

COMMITTEE STATUS CONFERENCE
BEFORE THE
CALIFORNIA ENERGY RESOURCES CONSERVATION
AND DEVELOPMENT COMMISSION

In the Matter of:)
)
Application for)
Certification for the) Docket No. 99-AFC-5
OTAY MESA GENERATING)
PROJECT (PG&E Generating))
_____)

CHULA VISTA PUBLIC SERVICES BUILDING
276 FOURTH AVENUE
CHULA VISTA, CALIFORNIA

THURSDAY, MARCH 2, 2000

4:06 P. M.

Reported by:
Daniel Grady
Contract No. 170-99-001

PETERS SHORTHAND REPORTING CORPORATION (916) 362-2345

COMMITTEE MEMBER PRESENT

Robert A. Laurie, Presiding Member

Robert Pernell, Associate Member

STAFF PRESENT

Susan Gefter, Hearing Officer

Major Williams, Jr., Hearing Officer

Ellen Townsend Smith, Advisor to
Commissioner Pernell

Eileen Allen, Project Manager

Lisa DeCarlo, Staff Counsel

Jeff Ogata, Staff Counsel

Matt Layton

PUBLIC ADVISER

Roberta Mendonca

REPRESENTING THE APPLICANT

Allan J. Thompson, Attorney
for PG&E Generating

Sharon Segner, Project Manager
PG&E Generating Company

William Chilson
Chief Environmental Coordinator-West Coast
PG&E Generating Company

Michael J. Carroll, Attorney
for PG&E Generating

Robert Hilton
Gerald R. Oegema
ABB Alstom Power, Inc.

REPRESENTING THE APPLICANT

Jan E. McFarland
Fairhaven Institute

Cindy "Sid" Greenwald, J.D.
Gladstein and Associates

Todd Roberts
San Diego Harbor Excursions

INTERVENORS PRESENT

Tom Guthrie
Duke Energy, South Bay Power Plant

ALSO PRESENT

Dr. David A. Rohy
Past Vice Chairman, California Energy Commission

Tony Letteri
County of San Diego

Nicole Cratelli, representing
Supervisor Greg Cox

Lawrence Tobias
California ISO

Dave Kerry
Port of San Diego

Charles Cassens
Otay Water District

Arthur Carbonell
Stephen Moore
San Diego Air Pollution Control District

Susanna Concha Garcia
American Lung Association of San Diego
and Imperial Counties

Holly Duncan

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4:06 p.m.

HEARING OFFICER GEFTER: This is the status conference for the Otay Mesa Generating Project. The Energy Commission has assigned a Committee of two Commissioners to conduct these proceedings.

Before we begin we would like to introduce the Committee Members to you. Presiding Commissioner is Bob Laurie; the Associate Commissioner is Robert Pernell. Commissioner Pernell's Advisor, Ellen Townsend Smith. And I'm the Hearing Officer, Susan Gefter. And Major Williams is the other Hearing Officer who will be assisting the Committee today.

PG&E Generating filed an application with the Energy Commission to obtain a license to build and operate the Otay Mesa Generating Project, which is a proposed power plant facility near the City of Chula Vista.

The purpose of today's status conference is to discuss the timetable for resolving several issues regarding the application, and to determine whether the existing Committee schedule should be modified.

1 We would like the parties to introduce
2 their representatives at this time for the record,
3 starting with the applicant.

4 MR. THOMPSON: Thank you very much.
5 Applicant is sitting over here in the corner up in
6 the front to your right for those of you in the
7 audience.

8 My name is Allan Thompson; I'm CEC
9 Project Counsel. To my right is Sharon Segner,
10 who is the PG&E Generating Company lead for this
11 project. And to my left is Bill Chilson, who is
12 the Chief Environmental Coordinator-West Coast for
13 PG&E Generating Company.

14 We have other individuals, consultants
15 and employees, in the audience ready to address
16 the different areas, the topic areas that we will
17 be looking at tonight.

18 HEARING OFFICER GEFTER: Thank you.
19 Would staff introduce your representatives,
20 please.

21 MS. ALLEN: I'm Eileen Allen, the Energy
22 Commission Staff Project Manager for the Otay Mesa
23 Project. Lisa DeCarlo, Staff Counsel, is on my
24 left. Jeff Ogata, also Staff Counsel. And Matt
25 Layton, our air quality engineer. He's still

1 parking the car. He will be along when it's his
2 turn.

3 HEARING OFFICER GEFTER: Okay, thank
4 you. And we'd also like any intervenors who are
5 present today to introduce themselves. Is a
6 representative of CURE here? Okay. What about
7 for Duke Energy?

8 MR. GUTHRIE: Yes.

9 HEARING OFFICER GEFTER: Come forward to
10 the microphone and introduce yourself, please.

11 MR. GUTHRIE: Yeah, my name's Tom
12 Guthrie, Duke Energy and the South Bay Power
13 Plant.

14 HEARING OFFICER GEFTER: Thank you. Is
15 there a representative for NRG Energy here today?

16 We also understand there are several
17 governmental agency representatives here. And if
18 you would please come forward and introduce
19 yourself for the record. I'm not sure who's here
20 so I can't name you. If you'd just come on
21 forward to the mike that would be very helpful.

22 MR. LETTERI: I'm Tony Letteri
23 representing the County of San Diego.

24 HEARING OFFICER GEFTER: Thank you.

25 MS. CRATELLI: My name is

1 Nicole Cratelli. I'm here on behalf of Supervisor
2 Greg Cox.

3 HEARING OFFICER GEFTER: Thank you.

4 Is there someone here for the San Diego
5 APCD? Okay. How about for Cal-ISO?

6 MR. TOBIAS: My name is Larry Tobias
7 representing California ISO here today.

8 HEARING OFFICER GEFTER: Thank you. Is
9 there a representative of Caltrans here today?
10 Okay. Any other governmental agency or local
11 agency, please come forward.

12 MR. KERRY: Hi, I'm Dave Kerry. I'm
13 representing the Port of San Diego.

14 HEARING OFFICER GEFTER: Thank you. Is
15 that the board of supervisors? No? The Port.

16 MR. KERRY: Port, the Unified Port
17 District.

18 HEARING OFFICER GEFTER: Thank you.

19 MR. CASSENS: I'm Charlie Cassens with
20 the Otay Water District.

21 HEARING OFFICER GEFTER: Thank you.

22 MS. ALLEN: Ms. Gefter.

23 HEARING OFFICER GEFTER: Yes.

24 MS. ALLEN: Matt Layton of the Energy
25 Commission Staff has come in, he's here.

1 HEARING OFFICER GEFTER: Thank you. The
2 record will reflect that Mr. Layton is now
3 present.

4 Any other agencies, local agencies,
5 state, federal agencies, please?

6 Our Public Adviser is here today -- oh,
7 the air district has arrived. All right, before
8 we introduce our Public Adviser would a
9 representative of the Air District please come
10 forward and introduce yourself for the record?

11 MR. CARBONELL: Arthur Carbonell, Air
12 Pollution Control District.

13 HEARING OFFICER GEFTER: Is that San
14 Diego?

15 MR. CARBONELL: San Diego, yes.

16 HEARING OFFICER GEFTER: Thank you.
17 Yes.

18 MR. MOORE: Stephen Moore, San Diego Air
19 Pollution Control District.

20 HEARING OFFICER GEFTER: Thank you. Now
21 we'd ask the Public Adviser to please come
22 forward.

23 MS. MENDONCA: Yes, I'm Roberta
24 Mendonca, the Energy Commission's Public Adviser.

25 HEARING OFFICER GEFTER: Would you want

1 to tell us about some of your efforts of public
2 outreach that you've been involved in with this
3 case?

4 MS. MENDONCA: Sure. Basically the
5 public outreach from the Public Adviser's Office
6 has involved three separate trips to the San Diego
7 area, including an early visit to town today. I
8 believe the other two I might have summarized
9 previously.

10 The recent visit today I met with the
11 Hispanic Chamber of Commerce and had an
12 opportunity to discuss some potential
13 organizations that might have an interest in the
14 location of the project, as well as some contacts
15 from the EPA who are working in this region on
16 environmental justice.

17 So I now have a mail list that has been
18 compiled. And what I will send to them, members
19 on the mail list, will be the one-page analysis of
20 the project that the Public Adviser distributes,
21 and our schedule, and give them the opportunity to
22 get back to me with any further questions.

23 HEARING OFFICER GEFTER: Thank you. Are
24 you aware of any members of the public who wish to
25 address the Committee today?

1 MS. MENDONCA: Yes, there are several
2 members of the public in the audience, including
3 Suzanne, who's with a group called Concha -- is it
4 Concha?

5 MS. CONCHA GARCIA: The American Lung
6 Association of San Diego and Imperial Counties.

7 HEARING OFFICER GEFTER: Okay, if
8 Suzanne could come forward and introduce yourself
9 for the record, and explain what your organization
10 is.

11 MS. CONCHA GARCIA: Good afternoon. My
12 name is Susanna Concha Garcia, and I'm
13 representing the American Lung Association of San
14 Diego and Imperial Counties.

15 HEARING OFFICER GEFTER: Okay, and if
16 you have comments later we'll ask you to come
17 forward to speak to us, thank you.

18 Anyone else who would like to introduce
19 themselves --

20 MS. MENDONCA: I was expecting to meet a
21 woman named Holly, but I've not connected with her
22 yet. But she is planning to attend, and she has
23 an interest in the issue of trees and energy
24 conservation.

25 HEARING OFFICER GEFTER: Okay, when she

1 arrives you'll let us know, right?

2 MS. MENDONCA: All right.

3 HEARING OFFICER GEFTER: Thank you very
4 much.

5 MS. MENDONCA: Thank you.

6 HEARING OFFICER GEFTER: All right.

7 PRESIDING MEMBER LAURIE: Ms. Mendonca,
8 the EPA letter. Do you, or Ms. Gefter, do you
9 have a copy of that handy?

10 HEARING OFFICER GEFTER: Yes, I believe
11 that -- staff, do you have a copy of the letter
12 from the EPA?

13 PRESIDING MEMBER LAURIE: The letter
14 from the EPA that refers to environmental justice
15 issues.

16 MS. MENDONCA: I did not bring a copy of
17 that with me today.

18 HEARING OFFICER GEFTER: Staff doesn't
19 have it, either.

20 MS. ALLEN: That's the January 19th
21 letter that I think I referred to in staff's
22 report. I don't have a copy --

23 PRESIDING MEMBER LAURIE: Okay, please
24 provide me a copy at first opportunity?

25 MS. ALLEN: Yes, we will.

1 HEARING OFFICER GEFTER: All right,
2 thank you.

3 MS. ALLEN: That letter has been
4 docketed, too.

5 HEARING OFFICER GEFTER: Okay, off the
6 record.

7 (Off the record.)

8 HEARING OFFICER GEFTER: The letter that
9 we're speaking about was the letter from the EPA
10 regarding potential concerns about environmental
11 justice. And the letter is dated January 19th.
12 It has been docketed and believe it was served on
13 the applicant and staff and all the other parties.

14 Would you please introduce yourself on
15 the record.

16 MS. DUNCAN: My name is Holly Duncan,
17 and I'm a concerned member of the public. And
18 concerned with demand side management issues for
19 energy and the role that trees play in that.

20 HEARING OFFICER GEFTER: Later on in
21 this conference we'll ask you to come forward and
22 make a public statement.

23 MS. DUNCAN: Thank you.

24 HEARING OFFICER GEFTER: Thank you. Any
25 other members of the public who would like to

1 identify themselves at this time?

2 All right, we'll proceed with this
3 status conference.

4 The parties have filed status
5 reports -- hiding in the audience -- I'm sorry,
6 we're going to back up a bit -- hiding in the
7 audience is former Commissioner Dave Rohy, who was
8 the previous Presiding Member of this Committee,
9 and since he lives in the San Diego area I think
10 he's honoring us with his presence today. Nice to
11 see you, Commissioner Rohy.

12 Okay, we're going to proceed with the
13 conference. The parties filed status reports with
14 the Committee indicating that several pending
15 issues may not be resolved prior to the time when
16 staff is required to release its preliminary staff
17 assessment, which is March 21st.

18 The issues that are raised in the status
19 reports include air quality, biological resources,
20 transmission system engineering, changes in the
21 wastewater pipe discharge route, land use issues
22 and potential environmental justice issues.

23 We will ask the parties to address each
24 issue in a serial manner beginning with air
25 quality. The parties will present their comments

1 as follows: We'll ask the applicant to go first,
2 and then the staff, then the intervenors, and
3 governmental agencies, and then members of the
4 public may speak to those issues.

5 This will be a somewhat informal
6 process. We will provide time at the end of each
7 presentation for the parties or members of the
8 public to ask questions.

9 Before we begin are there any questions
10 about today's agenda?

11 We would ask --

12 MR. THOMPSON: If I may?

13 HEARING OFFICER GEFTER: Yes, Mr.
14 Thompson.

15 MR. THOMPSON: Thank you, Ms. Gefter.
16 Looking at the agenda the first issue is air
17 quality. We have presentations on air quality
18 dealing with two very significant, and I think,
19 groundbreaking approaches to issues.

20 One is the issue of the mobile ERCs,
21 emission reduction credits; and the second is the
22 use of the SCONox technology.

23 Inasmuch as the applicant's presentation
24 on these two issues is probably an hour or maybe a
25 little longer, I was wondering if it would make

1 sense to first take any of the other individuals,
2 such as representatives from the County or Mr.
3 Cox's office, or the ISO or whatever, who have
4 real brief short statements to make.

5 HEARING OFFICER GEFTER: I think we
6 could probably work that out, but I'd like to keep
7 us in order. And I also wanted to remind the
8 parties that we will have to close this conference
9 at 7:00 p.m. So, we're giving ourselves about
10 three hours today.

11 I understand that there is a
12 representative from Supervisor Cox's office who
13 just wishes to make a statement. Perhaps we'll
14 start with that statement at this time. If you
15 could come forward, thank you.

16 MS. CRATELLI: Good afternoon. I'm
17 Nicole Cratelli, I'm here on behalf of Supervisor
18 Greg Cox, who is away in Washington, D.C. on
19 business. He asked me to be here and read a
20 letter from him into the record. He's a strong
21 supporter of the project and wishes that he could
22 be here, himself. And the letter is as follows:

23 "Thank you for the opportunity to
24 comment on the status of the application for
25 certification for the Otay Mesa Generating

1 Project. As a Member of the San Diego County
2 Board of Supervisors representing the South
3 Bay Region of our County I strongly support
4 the development of PG&E's generating project
5 in Otay Mesa.

6 This project is a critical element in
7 the County of San Diego's efforts to provide
8 the necessary infrastructure into the Otay
9 Mesa area and the region, as a whole.

10 Otay Mesa is one of the few largely
11 undeveloped areas in the County that is
12 experiencing a rapid increase in both the
13 creation of jobs and housing. As the
14 southernmost section of our County the
15 development of Otay Mesa provides an
16 opportunity to bridge the gap between the
17 U.S. and Mexico, promoting trade and economic
18 development in both countries.

19 The Otay Mesa Generating Project will
20 stand as the foundation that this residential
21 and commercial development rests upon.

22 Currently the project is moving smoothly
23 through the process at the County level. A
24 public hearing before the Board of
25 Supervisors is set for April 12th. The

1 generating project has also received strong
2 community support.

3 I am pleased to see the development of
4 this state-of-the-art project here in San
5 Diego County. The project will serve the
6 future energy needs of the South Bay in a
7 manner that is sensitive to our natural
8 environment and quality of life we share in
9 the region.

10 I anticipate that the Otay Mesa
11 Generating Project will receive strong
12 support from the environmental community. We
13 are optimistic of setting national energy
14 policy here in San Diego County on the mobile
15 offset package.

16 Due to the critical infrastructure need
17 that the project will address and the strong
18 community support for this project, I urge
19 the State of California Energy Resources
20 Conservation and Development Commission to
21 move forward in the process to develop the
22 Otay Mesa Generating Project.

23 Thank you for your time and
24 consideration."

25 HEARING OFFICER GEFTER: Thank you. Do

1 you have a copy of that letter to give to the
2 Committee?

3 MS. CRATELLI: I have numerous copies,
4 yes.

5 HEARING OFFICER GEFTER: Thank you.

6 MS. CRATELLI: Thank you.

7 PRESIDING MEMBER LAURIE: Thank you.

8 HEARING OFFICER GEFTER: And that letter
9 will be docketed and available to the public.
10 Thank you.

11 I do know that there is a member of Cal-
12 ISO here, a representative, but we are going to
13 stick to the agenda and take his comments at the
14 time that we discuss transmission system
15 engineering.

16 Is there anyone else, any other
17 governmental agency representative who has to
18 leave early and can't stay till 7:00? Otherwise
19 I'd like to stay with our agenda. All right.

20 I think we will now begin with air
21 quality and ask the applicant to make its
22 presentation. Mr. Thompson.

23 MR. THOMPSON: I sense people are
24 looking at me --

25 HEARING OFFICER GEFTER: Yes, we are.

1 (Laughter.)

2 MR. THOMPSON: Ms. Segner, the Project
3 Manager for PG&E Gen will spearhead the air
4 quality discussion for the applicant. Would it be
5 appropriate for Ms. Segner to temporarily reside
6 at the podium?

7 HEARING OFFICER GEFTER: That will be
8 fine. Are you planning to show slides or use
9 powerpoint?

10 MS. SEGNER: For my presentation there
11 will be no powerpoint or slides; however there
12 will be members of the PG&E Generating team that
13 will have slides and powerpoint.

14 HEARING OFFICER GEFTER: Okay, when the
15 slides begin the Committee will then move to the
16 audience so that we can face the screen.

17 MS. SEGNER: Okay.

18 HEARING OFFICER GEFTER: So just let us
19 know.

20 MS. SEGNER: All right.

21 HEARING OFFICER GEFTER: Thank you.

22 PRESIDING MEMBER LAURIE: Mr. Thompson,
23 give me an appropriate timeframe for this
24 presentation. We want to make sure that we don't
25 run into a problem later in the hearing.

1 MR. THOMPSON: Yes, sir, Mr.
2 Commissioner. The last time we went over it,
3 which was this morning, it appeared that the
4 presentation, if you look at it in two parts, the
5 first is the development of the MERCs. And the
6 second is the material on SCONOx. Without
7 questions from anyone in the audience or the dias
8 would be somewhere between 20 and 25 minutes each.

9 We have not prepared anything lengthy at
10 all on any of the other subject areas.

11 PRESIDING MEMBER LAURIE: That's fine,
12 thank you.

13 MS. SEGNER: Hello. My name is Sharon
14 Segner and I'm the Project Developer on the Otay
15 Mesa Project for PG&E Generating. Prior to our
16 presentation I'd like to clarify, for the benefit
17 of the public, who PG&E Generating is, as required
18 under law by the California Public Utilities
19 Commission.

20 PG&E Generating is not the same company
21 as Pacific Gas and Electric Company, the utility.
22 PG&E Generating is not regulated by the California
23 Public Utilities Commission, and you do not have
24 to buy PG&E Generating products in order to
25 continue to receive quality regulated services

1 from the utility.

2 With that behind us I will move into our
3 comments, as well. There is a critical need for
4 additional generation to meet San Diego's existing
5 and future electrical demand. In addition, the
6 existing transmission lines which bring power into
7 San Diego today are at full capacity.

8 There's not been a power plant sited in
9 San Diego in nearly 30 years. There's a reason
10 for this, however. The complexity of siting a
11 power plant in San Diego is very high.

12 Some of these challenges include: There
13 are very limited offsets in San Diego County
14 because San Diego is a light industrial city, and
15 a light industrial city by design.

16 The existing transmission system is in
17 need of expansion. There is a greater
18 concentration of endangered species and plants in
19 San Diego County than any other county in the
20 United States.

21 San Diego County is at the end of a gas
22 pipeline system. In addition, there are limited
23 areas in San Diego that are appropriate for power
24 plant development.

25 Despite these challenges PG&E Generating

1 has made significant progress, in our estimation,
2 in finding solutions to each of these challenges.
3 And tonight we'd like to specifically focus on the
4 air quality piece of it.

5 A major component of our power plant
6 proposal is an extremely aggressive air quality
7 package. As you know, the Otay Mesa Project
8 proposes to be the first power plant in California
9 and the nation to make SCONox commercially
10 available. Not only will Otay Mesa, the Otay Mesa
11 Project utilize SCONox, but in addition we have a
12 NOx target to be 1 ppm.

13 This project is targeting quite simply
14 to be the cleanest power plant sited to date in
15 the United States. If we are successful in siting
16 this power plant we will be setting a new national
17 energy policy and a new environmental standard for
18 California, as well as addressing critical PM2.5
19 issues.

20 We believe that the technology is an
21 important building block for addressing a very
22 complicated air quality situation in San Diego.
23 Tonight we have asked Bob Hilton from ABB
24 Environmental to address the Committee on the
25 SCONox technology. He will specifically address

1 the issue of scale-up issues related to the new
2 technology, as well as the feasibility of
3 targeting 1 ppm.

4 In addition, there's no secret in the
5 industry that stationary offsets in San Diego are
6 at a premium. We recognized very early in the
7 development of this project that we would need to
8 be successful in charting new regulatory policy in
9 order to secure the emission offsets.

10 Our belief has been that in order to
11 successfully gain the offsets that we must hold to
12 the letter of the law in the Clean Air Act and
13 provide absolute best source of pollution
14 reductions in order to site our facility.

15 Our view has been that the tons of
16 pollution are real, that the policy can be
17 achieved. We believe that sources for mobile
18 offsets are very real pollution reduction. And it
19 is on this basis that we believe in our ultimate
20 success and have been successful.

21 Tonight we will be outlining to the
22 Committee the significant progress made by PG&E
23 Generating in chartering new territory on the
24 mobile offsets. We have assembled a team of top-
25 notch air quality experts who have performed

1 extensive feasibility analyses, market research,
2 and regulatory policy analysis.

3 We are quite confident that this policy
4 can be achieved in a reasonable timeframe, and
5 will set a new standard in the area of emissions
6 credits.

7 We'd like to outline for you tonight the
8 regulatory guidance received to date regarding the
9 conversion of mobile ERCs into stationary ERCs.
10 In addition, we will present to the Committee an
11 update of the project's offset package and where
12 we stand on that.

13 I now would like to introduce Bob Hilton
14 from ABB Environmental to specifically address
15 SCONOx technology.

16 HEARING OFFICER GEFTER: Ms. Segner,
17 before Mr. Hilton begins, could you explain to us
18 your understanding of what the EPA is requiring
19 regarding SCONOx?

20 MS. SEGNER: In terms of what EPA's
21 requiring, in terms of -- I'm not sure I
22 understand your question.

23 HEARING OFFICER GEFTER: We understand
24 that the EPA is now requiring power plant projects
25 to employ SCONOx technology. What is your

1 understanding of that requirement?

2 MR. CHILSON: We've just finished the
3 LaPaloma case where we looked at both SCONOx and
4 SCR, and in that case the EPA seemed to, although
5 they liked the SCONOx technology, they also seemed
6 to find SCR a viable alternative.

7 So we're not aware of any directive that
8 would change that position they have.

9 HEARING OFFICER GEFTER: Mr. Hilton, are
10 you ready to proceed?

11 MR. HILTON: Thank you. I'll break this
12 into two parts. I'm going to provide an
13 introduction to SCONOx and our participation here;
14 then I'll turn it over to Rick Oegema because he,
15 I think, is the best person to go through the
16 details. He's managed the scale-up program and
17 been involved with it. So he can, I think, give
18 you the best insights and perspectives and answer
19 any questions that anybody has.

20 HEARING OFFICER GEFTER: Are you going
21 to be using an overhead?

22 MR. HILTON: Yes. I'll also provide
23 copies of the presentation.

24 HEARING OFFICER GEFTER: Do you want to
25 give us the rest of the copies? Just hand one

1 copy to the reporter, and bring the other copies
2 to us.

3 MR. HILTON: Basically to introduce ABB
4 Alstom Power Environmental Systems, we are the
5 largest air pollution control company in the world
6 providing a full range of air pollution control
7 technology to the power industry.

8 We licensed the SCONox treatment
9 technology from Goline Environmental Technologies
10 in September of 1998. At the time we took this
11 technology we viewed it as an ultraclean
12 technology for the reduction of nitrous oxides and
13 other pollutants.

14 The focus of this technology was
15 obviously early on. What we at ABB Environmental
16 Systems are extremely good at is scaling
17 technology up and developing it into full
18 commercial application.

19 And that's what we undertook to do when
20 we licensed this technology in September of '99.
21 We basically made an investment of several million
22 dollars in this program to bring this technology
23 full scale to F and G engines, and even H engines,
24 for that matter, from the technology that you will
25 see here.

1 At that point I guess I'll turn it over
2 to Rick and let him walk through the details.

3 MR. OEGEMA: Good afternoon, my name is
4 Rick Oegema.

5 HEARING OFFICER GEFTER: I'm sorry,
6 could you use the microphone, please.

7 MR. OEGEMA: Okay, I'm going to have to,
8 well, I guess I'll work something with the slides.

9 Good afternoon, my name is Rick Oegema.
10 I'm the Product Manager for the SCONOX product
11 with ABB Alstom Power, Environmental Systems
12 Division.

13 ABB Alstom Power Environmental Systems
14 has been working with the SCONOX technology. We
15 signed a license agreement in September of '98.
16 And we've been working since then to develop a
17 scaled-up design and also with a verification
18 program to verify some of the assumptions with our
19 scaled-up design.

20 A little bit of a history: The SCONOX
21 system has been in operation in Vernon,
22 California, since December of '96 at Sunlaw
23 Energy's Cogeneration facility. It's a 30-
24 megawatt gas turbine application.

25 And there's a second system which has

1 been in operation since July of '96 in Andover,
2 Massachusetts, at a 5-megawatt cogeneration plant.

3 What we see here, this is a picture of
4 the facility at the federal plant in Vernon,
5 California. And just briefly what we have here is
6 the SCONOx unit, it's installed in this
7 application after the heat recovery steam
8 generator, prior to the exhaust gas going up the
9 stack. So we have the SCONOx unit installed here
10 treating the exhaust gas.

11 Here's a picture of the 5-megawatt
12 installation installed at Genetics Institute in
13 Andover, Massachusetts. This particular unit here
14 is installed in the middle of the HRSG or the heat
15 recovery steam generator, operating at a higher
16 temperature at the 600-degree temperature range.

17 MR. HILTON: And this will be similar to
18 the configuration for Otay Mesa.

19 MR. OEGEMA: A brief explanation of the
20 process. The SCONOx catalyst is installed on
21 shelves in the catalyst holding frame which is
22 mounted in the exhaust gas stream. The turbine
23 exhaust gas passes through heat recovery steam
24 generators to generate steam as part of the
25 combined cycle operation. And the catalyst treats

1 the exhaust gas prior to going to the low pressure
2 heat recovery steam generator, and then up the
3 stack.

4 So, our catalyst is mounted in the
5 exhaust gas stream and treats the exhaust gas
6 accordingly.

7 In front of the sections of catalyst we
8 have dampers mounted. These are isolation dampers
9 which allow us to isolate sections of the catalyst
10 and regenerate or clean the catalyst while the
11 other additional sections remain open and treat
12 the exhaust gas.

13 So it's a cyclical process whereby we
14 regenerate a portion of the catalyst while the
15 remaining portion of the catalyst is in operation
16 and treating the exhaust gas.

17 You can also see at the top here,
18 there's a blow-up view here, it's not very clear
19 but you can see there's ports for the introduction
20 of the regeneration gas into the catalyst for the
21 cleaning process. There's an inlet and two outlet
22 ports for each one of the sections of catalyst.

23 Just a brief explanation of how the
24 catalyst works. The process is an oxidation
25 process followed by an absorption cycle. So we

1 have CO oxidizing to CO₂, and NO oxidizing to NO₂.

2 The NO₂, this is the oxidation process,
3 and then the absorption process is a function of
4 the NO₂ reacting with a potassium carbonate
5 coating on the catalyst and converting to CO₂ and
6 potassium nitrite and nitrates.

7 So this is the absorption process where
8 the NO₂ is absorbed on the potassium carbonate
9 coating producing the potassium nitrate and
10 nitrites.

11 This just shows how on the surface of
12 the catalyst we have the platinum which is the
13 oxidation impetus and also the potassium carbonate
14 coating, the wash coat on the surface of the
15 catalyst.

16 And here we can see the catalyst as
17 manufactured. We have blocks of the ceramic
18 substrate catalyst mounted in a stainless steel
19 can, complete with retaining bars. This is the
20 catalyst mounted in the stainless steel cans as
21 manufactured.

22 In the regeneration mode we now have the
23 potassium nitrite and nitrates which are on the
24 surface of the catalyst now. We isolate those
25 sections from the exhaust gas stream and introduce

1 a dilute hydrogen containing reducing gas over the
2 catalyst, and the process is reversed. We end up
3 with potassium carbonate back on the surface of
4 the catalyst and the result in emissions of water
5 vapor and elemental nitrogen.

6 This is the regeneration process which
7 reverses the absorption process and re-introduced
8 potassium carbonate on the surface of the
9 catalyst.

10 Now, that's the process, that's a
11 description of the SCONOx process. What we have
12 been doing since we signed the license agreement
13 for the technology is we have undertaken a
14 development program to verify the scaled-up
15 design. The SCONOx system has been in operation
16 in Vernon on a 30-megawatt gas turbine. We are
17 now scaling it up to the turbine size of Otay
18 Mesa, and even larger sizes, which is 175-megawatt
19 turbines. So there's a significant scale-up in
20 the design of the system.

21 We know the system works. It's been in
22 operation. We've gone through a scale-up program.
23 And to verify our scaled-up design we've actually
24 gone through a secondary verification program.
25 There's performance of critical components which

1 needed to be verified based on the scale-up
2 design, and we also had gas distribution issues.

3 The unit is four to five times larger,
4 so we had gas distribution issues which needed to
5 be addressed on this scale.

6 MR. HILTON: What you're looking at,
7 this is a routine process with virtually every
8 technology we've taken to market for the last 40
9 years, whether it's wet scrubbers, dry scrubbers,
10 precipitators. And what you're seeing is not a
11 new process. This is a developmental process that
12 we've done for years where we've just literally
13 scaled things up in roughly the same order of
14 magnitude that we're talking here.

15 MR. OEGEMA: Okay, one critical
16 component which was identified in our scaled-up
17 design is the dampers. The size of the damper is
18 significantly larger. The federal facility, the
19 dampers are two feet tall by approximately 11 feet
20 wide.

21 What we now have with the dampers on our
22 Otay Mesa scale installation is a damper that's
23 three and a half foot tall by a combined width of
24 48 feet wide. So, we have a completely different
25 design of the damper. It serves the same function

1 but because of the size increase it's a completely
2 different design.

3 So we actually had a damper test
4 apparatus built, a full-scale damper test
5 apparatus where we could test and confirm the
6 performance of the bearings, of the actuators, the
7 seals, because it's critical for the performance
8 of the system.

9 And here you can see where we're
10 actually building the damper test apparatus. This
11 test apparatus is 30 feet wide. And this is the
12 equivalent of a SCONOX unit which would be 60 feet
13 wide because we actually have a left-hand damper
14 and a right-hand damper.

15 So we see here two damper blades in a
16 full-scale unit. You'd also have two additional
17 blades next to it with actuators on the opposite
18 end.

19 So this 30-foot test facility is
20 equivalent damper size per unit which would be 60
21 feet wide. So these damper blades are three and a
22 half foot tall by 15 foot wide. Two blades
23 actuating off of a single actuator.

24 And here you can see the system when
25 it's completed. We have it completely insulated

1 because we're testing these dampers at
2 temperature. We have a fan and a burner
3 arrangement here where we heat the gas, and we
4 recirculate it through the system. So we're
5 keeping the dampers operating at the 600 degree
6 temperature, which is the operating temperature of
7 the unit. And we're cycling the dampers here with
8 our actuators. We have two dampers on each side
9 of the box.

10 We went through a process where we
11 cycled these actuators for 100,000 cycles which is
12 equivalent of approximately five years of service.
13 And this, again, was to prove out the actuators,
14 the seals and the bearings, the design of the
15 damper system.

16 On the inside of the unit here we have a
17 second fan and a system of valves whereby we can
18 test the efficiency of the sealing system. We
19 close the dampers on the lower section first, and
20 we blow air into the area between the two dampers
21 and measure the leakage of the air between them.
22 And that measures the performance of the seals.

23 And we did this intermittently
24 throughout the 100,000 cycle test. So we were
25 monitoring the sealing ability of these dampers

1 over time. And we test the bottom, and then the
2 top again, using this arrangement of valves and
3 the fan arrangement.

4 One of the other areas that we needed to
5 verify was the distribution of the regeneration
6 gas. Again, the regeneration gas passes over the
7 catalyst in a mode that cleans the catalyst
8 effectively; reintroduces potassium carbonate onto
9 the surface of the catalyst.

10 Proper distribution of the regeneration
11 gas is vital to the performance of the catalyst,
12 and our unit now is four to five times wider than
13 the unit in operation. So we needed to insure
14 ourselves that our system was going to work and
15 get adequate regeneration gas distribution.

16 The way we did this, we initially
17 conducted a computer model where we modeled it
18 using computer computational fluid dynamic models.
19 And we used that basically as our initial design,
20 and then fine-tune that design using a physical
21 model. Because a physical model will exhibit more
22 realistic results than the CFD model. The CFD
23 model is as good as the assumptions.

24 And this process of building scaled
25 models is something we do with all of our

1 environmental system components, all our systems.
2 We have wet scrubbers, bag houses that we model as
3 a norm in the process of developing our equipment.

4 What we see here is a scaled model of
5 one-sixth scale, which represents one shelf of the
6 SCONOx catalyst. And we have the regeneration gas
7 introduction on the side here. And we measure the
8 distribution of gas across the full width, and top
9 to bottom across the section of catalyst also.

10 You can see here is a close-up. This
11 scale model is built out of plexiglass, so it's a
12 little hard to see some of the components, but we
13 have our regeneration gas inlet in the middle.
14 Here's our regeneration gas distribution plenum
15 with catalysts front and back of the regeneration
16 inlet. And we have two inlets -- two outlets,
17 excuse me, for the spent regeneration gas. So we
18 have the regeneration gas inlet and two outlets on
19 each side of the catalyst bed.

20 One of the other development programs we
21 went through was we built a catalyst removal
22 system. The design of the SCONOx unit requires
23 catalyst to be removed from the side of the unit,
24 unlike an SCR catalyst system where the catalyst
25 is dropped from the top of the unit. The SCONOx,

1 with our isolation dampers and the way the
2 catalyst is mounted into the box, requires us to
3 remove and install catalyst from the side of the
4 box.

5 So we had to devise a system where we
6 could readily install and remove catalysts from
7 the box. And we did conduct a full-scale test of
8 this system here.

9 Again, this, what we're seeing here is
10 the three-and-a-half-foot tall by two-foot can of
11 catalyst as manufactured, where we mount five of
12 these cans onto a skid plate, and then we connect
13 sequential ten-foot sections of catalyst.

14 We now have a section of catalyst which
15 is ten feet long, three-and-a-half-feet tall, and
16 six inches thick. And we now introduce sequential
17 ten-foot sections of catalyst into the box.

18 And what we're doing here is we've used
19 the damper test facility because we have a full-
20 scale damper mounting box. We used this as the
21 confirmation of our catalyst installation and
22 removal process.

23 And this process includes a stainless
24 steel rack here for introduction of those sections
25 of catalyst into the box.

1 So that more or less describes our
2 development program, what we've been working with,
3 since we signed the license agreement in '98. And
4 what we're doing is, of course, the SCONOx
5 performance has been demonstrated in operation on
6 both the federal facility and on the Genetics
7 Institute installation to be able to operate under
8 1 ppm NOx outlet, given a 25 ppm NOx inlet.

9 And one of the added benefits is that
10 the SCONOx catalyst begins removing NOx from the
11 exhaust gas stream in the start-up mode at 300
12 degrees. This is much quicker than the SCR
13 process, which effectively starts removing NOx at
14 500 degrees. So we can reduce the start-up
15 impacts of NOx removal using the SCONOx system.

16 Another added benefit is that we can
17 maintain the catalyst temperature through our
18 design of the dampers to improve the start-up
19 emissions during short shut-downs, what we refer
20 to as hot start-ups. We can keep the catalyst hot
21 easier using our damper system to improve the
22 start-up characteristics with the SCONOx catalyst.

23 Some of the added benefits. SCONOx not
24 only oxidizes and absorbs NOx, but it also converts
25 in excess of 90 percent of carbon monoxide into

1 carbon dioxide. It is an oxidation catalyst for
2 CO also. Not only does it oxidize CO, it also
3 destroys approximately 90 percent of non-methane
4 VOC compounds, another added benefit.

5 With the SCONOx system we do not use
6 ammonia. The SCR technology utilizes ammonia for
7 the reduction of NOx. SCONOx does not use
8 ammonia. Therefore we do not contribute to
9 ammonia bisulfate formation which may contribute
10 to PM or particulate matter emissions from the
11 unit.

12 And therefore SCONOx represents a break-
13 through technology for sub 2 ppm NOx control, for
14 combined cycle gas turbine applications.

15 And that's the end of our presentation.

16 MS. SEGNER: We'd be happy to hear any
17 questions that specifically relate to SCONOx.

18 HEARING OFFICER GEFTER: Does staff have
19 any questions at this time? Mr. Layton? I don't
20 see him. I'm wondering if staff's air quality
21 representative, Mr. Layton, has any questions on
22 SCONOx? I don't see him right now.

23 MS. ALLEN: He's not in the room right
24 now.

25 HEARING OFFICER GEFTER: All right.

1 MS. ALLEN: I'll let him know that he
2 had an opportunity.

3 (Laughter.)

4 HEARING OFFICER GEFTER: All right,
5 great. Does the Committee have any questions?

6 COMMISSIONER PERNELL: I do have one
7 observation, and that is some of the slides that
8 you were showing wasn't in the packet. And if,
9 you know, if we need to have them for the record
10 you'll probably want to get another packet to the
11 Committee.

12 MR. HILTON: We apologize, a couple of
13 them didn't duplicate very well. We will get
14 those to you. Some of the photographs in
15 particular we had trouble duplicating.

16 HEARING OFFICER GEFTER: Okay.

17 MR. THOMPSON: We'll take the
18 responsibility. We'll get a full packet of good
19 copies and serve them on all parties.

20 COMMISSIONER PERNELL: That's fine. I
21 just wanted to do the observation, that if you
22 want them in for the record, then we need to have
23 them to the Committee.

24 MR. THOMPSON: Thank you, we do want
25 them in the record. Thank you very much.

1 HEARING OFFICER GEFTER: Thank you. Is
2 applicant's position that this is the first full
3 scale-up of the SCONox technology?

4 MS. SEGNER: Yes, it is.

5 HEARING OFFICER GEFTER: All right. And
6 what kind of back-up is available to the project
7 if SCONox doesn't work as proposed?

8 MS. SEGNER: We anticipate that as part
9 of our permitting conditions and included in --
10 that as part of the permitting conditions that
11 there will be back-up provisions if the SCONox
12 technology does not work.

13 We are requesting a three-year
14 demonstration period for the technology. And if
15 the technology does not work, then there will be
16 appropriate conditions in the permit language that
17 would allow for the replacement of SCONox with
18 presumably SCR.

19 HEARING OFFICER GEFTER: From the
20 presentation it looks like the largest scale-up
21 has been this 30-megawatt project at the Sunlaw,
22 is that accurate?

23 MR. HILTON: Correct.

24 HEARING OFFICER GEFTER: So you're now
25 planning to go from 30 megawatts to about 550

1 megawatts?

2 MR. HILTON: Yes, if I can. That is a
3 fair -- what I'll say is very typical of one of
4 the points I was trying to make earlier. A very
5 typical kind of scale-up for us.

6 For instance, in the wet scrubber
7 technology, we have pilot plants in our lab. We
8 have a larger 130-megawatt unit that we use as a
9 pilot operation. We use that as a basis to go up
10 to as much as 1300 megawatts.

11 And so, as I was saying, this is a very
12 typical type of scale-up for us from these type of
13 sizes to five and ten times. And, again, what
14 we've done is go through this program to
15 mechanically verify everything.

16 We're highly confident that the
17 chemistry works. What we needed to do is really
18 develop the confidence even for our own
19 corporation, if you will, that this design will
20 operate at these temperatures and this size. This
21 program that you've seen has basically satisfied
22 us.

23 We've also shown it to a number of
24 people including the EPA who basically are pleased
25 that they have indicated that the technology, as

1 far as they're concerned, is acceptable.

2 HEARING OFFICER GEFTER: From your
3 presentation you indicated that one of the
4 advantages of using SCONOX is that you won't need
5 ammonia. And ammonia storage then will be
6 eliminated from this project.

7 Is it necessary then to store other kind
8 of substances that may be as dangerous as an
9 ammonia storage situation?

10 MR. HILTON: No, there are no chemicals
11 brought onto the site. The catalyst, itself, is
12 entirely nonhazardous. And the only things that
13 we use associated with the process are steam and
14 natural gas, which are already in the plant, which
15 are what the plant operates on. So there's
16 nothing else brought into use here.

17 HEARING OFFICER GEFTER: All right,
18 well, you mentioned a potassium coating.

19 MR. HILTON: Right.

20 HEARING OFFICER GEFTER: Does that just
21 come on the machinery?

22 MR. HILTON: That comes on the catalyst
23 as it comes out.

24 HEARING OFFICER GEFTER: How often is
25 that delivered?

1 MR. HILTON: It comes with the catalyst,
2 and as we service the catalyst, as we discussed
3 it, the catalyst, over the life of the plant,
4 would probably be serviced off-site, so that it
5 would simply be replaced and then serviced in our
6 facilities, not on the site.

7 HEARING OFFICER GEFTER: And with the
8 scale-up then to this very large SCONOx facility,
9 do you need a larger footprint for the project
10 than you would ordinarily use if you were just
11 using SCR?

12 MR. HILTON: No, the facility, so that
13 -- ABB Alstom Power also manufactures SCRs.

14 HEARING OFFICER GEFTER: Um-hum, so you
15 would know the answer to this question?

16 (Laughter.)

17 MR. HILTON: And the answer to the
18 question is we designed this specifically to fit
19 in the exact envelope that the SCR would fit in.
20 So it's no more space.

21 HEARING OFFICER GEFTER: And I
22 understand there is a representative of the air
23 quality district here. Do you have any questions
24 or comments on the proposed SCONOx --

25 MR. MOORE: Not at this time.

1 HEARING OFFICER GEFTER: No, okay. And
2 I do have a question for the air district. Would
3 you, in preparation of your preliminary
4 determination of compliance, would you do a review
5 of the SCONOx proposal? And what sorts of
6 controls would you see in terms of ultimate
7 conditions that you would include in the PDOC?

8 And could you come forward, and if you
9 can answer that on the microphone so the reporter
10 can hear you.

11 MR. MOORE: Well, I guess --

12 HEARING OFFICER GEFTER: Say your name,
13 please.

14 MR. MOORE: Stephen Moore, San Diego Air
15 Pollution Control District.

16 I guess the general answer is the PDOC
17 would contain limits on the amount of NOx that
18 could be emitted by the site. And it would also
19 contain contingency plans in case the SCONOx does
20 not work as planned. We'll have detailed
21 requirements in there for them to provide a method
22 for either reducing their emissions, which could
23 be reducing their power output, for example. Or,
24 as they said, putting on SCR.

25 HEARING OFFICER GEFTER: And does the

1 District recognize that this is the first scale-up
2 of the SCONOX --

3 MR. MOORE: Yes, it is, certainly is.

4 HEARING OFFICER GEFTER: So, is there
5 any concerns that we need to know about ahead of
6 time?

7 MR. MOORE: Well, they have done a lot
8 of testing. We are concerned about the louvers,
9 for example. You know, I think they have done a
10 sufficient job of testing it as much as you can do
11 before you actually put it on and try it.

12 I mean there's always going to be a
13 question, on a project like this, whether it will
14 work in practice.

15 HEARING OFFICER GEFTER: Thank you.

16 PRESIDING MEMBER LAURIE: Question.

17 What do you anticipate the standard to be for NOx
18 emissions?

19 MR. MOORE: Well, it will be limited to
20 100 tons a year of NOx emissions.

21 PRESIDING MEMBER LAURIE: Okay, and is
22 that translated into a ppm number?

23 MR. MOORE: That would be 2 ppm.

24 PRESIDING MEMBER LAURIE: Okay, and is
25 that the federal standard?

1 MR. MOORE: There's no real federal
2 standard for that. What they have to do is put on
3 what's called LAER, lowest achievable emission
4 rate, which is basically the best they can do.

5 PRESIDING MEMBER LAURIE: Okay, and so
6 without committing yourself today would you
7 anticipate recommending a 2 ppm?

8 MR. MOORE: Yes, that's what we're
9 recommending in the -- I mean the PDOC is based on
10 a true ppm limit.

11 PRESIDING MEMBER LAURIE: Okay, --

12 MR. MOORE: As they said, they're trying
13 to demonstrate 1 ppm.

14 PRESIDING MEMBER LAURIE: Okay, let me
15 ask Ms. Allen. If the District recommends 2 ppm,
16 would you anticipate that that's what staff would
17 be recommending, as well?

18 MS. ALLEN: Commissioner Laurie, I'm
19 going to have to defer to Mr. Layton on this.

20 HEARING OFFICER GEFTER: And while we're
21 talking about 2 ppm, is that averaged over a one-
22 hour or three-hour period?

23 MR. MOORE: I'd have to ask the manager,
24 I think it's a three-hour period.

25 MR. LAYTON: It is a three-hour period.

1 MR. MOORE: It is a three-hour period,
2 and I think --

3 HEARING OFFICER GEFTER: Okay, Mr.
4 Layton, would you identify yourself for the
5 record.

6 MR. LAYTON: My name's Matthew Layton,
7 I'm with the Energy Commission. It is a three-
8 hour rolling average for the 2 ppm. Other
9 projects are being permitted at 2.5 ppm for a one-
10 hour average. So basically it's roughly the same,
11 same level.

12 PRESIDING MEMBER LAURIE: What do you
13 anticipate -- do you anticipate recommending 2 ppm
14 giving deference to the District's recommendation?

15 MR. LAYTON: Again, we don't see any
16 difference between 2 ppm over three hours, and 2.5
17 for one hour. They're roughly equivalent.

18 HEARING OFFICER GEFTER: Okay.

19 MR. LAYTON: And we think SCONOx might
20 require the longer averaging time because there
21 are some peaks, potential peaks from SCONOx.

22 PRESIDING MEMBER LAURIE: I guess my
23 point is that there's representations that with
24 this technology you can get down to 1. I want to
25 get it clear that that's not going to be a staff

1 or other governmental agency recommendation as a
2 condition of this project.

3 MR. MOORE: Not at this time because it
4 is an untested project, I mean, an untested
5 process. So, I think there's a lot of indications
6 they can get down to 1. And they're certainly
7 planning to do that.

8 HEARING OFFICER GEFTER: For the record,
9 would you identify yourself.

10 MR. MOORE: Stephen Moore, San Diego Air
11 Pollution Control District.

12 HEARING OFFICER GEFTER: Thanks.

13 MS. SEGNER: May I say something?

14 HEARING OFFICER GEFTER: Ms. Segner.
15 Say your name, please.

16 MS. SEGNER: Sharon Segner with PG&E
17 Generating. Our permit application we filed at 2
18 ppm with a target of 1 ppm.

19 However, as an indication of our
20 seriousness in targeting 1 ppm we are taking an
21 additional limit of 100 tons per year on our -- a
22 dual permit limit of 100 tons per year.

23 If our intent was simply to keep the
24 technology at 2 ppm we would need more offsets as
25 well as we would not file with 100 tons per year.

1 And 100 tons per year enforceable limit is an
2 indication of our seriousness to get the
3 technology under 2.

4 PRESIDING MEMBER LAURIE: I want to make
5 it clear what my concern is, and I don't have an
6 answer yet, but my concern is that there's
7 representations that this technology can
8 substantially decrease the amount of pollution.

9 Now, what I have discomfiture about is
10 if, as a result of this plan, it is shown that
11 under these circumstances you can produce 1 ppm,
12 I'm going to want to know whether that is suddenly
13 going to become the state and national standard.

14 I'm going to want to have an
15 understanding in looking at the conditions of this
16 project whether we are, by fiat, creating a new
17 state standard. And so just be aware of that, and
18 I have a concern about that.

19 I don't know if we have to standardize
20 down to an experimental potential, and that's my
21 concern today.

22 MR. MOORE: Stephen Moore. The answer
23 to your question, in essence you would be setting
24 a new state or national standard if they can
25 demonstrate that they can do 1 ppm, and do it

1 reliably and on an ongoing basis. But that's not
2 what's in the permit, so right now it will be set
3 at 2 ppm essentially.

4 They have asked for a demonstration
5 period to try and get down to 1 ppm.

6 PRESIDING MEMBER LAURIE: And that's
7 because this technology suddenly becomes the best
8 available technology.

9 MR. MOORE: That's exactly right. And
10 we're certainly in favor of them doing that.

11 PRESIDING MEMBER LAURIE: I understand.

12 MR. MOORE: I'd also like to just
13 clarify something Sharon said that -- Sharon
14 Segner said about 2 ppm roughly is equivalent to
15 100 tons a year in emissions. If they were
16 running 2 ppm all the time they would be slightly
17 over that. But it's roughly equivalent to that.

18 PRESIDING MEMBER LAURIE: Okay,
19 understand. Thank you, sir.

20 MR. CARROLL: May I make a brief comment
21 on this issue?

22 HEARING OFFICER GEFTER: Please identify
23 yourself.

24 MR. CARROLL: Yes, Mike Carroll, Latham
25 and Watkins, on behalf of PG&E. Just briefly, --

1 HEARING OFFICER GEFTER: What is Latham
2 and Watkins?

3 MR. CARROLL: It's a law firm. I'm an
4 environmental lawyer with Latham and Watkins.

5 Just briefly, to address Mr. Laurie's
6 comments, what the project is required to comply
7 with is what's called the lowest achievable
8 emission rate under the Clean Air Act, and is
9 implemented by the District's regulations.

10 The lowest achievable emission rate is
11 the lowest level that has been demonstrated in
12 practice to date. As of right now that is either
13 the 2 or the 2.5 with the varying averaging times.
14 And therefore that's the limit that the facility
15 is required to meet, whether it chooses to do that
16 with SCR or with SCONox.

17 LAER doesn't change because the
18 technology you're putting in has a good likelihood
19 of achieving a lower rate. LAER only changes
20 after technology has been put in and it's been
21 demonstrated to achieve that lowest emission rate.

22 So I don't think that under the law
23 there is much chance of LAER changing because
24 we're putting in a technology that we think might
25 hit 1. As Mr. Moore just said, there's a very

1 good chance of it changing if we put it in and it
2 really does hit 1.

3 Thank you.

4 PRESIDING MEMBER LAURIE: Thank you.

5 HEARING OFFICER GEFTER: Does the
6 applicant have any further comments on the air
7 quality topic?

8 MS. SEGNER: Yes, we have further
9 comments on the mobile emissions offset package,
10 and have a presentation to give on that specific
11 aspect.

12 HEARING OFFICER GEFTER: All right.

13 MS. SEGNER: But no further comments on
14 SCONOx.

15 HEARING OFFICER GEFTER: All right,
16 we're going to go forward with the applicant's
17 presentation on air quality, and then we'll ask
18 staff to address both the SCONOx presentation and
19 also the presentation on mobile offsets. Is that
20 acceptable to staff?

21 Okay, Ms. Allen, that's all right with
22 staff, correct?

23 MS. ALLEN: Ms. Gefter, are you asking
24 us to comment on the applicant's slide
25 presentations?

1 HEARING OFFICER GEFTER: I would ask you
2 to comment on this SCONOX proposal from staff's
3 point of view, but would you wait until they
4 complete their entire presentation on air quality.

5 MS. ALLEN: Fine.

6 HEARING OFFICER GEFTER: Yes, thank you.
7 Okay, thanks, Ms. Allen.

8 Ms. Segner, do you want to proceed now
9 on your offsets proposal.

10 MS. SEGNER: Yes. I would now like to
11 introduce Jan McFarland and Mike Carroll to give
12 the presentation on our mobile offset package.

13 MS. McFARLAND: Hello, Commissioners.
14 My name is Jan McFarland and I'm pleased to be
15 here today. I'd like to not only talk about the
16 MERC program that we're proposing, but I'd also
17 like to briefly outline the ERCs program that
18 we've put together, as well.

19 I'm here representing PG&E Gen's offset
20 team, and our challenge was to find 120 tons of
21 NOx to site the Otay Mesa project. This 120-ton
22 NOx requirement is based on an emission rate of 2
23 ppm NOx with the potential to emit of 100 tons per
24 year using an offset ratio of 1.2 to 1, which is
25 what's required in severe nonattainment areas.

1 When we undertook this assignment the
2 first thing we did was look at the inventory. And
3 as you can see, I believe that this chart
4 illustrates how difficult our challenge is,
5 because traditionally as you site power plants
6 across the country you go to the stationary source
7 category and you develop emission reductions,
8 translate them into emission reduction credits.

9 But in the San Diego region, the bulk of
10 the emissions inventory, and these are '96 numbers
11 that were approved by CARB, 91 percent is mobile
12 sources, 7 percent are stationary sources, with 2
13 percent being area sources.

14 And I'd like to point out that in the 7
15 percent category 50 percent of those emissions are
16 from two existing power plants that come under a
17 rule 69, a NOx emissions cap, and therefore they
18 weren't available for Otay in terms of offset
19 reductions.

20 The offset team approach was to consider
21 every possible option in terms of emission
22 reductions. We scoured the District ERC registry.
23 We scoured the stationary source inventory. We
24 looked at Mexico, innerbasin trades, or ERCs from
25 the south coast, because the south coast plays a

1 very significant role in terms of the
2 nonattainment ozone status of the San Diego
3 region. And we also looked at mobile sources.

4 From this approach we have purchased or
5 have options on a number of ERCs. We're in the
6 development process for additional ERCs. We were
7 disappointed about Mexico because the timing is
8 really off.

9 The plant is a mile and a half from the
10 Mexican border, and there's a lot of emission
11 reduction opportunities. But unfortunately, there
12 isn't a regulatory framework in place that would
13 meet the Clean Air Act criteria, which means you
14 have to have inventories and you have to have
15 nonattainment plants, and those kinds of things.
16 So we couldn't continue in Mexico.

17 On the innerbasin side, we were very
18 hopeful there because the south coast plays such
19 an important role in terms of the emissions for
20 San Diego.

21 But under the Air Resources Board power
22 plant guidance there are discount ratios that are
23 applied for every 25 miles, additional discount
24 ratios. Plus the south coast also requires
25 discount ratios for their lost economic

1 development opportunities. So at the end of the
2 day we would have ended up with a ten-to-one
3 offset ratio.

4 And then, of course, mobile sources came
5 out as something that we definitely need to
6 pursue. The inventory chart definitely
7 illustrates that.

8 In terms of our MERC program the first
9 thing we looked at is fishing vessels. And we
10 worked a long time with CARB, and their guidance
11 was there was a question of does the NOx from
12 fishing vessels contribute to the attainment
13 issues for the District.

14 And CARB told us that as long as we were
15 within a 25-mile radius of the shoreline that that
16 would be something that they would support in
17 terms, as well as EPA, something that they would
18 support.

19 Unfortunately, we would have to pretty
20 much guarantee that the fish were going to stay
21 within the 25-mile radius, and we didn't think
22 that that was a good thing to bet a \$350 million
23 project on. We were very disappointed we couldn't
24 continue with that.

25 So what we did in the MERC program is we

1 surveyed 250 fleets. And from that survey we
2 identified three really good potential options,
3 school buses, city buses and commercial fleets.

4 Unfortunately, we ran into a few more
5 roadblocks. School buses, while they provide a
6 lot of health benefits to children that are quite
7 endearing -- or enduring, pardon me, and
8 endearing --

9 (Laughter.)

10 MS. MCFARLAND: Unfortunately they go
11 just to and from school. So there's not enough
12 vehicle miles traveled to really get enough credit
13 out of conversion of school buses.

14 We looked at the city buses. There are
15 five cities in the San Diego region. And the
16 roadblock that we ran into there is that the San
17 Diego air quality management plan requires the
18 city buses to reach 50 percent alternative fuels
19 by, I think it's 2002.

20 And unfortunately, the cities haven't
21 had the funding to reach that limit. And Chula
22 Vista, this city, is the most far along in that,
23 and it's only 43 percent.

24 So, if we did emission reductions they
25 wouldn't be surplus and they wouldn't meet the

1 offset criteria.

2 But we did identify a number of
3 commercial fleets that we felt, you know, were
4 going to be here in San Diego for the long run,
5 and that we could develop long-term business
6 relationships with.

7 So after all of this effort, we're
8 proposing an offset package that's roughly 50
9 percent ERCs, traditional ERCs, and 50 percent
10 MERCs, mobile emission reduction credits.

11 On the ERCs we undertook extensive due
12 diligent efforts to make sure that we met all the
13 criteria. Because when you go to use an ERC,
14 under the federal guidelines, they're discounted
15 at the time of use. So they may have produced 20
16 tons when they were created, but it's at the time
17 of use, what's the math there.

18 And so we spent a lot of time. We have
19 a number of ERCs that we have under contract
20 negotiation. It's roughly 58.15 tons of NOx
21 equivalent.

22 The other 50 percent of our package is
23 from MERCs. And we have identified two fleets
24 that we have very good feelings about their long-
25 term rule in the San Diego region.

1 We have identified a cleaner burning
2 diesel marine engine program, the San Diego Harbor
3 Excursions, where we expect to get between 23 and
4 30 tons.

5 And then we've also identified a heavy
6 duty diesel/natural gas conversion program which
7 we expect to get roughly 28 tons from.

8 Now, the MERC regulatory framework, how
9 you take MERCs and use them in traditional ERCs.
10 This has never been done anywhere in the country,
11 and it's extremely complicated, and we're going to
12 do our best to explain it today.

13 But what we thought would be the best
14 approach is to start out with our presentation on
15 our MERC program -- pardon me, on our marine
16 program with the San Diego Harbor Excursions.

17 And so I have a member of our team, Sid
18 Greenwald, who's here to discuss the San Diego
19 Harbor Excursions project. And, thank you.

20 DR. GREENWALD: Thank you, Jan. For the
21 record, my name is Sid Greenwald, and I'm going to
22 tell you a little bit about the marine fleet
23 program.

24 We have identified repowering of diesel,
25 old diesel engines and replacing them with the new

1 diesel technology. The new generation of diesel
2 engines is considerably cleaner, and also provides
3 about a 20 percent improved fuel efficiency.

4 So while you're going diesel to diesel,
5 as opposed to an alternative fuel, you are still
6 getting considerable amount of emission
7 reductions.

8 As Jan told you, we scoured the area to
9 find fleets that were good solid fleets, and good
10 solid emission reductions. So fleets that would
11 be in the San Diego, have been in the San Diego
12 area, have a history that we can demonstrate that
13 they will still be here.

14 And today we are happy to have with us
15 Mr. Todd Roberts from San Diego Harbor Excursions
16 to give you a little background on San Diego
17 Harbor Excursions and its history here in San
18 Diego.

19 Mr. Roberts.

20 MR. ROBERTS: Good afternoon, my name is
21 Todd Roberts with San Diego Harbor Excursion. San
22 Diego Harbor Excursion's operated a fleet of
23 passenger vessels here in San Diego for a little
24 over 80 years now. We started with ferry service
25 to Coronado prior to the bridge, as well as water

1 taxi service.

2 We're currently operating fleet of nine
3 passenger vessels. We carry close to a million
4 passengers a year here in San Diego Bay. And the
5 best part about it is we don't leave San Diego
6 Bay. We don't go fishing; we don't go out in the
7 ocean; we do circles around the Bay all day long.

8 (Laughter.)

9 MR. ROBERTS: You'll see in front of you
10 a flyer that we've handed out. This is a partial
11 list of our fleet. The vessels that were
12 scheduled for repower under this program are on
13 the first page, The Spirit of San Diego, which is
14 a 500-passenger vessel that engaged in dinner
15 crews, private charters and harbor excursions.

16 The other vessels that will undergo
17 repower will be the Marietta, which also does
18 harbor excursions; the Cabrillo and the
19 Silvergate, which offer ferry service between San
20 Diego and Coronado.

21 All these vessels are ranging in age
22 from 50 years old up to 14 years old. They all
23 operate Detroit Diesel, original two-stroke
24 equipment. These engines will last forever. And
25 we can repower these engines with the same thing

1 we have right now and the boat goes around and
2 does circles just fine with a two-stroke, 871 or
3 671 Detroit Diesel engine.

4 The technology that's been brought forth
5 by the new version, the series 60, reduces
6 emissions by over half. And that's the machine we
7 plan on repowering all four vessels with, and we
8 plan to embark here very shortly. Next month
9 we'll actually drydock our first vessel and
10 undergo the conversion.

11 That's what we do. I'm happy to answer
12 any questions about our fleet, our longevity here
13 in town. We've, I will add, over the last five
14 years our business has expanded approximately 25
15 percent. We continue to grow substantially with
16 the onset of convention center traffic, as well as
17 hotel development, which we'll be pioneering some
18 high-speed ferry service from the airport and
19 surrounding areas to downtown, what they call
20 North Embarcadero, hotel sites.

21 HEARING OFFICER GEFTER: Okay, we have a
22 question.

23 MR. ROBERTS: Yes, sir.

24 COMMISSIONER PERNELL: This repower, is
25 that a completely new engine, or is it a retrofit

1 with some catalytic converters and particulate
2 traps on it?

3 MR. ROBERTS: No. We'll actually remove
4 the engine in its entirety from transmission
5 forward. The whole thing comes out, and actually
6 the way we do it is we cut a hole in the side of
7 the boat and remove it in its entirety, and put a
8 whole new machine in.

9 These machines are sold at -- retrofit's
10 out of the question. As a matter of fact, we can
11 barely find parts for these machines on a regular
12 basis.

13 COMMISSIONER PERNELL: So this is a good
14 deal for you, also?

15 MR. ROBERTS: It's a good deal for us.

16 (Laughter.)

17 COMMISSIONER PERNELL: Thank you.

18 MR. ROBERTS: You're welcome.

19 DR. GREENWALD: Thank you, Todd. As
20 Todd said, these all have the original engines in
21 them. And there is currently no requirement that
22 any marine vessels repower with the new diesel
23 technology. There's no requirement out there, and
24 there's no incentive out there.

25 As Todd told you, they already had them

1 scheduled for repower, but they would have
2 repowered them with the same engines that are in
3 there now, the old dirty engines.

4 While they do get a 20 percent fuel
5 economy they're much more expensive, so it's not
6 cost effective for them to put in the new
7 technology in and of itself. However, this MERC
8 program has given them an incentive to go ahead
9 and put in these new, much cleaner engines.

10 As you see, the repowers were set to
11 repower two of the vessels this summer, and then
12 two in 2001.

13 The new technology cut the emissions
14 about half, so we expect to get between 20 and 30
15 tons emissions reductions from this. You've heard
16 Todd come up here and tell you that this program
17 is actually underway. This is an enforceable
18 program. We have an agreement at this point in
19 time. And the engines are being ordered. So
20 these boats will be in there, and the emission
21 reductions will take place.

22 And we're going to use this example, I
23 think, for Mr. Carroll to explain some of the
24 framework to you. Some of it will not fit, but
25 for the most part it's a little bit easier when

1 you have an example.

2 MR. CARROLL: Thank you. My name is
3 Mike Carroll, I'm with the lawfirm of Latham and
4 Watkins. And what I'm going to talk about is not
5 quite as interesting as the big picture, but
6 nevertheless, an essential part of this. And
7 that's the regulatory framework that is currently
8 being developed by the San Diego Air Pollution
9 Control District to implement the MERC program.

10 The details of implementing a stationary
11 source ERC program have been in place for some
12 time, but we do need some additional regulatory
13 framework in order to implement the MERC program.

14 The regulatory framework is being
15 developed pursuant to San Diego Air Pollution
16 Control District rule 27, which does provide for
17 the use of mobile source emission reduction
18 credits for use as offsets for stationary sources.

19 However, the rule does not provide
20 sufficient detail for the complete implementation
21 of the program, so the agency is developing this
22 regulatory framework pursuant to the rule that
23 will set forth all of the details.

24 There are four elements that I'd like to
25 go over within the regulatory framework. The

1 first is what we're calling the rule 27(c)(6)
2 alternative program. This is in essence the
3 regulatory language or the protocol by which the
4 MERC program will be implemented. It sets forth
5 all the requirements applicable to the MERC
6 program.

7 The second element is the MERC
8 application requirements. This is the information
9 that is required to be submitted by the fleet, San
10 Diego Harbor Excursion, for example, to the San
11 Diego Air Pollution Control District in order to
12 be issued the MERC certificate.

13 The third element is the MERC
14 certificate, itself. This is the piece of paper
15 that will be delivered to San Diego Harbor
16 Excursion by the Air Pollution Control District
17 evidencing the existence of the MERCs after the
18 conversion has taken place. And it's the same
19 document that ultimately San Diego Harbor
20 Excursion, in this example, would transfer to
21 PG&E, and PG&E would then surrender back to the
22 agency as offsets for the project.

23 And then finally the fourth element, are
24 permit conditions that will go into the stationary
25 source that uses the MERCs as offsets. In this

1 case it would be the final determination of
2 compliance for the Otay Mesa project to insure
3 that not only is the mobile source that generated
4 the credits complying with all the requirements of
5 the program, but the stationary source who is
6 using those credits as offsets is also complying
7 with all the requirements of the program.

8 PRESIDING MEMBER LAURIE: Question. And
9 I think I know this, but when you get the MERC
10 certificate, after you've gone through your
11 updating or your equipment, the amount of offsets
12 you then have available is the difference between
13 your output under your new technology versus what
14 you were spewing prior to that.

15 Where's the standard, who determines the
16 first number? Where does that first number come
17 from?

18 MR. CARROLL: The first number being the
19 new engine number --

20 PRESIDING MEMBER LAURIE: No.

21 MR. CARROLL: -- or the old engine
22 number?

23 PRESIDING MEMBER LAURIE: The old
24 number.

25 MR. CARROLL: The old engine number is

1 based either on certification data provided by the
2 California Air Resources Board or EPA for that
3 engine technology. Or, if there is no
4 certification data provided because the agencies
5 haven't tested that type of engine, then the
6 applicant is required to do testing.

7 So to use our example of San Diego
8 Harbor Excursion, there was no default factor, if
9 you will, that had been promulgated by the
10 agencies to say this is the emission rate for
11 marine engines of this type.

12 So we had to actually go out and test
13 the existing marine engines to establish that
14 baseline.

15 PRESIDING MEMBER LAURIE: And, of
16 course, the worse the number the more offsets you
17 end up having available to market?

18 MR. CARROLL: Yes.

19 PRESIDING MEMBER LAURIE: That's what I
20 thought. I didn't question the rationality of
21 that. But --

22 MR. CARROLL: Yes, well, that's right.
23 I mean the worse the number the more pollution
24 that has been going into the air with the old
25 engine, and therefore the greater the magnitude of

1 improvement with the new engine.

2 PRESIDING MEMBER LAURIE: Now, is every
3 engine that's operating in the State of
4 California, does that have a number attached to
5 it? Or do you have to go out and seek
6 certification of that engine?

7 MR. CARROLL: Let me give you a quick
8 answer, and then Sid may be able to provide more
9 detail. The answer is no, not every engine of
10 every type out there is regulated, and therefore
11 has a certified level.

12 PRESIDING MEMBER LAURIE: Then how do
13 you know what your inventory is?

14 MR. CARROLL: We had to actually do
15 testing on these engines. We set up monitors on
16 San Diego Harbor Excursions' boats and did actual
17 emissions testing to determine what the baseline
18 is.

19 So in this case you actually have better
20 than what you might typically have in some
21 situations because we're not using any default
22 factors. We went out and found out exactly what
23 the boats were emitting, and we're using that as
24 the baseline.

25 And Sid was actively involved in that

1 effort.

2 PRESIDING MEMBER LAURIE: In the earlier
3 slide you talked about your inventory of offsets
4 available in the San Diego area. Who has that
5 inventory? Does the District have that inventory?

6 DR. GREENWALD: The pie chart -- Sid
7 Greenwald for the record -- the pie chart that you
8 saw comes from the San Diego Air Pollution Control
9 District. And that is the inventory of emission
10 sources, that's a percentage of emission sources.

11 And then the inventory that we're
12 talking about when we talk about an inventory of
13 fleets, is the fleets that are out there operating
14 within the San Diego area.

15 And we surveyed those fleets to find out
16 what kind of operation they did, and also what
17 type of engines they have. Now, those on-road
18 fleets, for the most part, are operating with
19 engines that have a certification from the
20 California Air Resources Board, because they're
21 on-road engines and they have been regulated for
22 many years.

23 The level is quite high because they're
24 diesel engines that have been operating for many
25 many years, so they're very old generation. But

1 they do have some number on them that identifies
2 what they were emitting to begin with.

3 The marine engines do not have any
4 program on them, and never have. And so there was
5 no indication as to what the emissions were from
6 those engines. The manufacturers never tested
7 them because they had not standards that they
8 needed to reach.

9 What we were required to do in this
10 instance was to test each engine on each boat.
11 Because while the engines are the same, there's
12 two different types of engines in these four
13 boats, they're run under different operations
14 because the boats have different weights and the
15 boats operate a little bit differently.

16 So we got the emission numbers for each
17 engine and therefore would say that that same
18 engine, which would have been replaced in there,
19 would operate the same given the fact that it was
20 operating with the same propeller, the same fuel
21 and the same boat that it was moving through the
22 water.

23 PRESIDING MEMBER LAURIE: And so your
24 credit becomes available if you bring in your new
25 technology and replace the equipment. So before

1 you do that you want to make sure that you have a
2 really crummy piece of equipment.

3 DR. GREENWALD: Well, we didn't --

4 PRESIDING MEMBER LAURIE: No, what --
5 I'm really not trying to be cynical. You guys
6 deal in this all the time. But what I see is this
7 creation of this market as a result of people
8 having highly -- equipment with high degree of
9 pollution.

10 DR. GREENWALD: What you talked about
11 was a mal-maintained engine, and that was
12 accounted for in the source testing. What was
13 looked at was had there been any change in that
14 engine from when it was manufactured. Was the
15 timing changed.

16 And there was an elaborate protocol that
17 was approved by -- was proposed by San Diego Air
18 Pollution Control District, was approved by
19 California Air Resources Board and by EPA to
20 identify that this tested actually what those
21 engines were operating at, and that those engines
22 had not been tampered with.

23 HEARING OFFICER GEFTER: How did that
24 protocol come about?

25 DR. GREENWALD: San Diego Air Pollution

1 Control District drafted that protocol. There are
2 existing source testing protocols, and this is
3 what would be used for marine.

4 Santa Barbara also had one that was
5 similar, and this was kind of expanded upon. It
6 was originally done for the fishing fleet, was
7 originally developed for the fishing fleet and
8 then refined even further, as we learned things
9 over the year, that it was refined even further
10 for this harbor operation.

11 HEARING OFFICER GEFTER: Was the
12 protocol developed in response to Otay Mesa's
13 request?

14 DR. GREENWALD: The protocol existed
15 already, I believe, but maybe Mr. Moore can answer
16 that specifically. Here he is.

17 MR. MOORE: Stephen Moore, San Diego
18 APCD. We originally developed a protocol. We
19 were approached for the fishing boats. We were
20 not approached by PG&E at that time, we were
21 approached by another entity to try and bank
22 emission reduction credits from repowering fishing
23 boats.

24 And we developed a protocol in response
25 to that. And then we modified it basically to

1 apply it to this situation.

2 And the other comment I'd like to make
3 is as far as the emissions from these boats go,
4 the test results, we're not quite done analyzing
5 it yet, but overall the emissions from these boats
6 are not out of line with other information we see
7 from this type of engine.

8 We have some previous testing on similar
9 engines. And, you know, the test results
10 basically are not exceptionally high. I mean
11 these engines are dirty engines, and that's good
12 because we're basically replacing them with
13 cleaner engines.

14 HEARING OFFICER GEFTER: Are there other
15 districts in the State of California that use a
16 mobile offset protocol?

17 MR. MOORE: Santa Barbara has done some
18 of this, and they did some fishing boats,
19 repowers, and they have a protocol.

20 Some of our protocol built on what they
21 did. We, I think, had a little bit more elaborate
22 protocol. We've tried to do the best job we could
23 of estimating those emissions.

24 HEARING OFFICER GEFTER: So you're only
25 aware of Santa Barbara as being the only other

1 district where --

2 MR. MOORE: As far as I know Santa
3 Barbara is the only one that has written a
4 protocol for testing marine vessels.

5 HEARING OFFICER GEFTER: What about the
6 rest of the United States?

7 MR. MOORE: I don't know of anyplace
8 else.

9 HEARING OFFICER GEFTER: And would this
10 be the first time then -- has Santa Barbara
11 actually adopted a program to --

12 MR. MOORE: They have, --

13 HEARING OFFICER GEFTER: -- use mobile
14 emissions of marine vessels?

15 MR. MOORE: They have. They use them
16 not to offset new sources. They use them as
17 offsets for one of their rules that they have.
18 They have a rule which gives I think it's oil
19 companies basically, they can comply with the rule
20 or they can provide offsets instead. And they use
21 it for that.

22 HEARING OFFICER GEFTER: So the proposed
23 program that San Diego is offering to us is a
24 brand new program, it's never been used in any
25 other district?

1 MR. MOORE: That's right.

2 PRESIDING MEMBER LAURIE: Question. I'm
3 not going to ask what you're paying for your
4 offsets, but give me some general parameters as to
5 price per ton as to what the market is today. And
6 I don't want to know what you folks are paying.

7 MS. SEGNER: I feel confident that we
8 are chartering new grounds on that precedent, as
9 well.

10 (Laughter.)

11 PRESIDING MEMBER LAURIE: Well, give me
12 a hint.

13 MS. SEGNER: We are chartering new
14 grounds on this. There is definitely a supply-
15 and-demand issue here in San Diego. The offsets
16 in San Diego on the stationary side, I anticipate
17 based on what we've seen in CARB's pricing surveys
18 that they've done, to be the most expensive in
19 California.

20 Relating to the MERC program, for fleet
21 it varies, depending on the type engines that they
22 are using, that the MERCs are more expensive than
23 stationary sources. I think it would be safe to
24 assume, you know, any debt easily in excess of
25 \$50,000 per ton.

1 PRESIDING MEMBER LAURIE: Thank you.

2 For MERCs?

3 MS. SEGNER: Yes.

4 PRESIDING MEMBER LAURIE: And what about
5 stationary? What does CARB's survey show
6 throughout the state on average?

7 MS. SEGNER: I believe CARB's survey, on
8 average throughout the state, is under 10,000 a
9 ton most likely. I believe, if I remember
10 correctly, that for San Diego I think it shows
11 about \$20,000 a ton in recent years. We do not
12 agree with those numbers.

13 PRESIDING MEMBER LAURIE: Okay, that's
14 helpful, thank you.

15 MR. MOORE: Stephen Moore. I think the
16 latest figure for San Diego is about \$30,000 a ton
17 for ERCs, NOx ERCs.

18 HEARING OFFICER GEFTER: For stationary
19 sources?

20 MR. MOORE: For stationary sources,
21 that's right.

22 PRESIDING MEMBER LAURIE: Thank you.

23 MR. CARROLL: Mike Carroll. Just one
24 final comment on the protocol. I just wanted to
25 clarify that that protocol was approved by CARB.

1 They have been very actively involved in it. And
2 they did put a cap of 20 ppm on the upper end of
3 the range, based on their past experience.

4 They said, we will go with the numbers
5 that the test produce, but we must tell you we
6 will be skeptical of numbers that we see above 20
7 ppm.

8 So it was -- the guidance that's been
9 provided by CARB has capped it to some extent.

10 HEARING OFFICER GEFTER: Is that
11 guidance available to the Energy Commission?

12 MR. CARROLL: I don't know if that
13 particular piece of guidance was written down, or
14 if that was verbal. We can certainly provide the
15 protocol, and I think that we can, we are going to
16 get some written guidance from CARB on the overall
17 MERC program. And I think we could certainly make
18 sure that that's included in there.

19 MS. SEGNER: And then one thing to add.
20 Sharon Segner. One thing to add in terms of the
21 cost of the mobile offsets, not only in terms of
22 in this program is there the cost of actually
23 changing the engines to be much cleaner engines,
24 in some cases there is the issue of the fueling
25 infrastructure, which is an additional component

1 of our costs.

2 And in addition, we have been developing
3 this program for the past year. And have had a
4 significant amount invested, from our standpoint,
5 in developing this regulatory framework. And that
6 cost is not a small cost, as well.

7 MR. CARROLL: But all very well spent,
8 if I might add.

9 (Laughter.)

10 HEARING OFFICER GEFTER: In addition to
11 the proposed marine offsets, mobile offsets, what
12 other mobile offsets are you planning to use?

13 MR. CARROLL: We're also looking at on-
14 road fleets, and the precise source that we're
15 looking at right now is being held confidential
16 because we are still engaged in negotiations with
17 them. But it would be an on-road heavy-duty
18 diesel truck fleet.

19 And in that case it would be a
20 conversion to natural gas engines, as opposed to
21 some sort of a cleaner diesel technology.

22 HEARING OFFICER GEFTER: And what is the
23 breakdown in percentage of mobile offsets for the
24 marine fleet, and then for the heavy-duty --

25 MR. CARROLL: It's roughly equivalent.

1 I think the numbers were -- the current number is
2 about 28.5 tons from the on-road fleets, and
3 between 23 and 30 tons from the marine fleet.

4 PRESIDING MEMBER LAURIE: Mr. Carroll,
5 as a matter of practice, when there's an upgrade
6 to the diesel fleet, for example, does a potential
7 purchaser normally pay for that upgrade? Just as
8 a matter of practice. I'm not asking what you're
9 doing.

10 MR. CARROLL: When credits are being
11 generated or --

12 PRESIDING MEMBER LAURIE: Yes.

13 MR. CARROLL: Yes. But this is very
14 atypical. Because what would typically happen is
15 that the source, as required by the CEC
16 regulations and other agencies' regulations, would
17 acquire a right to buy those offsets at some point
18 in the future.

19 So what would typically happen is we
20 would enter into an option contract to acquire
21 offsets that have already been created and banked.
22 We wouldn't have to lay out significant dollars
23 until almost the point in time that we needed
24 those, prior to plant operation.

25 This is very different and is much more

1 expensive and much more risky to the applicant,
2 because of the long lead times necessary to
3 implement these programs.

4 As you've heard, in order to get all of
5 these in place, get the credits generated by the
6 time we need them to satisfy your requirements, we
7 needed to start already. And therefore, we have
8 had to start buying these, in essence, by paying
9 the fleets to do the conversions.

10 So, yes, you do pay for the technology,
11 but this is highly unusual to be paying for it
12 this early in the process.

13 HEARING OFFICER GEFTER: Okay, thank
14 you.

15 MR. CARROLL: Okay, slide 2, please.

16 HEARING OFFICER GEFTER: Also, it is now
17 5:30 and we've spent an hour and a half now on air
18 quality, so if we can speed this up and allow
19 staff to also make its presentation.

20 MR. CARROLL: Absolutely.

21 HEARING OFFICER GEFTER: And that's not
22 a criticism. We had some good questions, we
23 acknowledge that.

24 MR. CARROLL: What I will do is try to
25 move quickly, and if there's something that you're

1 interested in, stop me and I'll slow down.

2 Moving through element one, which again
3 is the MERC, is the alternative program, the
4 regulatory language. It will cover applicability,
5 in this instance the framework is anticipated to
6 be limited to the generation of NOx credits that
7 may be used for new source review offsets.

8 And the sources that are eligible to
9 generate credits under the framework would be just
10 heavy and medium duty diesel vehicles and marine
11 vehicles.

12 The credit generation, and this is
13 something that Mr. Laurie has actually already
14 covered, this is the formula that generates the
15 quantity of credits that's available.

16 And it's a relatively simple formula.
17 You simply take the baseline emission factor, FB
18 in this formula, over the emissions from the old
19 engine, and compare that to the replacement
20 emission factor, FR in this formula. And then
21 assume a constant activity level.

22 So, in other words, assuming 100 hours
23 of operation the old boat would have emitted X and
24 the new boat will emit Y. And the difference
25 between those two is the credit amount.

1 Next slide, please. Credit life has
2 been one of the thornier issues in developing the
3 framework. Because typically mobile source
4 credits have a limited lifetime which is tied to
5 the life of the new vehicle.

6 The idea is that if the new vehicle is
7 going to only operate, be out on the road, or be
8 in the harbor for the next 12 or 15 years, then
9 you're only generating a credit for that period of
10 time. That's different from stationary source
11 credits which, once generated, last forever.

12 Some mobile source credits have a very
13 long time, and for example, the marine vessels do
14 have a long lifetime of 30 years or more, and
15 those mobile sources are deemed to be equivalent.

16 However, some of the others, the on-road
17 fleets that we're looking at do have shorter
18 lifetimes.

19 We need to close the gap here because we
20 have credits that have a limited lifetime, yet we
21 have a power plant and an offset obligation that
22 is 30 years or more.

23 So one of the things that we needed to
24 do in the framework is to figure out a way to
25 close the gap between a limited lifetime MERC and

1 a permanent offset obligation.

2 The current draft of the framework
3 allows the credit life to be extended provided
4 that three conditions are met. The first is that
5 the minimum unextended life of that credit be 7.5
6 years, so that new source needs to operate at
7 least 7.5 years.

8 The second is that a discount factor be
9 applied, and I'll get to that in just a moment.

10 And then the third is what we were
11 calling the replacement obligation. And what that
12 says, in essence, is that if one of those new
13 engines that you put out on the street is removed
14 from service for some reason, let's say it gets
15 into an accident, and you decide that you need to
16 replace that engine, you must replace it with an
17 engine that is at least as clean as that original
18 replacement that has been in the accident.

19 So that insures that on an ongoing
20 period, an engine that is at least as clean as
21 your original replacement, will continue to be
22 operated.

23 Next slide, please. This formula gets a
24 little bit more complicated. This is basically
25 the formula for extending the credit life. And it

1 starts out with determining what the discount
2 factor is, which is actually the second line
3 there, the second formula.

4 In order to determine the discount
5 factor, DL in this case, what you take is the
6 original life of the credit, so let's say it's an
7 on-road truck that's expected to last 12 years,
8 and therefore the original life of the credit is
9 12.

10 And you divide that by the number of
11 years of the offset obligation, in this case a
12 power plant, let's say 30 years. And that's how
13 you determine the discount factor.

14 And then in the formula up above you
15 take the discount factor and multiply that by the
16 quantity of the unextended life credits, CF in
17 this case, and that gives you the quantity of the
18 extended life credits.

19 Now, if we can flip to the next slide,
20 there's a short example here. Let's assume that
21 we generate 20 tons per year of NOx MERCs, and
22 that those MERCs had a 12-year life. And let's
23 also assume that we have a 30-year offset
24 obligation associated with the power plant.

25 The way we would generate the discount

1 factor is we would take the 12-year credit life,
2 divide that by the 30-year offset obligation, to
3 arrive at a discount factor of .4.

4 We would take that discount factor and
5 multiply it by the original quantity of unextended
6 life credits, in this case 20, to arrive at 5.

7 So basically 20 tons of 12-year credits
8 are converted into 5 tons of 30-year credits,
9 which are deemed to be permanent, and therefore
10 available for offsets for the power plant.

11 Next slide, please. One of the other
12 requirements of the alternative program has to do
13 with disposal of the original engines. Obviously
14 we want to make sure that these engines are not
15 being moved across the street and continuing to
16 emit in San Diego, so they must be either
17 destroyed completely, or deployed outside of San
18 Diego and outside of any upwind area that might
19 affect San Diego.

20 There are extensive record-keeping and
21 reporting requirements. I won't go into the
22 details of these, but they're in place to insure
23 that the MERC program operates just as it was
24 intended to, and complies with all of the
25 applicable regulations on a going forward basis.

1 Element number two is the credit
2 certificate. This is the piece of paper that
3 would be issued to San Diego Harbor Excursion. It
4 basically includes four elements. There's more
5 detail than this, but this is an overview.

6 It identifies the sources, both the old
7 sources that were replaced, and the new sources
8 that have been deployed. It identifies the MERC
9 issue date, the date on which the credits were
10 issued to San Diego Harbor Excursion, for example;
11 the MERC expiration date, if any; and the MERC
12 quantity, the quantity of credits that were
13 generated as a result of the project.

14 The MERC certificate will also include
15 some provisions on the use and sale of the MERCs,
16 and I talked a little bit about the risk
17 associated with this type of program. Because
18 both we and the fleet sources need to get out so
19 far in advance of the project for which these
20 offsets are really intended, it's important for
21 both of us to make sure that these offsets and
22 fungible and transferable.

23 So if, for some reason, we certainly
24 don't anticipate it and don't hope this to be the
25 case, but if for some reason the Otay Mesa project

1 should not go forward, we all would have already
2 invested significant dollars in generating these
3 credits, and we would want those to be available
4 for some other use, to be sold on the market to
5 another user.

6 Of course, any of the limitations on use
7 at the Otay Mesa project, such as they can only be
8 used as NOx new source review offsets, would
9 continue to apply to those credits. The intent is
10 that the credits would be fully fungible, fully
11 transferrable, just like an ERC generated from a
12 stationary source.

13 Again, I won't go into detail on these,
14 but the MERC certificate issued to San Diego
15 Harbor Excursions would include all the record
16 keeping and reporting requirements set forth in
17 the regulations to insure that everything that
18 needed to be done to insure the validity of these
19 credits was done over the life of the project.

20 Next slide. Another element that will
21 be included in the MERC certificate is the
22 activity level monitoring requirement. This is
23 another one of the more interesting issues that
24 we've had to grapple with in developing the
25 framework. And it's intended to address the issue

1 that I've already talked a little bit about, the
2 fact that mobile source credits are generally
3 limited in life, and here we are using them for an
4 offset obligation that is unlimited.

5 In addition, I've already talked about
6 the discount factor, and I've also already talked
7 about the replacement obligation, which insures
8 that these, what would otherwise be limited life
9 credits, are permanent.

10 Another factor that's built into here to
11 insure that we have permanent credits is an
12 activity level requirement. And what it basically
13 requires is that the new engine, once deployed,
14 achieves a certain activity level for a specified
15 period of time which is roughly equivalent to the
16 activity level of the replaced source.

17 So the idea is that we don't want to
18 deploy a brand new natural gas truck and have it
19 put in the back lot and sit there. We want to
20 make sure that that natural gas truck is out there
21 in the fleet, operating just as the old that it
22 replaced was.

23 So, there is an activity level
24 requirement that is supposed in the MERC
25 certificate, that needs to be complied with, again

1 to insure the permanency of what would otherwise
2 be a limited life MERC.

3 Next slide, please. Element three of
4 the program is the MERC application. This is
5 relatively straightforward not unlike an ERC
6 application. It requires a fleet such as San
7 Diego Harbor Excursion, who wants to generate
8 MERCs, to submit the specified information to the
9 District, including the replaced and replacement
10 engines, the baseline activity level, so that the
11 activate level requirement can be established, the
12 emission reduction calculations, and all the sorts
13 of things that you would anticipate, based on what
14 we've been talking about, would need to be in the
15 application. So that's a fairly straightforward
16 process.

17 Next slide, please. And then finally,
18 the fourth element of the program are conditions
19 that would go into the permit of the stationary
20 source that is using these MERCs as offsets.

21 And this is somewhat unique. In a
22 stationary source ERC program you wouldn't
23 typically see any permit conditions reflected in
24 the stationary source permit other than the fact
25 that you had to surrender a given quantity prior

1 to commencing construction.

2 But because this is somewhat of a unique
3 program there are certain obligations that are
4 imposed on the user of the credit, as well as on
5 the generator of the credit.

6 One of them is the ongoing activity
7 level, which I've already talked about, but it's
8 an obligation that's imposed not only on the fleet
9 to insure that that activity level is achieved,
10 but also on the source that's using those credits
11 as offsets to insure that that activity level is
12 achieved on an annual basis.

13 It also requires that a contingency plan
14 be included in the FDOC to address the situation
15 if the activity level is not met. So if there's
16 some problem in achieving the activity level that
17 brings into question the validity of the MERCs, or
18 the quantity of available MERCs, then there's a
19 contingency plan in place to address that
20 situation.

21 And then finally another element that is
22 somewhat unique related to the program, is an
23 ability for the stationary source to obtain what
24 is, in essence, a refund of unnecessary credits.

25 We had a lot of discussion today about

1 the anticipated NOx levels that we are permitting
2 the facility at 2 ppm NOx, but shooting for 1 ppm
3 NOx. We are providing offsets at the 2 ppm level.
4 But in the event that we are able to achieve the 1
5 ppm level on a going-forward basis, the framework
6 does provide an opportunity for us.

7 It's a limited period of time, the exact
8 period of time has not been established yet, but
9 within so many years of commencing operation if
10 we're able to hit the 1 ppm level on a sustained
11 basis and are willing to accept a permit condition
12 to make that enforceable, we can in essence seek a
13 refund of the surplus or unnecessary credits that
14 could then be used for other purposes.

15 That concludes my presentation. Thank
16 you very much.

17 PRESIDING MEMBER LAURIE: Thank you.

18 HEARING OFFICER GEFTER: Thank you. And
19 once this permit program is in place with the
20 District, what the Commission will need is the
21 entire history that you just laid out for us, and
22 the background that would eventually lead to a
23 PDOC allowing mobile offset credits.

24 Because since this is a case of first
25 impression for the Commission and for the State of

1 California, we would need a full picture on why we
2 would go forward with this program.

3 MR. CARROLL: And I actually intended to
4 mention this at the outset, and your comment
5 reminds me. The presentation we provided today is
6 based on the District's most recent draft of the
7 framework, which was developed January 26th was
8 the date.

9 That was developed after extensive
10 discussions and input from EPA and the California
11 Air Resources Board. We are anticipating written
12 guidance from both of those agencies. We actually
13 had hoped to have it here today.

14 There is one remaining issue that needs
15 to be resolved with the California Air Resources
16 Board, and we have not received final sign-off at
17 the headquarters level of EPA. But we do
18 anticipate that those letters, the written
19 guidance will be forthcoming. And that that would
20 then play into the District's development of the
21 framework and any refinements that might be
22 necessary in order to make it consistent with the
23 guidance.

24 I do think it is safe to say at this
25 point that based on our conversations we think the

1 guidance from the agencies will be very consistent
2 with the draft framework in the presentation that
3 we've given you today.

4 There are certain details, I think, that
5 may be changed, but overall we anticipate that the
6 written guidance from those two agencies will be
7 very consistent with what the District is
8 developing, what we've talked about today.

9 HEARING OFFICER GEFTER: Thank you.

10 MR. CARROLL: Thank you.

11 HEARING OFFICER GEFTER: All right,
12 we're going to ask staff to go forward with your
13 presentation on air quality. And at the
14 conclusion of staff's presentation we're going to
15 take a recess.

16 MS. ALLEN: The Energy Commission Staff
17 is very please about the prospect of dinner
18 cruises with cleaner engines, so --

19 HEARING OFFICER GEFTER: Please identify
20 yourself for us, Ms. Allen.

21 MS. ALLEN: Eileen Allen, the Energy
22 Commission Project Manager.

23 The staff is also pleased with the
24 applicant's willingness to propose SCON0x and
25 MERCs with considerable risk for them. We think

1 these ideas are innovative and definitely worth
2 studying.

3 However, since they are new and fairly
4 untested approaches, it's taking a while to give
5 the proposals a thorough environmental review at
6 the county, state and federal level. This is
7 particularly true for the MERCs.

8 I can go through the information pieces
9 that we need now, Ms. Gefter, or I can talk about
10 that during the scheduling.

11 PRESIDING MEMBER LAURIE: Ms. Allen, I
12 have a question. In your status report number
13 three, dated February 17, you talk about the
14 analysis that Energy Commission Staff is going to
15 do.

16 MS. ALLEN: Yes.

17 PRESIDING MEMBER LAURIE: This proposal
18 is being reviewed at the federal level by CARB, by
19 the local District. Please explain to me what you
20 believe our role to be in further analyzing the
21 proposal. What is your understanding as to what
22 you are asking your staff to do in that regard?

23 MS. ALLEN: The Energy Commission is the
24 CEQA lead agency involved, so we'll be looking at
25 the overall environmental impact picture given our

1 experience with other power plants in the state,
2 the statewide picture for power plants.

3 PRESIDING MEMBER LAURIE: Okay, but do
4 you do an analysis of the analysis performed by
5 other state agencies?

6 MS. ALLEN: That is one of the things
7 that Mr. Layton will be looking at.

8 PRESIDING MEMBER LAURIE: Okay. Are you
9 satisfied -- strike that. Have you gotten
10 Committee guidance as to what kind of analysis the
11 Committee is looking for from the CEC vis-a-vis
12 the other state agencies that would also have done
13 that work?

14 HEARING OFFICER GEFTER: Ms. Allen,
15 typically staff does perform an independent CEQA
16 analysis, is that what we're talking about?

17 MS. ALLEN: Yes.

18 HEARING OFFICER GEFTER: And it is so
19 mandated by the Warren Alquist Act.

20 PRESIDING MEMBER LAURIE: Wait, wait,
21 wait. I'm sorry, it's mandated by what?

22 HEARING OFFICER GEFTER: By the Warren
23 Alquist Act, by our law.

24 PRESIDING MEMBER LAURIE: Okay.

25 HEARING OFFICER GEFTER: For staff to

1 perform a CEQA analysis. Mr. Ogata.

2 MR. OGATA: Thank you, Jeff Ogata, CEC
3 Staff Counsel.

4 Commissioner Laurie, I think this is a
5 very interesting case, and I think there are some
6 details that haven't been expressed yet and I
7 don't know if we can go into those today.

8 But as I understand what's going on
9 right now, the applicant, along with all the other
10 agencies, are coming up with a proposal with the
11 District that will put in place this MERC program.

12 The District, as I understand, will be
13 carrying on the CEQA review for the program. And
14 then once that is in place, then staff will be
15 looking at specific offsets relating to this
16 project, which is the same framework that we have
17 in every other kind of case.

18 Staff does not actually look intensively
19 at the offsets that are provided. We just
20 basically check to insure that it meets all the
21 local rules.

22 And in this case, because it is
23 different and precedential, I expect that we will
24 be looking at it. But, we won't be going beyond
25 what has already been done by the other agencies

1 in developing this process. That is, we are not
2 going to come in at the end of the case and say,
3 we disagree with EPA and CARB about this program.

4 That's going to be handled -- is being
5 handled now. And so the only thing that we will
6 be doing is once we get the guidance and once the
7 program has been approved, we will then be
8 evaluating the actual offsets that are being
9 proposed for this project.

10 That's not different than any other
11 case.

12 PRESIDING MEMBER LAURIE: So you will
13 not be duplicating the efforts that have
14 previously been performed by any other
15 governmental agency?

16 MR. OGATA: That's correct.

17 PRESIDING MEMBER LAURIE: Okay. That's
18 fine, thank you.

19 HEARING OFFICER GEFTER: Go on.

20 MS. ALLEN: Would you like me to detail
21 the information pieces that we need in the air
22 quality area?

23 HEARING OFFICER GEFTER: Yes.

24 MS. ALLEN: We need the Air District's
25 preliminary determination of compliance. The

1 applicant has told us that they expect that that
2 will be filed on March 15th this year, so we'd
3 like to hear from the Air District what their
4 current date is.

5 We haven't seen the state and federal
6 guidance letters yet, so we'd like to be able to
7 review those.

8 We understand that the applicant has
9 signed a contract with Harbor Excursions, but that
10 contract negotiations with on-road fleets are
11 still ongoing. So we understand that that process
12 is in progress. However, until we are able to
13 review the applicant's final offset package with
14 letters of intent made public, we won't be able to
15 come to final conclusions about the offset
16 package.

17 We also understand that the applicant
18 has filed a project supplement. Was that filed
19 today? Filed today in Sacramento?

20 MR. CHILSON: Yes, that was.

21 MS. ALLEN: Pardon me?

22 MR. CHILSON: I'm Bill Chilson. It was
23 filed this afternoon.

24 MS. ALLEN: So we understand that that
25 project supplement filed today has some new air

1 quality information in it, so we'll need to review
2 that, also.

3 Those are the air quality items that we
4 still need.

5 HEARING OFFICER GEFTER: Thank you. At
6 this point we'll take a --

7 COMMISSIONER PERNELL: I have a
8 question.

9 HEARING OFFICER GEFTER: Oh, we have one
10 more question.

11 COMMISSIONER PERNELL: I have a
12 question. This might be for the applicant, but is
13 there a timeline on this? Are we going to -- what
14 is your anticipated timeline to get the
15 information, the rest of the air quality
16 information to staff so that we can move forward?

17 MS. SEGNER: We have filed with
18 California Energy Commission all copies of
19 contracts from stationary sources, and they are
20 public information.

21 In addition, our San Diego Harbor
22 Excursions, most pieces of it besides the monetary
23 aspects, have been filed with the California
24 Energy Commission, as well.

25 Regarding the one outstanding contract

1 to complete our offset package, we have filed
2 under confidentiality with California Energy
3 Commission our exclusivity arrangement with that
4 particular fleet. We are still in the final
5 stages of negotiations for the last piece of the
6 offset package. I anticipate that within the
7 month we're going to have a final agreement on
8 that last piece.

9 But as you can imagine, the issues here,
10 from a contractual standpoint, you know, are
11 large, from the standpoint of working these issues
12 through.

13 We have made significant progress and
14 the transaction is a large transaction.

15 COMMISSIONER PERNELL: And what about
16 the other agencies that are involved as it relates
17 to air quality and the documents that they have to
18 present? Do you have any idea of a timeline for
19 those agencies?

20 MS. SEGNER: Yes. We have seen the
21 draft letters from CARB, and there's one
22 outstanding issue among hundreds that have been,
23 in terms of which you can see for the level of
24 detail with this program, we're down to one issue.
25 And getting that letter finalized.

1 In addition, the EPA letter is at EPA
2 headquarters right now. It has had a region 9
3 sign-off. And now it's at headquarters for a
4 final review and sign-off.

5 I anticipate within the next couple
6 weeks we're going to have both of those letters.
7 And clearly, as soon as we have both those letters
8 we'll file with the California Energy Commission
9 and public records.

10 COMMISSIONER PERNELL: Final question.
11 Do you anticipate filing any additional documents
12 that staff would have to review? I understand you
13 filed something today. Do you anticipate filing
14 anything else at this time?

15 MS. SEGNER: In terms of additional
16 documents to be filed, the only additional
17 documents we've filed, we are in negotiations for
18 another large MERC contract.

19 We are looking at some other stationary
20 sources in case the other MERC contract does not
21 go through. There may be a few confidentiality
22 and letters of intent that are filed within the
23 next week or so that are back-up.

24 COMMISSIONER PERNELL: So that it sounds
25 like in 30 days everything should be, all of these

1 outstanding issues that we've discussed here
2 tonight should be somewhat finalized?

3 MS. SEGNER: That's where we're moving.

4 HEARING OFFICER GEFTER: My question is
5 for the Air District. Does the Air District agree
6 with the proposed anticipated date of the PDOC to
7 be March 15th?

8 MR. CARBONELL: Arthur Carbonell with
9 the San Diego APCD. The March 15th date was in
10 anticipation that we'd receive the new modeling
11 for the addendum to the authority for
12 certification last week.

13 So, upon receiving the new information
14 we expect at least two or three weeks for us to
15 review that and approve it, and incorporate it
16 into our evaluation, which takes us past the March
17 15th date.

18 Also, we cannot issue the preliminary
19 determination of compliance without a more
20 complete emission reduction certification package.
21 So we need more solid information on the MERCs and
22 stationary source credits.

23 HEARING OFFICER GEFTER: And are you
24 also anticipating the federal guidance letter and
25 the CARB guidance letter?

1 MR. CARBONELL: We are anticipating that
2 within seven to ten days. Upon receipt of that it
3 depends on the content of that letter to determine
4 how long after that we can issue the PDOC.

5 HEARING OFFICER GEFTER: Okay. Now, the
6 new information that you just indicated that you
7 think you were supposed to have last week, and now
8 you may not get for another couple of weeks?

9 MR. CARBONELL: That's the one we just
10 found out was filed today.

11 HEARING OFFICER GEFTER: That was a
12 supplement that was filed today --

13 MR. CARBONELL: The supplement.

14 HEARING OFFICER GEFTER: -- by the
15 applicant. All right.

16 MR. CARBONELL: But we have not received
17 it yet.

18 MR. CHILSON: Bill Chilson. There's
19 also a second package, we filed the AFC supplement
20 today with the California Energy Commission. And
21 I believe it's tomorrow we're going to be filing
22 the revised ATC applications to the District, so
23 they will have that information.

24 HEARING OFFICER GEFTER: All right,
25 we're going to take a recess for about ten

1 minutes. And we should reconvene say about 6:10.

2 (Brief recess.)

3 HEARING OFFICER GEFTER: We have two
4 members of the public who have asked to make
5 comment on the topic of air quality. And the
6 first person is Susanna Concha Garcia from the
7 American Lung Association.

8 MS. CONCHA GARCIA: Do I say my name
9 again?

10 HEARING OFFICER GEFTER: Yes, please.

11 MS. CONCHA GARCIA: Susanna Concha
12 Garcia from the American Lung Association of San
13 Diego and Imperial Counties.

14 I just wanted to say that we're
15 intending to follow the proceedings, and we're
16 interested in this topic, being that it's
17 experimental, and I, myself, as well as others,
18 need to do more research so we can familiarize
19 ourselves.

20 And I'm not necessarily here to be for
21 or against or intervene or anything. Right now I'm
22 collecting information and data. And ask
23 questions when it's appropriate.

24 So, I just wanted to be really brief and
25 just let you know that someone from the American

1 Lung Association will be here on a regular basis.

2 PRESIDING MEMBER LAURIE: Thank you.

3 HEARING OFFICER GEFTER: Thank you.

4 COMMISSIONER PERNELL: Thank you.

5 HEARING OFFICER GEFTER: And also, I'd
6 like to ask Holly Duncan to please come forward.
7 I understand you have a few comments. Please
8 identify yourself and what organization you
9 represent.

10 MS. DUNCAN: My name is Holly Duncan.
11 I'm just a private citizen, concerned citizen,
12 loosely connected to the Lung Association as a
13 mother of an asthmatic. So air quality is a very
14 big issue with me.

15 As a native of southern California and
16 also an escapee from smog capital, Los Angeles, I
17 don't want to see San Diego become another Los
18 Angeles.

19 Everybody that lives here prides
20 themselves on San Diego being paradise, and one of
21 the things we really pride ourself on is our
22 weather.

23 And the research that I have done over
24 the past few years regarding loss of trees in San
25 Diego, which is how I first came to be involved in

1 energy issues, has made it clear that with global
2 warming and the project you're proposing here, no
3 matter how clean, is still a contributor to this
4 problem, can radically alter our weather.

5 So it would be ironic in doing something
6 that we think is going to help us, would somehow
7 further on down the line not help us at all.

8 Everything I've heard here so far sounds
9 rather experimental, and I'm interested in the
10 high tech aspect of cleaning this plant. But I
11 also would like to suggest a low tech solution,
12 and that is planting a lot of trees to deal with
13 the things that you are dealing with.

14 We need them very much here in this
15 area. This is, for me, a more permanent solution
16 rather than MERCs, which sounds -- pardon the pun,
17 but it sounds rather murky to me -- because it
18 seems you're having trouble negotiating some
19 contracts, and these things could disappear.

20 And that leaves a question for me of
21 where do we go then if these things are supposed
22 to be in place working to clean the air, and then
23 they disappear. Where does that leave us?

24 My question would be, what's your fall-
25 back position on that one. What will you have to

1 fill in if, for some reason, the Harbor Cruise
2 isn't here anymore. Because that sounds like a
3 rather large chunk of your credits.

4 So I would like to propose an
5 experimental program of revegetating San Diego for
6 cleaning the air. And we'd like to have that
7 proposal looked at as a possibility for cleaning
8 our air even more than you might be proposing
9 here.

10 Thank you.

11 HEARING OFFICER GEFTER: Thank you very
12 much.

13 PRESIDING MEMBER LAURIE: Thank you.

14 HEARING OFFICER GEFTER: The proposal of
15 planting trees perhaps could be discussed between
16 staff and the applicant at some point during the
17 discussion of potential conditions of
18 certification and options of community support by
19 the applicant.

20 The next topic that we have on our
21 agenda is the topic of biological resources. And
22 we're going to ask the applicant to go first.

23 But I did want you to address the issue
24 that was raised in staff's status report regarding
25 the request of the U.S. Fish and Wildlife Service,

1 why the U.S. Army Corps of Engineers is not
2 initiating that request, and it has fallen to the
3 EPA.

4 And if the applicant would like to
5 proceed at this point, we will be glad to --

6 MR. CHILSON: My name is Bill Chilson.
7 Initially we had, well, we need to have what was
8 called a compliance with the Endangered Species
9 Act, and the mechanism for compliance, section 7
10 consultation.

11 And initially we were looking at the
12 Corps of Engineers to provide the federal agency
13 that we need to sponsor section 7. Our
14 discussions with the Corps, for a lot of reasons,
15 they didn't feel the interest, the need to fulfill
16 that role.

17 And the EPA Region 9, through their
18 responsibilities under the PSD, prevention of
19 significant deterioration permitting process,
20 decided that this was an issue that they had some
21 interest in. And therefore they have agreed to be
22 the sponsor for the section 7 consultation.

23 And we're proceeding on that basis.

24 HEARING OFFICER GEFTER: Do you have any
25 idea of the timeline for getting a biological

1 opinion?

2 MR. CHILSON: Well, the first step in
3 the section 7 process is to develop a biological
4 opinion -- I'm sorry, assessment, excuse me,
5 biological assessment.

6 The biological assessment is under
7 preparation, and we intend to have it ready to
8 file towards the end of the month. That will then
9 trigger a 135-day process for the U.S. Fish and
10 Wildlife Service, and also California Department
11 of Fish and Game, which will end up with the
12 biological opinion being available at the end of
13 that 135-day process.

14 HEARING OFFICER GEFTER: Would staff
15 like to comment on biology?

16 MS. ALLEN: Yes. I'll elaborate a bit
17 on EPA's interest in the project.

18 For background, EPA became involved in
19 the Metcalf project related to the possibility of
20 soil nitrification. And the potential result of
21 non-native species invading an area where there
22 were sensitive species that depended on the native
23 species for survival.

24 There's a similar issue here with an
25 endangered butterfly called the King of Checker

1 Spots. So EPA has established the federal nexus
2 and requested the Fish and Wildlife Service
3 consultation.

4 That process has begun. We've had a
5 meeting with all the biological agencies involved,
6 a staff public workshop actually. The staff
7 biologist, Rick York, is encouraged by the results
8 of that meeting, such that he will have enough
9 information to produce a complete preliminary
10 staff assessment as far as biological resources.

11 HEARING OFFICER GEFTER: What's the
12 timeline, according to your understanding?

13 MS. ALLEN: He's told me that he'll give
14 me a draft on March 10th.

15 HEARING OFFICER GEFTER: Who is he?

16 MS. ALLEN: This is Rick York, the
17 Energy Commission's staff biologist.

18 HEARING OFFICER GEFTER: And it would be
19 a draft of what?

20 MS. ALLEN: A draft of his overall
21 assessment of the impact of the project on
22 biological resources.

23 Now, a complicating factor that will
24 affect this March 10th date is the project
25 supplement has just been filed today. I don't

1 know how much time he'll need to look at that.

2 But I think that he will be able to give
3 it to me in March. So, that situation has
4 improved since I wrote the status report and filed
5 it on February 17th.

6 HEARING OFFICER GEFTER: Are there any
7 local agencies, any representatives who would like
8 to speak to the topic of biological resources?

9 Yes. Please identify yourself.

10 MR. LETTERI: Yes, my name is Tony
11 Letteri with the County of San Diego.

12 There really are six areas that I will
13 speak to tonight, but I'll focus on biology at
14 this time, and then get back up when we talk about
15 other issues.

16 On biology, the County Staff briefly
17 surveyed the property last week to look for
18 coastal sage scrub and other sensitive habitat.
19 It was determined that the site consisted mostly
20 of non-native grasslands and other non-sensitive
21 habitat, which is consistent with what it states
22 in the application.

23 It's our understanding that the
24 applicant is also completing additional off-site
25 biological work for the Lone Star Road alignment

1 for sewer purposes which I'll discuss a little bit
2 later.

3 Since the majority of that alignment was
4 also considered as a part of other aspects of the
5 plan, we don't foresee any issues with that.

6 In addition, the applicant has submitted
7 draft findings for conformance with the County's
8 multiple species conservation program, a program
9 which is adopted and doesn't show this area as an
10 area to be preserved for resource protection.

11 We're reviewing those findings and we'll
12 be prepared to present a report to the board on
13 all of these issues, on all of the issues
14 associated with the power plant, including
15 biology, on April 14th at the Board of
16 Supervisors, excuse me, that's April 12th at the
17 Board of Supervisors.

18 HEARING OFFICER GEFTER: Would a draft
19 of your recommendation be available to the Energy
20 Commission?

21 MR. LETTERI: Yes, we should have the
22 report ready for distribution to the board on
23 March 29th, and we'll make it available to staff.

24 HEARING OFFICER GEFTER: Thank you.

25 Are there any other comments on the

1 topic of biological resources regarding the
2 schedule or any other substantive issue?

3 All right, we can then move on to
4 transmission system engineering and ask the
5 applicant to comment on that topic regarding any
6 pending information and the status of the facility
7 study with SDG&E.

8 MS. SEGNER: We've been working
9 extensively with San Diego Gas and Electric on the
10 transmission interconnection issues. Currently
11 San Diego Gas and Electric is conducting a
12 facility study in terms of involving the cost of
13 interconnecting to San Diego Gas and Electric.

14 We anticipate that the results of the
15 facility study -- and we have seen already a draft
16 study in draft form We anticipate that that study
17 will be available in the month of March, in final
18 form in early April.

19 HEARING OFFICER GEFTER: Staff, do you
20 have comments?

21 MS. ALLEN: I listed a number of
22 possible transmission system improvements that San
23 Diego Gas and Electric has recommended in a
24 preliminary study. And these items were listed in
25 the application for certification.

1 The Independent System Operator sent a
2 letter to San Diego Gas and Electric on February 8
3 saying that they were acknowledging SDG&E's
4 recommendations, and that these items were
5 reasonable items for study.

6 I think the applicant concurs with two
7 of them for sure, constructing the Otay Mesa 230
8 kV substation and moving the existing Miguel
9 Tijuana line into the Otay Mesa plan as clearly
10 part of the Otay Mesa project.

11 But the other items are still subject to
12 discussion. So the question marks that staff is
13 left with are which items will be considered
14 clearly linked to the Otay Mesa project, and if
15 so, if others are added when will they be added to
16 the project description.

17 HEARING OFFICER GEFTER: In the
18 supplement that was filed today did applicant
19 address any of those questions raised by staff?
20 Ms. Segner.

21 MS. SEGNER: Sharon Segner, PG&E
22 Generating. Our view is that the AFC that's filed
23 with the California Energy Commission is complete
24 regarding the transmission interconnection, and
25 there are no additional lines to be added to the

1 project.

2 HEARING OFFICER GEFTER: I understand
3 that --

4 MS. SEGNER: And there is nothing in the
5 supplement.

6 HEARING OFFICER GEFTER: Thank you.
7 There's a representative from the California
8 Independent System Operator here today, and I'd
9 like you to come forward and address the items
10 mentioned in your letter, and also any other
11 review that you may have initiated.

12 MR. TOBIAS: What I'd like to do -- my
13 name's Larry Tobias from the California
14 Independent System Operator -- is read to you an
15 email that was sent out yesterday to California
16 Energy Commission, San Diego Gas and Electric, and
17 PG&E Generating.

18 And this was done as a clarification of
19 my review and California Independent System
20 Operator's review of the preliminary studies
21 that's been labeled as a system impact study for
22 Otay Mesa.

23 The following statement is in response
24 to questions from PG&E Generating and the
25 California Energy Commission regarding

1 clarification of California ISO's review of
2 the Otay Mesa. It's a system impact study.

3 Cal-ISO, in a letter to San Diego, dated
4 February 8, 2000, commented on this review of
5 the Otay Mesa system impact study report.
6 Although the ISO was not yet able to
7 recommend the interconnection facilities
8 identified in the study as the preferred
9 transmission plan of service, it was able to
10 state that the transmission facilities
11 identified within the limited technical
12 analysis conducted mitigated the reliability
13 problems that were identified."

14 So within the scope of that preliminary
15 study the solution fit the problems. And that's
16 all that was stated in that letter.

17 This study only included power flow
18 studies looking at thermal problems. Absence in
19 the study were reactive margin and short-circuit
20 analysis. Reactive margin looks at voltage
21 problems, both steady state and dynamic. Short-
22 circuit analysis looks on fault duty on circuit
23 breakers and whether those need to be replaced.

24 The study also did not consider the
25 latest load forecast. Since these preliminary

1 studies were conducted, the load forecast for the
2 San Diego Gas and Electric area has changed twice.
3 The new load forecast is being evaluated in the
4 facility studies.

5 The Cal-ISO has requested that these
6 additional analyses be completed as part of the
7 facility study. The facility study presently
8 being conducted for Otay Mesa by SDG&E will
9 identify transmission facilities needed to
10 interconnect Otay Mesa to the Cal-ISO control
11 area.

12 This facility study will also be
13 reviewed by the Cal-ISO.

14 HEARING OFFICER GEFTER: Okay, from this
15 additional comment that you just read to us today,
16 it sounds like what you were doing was just
17 explaining the letter dated February 8th that Cal-
18 ISO sent to SDG&E.

19 MR. TOBIAS: Yes, and that letter was
20 just an evaluation of the preliminary studies.
21 And so the actual identification of facilities,
22 transmission facilities that may be required to
23 incorporate Otay Mesa into the ISO control area,
24 that review will be done by the ISO upon
25 completion of facility study.

1 HEARING OFFICER GEFTER: Well, had you
2 had an opportunity to look at the staff's status
3 report regarding transmission system engineering?

4 MR. TOBIAS: Yes.

5 HEARING OFFICER GEFTER: Okay, and in
6 that report staff listed several items that staff
7 considered to be of concern, but the applicant
8 does not believe are part of the project. And I
9 wanted to know what Cal-ISO's view is.

10 MR. TOBIAS: Yes, there's significant
11 difference in the facilities that SDG&E has
12 identified versus those if you were to connect
13 strictly to Miguel Substation, and not beyond
14 there.

15 And at this time the Cal-ISO does not
16 have an interconnection policy for generation, so
17 we defer to the participating transmission owners,
18 which San Diego is one, so we defer to their
19 standards. And they do have existing standards.
20 And so within the scope of that they identify what
21 facilities are needed to incorporate all of the
22 power, in addition to other sources of power, at
23 what time, or what facilities may not be needed if
24 there is some trade-off that San Diego elects not
25 to receive power from Otay Mesa, and continue to

1 be able to fully receive it from the other
2 available sources.

3 So, that, in essence, is the way they
4 have been incorporating new generation into their
5 system up to this point.

6 HEARING OFFICER GEFTER: Does Cal-ISO
7 look at reliability once you look at the final
8 detailed facility studies submitted by San Diego?

9 MR. TOBIAS: Yes, we look at the --
10 we'll examine the facility sites from two points
11 of view. One is from one of fairness, such then
12 you look at have they correctly benchmarked the
13 existing system; and then the system with Otay
14 Mesa Generation in there, such that you correctly
15 identify those reliability problems that may be
16 caused by Otay Mesa. Therefore the transmission
17 facilities that go with it, also.

18 But, overall our analysis is focused
19 from system reliability point of view.

20 HEARING OFFICER GEFTER: Okay, so how do
21 we resolve the differences between staff's -- or,
22 I guess SDG&E's view and applicant's view that
23 there are several reconductoring requirements, and
24 that that would be part of the project.

25 MR. TOBIAS: Yes. I think at this point

1 in time anticipating that ISO will not have a
2 generation interconnection policy within the next
3 couple months, therefore I would only be reviewing
4 the facility studies from a technical point of
5 view, not from a policy point of whether or not
6 PG&E Generating would be responsible for a limited
7 amount or all of the facilities.

8 Just that with the reliability problems
9 identified, under the premise that all of this
10 power would come into the San Diego area, these
11 were the correct transmission facilities to
12 mitigate the problems.

13 So, therefore we're more or less
14 agreeing with San Diego Gas and Electric; we're
15 deferring to their interconnection standards and
16 policies at this time.

17 HEARING OFFICER GEFTER: Thank you. Is
18 there any question here from the Commissioners?

19 PRESIDING MEMBER LAURIE: Yes. I want
20 to make sure I understand the issue. Are we
21 talking about a cumulative impact issue?

22 MR. TOBIAS: Yes.

23 PRESIDING MEMBER LAURIE: So, let's say
24 for example this was a residential subdivision,
25 and this residential subdivision was throwing out

1 500 cars per day, which requires a certain amount
2 of traffic improvements at the next intersection.

3 Let's note, however, that whatever local
4 agency is in charge of traffic planning says, you
5 know, that's fine for you guys, but don't forget
6 across the highway there's two more projects
7 coming on line, they're some months behind you,
8 but they are identified, and they, too, will be
9 throwing 500 cars each a day onto this system.

10 So you, first guy, have to improve
11 according to what the anticipated cumulative
12 impact is going to be.

13 Is it your understanding that that's the
14 issue that we're talking about here?

15 MR. TOBIAS: I don't think it's the
16 issue of additional generation, although that's
17 certainly a possibility, as well. But I think the
18 issue is just that where does the responsibility
19 lie to access that generation with a generator, to
20 be responsible for the facilities for the power to
21 get to San Diego, or for SDG&E to be responsible
22 to build transmission to bring the power in,
23 themselves.

24 So, it's -- that's where the Cal-ISO's
25 amendment that was turned back by FERC to set an

1 overall generation and connection policy for
2 California dealt with that issue, such that it set
3 up how you determine who was responsible for
4 transmission facilities.

5 And without that we're just deferring to
6 the present policies that have been there.

7 PRESIDING MEMBER LAURIE: Ms. Gefter,
8 the Committee will talk about it, but one thing
9 that I certainly want to consider is providing a
10 briefing opportunity on this issue, because I want
11 to make sure everybody's on the same page, at
12 least understanding what the problem is.

13 MR. TOBIAS: Yes, and the ISO is in the
14 process, among several other things that are
15 interrelated to this, of re-initiating the
16 stakeholder process to revise generation
17 interconnection procedure and resubmit that to
18 FERC. Although that's many months off, I think.

19 PRESIDING MEMBER LAURIE: Yes, thank
20 you.

21 MS. ALLEN: Ms. Gefter.

22 HEARING OFFICER GEFTER: Yes, Ms. Allen.

23 MS. ALLEN: I think that I misstated
24 something when I summarized staff's position. I
25 think I said that there seemed to be general

1 agreement that the reconductoring of the Miguel
2 Tijuana line was clearly part of the Otay Mesa
3 project. That was a misstatement.

4 The applicant has said that they regard
5 it as a possibility and they've addressed that
6 possibility in the application for certification.
7 And they can correct me if I'm not stating this
8 correctly, but I think they still regard it as a
9 possibility rather than clearly part of the
10 project.

11 MS. SEGNER: Sharon Segner, PG&E
12 Generating. That is correct. At this point
13 Miguel Tijuana line, in our view, is a
14 possibility.

15 In addition, we will be looking to the
16 ADR provisions under the San Diego Gas and
17 Electric tariff for resolutions issue.

18 HEARING OFFICER GEFTER: All right, we
19 will, as Commissioner Laurie indicated, we will
20 ask the parties to address this in the future when
21 we look at the schedule.

22 But my understanding, then, from what
23 Ms. Segner had told us, is that the detailed
24 facility study from SDG&E will be available in
25 early April, is that an accurate statement?

1 MS. SEGNER: Yes.

2 HEARING OFFICER GEFTER: All right.

3 MS. SEGNER: We have our facilities
4 contract with San Diego Gas and Electric, was
5 executed in late December. Under the contract
6 they have 60 days in order to complete all the
7 studies.

8 And it is our hope that they are done
9 within the 60 days, but it's not completely in our
10 control.

11 HEARING OFFICER GEFTER: And if SDG&E
12 recommends that the Otay Mesa project include the
13 looping of the Miguel Tijuana line into the Otay
14 Mesa plan, would applicant go along with that?
15 Because previously Ms. Allen indicated, and you
16 agreed, that that was just a possibility.

17 MS. SEGNER: It is a possibility and is
18 something that we'll have to discuss further with
19 San Diego Gas and Electric, as well as the
20 California-ISO on that --

21 HEARING OFFICER GEFTER: All right.

22 MS. SEGNER: But we have done the
23 environmental work in case that does come through.

24 HEARING OFFICER GEFTER: All right,
25 thank you. Are there any other comments on the

1 topic of transmission system engineering?

2 All right, we'll go on to the Lone Star
3 Road wastewater line route which was an
4 alternative route proposed by the County. And
5 apparently the applicant has agreed to that new
6 routing.

7 Does the applicant have comments on
8 that?

9 MS. SEGNER: Sharon Segner, PG&E
10 Generating. The County of San Diego approached us
11 in the middle of January to discuss with us their
12 interest in possibly changing the route of our
13 sewer line which is identified in the AFC as the
14 Johnson Canyon route, to what is defined as the
15 Lone Star route.

16 We have worked diligently and have
17 appreciated, as well, all the help and support the
18 County's done in terms of working with us on this
19 project, I might add.

20 We met with the County and our initial
21 concerns on this route were whether or not there
22 would be full consensus from a biology and
23 cultural resources standpoint; in addition,
24 obtaining the right-of-way and the easements for
25 the new route.

1 What we discovered in the course of
2 further discussions is that, in fact, based on the
3 spring surveys done last year, that if you look on
4 1000 feet of the natural gas route, Otay's natural
5 gas route, and 1000 feet of the Johnson Canyon
6 route, and in fact, last year we had done all the
7 survey work, or a majority of the survey work for
8 the proposed Lone Star route.

9 So with that in mind, since we'd already
10 seen the results of the biology work from a year
11 ago, and the cultural resources work from a year
12 ago, we agreed to work with the County and to move
13 and add the Lone Star route as an alternative in
14 our AFC.

15 The AFC supplement was filed today, as
16 stated earlier this afternoon, and included in
17 that AFC supplement is adding the Lone Star route
18 as an alternative. And the Johnson Canyon route
19 remains the primary route.

20 But if things move forward smoothly in
21 terms of from a regulatory review on the issues,
22 then we will be addressing moving to change the
23 Lone Star route to the primary route.

24 HEARING OFFICER GEFTER: Staff, do you
25 have comment on that?

1 MS. ALLEN: Only that we haven't had a
2 chance to review the supplement filed today. And
3 that there will be a number of technical resource
4 areas involved in staff's analysis of the new
5 information.

6 HEARING OFFICER GEFTER: Thank you.
7 We're going to move along, and I wanted to ask the
8 parties to discuss some of the land use issues and
9 the infrastructure issues that were raised in the
10 status reports.

11 And then we'll go on to scheduling. So,
12 if applicant could address some of those pending
13 issues at this point. And then I understand the
14 County does have some comment on that topic.

15 Does the applicant wish to proceed on
16 that?

17 MS. SEGNER: We'd like to actually refer
18 to the County in terms of status on where all of
19 the land use issues are. We do anticipate that
20 this issue will go before the board of supervisors
21 on April 12, 2000, and we've been working very
22 hard to move toward that date.

23 HEARING OFFICER GEFTER: Okay.

24 MR. LETTERI: Thank you. Tony Letteri
25 with the County. There are six issues. We've

1 talked about one of them. Again, all of these
2 will appear as conditions that will go before the
3 board of supervisors on April 12th. So I'll be
4 real quick on this.

5 Regarding the site plans, let me just
6 say that the County has all the information that
7 we need to go through our review process. And
8 we've looked at the maps and the information
9 submitted by PG&E Generating, and we've determined
10 that they are complete. So we can complete our
11 review. That will go to the board on that date.

12 The conditions that we'll be proposing
13 to the board, on the site plan the issues
14 regarding maximum height and steepness of cut-and-
15 fill slopes are being reviewed at this time with
16 the information that was submitted. And may
17 result in recommended conditions regarding slope
18 stabilization and/or grading techniques. Standard
19 county conditions, so that's not an unusual
20 condition.

21 The project may also be required to
22 retain all drainage on site, or to have drainage
23 redirected from the south to the west and north, o
24 build an off-site regional facility. So we'll be
25 working with the applicant on that, but the

1 condition will be imposed.

2 PRESIDING MEMBER LAURIE: Mr. Letteri,
3 question. You're talking about conditions that
4 you would impose. Is it for site plan approval?
5 Is there any other discretionary approval, other
6 than site plan approval required for this plant?

7 MR. LETTERI: No. These are conditions
8 that are going to the board as if we were
9 processing a major use permit.

10 PRESIDING MEMBER LAURIE: Okay.

11 MR. LETTERI: We're not processing a
12 major use permit, but they're conditions that
13 would go to the board that would then be
14 transmitted to your Commission.

15 PRESIDING MEMBER LAURIE: Okay, thank
16 you.

17 MR. LETTERI: Regarding the Lone Star
18 sewer alignment, we agree with the applicant.
19 We'll be coordinating with them on assisting them
20 on any easement, acquisition of any easements.
21 PG&E Generating will be required to design and
22 build the sewer line, and they'll also be required
23 to oversize the facility and be party to a
24 reimbursement agreement with the County.

25 Regarding fire protection, this area is

1 served by the rural fire protection district. The
2 rural fire protection district has already stated
3 that they will provide service to the area based
4 on a fair share cost to be determined by the
5 district in consultation with the County.

6 Regarding noise, the County will be
7 utilizing the noise ordinance to address this use.
8 That ordinance for industrial uses is a 75 dba
9 requirement, rather than the residential, which is
10 50 or 45 dba, to review industrial projects within
11 the East Otay Mesa specific plan.

12 The East Otay Mesa specific plan is
13 almost entirely industrial, now, on the plan. And
14 it's a mixture of industrial uses, some
15 commercial, but almost entirely industrial. And
16 that's consistent with what is in the City of San
17 Diego to the west, which is almost entirely
18 industrial.

19 Regarding traffic, since traffic was
20 brought up, the County will recommend that PG&E
21 Generating propose and construct intersection
22 improvements to resolve truck turning and traffic
23 safety issues to the west.

24 And we're not sure that's a problem at
25 this point, but Otay Mesa Road and Alta Road has a

1 temporary problem at this point, and there were
2 also Caltrans budget proposals, improvements
3 already on the drawing boards. But depending on
4 who goes first during the construction phase only,
5 there may have to be intersectional improvements
6 or a transportation solution, an alternative route
7 approved by the County.

8 That's it. We do agree with PG&E
9 Generating that we've worked extensively for
10 several months. They've been cooperative with us.
11 We have all the information we need, and we're
12 preparing that report and we'll present it to the
13 staff when we docket it with the board.

14 PRESIDING MEMBER LAURIE: Thank you.
15 Ms. Gefter, I just want to make sure that staff
16 agrees that there is, in the staff report there is
17 a reference to land use issues. Does staff concur
18 that there is no land use issues as far as
19 discretionary entitlement required from the
20 County?

21 (Laughter.)

22 MS. ALLEN: We're all passing the --

23 PRESIDING MEMBER LAURIE: Well, it was
24 raised as an issue, and the County indicates that
25 there will be no discretionary entitlement

1 required.

2 MR. OGATA: As far as I understand,
3 Commissioner Laurie, we are in agreement that
4 there are no other issues. We appreciate what the
5 County is doing. We have had discussion with
6 them. They're giving us the conditions. We
7 expressed that --

8 PRESIDING MEMBER LAURIE: Okay, --

9 MR. OGATA: -- just insure that we take
10 care of what problems we have, so that's what
11 we're doing.

12 PRESIDING MEMBER LAURIE: That's fine.
13 It was just raised in the status report, so that's
14 why we put it in as an issue. Okay.

15 MR. LETTERI: It may have been that we
16 had requested additional information, but that has
17 been received.

18 PRESIDING MEMBER LAURIE: Okay, thank
19 you.

20 HEARING OFFICER GEFTER: Staff, do you
21 have any more comments on that topic?

22 MS. ALLEN: Only that we appreciate the
23 hard work both the applicant and the County have
24 put in to date, and we look forward to the results
25 of --

1 PRESIDING MEMBER LAURIE: For future
2 reference for the end of the day, we can well save
3 all appreciations for the next hearing. Okay.

4 (Laughter.)

5 MS. ALLEN: Fine, thank you.

6 HEARING OFFICER GEFTER: All right. At
7 this point we need to go on to schedule. And I
8 understand that staff and the applicant have been
9 discussing some sort of agreement in terms of the
10 schedule.

11 Perhaps Ms. Allen can discuss that with
12 us now.

13 MS. ALLEN: I think the five of you on
14 the dias have a copy of staff's proposed revised
15 schedule. I've placed a few copies of staff's
16 proposed revised schedule up on the wall there for
17 members of the public.

18 The first three dates that are on
19 staff's proposed schedule, I think, are not --
20 they're straightforward.

21 When we get to the fourth item,
22 applicant file preliminary determination of
23 compliance from the Air District, March 15th was
24 based on our informal scheduling discussion
25 yesterday with the applicant.

1 What we heard from the District today
2 indicates to me that March 15th is no longer a
3 firm date. I don't think I even heard that it was
4 possible.

5 So that date is an unknown. That was
6 the date that we noted as the trigger for staff
7 being able to file a preliminary staff assessment.
8 What we talked about with the applicant yesterday
9 was a proposal for staff filing of the preliminary
10 staff assessment 45 days from the date of the PDOC
11 being released.

12 So, with that date as a question mark
13 now, the rest of the schedule, particularly PSA
14 release date, the PSA workshops and the FSA
15 release date, they're all questions marks, also.

16 The other question mark that I would
17 highlight is applicant files transmission
18 facilities study by San Diego Gas and Electric.
19 As long as we have question marks there, it will
20 affect our ability to file a complete PSA.

21 HEARING OFFICER GEFTER: All right,
22 thank you. I did want to note before the
23 applicant begins your response, is that the
24 Committee's schedule provides that if the
25 applicant cannot provide necessary information by

1 the dates set forth in the schedule, the Committee
2 will consider adopting a performance approach that
3 would result in a day-for-day slip in the balance
4 of the schedule.

5 At this point we are slipping the
6 schedule just because we don't have the PDOC and
7 several other items that are pending, and also a
8 supplement to the AFC was just filed and needs to
9 be reviewed by staff.

10 So, in order for them to issue a PSA at
11 the very least they need to have time to review
12 the AFC supplement. And I'm just stating that as
13 a given.

14 I also see that applicant has made a lot
15 of effort to move all the agencies along to meet
16 the deadlines, and obviously as the original
17 Committee schedule indicated, we are aware that
18 you have no control over the timeline for agencies
19 to issue their necessary information and reports
20 for us. But, in any event the Committee only
21 looks at what the applicant can provide us.

22 And so in looking at what you can
23 provide us at this point, it looks like we are
24 slipping the schedule. And I'd ask you now to
25 respond.

1 MR. THOMPSON: Thank you. We recognize
2 that we -- first of all, we recognize the
3 difficulty of the issues that we are all facing in
4 this project, and in our scheduling discussions
5 with staff, we agreed to a 45-day slippage.

6 You tack the 45 days from the issuance
7 of the PDOC, none of the framework should change.
8 And it would really be time-dependent upon the
9 issuance of the PDOC, and we accept that.

10 HEARING OFFICER GEFTER: All right. Is
11 staff still satisfied with that timeline, that you
12 would be able to review a PDOC and get a PSA out?
13 Now, that would also mean that an FDOC would not
14 be available at that point, and so we would end up
15 with a bifurcated PSA in any event. Does staff
16 feel comfortable with that?

17 MS. ALLEN: Perhaps I'm
18 misunderstanding. We will be able to do a PSA
19 without the FDOC.

20 HEARING OFFICER GEFTER: But we, the
21 Committee, would want to have an FDOC before we
22 conclude evidentiary hearings.

23 MS. ALLEN: Oh, certainly. It would
24 help us very much if we had it before the FSA.

25 HEARING OFFICER GEFTER: All right.

1 MS. ALLEN: The other question mark out
2 there that I do need to mention is that we need to
3 get some closure at some point on the transmission
4 facilities question.

5 HEARING OFFICER GEFTER: And, as
6 Commissioner Laurie indicated earlier, we may ask
7 the parties to brief that issue for us. And we
8 would like to see that, because in that way we can
9 have all the parties understand what each party's
10 position is, and try to resolve that.

11 And that would include Cal-ISO and
12 SDG&E. We would like to include them in that
13 briefing exercise.

14 And, again, we would issue some sort of
15 order to the parties on that once we issue a
16 modified schedule, which will be the next step.

17 And as we conclude today's hearing I did
18 want to indicate to the parties and to the public
19 that the existing Committee schedule will be
20 modified based on the staff and the applicant's
21 agreement that a PSA would pend the filing of a
22 PDOC by 45 days, and that we would slip the
23 schedule in that manner.

24 I'm not sure what the Committee's
25 schedule would say specifically, but we would

1 include something to indicate that we are slipping
2 the schedule by 45 days.

3 And in that notice and order we will
4 also direct the parties to address the
5 transmission system engineering issues.

6 MS. ALLEN: That sounds good. Regarding
7 the transmission questions that you suggested
8 briefing, we'd be happy to conduct a public
9 workshop prior to the briefing point, with the
10 hopes that we could resolve a number of items
11 without having to go to briefs.

12 We would have held a public workshop by
13 this time on that item, but for the studies that
14 we've all been waiting for from San Diego Gas and
15 Electric and the ISO comments. We felt that if we
16 had held a public workshop, until that information
17 was available, there wouldn't have been a lot to
18 say.

19 PRESIDING MEMBER LAURIE: Well, there's
20 no reason why you can't do both. The briefing is
21 primarily for our education, so we understand the
22 issues.

23 I would suggest that we should plan on
24 doing both.

25 MS. ALLEN: I did hear from our briefing

1 expert that it would be good to have a public
2 workshop first. So, thank you. We would be happy
3 to do either or both.

4 HEARING OFFICER GEFTER: All right, and
5 again with respect to the schedule, as far as the
6 applicant and staff are concerned, you're looking
7 at a 45-day slippage.

8 There may be other slippages depending
9 on when the facility study is issued. And other
10 items that may occur. But it seems like the major
11 event is when the PDOC can be issued. And we're
12 then waiting for the documents from the EPA and
13 from CARB, plus other information that the Air
14 District has to review that was filed in the
15 supplement today.

16 I did want to ask about the supplement.
17 Was that -- were 125 copies filed and distributed
18 to interested parties?

19 MR. CHILSON: Bill Chilson. That's
20 correct. I had a -- I got a truck --

21 HEARING OFFICER GEFTER: All right.

22 MR. CHILSON: -- going to the Energy
23 Commission today.

24 HEARING OFFICER GEFTER: All right, so
25 the Air District would have a copy in their

1 office. All right.

2 Are there any other comments from the
3 parties?

4 MS. ALLEN: Just briefly getting back to
5 the transmission forum, SDG&E is not a formal
6 party in the case at this point, so we would very
7 much appreciate their participation and comments.

8 HEARING OFFICER GEFTER: We would hope
9 that they would participate in the workshop and
10 also file comments, along with the staff and the
11 applicant and Cal-ISO. We would appreciate that.

12 Any other comments? All right. Hearing
13 no other comments, this status conference is
14 adjourned. Thank you.

15 (Whereupon, at 7:03 p.m., the conference
16 was concluded.)

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CERTIFICATE OF REPORTER

I, DANIEL GRADY, an Electronic Reporter, do hereby certify that I am a disinterested person herein; that I recorded the foregoing California Energy Commission Conference; that it was thereafter transcribed into typewriting.

I further certify that I am not of counsel or attorney for any of the parties to said conference, nor in any way interested in the outcome of said conference.

IN WITNESS WHEREOF, I have hereunto set my hand this 10th day of March, 2000.

DANIEL GRADY

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