State Of California | The Resources Agency of California

Memorandum

To: Chairman Jackalyne Pfannenstiel, Presiding Member
Commissioner Jeffrey Byron, Associate Member

Date: October 14, 2008
Telephone: (916) 651-8853
File: 06-AFC-2

From: California Energy Commission - Robert Worl
1516 Ninth Street
Sacramento, CA 95814-5512
Siting Program Manager

DOCKET 06-AFC-2
DATE OCT 14 2008
RECD. OCT 14 2008

Subject: **STATUS REPORT # 7 FOR THE HIGHGROVE PROJECT (06-AFC-2)**

Sufficiency of emission reduction credits for the Highgrove Project

AES Highgrove, LLC, (applicant) has initiated discussions with the South Coast Air Quality Management District (District) regarding means other than access to the District's Priority Reserve account for mitigation of the project's air emissions. The potential avenues being explored include taking emission credits resulting from the shutdown of the existing Highgrove power plant, which AES purchased from Southern California Edison (SCE). AES intends to provide documentation to the District that the Highgrove Project should be viewed as a repowering of that original facility. Emission credit purchases from the open market, and acceptance of an operating capacity limitation would be additional means of providing the needed emission offsets. The applicant feels that a combination of these sources would mitigate the AES Highgrove Project sufficiently for an operational capacity of up to 36 percent. Don Vawter, Project Manager, AES Highgrove, LLC, indicated that discussions with the District are ongoing, and that documents supporting the applicant's contentions regarding shutdown credits have been submitted for the District's consideration. These have not been sent to the Energy Commission.

Staff has not received any communication from the District regarding these discussions, nor has AES Highgrove, LLC, submitted any formal Status Reports.

Staff's understanding is that the recent court decision regarding the District's Priority Reserve, affects the District's revised Priority Reserve 1309.1 rules and, by extension, may also have affected the rules for providing offsets through other avenues including the potential use of the exemption rule (1304(a)(2). The exemption rule cover AES's proposed use of emissions credits from shutting down the old SCE Highgrove facility and repowering with the proposed new AES Highgrove Project's more efficient LMS 100 combustion turbine system.

Schedule

The uncertainties regarding conclusion of the AES discussions with the District prohibit preparing a schedule for the remainder of the project at this time. Energy Commission staff continues to rely on the applicant's reporting of progress regarding their proposed project. Staff has no additional recommendation at this time regarding forward progress for the Highgrove Project. Staff will continue to request information regarding the applicant's discussions which could lead to the District issuing the necessary

PROOF OF SERVICE (REVISED 11-2-07) FILED WITH
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Preliminary Determination of Compliance (PDOC). Receipt of the PDOC would allow staff to move forward with analysis of the project and complete of a Preliminary Staff Assessment. As we receive new information, we will continue to update the Committee and interested parties in status reports.

cc: Docket (06-AFC-2)
Proof of Service List

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

APPLICATION FOR CERTIFICATION FOR THE AES HIGHGROVE POWER PLANT PROJECT	**Docket No. 06-AFC-2** **PROOF OF SERVICE** ***(Revised 11/2/07)***

INSTRUCTIONS: All parties shall 1) send an original signed document plus 12 copies OR 2) mail one original signed copy AND e-mail the document to the web address below, AND 3) all parties shall also send a printed OR electronic copy of the documents that shall include a proof of service declaration to each of the individuals on the proof of service:

CALIFORNIA ENERGY COMMISSION
Attn: Docket No. 06-AFC-02
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DECLARATION OF SERVICE

I, Hilarie Anderson, declare that on October 14, 2008, I deposited copies of the attached Status Report # 7 in the United States mail at Sacramento, CA 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 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.

Hilarie Anderson