State Of California

The Resources Agency of California

Memorandum

Date : June 22, 2006
Telephone: (916) 651-8853
File: ~~Los Esteros 2, Phase 2 (3-AFC-2)~~

DOCKET
03-AFC-2
DATE JUN 22
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To: Jackalyne Pfannenstiel, Chairman and Presiding Member
John L. Geesman, Commissioner, and Second Member

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

Subject: **LOS ESTEROS CRITICAL ENERGY FACILITY 2 PHASE 2 (03-AFC-2); STAFF TESTIMONY SUPPORTING THE MOTION FOR OVERRIDE OF LORS NONCOMPLIANCE**

The Los Esteros Critical Energy Facility (LECEF) was first licensed for a three-year period by the California Energy Commission as a 180 megawatt (MW) simple-cycle power plant on July 2, 2002 (01-AFC-12) under provisions of Public Resources Code (PRC) section 25552. On December 30, 2003, a new Application for Certification (AFC) 03-AFC-2, requesting recertification (Phase 1) of the simple-cycle power plant, and (Phase 2) requesting a permit to convert the LECEF to combined-cycle operation. Phase 1 was recertified by the Commission as required by provisions of PRC 25552 on March 16, 2005, for the life of the project (Phase 1). Phase 2 of the AFC, seeking a license to convert the facility to a combined-cycle power plant, adding equipment and a steam turbine generator producing 140 MW of additional electricity for a total electrical generation capacity of 320 MW, has not been completed and is the subject of this filing.

On October 7, 2005, the Energy Commission Committee for the LECEF Phase 2 project published the Presiding Member's Proposed Decision (PMPD) containing findings and recommending Conditions of Certification for all technical areas, and stating the public benefits of the project which include needed local electrical generation, area-wide grid support and socioeconomic benefits.

The City of San Jose has not completed the necessary amendment to its Proposed Development Zoning for the LECEF Phase 2 which would allow the conversion of the LECEF to combined-cycle operation, and completion of the Energy Commission's licensing process. On May 26, 2006, Staff Counsel submitted a Motion for Override of LORS Noncompliance regarding the incomplete city zoning action.

Commission staff from the Transmission System Engineering Section, and the Electricity Analysis Office have prepared testimony adding contemporary information and analysis regarding the North San Jose area's future electrical need, electrical system and related financial benefits of the proposed combined-cycle project. This staff analysis supports that Motion.

Attachments

PROOF OF SERVICE (REVISED 4-25-4) FILED WITH
ORIGINAL MAILED FROM SACRAMENTO ON 6-23-4

ELECTRICITY SUPPLY BENEFITS AND LOSS ANALYSIS RESULTING FROM CONVERSION OF THE LOS ESTEROS CRITICAL ENERGY FACILITY TO A COMBINED-CYCLE PLANT

Testimony of Mark Hesters, Ajoy Guha P.E. and David Ashuckian

INTRODUCTION

The Los Esteros Critical Energy Facility (LECEF) was first licensed for a three-year period by the California Energy Commission as a 180 megawatt (MW) simple-cycle power plant on July 2, 2002 (01-AFC-12) under provisions of Public Resources Code section 25552, and was recertified as required by provisions of PRC 25552 on March 16, 2005 for the life of the project (Phase 1 of 03-AFC-2). Also under consideration was Phase 2 of the latter application (03-AFC-2), seeking a license to convert the facility to a combined-cycle power plant, adding equipment and a steam turbine generator producing 140 MW of additional electrical output for a total nominal electrical capacity of 320 MW. The current LECEF is connected to the grid by a 152-foot-long, wood pole transmission line to the Pacific Gas and Electric (PG&E) 115 kV Los Esteros Substation-Nortech line immediately to the west of the LECEF. The Los Esteros Substation was constructed prior to the start of operations as part of the North San Jose Transmission Reinforcement Project approved by the CPUC. During the recertification process, Silicon Valley Power (SVP) acquired the property immediately north of the project and adjacent to the Los Esteros Substation and built and began operating the SVP 230 kV Switching Station, interconnecting to the 230 kV bus inside the Los Esteros Substation, and building a 230 kV line to the SVP Northern Receiving Station, and reached agreement with Los Esteros Critical Energy Facility, LLC, to interconnect the LECEF at 230 kV to the SVP Switching Station. This interconnection was deemed most practical to accomplish during construction of the Phase 2 LECEF, if approved by the Energy Commission.

On October 7, 2005, the Energy Commission Committee for the LECEF Phase 2 project published the Presiding Member's Proposed Decision (PMPD) containing findings and recommending Conditions of Certification for all technical areas, and stating the public benefits of the project include both enhanced electricity support and socioeconomics:

> "Benefits include improved local voltage support, provision of local generation, reduced transmission overloads and losses, and improving system reliability. Benefits to the local economy would come from increased tax revenues, employment, sales of services, manufactured goods and equipment." (PMPD, p. 3)

The Committee states in the PMPD that without the City of San Jose completing the required zoning change for the Phase 2 project, it could not recommend approval. The Committee's PMPD states in part:

> "The project does not comply with LORS unless the applicable zoning for the LECEF Phase 2 is changed by the City. As a result, the lack of appropriate zoning at this time prevents the Committee from recommending that the license

for the Phase 2 be granted. We will review the zoning status at the Committee Conference scheduled for November 2, 2005." (PMPD, p. 3)

The following testimony by the Energy Commission staff provides a contemporary review of the certain project benefits.

CONVERSION BENEFITS TO THE SAN JOSE SUB-AREA OF THE GREATER BAY AREA LOCAL CAPACITY REQUIREMENT AREA

The Los Esteros Critical Energy Facility (LECEF) in San Jose is currently operating under a California Independent System Operator (CA ISO) Reliability Must Run (RMR) contract. This indicates that the plant is located in an area where local generation is critical for maintaining system reliability. The LECEF plant is also located in the newly created San Jose Sub-Area of the CA ISO's Greater Bay Area Local Capacity Requirement Area (LCRA).

The local capacity requirements and generation capacities used in the following analysis are derived from the CA ISO's "2007 Local Capacity Technical Analysis Report and Study Results", published April 21, 2006.

To maintain local reliability in 2007 at 1-in-10 peak load under adverse conditions, the San Jose sub-area has a Local Capacity Requirement of 457 MW. This requirement can only be met by capacity located within this San Jose sub-area. The total generation currently available in this sub-area is 510.2 MW, which includes 117 MW of qualifying facilities, and 148 MW of Municipal Utility owned generation. The Los Esteros Critical Energy Facility is the largest power plant in the sub-area and currently provides the remaining 192 MW, which is 42 percent of the total capacity needed in this LCRA.

In addition to the critical local capacity requirements, expected growth in electricity demand, along with the potential retirement of a number of aging power plants located in Northern California, may create the need for additional base load generation as early as 2008. Because the Los Esteros Critical Energy Facility is located within the San Jose Sub-Area of the Greater Bay Area LCRA, a combined-cycle plant at this site would provide an effective means to meet additional energy and capacity needs in future years.

TRANSMISSION SYSTEM LOSS ANALYSIS

This evaluation was prepared by California Energy Commission staff and provides an analysis of the effect on system losses of the Los Esteros Critical Energy Facility Phase 2 Project (LECEF Phase 2). The LECEF Phase 2 proposed to convert the 180 MW simple-cycle plant to a combined-cycle plant adding 140 MW of capacity. Total capacity after conversion to combined-cycle conversion would be 320 MW. In addition, the California Independent System Operator (CA ISO) is providing testimony on other reliability and operational benefits of the Phase 2 project.

To assure that energy implications are considered in project decisions, environmental documents must include a discussion of the potential energy impacts of proposed

projects. This discussion places particular emphasis on avoiding or reducing inefficient, wasteful and unnecessary consumption of energy and the project's effect on local and regional energy supplies. Most decision-makers generally are faced with only the negative energy use considerations when approving a project that may result in significant increased use of energy, primarily natural gas. The Energy Commission faces a different situation in that the LECEF Phase 2 will reduce energy losses from the electrical grid while providing other benefits.

THE EFFECT ON SYSTEM LOSSES

Transmission system losses are a function of generation schedules, imports, exports, wheeling and system loop flow in addition to load. Transmission line losses occur as a result of conductor resistance and corona discharge. Resistance line losses are significant, especially on long, heavily loaded lines with a high load factor (75 percent - 100 percent). Typical values for utility systems in California range from 12 kW/mile to 500 kW/mile for line loadings between 25 percent and 100 percent of the conductor ratings. These losses are similar to the operation of electric strip heaters for home and building use where heat is produced by connecting a resistor heating element across 120V or 240V, and allowing the current to flow through the resistor element.

Based on the predicted 2008 Northern California system peak demand of 26,523 Megawatts (MW), the primary system losses (transmission lines and transformers) are approximately 963 MW without Los Esteros Phase 2 operating. Transmission losses thus constitute 3.6 percent of the load.

Transmission line losses were assessed for six dispatch scenarios. These dispatch scenarios were selected to bracket the range of dispatch conditions that occur in an actual year. Because the power supplied to the system must equal the system load plus the losses, when the Los Esteros Phase 2 operates, 140 MW of generation as shown by the dispatch scenarios must be reduced to balance the additional 140 MW from the Los Esteros Phase 2. The baseline for comparison was the system losses without Los Esteros Phase 2. Losses with Los Esteros Phase 2 on line and other units re-dispatched according to the established dispatch scenarios were then compared to the baseline.

The following dispatch scenarios were studied for the year 2008 to allow for the addition of the 140 MW Phase 2 project:

1. Los Medanos Energy Center (LMEC) output reduced 140 MW.
2. La Paloma Power Plant output reduced 140 MW.
3. Duke Moss Landing Power Plant output reduced 140 MW.
4. Hyatt-Thermalito Power Plant output reduced 140 MW.
5. Northwest Imports reduced 140 MW.

By adding Los Esteros Phase 2 and reducing generation as depicted in the dispatch scenarios, system peak loss reductions range between 6 MW and 20 MW for the different scenarios (See Appendix A, Table I). The additional 6 to 20 MW is "produced"

without the use of any additional fuel or water and without producing any additional plant emissions.

To estimate the annual energy savings staff assigned probabilities to the various dispatch scenarios tested. Multiplying the unique dispatch related loss reduction value by the assigned dispatch probability provided an expected overall MW loss reduction value for the study year: 9.1 MW in 2008. The estimated annual energy savings that correspond to the expected overall system loss reduction values noted above are 29.2 GWh in 2008. These energy savings are equivalent to the annual energy requirement for approximately 4,425 homes[1]. A reduction in system losses of this magnitude would save ratepayers $1.7 to $2.4 million per year. Over a twenty-year period, the present value of these savings to ratepayers is $17 to $23.5 million. In calculating these values for the loss savings, the following assumptions were made:

- Natural gas prices are $5 - $7/MMBtu,
- The displaced unit's heat rate is 13,000 Btu/kWh,
- Any emissions offsets created were valued at $0 (a very conservative assumption), and
- The estimated rate of return is eight percent.

The calculations for this analysis are contained in Appendix A, Table II, for the study year 2008.

If one anticipates that Los Esteros Phase 2, if built, would operate for at least 20 years, there are long-term environmental benefits related to reduced fuel and water use and to reduced emissions due to the reduction in electricity system losses.

[1] For this estimate staff assumed that an average household in California uses 6,600 KWh of energy annually.

APPENDIX A

TABLE I

LECEF LOSS ANALYSIS-YEAR 2008

TOTAL PG&E System Losses / System Loss Reduction

	PG&E SYSTEM LOSS PRE-PROJECT (MW)	PG&E SYSTEM LOSS WITH SFERPP 3 UNITS (MW)	SYSTEM PEAK LOSS REDUCTION (MW)	EXPECTED PEAK LOSS REDUCTION (MW)	ANNUAL ENERGY SAVED (GWh)	EXPECTED ANNUAL ENERGY SAVED (GWh)
Base Dispatch, PG&E Assessment 2008 Summer peak, Swing= Morro Bay unit 4. LECEF existing four CT units on-line in accordance with the present interconnection and LECEF proposed ST 140 MW unit 5 off line.	963.25					
Dispatch 2, Local Adjustment : LECEF unit 5 = +140 MW, LMEC = -140 MW. All LECEF units are on-line in accordance with the proposed new interconnection.		954.50	8.75	1.97	25.82	5.81
Dispatch 3, Local Adjustment: LECEF unit 5 = +140 MW, La Paloma = -140 MW, All LECEF units are on-line in accordance with the proposed new interconnection.		956.95	6.30	1.42	18.59	4.18
Dispatch 4, Local Adjustment: LECEF unit 5 = +140 MW, Duke Moss = -140 MW. All LECEF units are on-line in accordance with the proposed new interconnection.		956.14	7.11	1.60	20.98	4.72
Dispatch 5, Local Adjustment: LECEF unit 5 = +140 MW, Hyatt = -140 MW. All LECEF units are on-line in accordance with the proposed new interconnection.		950.06	13.19	2.97	38.92	8.76
Dispatch 6, Remote Adjustment: LECEF unit 5 = +140 MW, COI= -140 MW. All LECEF units are on-line in accordance with the proposed new interconnection.		943.72	19.53	1.95	57.62	2.88
Totals:				**9.91**		**26.35**
Average:			**9.15**		**26.99**	--

NOTE: Calculations for expected MW Peak Loss and Energy Savings and related present value in dollars are illustrated in Appendix A, Table II

APPENDIX A
TABLE II
LECEF LOSS ANALYSIS-YEAR 2008
TOTAL PG&E System Losses / System Loss Reduction

	PG&E SYSTEM LOSS PRE-PROJECT (MW)	PG&E SYSTEM LOSS WITH SFERPP 3 UNITS (MW)	SYSTEM PEAK LOSS REDUCTION (MW)	PROBABILITY OF THE REDISPATCH SCENARIO	EQUIVALENT PEAK LOSS REDUCTION (MW)	SYSTEM ANNUAL LOAD FACTOR	EQUIVALENT HOURS LOSS FACTOR	ANNUAL ENERGY SAVED (GWh)	PROBABLE ANNUAL ENERGY SAVED (GWh)	ADJUSTMENT FACTOR FOR REMOTE DISPATCH	ADJUSTED PROBABLE ANNUAL ENERGY SAVED (GWh)
Base Dispatch, PG&E Assessment 2008 Summer peak, Swing= Morro Bay unit 4. LECEF existing four CT units on-line in accordance with the present interconnection and LECEF proposed ST 140 MW unit 5 off line.	963.25										
Dispatch 2, Local Adjustment : LECEF unit 5 = +140 MW, LMEC = -140 MW. All LECEF units are on-line in accordance with the proposed new interconnection.		954.50	8.75	0.23	1.97	0.57	0.34	25.82	5.81	1.00	5.81
Dispatch 3, Local Adjustment: LECEF unit 5 = +140 MW, La Paloma = -140 MW, All LECEF units are on-line in accordance with the proposed new interconnection.		956.95	6.30	0.23	1.42	0.57	0.34	18.59	4.18	1.00	4.18
Dispatch 4, Local Adjustment: LECEF unit 5 = +140 MW, Duke Moss = -140 MW. All LECEF units are on-line in accordance with the proposed new interconnection.		956.14	7.11	0.23	1.60	0.57	0.34	20.98	4.72	1.00	4.72
Dispatch 5, Local Adjustment: LECEF unit 5 = +140 MW, Hyatt = -140 MW. All LECEF units are on-line in accordance with the proposed new interconnection.		950.06	13.19	0.23	2.97	0.57	0.34	38.92	8.76	1.00	8.76
Dispatch 6, Remote Adjustment: LECEF unit 5 = +140 MW, COI= -140 MW. All LECEF units are on-line in accordance with the proposed new interconnection.		943.72	19.53	0.10	1.95	0.57	0.34	57.62	5.76	0.50	2.88
Totals:				**1.00**	**9.91**				**29.23**		**26.35**
Average:			**9.15**					**26.99**			–

Energy Savings (GWh)	**26.35**	Gas Cost ($/MMBtu)	Heat Rate (Btu/kWh)
Cost of Energy ($/MWh)	$65.00	**$5.00**	**13000**
Total Savings per year in 1000 ($)	**$1,712.64**		
Total Savings per year in million ($)	$1.71		
Number of Years	**20**		
Interest Rate (%)	**8%**		
Present Value of Savings in 1000 ($)	$16,814.95		
Present Value of Savings in million ($)	**$16.81**		

Energy Savings (GWh)	**26.35**	Gas Cost ($/MMBtu)	Heat Rate (Btu/kWh)
Cost of Energy ($/MWh)	$98.00	**$7.00**	**14000**
Tot. Savings per year in 1000 ($)	**$2,582.13**		
Total Savings per year in million ($)	$2.58		
Number of Years	**20**		
Interest Rate (%)	**8%**		
Pr. Value of Savings in 1000 ($)	$25,351.77		
Pr. Value of Savings in million ($)	**$25.35**		

ELECTRICITY SUPPLY BENEFITS AND LOCAL SYSTEM EFFECTS CREATED BY THE CONVERSION OF THE LOS ESTEROS CRITICAL ENERGY FACILITY TO A COMBINED-CYCLE PLANT

Summary of Oral Testimony to Be Provided by R. Peter Mackin, P.E.

INTRODUCTION

The purpose of my testimony is to describe the local transmission system benefits created by the conversion of the Los Esteros Critical Energy Facility (LECEF) to combined cycle operation.

BACKGROUND

The Los Esteros Critical Energy Facility (LECEF) was first licensed for a three-year period by the California Energy Commission as a 180 megawatt (MW) simple-cycle power plant on July 2, 2002 (01-AFC-12) under provisions of Public Resources Code section 25552, and was recertified as required by provisions of PRC 25552 on March 16, 2005 for the life of the project (Phase 1 of 03-AFC-2). Also under consideration was Phase 2 of the latter application (03-AFC-2), seeking a license to convert the facility to a combined-cycle power plant by adding equipment and a steam turbine generator. The steam turbine generator will be capable of producing 140 MW of additional electrical output. The total nominal electrical capacity of the LECEF after conversion would be 320 MW. The current LECEF is connected to the grid by a 152-foot-long, wood pole transmission line to the Pacific Gas and Electric (PG&E) 115 kV Los Esteros Substation-Nortech line immediately to the west of the LECEF. During the recertification process, Silicon Valley Power (SVP) acquired the property immediately north of the project and adjacent to the Los Esteros Substation. SVP has built and now operates the SVP 230 kV Switching Station, which is interconnected to the 230 kV bus inside the Los Esteros Substation, and is building a 230 kV line to the SVP Northern Receiving Station. In addition, SVP has reached agreement with Los Esteros Critical Energy Facility, LLC, to interconnect the LECEF at 230 kV to the SVP Switching Station. This interconnection, if approved by the Energy Commission as part of the LECEF Phase 2 project, was determined to be the most practical way to interconnect the LECEF to the transmission grid following construction of the combined-cycle project.

SUMMARY

I have reviewed June 2, 2006, letter to Bob Worl from Armando Perez, Vice President, Planning and Infrastructure Development for the California Independent System Operator, expressing support for the LECEF, but also expressing reservations regarding the reconnection of the LECEF from the 115 kV system to the 230 kV system. I concur with the letter and its conclusions in all respects but one. I believe that the LECEF will continue to provide reliability benefits to the 115 kV transmission system in the San Jose area and that any reduction in effectiveness due to the relocation of the LECEF interconnection point will be very minor. This conclusion is based on my knowledge of

the San Jose area transmission system and my review of the latest ISO Local Capacity Requirement (LCR) study for the Greater San Francisco Bay Area and the San Jose Sub-area. The San Jose LCR study indicates that the critical contingency for the San Jose Sub-area is an overlapping outage of two 115 kV transmission lines in the southern portion of San Jose. Because the LECEF is located in the northern portion of San Jose, it provides power to serve San Jose loads from the north and is unaffected by this contingency. The increase in capacity that is proposed for the LECEF will provide additional power to serve San Jose loads and will decrease the severity of this critical contingency. This increased capacity also has the potential to reduce LCR costs, since fewer generation plants will be needed to meet the San Jose LCR requirements after the conversion of the LECEF to combined cycle operation.

In addition, I have reviewed the Metcalf Energy Center (MEC) Local System Effects testimony prepared in 2001 by myself, Charlie Vartanian, and Al McCuen. I have also reviewed the LECEF Loss Reduction Analysis performed by Ajoy Guha, P.E. It appears that the LECEF loss reduction analysis was done using the same methodology created by Al McCuen and myself for the MEC Local System Benefits Testimony. Based on my knowledge of the PG&E transmission system, the loss reductions determined by Ajoy Guha appear to be reasonable. These loss reductions are projected to save California ISO ratepayers over $1.7 million per year.

Finally, I have reviewed the System Impact Study/Facilities Study performed by PG&E. I note that in its impact analysis, PG&E concludes that interconnection of the LECEF to the 230 kV system at SVP 230 kV Switching Station causes no adverse impacts to the PG&E transmission system. As a matter of fact, for many contingencies, the LECEF actually causes transmission line loadings to decrease. In addition, moving the LECEF from the 115 kV system to the 230 kV system causes a decrease in the fault duty on the 115 kV circuit breakers in the San Jose area. While there is an increase in the fault duty on some 230 kV circuit breakers, this increased fault duty is well within the capability of the equipment.

CONCLUSIONS

Based on the above analysis, I conclude that the conversion of the LECEF to combined cycle operation will provide benefits to the local transmission system in the San Jose and Greater San Francisco Bay Areas. These benefits include loss reductions and their associated cost savings, increased operational flexibility for the transmission system in the San Jose and Greater San Francisco Bay Areas, and potential savings in LCR costs.

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

APPLICATION FOR CERTIFICATION FOR THE LOS ESTEROS CRITICAL ENERGY FACILITY, PHASE 2 (LOS ESTEROS 2)	**DOCKET NO. 03-AFC-2** **(Revised 4/25/06)** ***PROOF OF SERVICE***

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DECLARATION OF SERVICE

I, Raquel Rodriguez, declare that on June 23, 2006, I deposited copies of the attached in the United States mail at Sacramento, CA with first class postage thereon fully prepaid and addressed those identified on the Proof of Service list above. Transmission via electronic mail was consistent with the requirements of the 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.

Rodriguez Raquel
[signature]

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