June 30, 2010

VIA FEDEX

CALIFORNIA ENERGY COMMISSION
Attn: Docket No. 07-AFC-3
1516 Ninth Street, MS-4
Sacramento, California 95814-5512

Re: CPV Sentinel Energy Project: Docket No. 07-AFC-3

Dear Sir/Madam:

Pursuant to California Code of Regulations, title 20, sections 1209, 1209.5, and 1210, enclosed herewith for filing please find Applicant’s Rebuttal to the Declaration of Michael Harris.

Please note that the enclosed submittal was filed today via electronic mail to your attention and served on all parties to the above-referenced project.

Very truly yours,

Paul E. Kihm
Senior Paralegal

Enclosure

cc: CEC 07-AFC-3 Proof of Service List (via email and U.S. Mail)
   Michael J. Carroll, Esq. (w/encl.)
   Joshua Bledsoe, Esq. (w/encl.)
On behalf of CPV Sentinel, LLC (Applicant) for the CPV Sentinel Energy Project (07-AFC-03) (Project), we submit this rebuttal to the declaration of Michael Harris submitted by Intervenor California Communities Against Toxics (CCAT). 1

In his declaration, Mr. Harris argues that the South Coast Air Quality Management District (SCAQMD) Determination of Compliance (DOC) 2 for the Project is invalid because the emission offset strategy provided for in Assembly Bill 1318 (including California Health and Safety Code Section 40440.14) has not been incorporated into the California State Implementation Plan (SIP), and therefore, according to Mr. Harris, the offsets do not comply with federal law.

As a preliminary matter, Mr. Harris’s analysis suffers from the failure to distinguish between the federal enforceability of the emission offsets, and the federal approval of the mechanism by which the offsets will be made available to the Project. Furthermore, and most importantly, Mr. Harris’s arguments put the cart before the horse. Approval of the proposed SIP amendment is not a prerequisite to SCAQMD’s issuance of the DOC or the California Energy Commission’s

1 While Mr. Harris’s declaration is characterized by CCAT as expert testimony, it consists entirely of legal argument that would typically be provided during the briefing stage of the proceedings. Applicant’s rebuttal, therefore, consists of legal analysis provided by counsel.

2 The DOC includes the Final Determination of Compliance dated September 2, 2008 (FDOC), the Addendum to the Determination of Compliance dated March 2, 2010 and the Revision to the Addendum to the Determination of Compliance dated May 12, 2010.
(CEC) certification of the Project. To the extent that the proposed SIP amendment is necessary
at all, it need not be approved by the U.S. Environmental Protection Agency (U.S. EPA) until
commencement of Project operations. Moreover, even if one took an overly conservative view
that the SIP amendment, to the extent required, must be fully approved prior to issuance of the
New Source Review (NSR) permit to construct, that permit has not yet been issued by the
SCAQMD and need not be issued for CEC approval.

I. APPROVAL OF SIP AMENDMENT IS NOT REQUIRED UNTIL
COMMENCEMENT OF OPERATIONS

The fact that the PM10 and SOx emission offset strategy for the Project has not yet been
approved into the SIP does not constitute a roadblock for SCAQMD issuance of the DOC or
CEC certification of the Project under state or federal law. Mr. Harris himself quotes Section
173 of the federal Clean Air Act, which provides that offsets need not be obtained until a source
is to commence operation: “permits to construct and operate may be issued if ... by the time the
source is to commence operation, sufficient offsetting emissions reductions have been
obtained.” The same section of the federal Clean Air Act goes on to say that “[s]uch emission
reductions shall be, by the time a new or modified source commences operation, in effect and
enforceable.” The CEC Staff Assessment Air Quality Addendum for the Project recognizes this
aspect of federal law: “Under federal NSR, offsets are required prior to start of operation.”

Furthermore, U.S. EPA has provided focused guidance regarding this very issue:

In such circumstances, creditable offsets have been identified, quantified, adopted as a matter of State law, and submitted to EPA, but the EPA administrative process to approve the measure may not be completed by the time the source seeks to commence construction. ... In such cases, it may not be feasible for EPA’s administrative process needed to make the offsets federally enforceable to be completed within the ordinary timeframe for issuing a construction permit. Thus, EPA believes it is appropriate in these cases to retain the policy announced ... that a construction permit may be issued on the basis of a federally-enforceable commitment that the source may not commence operation until the offsets are made federally enforceable by EPA approval of the SIP measure.

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4 42 U.S.C. § 7503(c)(1) (emphasis added).
5 Energy Commission, Final Staff Assessment Air Quality Addendum, CEC-700-2008-005-FSA-
6 EPA, Memorandum from John Seitz, Director, Office of Air Quality Planning and Standards to
Regional Directors, Offsets Required Prior to Permit Issuance, at 5-6 (6/14/1994).
In the Warren-Alquist Act, the California Legislature adopted similar timing requirements for acquisition of emission offsets by project applicants: "The commission may not find that the proposed facility conforms with applicable air quality standards ... unless the applicable air pollution control district or air quality management district certifies ... that complete emissions offsets for the proposed facility have been identified and will be obtained by the applicant ... prior to commencement of the operation of the proposed facility."\(^7\)

Finally, there is precedent for CEC approval of projects with virtually identical facts.\(^8\) The CEC approved the Victorville 2 Hybrid Power Project over objections from Intervenor CURE that "road paving ERC’s may not legally be used by the Applicant because District Rule 1406 (Rule), allowing the use of such credits, has not yet been approved [into the SIP] by the USEPA."\(^9\) Just as the SCAQMD here has approved of the CPV Sentinel Energy Project’s offset package,\(^10\) the Energy Commission noted that Applicant City of Victorville’s "emissions mitigation plans ... were approved by the District in its Final Determination of Compliance."\(^11\) The CEC then pointed out that "EPA itself allows issuance of permits to construct and operate as long as, by the time the source of emissions is to commence operations, sufficient offsetting emissions reductions have been obtained."\(^12\) Accordingly, the CEC denied CURE’s request that the Commission “require the City to identify an alternate source of federally enforceable PM10 offsets prior to the Commission certifying the Project" and approved the Victorville 2 Hybrid Power Project.\(^13\)

II. **EVEN IF ONE WERE TO INTERPRET APPLICABLE LAW TO REQUIRE APPROVAL OF THE SIP AMENDMENT PRIOR TO ISSUANCE OF A PERMIT TO CONSTRUCT BY THE SCAQMD, HARRIS’S CLAIMS WOULD BE PREMATURE**

Even if one were to adopt the more restrictive view that approval of the SIP amendment is required prior to issuance of a permit to construct for the Project, as opposed to prior to commencement of operation, which we do not, Mr. Harris’s claims would fail. This is because the SCAQMD has not yet issued a permit to construct for the Project and does not intend to do so until after CEC certification of the Project. Under SCAQMD rules, the DOC does not act as

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\(^7\) Public Resources Code § 25523(d)(2) (emphasis added).


\(^9\) Id.


\(^12\) Id. (internal citations omitted).

\(^13\) Id. (internal quotations omitted).
the permit to construct for the project.\textsuperscript{14} Rather, after CEC certification of the Project, the SCAQMD will take the additional step of issuing a permit to construct.

III. CONCLUSION

Contrary to Mr. Harris's views, neither SCAQMD issuance of the DOC or CEC certification of the Project requires prior revision of the SIP in order to be fully compliant with state and federal law. To the extent that the SIP revision is required at all, the deadline for its approval by U.S. EPA is commencement of operations of the Project.

IV. REQUEST FOR OFFICIAL NOTICE

Applicant requests that the Committee take official notice, pursuant to Section 1213 of the CEC regulations,\textsuperscript{15} of the documents cited herein; said documents support CEC Staff's finding that the Project's "offsets all meet the integrity criteria for qualifying as offsets, meaning they are all Real, Permanent, Quantifiable, Enforceable and Surplus, as required by federal law."\textsuperscript{16}

DATED: June 30, 2010

Respectfully submitted,

\[\text{Signature}\]

Michael J. Carroll
of LATHAM & WATKINS LLP
Counsel to Applicant

\textsuperscript{14} California air district rules vary on this point, and in some jurisdictions the DOC does act as a permit to construct, but that is not the case in SCAQMD.

\textsuperscript{15} 20 CCR § 1213.

STATE OF CALIFORNIA
ENERGY RESOURCES
CONSERVATION AND DEVELOPMENT COMMISSION

In the Matter of: Docket No. 07-AFC-3

Application for Certification, PROOF OF SERVICE
for the CPV SENTINEL ENERGY PROJECT
(May 21, 2010)

APPLICANT

Mark Turner
Project Manager
CPV Sentinel, LLC
55 Second Street, Suite 525
San Francisco, California 94105
mturner@cpv.com

Dale Shileikis
Vice President
URS Corporation
Post Montgomery Center
One Montgomery Street, Suite 900
San Francisco, CA, 94104-4538
dale_shileikis@urscorp.com

INTERESTED AGENCIES

California ISO
E-mail preferred
e-recipient@caiso.com

Mohsen Nazemi
South Coast Air Quality Management District
21865 E. Copley Drive
Diamond Bar, California 91765-4178
mnazemi@aqmd.gov

OC1070457.1
INTERVENORS

**Angela Johnson Meszaros**  
CA Communities Against Toxics  
1107 Fair Oaks Avenue, #246  
South Pasadena, CA 91030  
Angela@CleanAirMatters.net

**Shana Lazerow**  
Communities for a Better Environment  
1440 Broadway, Suite 701  
Oakland, California 94612  
slazerow@cbecal.org

ENERGY COMMISSION

**James D. Boyd**  
Vice Chair and Presiding Member  
CALIFORNIA ENERGY COMMISSION  
1516 Ninth Street  
Sacramento, California 95814-5512  
jboyd@energy.state.ca.us

**Kenneth Celli**  
Hearing Officer  
CALIFORNIA ENERGY COMMISSION  
1516 Ninth Street  
Sacramento, California 95814-5512  
kcelli@energy.state.ca.us

**John Kessler**  
Project Manager  
CALIFORNIA ENERGY COMMISSION  
1516 Ninth Street  
Sacramento, California 95814-5512  
jkessler@energy.state.ca.us
Tim Olson
Advisor to Commissioner Boyd
CALIFORNIA ENERGY COMMISSION
1516 Ninth Street
Sacramento, California 95814-5512
tolson@energy.state.ca.us

Caryn Holmes
Staff Counsel
CALIFORNIA ENERGY COMMISSION
1516 Ninth Street
Sacramento, California 95814-5512
cholmes@energy.state.ca.us

Jennifer Jennings
Public Adviser
CALIFORNIA ENERGY COMMISSION
1516 Ninth Street
Sacramento, California 95814-5512
Publicadviser@energy.state.ca.us
DECLARATION OF SERVICE

I, Paul Kihm, declare that on June 30, 2010, I served and filed copies of the attached:

APPLICANT’S REBUTTAL TO DECLARATION OF MICHAEL HARRIS

to all parties identified on the Proof of Service List above in the following manner:

California Energy Commission Docket Unit

Transmission by depositing one original paper copy with FedEx overnight mail delivery service at Costa Mesa, California, with delivery fees thereon fully prepaid and addressed to the following:

CALIFORNIA ENERGY COMMISSION
Attn: DOCKET NO. 07-AFC-3
1516 Ninth Street, MS-4
Sacramento, California 95814-5512
docket@energy.state.ca.us

For Service to All Other Parties

Transmission via electronic mail to all email addresses on the Proof of Service list; and

by depositing one paper copy with the United States Postal Service via first-class mail at Costa Mesa, California, with postage fees thereon fully prepaid and addressed as provided on the Proof of Service list to all parties.

I further declare that transmission via U.S. Mail was consistent with the requirements of California Code of Regulations, title 20, sections 1209, 1209.5, and 1210.

I declare under penalty of perjury that the foregoing is true and correct. Executed on June 30, 2010, at Costa Mesa, California.

Paul Kihm