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July 12, 2010

Michael Picker
Senior Advisor to the Governor for Renewable Energy Facilities
Office of the Governor, State of California
Sacramento, California 95814

Dear Michael:

I am writing to ask for your immediate assistance with a serious problem with the transmission interconnection for our Blythe Solar Energy Center ARRA project. The California Independent System Operator (CAISO) released the long awaited "Transition Cluster Phase II Report" (Phase II Report) last Thursday evening July 8th. On June 30th the CAISO filed its Tariff Waiver Request for Security Postings at the Federal Energy Regulatory Commission (FERC). It is our considered opinion that, unless one or both of these documents are modified to conform to the promises that the CAISO and Southern California Edison (SCE) made in the transmission meetings hosted by the Governor's Office on May 13th and June 8th, our Blythe Solar Energy Center project and any other ARRA project cannot qualify for external financing. Time is of the essence as Solar Millennium and presumably other fast tracked ARRA projects are about to enter formal due diligence with both the DOE Loan Guarantee Program and with potential third party equity investors.

At the June 8th meeting, CAISO committed to filing a tariff waiver request with FERC that confirmed the CAISO's ability to waive financial security postings by interconnecting generators for facilities that SCE intended to self-finance if they received favorable abandoned plant treatment. The CAISO further committed to express sympathy for SCE's desire to receive such FERC approval. SCE committed to supplying a list of facilities that they intended to self-finance (assuming FERC approval of abandoned plant) by July 2nd (assuming the Phase II studies were completed by June 30). Further, SCE committed to work with interconnection customers and to use best efforts to accelerate construction of critical network upgrades to meet ARRA project deadlines for commercial operation in mid-2013. Solar Millennium wishes to commend you for your assistance in achieving that very workable compromise.

However, those commitments are not reflected in either the Tariff Waiver Request or Phase II Reports. It is mid-July, financing due diligence for viable, vital new in-State renewable projects is about to start, equity raising efforts are well underway, and we are faced, unexpectedly, with the following:

- A CAISO tariff waiver request that requires "unconditional" commitment by SCE to self-finance before CAISO will waive interconnection customer financial security posting requirements.
- No letter from SCE listing facilities for which they intend to seek regulatory approval to self-finance.



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- A Phase II report that requires interconnection customer financial security postings for network upgrades that SCE has previously expressed a strong desire to self-finance such as: expansion of the Colorado River Substation, looping of the new DPV II line into the Red Bluff Substation, reliability upgrades to the Vista Substation and, most importantly, relocation and reconductoring of the four 220 kV circuits west of the Devers substation. For the Blythe Solar Energy Project alone, this translates into required financial security postings of \$244 million for facilities that will serve to increase reliable transfer capability on the main "superhighway" currently used to move almost ten thousand megawatt hours per hour of fossil and nuclear energy from New Mexico/Arizona to the Los Angeles Basin, Northern California and the Pacific Northwest. Included in this fossil/nuclear energy is over two thousand megawatts of coal derived energy that will be illegal to import into California under existing law (Senate Bill 1368, 2006) in the timeframe of this transmission expansion. Energy from the Blythe Solar Energy Center as well as the other projects in the Eastern Bulk Cluster will displace this existing fossil energy, however, we are being required to finance grid expansion as if the new renewable capacity does not displace ANY existing fossil energy.
- A Phase II Report that clearly would allow a significant increase in deliverability on the CAISO system in the mid-2013 timeframe for Transition Cluster projects but does not allocate ANY of this capacity to projects in the Transition Cluster until the LAST upgrade is completed in 2017.
- The Phase II Report declares that even partial "Energy Only" interconnection is not available for ANY projects until mid-2014 while ignoring the clear opportunity to accelerate the availability of this service. A footnote states: "[The] assumption is SCE will [after FERC approval of an LGIA] need to obtain CPUC licensing and regulatory approvals *prior to* design, procurement and construction of the proposed facilities...." This totally ignores the fact that several interconnection customers have offered to pre-fund the design and procurement of long lead equipment even prior to signing an LGIA. Since these approvals at FERC and the CPUC are projected to take more than one year, it seems obvious that Interconnection service can be supplied within accelerated ARRA deadlines.

In summary, we believe that, based on an interpretation of the material in the technical appendices, that approximately one-half of the cluster projects could receive full deliverability by mid-2013. Further, that the costs allocated to the Interconnection Customers in the cluster are actually quite modest if there is a public agreement among the CAISO, SCE and the ARRA Interconnection Customers to all of the following, in the immediate future, no later than July 31, 2010:

- SCE commits to self-finance network upgrades meeting the criteria of resolving congestion and improving reliability on the CAISO grid while also serving to allow the full interconnection of ARRA renewable projects and any other new projects desiring interconnection in the same timeframe.



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- CAISO commits to waive financial security postings by Interconnection Customers for those identified upgrades pending regulatory approvals.
- SCE, CAISO and the Interconnection Customers commit to working together to accelerate the design and long lead procurement for those identified upgrades in parallel with pending regulatory approvals.

Without these commitments, the opportunity to construct thousands of megawatts of new, vitally needed in-state renewable capacity and the economic stimulus that will accompany this multi-billion dollar investment in California's infrastructure will be lost.

Thank you for your attention to this important matter.

Sincerely,



James H. Caldwell, Jr.
President

cc: Yakout Mansour, CAISO
Board of Directors, CAISO
Pedro Pizarro, SCE
President Michael Peevey, CPUC
Chair Karen Douglas, CEC
President pro Tempore Darrel Steinberg, California Senate
Speaker John Perez, California Assembly



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