

Memorandum

Date: April 11, 2011

To: Melissa Jones
Executive Director

From: California Energy Commission - Terry O'Brien, Deputy Director
1516 Ninth Street Siting, Transmission & Environmental Protection Division
Sacramento, CA 95814-5512

Subject: ITEM FOR THE MAY 4 BUSINESS MEETING – WALNUT CREEK
ENERGY PARK PROJECT (05-AFC-2C) PETITION TO AMEND THE
ENERGY COMMISSION DECISION

PROJECT BACKGROUND

On November 22, 2005, Walnut Creek Energy, LLC (WCE), a wholly-owned subsidiary of Edison Mission Energy (EME), submitted an Application for Certification (AFC) to construct and operate a nominal 500 megawatt (MW) simple-cycle power plant, the Walnut Creek Energy Park (WCEP). The peaking power plant was certified by the California Energy Commission (Energy Commission) on February 27, 2008 and has not yet been constructed. The facility will be located at 911 Bixby Drive in the City of Industry, Los Angeles County.

ISSUE

On March 8th, 2011, WCE filed a petition with the Energy Commission requesting to amend the Air Quality Conditions of Certification (COC) for the WCEP. A revised petition was submitted on April 1, 2011 which included requirements from the South Coast Air Quality Management District (SCAQMD) revised Determination of Compliance (DOC).

Changes are requested to recognize the emission reduction credit exemption under SCAQMD Rule 1304(a)(2). WCEP proposes to purchase AES Huntington Beach (HB) Units 3 and 4 with plans to decommission the units to offset requirements for emissions related to the megawatt capacity of the WCEP.

Additionally, WCE proposes the following:

- Revisions to monthly emission limits and fuel usage due to the new fuel heating value used in the Final DOC issued by SCAQMD.
- Increasing the number of startups/shutdowns from 350 to 480 per year.
- Decreasing the carbon monoxide (CO) emission limit from 6 parts per million (ppm) to 4 ppm at 15 percent oxygen to meet the new best available control technology (BACT) requirements.
- Increasing the NOx RECLAIM Trading Credits (RTCs) to reflect an increase in the potential number of startups/shutdowns, electing to be in the Sox RECLAIM program, and submit Sox RTCs.

WCE does not propose to modify any of the power plant equipment or the facility design.

SUMMARY OF ANALYSIS BY STAFF

The requested changes to the air quality COCs to take into account the current severe scarcity of emission reduction credits (ERCs) in the South Coast Air Basin and the rescission of the amendment to the South Coast Air Quality Management District's (SCAQMD) Rule 1309.1 that previously permitted power plants to obtain offsets from their Priority Reserve Account (PRA).

WCEP, Edison Mission Huntington Beach, LLC (EMHB), an affiliate of WCE under common ownership, will purchase two electric utility steam boilers and their associated steam turbine generators (STGs) from AES Huntington Beach, LLC (AESHB) and will permanently retire these units per the requirements of SCAQMD's Rule 1304(a)(2) to qualify for a partial emissions offset exemption. The two boilers and steam turbines to be purchased are AESHB's Units 3 and 4, which are currently in operation at AESHB's Huntington Beach facility. EMHB will lease the two units back to AESHB, who will remain as the operator until the required permanent shutdown. The request for the change in ownership is being handled in a separate proceeding (filed March 30, 2011) under Huntington Beach Generating Station Retool Project, 00-AFC-13C.

In connection with this request and per applicable regulatory requirements, WCE will:

- Apply to the Federal Energy Regulatory Commission and CEC for approval of the change of ownership of HB 3 and 4's boilers and STGs.
- Provide evidence to CEC and SCAQMD of common ownership of WCE and HB 3 and 4's boilers and STGs prior to SCAQMD's issuance of WCE's Permit to Construct (PTC).
- Demonstrate that EMHB holds sufficient RECLAIM Trading Credits (RTCs) for HB 3 and 4 for the compliance year in which the change of ownership occurs, consistent with SCAQMD requirements.
- Cause EMHB to surrender the operating permits for HB 3 and 4 prior to startup (first fire) of the WCEP turbines in accordance with the SCAQMD PTC, draft Permit to Operate (PTO), and amended CEC License, at which time HB 3 and 4's boilers will be rendered permanently inoperable.

WCE also seeks to resolve an inconsistency between the Decision, SCAQMD's Final DOC, and the requirements of WCE's Power Purchase Agreement (PPA) regarding the number of startups per year. WCE also seeks to lower the emission limit for CO from 6 parts per million (ppm) to 4 ppm, to reflect a change in best available control technology (BACT). Finally, WCE seeks to increase the project's NO_x RECLAIM Trading Credit obligation to be consistent with increased startups.

Staff received a copy of a letter from CAISO addressed to AESHB who intends to sell Huntington Beach Units 3 and 4 to EMHB. The letter indicates that there would not be reliability implications of retiring Huntington Beach Units 3 and 4 and EMHB intends to submit an application for certification to construct four new generating units at the Huntington Beach facility according to their recent extension approval.

Staff has analyzed the requested project changes and has determined that they would conform to applicable federal, state, and SCAQMD air quality LORS, and the amended project would not cause significant adverse air quality impacts with the proposed revised COCs.

PUBLIC REVIEW

- The Original Petition to modify project filed/docketed and posted on the web on March 10, 2011.

- The Notice of Receipt was mailed to the post-certification mailing list and affected public agencies and docketed on March 18, 2011 and was posted on the website on March 24, 2011.
- A revised Petition to Amend was received on April 1, 2011 and docketed then posted on the web on April 4, 2011.
- Staff analysis was docketed and posted on the Energy Commission website on April 4, 2011 and sent to two interested parties.
- A comment letter was received by the County of Los Angeles Public Health office requesting the Energy Commission to analyze the proposed amendment for noise impacts. Staff has determined that there are no noise related impacts as a result of the revised air quality conditions of certification.

STAFF FINDINGS

- The petition meets all the filing criteria of Section 1769(a) concerning post-certification project modifications;
- The modification will not change the findings in the Energy Commission's Final Decision pursuant to Section 1755;
- The project will remain in compliance with all applicable laws, ordinances, regulations, and standards, subject to the provisions of Public Resources Code section 25525;
- The proposed modifications to the Air Quality Conditions of Certification will result in a beneficial change by ensuring compliance with SCAQMD Rule 1309.1 and 1304(a)(2); and,
- There has been a substantial change in circumstances since the Energy Commission certification justifying the change and the change is based on information that was not available to the parties prior to Energy Commission certification in that the proposed modifications relate to the most recent air quality emission limit requirements as determined by the SCAQMD.

RECOMMENDATIONS

Based on the above findings and staff's review of the proposed modification, staff recommends approval of the petition and revisions to the Conditions of Certification as presented in the attached staff analysis and proposed order.

COMPLIANCE PROJECT MANAGER

The Compliance Project Manager is Dale Rundquist, (916) 651-2072.

The Amendment Compliance Project Manager is Christina Snow, (916) 651-3770.

BUSINESS MEETING PARTICIPANTS

Christina Snow, Amendment Compliance Project Manager

Chris Marxen, Compliance Office Manager

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Tao Jiang, Air Quality

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Attachment(s): Staff Analysis
Draft Order