4

MEMORANDUM

Department of Planning & Neighborhood Services

To: Honorable Mayor and City Council

Through: Charles Lawson, Interim City Manager

From: Tambri Heyden, Acting P&NS Director

By: Troy Fujimoto, Acting Associate Planner

Subject: **Los Esteros Critical Energy Facility – Project Phase II**

Date: February 15, 2005

In response to inquiries regarding the expansion of the Los Esteros Critical Energy Facility (Phase 2) in progress, a summary of the history of the facility is provided. In 2001, the Calpine Corporation made an application to the California Energy Commission (CEC) for review and approval of the Los Esteros Critical Energy Facility in north San Jose. The application identified three phases associated with the ultimate build-out of the site with Phase 1 consisting of a 180-megawatt (MW) natural-gas-fired, single-cycle generating facility.

At that time, the City of Milpitas exercised its legal rights and filed a petition for writ of mandate for injunctive relief concerning the Los Esteros Critical Energy Facility (LECEF). Subsequently the City entered into a settlement and release agreement with Calpine. The agreement required Calpine to construct landscape and architectural treatments in accordance with requirements of the LECEF Architectural Committee (consisting of representatives from cities of San Jose and Milpitas, Calpine and the CEC) for reducing the visual impacts of the energy facility. The agreement required improvements completed within six months of the Phase 1 operation date, and additional improvements within six months of the Phase 2 operation date. It was also agreed that said improvements would cost Calpine no less than $1.8 million dollars and no more than $2 million dollars. In addition, the settlement agreement resulted in the City of Milpitas withdrawing its status as an intervener in any and all current and future CEC proceedings, dismiss its CEQA lawsuit, and refrain from any and all future opposition to the project.

In early 2004, Calpine filed an Application for Certification for Phase 2 of the Los Esteros Critical Energy Facility project. At this time, City staff requested and received verification from the CEC that Calpine had completed the landscaping and other architectural improvements in accordance with the approved plans originating from the LECEF Architectural Committee. The CEC sent verification that Calpine made these improvements above the monetary requirements of the agreement.

Phase 2 consists of increasing the output of the facility to 260 megawatts (MW) and would consist of improvements to convert it into a combined cycle generating facility. Improvements at the site include installation of six (6) new cooling towers, steam turbines, additions to the switchyard, an additional ammonia storage tank, new water pumps, generators, transformers, condensers, and other equipment necessary to accommodate the conversion.

Currently, the project is completing the certification process for Phase 2, through the California Energy Commission certification process. In addition, Calpine has applied to the City of San Jose for approval of a Planned Development Rezoning application related to Phase 2 of the facility.