

EXHIBIT NO. ISO-44

May 13, 2002

Via FAX and U.S. Mail

Christine M. Pallenik
Associate General Counsel
Duke Energy Trading and Marketing, L.L.C
4 Triad Center, Suite 1000
Salt Lake City, UT 84180

Roy Kuga
Lead Director, Gas and Electric Supply
Pacific Gas and Electric Company
Mail Code N12
P. O. Box 770000
San Francisco, CA 94105

Re: ISO Response to Settlement Agreement

Dear Ms. Pallenik and Mr. Kuga:

I am writing in response to letters from Ms. Pallenik on April 22, 2002, and Mr. Kuga on May 8, 2002, informing the ISO of a private settlement agreement reached between Duke Energy Trading and Marketing, L.L.C. ("DETM") and Pacific Gas & Electric Company ("PG&E"). These letters set forth an interpretation of the ISO Tariff that, if adopted by the ISO, might permit the ISO to honor the terms of that agreement. Specifically, the ISO understands the settlement agreement to provide for a private agreement between PG&E and DETM concerning an amount equal to \$193,818,118 in respect of deliveries of energy and ancillary services made by DETM to the ISO during the period of November 2000 through January 19, 2001, for which PG&E, through the California Power Exchange ("PX") acting as PG&E's Scheduling Coordinator, may have been liable to DETM. You informed the ISO that PG&E and DETM have agreed to offset this amount and apply it to other amounts payable by DETM to PG&E. You ask that the ISO honor this settlement agreement between DETM and PG&E and to notify the PX of your arrangement.

While Mr. Kuga's letter is correct that the ISO Tariff allows creditors in ISO markets to pursue claims against debtors in ISO markets, such claims are to be pursued only after the ISO has disbursed any such funds for the relevant trade month and publicly published the names of Scheduling Coordinators that did not make full payment of their respective debts. Furthermore, Mr. Kuga is correct that the ISO has directed creditors in ISO markets to independently pursue their respective claims against PG&E. It is critical to note, however, as set forth in the

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ISO Market Notice Mr. Kuga attached to his letter, that the ISO made clear that any such "MARKET PARTICIPANTS WHO HAVE OR MAY HAVE CLAIMS AGAINST EITHER THE PX OR PG&E MUST THEMSELVES FILE PROOFS OF SUCH CLAIMS WITH THE RELEVANT BANKRUPTCY COURTS." The ISO does not advocate self-help as regards claims against either the PX or PG&E and, as detailed below, the ISO Tariff prohibits third-party offsetting or netting agreements regarding transactions in ISO markets.

The ISO's Tariff, as approved by the Federal Energy Regulatory Commission, does not permit the ISO to adjust statements either of amounts due to or owed by participants in ISO markets based upon private, bi-lateral agreements. The ISO has specific, mandatory processes it must implement both for the invoicing of Scheduling Coordinators of amounts they owe and amounts they are due as a result of transactions in ISO markets. Moreover, the processes the ISO uses for disbursement of amounts owed to market participants is separate and distinct from the process the ISO uses to invoice market participants for amounts they owe to the ISO and other market participants.

I also note that the PX, as the Scheduling Coordinator for the transactions that are the subject of your settlement agreement, as is PG&E, is in bankruptcy proceedings, and, while the ISO is not expressing an opinion on the accordancy of the DETM -PG&E settlement with bankruptcy laws, the ISO can not become a conduit for changes to other parties' claims pending in these two actions.

For the above reasons, the ISO cannot act as requested by PG&E and DETM. The amounts owed by and to both DETM and PG&E, as well as any amounts owed by or to the PX as a result of the subject transactions, must remain as presently stated on ISO books and be settled through the ISO Tariff processes for settlement and billing.

Please do not hesitate to contact me if you would like additional information about the ISO settlement process.

Sincerely,

Original Signed by

William J. Regan, Jr.
Chief Financial Officer

San Diego Gas & Electric Co.
Docket No. EL00-95-045 et al.

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Bcc: Margaret Rostker
Michael Epstein