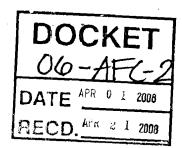


South Coast Air Quality Management District

ACIMA

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



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

Part Am Quality Management District

The Struct Copley Drive, Diamond Sar, CA 91765-4178.

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 SOxfor-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

To compute of PALO FREE Control

Para to be abled in officers for the worm three of your proper of 3000 etc.

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 AOMD has determined that AES no longer qualifies to access the Rule 1309.1 Priority Reserve for PM10 credits, please submit documentation to the AOMD 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.

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

and is a complete to be after a relative EPPs but tilling there evelled by the coch stark measure Robert Worl, CEC with the spotoved credit generation programs at evaluation and

Barry Wallerstein, AOMD AES no longer qualifies to access the Rule 130' A Internal Kurt Wiese, AQMD lease strong documentation to the AQMD liberally by the most series with the Milks, AQMD united for the pennitting of the proposed power plan. These appared to the AQMD united for the pennitting of the proposed power plan. John Yee, AQMD unted ter the permanent of the product of the rest of the control of the control

as contacts with the conjugatements to offset emission increases constant to this und in the first pare sum vour applications. If you have any cuarticion riette

Mohser(Nazemi, P.E.

Deputy Directive Officer

Fugineering and Compliance

I Garage of CEG

water Visibilianie in all miles

.. Kur Minose, AOMO

ME WHI YOU

80 Yer. 80.40

Via Certified Mail Return Receipt Requested