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January 9, 2013

Thomas Howard
Executive Director
State Water Resources Control Board
1001 I Street
Sacramento, CA 95814

**RE: Implementation Plan - Request for Additional Information for Huntington Beach
Generating Station, Alamitos Generating Station and Redondo Beach Generating Station**

Dear Mr. Howard,

In response to your December 11, 2012 letters requesting additional information and an update to our Implementation Plans for AES Southland's (AES-SL) three ocean water cooled generating plants, we are respectfully requesting additional time to comply with the subject requests. As you have noted in your letters, AES-SL has made significant progress in refining and advancing our original Track 1 compliance plan, including the submission of Applications for Certification (AFC) to the California Energy Commission for the development of new non-ocean cooled generating units at both our Huntington Beach and Redondo Beach Generating Stations. However, new information has come to our attention since the receipt of your letters which has the potential to significantly impact our proposed compliance path with the Statewide Water Quality Control Policy on the Use of Coastal and Estuarine Waters for Power Plant Cooling (Policy). Until the impacts of this new information are resolved, AES-SL will be unable to provide the requested information and updates to our Implementation Plans for the Huntington Beach Generating Station, Alamitos Generating Station and Redondo Beach Generating Station.

Recent developments in proposed regulatory action by the South Coast Air Quality Management District (SCAQMD) and the proposed decision of Administrative Law Judge (ALJ) David M. Gamson in the California Public Utilities Commission's Long Term Procurement Planning process have caused AES-SL to reconsider the method and timing of compliance with the Policy.

As stated in our Implementation Plans submitted to your agency on April 1, 2011:

The key assumptions for AES-SL's phased retirement and repowering program as part of the OTC Implementation Plan include the following:

- *Reliance on South Coast Air Quality Management District (SCAQMD) Rule 1304(a)(2) to comply with all necessary emission credits for the repowered units – AES-SL will not proceed with its repowering efforts at its facilities without the full utilization of this Rule. The potential cost of emission offsets for AES-SL's facilities would render the repowering program commercially infeasible.*
- *Contracted capacity - Non-recourse project financing supported by long-term contracts through either the Southern California Edison (SCE) Request for Offer (RFO) process or negotiated and transparent cost-plus power purchase agreements (PPAs) as mandated under AB 1576. AES-SL's business model does not generally support merchant power market risk, so all potential repowering projects will have to be supported by long-term contracts or PPAs.*

On December 19, 2012 the SCAQMD posted a Notice of Public Consultation on their newly proposed Rule 1304.1 which would charge qualifying electrical generating facilities (EGFs), utilizing Rule 1304(a)(2) an annual fee for the use of the offset exemption established by the rule. The summary of the proposed rule and fee, as noticed by the SCAQMD, is provided below:

- Proposed Rule 1304.1 would require EGFs seeking to replace an electric utility steam boiler (EUSB) by relying on AQMD internal offset accounts to pay an annual offset fee for use of the offset exemption pursuant to Rule 1304(a)(2) for offsets encumbered/obtained for each of the pollutant(s) (PM10, NOx, SOx and/or VOC).
- The total annual fee will be based on the total quantity of offsets utilized from the AQMD internal offset accounts multiplied by the annual fee rate for each pollutant needed. The annual fee rate for each pollutant is proposed to be derived by annualizing the sales weighted average Emission Reduction Credit (ERC) cost in the open market for the most recent five years, adjusted annually by Consumer Price Index.
- EGFs would be required to pay the annual fee for the first five years prior to permitting of the new replacement unit(s), and each year thereafter during any part of which the new replacement unit(s) remain in operation.
- A limited refund opportunity is proposed to be provided for EGFs that cancel their permit prior to commencing operation.
- Fees collected under the rule will be used to fund air quality improvement projects consistent with the Air Quality Management Plan.

Based on our calculation of the fee required by the SCAQMD to utilize Rule 1304(a)(2) and advance the AES-SL repower plan, the total annual fee required for AES-SL to proceed with the redevelopment of the Huntington Beach Generating Station, Alamitos Generating Station and Redondo Beach Generating Station would be in excess of \$30,000,000 per year, with an advance payment of over \$150,000,000 required to obtain the necessary air permits from the SCAQMD. The proposed fee structure is a significant divergence from our original financing assumptions for redevelopment of our sites and would be untenable from an AES business risk perspective. It would prevent AES-SL from pursuing development activities for new non-ocean cooled generation at our three southern California facilities and our original method of compliance with the Policy as described in our Implementation Plans.

On December 21, 2012 ALJ David M. Gamson released his Track 1 proposed decision in the Public Utilities Commission's 2012 Long Term Procurement Planning process authorizing long-term procurement for local capacity requirements. The proposed decision authorized SCE to procure a minimum of 1,000 MW and up to 1,200 MW of new natural gas fired capacity in the Los Angeles local reliability area. This proposed decision presents a significant divergence from our original Implementation Plan assumptions and will require AES-SL to reassess our overall plan.

Considering these latest developments and the obvious impacts to electrical reliability planning in southern California and our own business planning, AES-SL is unable to respond to the State Water Resources Control Board's request for additional information at this time. We respectfully request at least a two month extension to March 31, 2013 to respond to the information requested so we can evaluate the impact of the SCAQMD's rule change and the ALJ's decision on our business plans and compliance path with the Policy. The extension of time until the end of March is predicated on reaching a final resolution with respect to SCAQMD's proposed Rule 1304 changes by March 1, 2013. A SCAQMD Governing Board meeting has been tentatively scheduled for March 1, 2013 where a final decision of the proposed fee rule would be made.

If you have questions regarding this submittal, please contact Stephen O'Kane at (562) 493-7840.

Sincerely



Eric Pendergraft
President
AES-Southland

**cc: Caren Trgovcich, California Water Resources Control Board
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