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IN THE MATTER OF THE APPLICATION OF SALT RIVER PROJECT, OR THEIR ASSIGNEE (S), IN CONFORMANCE WITH THE REQUIREMENTS THE ARIZONA REVISED STATUTES 40-360.03 AND 40-360.06 FOR A CERTIFICATE OF ENVIRONMENTAL COMPATIBILITY AUTHORIZING THE CONSTRUCTION OF NATURAL GAS-FIRED, COMBINED CYCLE GENERATING FACILITIES AND ASSOCIATED INTRAPLANT TRANSMISSION LINES, SWITCHYARD IN GILBERT, ARIZONA LOCATED NEAR AND WEST OF THE INTERSECTION OF VAL VISTA DRIVE AND WARNER ROAD

CASE NO. 105

DOCKET NUMBER 2001 FEB 28 P 3:24 L00000B-00-0105

REQUEST FOR REVIEW BY THE ARIZONA CORPORATION COMMISSION OF THE POWER PLANT AND LINE SITING COMMITTEE'S FEBRUARY 14, 2001 DECISION AND OBJECTION TO THE FORM AND CONTENT OF SAID DECISION

Arizona Corporation Commission DOCKETED

FEB 28 2001

(ORAL ARGUMENT REQUESTED)

DOCKETED BY [Signature]

Pursuant to A.R.S. 40-360.07 (A) and (B), Intervenor, Cathy Lopez, Mark Sequeria, Mark Kwiat, Cathy Latona, Saretta Parrault, Michael Apergis, Marshal Green, Christopher Labbon, and Dale Borger hereby gives notice and request the review of Power Plant and Line Siting Committee's Decision dated February 14, 2001 and Objection to Form and Content of the February 14, 2001 Decision.

I. INTRODUCTION – GROUNDS FOR REVIEW:

The Power Plant and Line Siting Committee (hereinafter called "The Committee") failed and refused to consider the paramount issue at stake in these proceedings by not properly applying A.R.S. 40-360.06. The Committee failed to consider each and every factor as a basis for its action with respect to the suitability of this plant as specifically set forth in A.R.S. 40-360.06 (A) 1-9, (B)(C) and (D). This Request for Review is not intended to address each and every request for review but to be considered as a guideline for the review.

II. ENVIRONMENTAL IMPACT VS. NEED

The Committee heard testimony regarding the environmental impact the plant expansion would have upon the community yet selectively choose to ignore the testimony and evidence presented by the Intervenor and their witnesses during the hearings. The testimony was submitted under oath and is a part of the record in these proceedings. As outlined below, each and every impact upon the community had to be considered in its entirety respecting the reasons why the applicant should not have received a green light for a certificate of environmental compatibility¹.

¹ Committee Members George Campbell initially voted no, Mark McWhirter voted no, and Dennis Sundie and Steve Olea abstained from voting.

a) COMPATIBILITY

While the Applicant continually skirted the issue of compatibility, the Committee also failed to fully address the issue of compatibility before its vote and in giving the green light for the issuance of a "certificate of **environmental compatibility**". The irony of this entire proceeding should have been focused on suitability and environmental impact before voting in favor of a certificate of environmental compatibility. This was paramount, yet the Committee failed to taken into consideration the issue of compatibility or suitability. Instead, what the Committee considered in its vote was how much money and how many gifts the Applicant planned to contribute in order to receive a certificate of compatibility.

The Intervenors pointed out time and time again the Applicant's attempt to purchase a certificate of environmental compatibility by means of gifts or expensive plant mitigation. This was inappropriate and not within the meaning of the Statutes and as such the Committee failed to take into consideration all the evidence and testimony it had before them on this issue.

The applicant did not present one shred of evidence that the proposed expansion would be compatible to this community and the Intervenors suspect the reasons the Applicant avoided the entire issue of compatibility is because the Applicant knows their plans are not compatible to the surrounding community. The essence of the word "compatibility" is defined as well matched, well suited, and complementary. We do not believe that the proposed expansion is well matched, well suited, or complementary to the surrounding community. The first clue that The Committee should not have given a green light for the issuance of a certificate of compatibility is and was the Applicant's suggestion that spending millions and millions of dollars to help in the offsets and mitigation of damages for the proposed plant expansion. These millions of dollars proposed by the applicant are to be spent on some items which may help in very few setoffs of damages and some items are what the Intervenors have called nothing less than very expensive gifts in exchange for votes of support of the proposed plant expansion.

The Committee failed to look at the Applicant's proposed expenditures to determine which items had any direct relevancy to the proposed plant. Furthermore, if common sense was applied it should have been determined the proposed expenditures/conditions do not justify the need outweighing the environmental impact on this community.

Finally, The Committee failed to review the evidence of record relating to the plant's expansion and its contribution to the existence of a public nuisance and its continued contributions to the cause of harm to the residents of this community. The Committee failed to act responsible and failed to protect the health and welfare of this community.

b) **ZONING AND LAND USE**

The property on which the plant is situated is zoned Agriculture **not** industrial. Under the Town of Gilbert's Land Use Code and Zoning code the Applicant's plant is not allowed. Reference is made to the Town of Gilbert's zoning map, which was entered, as evidence in this proceeding. For The Committee's approval of the expansion continues to send a message that land use and zoning codes are **not** designed to protect the health and welfare of the public. We have rules and regulations in place for the purpose of protecting property values, public health, and welfare. *See Gilbert's General Plan, which was submitted, as an exhibit by Intervenor Mark Sequeria and Jennifer Duffany's exhibit regarding the zoning map of the Town of Gilbert.* When the rules and regulations are not followed this creates anarchy. The residential communities surrounding this plant are unlike any other The Committee has ever had before them yet The Committee failed to protect the citizens by failing to look at the big picture and in protecting residents from harm.

The Committee heard the testimony of Councilman Mike Evans regarding his opinion that the general plan was amended some time ago in an attempt to cover up the zoning and land use issues surrounding this plant. The Committee failed to consider this testimony and the other testimony presented in these proceedings regarding the land use and zoning issues surrounding this plant. To ignore these issues was in direct controversy of the state of Arizona legislative intent for the establishment of zoning and land use regulations. While the Town of Gilbert may have attempted to waive jurisdiction over SRP in what we believe to be a total disregard of local, state and federal laws, that does not mean that the Committee had to accept the arguments set forth in the agreement between SRP and the Town of Gilbert entered into on April 25, 2000 known as the Intergovernmental Agreement.

Review of the state of Arizona statutes on Special Taxing Districts does not automatically allow SRP to claim jurisdiction over any other governmental entity. The Town of Gilbert's attorney and SRP's attorney cleverly drafted the IGA to ensure what we believe was a way out for the Town of Gilbert to be responsible to the citizens of the Town of Gilbert and for the Town of Gilbert to receive expensive gifts. Through several inquiries with both the Town of Gilbert and SRP, on the issue of jurisdiction, never once did we

receive a legitimate answer to our questions on jurisdiction. We have been told by SRP's counsel that the issue of jurisdiction was a legal argument, which in our opinion is certainly a colorful argument. For SRP and the Town of Gilbert to enter into such an agreement without due process of the law is unjust and inequitable.

In addition to the foregoing, the Intervenors and others brought the zoning and land use jurisdiction issue to the attention of not only the Committee, but also to the attention of the Chairman. We believe the Chairman failed to act in accordance with A.R.S. 40-360 (D), requiring the Chairman to promptly serve notice upon the chief executive officer of the area of jurisdiction affected, i.e. the Town of Gilbert. The Intervenors believe if the Chairman had acted in accordance with the statutes the Town of Gilbert would have been forced into these proceedings. It is also noteworthy to point out that an anticipated change in the leadership of Gilbert is expected on March 13, 2001 and as such, the Intervenors believe the new leadership may revisit the issue of jurisdiction.

It is also noteworthy that the City of Tempe and the Tempe City Attorney took at much different position regarding jurisdiction and land use then the Town of Gilbert. The City of Tempe and SRP entered into an Agreement dated June 15, 2000 respecting the expansion of the Kyrene power plant. Among some of the recitals, specifically recital D, the City of Tempe took the position that it has jurisdiction over zoning and design review over SRP while SRP claimed that the City of Tempe did not have any jurisdiction. Further, the Intervenors have been informed that if the majority of the council from the Town of Gilbert had not wanted the plant expansion the Town of Gilbert would have taken the same position the City of Tempe took regarding the Kyrene plant expansion.

c) NO RESIDENTIAL BUFFER

In 1996 SRP sold off their 18+-acre property they initially purchased for **residential buffer** knowing this area was being developed for several master planned communities. This action on behalf of SRP was irresponsible. While this issue was also brought to the attention of The Committee, they never asked any questions, made any inquiry into the reasoning behind the sale even in light of the property being environmentally contaminated. Without a residential buffer sufficient enough in size to protect the health and welfare of the residents this will jeopardize the health and welfare of the surrounding community.

d) QUALITY OF LIFE AND OUR ENVIRONMENT

Many of the master planned residential communities in this area contain open spaces, parks, and a walk to school elementary school. There is light retail at the corners of Val Vista and Warner Roads with the remaining surrounding area residential. There are no junkyards, manufacturing plants or industrial areas surrounding this community. While we were aware that the corners at Val Vista Drive and Warner Roads were undeveloped but planned for light retail many residents did not know or were they disclosed the existence of the plant.

The Committee did not hear any evidence or testimony that SRP, their attorneys, consultants, expert witnesses, or employees would want to live next to or raise their families next to this plant. The simple truth is that the record speaks for itself on this issue. As in testimony before The Committee, each Committee member should have asked themselves if they would choose to buy a house, raise a family or recommend that a family member or friend purchase a home next to the proposed plant expansion?

All across this country people are attempting to protect and preserve their neighborhoods including their quality of life. The Applicant is suggesting that spending millions of dollars to help in offsets of enormous damages which they will be afflicting on the surrounding neighborhood is justified. The Applicant's expansion is nothing less than stealing the private property rights of each individual homeowner. The Committee failed to fully discuss and address this issue. Where was the public voice on The Committee regarding this issue?

e) HEALTH AND WELFARE ISSUES

The Committee heard testimony from both SRP and the intervenors on this issue. While SRP banks on the sole testimony of their expert witness Sheri Libicki indicating there are "indiscernible" affects" on the expected emissions from the proposed plant, the Committee improperly replied upon such testimony. For the record, we believe The Committee simply was incapable of dealing with the health issues due to the lack of adequate health professionals available to assist The Committee.

First, Sheri Libicki was not qualified to testify regarding medical issues, as she does not hold a license to practice medicine. A review of Sheri Libicki's credentials will reflect she simply is not qualified to testify relating to health issues. What The Committee failed to rely upon was the written statements of the following qualified medical doctors which supported the health risks and dangers associated with the plant expansion:

1. J.T. Danforth, M.D.;
2. Carlin G. Bartschi, M.D.;
3. Randy H. Lavitt, M.D., and
4. Gary G. Auxier, M.D.

The Committee also failed to rely upon the testimony of the following doctors:

1. Dr. Christopher Labon; and
2. Dr. Todd Taylor.

Maricopa County does not meet current federal air quality standards. According to the American Lung Association's State of the Air 2000 covers county by county static's related to exposure and assigns grades to ozone air pollution, based on ozone monitoring data from 1996-1998. Data are based on information available through the EPA. It is no surprise that Maricopa County received an "F". It is also no surprise that the Santan Generating Station ranks among one of the top contributors in pollution in the Gilbert area.

Each and every emission from this plant is a major source of pollutants which is controlled under Title V. Each and every emission from this plant can have serious and deadly affects upon "the at risk groups" and can contribute to breathing problems in healthy children and adults. It is undisputed that the emissions from this plant will have an adverse affect on children. This Committee must look at the data from EPA, the American Lung Association, and the Department of Public Health. Countless studies have shown that environmental pollutants which children are exposed will have serious health consequences. These studies have shown that because children's systems are still developing they are more susceptible to environmental threats. SRP's plans to expand are nothing less than a threat to each and every child surrounding this plant. We all know that there are alternatives available to SRP but big business does not concern itself with the protection of children. It is the responsibility of each parent to protect their children and in this case it is also the responsibility of this Committee to ensure the protection of the children in this community.

While SRP has not addressed the economic factors of health costs associated with their own environmental pollutants, I believe the Committee was required to look at the health cost and its impacts the emissions from this plant will have on this community. The cost of asthma to the U.S. economy was estimated to be 6.2 billion in 1990. SRP did not perform a health impact study nor did they indicate they would perform one. We requested the health impact study be performed but the Committee once again failed to properly address this issue. What are the health affects? We can only assume that a third

party unbiased health impact study would certainly change many claims SRP has attempted to persuade The Committee that there is no "indiscernible" affects from the emissions of this plant.

While SRP has recently taken steps to clean up the NOx emissions at Santan due in large part and in to achieve lower NOx emissions as a result of the combined existing and proposed plant emissions. Four out of Five emissions will **significantly increase** and they are CO, PM10, VOCs and Sox.

For SRP to claim that the emissions from this plant will not contribute or cause any adverse health affects to children or adults surrounding this plant is nothing less than irresponsible and a total disregard in the protection of human health and welfare. Even more upsetting is the fact that The Committee failed to require studies or have some knowledge about the health affects upon this community and in giving a green light for the expansion.

Finally, and according to the Arizona Republic February 28, 2001 front page, the recent U.S. Supreme Court decision on Tuesday, February 26, 2001 set clean air standards at a level that best protects health, not the corporate bottom line in a unanimous ruling sweeping implications for the nation's environment. This Commission must review, research and determine the health affects upon this community before the issuance of a certificate of environmental capability. I would encourage each of the Commissioners to thoroughly research this case.

f) PROPERTY VALUE ISSUES

Again, SRP paid a lot of money for two property valuation reports. These reports were performed on a very limited scope and for a certain conclusion. The fact of the matter is SRP is not willing to place any guarantees on property valuation as a direct result of their proposed plant expansion. If any Committee member drove around the surrounding residential communities, they would or should have come to the conclusion that residents have spent a lot of money and time in the upkeep and improvement of their homes. We are not talking about lower level housing or government housing here; we are talking about upper middle class neighborhoods. The Committee has heard statements on the record that people have already lost the sale of their homes as a direct result of the proposed plant.

Recently, the Maricopa County Assessor's office released a statement indicating their opinion that the home surrounding the plant will loose property values as much as 15%. Once again, The Committee failed and refused to fully discuss this issue.

g) PRIOR TESTIMONY BEFORE THIS COMMITTEE

This Committee has heard prior testimony in the Redhawk power plant case from the engineering staff (Jerry Smith) at the Arizona Corporation Commission that it is not a good idea to build local generation within the non-attainment area. One of the arguments presented was air quality issues and the non-attainments status for Maricopa County. This Committee has also heard from the Applicant on their plans to bring in more transmission lines. This testimony is reflected in the January 26, 2000 workshop on the present and future electric transmission needs of the state. In this testimony, this Committee heard that the resource planning of SRP in its transmission lines and the proposed expansion of Kyrene (750 mw) would best serve their customers in terms of providing them with adequate reliable and low cost electricity. SRP also indicates later on in the **decade** they would seek to expand Santan. *See exhibit submitted by Intervenor Lopez in her initial List of Witness relating to the proceedings and testimony relating the siting of the Redhawk plant.* The Committee failed and refused to discuss this issue

h) ALTERNATIVES –NOT FULLY DISCUSSED OR CONSIDERED

1. Alternative plant sites were not fully considered and discussed. The analysis of such sites as Coolidge, Mobile, Florence and Saguaro areas should have been strongly considered as alternative means of satisfying the need for power generation as described by SRP.
2. Current Power needs up through the year 2005 can be met by the mandated order issued by the ACC. This basically states that merchant plants must allow for a portion of their generation to be made available to the Valley or State at its critical peak power need. The extra generation will be enough to sustain the Valley well past the year 2005 or at least until SRP finds a more appropriate location for a larger generating facility. SRP as a Public Utility must be forced to explore other options in detail to accommodate the East valley's need for power. It is not responsible for SRP to erect a Band-Aid plant such as Santan as it was described by The Committee. It is interesting to note that SRP has made statements to both the Intervenor and members of the public that they will be returning to the Commission within 5 years or less and request again a permit of another even larger plant. The Intervenor's position has always been if SRP really needs all this power, then they should not wait, and they should immediately proceed with alternative sites outside residential communities.

3. Central Arizona Transmission Study (CATS) – The decision to grant or deny this plant expansion must not be made unless the CATS study is thoroughly understood and applied in many different scenarios.

i) IS ARIZONA AND ITS RESOURCES BECOMING A DUMPING GROUND FOR THE POWER INDUSTRY?

While SRP attempted to bring up “the problems in California” anyone who has done their homework knows those scare tactics by SRP are fought with all types of problems. Reference is made to the February 22-28, 2001 New Times Article “Shock Treatment”. While Arizona and its resources are becoming a dumping ground for the power industry, The Committee again failed to carefully review and consider this issue.

OBJECTION TO FORM AND CONTENT OF ORDER

Intervenors argue that The Committee failed and refused to consider the appropriate conditions offered by the Intervenors in the proceeding. Without restating all the conditions submitted by the Intervenors, the Intervenors believe that The Committee failed to consider some of the most important conditions of the plant expansion as follows:

1. Independent Health Impact Study.
2. Real Property Damages – Compensation.
3. Santan plant expansion versus the Kyrene plant expansion.
4. Alternatives to the expansion of the plant.

Further, Intervenors also object to some of the inappropriate conditions as a basis for the approval of the plant expansion. Specifically, Intervenors and several Committee Members addressed the inappropriateness of the following conditions:

- Condition Number 12. - \$400,000 to fund a major investment study through a regional public transit authority to develop concepts and plans for commuter rail systems. Though the Intervenors believe this study may be well suited for the east valley they do not believe this condition should have been made a condition for the approval of this plant expansion. Intervenors believe this condition was included by the applicant on the basis of obtaining Committee Member Wayne Smith’s vote of approval.

- Condition Number 28. - April 28, 2000 Intergovernmental Agreement Between The Town of Gilbert and Salt River Project. Intervenor have constantly objected to the IGA on the basis of the improvements listed therein, the intent of the parties and the provisions contained therein were based solely on funding improper aesthetic projects not related to the plant expansion in exchange for the Town's support of SRP in improperly waiving jurisdiction relating to land use and zoning.

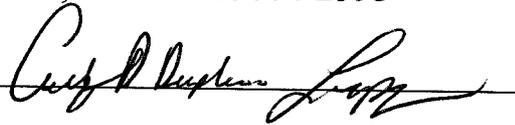
Finally, the Intervenor are very concerned with the vague and ambiguous language contained in most of the conditions contained in the February 14, 2001 decision. Specifically, the intervenors have been advised that the language in the current form allow too much interpretation and are designed to protect the applicant from legally committing to a binding contract.

Respectfully submitted this 28th day of February 2001.



Original and copies filed with the
Arizona Corporation Commission
this 28th day of February, 2001 with copies to:

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By 

SRP plant expansion may cost homeowners

County assessor says project could cut value of Gilbert homes 15%

BY CHARLENE KOSKI

TRIBUNE

The Maricopa County assessor says property values of homes near a proposed expansion of an East Valley power plant could

sink by as much as 15 percent. "We see the effects of the expansion as being fairly profound," Assessor Kevin Ross said. "As many as 1,500 homes could be affected." Friday released Ross on a Friday released research that shows homes within a two-mile radius of the San Tan Power Plant at Val Vista Drive and Warner Road in Gilbert could lose value. His office

conducted a preliminary survey on the possible effects of the proposed expansion at the request of the Tribune. Ross said the Depuechhoff Group, which in about one year and is expected to most heavily affect homes closest to the plant, Ross said. Bolstered by the assessor's findings, project opponents said SRP should set aside a fund to reimburse homeowners for the

and the loss of value. Ross said the loss of value could be as high as 15 percent, but he said he would like to see a study conducted to determine if a certificate of environmental compatibility. Those studies looked at effects of the existing plant on property values and determined a change

please see SRP Page A8

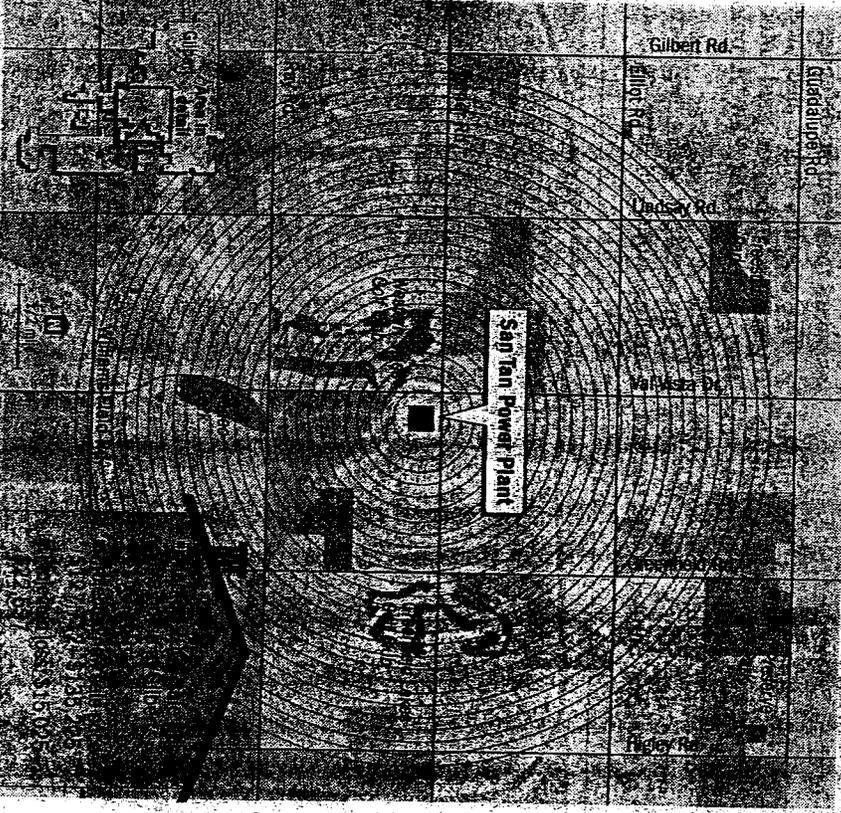


TORU KAWAYAMA/TRIBUNE

Close to home: Mark Kwiatt of Gilbert stands with his wife, Kathy, and daughters Bridget, 3, and 1-year-old Reahny. Behind them is the proposed site for the San Tan Power Plant expansion.

Power plant panic

The Maricopa County Assessor's Office expects an expansion of the San Tan Power Plant to drive property values down 10 percent to 15 percent, affecting homes nearest the plant most and possibly affecting homes up to two miles from the plant.



SRP. Utility Challenges Assessor's

Conclusion

in property values was unlikely. The first study, conducted by Kelly Commercial Consultants Inc. summarized that "the effect (on property values) of the proposed Santan Expansion Project will be negligible."

The second study, conducted by PricewaterhouseCoopers, echoed that conclusion.

An SRP spokesman and longtime Valley appraiser questioned the county assessor's conclusion.

"I was shocked (by Ross' conclusions)," said Tom Cabott, the director of financial advisory service for Pricewaterhouse.



Cynthia Dunham: Gilbert mayor lives about 1.5 miles from plant.

"Someone in that position — in one of public trust — just by the nature of those kind of statements has the ability to cause an adverse market reaction. I was concerned also because the nature of those kinds of statements is totally inconsistent and very much contradictory with the conclusion of our analysis," said Cabott, whose company spent two months researching the area around the proposed plant expansion.

Ross defended his study, noting it was conducted by two professionals in his office. Ross lives in Gilbert, about a mile outside the area that was reviewed. He said living in Gilbert did not influence the assessment.

"Being a countywide elected official I would take that same position, regardless of where in the county it's at," he said. "One of the most important aspects (of the study) was to be evenhanded."

The Pricewaterhouse study analyzed home purchases and resales over an 18-month period before and after the proposed San Tan expansion became public knowledge, Cabott said. It also examined potential long-term impacts.

Deputy assessor for Maricopa County Jim Meulemans studied both of SRP's studies and doubts their accuracy.

"While the results of the sales analyses are not in question, the

conclusions drawn from these analyses are definitely disputable," Meulemans said.

Meulemans said one of the studies assumed home buyers were fully aware of the proposed expansion beginning in August 1999, and the other made the same assumption for August 2000.

Public hearings on the plant's first certificate application began last September.

"A chronological view of newspaper articles and town meetings, not to mention the low broker awareness of the issue, definitely makes a case for buyers not being aware of the expansion," Meulemans said. "Therefore, the conclusion of no impact should not be surprising because the issue of an expanded plant is not yet reflected in the sales information attempting to justify it."

SRP spokesman Scott Harelson said the timing of the studies was driven by requests from residents to have them completed before public hearings began.

Opponents of the plant have asked SRP to redo the studies, including information on

property-value effects from similar plants in the country

Ross said that could be an impossible request to meet. There are few plants the same size as the San Tan plant would be that are in a residential area, and there are none that the county could find without an industrial buffer zone, as is the case at San Tan.

The county found similar sized plants with buffer zones in New York and Pittsburgh and studied previous reports on the topic.

Gilbert has been criticized for letting residential development go in around the plant, which was there long before any homes. And the issue has made its way into current campaigns for Gilbert's March election.

The smokestacks, lack of a buffer zone and size of the plant all contribute to the expected loss in property values, Ross said.

Gilbert Mayor Cynthia Dunham lives about 1.5 miles from the plant and said she is not worried.

"I would expect that since there has been an extreme amount of coverage on this issue,

that it could have an impact on property values in that area," she said. "Am I concerned about it over time? No."

The county will continue to analyze the situation, Ross said.

Homeowners maintain that SRP is responsible for their potential loss.

"SRP knew they had this plant," said expansion opponent Mark Kwiat of Gilbert. "They knew there could be a possibility of them expanding and they should have been responsible enough to say you might want to keep a buffer here."

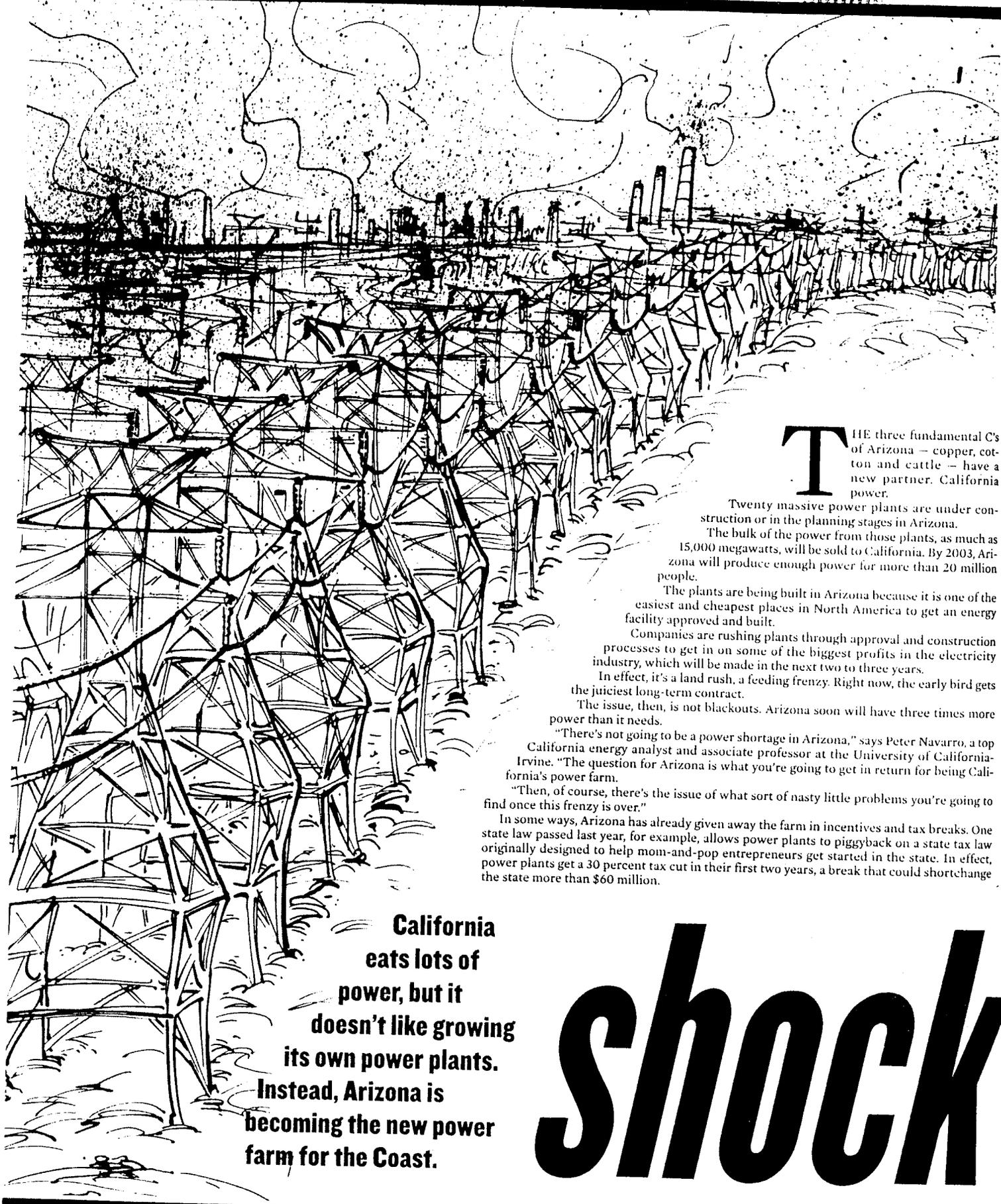
SRP officials have argued that the utility had no right to become involved in the town's zoning process.

Regardless of who caused the situation, the end result is that the residents living around the plant may become the only residents in the nation to have their houses backed up to an 1,125-megawatt power plant complete with three 150-foot smokestacks.

Ross said homeowners have little recourse other than to pass the problem on to the next home buyer.

"It's not so much that I think there will be a dramatic impact initially, but more over time we'll see more stagnant appreciation in the area," he said.

Tribune writer Charlene Koski can be reached by email at ckoski@aztrib.com or by calling (480) 898-6573.



**California
eats lots of
power, but it
doesn't like growing
its own power plants.
Instead, Arizona is
becoming the new power
farm for the Coast.**

THE three fundamental C's of Arizona — copper, cotton and cattle — have a new partner. California power.

Twenty massive power plants are under construction or in the planning stages in Arizona.

The bulk of the power from those plants, as much as 15,000 megawatts, will be sold to California. By 2003, Arizona will produce enough power for more than 20 million people.

The plants are being built in Arizona because it is one of the easiest and cheapest places in North America to get an energy facility approved and built.

Companies are rushing plants through approval and construction processes to get in on some of the biggest profits in the electricity industry, which will be made in the next two to three years.

In effect, it's a land rush, a feeding frenzy. Right now, the early bird gets the juiciest long-term contract.

The issue, then, is not blackouts. Arizona soon will have three times more power than it needs.

"There's not going to be a power shortage in Arizona," says Peter Navarro, a top California energy analyst and associate professor at the University of California-Irvine. "The question for Arizona is what you're going to get in return for being California's power farm."

"Then, of course, there's the issue of what sort of nasty little problems you're going to find once this frenzy is over."

In some ways, Arizona has already given away the farm in incentives and tax breaks. One state law passed last year, for example, allows power plants to piggyback on a state tax law originally designed to help mom-and-pop entrepreneurs get started in the state. In effect, power plants get a 30 percent tax cut in their first two years, a break that could shortchange the state more than \$60 million.

Shock

In some cases, local county boards and economic councils have given up much more.

And those nasty little problems Navarro mentions are already appearing. Cries of foul play and foul planning are emanating from around the state.

The most egregious ramrodding would appear to be taking place in Mohave County, where Arizona's first new plant will fire up this summer and a second is being slammed through local and state committees. (See the related story on page 32.)

Even SRP, the Valley's fatherly public utility, is being accused of soiling the Valley's air and draining its water to profit in California. SRP counters that it's rushing to put a plant the size of the new Cardinals stadium in residential Gilbert to meet a critical need in the East Valley.

But there are upsides to becoming a power farm.

As long as all of California doesn't seek refuge in Arizona, the state will have

enough electricity in the short term. Within two years, Arizona will be producing much more power than it needs.

Although the bulk of the energy will flow west, in the short term, power produced in Arizona will stay here if Arizona needs it, thanks in part to local consumer advocates who took the issue to court.

Natural gas and who controls supplies and shipping is also a major factor in Arizona's power picture because natural gas is what's needed to fuel these new plants.

In two years, prices should drop as new generation plants and transmission lines come on line and as old gas wells in Texas and the Four Corners region are revived and new wells are drilled. Reacting to price signals, the number of operating gas wells in the United States has more than doubled in the last year.

By 2004, there should be enough power for sale by enough different entities that wholesale prices should fall, and those

lower prices, theoretically, would be passed directly on to retail customers.

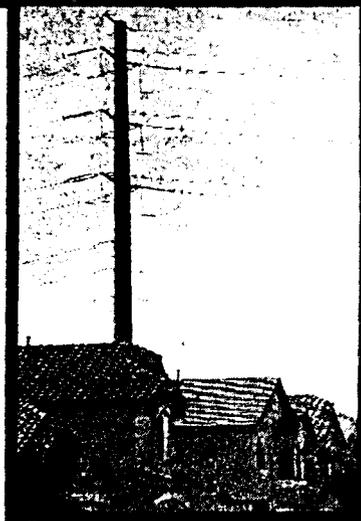
But one maxim of the modern deregulated power industry, analysts say: The beast is always hiding in the details. And there are signs, such as the recent emergency burning of diesel fuel at SRP's natural gas plant in Gilbert, that natural gas supplies and prices could be the Achilles heel of Arizona's increasingly gas-dependent power grid.

"Natural gas supplies are a legitimate concern," says SRP's Mark Bonsall.

Which is why El Paso Natural Gas, the company that sends natural gas to the Valley, is emerging as a power player. The company could use its mammoth market clout to squeeze central Arizona as it is accused of squeezing Southern California.

El Paso, after all, will be building the gas lines and providing the gas to many of these new plants.

"Beware of the Texholes," one Califor-



nia antitrust lawyer warns, dusting off an old epithet for Houston-based oil barons, who, thanks to deregulation, now own much of the generation capacity in the West.

Indeed, it is the emergence of a feeding frenzy among companies so often accused of collusion, not the blackouts in California, that could be the harbinger of doom for Arizona.

"The alt fuel thing, the real estate crash — all the really bad things in Arizona happen when there's a frenzy like this," says Pat Sherrill, who has been fighting the proposed Caithness plant northwest of Phoenix in Mohave County. "You've just got to wonder what is lying in wait for us down the road. History tells us it just can't be good."

In 1996, California's major regulated utilities, Pacific Gas & Electric, San Diego Gas & Electric and Southern California Edison, got what they thought would be a smokin' deal.

The three utilities had been in trouble. They were saddled with heavy debt from bad investments in *continued on page 31*

Gilbert residents fought SRP's plan to greatly expand its San Tan plant.



treatment

By Robert Nelson

Photographs by Paolo Vescia

Power Plants continued from page 29

obsolete nuclear and coal plants. State-imposed rate caps were blocking them from the profits they felt were fair in a rich national economy. Big industrial customers were threatening to build their own on-site generation using new natural-gas turbine technologies or buy from elsewhere.

So the utilities successfully pushed through a law that, among other things, allowed them to impose surcharges on customers to offset their bad investment costs. Rate caps were put in place that would remain until the utilities' investments were paid off. After that, the utilities and the market would dictate the rates.

As part of the deal, utilities had to sell off their power plants, which freed them from the bad investments. The utilities would buy their power on the wholesale spot market. At the time, there was an abundance of cheap wholesale electricity being generated using cheap fuel supplies. In theory, wholesale spot prices would dive and, unburdened by expensive long-term contracts, dying plants and rate caps, there would be a fat new margin for utilities.

What they didn't predict, though, was that customers, buying at fixed low costs, had little reason to conserve. They didn't think about the power needed to create and run all of California's new high-tech industry, bursting with powerful computers and other electric gadgetry.

The utilities were caught off guard when California's economy turned robust, which cranked up demand. At the same time, hydro generation dried up, summer temperatures soared and winter temperatures plummeted.

In the old regulated market, utilities rescued one another when necessary because that was the cost-effective thing to do.

The new market, though, was built for sharks. As California became fatter and more vulnerable, the sharks, in the form of America's new breed of wholesale power merchants, circled.

In the months following deregulation,

numerous power company executives and power investors met to discuss how best to profit from the California market. Many companies began buying up power plants in California, some began planning new plants in Arizona or Nevada. Within months, the nation's major natural gas distributors and wholesalers, wise from years of playing the natural gas wholesale spot markets, began recreating themselves as electric power generating and marketing companies.

It seemed every energy executive in the country saw the critical loophole in the California law: Relying totally on a spot market for a vital and unstorable commodity only works if there is ample supply. If there isn't ample supply, prices will continue to skyrocket because utilities have no choice but to buy the commodity quickly.

In essence, it's the market power you get selling the only glass of water on a bus of billionaires stranded in the desert. California would have two choices: Pay up or go dark.

The billion-dollar question, then, is whether California's supply crisis was all bad luck and bad planning or rather a mix of bad luck, bad planning and collusion. Did the sharks push California off the dock?

Perhaps the most important of these early industry meetings was held on September 26, 1996, in Room 431 of the Embassy Suites Hotel near Sky Harbor Airport.



Jack Ehrhardt, a critic of natural-gas plants, says Arizona is ignoring renewable power and conservation. He is designing this renewable-energy-powered building for the Arizona National Guard.

The meeting was attended by senior management of SoCalGas, San Diego Gas & Electric and El Paso Natural Gas. Notes of the meeting were obtained by Lance Astrella, a Colorado energy attorney, during discovery in a different antitrust case. But the attorney quickly realized the wider ramifications of what he saw.

In a lawsuit filed late last year in Los Angeles County by top antitrust attorneys, executives of the three companies are accused of agreeing to kill projects that would have undercut each others' control of natural gas markets (and thus electric power markets) in Mexico, Southern California and the Southwest.

At the time, SoCalGas' and San Diego Gas & Electric's near-monopoly of northern Baja and Southern California was being threatened by two Tenneco pipeline projects that would have doubled the natural gas flowing into the region. In the months before the Phoenix meeting, El Paso had purchased Tenneco.

After the meeting, El Paso killed the Tenneco projects. California's natural gas power plants, which sucked up 18 percent of SoCalGas' capacity, would remain captive customers of SoCalGas.

El Paso had wanted to run a pipeline to a massive natural gas power plant in Mexico, but SoCalGas had submitted a lower bid on the project. After the meeting, SoCalGas withdrew its bid.

According to the lawsuit, this tit for tat and several other subsequent agreements strangled the California and Baja supply and left the region at the mercy of monopolies.

"Fearing a new era of open competition and lower prices," the complaint alleges, "these latter-day captains of industry gathered secretly to hatch a conspiracy to dominate the unregulated aspects of the natural gas and electricity markets. . . . The conspirators sought to eliminate competition, take advantage of electric deregulation, drive up the price of natural gas and profit from the increased prices."

All three companies vehemently deny any wrongdoing. In essence, they accuse the plaintiffs of looking for media attention and an easy scapegoat in a complex crisis.

Also during this time, El Paso essentially sold the remaining available capacity on its lines to its own merchant subsidiary. Critics say this move gave El Paso control of all the noncontracted available space on the pipeline and, so, complete control of all available natural gas in California.

For Arizona, the deal, collusion or not, also had a profound

impact. Tenneco's lines would have taken cheap gas into northern Baja. With the pipeline, attorneys in the case say, northern Baja would have been the easiest and cheapest location to build new natural gas-fired plants to feed Southern California.

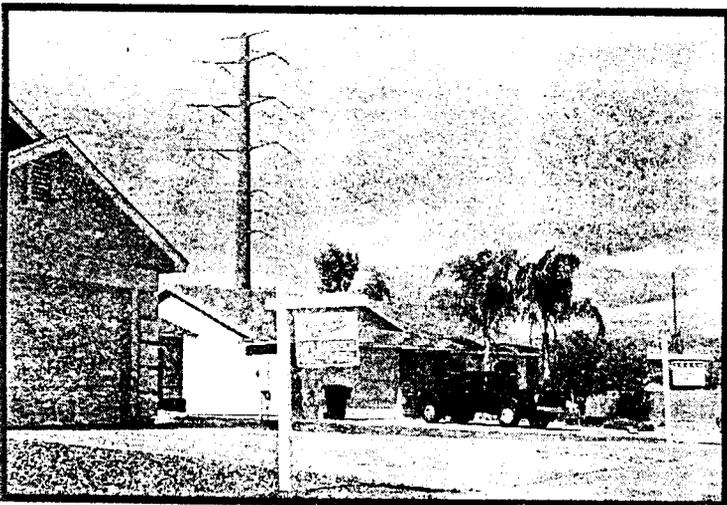
But when the pipeline died, leaving Baja with expensive SoCalGas fuel, power companies needed a new power farm.

Where could they get facilities planted quickly next to major pipelines? What was land and labor cheap?

"Arizona," says Astrella, a top energy attorney and one of the lead attorneys in the California class action suit.

"Basically, Mexico" continued on page 32

"The question for Arizona is what you're going to get for being California's power farm."



Power lines and power plants can have a significant impact on property values.

Power Plants continued from page 31

made the most sense for plants, followed by Arizona and Nevada," he tells *New Times*. "When that pipeline was cut, all eyes turned to Arizona. You would not be seeing this rush to your state if that pipeline had remained."

In 1998, as deregulation was rolling into effect in California, power companies began flooding the Arizona Corporation Commission with plant proposals. Arizona, with loose regulation, cheap land and labor and a penchant for tax breaks, was the most fertile ground for a quick crop of plants.

The plants were nearly identical in concept: Prefab buildings with several natural gas turbines, essentially engines like those on a 747 jet. Plants would produce an average of 800 megawatts of power. (One megawatt generally serves about 1,000 residents.)

Most would sit along an El Paso Natural Gas main line, which would allow them to avoid gas-delivery charges of subsidiary companies such as Southwest Gas.

Four plants are being constructed next to the Palo Verde Nuclear Plant west of Phoenix. The spot allowed plants easy access to the power grid and put them just outside the highly regulated Phoenix air shed.

Other companies looked for land any-

where in rural Arizona with infrastructure, organized support for economic development and, critics argue, unorganized opposition to questionable economic development.

As the proposals flowed into Arizona, so did company representatives, lobbyists and public relations people. Tax incentives, sketchy environmental impact studies and company-controlled public polling followed. And nobody, including the Arizona Corporation Commission or state government, seemed to be asking two critical questions:

What is the cumulative effect of all these plants?

And do we really need all this power?

"This rush for plants is all unprecedented," says Tim Hogan, director of the Arizona Center for Law in the Public Interest. "But even with all the unknowns, we keep blithely approving them. Beyond

the critical environmental issues, I still have yet to hear any convincing argument that this whole mess will ever benefit the average Arizona customer."

The first three merchant plants sailed through the Corporation Commission quickly and quietly early last year. Consumer and environmental advocates were caught off guard.

Griffith Energy L.L.C. was the first to apply for approval from the Commission. It wanted to build a massive merchant plant up by Kingman in Mohave County.

Reliant Energy followed. Then two from Pinnacle West (APS' parent), then Harquahala Generating Co., Duke, Panda Gila, Caithness, Mesquite, Gila Bend Power Partners, SRP (twice) and Sundance Energy. Several other companies and utilities are expected to present proposals to the Commission in coming months, according to industry analysts.

Never in its history has the Commission seen so many proposals being filed so quickly.

"The dam broke," says Dennis Sundie, an official with the Arizona Department of Water Resources who sits on the Commission's Power Plant and Transmission Line Sighting Committee, which, like a planning and zoning board, evaluates proposals before passing them on to the three corporation commissioners for a vote. "We hadn't seen a new power plant since the early 1980s. Then boom."

As the permit applications arrived at the Commission's office in Phoenix, plant supporters began pushing their projects through local public hearing processes. They needed the megawatts to get in on the California boom, which they knew government regulators would eventually stop. And the first companies to get plants approved and operated would have the best arguments that they were offering a much-needed product.

Last spring, Hogan and other consumer advocates began to ask questions about the power plants. Hogan's group sued the Corporation Commission, alleging it was not following Arizona law that required the Commission to balance the need for a power plant against the plant's environmental impact.

The power companies intervened in

"I have yet to hear any convincing argument that this will benefit the average Arizona consumer."

Power Trip

Arizona's first merchant plant will fire up this summer near Kingman. If this plant is any indicator of things to come, Arizona is in deep trouble.

Mohave County is on the verge of bankruptcy, thanks, critics say, to incentives and tax breaks given to the new Griffith power plant. The county's economic development board's dealings in the project are currently under investigation by the Arizona Attorney General's Office. The investigation should be finished next month.

The plant will be pulling all of its water from an aquifer that also flows under the residents of Golden Valley. Residents there were informed that county officials had made a deal with the plant's builders that gave the power plant first rights to the aquifer.

The plant will draw 8.4 million gallons per day from the aquifer, the equivalent of a city of 40,000 people. In effect, if the plant dries up wells around Golden Valley, the plant can continue to run and residents won't have water.

The Mohave County Economic Development Authority used county money to pay for the roads, water lines, wells and other infrastructure for the plant and the adjacent industrial park. However, because the development authority is a private corporation, county residents don't know how much county money went for the project.

Estimates range from \$7 million to \$10 million. Development authority officials won't give the figures.

The county budget in that time has gone from a \$3 million surplus to a projected \$3 million deficit. To raise money, the county has sold its courthouse and jail and is now leasing them back.

Accusations of financial impropriety are false, says Bill Goodale, executive director of the Authority.

And claims that the Griffith plant is a boondoggle are equally ludicrous, he says, noting that studies showed that Mohave County needed the power. And the county, he says, badly needed industry to prop up a sagging tax base.

The county's money problems, he says, are actually caused by the county's heavy population growth and subsequent infrastructure needs. He says the county needs more heavy industry, not less, to generate much-needed taxes.

"This power plant is a boon for the county," Goodale says. "There is no doubt we're doing something good for the county."

The Mohave County Economic Development Authority brokered other sweet deals for the power company.

The plant sits in what is called an "enterprise zone," meaning the plant will not have to pay sales tax on construction costs during its first year of operation.

In addition, thanks to a change in state law, the plant will also benefit from a state statute that was originally intended to help mom-and-pop entrepreneurs get started in the state. The amended statute will, in effect, cut the property taxes paid by the plant by 30 percent.

The companies that own the plant, Duke and PP&L, didn't need the help. Running at 80 percent capacity, the plant should have revenue of \$1 million to \$3 million per day.

Plant officials say they received nothing that other plants haven't received, according to news reports of the project.

The plant sits on land sold — cheaply — to the companies by Fred L. Dean. Dean was a founding member of the Mohave County Economic Development Authority. Dean now owns land by the plant.

The executive director of the Development Authority and lead promoter of the plant used to be Donald Van Brunt. But Van Brunt resigned from his position last year one month after it was discovered he had an 18-year-old felony conviction. In 1982, he had been convicted for conspiracy to manufacture \$3.8 million worth of counterfeit Federal Reserve Notes.

According to testimony in the case, Van Brunt and an accomplice purchased a print shop in Santa Ana, California. The seller of the print shop became suspicious when Van Brunt, identifying himself as Mr. "Van Smutt," asked if the shop's cameras "could pick up very fine lines" and told the seller they "might have to board up the windows because they would be doing top-secret government work." A month later, Secret Service agents raided Van Brunt Enterprises Inc. Van Brunt quickly waived his Miranda rights, signed a sworn statement of his involvement in the scheme and named his accomplice.

After the revelation of his criminal past, the MCEDA board unanimously supported Van Brunt, issuing a statement that "This board, and the industrial organizations we represent, continue to maintain the greatest respect for Mr. Van Brunt."

"We supported him because he is a man of great vision," Goodale says. "He has done so much good for this county."

Van Brunt said he had paid his penalties to society for the crime and then accused political enemies of "character assassination." Soon after Van Brunt's resignation, he was hired by Caithness to promote the company's proposed plant near Wickieup in Mohave County.

According to the residents of the tiny town, the power plant proposal has been one long series of cover-ups and half-truths.

"When we first met Van Brunt, he said he would bring all this wonderful development to Wickieup," says Corey Daniel, the owner of the town's Mobil station. "Then we asked what kind of development it was, and he said, 'Just come to the meeting.' When we got wind it was a power plant, people were just outraged.

"From that point on, they've been totally in-your-face and slam-dunk the whole way. Getting information has been like pulling teeth, and when we get the information, it's always different than what they were originally telling us."

In discussions with residents and in public hearings, Caithness and officials of the MCEDA have misrepresented both the pollution output and the water drawdown of the plant, critics say. Residents say they haven't been properly notified of public meetings.

Residents discovered that of the 1,200 acres Caithness had purchased for the plant, 1,000 of it had been given to MCEDA to do with as it chose.

That Wickieup plant proposal, called Caithness Big Sandy, first was filed with the county in August 1999.

It was approved by county supervisors, two to one, eight months later.

Supervisor Carol Anderson was the dissenting vote.

"The reason for my objections, along with the environmental issues, is the process," Anderson wrote. "The normal county process for such major changes to a community normally involve developing an Area Plan. That Area Plan process involves the community at numerous meetings and usually is an 18-month, or longer, process. . . . This expedited process eliminated the accepted and traditional County practice, the opportunity for community participation and studies on community impacts."

"It's horribly frustrating and disheartening to watch the political process there," says Pat Sherrill, who owns 40 acres near Wickieup. "It's all a fixed deal to the benefit of a couple people."

While the Caithness project sailed through local approval processes, though, it hit a snag in front of the Arizona Corporation Commission Power Plant and Transmission Line Sighting Committee.

During committee hearings, Dennis Sundie from the state Department of Water Resources chastised project promoters for trying to punch through such a massive plant with such sketchy environmental-impact research.

The plant has yet to be recommended by the committee. Sundie said he would not discuss any open power plant hearings.

"To the committee's credit, they were very adamant that they wanted the facts on the water withdrawal issue," says Jack Ehrhardt, a federal government renewable energy consultant. "They were the first to take the critical issues here seriously and ask some real questions." — Robert Nelson

the case, and a settlement was reached.

As part of the settlement, power plant owners had to guarantee that power would be available to Arizona customers during peak periods over the next two years. Subsequent plants will also have to prove they are needed.

Hogan and others also want a comprehensive study of the cumulative impact of these new plants, particularly the cumulative effect of the four plants locating themselves just upwind of the Valley near the Palo Verde Nuclear Plant, about 30 miles west of Phoenix.

"I'm not denying these things are cleaner than coal or nuclear plants," Hogan says. "But nobody has answered what the cumulative effects of all these plants really might be, if there is one. The utilities say there isn't one because they are highly mobile pollutants, but that's not always real comforting to only hear from a private utility company."

Steve Branoff, an engineer with the Environmental Protection Agency, says the plants are environmentally sound.

And since modern natural gas-fired plants are all nearly identical, Branoff says, the EPA can make projections of the plants' impact based on already existing plants.

"Despite the fact that these are very large plants, their emission specs really are very low," Branoff says.

Hogan has one other pending lawsuit, against Arizona Public Service. In that case, Hogan questions the legality of Arizona's plan to remove price caps in 2004.

The problem there, Hogan says, is almost the reverse of one of California's major problems. In Arizona, companies



Tim Hogan has led the push for increased scrutiny of power plants.

such as Pinnacle West didn't have to sell off their generation assets. They just had to separate their distribution and generation assets. One subsidiary will sell power to the wholesale market, the other will buy the power and sell it to customers.

That's dangerous territory for customers, Hogan says.

"The way the law sits now, APS is going to be able to charge whatever they want on the open market for wholesale power and then pass on any cost increases to their customers. I believe deciding now that we're going to let them pass costs on is not

only illegal, but a really bad idea until we know what the situation is with deregulation in Arizona."

If an adequate supply is in place, others argue, the market will take care of itself. With lots of power out there, wholesale market prices will remain low.

That is, as long as there is enough inexpensive natural gas. Besides the cost of construction of the facility, paying for natural gas is the greatest expenditure in operating the new high-tech turbine plants. Natural gas prices, SRP officials and others argue, are higher than they should be right now. And that doesn't bode

very well for the future.

"Natural gas prices have to rise to the \$3 range, that's reasonable considering they have to get a new supply," says SRP's Mark Bonsall. "But we've been seeing six bucks, eight bucks, and that's just way, way too high."

"This is all unprecedented territory," Hogan says. "We better know what we're doing or it will be a disaster."

In 1999, representatives of Arizona's public-power utility, SRP, and two private utilities, Dynegy and NRG, approached Tempe and Gilbert officials with a plan.

Dynegy and NRG, two of the most aggressive and most profitable companies in the new power market, were going to help SRP enter into "the brave new world of deregulation," Gilbert councilman Mike Evans says he was told.

SRP proposed a new 825-megawatt plant. Dynegy and NRG would build and operate the plant. SRP would provide the land. SRP would use the power from the plant for its burgeoning Phoenix market. In return, SRP would give 500 megawatts to Dynegy and NRG for the companies to market in California.

SRP officials say the deal was the cheapest way for SRP to get much-needed power generation in the East Valley market. Bonsall says that while the utility has power to spare elsewhere in the state — northern Arizona and the West Valley — it is short in the East Valley and would need to build massive new power lines to ship its own power there.

Power lines are expensive, hard to get approved, ugly and just move existing power around. The **continued on page 34**



Councilman Mike Evans was the only Gilbert official to speak out against the location of the San Tan plant.

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Dynergy/NRG plant would have allowed SRP, for the same price as new transmission lines, to get more efficient power and a much-needed generating pillar to support the East Valley power grid.

Critics, though, question SRP's timing and logic. They say SRP, like other power companies, just wants additional power to sell to California. They point out that Dynergy and NRG have been two of the companies profiting most from California's woes.

Worst of all, in SRP's case, the generators weren't being planted in remote desert. They were being planted in the suburban East Valley.

SRP's first choice for the new plant was in Tempe, where SRP has an existing substation located on top of the El Paso gas line.

SRP figured it could use its legal status as a quasi-government entity to avoid a review process by the City of Tempe. But critics pointed out that with Dynergy and NRG involved, much of the power would, in essence, be shipped out of the Valley. The plant would be a merchant plant.

Because companies other than SRP were involved, the plant would have to go through the normal Tempe review process.

The deal collapsed. A much smaller Tempe plant will be built without Dynergy and NRG.

But SRP soon came up with another proposal — to add 825 megawatts of power at its substation at Val Vista and Warner roads in Gilbert.

The Gilbert plant, called San Tan, will sit 250 feet from a recently built subdivision of middle-class homes.

On February 12, after five months of hearings, the Power Plant and Transmission Line Sighting Committee approved the plant. The full Commission, which has never turned down a facility cleared by the committee, is expected to vote on the proposal in April.

The San Tan plant has been a public relations nightmare, infuriating Gilbert residents who live close to the site. The plant is the only one of its size in the country being proposed within an urban area. (A local planning commission in San Jose, California, recently rejected a similar proposal because the plant was too close to the neighborhood.) Beyond the question of why the city of Gilbert allowed houses to be built so close to the SRP property, critics say SRP has used its vast political power to manipulate the plant-approval process.

On several points, documents support their concerns.

SRP commissioned a poll allegedly intended to find out how residents near the proposed plant felt about the project. The poll results, SRP representatives initially said, showed 69 percent of nearby residents in favor of the plant.

Critics of the plant were skeptical. They had petitions signed by thousands of residents saying they didn't want the plant.

So critics got hold of the questionnaire used in the poll. As they expected, it wasn't a survey, it was a series of questions slanted in such a way to get the desired results.

"The thing was absolutely absurd," says Evans, the councilman.

SRP was slow in describing the size of the plant. When SRP finally presented a drawing of the plant to nearby residents, the 150-foot smokestacks drew gasps. By the next hearing, the artist's rendition included what, by scale, would have been 90-foot trees in front of the plant.

"It was the funniest thing I've ever seen," says Kathy Lopez, an opponent of the plant. "If we're lucky, it will look like that in 20 years."

Dale Borger, a Gilbert resident who spent 45 years building and inspecting power plants in the eastern United States, began attending hearings. He says he was shocked by the misinformation being thrown out by SRP.

The plant is being built without a containment building, Borger says, which would lessen the impact of an explosion. For that \$2 million in savings, Borger says, the plant will put neighbors in greater danger in the event of an explosion.

"If it blows, you've got several thousand people who are going to feel it hard," he says.

Residents argue that SRP's San Tan property is zoned incorrectly and that, regardless of zoning, SRP had a duty to inform nearby residents that the small, intermittently operated plant on the property could be expanded in the future.

Environmental activists argue that the massive natural gas-fired plant isn't as clean as proponents say. Of particular concern is ammonium sulfide, a byproduct of the technology the San Tan plant will use to cut down other harmful emissions.

"Plenty of people are allergic to these sulfides and they've been proven to shorten lives," says Steve Brittle, head of Don't Waste Arizona. "But it's a byproduct of this technology that hasn't been properly studied."

But Steve Branoff, the EPA engineer, says the plant is safe. Because SRP is supposed to improve emissions on the plant's existing generators, the plant will actually be cleaner, he says.

Borger also doesn't buy SRP's claim that the San Tan facility is an absolute must. Like most everyone opposed to the project, Borger doesn't question that the East Valley is growing and that more power is needed. He and others simply believe the plant could have been placed farther from a heavy concentration of people.

"They could bring it in from around Coolidge," he says. "Coolidge wants the plants, the lines are there and being built and you would only lose about 1 percent of the power transporting it only 20 miles."

In fact, SRP has already contracted with one of the new merchant plants for the plant's total output, according to SRP's Bonsall. He would not divulge the company.

But that isn't enough, he argues.

SRP does need the Gilbert plant, Bonsall says — badly.

"San Tan is just part of a larger picture," Bonsall says.

SRP officials scoff at the idea that they are using Gilbert as a power farm for California.

As a public utility, SRP doesn't have a profit motive, utility officials say. Its only motive is to provide cheap, reliable electricity for customers.

Basically, SRP, officials say, like a lot of other Valley planners, didn't foresee that the East Valley would grow so big so quickly. Residents are using more power for everything from computers to swimming pools.

Industry, too, is sucking up more power. For example, Intel's expanded plant in south Chandler will increase its power needs from 40 megawatts to 100 megawatts.

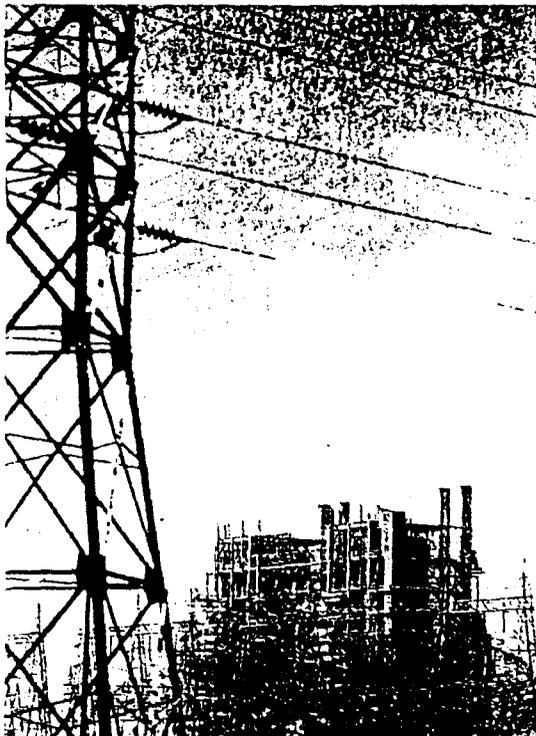
And if the East Valley hopes to attract more high-tech companies, it must have an ample source of reliable, affordable power.

Utilities in the Southwest have traditionally swapped power with utilities in the Pacific Northwest. The Southwest needs power for the summer, the Northwest needs power in the winter. SRP would trade with Northwest utilities at low prices to provide extra summer power for the Valley.

"It was a good deal for both sides," says Bonsall. "It meant both sides didn't have to build as much capacity."

But with shortages in California, and everybody selling to California, "those kinds of deals are pretty rare if not impossible to find," he says.

And ample power generation means ample market power. *continued on page 38*



Generating capacity at the present San Tan facility will be doubled under SRP's proposal.

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Power Plants continued from page 35

The more power SRP generates, the less it must buy. The less it must buy, the less it is at the mercy of volatile markets and merchant predators.

SRP says it can build the San Tan power plant for less money and in less time than bringing in electricity from outside the Valley. The utility says that also means less opportunity for system failure and less loss of power than shipping power over long distances.

And if it doesn't have to transport that existing energy to the Valley, it can sell it. And if it can sell power in the present inflated market, SRP can hedge against price spikes to its customers or use that money to pay for new power plants.

"If there is one fundamental lesson here, it is that no matter what market structure you create, you must have sufficient supply," Bonsall says. "If you get a limited supply coming up against an elastic demand, watch out."

"The bottom line," says Evans, the Gilbert councilman, "is that SRP's customers will benefit on the backs of the people close to the plant. It's not fair, and the process was awful. But that's power politics in Arizona."

Actually, that's power politics everywhere.

"As far as how they treat people, you've got to remember the context," says Mary Novac, an energy industry analyst. "SRP is a bunch of angels compared to some of the people operating out there. You don't know how good you have it."

Whether the California crisis was an accidental conspiracy or a coordinated conspiracy, things sure are working out well for natural gas companies and electricity providers. Profits are at record levels.

In two years, thanks in large part to the emerging Arizona power farm, there will be a glut of power for sale in the West.

At the same time, all that natural gas from the new and reopened wells will be flowing west. Transmission lines are going up to carry the power. And power providers are currently studying Arizona's power grid to ensure power from new plants can be distributed to where it is needed.

This should mean an ample supply powered by inexpensive fuel. Prices should drop.

But with the blackouts and widespread panic in California, the new cry from policymakers in that state is for regulation and long-term contracts.

Those long-term contracts would be made at the peak of volatility and concern about supply. California is in its weakest position right now. The killing will be made in the next two years.

That is why, analysts say, power providers are rushing so quickly to get their plants up and running in Arizona.

"The quicker, the better," Novac says. "You want to get your plant in while Cali-

fornia is still needy to get good contracts. There are a lot of people promising investors and everybody else that they'll be up and running by the summer seasons."

But how much of this windfall will pass to Arizona taxpayers and customers is unclear.

The plants will cost roughly \$8 billion to build and will employ as many as 6,000 people in their construction. Once completed, the plants will create 400 to 600 new jobs for Arizona.

They could generate as much as \$60 million in new property taxes, about \$35 million of which would go toward Arizona's schools.

But that number could have been much higher if not for numerous tax breaks and incentives given at county and state levels.

For example, Reliant Energy's plant in Casa Grande will be given to Casa Grande and leased back to the company for \$4 million a year for 40 years. The deal allows Reliant to avoid about \$9 million in taxes.

Other plants have similarly lucrative deals with cities and counties throughout the state.

State legislators also revised state statutes to allow power plants to be assessed at a fraction of their value for the first four years of operation. That law was

originally put in place to help small companies in Arizona survive their first few years as they built a client base.

Most of the power plants will have contracts for their power by the time they fire up. They will have revenues, on average, from \$1 million to \$3 million a day.

"They don't need the help they're all getting," says Joe Hart, former state representative from Kingman who has been one of the main critics of the Mohave County plants. "We're just helping them all make even more of a killing."

If all 20 new plants go through, they will consume approximately enough water to supply a city of one million people, based on estimates of average water use for existing and proposed plants.

Hart, Hogan and others say it's time for Arizona to stop and take a comprehensive look at what it is giving away.

"All I'm saying is, I think there's a huge case for heightened scrutiny of what is going on," Hogan says. "The ramification of all this building will impact the state for decades to come."

At some point, Novac says, it will stop being profitable to build more plants.

"This frenzy will peter out eventually, maybe even within the next two years," Novac says. "But the end result is that there will be lots of power. This should be a good thing for Arizona. As long as Arizona is smart."

"I don't care how smart we are, we still will have a load of power plants and all the problems that come with them," Hogan says. "We're going to have more than our fair share."

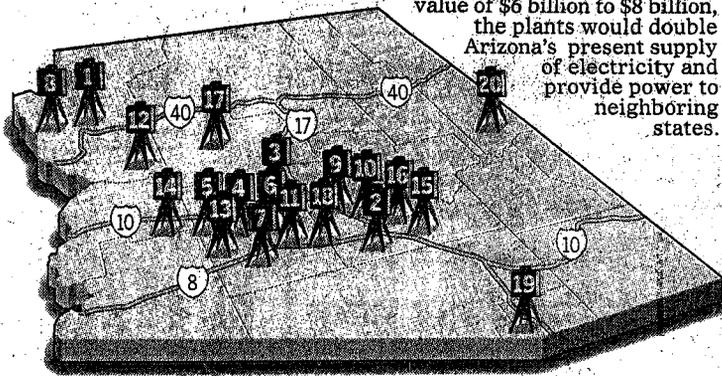
Contact the author at his online address: robert.nelson@newtimes.com

"If you get a limited supply coming up against an elastic demand, watch out."
— SRP's Mark Bonsall

ARIZONA becoming Southwest power farm

New crop of power plants

Rushing to fill a widening power void in the West, energy companies have proposed 20 new power plant projects in Arizona. With a combined value of \$6 billion to \$8 billion, the plants would double Arizona's present supply of electricity and provide power to neighboring states.



1 Griffith Energy Project

Developer: Duke/Griffith
Location: near Kingman
Size: 530 megawatts

2 Desert Basin

Developer: Reliant
Location: Casa Grande
Size: 500 megawatts

3 West Phoenix

Developer: Pinnacle West
Location: 43rd Ave./
Hadley Road
Size: 500 megawatts

4 Red Hawk

Developer: Pinnacle West
Location: Near Palo Verde
Size: 2,120 megawatts

5 Harquahala

Developer: PG&E Energy
Location: West of
Wintersburg
Size 1,040 megawatts

6 Arlington

Developer: Duke Energy
Location: West of Buckeye
Size 580 megawatts

7 Gila River

Developer: Panda Energy
Location: Near Gila Bend
Size: 2,080 megawatts

8 Southpoint

Developer: Calpine
Location: South of
Bullhead City
Size: 500 megawatts

9 Kyrene

Developer: SRP
Location: Tempe
Size: 250 megawatts

10 San Tan

Developer: SRP
Location: Gilbert
Size: 825 megawatts

11 Gila Bend

Developer: Power
Development Enterprises
Location: Northwest of
Gila Bend
Size: 750 megawatts

12 Big Sandy

Developer: Caihness Big
Sandy LLC
Location: South of Wikieup
Size 720 megawatts

13 Mesquite Generating Station

Developer: Sempra Energy
Location: Near Arlington
Size: 1,265 megawatts

14 La Paz

Developer: AES
Location: 75 miles west of
Phoenix
Size: 1,080 megawatts

15 Toltec

Developer: Southwestern
Power group
Location: Near Eloy
Size: 2,000 megawatts

16 Sundance

Developer: PP&L Global
Location: Near Coolidge
Size: 600 megawatts

17 Beaver Dam

Developer: NA
Location: Northwest Arizona
Size: NA

18 Montezuma

Developer: AES
Location: Near Mobile
Size: 520 megawatts

19 Nogales

Developer: Maestros Group
Location: Near Nogales
Size: 500 megawatts

20 Springerville Expansion

Developer: Unisource
Location: Springerville
Size: 720 megawatts

California's voracious appetite for more power combined with rampant growth throughout the West means one thing: more power plants.

California has more than 40 large power plants proposed, but hasn't built a power plant in six years.

Critics say the state is moving slowly, and that its inability to support its growth spurt has pushed power plants and their environmental impacts onto surrounding states.

"California has hardly done anything in the last 10 years," said Dennis Eyre, executive director of Western Systems Coordination Council, which manages the grid in the Western United States, Canada and Mexico. "You can see what that got them into. Look at the situation there now."

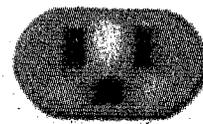
Most of the new power plants proposed outside of California are being built in Arizona and Nevada.

Both states have faster — and some say easier — review processes for new power plants, but that doesn't mean they want to become home to a slew of plants that could end California's power shortage.

"We will not be building plants because California is not building enough to meet its needs," said Scott Celley, a spokesman for Gov. Jane Hull.

"Arizona is as committed to air quality and water quality, and the safety and welfare of our state as anybody." Still, watchdogs say Arizona is well on its

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The POWER Crunch

The Arizona Republic and other Western Gannett newspapers collaborated on an investigation of the deregulation crisis and its impact on other states.

TODAY

Deregulation was supposed to work wonders. What happened? In A1 in BUSINESS & MONEY Is Arizona becoming the West's dumping ground for power plants?

MONDAY

California is in crisis mode and officials are scrambling for answers.

TUESDAY

To cover energy needs, some people and businesses are turning to co-ops and private generators.

For more stories, and to follow the series online, go to arizonarepublic.com/power.



Eric Barney (left) of Safford and Eric Barnett of Casa Grande work on the new power plant.

springing up

From Page D1

way to becoming a dumping ground for power plants to serve California.

"We're becoming the power farm for the Southwest," said Tim Hogan, executive director of the Arizona Center for Law in the Public Interest, a non-profit consumer and environmental advocacy group.

Hogan said the 20 power plants Arizona has approved or that are being planned will generate far more power than the state needs to meet growth demands.

The 16,875 megawatts of new power proposed to be added in Arizona by 2007 is second only to 19,419 megawatts of power proposed to go online in California by 2007. A megawatt is enough power for 1,000 homes.

Arizona already generates more power than it uses, although most of the extra is held in reserve during the state's hot summer months. Generators in the state currently produce 16,000 megawatts. The state's peak need, or the amount of power needed on the hottest day of the summer, is 11,000 mega-



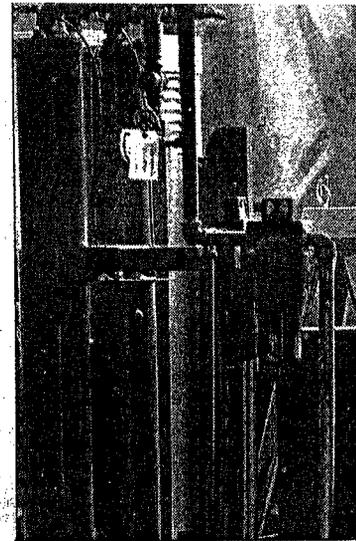
Williams R. "Dick" Dusenbury is plant manager of the Reliant Energy Desert Basin in Casa Grande.

watts.

"These guys know land is cheap here and that sitting these things here is cheap," Hogan said.

Hogan said Hull can say Arizona doesn't want to be California's dumping ground for power plants, but "she doesn't have any control."

Any ability the state does have to say no belongs to the Arizona Corporation Commission, a three-person elected panel that, among other



Watchdogs say Arizona is well serve California. At least 20 p

things, regulates new power plant construction in the state.

And at least one commissioner agrees it's easier to build plants in Arizona than in California.

"There are stricter Environmental Protection Agency requirements in California than in Arizona," Commissioner Jim Irvin said.

In addition, the review process in Arizona is substantially faster than in California.

"Usually (approval) all happens in the first year," Irvin said.

The commission must make a decision within 180 days after a power plant gets local and environmental clearances.

"You're looking at three to five years (including construction) vs. seven years in California," he said.

The process is also faster in Nevada, said Cynthia Messina, spokeswoman for the Public Utilities Commission of Nevada.

"We've been expediting the process for power plants to be built here," she said.

Most of the new Nevada plants are being built for merchant power, which means the output will be sold on the open market, she said.

The Nevada commission takes about two months to review a power plant after it clears local and environmental hurdles.

Staff from the California Energy Commission dispute the notion that it takes seven years to build a power plant in California.

"Our process takes about a year," said Susanne Garfield, a spokeswoman for the commission. She said stricter environmental reviews and a more open process may take more time than in other states, but not much.

Some companies go through the review process faster than others because they are more familiar with the process.

The Pacific Northwest often has surplus power to sell to California, but not when it's mired in drought, which is currently the case, said Ed Mosey, a Bonneville Power Administration spokesman.

Instead, BPA is buying power on the open market just to serve its own customers.

Environmental groups are watching to make sure efforts by Gov. Gray Davis to "streamline" the process for building new power plants

ing environmental laws.

"We recognize the need for more power plants, but if it gets to the point where they're just rubber-stamping them, then we'll be concerned," said Rich Ferguson, energy chairman for Sierra Club California.

Many environmentalists are looking at the proposed surge in power plant building with optimism.

"The new combined-cycle (natural gas) plants are much more efficient than what we have on the system now," Ferguson said.

The hope is the older, dirtier plants will be shut down or upgraded.

"As a general idea, we like the idea of modernizing the power infrastructure," he added.

But cleaner or not, some cities don't want any part of the surge of proposed power plants.

San Jose — capital of electricity-hungry Silicon Valley — is fighting a proposal to build a 600-megawatt power plant in Coyote Valley, one of San Jose's last, large pieces of open space.

On the other hand, Blythe, a rural California farming area perched on the Arizona line, is among a growing number of communities embracing the property tax and job boost new power plants bring.

"San Jose may have scenic areas they want to protect, but the area in Blythe where the power plant is going to be constructed is near the airport," said Charles Hull, assistant city manager.

"The power plant is the cornerstone of our new industrial park."

Blythe will receive a minimum of \$500,000 in taxes a year when its 520-megawatt power plant comes online in summer 2002, a big boost for a city with 22,000 people, 8,000 of whom are locked up in two prisons.

After giving the proposal a hard look, the city is now embracing the power plant proposal.

"We did our due diligence," Hull said, "and found that this is the cleanest technology, other than wind and solar."

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