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**CALIFORNIA INDEPENDENT SYSTEM OPERATOR
STATEMENT OF CLAIM**

SAN DIEGO GAS & ELECTRIC COMPANY, a California Corporation, Claimant, v. CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION, a California Nonprofit Public Benefit Corporation; and DOES 1-50, Respondents.	**CLAIM FOR DAMAGES, DECLARATORY AND INJUNCTIVE RELIEF** 1. Breach of Written Contract 2. Breach of Implied Covenant of Good Faith and Fair Dealing 3. Declaratory Relief 4. Unfair Business Practices (Cal. Bus. and Prof. Code § 17200) 5. Breach of Fiduciary Duty

Claimant San Diego Gas & Electric Company ("SDG&E") submits this Statement of Claim pursuant to Section 13.2.2 of the California Independent System Operator ("CAISO") Operating Agreement and Tariff.

INTRODUCTION AND SUMMARY

1. Pursuant to California Assembly Bill ("AB") 1890, and implementing contracts and tariffs, claimant SDG&E, along with certain other California utilities, turned over operational control of their respective electric transmission systems to the respondent

CAISO. CAISO charges "Scheduling Coordinators", including SDG&E, for scheduling energy through the CAISO-controlled grid or to load within the CAISO control area. Such charges include compensation for line losses arising from delivery of energy over the transmission system. The basic issue in this arbitration is straightforward: Should SDG&E be charged for losses on a portion of a transmission line owned by certain others outside the CAISO control area, where such others deliver no energy to load in the CAISO control area or through the CAISO grid?

2. CAISO contends that its tariffs, rules and protocols require that it charge SDG&E for losses attributable to others' use of a certain transmission line, the Southwest Powerlink ("SWPL"), owned jointly by SDG&E and such other parties. CAISO maintains this position even though such others lie outside the CAISO control area, and do not schedule energy to any load within the CAISO control area, or otherwise require services of the CAISO-controlled grid. Moreover, such charges are not required by the plain words of CAISO's tariff and contracts, and in fact, charging for losses in such circumstances contradicts its tariff and contract obligations. Indeed, a fundamental premise of the utilities' transfer of control of their transmission to CAISO is that the transfer would not financially burden or otherwise disadvantage the transmission owners or any of their respective pre-existing contracts with third parties.

3. Beginning on or about December 8, 2000, CAISO exacerbated this breach and unfairness by interpreting its tariff Amendment 33 to penalize SDG&E for energy losses attributable to the other owners' use of SWPL described above. This penalty was assessed in addition to the wrongful charges described in the preceding paragraph. After SDG&E informed CAISO of the vastly increased charges it incurred by virtue of CAISO's wrongful

implementation of Amendment 33, CAISO adjusted its charges to remove the penalty going forward, but declined to adjust these wrongful Amendment 33 charges retroactively.

4. CAISO has the means to fairly implement its tariff without improperly charging SDG&E for energy losses attributable to others' use of a transmission line that does not involve the CAISO-controlled grid or use CAISO services. The fact that CAISO prospectively resolved an improper penalty shows it can do so. The improper line loss charges assessed by CAISO for SDG&E 's use of SWPL to date amount to approximately $17 million, with about $2 million of such charges being assessed each month going forward. As a result of the CAISO's improper loss charges, it has been unjustly enriched and has caused SDG&E and its customers to subsidize the use of the CAISO's grid by others.

PARTIES AND INDIVIDUALS HAVING KNOWLEDGE OF EACH CLAIM

5. Claimant SDG&E, a subsidiary of Sempra Energy, is a California corporation with its principal place of business at 8330 Century Park Court, San Diego, California. SDG&E is engaged in the transmission, distribution, and sale of electricity under the jurisdiction of the Federal Energy Regulatory Commission ("FERC") and the California Public Utilities Commission ("CPUC"). SDG&E distributes electricity at retail to some 1.2 million customers in San Diego and Orange Counties, California. Pursuant to AB 1890 and implementing orders of the FERC and the CPUC, SDG&E has conveyed operational control of its electric transmission system to respondent CAISO.

6. Respondent CAISO is a nonprofit, public benefit corporation organized pursuant to the California Corporations Code for the purposes set forth in Chapter 2.3, Part 1, Division 1 of the California Public Utilities Code. Since April 1, 1998, CAISO controls and operates a major portion of the electric transmission grid serving the state of California.

7. The true names and capacities, whether individual, corporate or otherwise, of Respondents DOES 1 through 50, inclusive, are unknown to SDG&E, who therefore sues said Respondents by such fictitious names. SDG&E is informed and believes, and thereon alleges, that each of the Respondents named as a DOE is legally responsible in some manner for the damages alleged in this Statement of Claim. Leave of the Arbitrator will be asked to amend this Claim to allege the true names and capacities of these DOE Respondents as may be appropriate. For convenience, each reference to a named Respondent shall be deemed to include reference to the DOE Respondents, and to each of them.

8. The following individuals are believed to have knowledge of the claim: SDG&E employees: James Avery, S. Ali Yari, Betty Cash-Hunter, Nici Boyle, Dave Korinek and Susan Fratamico; CAISO employees: Spence E. Gerber, Randy Abernathy, John Goodin, Kevin Graves, Ed Riley, James Detmers and Craig Cameron.

BACKGROUND

9. As part of the recent restructuring of California's electric power markets, CAISO was established to insure efficient use and reliable operation of the electric transmission grid throughout most of California. To this end, investor-owned electric utilities in California were required to transfer operational control of their electric transmission facilities to CAISO (the area of the grid over which CAISO now exercises operational control is referred to hereinafter as the "CAISO Control Area"). A fundamental premise of such transfer of control to CAISO is that the transfer would not financially burden or otherwise disadvantage the transmission owners or any of their respective pre-existing contracts with third parties. See, e.g., CAISO Tariff Sections 2.4.3.1; 2.4.4. This transfer of control was accomplished through the execution of Transmission Control Agreements ("TCAs") with each transmission-owner electric utility, including SDG&E. CAISO's

operations are governed by such contracts and by its tariff subject to the jurisdiction of the Federal Energy Regulatory Commission ("FERC"). CAISO has amended its tariff from time to time. In pertinent part, CAISO's operational authority includes purchasing resources to meet electricity demand (or "load") within its Control Area, allocating costs to those that use transmission system it controls, and submitting bills to such users for those costs. CAISO formally began its actual operation of the grid on April 1, 1998.

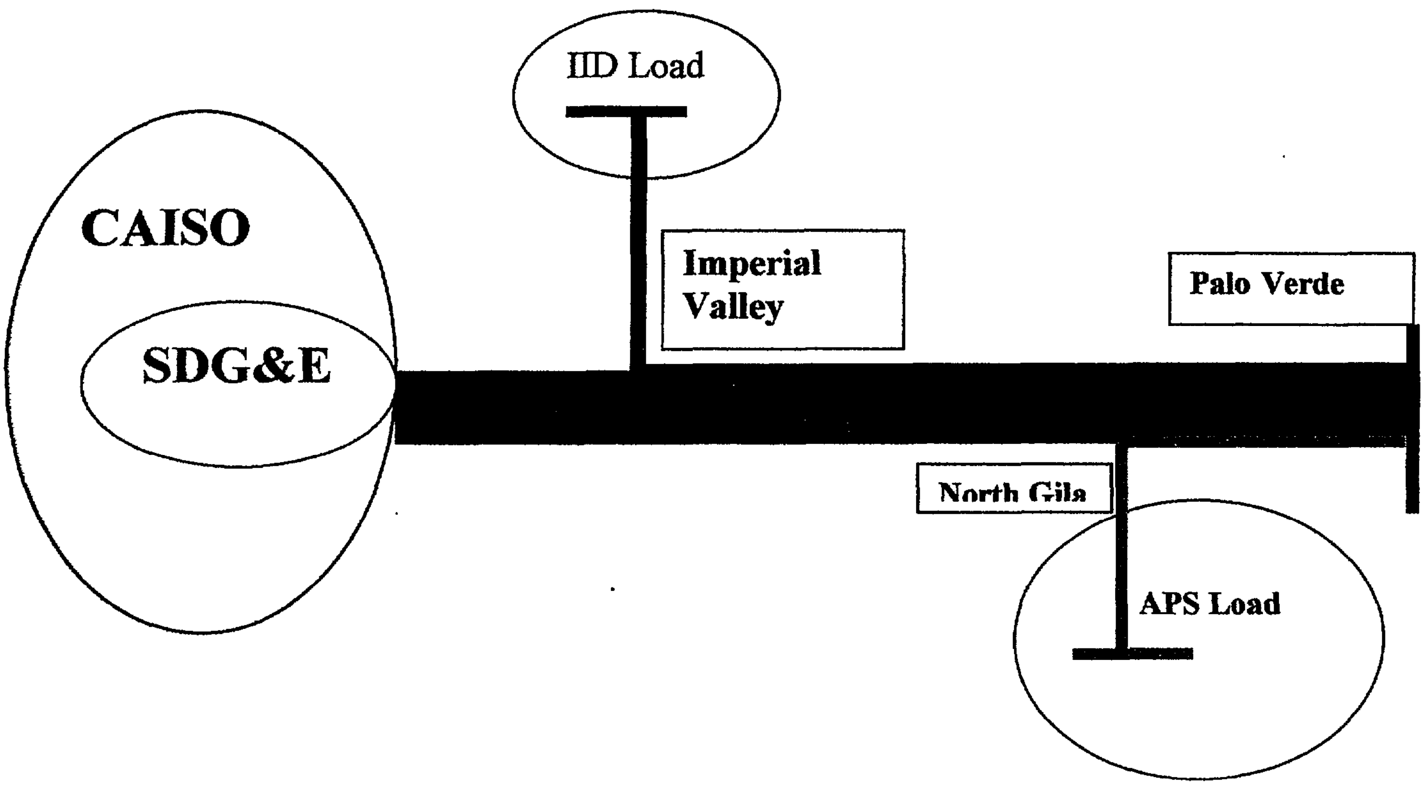
10. At any given moment during the operation of an electric transmission system, the demand for electricity must match the supply. One of CAISO's principal operating responsibilities is to insure that electricity supply matches the demand at all times. When electric energy is scheduled over transmission lines, a small portion of that energy is lost, due principally to electrical resistance of the conductors transmitting the energy over the grid from generators to consumers. These energy losses are called *line losses*.[1] The location of a generator with respect to the grid and with respect to load (where the energy is consumed) affects the amount of line losses that occur. Such losses can be analogized to leaks and evaporation in a water system. CAISO must schedule generation to cover line losses in order to match load and generation. It gets compensated for covering losses by charging each Scheduling Coordinator for generation or power imports scheduled over the grid. CAISO does not measure the actual losses attributable to each scheduled transaction, but allocates the charges for line losses based on an estimate.

11. In 1983 SDG&E completed construction of SWPL, a 292 mile 500 kV transmission line from its Miguel substation to the Palo Verde switchyard in Arizona. Pursuant to contracts executed in 1981 and 1983 ("Participation Agreements"), SDG&E

[1] Line losses attributable to CAISO's operations are referred to as "Transmission Losses" in the CAISO tariff. See CAISO FERC Electric Tariff, First Replacement Volume No. 1, Original Sheet No. 353.

transferred portions of SWPL to Arizona Public Service Company ("APS") and Imperial Irrigation District ("IID"). As a result, SWPL is owned jointly by SDG&E, APS and IID in the ratio of 76.22%, 11% and 12.78%, respectively. Although, as noted above, SDG&E has turned over to CAISO operational control of the SDG&E-owned portion of the SWPL, APS and IID operate and control each of their own portions of SWPL. APS uses its portion of SWPL to deliver energy to load at APS' North Gila substation in Arizona. IID uses its portion of SWPL to deliver energy to load in the Imperial Valley at the Imperial Valley substation. Neither load served by APS and IID over their portions of SWPL lie within the CAISO control area. Figure 1 below illustrates schematically the ownership and operation of SWPL in relationship to the rest of the CAISO-controlled grid:

FIGURE 1 - SWPL SYSTEM



12. Prior to the formation of CAISO, SDG&E, as the scheduling agent for APS and IID, scheduled the energy and computed the losses for the energy scheduled by APS and IID on the SWPL. In the context of the Participation Agreements, SDG&E, APS and IID contractually agreed upon the methodology for computing and allocating line losses over SWPL. According to the contracts, loses are not estimated, but measured according to actual power flows. APS and IID compensate SDG&E for line losses attributable to their portion of SWPL in kind – by the return of energy to SDG&E in amounts corresponding to the actual losses associated with the energy scheduled and delivered on APS' and IID's respective SWPL entitlements. Since CAISO began operations in April 1998, it exercises operational control over SDG&E's portion of SWPL subject to the "SDG&E Entitlements and Encumbrances" stated in Appendices A and B to the Transmission Control Agreement. Pursuant to the Participation Agreements, SDG&E remains the scheduling agent for the APS and IID portions of SWPL.

13. Even though SDG&E is compensated by APS and IID for actual losses incurred on their portions of SWPL under the Participation Agreements, CAISO charges SDG&E for losses on the APS and IID potions of SWPL. CAISO bases its line loss charges on estimates as described in the next paragraph. The charges CAISO bills SDG&E for losses attributable to APS' and IID's use of SWPL are substantially greater than the actual line losses and resultant compensation SDG&E receives for line losses from APS and IID under the Participation Agreements. This mismatch is directly attributable to the difference between the CAISO estimates, and actual line losses, the basis for line loss compensation under the Participation Agreements. As a direct result of CAISO charging SDG&E for losses attributable to the APS and IID energy schedules over their portions of the SWPL,

SDG&E has suffered substantial financial loss since CAISO began operation, and such loss currently averages approximately $2 million per month.

14. To estimate losses, CAISO uses Generator Meter Multipliers ("GMMs") to determine the impact on system line losses due to an incremental, or marginal, injection of generation into the grid by any particular generator or scheduled energy import.[2] Conceptually, this method measures losses at each supplier node by injecting 1 MW of power at a node and allocating the 1 MW injection pro rata to all loads in the CAISO system, while taking into account incremental transmission losses. This calculation assumes that generation or energy scheduled on the transmission lines will serve the incremental load spread throughout California proportionally to existing load. The full marginal loss rate so calculated will be higher than the average loss rate (usually multiples of the average rate). Therefore, the GMM concept "scales" marginal losses so that total allocated losses equal total estimated losses. This method may be appropriate for energy scheduled on the CAISO system or for energy scheduled to serve loads in the CAISO control area. However, it is not an appropriate method to use for schedules between generation and load centers outside the CAISO system, such as those of APS and IID (see Figure 1 in paragraph 11 above).

15. CAISO concedes that its methodology assigns excessive losses in circumstances similar to those here. The CAISO report to the FERC, "Report to the Federal Energy Regulatory Commission: Studies Conducted Pursuant to the October 30, 1997 Order", concluded that:

[2] Injections of energy due to imports are sometimes referred to as Transmission Meter Multipliers ("TMMs") to distinguish such injections from those attributable to generation, but in pertinent application, TMMs and GMMs are congruent concepts.

"...[T]he [CA]ISO's current transmission loss allocation methodology, using nodal Generation Meter Multipliers (GMMs) based on the scaled Marginal Loss Rate (MLR), is appropriate for the California energy market since it maintains the relative significance of the economic signals (the scaling factor is the same for all MLRs) without the undesirable effects associated with over-collection for transmission losses. A refinement of this methodology is possible for more equitable allocation of transmission losses, as *FERC suggested, taking into account the location of the particular scheduled transactions of each Scheduling Coordinator (SC) in calculating MLRs*. For a representative set of hours, no major changes in transmission loss responsibility were observed for most SCs; *however, we observed that for a few SCs, there was a shift in transmission loss responsibility*." *Id.*, at p. 5, emphasis added.

16. Not only do the CAISO estimates applied to the APS and IID schedules on their respective portions of SWPL overstate actual losses, but the CAISO improperly applies its GMM methodology to such schedules. Specifically, CAISO incorrectly considers the 1 MW of load increase on either the APS or IID systems as a 1 MW load increase throughout the CAISO system. Accordingly, CAISO computes line losses for the APS and IID SWPL schedules by distributing APS and IID loads pro-rata over all the loads of all Scheduling Coordinators throughout the CAISO-controlled grid. This is technically incorrect because APS and IID load are not within the CAISO control area. Moreover, neither APS nor IID are members of the CAISO, nor have the APS and IID entitlements to SWPL been transferred to CAISO control; thus the APS and IID portions of SWPL are independent of the CAISO transmission system. Therefore, in computing the losses for the APS and IID schedules on SWPL, by assuming that these schedules are to serve load on the CAISO system, CAISO

incorrectly applies its GMM methodology, resulting in a higher line loss estimate than would proper application of the CAISO methodology.

17. Effective December 8, 2000, the FERC approved Amendment No. 33 to the CAISO tariff. This amendment is an emergency measure responding to California's electricity crisis by assessing penalties on the underscheduling of load by Scheduling Coordinators. CAISO wrongly penalized the schedules submitted by SDG&E on behalf of APS and IID on SWPL as scheduling deficits under Amendment 33. Immediately upon receiving CAISO bills containing the penalty, SDG&E brought the improper assessment to the CAISO's attention. CAISO made adjustments prospectively to remove the improper penalty. However, this adjustment only reduces the harm going forward and does not resolve the improper past application of this amendment. Indeed, improper billing attributable to Amendment 33 for schedules submitted to CAISO by SDG&E on behalf of APS and IID from on or about December 12, 2000 through on or about March 20, 2001 have resulted in excess charges of approximately $8 million dollars. These improper penalties are in addition to the excessive losses billed for the same period under application of the CAISO's loss methodology to the APS and IID SWPL schedules. CAISO has refused to adjust its improper assessment of the Amendment 33 penalty from on or about December 12, 2000 through on or about March 20, 2001.

18. SDG&E has timely notified CAISO of the impropriety of its charges for losses attributable to APS and IID SWPL schedules as described in paragraphs 10-17 above. SDG&E has, through correspondence and meetings, conferred with CAISO in an attempt to resolve this dispute. SDG&E has proposed specific operational solutions to correct the improper charges that would be consistent with the CAISO tariff and its contracts with

incorrectly applies its GMM methodology, resulting in a higher line loss estimate than would proper application of the CAISO methodology.

17. Effective December 8, 2000, the FERC approved Amendment No. 33 to the CAISO tariff. This amendment is an emergency measure responding to California's electricity crisis by assessing penalties on the underscheduling of load by Scheduling Coordinators. CAISO wrongly penalized the schedules submitted by SDG&E on behalf of APS and IID on SWPL as scheduling deficits under Amendment 33. Immediately upon receiving CAISO bills containing the penalty, SDG&E brought the improper assessment to the CAISO's attention. CAISO made adjustments prospectively to remove the improper penalty. However, this adjustment only reduces the harm going forward and does not resolve the improper past application of this amendment. Indeed, improper billing attributable to Amendment 33 for schedules submitted to CAISO by SDG&E on behalf of APS and IID from on or about December 12, 2000 through on or about March 20, 2001 have resulted in excess charges of approximately $8 million dollars. These improper penalties are in addition to the excessive losses billed for the same period under application of the CAISO's loss methodology to the APS and IID SWPL schedules. CAISO has refused to adjust its improper assessment of the Amendment 33 penalty from on or about December 12, 2000 through on or about March 20, 2001.

18. SDG&E has timely notified CAISO of the impropriety of its charges for losses attributable to APS and IID SWPL schedules as described in paragraphs 10-17 above. SDG&E has, through correspondence and meetings, conferred with CAISO in an attempt to resolve this dispute. SDG&E has proposed specific operational solutions to correct the improper charges that would be consistent with the CAISO tariff and its contracts with

SDG&E, but CAISO has rejected such proposals. Pursuant to section 2.4.3.1 of its tariff, CAISO is obligated to work with participating transmission owners such as SDG&E to develop operational protocols which allow existing contract rights such as those under the Participation Agreements to be exercised in a way that "imposes no additional financial burden on either" SDG&E or the other parties to such existing contracts. Except for the prospective adjustment to address the Amendment 33 penalty described in the preceding paragraph, CAISO refuses to correct its improper billing for losses, and refuses to consider methods of operation that avoid placing the improper charges for line losses on SDG&E.

19. Pursuant to the CAISO tariff, SDG&E is required to pay bills timely when tendered pending resolution of a disputed charge. Therefore, SDG&E has paid CAISO the improper charges described in the preceding paragraphs as billed. To date, such improper charges paid by SDG&E amount in excess of $17 million dollars, and additional such charges are accruing at a rate of approximately $2 million per month. SDG&E has fully performed all other acts required of it by its TCA and the CAISO tariff.

FIRST CAUSE OF ACTION
(Breach of Written Contract and Tariff)

20. Claimant incorporates herein, as if fully set forth, each and every allegation of this Claim contained in paragraphs 1-19, inclusive, as well as each and every allegation contained in each other Cause of Action set forth in this Claim.

21. As alleged herein, CAISO has breached, and continues to breach, the TCA and its applicable tariffs, by continuing to charge SDG&E for line losses attributable to APS' and IID's use of SWPL.

22. SDG&E has performed all promises, conditions, and covenants required of it.

23. As a direct result of CAISO's breaches, SDG&E has been damaged in an amount in excess of $17 million, plus interest, and will continue to be damaged due to CAISO's continuing breaches.

SECOND CAUSE OF ACTION
(Breach of Implied Covenant of Good Faith and Fair Dealing)

24. Claimant incorporates herein, as if fully set forth, each and every allegation of this Claim contained in paragraphs 1-19, inclusive, as well as each and every allegation contained in each other Cause of Action set forth in this Claim.

25. As alleged above, CAISO has improperly charged SDG&E for line losses, has refused to take corrective measures to avoid such improper charges, and has refused to refund improper charges it has collected. In so doing, CAISO has wrongfully deprived, and is continuing to deprive, SDG&E of the benefits of the contractual agreement entered into between SDG&E and CAISO, in breach of the implied covenant of good faith and fair dealing implied by law.

26. As a direct result of CAISO's breaches, SDG&E has been damaged in an amount in excess of $17 million, plus interest, and will continue to be damaged due to CAISO's continuing breaches.

THIRD CAUSE OF ACTION
(Declaratory Relief)

27. Claimant incorporates herein, as if fully set forth, each and every allegation of this Claim contained in paragraphs 1-19, inclusive, as well as each and every allegation contained in each other Cause of Action set forth in this Claim.

28. An actual controversy has arisen between claimant SDG&E and respondent CAISO concerning the respective rights duties and obligations with respect to the CAISO's

charges for line losses incurred by APS and IID schedules over SWPL. SDG&E contends that it should not be assessed line losses for energy scheduled by APS and IID over their respective portions of SWPL. SDG&E further contends that CAISO's administration of its tariff in this regard is unjust, unreasonable, and unduly discriminatory, and that SDG&E should have refunds, with interest, for the improper Amendment 33 penalties CAISO assessed SDG&E from on or about December 12, 2000 through on or about March 20, 2001. On the other hand, CAISO disputes SDG&E's position, and contends that CAISO properly charges SDG&E for line losses, and that it need not refund improper Amendment 33 penalties charged to SDG&E.

29. Claimant desires an adjudicated determination of its rights, duties and obligations, and a declaration with respect to claimant's rights with respect to charges for lines losses attributable to APS and IID schedules on their respective portions of SWPL. An adjudicated determination is necessary and appropriate at this time under these circumstances in order that the parties may ascertain their rights and duties in connection with payment and charges for past and future line losses attributable to APS and IID schedules on their respective portions of SWPL.

FOURTH CAUSE OF ACTION
(Unfair Business Practices - Cal. Bus. Prof. Code § 17200)

30. Claimant incorporates herein, as if fully set forth, each and every allegation of this Claim contained in paragraphs 1-19, inclusive, as well as each and every allegation contained in each other Cause of Action set forth in this Claim.

31. As elsewhere set forth herein, the acts and omissions of CAISO as alleged constitute unfair business practices.

32. Respondent CAISO should be permanently enjoined form engaging in such unlawful and unfair business practices. In addition, claimant is entitled to equitable relief in the form of restitution, and disgorgement of all earnings, profits, compensation and benefits obtained by CAISO as a result of such unfair business practices.

FIFTH CAUSE OF ACTION
(Breach of Fiduciary Duty)

33. Claimant incorporates herein, as if fully set forth, each and every allegation of this Claim contained in paragraphs 1-19, inclusive, as well as each and every allegation contained in each other Cause of Action set forth in this Claim.

34. CAISO has been placed in a position of trust with respect to the transmission systems given over to its operation and control, including that of SDG&E, and CAISO thereby owes a fiduciary duty to SDG&E and its customers. CAISO has abused this trust, and has breached its fiduciary duty to SDG&E and its customers, by its treatment of line losses for APS and IID schedules over their respective portions of SWPL.

35. As a direct result of CAISO's breaches, SDG&E and its customers have been damaged in an amount in excess of $17 million, plus interest, and will continue to be damaged due to CAISO's continuing breaches.

WHEREFORE, claimant prays for judgment against respondent as follows:

1. For compensatory damages according to proof;

2. For a declaration that claimant should not be assessed charges for line losses attributable to APS and IID schedules over their respective portions of SWPL;

3. For a declaration that respondent should refund to claimant Amendment 33 penalties charged claimant as described above for the period on or about December 12, 2000 through on or about March 20, 2001;

4. For restitution, and disgorgement of all earnings, profits, compensation and benefits obtained by CAISO through unfair business practices, as determined at the hearing herein;

5. For an order permanently enjoining CAISO from engaging in such unfair, unjust, and unreasonable business practices;

6. For attorney fees and cost of suit herein; and

7. For such other relief, including injunctive relief, as the arbitration panel deems just and reasonable.

DATED: July 6, 2001

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