

California Independent
System Operator Corporation

July 24, 2008

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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

cc:

via US Mail and e-mail:

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