

SWIDLER BERLIN SHEREFF FRIEDMAN, LLP

THE WASHINGTON HARBOUR
3000 K STREET, NW, SUITE 300
WASHINGTON, DC 20007-5116
TELEPHONE (202) 424-7500
FACSIMILE (202) 424-7647
WWW.SWIDLAW.COM

NEW YORK OFFICE
THE CHRYSLER BUILDING
405 LEXINGTON AVENUE
NEW YORK, NY 10174
TELEPHONE (212) 973-0111
FACSIMILE (212) 891-9598

July 6, 2004

The Honorable Magalie R. Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

Re: *California Independent System Operator Corporation,*
Docket No. ER01-313-003

Pacific Gas and Electric Company,
Docket No. ER01-424-003

San Diego Gas & Electric Company v.
California Independent System Operator Corporation,
Docket No. EL03-131-000

Dear Secretary Salas:

In accordance with the Commission's Order On Rehearing And Clarification ("Rehearing Order") dated January 23, 2004 in the above-captioned docket,¹ the California Independent System Operator Corporation ("ISO") filed a compliance refund report on February 23, 2004 outlining the ISO's intended approach to the Commission's directive, and letters on April 1, 2004, May 3, 2004, and June 2, 2004 updating the Commission on the ISO's progress. This letter is intended to update the Commission about the status of the ISO's process to issue the refunds ordered by the Commission in the Rehearing Order.

In February 23, 2004 ISO compliance refund report, the ISO stated that to meet the Commission's requirement that the Control Area Services charge not be applied to generators that are not modeled by the ISO in its regular performance of transmission planning and operation, the ISO was undertaking a multi-stage analysis that requires the assistance of the Participating Transmission Owners ("TOs") to whose facilities such generators are connected.

¹ California Independent System Operator Corporation, 106 FERC ¶ 61,032 (2003) ("Initial Order").

The Honorable Magalie R. Salas

July 6, 2004

Page 2

On April 9, 2004, the ISO received data indicating the load served by behind-the-meter generation from Southern California Edison ("SCE"). The ISO asked for certain clarifications regarding the data, and SCE responded to the ISO on April 26, 2004.

On May 4, 2004, the ISO provided PG&E with a list of modeled generators that included "common" names that were easier for PG&E to match with its list of generators. On May 27, 2004, PG&E informed the ISO that it had identified the group of generators on the ISO's list that are "behind-the-meter," and planned shortly to send the list to the affected Municipal utilities to seek their assistance in identifying the portion of the total behind-the-meter load on their systems that is served by their generators included in this behind-the-meter list. Before doing so, however, it had several questions of the ISO to ensure that PG&E and the municipal utilities respond to the ISO's inquiry with the correct information. The ISO recently replied to PG&E, and believes that PG&E should now be able to identify the load served by behind-the-meter generation.

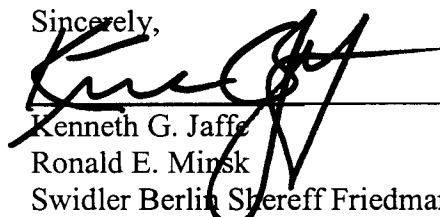
The ISO received several questions regarding the calculation from San Diego Gas & Electric ("SDG&E") on June 25, 2004, to which it responded on June 29, 2004. SDG&E and the ISO currently have a conference call scheduled the week of July 5th to discuss the details of the calculation.

Until the ISO receives complete information from all three utilities, it will not have the information necessary to calculate the refunds and surcharges directed by the Commission.

The ISO remains committed to concluding this process at the earliest possible juncture. To permit effective Commission oversight of this process, the ISO will submit a further update regarding this process to the Commission on August 2, 2004, or sooner, if possible.

One original and fourteen copies of this compliance report are enclosed for the Commission's use. Two additional copies have been included to be date/time stamped and returned to our messenger. Thank you for your assistance with this matter.

Sincerely,



Kenneth G. Jaffe
Ronald E. Minsk
Swidler Berlin Shereff Friedman, LLP
3000 K Street, N.W.
Washington, DC 20007
Tel: (202) 424-7500
Fax: (202) 424-7643

Counsel to the
California Independent System
Operator Corporation

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of this document upon all parties listed on the official service list compiled by the Secretary in the above-captioned proceedings, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated this 5th day of July in the year 2004 at Folsom in the State of California.

/s/ Stephen A.S. Morrison
Stephen A.S. Morrison
(916) 608-7143