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Suzanne Korosec
California Energy Commission
Dockets Office, MS-4
Re: Docket No. 11-IEP-1D
1516 Ninth Street
Sacramento, CA 95814-5512

RE: **"Docket #11-IEP-1D Reliability**

Dear Ms. Korosec:

AES Southland (AES-SL) appreciates the opportunity to provide comments to the California Energy Commission on the Interagency AB 1318 Technical Team's "*Draft Work Plan for an Assessment of Electrical System Reliability Needs in South Coast Air Basin and Recommendations on Meeting those Needs*" (Draft Work Plan). AES-SL is the owner of the largest fleet of once-through-cooled (OTC) generating facilities in California, all of which are natural gas fired steam generators located within the South Coast Air Basin (SCAB). Our portfolio is comprised of the Redondo Beach, Alamitos and Huntington Beach generating stations, which together have over 4,200 MWs of installed capacity and 14 generating units. The facilities are located in the Los Angeles basin Local Capacity Requirement (LCR) area and represent approximately 18 percent of Southern California Edison's peak demand[1], 33 percent of the total installed capacity in the LA Basin LCR and 40 percent of the California Independent System Operator's (CAISO's) projected LCR need in 2011[2].

The redevelopment of the AES-SL fleet with modern, efficient and operationally flexible generating equipment will insure Southern California has continued access to secure, affordable, low emission power while integrating ever increasing amounts of renewable energy into the electrical transmission and distribution system. AES-SL has already begun the long process to redevelop our OTC generating facilities and will be a continued part of California's future. However, that future may be jeopardized by the kind of regulatory uncertainty presented in the Draft Work Plan. In stark contrast to its stated objectives, the Draft Work Plan has presented an agenda for preparing a report to justify a predetermined outcome. It is clear that the AB 1318 Technical Team has begun its work in assessing the

[1] Southern California Edison's all-time peak demand of 22,889 MWs was set on July 25, 2006. AES-SL's total rated capacity of 4,256 MWs represents 18.6% of SCE's all-time peak.
[2] According to the CAISO's 2011 draft LCR study results, the Total Qualifying Capacity of available generation in the LA Basin LCR is 12,977 MWs and the LCR need for the region is 10,589 MWs.

electrical system reliability needs in the SCAB by assuming there is a need for new power generating capacity and the development of generation capacity to meet forecasted demands cannot proceed without changes to the regulatory system with respect to emissions offsets. Advocating for changes to California's environmental and energy regulatory system to fix a non-existent problem brings uncertainty to the businesses looking to invest in California's energy future as well as uncertainty for the rate payers who ultimately have to pay for those "fixes".

AES-SL understands that the Draft Work Plan has been developed to address a requirement of Assembly Bill 1318, which provides a mandate to the California Air Resources Board (CARB) "**in consultation with the California Energy Commission (CEC), California Public Utilities Commission (CPUC), California Independent System Operator (CAISO), and the State Water Resources Control Board (SWRCB) to prepare a report for the Governor and Legislature that evaluates the electrical system reliability needs of the South Coast Air Basin (SCAB)**"[3]. Furthermore "**the report is to include recommendations for long-term emission offsets availability and options to ensure sustainable permitting of additional needed capacity**," only "**if it is determined that additional fossil-fueled electricity generation facilities are needed.**" While the Draft Work Plan succinctly describes the objective of the proposed assessment and goes on to state that it "**does not include conclusions or recommendations**" and "**provides information that will be used as a starting point in conducting the more detailed assessment**", it unfortunately presents 70 plus pages of conclusions on the current state of understanding of the electrical system needs, capacity additions, transmission requirements and an entire section devoted to the pre-conceived assumption that there is a need for additional emission offsets for the development of generating capacity within the SCAB. The Draft Work Plan even includes regulatory options to ease the presumed Emission Reduction Credit (ERC) shortage for the power generation sector. There were a mere six pages devoted to describing the studies needed to complete an actual electrical system reliability needs assessment as mandated by AB 1318 and what would be expected in a document that was supposed to present a methodology and approach for completing an analysis. The Draft Work Plan, as presented, threatens the credibility of the Interagency AB 1318 Technical Team as it seems to present an agenda for preparing a report to justify a predetermined outcome. It is clear that the AB 1318 Technical Team has begun its work assuming there is a need for additional generating capacity within the SCAB and that the development of modern generating capacity that will meet forecasted demand cannot proceed without changes to the regulatory system with respect to emissions offsets. From this perspective, AES-SL disagrees with the statements in the Draft Work Plan and believes the AB 1318 Technical Team has erroneously assumed that the existing OTC power plants within the LA Basin LCR will cease generating power as opposed to redeveloping or retro-fitting their existing facilities, as required by the Statewide Water Quality Control Policy on the Use of Coastal and Estuarine Waters for Power Plant Cooling and Section 316(b) of the Clean Water Act. AES-SL believes the redevelopment of the existing OTC plants in

[3] Assessment of Electical System Reliability Needs in South Coast Air basin and Recommendations on Meeting those Needs – Draft Work Plan

the SCAB will be more than sufficient to meet forecasted demand. Our assessment of generating needs was also confirmed by Mark Minick of Southern California Edison during the February 15, 2011 workshop to discuss the Draft Work Plan, when he stated that preliminary electrical system analyses show that no new generating capacity would be required in 2020 within the LA Basin LCR if all of the OTC generating plants were to redevelop their sites.

Much of Draft Work Plan content on electric reliability needs is out of date. Existing studies used to compile the information provided does not include recent CAISO and CPUC reports that contradict some of the background information and conclusions. Specifically, data and information included in the following documents refute the assumption of additional generation capacity needs within the SCAB and highlight the need for more flexible generation to integrate renewable energy into the system:

- CPUC LTPP Scoping Memo 1 in 2 demand forecast
- CAISO Integration of Renewable Resources at 20% RPS Report
- CAISO 33% RPS Study of Operational Requirements and Market Impacts

AES-SL is now spending significant time and effort to understand the transmission constraints, generation demand and renewable energy integration requirements similar to the reliability needs assessment mandated by AB 1318 as we prepare to respond to the requirements of the recently adopted Statewide Water Quality Control Policy on the Use of Coastal and Estuarine Waters for Power Plant Cooling and Section 316(b) of the Clean Water Act. These assessments have been commissioned to aid our efforts to determine how best to serve California. As a result of our work to date, we see a new industry paradigm emerging that will place a high value on generation operational flexibility as opposed to just energy. Flexible load following generation with adequate contingency reserves, ramp speed and duration and start/stop capabilities are what AES-SL believes the electrical system needs to maintain reliability. With the integration of ever increasing amounts of renewable generation into the LA Basin LCR, generation capacity within the SCAB is not the determining factor to maintain reliability; it is system services that are required. From this perspective we also believe there is adequate capacity in the south coast ERC market to enable the redevelopment of the existing generating fleet in the basin, which will maintain system reliability. Under the South Coast Air Quality Management District's (SCAQMD) Rule 1304, the replacement of electric utility steam boiler(s) with qualifying generating technology are exempt from supplying emission offsets as required by SCAQMD Rule 1303(b)(2), provided the maximum electrical power rating (in megawatts) of the new equipment does not allow basinwide electricity generating capacity on a per-utility basis to increase. As the generating capacity within the LA Basin LCR is sufficient to meet forecasted demand and only replacement generating technology is required, there is no need for changes to the regulatory system with respect to emissions offsets.

There is a brief mention on page 31 of the Draft Work Plan, contained within a short discussion of the use of SCAQMD Rule 1304 for redeveloping existing steam-boiler power

plants, of a perceived market competitiveness issue regarding the ability of AES, NRG and Genon (Reliant) to rebuild versus the development of new merchant power plants. This statement is unfounded and should not be part of this document and study. Any intimation that AES, NRG or Genon have an unfair market advantage over new developers ignores the larger California power market and the control over the LA Basin LCR currently held by the Investor Owned Utilities. In addition, the following points rebut any notion of an unfair market advantage held by the existing generators:

- The independent generators AES, NRG and Genon obtained ownership of the existing generating plants as a result of an asset auction that Southern California Edison (SCE) concluded in 1998 which was in direct response to AB 1890, a bill that directed the restructuring of California's electric utility industry and provided for market competition. The SCE asset auction accomplished that goal as the SCE assets were sold to multiple independent owners.
- A statement in the work plan that argues the existing generators may develop replacement capacity at a far lower cost than new entries to the market was made irrespective of the position that the OTC plant owners have been placed in as a result of state water policy with respect to OTC and the recently adopted 316(b) regulation. The existing OTC generators have been forced to invest significant capital, or go out of business, while a new market entrant and developer has a choice of where and when to invest, if at all. The implied market advantage does not consider the fact that a merchant developer may choose not to invest and thereby risk nothing, whereas the existing generators are faced with financial risk whether it is through investment in redevelopment or unit retirement.
- AES, NRG and Genon assigned, and paid for, value in their generating assets that results from the ability to continue to operate their businesses beyond the life of the existing equipment at their sites. Just like a market participant who holds ERCs, the value AES, NRG and Genon have in their assets results from earlier strategic business decisions to participate in the market. whether a market participant acquires value through the acquisition of assets that have long term operating potential through existing rules allowing these assets to be redeveloped or they acquire value by buying a fungible asset (ERC) that has the potential to rise in value, that value results from the strategic business decision to invest. The existing generators realized and assessed the future value to their sites at the point of purchase, and should not be forced to compensate new comers to the marketplace simply because they didn't participate in the markets (ERC or power) earlier. The existing generators have no more advantage than a new developer with advanced non-emitting technology or an ERC holder and merely have a means to rebuild their facilities with new advanced generating technology. This is entirely consistent with the intent and requirements of the existing regulatory system which seeks to minimize emissions within the SCAB.
- AB 1576 already provides a means to address competitiveness with existing generators allowing IOUs to enter into transparent cost plus power purchase agreements (PPAs). IOUs can recover their costs of contracting with a project to

replace or re-power an aging power plant, if the project is needed for local area reliability and provides its output on a "cost of service" basis.

Lastly, and most importantly, there is nothing within AB 1318, or the scope and objectives of the electrical system reliability needs assessment that provides the AB 1318 Technical Team the mandate to assess market competiveness. The requirements of AB 1318 are quite clear; assess the physical limitations of the current electrical system, compare to what can be developed under SCAQMD and US EPA rules with respect to emission offsets and determine if there is an indeed an ERC shortage that will undermine system reliability. Evaluating, recommending or deciding on which entities may be allowed to repower, develop or receive ERCs is outside the scope of AB 1318 and the electrical system reliability needs assessment.

AES-SL does agree that the additional studies described on pages 43 through 49 of the Draft Work Plan are necessary and that the scope of these studies must include the Los Angeles Department of Water and Power (LADWP) balancing authority area (BAA). Of concern is how these studies will be conducted and how long it will take to complete an effective review, in particular the assessment of OTC retirement, repowering or retrofit within the 2011 transmission planning process (TPP). AES-SL views the assessment of OTC plants as an iterative and circular process between the generators and the CAISO and CPUC, which will most likely take a number of years to complete. The OTC plant operators will require the analysis and conclusions that result from the TPP, the CPUC's Long Term Planning Process and the AB 1318 reliability needs assessment to determine realistic repowering, retirement or retrofit plans which provide adequate returns on investment, while these same planning processes will require information from the OTC plant operators as to size and type of capacity which will remain at the subject facilities. It is unlikely an accurate picture of the electrical system needs will be determined under the current AB 1318 system reliability needs assessment schedule.

AES-SL appreciates the opportunity to provide these comments. Please do not hesitate to contact me at (562) 493-7855 with any questions.

Kindest regards,

Eric Pendergraft
President
AES Southland