Unified Port
of San Diego

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EXECUTIVE DIRECTOR

July 10, 2006

Mr. B. B. Blevins,
Executive Director
CALIFORNIA ENERGY COMMISSION
1516 Ninth Street
Sacramento, California 95814

Dear Mr. Blevins:

I am writing on behalf of the San Diego Unified Port District, in my capacity as Senior Director of Real Estate, concerning the status of the real estate negotiations between the Port District and LS Power South Bay LLC. The subject of our negotiations is an option to lease Port property for the siting and development of the South Bay Replacement project described in LS Power's Application for Certification ("AFC"). The South Bay Replacement project is intended to replace and facilitate the removal of the existing South Bay Power Plant in Chula Vista, California.

The Port acquired the existing South Bay Power Plant from San Diego Gas & Electric in 1999, primarily as a means to assure its timely removal. At that time, the Port District anticipated that a replacement power generating facility would ensure the removal of the "must run" designation imposed on the existing plant, so that it could be decommissioned and dismantled. When the Port leased the existing facility to an operator, it sought an operator willing to undertake efforts to develop a replacement plant. The facility was leased to Duke Energy South Bay LLC, and Duke Energy took on specific obligations to pursue development of a replacement power plant. Those obligations are covered under the terms of the Cooperation Agreement between the Port District and Duke Energy South Bay, LLC, and include among other development milestones, a requirement that an AFC be filed by June 30, 2006. (Duke Energy South Bay LLC has since been acquired by LS Power, and renamed LS Power South Bay LLC.)

In anticipation that a replacement power plant would be developed on the proposed site, it has been explicitly provided for under the "Energy Utility Zone" land use designation included in the Port Master Plan Amendment for the Chula Vista Bayfront Master Plan. The Chula Vista Bayfront Master Plan, including the Energy Utility Zone, has been a joint planning effort between the Port and the City of

Chula Vista, and has been supported and preliminarily approved by both the Board of Port Commissioners and the Chula Vista City Council. The plan is currently undergoing the environmental review process pursuant to California Environmental Quality Act (CEQA) requirements.

It is our understanding that LS Power South Bay LLC filed its AFC on June 30, 2006 pursuant to its contractual obligation. It is also our understanding that there are no "site control" requirements for a 12-month application such as this one. Nonetheless, we expect to conclude negotiations for an option to lease the proposed site to LS Power for the replacement facility successfully in the next couple of months. We further expect to present the terms of an option and lease to the Board of Port Commissioners for consideration at an upcoming Board meeting.

The Port of San Diego supports your acceptance and timely review of the AFC. If I can answer any questions, please feel free to call me at (619) 686-6490, or Ms. Randa Coniglio, lead negotiator, at (619) 686-7217.

Sincerely,

Paul Fanfera
Senior Director
Real Estate

PF/RJC/tw
cc: Kevin Johnson
LS Power South Bay LLC

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