship does not preclude that there may be a profit motive relationship by the Simpson family and others that are part owners of SREC. However with the familial relationships that appear to be involved, the relationship of SREC and Simpson clearly has the appearance of common control and ownership.

If SREC were a wholly owned subsidiary of Duke Energy, Weyerhaeuser, or even the Port Blakely Mill Company, such a non-Reed family ownership would simply make the determination clearer.

Alan Newman, P.E.

June 2011