

Memorandum

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To : Robert A. Laurie, Presiding Member
Robert Pernell, Associate Member

From : California Energy Commission - Eileen Allen
1516 Ninth Street Siting Project Manager
Sacramento, CA 95814-5512

Subject : OTAY MESA GENERATING PROJECT STATUS REPORT 3
-- February 17, 2000

Energy Commission staff would like to inform the Committee that we have concerns about the project schedule due to several factors discussed below. Maintaining the current schedule would result in filing an incomplete Preliminary Staff Assessment (PSA), which we recommend against. We also recommend that the Committee adopt a performance-based schedule with the key to moving forward tied to staff's receipt of the San Diego Air Pollution Control District's (District) Preliminary Determination of Compliance (PDOC).

Data Responses – Staff held a data response and issue workshop on January 27, 2000. The applicant clarified its air quality and soil/water responses. The applicant also stated at this workshop that it has accepted the San Diego County staff suggestion that the project's wastewater line be rerouted to Lone Star Road.

Schedule – The current Committee schedule directs that the PSA be completed and filed by March 21, 2000. Staff is concerned that it lacks the information needed for complete analyses by March 21 in three major areas, air quality, biological resources, and transmission system engineering. A number of other areas related to infrastructure development (described below) also have incomplete information. Furthermore, the project description will need to be revised based on the applicant's acceptance of the County's proposed Lone Star Road wastewater line route, and the applicant's reconfiguration of equipment at the project site. Transmission system reinforcements, which are discussed under the Transmission System Engineering heading below, may also need to be added to the project description. Revision of the project description will require an Application For Certification (AFC) Supplement.

Energy Commission staff is currently working on 12 power plant applications for certification. With this workload, staff does not recommend filing an incomplete PSA. Staff anticipates that it would be able to file a PSA within 60 days of the PDOC's release. Our information needs are discussed below.

Air Quality

Mobile Emission Reduction Credits (MERCs) - On February 4, 2000, staff talked with the Deputy County Counsel for the San Diego Air Pollution Control District regarding their decision to undertake a California Environmental Quality Act (CEQA) review and analysis for the MERC program that the District is formulating. This proposed program would fit into the District's existing Rule 27 which addresses alternative strategies. Use

of mobile offset sources is an example of such an alternative strategy. In turn, the Otay Mesa project's proposed MERC package would be covered under the District's proposed program.

The CEQA review of the District's program would require approval from the District's Air Pollution Control Officer, with concurrence from the U.S. Environmental Protection Agency (USEPA) and the California Air Resources Board (CARB). Local interested parties such as environmental and/or energy advocacy groups would also be able to participate in the CEQA program review process.

The County Counsel's CEQA review of the proposed MERC program has just begun. This review will be followed by air oversight agency and public review of the CEQA conclusions. Therefore, the District staff believes that it will not be able to issue a PDOC in late February or early March as currently planned. The District's new PDOC filing date is not known yet. Staff will not be able to provide a complete air quality analysis until it has been able to thoroughly review the District's PDOC.

USEPA hopes to give the District a MERC program concurrence and guidance letter by February 25, 2000, while as far as staff can determine, CARB hopes to respond with a similar letter during late February, 2000. On February 4, 2000, the applicant filed a copy of a signed contract with one of the potential mobile offset sources. Staff will be able to complete the offset portion of its analysis after it has been able to review the applicant's complete offset package, the District's MERC program and rule additions, and the guidance letters from USEPA and CARB.

AFC Supplemental Material for Air Quality – The applicant is revising the air dispersion modeling for the project due to: 1) changes in the site configuration; 2) a 30 percent increase in the height of the stacks; and 3) the relocation of the stacks adjacent to one another. The revised modeling will be submitted in the AFC Supplement. Staff will need to review the modeling as part of its analysis.

Given the delays that we expect for receipt of the District's PDOC, the current incompleteness of the applicant's offset package, and the new air quality information in the expected AFC Supplement, staff cannot provide a complete air quality analysis by March 21.

Biological Resources

The applicant's biological resources consultant has told staff that the U.S. Army Corps of Engineers will not initiate consultation with the U.S. Fish and Wildlife Service (USFWS) to provide a federal nexus for addressing the project's potential impacts on federally listed biological resources and corresponding mitigation options. Staff has talked with the applicant about the possibility of requesting USEPA involvement instead of the Corps, since it provided a federal nexus with the USFWS regarding biological issues on

the Metcalf project (99-AFC-3). On February 16, 2000, USEPA staff told the Commission staff that it would initiate biological consultation with the USFWS.

Note that the California Department of Fish and Game (CDFG) appears to be following the lead of the USFWS in this area, making the USFWS the key agency. Since federally listed species are found in the project area, the USFWS needs to review and approve the proposed impact mitigation. However, the USFWS cannot get involved until its participation has been requested by another federal agency, thus the federal nexus. Since no federal nexus has been established to date, staff may not be able to address the federal/state permitting requirements for protection of sensitive species and impact mitigation in the project area by March 21.

Given the lack of progress in the state/federal permitting area, and the undetermined biological resources impacts of the Lone Star Road wastewater line route, staff will not be able to provide a complete biological resources analysis by March 21. We have noticed a public workshop, scheduled for February 25, 2000 in Chula Vista, to discuss the biological resources permitting process.

Transmission System Engineering

Table 2, Appendix N of the Otay Mesa Generating Project AFC lists a number of transmission system reinforcements that San Diego Gas & Electric's (SDG&E) staff believes will be required in order for the Otay Mesa plant to be operational in May 2002. The Energy Commission staff has received a copy of a February 8, 2000 letter from the California Independent System Operator (Cal-ISO) to San Diego Gas & Electric (SDG&E) which acknowledges a number of SDG&E's recommendations. The Cal-ISO staff clarified its position in a February 16, 2000 conversation with Eileen Allen, such that these reinforcement options were reasonable items to study. The Commission staff does not know whether any of these reinforcements will be added to the Otay Mesa project description. The Cal-ISO staff plans to participate in the Committee's publically noticed March 2, 2000 Status Conference, when it can discuss its perspective on the reinforcement options.

SDGE's recommended reinforcements to SDG&E's transmission system, as noted in the Cal-ISO's February 8, 2000 letter, are:

- Construct Otay Mesa 230 kV Substation;
- Loop the existing Miguel-Tijuana 230 kV line into the Otay Mesa plant. Reconductor and reconfigure this line between the Miguel Substation and the Otay Mesa plant.
- Install a new 138 kV Miguel 392 MVA 230/138 kV transformer bank.

- Build a new 138 kV line and reconductor the existing 138 kV line between the Miguel and Proctor Valley Substations.
- Loop in the existing Los Coches-South Bay 138 kV line to Proctor Valley Substation and bundle with 2-636 ACSS conductor.
- Reconductor the existing 69 kV line between Jamacha and Spring Valley Substations.
- Reconductor or bundle the existing 69 kV line between El Cajon and Los Coches Substations.

Assuming that the recommended reinforcements will be added to the project description, there may be related biological, cultural and paleontological resource issues. New surveys for sensitive resources may need to be conducted in the area of each reinforcement. This is partially a timing question, since surveys for sensitive plant species in the inland San Diego region need to occur during the spring. A new transmission line between the Miguel and Proctor Valley Substations would constitute a major addition to the project. In addition to the technical areas of biological resources, cultural resources, paleontological resources; the technical areas of soil/water resources, air quality, noise, visual resources, and traffic and transportation would be affected.

With respect to the possibility of reconductoring the Miguel-Tijuana 230 kV line, staff advised the applicant on February 4, 2000 that if SDG&E's existing Natural Communities Conservation Plan (NCCP) includes regular surveying, that a new survey may be unnecessary. Staff is not familiar with the details of SDG&E's NCCP, and SDG&E is not currently a party in the case. However, we noted that if the applicant chooses to rely on existing surveys, it faces some risk that the USFWS and CDFG would find the information on sensitive species located in the transmission line area deficient, and require new surveys during the Spring of 2001. We stated that the safest, most conservative approach would be to conduct a Spring 2000 survey. This premise applies to any of SDG&E's recommended reinforcements listed in the Cal-ISO's letter.

Lone Star Road Wastewater Line Route

Adding the Lone Star Road route to the project description will require an AFC Supplement. The applicant has said it would prepare the Supplement, but the filing date is unknown.

From the biological resources perspective, staff is not as concerned as it was in its Status Report 2 (i.e., January 21, 2000 Status Report) about the need for spring surveys on the County's proposed Lone Star Road wastewater line route. When the applicant's surveys for its proposed natural gas line route and its proposed wastewater line through

Johnson Canyon are overlaid on the Lone Star Road route, the area appears to be covered. However, use of the Lone Star Road route would require building a new dirt road through a currently undeveloped area, and related establishment of a cut and fill dirt borrow site. Construction of a new road will also increase the amount of habitat permanently affected by the proposed project.

The need to build a new road constitutes a major change to the project which would involve the technical areas affected by ground disturbance, such as cultural and paleontological resources, and soil/water resources, as well as biological resources. Visual impacts, temporary and permanent traffic and transportation impacts, and air quality and noise impacts during the construction period will also need to be addressed. The analysis for each technical area affected by the Lone Star Road route will be incomplete until staff has been able to review the AFC Supplement. Particularly since the filing date of the Supplement is still unknown, staff will not be able to complete its analyses in the cultural resources, paleontological resources, soil/water resources, air quality, biological resources, noise, visual resources, and traffic and transportation technical areas by March 21, 2000.

Potential Issues –

Local Infrastructure Needs

Energy Commission staff talked with San Diego County's staff on February 3, 2000, and February 9, 2000, about the linkage of the Otay Mesa project to overall development of the East Otay Mesa area, which currently has an extremely minimal level of infrastructure. The County staff stated that the applicant will be required to pay a fair share amount for its portion of the infrastructure required. The County staff said that it is currently assessing the various needs (e.g., road improvement, fire services, and wastewater line connection) in order to determine the fair share.

Roads and Fire Service - The road improvement and fire service needs discussed in staff's Status Report 2 remain the same. San Diego County staff noted in a February 9, 2000 conference call with the Commission staff that its analysis of infrastructure needs and cost/fair share conclusions cannot be completed until the applicant provides complete information, particularly a detailed site plan.

Growth Inducement - Staff is reviewing San Diego County's Environmental Impact Report (EIR) on its East Otay Mesa Specific Plan for development of the overall area. Staff is reviewing the EIR and relevant legal decisions to determine whether the Commission will need to address potential growth inducement issues in its CEQA analysis, or whether the EIR will be sufficient.

Gas Pipeline Capacity - Staff has talked with San Diego Gas & Electric (SDG&E) and SoCal Gas staff about the need for additional natural gas pipeline capacity in the East Otay Mesa area. Additional pipeline capacity will be needed in order to meet the

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planned needs of the expanded Rosarita power plant and the La Jovita plant in Mexico, the proposed Otay Mesa plant, and other gas customers in the San Diego region. Staff is concerned that without new pipeline capacity built before the Otay Mesa start-up date, the project may not have a reliable supply of natural gas.

We understand the point of view that some level of uncertainty regarding a reliable supply of natural gas is an acceptable business risk for a merchant power plant developer. However we are also concerned about the possibility that limited pipeline capacity could have far reaching supply and price impacts on other large gas consumers in the San Diego/Baja California region.

U.S./Mexico Border Coordination -On January 19, 2000 staff received a letter from EPA Region IX regarding assessment of the project's potential impact on Mexican citizens, the related potential for environmental justice issues, and relevant international treaties and agreements. EPA's letter was a response to staff's letter of September 27, 1999 seeking guidance on the appropriate approach to these areas. Staff is reviewing the relevant international treaties, and working to arrange a meeting with EPA staff to discuss the January 19, 2000 letter.

Comision Federal de Electricidad (CFE) Coordination - CFE staff is interested in a visit to the Sacramento/Folsom area sometime during the next few months. The purpose would be to see the Energy Commission, the Capitol, and the Cal-ISO operation. Eileen Allen will work with the Executive Office and Committee on details of an Energy Commission tour, coordinate with the Governor's Office staff regarding details of a Capitol tour, and coordinate with Larry Tobias of the Cal -ISO staff regarding a tour of the Folsom ISO facility.

There has been no activity on this item since Status Report 2. Eileen Allen plans to work on the details of a CFE visit during the remaining weeks in February.

cc: Otay Mesa Generating Project Proof of Service List
Stella Caldwell, San Diego County Department of Planning and Land Use
George Ream, San Diego County Public Works Department
Arthur Carbonell, San Diego Air Pollution Control District
Gjon Hazard, U.S. Fish and Wildlife Service
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Chris Gallenstein, California Air Resources Board
David Wampler, U.S. Environmental Protection Agency
Larry Tobias, California Independent System Operator