



Cabrillo Power I LLC
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October 2, 2007

Roger E. Johnson, Manager
Siting and Compliance Office
California Energy Commission
1516 9th Street, MS 15
Sacramento, CA 95814

Scott Donnell
Planning Department
City of Carlsbad
1635 Faraday Avenue
Carlsbad, CA 92008

**Re: Encina Power Station – Cabrillo Power I LLC
Response to Inquiry Regarding Operational Program for Demolition of
Surplus Oil Storage Tanks**

Gentlemen:

This letter is in response to Mr. Roger Johnson's email inquiry to Mr. Tim Hemig on the separate applications submitted to the City of Carlsbad (City) and California Coastal Commission (CCC) by Cabrillo Power I LLC (Cabrillo) for demolition of surplus, unused oil storage tanks at Encina Power Station. The oil storage tank demolition program is based on the operational obsolescence of the tanks and is entirely independent of any other project proposed for the Encina Power Station site. Overall, seven (7) oil storage tanks are located on the Encina Power Station site. The demolition and associated grading applications on file with the City and CCC presently involve Tanks 5, 6 and 7 and will be revised by Cabrillo to include two additional oil storage tanks, Tanks 1 and 3. Tanks 5, 6 and 7 are three of the four oil storage tanks located easterly of the railroad tracks; Tanks 1 and 3 are two of the three oil storage tanks located westerly of the tracks.

Only two of the seven oil storage tanks at Encina Power Station are presently in use and needed to provide adequate backup fuel storage for continued operation of generating units at Encina Power Station in the event of an interruption in natural gas supplies. Cabrillo has determined that Tanks 1, 3, 5, 6 and 7 are all surplus and unneeded for the current or future operations of Encina Power Station. The tank demolition and associated grading and soils remediation is a prudent, logical and cost efficient program, independent from any application submitted to the California Energy Commission to develop additional power generation facilities on the Encina Power Station site and will proceed irrespective of action taken on any pending application.

Background

When Encina Power Station was originally constructed, the steam generators burned No. 6 heavy fuel oil delivered to an offshore oil transfer facility by tanker ships and piped to on-site storage tanks. Changes in air regulations led to the substitution of natural gas for fuel

oil, the current primary fuel used to generate electricity at Encina Power Station. While none of the existing units currently burn or use fuel oil, regulators have required that a minimum of 100,000 barrels of capacity remain as a backup fuel source in the event the Station's natural gas supply is interrupted by earthquake or other unavoidable event. This minimum on-site capacity reserve was established in the FERC Reliability Must-Run Schedule effective in 2006. The existing storage capacity of two tanks (Tanks 2 and 4) is adequate to provide required on-site storage capabilities for all five active boiler/generating units at Encina Power Station. The other five oil storage tanks are unneeded for existing or future operations of Encina Power Station regardless of any repowering.

Operational Justifications for Removal

Tanks 1, 3, 5, 6 and 7 are not currently used to store fuel oil. These tanks, including the bottoms, sides and floating roofs, together with the ancillary piping, control valves, pipelines and pumps associated with the tanks, require continuous monitoring, maintenance and expense. These ongoing expenditures are unnecessary. Tank decommissioning and demolition will result in a one-time expenditure, but some of the one-time costs will be recouped through the salvage of residual oil, metals, and equipment. These salvage values are currently at historic high levels.

Additionally, from an aesthetic perspective, these tanks are large industrial structures in close proximity to the lagoons, nearby residential neighborhoods and the heavily visited coastline and beach area and their removal is consistent with the City's South Carlsbad Coastal Redevelopment Plan.

When Cabrillo acquired Encina Power Station from SDG&E, there was a "de facto moratorium" in place at the City prohibiting further permits or approvals for Encina Power Station while Cabrillo processed a Precise Development Plan and amended the applicable Specific Plan regulating the power station and vicinity. From time to time exceptions were made to allow additional pollution control technologies to be added or updated. The Specific Plan Amendment (SP 144(H)), Precise Development Plan (PDP 00-02) and associated final environmental impact report was eventually certified and approved by the City on June 13, 2006 when the City Council took final action on those and other associated applications, including the Poseidon Resources Desalination Project. Tank 3 is located on the proposed footprint of the Desalination Project, and if this tank is not demolished by Poseidon, in the event that the Desalination Project does not gain final approval, Cabrillo will demolish Tank 3 along with Tanks 1, 5, 6 and 7 as all five tanks are unnecessary for Encina Power Station purposes.

Summary

The economic and regulatory climate and operational constraints and opportunities associated with Encina Power Station are constantly in flux. As a prudent operator and owner, Cabrillo has decided to proceed with demolition of the five surplus tanks at this time to achieve the immediate benefits of eliminating operational costs of maintaining the unused tanks and associated piping, controls and equipment. Demolition of the surplus fuel oil tanks, associated equipment and ancillary remedial grading is both justified and

Roger E. Johnson
Scott Donnell
October 2, 2007
Page 3

necessary as part of the ongoing operations of the Encina Power Station and should be permitted by the City and the CCC.

Should you need additional information, or wish to discuss it further, please do not hesitate to call me. Thank you.

Sincerely,

Cabrillo Power I LLC

A handwritten signature in blue ink, appearing to read "David Lloyd", with a long horizontal flourish extending to the right.

David Lloyd
Secretary

cc: Mr. James Elliott/City of Carlsbad
Ronald R. Ball, Esq./City of Carlsbad