NRG Energy, Inc.
West Region
5790 Fleet Street, Suite 200
Carlsbad, CA 92008
Phone: 760.710.2156
Fax: 760.710.2158

April 22, 2013

Mr. Henry Pourzand
SCAQMD
21865 Copley Drive
Diamond Bar, CA 91765

RE: Proposed Rule 1304.1: Electrical Generating Facility Annual Fee for Use of Offset Exemption

Dear Mr. Pourzand:

NRG Energy, Inc. ("NRG") appreciates the opportunity to submit this second comment letter on the South Coast Air Quality Management District's ("District") Proposed Rule 1304.1 ("1304.1") following the 4th Working Group meeting. As noted in our comment letter of February 19, 2013, NRG owns the El Segundo Generating Station ("El Segundo") and Etiwanda Generating Station in the South Coast air basin, which operate steam boiler units that would be subject to the Proposed Rule if they were proposed to be replaced under Rule 1304(a)(2).

NRG is currently commissioning the El Segundo Energy Center ("ESEC") - a 573 MW gross / 560 MW net fast-start, air-cooled plant consisting of two 1x1 combined-cycle trains (Units 5 through 8); ESEC is slated to commence commercial operation summer 2013. ESEC is offset by Rule 1304 through the retirement and removal of Units 1 and 2 (175 MW net each) and the shutdown of Unit 3 (335 MW net) to achieve the needed offsets for the 573 MW gross output of ESEC. The retirement of Unit 3 results in a surplus retirement of approximately 112 MW for the current phase of repowering of El Segundo. NRG pursued the shutdown of Unit 3 and thereby discontinue cooling water intake for this steam boiler unit in advance of the State Water Resources Control Board's once-through cooling policy deadline of December 31, 2015.

In our February 19 comment letter, we also noted that we were preparing to submit permit applications for a project to replace Units 3 and 4 at our El Segundo facility. On March 15, NRG filed an application with the SCAQMD for a Permit to Construct new advanced gas turbines, including combined cycle generation to replace Units 3 and 4. The proposed project will utilize the MW capacity of Unit 4 (335 MW) as well as the surplus MW shutdown for the current phase of repowering the El Segundo Generating Station. The proposed project will achieve the retirement of the remaining once-through cooled capacity at the El Segundo facility while continuing to meet local reliability needs. The project intends to utilize Rule 1304(a)(2) to provide the necessary emission reduction credits ("ERCs") to satisfy applicable New Source Review requirements.

NRG supports the goals of the SCAQMD to reduce air pollution, and repowering the El Segundo facility furthers those goals by replacing aging, relatively inefficient generation with new, state-of-the-art technology that is cleaner, more efficient, and better matched to today's electricity needs. Nonetheless, the Proposed Rule would unquestionably increase the cost of NRG's proposed additional new generation at El Segundo , which would in turn increase the cost of electricity to ratepayers. Numerous stakeholders have raised concerns regarding the potential impacts of the Proposed Rule to ratepayers, and NRG shares those concerns. NRG appreciates that the SCAQMD is conducting a full review of the potential impacts of the Proposed Rule pursuant to the California Environmental Quality Act ("CEQA").

NRG's February comment letter focused on two specific concerns that would affect the viability of NRG's proposed project and similar projects by imposing unacceptable financial risks: (1) the substantial, upfront five-year payment that would necessarily precede critical project financing, coupled with (2) a refund mechanism that would make a significant amount of the fee non-refundable, again, before project financing. The revisions to the Proposed Rule have assuaged these concerns to a considerable extent. NRG is pleased to see that the upfront payment has been reduced from five years to one year, that the fee amount itself has been reduced, and that the fee is fully refundable if requested prior to the commencement of operation. These are significant improvements to the Proposed Rule and demonstrate that SCAQMD has been receptive to stakeholder comments and concerns. NRG believes that with the revisions, the Proposed Rule would no longer, by itself, threaten the viability of NRG's continued plans to repower El Segundo. That said, there remain several important policy questions related to the potential impacts on ratepayers, implications for ERC markets, potential delays to replacing existing once-through cooling generation due to escalating costs for new generation, and SCAQMD's use of the proposed fees, among other policy considerations, that demand further discussion.

NRG looks forward to continued participation in the 1304.1 Working Groups. If you have any questions, please contact George Piantka at (760) 710-2156 or at George.Piantka@nrgenergy.com, or Peter Landreth at (925) 427-3567 or at Peter.Landreth@nrgenergy.com.

Sincerely,

George L. Piantka

George L. Piantka, PE
Director of Environmental Business
NRG Energy, Inc., West Region

cc: John Chillemi, NRG West Region
Peter Landreth, NRG West Region