

Valle del Sol Energy, LLC

June 3, 2009

Ms Melissa Jones  
Executive Director  
California Energy Commission  
1516 Ninth Street  
Sacramento, California 95814-5512

<b>DOCKET</b>	
<b>05-AFC-3</b>	
DATE	<u>JUN 03 2009</u>
RECD.	<u>JUN 10 2009</u>

Subject: Sun Valley Energy Project, 05-AFC-3

Dear Ms Jones:

We are in receipt of your letter dated May 7, 2009, and share your frustration with the difficulty of obtaining PM<sub>10</sub> and SO<sub>x</sub> emission reduction credits in the South Coast Air Basin. As recognized in the CEC's February 2009 staff paper entitled "Potential Impacts of the SCAQMD Air Credit Limitations and Once-Through Cooling Mitigation on Southern California's Electricity System":

"Despite significant amounts of energy efficiency and roof top solar photovoltaic systems included in the Energy Commission's demand forecasts, new or repowered natural gas generation is required in Southern California for five important reasons:

- To "firm up" the intermittency characteristics of renewable generation
- To address once-through cooling (OTC) impacts
- To replace aging plants and improve efficiency of the generating fleet
- To meet load growth after demand-side measures have been installed; and
- To satisfy overall system resource needs"

Last month in the report entitled "Framework for Evaluating Greenhouse Gas Implications of Natural Gas-Fired Power Plants in California", CEC's consultant stated:

"Increased levels of renewable generation will necessitate increases in flexible generation. A defining characteristic of electricity is that generation must instantaneously and continuously match consumption. Electricity systems rely on a portfolio of power plants with a wide range of operating capabilities to ensure this instantaneous matching of supply and consumption. Specifically, balancing authorities will require generators with quick start, fast ramping and regulation capabilities and a wider operating range (lower minimum operation) to successfully integrate high levels of renewables."

Sun Valley is a quick start, fast ramp peaker located in the LA Basin Local Reliability Area – precisely the type of new generation identified by CAISO and CEC as being needed for reliable grid operation in light of the important reasons quoted above. Sun Valley will be able to go from cold start to full load in ten minutes, and Sun Valley's turbines have the highest commercially-available ramp rate capability. Our project is

PROOF OF SERVICE (REVISED 2/26/09) FILED WITH  
ORIGINAL MAILED FROM SACRAMENTO ON 6/10/09

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not in an environmental justice area and hasn't had material public opposition. We have demonstrated our ownership of all required VOC ERCs. Sun Valley Energy Project has received a Preliminary Staff Assessment from the CEC and a Final Determination of Compliance from SCAQMD, with no outstanding issues except for our lack of PM<sub>10</sub> and SO<sub>x</sub> ERCs. EME remains committed to advancing the licensing of the Sun Valley Energy Project through the CEC process as expeditiously as possible. Suspending review of Sun Valley Energy Project's AFC would only exacerbate the problem posed by the looming requirement for new generation.

It is good energy policy for CEC to facilitate having permitted powerplants ready for construction within the LA Basin Local Reliability Area as a hedge against unexpected accelerated retirement of aging plants (which average 47 years old!) and to assure robust competition between viable projects when utilities solicit power contract offers. The fact that our affiliate's nearly identical Walnut Creek Energy Park was successful in Southern California Edison's last power contract solicitation is evidence that the Sun Valley Energy Project will be competitive in the next one. Although the current economic downturn makes the timing of the next solicitation uncertain, Valle del Sol is committed to be ready for it by completing the CEC permitting process and developing its ERC package.

We have several efforts underway to meet the PM<sub>10</sub> and SO<sub>x</sub> ERC requirements identified in our FDOC and PSA:

- There are two legislative initiatives that may restore the Sun Valley project's ability to access SCAQMD's Priority Reserve ERCs, one introduced by Senator Wright (SB 696) and one by Assemblyman Perez (AB 1318). The legislative language is in flux at present, and the final version may or may not restore access to the Priority Reserve for projects that do not yet have a PPA.
- SCAQMD has formed an NSR Working Group that is focused on near-, mid- and long-term solutions for the shortage of PM<sub>10</sub> ERCs in the South Coast Air Basin. SCAQMD has proposed a switch from daily to annual ERCs, which would significantly reduce the over-offsetting required of peaking generators under their current interpretation of Rule 1306(b). SCAQMD has proposed two new ERC creation rules, PR 1625 and PR 2511, and Valle del Sol has had discussions with potential sources of ERCs that could be created under those rules.
- Since November we have been actively pursuing a number of emission reduction opportunities that should result in certification of sufficient new PM<sub>10</sub> and SO<sub>x</sub> ERCs. We met with SCAQMD in March to brief them on our ERC-creation efforts and believe that we have identified several suitable candidates. We expect to have commercial arrangements in place with the potential ERC sources in the next 60 days and will prepare certification applications to SCAQMD after that, upon which we will be able to brief CEC Staff on our proposed ERC package.

Each of these efforts will take time, so we would appreciate the CEC's patience rather than suspending our AFC. We would also like the CEC to consider a revision in its policy requiring ERCs to be secured prior to issuance of a CEC license. When ERCs

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were a relatively modest cost it was expedient for the CEC's comprehensive review to require ERCs to be secured in advance, but now that the cost is more than \$50 million in the South Coast Air Basin it is economically impractical to require ERCs to be provided so far in advance of construction. In addition, power purchasers in California's power market must have a choice between multiple viable new generation options to assure competitive pricing, but under current CEC policy those multiple options must each hold ERCs to prove their viability by securing a CEC permit. In a severely constrained ERC market, the result is either a) there won't be new permitted generation options available when needed, or b) proposed new projects that can obtain ERCs will hoard them and further exacerbate ERC scarcity. Neither outcome is good energy or environmental policy. Commercial impracticality, and scarcity of either licensed new generation options or ERCs, can be avoided if the CEC would certify powerplants subject to a condition of certification to provide ERCs acceptable to SCAQMD and CEC Compliance Manager prior to construction.

We look forward to briefing CEC Staff on our proposed PM<sub>10</sub> and SO<sub>x</sub> ERC package as soon as the certification applications are filed or legislation is passed.

Sincerely,



Lawrence J Kostrzewa  
Vice President

c: Mohsen Nazemi, SCAQMD  
Eileen Allen, CEC  
Robert Worl, CEC



BEFORE THE ENERGY RESOURCES CONSERVATION AND DEVELOPMENT  
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1516 NINTH STREET, SACRAMENTO, CA 95814  
1-800-822-6228 – WWW.ENERGY.CA.GOV

**APPLICATION FOR CERTIFICATION  
FOR THE SUN VALLEY ENERGY  
PROJECT (SVEP)**

**DOCKET No. 05-AFC-3  
PROOF OF SERVICE LIST  
(Revised 2/26/2009)**

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DECLARATION OF SERVICE

I, April Albright, declare that on June 10, 2009, I served and filed copies of the attached Valle Del Sol Energy, LLC's Letter in Response to the Energy Commission's Letter Regarding Emission Reduction Credits, dated June 3, 2009. The original document, filed with the Docket Unit, is accompanied by a copy of the most recent Proof of Service list, located on the web page for this project at: [[www.energy.ca.gov/sitingcases/sunvalley](http://www.energy.ca.gov/sitingcases/sunvalley)].

The document has been sent to both the other parties in this proceeding (as shown on the Proof of Service list) and to the Commission's Docket Unit, in the following manner:

*(Check all that Apply)*

FOR SERVICE TO ALL OTHER PARTIES:

- sent **electronically** to all email addresses on the Proof of Service list;
  
- by personal delivery or by depositing in the United States mail at Sacramento, California with first-class postage thereon fully prepaid and addressed as provided on the Proof of Service list above to those addresses **NOT** marked "email preferred."

**AND**

FOR FILING WITH THE ENERGY COMMISSION:

- sending an original paper copy and one electronic copy, mailed and emailed respectively, to the address below (*preferred method*);

**OR**

- depositing in the mail an original and 12 paper copies, as follows:

**CALIFORNIA ENERGY COMMISSION**

Attn: Docket No. 05-AFC-3  
1516 Ninth Street, MS-4  
Sacramento, CA 95814-5512

[docket@energy.state.ca.us](mailto:docket@energy.state.ca.us)

I declare under penalty of perjury that the foregoing is true and correct.

Original signed by \_\_\_\_\_  
**April Albright**