

**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 COMMENTS ON TRACK III RULES ISSUES

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In response to the March 21, 2013 Administrative Law Judge's Ruling Seeking Comments on Track III Rules Issues (Ruling), AES Southland, LLC (AES Southland) submits the following comments on the issues raised in the Ruling concerning long-term contract solicitation rules.

I. INTRODUCTION

AES Southland owns three gas-fired generation stations in Southern California Edison's (SCE) service territory: AES Huntington Beach, AES Redondo Beach, and AES Alamitos. These three facilities supply 3,818 megawatts of local capacity within the transmission-constrained Western sub-area of the LA Basin Local Capacity Area. These generating resources represent nearly 40% of the total net qualifying capacity in the Western sub-area.

SCE initially built Huntington Beach, Redondo Beach, and Alamitos as part of an integrated urban power delivery system. The construction of these generation stations avoided the need for substantial amounts of transmission required to meet the Western LA Basin loads from generation located outside the Western LA Basin sub-area. The concurrent planning of generation stations and transmission lines to minimize urban transmission requirements has created a high level of local dependence on these facilities.

Each facility employs once-through cooling (OTC) technology. These facilities are thus subject to the Water Quality Control Policy on the Use of Coastal and Estuarine Waters for Power Plant Cooling (OTC Policy) adopted by the California State Water Resources Control Board (Water Board). All three facilities are currently required to comply with the OTC Policy by December 31, 2020. In order to comply with the OTC Policy, AES intends to redevelop its resources by retiring the current operating units and replacing them with state-of-the-art gas turbine technology.

II. DISCUSSION

The Ruling sets forth a number of specific questions for parties in seven different subject areas. AES Southland's comments focus on issue No. 3: Long-term contract solicitation rules. AES Southland offers the following responses to the questions set forth in that section.

a. Should the Commission adopt a rule that explicitly indicates that existing power plants may bid upgrades or repowers into new-generation RFOs?

Upgrading or repowering existing power plants can provide significant benefits compared to greenfield development. In past long-term procurement plan proceedings, the Commission has concluded that preferences should be given to brownfield development, as it would encourage the retirement of aging and inefficient plants, and would take advantage of existing transmission and other existing infrastructure. (D.07-12-052 at 106; D.04-07-028 at 158-59.) The Commission has concluded that brownfield development should therefore be preferred over greenfield development.

However, the Commission should ensure that any upgrades or repowers that are bid into new generation RFOs result in additional incremental generation. New generation RFOs are intended to procure additional incremental generation, and allowing existing generation, already included in planning assumptions, to bid into new generation RFOs defeats the very purpose of those RFOs. Therefore, AES Southland proposes that a generation project not be permitted to bid into a new generation RFO if that generation

appears on the California Energy Commission's current California Power Plants Database of existing, operating plants in California as of the date of the RFO, except to the extent that the repower or upgrade would provide significant incremental capacity to the California Independent System Operator balancing authority area, either by expanding the generation capacity at a generation facility, or by extending the useful life of a generation facility, as a result of significant capital investment. General assumptions as to planned retirement dates should be developed as a metric to measure any extensions of useful life, similar to the planning standards developed in this proceeding and adopted in D.12-12-010.

For example, the Water Board's OTC Policy mandates that generation facilities currently using OTC comply with that Policy by a certain date (in most cases, by December 31, 2020). To the extent that a generation facility subject to the OTC Policy is upgraded or repowered to allow that facility to continue to provide generation and capacity after the compliance date, rather than being retired, that facility should be permitted to bid that generation and capacity into a new generation RFO.

AES Southland also notes that the definition of a "repower" is somewhat ambiguous in the context of suitability for bidding into new generation RFOs. In this context, repowers should not include the construction of new generation at existing generation sites. Such projects should be recognized as new generation, not "repowers," as that generation provides all the benefits of new generation, including greater efficiency, reduced emissions, and a useful life equal to new generation developed at greenfield sites. The construction of new generation at existing generation sites also provides the added benefit and reduced cost of utilizing existing transmission and other infrastructure, and those benefits should also be recognized in the bid evaluation and contract approval process, as explained in greater detail below.

- i. **How should the existing and upgraded components of the repowers be valued differently in an RFO? How can additions such as energy storage be added to existing facilities and be valued against other types of offers?**

AES Southland suggests that the Commission should not use different evaluation methodologies for determining the value of existing versus upgraded components of repowers in an RFO. Instead, it should strive to develop a generally applicable set of bid evaluation metrics that would allow the utilities, and the Commission, to quantify the benefits of upgraded or repowered generation as compared to new generation. For example, upgraded or repowered generation may provide locational benefits such as more effectively eliminating transmission constraints. However, upgraded or repowered generation may or may not offer the same efficiency or emissions benefits that new generation may provide. By creating evaluation metrics that quantify these types of criteria, the Commission can properly weigh the benefits of an upgraded or repowered project as compared to new generation.

With regard to storage, storage can provide for future capacity and flexibility needs in ways that complement gas-fired generation, reducing emissions and other environmental impacts and maximizing the utilization of the most efficient generation with the lowest environmental impacts. Energy storage can be instantly available with minimum generation constraints, can provide inexpensive peak energy, can lower system emissions, and is modular and scalable. Given these benefits, storage, including the addition of storage to existing generation facilities, should be considered as part of the solution to future capacity and flexibility needs. Like upgrades and repowers, however, storage additions should be evaluated pursuant to a general set of evaluation metrics that would allow the Commission and utilities to compare the benefits of storage additions to other solutions to energy and capacity needs.

- ii. **Should contracts for repowering or upgrading of facilities be restricted to the same length of contracts as new facilities? If not, please explain why there would be different contract lengths or different terms, and how these differences would be reflected in the valuation of the bids.**

To the extent that a repowered or upgraded facility is bidding into a new generation RFO, it should be restricted to the same length of contracts as new facilities. However, AES Southland suggests that RFOs provide a range of minimum and maximum acceptable terms that both new generation and repowered generation could bid into the RFO. Generation should be permitted to bid more than one term option into the RFO as well.

- iii. **Is there any information (additional or subtracted) from the RFO or application templates that would need to be changed? Would Energy Division review the RFO differently?**

As mentioned above, AES Southland suggests that the Commission require utilities to develop a robust list of evaluation metrics that should be expressly set forth in each RFO. In turn, those metrics should be evaluated in any application submitting a contract from that RFO to the Commission for approval. These evaluation metrics will provide a basis for the utility and the Commission to properly quantify the benefits of upgraded or repowered generation versus new generation. It will also ensure that the utility procures the resources necessary to meet needs and avoids procuring resources that do not meet needs or that are less effective at meeting needs, which can lead to unnecessary procurement. Furthermore, by expressly setting out the evaluation metrics in the RFO, the utility will better inform developers of the types of products that will meet utility needs, allowing developers to prepare better bids. As a result, the Commission will ensure that ratepayers will receive the maximum benefit for their dollars.

At a minimum, those metrics should include: (1) performance characteristics, including flexibility and efficiency; (2) transmission impacts, including effectiveness

factors for eliminating transmission constraints and deliverability or upgrade costs for new generation; (3) emissions costs, including compliance costs associated with greenhouse gas emissions compliance; (4) project viability, including permitting and construction risk; and (5) environmental costs and attributes. Only by quantifying these various costs and benefits can utilities and the Commission select the most cost-effective generation, and maximize ratepayer benefits.

For example, for local capacity needs that are the subject of the CPUC's procurement authorization to SCE, location can have a significant effect on the effectiveness of new generation to eliminate transmission constraints. Two hundred megawatts of generation at one location may eliminate transmission constraints, while 250 megawatts of generation may be necessary at another location to eliminate the same transmission constraints. In evaluating those two generation options, the Commission should recognize the added costs of an additional 50 megawatts of additional capacity, as well as additional impacts, environmental and otherwise, compared to obtaining generation at the more effective location. Utilities and the Commission already take some of these metrics into consideration in evaluating prospective bids and contracts. However, the development of a robust set of metrics, and inclusion of those metrics in both the RFO and the subsequent application(s) for approval of any contract, will ensure both that developers bid in resources designed to address specific needs and that the utility and the Commission properly evaluate potential options.

iv. How should cost allocation issues be addressed?

AES Southland has no comment on cost allocation issues at this time.

v. How would bilateral negotiations for upgraded or repowered facilities be reviewed?

AES Southland is willing to participate in whatever processes the Commission deems appropriate for long-term contract solicitation, negotiation, and review. AES Southland believes, however, that because the competitive solicitations process has been

undertaken in the past and has an established set of guidelines, templates, protocols, and procedures, it may be the preferable process. To the extent that bilateral negotiations are appropriate, or are necessary, AES Southland requests that the Commission provide clear guidance both to utilities and to developers as to when bilateral negotiations are appropriate, how such negotiations should be conducted, and the metrics or benchmarks, including price and structure, by which the Commission will evaluate any contracts resulting from a bilateral process. At a minimum, any resulting contract should be evaluated against the same metrics used to evaluate competitive solicitations. Any price benchmark should also take into consideration the risks assumed by independent power producers, including permitting and construction costs and timing, compared to utility-owned generation, in which the ratepayers assume those types of risks.

Though the utilities have negotiated bilateral contracts in the Renewable Portfolio Standard context, there is far less recent experience concerning the bilateral negotiation of thermal contracts, and as a result even more need for a clear, defined process for bilateral negotiation. By providing clear guidance to both utilities and developers as to when bilateral negotiations are appropriate, and how the Commission will review those contracts, the Commission will increase the likelihood that any bilateral negotiation efforts will result in contracts that are acceptable to the Commission.

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