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January 16, 2008

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Hon. Aaron Peskin
Board of Supervisors
1 Dr. Carlton B. Goodlett Place, Room 244
San Francisco, CA 94102

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Dear President Peskin:

Kirby Sack
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Thank you for the opportunity to provide comments on the SFPUC's proposed contract with J-Power to install and operate "peaker" combustion turbine power plants in southeast San Francisco. SPUR believes that the peakers are a harmful and short-sighted solution to local energy production and reliability. We urge the Board of Supervisors to reject the peakers and the contract for three main reasons.

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The peakers are unnecessary, and are not specifically required by the California Independent System Operator (CAISO). We can meet reliability goals through new cable projects, energy efficiency, and demand management. The SFPUC claims that CAISO requires the peakers as a contingency to releasing Potrero Unit #3 from its Reliability-Must-Run (RMR) agreement. In fact, the peakers were approved as "an action plan acceptable to the ISO" for the RMR release, and were *the only option proposed* for in-city generation in the 2004 local capacity action plan. But CAISO does not require specific generation projects and sites in its mission to ensure reliable grid operation and sufficient reserves. Rather, it adopts criteria for local reliability planning, and analyzes and approves specific projects proposed by municipalities to meet these criteria.¹ It must also re-review these projects when significant changes occur in the basis or assumptions underlying their approval.

One of the assumptions built into CAISO's approval of San Francisco's plan was that the peakers would be installed by December 2006, allowing the ISO to release Potrero Units 4, 5, and 6 from RMR agreements in that year. But several significant changes have since occurred. First, the city has delayed establishing the peakers for over a year. Second, new regulations by the Bay Area Air Quality Management District (BAAQMD) will require 2009 closure of Potrero Units 4, 5, and 6 – the diesel turbines which currently contribute over 60% of the facility's nitrogen oxide (NOx) emissions. Third, other solutions have been proposed to bolster the reliability of San Francisco's energy supply since CAISO approved the 2004 action plan:

¹ CAISO also stated: [emphasis added] "The action plan acceptable to the ISO for the shut down of Hunters Point and Potrero units is **based on assumptions that are subject to change**. Such assumptions include current and expected status of transmission, generation, and customer demand. **Any significant change to the assumptions underlying our analysis may change our conclusions.** If such significant changes do occur, the ISO is obligated to review the continued acceptability of this action plan." (Oct. 26, 2004)

- The Transbay cable project was approved and initiated, bringing 400 MW to the city by 2010. CAISO recently stated that this eliminates some of the need for local generation.
- PG&E plans by 2010 to reconnector 17 miles of underground 115 kV cables, which will bolster local reliability.²
- Two other proposed projects by PG&E are a 210 kV line between Embarcadero and Potrero substations to be completed in 2012, and a new transmission line between the East Bay and San Francisco to be completed after 2015. These projects will support reliability and future demand growth in San Francisco.
- Through the Community Choice Aggregation program, the SFPUC is studying how to implement 360 MW of renewables, conservation and efficiency programs by 2017, to be financed with voter-approved H bonds.

Fourth, San Francisco can further support local reliability through demand side management and energy efficiency programs. According to a PG&E study, through targeted demand response, energy efficiency programs for large customers, residents, and Energy Watch partnerships, and an emergency back-up generation program, an additional 59 MW can be saved by 2011. On top of this, the California Solar Initiative's financial assistance program may support the installation of an additional 10.5 MW capacity by that time – some of which may be available at peak demand periods. In December 2007, Mayor Newsom proposed a secondary solar program to financially support commercial and residential solar installations through a combination of loans and grants, with a goal to install 35 MW of new solar capacity over the next ten years. According to PG&E - even without the Mayor's proposed program - the Transbay, reconnectoring projects, and demand side management would be enough to meet CAISO's local reliability planning requirements through 2015.

The peakers are expensive and polluting. San Francisco should not invest in expensive new power plants that don't have significant environmental health advantages. The peakers will cost the city \$60 million to install in 2008, and untold costs when in 2016, the city enters a power purchasing agreement with a guaranteed rate of return to J-Power. Costs to state ratepayers and the SFPUC for the 13-year contract period have been estimated in the hundreds of millions of dollars. The city should not entrust a long-term contract or guaranteed return for the peakers, given that we would have limited control over their operation until 2021.

More importantly, if the peakers are operated for as many as 4000 hours a year, as permitted, they would annually emit more NOx than Potrero Unit 3 does at current operation levels. (See Table 1, BAAQMD data provided by the Brightline Defense Project). NOx contributes to the formation of ground level ozone, a human health hazard, and a major concern for the Bay Area, which does not currently attain state air quality standards for ozone.³ The BAAQMD has testified before the SFPUC that the peakers and Potrero Unit #3 presented a "similar public health concern" for NOx, even if the peakers

² The historic unreliability of these underground cables was what propelled the ISO to recommend that San Francisco study its electric reliability needs in the first place.

³ Ozone nonattainment is the basis for the new BAAQMD regulations that will force the closure of Potrero's three diesel turbines (4, 5, and 6) by 2010.

operated for less than 4000 hours a year. And relative to mobile source emissions, both NOx and particulate emissions from Potrero Unit #3 and the proposed peakers are minor sources:

Table 1. San Francisco County Air Pollution Data, Tons/Year (Source: BAAQMD)

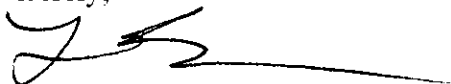
	NOx	% of Total	PM-10	% of Total
Potrero #3	36	0.2%	30	1.2%
Peakers (3000 hours/year) ⁴	26	0.1%	15	0.6%
Peakers (4000 hours/year) ⁵	37	0.2%	21	0.9%
Total Mobile Sources	16,936	99.5%	2336	97.2%

Because the peakers don't bring environmental advantages to San Francisco or the southeast neighborhoods, which have long borne the brunt of the city's environmental health hazards, the cost to install them is unjustified, and could be better spent on renewable energy or efficiency investments. The city should instead invest in conservation and renewables projects that would provide reliability to our grid, and by doing so, seek as soon as possible the closure of Potrero #3 and the end of dirty fossil fuel electric generation here.

San Francisco can propose a greener approach that will help meet our climate action goals. The Board of Supervisors can lead San Francisco to a more sustainable future by supporting a new 2008 energy plan that provides funding for renewables, energy efficiency programs, and targeted emergency/peak generation – and does not rely on increasing fossil fuel dependency, or a long-term contract that would enable combustion turbines to independently operate here for the next 13 years. Within this time frame, significant changes may occur in both the the market for efficiency investments and renewables, as well as the regulatory context surrounding air emissions, such as those implementing AB32. The city should position itself to use less and greener power - taking advantage of these changes - rather than putting itself at risk with a long-term contract to burn natural gas. San Francisco can provide an alternative energy plan, excluding the peakers, to CAISO for consideration, building on significant local reliability changes and the growing availability of new energy technologies.

Thank you again for the opportunity to review the proposed peakers and the J-Power contract. Please demonstrate leadership by shuttering this project and leading the discussion of how San Francisco can reduce its energy demand while increasing its use of clean, renewable energy. SPUR believes this is the way forward and stands ready to support such endeavors.

Sincerely,



Laura Tam
Sustainable Development Policy Director

⁴ Included is a fourth peaker at SFO with estimated operation of 3000 hours/year.

⁵ Included is a fourth peaker at SFO, with estimated operation of 4900 hours/year, as permitted.