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March 28, 2007

Bill Pfanner
Project Manager
California Energy Commission
1516 Ninth Street
Sacramento, California 95814

Re: South Bay Replacement Project ("SBRP")

Dear Mr. Pfanner:

On behalf of the applicant, LSP South Bay, LLC ("LS Power"), I am writing in response to your letter of March 19, 2007 regarding this proceeding. In that letter, you asked for an update regarding LS Power's plans for this AFC in light of recent actions by the Unified Port Authority of San Diego ("Port").

Allow me to begin by correcting one important misstatement in your letter. The Port did not "reject plans to lease property to [LS Power] to build the proposed South Bay Replacement Project." The Port did not make any determination regarding a lease/option agreement for the site proposed in this AFC other than to express interest in reviewing further information before making this decision.

LS Power has already conducted an extensive review of available sites for this project that concluded the proposed site is the best location for multiple reasons. LS Power was careful to review this conclusion with both the Port and the City prior to preparing the AFC for this project and understood then that the Port and the City agreed. The recent desire by both entities to revisit this question appears to the applicant to have been based in large part on statements from San Diego Gas and Electric Company ("SDG&E") that are factually incorrect and inconsistent with statements the company has made in several other forums. LS Power is in discussions with the City, the Port, SDG&E and others to clarify the facts and to attempt to mitigate the damage caused by SDG&E's misleading statements.

At the same time, the applicant wishes to cooperate fully with the desire of both the Port and the City of Chula Vista to reconsider available site alternatives away from the Bay Front. LS Power has from the outset of its involvement sought to develop this project in close cooperation with the City and the Port and intends to continue doing so. To that end, the applicant is working with the Port, the City, SDG&E and others to review again alternative sites for this facility.

As you know, there is a critical need to remove the existing South Bay facility in order to proceed with the Bay Front Master Plan ("BFMP") being proposed by the Port and the City. It

therefore imperative that the existing facility be replaced with a realistic and timely alternative without further delay. It is not in the interest of the public, the Port, the City, LS Power or most other stakeholders to significantly impede the SBRP and the BFMP in favor of an alternative that is not specific, real, practical and timely. The Energy Commission shares this interest, having invested considerable effort in this application and having a statutory mandate to ensure, among other things, a reliable and environmentally sound electricity supply for California.

Accordingly, LS Power intends to continue working with various local interests to review the possibility of finding an alternative site, but also intends that this review should be conducted quickly. Accordingly, we do not believe that a formal suspension of this proceeding is necessary or appropriate.

The results of this review will be submitted to the Commission as an augmentation of the AFC's alternative site analysis. This review may or may not support selection of an alternative site for the facility. If this process identifies an alternative site that is acceptable to the applicant and other key stakeholders, the applicant will consider amending this application to allow permitting a facility at such alternative site. Of course, the applicant expressly reserves its right to seek certification at the currently proposed site depending on the outcome of this review and the totality of circumstances.

In the meantime, the applicant understands that Staff has temporarily suspended work on this application. LS Power will continue to keep the Commission and Staff informed as our work on this project goes forward so that Staff can plan its workload.

On a related matter, for your information, in connection with the proposed combination between LS Power and Dynegy, which we expect to occur this Monday, April 4, LSP South Bay, LLC intends to transfer all rights to SBRP, including rights associated with the AFC, to a new entity: South Bay Replacement Project, LLC. We will formally notify the Commission of this change upon its occurrence.

Please do not hesitate to contact me at your convenience if you have any further questions or concerns.

Respectfully,

Kevin R. Johnson

c: Commissioner John L. Geesman, Presiding Member
Commissioner Arthur Rosenfeld, Associate Member
Service List