



September 9, 2010

Yakout Mansour  
President and Chief Executive Officer  
California Independent System Operator  
151 Blue Ravine Road  
Folsom, CA 95630

Re: **Closing the Potrero Power Plant**

Dear Mr. Mansour:

We write to address the September 1, 2010, memorandum to the Board of Governors seeking conditional authority to extend the reliability must-run contract (RMR) for the Potrero Power Plant (Potrero) through 2011. We recognize that the memorandum addresses a number of facilities and does not detail the specific circumstances relevant to each one, but in view of the expected closure of Potrero in the near term, we think it is important to address specifically several issues related to Potrero. The City and community have worked for many years to achieve the permanent closure of Potrero, and we oppose the renewal of RMR.

Your January 12, 2010, letter to Mayor Newsom indicated that the ISO would release Potrero Unit 3 from its RMR designation once the Transbay Cable (TBC) demonstrates its reliability. The letter further stated that the ISO would release Units 4, 5, and 6 from RMR designation once PG&E completes recabling of two lines between the Martin, Bayshore, and Potrero substations and demonstrates reliable operation of those lines.<sup>1</sup> The City is aware that TBC has not yet achieved commercial operation. The City understands that operational testing of TBC continues and the results of those tests are expected to be evaluated by the end of October. The City is also informed that PG&E has completed its recabling of one Martin-Bayshore-Potrero line and expects to complete the other line prior to the end of 2010.

In view of these current circumstances, the City has several concerns regarding the closure of Potrero. We ask that the ISO address these issues to provide as much clarity as possible at this time.

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<sup>1</sup> In addition, Mirant has reached an agreement with the City to permanently close Potrero as soon as it is not needed for reliability. Mirant has stated to the ISO that it does not seek to extend any RMR agreements for Potrero or to operate after December 31, 2010. In a September 7, 2010 letter to Steve Berberich Mirant further states that if it is required to operate after 2010, it hopes to work with the ISO to achieve permanent closure as soon as possible.

1. The Basis for RMR Extension for Potrero. Based on your letter to Mayor Newsom as well as recent statements from ISO staff, RMR for any generation at Potrero in 2011 is necessary only if and only until TBC is not in commercial operation. The ISO should confirm that the authority to extend the Potrero RMR into 2011 is conditioned on TBC not being available for commercial operation.

2. RMR Contract Extension and Termination. The ISO should work with Mirant and PG&E to modify RMR contract extension and termination provisions to accommodate the current situation created by TBC not being available for commercial operation. Since Mirant has already indicated its desire to close as soon as possible, the ISO and Mirant should be able to reach agreement on these issues. If FERC approval is necessary for such modifications, the ISO should seek such approval expeditiously.

(a) Contract Extension. The memorandum states that the ISO must provide notice by October 1, 2010, in order to extend the RMR beyond 2010. Since the testing of TBC will not be completed until later in October, this provision should be modified to allow for contract extension at a later date, such as November 1.

(b) Contract Termination. Last year, when TBC was expected to begin operating in April 2010, the ISO indicated its willingness to accelerate the termination provisions of a Potrero RMR contract. If the RMR is extended into 2011, similar accelerated termination provisions should apply.

3. Commitment to Not Dispatch Potrero Once TBC is Operating. Although the City has not seen any language on early termination, we understand that the ISO intends to follow the process used in the closure of Hunters Point Power Plant in 2006. In that instance, once the required resources were in operation, the ISO allowed the plant to stop operating while the formal contract termination procedures were completed.

4. The Level of Generation Needed for Reliability. The ISO required two projects to close Potrero—TBC and the PG&E recabbling. Assuming the recabbling project is completed before the end of the year, the ISO should be able to release from RMR some of the generation at Potrero. We are informed that without TBC the ISO believes it must retain all Potrero generation in order to reliably serve areas of the peninsula outside of San Francisco. The City's analysis does not support this conclusion. Rather, it indicates that retaining either Unit 3 or Units 4, 5, and 6 will satisfy the reliability criteria, for the City and the peninsula, that the ISO applies throughout PG&E's service area.

5. Alternatives to TBC. If the operational date for TBC is delayed beyond 2010, the ISO should meet with the City and PG&E to identify alternatives to TBC that will allow closure of Potrero as soon as possible. These alternatives may include:

(a) Operating TBC at less than its full capacity. The City's analysis indicates that no Potrero generation is needed if TBC can operate reliably at 200MW<sup>2</sup>.

(b) Installing series reactors on some 115kV cables. The City addressed such a project in comments to the ISO on September 4, 2009, and PG&E proposed it in the Fall 2009 request window. More series reactors would be necessary in the absence of TBC, but this would still be a relatively low cost project that can increase reliability for several years.

(c) Recabbling the two Hunters Point-Martin 115kV cables to provide additional capacity.

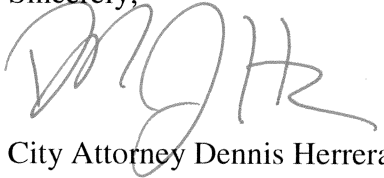
(d) Continuing with the Newark to Ravenswood 230kV Reconductoring project ( ISO project T982), which was approved by ISO in 2006.

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<sup>2</sup> This analysis included load flow studies utilizing the latest ISO base cases representing 2011 and 2015 summer peak conditions. We have not studied conditions with a TBC level below 200MW.

We appreciate the continuing efforts of ISO management and staff to work with City officials, community members, Mirant, and PG&E to achieve permanent closure of Potrero while maintaining a reliable electric system. The surrounding communities have shouldered the environmental burden of this facility for many decades. Closing the plant would facilitate expeditious remediation of toxic contamination on the Potrero site by its previous owner, PG&E. Also, PG&E has stated that it cannot begin the process of cleaning up toxic sediments until Potrero Unit 3 is closed. Closing the Potrero Power Plant is an important step toward achieving environmental justice in this community.

Sincerely,



City Attorney Dennis Herrera



Supervisor Sopenia Maxwell

Cc: Mason Willrich, Chair of the Board of Governors  
Laura Doll, Member of the Board of Governors  
Robert Foster, Member of the Board of Governors  
Tom Habashi, Member of the Board of Governors  
Kristine Hafner, Member of the Board of Governors  
Keith Casey, ISO  
John Chillemi, Mirant  
Kevin Dasso, PG&E  
Clerk of the Board of Supervisors