GOVERNOR ARNOLD SCHWARZENEGGER

May 18, 2007

Mr. Sean T. Connaughton
Maritime Administrator
U.S. Department of Transportation
Maritime Administration
Southeast Federal Center
1200 New Jersey Avenue, SE
Washington, DC 20590-001

Re: Application of BHP Billiton LNG International Inc. for the Cabrillo Port LNG Deepwater Port
Docket No. USCG-2004-16877

Dear Mr. Connaughton,

Pursuant to the Deepwater Port Act (33 U.S.C. section 1508(b)(1)), this letter conveys my decision to disapprove BHP Billiton's application for the Cabrillo Port Liquefied Natural Gas Deepwater Port. While I believe strongly that California needs to expand its access to natural gas resources, specifically Liquefied Natural Gas (LNG), I am disapproving this application based on my review of the Environmental Impact Report/Environmental Impact Statement (EIR/EIS) that are required by state and federal law, respectively. Specifically, the Cabrillo Port LNG project as proposed would result in significant and unmitigated impacts to California's air quality and marine life.

California policy agencies have determined that California needs LNG. In its 2005 Integrated Energy Policy Report, the California Energy Commission indicated that California faces significant challenges in ensuring adequate natural gas supplies at reasonable prices to meet growing demand. California imports 87 percent of its natural gas supplies and our geographic location, literally at the end of interstate pipelines, puts California consumers at risk of price spikes with every winter storm or hurricane in other parts of the country. In fact, wholesale natural gas prices in California have doubled since 2000, and the U.S. Energy Information Administration this past winter warned that consumers could see home heating bills increase as much as 50-70 percent, as a result of increases in wholesale prices.

Higher wholesale prices also mean higher costs to generate electricity, which translates into higher rates for electric utility customers in California. More than 40 percent of the electricity in California is generated using natural gas as a fuel. California consciously chose natural gas as a fuel source to meet the demands of a growing population and booming economy due to its clean environmental footprint compared with coal and other fossil fuels. And while California has implemented one of the most aggressive renewable energy initiatives in the United States, natural gas serves as a critical "bridge" fuel that can provide cleaner energy while our state and nation transitions to renewable resources like solar, wind, ethanol, hydrogen and biomass.

Liquefied Natural Gas can and must be an important addition to California's energy portfolio. However, any LNG import facility must meet the strict environmental standards California demands to continue to improve our air quality, protect our coast and preserve our marine environment. The Cabrillo Port LNG project, as designed, fails to meet that test.

Impacts to Air Quality

As proposed, the Cabrillo Port LNG project has not adequately mitigated both on- and off-shore air quality impacts. Specifically, as proposed in the final EIR, this project would result in the annual release of 30 tons of NOx, 11 tons of particulate matter and 39 tons of reactive organic gases. This would substantially increase the number of local pollutants released along the Ventura County Coast. I strongly oppose the preliminary decision made by the U.S. Environmental Protection Agency (USEPA) not to subject this project to the same standards as other off-shore projects of this magnitude, such as off-shore oil rigs. Given the on-shore air quality impacts of this project, it should be subject to Ventura County Air Pollution Control District regulations. These regulations would have required the BHP project to provide full offsets for the stationary source project emissions.

Impacts to Marine Life

The proposed Cabrillo Port LNG facility would be located in one of the most complex, diverse, and productive marine environments along the west coast of the United States. The boundary of the Channel Islands National Marine Sanctuary is only 12.5 miles from this site. A seawater gasification system, as originally proposed by BHP, would impact significant volumes of fish eggs, larvae and other planktonic life, which are the foundation of marine life. A closed loop system with submerged combustion vaporizers, as proposed by BHP in the final EIR/EIS, would lessen the impact, but would still result in impacts to marine life due to temperature variations from the submerged portion of the facility and thermal discharge, in addition to the three billion gallons of seawater per year required for ballast water. The temperature and discharge issues associated with an off-shore LNG facility are particularly relevant in this case, due to the proximity of the Cabrillo Port project to the Channel Islands Marine Sanctuary.

A number of other environmental and safety issues were raised in the final EIR/EIS, some of which were mitigated or otherwise addressed, and I will not raise them here. I am mainly focused on the environmental impacts of air quality and marine life associated with this particular project, and this remains a significant concern.

LNG is important to California's energy future, and I believe an offshore LNG facility can be constructed along the coast that meets California's stringent environmental standards. However, the Cabrillo Port LNG project falls short. The technology is available to substantially eliminate many of the environmental impacts associated with this type of off-shore LNG facility, including the use of clean-burning fuels, like natural gas, to power the tankers that transport LNG in federal and state waters and ambient air gasification systems.

Even if the project proponents were to agree to such conditions at this time, the project would be so substantially changed from the one that underwent environmental and public review, that for all intents and purposes it would be a new project. With a project of this import and environmental consequence, the process of public review is as important as the project itself. As such, all projects should adhere to a level of transparency that maintains public trust in the process, and promotes confidence that California's resources are guarded by the highest standards.

I appreciate the opportunity afforded to me under the Deepwater Port Act to act on BHP's Cabrillo Port LNG Deepwater Port application. Although I strongly support building an offshore LNG facility in California, based on the unmitigated and significant environmental impacts associated with Cabrillo Port LNG's proposed project, I disapprove this application.

Sincerely,

Arnold Schwarzenegger