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**STATE OF CALIFORNIA
ENERGY RESOURCES CONSERVATION AND DEVELOPMENT COMMISSION**

<p>In the Matter of:</p> <p>Preparation of the <i>2011 Integrated Energy Policy Report</i></p> <p>Emission Offset Challenges for Fossil Power Plants in Southern California.</p>	<p>Docket No. 11-IEP-1D Reliability</p>
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**GENON ENERGY, INC.'S COMMENTS ON
DRAFT WORK PLAN**

I. INTRODUCTION

Pursuant to notice issued jointly by the Air Resources Board (“ARB”) and the California Energy Commission (“CEC”) and as a follow-up to the workshop held on February 15, 2011, GenOn Energy, Inc. (“GenOn”)¹ hereby provides the following comments pertaining to the development of a report to meet the requirements identified in AB 1318 (Ch. 285, Stats. 2009).

The current unavailability of the necessary air credits makes it virtually impossible for the construction of power plants in the South Coast Air Quality Management District (“SCAQMD”). The report required by AB 1318 will not solve this problem. However, that report will provide the requisite foundation for the SCAQMD to identify the scope of the issues and

¹ GenOn was formed December 3, 2010 by the merger of Mirant Corporation and RRI Energy, Inc. Through its subsidiaries, GenOn owns and operates approximately 5,300 MW of gas-fired generating capacity in California. Over 3,300 MW of that capacity is in southern California, with 640 MW of that capacity located in the South Coast Air Quality Management District.

tailor solutions necessary to address them. For this reason, GenOn supports ongoing work in the 2011 Integrated Energy Policy Report (“IEPR”) proceeding to prepare the AB 1318 report.

II. THE CALIFORNIA ELECTRIC GRID REQUIRES RELIABLE GAS-FIRED GENERATION TO MEET RENEWABLE ENERGY GOALS.

The California electric grid faces a number of challenges. The State Water Resources Control Board (“SWRCB”) adopted a Once-Through Cooling (“OTC”) Policy that may result in the retirement of a significant amount of existing gas-fired generating capacity in southern California over the next ten years. The implementation of AB 32 could impact existing generation resources that are currently essential to maintaining grid reliability and that support Resource Adequacy requirements. Integration of the variable and intermittent production from an increasing amount of renewable resources will be essential to maintaining grid stability.

Gas-fired generation will serve a crucial role in maintaining electric grid reliability in the face of these challenges. That capacity may be provided by existing gas-fired generating facilities, new facilities or repowered facilities. Many existing gas-fired steam boiler power plants use Best Available Control Technology (“BACT”) to control emissions and are capable of operating flexibly to meet peak demand or stabilize the electric grid. Thus the air emissions from these facilities are typically quite low. The value of these facilities to the electric grid should not be overlooked or dismissed simply because they are several decades old.

III. THE CURRENT AVAILABILITY OF EMISSIONS OFFSETS HINDERS DEVELOPMENT OF POWER PLANTS.

A decision to build a new or modified facility will depend on a number of factors. Currently, the limited availability of emission offsets in the marketplace is a major impediment to development in southern California. Access to agency-banked emission credits at reasonable costs will be essential to the development of resources that may be needed in the future.

The process to develop a new generating facility typically requires five to seven years. The completion of new transmission infrastructure can take seven to ten years. For these reasons, long-term reliability assessments covering a minimum of ten years into the future must be undertaken, as proposed in the Work Plan, in order to provide any meaningful generation needs assessment.

GenOn supports the evaluation of options to increase offset availability listed in the Work Plan while continuing to solicit input into additional options. The Work Plan should evaluate existing air quality laws, regulations and practices in search of opportunities to support grid reliability without compromising air quality objectives. The final Work Plan should clearly identify the intention to seek viable alternatives and confirm that the intent is not to “gut” existing laws or regulations.

In furtherance of this objective, the final Work Plan should direct the AB 1318 team to evaluate regulatory changes that:

- 1) enable the processes to access agency air emission credit banks to be flexible and adaptable to the complex project development process;
- 2) estimate a proposed facility’s emission credit requirements in a manner that reasonably matches its expected operating profile, as opposed to a worst case scenario, and does so using representative analytical methods; and
- 3) enable innovative approaches to creating emission offsets both within and outside air district boundaries, especially from mobile sources.

IV. THE WORK PLAN MUST CONSIDER COSTS ASSOCIATED WITH MEETING THE SOUTH COAST AIR BASIN’S RELIABILITY NEEDS.

The Legislature intended that the AB 1318 study identify the most “effective and efficient” means of meeting reliability needs in the South Coast Air Basin (“SCAB”) while complying with AB 32, the SWRCB OTC policy, state and federal air quality requirements, renewable energy and energy efficiency goals, and resource adequacy. There is a very high degree of uncertainty that all of these goals can be concurrently balanced, let alone whether the plan that might achieve these ends could reasonably be called “effective and efficient.” Given the significant uncertainty about whether all of these constraints can be concurrently satisfied, the Work Plan should specify that the resulting report provide information on costs to assist policy makers in making tradeoffs. Whether or not tradeoffs are required, it is prudent to consider cost given the current fiscal crisis in California.

V. ANY STUDY OF SCAB RELIABILITY MUST CONSIDER INERTIA.

The amount of energy that can be imported into Southern California is limited by how much inertia is available in Southern California. The draft Work Plan recognizes that supplying the required inertia is a major challenge, as new photovoltaic and wind resources provide little or no inertia. On the other hand, OTC plants are major source of inertia supporting grid reliability in the SCAB. Any study attempting to analyze the grid reliability needs of the SCAB must account for inertial requirements. GenOn understands that the California Independent System Operator intends to conduct such analysis. The Work Plan should acknowledge the need for the CAISO to complete the inertial requirements analysis as a condition precedent to a fully comprehensive study of the SCAB's reliability needs.

VI. THE DRAFT WORK PLAN REQUIRES MORE DETAIL REGARDING STAKEHOLDER PARTICIPATION.

While the draft Work Plan provides substantial background and a good description of the many complexities and challenges in planning and completing the required studies, many of which will require an unprecedented level of coordination and transparency among multiple agencies, as well as studies that have never been completed, it provides no details regarding the nature and timing of the intermediate study results or, more importantly, the stakeholder process to vet the progress being made toward completion of the report. The draft Work Plan nonetheless indicates that "the report is anticipated to be completed by late 2011." The final Work Plan must include a description of the stakeholder process that will be employed to ensure that the resulting report provides the best information and conclusions possible.

VII. CONCLUSION.

The joint agencies should revise the draft Work Plan consistent with the ideas and principles raised in these comments.

Dated this 3rd day of March, 2011, at Pittsburg, CA.

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