California Independent System Operator

September 1, 2000

Robert A. Laurie, Commissioner Presiding Committee Member, Metcalf AFC Committee California Energy Commission 1516 Ninth Street Sacramento, CA 95814-5512

William J. Keese, Chairman Associate Committee Member, Metcalf AFC Committee California Energy Commission 1516 Ninth Street Sacramento, CA 95814-5512

Subject: Metcalf Energy Center

Dear Commissioner Laurie and Chairman Keese:

I am writing this letter to request that you expedite your consideration of the AFC for the Metcalf Energy Center (MEC) in San Jose. Understanding that you must always balance the need for a project with environmental and community concerns, the ISO believes that the MEC will provide substantial reliability benefits to the San Jose area sufficient to offset the impacts the MEC opponents have identified.

As you are no doubt aware, there is an acute need for new power generation in California. The Bay Area, and in particular the San Jose area, are among the most generation deficient areas in the state. ISO studies show that, with no major generation supply, the San Jose area is the most vulnerable metropolitan area on the PG&E system for local system problems. With continued growth in the area, if new generation is not developed (and none other than MEC currently appears likely in the area), major transmission facilities will be needed. These facilities will have their own set of environmental impacts, as they could require several miles of new right-of-way. In addition, the construction of major new transmission facilities can take many years to permit and construct. It is questionable whether these transmission facilities could be built in time to meet the area's growth.

In addition to the problems in the San Jose area, the entire state of California is deficient in generation resources. The California ISO has had more Stage 2 alerts so far this year (14) than in 1998 and 1999 combined (5). We have projected an overland that the FROM SACRAMENT ON

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year under hot summer conditions. The overall ISO system load is growing at a minimum of 2 to 3 percent per year (920 to 1380 MW per year), adding to the projected deficiency. In high growth areas such as the Bay Area, the load growth is even higher (5 to 6 percent). The amount of new generation proposed to be on-line in the next two years will not be sufficient to cover our projected deficiency plus the load growth. Without the Metcalf Energy Center, there will be a greater deficiency of 600 MW starting in 2002.

Should shortages occur, the ISO could be forced to implement rolling blackouts of customers, such as occurred in the Greater San Francisco Bay Area on June 14, 2000. The ISO is committed to doing everything in our power to prevent these actions, such as providing financial incentives for installing temporary generation in key locations in deficient areas. New generation at Metcalf will be a permanent means to defer these extreme measures in the foreseeable future.

Please call me at (916) 351-2366 if you have any questions or if I can be of any further assistance.

Sincerely.

Terry M. Winter

President and Chief Executive Officer

California ISO

cc: Paul Richins (CEC)

Ken Abreu (Calpine Corporation)