

July 11, 2001

Commissioner Henry Duque and  
Administrative Law Judge Michelle Cooke  
California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, CA

Dear Commissioner Duque and Judge Cooke:

At the recent public hearings and pre-hearing conference regarding San Diego Gas & Electric Company's (SDG&E) application for a Certificate of Public Convenience and Necessity (CPC&N) for the Valley Rainbow Interconnect 500 kV transmission line, issues were raised about the need for the project. As the California Independent System Operator Corporation (Cal ISO) represented repeatedly over the past year, we believe there is a clear and pressing need for a project like the Valley-Rainbow project.

The California Independent System Operator is charged by the California Legislature as the entity responsible for managing and planning the electric transmission system in California. On three separate occasions, the CAISO Board of Governors has determined that a transmission project such as the proposed Valley Rainbow Interconnect is needed to meet SDG&E's energy demand in 2004 and to strengthen the reliability of the transmission system in Southern California.

On March 30, 2001, the CAISO Board of Governors reviewed previous Board decisions made on May 25, August 1, and October 26, 2000 related to the Valley Rainbow Interconnect electric transmission project. The Board considered the latest available information regarding load forecasts and generation development scenarios. Based on this information, the CAISO Board re-affirmed its approval of and determination of need for a project like the Valley Rainbow Interconnect.

In accordance with CAISO practice, the Board approval of a project like the Valley Rainbow Interconnect was only approval of the electrical configuration and components, without determining the route and substation site locations. It is important to note that the project approved by the CAISO Board as the Valley Rainbow Interconnect is a term used for convenience. This should not be construed as CAISO Board approval of the specific route or termination points proposed by SDG&E at Valley Substation and Rainbow or Pala Substation.

The ISO Board made their decision based, in part, on the following information:

1. Current load growth projections for the SDG&E service territory forecast a resource deficiency of over 400 MW in 2004 if no new generation resources develop in the SDG&E area (i.e., local reliability).
2. In addition, current applications for proposed interconnection in SDG&E and northern Mexico exceed 5600 MW. If all, or a significant portion, of this new proposed generation is constructed and placed in service, additional transmission will be needed to allow this generation to be able to serve customers throughout California (i.e., regional reliability).

As part of its review, the ISO examined three different types of alternatives to meet the needs of the SDG&E area:

Conservation and Load Management -- The CAISO, the State and SDG&E have many conservation and load management programs. However, the CAISO determined that these programs would not be sufficient to meet the needs of SDG&E to serve the expected increase in customer demand for the local reliability scenario.

New Generation -- Several large generation plants have been proposed for the SDG&E service area, but at this time, only Calpine's Otay Mesa plant and Wildflower Energy's Larkspur plant have been approved by the California Energy Commission. These two plants would not be sufficient to replace the Valley Rainbow Interconnect project for the local reliability scenario. The construction and timing of the other generation projects that have been proposed are too speculative at this point to be considered as alternatives to Valley Rainbow Interconnect for the 2004 need date.

New Transmission -- As part of the analysis of various transmission alternatives, SDG&E, the CAISO, and other stakeholders thoroughly studied transmission line alternatives from other locations to serve the San Diego area. None of the transmission line alternatives were as cost effective nor could they be permitted and in service in the same time frame to meet the projected need in 2004 as would the Valley Rainbow Interconnect project.

The Valley Rainbow Interconnect is necessary to reliably serve the growing electric demand in the San Diego area. In addition, the project is an important component of a comprehensive strategy to enhance access by consumers in San Diego and other parts of California to reasonably priced, efficient and environmentally preferred generation. Because a transmission project is required to achieve these objectives, the CAISO Board made the determination that a project such as the proposed Valley Rainbow Interconnect is needed.

The CAISO staff is prepared to work with the California Public Utilities Commission to address issues related to need for a project like the Valley Rainbow Interconnect. The CA ISO looks forward to cooperating with CPUC staff in the review process under the California Environmental Quality Act and will participate in the CPUC proceeding regarding SDG&E's

Commissioner Duque and Judge Cooke  
July 11, 2001  
Page Three

application for a CPC&N for the Valley-Rainbow project providing testimony that sets forth the rationale for the CA ISO determination of need for a project. In the meantime, if we can provide additional information on the CAISO approval process and assessment for need of the Valley Rainbow Interconnect for your review and/or for that of the parties in the case, please feel free to contact me.

Respectfully,

Terry M. Winter  
President & Chief Executive Officer