State Of California

Memorandum

The Resources Agency of California

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Date: February 21, 2006
Telephone: (916) 651-8853

To: John L. Geesman, Commissioner and Presiding Member
Jackalyne Pfannenstiel, Vice Chair and Associate Member

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

Subject: **SUN VALLEY ENERGY PROJECT (05-AFC-3) – ISSUE IDENTIFICATION REPORT**

Attached is staff's Issue Identification Report. This report serves as a preliminary scoping document of the issues the Energy Commission staff believes will require careful attention and consideration. However, this report may not include all the significant issues that may arise during the case, as discovery is not yet complete, and other parties have not had an opportunity to identify their concerns. Energy Commission staff will be prepared to present the Issue Identification Report at the Information Hearing on February 27, 2006.

Attachment

cc: Proof of Service List
Docket

PROOF OF SERVICE (REVISED 2/16/06) FILED WITH
ORIGINAL MAILED FROM SACRAMENTO ON 2/21/06
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Issue Identification Report

Sun Valley Energy Project (05-AFC-3)

February 2006

CALIFORNIA ENERGY COMMISSION

Systems Assessment & Facilities Siting Division

Robert Worl
Project Manager

ISSUE IDENTIFICATION REPORT

SUN VALLEY ENERGY PROJECT

(05-AFC-3)

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PURPOSE OF THE REPORT

This report has been prepared by the California Energy Commission staff to inform the Committee and all interested parties of the potential issues that have been identified in the case thus far. Issues are identified as a result of discussions with federal, state, and local agencies, and our review of the Sun Valley Energy Project Application for Certification (AFC), Docket Number 05-AFC-3. This Issue Identification Report contains a project description, summary of potentially major environmental issues, and a discussion of the proposed project schedule. Additionally, the staff will address the status of potential issues and progress towards their resolution in periodic status reports to the Committee.

PROJECT DESCRIPTION

Valle del Sol Energy, LLP (VSE), a wholly-owned subsidiary of Edison Mission Energy (EME), proposes to build the Sun Valley Energy Project (SVEP) near Romoland, in unincorporated Riverside County. The SVEP would be a 500 megawatt simple-cycle power project designed to provide electricity to the grid during peak demand periods.

The project site is located at 29500 Rouse Road, Romoland, California. The Assessor's Parcel Numbers are 331-250-019 and -020. The site is located in Township 5S, Range 3W, Section 14 (San Bernardino Base and Meridian). The project site is an approximately 20-acre parcel currently in agricultural use. EME has entered into a lease option agreement for the project site. The lease option will be assigned to and exercised by VSE.

Primary access to the site will be provided from the south via Rouse (Russell) Road. Access during operation will be via Rouse Road and Junipero Road, from the south. The project site is located in an area that is designated for industrial land use, zoned manufacturing-service commercial (M-SC), and is currently in agricultural use. It is surrounded to the south, east, and west, by industrial and agricultural uses. To the north are the Burlington Northern and Santa Fe (BNSF) railroad and Southern California Edison (SCE) Valley Substation. To the northwest are areas zoned industrial that are in agricultural use or industrial use, including the Inland Empire Energy Center power plant, which is under construction. To the east is an open agricultural field planned for Light Industrial uses and, east of Menifee Road, the Menifee Valley Ranch residential development, which has recently begun construction. To the south are agricultural and residential uses.

SVEP proposes to use five General Electric LMS100 combustion turbine generators (CTGs) capable of generating 100 megawatts (MW) each, for a total of 500 MW of electrical output. The SVEP would interconnect with the SCE electrical grid at 115 kV through the adjacent Valley Substation. Emissions from each of the five turbines will be controlled through use of best available control technology (BACT), selective catalytic reduction (SCR) units, and water injection during combustion.

Natural gas will be delivered to the site via a connection to one or more of the three existing 30-inch pipelines located in a utility easement within the project parcel along Menifee Road. The natural gas will flow through gas scrubber/filtering equipment, gas compressors, a gas pressure control station, and a flow-metering station prior to entering the combustion turbines. Historical data indicates that gas pressure in SoCalGas Line's distribution pipeline varies between 400 and 800 psig. Due to a high compressor pressure ratio, the GE Energy LMS100 unit requires a pressure at the turbine connection of 960 psig, plus or minus 20 psig. Three, 50-percent-capacity on-site electric motor-driven gas compressors will be used to boost the pipeline pressure to the level required by the gas turbine.

Reclaimed water for cooling tower and evaporative cooler makeup, site landscape irrigation, and demineralized water makeup will be supplied via a 12-inch-diameter direct connection to a reclaimed water pipeline in a utility easement immediately north of the project site. The Eastern Municipal Water District (EMWD) will supply, on average, approximately 851 acre-feet per year (ac-ft/yr) of Title 22 reclaimed water for the project. Onsite water treatment prior to project use includes a reverse osmosis (RO) and Ion Exchange system producing demineralized water that will be stored in a 100,000-gallon demineralized water storage tank. This treated process water includes the demineralized water used for controlling nitrogen oxides (NOx) through injection into the CTGs and water for evaporative cooling in the cooling towers.

Potable water will be supplied through a 4-inch-diameter pipeline, emergency water fire control will be supplied through a 10-inch-diameter connection, and domestic sewage will discharge to an existing line located in the same utility easement adjacent to and north of the project site. Non-reclaimable wastewater will be discharged through an 8-inch-diameter pipeline that will run west from the project along Matthews Road to McLaughlin Road for 0.75 miles and will connect with the Inland Empire Energy Center's non-reclaimable waste water line located at McLaughlin and Antelope Roads. This line takes the water to the EMWD Perris treatment plant where it is routed to Orange County Sanitation District's Reclamation Plant No.1, located in the City of Fountain Valley, for treatment via an existing pipeline. Reclamation Plant No. 1 then sends its waste water to Treatment Plant No. 2, located in Huntington Beach, where the combined waste water from both plants' treatment processes is discharged to the Pacific Ocean through and ocean outfall system.

The SVEP will connect to Southern California Edison's (SCE) electrical transmission system at the Valley Substation, which is approximately 600 feet north of the project site. This connection will require approximately 600 feet of 115-kV transmission line connecting to the south end of the Valley Substation and one off-site transmission tower in an existing SCE transmission easement. Interconnection at this specific substation minimizes downstream impacts to the SCE's transmission system, as well as reducing transmission losses from the 500-kV transmission supply to the Valley Substation while providing efficient peaking power for use during high demand periods.

Construction of the generating facility, from site preparation and grading to commercial operation is expected to take approximately 18 months, and commercial operation could occur as early as August 2008 if there are no delays.

POTENTIAL MAJOR ISSUES

This portion of the report contains a discussion of the potential major issues the Energy Commission staff has identified to date. This report may not include all the significant issues that may arise during the case, as discovery is not yet complete, and other parties have not had an opportunity to identify their concerns. The identification of the potential issues contained in this report was based on Energy Commission staff's judgment of whether any of the following circumstances will occur:

- Significant impacts may result from the project which may be difficult to mitigate;
- The project as proposed may not comply with applicable laws, ordinances, regulations, or standards (LORS); or
- Conflicts may arise between the parties about the appropriate findings or conditions of certification for the Commission decision that could result in a delay to the schedule.

The following table lists all the subject areas evaluated and notes those areas where potential major issues have been identified and if data requests are needed. Even though an area is identified as having no potential major issues in this report, it does not mean that an issue may not arise during the discovery and analysis phases of the process.

Subject Area	MAJOR ISSUE	Data Requests
Air Quality	**Yes**	Yes
Alternatives	No	No
Biological Resources	No	Yes
Cultural Resources	No	Yes
Facility Design	No	No
Geology / Paleontology Resources	No	Yes
Hazardous Materials Management	No	No
Land Use	No	Yes
Noise	No	No
Project Description	No	No
Public Health	No	Yes
Reliability / Efficiency	No	No
Socioeconomics	No	No
Traffic & Transportation	No	No
Transmission Line Safety & Nuisance	No	No
Transmission System Engineering	No	No
Visual Resources	No	Yes
Waste Management	No	No
Water & Soil Resources	No	Yes
Worker Safety and Fire Protection	No	No

TECHNICAL ISSUES

Potential Issues have been identified in the initial Air Quality analysis which could affect the project schedule and the time required for the acquisition of the Final Determination

of Compliance from the South Coast Air Quality Management District (SCAQMD or District). These areas of concern are discussed below. No other technical area has identified any major issues at this time that would potentially impact the Energy Commission's ability to license the project, or have a significant impact on the proposed project schedule.

AIR QUALITY

Valle del Sol Energy, LLP, (VSE), faces significant challenges in securing adequate criteria air pollutant mitigation for the power plant project. The project is located in the South Coast Air Quality Management District (District) where emission reduction credits (ERCs) are scarce and expensive. Since VSE has not yet purchased any ERCs, they may ultimately rely on a pending District rulemaking to secure most of the mitigation for this project.

Staff are working with VSE and the District to fully understand the rule changes and the schedule for adoption. Staff will be conducting an Issue Resolution Workshop with the applicant, District, and the public to work toward resolving the various outstanding air mitigation issues. Staff presents a summary of the most significant issues below and will be issuing data requests addressing these matters.

District Rule 1309.1 (Priority Reserve) Revision

VSE may ultimately rely on the revisions to the District's Priority Reserve program (District Rule 1309.1) to mitigate PM10 (particulate matter less than 10 microns), and possibly SOx (sulfur oxides), and CO (carbon monoxide) project emissions. While the District initiated a rulemaking process in December 2005, it appears that additional substantive, and as yet undefined, revisions are required, which will need to be addressed in an appropriate California Environmental Quality Act (CEQA) document. On February 16, 2006, the District issued a Notice of Preparation (NOP) and Initial Study (IS) for the proposed amendments to Rule 1309.1. The purposes of the NOP/IS are to solicit information on the scope of the environmental analysis, and to notify the public that the District will prepare a Draft Environmental Assessment to further assess the environmental impacts that may result from implementing the amended rule. The comment period on the IS ends on March 17, 2006, and a public hearing for the proposed amendments is tentatively scheduled for July 7, 2006. It is not clear when the District will adopt the revised rule, what the provisions of the rule will be, and whether this power plant will be able to satisfy the rule requirements. The uncertainties associated with the rulemaking are potentially the most significant barrier to VSE securing an air mitigation package for the project.

Carbon Monoxide (CO) Mitigation & District CO Re-designation

VSE proposes three possible CO mitigation strategies. Staff believes that each strategy raises timing and implementation issues. First, VSE notes that if the District is re-designated as attainment of the federal CO standards by the U.S. Environmental Protection Agency, the District would not require CO offsets. However, federal re-designation can be a multi-year process and is unlikely to occur in the time frame of this licensing proceeding. Second, VSE proposes to purchase CO emission reduction

credits (ERCs) on the open market, where CO ERCs are in short supply. Third, VSE identified the Priority Reserve as an option for CO credits. However, absent revisions to the District's rules, power plants cannot participate in the Priority Reserve for CO.

Sulfur Oxides (SOx) Mitigation & the District RECLAIM Program

VSE proposes to obtain SOx offsets from the District RECLAIM program (Regulation XX). While power plants are specifically excluded from the SOx portion of the rule, power plants can petition to participate. The District indicates that power plant petitions to participate are not routinely granted, with the one exception being AES Huntington Beach during the power emergency of 2000/2001. VSE has not yet filed a petition with the District. If a petition is not granted, VSE will need to either obtain SOx offsets on the open market or from the Priority Reserve. However, SOx ERCs are in short supply in the District, and absent revisions to the District's rules, power plants cannot participate in the Priority Reserve for SOx.

Nitrogen Oxides (NOx) Mitigation & the District RECLAIM Program

The project is required to participate in the District RECLAIM program for NOx (Regulation XX). Based on the Energy Commission Decision for the Inland Empire Energy Center Project (01-AFC-17), VSE will need to provide proof that they have obtained sufficient NOx RECLAIM trading credits (RTCs) for the first year of operation through either option contracts or outright ownership, by the time of the Evidentiary Hearings. The applicant has not yet obtained any NOx RTCs.

Particulate Matter (PM10) Mitigation

Per District Regulation XIII, the applicant must offset the project's PM10 emissions with ERCs or Priority Reserve credits. However, PM10 ERCs are in short supply in the District and numerous issues (see previous discussion on Rule 1309.1 Priority Reserve Revision) are associated with power plants qualifying for and obtaining credits from the Priority Reserve. The applicant has not yet obtained the PM10 ERCs either through option contracts or outright ownership.

Fine Particulate Matter (PM2.5) Mitigation

The District is classified as non-attainment for both the State and federal PM2.5 standards. The District is in the process of preparing a State Implementation Plan (SIP), that when approved by EPA, would result in the preparation of revised New Source Review rules that would likely require offsetting of PM2.5 emissions. The timeline for the District to address PM2.5 in their rules is well beyond the schedule for the proposed project. However, staff has a CEQA responsibility to address the PM2.5 issue since there are current ambient air quality standards for this pollutant and the air basin is classified as non-attainment. In the AFC, VSE discusses the project's PM2.5 impacts and acknowledges that mitigation is necessary; however, they have not proposed any mitigation. Staff is concerned that acquiring and analyzing the necessary PM2.5 mitigation for this project could take considerable time and could delay the project schedule.

Volatile Organic Compound (VOC) Mitigation

Based on the offsetting requirements of District Regulation XIII, the applicant must offset the project's VOC emissions with ERCs. According to the District, VOC offsets from the Priority Reserve program will not be available for this project, so the applicant will need to obtain ERCs for their VOC emissions. The applicant has not yet obtained any VOC ERCs either through option contracts or outright ownership.

SCHEDULING ISSUES

Following is staff's proposed schedule for key events of the project. The ability of staff to meet this schedule will depend on the applicant's timely response to staff's data requests, clarifying and reaching agreement on an emission reductions plan for PM10, and PM2.5, SO_x, CO, NO_x and for VOCs. Currently mitigation of potential air quality impacts will require completion of a proposed rulemaking by SCAQMD which will clarify and re-activate the District's Priority Reserve Program. Agreement with the SCAQMD, regarding eligibility for the Priority Reserve Program, the emissions covered, and providing satisfactory resolution of other possible factors not yet discovered. In addition, timely receipt of draft and final determinations from agencies are critical for maintaining the proposed project schedule.

ENERGY COMMISSION STAFF'S PROPOSED SCHEDULE

	Activity	Day	Calendar Day
1	Applicant filed Application for Certification (AFC)	-	December 1, 2005
2	Executive Director's recommendation on data adequacy	-	December 23, 2005, January 30, 2006
3	Decision on data adequacy at business meeting	0	February 1, 2006
4	Staff files Issue Identification Report	20`	February 21, 2006
5	Staff filed data requests	23	February 24, 2006
6	Information hearing, site visit	26	February 27, 2006
7	Data Requests and Issues Workshop	41, 42	March 16, 2006
8	Applicant provides data request responses	55	March 28, 2006
9	Data response and issue resolution workshop	70	April 12, 2006
10	Staff files data requests, (round 2, if necessary)	79	April 21, 2006
11	Applicant provides data responses	100	May 12, 2006
12	Data response and issue resolution workshop (round 2, if necessary)	112	May 24, 2006
13	Local, state, and federal agency draft determinations (e.g. Preliminary Determination of Compliance)	120	June 1, 2006
14	Preliminary Staff Assessment filed	163	July 14, 2006
15	Preliminary Staff Assessment workshops	170-180	Mid to Late July
16	Local, state, and federal agency final determinations (e.g. Final Determination of Compliance, NPDES Permit*)	180	July 31, 2006
17	Final Staff Assessment filed	210	August 30, 2006
18	Prehearing Conference	215	September 4, 2006*
19	Evidentiary hearings	220-240	Late September 2006*
20	Presiding Member's Proposed Decision (PMPD)	305	December 4, 2006*
21	Committee Conference on PMPD	335	January 3, 2007*
22	Energy Commission Hearing--Final Decision	365	February 1, 2007*

* Items 18 through 22 are scheduled by the Committee assigned to the SVEP

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

APPLICATION FOR CERTIFICATION FOR THE SUN VALLEY ENERGY PROJECT (SVEP)	**DOCKET NO. 05-AFC-3** **(Revised 2/16/2006)**

PROOF OF SERVICE LIST

DOCKET UNIT

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* * * *

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

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INTERESTED AGENCIES

None listed as of 2/16/2006

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DECLARATION OF SERVICE

I, Angela Hockaday declare that on February 21, 2006 I deposited copies of the attached Issue Identification Report in the United States mail at Sacramento, CA with first class postage thereon fully prepaid and addressed to those identified on the Proof of Service list above. Transmission via electronic mail was consistent with the requirements of California Code of Regulations, title 20, sections 1209, 1209.5, and 1210.

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

Angela Hockaday
[signature]

Revisions to POS List, i.e. updates, additions and/or deletions
SUN VALLEY ENERGY PROJECT Docket No. 05-AFC-3

* * * *

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