



Sunrise Power Company, LLC

Box 81617, Bakersfield, CA 93380-1617

661-615-4630

Kelly S. Lucas, Executive Director

June 26, 2012

VIA EMAIL AND FEDERAL EXPRESS

SU-3314

Mr. John Pacheco  
Acting Deputy Director  
California Department of Water Resources  
2033 Howe Avenue, Suite 220  
Sacramento, CA 95825

Dear Mr. Pacheco:

We reference your letter to Sunrise Power Company ("Sunrise") dated June 22, 2012 regarding the Firm Transportation Service Agreement Contract No. 1724 ("TSA") dated August 28, 2003 between Kern River Gas Transmission Company ("KRG T") and the California Department of Water Resources ("CDWR") and the Agreement on Reassignment of Firm Transportation Service Agreement (the "Reassignment Agreement") dated September 1, 2003 between Sunrise and CDWR. Your letter notes that CDWR has put the TSA up for permanent release on the KRG T RAPIDS portal and claims that a failure by Sunrise to bid on and assume the permanent release would constitute a breach under the Reassignment Agreement. Your letter further claims that Sunrise has communicated its "unwillingness" to post the security required by KRG T to bid on the permanent release.

As we have communicated to CDWR many times, Sunrise is willing to bid on the permanent release by providing collateral to KRG T of one year's reservation charges, as required by KRG T's Current Lending Documents as set forth in Section 29.2 of KRG T's FERC Gas Tariff. Such is the amount of collateral which was in place with KRG T when Sunrise assigned its Transportation Service Agreement to CDWR in 2003. However, in connection with the 2003 assignment, and presumably for its own commercial purposes, CDWR unilaterally chose to provide KRG T with a written guaranty for the term of the TSA (through April 2018) rather than collateral in the same amount which Sunrise provided and which KRG T had accepted. Because of that choice by CDWR in 2003, KRG T now informs Sunrise

that it will not accept a bid by Sunrise for the permanent release of the TSA unless Sunrise posts a written guaranty for the term of the TSA from a creditworthy party. As we have informed you, Sunrise does not have the means to provide such a guaranty.

Please note that unless KRGT becomes willing to accept a Sunrise bid on the permanent assignment upon acceptance of collateral equivalent to one year of reservation charges, Sunrise will be unable (not unwilling) to acquire the transportation capacity under the permanent release as a result of CDWR's actions taken in 2003.

This situation has been brought about by CDWR's commercial decisions made in 2003 and by KRGT's position to date that it is not required to accept a bid unless it is accompanied by a guaranty of equal value to that volunteered by CDWR in 2003. Nothing in the Reassignment Agreement makes Sunrise responsible for these circumstances or the financial outcome that may accompany them. Thus, Sunrise does not agree with CDWR's allegations regarding potential breach of the Reassignment Agreement as set forth in your June 22 letter. In fact, it is not clear to Sunrise whether CDWR has complied with its obligation under the Reassignment Agreement to use its "best efforts" to secure KRGT's approval of Sunrise acquiring the released transportation.

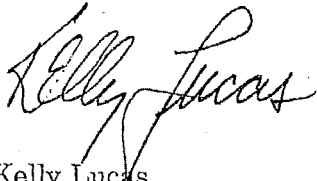
Nevertheless, if CDWR's attempt to permanently release the TSA is not successful, Sunrise would be willing to mitigate CDWR's costs of retaining the transportation service as follows. If CDWR were to pre-arrange a temporary release of the capacity for thirteen months at the maximum tariff rate, Sunrise would accept the release at that rate because Sunrise has sufficient resources to provide collateral for the temporary release under KRGT's tariff requirements. Over the course of the next thirteen months, Sunrise would use its best efforts to cause KRGT to consent to a permanent assignment of the TSA to Sunrise subject to the posting of collateral equal to one year of reservation charges. Sunrise would be willing to provide collateral to CDWR to assure CDWR that it would be kept whole in the event of a Sunrise default during that thirteen month period. In our opinion, this approach would provide greater mitigation of CDWR's claim damages than what you have proposed.

In sum, Sunrise's inability to bid on the permanent release, for the reasons described in this letter, is not a breach of the Reassignment Agreement and Sunrise is not responsible for CDWR's costs of retaining the TSA. However, Sunrise has

offered a proposal that would mitigate the costs that CDWR would incur during that period.

We look forward to discussing this matter with you as soon as possible.

Sincerely,

A handwritten signature in cursive script that reads "Kelly Lucas". The signature is written in black ink and is positioned above the printed name and title.

Kelly Lucas  
Executive Director