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CALIFORNIA ENERGY COMMISSION

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DATE: March 23, 2016

TO: Interested Parties

FROM: Mary Dyas, Compliance Project Manager

**SUBJECT: Sonoran Energy Project (02-AFC-1C)
Staff Analysis of AltaGas Sonoran Energy Inc. Petition to Extend**

On February 4, 2016, AltaGas Sonoran Energy Inc (AltaGas) filed a petition to extend the commencement of construction deadline for 18 months, from December 14, 2016 to June 14, 2018 for the Sonoran Energy Project (formerly named Blythe Energy Project Phase II (BEP II)) (TN210152). Staff prepared an analysis of this Petition to Extend (Staff Analysis) that can be reviewed on the California Energy Commission (Energy Commission) website for this facility (see link below).

The Sonoran Energy Project (SEP) is a proposed combined-cycle, natural gas-fired, 563-megawatt facility, that was certified by the Energy Commission on December 14, 2005. The facility will be located within the city of Blythe, Riverside County, approximately five miles west of the city center, and approximately one mile east of the Blythe Airport.

Energy Commission staff (staff) reviewed the petition and assessed the impacts of this proposal. It is staff's opinion that extending the license deadline to allow for a final decision on the 2015 Sonoran Energy Project Petition to Amend, and provide time for the project owner to secure an engineering, procurement and construction contract and effectively comply with pre-construction conditions of certification, will take substantially less time, effort, and resources than that required to process a new Application for Certification. Staff intends to recommend approval of the Petition to Extend at the May 11, 2016 Business Meeting of the Energy Commission.

The Energy Commission's webpage for this facility, <http://www.energy.ca.gov/sitingcases/sonoran/>, has a link to the petition and the Staff Analysis on the right side of the webpage in the box labeled "Compliance Proceeding." Click on the "Documents for this Proceeding (Docket Log)" option. After the Final Decision, the Energy Commission's Order regarding this petition will also be available from the same webpage.

This notice is being mailed to the Energy Commission's list of interested parties and property owners adjacent to the facility site. It is also being e-mailed to the facility listserv. The listserv is an automated Energy Commission e-mail system by which information about this facility is e-mailed to parties who have subscribed. To subscribe, go to the Energy Commission's webpage for this facility, cited above, scroll down the

right side of the project webpage to the box labeled "Subscribe," and provide the requested contact information.

Any person may comment on the Staff Analysis. Those who wish to comment on the analysis are asked to submit their comments within 14 days of the date of this notice. To use the Energy Commission's electronic commenting feature, go to the Energy Commission's webpage for this facility, cited above, click on the "Submit e-Comment" link, and follow the instructions in the on-line form. Be sure to include the facility name in your comments. Once submitted, you will receive an e-mail with a link to them after the Energy Commission Dockets Unit reviews to ensure the comments meet the requirements for submittal.

Written comments may also be mailed or hand-delivered to:

California Energy Commission
Dockets Unit, MS-4
Docket No. 02-AFC-1C
1516 Ninth Street
Sacramento, CA 95814-5512

All comments and materials filed with the Dockets Unit will be added to the facility Docket Log and become publically accessible on the Energy Commission's webpage for the facility.

If you have questions about this notice, please contact Mary Dyas, Compliance Project Manager, at (916) 651-8891 or by fax to (916) 654-3882, or via e-mail to mary.dyas@energy.ca.gov.

For information on participating in the Energy Commission's review of the petition, please call Alana Mathews, Public Adviser, at (800) 822-6228 (toll-free in California) or send your e-mail to publicadviser@energy.ca.gov. News media inquiries should be directed to the Energy Commission Media Office at (916) 654-4989, or by e-mail to mediaoffice@energy.ca.gov.

Mail List: 7088

Listserv: Sonoran Energy Project

SONORAN ENERGY PROJECT (02-AFC-1C)
Petition to Extend the Deadline to Commence Construction
STAFF ANALYSIS
Mary Dyas

INTRODUCTION

On February 4, 2016, AltaGas Sonoran Energy Inc (AltaGas) filed a petition to extend the commencement of construction deadline for 18 months, from December 14, 2016 to June 14, 2018 for the Sonoran Energy Project (formerly named Blythe Energy Project Phase II (BEP II)) (TN210152). AltaGas seeks an extension of the commencement of construction deadline to ensure adequate time for staff's review of the August 7, 2015 Petition to Amend (PTA) and the California Energy Commission's (Energy Commission) consideration of the modifications proposed therein (TN205652). Altagas also seeks to ensure enough time to secure an engineering, procurement and construction contract, and subsequently comply with pre-construction conditions of certification.

BACKGROUND

On December 14, 2005, the Energy Commission granted a license to Caithness Blythe II, LLC (Caithness), to construct the nominal 520 megawatt (MW) combined-cycle BEP II. On October 23, 2009, a petition to modify the approved BEP II was submitted by Caithness, proposing several revisions to the license to modify the BEP II to be a nominal 569 MW combined-cycle facility.

On December 1, 2010, the Energy Commission approved a petition to extend the commencement of construction deadline for one year, from December 14, 2010 to December 14, 2011 (Order 10-1201-21). The extension was granted to allow Caithness time to provide additional information so that staff could complete the analysis required for the October 2009 PTA without having the construction deadline lapse.

On October 12, 2011, the project owner filed a second petition to extend the deadline to commence construction for BEP II by five years, from December 14, 2011 to December 14, 2016. This matter was heard at the December 14, 2011 Business Meeting. At that time, the Energy Commission granted a limited extension (Order 11-1214-7), from December 14, 2011 to May 14, 2012, to allow staff to complete the analysis on the original 2009 PTA so both the 2009 PTA and the five-year extension request could be heard at the same Business Meeting. Based on the information provided by Caithness and on the analysis conducted by staff of the proposed changes to the project, staff supported the Petition to Extend the Deadline to Commence Construction.

On April 25, 2012, the 2009 PTA was approved (Order 12-0425-3a) by the Energy Commission. Concurrently, the five-year extension of the deadline to commence construction of the BEP II was approved (Order 12-0425-3b), from December 14, 2011 to December 14, 2016.

On June 18, 2014, ownership of the project changed (Order 14-0618-1(f)), from Caithness Blythe II, LLC to AltaGas Sonoran Energy Inc.

On August 7, 2015, AltaGas Sonoran Energy, Inc (AltaGas) filed a PTA proposing to update the project's technology and design in an effort to construct a least cost, best fit project while taking into account the current energy market and environmental conditions. The PTA is also requesting to change the name of the project from Blythe Energy Project Phase II to the Sonoran Energy Project (SEP).

The SEP is a proposed 553-MW project that would be located within the city of Blythe, approximately five miles west of the city center, and approximately one mile east of the Blythe Airport. The SEP would be built on a slightly smaller footprint within the same site as the licensed BEP II.

ANALYSIS

The deadline for start of construction of projects licensed by the Energy Commission is specified in Title 20, California Code of Regulations, section 1720.3 provides as follows:

Unless a shorter deadline is established pursuant to Section 25534, the deadline for commencement of construction shall be five years after the effective date of the decision. Prior to the deadline, the applicant may request, and the commission may order, an extension of the deadline for good cause.

While good cause is not defined within the Public Resources Code or in the Energy Commission's regulations, and is flexible subject to the individual facts of a given circumstance, the Energy Commission has identified three factors considered important in determining if good cause exists:¹

- Whether the project owner was diligent in seeking to begin construction, and in seeking the extension;
- Whether factors beyond the project owner's control prevented success; and
- A comparison of (a) the amount of time and resources that would have to be spent by the project owner, the Energy Commission, and interested persons in processing any amendments to the license if the extension is granted; with (b) the amount of time and resources that would have to be spent in processing a new AFC, if the extension is denied.

Staff reviewed the petition filed by AltaGas on February 4, 2016 requesting an 18-month extension of the construction deadline, and provides the following comments on whether these factors have been met.

¹ Order Approving Petition for Extension of Construction Deadline, Order No. 12-0425-3b. Blythe Energy Project Phase II, April 24, 2012.

Has the project owner been diligent in seeking to begin construction and in seeking the extension?

Since acquiring this project in 2014, the current owner, AltaGas Sonoran has been working with its consultants and engineers to redesign the project to better meet market and other needs. AltaGas Sonoran met with staff on November 14, 2014 to discuss modifying the project to support the integration of renewable resources with an efficient combined cycle project that would also provide fast-start capabilities. On August 7, 2015, AltaGas Sonoran filed a Petition to Amend the project, which is currently being reviewed by staff. Additionally, no questions have been raised concerning AltaGas Sonoran's interest in constructing the project once it has been approved.

Staff believes that the current project owner, AltaGas Sonoran, has worked diligently developing the project as proposed in the 2015 PTA, since acquiring the project. The requested extension of 18 months is not excessive and appears to be a reasonable amount of time to allow for Energy Commission consideration of the PTA and time to secure an engineering, procurement and construction contract and allow completion of all pre-construction conditions of certification.

Because a new project owner must to some extent stand in the shoes of previous owners (lest project sales become a guaranteed way to force the extension of construction deadlines), AltaGas Sonoran must also show that its predecessor has been equally diligent. Staff believes that it has. Caithness Blythe II, LLC, the original owner of the project, was also earnest in its attempts to construct the project, pursuing two deadline extensions and an amendment to attempt to address interconnection issues and various other problems that inhibited project construction.

Whether factors beyond the project owner's control have prevented success.

AltaGas Sonoran purchased this project in April 2014, three years into the project's current five year construction deadline. As discussed above, they have worked diligently to modify the project to meet current market and environmental conditions and filed the PTA with some time remaining for Energy Commission consideration. The failure of a key substation to be built, as expected in the approved 2009 PTA, was an important piece of the project outside of their control. This item, along with others, necessitated the filing of an amendment, adding to a significant delay in being able to proceed with construction.

A comparison of the amount of time and resources that would have to be spent in processing any amendments to the license if the extension is granted with the amount of time and resources that would be spent in processing a new AFC if the extension were denied.

Staff is actively reviewing the PTA and recently published the Preliminary Staff Assessment on February 1, 2016. Staff is working to complete its review in June 2016,

after which a few more months would be required for a final Energy Commission determination. Significant staff time and resources have already been expended on the amendment. The amendment involves a slightly smaller footprint on the same previously approved project site, a modification of the general arrangement, a new point of interconnection for the transmission line, and modifications to the combustion turbines, steam turbine generator, auxiliary boiler, cooling towers, and emergency diesel fire pump engine. While some of these changes involve switching to new pieces of equipment, and a new transmission line is being proposed, these changes are similar enough to the project as licensed to nicely fit within the amendment process. However, as discussed in the Preliminary Staff Assessment for the current PTA, staff is now recommending the use of dry cooling for this project. Staff time and effort is being saved by being able to rely on portions of the previous decision where the underlying environmental conditions have not changed and the project modifications do not result in changes in certain technical sub-areas.

If the extension is disallowed and AltaGas Sonoran were required to file a new Application for Certification, staff expects the process to take approximately one year from being declared data adequate. The project would be required to undergo a data adequacy determination that would not otherwise be necessary and staff would be required to repeat analyses conducted for the original project that would not otherwise require repeating under but for the fact that staff would not be able to rely on previously conducted, and still valid analyses.

Overall, extending the license deadline to allow for a final decision on the Petition to Amend, and provide time for the project owner to secure an engineering, procurement and construction contract and effectively comply with pre-construction conditions of certification will take substantially less time, effort, and resources than that required to process a new Application for Certification.

CONCLUSION

Staff concludes that good cause exists to extend the start-of-construction deadline for the Sonoran Energy Project an additional 18 months, from December 14, 2016 to June 14, 2018. In staff's view, the three factors previously articulated by the Energy Commission as important to determining whether good cause exists have been met.