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ENVIRONMENTAL PROTECTION

State Water Resources Control Board

September 18, 2013

Mr. Eric Pendergraft
AES Southland, LLC
690 North Studebaker Road
Long Beach, CA 90803

Dear Mr. Pendergraft:

INFORMATION REQUIREMENTS FOR HUNTINGTON BEACH GENERATING STATION

On November 30, 2010 a letter was sent out by the State Water Resources Control Board's (State Water Board) Executive Director requiring the submittal of an Implementation Plan (Plan) by April 1, 2011. The letter outlined the required information to include in the Plan, including information on planned actions for compliance with the Statewide Water Quality Control Policy on the Use of Coastal and Estuarine Waters for Power Plant Cooling (Policy). If final compliance by October 1, 2015, is not feasible, interim mitigation measures must be identified in the Plan.

Due to the current uncertainty as to conditions identified in implementation plans previously submitted from the Once-Through Cooling (OTC) power plants with a near term compliance deadline, further information and data input is necessary to conduct grid reliability analysis to determine the impact on local and system reliability.

Pursuant to the Policy and California Water Code section 13383, the State Water Board requires AES Southland to provide the most current information for Huntington Beach Generating Station (Huntington Beach) in the previously-submitted Plan if the following content is not up-to-date or is inaccurate:

1. What mechanism is expected to bring each unit into compliance?

   Tentative path to compliance is Track 1. Repowering will occur in phases using dry-cooled, natural gas fired combined cycle power blocks, while maintaining reliability. AES Southland no longer seeks an extension to the compliance date. The planned repower is entitled the Huntington Beach Energy Project. AES Southland plans to retire Redondo Beach Generating Station Units 6 and 8 to enable the repowering of the first power block (470 Mega Watt [MW]), which is expected to be on line during the 4th quarter of 2018. Huntington Beach Units 3 and 4 were retired in 2012 and are being converted to synchronous condensers with a completion date of June 1, 2013. The synchronous condensers are expected to run through December 2017 at the latest, at which time, they will be retired and demolished to enable the construction of the second power block (469 MW). Huntington

Beach Units 1 and 2 are expected to retire 4th quarter 2020, and the second power block is expected to be on line in 1st quarter 2021.

2. What actions have been taken to obtain permits, obtain contracts or meet other regulatory obligations to implement the compliance mechanism identified above?

AES Southland submitted an Application for Certification (AFC, Docket No. 12-AFC-02) with the California Energy Commission on June 28, 2012. The application was found data adequate on August 9, 2012 and the permitting process is underway. AES Southland must file a progress report every six weeks beginning April 15, 2013. The latest progress report updates the proposed schedule and identifies hurdles. The Final Staff Assessment (FSA) is anticipated by September 1, 2013. Determination of permit approval to follow.

On April 15, AES Southland proposed a revised AFC schedule based on a South Coast Air Quality Management District (SCAQMD) publication of the Preliminary Decision of Compliance (PDOC) on June 14, 2013. SCAQMD requires modeling revisions, as the applicant downloaded the wrong file from the SCAQMD, webpage resulting in analysis that underestimates pollution. This may also affect the construction schedule according to posted documents. See Table 1[1]

Table 1

Action	Date
Preliminary	06/14/2013
Determination of Compliance (PDOC)	07/02/2013
Preliminary Staff Assessment (PSA) Published	07/15/2013
PSA Workshop	08/02/2013
Comments on PSA	08/16/2013
Final Determination of Compliance (FDOC)	09/01/2013
Final Staff Assessment (FSA) Published	07/02/2013

No long term California Public Utilities Commission (CPUC) approved contract is in place to date that will enable nonrecourse financing for project development. The CPUC's Decision Authorizing Long-Term Procurement for Local Capacity Requirements (D.13-02-015) authorized the procurement of up to 1,200 MW of conventional natural gas-fired generation in the Los Angeles Basin to meet reliability needs after the retirement of all OTC generation in the local area.

CPUC approved Resolution E-4584 on March 9, 2013 which replaces a capacity and tolling agreement between AES Southland (Alamitos, Redondo Beach and Huntington Beach) and JP Morgan (including JP Morgan's development consent rights) with a contract between AES Southland and Southern California Edison. The contract extends through 2018. Also, AES Southland is contracted to provide Reliability Must Run (RMR) service to the California Independent System Operator (CAISO).

AES Southland believes the SCAQMD will issue a Preliminary Determination of Compliance on or about June 14, 2013, and the Final Determination of Compliance on or about August 16, 2013. AES Southland remains concerned with potential impact of Rule 1304.1 should the SCAQMD adopt the proposed rule.

[1] http://www.energy.ca.gov/sitingcases/huntington_beach_energy/documents/applicant/2013-04-15_Applicants_Status_Report_TN-70291.pdf)

A Retirement Plan was filed for Units 3 and 4 as a responsibility of Edison Mission Energy who purchased the units. The Retirement Plan doesn't impair the use of the units as synchronous condensers. Under 00-AFC-13C a closure plan must be filed 12 months before a unit is to be permanently retired and demolished.

AES Southland intends to rely on SCAQMD Rule 1304(a)(2) to demonstrate compliance with rule 1303 by retiring Hunting Beach Units 1 and 2 and Redondo Beach Generating Station 6 and 8 to develop 939 MW of new natural gas fired combined cycle units at the Huntington Beach site.

3. The detailed schedule, technology, and MW capacity by unit:

AES Southland plans to construct a new 470 MW combined cycle gas turbine (3-on-1 configuration) by end of 2018. AES Southland plans to retire Redondo Beach Generating Station Units 6 and 8 by end of 2018 to allow the development of the first power block.

Huntington Beach Units 3 and 4 retired October 31, 2012 and the permits to operate as generators were surrendered. The units will continue to operate as a synchronous condenser from June 2013 until December 2017 at the latest, at which time, they will be demolished to make room for the second power block. Huntington Beach Units 1 and 2 will be retired when the second 469 MW combined cycle gas turbine (3-on-1 configuration) is online by end of 2020.

On March 19, 2013, AES Southland sent a letter to the Project Manager regarding the Construction and Demolition Schedule-it is similar to what was in the letter with a couple of dates a few months off. See Table 2 [2]

Table 2

Action	Date
Demo Unit 5, fuel tanks, and Units 3 and 4 Stacks	Q1 2015 – Q2 2016
Construction Power Block 1	Q3 2016 – Q4 2018
Demo Units 3 and 4	Q1 2016 – Q1 2018
Construction Power Block 2	Q3 2018 – Q2 2020
Demo Units 1 and 2	Q4 2021 – Q3 2022
Construction of buildings 33, 34	Q3 2021 – Q3 2022

4. If there are non-OTC units at a generation facility, indicate if compliance with the OTC policy will, in any manner, affect the operation of the non-OTC units; if so, how?

   Unit 5 does not use OTC and will be demolished. In the AFC, this is scheduled to occur between the fourth quarter of 2014 and the end of 2015.

Please respond to the following additional questions:

1. In the AES Southland letter to the State Water Board dated March 31, 2013, AES Southland indicates "the Huntington Beach synchronous condensers are expected to be in service until at least December 2016 (Unit 3) and December 2017 (Unit 4), but this is contingent on annual extensions of the proposed Reliability Must Run contract with the CAISO." In Table

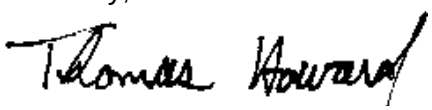
[2] (http://energy.ca.gov/sitingcases/huntington_beach_energy/documents/applicant/2013-03-19_Applicant_Revision_to_Schedule_TN-69961.pdf)

2, AES Southland indicates that the demolition of Units 3 and 4 are expected to occur during Q1 2016 through Q1 2018. If the synchronous condensers are run until the end of 2017, then it seems that demolition of Units 3 and 4 will not start until Q1 2018. What does the delay in the demolition of Units 3 and 4 have on the schedule for construction of power block 2 and retirement of Units 1 and 2? Can we assume from Table 2 that it will take 5 years to construct power block 2 once the synchronous condensers cease operation and demolition begins? How does a potential delay in construction of power block 2 impacts the retirement of Units 1 and 2 by December 31, 2020?

Submission of the above information is required no later than 60 days after the date of this letter.

Should you have any questions on this matter please feel free to contact Mr. Jonathan Bishop, Chief Deputy Director, at (916) 341-5820 (jsbishop@waterboards.ca.gov) or Dr. Maria de la Paz Carpio-Obeso, Chief of the Ocean Unit, at (916) 341-5858 (mcarpio-obeso@waterboards.ca.gov).

Sincerely,



Thomas Howard
Executive Director

ECM# 1085026