

**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 12-03-014
(Filed March 22, 2012)

**AES SOUTHLAND, LLC'S REPLY COMMENTS ON THE PROPOSED DECISION
AUTHORIZING LONG-TERM PROCUREMENT FOR
LOCAL CAPACITY REQUIREMENTS**

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Pursuant to Rule 14.3 of the Commission’s Rules of Practice and Procedure, AES Southland, LLC (“AES Southland”) submits the following reply comments on the Proposed Decision Authorizing Long-Term Procurement for Local Capacity Requirements, dated December 21, 2012 (“Proposed Decision”).

AES Southland’s opening comments focused on the concern that the Proposed Decision drastically underestimated the local capacity needs for the Western Los Angeles Basin Local Capacity Area (“Western LA Basin LCA”), and as a result had failed to provide Southern California Edison (“SCE”) with sufficient procurement authority to ensure future reliability, and to take advantage of the unique opportunity to repower once-through-cooled (“OTC”) generation, located at sites particularly well-suited to address transmission constraints. Opening comments submitted by numerous parties reiterated that same concern, and reinforced AES Southland’s assertion that SCE needs to be given sufficient procurement flexibility to meet an uncertain future.

Both the California Independent System Operator (“CAISO”) and SCE recommended that the Commission approve procurement of new resources up to a 2,370 megawatts (“MW”) maximum in the LA Basin subject to a finding of need for resources above 1,500 MW that will be established during the approval process. (CAISO at p. 3;

SCE at p. 2.) Though AES Southland is concerned that even that level of procurement is insufficient given the record in this proceeding, AES Southland nevertheless supports SCE's and CAISO's proposal as an improvement over the procurement authority set forth in the Proposed Decision as well as a step, but only a step, in the right direction toward addressing local capacity needs in the Western LA Basin LCA.

Numerous parties, however, highlighted why the procurement authorization in the Proposed Decision may be insufficient. (*See* CAISO at pp. 3-6; SCE at pp. 11-15.) Among the issues raised in the Comments were the potential permanent loss of the San Onofre Nuclear Generating Station (CAISO at p. 2; Alliance for Nuclear Responsibility at pp. 8-10), the failure of preferred resources to materialize in the amounts anticipated by the Proposed Decision (CAISO at p. 2), and the potential that a distribution upgrade assumed to provide a substantial reduction of 2,000 to 3,000 MW of LCA need in the LA Basin may not, in fact, occur (Alliance for Nuclear Responsibility at pp. 3-8.) Should any one of these events come to pass, the Commission's failure to grant sufficient procurement authority to SCE would be catastrophic. As parties point out, insufficient procurement authority could lead to environmental consequences as aging OTC plants might be forced to continue operation, and to more costly procurement if SCE is required to procure necessary resources at the last minute, and to reliability risks for both the LA Basin and to San Diego Gas and Electric's service territory.

It is notable that even several parties generally supportive of the Proposed Decision seek to provide additional flexibility to SCE—a number of parties contended that the 1,000 MW floor for gas-fired generation should be modified or eliminated. TURN, for example, suggests that the Commission “should give SCE more flexibility in choosing the most effective and/or lowest-cost portfolio of resources by expanding this range of gas resource procurement.” (TURN at p. 3.) Though TURN advocates for reducing the procurement floor for gas-fired generation (to 750 MW or 500 MW) and correspondingly increasing the maximum for preferred resources, that argument applies

equally well to the cap on gas-fired procurement. The Commission should give SCE sufficient procurement flexibility to address an uncertain future, even if the Commission is confident that its vision of the future will ultimately be the correct one.

Numerous parties also addressed the Commission’s set-aside for 50 MW of storage. Several parties suggested that the 50 MW level of the Proposed Decision’s energy storage procurement requirement is inappropriately large, raising questions about energy storage’s cost-effectiveness and the readiness of energy storage technologies to meet LCR needs by 2021. (SCE at p. 6; IEPA at p. 8; TURN at p. 4) Over the past five years, AES Southland affiliates have deployed 72 MW of cost-effective energy storage in the United States and abroad, including an installation of 32 MW, and proposed additional projects of the type that would meet LCR needs in the 100 to 400 MW range. Energy storage technology is ready for deployment at a scale of 50 MW and above, and its inclusion in SCE’s LCR procurement would establish a foundation for energy storage deployment under a commercial structure similar to traditional capacity resources while promoting a diverse capacity portfolio in Southern California.

The cost-effectiveness concerns raised by parties (SCE at p. 5; PG&E at p. 4) related to the energy storage requirement are overstated. Energy storage technology costs have declined steadily, and are expected to continue to decline, since the 2009 approval of approximately \$7,00000 per kilowatt for the Tehachapi project that SCE cites (SCE at p. 5) in raising concerns about the “potentially substantial expense” of energy storage procurement.

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AES Southland reiterates its request that the Commission increase the procurement authority provided in the Proposed Decision, to allow SCE sufficient flexibility to meet an uncertain future. Failure to do so later, rather than now, will only increase the costs and environmental consequences of addressing local capacity needs in the Western LA Basin.

DATED: January 22, 2013

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