MEMORANDUM

Date: July 8, 1998

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From: California Energy Commission - Richard K. Buell
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To: Jananne Sharpless, Presiding Member
Robert A. Laurie, Associate Member

Subject: High Desert Power Project (97-AFC-1) Status Report Number 6

On June 1, 1998, the Committee issued its Second Revised Scheduling Order. This Order directed Staff to inform the Committee whether performance data/events 14 and 16, as described in the Order were timely met. The order also directed parties to file data requests regarding the proposed second natural gas pipeline. Data requests will be submitted to the applicant under a separate cover. At the July 1, 1998 Committee Conference, the Committee also requested staff to respond to several other issues at the same time. This status report contains staff’s response.

PERFORMANCE DATE/EVENT 14: NATURAL GAS PIPELINE INFORMATION

PALEONTOLOGICAL RESOURCES

The project description and analysis of paleontological resources contained in the “Analysis of Proposed [Second] Natural Gas Pipeline”, dated June 15, 1998, are adequate. However, the submittal did not include confidential maps showing the location of sensitive paleontological resources (see Staff’s Status Report Number 4 (dated May 8, 1998), page 3, Item 12). This information was provided on June 30, 1998. This represents a 15 day delay of the performance date for receipt of paleontological resources information on the second natural gas pipeline.

BIOLOGICAL AND WATER RESOURCES

The project description and botanical resources sections contained in the “Analysis of Proposed [Second] Natural Gas Pipeline”, dated June 15, 1998, are adequate. However, as indicated by the applicant, the submitted does not include a write-up on wildlife. Notwithstanding the inclusion of field data sheets in the document for desert tortoise and Mohave ground squirrel surveys, the submittal is inadequate with respect to Biological resources data needs (see Staff’s Status Report Number 4 (dated May 8, 1998), page 4, Item 22). At the July 1, 1998 Informational Hearing, the applicant indicated the information would be provided by July 8, 1998. This represents a 23 day delay of the performance date for receipt of biological wildlife information on the second natural gas pipeline.

In the Biological Resources section of the “Analysis of Proposed [Second] Natural Gas Pipeline”, dated June 15, 1998, the submittal indicates that a Section 404 permit from U.S. Army Corp of Engineers for dredging and filling within desert washes may
be necessary. The submittal indicates that no delineation of jurisdictional wetlands for the pipeline route has been conducted. Furthermore, the text contains no discussion of where these jurisdictional desert washes may be crossed by the pipeline nor is there a discussion of potential mitigation measures (see Staff’s Status Report Number 4 (dated May 8, 1998), page 3, Item 11, and page 5, Item 23). The submittal does not address where compliance with “1603 Streambed Alteration Agreement” with the Department of Fish and Game will be required (see Staff’s Status Report Number 4 (dated May 8, 1998), page 5, Item 26). In addition, the Water Resources section does not identify proposed water supplies for construction activities and hydrostatic testing operations, nor does the submittal contain an estimate of the amount to be used (see Staff’s Status Report Number 4 (dated May 8, 1998), page 3, Item 11, and page 5, Item 23).

Information still needed from the applicant to meet the performance date includes: 1) analysis of wildlife setting, potential impacts and proposed mitigation measures; 2) an identification of those portions of the pipeline route where a 404 permit from U.S. Army Corp of Engineers may be necessary; 3) an indication of whether a streambed alteration agreement with Department of Fish and Game may be necessary; 4) a discussion of potential streambed impacts and mitigation measures; and 5) proposed supplies and quantities of water to be used in construction and testing of the pipeline. Staff currently has no estimate of when information in 2 through 5 can be provided.

PERFORMANCE DATE EVENT 16: LETTERS OF INTENT FOR EMISSION REDUCTION CREDITS (ERCs) AND ROAD SPECIFICATION FOR PM10 ERCs

On June 15, 1998, the applicant filed six documents labeled Letters of Intent. Staff has reviewed them to determine whether they meet the criteria specified in staff’s April 29, 1998 letter. These criteria include:

- Name of the Owner(s) of the ERCs.
- Address of Facility(ies) from which ERCs will be obtained.
- Mailing Address of the Owner(s), and contact person.
- Description of the ERCs which are subject of negotiations.
  - Pollutant(s) and amounts (tons per year).
  - Method of Emission reduction (e.g., shutdown, process changes, emission control (brief description), fuel switch or augmentation, or other).
  - Identification of whether ERCs have been banked pursuant to the applicable district rules. If so, please identify the bank certificate identification number(s). If not, please identify when emission reductions were or will be achieved, and the estimated schedule of when ERC banking applications were or will be made to the applicable air district.
• A written indication of the seller’s intention to enter into a contract with the applicant for purchase of the ERCs, including a preliminary understanding of the potential contract terms.

GENERAL MOTORS CORPORATION

Staff notes that there is a minor deficiency in this letter, which should be easily corrected. Specifically, the letter lacks a description of the ERCs. Aside from this issue, staff believes that all of the necessary information has been included in this document. Moreover, staff believes that the option contract attached to the Letter of Intent would be sufficient for the Mojave Desert Air Quality Management District (District) to provide the certification required by subsection (d)(2) of Public Resources Code section 25523, provided that either the second or third option period is in effect at the time the determination is made. Thus, staff believes that this Letter of Intent is sufficient for both its Final Staff Assessment (FSA) and for the Energy Commission’s decision on the project.

MITSUBISHI CEMENT CORPORATION

The Mitsubishi Letter of Intent lacks a description of the ERCs, the address of the facility from which the ERCs are proposed to be obtained, and the time frame for banking, although the District has subsequently provided the latter at the July 1, 1998 Committee Conference. The remaining deficiencies should be easily corrected.

The letter signed by Mitsubishi and the applicant states that Mitsubishi intends to continue negotiations toward entering into an option agreement with the applicant. It is not clear that such a statement is the same as an indication of the seller’s intention to enter into an option contract with the applicant, or a preliminary understanding of the parties. However, staff is willing to use this letter for purposes of its FSA. Unfortunately, the District has indicated that the banking application from Mitsubishi for these ERCs is incomplete. Therefore, staff does not know what quantity of offsets to attribute to this source in its analysis. At the July 1 Committee Conference, a District representative stated that proposed banking certificates for all of the emission reduction credits referred to in the Letters of Intent would be issued by August 1, 1998. Staff will participate in the District’s banking process, during the public comment period, and intends to use the District’s decision in determining the correct amount of ERCs available from the Mitsubishi facility.

SOUTHERN CALIFORNIA GAS COMPANY

Staff believes that the Southern California Gas Company letter of intent has several minor deficiencies, including description of the ERCs, the address of the facility from which the ERCs are proposed to be obtained, and the time frame for banking. In addition, the Letter of Intent fails to demonstrate an intent to enter into a contract with the applicant for the sale of the offsets. Unlike the Mitsubishi letter, this Letter of Intent merely states that the Southern California Gas Company desires to “commence
negotiations” with the intent to enter into an option agreement. In contrast, the Mitsubishi letter stated that Mitsubishi intends to “continue” negotiations. This indicates that the applicant has not even begun negotiating with the Southern California Gas Company for the sale of the offsets. Staff believes that a letter signed prior to any negotiations for the sale of the offsets cannot be termed a Letter of Intent to sell the offsets. Finally, staff notes that the District has not yet issued a banking certificate for any ERCs from the Southern California Gas facility. As with the Mitsubishi ERCs, staff will participate in the District’s banking process, and intends to use the District’s decision in determining the correct amount of ERCs available from the Southern California Gas facility. As noted above, a District representative has stated that proposed banking certificates should be issued by August 1, 1998.

SOUTHERN CALIFORNIA INTERNATIONAL AIRPORT

This Letter of Intent has the same minor deficiencies as noted for the Mitsubishi and Southern California Gas company letters. With respect to whether the Letter of Intent demonstrates an intent to enter into a contract with the Southern California International Airport for the sale of ERCs, staff reiterates the comments made concerning the Southern California Gas Company Letter of Intent.

CITY OF ADELANTO

Staff believes that the information about road paving provided in this letter is sufficient for preparation of the FSA.

CITY OF VICTORVILLE

Staff believes that the information about road paving provided in this letter is sufficient for preparation of the FSA.

OTHER PARTIES

At the June 30 workshop on the Preliminary Determination of Compliance, the applicant indicated that it may submit additional Letters of Intent with other parties. Obviously, as the submission of these letters was identified as a performance date by the Committee, provision of additional letters after the June 15, 1998 deadline could have significant scheduling implications.

PERFORMANCE DATE EVENT 21: INFORMATION FOR 10(a)(1)(B) PERMIT WITH USFWS & SECTION 7 CONSULTATION BY BLM WITH USFWS

At the July 1, Committee Conference, the applicant’s consultant indicated that submittal of information necessary of the U.S. Fish and Wildlife Service to issue a 10(a)(1)(B) permit and for U.S. Bureau of Land Management (BLM) it process a Section 7 Consultation with USFWS will be delayed until July 8, 1998. This

1 The 10(a)(1)(B) permit (an incidental take permit) applies to the power plant and linear facilities (e.g., excluding the second natural gas pipeline) and is necessary where federally listed species may be impacted by project development. Since the second natural gas pipeline crosses BLM land, BLM will be required to conduct a
represents a minimum of a seven day delay of the performance date for receipt of biological wildlife information for these federal agencies.

**FRAMING OF THE LEGAL ISSUES**

At the July 1, 1998 Committee Conference, the Committee asked staff to frame the legal issues associated with the issue of the provision of offsets. Staff has proposed the following outline to comply with the Committee request.

Offset Information Required During CEC Licensing

I. Summary of Requirements  
   A. Federal Clean Air Act (CAA)  
      1. Substantive  
      2. Procedural/Timing  
   B. Local District Rules and Regulations  
      1. Substantive  
      2. Procedural/Timing  
   C. California Environmental Quality Act  
      1. Substantive  
      2. Procedural/Timing  
   D. Warren-Alquist Act  
      1. Substantive  
      2. Procedural/Timing

II. Incorporation of Requirements into CEC Siting Process  
   A. Determination of Compliance  
      1. District and CAA Requirements  
   B. Staff Analysis  
      1. District and CAA Requirements  
      2. CEQA Requirements  
   C. Energy Commission Decision  
      1. District and CAA Requirements  
      2. CEQA Requirements  
      3. Warren-Alquist Act Requirements

**OFFSET REQUIREMENTS IN PAST SITING CASES**

Section 7 consultation with USFWS. The time required for USFWS to conduct a Section 10(a)(1)(B) permit review under the Endangered Species Act or a Section 7 consultation are significant. It is likely that these permit analyses would not be complete until December 1998 or January 1999. Delay in receiving the information necessary to conduct these analyses could significantly effect the overall schedule for the project.
SAN FRANCISCO ENERGY COMPANY (SFEC)

In the SFEC case (March 1996), the Energy Commission found that the certification required by Public Resources Code section 25523(d)(2) was provided by the Bay Area Air Quality Management District. (Energy Commission Decision, p. 259) However, Condition of Certification # 49 (which was based on the Determination of Compliance) states that the ERCs must be submitted to the District prior to issuance of the Authority to Construct, which the Bay Area District planned to issue after the Commission’s decision. Staff’s recollection is that the certification was based on a completed purchase of ERCs which occurred prior to the Energy Commission’s decision. Staff does not know why the Energy Commission’s Condition of Certification # 49 does not reflect the fact that the purchase had been completed.

PROCTER & GAMBLE/ CAMPBELL COGENERATION PROJECTS

In these cases (November 1994), the ERC requirements were coordinated. However, the Energy Commission made a finding that the certification required pursuant to Public Resources Code section 25523(d)(2) was provided only for the Campbell Cogeneration Project. (Campbell Decision, p. 32) Both Decisions require the provision of copies of banking certificates; for Proctor and Gamble, the timing is 45 days prior to start-up, and for Campbell, the timing is prior to the commencement of construction (Campbell Decision, pp. 44-45; Proctor & Gamble Decision, pp. 56-57) The Decision for the Campbell Cogeneration Project states that the applicant had already obtained offsets from two sources and expected to complete the sales for the third source by the end of the year. (Campbell Decision, p. 30) The Decision does not state whether an option contract had been obtained for the third set of offsets, but the Proctor & Gamble Decision implied that contracts had been provided for all offset sources. (Proctor & Gamble Decision, p. 36) Staff believes that sales contracts were provided for all sources but one and that an option contract for the final source was provided during the pendency of the case.

CROCKETT COGENERATION PROJECT

In the Crockett case (May 1993), the Energy Commission found that the certification required prior to Public Resources Code section 25523(d)(2) was provided by the Bay Area Air Quality Management District. (Energy Commission Decision, p. 52) In addition, Condition of Certification # 49 states that the applicant shall obtain offsets, the contracts for which were required to be submitted to the Energy Commission within 5 days of the District issuance of the Authority to Construct. In this case, the Applicant had entered into option contracts for a sufficient amount of offsets, but the Energy Commission wished to encourage the applicant to attempt to substitute some of those offsets for others, not yet purchased, that were located upwind of the project. Thus, the applicant had provided option contracts in a sufficient amount, but to accommodate the Energy Commission’s wish that the applicant seek upwind offsets, the Decision did not require the actual ERCs to be provided until completion of the purchase of whichever offsets were used by the project.
AIR QUALITY

Based on the discussions at the June 30, 1998 workshop on the Preliminary Determination of Compliance (PDOC), the applicant may change the emission controls proposed for the project in order to address concerns raised by U.S. Environmental Protection Agency (EPA), California Air Resources Board (ARB), and staff. Specifically, the applicant may consider the application of a carbon monoxide (CO) catalyst, which will reduce emissions of CO and volatile organic compounds (VOC) from the project. The applicant may also consider lowering the nitrogen oxide (NOx) emissions for the project. At the June 30, 1998 workshop, the applicant identified that it had requested the District to modify the proposed permit conditions in the PDOC to allow for an unlimited number of startups. The applicant indicated that physical constraints (e.g., manufacturer specifications limiting the number of startups between turbine overhauls, and specified startup times and cool down periods) would limit the number of cold and warm startups during a twenty-four hour period. The applicant also indicated that the annual emission cap identified in the PDOC would limit the number startups and/or total hours of operation allowed on an annual basis. Staff will need additional information from the applicant to analyze whether the proposed change to unlimited startups will result in any adverse environmental impacts, which may require mitigation or would otherwise limit the number of startups that should be allowed. Staff will develop data requests to address these points and submit them within two weeks (responses would normally be expected thirty days later). Turbine data for the Westinghouse 501G and Siemens turbine was received on June 26, 1998. This information was adequate.

In addition to the informational needs identified above, the District indicated at the July 1, 1998 Committee Conference that the earliest that it could provide a revised Preliminary Determination of Compliance (PDOC) would be September 1, 1998, and the earliest that it could provide a final Determination of Compliance DOC would be October 1, 1998. Based on the potential to still receive significant comments from EPA, ARB, staff and other parties on the proposed ERC banking certificates and on the revised PDOC, staff believes a more likely estimate for the final DOC would be late October 1998 to early November 1998.

MOU WITH FEDERAL AGENCIES

Staff had discussed at a previous Committee Conference the possibility of entering into Memoranda of Understanding (MOUs) with the United States Fish and Wildlife Service (USFWS) and the Bureau of Land Management (BLM) to coordinate the staff’s environmental review under the California Environmental Quality Act with the environmental review those agencies are required to perform under the National

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2 This assumes that the District would issue proposed ERC banking certificates for the proposed ERCs by the end of July 1998, and that the District would not receive any substantial comments on these proposed ERC banking certificates that would require significant revision.
Environmental Policy Act (NEPA). As staff indicated at the Committee Conference, both agencies have indicated that they believe such MOUs are unnecessary. In previous cases in which a 10(a)(1)(B) permit has been required, staff has not entered into a MOU with USFWS. Staff has entered into MOUs with other federal agencies to prepare joint environmental documentation to meet both CEQA and NEPA requirements. As Roger Cannon indicated at the July 1, 1998 Committee Conference, BLM does not believe an MOU is required in this instance. Staff is attempting to coordinate a conference call with both BLM and USFWS to discuss this issue jointly. At a minimum, staff will continue to include these agencies in discussions about staff’s environmental review to ensure that the revised Preliminary and Final Staff Assessments contain the information necessary for the agencies to issue their permits.

**FEDERAL AVIATION ADMINISTRATION (FAA)**

At the Committee Conference on July 1, 1998, staff stated that all but one issue involving the Federal Aviation Administration (FAA) requirements are resolved. The one remaining issue concerns the potential for the project stacks to intrude into protected airspace. Staff reviewed the correspondence between the applicant and FAA and noticed that in providing information required for the analysis, the applicant identified a lower site elevation to FAA than it identified in the application for certification (AFC) filed June 30, 1997. Staff performed the calculations contained in the FAA regulations and determined that use of the site elevation provided by the applicant (2850 feet) to FAA results in no intrusion into protected airspace, while using the site elevations provided in the AFC (2856.7 to 2859.0 feet) result in intrusion into protected airspace (by 6.7.5 to 9.0 feet). Staff is preparing a letter to FAA identifying this discrepancy and asking whether FAA believes that the difference in site elevations would affect FAA’s determinations. Staff will inform the parties and the Committee of the resolution of this issue, in its next status report or in the revised Preliminary Staff Assessment.

**WATER RESOURCES**

At the July 1, 1998 Committee Conference, Commissioner Laurie asked about the relationship between the project and any Local Agency Formation Commission (LAFCO) process that may have occurred. Staff does not know whether any LAFCO process occurred that included consideration of this project. The project site is located within the Southern California International Airport (SCIA), which is now within the City of Victorville. Although the Victor Valley Water District (VVWD) is the main source of water for most of the City of Victorville, VVWD’s service area does not include the SCIA. The water distribution system on the base is managed by the City of Victorville, with both VVWD and the City of Adelanto providing water for use at the SCIA.

The High Desert project is proposing to use two sources of water -- VVWD and State Water Project water, to be provided by the Mojave Water Agency (MWA). MWA requires that the applicant have a source of water available for all of its needs before it will
consider an application for the purchase of State Water Project water. The VVWD is currently deciding whether to agree to provide water to the High Desert Project. If it agrees to do so, the applicant will request that the MWA agree to provide water to the project in an amount sufficient for plant operation and for any recharge requirements imposed by VVWD. If VVWD decides to reject the applicant's request for water service, the applicant will need to locate another source of water, which could include wells it owns and operates itself or the City of Adelanto, before it can file a request for SWP water with the MWA. Alternatively, the applicant may choose to only pursue certification of the simple cycle configuration, or use of dry or wet/dry cooling technologies. In order for staff to complete its assessment (including evaluation of alternatives), staff needs to know who will provide water for the project, well locations, recharge proposals, and conditions water suppliers will require the applicant to meet before supplying water to the project.

DEPARTMENT OF TOXIC SUBSTANCES CONTROL (DTSC)

On July 6, 1998 staff spoke with Mr. Norman Riley, representing DTSC. Mr. Riley indicated that DTSC had reviewed the information staff had forwarded to DTSC from the applicant, and was preparing a written response. Mr. Riley indicated that they hoped to mail the response the week of July 6, 1998, that indicates that DTSC tentatively concluded that the project would be exempt from any permit DTSC would issue. Mr. Riley indicated that before DTSC could make a final determination, the applicant would need to clarify its proposal. The need for additional information arises as a result of potentially conflicting information DTSC received from California Unions for Reliable Energy (CURE) and the applicant. Once the letter from DTSC is received, the Energy Commission staff will schedule a workshop with DTSC, the applicant and CURE to clarify any conflicting information.

VISUAL RESOURCES

At the workshop on May 28, 1998, the applicant had identified a number of concerns it had with staff’s visual resource analysis. The applicant indicated that by June 30, 1998 (when it intended to file other comments on the PSA) it would provide additional information on lighting for the project, the frequency of visible cooling tower plumes and a side-by-side comparison of the applicant’s and staff’s significance criteria. This information was received on July 6, 1998.

TRANSMISSION LINE ENGINEERING

On Monday July 6, 1998, staff learned that the Southern California Edison Company's (Edison) responses to questions on the initial Interconnection Study raised by the California Independent System Operator (Cal-ISO), will not be available until Wednesday July 8, 1998. Consequently, staff has postponed the scheduled July 9, 1998 workshop on the Interconnection Study and transmission engineering. At this time, staff is not certain when the Cal-ISO would be able to complete its review of the Interconnection Study, and identify any measures necessary to mitigate any adverse
reliability effects caused by the High Desert Power Project. The Cal-ISO has previously indicated that it would require a minimum of two weeks to review the results of the study once finalized. If this time line is still valid, staff would expect the Cal-ISO's analysis in late July or early August 1998. Therefore, the Cal-ISO's analysis would not be available for staff to include in the revised PSA, currently scheduled to be filed on July 31, 1998.

**SCHEDULE**

At the July 1, 1998 Committee Conference, the Committee asked staff to summarize the deficiencies that would exist were the staff to issue a revised Preliminary Staff Assessment on July 31, as currently scheduled. As of this filing, staff is still missing the following information from the applicant: 1) complete information on the natural gas pipeline; 2) complete Letters of Intent from all potential ERC sources; 3) written documentation from the entities supplying water for the project that the applicant's water plan is acceptable and preliminary conditions for approval; 4) a revised Preliminary Determination of Compliance (PDOC) from the Mojave Desert Air Quality Management District (District); and 5) the California Independent System Operator’s (Cal-ISO) review of Southern California Edison Company’s (Edison) transmission line Interconnection Study. In addition, staff is still waiting for resolution of the issue concerning FAA's calculations on the potential for air space intrusion, and DTSC’s conclusions about the necessity, if any, for hazardous waste treatment or disposal permits.

Staff's purpose in reissuing the PSA was to provide a “complete” analysis of the major issues confronting the project. Staff could reissue the PSA to: 1) address comments it has received from the applicant and CURE on the PSA, 2) include information on and analysis of the second natural gas pipeline; 3) provide a complete alternatives analysis; and 4) provide other information that has come to light since the draft PSA was filed. However, the revised PSA would still be lacking a complete analysis in several key areas (air quality, water resources, biological resources, transmission engineering, and aviation safety). Finally, as staff noted at the July 1, 1998 Committee Conference, the applicant identified additional changes to the project at the June 30, 1998 workshop, which will require additional data requests and analysis by staff (see the Air Quality discussion above).

Consequently, staff believes that it would not be productive to issue the revised PSA on July 31, 1998, as previously scheduled. However, at this time staff is not certain what is a reasonable schedule for issuing the revised PSA. Based on the performance schedule adopted by the Committee, we believe the soonest that the revised PSA could be issued is 45 days after receipt of complete information to satisfy

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3 Applicant is concerned whether it can obtain written documentation from the water agencies identifying their approval of the applicant’s water plan (also see Event # 36). The applicant believes that in order to obtain this documentation, it would need to enter into a contractual arrangement with these agencies, which the applicant is not willing to do at this time.
Events 14 (information on the second natural gas pipeline), and Event 16 (ERC Letters of Intent). Staff believes that would correspond to issuing the revised PSA in late-August 1998 (based on missing the performance date for wildlife information for the second natural gas pipeline by 23 days) to late-September 1998 (based on an assumption of receipt of biological and water resources information for the second natural gas pipeline and complete ERC Letters of Intent by August 6, 1998). In order for staff to incorporate the findings in the District’s revised PDOC, staff will require two to three weeks. Based on the desire to address the District’s findings in the revised PSA, staff recommends a new date for the revised PSA of September 24, 1998. A publication date of September 24, 1998 would also ensure sufficient time to receive and analyze information from the applicant clarifying the changes it makes in the project description noted in the Air Quality discussion above.

RKB:rkb

cc:      Proof of Service Ray Menebroker, ARB      
        Chuck Fryxell, APCO Mojave Desert Robert G. Zeller, Mojave Desert AQMD  
        Matt Haber, U.S. EPA Dan Gallagher, VVWD  
        Charlie Kraus, VVWD Norman Caouette, MWA  
        Mark Zeiring, CPUC Manuel Alvarez, Edison  
        Rebecca Jones, CDFG Norman Riley, DTSC  

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4 Staff believes that it should also have the Cal-ISO’s analysis by this time.

5 The schedule staff submitted to the Committee on May 26, 1998 was based, in part, on allowing the staff two weeks to address the District’s final DOC (expected on July 19, 1998) in the revised PSA. Staff does not believe it prudent to delay issuing the revised PSA until we receive the final DOC (i.e., early-October to late-November 1998), if other information is available to complete analyses and reach conclusions for other technical areas. Therefore, we recommend issue the revised PSA based on the revised PDOC, expect by September 1, 1998.