

1 [Mirant Potrero Power Plant retrofit.]

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3 **Resolution authorizing and directing the negotiation and execution of a memorandum**
4 **of agreement relating to the retrofit of Potrero Power Plant Units 4, 5 and 6, the closure**
5 **of all Potrero Power Plant generating units if and when such units are no longer**
6 **needed for electric system reliability, and the reuse of the Potrero power Plant site**
7 **upon such closure.**

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9 WHEREAS, The City and County of San Francisco (the "City") has made it a policy
10 priority to address the environmental and energy reliability issues surrounding the operation
11 and decommissioning of the Potrero Power Plant, in accordance with the City's long term
12 objective of building a more sustainable energy future; and

13 WHEREAS, The San Francisco Action Plan endorsed by the staff and governing board
14 of the California Independent System Operator ("CAISO"), first developed in 2004 and then
15 revised most recently in 2007 (as so revised, the "Action Plan"), indicated that the four
16 generating units of the Potrero Power Plant would not be needed to ensure electric system
17 reliability once certain electric system improvements are in place; and,

18 WHEREAS, In October, 2007, Mirant Potrero, LLC ("Mirant"), owner of the Potrero
19 Power Plant, joined certain City officials in endorsing a term sheet (the "Mirant Term Sheet")
20 contemplating the closure of all four Potrero generating units upon removal of their
21 Reliability/Must Run ("RMR") status by CAISO, in exchange for City assistance in achieving
22 an expedited planning and permitting process in redeveloping and reusing the plant site; and,

23 WHEREAS, In an effort to end the existing dirty generation at the Potrero Power Plant
24 the City's Board of Supervisors (this "Board") and the San Francisco Public Utilities
25 Commission ("SFPUC") directed SFPUC staff to provide a proposal for the siting,

1 development and operation of four GE LM6000 combustion turbines obtained by the City as
2 part of a legal settlement with the State of California and Williams Energy (the “CT Project”);
3 and,

4 WHEREAS, Under the terms of the Action Plan the successful completion of the CT
5 Project would result in CAISO’s removing the RMR designation from Potrero Units 3, 4, 5 and
6 6, which in turn would allow for the decommissioning of the plant and the redevelopment of
7 the site for a new productive use as contemplated under the Mirant Term Sheet; and,

8 WHEREAS, SFPUC staff developed a proposal for the financing, construction and
9 operation of the CT Project as a City-owned asset, including a community benefits package
10 (the “CT Community Benefits Package”) addressing the negative effects of the electric
11 generation activities proposed at the plant, and forwarded it for consideration by the Board;
12 and,

13 WHEREAS, During the course of the Board’s consideration of the CT Project proposal
14 many City policymakers and other stakeholders in the City’s energy infrastructure have
15 offered comments and proposals on how best to achieve the environmental, public health and
16 energy reliability objectives of the City; and,

17 WHEREAS, In a letter to Mayor Gavin Newsom dated June 2, 2008 (the “June CAISO
18 Letter”), Yakout Mansour, Chief Executive Officer of CAISO, outlined answers to a number of
19 key questions relating to the reliability needs of the City’s electric system and the prospects
20 for removing Reliability/Must Run status from the Potrero Power Plant generating units; and,

21 WHEREAS, The June CAISO Letter indicated that the completion and successful
22 operation of the Trans Bay Cable transmission project (scheduled for March 2010) would
23 allow it to remove RMR status from Potrero Unit 3, assuming CAISO had access to 150 MW
24 of reliable peaking generation within the City (i.e. Potrero Units 4, 5 and 6 or the CT Project, if
25 developed); and,

1 WHEREAS, Mirant has performed preliminary investigations and negotiations focused
2 on the potential retrofit of Potrero Units 4, 5 and 6, including conversion to a dual fuel (natural
3 gas and diesel) configuration and implementation of updated pollution control technologies; and,

4 WHEREAS, Mirant has indicated that it would potentially be interested in pursuing such
5 a retrofit if appropriate arrangements for capital cost recovery and operation of the retrofitted
6 plant can be negotiated under its Reliability/Must Run Agreement (the "RMR Agreement")
7 relationship with CAISO; and,

8 WHEREAS, The provisions of the RMR Agreement governing recovery for capital
9 improvements of a project of the retrofit's cost require the approval of Mirant, CAISO, the
10 California Public Utilities Commission and Pacific Gas & Electric Company (together, the
11 "RMR Parties"); and,

12 WHEREAS, In connection with its initiation of discussions with the other RMR Parties
13 in pursuit of contractual approvals relating to a possible retrofit, Mirant retained CH2M Hill to
14 perform a preliminary assessment of the technical feasibility and cost of a retrofit of Potrero
15 Units 4, 5 and 6 as described above; and,

16 WHEREAS, The resulting Potrero Feasibility Study, dated July 1, 2008 (the "Retrofit
17 Study"), indicates that Units 4, 5 and 6 can be retrofitted to burn natural gas and to greatly
18 reduce its air emissions through various pollution control technologies, at a cost of
19 approximately \$78,730,000 and with an estimated 23 month construction schedule; and,

20 WHEREAS, Representatives from Mirant have met with City, SFPUC and Port
21 Commission staff to discuss the effects that the operation and eventual redevelopment of the
22 Potrero Power Plant will have on Port Commission development projects in the area, including
23 the proposed project at the neighboring Pier 70 site (the "Pier 70 Project"); and,

1 WHEREAS, At its June 24, 2008 meeting, this Board adopted a resolution (File No.
2 080779) urging the SFPUC to submit a proposal to CAISO seeking a “transmission-only”
3 solution to the closure of the Potrero Power Plant (the “Transmission-Only Resolution”); and,

4 WHEREAS, Based on these and other discussions and documents this Board wishes
5 to provide guidance and direction on pursuing agreements relating to the retrofit of the Potrero
6 Power Plant and the eventual decommissioning and redevelopment of the site; and,

7 WHEREAS, The Mirant Term Sheet, the CT Community Benefits Package, the Retrofit
8 Study and the June CAISO Letter are on file with the Clerk of the Board in File No. _____,
9 which is hereby declared to be a part of this resolution as if set forth fully herein; and now,
10 therefore, be it

11 RESOLVED, BY THIS BOARD OF SUPERVISORS OF THE CITY AND COUNTY OF
12 SAN FRANCISCO AS FOLLOWS:

13 Section 1. Findings. The findings set forth above are true and correct.

14 Section 2. Memorandum of Agreement. Staff from the SFPUC and the Office of
15 Economic and Workforce Development are hereby authorized and urged to negotiate, and the
16 Mayor is hereby authorized to execute, a binding memorandum of agreement (the
17 “Memorandum of Agreement”) with Mirant on the terms set forth in this Resolution, subject to
18 all further environmental and other approvals necessary for the ultimate completion of the
19 project.

20 Section 3. Retrofit Project. Under the Memorandum of Agreement Mirant shall agree
21 to pursue all approvals and permits necessary for a retrofit project as described below (as so
22 described, the “Retrofit Project”):

23 a. Scope. The Retrofit Project will include all of the scope items listed in the
24 Retrofit Study, along with any other pollution control technologies that are deemed
25 technically and financially feasible by the parties.

1 b. Community Benefits. The Retrofit Project will include the package of
2 community benefits set forth in the CT Community Benefits Package. Mirant may
3 propose substitute action items provided that such substitution provides a package of
4 substantially the same value to the community as the CT Community Benefits
5 Package, subject to City approval in its reasonable discretion.

6 c. Operation. The retrofitted units will be run for reliability needs only, no sales
7 for economic purposes. Mirant will agree to provide the City with periodic reports of
8 operations and run hours of Units 4, 5 and 6, along with updates and explanations of
9 increased operations due to emergencies or outages of other equipment as soon as
10 reasonably possible.

11 Section 3. Decommissioning of Generating Units. Under the Memorandum of
12 Agreement Mirant will agree to close and decommission each of its generating units upon the
13 removal of such unit's RMR designation by CAISO, in accordance with the general terms of
14 the Mirant Term Sheet and as further described in this Resolution.

15 Section 4. Site Redevelopment and Reuse. The Memorandum of Agreement will set
16 forth the understandings and obligations between the parties for the pursuit of an expedited
17 decommissioning, cleanup, and redevelopment process for the Potrero Power Plant site.
18 These understandings shall be patterned after those set forth in the Mirant Term Sheet, with
19 additional consideration and agreements to be sought on the following issues:

20 a. Staged Closure. Under CAISO's current assessment, Potrero Unit 3 will be
21 eligible for removal of its RMR designation prior to Potrero Units 4, 5 and 6. Therefore,
22 to foster the productive reuse of the Potrero Power Plant property soon after such
23 removal, the parties will seek agreement as to the expedited demolition and cleanup of
24 power plant operations for the Unit 3 site, as well as other portions of the site not
25 needed for ongoing electric generation activities.

1 b. Consolidation of Operations. If Potrero Unit 3 is closed before Potrero Units
2 4, 5 and 6 as described in the June CAISO Letter, the City and Mirant both have an
3 interest in creating the most advantageous redevelopment opportunity for the portions
4 of the site not needed for ongoing electric generation activities. In view of this shared
5 interest, the parties will agree to consult on the most advisable design for the Retrofit
6 Project and the related consolidation of power generation assets and activities in such
7 a way as to allow for the productive reuse of the largest feasible portion of the
8 remainder of the site, as well as to minimize negative effects of those ongoing power
9 operations on neighboring developments including the Pier 70 Project.

10 Section 5. Further CAISO Communications. This Board reaffirms its support for the
11 Transmission-Only Resolution and the SFPUC's submission of a plan for the closure of all
12 units of the Potrero Power Plant based on the ability of existing or anticipated transmission
13 infrastructure improvements to provide reliable electric service. Because CAISO
14 communications indicate that this effort will not be successful without some additional
15 investment beyond currently-planned projects, and because in light of that assessment the
16 Retrofit Project represents a cleaner bridge to a more sustainable energy future for San
17 Francisco, this Board wishes to include the objectives of the Transmission-Only Resolution in
18 the Memorandum of Agreement. Therefore the Memorandum of Agreement shall include
19 commitments by the City and Mirant to collaborate on further dialogue with CAISO targeted at
20 establishing criteria for the removal of RMR status from Potrero Units 4, 5 and 6. These
21 criteria may include completion of additional transmission improvements as well as
22 implementation of energy efficiency, demand reduction or renewable energy development
23 initiatives that may allow for the removal of the RMR designation from one or more of the
24 remaining Potrero generating units.

1 Section 6. Consideration. In consideration for the commitments of Mirant in the
2 Memorandum of Agreement, this Board agrees that it will suspend further consideration of the
3 CT project upon notification that the Memorandum of Agreement has been negotiated and
4 executed on the terms and conditions set forth herein. This Board reserves the right to
5 reopen consideration of the CT project upon Mirant's failure to satisfy any of the conditions of
6 this Resolution and the Memorandum of Agreement.

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