

December 15, 2006

Mr. Gary Chandler
Panoche Energy Center, LLC
P.O. Box 95592
South Jordan, UT 84095-0592

**Subject: Panoche Energy Center, LLC
Panoche Energy Center Project
Preliminary Interconnection Approval**

Dear Mr. Chandler:

The California ISO (CAISO) has reviewed the System Impact Study (SIS) for the Panoche Energy Center Project (Project), a proposed 401 MW peaking power plant facility located near Panoche Hills, California in Fresno County. The Project proposes to interconnect four gas turbine generators into Pacific Gas and Electric Company's (PG&E) 230kV bus at Panoche Substation via a 230kV tie line from Panoche Substation to the Project's switchyard. The SIS was conducted by PG&E. The Project's requested in-service date is September 2009.

Based on the results provided in the SIS, the CAISO is granting preliminary interconnection approval to connect the Panoche Energy Center Project to the CAISO Controlled Grid.

Please note that this letter approving the interconnection of the project allows the project to connect to the CAISO Controlled Grid and to be eligible to deliver the Project's output using available transmission. However, it does not establish the Project's level of deliverability for purposes of determining its Net Qualifying Capacity under the CAISO Tariff and in accordance with CPUC-adopted Resource Adequacy Rules. Therefore, this letter makes no representation, and Panoche Energy Center, LLC cannot rely on any statements herein, regarding the ability or amount of the output of the Project eligible to sell Resource Adequacy Capacity. We encourage you to follow the baseline deliverability studies ongoing at the CAISO. For more information on generation deliverability, please reference the following web link:

<http://www.caiso.com/181c/181c902120c80.html>

If you have questions about the CAISO review of this study, please contact Jenny Mueller at (916) 608-7366 (<mailto:jmueller@caiso.com>) or myself at (916) 608-5880 (<mailto:gdeshazo@caiso.com>).

Sincerely,

Gary L. DeShazo
Director of Regional Transmission – North

cc: Michael King (Nextgen Development via e-mail, mpk.nextgen@gmail.com)

Mark Esguerra (PG&E via e-mail, [mailto: PME8@pge.com](mailto:PME8@pge.com))

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Tom French (CAISO via e-mail)

Judy Nickel (CAISO via e-mail)

Edward Fishback (CAISO via e-mail)

Dennis Peters (CAISO via e-mail)

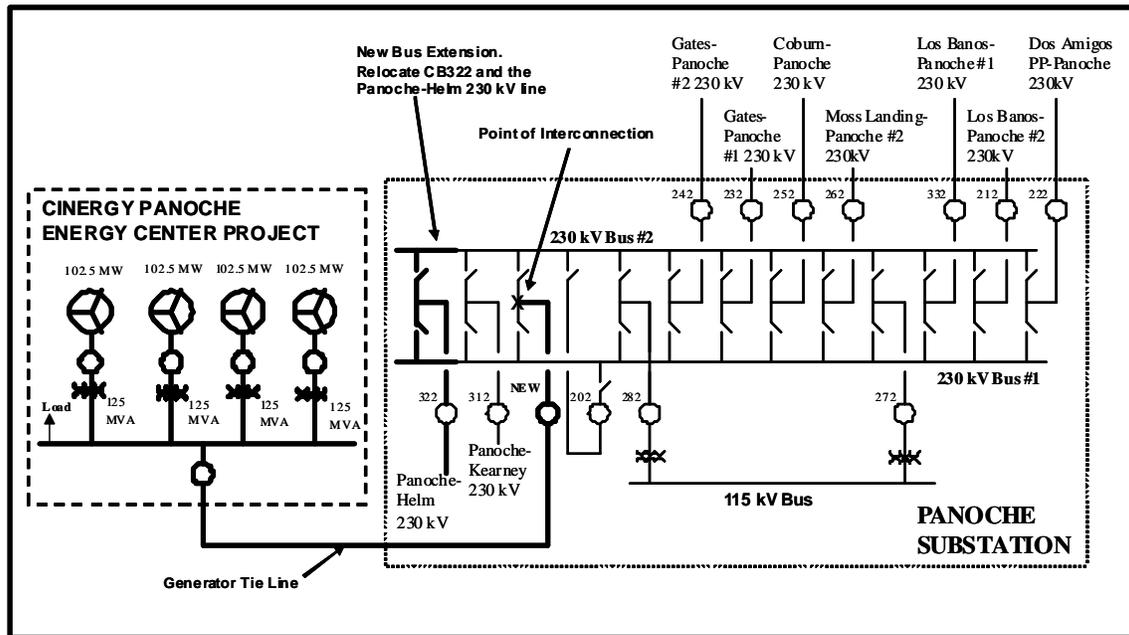
Regional Transmission - North (CAISO via e-mail)

Attachment

The attachment provides a summary of the project, along with CAISO comments.

Project Overview:

The proposed Panoche Energy Center Project (Project) will consist of installing four gas turbine generators with a net output to the grid of 401 MW. The Project will interconnect into Pacific Gas and Electric Company's (PG&E) 230kV bus at Panoche Substation via a 230kV tie line from Panoche Substation to the Project's switchyard. The Project's requested in-service date is September 2009.



Conceptual One-Line Diagram

Summary of the System Impact Study (SIS) Results

The SIS concluded that the addition of the Project would cause one new Category A (N-0) overload on the Borden-Gregg 230kV line of 19% during 2010 summer peak conditions. This line overloaded as a result of a generation Project P0507 with a higher queue position and an earlier online date. Project P0507 has been assigned the responsibility for mitigating this overload. Should Project P0507 not materialize, the Panoche Energy Center, LLC may be responsible for mitigating this overload.

The addition of the Project would also cause one new Category B (N-1) overload on the Wilson-Gregg 230kV line of 3% during 2010 summer peak conditions. A re-conductor of 1.0 mile of the Wilson-Gregg 230kV line with conductors capable of handling 850 Amps or higher is required. Substation terminal equipment will also be upgraded to match or exceed the ampacity rating of the new conductors.

The addition of the Project would also cause three Category C (N-2) overloads. One during 2010 summer peak conditions to the Tivy-Valley-Reedley 70kV line by 1% and two during the 2010 off-peak conditions to the Coppermine-Tivy Valley 70kV line and the Wilson-Oro Loma 115kV line by 1% and 5%, respectively. The Project's contribution to the Category C overloads will be mitigated by installing a Special Protection Scheme (SPS).

The addition of the Project would also exacerbate five Category B (N-1) overloads and nine Category C (N-2) emergency overloads for the conditions studied.

The preliminary system protection evaluation identified requirements consisting of installing one fully redundant, double-pilot current differential scheme for the 230kV generator tie line as well as replacement of four current transformers and their associated protective relays on four 230kV breakers at the Panoche Substation.

The short circuit and substation evaluation identified one 115kV breaker and two 230kV breakers at the Panoche Substation that would become overstressed due to the addition of the Project. The breakers are overstressed as a result of a generation Project P0406 with a higher queue position and an earlier online date. Project P0406 has been assigned the responsibility for replacing these breakers. Should Project P0406 not materialize, the Panoche Energy Center, LLC may be responsible for replacing these breakers.

The dynamic stability study results determined that the addition of the Project would not violate any dynamic stability criteria nor would it cause system instability.

CAISO Comments:

Based on the results of the SIS, the CAISO is granting preliminary interconnection approval to the Panoche Energy Center Project.

However, there is a significant uncertainty regarding which facilities will need to be upgraded due to a number of other proposed generation projects in the same area that are ahead of the Panoche Energy Center in the queue. Therefore, the power flow and the short-circuit studies will need to be updated in the Facilities Study if there is any change to the queue in the Fresno area.

Final interconnection approval will be granted following a review of the Facilities Study.