



SOUTHERN CALIFORNIA
EDISON

An EDISON INTERNATIONALSM Company

Harold B. Ray
Executive Vice President

April 23, 2004

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Mr. Steve Sciortino
Integrated Resources Manager
City of Anaheim
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Re: *Response to Demand for Arbitration*

Gentlemen:

This letter responds to Mr. Avery's letter of April 14, 2004, in which San Diego Gas & Electric Company (SDG&E) demands arbitration of (1) the "dispute concerning approval of the proposed 2004 San Onofre Nuclear Generating Station (SONGS) Capital and Operations and Maintenance budgets," and (2) "the related issue of whether or not Southern California Edison Company's (SCE) proposed steam generator replacement project (SGRP) should proceed." SDG&E also requests SCE to agree to arbitration of a third issue: "whether or not an Operating Impairment exists and, if it does, how SGRP costs will be shared among the SONGS owners."

As to the first issue regarding the Capital and Operations and Maintenance budgets ("2004 budgets"), SCE believes that SDG&E's demand for arbitration is moot. By letter dated April 14, 2004, SCE agreed to add certain costs to the appropriate budgets for 2004, thereby resolving the dispute between the co-owners regarding whether such costs should be included in the 2004 budgets. These budgets will be subject to approval of the Board of Review on May 13, 2004. Accordingly, no "dispute" within the meaning of section 6.2.4 of the Second Amended San Onofre Operating Agreement (Agreement) regarding the 2004 budgets currently exists, and no such "dispute" is subject to arbitration pursuant to Section 21 of the Agreement.

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As to the question "whether or not SCE's proposed steam generator replacement project should proceed," this issue is not the subject of a dispute between the parties as to which arbitration is required pursuant to sections 6 and 21 of the Agreement. As to the request that SCE voluntarily agree to the arbitration of certain issues relating to the decision whether to declare an Operating Impairment, SCE declines to agree to the arbitration of those issues at this time.

Very truly yours,

Harold B. Ray/bm

Harold B. Ray

cc: James Walsh
Lucina Moses
Eileen Tiechert