

Vandolah Power Company, L.L.C.

1001 Louisiana St.
Houston, TX 77002

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BUREAU OF AIR REGULATION

January 8, 2002

Mr. A. A. Linero, P.E. Administrator
New Source Review Section
Bureau of Air Regulation
Florida Department of Environmental Protection
Mail Station #5505
2600 Blair Stone Road
Tallahassee, Florida 32399-2400

RE: DEP File No. 0490043-001-AC/PSD-FL-275
Vandolah Power Project

Dear Mr. Linero:

This letter responds to your request dated December 28, 2001 for additional information related to the extension of the Air Construction PSD Permit No. PSD-FL-275 ("Air Permit") to December 1, 2002. We would also like to take this opportunity to explain Vandolah's current contractual obligations and the potential impacts of amending the terms of the Air Permit on our existing Power Purchase Agreement ("PPA").

El Paso purchased the Vandolah Power Project based on its framework, which included all requisite environmental permits that were obtained by the initial developer. One of the key environmental permits was the Air Permit that set forth operational and emission limitations. One of the most important aspects of the project was the operational ability to utilize both natural gas and very low sulfur (maximum 0.05 percent sulfur) distillate fuel oil. The current Air Permit, which was issued on December 16, 1999, allows Vandolah to operate the stationary gas turbines for up to 3,390 hours, including the use of fuel oil for up to 1,000 hours, during any calendar year. Upon purchase of the project, its power output was marketed based on the ability to operate the units on fuel oil as specified in the Air Permit. Specific permit limitations are included as part of the PPA.

On January 3, 2001, Vandolah entered into a PPA with Reliant Energy Services, Inc. ("Reliant"), which remains in effect until the 10th anniversary of the commercial operation date. The current schedule predicts commercial operation on June 1, 2002. Under the terms of the PPA, Reliant will supply fuel to the plant, be it natural gas or liquid fuel, and Vandolah will supply essentially all of the capacity and energy produced by the plant to Reliant. Regarding the use of liquid fuel, the terms of the PPA mirror the terms of the current Air Permit. Specifically, Vandolah is obligated to maintain the permits and other conditions that will allow Reliant to utilize liquid fuel for up to 1,000 hours during any calendar year for the duration of the PPA. Failure to do so by Vandolah gives Reliant the right to renegotiate the PPA, and in the event that the negotiations are unsuccessful, the right to terminate the PPA altogether. The negative impact of amending the terms of the existing Air Permit in a way that reduces Vandolah's ability to utilize liquid fuel as a result of a renegotiated PPA, or in the worst case a terminated PPA, would be enormous.

January 8, 2002

Additionally, Vandolah has incurred considerable expense for the ability and associated facilities to utilize fuel oil. This includes the purchase of dual fuel capability for the General Electric (GE) Frame 7FA combustion turbines, associated fuel oil skids, production wells for raw water, water treatment and storage facilities for NOx control, fuel oil handling facilities, and fuel oil storage tanks with containment. These facilities, for which Vandolah has expended in excess of ten million dollars, contemplated the ability to potentially use fuel oil.

In response to your other questions, the following information is provided:

1. List the remaining tasks to be performed to complete installation and fine-tuning of plant equipment and the approximate dates for completing those tasks.

Generally speaking, engineering and procurement is 100% complete. Construction is approximately 50% complete. Physical construction and erection of the four (4) combustion turbines and subsequent commissioning of the various support systems for the units will be ongoing until mid-March of 2002. The schedule is very detailed and includes installation and commissioning of cooling water pumps, fans, lube oil pumps, the fuel gas, fuel oil and fire protection system, DLN and water injection systems, etc. Subsequent to commissioning activities, fine-tuning of the plant equipment for Units 1 through 4 is currently scheduled to occur on or about March 22nd through April 28th of 2002. Also, please find the latest summary of construction activities as of December 5, 2001 included as Attachment 1.

2. Identify additional production and emission testing that needs to be conducted and provide estimated dates for completion of those tasks.

Load testing and emission testing for Units 1 through 4 is scheduled to occur subsequent to fine-tuning of the plant equipment. Vendor certification tests are scheduled to occur from early April to early May of 2002. The initial performance/compliance tests are scheduled to occur mid to late May, 2002. As required by Specific Condition III. 35, the Department will be notified 30 days prior to the performance testing. We expect notification of performance testing to occur in mid to late April, 2002. Note that the anticipated date of commercial operation for the units is June 1st of 2002.

3. Provide a statement (and basis for believing) that the facility will comply with applicable regulations.

The Vandolah Power Project is being constructed to conform to the operational and emission limitations of the Air Permit. This responsibility to comply with the Air Permit was fully accepted in acquiring the project and in providing the Owner/Authorized Representative Official Statement with the request to transfer ownership of the project.

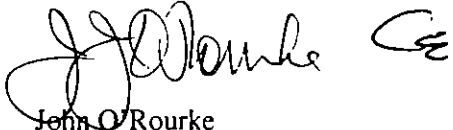
Most importantly, Vandolah has specific emission guarantees for the combustion turbines from GE that meet the emission limitations specified. We are aware from other projects using the identical turbines being constructed as part of the Vandolah Power Project (i.e., GE Frame 7FA combustion turbines) that the specific emission limiting standards in the Air Permit can be achieved. As part of the operation of the project, there will be specific operational environmental procedures for the project that will assure that the specific conditions of the Air Permit are met.

Please do not hesitate to contact Krish Ravishankar, Environmental Manager for El Paso for further information should you require it. His direct phone number is 713-420-5563. Thank you very much for your help.

January 8, 2002

Very truly yours,

VANDOLAH POWER COMPANY, L.L.C.

A handwritten signature in black ink, appearing to read "J. O'Rourke", followed by a stylized "CE" or "CZ" mark.

John O'Rourke
Vice President and Managing Director

Cc: Kennard F. Kosky, P.E., Golder Associates
Jon Stroble, Project Manager
Enclosures

January 8, 2002

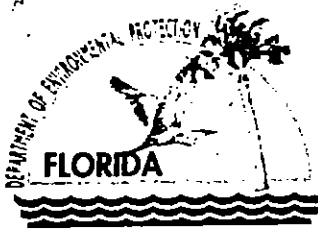
Attachment 1

The following is a summary of on-going construction activities as of December 5, 2001:

- Generators 1 and 2 are mounted on their pedestals;
- Turbines 1, 2, 3, and 4 are all mounted on their pedestals.
- Turbine stacks are all completed.
- Tank completion status:
 - Demineralized Water – hydro test completed; outside partially painted.
 - Raw Water - hydro test completed; outside partially painted.
 - Fuel Tank A – inner wall construction completed, presently installing the roof.
 - Fuel Tank B – 6th tier of inner wall construction remains and then installation of the roof.
- The underground large piping status: overall 92% complete;
 - North – complete;
 - West – complete; and
 - East – complete, backfill and compacting is on-going in vicinity of the large AST tanks.
- Drilling of the 480-foot potable well is complete. Water is presently being used for on-site rest rooms and dust control. Purification equipment installation is scheduled for December 10-14. Well water testing will commence upon receipt of the Potable Water Permit that has been applied for.
- Production Well #1 is completed to a depth of 1200 feet. The installation of the pump is complete except for connecting to power and tie-in of the pipe to the underground water distribution system.
 - Production Well #2 is completed to a depth of 1200 feet
- The auxiliary modules to the CTG are 90 % complete.
- The administration/operations building is 95% complete. Interior work remains.
- Switchyard: the installation of structure steel and piping, static discharge masts, and the pulling and terminating of the wire is in process. The grounding grid remains 85% complete.
- The natural gas fuel metering station near the southwest corner is 30% complete. The construction of the foundation is 100% complete.
- Glycol Radiators 1 and 3 are installed; units 2 and 4 are currently in the lay-down area.
- General Electric start-up personnel are on site.
- The Fuel Oil Storage Tanks registration was submitted to the FDEP on October 24, 2001, with an effective date of March 2002. The Registration placards have not been received.
- The current schedule for the Initial Performance Test is mid to late May, 2002.

January 8, 2002

Bcc: Manitia Moultrie, Golder Associates – Tampa
Krish Ravishankar, Environmental Manager
Jennifer Mollhagen, Environmental Engineer
Loris McDaniel, Site Construction Manager
Chuck Tobias, Commercial Mgmt.
Rick Knauth, Development



Jeb Bush
Governor

Department of Environmental Protection

Twin Towers Office Building
2600 Blair Stone Road
Tallahassee, Florida 32399-2400

David B. Struhs
Secretary

December 28, 2001

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

John O'Rourke, V.P. & Managing Director
Vandolah Power Company, L.L.C.
1001 Louisiana Street
Houston, Texas 77002

Re: DEP File No. 0490043-001-AC (PSD-FL-275)
Vandolah Power Project
Four Simple Cycle Combustion Turbines

Dear Mr. O'Rourke:

The Department received a request from your consultant, Golder Associates, to extend the referenced air construction permit from January 1, 2002 to December 1, 2002. While the application is quite detailed and informative, we consider the request incomplete and require some additional information as detailed below.

When the original project was approved (prior to purchase by El Paso from IPS Avon Park Corporation), the natural gas capacity of the Florida Gas Transmission (FGT) network was approximately 1.4 billion cubic feet per day (bcfd). FGT is an affiliate of Vandolah Power's new owner, El Paso. Since that time, the Federal Energy Regulatory Commission (FERC) approved Phase IV and Phase V expansions of the FGT that will supply natural gas transportation service for approximately 0.66 bcfd of natural gas to expanding markets in Florida. Phase IV is already in service. Phase V will be in service by the end of 2002.

FGT's Phase VI project is already under review by FERC and is expected to be operational by mid-2003. This project will further increase FGT capacity by 0.12 bcfd, raising FGT's capacity to 2.2 bcfd.

FERC also approved the natural gas pipeline facilities proposed by Gulfstream Natural Gas System, LLC (formerly a Coastal/El Paso affiliate). Said facilities will provide natural gas transportation service for up to 1.13 bcfd from supply areas in Mississippi and Alabama to new and existing markets in Florida. The Gulfstream project will cross the FGT system in Hardee County and will have interconnections with the FGT system at various points.

FERC is processing an application from Cypress Natural Gas (an El Paso Company) to construct a new pipeline capable of delivering 0.31 bcfd of natural gas from existing liquefied natural gas (LNG) processing facilities in Georgia to the FGT network in Florida.

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The above projects will increase total gas capacity to the state from approximately 1.4 bcfd in 2000 to 3.6 bcfd in 2004 (exclusive of any Bahamas LNG projects by AES, El Paso or Enron). The increase is well in excess of any requirements by additional power plants (including Vandolah Power LLC).

El Paso also applied for permits at three sites (Broward, Belle Glade, and Manatee) that include simple cycle units fired exclusively on natural gas. These units will emit 9 ppmvd of nitrogen oxides. While it is obvious that Vandolah Power already initiated construction on fuel oil storage tanks, we would like to know how the developments detailed above affect the need to use fuel oil for up to 1000 hours per year per unit. The reason is that during fuel oil combustion, emissions are permitted at 42 ppmvd rather than 9 ppmvd. We would also like to know at what date in the future Vandolah Power (like the other El Paso affiliates) will not require such a high fuel use component.

In addition to the questions above, please provide the following information:

1. List the remaining tasks to be performed to complete installation and fine-tuning of plant equipment and the approximate dates for completing those tasks.
2. Identify additional production and emission testing that needs to be conducted and provide estimated dates for completion of those tasks.
3. Provide a statement (and basis for believing) that the facility will comply with applicable regulations.

If you have any questions regarding this matter, please contact Teresa Heron at 850/893-9793 or at teresa.heron@dep.state.fl.us. You may also write me at the letterhead address or contact me at 850/921-9523 or at alvaro.linero@dep.state.fl.us.

Sincerely,



A. A. Linero, P.E. Administrator
New Source Review Section

AAL/aal

cc: Bill Thomas, DEP SWD
Ken Kosky, P.E., Golder

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to

John O'Rourke, V.P. & Managing
Vandolah Power Company, L.L.C.
1001 Louisiana Street
Houston, TX 77002

2. Article Number (Copy from service label)

7000 2870 0000 7028 3086

PS Form 3811, July 1999

Domestic Return Receipt

102595-99-M-1789

COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly)

B. Date of Delivery

C. Signature

JAN 07 2002

☐ Agent☐ Addressee☐ Is delivery address different from item 1?☐ Yes

If YES, enter delivery address below:

☐ No

3. Service Type

☒ Certified Mail☐ Express Mail☐ Registered☐ Return Receipt for Merchandise☐ Insured Mail☐ C.O.D.

4. Restricted Delivery? (Extra Fee)

☐ Yes

U.S. Postal Service
CERTIFIED MAIL RECEIPT
 (Domestic Mail Only; No Insurance Coverage Provided)

7000 2870 0000 7028 3086

Postage

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Certified Fee

Return Receipt Fee
(Endorsement Required)Restricted Delivery Fee
(Endorsement Required)

Total Postage & Fees

\$

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Sent To

John O'Rourke

Street, Apt. No., or PO Box No.

1001 Louisiana St.

City, State, ZIP+4

Houston, TX 77002

PS Form 3800, May 2000

See Reverse for Instructions

Golder Associates Inc.

6241 NW 23rd Street, Suite 500
Gainesville, FL 32653-1500
Telephone (352) 336-5600
Fax (352) 336-6603



December 5, 2001

RECEIVED

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DEC 06 2001

Mr. C. H. Fancy, P.E., Chief
Bureau of Air Regulation
New Source Review Section
Florida Department of Environmental Protection
Mail Station #5505
2600 Blair Stone Road
Tallahassee, Florida 32399-2400

BUREAU OF AIR REGULATION

Attention: A. A. Linero, P.E., Administrator, New Source Review Section

Re: DEP FILE NO. 0490043-001-AC / PSD-FL-275
VANDOLAH POWER PROJECT

Dear Al:

This correspondence is submitted to request an extension for the expiration date of the above referenced permit. The construction permit expires January 1, 2002 and an extension until December 1, 2002 is requested. The following is a summary of on-going construction activities as of November, 2001:

- Turbines 1, 2, 3, and 4 pedestals are completed.
- Turbines 1 and 3 have been mounted on their pedestals. The next turbine is due next week and the remaining turbine is due the first week in December.
- Turbine stack status is:
 - Turbine #1 – Tiers 1-6 are completed with Number 7 and 8 remaining,
 - Turbine #2 – all tiers are completed,
 - Turbine #3 – all tiers are completed, and
 - Turbine #4 – all tiers are completed.
- Tank completion status:
 - DeMin Water – hydro test currently in progress,
 - Raw Water - hydro test completed,
 - Fuel Tank A - outside wall finished, hydro test complete, inner wall construction began, and
 - Fuel Tank B – outside wall finished, hydro test complete, inner wall construction began.
- The underground large piping status: overall 90 percent complete;
 - North – complete;
 - West – complete;
 - East – complete, backfill, and compacting on going,
- Drilling of the 480-foot potable well is complete. Water is presently being used for onsite rest rooms and dust control.
- Production Well No. 1 is completed to a depth of 1,200 feet. The installation of the pump remains.

Production Well No. 2 is completed to a depth of 1,200 feet. The installation of the pump remains.

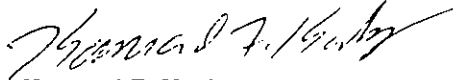
- Transformer yard blast wall at Turbine Nos. 2 and 4 are completed.
- The auxiliary modules to the CTG are 70 percent complete.
- The administration/operations building is 90 percent completed.
- Switchyard: concrete casings and steel erection complete; grounding grid remains at 85 percent complete.
- All four PEECCs and accessory modules are in place.
- All four Liquid Fuel & Atomization Skids (LFAA) are in place.
- The natural gas fuel metering station near the southwest corner is 20 percent complete.
- The General Electric start-up personnel are onsite.

Also attached are various photographs of the construction activities at the site. It is expected that the turbines will begin initial operation in the March to May timeframe depending on the unit. The extension would allow testing and preparation of the Title V permit application for submission 90 days prior to the construction expiration. A permit fee of \$50, pursuant to Rule 62-4.050(4)(r)3, F.A.C., is also enclosed.

Please call if you have questions. Your expeditious handling of this request would be appreciated.

Sincerely,

GOLDER ASSOCIATES INC.



Kennard F. Kosky, P.E.
Principal

KFK/lsh

Enclosures

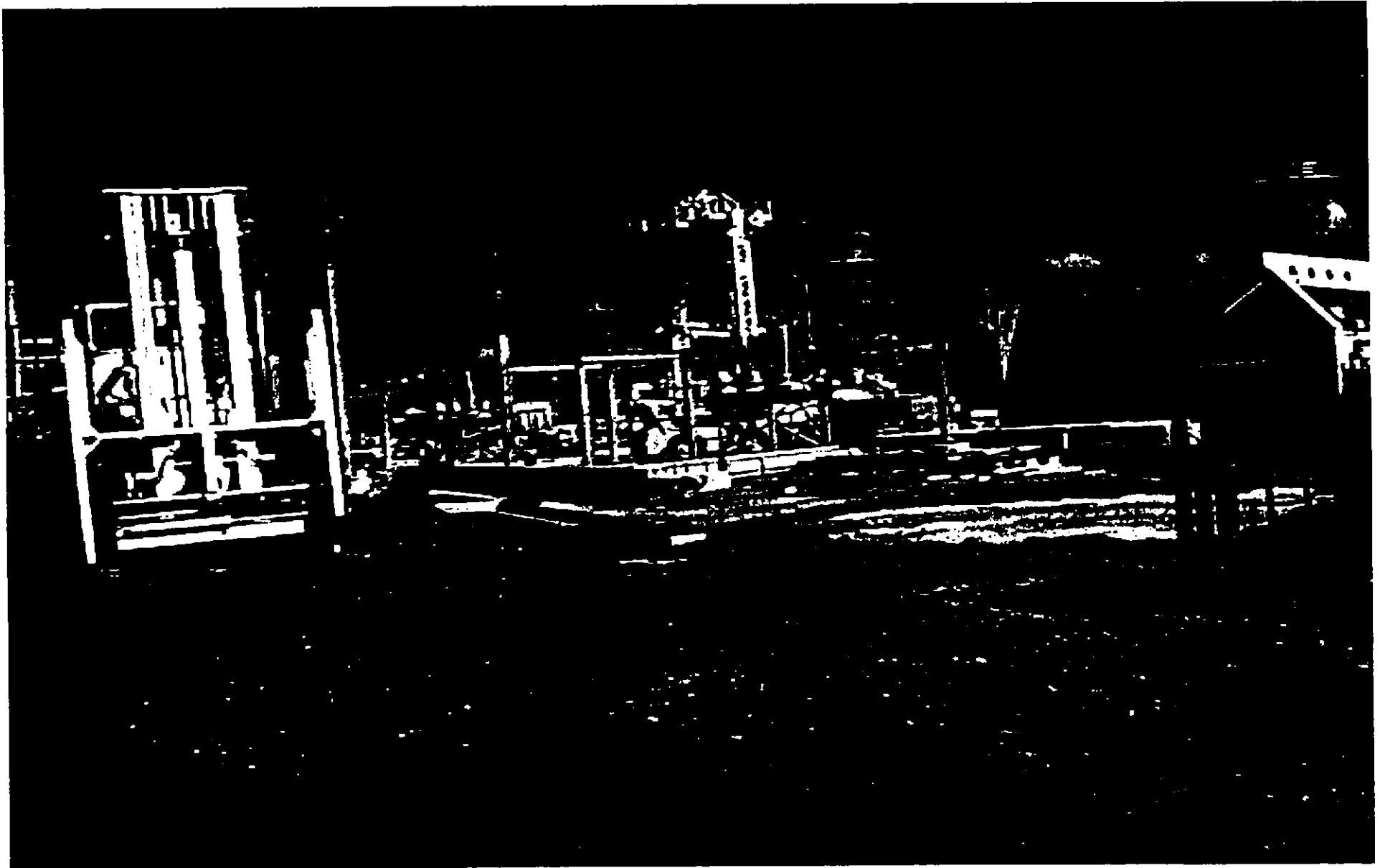
cc: Manitra Moultrie, Golder Associates-Tampa
John O'Rourke, Vice President and Managing Director
Jon Stroble, Project Manager
Loris McDaniel, Site Construction Manager

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Photograph 2: View looking east at turbine stack #4.

Source: Golder, 2001.



Photograph 3: View looking northeast at the switchyard and stacks 1,2,and 3.

Source: Golder, 2001.



Photograph 4: View looking north from the west side at the switchyard.

Source: Golder, 2001.



Photograph 25: View looking northwest from the main entrance road at the overall construction site.

Source: Golder, 2001