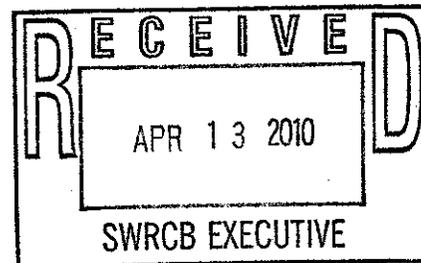




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April 13, 2010

Ms. Jeanine Townsend
Clerk to the Board
State Water Resources Control Board
1001 I Street, 24th Floor
P.O. Box 100
Sacramento, CA 95812-0100



RE: *Proposed Statewide Water Quality Control Policy on the Use of Coastal and Estuarine Waters for Power Plant Cooling*

Dear Ms. Townsend:

AES Southland (AES-SL) appreciates the opportunity to provide additional comments on the Board's proposed "Water Quality Control Policy on the Use of Coastal and Estuarine Waters for Power Plant Cooling" (Draft Policy). AES-SL is the owner of the largest fleet of once-through-cooled (OTC) generating facilities in California. 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% of Southern California Edison's peak demand¹, 33% of the total installed capacity in the LA Basin LCR and 40% of the CAISO's projected LCR need in 2011².

We want to acknowledge the progress that has been made over the past several years as the Water Board staff, the Board and many interested stakeholders have participated in the regulatory process. While successive revisions of the Draft Policy have resulted in improvements from draft to draft, the most recent version released by staff on March 22,

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. The CAISO's draft report can be found at <http://www.aiso.com/2776/2776d22a41760.pdf>

2010 still has a few remaining deficiencies. We will not reiterate our less significant concerns here, since we have already provided detailed comments in previous submissions. Instead, our comments will focus on our most significant remaining concern which is the compliance timeline for the AES-SL facilities.

First, there are several elements with respect to compliance with the Draft Policy that we fully agree with. These include:

- The stated objective of using this policy to promote the replacement of the aging coastal gas-fired fleet. AES-SL supports this objective and intends to comply with the policy by ultimately replacing its existing fleet with new technology that does not utilize OTC.
- The explicit acknowledgement that the compliance approach relies on the CPUC's biennial Long Term Procurement Plan (LTPP) proceedings to facilitate replacement or repowering of existing infrastructure.
- The assumption that even under the best circumstances, approximately seven years are needed from the initiation of the LTPP to commercial operations of a new facility.
- The understanding that due to the number of plants affected, efforts to replace or repower the OTC plants need to be phased.
- Recognition that the Los Angeles region presents a more complex and challenging set of issues and therefore more time is needed to study and implement replacement infrastructure solutions.

As illustrated, there is plenty that AES-SL does support, however, we do not agree with the assumption that almost all of the generation from the Los Angeles region facilities, including AES-SL's entire fleet, can be replaced or repowered through the same 2012 LTPP proceeding. The following text is taken from Section 1.K of the Draft Policy which refers to the timeline for replacing the facilities in the Los Angeles region:

"For the Los Angeles region, which would be addressed in the 2012 LTPP, total elapsed time is expected to begin in 2012 and end in 2020."

The Implementation Schedule in Table E.1 supports this assumption by stating that:

"Power plants in CPUC 2012 LTPP Procurement Cycle in compliance by 12/31/2020: Huntington Beach, Redondo, Alamitos, Mandalay, Ormond Beach [Section 1.J]."

To put this in perspective, this requirement would combine eighteen generating units and over 6,200 MWs of capacity into the same Southern California Edison procurement cycle. In addition, AES-SL represents 4,190 MWs of this capacity and fourteen of the eighteen units. There are several reasons why this requirement is not practical.

- AES-SL intends to comply with the policy by doing exactly what almost all of the interested stakeholders want. That is, we intend to replace or repower our existing fleet with units that do not use OTC. However, with all of our facilities on the same schedule, this is not possible. Setting aside the significant commercial, financial and logistical challenges of a task of this magnitude, we do not have the land available to allow us to construct replacement infrastructure for fourteen units and 4,200 MWs simultaneously without first shutting down existing plants and demolishing them. On the other hand, we do have enough available land at each of our sites to replace the infrastructure in phases without any significant break in commercial operations.
- It is inconsistent with the staff's assertion that efforts to replace or repower the OTC plants need to be phased. The proposed schedule has over 90% of the coastal gas fleet in SCE's service territory on the same compliance cycle with no phasing at all.
- It concentrates a huge amount of risk on SCE since such a large portion of their existing supply base would be in the same procurement cycle and being replaced at the same time. This additional risk would need to be factored in to the development and procurement process and result in higher costs for ratepayers.
- Requiring such a large amount of generating infrastructure to be replaced or repowered at the same time would make it very challenging to procure the needed labor resources. Often when there is a labor shortage, costs escalate and quality can suffer as project developers must go deeper into the resource pool. The higher cost of labor and likely project delays could all contribute to higher costs to ratepayers. This is especially true when you consider the amount of renewable construction that is likely to be occurring at the same time.

AES-SL's objectives are similar to the Water Board's in that we support a policy that is reasonably feasible to execute and fairly balances the impact to the California economy, environmental protection and the need to maintain a reliable supply of electricity. I believe the staff and the Water Board are striving to meet the same objectives.

With this in mind, AES-SL can support the Draft Policy if the compliance schedule for our facilities is phased so that we can execute our infrastructure replacement plan via more than one LTPP procurement cycle and stage our construction. To accomplish this, we urge the Board to adopt the following changes to the implementation schedule that is outlined in Table E.1:

	Milestone	Responsible Entity/Party	Due Date
28	CPUC 2012 LTPP Procurement Cycle – Power Plants Huntington Beach, Redondo and Alamitos 50% in compliance [Section 1.J]	Owner/operator	50% reduction* in IM&E impacts by 12/31/2020
29	CPUC 2014 LTPP Procurement Cycle – Power Plants Huntington Beach, Redondo and Alamitos 75% in compliance [Section 1.J]	Owner/operator	75% reduction* in IM&E impacts by 12/31/2022
32	CPUC 2016 LTPP Procurement Cycle – Power Plants Huntington Beach, Redondo and Alamitos in full compliance [Section 1.J]	Owner/operator	93% reduction* in IM&E impacts by 12/31/2024

* A methodology for determining the baseline from which IM&E reductions will be measured needs to be defined, but this is also true for determining compliance with Track 2 by using flow reductions.

The schedule above is more consistent with the likely and more feasible infrastructure replacement process. It would also spread out construction, which would ease resource demands and diversify SCE's risk as opposed to concentrating all their OTC replacement procurement in a single procurement cycle. It allows for adjustments in the amount of capacity being procured to replace OTC plants by using more than one procurement cycle and provides flexibility to respond to changing market and economic conditions as well as fluctuations in the pace of renewable construction. Finally, it would allow more time for technological improvements in energy storage, smart grid, plug-in vehicles, etc., which may ultimately reduce the need for gas-fired generation.

In closing, AES-SL can support the Draft Policy if the compliance schedule for our facilities is adjusted as proposed. Alternately, if the Board prefers to phase the compliance by establishing a percentage of the MW capacity at each AES-SL facility that must achieve compliance by specific dates rather than specifying compliance in terms of IM&E reductions, we would support this concept as well.

Once again, AES-SL greatly appreciates the opportunity to provide these comments and looks forward to the Board meeting on May 4th. Please do not hesitate to contact me at (562) 493-7855 with any questions.

Kindest regards,



Eric Pendergraft
President
AES Southland

cc: Members of the State Water Resources Control Board
Linda Adams, Secretary for CA Environmental Protection Agency
Cindy Tuck, Undersecretary, CA Environmental Protection Agency
Dan Pellissier, Assistant Secretary for Energy Policy Coordination for CA EPA
Michael Chrisman, Secretary for Resources Agency
Karen Douglas, Chair, CA Energy Commission
James D. Boyd, Vice Chair, CA Energy Commission
Jeffrey D. Byron, Commissioner, CA Energy Commission
Arthur H. Rosenfeld, Commissioner, CA Energy Commission
Julia Levin, Commissioner, CA Energy Commission
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