

Docket: R.10-05-006
ExhibitNo.: _____
Commissioner: MichaelR.Peevey
ALJ: PeterV.Allen

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Integrate
and Refine Procurement Policies and
Consider Long-Term Procurement Plans.

Rulemaking 10-05-006

**TRACKIPREPAREDTESTIMONYOFJENNIFERDIDLO
ONBEHALFOFAESSOUTHLAND**

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August 4, 2011

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Q. Pleasestateyournameandcurrentemployment.

A. MynameisJenniferDidlo. IamemployedbyTheAESCorporationasProjectDirector responsiblefortheredevelopmentattheHuntingtonBeach,AlamitosandRedondoBeach electricgenerationstationlocations,collectivelyAESSouthland(AES).

Q. Whatisyourprofessionalandeducationalbackground?

A. MyprofessionalandeducationalbackgroundissetoutinExhibitA.

Q. Whatisthepurposeofyourtestimony?

A. Thepurpose ofmytestimonyistodiscussthe needforaprocurementdirective inthis proceedingtosatisfyLocalCapacityRequirements(LCR)inSouthernCaliforniaEdison’s (SCE)service territory. Iwillalsoaddressthepotentialimpactsoftheoutcomeofthis proceedingonthe3,690megawattsavailableforredevelopmentattheAESlocations. HuntingtonBeach,Alamitos,andRedondoBeachall utilizeOnce-Through-Cooling (OTC)andaresubjecttocompliancewiththe Water Quality Control Policy on the Use of Coastal and Estuarine Waters for Power Plant Cooling (OTCPolicy)asadoptedbythe

California State Water Resources Control Board. I will address AES' intention to support California's long-term objectives to eliminate the aging generation infrastructure while maintaining a reliable and robust electrical system. Specifically, I will discuss the required timing of an SCE procurement directive, AES' OTC Implementation Plan, our ability to obtain the necessary licenses and permits to construct replacement generation, the timeline necessary to coordinate such compliance, as well as AES' willingness to participate in competitive procurement or bilateral negotiation processes to obtain long term contracts.

I. THE AES SOUTHLAND FLEET CONSISTING OF THE THREE LOCATIONS

Q. Please describe the Huntington Beach, Alamitos and Redondo Beach generating stations.

A. These are three gas-fired electric generation stations that AES purchased from SCE. AES purchased these facilities in May 1998 as part of California's Assembly Bill 1890 (Brulte 1996) requiring SCE to divest at least 50 % of its gas-fired electric generation. Further, these facilities have been a part of the integrated system built by SCE to serve Los Angeles (LA) Basin customers. The construction of these facilities started in the mid-1950s and continued through the mid-1960s. Each of these facilities employs OTC technology and the OTC Policy requires all three sites to achieve compliance by December 31, 2020. Currently, Huntington Beach, Alamitos and Redondo Beach (collectively, Southland) supply 4,140 megawatts of local capacity within the LA Basin Local Capacity Area (LCA). Together they represent about 35% of the total installed capacity in this local area. More specifically, each of these generation stations is located in the transmission-constrained Western sub-area of the LA Basin LCA as referred to in the CAISO 2012

LocalCapacityTechnicalAnalysisFinalReportandStudyResults.¹ TheAESgenerating resources that are either owned or leased represent 50% of the total net qualifying capacity in the Western sub-area.

II. REQUIRED TIMING OF ANS CE PROCUREMENT DIRECTIVE AS PART OF THE CURRENT 2010 LTPP PROCEEDING

Q. Will AES construct new generation at its Southland locations without long-term contract(s)?

A. No. Based on the current electricity market structure and projected future market prices AES will need long term contracts to secure financing to support the construction and commercialization of new generation. In fact, AES' preferred contract term is 20 years to extend the period of time to recover investments necessary for new construction, enable longer term financing and ultimately provide potential consumer rate reduction as compared to a 10 year contract.

AES is committed to redeveloping its gas-fired assets in California and has started the permitting process; dedicating millions of dollars to perform analysis, field testing, valuation and application fees. However, in order to pursue the actual Engineering, Construction and Procurement activities to commercialize a new facility, financing must be obtained. Long-term Power Purchase Agreements (PPA) are necessary to obtain such financing.

¹ The CAISO provides this report to document the results and recommendations of the 2012 Local Capacity Technical Study (final report dated April 29, 2011). The AES locations are identified to be in the Western portion of the LA Basin as indicated on pages 80 – 84 in the table labeled “Total units and qualifying capacity available in the LA Basin Area.” The report is available at <http://www.caiso.com/2b6f/2b6f8be32da20.pdf>.

Additionally, when the Investor Owned Utilities (IOU's) are approved to enter into long term contracts for new resources, the IOU's can then control which specific operating flexibilities at which locations get built to support their future needs.

Q. When does AES Southland need to secure contracts in order to meet its OTC compliance deadlines?

A. Given the timeline required to complete an SCE solicitation, obtain CPUC approval, secure the necessary permits and licenses, and finance and construct new resources, AES needs the CPUC to issue a procurement directive in the current LTPP cycle. This timing is needed to maintain the local reliability support that is provided by the current generating units and enable AES to meet its OTC compliance deadlines. Multiple phases of contracting, demolition and construction are required in order for AES to work within the land it owns and maintain certain levels of generation to support grid reliability needs. Once permits are obtained, which is expected to take approximately two to four years, each redevelopment phase is anticipated to take an additional three to five years for contracting, financing, demolition and construction. As such, a directive in this LTPP cycle could result in the first phase of new generation at an AES location as early as 2018, and a directive in the next LTPP cycle could result in new generation at an AES location as early as 2020. AES' OTC Implementation Plan describes the need for three phases, underscoring the importance of starting the redevelopment process as soon as possible. In fact, even with a directive in this procurement cycle, AES will still need an extension of its OTC compliance dates for certain units beyond 2020.

Q. What are the potential consequences if SCE is not issued a procurement directive during the current LTPP proceeding?

A. If there is no procurement directive issued to SCE to satisfy LCR needs until the next LTPP cycle, this will only delay the ultimate actions that are needed for California to meet its objective to retire the aging generation fleet through OTC compliance. As referenced in EPE testimony, the CAISO has stated the OTC generation planning should be performed first in order to determine if any transmission planning is necessary. If a procurement directive is not issued until the next LTPP cycle, it will result in a requirement to procure all of the resources that will be needed to replace the OTC fleet in a single procurement cycle. Otherwise, the existing OTC facilities will not be able to meet their current compliance dates. If this is necessary, all of the successful projects will be competing for the same limited resources, thereby driving development costs up unnecessarily, and ultimately increasing the rates for electricity. Resources like skilled labor, specialty equipment, Engineering, Procurement and Construction management, vendor manufacturing capacity and available private equity will all be under pressure to support a compressed timeline. It is worth mentioning California is already stressing the available development resources with its massive transmission project plans and its increased renewable portfolio objectives. Adding the replacement of the gas-fired generation during that same time and then compressing the timeline will undoubtedly lead to inefficiencies and unnecessary costs.

III. ONCE-THROUGH-COOLING COMPLIANCE FOR THE AES SOUTHLAND FLEET: HUNTINGTON BEACH, ALAMITOS, AND REDONDO BEACH GENERATING STATIONS

Q. How does AES Southland intend to comply with the OTC Policy?

A. As stated in the OTC Implementation Plan AES submitted to the State Water Resources Control Board on April 1, 2011,² AES intend to redevelop its existing locations in compliance with Track I by retiring the current operating units and replacing them with state-of-the-art gas turbine technology that complies with the OTC Policy. The plan addresses grid reliability with an intentional sequencing to make new generation available for operations before retiring the old generation. As such, there are electrical interconnection and physical space limits to the amount of new generation that can be connected to the grid and constructed on available land prior to the disconnection and demolition of retired units. AES' redevelopment plan relies on the existing electrical interconnections, existing natural gas infrastructure and interconnection and AES-owned land.

Q. Recent projects in the South Coast Air Basin have encountered significant obstacles as a result of the inability to secure sufficient emission offsets. How does AES intend to address this challenge?

A. AES intend to rely on South Coast Air Quality Management District's (SCAQMD) Rule 1304(a)(2) which exempts AES from the requirement to directly supply emission offsets, but instead obligates the SCAQMD to retire the necessary offsets from its holdings. AES'

² As required AES Southland submitted compliance plans for each of its locations. These plans can be found at http://www.waterboards.ca.gov/water_issues/programs/ocean/cwa316/powerplants/

intentions are consistent with other projects recently permitted in the LA Basin; specifically, the NRG El Segundo project and Edison Mission Energy's Walnut Creek project. Both projects relied on this same rule, have received permits and licenses and are under construction. AES' plans are consistent with the rules as written and adopted more than 20 years ago, and reliance on Rule 1304(a)(2) is a reliable path to air compliance.

Q. What is your opinion of the feasibility of the alternatives to redeveloping the AES sites that would also satisfy the local reliability needs of the Western LA Basin and the Ellis subareas?

A. I believe the alternatives to redeveloping the AES locations are very limited, particularly when considering the local reliability needs of the Western sub-area of the LA Basin as referenced in the testimony of Hala Ballouz from Electric Power Engineers (EPE's Testimony). Siting new generating facilities within the highly urbanized LA Basin does not seem feasible as new transmission infrastructure would be required, available real estate is limited and there would likely be formidable opposition to creating a new industrial site. Additionally, EPE's Testimony also confirms that the existing transmission infrastructure would be underutilized and result in the need for new transmission assets to be built. The alternative redevelopment opportunities within the Western sub-area of the LA Basin LCA are very few and perhaps limited to the other formerly owned SCE facilities. From a timing perspective, it seems highly unlikely that major transmission upgrades in the LA Basin could be completed by 2020. EPE's Testimony indicated that major transmission upgrades will be imposed on the transmission grid if generation at critical locations is not redeveloped/procured, and such upgrades should not be determined by CAISO until the OTC plans are finalized. The amount of time to accomplish such a

project does not support the OTC compliance deadlines, or California's other 2020 objectives.

IV. SECURING NECESSARY LONG-TERM CONTRACTS THROUGH COMPETITIVE SOLICITATION OR BILATERAL NEGOTIATIONS

Q. Does AES intend to participate in any potential competitive solicitations for new resources conducted by SCE?

A. Yes, AES intends to competitively bid into any potential SCE Request for Offer process. AES fundamentally supports competitive procurement and recognizes the advantages to rate payers when competition is allowed. AES encourages California to continue offering competitive market structures and looks forward to the opportunity to participate. However, based on EPE's testimony it may not be possible for all grid reliability and LCA issues to be addressed through a competitive process. To avoid market power concerns if there are limited resources capable of addressing local area reliability, AES is willing to enter into cost-based contracts with the utilities for certain locally required resources consistent with what was envisioned when Assembly Bill 1576 (Nunez) was passed by the California legislature in 2005. Where sufficient competition does exist, AES is also more than willing to compete for long-term contracts.

Q. What are your conclusions considering the testimony provided by EPE, SCE, CAISO and others?

A. I conclude after reviewing the various testimonies and transmission plans that there is a minimum "least-regrets" amount of generation that SCE should be directed to procure to satisfy LCR needs as part of the 2010 LTPP process and further that procurement processes must include location considerations. Otherwise grid reliability, flexibility and

integrity will be compromised and overprocurement is inevitable. Finally, if market power is a concern due to the need to procure resources in particular areas, the CPUC should direct the IOUs to enter into cost-based, bilateral negotiations to secure the needed local resources.

Q. Does this conclude your testimony?

A. Yes.

EXHIBIT A

Exhibit A

Statement of Qualifications

JENNIFER L. DIDLO, Project Director, AES Southland Development

PROFESSIONAL EXPERIENCE:

THE AES CORPORATION

Project Director, AES Southland Redevelopment, Long Beach California

Responsible for obtaining necessary licenses and permits to enable the redevelopment of 4,200 MW Southland fleet in Southern California

President and Plant Manager, AES Deepwater, Houston Texas

Led a 60-person team to world class performance of 94% availability with exemplary safety and environmental results at a 160 MW petroleum coke facility

Plant Performance Manager, North America West Division, California

Supported leadership of 10 businesses located in Hawaii, California, Texas and Oklahoma to become world-class performers through operational excellence ultimately improving pre-tax contribution by 12%, through heat rate, availability and cost control measures

President and Plant Manager, AES Placerita, Santa Clarita California

Lead a 120 MW cogeneration, combined-cycle facility from a contracted PPA business to AES's first fully merchant business in the deregulated California electricity market

SOUTHERN CALIFORNIA EDISON

Divestiture Team Member, Corporate Office, Rosemead, California

Coordinated closing activities for the sale of El Segundo and Long Beach generating facilities

Production Manager, Long Beach Generating Station, Long Beach, California

On-site manager responsible for day-to-day operations of a 7 unit, 550 MW facility

Business Strategy Team Member, Long Beach, California

Created interventions and guided personnel to implement new business philosophies focused on competitiveness

Reliability Engineer, Maintenance Supervisor, Alamitos Gen Station, Long Beach, California

Actively participated in maintenance and operations of a 2,000 MW, 200-person facility

EDUCATION and LICENSES:

M.S., Mechanical Engineering, California State University, Long Beach 2002

B. S., Mechanical Engineering, California Sate University, San Luis Obispo 1990

California Professional Registered Engineer, Mechanical Engineering 1996