

January 10, 2001

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Re: Statement of Claim in Cities of Anaheim, et al. v.
California Independent System Operator, Case
No. 71 198 000758 00

To Whom It May Concern:

By letter dated January 9, 2001, the American Arbitration Association (“AAA”) advised Southern California Edison Company (“Edison”) that there were no objections to Edison’s Petition to Intervene and Edison has been added as a party to the above-referenced arbitration initiated by the Cities of Anaheim, Azusa, Banning, Colton, and Riverside, California (the “Southern Cities”). Therefore, in accordance with Section 13.2.2 of the ISO Tariff, Supplemental Procedure 3.5.1 to the ISO Tariff and the AAA Commercial Arbitration Rules, Edison submits this Statement of Claim. Pursuant to Supplemental Procedure 3.5.1, because Edison is not seeking separate monetary relief, it is not providing the filing fee set forth in Supplemental Procedure 2.2.

In accordance with Supplemental Procedure 2.3, SCE is also submitting to the AAA a Summary of its Statement of Claim in hardcopy and on diskette in electronic format.

A. Summary of Claim and Relief Sought

The Southern Cities claim that the ISO improperly billed them for charges totaling approximately \$1.5 million. The Southern Cities allege that the ISO should not have characterized the charges as Intra-Zonal Congestion costs and the ISO did not apply the proper mechanism for recovery. The Southern Cities alternatively assert that the charges are improper because transactions under existing transmission contracts ("ETC") are not subject to congestion management.

As stated in its Petition to Intervene, Edison opposes the relief sought by the Southern Cities in their Demand for Arbitration. At this time, Edison does not seek to raise additional issues beyond those between the Southern Cities and the ISO as identified by the Southern Cities in their Demand for Arbitration but seeks to protect its own interests with regard to their claims. If the Southern Cities prevail on their claims, the ISO may seek to recover at least a portion of the disputed charges from Edison.

B. Summary of Grounds for Relief Sought and Basis for Claim

It is Edison's position that the ISO has properly applied the ISO Tariff on file with the Federal Energy Regulatory Commission ("FERC") by assessing as Intra-Zonal Congestion costs the disputed charges to all Scheduling Coordinators with Loads located in Zone SP15. The Southern Cities' Loads are scheduled with the ISO through a Scheduling Coordinator and are located in the Zone SP15. The ISO originally allocated the disputed charges according to Out-of-Market ("OOM") allocation procedures (i.e., entirely to the participating transmission owner). The FERC in its January 7, 2000 Order (90 FERC ¶ 61,006) and April 12, 2000 rehearing Order (91 FERC ¶ 61,026) in Docket No. ER00-555-000, however, held that the ISO was not permitted to call on resources out of market and pay those resources an OOM rate in certain situations. Because there were bids submitted by generators during the periods in which the costs were incurred by the ISO, consistent with the ISO Tariff, the disputed charges should be settled according to Intra-Zonal Congestion procedures.

The Southern Cities also assert that, even if the disputed charges are appropriately considered Intra-Zonal Congestion costs, the Southern Cities should not be assessed these costs because ETC holders are not subject to the congestion management provisions of the ISO Tariff. This claim has been made by the Southern Cities in a case that is currently pending before the FERC as one of the unresolved issues in Docket No. ER98-3760-000. Specifically, Issue C.4 addresses the authority of the ISO to impose Intra-Zonal Congestion charges on ETC holders. The ISO has taken the position in that forum that while the ISO Tariff was designed to exempt ETC users from Inter-Zonal Congestion (see ISO Tariff § 2.4.4.4.1), the Tariff does not exempt ETC holders from cost allocations for Intra-Zonal congestion (see ISO Tariff § 7.3.2).

The Southern Cities are active participants in that proceeding. Given that the issue of whether ETC holders should be assessed Intra-Zonal Congestion costs is currently before the FERC for resolution, Edison believes that at least that portion of the Southern Cities' Demand for Arbitration should be denied outright.

C. Parties to the Dispute

1. Claimants Southern Cities are municipal electric systems located in California and surrounded by the service area of Edison.
2. Respondent California Independent System Operator Corporation is a California non-profit, public benefit corporation.
3. Claimant Southern California Edison Company is a California public utility corporation primarily engaged in the business of supplying electric energy in an area of Central and Southern California, excluding the City of Los Angeles and certain other cities.
4. Claimant City of Vernon is a municipal electric system located in California and surrounded by the service area of Edison.

D. Individuals Having Knowledge of Each Claim

Edison does not have information at this time of the identity of individuals having knowledge of these claims but reserves its right to provide such information at a later date.

E. Communications

Edison requests the following individual be designated for communications:

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A copy of this Statement of Claim is being served on this date on all entities that Edison understands will be parties to the arbitration by first class mail, by

facsimile (to those with facsimile numbers identified) and in some cases by electronic mail.

Very truly yours,

Joanna Moore

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