

CALIFORNIA ENERGY COMMISSION
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**Systems Assessment and
 Facilities Siting Division**

FILE: 06-AFC-2

PROJECT TITLE: Highgrove Project

<input checked="" type="checkbox"/> Telephone	NA	<input type="checkbox"/> Meeting Location: electronic mail
NAME:	Robert Worl	DATE: 9/22/08`
WITH:	Don Vawter, AES	
SUBJECT:	AES and SCAQMD Discussions re emission offset for Highgrove	

COMMENTS:

(Vawter response to Worl): The time table for demonstrating contemporaneousness regarding the shutdown and the development is as soon as possible (1 - 2 weeks). Once we have done that, we will sit down with the District again to chart a path forward.

Thanks - Don

From: Robert Worl [<mailto:Rworl@energy.state.ca.us>]
 Sent: Mon 9/22/2008 11:50 AM
 To: Don Vawter
 Cc: Lisa DeCarlo
 Subject: RE: SCAQMD Discussions: Can you summarize for me?

Don, thank you for the detailed discussion, and explanation of the potential route for going forward with the project. Do you have a potential timeframe in mind regarding a clear regulatory path with SCAQMD?

Also, I will discuss this internally with our team. Again, Thank you very much for the summary!

Regards,
 Bob Worl

Robert Worl
 (916) 651-8853 (Office)
 (916) 798-6096 (Cell)
rworl@energy.state.ca.us

>>> "Don Vawter" <Don.Vawter@AES.com> 9/22/2008 11:42 AM >>>

The discussions with the SCAQMD were fairly encouraging. Highgrove was a thermal generation plant once owned by SCE. Any repowering of that station is exempt from modeling and ERC requirements up to the original nameplate rating of the facility (~160 MWs). The SCAQMD has agreed to grant Highgrove the exemption if we can demonstrate that the development of Highgrove was concurrent with the shutdown of Highgrove. I am very confident we will be able to do that to SCAQMD's satisfaction.

If Highgrove is developed into a 3 X LMS100 station as contemplated, and permitted for a monthly capacity factor cap of 36%, this exemption covers the needs of 250 of the 300 MWs. The cost of buying credits out of the market to cover the remaining 50 MWs is expected to be approximately \$13MM at today's prices.

Permitted under this scenario, Highgrove would not be accessing the disputed Priority Reserve account. Unfortunately, the recent judicial decision regarding Priority Reserve does affect Highgrove. Under the SCQAMD Rule that allows for the exemption, the SCAQMD is then required to retire a certain number of its banked credits to make-up for the exemption granted. The recent ruling calls into question the validity of the new credits that are in the bank. The SCAQMD bank has almost all "new" credits because they recently swapped out their old credits for new credits with the EPA in order to eliminate the questions regarding the audit trail of the old credits. If that part of the decision regarding the validity of the bank is satisfied, which we think it can be, then Highgrove could move forward regardless of the decisions regarding the more controversial Priority Reserve rule. The recent decision regarding Priority Reserve was only intended to affect the new rules regarding Priority Reserve, but effected the application of old, long-standing rules such as the exemption rule (1304(a)(2)). I think we can, with the SCAQMD, get relief on that when the time comes. Of course, the SCAQMD is working on other avenues to deal with the problem as a whole. If they are successful, then Highgrove is benefitted along with all of the other stranded developments.

First, we must satisfactorily answer the concurrent development question so we qualify for the exemption. We are going to do that in the shortest time frame possible.

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I would be glad to have a call with you and your team to discuss the intricacies.
Thanks - Don

From: Robert Worl [<mailto:Rworl@energy.state.ca.us>]
Sent: Mon 9/22/2008 10:23 AM
To: Don Vawter
Cc: Lisa DeCarlo
Subject: SCAQMD Discussions: Can you summarize for me?

Good Morning Don,

Could you summarize the talks with the SCAQMD for me an our Air Quality staff?
What, if any, impact on the proposed AES Highgrove Project schedule did the discussions have?
Do you plan to move forward with, or consider withdrawing, The Highgrove Project?

I am preparing a Status Report to the Committee, and all parties, and this information would be very helpful.

Thank you for your response, Don.

Regards,

Bob Worl

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cc: R. Worl L. DeCarlo, Joe Loyer	Signed: <i>Robert Worl</i>
	Name: Robert Worl