

**INITIAL COMMENTS ON PROPOSED OPERATIONS STANDARDS AND  
GUIDELINES FOR GENERATORS OF  
RELIANT ENERGY COOLWATER, INC., RELIANT ENERGY ELLWOOD,  
INC., RELIANT ENERGY ETIWANDA, INC., RELIANT ENERGY  
MANDALAY, INC.,  
AND RELIANT ENERGY ORMOND BEACH, INC.**

**SUBMITTED TO THE**

**CALIFORNIA ELECTRICITY GENERATION FACILITIES  
STANDARD COMMITTEE**

**ON**

**SEPTEMBER 10, 2004**

**INITIAL COMMENTS ON PROPOSED OPERATIONS STANDARDS AND  
GUIDELINES FOR GENERATORS OF  
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**I. INTRODUCTION**

Reliant Energy Coolwater, Inc., Reliant Energy Ellwood, Inc., Reliant Energy Etiwanda, Inc., Reliant Energy Mandalay, Inc., and Reliant Energy Ormond Beach, Inc. (collectively or individually, “Reliant”), submit these initial comments on the proposed Operations Standards and Guidelines for Generators issued by the California Electricity Generation Facilities Standards Committee (the “Committee”).<sup>1</sup> Reliant welcomes the opportunity to work with the Committee on the standards-setting process.

**II. BACKGROUND**

Relevant to this proceeding, Reliant owns approximately 3,500 MW of operable gas-fired generation at five generating facilities located in Southern California. Reliant acquired these facilities in 1998 from the Southern California Edison Company (“SCE”) as part of the restructuring of California’s electric utility industry pursuant to AB 1890. From their acquisition in 1998 through Spring 2001, these facilities were maintained under a contract with SCE. Beginning in Spring 2001, Reliant began to operate and maintain the generating facilities using its own forces. Reliant has been and currently is involved in an ongoing process to refine and improve its maintenance, logging and operating procedures, and is

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<sup>1</sup> In submitting these initial Comments and otherwise participating in this proceeding, Reliant expressly reserves each and every, all and singular, its rights to challenge the legislation enacted in Chapter 19 of the 2000-2001 Second Extraordinary Legislative Session and the authority conferred on the California Public Utilities Commission (“Commission”) or Committee therein, as well as any requirement that the Commission may attempt to impose on Reliant pursuant to such authority or otherwise. Reliant’s submission of these initial Comments and its participation in this proceeding is purely voluntary, in no way implies its acceptance of, or acquiescence to, Commission jurisdiction over federally designated Exempt Wholesale Generators (“EWG”), and shall not operate as a waiver of any of the foregoing rights, or an admission that the Commission or the Committee possesses authority to impose any requirement on Reliant, its facilities or its operations, including, without limitation, authority to require Reliant to participate in this proceeding.

pleased to report that Reliant already operates in accordance with a majority of the proposed Operations Standards.

### III. COMMENTS

#### A. Procedural Observation.

1. While the draft Operations Standards document is dated August 23, 2004, it was not served until August 26, 2004 by electronic mail, thereby allowing only 9 business days for parties to (1) review approximately 100 pages of intricate and detailed regulations imposed upon a complex industry, (2) prepare initial comments, and (3) file those initial comments on the tenth day (Friday, September 10, 2004). In addition, only two business days are allowed for the review of all comments filed by other interested parties and the preparation of reply comments after the date initial comments are due (i.e., Monday and Tuesday to prepare reply comments, with the reply comments due to the Committee on Wednesday, September 15, 2004). Reliant encourages the Committee to recognize that working together with all parties involved brings diversity to the analysis that can only serve to strengthen the end product and thereby provide greater benefit to the citizens and ratepayers of California.

#### B. General Observations.

1. Single Violation: Operation Standards 1 through 11 are generally identical to 11 of the 18 Maintenance Standards. In a situation where a Generator engages in actions that are a violation of one of these 11 standards, it must be recognized that the violation is a single violation, and not two violations. Two violations cannot exist where the reason for the multiple violations is because the Committee decided to call the event a violation in multiple places. Language that will clarify this point can be inserted at page 8 following the end of line 7: *“In circumstances where facts exist that constitute a violation of one of the first 11 Operations Standards that also constitute a violation of a Maintenance Standard, the matter will be treated as one violation rather than two.”*

2. Commercially Reasonable Implementation of Guidelines: Throughout the proposed Operations Standards and Guidelines, obligations and guidelines are dictated to generation owners, generally without stated consideration of commercial reasonableness or addressing methods for recovering costs. By way of example, it is unlikely the Committee intends for a generator to spend \$30 million for an upgrade that results in a capacity increase of 100 KW. Furthermore, some of the guidelines recommended by the Committee are antiquated – replaced years ago by new technologies. As an example, the Boiler Efficiency test on page 33 is recommended every 18 or 24 months. However, modern technologies allow monitoring of these heat rates on 10-minute increments, thereby making the recommended boiler efficiency test an inefficient additional expense, duplicative of existing processes that accomplish the same result more efficiently. Such a requirement only serves to raise the cost of power to California ratepayers. Definitive language must be included in the preface to the proposed Operations Standards and Guidelines recognizing that in addition to operating in a manner that promotes a reliable and safe grid, generators are also required to make sound business decisions in order to reduce costs of electricity provided to California ratepayers as well as pay the bills associated with producing electricity provided to California citizens. While Guideline C under Operation Standard 18 recognizes that based upon the required testing, the GAO is only responsible for carrying out “prudent and economic changes to equipment, policies, routines, and procedures,” the remainder of the proposed Operations Standards document does not recognize the possibility that other suggested guidelines might not be commercially reasonable. If the Committee agrees that commercial reasonableness must play a role in the decision to make improvements at a generation facility, language to achieve this recognition can be inserted on page 8 at the end of row 22: *“Implementing the specific Guidelines suggested in this document might not be commercially reasonable. It is possible for a GAO to demonstrate adherence to any of the 28 Operation Standards without implementing any of the associated Guidelines. It is acceptable for a GAO to be in compliance with an Operation Standard by demonstrating methods of compliance other than those listed in the associated Guidelines, or that such Standard is not commercially reasonable.”*

### C. Comments on Standards and Guidelines.

1. Standard 14: Clearances. Standard 14 requires tagging of equipment taken out of service, and also requires conformance with Cal-OSHA Title 8, Lockout/Blockout requirements and methods. It is Reliant's understanding that there have been recent discussions at Cal-OSHA regarding the issue of whether tagging is an acceptable method of Lockout/Blockout. This Standard should be re-written to accommodate variations in the Cal-OSHA provisions referenced.
2. Standard 16: Participation by Operations Staff in Work Orders. The second sentence of Standard 16 begins: "Operations personnel monitor the progress of work orders...." Once operations personnel identify potential system and equipment problems and initiate work orders, monitoring of the progress becomes the responsibility of the Operations Manager or Supervisor. Once work begins on a work order, non-managerial personnel may only see a portion of the job, and not be in suitable positions to "monitor the progress of the work order." To more accurately reflect workflow at a generating facility, Reliant recommends replacing the first two words in the second sentence (page 29, line 26) from "Operations personnel" to "*Operations manager or supervisor.*"
3. Standard 18: Unit Performance Testing. Guideline C recognizes that only *prudent and economic* changes to equipment, policies, routines and procedures are required *after* the GAO performs testing. Guideline B requires performance testing listed in Tables I and II of this Standard. However, even conducting each item on this list of testing must be subject to the prudent and economic evaluation. For instance, performing a boiler efficiency test every 18 or 24 months is an inefficient use of resources when boiler efficiency is now monitored on a 10-minute increment with modern technologies. Requiring such a duplicative test will only increase costs, which ultimately raise the cost of electricity to California customers. This can be recognized by adding a sentence at the end of Guideline B that states: "*Testing is only necessary where there is no other process in place for collecting such data.*"
4. Standard 19: Emergency Grid Operations.
  - a. It is important to emphasize in Standard 10 that even though an emergency situation might exist, Generators are not expected to violate any laws or

regulations in emergency situations, even if asked to do so by the CAISO. This can be accomplished by an addition after the first sentence of Standard 19 (page 35, line 7) that states: *“In no instance is a GAO expected to violate any law or regulation.”*

- b. Guideline F to Standard 19 requires generators before and during periods of stress or shortage to take actions to resolve regulatory issues and receive regulatory relief in order to maintain generating availability and capacity. This requirement should be limited to taking *“commercially reasonable actions.”* No one buys a car without looking at the sticker. No one buys a meal without looking at a menu. The decision to operate a generation facility in the State of California requires some ceiling regarding the economic risks associated with operating in California. An appropriate balance is *“commercially reasonable.”*
  - c. Standard 19 should expressly recognize, *“In no instance is a GAO expected to run equipment when running such equipment will damage that equipment or place the safety of Generator personnel or the public at risk.”*
5. Standard 20: Preparedness for On-site and Off-site Emergencies. Guideline B (5) requires the use of protective equipment and clothing for employees and contractors. It is a common business practice for a generator to require the contractor to provide the protective equipment and clothing for the contractor’s employees, rather than the generator assuming the liability for injuries to the contractor’s employees. Guideline B (5) should allow the generator to require Contractors to provide the contractor’s employees with protective equipment and clothing. A second sentence can be added to Guideline B (5) (page 37, line 34) that states: *“In the case of contractors, it is acceptable for the GAO to require the contractor to provide protective equipment and clothing.”*
  6. Standard 21: Plant Security. Drawing an analogy from tort law, the proposed Operations Standards and Guidelines currently read as though creating a principle of strict liability for generators. There is no upper bound on the amount of effort a Generator is expected to invest. For example, Reliant has no intrusion detection systems in place besides the front gate. Based upon the broad wording of this standard, any security event that occurs at a generating facility can be judged ex

post facto as a failure to meet Standard 21 simply because the event occurred. In this example, even if the generating facility had a 20-foot tall, 6-foot thick concrete wall built at a 150 yard perimeter around the entire generating facility, the occurrence of a plant security event could be used as evidence of a violation of this Standard because “something more should have been done.” This can be corrected by adding the following italicized words to the Standard: “To ensure safe and continued operations, each GAO protects the security of the plant, its personnel, operating information and communications *according to industry standards and WECC Standards*, stepping up security measures when necessary.”

7. Standard 22: Readiness.

- a. No contingency plan is fail-safe. The risk of a terrorist attack on a pipeline or a major accident on the only freeway to a plant that causes delays in personnel arriving at the generating facility cannot be negotiated away. Standard 22 must include a *force majeure* provision. This can be accomplished by inserting the following underlined words into the first sentence of the standard: “Except during necessary maintenance outages, a *force majeure event*, or when a change in plant status has been granted....”
- b. Guideline C states that where storage facilities at the site are not adequate to ensure full load operations for an “indefinite time,” contingency plans must be in place to ensure that adequate fuel and necessary commodities can be delivered to the generating facility. Similarly, Guideline D requires delivery of fuel and necessary commodities for an “indefinite time.” Requiring such contingencies for an “indefinite time” is far beyond reasonable and far beyond the industry standard. In addition, costs for such certainty are far beyond what any ratepayer would want to bear. If the Committee desires to ensure such contingencies for an indefinite time, the Committee should provide a mechanism for cost recovery for generators to secure such additional services. Accordingly, a new sentence should be added at page 39, line 5 to read: “*In accordance with this Standard, the GAO may recover costs attributable to ensuring its facilities have adequate fuel and necessary commodities for an indefinite time through a cost recovery mechanism acceptable to the GAO.*” If passing such costs to ratepayers is not the

preferred approach of the Committee, then the Guidelines referencing “indefinite time” should be revised to a time period consistent with industry standards. If this alternative path is chosen instead of specifying the means of associated cost recovery, the Committee should revise Guidelines C and D to read as follows:

“C. Where storage facilities at the site are not adequate to ensure full load operations for an indefinite time period consistent with industry standards, contingency plans are in place to ensure that adequate fuel and necessary commodities can be delivered to the generating facility.

“D. Where the delivery of fuel and necessary commodities to the generating facility is vulnerable to an interruption in electricity, natural gas, labor actions, etc. (e.g., fuel pipelines and pumps vulnerable to rolling brownouts and blackouts, storms, labor strikes, etc.), contingency plans are in place to ensure that adequate fuel and necessary commodities can be delivered to the generating facility to ensure full load for an indefinite time period consistent with industry standards.”

8. Standard 23: Notification of Changes in Plant Status. When adding together (1) the 90 day notice required by this Standard, (2) 30 days prior to this 90 day notice before which the generator must submit a report, (3) the time necessary to prepare a report, and (4) the time necessary for generators to contemplate internally a plant change of status, the effect of the draft Operating Standards is to require a generator to begin considering a change in status 5 to 6 months prior to the change in status taking place. In practice, these discussions, decisions and changes in status must occur much more quickly. Reliant proposes that Standard 23 remain unchanged (i.e., providing the Commission and CAISO notice of a change in status at least 90 days in advance). However, Reliant proposed moving the period for submitting the requested report outlined in Standard 26 to within the 30 days after the 90 day notice is provided under Standard 23. This allows the generator to be more sensitive to the market conditions at the time of the contemplated change in status and reduces the risk of making a premature decision to mothball or retire a unit



when later market conditions might change, thereby justifying leaving the generator in service.

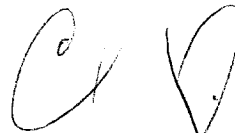
9. Standard 25: Transfer of Ownership. Standard 25 requires a generator to secure the agreement of a new owner to maintain the generator's operation, maintenance and logbook plans, policies and practices after a change in ownership until such time as the new owner makes updated filings to the Commission. Such a commitment is of no legal use. Reliant will follow the laws and regulations in place until the transaction is completed. After such a time, a seller has no enforcement authority over how a new owner manages and operates the generating facility and the buyer has made no commitment to the Commission. Reliant proposes deleting the second sentence in Standard 25, such that the standard now states: "*The GAO notifies the Commission and the CAISO at least 90 days prior to any change in ownership.*"
10. Standard 26: Planning for Unit Storage. As discussed above under Standard 23, Reliant proposes to require the report discussed in Standard 26 to be due within 30 days after the Generator provides the 90-day notice requires in Standard 23.
11. Standard 28: Equipment and Systems.
  - a. General Observation – Standard 28 consists of 48 pages of very specific required equipment and systems at each generating facility. For old units that were built without these systems at a time when these systems were not industry standards, the overall cost to upgrade systems in accordance with Standard 28 might have the undesired effect of accelerating the pace of the retirement or mothballing of old units because the cost of upgrades required under Standard 28 might outweigh the necessary rate of return required to justify leaving the generating facility in service. As a specific example, the cost to bring fuel delivery systems in compliance with item F in Standard 28 (page 56) can be significant for plants not currently in compliance. In addition, these are already grandfathered by law. To best serve the citizens of the State of California, the following sentence should be added to encourage units to stay online rather than retire or mothball prematurely under the financial strain if systems are needing upgrades under Standard 28: "*If a generating facility lacks any of the systems or equipment discussed in the*

*Standard, the GAO will evaluate whether the upgrade required to meet the obligations of this Standard are commercially reasonable. Equipment and systems that are not commercially reasonable are not required under this Standard. Commercial reasonableness is evaluated both by looking at each individual system or piece of equipment lacking under this Standard as well as the aggregate of systems and equipment lacking under this Standard.”*

#### IV. CONCLUSION

Reliant appreciates the effort that went into drafting the proposed Operations Standards and Guidelines. As noted in the background to Reliant’s detailed comments, many of the proposed requirements reflect current practices. Reliant respectfully submits, however, that changes should be made to the proposed requirements, as described, above. Reliant looks forward to working with the Committee to the extent permitted in developing appropriate and useful Operations Standards

Respectfully submitted,



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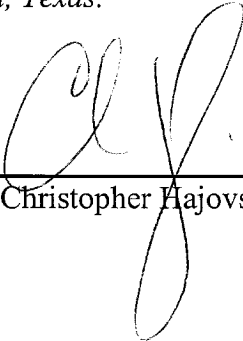
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Dated: September 10, 2004

**CERTIFICATE OF SERVICE**

I hereby certify that I have this day served a copy of the **INITIAL COMMENTS ON THE PROPOSED OPERATIONS STANDARDS OF RELIANT ENERGY COOLWATER, INC., RELIANT ENERGY ELLWOOD, INC., RELIANT ENERGY ETIWANDA, INC., RELIANT ENERGY MANDALAY, INC., AND RELIANT ENERGY ORMOND BEACH, INC.**, on the electronic service list maintained for this proceeding.

*Executed on September 10, 2004 at Houston, Texas.*



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J. Christopher Hajovsky