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Mar 22 2001

OFFICE OF THE CEO
TERRY M. WINTER

James P. Avery
Senior Vice President
Fuel & Power Operations

San Diego Gas & Electric
8330 Century Park Court
San Diego, CA 92123-1530



A Semptra Energy company

March 22, 2001

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Mr. Terry M. Winter
President and Chief Executive Officer
California Independent System Operator
151 Blue Ravine Road
Folsom, CA 95630

Dear Terry:

We have decided to proceed with filing a Certificate of Public Convenience and Necessity (CPCN) for Valley Rainbow with a June 2004 in-service date. We do not believe we can delay the permitting process any longer without potentially jeopardizing reliability in 2004. There have been numerous changes in load and resource assumptions for the San Diego area since the Board's original decision to approve the project, as well as the changes in the Board composition itself. We feel it would be appropriate for you to affirm our decision to file at this time.

The reliability need for the Valley Rainbow project in 2004 is now based on a lower peak load forecast of 4635MW. The project will also provide a third independent point of interconnection for additional reliability to the San Diego load area. Economic benefits include reduced RMR generation contracts in San Diego and enhanced competition in meeting load in San Diego, which should help contain or even reduce future energy prices. More recently, there have been a substantial number of generation interconnection applications within the San Diego load area, which could delay the project's reliability need if at least 400 MW becomes available in 2004. However, there is still considerable uncertainty as to our ability to rely on these future generation additions for reliability because of the many uncertainties they face during licensing as well as the fact that most are only fueled by natural gas without any form of backup fuel supply. Further, our ability to rely on existing generation within the county and throughout the state has been called into question as a result of the recent energy crisis in California. On the other hand, if a substantial amount of generation is added in San Diego and Mexico, the Valley Rainbow project could serve as a vital link to provide enhanced transfer capability to deliver this generation north to Riverside county and the rest of the State. Therefore, the line is needed whether or not generation develops in the San Diego area, and SDG&E will monitor load and generation developments to determine the appropriate in-service date.

The recent pre-hearing conference on State transmission projects by the CPUC suggests that Valley Rainbow is one of the three most important transmission projects in the entire State. As part of the future proceedings, a robust set of load and resource assumptions are to be used in justifying the Valley Rainbow Project, which we will include in our CPUC application. Your support during our licensing process will be critical to obtaining CPUC approval for the Valley Rainbow project.

Sincerely,

James P. Avery

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