State Of California

Memorandum

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The Resources Agency of California

Date: February 21, 2006
Telephone: (916) 653-1850

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

From: California Energy Commission – Eric Knight
1516 Ninth Street
Sacramento, CA 95814-5512
Siting Project Manager

Subject: **WALNUT CREEK ENERGY PARK ISSUE IDENTIFICATION REPORT (05-AFC-2)**

Attached is staff's Issue Identification Report for the Walnut Creek Energy Park. This report serves as a preliminary scoping document that identifies the issues the Energy Commission staff believes will require careful attention and consideration during the Energy Commission's review of the proposed project. We will discuss the issues identified in this report at the Committee's Informational Hearing and Site Visit scheduled for February 28, 2006.

This report also provides a proposed schedule for the review of the Walnut Creek Energy Park pursuant to a 12-month Application for Certification review.

Attachment

cc: Docket (05-AFC-2)
Proof of Service List

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Issue Identification Report

Walnut Creek Energy Park (05-AFC-2)

February 2006

CALIFORNIA ENERGY COMMISSION

Systems Assessment & Facilities Siting Division

Eric Knight
Project Manager

ISSUE IDENTIFICATION REPORT
WALNUT CREEK ENERGY PARK
(05-AFC-2)

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PURPOSE OF 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 Walnut Creek Energy Park Application for Certification (AFC), Docket Number 05-AFC-2. This Issue Identification Report contains a project description, summary of potential major issues, and a discussion of the proposed project schedule. Staff will address the status of potential issues and progress towards their resolution in periodic status reports to the Committee.

PROJECT DESCRIPTION

On November 22, 2005, Walnut Creek Energy, LLC (WCE), a wholly-owned subsidiary of Edison Mission Energy (EME), filed an AFC with the Energy Commission seeking approval to construct and operate a simple-cycle power plant, the Walnut Creek Energy Park (WCEP), in the City of Industry. WCE provided a supplement to the AFC on January 13, 2006 to address data inadequacies. On February 1, 2006, the Energy Commission accepted the AFC with the supplemental information as complete.

The WCEP site is located at 911 Bixby Drive in the City of Industry, Los Angeles County. The project site is an 11.48-acre parcel currently owned by the City of Industry Urban Development Agency (Development Agency). The Development Agency has designated the parcel for redevelopment and intends to demolish the large warehouse that currently occupies the project parcel in the near future. EME has entered into a lease option agreement for the project site. The lease option will be assigned to and exercised by WCE, which will take possession of the site from the Development Agency after the warehouse has been demolished. The City of Industry is conducting the environmental review, pursuant to the California Environmental Quality Act (CEQA), for the demolition.

The project site is located within an industrial area that includes warehousing, manufacturing and transportation (railroad and intermodal rail/truck yard) uses, transmission lines, the San Jose Creek Flood Control Channel, and the Southern California Edison (SCE) Walnut Substation. Residential areas are located in the City of La Puente to the north, beyond the industrial areas that are adjacent to the project site, and in unincorporated areas of the Los Angeles County community of Hacienda Heights to the south. The nearest residence to the WCEP site is located approximately 0.21 mile south of the site in Hacienda Heights. There are 13 schools within a one-mile radius of the project site; the closest is Glenelder Elementary School, which is located 0.26-mile to the southwest.

The WCEP would be a nominal 500 megawatt (MW) simple-cycle power plant, consisting of five General Electric LMS100 natural gas-fired combustion turbine-generators, each equipped with water injection capability to reduce oxides of nitrogen (NOx) emissions, selective catalytic reduction (SCR) equipment containing catalysts to

further reduce NOx emissions, and an oxidation catalyst to reduce carbon monoxide (CO) emissions. Auxiliary equipment will include an inlet air filter house with evaporative cooler, turbine inter-cooler, 5-cell mechanical-draft cooling tower and circulating water pumps, natural gas compressor, generator step-up and auxiliary transformers, and water storage tanks.

The WCEP is designed as a peaking facility to meet electric generation load during periods of high demand, which generally occur during daytime hours, and more frequently during the summer than other portions of the year. The project is expected to have an annual capacity factor of approximately 20 to 40 percent, depending on weather-related customer demand, load growth, hydroelectric supplies, generating unit retirements and replacements, the level of generating unit and transmission outages, and other factors.

The WCEP would use reclaimed water for cooling and other power plant processes and for site landscape irrigation. The Rowland Water District would supply, on average, approximately 827 acre-feet per year of reclaimed water for the project from the San Jose Creek Wastewater Reclamation Plant. This water would be supplied to the WCEP site via an approximately 30-foot-long pipeline connection to an existing reclaimed water pipeline at the corner of Bixby Drive and Chestnut Street.

The WCEP would be connected to the SCE electrical system at the existing Walnut Substation which is located approximately 250 feet south of the project site. This connection would require construction of 600 feet of new 230-kilovolt transmission line and two transmission towers to be located adjacent to the substation within SCE's transmission line corridor.

Natural gas would be supplied to the WCEP via a pipeline connection to a Southern California Gas Company high-pressure gas pipeline that runs in a utility easement within the WCEP parcel.

Potable water for drinking and sanitary uses would be provided through a 30-foot-long pipeline connection to a Rowland Water District water main in Bixby Drive, immediately adjacent to the project site. Sanitary wastewater would be discharged to a Los Angeles County Sanitation District trunk sewer line that runs in a utility easement within the project site. Process wastewater would also be discharged to this sanitary sewer line through a connecting pipeline to the trunk sewer line.

The project is expected to take 12 months to construct and could begin commercial operation 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 major 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 major issues

contained in this report is based on Energy Commission staff's judgment of whether any of the following circumstances will occur:

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

The following table lists all the subject areas evaluated and notes those areas where major issues have been identified and if data requests are needed. Although an area is identified as having no major issues, it does not mean that an issue will not arise related to the subject area. For example, disagreements regarding the appropriate conditions of certification may arise between staff and applicant that will require discussion at workshops or even subsequent hearings.

Subject Area	Major Issue	Data Requests
Air Quality	Yes	Yes
Alternatives	No	No
Biological Resources	No	No
Cultural Resources	No	Yes
Power Plant Efficiency	No	No
Facility Design	No	No
Geology and Paleontology	No	No
Hazardous Materials Handling	No	No
Land Use	No	No
Noise and Vibration	No	No
Public Health	No	No
Power Plant Reliability	No	No
Socioeconomics	No	Yes
Traffic and Transportation	No	Yes
Transmission Line Safety and Nuisance	No	No
Transmission System Engineering	No	No
Visual Resources	No	Yes
Waste Management	No	Yes
Soil and Water Resources	Yes	Yes
Worker Safety and Fire Protection	No	No

AIR QUALITY

EME faces significant challenges in securing adequate criteria air pollutant mitigation for the WCEP. The project is located in the South Coast Air Quality Management District (District) where emission reduction credits (ERCs) are scarce and expensive. Since EME 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 is working with EME 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 and will be issuing data requests addressing these issues. Staff presents a summary of the most significant issues below.

DISTRICT RULE 1309.1 (PRIORITY RESERVE) REVISION

EME 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 (oxides of sulfur), and CO 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 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 EME securing an air mitigation package for the project.

CARBON MONOXIDE (CO) MITIGATION & DISTRICT CO RE-DESIGNATION

EME proposes three possible CO mitigation strategies. Staff believes that each strategy raises timing and implementation issues. First, EME notes that if the District is re-designated as attainment of the federal CO standards by the U.S. EPA, 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, EME proposes to purchase CO ERCs on the open market where CO ERCs are in short supply. Third, EME 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

EME 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. EME has not yet filed a petition with the District. If a petition is not granted, EME will need to 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), EME 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 through either 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, if approved by EPA, would result in the preparation of revised New Source Review (NSR) rules that would likely require offsetting of PM2.5 emissions. However, 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, EME 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 through either option contracts or outright ownership.

WATER RESOURCES

Staff's initial findings on the reliability of WCEP's water supply differ from those of the applicant. Staff has identified three distinct issues related to reliability. First, the will-serve letter (AFC Appendix 7A) from the Rowland Water District (RWD) is not specific in the amount of reclaimed water to be provided, the length of the contract, or the reliability of the supply. Second, WCEP's supply appears to derive from a Los Angeles County Sanitation District (LACSD) allocation currently held by the City of Industry, whose allocation RWD hopes to acquire. Third, a backup supply besides reclaimed water has not been identified by the applicant. Recent experience shows that outages of reclaimed water are possible in California and could have major ramifications for the project.

The preliminary agreements contained in will-serve letters provide important intermediate data about water supply and reliability before final contracts are made, informing both the applicant and staff about the proposed supply. A more detailed will-serve letter for WCEP could resolve many outstanding concerns about the reliability and availability of this supply. The primary uncertainty regarding RWD's ability to supply WCEP arises from rapidly growing local reclaimed water demand that will outstrip the allocation RWD shares with other local suppliers in ten years. RWD has joined the other suppliers in negotiating to acquire a large, unused allocation held by the City of Industry. According to AFC Supplement Section 8.15, WCEP's water supply will come from this 10,000 acre-feet per year allocation under negotiation. Thus, it appears that no dedicated supply for WCEP presently exists, in contrast to the implication of the will-serve letter provided. Finally, staff's experience shows that reclaimed water supplies, even those thought to be reliable, can undergo outages of several days or more. If RWD does not have the storage capacity to supply WCEP during a lengthy outage (as posited in AFC Section 2.1.7.2), staff believes a backup supply should be identified and available during construction, commissioning, and operations.

Staff will work with the project applicant to resolve these issues and will issue data requests addressing these matters. After data responses are received, a workshop to discuss the water supply and reliability issues may be held. Staff believes that these issues can be resolved with a few basic submittals: a more detailed will-serve letter, a progress report on RWD's negotiations for future supplies, and the identification of WCEP's preferred backup supply.

SCHEDULING ISSUES

Staff has begun its analyses of the environmental and engineering aspects of the applicant's proposed project and is currently in the discovery phase.

Following is staff's proposed 12-month schedule for key events of the project. The ability of staff to be expeditious in meeting this schedule will depend on: Walnut Creek Energy's timely response to staff's data requests; the timing of the Air District's Priority

Reserve rulemaking process and its filing of the Determination of Compliance; determinations by other local, state and federal agencies; and other factors not yet known.

STAFF'S PROPOSED SCHEDULE

Staff's Proposed Schedule for the Walnut Creek Energy Park (05-AFC-2)

	Activity	Day	Calendar Day
1	Applicant filed Application for Certification (AFC)	-	November 22, 2005
2	Executive Director's recommendation on data adequacy	-	December 21, 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	27	February 28, 2006
7	Data Requests and Issues Workshop	41	March 14, 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)	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 WCEP

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

APPLICATION FOR CERTIFICATION FOR THE WALNUT CREEK ENERGY PARK (WCEP)	**DOCKET NO. 05-AFC-2** **(Established 2/1/06)**

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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

No agencies to date.

INTERVENORS

No Intervenors to date.

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.

[signature]

* * * *

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