



South Coast Air Quality Management District

21865 Copley Drive, Diamond Bar, CA 91765-4178
(909) 396-2000 • www.aqmd.gov

DOCKET
06-AFC-2
DATE APR 01 2008
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April 1, 2008

Mr. Ron Vawter
AES Highgrove, LLC
690 Studebaker Road
Long Beach, CA 90803

Subject: AES Highgrove Power Plant Project, 06-AFC-02, AQMD Application numbers
458297-458304, facility ID 115666

South Coast Air Quality Management District

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As you know, the South Coast Air Management District (AQMD) has been evaluating your applications for a permit to construct the AES Highgrove power plant for a Determination of Compliance (DOC) and a Title V permit. However, AQMD has recently received and processed a change in title of PM10 and SOx Emission Reduction Credits (ERCs) previously held by AES Highgrove LLC (AES) to Cantor-Fitzgerald. These PM10 and SOx ERCs previously held by AES were identified to be used as offsets for the permitting of your proposed 300 MW power plant project. As the total amount of PM10 ERCs and the proposed interpollutant trade of SOx-for-PM10 ERCs previously held were not adequate to fully offset the proposed power plant operations, AES has been seeking access to AQMD's Rule 1309.1 Priority Reserve for the balance of PM10 offsets.

AQMD has determined that the recent change in title of these ERCs now prevents AES from being qualified to access the Priority Reserve. Specifically, Rule 1309.1 (d)(6) states

"If a subject facility holds an ERC, then that ERC must be used before access to the Priority Reserve is allowed for that pollutant."

In addition, by the sale of ERCs, AES may also be in violation of Rule 1309.1 (c)(3), which states that

The applicant conducts a due diligence effort [based on an ERC cost not to exceed the applicable mitigation fee for that pollutant at the location of the EGF and as specified in subdivision (g)] approved by the EO to secure available ERCs for requested PR pollutants. Such

Mr. Ron Vawter

-2-

April 1, 2008

efforts shall include securing available ERCs including those available through state emission banks or creating ERCs through SIP approved credit generation programs as available; and..."

Since AQMD has determined that AES no longer qualifies to access the Rule 1309.1 Priority Reserve for PM10 credits, please submit documentation to the AQMD identifying the necessary offsets for all pollutants required for the permitting of the proposed power plant. Please submit this in writing by April 30, 2008 in order for AQMD to be able to determine whether or not AES Highgrove can comply with the requirements to offset emission increases pursuant to Rule 1303(b)(2) and to continue processing your applications. If you have any questions please contact Mr. Mike Mills at (909) 396-2578.

Sincerely,

Mohsen Nazemi, P.E.
Deputy Executive Officer
Engineering and Compliance

cc: Robert Worl, CEC

Barry Wallerstein, AQMD

Kurt Wiese, AQMD

Mike Mills, AQMD

John Yee, AQMD

Sincerely,

Mohsen Nazemi, P.E.
Deputy Executive Officer
Engineering and Compliance

- Mr. Ron Vawter, CEC
- Barry Wallerstein, AQMD
- Kurt Wiese, AQMD
- Mike Mills, AQMD
- John Yee, AQMD

Via Certified Mail
Return Receipt Requested