

Memorandum

To: ISO Board of Governors

From: Keith Casey VP, Market & Infrastructure Development

Date: December 8, 2011

Re: Decision on Participating Transmission Owner Application of Citizens Sunrise Transmission, LLC

This memorandum requires Board action.

EXECUTIVE SUMMARY

In August 2011, Citizens Sunrise Transmission, LLC submitted an application to the California Independent System Operator Corporation to become a participating transmission owner. Citizens Sunrise, through a development agreement with San Diego Gas & Electric Company, has an option to lease 50 percent of the segment of the Sunrise Powerlink transmission project located in Imperial County. The Sunrise Powerlink transmission project was identified as needed through the ISO transmission planning process and was approved by the Board in August 2006.

Management requests that the Board of Governors approve the ISO's acceptance of the Citizens Sunrise application and requests that, upon execution of the Transmission Control Agreement, Citizens Sunrise become a participating transmission owner, subject to the Federal Energy Regulatory Commission accepting Citizens Sunrise's transmission owner tariff and transmission revenue requirement.

Moved, that the ISO Board of Governors approves the ISO's acceptance of the application of Citizens Sunrise Transmission, LLC for participating transmission owner status, conditioned on (1) Citizens Sunrise executing the Transmission Control Agreement and (2) the Federal Energy Regulatory Commission accepting a transmission owner tariff and transmission revenue requirement for Citizens Sunrise, as described in the memorandum dated December 8, 2011

DISCUSSION AND ANALYSIS

In accordance with the procedures established pursuant to section 4.3 of the tariff and section 2 of the Transmission Control Agreement, Citizens Sunrise submitted an application

on August 10, 2011 that proposed turning over operational control of Citizens Sunrise's rights in the Sunrise Powerlink transmission project to the ISO.

For an applicant to become a participating transmission owner, sections 2.2.3 and 2.2.5 of the Transmission Control Agreement require that the ISO accept the application. Section 2.2.3 of the Transmission Control Agreement states that the ISO shall permit a party to become a participating transmission owner if it determines that:

- The transmission lines and associated facilities to be placed under the ISO's operational control can be incorporated into the ISO controlled grid without any material adverse impact on its reliability;
- Incorporating such transmission rights will not put the ISO in breach of applicable reliability criteria and its obligations as a member of the Western Electricity Coordinating Council;
- The ISO has no outstanding objections regarding any of the applicant's transmission facilities or entitlements;
- The applicant is capable of performing its obligations under the Transmission Control Agreement; and
- All applicable regulatory approvals of the applicant's transmission owner tariff have been obtained.

Citizens Sunrise has demonstrated it can satisfy all of the five required elements. It satisfies the first and second elements because Citizens Sunrise is acquiring rights to a transmission project that was approved in the ISO's transmission planning process. Among other requirements, the transmission planning process ensures that transmission projects can be operated safely and reliably by the ISO. Citizens Sunrise satisfies the third element, as the ISO has no objection to the form of Citizens Sunrise's transmission rights in the Sunrise Powerlink project. Citizens Sunrise also satisfies the fourth element because SDG&E, the project sponsor, is an experienced participating transmission owner and will perform the operational obligations under the Transmission Control Agreement for itself as well as Citizens Sunrise. These obligations include compliance with the transmission maintenance standards, processing generator interconnection requests, and other actions associated with the physical facilities themselves. Citizens Sunrise has been very responsive to the ISO during the participating transmission owner application process and has demonstrated its willingness to perform obligations associated with the Transmission Control Agreement.

The fifth element is addressed through the conditional nature of the Board's approval. Citizens Sunrise has advised that it intends to file its transmission owner tariff and associated transmission revenue requirement with FERC once the Board approves its application. The proposed motion states that FERC acceptance of these filings is an express condition of accepting Citizens Sunrise as a participating transmission owner. Accepting Citizens Sunrise's application subject to this condition is necessary due to timing constraints regarding Citizen Sunrise's project financing. Lenders commit only for limited time periods, and they are apparently more comfortable financing an acquisition pending regulatory approval from FERC rather than awaiting approval from the ISO. The ISO followed a similar approach with regard to the participating transmission owner applications

of Startrans IO, L.L.C., Trans Bay Cable LLC, and Trans-Elect NTD Path 15, LLC (now Atlantic Path 15, LLC) to satisfy the concerns of their lenders.

POSITIONS OF THE PARTIES

As required by section 2.2.2 of the Transmission Control Agreement, the ISO posted Citizens Sunrise's application for participating transmission owner status on the ISO website for 60 days to give interested parties an opportunity to review the application and submit comments to the ISO. The ISO received no comments on the application. Also, the existing participating transmission owners have raised no concerns to date in the negotiations regarding revisions to the Transmission Control Agreement to add Citizens Sunrise as a party to that agreement.

CONCLUSION

Management recommends that the Board approve the ISO's acceptance of Citizens Sunrise's application for participating transmission owner status conditioned on (i) Citizens Sunrise's execution of the Transmission Control Agreement and (ii) acceptance of Citizens Sunrise's transmission owner tariff and transmission revenue requirement by FERC.

Based on the criteria set forth in the Transmission Control Agreement, Management has concluded that the application submitted by Citizens Sunrise satisfies all of the requirements for acceptance.