

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Consumer Protection and Safety Division
Electric Generation Performance Branch

RESOLUTION EGPB-12
May 26, 2011

RESOLUTION

Resolution EGPB-12. AES Huntington Beach, LLC and Edison Mission Huntington Beach, LLC propose to permanently retire Huntington Beach Generating Units 3 and 4 no sooner than November 1, 2012.

PROPOSED OUTCOME: Grant request for closure.

Estimated Cost: None.

SUMMARY

AES Huntington Beach, LLC and Edison Mission Huntington Beach, LLC request Commission approval to permanently retire Huntington Beach Generating Units 3 and 4. This resolution approves the request.

BACKGROUND

The Huntington Beach Generating Station (HBGS) is a natural gas-fired steam electric generating facility located in Huntington Beach, CA, owned and operated by AES Huntington Beach, LLC (AES-HB). The facility occupies 83 acres of a 106-acre parcel along the Pacific Ocean, directly across the Pacific Coast Highway from Huntington State Beach. HBGS currently operates four steam generating units (Units 1-4). Units 1 and 2 utilize boiler technology and have a combined total net qualifying capacity of 451.55 MW. Units 3 and 4 utilize Once-Through-Cooling technology and have a combined total net qualifying capacity of 452 MW. Units 1 and 2 became commercially operational in 1958, Units 3 and 4 in 1960.

In General Order 167, the California Public Utilities Commission (“Commission”) adopted Operation Standards for Power Plants. Operation Standard (OS) 25 requires Generating Asset Owners (GAOs) to notify the Commission and the Control Area Operator in writing at least 90 days prior to any change in ownership. OS 24 requires

GAOs to “obtain an affirmative declaration from the Commission prior to closing a generating facility or making any long-term changes in operating status.” The GAO must also confirm with the Control Area Operator that the generating facility is no longer needed for reliability.

On March 14, 2011, AES-HB notified Consumer Protection and Safety Division (CPSD) of its intent to transfer ownership of HBGS Units 3 and 4 to Edison Mission Huntington Beach, LLC, an indirect wholly-owned subsidiary of Edison Mission Energy (EME).

Following the transfer of HB Units 3 and 4, AES-HB will remain as the operator and the seller of the electrical energy production and Resource Adequacy attributes. AES-HB will lease the Unit 3 and Unit 4 boilers, steam turbine generators and related equipment from EME.

On March 17, 2011, AES-HB filed an application with the Federal Energy Regulatory Commission (FERC) requesting authorization for a disposition of jurisdictional facilities pursuant to section 203(a)(1)(D) of the Federal Power Act (FPA). The application garnered no comments, protests or interventions. On April 15, 2011, FERC authorized the transfer of assets from AES-HB to EME and subsequent lease arrangement.

On April 7, 2011, AES-HB and EME jointly notified Richard Clark of their intent to retire HBGS Units 3 and 4 on or after November 1, 2012.

EME plans to build and operate a new 500 MW gas turbine peaking unit, the Walnut Creek Energy Park (“Walnut Creek”) in the City of Industry. EME cannot operate Walnut Creek without first obtaining emission credits to offset air pollution created by the new plant¹. The purchase and subsequent retirement of HB Units 3 and 4 will provide EME with the needed offset credits. The proposed Walnut Creek facility and HB Units 3 and 4 all fall within the CAISO Los Angeles Basin West Local Reliability Area.

The permanent retirement of HB Units 3 and 4 on or about November 1, 2012 depends on the completion of the Walnut Creek facility. AES-HB and EMEB indicate that they will notify CPSD of any changes that could potentially delay the anticipated retirement of HB-Units 3 and 4, or the operation of Walnut Creek.

EME anticipates a six-month commission period for Walnut Creek, from November 1, 2012 through May 31, 2012. Upon “first fire” of the new plant on approximately

¹ Southern California Air Quality Management District Rule 1304(a)(2).

November 1, 2012, HB Units 3 and 4 will be retired. Beginning June 1, 2013 or sooner, Walnut Creek's 500 MW capacity will more than offset the 452 MW loss of HB Units 3 and 4.

The California Independent System Operator (CAISO) examined the grid reliability implications of retiring HB Units 3 and 4 and designating Walnut Creek as the replacement. After conducting power flow simulations, the CAISO concluded that the transaction would not create any reliability concerns². The simulations indicate that even under certain double transmission outage conditions near Huntington Beach, the CAISO could dispatch other generation or utilize existing voluntary load dropping programs.

In the event HB Units 3 and 4 are retired, the CAISO will incorporate the change into the unified planning assumption used in the CAISO's transmission planning process.

NOTICE

This resolution is presented on a motion from the Consumer Protection and Safety Division and not in response to an Advice Letter. Notice was made by publication in the Commission's Daily Calendar

PROTESTS

No protests were filed, as the Resolution does not result from an Advice Letter.

DISCUSSION

By this resolution we authorize AES Huntington Beach, LLC and Edison Mission Huntington Beach, LLC, to permanently retire Huntington Beach Units 3 and 4. This resolution is appropriate to ensure compliance with Operation Standard 24, which requires Commission approval before a GAO makes a long term change in the status of a generating facility.

The 500 MW capacity of the new Walnut Creek facility will offset the 452 MW loss from HB Units 3 and 4 and therefore fulfills the same reliability functions as the retiring HB Units 3 and 4.

² On March 4, 2011, the CAISO sent a letter to AES indicating the transaction would not cause reliability concerns.

Further, the CAISO indicates that replacement of HB Units 3 and 4 with the Walnut Creek facility will not create any reliability concerns and that the CAISO will incorporate the replacement scenario into the transmission planning process.

Therefore, it is reasonable for the Commission to conclude that HB Units 3 and 4 are no longer needed for reliability once Walnut Creek is operational.

By authorizing the retirement of HB Units 3 and 4, we do not resolve any cost or ratemaking issues associated with procurement and resource adequacy requirements due to the retirement of HB Units 3 and 4 by AES Huntington Beach, LLC and Edison Mission Huntington Beach, LLC. Those issues shall be addressed by the Commission in the appropriate proceedings.

COMMENTS

Public Utilities Code section 311(g) (1) requires that draft resolutions be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g) (2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, this draft resolution was mailed to parties for comments, and will be placed on the Commission's agenda no earlier than 30 days from today. As of May 17, 2011, no comments were filed.

FINDINGS AND CONCLUSIONS

1. Operation Standard 25 of GO 167 requires applicable Generation Asset Owners to notify the Commission and the Control Area Operator in writing at least 90 days prior to any change in ownership.
2. Operation Standard 24 of GO 167 requires applicable Generation Asset Owners to obtain an affirmative declaration from the Commission prior to closing a generating facility or making any long-term changes in operating status.
3. On March 14, 2011, AES Huntington Beach, LLC notified the Consumer Protection and Safety Division, of its intent to transfer ownership of Huntington Beach Generating Units 3 and 4 to Edison Mission Huntington Beach, LLC.
4. On March 17, 2011, AES Huntington Beach, LLC filed an application with the Federal Energy Regulatory Commission requesting authorization for a disposition of jurisdictional facilities pursuant to section 203(a)(1)(D) of the Federal Power Act. The application filing was noticed on March 18, 2011. No comments, protests or interventions were received.

5. On April 7, 2011, AES Huntington Beach, LLC and Edison Mission Huntington Beach, LLC jointly notified Richard Clark, Director of the Consumer Protection and Safety Division of their intent to retire Huntington Beach Generating Units 3 and 4 on or after November 1, 2012.
6. On April 15, 2011, the Federal Energy Regulatory Commission issued an Order Authorizing Disposition of Jurisdictional facility authorizing the transaction between AES Huntington Beach, LLC and Edison Mission Huntington Beach, LLC, subject to conditions.

THEREFORE IT IS ORDERED THAT:

1. AES Huntington Beach, LLC and Edison Mission Huntington Beach, LLC are authorized to permanently retire Huntington Beach Generating Units 3 and 4, effective midnight October 31, 2012.
2. This Resolution does not resolve any cost or ratemaking issues associated with procurement and resource adequacy requirements due to the retirement of Huntington Beach Generating Units 3 and 4 by AES Huntington Beach, LLC and Edison Mission Huntington Beach, LLC. Those issues shall be addressed by the Commission in the appropriate proceedings.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on May 26, 2011, the following Commissioners voting favorably thereon:

/s/ Paul Clanon
Paul Clanon
Executive Director

MICHAEL R. PEEVEY
President
Timothy Alan Simon
Michel Peter Florio
Catherine J.K. Sandoval
Mark J. Ferron
Commissioners