

CALIFORNIA ENERGY COMMISSION
REPORT OF CONVERSATION Page 1 of 2



**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: email exchange	
NAME: Don Vawter	DATE: August 28 & 31, 2008	TIME: NA
WITH: Worl to Vawter; Vawter to Worl emails		
SUBJECT: Plans for Highgrove, Non-Priority REserve ERC's and SCAQMD Discussions to be scheduled soon		

Bob Worl

COMMENTS:

Bob,
 Key personnel at the District have been on vacation, causing some delay in the dialogue. Those key personnel were back at work this last and we made some progress. We are now in the process of scheduling a meeting with the key District personnel, including Moshen.

The District and AES will be discussing how we can move the Highgrove development forward without Priority Reserve. Attached is SCAQMD Rule 1304. Please note 1304(a)(2). AES believes that under this Rule, AES Highgrove has a full exemption from Offset requirements for the first 155 MWs of the Highgrove development, as the original Highgrove station had a capacity of 155 MWs. If the District allows the offset exemption for the first 155 MWs under this Rule, then AES has three options for continuing the development of Highgrove:

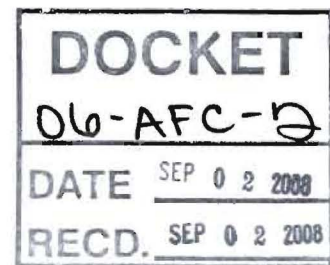
- (1) Reduce the Highgrove development to 2 x LMS100 units (versus the current 3 x LMS100) and purchase 40 MWs worth of ERCs from the market to cover the balance (or take a synthetic reduction such as a capacity factor or heat input cap to account for the 40 MW short).
- (2) Continue with the current 3 x LMS100 and take a material synthetic reduction such as a capacity factor or heat input cap to account for the 140 MW short.
- (3) Continue with the current 3 x LMS100 and designate one of Southland's older 175 MW units for retirement. If we did that, under the same District Rule, AES could develop 330 MWs worth of generation at Highgrove without needing Offsets. The latter option would require some adjustment to the applications so that the retirement and allocation of the capacity from the retirement to the Highgrove development was timed with the termination of commercial obligations currently in-place for those 175 MW units (end of 2010).

I expect the meeting to be held within the next 2 to 3 weeks. Once it is scheduled, I will let you know.

Please give me a call if you would like to discuss further.

Thanks - Don
 562-276-5259

From: Robert Worl [mailto:Rworl@energy.state.ca.us]
 Sent: Thu 8/28/2008 2:21 PM
 To: Don Vawter
 Cc: Lisa DeCarlo
 Subject: AES Highgrove Project Update Needed



Good Afternoon Don,
 I am still desirous of a forward plan for this project. I received your suggested topics for discussion with the SCAQMD regarding offsets, but I have heard no more from you regarding either the outcome of those discussions, or a schedule for those discussions.

My current understanding of the court decision regarding the first NRDC et al suit relating to the use of the Priority Reserve through the amended Rule 1309.1 is that such access is blocked until such time as the SCAQMD completes a number of actions including a new CEQA analysis of their proposed 1309.1. In addition, the NRDC has filed a "60-day Notice to Sue" regarding other aspects of the Priority Reserve which may impact other means of accessing the Priority Reserve banked credits.

Your request to the District for discussions seemed to be addressing other means of accessing the Priority Reserve credits, and I am curious whether your discussions, if held, hold any options for remedy for the Highgrove Project. Please, at your earliest opportunity, provide me with an update regarding your plans for the Project.

Regards,
 bob worl