



South Coast Air Quality Management District

21865 E. Copley Drive, Diamond Bar, CA 91765-4182
(909) 396-2000 • <http://www.aqmd.gov>

DOCKET 05-AFC-2
DATE <u>OCT 03 2007</u>
RECD. <u>OCT 03 2007</u>

ENGINEERING & COMPLIANCE

FACSIMILE COVER SHEET

DATE: 10/3/07 PAGES (Including Cover Sheet) 7

TO: Jack Caswell FAX #: _____

FROM: Mohsen Nazemi TEL #: _____

RE: _____

MESSAGE: _____

PLEASE DELIVER IMMEDIATELY

IF THERE IS ANY PROBLEM RECEIVING THIS FAX CALL: (909) 396-

(faxform)

PROOF OF SERVICE (REVISED 10/10/07) FILED WITH
ORIGINAL MAILED FROM SACRAMENTO ON 10/3/07



South Coast Air Quality Management District

21865 Copley Drive, Diamond Bar, CA 91765-4178
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February 16, 2007

Mr. Lorne Prescott
Project Manager
California Energy Commission
1516 9th Street
Sacramento, CA 95814-5512

Subject: ~~Walnut Creek Energy Project~~ (05-AFC-2) to be located at 911 Bixby Drive,
City of Industry, CA

Dear Mr. Prescott:

This letter is to inform you that the South Coast Air Quality Management District (AQMD) has completed our analysis of the proposed Walnut Creek Energy Project (05-AFC-2) as of this date. Attached for your review is the ~~Final Determination of Compliance (FDOC)~~ that includes the AQMD's engineering analysis.

The proposed facility will be a new major stationary source, and based on the potential to emit the project is subject to EPA review and public notice requirements. At this time both of these tasks have been completed. However, the applicant will be required to obtain emission reduction credits for CO, PM₁₀, VOC, and SO_x before the final permit to construct can be issued. Please note that the issuance of this FDOC does not mean that the District will issue Priority Reserve (PR) credits under AQMD Rule 1309.1 or the final Permit to Construct for the project. As you know the AQMD Governing Board is currently reviewing the conditions under which PR credits will be issued. The conditions under which the project may or may not be eligible for PR credits will be determined by the version of Rule 1309.1 in effect at the time of issuance of the final Permit to Construct. The applicant is aware and in agreement with this condition as demonstrated in the attached letter. Also, the final Permit to Construct is contingent on the CEC approval of the project. Prior to operation of the proposed project, the applicant will be required to obtain sufficient NO_x RECLAIM Trading Credits to offset the total facility emissions for the first year of operation.

If you have any questions or wish to provide comments regarding this project, please call Mr. Michael D. Mills at (909) 396-2578 or Mr. John Yee at (909) 396-2531.

Very truly yours,

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

MN:MDM:MYL:JTY:ldc

Attachments

cc: Tom McCabe, Edison Mission Energy
Mohsen Nazemi, AQMD
Barbara Baird, AQMD

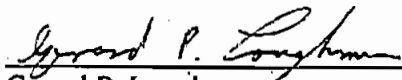
CERTIFIED MAIL
Return Receipt Required

Letter Agreement

The South Coast Air Quality Management District ("District") and the undersigned permit applicant, Walnut Creek Energy, LLC, hereinafter known as "applicant" hereby agree with respect to the proposed power plant known as Walnut Creek Energy Park ("project") as follows:

1. Although the District may issue a Preliminary Determination of Compliance (PDOC) or a Final Determination of Compliance (FDOC) for the project to the California Energy Commission, applicant fully understands that the issuance of the PDOC, FDOC or any other action by the District or the California Energy Commission does not mean that the District will issue Priority Reserve (PR) credits under Rule 1309.1 or the final Permit to Construct for the project; and
2. The project is an Electric Generating Facility (EGF) that would qualify, subject to a due diligence showing and payment of the mitigation fees, for use of PR credits under the current version of Rule 1309.1 adopted by the District's Governing Board on September 8, 2006; and
3. The District's Governing Board is currently reviewing the conditions under which PR credits will be issued, if at all, pursuant to Rule 1309.1; and
4. Although the District Governing Board is presently scheduled to hold a public hearing on potential amendments to Rule 1309.1 on March 2, 2007, the Board's decision on Rule 1309.1 may not occur on that date; and the date of the final decision on the rule cannot be determined with certainty; and
5. The conditions under which the project may be eligible for PR credits under Rule 1309.1, or whether it will be eligible at all, will not be determined until the Board adopts amendments to the rule or determines not to adopt any amendments; and
6. Applicant understands and agrees that the project's eligibility for credits from the Priority Reserve under Rule 1309.1 will be determined by the version of the rule in effect at the time of issuance of the final Permit to Construct.

Understood and agreed to this 15th day of February, 2007, on behalf of Applicant by its duly authorized representative.



Gerard P. Loughman
President
Walnut Creek Energy, LLC



South Coast Air Quality Management District

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September 14, 2007

Mr. Victor Yamada
Walnut Creek, LLC (146536)
18101 Von Karman, Suite 1700
Irvine, CA 92612-1046

Dear Mr. Victor Yamada:

This is a follow-up to my August 16, 2007 letter regarding the South Coast Air Quality Management District (AQMD) Governing Board's August 3, 2007 approval of amendments to Rule 1309.1 – Priority Reserve. The August 16th letter provided a list of criteria that your Electrical Generating Facility (EGF) is now required to meet prior to the AQMD granting you access to the Priority Reserve. We specifically did not include the reference to the requirements of Rule 1309.1 (c)(5)(B) for renewable/alternative energy criteria in our August 16th letter due to potential changes in the scope of demonstration which were noticed to be considered by the AQMD Governing Board at the September 7, 2007 Board meeting. At the September 7th meeting, however, the AQMD Governing Board decided not to make any changes to the specific rule language.

Therefore, in accordance with Rule 1309.1 (c)(5)(B), the applicant for an In-District EGF shall demonstrate to the satisfaction of the Executive Officer the following:

“That renewable/alternative energy (for the purpose of this rule, renewable/alternative energy is hydropower, wind and wave power, solar and geothermal energy, and fossil fuel-based energy [provided the emissions are no more than those from a fuel cell]) in lieu of natural gas fired EFG is not a viable option for the power to be generated at that site.”

In order for AQMD to further proceed with the processing of your application, it is requested that you provide AQMD with documentation demonstrating your compliance with the above requirement. Please submit the requested information to Mr. Ken Coats by October 16, 2007.

If you have any questions regarding this letter, please contact Mr. Mike Mills, Senior Air Quality Manager at (909) 396-2578 or Mr. John Yee, Senior Engineer at (909) 396-2531.

Very truly yours,

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

MN:MM:jty

cc: Roger Johnson, CEC
Jack Caswell, CEC
Barry Wallerstein
Carol Coy
Elaine Chang
Chung Liu



South Coast Air Quality Management District

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

August 16, 2007

Victor Yamada
Walnut Creek, LLC (146536)
18101 Von Karman, Suite 1700
Irvine, CA 92612-1046

Dear Mr. Yamada:

As you may know, on August 3, 2007, the Governing Board of the South Coast Air Quality Management District (AQMD) approved amendments to Rule 1309.1 – Priority Reserve. As a result of the amendments, your Electrical Generating Facility (EGF) is now required to meet additional criteria prior to the AQMD granting you access to the Priority Reserve and prior to the AQMD's Executive Officer releasing the Priority Reserve credits. The additional requirements for accessing the Priority Reserve varies depending on the location of the project (i.e. Zones 1, 2 or 3 or Environmental Justice Area) and the size of the project. A summary of the additional criteria required by amended Rule 1309.1 to access the Priority Reserve or to release the Priority Reserve credits are attached for your information (to learn about these requirements in more detail, please refer to the actual amended Rule 1309.1 language).

Based on the information provided in your application, AQMD staff has made a preliminary determination that your proposed EGF will be located in Zone 2. In order for AQMD to further proceed with the processing of your application, it is requested that you provide AQMD with documentation demonstrating your compliance with the applicable requirements of the amended Rule 1309.1, as shown in the attachment to this letter. Please submit the requested information to Ken Coats at kcoats@aqmd.gov by September 18, 2007.

If you have any questions regarding this letter, please contact Mr. Mike Mills, Senior Air Quality Manager at (909) 396-2578 or Mr. John Yee, Senior Engineer at (909) 396-2531.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Mohsen Nazemi', is written over a horizontal line.

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

MN:MM:jty
Attachment

cc: Roger Johnson, CEC
Jack Caswell, CEC

ATTACHMENT

Amended Rule 1309.1 Requirements Summary (August 3, 2007 Amendments)

Requirements For Accessing Priority Reserve For Electric Generating Facilities (EGFs) Located In Zones 1, 2, 3, or Environmental Justice Area (EJA)

	Zone 1 100-500 MW	Zone 2 500-1000 MW	Zone 3 1000-5000 MW
TOXICS REQUIREMENTS			
Cancer	Risk < 10 in-a-million	< 1 in-a-million	< 0.5 in-a-million
Hazard Index	< 1	< 0.5	< 0.1
Cancer Burden*	< 0.5	< 0.1	< 0.05
CRITERIA POLLUTANT REQUIREMENTS			
PM10 Emission Controls	NG Only & ≤ 0.060 lb/MW-hr	NG Only & ≤ 0.060 lb/MW-hr	NG Only & ≤ 0.035 lb/MW-hr
NOx Emission Controls	≤ 0.080 lb/MW-hr	≤ 0.080 lb/MW-hr	≤ 0.050 lb/MW-hr
Total Combined Gas Turbine PM10 Hourly Emissions	NSR BACT	NSR BACT	≤ 30.0 lbs/hr
Gas Turbine PM10 24-hr Impact	NSR Limit of 2.5 ug/m3 per Gas Turbine	≤ 5.0 ug/m3 for Total Combined Gas Turbines	≤ 2.5 ug/m3 for Total Combined Gas Turbines
Gas Turbine PM10 Annual Impact	NSR Limit of 1.0 ug/m3 per Gas Turbine	≤ 0.75 ug/m3 for Total Combined Gas Turbines	≤ 0.5 ug/m3 for Total Combined Gas Turbines
Annual Hours of Operation Limit	None	≤ 4,000 hrs/yr, if Simple Cycle	≤ 3,000 hrs/yr, if Simple Cycle

*Please note that Cancer Burden shall be calculated based on a 1 in 10 million risk level.

Amended Rule 1309.1 Requirements Summary
(August 3, 2007 Amendments)

Requirements for the Release of Priority Reserve Credits to EGFs

In addition to the requirements for accessing Priority Reserve, the Amended Rule 1309.1 has the following criteria for the release of Priority Reserve Credits:

- (d)(12) The Executive Officer shall authorize the release of Priority Reserve credits for the first 2700 MW requested by EGFs, provided such EGFs have submitted complete applications for Permit to Construct to the District in calendar years 2005 through 2008, and complied with all applicable provisions of this rule. Requests by EGFs for Priority Reserve credits for calendar years 2005 through 2008 in excess of the first 2700 MW may only be approved by the Governing Board at a public meeting, applying the criteria in this rule.
- (d)(13) The Executive Officer shall not authorize the release of any Priority Reserve credits for an EGF in an EJA that has submitted complete application for a Permit to Construct to the District in calendar years 2005 through 2008 and complied with all applicable provisions of this rule prior to the Governing Board approving a plan to invest the anticipated mitigation fees from the EGF.
- (d)(14) The Executive Officer shall not authorize the release of any Priority Reserve credits for an In-District EGF, unless the EGF seeking Priority Reserve credits has obtained certification from CEC and entered into a long-term contract with the Southern California Edison Company, or the San Diego Gas and Electric Company, or the State of California to provide electricity in Southern California; and complied with all applicable provisions of this rule. However, a municipal-owned EGF need not enter into a long-term contract, provided such EGF is designed and constructed to not exceed its native demand load based upon future year projections to 2016 or earlier. A municipal-owned EGF obtaining Priority Reserve credits to exclusively serve its native load may not sell electricity to the state grid unless it is directed to do so under a direct order from Cal-ISO or under a state of emergency declared by the State of California or its agencies including Cal-ISO. Any EGF may petition the Governing Board at a public hearing to waive the requirement to enter into a long-term contract in order to access Priority Reserve credits. The Governing Board shall grant such a waiver if it finds that there is a need for additional power from non-renewable sources that is not being fulfilled by presently available long-term contracts. Any such petition shall not delay any other EGF's access to Priority Reserve credits.

**BEFORE THE ENERGY RESOURCES CONSERVATION AND DEVELOPMENT COMMISSION
OF THE STATE OF CALIFORNIA**

**APPLICATION FOR CERTIFICATION
FOR THE WALNUT CREEK ENERGY PARK
(WCEP)**

DOCKET No. 05-AFC-2

(Revised 6/6/07)

INSTRUCTIONS: All parties shall either (1) send an original signed document plus 12 copies or (2) mail one original signed copy AND e-mail the document to the address for the Docket as shown below, AND (3) all parties shall also send a printed or electronic copy of the document, which includes a proof of service declaration to each of the individuals on the proof of service list shown below:

CALIFORNIA ENERGY COMMISSION

**Attn: Docket No. 05-AFC-2
1516 Ninth Street, MS-4
Sacramento, CA 95814-5512
docket@energy.state.ca.us**

APPLICANT

Lawrence Kostrzewa, Project Director
Edison Mission Energy
18101 Von Karman Avenue, Suite 1700
Irvine, CA 92612-1046
lkostrzewa@EdisonMission.Com

Jenifer Morris
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Huntington Beach, CA 92647
jenifer@nir.net

Victor Yamada, Project Manager
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vyamada@EdisonMission.Com

COUNSEL FOR APPLICANT

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sgalati@gb-llp.com

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Irvine, CA 92612-1046
tmccabe@edisonmission.com

INTERESTED AGENCIES

No agencies to date.

Douglas Davy
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2485 Natomas Park Drive, Suite 600
Sacramento, CA 95833
ddavy@ch2m.com

INTERVENORS

California Unions for Reliable Energy
(CURE)
C/O Marc D. Joseph
Gloria D. Smith
Adams Broadwell Joseph & Cardozo
601 Gateway Boulevard, Suite 1000
South San Francisco, CA 94080
mdjoseph@adamsbroadwell.com
gsmith@adamsbroadwell.com

ENERGY COMMISSION

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DECLARATION OF SERVICE

I, Dora Gomez, declare that on October 3, 2007 I deposited copies of the attached SCAQMD's Final Determination of Compliance for Walnut Creek (05-AFC-2) in the United States mail at Sacramento, California with first-class postage thereon fully prepaid and addressed to those identified on the Proof of Service list above.

OR

Transmission via electronic mail was consistent with the requirements of the California Code of Regulations, title 20, sections 1209, 1209.5, and 1210. All electronic copies were sent to all those identified on the Proof of Service list above.

I declare under penalty of perjury that the foregoing is true and correct.



Dora Gomez