



Yakout Mansour
President & Chief Executive Officer

January 28, 2008

Honorable Cheryl Cox
Mayor
City of Chula Vista
276 Fourth Avenue, MS A-101
Chula Vista, CA 91910

Dear Mayor Cox:

Thank you for your letter of January 7, 2008, regarding the future of the South Bay Power Plant ("SBPP"). The letter asks the California Independent System Operator (ISO) to respond to the following questions:

- 1) What is the function of the SBPP as it relates to reliability and transmission?
- 2) What needs to occur in order to reduce the reliability designation on the SBPP enough to allow the lattice towers and transmission lines to be removed by December 2008?
- 3) What needs to occur in order to eliminate the Reliability Must Run (RMR) designation on SBPP so that it can be decommissioned and removed by February 2011?

I understand that the City of Chula Vista is in negotiations with various parties regarding the future use of the bay front that would require removal of the SBPP. Thus, the timing of the possible retirement of the SBPP is an important factor in these negotiations. As you know, the generating units at the SBPP are currently designated by the CAISO as Reliability Must-Run (RMR) units. This designation cannot be removed until local reliability requirements can be met without the SBPP.

The CAISO is a non profit public benefit corporation chartered under the laws of the State of California for the purpose of operating and maintaining the reliability of the statewide electric transmission grid. The reliability of the transmission grid is dependent on a number of specific power plants located in specific areas. SBPP is, in fact, critical to maintaining the reliability of the San Diego area. In order to remove the RMR designation from SBPP, the California ISO must find that reliability requirements can be met without SBPP units.

In May 2007, San Diego Gas & Electric ("SDG&E") entered into an agreement with the operator of the SBPP to fill SDG&E's Local Capacity Area Resource requirement needs as mandated by the California Public Utility Commission (CPUC). This agreement runs through December 31, 2009 and

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will secure all of the 704-megawatt capacity from the SBPP to the region. Although this agreement will provide SDG&E more flexibility over the operation of the facility and will ensure that the output from the plant is available to the CAISO to support the local area needs, the CAISO concluded that continued RMR designation was required in order to ensure availability of the resource to meet local reliability needs.

The CAISO is aware of the widespread interest that exists to see SBPP decommissioned and has been in discussions with SDG&E about the requirements necessary to remove the SBPP'S RMR designation. In order to remove the RMR designation, there are a number of modifications to the transmission and/or generation infrastructure that must happen first to ensure that local area reliability is maintained.

Three projects are underway to meet this local area reliability requirement. First, with respect to the need for new resources, construction of the Otay Mesa Energy Center is currently underway. Second, SDG&E has filed an application with the CPUC to construct the Sunrise Powerlink Transmission Project that will enable SDG&E to substantially improve system reliability and provide access to renewable resources. Third, SDG&E has recently executed contracts with two developers for new peaking generation resources in its service territory.

From the CAISO's perspective, at least two out of three of these major modifications must occur before the RMR designation at the SBPP can be removed. In addition to these modifications, the new Silvergate 230 kV substation and its related upgrades (scheduled for December 2008) as well as the new Baja Norte natural gas interconnection (scheduled for January 2008) must both be in service.

Given that the Otay Mesa Energy Center is under construction, the future addition of Sunrise Powerlink would satisfy the requirements for removal of RMR designation at SBPP. If Sunrise is delayed or not constructed, additional new peaking generation will be required within SDG&E's service territory. The amount of new capacity would be based on the CAISO's existing grid reliability standards, which are analyzed each year. Based on the current status of the previously noted projects, the RMR designation at the SBPP could be removed as early as 2010. However, delays in construction of the Sunrise Powerlink, lack of sufficient new peaking capacity, or delays in the in-service dates in implementing the new Baja Norte natural gas interconnection, would clearly delay this date. Once the RMR designation is removed, there should be no CAISO-related impediment to retiring and decommissioning SBPP.

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I trust that this sheds some light on the California ISO's role in determining the generation and transmission infrastructure necessary to ensure grid reliability and its analysis of local reliability needs related to the SBPP. If you have additional questions, please call Ali Chowdhury, Director of Regional Transmission South, at (916) 608-1113.

Sincerely,



Yakout Mansour
President & CEO

cc: Ali Chowdhury (CAISO)
Mike Niggli (SDG&E)
Steve Castaneda (City of Chula Vista) ✓
David Garcia (City of Chula Vista)
Scott Tulloch (City of Chula Vista)
Michael Meacham (Conservation & Environmental Services)



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July 24, 2008

Jane E. Luckhardt
Downey Brand Attorneys LLP
555 Capitol Mall, 10th Floor
Sacramento, CA 95814

Subject: MMC Chula Vista and Reliability Must-Run Status of the South Bay Power Plant

Dear Ms. Luckhardt:

This letter responds to your June 25, 2008 letter concerning the relationship between your client's Chula Vista Energy Upgrade Project (Project) and the Reliability Must-Run (RMR) status of the South Bay Power Plant (SBPP). Specifically, you request clarification concerning a statement allegedly attributed to a representative of the California Independent System Operator Corporation (CAISO) at a meeting with the City of Chula Vista, that the additional capacity created by the Project "could not be counted to support the removal of the RMR designation" of the SBPP.

To set the record straight, consistent with CAISO CEO Yakout Mansour's January 28, 2008 letter to Chula Vista Mayor Cheryl Cox, any new resource, with Resource Adequacy (RA) deliverable capacity, located within the San Diego local area would contribute toward the peaking resources required (including your client's Project) to meet the capacity need for San Diego local area reliability. In other words, in the event either the Otay Mesa Energy Center or Sunrise Power Link Transmission Project is delayed, the capacity of the Project would contribute to meeting San Diego's local reliability requirements provided that sufficient additional new capacity in the San Diego local area were available in order to allow for the entire SBPP to be retired.

As noted in Mr. Mansour's January 28, 2008 letter, two infrastructure enhancements will also be needed: the Silvergate 230kV substation and the new Baja Norte natural gas interconnection projects must both be in service. In addition, local capacity is not the only local reliability need served by SBPP. SBPP also has ~~black start and dual-fuel capabilities.~~ Before the CAISO releases SBPP, the CAISO must be satisfied that suitable alternatives are available that would replace these services or obviate the need for these services.

We hope this letter provides the clarification that you requested. Should you have any questions regarding this letter, please contact Catalin Micsa at (916) 608-5704 (cmicsa@caiso.com), Irina Green at (916) 608-1296 (igreen@caiso.com), Ali Chowdhury at (916) 608-1113 (ACHowdhury@caiso.com) or myself at (916) 608-5880 (GDeShazo@caiso.com).

Sincerely,

Gary DeShazo
Director, Regional Transmission North
California ISO