

BEFORE THE
STATE OF CALIFORNIA
ENERGY RESOURCES CONSERVATION
AND DEVELOPMENT COMMISSION

DOCKET 04-AFC-1
DATE JAN 03 2005
RECD. JAN 04 2005

Application for Certification
For the San Francisco
Electric Reliability Project

Docket No. 04-AFC-1

Offer of Proof

CARE provides the following finance and audit committee agenda and the agenda packet information acted upon by the City and County of San Francisco committee at its December 15th, 2004 meeting as an offer of proof that in executing the Power Purchase Agreement (PPA) between the California Department of Water Resources (CDWR) and the City acknowledged and agreed that monies from the Escrow Fund should be used only for those purposes which are reasonable and necessary for the development (and not the construction) of the Facility. This Development Budget was based upon Key Milestones identified in Schedule A provided in Figure 1 of CARE's December 28th, 2004 Motion to Terminate the above captioned proceeding which the City has failed to meet thereby defrauding California ratepayers as well as City taxpayers of public funds, i.e., a waste of public funds.¹ Since no proposed site currently exists for the Facility, therefore monies utilized to date by the City from the Escrow Fund are no longer reasonable and necessary for the development of the Facility. At this time for the Attorney General to deposit an additional \$2,666,667 to the Escrow Fund on January 1st, 2005 would be an unreasonable and unnecessary expenditure of ratepayer/taxpayer funds, and would therefore constitute a continuing waste of ratepayer/taxpayer funds. We respectfully must object to such further expenditure of public funds. CARE believe the attached Agenda and agenda packet material provide proof of CCSF's intent to miss appropriate state funds, since no proposed site currently exists for the Facility.

¹ CARE also included a copy of the aforementioned Power Purchase Agreement along with CARE's December 28th, 2004 Motion to Terminate Proceeding.

Respectfully submitted,

Michael E. Boyd

Michael E. Boyd
President
CALifornians for Renewable Energy, Inc.
(CARE)
5439 Soquel Drive
Soquel, CA 95073

January 3rd, 2005

Verification

I am an officer of the Intervening Corporation herein, and am authorized to make this verification on its behalf. The statements in the foregoing document are true of my own knowledge, except matters, which are therein stated on information and belief, and as to those matters I believe them to be true.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on this 3rd day of January 2005, at Soquel, California.

Michael E. Boyd

Michael E. Boyd – President, CARE
CALifornians for Renewable Energy, Inc. (CARE)
5439 Soquel Dr.
Soquel, CA 95073-2659
Tel: (408) 891-9677
Fax: (831) 465-8491
E-mail: michaelboyd@sbcglobal.net

File No. 041584

Committee Item No. 1
Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS
AGENDA PACKET CONTENTS LIST

Committee Finance and Audits

Date Dec. 15, 2004

Board of Supervisors Meeting

Date _____

Cmte Board

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OTHER

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Completed by: M. Red
Completed by: _____

Date 12/10/04
Date _____

An asterisked item represents the cover sheet to a document that exceeds 20 pages. The complete document is in the file.

[To appropriate settlement funds to fund the development costs associated with the San Francisco Electrical Reliability Project.]

Ordinance appropriating \$2,666,667 of fund balance from the Hetch Hetchy estimated revenues from the litigation settlement against The Williams Companies, Inc. and Williams Marketing Energy Marketing & Trading Company to the San Francisco Electrical Reliability Project for fiscal year 2004-05.

Appropriated funds will facilitate the development costs related to the City power plants.

Be it ordained by the People of the City and County of San Francisco:

Section 1. Funds are hereby appropriated for FY 2004-05 as follows:

Department And Number	Sources of Funds and Purpose of Appropriation	Amount	
		Debit	Credit
<u>Fund</u>	<u>Department</u>	<u>Program</u>	
5T-AAA-AAA	HHP	BCB	
PUC - Hetch Hetchy Operating Funds	San Francisco PUC - Hetch Hetchy	Water Supply & Power Operations	
<u>Funding Sources</u>			
999-99999B (320000)	Beginning Fund Balance - Budget Basis	\$2,666,667	

Mayor's Office

1	Department	Sources of Funds and	Amount
2	And Number	Purpose of	Debit
3		Appropriation	Credit
4	<u>Funding Uses</u>		
5	095-0955T	Intrafund Transfer Out to	
6	(UHUHZZZB955T)	5T-AAA-ACP, PUC –	\$2,666,667
7		Hetch Hetchy Continuing	
8		Projects Fund	
9		Total 5T-AAA-AAA	
			\$2,666,667
			\$2,666,667

11	<u>Fund</u>	<u>Department</u>	<u>Program</u>
12	5T-AAA-ACP	HHP	BCP
13	PUC - Water	San Francisco PUC –	Hetchy Hetchy
14	Department	Hetch Hetchy	Capital Projects
15	Continuing Project		
16	Funds		

17	<u>Funding Sources</u>		
18	950-9505T	Intrafund Transfer In	\$2,666,667
19	(UHUHZZZB505T)	From 5T-AAA-AAA, PUC	
20		– Hetch Hetchy	
21		Operating Fund	

Mayor's Office

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Department And Number	Sources of Funds and Purpose of Appropriation	Amount	
		Debit	Credit
<u>Funding Uses</u>			
Project			
CUH959 01	S.F. Electrical Reliability Power Project		
067-06700 (519591)	Buildings, Structures & Improvement Projects		\$2,666,667
	Total 5T-AAA-ACP	<u>\$2,666,667</u>	<u>\$2,666,667</u>

FUNDS AVAILABLE

APPROVED AS TO FORM:
DENNIS J. HERRERA, City Attorney
By: *Paula J. Herrera*
Deputy City Attorney

EDWARD M. HARRINGTON
Controller
By: *Edward M. Harrington*

Office of the Mayor
City & County of San Francisco



Gavin Newsom

TO: Gloria Young, Clerk of the Board of Supervisors
FROM: Mayor Gavin Newsom
RE: Ordinance Appropriating Hetch Hetchy Revenues to SF Electric Liability Project
DATE: November 16, 2004

Dear Madame Clerk:

Attached for introduction to the Board of Supervisors is an Ordinance appropriating \$2,666,667 of fund balance from the Hetch Hetchy estimated revenues from the litigation settlement against The Williams Companies, Inc. and Williams Energy Marketing & Trading Company to the San Francisco Electrical Reliability Project for fiscal year 2004-05.

If you have any questions, please contact Wade Crowfoot at 554-6640.

041584



SAN FRANCISCO PUBLIC UTILITIES COMMISSION

OFFICE OF THE GENERAL MANAGER

1155 MARKET ST., 11TH FLOOR, SAN FRANCISCO, CA 94103 • TEL. (415) 554-3488 • FAX (415) 554-3161



August 13, 2004

The Honorable Gavin Newsom, Mayor

The Honorable Edward Harrington, Controller

The Honorable Board of Supervisors, City & County of San Francisco

Subject: SFPUC Supplemental Appropriation - \$2,666,667

GAVIN NEWSOM
MAYOR

E. DENNIS NORMANDY
PRESIDENT

ROBERT J. COSTELLO
VICE PRESIDENT

ANN MOLLER CAEN
ADAM WERBACH
RYAN L. BROOKS

CHERYL DAVIS
ACTING GENERAL MANAGER

Ladies and Gentlemen:

Attached is a completed copy of Form 0-10, Request for Supplemental Appropriation, in the amount of \$2,666,667, to fund the San Francisco Electrical Reliability Power Project.

The City was a co-plaintiff in litigation against The Williams Companies, Inc., and Williams Energy Marketing & Trading Company arising from the energy crisis in California. The Governor of the State of California, acting on behalf of the agencies, departments, subdivisions, boards, and commissions of the executive branch of the State of California, by and through the Attorney General, The Williams Companies, Inc., Williams Energy Marketing & Trading Company, and other named parties including the City, entered into a Settlement Agreement dated November 11, 2002.

The Attorney General has agreed to allocate up to \$13,266,667 in settlement cash proceeds schedule to be received pursuant to the Settlement Agreement to the City. The City will be entitled to utilize those funds to the extent that: (1) the funds are actually received by the Attorney General, (2) the City continues to undertake the performance of the development tasks, and (3) those monies are needed to fund development tasks.

This request of \$2,666,667 is to appropriate the second annual deposit.

Cordially,

Cheryl Davis
Acting General Manager, SFPUC

PUBLIC UTILITIES COMMISSION

City and County of San Francisco

RESOLUTION NO. 03-0249

WHEREAS, The Governor of the State of California, acting on behalf of the agencies, departments, subdivisions, boards, and commissions of the executive branch of the State of California, by and through the Attorney General; The Williams Companies, Inc.; and Williams Energy Marketing & Trading Company and other named parties including the City entered into a Settlement Agreement as of November 11, 2002 (the "Settlement Agreement"); and

WHEREAS, The Attorney General has, pursuant to the terms of the Settlement Agreement and related documents (the "Project Agreements), agreed to transfer four (4) LM 6000 Gas Turbine Generator sets and related rights to the City for the purpose of developing, acquiring, constructing and operating a generating facility in the City; and

WHEREAS, The City intends to construct one or more power plants (the "City Plants") using the four (4) LM 6000 Gas Turbine Generator sets to facilitate the closure of the power plant at Hunters Point owned by Pacific Gas & Electric; and

WHEREAS, The Attorney General, pursuant to the Settlement Agreement, has agreed to advance certain moneys into escrow for the development of the City Plants on January 1, 2004 and has already delivered the first deposit of \$2,666,666; and

WHEREAS, Those funds can only be used by the City for the express purpose of paying for approved Development Costs; and

WHEREAS, HHWP has duly submitted a request for the appropriation of the funds in escrow and requested payment authorization of Development Costs, and

WHEREAS, The City has made substantial progress in the first year of the projects development; now, therefore, be it

RESOLVED, That this Commission authorizes the General Manager to request the Mayor to recommend to the Board of Supervisors a supplemental appropriation in the amount of \$2,666,667 for development costs related to the City power plants.

I hereby certify that the foregoing resolution was adopted by the Public Utilities Commission at its meeting of December 15, 2003


Secretary, Public Utilities Commission

DATE: November 15, 2004
ANALYST: Katie Petrucione

ANALYSIS OF SUPPLEMENTAL APPROPRIATION REQUEST

S.A.# 08

DEPARTMENT: Public Utilities Commission

AMOUNT REQUESTED: \$2,666,667

AMOUNT APPROVED: \$2,666,667

POSITIONS REQUESTED: 0

POSITIONS APPROVED: 0

FUNDING SOURCES: Litigation settlement proceeds

SUBJECT:

Supplemental appropriation request for \$2,666,667 to fund costs associated with the San Francisco Electric Reliability Project (SFERP). The SFERP, a project managed by the Public Utilities Commission, is charged with the development of new, cleaner power resources in San Francisco.

BACKGROUND:

San Francisco was one of multiple plaintiffs in litigation accusing the Williams Companies of energy price gouging and market manipulation during the California energy crisis. In 2002 the State of California entered into a settlement agreement with the Williams Companies on behalf of all plaintiffs. The city's portion of the settlement consisted of \$13.2 million and four natural gas fired turbines. The funds have been earmarked, with the state's approval, to facilitate the shutdown of older, polluting power plants and to ensure electrical reliability in San Francisco. SFERP intends to use the settlement revenue to begin the process of planning, design and construction for two new generation plants to be powered by the natural gas turbines. SFERP proposes to site one plant on Potrero Hill, allowing for the shutdown of the old and dirty Hunters Point Power Plant, and one plant at San Francisco International Airport.

SFERP has begun the process to determine a site for a power plant on Potrero Hill. It has also initiated the extensive environmental review process for the plant. The \$2.7 million dollars appropriated by this supplemental represents the second of seven installments on the anticipated total of \$13.2 million in settlement revenue. The budget for the current installment includes:

- \$1.8 million for professional services contracts to provide consultation on siting and environmental impact issues.
- \$332,000 to the Pacific Gas & Electric Company for work on interconnection issues.
- \$460,000 for maintenance and storage of the natural gas turbines.

RECOMMENDATION:

Approve the supplemental appropriation of \$2,666,667.

FISCAL IMPACT:

This supplemental appropriation has no impact on the General Fund Reserve.

CITY AND COUNTY



OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET ANALYST

1390 Market Street, Suite 1025, San Francisco, CA 94102 (415) 554-7642
FAX (415) 252-0461

December 9, 2004

TO: Finance and Audits Committee

FROM: Budget Analyst

SUBJECT: December 15, 2004 Finance and Audits Committee Meeting

Item 1 - File 04-1584

Departments: Public Utilities Commission (PUC)
Hetch Hetchy Water and Power (HHWP)

Item: Supplemental appropriation to fund the San Francisco
Electric Reliability Power Project

Amount: \$2,666,667

Source of Funds: Williams Energy Company State Settlement
Agreement Proceeds

Budget:	Storage, Insurance and Maintenance of Four Turbines (See Comments No. 5 and 6)	\$329,080
	Engineering and Environmental Consultant Services (See Comment No. 7)	1,648,117
	State Dept of Water Resources & California Power Authority Expenses (See Comment No. 8)	97,670
	Pacific Gas and Electric Fees (See Comment No. 9)	<u>591,800</u>
	Total	\$2,666,667

Description: The proposed \$2,666,667 supplemental appropriation request is to fund a portion of the development costs for the San Francisco Electric Reliability Project from the Williams Energy Company State Settlement Agreement Proceeds. The San Francisco Electric Reliability Project is intended to (a) facilitate the shutdown of older, more polluting power plants in the City, including the Hunters Point Power Plant and the Potrero Power Plant Unit 3, (b) improve air quality and (c) assure electrical reliability by developing, constructing and operating two new electric generating facilities with four General Electric natural gas-fired turbines. The Williams Energy Company Settlement Agreement was negotiated by the State with the Williams Energy Company for energy price gouging and market manipulation, which resulted in the City receiving four natural gas-fired turbines and a total allocation of \$13,266,667 from the Settlement Proceeds. The proposed \$2,666,667 supplemental appropriation would be funded from the second Settlement Proceeds payment received on January 1, 2004, of a total of seven payments to be paid by the Williams Energy Company from January 1, 2003 through January 1, 2010 into an escrow account for the City's total \$13,266,667¹ allocation.

Attachment I, provided by Ms. Karen Kubick of the PUC on December 8, 2004, provides a detailed overview and description of (a) the proposed San Francisco Electric Reliability Project, (b) the Project's objectives, (c) the Williams Energy Company State Settlement Agreement, (d) the Power Purchase Agreement (PPA) between the City and the State Department of Water Resources (DWR), (e) the two proposed sites for locating the four turbines and (f) issues related to site control and data adequacy. Attachment I also discusses the subject supplemental appropriation and the requested expenditures, the overall Project budget and financing, the additional actions to be taken by the Board of Supervisors and the related risks of the San Francisco Electric Reliability Project.

¹ Although the original Settlement Agreement provided for \$13,266,667 for San Francisco, the PUC advises that there may be surplus development funds of approximately \$2.3 million remaining from the Williams Settlement Agreement with the Kings River Project in Fresno, which could be made available to San Francisco, such that the total San Francisco development allocation would be approximately \$15,566,667.

Comments:

1. As discussed in Attachment I, on December 9, 2002, the Board of Supervisors approved a Power Purchase Agreement (PPA) between the City and the State Department of Water Resources (DWR), which (a) established various milestones for the City and DWR to achieve in order to develop, construct and operate the proposed electric generating facilities and (b) authorizes the City to sell the electrical output from these electric generating facilities to the State DWR for ten years, with the revenues received by the City from the State DWR intended to provide the necessary funds for the City to pay for the construction and operation of the two proposed electric generating facilities. The two electric generating facilities are proposed to be located on (a) a 4 acre parcel of City-owned land at 25th and Illinois Streets and (b) a 2.03 acre site at the Airport. As discussed in Attachment I, a Letter Agreement on November 14, 2003 between the City and the State DWR extended various milestones that were contained in the Power Purchase Agreement.

2. The Budget Analyst notes that, although the State DWR and the PUC, through a Letter Agreement, agreed to extend the site control milestone from December 31, 2003 to May 1, 2004, the PUC has still not fully obtained site control for the proposed electric generating facility in San Francisco. Ms. Kubick advises that this delay is primarily because the PUC originally had been negotiating for a 4.5 acre parcel on the existing Potrero Power Plant site, at 23rd and Illinois Streets, currently owned by Mirant Potrero, LLC (Mirant). According to Ms. Kubick, the PUC and Mirant were unable to reach an option agreement to purchase this 4.5 acre parcel. In accordance with the provisions of the Power Purchase Agreement, between the State DWR and the City, the State can terminate the Power Purchase Agreement if the City does not meet these milestones. Nevertheless, in a May 6, 2004 letter, the State DWR advised the City that DWR is not taking any action on the site control milestone at this time, but reserves all rights while the State continues to monitor the City's progress in locating an alternate site.

3. According to Mr. Jesse Blout of the Department of Economic and Workforce Development, the PUC and the

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BUDGET ANALYST

Mayor's Office are currently in discussions regarding siting three of the four turbines on approximately four acres on either Port property and/or Municipal Railway (Muni) property located between 25th and Cesar Chavez Streets near Illinois Street. Mr. Blout advises that both long-term ground leases with the Port and Muni and/or a purchase of the Muni property are being evaluated, based on land appraisals, State Lands provisions, and other due diligence. Mr. Blout indicates that the PUC is working on an agreement with the Port and/or Muni and he estimates that a specific site for locating three of the four turbines will be identified by mid-January of 2005. Mr. Blout anticipates that the PUC would enter into a Memorandum of Understanding (MOU) with either the Port or Muni, based on the outcome of their negotiations.

4. The fourth turbine would be sited at the San Francisco Airport. As noted in Attachment I, the PUC has entered into a 30-year MOU with the Airport, which, according to Mr. Ted Lakey of the City Attorney's Office is not subject to Board of Supervisors approval. Under this MOU, the PUC would lease Airport property on a 2.03 acre site for the development and sale of emergency backup electric power to be provided the Airport. This MOU between the PUC and the Airport provides that the Airport will enter into a 30-year lease with the PUC for this 2.03 acre Airport parcel located on the southeast corner of Clearwater Drive and North Access Road. The first year's rent payable by the PUC to the Airport, which would commence after the construction period, would be at a rate of \$13,268 per month, or \$159,210 for the first year. This rent would then be adjusted annually, by the Consumer Price Index.

In accordance with the MOU between the PUC and the Airport, if the electric generating facility constructed on the Airport parcel is required to supply emergency backup electrical service to the Airport, the Airport would pay the PUC for the power actually provided in an amount equal to the PUC's actual costs of operating the electric generating facility to supply the emergency backup service, including any reasonable start-up, operation and maintenance and fuel costs. Under the proposed MOU, the PUC would be responsible for all repairs, maintenance, utility, scavenger services and damages or

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BUDGET ANALYST

losses which arise from the PUC's use of the Airport property. Ms. Kubick advises that, although the amount of such operating costs and potential damages or losses has not yet been determined, such costs would be potentially reimbursable from the revenues paid by the State DWR for the electrical output, under the provisions of the Public Power Agreement for the first ten years. The Budget Analyst notes that the 30-year MOU between the PUC and the Airport is silent regarding what will happen after the first ten years regarding the electrical output and revenues generated by the PUC's electric generating facility.

5. As discussed in Attachment I, title to the four General Electric natural gas-fired turbines was transferred from Williams to the City in January of 2003. Since January of 2003, the City has stored these four turbines in a General Electric facility in Houston, Texas. The annual cost for storing and insuring the four turbines is \$389,700 (\$32,475 per month) and annual preventative maintenance charges for the four turbines is \$138,560 (\$11,547 per month), or a total of \$528,260 annually to be paid by the PUC to General Electric. The proposed supplemental appropriation request includes \$329,080 for eight months of turbine storage and insurance (\$259,800) from January 1, 2005 through August 31, 2005 and six months of preventative maintenance (\$69,280) from January 1, 2005 through June 30, 2005.

Ms. Kubick advises that the four turbines will continue to be stored by General Electric in Texas, at an annual cost of approximately \$528,260, until the PUC is ready to take delivery of the turbines. Although the PUC initially anticipated taking delivery of the four turbines by the middle of 2005, Ms. Kubick now advises that the PUC would not take delivery of the turbines until approximately February of 2007. Since each additional month results in additional costs of approximately \$44,022 for the PUC, this delay from the middle of 2005 until approximately February of 2007 will cost the PUC approximately \$792,396 (\$44,022 per month x 18 months). The Budget Analyst also notes that based on actual costs incurred by the PUC to date, together with the subject supplemental and projected costs through February of 2007, the PUC will incur total storage,

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insurance and maintenance costs of approximately \$1,967,985 for the four turbines. This \$1,967,985 storage, insurance and maintenance cost represents 14.8 percent of the total \$13,266,667 original Settlement Agreement proceeds for the development of the Project.

6. Mr. Russell Stepp of the PUC also advises that because the subject supplemental appropriation of funds has been delayed, the PUC was at risk of defaulting on their payments to General Electric for the storage and maintenance for these four turbines in calendar year 2004. As a result, Mr. Stepp advises that the PUC worked with the City Attorney's Office, the Mayor's Office and the Controller's Office to authorize \$424,340 of payments be made directly from the escrow account to General Electric to cover the cost of storage and maintenance from January 1, 2004 through December 31, 2004, without having first obtained approval from the Board of Supervisors. According to Ms. Theresa Mueller of the City Attorney's Office, the escrow agreement specifically identified the uses of the escrow funds and procedures for withdrawing funds from the escrow account, such that the payment by the PUC directly to General Electric from the escrow account, without the Board of Supervisors approval, were within the specified parameters of the agreement.

The Budget Analyst notes that this action of paying General Electric \$424,340 directly from the escrow account results in \$424,340 less being available to now approve from this subject requested \$2,666,667 second escrow payment. Therefore, the proposed supplemental appropriation should be amended to reflect that \$424,340 was retroactively paid to General Electric for the storage, insurance and maintenance of the four turbines. Ms. Kubick advises that the requested \$329,080 for the four turbines' storage, insurance and maintenance expenses in 2005 is still required, such that the proposed supplemental appropriation should also be amended to reflect that a total of \$753,420 (\$424,340 previously paid plus \$329,080 requested) is required for this purpose.

7. As noted above, the proposed supplemental appropriation contains \$1,648,117 for engineering and environmental consultant services, including (a) \$770,000

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for an expansion of an existing engineering services contract with PB Power totaling \$1,257,216, and (b) \$878,117 for an expansion of an existing environmental services contract with CH2MHill totaling \$2,201,177. Both of these engineering and environmental consulting contracts, which were not subject to Board of Supervisors approval, were awarded in response to RFPs for specialized services. Ms. Kubick advises that the engineering contract with PB Power will assist the City in completing the (1) engineering and site work necessary to support project licensing, (2) the procurement specifications for the design-build of the power plants, (3) Construction Management Plan, and (4) procurement specifications for a 10-year Operation and Maintenance contract. The contract with CH2MHill will assist the PUC with the California Energy Commission permitting process for the City site and the California Environmental Quality Act (CEQA) permitting process for the Airport site.

To offset the addition of \$424,340 noted above in Comment No. 6, the requested \$1,648,117 for Engineering and Environmental Consulting Services should be correspondingly reduced by \$424,340 to \$1,223,777. Ms. Kubick advises that the original PBPower request would be reduced from \$770,000 to \$380,057, a savings of \$389,943 and the CH2MHill request would be reduced from \$878,117 to \$843,720, a savings of \$34,397, to make up for the above-noted addition of \$424,340. Ms. Kubick reports that, although the reduced amounts for these two contractors will be sufficient for completion of the basic site work on the Port and Muni sites, the PUC will need additional funds for these contractors to complete their engineering and environmental reviews, which would be included in the PUC's next supplemental appropriation request, anticipated in March of 2005.

8. The proposed supplemental also includes \$97,670 to compensate the State Department of Water Resources (DWR) and the California Power Authority for their expenses related to management of the San Francisco Electric Reliability Project, in accordance with the Implementation Agreement between the City and the State DWR and California Power Authority during the development period. Mr. Stepp advises that to date, the

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Memo to Finance and Audits Committee
December 15, 2004 Finance and Audits Committee Meeting

PUC has paid \$259,487 to these two State agencies and that the PUC has additional invoices from these two agencies totaling \$109,220. Mr. Stepp further advises that the requested \$97,670 will be used to pay 89.4 percent of the \$109,220 invoices, and that additional requests for funds will also be included in the PUC's next supplemental appropriation request.

9. The proposed supplemental appropriation also includes \$591,800, including \$501,800 to pay PG&E fees for electrical facility studies and an initial installment on the generator special facilities agreement which will fund initial engineering and estimating work required to identify the facilities needed to connect the new City turbine generators to PG&E's electrical transmission system. In addition, \$90,000, based on PG&E's estimated cost of \$45,000 per site for each of the two sites, is requested to pay PG&E fees for the additional natural gas facilities studies to connect the new City turbine generators to PG&E's natural gas transmission system.

10. The Budget Analyst observes that the City, most notably PUC staff, City Attorney staff and the Department of Economic and Workforce Development have been incurring costs associated with this project since approximately December of 2002. As itemized in Attachment II, by the end of FY 2004-2005, the City will have incurred an estimated \$925,000 for Project Management, \$51,000 for Budget and Financial Support, \$1,050,000 for the City Attorney and other legal costs, and \$713,000 for Other Departmental Reviews, Public Relations and Miscellaneous Expenses, for total estimated City expenditures of \$2,739,000. Ms. Kubick advises that these City costs are not currently being reimbursed from the subject Settlement Proceeds in order to preserve the Settlement Proceed funds for contractual and other expenditures.

However, Ms. Kubick advises that each City department involved in this project is tracking their costs in order to obtain reimbursement from the Settlement Agreement Proceeds in later years. However, such reimbursement would only be available to the extent that the total project development costs do not exceed the Settlement Agreement Proceed funds of \$13,266,667. Ms. Kubick

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BUDGET ANALYST

Memo to Finance and Audits Committee
December 15, 2004 Finance and Audits Committee Meeting

advises that to the extent that the development costs exceed the \$13,266,667 Settlement Agreement Proceeds, the City could seek to recover such excess expenses from the State DWR under the Power Purchase Agreement. However, the State DWR could resist paying such expenses to the extent that they determine these are unreasonable overall costs under the Power Purchase Agreement between the PUC and DWR. If any excess City costs cannot be recovered either from the Settlement Agreement Proceeds or under the Power Purchase Agreement, the City would not be reimbursed for their costs.

11. As discussed in Attachment I, the subject Settlement Agreement Proceed funds can only be used for the development of the proposed two new electric generating facilities. As shown in the PUC's Project Budget in Attachment II, if the proposed project is to continue, the PUC will require not only the subject requested \$2,666,667 of Settlement Agreement Proceed funds, but the PUC will incur significantly greater costs than the Settlement Agreement will provide during the next several fiscal years. For example, Attachment II identifies cumulative budgeted expenditures of \$11,637,065 through FY 2004-2005, increasing to an estimated \$23,131,929 through FY 2005-2006 and a total of \$29,750,318 through FY 2006-2007.

However, as shown in the payment schedule on page 3 of Attachment I, the Settlement Proceeds will only provide revenues of \$7,600,001 through January 1, 2005, with an additional \$1,666,667, or a total of \$9,266,668 scheduled to be received by January 1, 2007. This will result in a projected shortfall of \$4,037,064 by the end of FY 2004-2005, increasing to \$15,531,928 by the end of FY 2005-2006 and \$20,483,650 by the end of FY 2006-2007. According to Ms. Kubick, the PUC will be requesting an estimated \$9,343,703 of additional funds from Hetch Hetchy's FY 2004-2005 budget to cover a portion of this anticipated shortfall in development funds. The Budget Analyst will conduct a detailed review of such a request for additional funds, when it is submitted to the Board of Supervisors, including how this will impact Hetch Hetchy.

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12. As discussed on page 9 of Attachment I, the first four payments, from January 1, 2003 through January 1, 2007 totaling \$9,266,668 from Williams under the Settlement Agreement are secured with a letter of credit. However, the subsequent three payments in years 2008, 2009 and 2010, totaling \$3,999,999² are not secured with a letter of credit. As a result, if Williams defaults on these latter payments, the City would have to either cover those development costs or fund them through future revenue bonds. Ms. Kubick advises that the PUC anticipates issuing an estimated \$162,335,000 of such revenue bonds in FY 2006-2007, subject to Board of Supervisors approval, which would be secured by the revenues paid to the PUC by the State DWR under the provisions of the Public Power Agreement between the PUC and the DWR, to fund the construction and operating expenses of the two new electric generating facilities.

13. As discussed in Attachment I, the PUC submitted and received approval for the Project Development budget, which totaled \$11,330,000 in January of 2004, assuming all four turbines were located at only the Potrero Power Plant site. As noted above, the PUC is now planning to develop electric generating facilities on two sites: (1) an alternate Port or Muni site and (2) an Airport site. As discussed above and reflected in Attachment II, the PUC is currently estimating a total Project Development budget of \$29,750,318 through FY 2006-2007. Ms. Kubick notes that this \$29,750,318 budget includes \$12,749,557 in estimated project development expenditures plus \$17,000,761 of financing capital cost expenditures that would occur prior to when the bond proceeds would be available.

14. As discussed in Attachment I, the City can terminate the Power Purchase Agreement (PPA) with the State Department of Water Resources at any time prior to the proposed two new electric generating facilities beginning commercial operations, if the City determines that (a) key approvals or permits for the facilities cannot be obtained on a timely basis or that the City cannot otherwise meet

² Any additional surplus payments remaining from the Kings River development funds, currently estimated at \$2.3 million, would be made by Williams and would also not be secured with a letter of credit.

its obligations, under the Project Agreement, or (b) proceeding with the development, acquisition and construction of the facilities would result in unacceptable risk to the City. If the City terminates the Power Purchase Agreement with the State Department of Water Resources, the City is entitled to \$2,500,000 for each of the four turbines, or a total of \$10,000,000, and reimbursement for the City's reasonable costs of development from the Settlement Proceeds. However, the Budget Analyst notes that Williams purchased the four turbines, to be transferred to San Francisco, from General Electric at a price of \$15 million each, or a total cost of \$60 million. As a result, if the State were to purchase the four turbines and pay San Francisco \$10 million, the City would experience a loss of value totaling \$50 million (\$60 million less \$10 million).

15. As outlined above, one of the major objectives of the San Francisco Electric Reliability Project is to facilitate the shutdown of older, more polluting power plants in the City, including the Hunters Point Power Plant (HPPP) and the Potrero Power Plant Unit 3. At the March 4, 2004 City Services Committee meeting, the California Independent System Operator (CAISO), who regulates energy transmission in the State, testified that the HPPP could be closed provided that the City builds three combustion turbine units in San Francisco and that certain PG&E transmission projects are completed. As discussed in Attachment I, the CAISO issued an Action Plan on September 10, 2004, which was revised on October 27, 2004 at the City's request, to provide specific details and timelines to achieve the shut down of the Hunters Point and the Potrero Power Plants. The CAISO Action Plan includes the construction and operation of the City's proposed Electric Reliability Project.

16. In summary, the Budget Analyst recommends approval of the proposed supplemental appropriation of \$2,666,667, with amendments, in order to facilitate the continued planning and development of San Francisco's Electric Reliability Project, but, raises the following longer-term concerns: (a) although the State DWR agreed to extend the site control milestone from December 31, 2003 until May 1, 2004, the PUC has still not obtained site control for locating three turbines on a City site, such that the State DWR is currently monitoring this situation and can terminate the Power Purchase Agreement with the City since

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BUDGET ANALYST

Memo to Finance and Audits Committee
December 15, 2004 Finance and Audits Committee Meeting

the City has not fully met this milestone (see Comment No. 2); (b) although the PUC has entered into a 30-year MOU with the Airport for the lease of a 2.03 acre site on the Airport for the development and sale of electric power at an annual rental cost of \$159,210 for the first year, with cost of living adjustments for subsequent years, and the PUC has entered into a Power Purchase Agreement with the State DWR which authorizes the City to sell all electrical output to DWR for ten years, the Airport MOU is silent regarding what will happen after the first ten years regarding the electrical output and revenues generated by this Airport electric generating facility (see Comment No. 4); (c) including the requested \$329,080 contained in this supplemental appropriation, the PUC is projected to require \$1,967,985 to pay General Electric to store, insure and maintain four turbines in Texas until February of 2007, or approximately 14.8 percent of the total Settlement Proceeds (see Comment No. 5); (d) the PUC with the City Attorney's Office, the Mayor's Office and the Controller's Office authorized payment of \$424,340 directly from the escrow account to General Electric for storage of the four turbines in 2004, without first obtaining Board of Supervisors appropriation approval (see Comment No 6); (e) PUC and other City staff are projected to incur costs of a total estimated \$2,739,000 by the end of FY 2004-2005 on this Project, which are not now being reimbursed from the Settlement Proceeds, and may or may not be reimburseable by the State DWR under the Power Purchase Agreement (see Comment No. 10); (f) the PUC will incur costs that exceed the amount that the Settlement Agreement will provide over the next several fiscal years, resulting in a projected shortfall of \$4,037,064 by the end of FY 2004-2005, and increasing to \$20,483,650 by the end of FY 2006-2007, such that the PUC will be requesting an estimated \$9,343,703 of additional funds to cover this anticipated shortfall from Hetch Hetchy's FY 2004-2005 budget (see Comment No. 11); (g) because the last three Settlement Agreement payments are not secured by a letter of credit, if Williams defaults on these payments, the City could have to fund up to an additional \$3,999,999 of development costs through a revenue bond, which would be issued to fund the construction and operating expenses of the two electric generating facilities (see Comment No. 12); (h) if the City terminates the Power Purchase Agreement with the State DWR, the City would receive a total of \$10,000,000 for the four turbines, which represents a loss of value of \$50,000,000, when compared to the total price of \$60,000,000 paid by Williams for the four turbines (see Comment No. 14).

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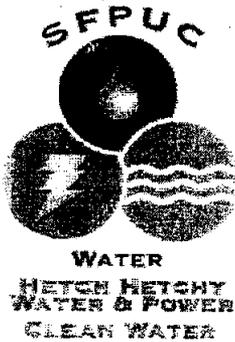
Memo to Finance and Audits Committee
December 15, 2004 Finance and Audits Committee Meeting

- Recommendations:**
1. In accordance with Comment No. 6, amend the proposed supplemental appropriation ordinance (a) to reflect that \$424,340 was retroactively already paid to the General Electric Company for the storage, insurance and maintenance of the four turbines in FY 2003-2004 and (b) to reflect that a total of \$753,420 (\$424,340 previously paid plus \$329,080 requested) is required for storage, insurance and maintenance of the four turbines.

 2. In accordance with Comment No. 7, to offset the increase reflected in Recommendation 1 above, amend the proposed supplemental appropriation ordinance to reduce the requested \$1,648,117 for Engineering and Environmental Consultant Services by \$424,340 to \$1,223,777.

 3. Approve the proposed ordinance, as amended.

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BUDGET ANALYST



SAN FRANCISCO PUBLIC UTILITIES COMMISSION

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MEMORANDUM

DATE: December 8, 2004

TO: Debra A. Newman
Budget Analyst
Board of Supervisors Budget's Analyst Office

FROM: Karen Kubick
Program Manager
SFPUC

SUBJECT: San Francisco Electric Reliability Project (SFERP)
Request for Supplemental Appropriation of \$2,666,667

GAVIN NEWSOM
MAYOR

E. DENNIS NORMANDY
PRESIDENT

RICHARD SKLAR
VICE PRESIDENT

ANN MOLLER CAEN
ADAM WERBACH
RYAN L. BROOKS

SUSAN LEAL
GENERAL MANAGER

The San Francisco Public Utilities Commission (SFPUC) is requesting a supplemental appropriation in the amount of \$2,666,667 for the San Francisco Electric Reliability Project (SFERP). This memorandum provides project information supporting this request.

The \$2,666,667 requested here is part of a fund provided by the Attorney General (AG) for the development of the SFERP. In January 2004, the Attorney General deposited the \$2,666,667 into an escrow account, which the City and County of San Francisco (the "City") may draw on to pay development costs. The City may not use the fund for any other purpose.

Project Description

The SFERP consists of the siting, development, construction and operation of four natural gas-fired combustion turbines and associated infrastructure. It is anticipated that three of the four 48-megawatt (MW) generating units will be sited on the Western Pacific site owned by the City and County of San Francisco and that the fourth unit will be located at the San Francisco International Airport (SFO).

Project Objectives

The principal objectives of the SFERP are to: (1) facilitate the shutdown of older, more polluting in-City generation, including the shutdown of the Hunters Point Power Plant (HPPP) and the Potrero Power Plant (PPP) Unit 3, (2) improve air quality, and (3) assure electrical reliability. These objectives are consistent with the City's goal to close the HPPP, the State of California's (the "State's") recognition that electrical system reliability in San Francisco is amongst the worst in the State, and the City's newly adopted Electricity Resource Plan.

At a March 4, 2004, meeting of the City Services Committee of the Board of Supervisors, the California Independent System Operator (CAISO), who regulates energy transmission in the State, testified that HPPP could be closed provided that the City builds 3 combustion turbine (CT) units in San Francisco and that certain Pacific Gas and Electric (PG&E) transmission projects are completed. After

completing the appropriate studies and risk assessment, the CAISO issued an action plan outlining the steps required for Potrero 3 and Hunters Point 1 and 4 to be released from their Reliability Must Run (RMR) contracts. These steps include some transmission upgrades and the building of the City's CT projects. The CAISO correspondence was included in the November 29, 2004 memorandum package. PG&E has an agreement with the City to decommission the HPPP when the CAISO certifies it is no longer needed for local reliability and cancels its RMR contract. Mirant Corporation, owner of the Potrero Power Plant, is still evaluating their options for the Potrero Power Plant site.

The new generating units will improve overall air quality and electrical system reliability. The project consists of clean burning units equipped with the best available pollution control technology. Replacing older more polluting in-City generating units with these units will improve air quality. Overall air emission will be further reduced by the City's commitment to develop a comprehensive air quality mitigation program and community benefit package. The City has already obtained local emission offsets for the project.

The new smaller units provide for greater system reliability and operational flexibility. The units' quick starting capability allows for a fast response to electrical system load needs. This capability allows units to be shut off when not needed. Having multiple smaller reliable units also provides redundancy, which increases overall system reliability.

San Francisco Electricity Resource Plan

The need for the SFERP was identified and documented in the San Francisco Electricity Resource Plan that was developed through the collaborative efforts between the SFPUC and the San Francisco Department of Environment. The Board of Supervisors, which mandated this effort in 2001, adopted the Electricity Resource Plan in December 2002. The Plan identified present and future vulnerabilities of the San Francisco electric system; established policy goals to guide decision-making related to the development of new electric resources; and identified specific actions that need to be taken to shut down the HPPP and other aging in-City generation. These actions include the development of sufficient highly efficient and operationally flexible new clean-in-City generation. Other actions identified in the Electric Resource Plan include the development and implementation of energy efficiency measures, renewable energy programs, and additional transmission capabilities. The City is aggressively pursuing all these recommendations at the same time as it proceeds with the development of the SFERP.

Settlement Agreement

The City obtained four combustion turbines as part of a settlement with the Williams Energy Companies (Williams). In particular, on January 13, 2003, the Board of Supervisors approved a Settlement Agreement (Ordinance 0001-03), negotiated by the State with Williams, which was one of the defendants in the City's State's long-term gas and electric contracts with Williams, which will reduce the costs to California ratepayers by an estimated total of \$180 million, (2) payment by Williams to the State of \$15 million for a litigation fund managed by the State, which will be

used to continue the investigation and prosecution of other generators in the Wholesale Electricity Antitrust Cases I & II, including the City's case (see Note No. 1), (3) payment by Williams to the State of \$147 million in cash over seven years, beginning in 2003, and (4) transfer by Williams to the State of six LM 6000 Gas Turbine Generator Sets, each capable of generating 48 MW megawatts¹ of electricity. This Settlement Agreement resolved the outstanding litigation against Williams and included (1) the restructuring of the ongoing lawsuits against electric energy generators and sellers for price gouging and market manipulation

As part of the settlement, the City entered into an Implementation Agreement with the California Attorney General, the California Consumer Power and Conservation Financing Authority (CPA) and the California Department of Water Resources (CDWR). Pursuant to the Implementation Agreement, the City received four of the six turbines transferred to the State by Williams for the purpose of developing, acquiring, constructing and operating electric generating facility(ies) in the City. The Kings River Irrigation District in Fresno received the remaining two turbines.

The State has also allocated \$19 million of the \$147 million cash payment by Williams, to fund the siting and development of the electric generating facilities, utilizing the six turbines in San Francisco and Fresno. Under the Implementation Agreement, provided that Williams makes the requisite payments to the State, the City is to receive \$13,266,667 of the \$19 million, which will be paid into an escrow account established by the Attorney General on behalf of the City. It is also anticipated that the City will receive surplus development funds remaining from the King's River Project (approximately \$2.3 million). Disbursements from the State are to be made according to the following schedule:

<u>Receipt Date</u>	<u>Amount</u>
January 1, 2003 (payment received)	\$2,666,667
January 1, 2004 (payment received)	2,666,667
January 1, 2005	2,266,667
January 1, 2007	1,666,667
January 1, 2008	1,333,333
January 1, 2009	1,333,333
January 1, 2010	1,333,333
Total	\$13,266,667

The City may only use the Implementation Agreement funds to pay for approved costs related to the development of the new electric generating facilities. To date, the first two payments, a total of \$5,333,334, has been deposited into the escrow account. The excess King's River Project development funds should be made available in 2007.

Power Purchase Agreement

On December 9, 2002, the Board of Supervisors approved a Power Purchase Agreement (PPA) (Resolution No. 0830-02) between the City and the CDWR to

¹ A - megawatt of electricity is equal to 1,000 kilowatts and is sufficient to provide electric power to 1,000 single family residences.

authorize the City to sell the output of the proposed electric generating facility(ies) to the CDWR. The PPA is designed to provide all the revenues required to construct and operate the facility(ies) over a ten-year period. The PPA specifies that the CDWR will commence making payments to the City on a monthly basis after the facility(ies) commences commercial operation.

The PPA contains the following specific provisions:

- The City may terminate the PPA at any time prior to the commercial operation date if the City determines that key approvals or permits for the facility(ies) cannot be obtained on a timely basis or that the City cannot otherwise meet its obligations under the Project Agreements, or proceeding with the development, acquisition and construction of the facility(ies) will result in unacceptable risk to the City.
- The CDWR may terminate the PPA at any time prior to the issuance of financing bonds if the CDWR determines, in its sole discretion, that the cost of such facility(ies) is or will become unacceptable or certain project milestones are not met.
- As extended pursuant to a November 14, 2003, letter agreement between the City and the CDWR, the project milestones the City must comply with are: obtaining site control for the proposed power plant site(s) by May 1, 2004, receiving a determination from the California Energy Commission (CEC) that the City's Application for Certification (AFC) is data adequate by May 1, 2004, and entering into an engineering, procurement and construction (EPC) contract for the facility(ies) by the earlier of 300 days from the date on which the CEC determines the City's AFC to be data adequate, or 30 days after issuance by the CEC of a Final Staff Assessment, which is the equivalent of an Environmental Review Report (EIR) in the CEC's permitting process.
- The Implementation Agreement gives the CPA the ability to exercise an option to take over the four turbines. In accordance with the Implementation Agreement, if the CPA elected to take over the turbines, the CPA would pay the City \$2.5 million for each turbine, or \$10 million total. The CPA was disbanded in October 2004, their functions and staff have been absorbed by the Office of the Attorney General.

Finally, while the CDWR has earlier stressed to the City that it expects the facility(ies) to be in service by spring of 2006, they are fully aware of the current situation and the inability to meet that schedule. Currently we are planning for mid 2007 time frame.

Site Control

As mentioned in the previous section, if the City did not secure a site(s) for the four turbines by May 1, 2004, the PPA gave the CDWR an optional right to terminate the PPA. In addition, the Implementation Agreement gives the CPA the ability to exercise an option to take over the four turbines. In accordance with the Implementation Agreement, if the CPA elected to take over the turbines, the CPA would pay the City \$2.5 million for each turbine, or \$10 million total.

The SFPUC has identified a 4-acre parcel of City owned land at the Western Pacific Site located at 25th Street and Illinois in the Potrero neighborhood of San Francisco to site and develop three of the four turbines. The site is currently being evaluated by the SFERP specialty services engineering and environmental consultants. The SFPUC is working with the PORT and MUNI to identify the exact property boundaries of the site. This property was included in the original California Energy Commission (CEC) Application for Certification (AFC) document as an alternate site. The SFPUC had originally been in negotiation with Mirant Potrero, LLC (Mirant) for a 4.5-acre site on the Potrero Power Plant property. However, the City and Mirant were unable to reach an agreement on this property. The City has notified CDWR that it is pursuing City property that was originally considered as an alternate site in the CEC AFC document, and it is expected that the SFPUC will reach an agreement by mid-January, 2005. The City has continued to meet on a monthly basis with State CDWR staff and the CDWR is supporting the City's efforts in securing site control of an alternate site.

The fourth generating unit will be located on a 2-acre parcel at SFO. The SFPUC has entered into a Memorandum of Understanding (MOU) with SFO for a lease of the 2-acre parcel and provision of backup power to SFO in the event of a local grid collapse.

On May 6, 2004, the City received a letter from the CDWR indicating that it is not taking any action on the site control milestone at this time, but will continue to monitor ongoing efforts. The City has continued to meet with and provide monthly reports to the CDWR to report progress.

Data Adequacy

As mentioned in the previous section, if by May 1, 2004, the City did not submit an AFC for the facility[ies] to the CEC and secure a determination from the CEC that the application is complete, the PPA gives the CDWR an optional right to terminate the PPA.

The City filed an AFC for the three turbines at the Potrero Power Plant site on March 18, 2004. The CEC determined that this application was deemed data adequate on April 21, 2004. Selection of the alternate site will now require submitting a supplemental application to the existing AFC. Development of this supplemental information for the AFC is on the project critical path, and currently there is a day-for-day slip on the schedule until both a final site is selected, and this supplemental application has been filed. This supplemental appropriation request is needed to provide the funds to continue and complete the development work.

Based upon the revised schedule, the approved supplemental appropriation and final site selection are required by January 15, 2005 to enable preparation of the supplemental AFC information to begin. This would enable the supplemental application to be filed with the CEC in mid-March next year.

The facility proposed for SFO is under 50 MW and is therefore not subject to CEC jurisdiction. The City submitted an Environmental Evaluation Application (EEA) with

the City's Planning Department on April 26, 2004. On April 29, 2004, the City was notified by the Planning Department that the EEA is complete and that the Planning Department can commence its environmental review of the project. The Planning Department sent out a project notification to the public and affected agencies in August 2004, no significant comments were received. The project team has met with SFO staff and has focused on completing the environmental studies necessary to support the environmental review (air, biological, noise).

Evidence to document a determination of data adequacy, consistent with the requirements of the PPA was required and was submitted to CDWR prior to May 1, 2004. This evidence consisted of the CEC's determination that the AFC is data adequacy, and the Planning Departments acceptance of the EEA. On May 6, 2004, the City received a letter from the CDWR concluding that the City has met the data adequacy milestone within the specified timeframe.

The City has continued to meet on a monthly basis with CDWR staff and they are supporting the City's efforts in securing site control and moving forward with additional environmental work associated with the alternate site.

Appropriation and Expenditures

The Board of Supervisors approved as part the SFPUC Fiscal Year (FY) 2004 Budget an appropriation equal to the initial January 1, 2003, payment of \$2,666,667 by the State This supplemental appropriation request for \$2,666,667 matches the second payment made to the escrow account for 2004. This money is available to defray the costs of development of the project only. If the City does not use these funds for this purpose, they must remain in the escrow account and may not be used by the City for any other purpose.

The SFPUC proposes to allocate funds under this supplemental appropriation as follows:

Combustion Turbine Storage And Preventative Maintenance	\$329,080
Engineering Services	\$1,648,117
State Dept of Water Resources & California Power Authority Expenses	97,670
Generator Special Facilities Agreement with PG&E	501,800
PG&E Gas Interconnect Facility Study Fees (Potrero and SFO)	<u>90,000</u>
Total	\$2,666,667

Combustion Turbine Storage, and Preventative Maintenance:

The proposed supplemental appropriation request contains \$329,080 for eight months of storage of the four combustion turbines at a General Electric facility in Houston, Texas and six months of preventative maintenance. Preventative maintenance is necessary to preserve the warranty and maintain the merchantability of the units as is required according to the implementation agreement. Storage is billed at \$32,475 per month including tax. Maintenance is billed at \$34,640 per quarter (see Note No. 2).

Engineering Services:

As shown above, \$1,648,117 of the proposed supplemental appropriation is allocated to cover the services of professional service consultants: CH2Mhill \$878,117 our environmental consultant and PB Power \$770,000 our preliminary engineering consultant. PB Power's work is necessary to complete the engineering and site work necessary to support project licensing and the environmental review and development of the procurement specifications for the design-build contract, the Construction Management Plan, and the procurement specification for a 10-year Operations and Maintenance contract. CH2Mhill's work is necessary to assist the City with the California energy Commission permitting process for the in-City site, and with the California Environmental Quality Act (CEQA) permitting process for the Airport site. See note 3 for a further breakdown of tasks and services to be performed.

State Dept of Water Resources & California Power Authority Expenses:

\$97,670 is assigned to cover project management and oversight expenses that have been previously incurred by both the CDWR and the CPA related to the SFERP project. Payment for these services is specifically denoted in and consistent with the Implementation Agreement.

Generator Special Facility Agreement with PG&E:

Pursuing an interconnection request with the CAISO and PG&E is necessary, because both the in-City and Airport components of the project will have to be electrically interconnected to the grid. Ongoing PG&E conducted studies, engineering, and estimating is required to identify the facilities needed to connect these generators to PG&E's transmission system. The information from PG&E in the interconnection process is also included in the CEC's AFC process, and the airport site environmental planning process. The sum of \$501,800 has been included in the supplemental request to pay PG&E for these additional electrical studies that are conducted and to initiate funding of the Generator Special Facilities Agreements that provide for engineering and construction of the required interconnection facilities.

PG&E Gas Interconnection Facility Study Fees:

Similarly, because the plants must be connected to the natural gas transmission system, a gas interconnection request with PG&E is necessary. Ongoing PG&E studies, engineering, and estimating is required to identify the facilities needed to connect these generators to the PG&E natural gas transmission system. This information from the gas interconnection process is also needed to be included in the CEC's AFC and the airport site environmental planning process. The sum of \$90,000 has been included to pay PG&E for these additional gas interconnection

studies according to the Gas Study agreements. PG&E's cost for each site is \$45,000 with the two site total being \$90,000.

Development Cash Flow: It should be noted that development spending will outpace the timing of Implementation Agreement deposits into the escrow account. In order to meet all project milestones set forth in the PPA, the SFPUC is proposing to appropriate additional funds in the Hetch Hetchy Water and Power (HHWP) in the FY 2005-06 capital budget to cover all project development costs through the end of FY 2006. These funds will be reimbursed to HHWP with interest as Settlement Agreement monies are later received from DWR. It is expected that bond financing will occur mid FY 2006 and that this bond financing will provide the remaining funds for project development and construction. All these monies will be appropriated as part of the FY 2007 budget.

Project Budget and Financing

A development budget was submitted to and approved by the CPA in January 2004. That budget, which totaled \$11.33 million, assumed the siting of all four generating units at the Potrero Power Plant site. With the decision to site one of the four units at SFO, that budget is being revised. The project spending plan and schedule was included in the November 29, 2004 submittal. The development budget according to the Implementation Agreement is revised and submitted for review and approval once per year, and both the CPA and the CDWR are fully apprised of the airport site. This revised project spending plan will be reviewed with DWR and the AG staff in December and formally submitted to DWR in January 2005 for approval. The monies being requested in this supplemental appropriation and the activities being funded are consistent with the revised development budget being prepared. There will be a second supplemental appropriation request in February 2005 to secure the balance of the development funds, a breakdown of the anticipated items from the next supplemental were included with the November 29th correspondence.

Preliminary capital budgets / project pro forma have now been produced. They are considered preliminary until detailed engineering, cost estimating become refined until substantial completion of this first engineering phase. The major line items included in the capital budget include land costs, EPC contract, utility interconnection costs, and site remediation and geotechnical work. Additional financing related costs include general costs of issuance, capitalized interest during construction and a debt service reserve fund. Both capital costs and financing costs will be funded from bond proceeds.

Once development work is substantially complete, it is anticipated that the City will issue debt to fund capital, financing and any allowable remaining development costs. Current estimates are for a bond sale in 2006 and an estimated completion date for the Project in Summer 2007. The revenues of the PPA will secure this debt. As discussed previously, the PPA is designed to fully compensate the city for the reasonable costs of financing and operating the plants over a ten-year period. Approval of the Board of Supervisors will be required to finance construction of this project.

The City will not operate the proposed power plants, but rather will undertake a competitive bid process to contract with a private operating firm with proven experience operating LM6000 natural gas combustion turbine power plants.

Additional Actions by the Board of Supervisors

Before facility construction can begin, the Board of Supervisors will have to approve the financing, the purchase of the land in the case of the site at the Western Pacific site, the EPC contract, the operating and maintenance contract, and any appeals filed as part of the California Environmental Quality Act (CEQA) review process for the SFO site. These items will be presented to the Board of Supervisors after the environmental reviews by the CEC and the San Francisco Planning Department have been completed.

Project Risks

Risks can be categorized according to project phases - development, construction and operation.

Development Risks

Risks during the development phase of the project are associated with the receipt of settlement monies from Williams and the project being abandoned.

Pursuant to the Settlement Agreement between the State Attorney General and Williams, Williams must provide credit documents for the first four payments in years 2003, 2004, 2005, and 2007. However, Williams is not required to provide credit documents for the last three payments in years 2008, 2009, and 2010. Thus, the payments to the City under the Implementation Agreement for years 2003 through 2007 (totaling \$9,266,668) are relatively secure. The payments for years 2008 through 2010 (totaling \$3,999,999) are less secure. Although in 2002 Williams was believed to be close to filing for bankruptcy, the company has reorganized a few times and has been able to avoid bankruptcy. Nonetheless, if Williams were to default on their payments in the last three years, the City might have to fund the \$3,999,999 in development costs through the revenue bond offering. If Williams were to default, the Attorney General and the City would likely pursue legal action. Additionally, it is common for most City projects to fund upfront development costs with bond proceeds but the receipt of the settlement proceeds has enabled the City to defray a significant portion of these costs.

Since the City has already received the first two payments for 2003 and 2004, and the next two payments must be secured by credit documents from Williams, the risks associated with development costs relate primarily to the last three years of payments or \$3,999,999 plus an estimated \$2.3 million in development funds that remains from the Williams Settlement.

The Implementation Agreement provides certain protections even if construction of the facility[ies] does not go forward either because key milestones are missed or because the City decides not to proceed with the Project. In such cases, the City is entitled to \$2,500,000 for each of the four units (unless a unit is sold for less than this amount), and reimbursement for its costs of developing the facility[ies] from amounts remaining in and yet to be deposited in the escrow account.

Construction Risks

The PPA aims to compensate the City for the reasonable costs of constructing and operating the plants over a ten-year period. The contract, however, does present some risks to the City. The contract is general requires additional negotiation on a number of terms, in particular the Capacity Payment. Also, although it is anticipated that the City and the CDWR will be in agreement on what are considered reasonable costs, it is not a certainty at this time. Construction projects in San Francisco are typically more expensive than anywhere else in the State. The cost per MW for developing and constructing these plants will be higher than for similar facilities in other parts of California. Costs deemed unreasonable by the CDWR will be the responsibility of the City. The City could choose to incur some of the costs the CDWR may be unwilling to cover. The result is that a portion of the debt service for the financing might not be recovered under the PPA

Finally, the debt service component of the capacity payment is determined at the time of financing. The additional expenses associated with schedule delays, cost overruns and/or insufficient capitalized interest during construction represent potential financial risks to the City.

Operation Risks

Two operating risks in particular are presented by the PPA with the CDWR in terms of performance guarantees - plant availability and heat rate. Availability refers to the percentage of time the plant is available for use and heat rate refers to the efficiency with which fossil fuel is converted to electricity. Although industry practice is to pass these risks to a professional operator in the Operation and Maintenance (O&M) Agreement, they are nevertheless currently financial risks to the City under the existing PPA.

Notes:

1. On January 18, 2001, the City Attorney's Office filed a lawsuit, entitled People v. Dynergy, et.al. alleging unfair business practices against 12 energy generators and sellers, including Williams.
2. The four General Electric turbines were transferred from Williams to the City in January of 2003. General Electric is currently storing the turbines at a cost of \$7,500 per unit per month plus tax (totaling \$34,640 per quarter). General Electric is also insuring the turbines against loss while in their care at their facility in Houston, Texas. The SFPUC has analyzed alternatives to this storage arrangement, but the turbines require up to four acres in a high security facility, periodic maintenance from General Electric, and the assistance of 80 truckloads and heavy lifts to move. Thus, it is anticipated that the four turbines will continue to be stored by General Electric in Texas, at a cost of \$30,000 plus tax per month (totaling \$32,475 per month), until the SFPUC is ready to take delivery of the turbines, which the SFPUC anticipates would not be until the middle-late 2006.
3. In May 2003, the SFPUC issued two requests for proposals (RFPs) for this project. Seven proposals were received in response to the RFP soliciting professional services for the preliminary engineering for the design of the proposed power plants. PB Power, the consultant selected for the engineering work, was awarded a \$750,000 contract. Three proposals were received in response to the RFP soliciting professional services for the environmental review and permitting of the proposed power plants. CH2MHill, the consultant selected for the environmental work, was awarded a \$1,500,000 contract.

The proposed supplemental appropriation includes an additional \$1,648,117 for Engineering Services. An estimated \$770,000 of the requested amount will be used to fund PB Power services, whereas the remaining \$878,1170 will be used to fund CH2MHill services. It is necessary that both professional service contracts will be expanded, due to unplanned and prolonged engineering and environmental analysis work associated with numerous sites that are no longer being pursued (Cesar Chavez, Pier 70, NRG Thermal, and Potrero).

Above funding will allow PB Power to continue assisting the City with the Western Pacific and Airport sites development, specifically: (1) preliminary engineering, (2) specifications for the design-build of the power plants, (3) a Construction Management Plan, and (4) specifications for a long-term O&M Plan.

Above funding will allow CH2MHill to continue assisting the City with WP and Airport sites permitting, specifically: The CEC permitting process for the Western Pacific site and the CEQA permitting process for the SFO site, including environmental project management, and public outreach support.

cc: Jesse Blout (Mayor's Office of Economic Development)
Greg Asay (Office of Supervisor Maxwell)
Susan Leal (SFPUC – Office of the General Manager)
Jean Mariani (SFPUC – Office of the General Manager)
Barbara Hale (SFPUC – HHWP)
Ralph Hollenbacher (SFPUC – HHWP)
Russell Stepp (SFPUC – HHWP)
Michael Scholder (SFPUC – HHWP)
Eric Sandler (SFPUC – Financial Services)
Carlos Jacobo (SFPUC – Financial Services)
Theresa Mueller (Office of the City Attorney)
Jeanne Solé (Office of the City Attorney)
Jackie Minor (Office of the City Attorney)

Attachment II
San Francisco Electricity Reliability Project
PROJECT DEVELOPMENT BUDGET (Draft November 2004)

Cost Account	FY 02-03	FY 03-04	FY 04-05	FY 05-06	FY06-07	Total Project
100 Project Management						
110 Project Management	100,000	363,000	462,000	400,000	200,000	1,525,000
120 Budget and Financial Support		41,000	10,000	60,000	30,000	141,000
130 Other Departmental Reviews		165,000	210,000	100,000	-	475,000
140 City Attorney and Legal	210,000	420,000	420,000	105,000	50,000	1,205,000
150 California Power Authority, Review and Approval	20,000	53,000	23,000	50,000	50,000	196,000
160 CDWR	100,000	115,000	140,000	200,000	50,000	605,000
170 Public Relations and Community Outreach	30,000	200,000	85,000	55,000	50,000	420,000
180 Miscellaneous Expenses	2,000	11,000	10,000	10,000	10,000	43,000
200 Transportation/Storage of Generating Equipment						
210 Storage and Insurance of LM6000 Units	194,850	389,700	389,700	389,700	292,275	1,656,225
220 Preventative Maintenance and Warranty Extensions			103,920	138,560	69,280	311,760
300 Site Selection / Control						
310 Site Engineering Assessment	50,000	171,000				221,000
320 Site Environmental Assessment	30,000	27,000				57,000
330 Land Acquisition / Option Agreement	-					-
400 Utility Interconnection Studies, Fees, Etc.						
410 Electrical Interconnection and Special Facilities	40,000	120,000	110,000			270,000
420 Natural Gas Interconnection and Special Facilities	15,000	30,000	105,000			150,000
430 Water Supply & Waste Disposal	-	20,000	50,000			70,000
500 Preliminary Engineering						
510 Preliminary Design and Site Layout	-	325,000	225,000	100,000		650,000
520 Construction Management					30,000	30,000
530 Engineering Support Services					30,000	30,000
540 EPC and O&M Agreement Support			340,000	100,000		440,000
600 Environmental / Permitting						
610 AFC Preparation and Permitting Support	-	650,000	1,175,000	500,000	80,000	2,405,000
611 CEC AFC Processing Fee		135,250	25,000			160,250
612 BAAQMD Filing Fee		98,722	33,000			131,722
613 CCSF Planning Department Fee			100,000			100,000
620 CPA AFC Legal Support	10,000	40,000	110,000	60,000		220,000
630 Air Emissions Offsets/Option Agreement			108,300	108,300		216,600
631 Air Monitoring Program						-
632 Air Mitigation Program						-
700 Project Contracts & Agreements						
710 EPC Contract				40,000		40,000
720 O&M Management Agreement				40,000		40,000
730 Fuel Management Agreement						-
740 CAISO Agreements						-
750 Water/Waste Water Services						-
760 Renegotiate PPA				40,000		40,000
800 Prefinancing Actives						
810 Preproject Bond Financing Activities			10,000	70,000		80,000
900 Development Financing						
910 Interest on Line of Credit	-	20,000	200,000	300,000	300,000	820,000
	Fiscal Yearly Total Development Costs	801,850	3,394,672	4,444,920	2,866,560	1,241,555
	Cumulative Development Costs	801,850	4,196,522	8,641,442	11,508,002	12,749,557
1000 Prefinancing Capital Costs						
1010 Prefinancing EPC Work				4,000,000		4,000,000
1020 Purchase PG&E long lead time equipment				1,000,000		1,000,000
1030 Natural Gas Generator Special Facilities				500,000		500,000
1040 Electric Generator Special Facilities			2,995,623	3,128,304	5,376,834	11,500,761
	Prefinancing Capital Costs	-	-	2,995,623	8,628,304	5,376,834
	Cumulative Prefinancing Capital Costs	-	-	2,995,623	11,623,927	17,000,761
	Total Project Cash Requirement	801,850	4,196,522	11,637,065	23,131,929	29,750,318

Docket Optical System - 04afc1 CARE's Offer of Proof in support of motion to terminate proceeding

From: "meboyd" <michaelboyd@sbcglobal.net>
To: <docket@energy.state.ca.us>, <pao@energy.state.ca.us>, <psimmons@energy.state.ca.us>
Date: 1/3/2005 9:57 PM
Subject: 04afc1 CARE's Offer of Proof in support of motion to terminate proceeding
CC: <steve@deyoung.org>, <Arlene.G.Hall@sfgov.org>, <Bpfanner@energy.state.ca.us>, <Bwesterf@energy.state.ca.us>, <cgraber@energy.state.ca.us>, <DRatliff@energy.state.ca.us>, <emilio.varanini@dgs.ca.gov>, <gfay@energy.state.ca.us>, <Jacqueline.Minor@sfgov.org>, <Jeanne.Sole@sfgov.org>, <jmiller@caiso.com>, <Jeffrey.Russell@mirant.com>, <Jesse.Blout@sfgov.org>, <joeboss@joeboss.com>, <jgeesman@energy.state.ca.us>, <kkubick@sfgwater.org>, <karl@greenaction.org>, <lbeckstr@energy.state.ca.us>, <L_brown246@yahoo.com>, <pao@energy.state.ca.us>, <Michael.Carroll@lw.com>, <SarveyBob@aol.com>, <sharris@energy.state.ca.us>, <svalkosk@energy.state.ca.us>, <Sarah.Madams@CH2M.com>, <Anar.Bhimani@CH2M.com>

City and County of San Francisco

Board of Supervisors



Finance and Audits Committee

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City and County of San Francisco

Finance and Audits Committee

City Hall, Room 263



Meeting Agenda

**Wednesday, December 15, 2004
1:00 PM
Regular Meeting**

Members: Chris Daly, Aaron Peskin, Tom Ammiano

Clerk: Mary Red

Note: Each item on the Consent or Regular agenda may include the following documents: 1) Legislation 2) Budget Analyst report 3) Legislative Analyst report

Each member of the public will be allotted the same maximum number of minutes to speak as set by the Chair at the beginning of each item, excluding City representatives, except that public speakers using translation assistance will be allowed to testify for twice the amount of the public testimony time limit. If simultaneous translation services are used, speakers will be governed by the public testimony time limit applied to speakers not requesting translation assistance.

AGENDA CHANGES

REGULAR AGENDA

1. 041584 [Appropriate settlement funds to fund the development costs associated with the San Francisco Electrical Reliability Project]

Mayor

Ordinance appropriating \$2,666,667 of fund balance from the Hetch Hetchy estimated revenues from the litigation settlement against The Williams Companies, Inc. and Williams Marketing Energy Marketing & Trading Company to the San Francisco Electrical Reliability Project for fiscal year 2004-05. Appropriated funds will facilitate the development costs related to the City power plants.

(Fiscal impact.)

11/16/04, RECEIVED AND ASSIGNED to Finance and Audits Committee.

2. 041468 **[Department of the Environment's Environmental Justice Program]** **Supervisor Maxwell**

Hearing on the Department of the Environment's Environmental Justice Program to focus on: (a) Objectives and work program; (b) Plans to secure funding and staffing into the future; and (c) Proposal to expend remaining funds in the Environmental Justice Grant Program.

10/19/04, RECEIVED AND ASSIGNED to Finance and Audits Committee.

3. 041351 **[Contract for Electric Services]** **Supervisor Ma**

Ordinance approving two contracts between the City and County of San Francisco and the United States, through the Department of Energy Western Area Power Administration, for electric services required to ensure reliable delivery of low cost electric power for use at Treasure Island on file with the Clerk of the Board of Supervisors in File No. 041351; and approving indemnifying and holding harmless the United States against claims arising from the activities of the City under the contract; and waiving requirement of Section 21.35 of the San Francisco Administrative Code that every contract contain a statement regarding liability of claimants for submitting false claims; and waiving requirement of Section 21.19 of the San Francisco administrative code that every contract contain a statement regarding guaranteed maximum costs.

(Fiscal impact.)

9/28/04, RECEIVED AND ASSIGNED to City Services Committee.

10/7/04, REFERRED to Finance and Audits Committee. Speakers: None.

10/20/04, CONTINUED TO CALL OF THE CHAIR.

4. 041169 **[Municipal Railway Professional Services Contract CS-123, Amendment No. 7]**

Resolution authorizing the Director of Transportation to execute Amendment No. 7 to San Francisco Municipal Railway Contract No. CS-123, Professional Design and Construction Support Services for Muni Metro Third Street Light Rail Project, with WPK Third Street Consultants, for extra design work and additional construction support services, for an amount not to exceed \$1,500,000, and a total contract amount not to exceed \$11,481,206, and to extend the contract for one year. (Municipal Transportation Agency)

(Fiscal impact.)

9/17/04, RECEIVED AND ASSIGNED to Finance and Audits Committee.

10/20/04, CONTINUED. Continued to October 27, 2004.

10/27/04, CONTINUED TO CALL OF THE CHAIR. Heard in Committee. Speakers: Bill Gamlen, Project Manager, 3rd Street Light Rail; Supervisor Peskin; Joe Speaks, MTA; Ted Lakey, Deputy City Attorney.

5. 041630 **[Eliminating the Office of Emergency Services Revolving Fund.]**

Ordinance amending the San Francisco Administrative Code by repealing Section 10.142, to eliminate the Office of Emergency Services Revolving Fund. (Emergency Communications Department)

11/24/04, RECEIVED AND ASSIGNED to Finance and Audits Committee.

6. 040731 **[Conduct a Nexus Study On Imposition of the Park Fee on Uses Other Than Office On Geographic Areas of the City Other than C-3 Use Districts]**

Ordinance amending Planning Code Section 139 to provide that \$100,000 of Downtown Special Park Fund monies shall be used to fund a nexus study, under the direction of the General Manager of the Recreation and Park Department, to examine whether the Downtown Park Fee should be imposed on uses other than office and on geographic areas of the City other than C-3 use districts and making findings of consistency with the priority policies of Planning Code Section 101.1 and the General Plan. (Mayor)

6/1/04, RECEIVED AND ASSIGNED to Finance and Audits Committee.

6/4/04, REFERRED TO DEPARTMENT. Referred to Planning Department for Environmental Review.

6/10/04, RESPONSE RECEIVED. Response from Planning, Non-physical exemption, CEQA guidelines sections 15060(c)(3) and 15378.

6/16/04, REFERRED TO DEPARTMENT. Referred to Planning pursuant to Code Sec. 302(b) for hearing and recommendations.

9/20/04, RESPONSE RECEIVED. The Planning Commission recommended approval with recommendations.

SPECIAL ORDER - 3:00 PM

7. 041467 [Extending Redevelopment Agency's Times for Incurring and Repaying Debt for Affordable Housing Development] Supervisor Daly

Ordinance approving, for the redevelopment plans listed below, the extension of existing time limits in each plan for establishment of loans, advances and indebtedness and for repayment of indebtedness for the exclusive purpose of financing Low and Moderate Income Housing Fund activities: (1) the Embarcadero-Lower Market (Golden Gateway) Redevelopment Plan, (2) the Hunters Point Redevelopment Plan, (3) the India Basin Industrial Park Redevelopment Plan.

10/19/04, RECEIVED AND ASSIGNED to Finance and Audits Committee.

12/8/04, CONTINUED. Heard in Committee. Speakers: Supervisor Daly; Supervisor Peskin; Marcia Rosen, Executive Director, Redevelopment Agency; Supervisor Ammiano; Francisco DaCosta. Continued to December 15, Special Order at 3:00 p.m.

ADJOURNMENT

IMPORTANT INFORMATION

NOTE: Persons unable to attend the meeting may submit to the City, by the time the proceedings begin, written comments regarding the agenda items above. These comments will be made a part of the official public record and shall be brought to the attention of the Board of Supervisors. Any written comments should be sent to: Committee Clerk of the Finance and Audits Committee, San Francisco Board of Supervisors, 1 Dr. Carlton B. Goodlett Place, Room 244, San Francisco, CA 94102 by 5:00 p.m. on the day prior to the hearing. Comments which cannot be delivered to the committee clerk by that time may be taken directly to the hearing at the location above

NOTE: Pursuant to Government Code Section 65009, the following notice is hereby given: if you challenge, in court, the general plan amendments or planning code and zoning map amendments described above, you may be limited to raising only those issues you or someone else raised at the public hearing described in this notice, or in written correspondence delivered to the Board of Supervisors at, or prior to, the public hearing.

THE AGENDA PACKET IS AVAILABLE FOR REVIEW AT CITY HALL, ROOM 244, RECEPTION DESK.

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AVISO EN ESPAÑOL: La solicitud para un traductor en una reunion debe recibirse antes de mediodia de el viernes anterior a la reunion. Llame a Erasmo Vazquez (415) 554-4909.

**翻譯 必須在會議前最少四十八小時提出要求
請電 (415) 554-7701**

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Both the Committee Room (Room 263) and the Legislative Chamber are wheelchair accessible. The closest accessible BART Station is Civic Center, three blocks from City Hall. Accessible MUNI lines serving this location are: #47 Van Ness, and the #71 Haight/Noriega and the F Line to Market and Van Ness and the Metro stations at Van Ness and Market and at Civic Center. For more information about MUNI accessible services, call 923-6142.

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The following services are available when requested 48 hours before the Committee meeting. This advance notice will help ensure availability.

ú For American Sign Language interpreters or use of a reader during a meeting, contact Ohn Myint at (415) 554-7704.

ú For a large print copy of agenda or minutes in alternative formats, contact Annette Lonich at (415) 554-7706.

ú Assistive listening devices are available from the receptionist in the Clerk of the Board's Office, Room 244, prior to the meeting.

ú The Clerk of the Board's Office TTY number is (415) 554-5227.

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Government's duty is to serve the public, reaching its decisions in full view of the public. Commissions, boards, councils and other agencies of the City and County exist to conduct the people's business. The Sunshine Ordinance assures that deliberations are conducted before the people and that City operations are open to the people's review. For information on your rights under the Sunshine Ordinance (Chapter 67 of the San Francisco Administrative Code) or to report a violation of the ordinance, contact Donna Hall; by mail to Sunshine Ordinance Task Force, 1 Dr. Carlton B. Goodlett Place, Room 244, San Francisco CA 94102 by phone at (415) 554-7724, by fax at (415) 554-7854 or by email at Donna.Hall@sfgov.org. Citizens may obtain a free copy of the Sunshine Ordinance by contacting Ms. Hall or by printing Chapter 67 of the San Francisco Administrative Code on the Internet, at <http://www.sfgov.org/sunshine.htm>

Lobbyist Registration and Reporting Requirements

Individuals and entities that influence or attempt to influence local legislative or administrative action may be required by the San Francisco Lobbyist Ordinance [SF Campaign & Governmental Conduct Code Sec. 2.100] to register and report lobbying activity. For more information about the Lobbyist Ordinance, please contact the San Francisco Ethics Commission at 30 Van Ness Avenue, Suite 3900, San Francisco, CA 94102; telephone (415) 581-2300; fax (415) 581-2317; web site www.sfgov.org/ethics

BEFORE THE ENERGY RESOURCES CONSERVATION AND DEVELOPMENT COMMISSION OF THE
STATE OF CALIFORNIA

APPLICATION FOR CERTIFICATION
FOR THE SAN FRANCISCO ELECTRIC
RELIABILITY PROJECT

Docket No. 04-AFC-01
PROOF OF SERVICE
**Revised 9/15/04*

I, Theresa Epps, declare that on January 5, 2005, I deposited copies of the attached CARE's Offer of Proof, in the United States mail in Sacramento, CA with first class postage thereon fully prepaid and addressed to the following:

DOCKET UNIT

*Send the original signed document plus
12 copies to the following address:*

**CALIFORNIA ENERGY COMMISSION
Attn: Docket No. 04-AFC-01
DOCKET UNIT, MS-4
1516 Ninth Street
Sacramento, CA 95814-5512**

*In addition to the documents sent to the
Commission Docket Unit, also send
individual copies of all documents to:*

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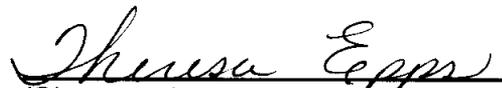
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I declare that under penalty of perjury that the foregoing is true and correct.


(Signature)

CEC INTERNAL DISTRIBUTION LIST ONLY

Parties DO NOT mail to the following individuals. The Energy Commission Docket Unit will internally distribute documents filed in this case to the following:

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Associate Member
MS-31

Stan Valkosky
Hearing Officer
MS-9

Gary Fay
Hearing Officer
MS-9

Bill Pfanner
Project Manager
MS-15

Bill Westerfield
Staff Counsel
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Staff Counsel
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Margret J. Kim
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