



Yakout Mansour
President & Chief Executive Officer

January 12, 2010

Honorable Gavin Newsom
Mayor
City and County of San Francisco
City Hall, Room 200
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Re: Potrero Power Plant

Dear Mayor Newsom:

First, let me express my sincere thanks for your understanding and tireless communication on matters related to the Potrero Power Plant. Your sensitivity to our role in maintaining the reliable operation of the grid while seeking an acceptable resolution demonstrates your leadership and dedication to responsible public service.

As I committed to you, the ISO has been diligently evaluating all options and available data to reach closure on the need for continued operation of the Potrero Power Plant. Most recently, PG&E provided new data regarding the load carrying capability of two replacement underground transmission cables they are installing between the Martin, Bayshore and Potrero substations. The updated information from the cable manufacturer, which is based on more accurate testing and modeling of the material and the operating conditions, led us to update the data previously provided by PG&E and reassess the needs for Potrero operation.

Our updated studies conclude that the ISO can release Potrero Units 4, 5 and 6 from their designation as must-run units after 2010, provided that PG&E has completed its recabling project and both lines have demonstrated reliable operations. Our conclusion regarding the closure of these three units is in addition to the ISO's earlier determination that Potrero Unit 3, the largest of the four operating Potrero generators, can retire once the Trans Bay Cable project demonstrates its reliability.

The level of need for generation at the very local level bounds our contract for generation from Potrero, and that level of need is mitigated by the projects underway. As I have communicated to you through our extensive and productive dialogue, eliminating capacity available in the region that ensures reliable and safe operation to Northern California in general, including San Francisco, creates significant concerns. California faces many challenges in maintaining reliable electric service for its citizens, including the possible closure of California's power plants using once through cooling, the reliable integration of renewable resources, and natural emergencies such as heat waves and fires. Without

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question, closing power plants in the region without replacement reduces our ability to handle those situations.

I look forward to continuing to work with you to ensure reliable electric service for San Francisco. If you have any questions, please do not hesitate to call.

Respectfully,



Yakout Mansour
President and Chief Executive Officer

cc: Mr. Ed Salas, Sr. V.P. Engineering & Operations, PG&E