

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Consumer Protection and Safety Division
Electric Generation Performance Branch

RESOLUTION EGPB-11
February 24, 2011

RESOLUTION

Resolution EGPB-11. Mirant Potrero LLC, now GenOn Potrero LLC,¹ proposes to permanently close the Potrero Generating Station.

PROPOSED OUTCOME: Authorizes GenOn Potrero LLC, formerly Mirant Potrero LLC, to retire Potrero Generating Station ("Potrero") Units 3, 4, 5, and 6.

Estimated Cost: None.

SUMMARY

GenOn Potrero LLC ("GenOn"), formerly Mirant Potrero LLC ("Mirant"), is authorized to permanently close its Potrero Generating Station ("Potrero") Units 3, 4, 5, and 6.

BACKGROUND

The Potrero Generating Station consists of a 206 megawatt (MW) fossil-fueled boiler steam turbine generator unit (Unit 3), and three simple cycle combustion turbine generators (or "peakers") of 52 MW each (Units 4, 5, and 6), with a total capacity of 362 MW. Potrero Unit 3 became commercially operational on December 1, 1965, the peakers in 1976.

On September 30, 2010, Mirant Potrero, LLC notified Paul Clanon, Executive Director, and Richard Clark, Director of the Consumer Protection and Safety Division (CPSD), of

¹ On December 3, 2010, Mirant Corporation announced the completion of a merger with RRI Energy. The combined companies now operate as GenOn Energy, Inc. and the Generating Asset Owner (GAO) is GenOn Potrero, LLC.

its intent to retire Potrero Units 3, 4, 5 and 6 by December 31, 2010 unless the California Independent System Operator (CAISO) determined that one or more of the Potrero units are needed for reliability purposes after that date.

In General Order 167, the Commission adopted Operation Standards for Power Plants. Operation Standard 24 requires Generating Asset Owners (GAOs) under Commission jurisdiction to obtain an affirmative declaration from the Commission prior to closing a generating facility or making any long-term changes in operating status.² The GAO must also confirm with the Control Area Operator that a generation facility is no longer needed for reliability.

On September 9, 2010, the CAISO Board of Governors approved a CAISO staff proposal to extend existing Reliability Must Run (RMR) contracts through 2011, if the staff identified such a need. The staff indicated that it would notify the selected RMR resources by October 1, 2010³ and awarded Potrero with a 2011 RMR contract on September 29, just one day before Mirant sent its letter of intent to the Commission.⁴

Concurrently, CAISO staff began to negotiate an early RMR termination with Potrero, pending completion and successful operation of the Trans Bay Cable and the replacement transmission cables between the Martin, Bayshore, and Potrero substations.⁵ When completed, the Trans Bay Cable will deliver power from several East Bay plants from the Pittsburg substation to the Potrero substation. Meanwhile, the Potrero plant would provide needed RMR capacity.⁶

² Operating Standard 24 reads as follows: OS 24 – Approval of changes in Long-Term Status of a Unit. The GAO maintains a unit in readiness for service in conformance with Standard 22 unless the Commission, after consultation with the Control Area Operator, affirmatively declares that a generation facility is unneeded during a specified period of time. This standard is applicable only to the extent that the regulatory body with relevant ratemaking authority has instituted a mechanism to compensate the GAO for readiness services provided.

³ The September 9, 2010 Board of Governors' Meeting discussed and authorized the CAISO Staff's September 1, 2010 Memorandum, *Decision on Conditional Approval to Extend Existing RMR Contracts for 2011*.

⁴ September 29, 2010 CAISO Letter to Mirant confirming Potrero's 2011 RMR Status.

⁵ CAISO's *December 7, 2010 Regulatory Update* for the 12/15/2011 Board of Governors' meeting discussed negotiations regarding Potrero's proposed revision to its 2011 RMR agreement at FERC (ER11-2218), p.6. <http://www.caiso.com/2866/2866731c42aa0.pdf>

⁶ In the CAISO's October 26, 2010 *Briefing on Results of Reliability Must-Run Contract Extensions for 2011* ("CAISO 10/26 Briefing Memo"), which the Board of Governors approved at its 10/29/10 Meeting, CAISO staff confirmed final 2011 RMR Contract designations for Potrero Units 3-6.

On November 23, 2010, the Trans Bay Cable became commercially operational. On December 5, 2010, PG&E completed the final segment of the Martin-Bayshore-Potrero recabling project.⁷

On November 30, 2010 Mirant filed a revised 2011 RMR agreement at the Federal Electric Regulatory Commission (FERC) that allows early termination of the RMR contract by the CAISO. Under the revised agreement, if the CAISO provided Mirant with a notice of termination by January 15, 2011, the RMR agreement would terminate effective February 28, 2011. After January 15, 2011, the CAISO must provide 60 days advance notice of termination.⁸

On December 7, the CAISO announced its plans to release Potrero from its RMR contract, stating, "Absent any major issues with these facilities over the next two weeks, the ISO will provide an RMR termination notice to Mirant at the end of this month or in early January, which would terminate the RMR agreement by February 28, 2011. During this two month termination period, the ISO will not plan to dispatch the Potrero power plant."⁹

On December 21, 2010, the CAISO notified GenOn of the termination of the RMR agreement between the CAISO and Potrero, contingent upon FERC acceptance of GenOn's revised RMR agreement (filed as Mirant). The CAISO letter stated that the effective date of the termination notice would be January 1, 2011, which would allow the RMR agreement to terminate on February 28, 2011 under the revised RMR agreement pending at FERC. On January 19, 2010, FERC issued its approval of Potrero's revised RMR agreement, effective January 1, 2011.¹⁰

⁷ 12/7/10 CAISO's Chief Executive Officer (CEO) Report discussed at the CAISO Board Of Governors' 12/15/10 Meeting. <http://www.caiso.com/2866/286671c433ed0.pdf>

⁸ FERC Docket ER11-2218-000. Mirant's Revisions to its 2011 RMR Agreement at FERC. The CAISO, the CPUC, and PG&E also filed Motions to Intervene within the FERC docket.

⁹CAISO's CEO Report, dated December 7, 2010 presented at the 12/15/10 CAISO Board of Governors' meeting. <http://www.caiso.com/2866/286671c433ed0.pdf>

¹⁰FERC's Letter order, dated 1/19/11, accepting Mirant Potrero, LLC's 11/30/10 filing of revisions to its Must-Run Service Agreement with the California Independent System Operator (CAISO) Corporation, effective 1/1/11 under ER11-2218-000.

Pursuant to the CAISO notice, effective January 1, 2011, and FERC's approval of the revised RMR agreement, the RMR agreement terminates as of midnight on February 28, 2011.¹¹

NOTICE

This resolution is presented on a motion of CPSD 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 GenOn, formerly Mirant, to permanently close the Potrero Generating Station. In so doing, we note that GenOn is a Generating Asset Owner (GAO) as defined in GO 167. 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.

By rescinding its 2011 RMR contract with Potrero, the CAISO indicates that Potrero is no longer needed for reliability, or to meet local resource planning requirements. On December 21, 2010, the CAISO notified GenOn of the termination of the RMR agreement between the CAISO and GenOn Potrero. The RMR contract termination letter reiterates statements from the CAISO's December 7, 2010 CEO Report that the two necessary conditions to permanently close Potrero have been satisfied; namely, the completion and commercial operation of the Trans Bay Cable and the Martin-Bayshore-Potrero recabling projects.

The CAISO's RMR termination letter sets the effective date of the termination notice as January 1, 2011, allowing the RMR agreement to terminate as of midnight February 28, 2011, under Mirant's application to revise the 2011 RMR agreement at FERC. The CAISO also stated in its December 7th CEO Report that it does not plan to dispatch the Potrero power plant during the two-month termination period, which begins January 1, 2011. Thus, Potrero will not operate, except under emergency conditions, from January 1, 2011 until it permanently shuts down on February 28, 2011.

¹¹CAISO RMR termination notice to GenOn Potrero, dated December 21, 2010.

On January 19, 2011, FERC issued its approval of Potrero's revised RMR agreement, effective January 1, 2011. Accordingly, we authorize GenOn to permanently shutdown Potrero, coincident with the CAISO's notice to terminate Potrero's RMR contract and FERC's approval of the revised RMR contract, which allows Potrero's RMR contract to terminate as of midnight February 28, 2011. As the RMR contract terminates effective February 28, 2011 at midnight, GenOn may permanently close Potrero Generating Station at that time.

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.

FINDINGS AND CONCLUSIONS

1. Operation Standard 24 of GO 167 requires applicable Generation Asset Owners (GAOs) to obtain an affirmative declaration from the Commission prior to closing a generating facility or making any long-term changes in operating status.
2. On September 30, 2010, Mirant Potrero, LLC ("Mirant"), now GenOn Potrero, LLC ("GenOn"), notified the Commission of its intent to retire Potrero Units 3, 4, 5 and 6 by December 31, 2010 unless the California Independent System Operator (CAISO) needs one or more of the units for reliability purposes after that date.
3. During its September 9, 2010 meeting, the CAISO Board of Governors authorized preliminary Reliability Must Run (RMR) contract extensions for existing resources through 2011, pending CAISO staff's final determination by October 1, 2010. On September 29, 2010 the CAISO sent a letter to Mirant confirming a RMR contract for Potrero Units 3, 4, 5, and 6 through December 31, 2011.
4. The CAISO indicated that it would release Potrero from its RMR designation once two criteria are met:
 - a. Completion of the Trans Bay Cable Project and its reliable operation;

- b. Completion of the two Martin-Bayshore Potrero 230 kV recabling projects, and their reliable operation.
5. On November 23, 2010, the Trans Bay Cable became commercially operational. On December 5, 2010, the final segment of the Martin-Bayshore-Potrero recabling project was completed by PG&E and placed into operation.
6. On November 30, 2010, Mirant filed a revised 2011 RMR agreement for the Potrero plant at the Federal Electric Regulatory Commission (FERC), which allowed early termination of the RMR contract. If the CAISO provided notice of the termination by January 15, 2011, the RMR agreement would terminate effective February 28, 2011; after January 15, 2011, the CAISO must provide 60 days advance notice of the termination, and the RMR contract terminates at the end of the month following the 60 day notice period. However, if the 60 days falls on the last day of the month, the agreement will terminate on that day.
7. The December 7, 2010 CAISO's CEO Report confirmed that the completion and reliable commercial operation of the Trans Bay Cable and the Martin-Bayshore-Potrero recabling projects allow for the imminent release of Potrero from its RMR contract.
8. The CAISO stated its intent on December 7th, 2010 to issue an RMR termination notice to Mirant (now GenOn) by early January, which would terminate the RMR agreement by February 28, 2011.
9. On December 21, 2010, the CAISO notified GenOn of the termination of the RMR agreement between the CAISO and GenOn Potrero. The letter clarifies that the notice of termination is effective Jan, 1, 2011 and contingent upon FERC acceptance of GenOn's revised RMR agreement (filed as Mirant), which would terminate the RMR agreement as of midnight on February 28, 2011.
10. On January 19, 2011, FERC issued its approval of Potrero's revised 2011 RMR agreement, effective January 1, 2011.
11. We authorize GenOn to shutdown Potrero as the CAISO has provided written notice of the termination of Potrero's RMR contract, effective January 1, 2011. As FERC has approved the revised RMR agreement effective January 1, 2011, the RMR agreement is expected to terminate as of midnight February 28, 2011.

THEREFORE IT IS ORDERED THAT:

1. GenOn is authorized to permanently close the Potrero Generating Station, effective midnight February 28, 2011.

2. This Resolution does not resolve any cost or ratemaking issues associated with procurement and resource adequacy requirements due to Potrero's retirement. 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 February 24, 2011, the following Commissioners voting favorably thereon:

Paul Clanon
Executive Director