BEFORE THE ENVIRONMENTAL APPEALS BOARD UNITED STATES ENVIRONMENTAL PROTECTION AGENCY WASHINGTON, D.C.

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In re:)	
)	
Pio Pico Energy Center)	Appeal Nos. PSD 12-04, 12-05
)	and 12-06
PSD Permit No. SD 11-01)	
)	

SIERRA CLUB'S BRIEF IN RESPONSE TO SUPPLEMENTAL BRIEFS

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 Exhibit 4 Sierra Club Comments, Fredonia Generating Station (Washington Permit No. PSD-11-05)
 Exhibit 5 Declaration of Travis Ritchie, April 29, 2013.

Petitioner Sierra Club submits this supplemental response in accordance with the Environmental Appeals Board's April 16, 2013 Order Rescheduling Filing Deadlines.

A. PPEC's Claim that It Would Construct the Same Plant Immediately, Even Without a PPA, Is Not Credible

Pio Pico Energy Center ("PPEC") does not clearly answer the Board's question as to whether it will construct the plant even without a power purchase agreement ("PPA") with SDG&E. PPEC states that it intends to proceed with the project, yet it includes approval of a revised PPA in its plans. Even if the Board construes PPEC's equivocation as a claim that it will construct the plant without an approved PPA, such an assertion would directly contradict PPEC's earlier representations to the California Public Utilities Commission ("CPUC") and ignores market realities. In *ex parte* meetings with CPUC Commissioners and staff to persuade the CPUC to alter its proposed decision denying SDG&E authorization to enter into the PPA, PPEC stated that "if the Proposed Decision ("PD") or Alternate Proposed Decision ("APD") were not revised to approve Pio Pico, *Pio Pico would be terminated*...." PPEC also provided Commission staff with statements from the project financier that if the CPUC were to deny the PPA, "Pio Pico will be terminated." PPEC cannot now credibly assert that financing is secure and construction will commence regardless of PPEC's failure to secure a PPA.

PPEC's new plan to operate as a merchant plant is also not credible. Due to historically low power prices in California, merchant gas plants lacking a PPA are not economically viable. The recently constructed Sutter plant threatened to shut down unless it secured a PPA.⁴ The Quail Brush Energy Project is suspended after the CPUC rejected its PPA with SDG&E in the same decision rejecting the PPEC PPA.⁵ Moreover, PPEC's contention that SDG&E would enter into short-term resource adequacy contracts⁶ is unfounded because the CPUC determined that the SDG&E service territory will have no capacity need until 2018, at the earliest.⁷ Notably, the April 5, 2013, letter from SDG&E included in PPEC's Supplemental Brief is silent with regard

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¹ PPEC's Supp. Br., (Dkt. #23) pp. 2-3; *Id.* at Exh. 1, Decl. of Gary Chandler ("Chandler Decl."), (Dkt. #23.01) ¶5.

² Ex. 1, *Pio Pico Energy Center Notice of Ex Parte Communications* (Feb. 8, 2013) (emphasis added).

³ *Id.* Attach. 1 at 8; see also California Public Utilities Commission, A.11-05-023, *Pio Pico Energy Center Notice of Ex Parte Communications* (Feb. 25, 2013) (ex parte with staff for Commissioner Peterman).

⁴ *See* Rueters, Calpine to Keep Calif. Sutter Power Plant Running (May 8, 2012) available at: http://www.reuters.com/article/2012/05/08/utilities-calpine-sutter-idUSL1E8G826L20120508.

⁵ EPA Region 9's Supp. Br. ("R9 Supp. Br."), (Dkt. #27) Attach. 1.

⁶ PPEC's Supp. Br., (Dkt. #23) p. 7; Chandler Decl. (Dkt. #23.01) ¶ 10.

⁷ CPUC Final Decision, (Dkt. #19) p.15.

to a resource adequacy contract. PPEC's ability to secure a PPA in the future is also far from certain. The CPUC gave SDG&E the option to file a new application for new capacity in 2018, which could include an amended PPA with PPEC. There is no assurance that PPEC will be selected by SDG&E as a result of ongoing negotiations, nor that the CPUC would approve the new PPA even if it is. Like the original CPUC application, any future application will be subject to significant scrutiny, extended evidentiary hearings, and objections by multiple parties. The CPUC also expressly rejected the contention that PPEC was needed to integrate renewable resources: "To the contrary, the Commission has yet to determine the particular operational characteristics of resources that are needed to support renewables resources integration or to set procurement targets for them...We cannot, on this record, find that the [Pio Pico PPA is] needed to support renewable resources integration." In short, an amended PPA is far from certain.

PPEC cannot have it both ways. When it suited its cause, PPEC represented to the CPUC that the plant would not be financed or constructed absent a PPA. PPEC cannot now credibly claim that financing is unrelated to a PPA and that it will commence construction and operate the plant even without a PPA.

B. Rejection of the PPA Invalidates the PSD Permit and BACT Analysis

The Region premised its permit decision on the very specific operational needs identified in PPEC's PPA with SDG&E. That PPA no longer exists, and the purpose it was designed to serve is now uncertain and subject to change. The Region blindly accepts PPEC's claim that the "purpose . . . of the PPEC will not change as a result of the CPUC's decision." But it has changed. As the Region notes, PPEC's application reported that the selected turbine was designed "for *peaking and intermediate* solutions" and that "PPEC is designed to directly satisfy the San Diego area demand for *peaking and load-shaping* generation...." The latest characterization of the project's purpose, however, is replete with uncertainty. Purportedly, PPEC will "sell peaking power into the California wholesale electricity market *and/or* enter into

⁸ PPEC's Supp. Br., Corrected Ex. 2 (Dkt. #24).

⁹ CPUC Final Decision, (Dkt. #19) Ordering ¶ 3, p.27.

¹⁰ CPUC Final Decision, (Dkt. #19) p.18. The language of the CPUC decision rejecting the need for PPEC to integrate renewable resources is clear, and PPEC's assertion that Sierra Club misunderstood this point is wrong. PPEC's Supp. Br., (Dkt. #23) p.6.

¹¹ R9 Supp. Br. (Dkt. #27) at 4.

¹² PSD Permit App. (R9 Resp. to Pet. For Review Ex. D) (Dkt. #12) at PSD 2.1 (emphasis added); *see* R9 Supp. Br. (Dkt. #27) at 6.

short term resource adequacy contracts with SDG&E *until* SDG&E accepts power from the Project under the *amended* PPTA."¹³ So PPEC will either be a peaking plant or operate in an unidentified manner under resource adequacy contracts (or both) until PPEC negotiates a revised and undefined PPA with SDG&E and the CPUC approves it – all of which, of course, may never happen. To complicate matters further, PPEC now disavows any intent to operate the plant as an "intermediate" load unit, and insists that from the start it "applied to construct a peaking generation plant,"¹⁴ even though it sought a permit that would allow it to operate at nearly 50% capacity factor. ¹⁵ These versions of the story cannot be squared. PPEC's claims about its plans are fluid and nebulous at best, and those claims appear to be opportunistic depending on what suits their preferences before a regulator. A remand is required so that the Region can take public comment on these changes and reconsider the permit limits.

1. Following the CPUC's Decision, It is Unclear Whether PPEC Will Operate as Only a Peaking Unit or as a Peaking and Intermediate Load-Shaping Unit.

PPEC now asserts that it will "operate the PPEC Energy Center initially as a merchant plant" or "sell power to SDG&E under a short term capacity contract..." This new plan could result in very different operating characteristics than what PPEC stated in its application, which requires a reexamination of the PSD permit. 40 C.F.R. §52.21(r)(1). Instead of operating as a load-shaping facility to balance renewable integration for SDG&E, it would operate only when called on by the California Independent System Operator to meet regional energy and capacity demands. Tellingly, PPEC conveniently stopped referring to the project as an "intermediate-class" resource and now refers to it only as a peaking facility. ¹⁷

PPEC states that the project will supply peaking generation and criticized Sierra Club for "seeming to infer that PPEC may be operated as an 'intermediate' baseload generation unit."¹⁸

¹³ R9 Supp. Br. (Dkt. #27) at 5.

¹⁴ PPEC Supp. Br. (Dkt. #23) at 7-8.

¹⁵ PSD Permit App. (R9 Resp. to Pet. For Review Ex. D) (Dkt. #12) at PSD 3.17 ("The project would have a maximum annual capacity factor of approximately 46 percent (4,000 hours per year)").

¹⁶ Chandler Decl., ¶ 7 (Dkt. #23.01).

¹⁷ See, e.g., id. at ¶ 9 ("the Pio Pico Energy Center would supply local capacity and peaking generation..."); April 11, 2013 Hr'g Tr., p.13 ("it's still going to be constructed as a peaking plant"); id. at p.24 ("In the end, Pio Pico decided to build a peaking plant"); contra, Resp. to Comments (Dkt. #3.03) at p. 28 ("Applicant comments: ...The project's purpose is to provide 300 MW of peaking and intermediate-class resource"); contra, PSD Application (SC Pet., Ex. 7) (Dkt. #3.07) ("These SDG&E RFO objectives are listed below:...100 megawatts (MW) of peaking and intermediate-class resources); contra Ex. 2, Admin. Re. #I.56, p.2 ("PPEC was designed to meet SDG&E's stated need for peaking/intermediate capability).

¹⁸ PPEC's Supp. Br., (Dkt. #23) p.7.

Sierra Club has never suggested that the plant would operate as a baseload unit, and the inference that the facility is permitted to operate as an intermediate unit is well grounded in the record. Throughout the process, the Region assumed that PPEC would operate as a peaking and intermediate load-shaping facility. 19 As a result of this load-shaping function, which the CPUC has now called into question, ²⁰ the PSD permit contains a very high annual fuel limit equivalent to 4,337 full load hours. ²¹ That limit is close to 50% annual capacity factor and is inconsistent with a peaking plant.

PPEC is permitted as an intermediate facility operating 4,337 hours per year, far more than the plant in In re Kendall New Century Developments, 11 E.A.D. 40 (EAB 2003), on which PPEC relies.²² There, the permit ensured that the plant was truly a peaking facility by limiting operation to 3,300 hours per year. *Id.* at fn. 16.²³ The Board distinguished "non-peaking facilities, such as base-load or load-following facilities," from peaking units. Id. at 51. Kendall illustrates that PPEC has been permitted as an intermediate facility, not a peaking facility.

The uncertainty regarding PPEC's operations arising from the rejection of the PPA means that the Region cannot rely on the specific operational limits it identified to justify a constrained BACT analysis that eliminates a viable control technology (i.e. efficiency). The Region's BACT analysis assumptions are no longer valid, and the permit should be revised accordingly.

2. CPUC's Disapproval of the PPA Undermines the Region's Decision to Reject Cleaner Technology as Infeasible Based on Narrow PPA Design Parameters.

PPEC's argument presumes that the CPUC rejected its proposed PPA with SDG&E solely on the basis that the contract was premature and that the CPUC will approve an identical PPA if only the dates for delivery are changed.²⁴ No one knows what any future PPEC PPA will look like. SDG&E may amend parameters or issue an entirely new RFO to meet its future needs.²⁵ The CPUC expressly found that there will not be a local capacity need until early 2018,

¹⁹ R9 Resp. to Pet., (Dkt. #11) pp. 1, 13, 16-17, 19-21; R9 Supp. Br., (Dkt. #27) pp.5, 7-11; Fact Sheet (SC Pet. Ex. 2) (Dkt. #3.02) pp. 10, 18.

²⁰ CPUC Final Decision, (Dkt. #19) p.18.
²¹ PSD Permit (SC Pet. Ex. 1) (Dkt. #3.01) at p.7; *see, also,* SC Pet. (Dkt. #3) at p.6.

²² PPEC Supp. Br. at p.8.

²³ 3,300 hours is still too high for a peaking facility. EPA has noted that peaking units typically run less than 2,500 hours annually. Standards of Performance for Greenhouse Gas Emissions for New Stationary Sources: Electric Utility Generating Units, 77 Fed. Reg. 22432 (April 13, 2012).

²⁴ April 11, 2013 Hr'g Tr., p.14.

²⁵ CPUC Final Decision, (Dkt. #19) Ordering ¶ 3, p.27.

if then. ²⁶ While it authorized SDG&E to issue a new RFO, or to return with an amended PPA for PPEC, ²⁷ the CPUC did not order SDG&E to amend its PPA with PPEC nor did it determine that it would approve an amended PPA. ²⁸ While SDG&E is free to submit an amended PPA, there is no guarantee that it will be approved. As discussed above, PPEC repeatedly represented to the CPUC that any disruption of the PPA threatens the viability of the project. At this point, PPEC cannot know whether it will have a PPA even for 2018 delivery until the CPUC takes final action on a new application for an amended PPA. Importantly, the CPUC decision does not endorse the design attributes of the proposed project. It specifically rebuts one of the central attributes of the project as claimed by PPEC and relied upon by the Region – that the particular designs in the PPA were needed to support the integration of renewables. ²⁹ Instead, the Commission stated that the 2012 long term procurement plan docket would address the operational characteristics of resources needed to support renewables and set procurement targets for them. ³⁰

By rejecting both the need for PPEC's capacity until 2018 and the basis for operating the plant as a load-shaping unit to integrate renewables, the CPUC's decision fundamentally alters the purpose of the facility. EPA's BACT analysis expressly premised its rejection of cleaner technologies on the specific parameters of the PPA. In particular, the Region set very high operating limits based on the PPA's requirement to operate the facility as an intermediate load-shaping plant to integrate renewables, and accepted PPEC's assertion that fast-start combined cycle gas turbines were incompatible with the integration of renewable energy. Therefore, in the absence of those foundational elements, the Region must reconsider its BACT analysis to either (1) lower the annual operating limit to that of a true peaking facility, or (2) reconsider whether a CCGT is feasible given the elimination of the narrowly defined project parameters in the PPA.

The Region's Supplemental Brief tries to rewrite its justification documents in this case to substitute generic references to peaking power plants rather than the express reliance on the PPA's specific terms that are actually included in the record. Such *post hoc* revisions of the record are not only inappropriate, they are inaccurate. The Region's BACT analysis expressly eliminated CCGT technology as infeasible because of the "purpose" of the project, which the Region defines as "meet[ing] the specific objectives of SDG&E's 2009 Request for Offers

²⁶ The 2018 need is conditioned on the Enicina once-through cooling plant's assumed retirement. *Id.* at p.15. 27 *Id.* at Ordering ¶ 3, p.27.

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²⁸ Contra, PPEC's Supp. Br., (Dkt. #23) pp. 5-6; contra, April 11, 2013 Hr'g Tr., p.14.

²⁹ CPUC Final Decision, (Dkt. #19) p.18.

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(RFO) and the resulting contractual requirements contained in the PPA between SDG&E and PPEC LLC."³¹ The Region expressly rejected cleaner technology on the basis that it was inconsistent with the PPA.³² Following the CPUC's rejection of the PPA and the RFO, the specific design parameters of the RFO and PPA are no longer a limiting factor in the Region's analysis.³³ At a minimum, the permit should be remanded to the Region to explain why the characteristics of the CCGT would be infeasible to meet the "fundamental basis" of the project in absence of the PPA's specific contractual requirements related to size and ramp rate.³⁴

3. The Public Must Be Allowed an Opportunity to Comment on Substantial New Issues

The issues before the Board would be entirely different if the Region had based its BACT analysis and permit on generic concepts of peaking or intermediate load generation instead of the specific PPA. Sierra Club's comments on the originally proposed PSD permit focused on the ability of CCGT's to meet the project parameters as defined by the PPA's contractual requirements with SDG&E. Sierra Club expressly framed its comments based on the following definition of the project's purpose: "The purpose of the project is to supply [SDG&E] with energy to meet SDG&E's 2009 Request for Offers and resulting contractual requirements"; "The Request for Offers and contract with SDG&E requires the applicant..."; "To fulfill its contractual obligations..." The elimination of the PPA raises substantial new questions concerning the basis of the BACT analysis, and therefore the permit should be remanded to allow interested persons an opportunity to comment on the information. See 40 C.F.R. § 124.14(b)(3); cf. Indeck-Elwood, LLC,13 E.A.D. 126, 148 (EA.B. 2006).

Sierra Club's comments related to CCGT as a feasible BACT control focused almost entirely on the technical capabilities of a CCGT to meet the specific contractual obligations related to project size and ramp rate of the RFO and corresponding contractual requirements to

³² See, e.g., Resp. to Comments (SC Pet. Ex. 3) (Dkt. #3.03) p.30 (responding that Sierra Club's suggestion would be "inconsistent with the power purchase agreement that serves the fundamental basis for the project").

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³¹ Fact Sheet (SC Pet. Ex. 2) (Dkt. #3.02) p.16.

³³ PPEC provides no support for its assertion that it "must still, as a contractual matter, build the plant so that it complies with the technical requirements of SDG&E's 2009 Request for Offer." (PPEC's Supp. Br., p.9).

³⁴ PPEC overstates the holding of <u>Prairie State Generating Co.</u>, 13 E.A.D. 1, 23 (EAB 2006). <u>Prairie State</u> stands for the premise that the applicant may define the "the goals, objectives, purpose, or basic design for the proposed facility," but it does not allow the applicant to avoid changing design elements that may "achieve pollutant emissions reductions without disrupting the applicant's basic business purpose." <u>See, also, Sierra Club v. U.S. EPA</u>, 499 F.3d 653, 657 (7th Cir. 2007) (distinguishing between a difference in control technology and a difference in redesign of a project's purpose).

³⁵ Sierra Club Comments 7-4-2012 (SC Pet. Ex. 4) (Dkt. #3.04) p.2-3 (emphasis added).

provide a peaking and intermediate-class resource. In contrast, Sierra Club only briefly addressed (three sentences) the apparent conflict between defining the project as a "peaking" facility in some instances and defining it as a "peaking and intermediate-class resource" in other instances. Sierra Club did not elaborate on this issue in detail in part because the project purpose was defined throughout the application and the Region's Fact Sheet based on the need for the project as an intermediate resource to integrate renewable. In the absence of the PPA, however, and especially if informed of PPEC's apparent revised purpose to provide only peaking power, Sierra Club would have addressed the permit's high annual operating hours. PPEC's current plan to operate as a merchant plant is an alternative that Sierra Club did not have an opportunity to comment on. 42 USC § 7475(a)(2).

Sierra Club has raised the issue of a peaking unit's annual operating hours in other proceedings. Sierra Club submitted comments on July 3, 2012 – prior to its PPEC comments – addressing the distinction between peaking units and intermediate or baseload units in EPA's greenhouse gas NSPS rulemaking docket. More recently, Sierra Club submitted project-specific comments on a proposed peaking facility, the Fredonia Power Generating Station, in Washington State. For that facility, which included a proposed annual operating limit of approximately 2,880 hours, Sierra Club's comments focused substantial discussion (four pages plus a detailed technical attachment) on the typical hours that a peaking unit operates compared to the proposed permit limits. The discussion of CCGT's was far more limited than here.

The Sierra Club's comments and the Petition here raised the issue of the appropriateness of the using a PPA's specific requirements, written to a particular technology, to define BACT.⁴¹ PPEC and the Region responded by relying heavily on that PPA and its specific requirements. In short, the central theme of this case was the PPA's contractual requirements between PPEC and SDG&E; it is too late and too contradictory for the Region to now substitute a new permitting basis.

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³⁶ *Id.* at p.3-5.

³⁷ See fn. 19, supra.

³⁸ Ex. 3, Excerpt of Sierra Club et al. Corrected Comments pp.23-28, July 9, 2012. *EPA's proposed Standards of Performance for Greenhouse Gas Emissions for Stationary Sources: Electricity Utility Generating Units*.

³⁹ Ex. 4, Sierra Club Comments re Fredonia Power Generating Station, April 17, 2013.

⁴⁰ *Id.* at pp.7-10.

⁴¹ SC Pet. (Dkt. #3) at pp. 13-18.

DATED this 29th day of April, 2013.

Respectfully submitted,

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STATEMENT OF WORD COUNT

I hereby certify that this Brief in Response to Supplemental Briefs submitted by Sierra Club, exclusive of the caption page, signature blocks, table of contents, table of authorities, this statement of word count, certificate of service and attachments, contains **3,240** words, as calculated using Microsoft Word word-processing software.

_____/s/ Travis Ritchie______
Travis Ritchie

CERTIFICATE OF SERVICE

I hereby certify that I caused a copy of SIERRA CLUB'S BRIEF IN RESPONSE TO SUPPLEMENTAL BRIEFS in the matter of Pio Pico Energy Center, EAB Appeal Nos. PSD 12-04, PSD 12-05, PSD 12-06, to be served by electronic mail upon the persons listed below.

Dated April 29, 2013

__/s/ Travis Ritchie_____

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