South Coast
Air Quality Management District
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June 29, 2006

Mr. Thomas J. McCabe, Jr.
Edison Mission Energy
18101 Von Karman Ave. Suite 1700
Irvine, CA 92612-1046

DOCKET
05-AFC-2
DATE JUN 29 2006
RECD JUL 11 2006

Subject: Request for Entry into the NOx and SOx RECLAIM Program

Dear Mr. McCabe:

This is in reference to your letters to the South Coast Air Quality Management District (AQMD) dated March 3, 2006 in which you requested to include the Sun Valley Energy Project (05-AFC-3; ID No. 146534) and the Walnut Creek Energy Project (05-AFC-4; ID No. 146536) in the RECLAIM NOx and SOx program. AQMD staff has reviewed your requests and determined that these two electric generating facilities are qualified to be included in the NOx RECLAIM program effective upon issuance of a facility permit pursuant to Rule 2006. However, after careful review of your request, we have determined that the above two power plant projects cannot be included in the SOx RECLAIM program for the following reasons:

- Regulation XX – RECLAIM does not consider SOx emissions from equipment burning natural gas exclusively to be a RECLAIM pollutant with certain exceptions.
  Rule 2000(c)(62):
  "RECLAIM POLLUTANTS are NOx emissions and SOx emissions at a facility subject to RECLAIM requirements excluding any NOx or SOx emissions from on-site, off-road mobile sources and any SO_X emissions from equipment burning natural gas exclusively, unless the emissions are SO_X emissions at a facility that elected to enter RECLAIM pursuant to Rule 2001 (i)(2)(A)"
- Regulation XX exempts certain sources from the RECLAIM program, but allows specific sources to opt into the program Rule 2001(i)(2)(A):
  "The following sources, including those that are part of or located on a Department of Defense facility, shall not be initially included in RECLAIM but may enter the program pursuant to subdivision (f):
  (A) electric utilities (exemption only for the SOx program);"
- Rule 2000(c)(26) defines what an electric utility is.
  "ELECTRIC UTILITY is all in-Basin facilities which generate power and are owned or operated by any one of the following: Southern California Edison, Los Angeles Department of Water and Power, City of Burbank, City of Glendale, City of Pasadena, or any of their successors."

Based on the above rule language, SOx emissions from the proposed projects are not considered a RECLAIM pollutant. Therefore, emissions from the above projects, with the exception of NOx emissions, are subject to the requirements of Regulation XIII and other applicable non-RECLAIM rules and regulations; and the projects do not meet the RECLAIM definition of electric utilities.

Additionally, you further requested the AQMD amend Regulation XX to allow SOx emissions from your facilities be included in the RECLAIM program. The AQMD staff carefully reviewed your request and has determined that, since AQMD staff is proposing amendments to Rule 1309.1 – Priority Reserve to make SOx credits available to electric generating facilities through the Priority Reserve, we do not believe an amendment to Regulation XX to make RECLAIM Trading Credits (RTC) also available for these projects is appropriate at this time. We anticipate that Rule 1309.1 will provide sufficient SOx credits for additional electric generation capacities in the South Coast Air Basin to address the potential generation shortfall in Southern California as projected by the California Energy Commission. Proposed amendments to Rule 1309.1 are currently scheduled for Public Hearing and Board adoption on September 8, 2006.

If you have further questions concerning this matter, please contact me at (909) 396-2662.

Sincerely,

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

MN:CM:ln

(mission energy)

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ELECTRONIC PROOF OF SERVICE LIST and ELECTRONIC DISTRIBUTION LIST Revised 05/26/06

WALNUT CREEK ENERGY PARK
APPLICATION FOR CERTIFICATION
DOCKET NO. 05-AFC-2

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I declare that I transmitted the foregoing document via e-mail, or as indicated by first class postal mail, to the above named on the date indicated thereby. I declare under penalty of perjury that the foregoing is true and correct.

Nina Gomez

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