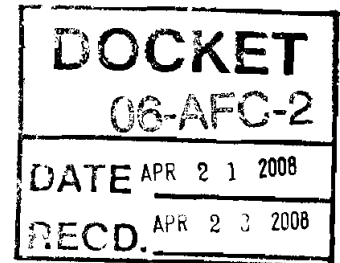




April 21, 2008

Mr. Mohsen Nazemi
Deputy Executive Officer
Engineering and Compliance
South Coast Air Quality Management
District
21865 Copley Drive
Diamond Bar, CA 91765-4178



Re: AES Highgrove Power Plant Project
06-AFC-02,
AQMD Application Nos. 458297-458304
Facility ID 115666

Dear Mr. Nazemi:

Thank you for your letter of April 1, 2008 regarding the AES Highgrove Power Plant Project (Project). We appreciate the time and effort that the South Coast Air Quality Management District (District) has made in the review and processing of the application for a permit to construct for the Project. AES Highgrove, LLC is committed to the development of important new clean energy generation, and will continue to work in cooperation with the District on the Project and the permitting effort.

In your letter, you had inquired about the status of the PM10 and SOx Emission Reduction Credits (ERCs) currently being held for AES Highgrove, LLC. As discussed with District staff, there have been certain transactions associated with the ERCs in light of a potential purchase of the Project. Thus, while a third party (Third Party) has purchased the ERCs and such ERCs are being held by Cantor Fitzgerald on behalf of the Third Party, those ERCs should still be considered available for Project permit review purposes. At this time, negotiations are underway with the Third Party for a full purchase of the Project, which would include the purchase of AES Highgrove, LLC (the LLC). If the Third Party purchases the LLC, the ERCs will transfer from Cantor-Fitzgerald back to the LLC, or will otherwise be made available for use by the Project pursuant to an arrangement acceptable to the District. If the Third Party does not purchase the LLC, the ERCs will not be available to the Project (unless purchased from the Third Party by another purchaser of the Project). We anticipate that the Third Party will purchase the rights to the Project (including the LLC) and continue the development of the Project. The permit applicant, AES Highgrove, LLC, will not change as a result of this transaction.

The Project will require access to the District's Rule 1309.1 Priority Reserve for the balance of the PM10 offsets required for the issuance of the permit to construct, and the Preliminary Determination of Compliance (PDOC) made to the California Energy Commission, unless, of course, the Project is able to obtain additional ERCs through its due diligence effort, which will continue. Thus, it is essential that the PM10 and SOx ERCs held for the Project be used to offset emissions from the subject equipment, and that work continue on the permit application.

Because the parties are in negotiations, we will require time to work on the terms and conditions of the transfer. As such, additional time will be needed before the PM10 and SOx ERCs held for the Project can be moved, or an equivalent arrangement can be made, and are requesting [60 days] to complete the sale of the Project, including the LLC. During this period, AES respectfully requests that work on the application for a permit to construct and PDOC continue. If at any point during that 60 day period it becomes apparent that the sale of the LLC to the Third Party will not transpire, I will make prompt notification to the District.

Thank you.

Very truly yours,

A handwritten signature in black ink, appearing to read "Don Vawter", with a long horizontal flourish extending to the right.

Don Vawter
Project Director, Business Development

cc: **Robert Worl**, CEC
Barry Wallerstein, AQMD
Kurt Wiese, AQMD
Mike Mills, AQMD
John Yee, AQMD