

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

SAFETY AND ENFORCEMENT DIVISION

DRAFT RESOLUTION ESRB-5
December 15, 2014

DRAFT RESOLUTION

Resolution ESRB-5. Dynegy Morro Bay LLC (Dynegy) proposes to permanently close its Morro Bay Power Plant (Morro Bay).

PROPOSED OUTCOME:

- Authorize Dynegy to retire Morro Bay.

SAFETY CONSIDERATIONS:

- Dynegy will continue to provide 24-hour security staffing to secure the site and deter trespassers.

ESTIMATED COST:

- None

SUMMARY

This Resolution authorizes Dynegy Morro Bay LLC (Dynegy) to permanently close its Morro Bay Power Plant (Morro Bay).

Dynegy is a Generating Asset Owner (GAO) that is subject to the Commission's General Order (GO) 167, which includes Operation and Maintenance Standards. Operation Standard (OS) 24¹ requires GAO to seek affirmation from the Commission and the California Independent System

¹ Operation Standard 24 states, "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."

Operator (CAISO) before removing a power plant from active service. This Resolution affirms and authorizes Dynegy to permanently retire Morro Bay.

BACKGROUND

Morro Bay is located in the City of Morro Bay, San Luis Obispo County. The 976-megawatt plant has four generating units. Pacific Gas and Electric (PG&E) built the plant in the 1950s. In 1997, after California restructured the electric market, PG&E sold the plant to Duke Energy. In 2007, Dynegy bought and operated the plant.

The plant sells power to the day-ahead market administered by CAISO. Due to old technology and inefficiency, the plant cannot effectively compete with cheaper, combined-cycle power. In 2004, the plant put two units in cold storage² as they were deemed no longer economically-viable. The plant stayed open with the other two generating units, and operated briefly under Resource Adequacy (RA) contracts with the utility companies. After the contract ended, the plant reverted back to a merchant plant, and again, found itself unable to compete and operate in the open market. Burdened by increasingly more stringent regulations from the State Water Resources Control Board, Dynegy decided to permanently close Morro Bay.

In November 2013, Dynegy notified the Commission in a formal letter of its intent to retire Morro Bay by February 5, 2014. Dynegy is a GAO that is subject to the Commission's GO 167, which includes Operation and Maintenance Standards. Dynegy notified the Commission in accordance with OS 24, which requires GAO to seek Commission's affirmation before removing a power plant from active service.

NOTICE

This Resolution is not in response to an Advice Letter. Notice was made by publication of the draft Resolution on the Commission's Daily Calendar.

PROTESTS

No protests were filed as the Resolution is not in response to an Advice Letter.

DISCUSSION

Dynegy proposes to permanently close Morro Bay.

By this Resolution, the Commission authorizes Dynegy to permanently close Morro Bay. Dynegy is a GAO as defined in GO 167. This Resolution ensures compliance with OS 24, which requires GAO to seek Commission's affirmation before removing a power plant from active service.

² Cold storage means to remove a generation unit for an extended period of time. This involves a process called a "layup" to prevent corrosion in the boiler while in storage. In a dry layup, the boiler is drained of water and dried for storage. In a wet layup, the boiler is filled with a mixture of water and chemicals (such as caustic soda and sodium sulfite) to mitigate corrosion.

The Commission consulted CAISO, who is the Control Area Operator. CAISO confirms that Morro Bay is not needed for local reliability and does not have a Reliability-Must-Run (RMR) contract. On February 6, 2014, CAISO approved the plant's retirement outage request.

From 2005 to 2007, the plant operated under an RA contract with PG&E. After the contract ended, the plant reverted back to a merchant plant. In 2009, the plant secured another contract with Southern California Edison (SCE). However, SCE terminated that contract in May 2012 after Dynegy filed for Chapter 11 bankruptcy protection. The plant attempted, but ultimately failed to secure another contract.

The California Energy Commission (CEC) approved several projects that will add over 600 MW of capacity in the region.³ These include the 600-MW Avenal Energy Project, and 25-MW combined-cycle upgrades at GWF's Hanford and Henrietta power plants. All of these projects are located in adjacent Kings County.

In May 2010, the State Water Resources Control Board (State Water Board) adopted a new policy to reduce harmful effects on marine life caused by plants using once-through cooling (OTC) technology.⁴ The policy establishes closed-cycle cooling as the best technology available. Coastal power plants which draw ocean water for equipment cooling must either adopt this technology or reduce aquatic impacts by other means. The State Water Board implements this policy in several stages to minimize disruption to the State's electrical needs. The deadline for Morro Bay to comply is December 31, 2015.

Based on all of the foregoing facts, and our own independent analysis, we determine that the plant is no longer needed and may be closed.

COMMENTS

Public Utilities Code section 311(g)(1) requires draft resolutions to be served on all parties and subject to at least 30 days public review and comment prior to a vote by 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 this draft resolution was neither waived nor reduced. Notice was made by publication of the draft Resolution on the Commission's Daily Calendar, and mailed to parties for comments. The Safety and Enforcement Division received no comments on this draft Resolution.

³ http://www.energy.ca.gov/sitingcases/all_projects.html

⁴ http://www.waterboards.ca.gov/water_issues/programs/ocean/cwa316/

FINDINGS

1. Dynegy is a GAO that is subject to the Commission's GO 167, which includes Operation and Maintenance Standards.
2. OS 24 requires GAO to seek affirmation from the Commission and the Control Area Operator before removing a power plant from active service.
3. On November 6, 2013, Dynegy notified the Commission of its intent to retire Morro Bay by February 5, 2014.
4. CAISO, the Control Area Operator, confirms that Morro Bay is not needed for local reliability and does not have a Reliability-Must-Run (RMR) contract. On February 6, 2014, CAISO approved the plant's retirement outage request.
5. The CEC approved several power plant projects that will add over 600 MW of capacity in the region.
6. The State Water Board adopted a new policy to reduce harmful effects on marine life caused by plants using once through cooling (OTC) technology. Morro Bay must comply by December 31, 2015.
7. The plant's inefficiency makes it unable to compete and operate in the open market as a merchant plant. Without a power purchase agreement, and with the looming 2015 deadline to replace OTC, the plant is no longer economically-viable to operate. Due to economic reasons, Dynegy decided to permanently close Morro Bay.
8. Morro Bay is no longer needed and, therefore, may be closed.
9. The Commission authorizes Dynegy to permanently retire Morro Bay.

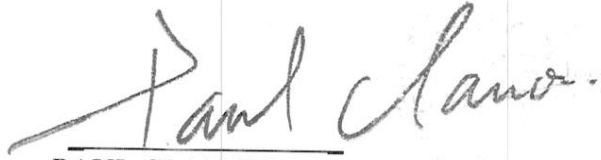
THEREFORE IT IS ORDERED THAT:

1. Dynegy is authorized to permanently retire Morro Bay, effective December 18, 2014.
2. This Resolution does not resolve any cost or ratemaking issues associated with procurement and RA requirements due to the plant's closure. 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 December 18, 2014, the following Commissioners voting favorably thereon:

October 24, 2014

A handwritten signature in dark ink that reads "Paul Clanon". The signature is written in a cursive style with a long horizontal stroke at the end.

PAUL CLANON
Executive Director

MICHAEL R. PEEVEY
President

MICHEL PETER FLORIO

CATHERINE J.K. SANDOVAL

CARLA J. PETERMAN

MICHAEL PICKER

Commissioners