

DATE ISSUED: November 19, 2002 REPORT NO. 02-275 (REV.)

ATTENTION: Committee on Rules, Finance and Intergovernmental Relations
Agenda of November 20, 2002

SUBJECT: 90 Megawatt Power Plant Development

SUMMARY

Issues – Should the City Manager be directed to ~~proceed with~~ continue negotiations with the State of California Department of Water Resources to accept two LM 6000 gas turbine powered electric generators? ~~and commit to construct a City owned 90-MW Peaker Power Plant?~~

Manager's Recommendations – ~~1) Direct the City Manager to proceed with continue negotiations with the State of California Department of Water Resources. 2) Direct the City Manager to return to the City Council with an Implementation Agreement and Power Purchase Agreement for approval upon successful completion of negotiations with the State Department of Water Resources. to determine if the acceptance of the units and construction of a 90 Megawatt Power Plant would be in the City's best interest.~~

Other Recommendations – None

Fiscal Impact – The fiscal impact of this action is unknown at this time.

BACKGROUND

As the Stage Two Power Alert on July 10, 2002 confirmed, the California electric crisis is not a thing of the past. The San Diego region faces continuing population increases in the next 30 years that could expand the peak electric usage from 3800 Megawatts to 7000 Megawatts.

The remaining operational life of existing fossil fuel and nuclear power generation in the region yields immediate need for regional decisions concerning creation of sufficient electric supply for current and future needs of the City of San Diego.

The design of a portfolio of energy production must be flexible enough to allow optimum power stability while meeting increasing electrical need and increasing environmental requirements. The Investor Owned Utilities (IOU's) are tasked only with transmission planning. Private energy companies are not expected to create additional power production unless power cost supports return on investment requirements. This creates a vital role for local government to provide land use planning and leadership to develop power generation and transmission reserves that supports regional needs before investor based construction may be viable.

DISCUSSION

As the California deregulated electricity market collapsed under the weight of high wholesale prices, the State of California entered into intermediate and long term power delivery contracts with numerous electricity generating companies. The State later brought suit against some of these companies to cancel or reform the contracts. Recently, the State received six LM 6000 electric generating turbines in a settlement with an energy company. State representatives initiated discussions with City staff which indicate that at least two of the units may be available to be titled to the City of San Diego if an agreement can be reached to provide public benefit in the form of lower cost contracts to the Department of Water Resources. Time is of the essence. Any contractual agreement with DWR must be completed not later than December 31, 2002 because the legislation that allows DWR to enter electricity purchase contracts sunsets on that date.

CONCLUSION

The City of San Diego could provide significant support for the Mayor's Goal # 9 by installing a 90 MW power plant. The Regional Energy Infrastructure Study predicts a doubling of electric load in the next 30 years with a potential for shortages as early as 2004 if the Otay Mesa power plant is not operational. A City of San Diego owned power plant could provide significant benefit to ratepayers of San Diego.

ALTERNATIVE

1. Do not proceed with negotiations with the State of California Department of Water Resources.

Respectfully Submitted,

Richard L. Hays
Environmental Services Director

Approved: George I. Loveland
Senior Deputy City Manager