

File No. 080779

Committee Item No. /
Board Item No.

COMMITTEE/BOARD OF SUPERVISORS

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Government Audit and Oversight Committee

Date: June 9, 2008

Board of Supervisors Meeting

Date:

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Completed by: Annette Lonich

Date: June 5, 2008

Completed by:

Date:

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

1 [Closure of the Potrero Power Plant.]

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3 **Resolution urging the Public Utilities Commission to present to the California**
4 **Independent System Operator a transmission-only solution to close the entire Potrero**
5 **Power Plant; and establishing minimum criteria for any in-City generation projects to**
6 **close the Potrero Power Plant.**

7
8 WHEREAS, The Governing Board of the California Independent System Operator
9 (ISO) adopted the San Francisco Action Plan (Action Plan) which detailed the requirements
10 for closing the Hunters Point Power Plant and the Potrero Power Plant, and the ISO has
11 continued to update the Action Plan since its adoption in November 2004; and,

12 WHEREAS, The Hunters Point Power Plant has been closed consistent with the Action
13 Plan; and,

14 WHEREAS, The City seeks to close the Potrero Power Plant as soon as possible and
15 has been working to develop a plan to replace the need for the Potrero Power Plant and
16 ensure reliable electric service to San Francisco; and,

17 WHEREAS, New information from the ISO in a June 2, 2008, letter to the City
18 establishes that once the Trans Bay Cable is in service, the Airport CT Project proposed by
19 the City will not be required to replace the reliability need for the Potrero Power Plant and the
20 ISO will agree to remove the reliability designation of Potrero Unit 3 even if a replacement
21 generation project has not been completed; and,

22 WHEREAS, This information is in contrast to consistent and recent statements from the
23 ISO that the addition of the Trans Bay Cable would not alter the requirements set forth in the
24 Action Plan; and,

25

1 WHEREAS, The June 2, 2008, ISO letter also indicates that in-City generation will be
2 required to replace Potrero Unit 3 and states that the retrofit of Mirant's Potrero Units 4, 5, and
3 6 would be an adequate alternative to the City CT Projects; and,

4 WHEREAS, Potrero Units 4, 5, 6 are 32 year-old diesel turbines that currently operate
5 a maximum of 800 hours per year and will operate a maximum of 400 hours per year
6 beginning in January 2010; and,

7 WHEREAS, Mirant has proposed to retrofit Potrero Units 4, 5, and 6 to run on natural
8 gas, install emissions reduction equipment, and obtain air permits allowing the units to run up
9 to 4000 hours per year; and,

10 WHEREAS, This significant change to the Action Plan by the ISO warrants the
11 reexamination of the requirements to ensure reliable electric service in San Francisco; and,

12 WHEREAS, Pacific Gas and Electric Company (PG&E) has consistently maintained
13 that the Potrero Power Plant could be replaced by transmission additions that are currently
14 underway in combination with new in-City transmission upgrades and demand-management
15 programs; and,

16 WHEREAS, In a May 21, 2008 opinion piece in the San Francisco Chronicle, the Chief
17 Executive Officer of the ISO stated that building new transmission lines to feed more power
18 into San Francisco is one alternative for replacing the Potrero Power Plant; and,

19 WHEREAS, Substantial transmission upgrades to the San Francisco and Greater Bay
20 Area transmission systems are already underway; and,

21 WHEREAS, The City has repeatedly stated its preference for energy efficiency,
22 renewable energy, and transmission over fossil-fueled resources and, consistent with the
23 State's energy policies, has stated that any fossil-fueled resources that are required should be
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1 clean, efficient, and flexible in order to promote environmental justice, reduce emissions, and
2 complement increasing reliance on renewable resources; and,

3 WHEREAS, Ordinance 124-01 directed City departments to develop plans to
4 implement all practical transmission, conservation, efficiency, and renewable alternatives to
5 fossil fuel generation in the City and County of San Francisco; and

6 WHEREAS, In December 2002, the Board of Supervisors unanimously adopted
7 Resolution 827-02, endorsing the Electricity Resource Plan which identifies eight goals that
8 were developed through public comment and used to guide the plan: maximize energy
9 efficiency, develop renewable power, assure reliable power, support affordable electric bills,
10 improve air quality and prevent other environmental impacts, support environmental justice,
11 promote opportunities for economic development, and increase local control over energy
12 resources; and

13 WHEREAS, The City has spent significant resources to ensure that Mirant's activities
14 at the Potrero Power Plant are consistent with the City's energy goals, including

15 (a) opposing Mirant's attempt to add an additional 540MW power plant to the Potrero
16 neighborhood,

17 (b) suing Mirant for operating Units 4, 5, and 6 in excess of the permitted hours,

18 (c) opposing Mirant's continued operation of Unit 3 using antiquated once-through
19 cooling technology that pollutes the Bay,

20 (d) suing Mirant for price gouging and market manipulation during the energy crisis of
21 2000-2001, and

22 (e) negotiating with Mirant for the permanent closure of all of Mirant's facilities at
23 Potrero; and,

1 WHEREAS, In view of this history, the City should be cautious and vigilant in taking
2 any steps that expand the operation of Mirant's facilities in San Francisco; and,

3 WHEREAS, The City CT Projects achieve the City goal of eliminating old power plants
4 and controlling any new generation to limit operation and ensure closure when not needed for
5 reliability; and,

6 WHEREAS, The City CT Projects provide many benefits to the City, as set forth in
7 detail in File No. 080577, including the following:

8 (a) The City CT Projects (the 145 MW Potrero CT Project in San Francisco
9 and the 48 MW Airport CT Project at San Francisco International Airport) will result in the
10 shutdown of older, more polluting in-City power plants, as required in the City's adopted
11 Electricity Resource Plan.

12 (b) Replacing older more polluting in-City generating units with the City CT
13 Projects will improve air quality and will eliminate power plant water discharge into the Bay
14 from the San Francisco waterfront.

15 (c) The City CT Projects are capable of quick starts and therefore (a) avoid
16 the need to run continuously at low levels even when the electricity is not needed in order to
17 be available when needed, and (b) are ideally suited to complement the City's aggressive
18 goals for the deployment of intermittent renewable resources.

19 (d) City ownership of electric generating supplies can reduce the risk of
20 market power abuses and enable the City to mandate the use of cleaner fuels when feasible
21 or to close down any such generation when it is no longer needed.

22 (e) The City CT Projects will assist the City with meeting regulatory
23 requirements designed to ensure adequate electric supply.
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1 (f) The Airport CT Project will provide emergency backup power to the
2 Airport in the event of electric system emergencies.

3 WHEREAS, Any alternative generation project supported by the City should provide at
4 least the same benefits to the City as the City CT Projects. At a minimum, an alternative
5 generation project must satisfy the following minimum criteria:

6 (a) A modification to the Action Plan stating that the Proposed Project will
7 satisfy the ISO criteria set forth in the San Francisco Action Plan (including relevant updates
8 to the Action Plan) to allow removal of the reliability designation from the Potrero Power Plant
9 and ensure reliable electric service.

10 (b) Binding, enforceable contracts with all relevant entities necessary for
11 completion of the Proposed Project.

12 (c) Written evidence that the Proposed Project will improve environmental
13 quality and public health and promote environmental justice, as evidenced by at least the
14 following:

15 (i) Proof that the Proposed Project will result in emissions of
16 ozone precursors not greater than 0.12 pounds per megawatt-hour of electricity produced;
17 emissions of PM10 precursors not greater than 0.17 pounds per megawatt-hour of electricity
18 produced; and emissions of carbon dioxide not greater than 0.529 metric tons per megawatt-
19 hour of electricity produced.

20 (ii) For the purposes of this criterion, the term "ozone
21 precursors" includes emissions of precursor organic compounds and oxides of nitrogen; the
22 term "PM10 precursors" includes emissions of precursor organic compounds, sulfur dioxide,
23 oxides of nitrogen, and directly emitted particulate matter smaller than 10 microns in size
24 (PM10). Definitions of these terms shall be as set forth in the regulations of the Bay Area Air
25

1 Quality Management District. Satisfaction of this criterion with respect to emissions of ozone
2 precursors and PM10 precursors shall be demonstrated through enforceable emission
3 limitations contained in a valid Authority to Construct issued by the Bay Area Air Quality
4 Management District. Satisfaction of this criterion with respect to emissions of carbon dioxide
5 shall be based on calculations performed in accordance with the draft 'Regulation for the
6 Mandatory Reporting of Greenhouse Gas Emissions' released by the California Air Resources
7 Board on May 15, 2008. The values shown in this criterion are the emission rates (pounds of
8 pollution for each megawatt-hour of electricity produced) for both of the City CT Projects.

9 (iii) Proof that the Proposed Project will include at least the
10 same particulates mitigation and community benefits program as the City CT Projects.

11 (iv) Proof that the Proposed Project will provide local offsets for
12 NOx.

13 (v) Proof that the Proposed Project will result in no impacts to
14 the Bay—i.e., no intake from or discharge into the Bay, use of recycled water, and compliance
15 with the Port mitigation requirements for treatment of storm water.

16 (d) Evidence that the Proposed Project will provide dispatchable, flexible
17 generation that will complement the deployment of renewable resources. In particular, the
18 Proposed Project must have the capability of 10-30 minute starts to allow pairing with
19 renewable resources and eliminate fuel consumption and emissions from the Proposed
20 Project when power is not needed.

21 (e) The Proposed Project must improve electric reliability relative to outage
22 rates of existing generation and ensure reliability equivalent to City CT Projects.

1 (f) The Proposed Project must improve City control over energy supplies to
2 promote reliability, public health, and environmental quality, including at least the following
3 regarding the Proposed Project:

4 (i) No project dispatch other than for reliability, except on
5 agreement of the City.

6 (ii) City control over project closure when no longer needed for
7 reliability at no cost to City.

8 (iii) City control over repowering with renewable fuels.

9 (g) The Proposed Project will result in reasonable costs and value to
10 ratepayers and City.

11 (i) The cost burden on the City and San Francisco ratepayers will be
12 equal to or better than under the City CT Projects.

13 (ii) The Proposed Project will provide equivalent value to the City and
14 San Francisco ratepayers relative to the City CT Projects; now, therefore, be it

15 RESOLVED, That the Board of Supervisors urges the Public Utilities Commission to
16 submit to the ISO a proposal for amending the Action Plan on an expedited basis to provide
17 for a transmission-only solution to the closure of the Potrero Power Plant; and, be it further

18 RESOLVED, That it shall be the policy of the City and County of San Francisco to
19 reject any alternative generation project that fails to meet the minimum criteria set forth in this
20 Resolution.

