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July 13, 2004

VIA CERTIFIED MAIL

Mr. Harold Ray
Southern California Edison
8631 Rush Street
Rosemead, CA 91770

Mr. Tom Evans
Public Utilities Director.
Riverside Public Utilities
3900 Main Street
Riverside, CA 92522

Mr. Steve Sciortino
Integrated Resources Manager
City of Anaheim
201 South Anaheim Blvd, Suite 802
Anaheim, CA 92805

Re: Notice of SDG&E's Election Not to Participate in Restoration Work; and
Election of Demand for Arbitration

Gentlemen:

Pursuant to Section 16.5 SDG&E hereby notifies Southern California Edison Company ("SCE") that it elects to have its Ownership Share in Units 2 & 3 reduced in lieu of participating in Restoration Work associated with the Steam Generator Replacement Project that SCE has proposed.

SDG&E is currently estimating its variable Vop as defined within Subsection 16.8.1 of the Second Amended San Onofre Operating Agreement, and I anticipate SDG&E will shortly provide its estimate of Vop to the Board of Review in accordance with Section 16.2.

July 13, 2004

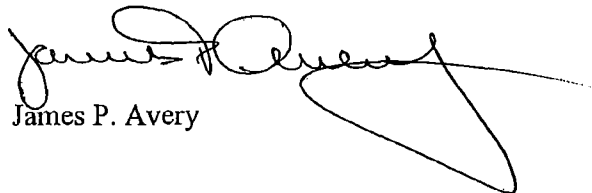
Page 2

However, even without having finalized SDG&E's Vop, we anticipate that there will be a disagreement as to the values for Ve and Vop due to the extremely low Ve value Edison submitted in its June 1st Augmented filing with the California Public Utilities Commission ("CPUC"), which appears to have the effect of driving SDG&E's ownership share to zero. Representatives of each co-owner and members of the Board of Review have repeatedly discussed this issue over the last year and have reached no accepted resolution. Thus, unless we can shortly resolve this disagreement, SDG&E anticipates that it will request that the dispute regarding the appropriate values for Ve and Vop be settled by arbitration in accordance with the provisions of Section 21, as provided in Subsection 16.8.1.

Proceeding to an arbitration quickly is consistent with the parties' efforts to conclude the CPUC's consideration of SCE's pending Application 04-02-026 in the near term, so that appropriate commercial arrangements may be entered into. If arbitration commences quickly, it is reasonable to expect an award prior to December 2004, when SDG&E's testimony is due, so there may be a complete record for the CPUC to evaluate.

SDG&E suggests that within ten (10) days from today's date the legal representatives of the Parties confer to determine the terms of this arbitration.

Sincerely,

A handwritten signature in dark ink, appearing to read "James P. Avery", with a large, sweeping loop at the end.

James P. Avery

JPA:mrn

cc: Barbara Mathews
Carol Schmid-Frazee
Lucina Moses
Eileen Teichert