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November 8, 2018

Eileen Sobeck
Executive Director
State Water Resources Control Board
1001 I Street
Sacramento, CA 95814

RE: Grid Reliability Information Requests for the Redondo Beach Generating Station

Dear Ms. Sobeck,

This letter is in response to your September 12, 2018 correspondence requesting the latest information for the AES Redondo Beach generating station (AES-RB) Implementation Plan (IP). AES-RB and AES Southland Energy, LLC (AES) are subsidiaries of the AES Corporation.

As we have previously communicated, there are a number of significant assumptions that the State Water Resources Control Board must consider when implementing the statewide *Water Quality Control Policy on the Use of Coastal and Estuarine Waters for Power Plant Cooling* (OTC Policy), while continuing to ensure grid reliability. Many of these assumptions are dependent upon information, conditions and decisions outside of the control of AES. As an independent generator providing contracted capacity to the local utility, Community Choice Aggregators (CCAs) or directly to the California Independent System Operator (CAISO), AES is not responsible for evaluating and maintaining grid reliability. However, AES is ready and prepared to respond to grid reliability needs as determined by the utility, local area balancing authority (CAISO), the California Public Utilities Commission (CPUC) and the Statewide Advisory Committee on Cooling Water Intake Structures (SACCWIS) should such a need arise. Without **first** obtaining specific direction or receiving a request to enter into contracts for AES generating capacity, AES will not be requesting any extension to the current OTC compliance dates.

In your letter, you have stated that AES-RB should allow adequate time for the State Water Board to process a request for an extension of the compliance dates set forth in the OTC Policy. As there are currently no conditions under the control of AES-RB which would necessitate such a request, AES-RB asserts it is the sole responsibility of the SACCWIS, under the authority of the State Water Board, to make an assessment of grid reliability and resiliency, and to recommend OTC compliance date extensions in a time frame that will allow adequate time for your own agency to act. Such a schedule must consider not only an amendment to the OTC Policy, but also adequate time for the state's Regional Water Quality Control Boards to amend or reissue the NPDES permits associated with the affected facilities. Since all of the AES facilities, including AES-RB, have a December 31, 2020 OTC compliance date, AES strongly urges the State Water Board and SACCWIS to make their grid reliability assessment and recommendation for OTC Policy amendments for the AES facilities in the next annual SACCWIS report to be published in the spring of 2019. AES believes there will not be adequate time to amend the OTC Policy, negotiate contracts with the grid operator and/or utility, issue new or amended NPDES permits and physically prepare the affected generating units for extended operating life without a decision from your agency in 2019.

Before addressing the State Water Resources Control Board's specific questions, AES provides the following general comments which may help to simplify the understanding of the IPs. AES currently intends to comply with the Statewide Water Quality Control Policy on the Use of Coastal and Estuarine Waters for Power Plant Cooling (OTC Policy) by utilizing Track 1 and shutting down and permanently retiring all generating units at AES-RB, AES-Huntington Beach (AES-HB) and AES-Alamitos (AES-AL), per the compliance dates included in the OTC Policy. AES does not plan to retrofit any of the existing units with alternate cooling technologies to comply with Track 1, or utilize any operational or technical measures to comply with Track 2. In the event additional new generating resources are needed in order to maintain a reliable supply of electricity, AES intends to provide these new resources through competitive solicitations issued by the utility(s) or CCAs and these resources would be constructed on one or more of the existing sites, would utilize air cooling technology, and would not be subject to the OTC Policy.

With respect to OTC generator retirement timing, Resource Adequacy contracts are in place through September 30, 2019 for AES-RB unit 7, and through December 31, 2019 for AES-RB units 5, 6 and 8. In addition, a portion of AES-RBs RA capacity has been contracted through December 31, 2020 and AES expects to eventually contract all of the available capacity through 2020. All AES-RB generating units will be permanently retired at the end of 2020 in compliance with the OTC Policy. AES-AL and AES-HB were awarded Power Purchase Agreements (PPA) for nominal 640 MW and 644 MW capacity combined-cycle gas turbines (CCGTs) with PPA Initial Delivery dates of June 1, 2020 and May 1, 2020, respectively, which will require the shutdown of one of the existing AES-RB units prior to the OTC Policy compliance date to satisfy South Coast Air Quality Management District rules for new emission sources.

Answers to your specific questions in your letter are provided below.

1. Has any of the information¹ above changed?

Yes. AES-RB units 5, 6 and 8 have secured Resource Adequacy contracts through December 31, 2019 and expect to be fully contracted through December 31, 2020.

2. What is the status of the AFC suspension?

AFC Docket No. 12-AFC-03 remains suspended at the California Energy Commission (CEC). No further updates have been provided to the CEC by either AES or the City of Redondo Beach. The AFC will remain suspended until either the Applicant (AES), the CEC siting committee assigned to the project, or other party with standing makes a motion to reopen or end the proceeding entirely. AES expects to terminate the AFC process if the sale of the AES-RB property closes.

3. Are there any contingencies that would prevent AES-SL from meeting its OTC Policy compliance date?

An unforeseen delay in construction or commissioning of the new replacement generation at AES-AL and AES-HB could prevent AES from meeting its OTC Policy compliance dates. The retirement of AES-RB units and subsequent compliance with the OTC Policy deadlines for the facility are contingent upon compliance with the CPUC's General Order 167, Appendix E which requires AES-RB to notify the CPUC in writing at least 90 days prior to a change in the long-term status of a generating unit (Operating

¹ State Water Resources Control Board, September 12, 2018 letter to Jennifer Didlo

Standard 23), and to maintain said generating unit in readiness for service until after the CPUC and the Control Area Operator affirmatively declare that the generating unit is unneeded (Operating Standard 24). The shutdown of existing AES-RB OTC generating units and start-up of new generating units planned for AES-AL and AES-HB is dependent on compliance with General Order 167 and the requirements of the South Coast Air Quality Management District Rule 1304a(2). Should an unforeseen event cause the delay of construction or commissioning, it is unlikely the CPUC and CAISO would declare the existing OTC generating units unneeded.

4. Does AES-SL plan to retire Redondo Beach Unit 7 earlier than September 30, 2019, or Redondo Beach Units 5, 6, or 8 earlier than December 31, 2020?

No. AES has secured contracts for the available generating capacity at AES-RB through to December 31, 2019 and is already partially contracted through December 31, 2020.

5. Is there any information from the negotiations with the City of Redondo Beach or any other information that the State Water Board should be made aware of?

AES has sold two parcels of the AES-RB site and expects to close on the sale of the remaining property in 2019. Terms of any sale agreement with a buyer will allow AES-RB to lease back the property and continue to operate the generating facility for as long as these units are needed. Should the generating capacity at AES-RB be needed to maintain electrical grid reliability beyond December 31, 2020, AES-RB will have the right to continue a lease with an eventual buyer of the property and continue operating the facility.

It is AES-RB's current assumption that Units 5, 6, 7 and 8 will be shut down and permanently retired on September 30, 2019 (Unit 7) and December 31, 2020 (Units 5, 6 and 8). Unit 7 will be shut down to enable the new CCGT at AES-HB to be placed in service. If there is a possibility that AES-RB Units 5, 6 or 8 will be needed beyond their current December 31, 2020 OTC Policy compliance date, AES-RB needs to know this well in advance. There must be sufficient time to negotiate a contract and secure a revenue stream so that the necessary staffing retention program can be implemented and the units are maintained at a level that supports continued reliable operations beyond December 31, 2020. Without this financial certainty, it will be virtually impossible to retain the necessary expertise to continue operating the units and certain maintenance will be deferred or not performed based on the expectation that the units will be retiring December 31, 2020.

In addition, an extension of OTC compliance dates and amendment to the OTC Policy for one or more generating units at the AES-RB generating station would not address the industrial discharge limits established in the facility's NPDES permit. AES-RB discharges OTC effluent into a water body subject to the *Water Quality Control Plan for the Coastal Watersheds of Los Angeles and Ventura Counties* (Basin Plan) and the *Water Quality Control Plan for Control of Temperature in the Coastal and Interstate Waters and Enclosed Bays and Estuaries of California* (Thermal Plan). These water quality plans establish limits on the discharge of DDT, copper, nickel, pH and water temperature from AES-RB, which cannot be feasibly met through any sort of water quality control measure, engineering control, retrofit or operational change. The Los Angeles Regional Water Quality Control Board has issued AES-RB a Time Schedule Orders (TSO) which requires the facility to come into compliance with the subject water quality and thermal limits by December 31, 2020, the same schedule as the current OTC compliance deadline. Since the water quality of the OTC intake at AES-RB already exceeds the discharge limits for water quality, and the temperature limits established by the Thermal Plan are also

far below the discharge temperature of these OTC units, there is no feasible way to comply with the NPDES permit limits beyond ceasing operations. AES-RB will require both an extension to the OTC compliance dates and a new TSO should any of the OTC generating units at the facility be needed beyond December 31, 2020 to ensure grid reliability.

AES is committed to providing safe, reliable power and generating capacity while progressing as quickly as possible to comply with the OTC Policy. AES has participated in the CPUC's Long Term Procurement Planning process, timely filed and received all applicable permits for replacement generating capacity, reduced OTC flows significantly, responded to the contracting opportunities presented by the local utility, and invested hundreds of millions of dollars in new construction at our sites. However, the electricity planning, contracting and development process in California is extremely lengthy and considerable uncertainty still exists in California's plans for maintaining electrical reliability in southern California beyond the current OTC compliance dates. Unless the current State and Regional Water Board regulatory and permitting issues are addressed and a suitable contracting mechanism developed for the continued operation of AES-RB generating units within a reasonable time frame, then none of the existing AES-RB units will be available as a potential electrical resource beyond December 31, 2020. As we have offered multiple times to the State Water Board, AES wishes to extend an invitation to your organization to meet with the SACCWIS and explain in detail the constraints AES and California is facing to maintain electrical reliability under the current regulatory structure, from an actual owner and operator of the generating resources. We hope to hear from you and your organization soon so you may understand the constraints and schedules we've described above in more detail.

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

Sincerely,



Ken Zagzebski
President

AES Southland Energy, LLC