State Of California

The Resources Agency of California

Memorandum

Date: July 27, 2007
Telephone: (916) 654-4679

To: Vice Chair James Boyd, Presiding Member
Chairman Jackalyne Pfannenstiel, Associate Member

DOCKET
07-AFC-1
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From: California Energy Commission – John S. Kessler
1516 Ninth Street
Sacramento, CA 95814-5512
Project Manager

Subject: **VICTORVILLE 2 HYBRID POWER PROJECT (07-AFC-1) STATUS REPORT 1**

Pursuant to the Committee Scheduling Order dated June 14, 2007, the following is staff's Status Report 1 for the proposed Victorville 2 Hybrid Power (Victorville 2) Project.

Current Issues and Activities for Resolution

Staff has been working through the discovery and analysis phases of the Application for Certification (AFC) process for the proposed Victorville 2 Project. At this time, the primary issues continue to be in the areas of Air Quality and Water Resources. The issues and associated activities for working towards resolution are summarized as follows:

Air Quality

1. Preliminary Determination of Compliance (PDOC) - The Mojave Desert Air Quality Management District (District) is estimating they will be issuing their PDOC in August 2007, barring action by the South Coast Air Quality Management District (SCAQMD) that invalidates the use of their Priority Reserve for projects outside the South Coast Air Basin. The next meeting of the SCAQMD is scheduled for August 3, 2007.

2. Interpollutant Trading - The applicant proposes to use volatile organic compounds (VOC) emission reduction credits from the priority reserve of the SCAQMD to mitigate the project's oxides of nitrogen (NOx) emissions. The determination of the appropriate quantity of VOC emission reductions needed to mitigate the project's NOx and VOC emissions is still being reviewed by staff. While the applicant has proposed to use 2.08 pounds of VOC emission reduction credits to mitigate every pound of the project's new NOx emissions, staff needs to verify that the 2.08:1 ratio is appropriate for current conditions. As requested by staff in Data Request 6 on June 22, 2007, the applicant has recently provided supporting analysis for the proposed trading ratio, and staff is currently reviewing the analysis as part of the July 23, 2007 Data Responses filed by the Applicant. Staff's review of the applicant's response is focused on verifying: 1) the methodology is reasonable; 2) the analysis uses the most recent emissions inventories and ambient air quality data; and 3) the analysis accounts for the specific location of the VOC emission reduction credits in relation to the location of the new facility and its NOx and VOC emissions.

PROOF OF SERVICE (REVISED 6/14/07) FILED WITH
ORIGINAL MAILED FROM SACRAMENTO ON 7/27/07

Water Resources

1. Reclaimed Water and Groundwater – The Victorville 2 Project proposes to use reclaimed water for process needs including cooling as produced at the Victor Valley Water Reclamation Authority's (VVWRAs) Shay Road facility. Based on 2005 data, the largest portions of VVWRA's existing 13,500 acre-feet/year supply of reclaimed water are currently committed to discharge into the Mojave River to maintain aquatic habitat (62.4%) and for replenishing groundwater (37%) in accordance with a Memorandum of Understanding between the California Department of Fish and Game (CDFG) and VVWRA. A small portion is currently utilized for irrigation of the Westwinds Golf Course (0.6%). Victorville 2 is relying on future increases in the supply of VVWRA's reclaimed water which is a function of increasing groundwater supplies for city of Victorville's expected growth in demand from new residential development. To the extent more groundwater is drawn from the aquifer, it will need to be replenished by recharge from sources to be determined. The proposed Victorville 2's use of reclaimed water could reduce recharge to the aquifer and contribute to overdraft. Staff is evaluating the long-term supply of State Water Project water that is needed to support the projections in the growth of reclaimed water.

   As for the applicant's plans stated in the AFC for using groundwater as its potable water supply from a new well on the project site, the applicant has updated its plans to instead use potable water from the city of Victorville. Staff notes that its understanding of the city's potable water supply is that it is primarily made up of groundwater, and therefore its use would be subject to assuring the project does not contribute to groundwater basin overdraft.

2. State Water Project (SWP) Backup Water – Initially, the applicant proposed using SWP water as an emergency backup to the use of reclaimed water to meet the process and cooling needs of Victorville 2. As stated in the applicant's Data Responses dated July 23, 2007, the applicant is now proposing to use potable water from City of Victorville.

3. Resolution of Water Resource Issues – Staff is coordinating closely with the applicant, VVWRA, CDFG and the Mojave Water Agency, to determine if reclaimed water, groundwater and potable water from City of Victorville are available without impacting the environment or other water users and if the use conforms to laws, ordinances, regulations and standards (LORS). Staff is continuing its analysis and considering the information included in the applicant's Data Responses dated July 23, 2007, as well as preparing to meet and discuss outstanding issues with these water agencies in a Data Response and Issue Resolution Workshop scheduled in Victorville for August 8, 2007.

Schedule

The schedule could be affected if the Air District is delayed in issuing a Preliminary Determination of Compliance attributable to the timing of the South Coast Air Quality Management District's final determination of its rules governing the Priority Reserve. The Air District has indicated that at this time, it believes it will be able to issue the Preliminary

Determination of Compliance in August, which would not contribute to any significant schedule delay. Staff will continue to work closely with the Air District to support the efficient processing of the Victorville 2 application and analysis of air quality impacts. In addition, staff will work closely with the applicant, Mojave Water Agency, VVWRA and CDFG to evaluate and seek resolution of water supply issues. Overall, staff, the applicant and agencies will coordinate closely and strive to ultimately achieve a 12-month AFC schedule for Victorville 2.

The following table summarizes the Committee's initial schedule in comparison to staff's currently-projected schedule. The schedule has been updated to reflect the actual time for processing Data Requests and assumes that it will not be necessary for staff to prepare and the applicant to respond to a second set of data requests.

Committee's Initial & Staff's Projected Schedule
Victorville 2 Hybrid Power Project

Committee's Initial Schedule	Staff's Projected Schedule	Event
April 11, 2007	April 11, 2007	AFC data adequate
June 8, 2007	June 8, 2007	Informational Hearing and Site Visit
N/A	June 22, 2007	Staff transmits Data Request Set 1
July 12, 2007	July 23, 2007	Applicant provides Data Responses – Set 1
July 27, 2007	July 27, 2007	Parties file Status Report 1
July 25, 2007	August 8, 2007	Data Response and Issue Resolution Workshop 1
August 9, 2007	August 16, 2007	Local, state and federal agency draft determinations and Air District PDOC
September 10, 2007	September 26, 2007	Staff files Preliminary Staff Assessment (PSA)
September 27, 2007	October 11, 2007	PSA Workshop
October 9, 2007	October 16, 2007	Local, state and federal agency final determinations and Air District FDOC
November 9, 2007	November 16, 2007	Staff files Final Staff Assessment (FSA)

Proof of Service List
Dockets

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

APPLICATION FOR CERTIFICATION FOR THE VICTORVILLE 2 *HYBRID POWER PROJECT*	**Docket No. 07-AFC-1 PROOF OF SERVICE *(Revised 6/14/07)***

INSTRUCTIONS: All parties shall 1) send an original signed document plus 12 copies OR 2) mail one original signed copy AND e-mail the document to the web address below, AND 3) all parties shall also send a printed OR electronic copy of the documents that shall include a proof of service declaration to each of the individuals on the proof of service:

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DECLARATION OF SERVICE

I, Dora Gomez, declare that on July 27, 2007, I deposited copies of the attached Status Report 1 in the United States mail at Sacramento, California with first-class postage thereon fully prepaid and addressed to those identified on the Proof of Service list above.

OR

Transmission via electronic mail was consistent with the requirements of California Code of Regulations, title 20, sections 1209, 1209.5, and 1210. All electronic copies were sent to all those identified on the Proof of Service list above.

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

Dora Gomez