

DEPARTMENT OF WATER RESOURCES

CALIFORNIA ENERGY RESOURCES SCHEDULING
P.O. BOX 219001
SACRAMENTO, CA 95821-9001
(916) 574-1291



June 28, 2012

Mr. Kelly S. Lucas, Executive Director
Sunrise Power Company, LLC
Post Office Box 81617
Bakersfield, California 93380

Dear Mr. Lucas:

The California Department of Water Resources ("CDWR") references the Amended and Restated Master Power Purchase and Sale Agreement (the "Master Agreement"), the Amended and Restated Cover Sheet (the "Cover Sheet"), and the Amended and Restated Confirmation Agreement (the "Confirmation") between CDWR and Sunrise Power Company, LLC ("Sunrise") dated December 31, 2002, the Assignment and Consent to Assignment of Firm Transportation Service Agreement dated August 28, 2003, (the "Consent to Assignment") wherein Sunrise assigned all of its rights, interests, and obligations in the Second TSA to CDWR, Contract No. 1724 (the "TSA") and the Agreement on Reassignment of Firm Transportation Service Agreement dated September 1, 2003, wherein CDWR agreed to re-assign the TSA to Sunrise at the termination of the PPA (the "Reassignment Agreement"). Collectively, the Master Agreement, the Cover Sheet, and the Confirmation shall be referred to hereinafter as the "PPA."

This is in response to your letter dated June 26, 2012. As you are aware, the PPA between Sunrise and CDWR expires June 30, 2012. After that date, CDWR has no further obligation with regard to the operation of the Sunrise power plant or the provision of natural gas to the plant. CDWR has, however, a continuing obligation to the Kern River Gas Transportation Company ("KRGT") under the TSA which by now Sunrise should have arranged to take back effective July 1, 2012 pursuant to the Reassignment Agreement.

Contrary to the assertions in your letter, as a credit-worthy party, CDWR was never required to provide and has never provided any form of "written guarantee" or any other type of financial security to KRGT for the term of the TSA through 2018. The TSA was a fifteen-year agreement that CDWR took over under the Consent to Assignment and Reassignment Agreement. As you have acknowledged, it was always the intent of CDWR and Sunrise that any obligation of CDWR related to the TSA ended with the termination of the PPA and that Sunrise would take over all capacity and natural gas obligations thereafter. In fact, the Reassignment Agreement specifically states: "WHEREAS, the term of the Third TSA is longer than the term of the Power Contract and it is the intent of the Parties that CDWR's rights to firm transportation under the Third TSA extend only to the term of the Power Contract." The fact that Sunrise has not satisfied the creditworthiness requirements of KRGT prevents CDWR from being relieved of the obligations arising under the TSA.

CDWR has diligently attempted to meet with both KRGT and Sunrise to facilitate the release of the capacity back to Sunrise and has taken no action which prevented or impaired Sunrise's ability to comply with the terms of the Reassignment Agreement. CDWR has no ability to affect the creditworthiness of Sunrise, nor does CDWR have any ability or legal obligation to secure the approval of Sunrise by KRGT so that Sunrise can

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assume the TSA, as you assert. Sunrise must make its own arrangements with KRGT in order to effect the reassignment of the TSA and permanently take over the capacity obligation.

CDWR has no authority to provide credit backing for Sunrise under a short term or temporary capacity release as proposed by you in the June 26, 2012 letter. Sunrise has access to financial institutions, business partners or affiliates that can provide whatever credit assurances are necessary. Your assertion that if CDWR were to agree to this offer, Sunrise "would use its best efforts to cause KRGT to consent to a permanent assignment of the TSA to Sunrise," does not instill confidence since it is apparent to CDWR that Sunrise has made no effort to do that to date.

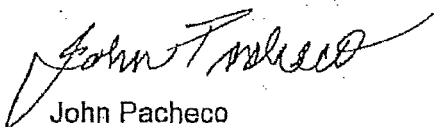
Your offer to accept a pre-arranged temporary release for thirteen months does not relieve CDWR from its capacity obligation under the TSA, which is the intent of the Reassignment Agreement. CDWR is a state governmental entity and after June 30, 2012, has only three remaining power contracts, two of which are wind generators. The TSA is not necessary for continuing operations and it provides no benefit to California ratepayers, which is a primary directive under CDWR's enabling legislation, Water Code section 80000, *et seq.*

As stated in CDWR's letter to you dated June 22, 2012, the failure of Sunrise to permanently take over the TSA effective July 1, 2012, is a breach of the Reassignment Agreement and has left CDWR with an unintended but continuing financial obligation to KRGT through 2018. CDWR will take reasonable action to mitigate its losses which, at this point, include the limited options of offering the capacity for temporary or permanent release. To that end, the TSA has been placed up for temporary release on the KRGT RAPIDS portal. CDWR will look to Sunrise for any shortfall between CDWR's financial obligation to KRGT and the bid price received for the released capacity.

Nothing herein constitutes a waiver of CDWR's rights under the PPA, TSA and Reassignment Agreement and CDWR expressly reserves all rights, objections, and claims it may otherwise have.

If you have any questions, please contact me at (916) 574-1288.

Sincerely,



John Pacheco
Acting Deputy Director

cc: (See attached page)

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Mr. Ryan Miller
San Diego Gas and Electric
8306 Century Park Court
San Diego, CA 92123

Ms. Sue Garcia
San Diego Gas and Electric
8306 Century Park Court
San Diego, CA 92123