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CALIFORNIA ENERGY COMMISSION

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September 10, 2014

The Honorable Rudy Salas, Jr.
California State Assembly, District 32
State Capitol, Room 4162
Sacramento, CA 95814

RE: LETTER TO CHAIR WEISENMILLER REGARDING HYDROGEN ENERGY CALIFORNIA (HECA)

Dear Assemblymember Salas:

Thank you for your letter regarding the California Energy Commission's review of HECA. The Energy Commission appreciates your interest in obtaining information that you and your constituents need to make an informed decision about the proposed project. As one of the principal decision makers on the project, Chair Weisenmiller is unable to engage in communication about the project outside the licensing review process; therefore, he asked me to respond to you on his behalf. He also asked me to docket your letter in the HECA proceeding.

Your letter raises a number of concerns expressed by your constituents, each of which we will address here to the extent possible. As you indicate in your letter, Energy Commission staff's Preliminary Staff Assessment (PSA) was published over a year ago. The PSA is staff's preliminary environmental review of the project, and includes analyses in 22 technical areas related to environmental impacts, health and safety, engineering and project design, and alternatives. In that document, staff identified a number of potential concerns with the project as proposed and requested additional information from the project applicant and from Occidental of Elk Hills, the prospective purchaser of the project's CO₂ emissions. Staff is still waiting for a significant amount of this information. Once we receive the outstanding information, staff will complete the analysis and provide our conclusions to the public and the decision makers in the form of the Final Staff Assessment (FSA).

Your first question involves the \$8,747,160 required through two signed agreements between the project owner and the San Joaquin Valley Air Pollution Control District (District). The funds would be provided by the project owner to the District for emission reduction projects separate from and in addition to the project mitigation measures that the Energy Commission and District would require. Staff understands that funding the installation and ongoing operational costs of one or more ambient air monitors in the Tupman area is not currently being considered as part of side agreements, which have

been designed to provide funding for projects that would reduce air pollutant emissions. While the Energy Commission has no authority over these two agreements or the use of these funds, staff will ask the District to allow the Energy Commission to participate in the emission reduction project selection process. Staff would recommend projects that are as close to the HECA location as feasible, or that would provide the local community more information, such as an ambient air monitor tied to the District, about potential changes to local air quality if HECA is built and operated.

Your second question expresses concern over the project's proposal to use wet cooling given the drought conditions California is currently facing and inquires as to whether staff had made a determination regarding the possibility of dry cooling the project instead. Staff has expressed similar concerns about the project's proposed water use and is currently investigating the feasibility of dry cooling the project. This analysis, however, is not yet completed and no conclusions have been reached. Once the analysis is completed, staff will provide our conclusions and recommendations in the FSA.

Your third question involves concern over the potential risks associated with this project and possible disclosure of confidential information received by staff concerning these risks. Given the feedstocks and the proposed poly-generation of products (e.g., CO₂, fertilizer, and electricity), HECA's processes and risks appear to be different than other generation projects evaluated by the Energy Commission. While staff cannot release information designated confidential by other agencies, in the FSA staff will identify and analyze all potential risks associated with the proposed project, will discuss the findings made by other agencies, and will recommend appropriate mitigation measures to address those risks. Staff will also conduct at least one public workshop on the issue and include appropriate agencies such as Kern County to ensure that members of the public have a clear understanding of staff's analysis and conclusions.

Your fourth question involves the Kern County Farm Bureau's request to require the applicant to provide a bond to protect nearby farmland and offset any potential damage to farms, crops, or land. Staff is in the process of analyzing what potential effect, if any, the proposed project may have on the crops in the vicinity of the project. If staff concludes that such impacts are possible, and rise to the level of significant and adverse, staff will certainly consider whether a bonding requirement would help mitigate for such impacts and, if so, what the specific requirements of such a bond should be.

Your fifth question involves the project's potential use of the Savage Coal facility in the City of Wasco and to what extent environmental justice issues surrounding such use have been considered. Staff is in the process of conducting a full evaluation of the proposed project's use of the Savage Coal facility, including any and all potential environmental and environmental justice impacts resulting there from, including impacts from feedstock deliveries and product shipping. This analysis will be provided in the FSA.

Your last question involves concern over how HECA plans to deal with by-product waste and the potential for excess fertilizer production. If demand for fertilizer is less than anticipated, the project owner has the option of switching to electricity production or not running the plant at all.

The main waste stream of the proposed project will be gasification solids (wastes from the gasification of coal, would have petroleum coke and limestone fluxant feedstocks). The applicant plans to market these gasification solids for beneficial uses and has provided a study showing that there are several possible markets for this material, depending on its exact chemical nature. If the project owner cannot ultimately find a viable market for the gasification solids, it proposes to dispose of the solids out of state. The PSA addresses the potential impacts on regional waste disposal resources of the gasified solids, and notes that out of state disposal may still count against local recycling and diversion goals. Staff continues to evaluate this issue and will provide conclusions in the FSA on whether the project's waste stream presents a potential significant, adverse impact.

I hope the responses above provide the information you seek. For more detailed information about the project and Energy Commission staff's preliminary analysis, please see the amended application for certification for HECA, which was docketed at the Energy Commission on May 2, 2012, (TN # 65046), and can be accessed at the California Energy Commission Website along with the Preliminary Staff Assessment (PSA) (TN# 71444, dated 06/28/2013). A complete list of items docketed in this proceeding is available at:

<https://efiling.energy.ca.gov/Lists/DocketLog.aspx?docketnumber=08-AFC-08A>.

As discussed above, staff is waiting for additional information from the applicant before we can finalize our analysis of the proposed project. Once we receive this information, staff's analysis, conclusions, and responses to public comments will be published in the FSA. The Committee assigned to oversee the HECA proceeding and staff have held numerous public hearings and workshops, and anticipate several more before the Energy Commission reaches any conclusions on the project. The Energy Commission looks forward to continued input from your office and your constituents, all of which will be included in the administrative record of the proceeding. Should you have additional questions, please feel free to contact me at (916) 654-5100 or at Roger.Johnson@energy.ca.gov.

Respectfully,



ROGER E. JOHNSON
Deputy Director