

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) 891-9595

June 2, 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 letter on April 1, 2004 and May 3, 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").

In the April 1, 2004 letter, the ISO stated that it had identified the generators that were modeled in one or more studies and submitted a list of such generators to the PTOs on March 10, 2004, so that they could identify the behind-the-meter load served by the generators on each of the IOU's respective systems, but that it had not yet received definitive responses from all of the PTOs to its inquiry. Accordingly, the ISO did not then have the information necessary to calculate the refunds and surcharges directed by the Commission.

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 expects to reply to PG&E shortly.

The ISO has not received any response from San Diego Gas & Electric.

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 July 1, 2004, or sooner, if possible.

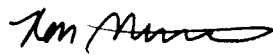
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One original and fourteen copies of this compliance report are enclosed for the Commission's use. Two additional copies have been included to be date/time stamped and returned to our messenger. Thank you for your assistance with this matter.

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 2nd day of June in the year 2004 at Folsom in the State of California.

/s/ Stephen A.S. Morrison

Stephen A.S. Morrison

(916) 608-7143