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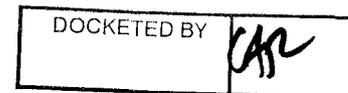
September 12, 2003

Colleen Ryan, Supervisor
Document Control Center
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Arizona Corporation Commission
DOCKETED

SEP 15 2003

Re: Mesquite Power, LLC – CEC Decision No. 63232
Docket No. L-00000S-00-0101



Dear Ms. Ryan:

In accordance with a letter from Lawrence V. Robertson, Jr. to Mr. Prem Bahl dated July 11, 2003, Mesquite Power, LLC has voluntarily agreed to provide a certification letter confirming compliance or intent to comply with the conditions set forth in the above referenced CEC. A copy of that letter was one of three related pieces of correspondence sent to you that same day for inclusion in this docket. Since this is the first such certification letter, this letter will address the current status of each CEC condition as follows:

Condition 1 – Mesquite Power, LLC has obtained and is in relative compliance with all permits, certification and approvals required by the State of Arizona, the County of Maricopa, the United States or any other jurisdictional governmental agency concerning the construction or operation of the Mesquite Project.

Condition 2 – The first of two power blocks achieved commercial operation on June 1, 2003 with the second power block scheduled for commercial operation in November 2003.

Condition 3 – Mesquite Power, LLC is meeting the applicable requirements set forth in the Third Management Plan for the Phoenix Active Management Area as of the date of first withdrawal of groundwater in connection with the project. The Mesquite Project has not exceeded the limit of 7,500 acre feet of aggregated annual withdrawal.

Condition 4 – Refer to the July 11, 2003 letter to Mr. Prem Bahl concerning compliance with CEC condition 4.

Condition 5 – Refer to the attached July 11, 2003 letter to Mr. Prem Bahl concerning compliance with CEC condition 5.

Condition 6 – Mesquite Power, LLC submitted, under a cover letter dated February 11, 2003, a copy of the executed ANPP Hassayampa Switchyard Interconnection Agreement as required by this condition.

Condition 7 - Mesquite Power, LLC submitted, under a cover letter dated February 11, 2003, a copy of the executed WECC Reliability Management System Agreement as required by this condition.

Condition 8 - Refer to the attached July 11, 2003 letter to Mr. Prem Bahl concerning compliance with CEC condition 8.

Condition 9 – Mesquite Power, LLC has constructed the buildings and structures in relative accordance with the plant layout drawings submitted with the CEC applications. The heights of tanks, buildings and other structures have been minimized to the extent practical given the design criteria for the particular equipment or structure. Neutral colors have been used to allow blending of the Project with the surrounding areas. The plant lighting system at the Mesquite Project has been designed and implemented in accordance with recommendations by the International Dark Sky Association.

Condition 10 – Noise tests conducted to date have indicated that noise levels during normal operation of the Project do not exceed HUD residential noise guidelines. Far field noise tests will be conducted upon completion of the second power block to demonstrate compliance with the residential noise requirements specified in this condition 10. Plant noise tests have been conducted for the first power block and will be conducted for the second power block to determine areas where noise levels require the use of hearing protection. Warning signs will be posted in these areas and exposed times will be limited in these areas in accordance with all OSHA standards.

Conditions 11 and 12 – Mesquite Power is implementing the Comprehensive Land Management Plan and has submitted status reports on annual basis as required by Condition 12.

Mesquite Power, LLC will provide an update to this certification letter with the Comprehensive Land Management Plan Status Report to be issued in November 2003 and then annually thereafter.

If you have any questions or need additional information, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read 'Marty C. Swartz', with a long horizontal flourish extending to the right.

Marty C. Swartz
Manager, Project Development

Mcs:accstaffltr05/enclosure

All w/1 enclosure

cc: Ernest Johnson, Director, Utilities Division
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July 11, 2003

Prem Bahl
Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Re: Mesquite Project CEC
Decision No. 63232; Case No. 101
Docket No. L-00000-00-0101

Dear Mr. Bahl:

This letter and the enclosed materials are in response to the several requests set forth in your June 20, 2003 letter to me regarding the above-referenced matter. As such, they also supplement my June 27, 2003 letter to you. For your convenience, the following discussion addresses each request in the sequence in which it was raised in your letter.

CEC Condition No. 4:

As you may be aware, the owners of the Palo Verde power plant and the Salt River Project ("SRP"), in its capacity as operator of the Palo Verde Transmission System, decided to conduct two separate studies of transmission capacity for merchant power plants connecting with the Palo Verde Hub. The first study analyzed the effect of plants coming into service in 2002, which were the Red Hawk and the Arlington Valley plants. The second study analyzed the effect of plants coming on line in 2003 and thereafter, which included the Mesquite power plant. This distinction in study scope was made in order to account for the fact that a new transmission line (PV-Rudd 500 kV line) would be coming into service in 2003. The participants in the latter study were known as the Palo Verde/ Haasayampa Interconnectors Study Group, and Mesquite was an active member.

MUNGER CHADWICK, P.L.C.

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Prem Bahl
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The original Palo Verde/ Haasayampa Interconnectors Study, which was completed in March 2001, determined that the "maximum power that can be scheduled out of Palo Verde vicinity to all areas is about 6750 MW." Operating studies which have been conducted since 2001 have determined the amount of outlet capability on the Palo Verde Transmission System for each succeeding season. Attached as Appendix "A" to this letter is a copy of the latest seasonal study prepared by SRP ("2003 Summer Palo Verde Transmission System Operating Study Report"), which includes the new PV-Rudd 500 kV line that went into service on June 1, 2003. This study determined that the outlet capability this summer is 9,595 MW. This total includes the three Palo Verde nuclear units of 3,861 MW and an additional 5,734 MW of net generation which accommodates Mesquite Block 1 & Block 2 among others. As you will note in that regard, the study also determined that no Remedial Action Schemes ("RAS") or arming for generation tripping are needed under no-outage (N-0) conditions.

Under the aforementioned circumstances, Mesquite as a practical matter was not in a position to conduct an independent study confined to the effect of the Mesquite plant on available transmission capacity. Thus, it did not undertake to do so. The most recent seasonal study was not completed until May, 2003, or approximately two months after Mesquite Block 1 was placed into service.

We believe that this submittal satisfies the intent of CEC Condition No.4. In retrospect, we could have provided you with a copy of the seasonal study completed early last summer. However, it was anticipated that the available transmission capacity would (and, in fact, did) change during the ensuing year with the placement in service of the PV-Rudd 500 kV line. Thus, the earlier study data would have been of little practical value for purposes of Mesquite's CEC. We apologize for any inconvenience that the delay in transmitting the enclosed data may have caused.

CEC Condition No. 5:

Attached as Appendix "B" is a copy of the "2003 Summer Palo Verde Transmission System Initially Out of Service Supplementary Operating Study Report," as completed by SRP in June, 2003. The Mesquite project participated in this joint study as well, and did not undertake to conduct an independent study.

As you are aware, the Western Systems Coordinating Council became the Western Electric Coordinating Council ("WECC") since Decision No. 63232 was issued. In order to meet the WECC criteria for single contingency outage (N-1) conditions, seasonal operating studies are conducted to determine system impacts with a major line initially out-of-service. For specific lines initially out-of-service, RAS to trip generation will be required. The levels of generation arming for the specific contingencies are summarized in the attached report.

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We believe that this submittal satisfies CEC Condition No. 5.

CEC Condition No. 8:

Subsequent to the issuance of Decision No. 63232, Mesquite investigated membership in the Southwest Reserve Sharing Group ("SRSG"). That investigation disclosed that SRSG is designed for participation by utilities that operate control areas, and does not easily accommodate participation by independent power producers. This is particularly so for an independent power producer with only one generating facility in the area. In order to participate under SRSG's current membership criteria, Mesquite would have to provide reserves of its own to satisfy its SRSG obligation in the event that the Mesquite facility should trip. SRSG does not provide a pool or "market" for such reserves. Moreover, SRP does not offer operating reserves as a part of its control area services. Furthermore, at present Mesquite does not have any firm power sales contracts with Arizona customers. Thus, under these circumstances, Mesquite concluded that it would not be "commercially reasonable" to become a member of SRSG at this time.

CEC Condition No. 8 embodies a "commercially reasonable efforts" standard. Mesquite believes that it has exerted those efforts contemplated by this condition. SRSG has indicated to Mesquite that SRSG is "indifferent" as to whether Mesquite becomes a member. In addition, SRSG has stated that it has no plans at this time to make changes in its membership criteria which would facilitate participation by merchant generators such as Mesquite. Mesquite is receptive to the concept of membership in SRSG under "commercially reasonable" conditions, and will further explore that prospect if its future operating circumstances in Arizona or SRSG's future membership criteria so warrant.

Finding of Fact No. 5:

Finding of Fact No. 5 in Decision No. 63232 notes that

" . . . Mesquite has agreed to have wholesale power available during peak periods, during the first two years following commercial operations, for sale to Arizona customers in open market arms-length transactions." [page 2, lines 6.5-8]

Mesquite has done just that to date, and continues to do so.

Prem Bahl
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More specifically, Mesquite has been engaged in bilateral negotiations with both Arizona Public Service Company ("APS") and SRP during the past year and one-half with regard to possible sales of power from the Mesquite facility. No definitive agreements have been reached to date, but discussions with both APS and SRP are continuing. In addition, Mesquite has offered to make power from its facility available as a potential physical hedge in support of any sales arrangements in Arizona that its non-utility affiliates (Sempra Energy Trading and Sempra Energy Solutions) may consummate. In this regard, Sempra Energy Solutions is currently planning to respond to an RFP issued by the San Carlos Irrigation District.

Mesquite (and Sempra) did not submit a proposal in the recently concluded initial Track "B" competitive solicitation process for the reasons set forth in Sempra's letter to the Independent Monitor, a copy of which is attached to this letter as Appendix "C."

Finally, you are correct in your understanding that power and energy generated at Mesquite Block 1 are currently being sold to the California Department of Water Resources ("CDWR") under a May, 2001 contract between Sempra and CDWR. However, the Mesquite power plant is not dedicated to support that contract. Rather, under the agreement, Sempra has the discretion and latitude to fulfill its supply obligations to CDWR from any of the several power resources available to it. Thus, the Mesquite facility remains available to satisfy the commitment noted in Finding of Fact No. 5.

Status of Compliance as to Other CEC Conditions:

As you correctly note in your June 20, 2003 letter, and as further discussed in my June 27, 2003 letter to you, Decision No. 63232 did not impose an "annual certification letter" condition or requirement as a part of the CEC granted to Mesquite. However, and as noted in my June 27, 2003 letter to you, Mesquite is quite willing to provide such information on a voluntary basis.

Mesquite currently anticipates that its first filing of that nature will be made on or about September 1, 2003. In that regard, Mesquite proposes that all subsequent annual filings be made on November 1 of each year, which is the date on which Mesquite submits the annual report required by CEC Condition No. 10 regarding the status of its implementation of the Comprehensive Land Management Plan. In this manner, Mesquite could provide the Commission and its staff with a comprehensive overview of Mesquite's compliance as to all aspects of its CEC at a single point in the year. In the event any compliance activities should occur between September 1, 2003 and October 31, 2003, Mesquite will file an updated description on November 1, 2003.

Prem Bahl
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Conclusion:

We believe that this letter and the attached materials are fully responsive to the requests set forth in your June 20, 2003 letter to me. In the event that you should have any questions, please call Marty Swartz at (619) 696-2943 or me at (520) 721-1900.

Sincerely,



Lawrence V. Robertson, Jr.
LVR:cl

cc: Jason Gellman, Legal Division
ACC Document Control Center
Marty Swartz

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