

Part B - Quarterly Adjustment, If Required

Each component rate of the Grid Management Charge may change quarterly if the estimated billing determinate volumes for that component, on an annual basis, change by 5% or more during the year. Additionally, each component rate of the Grid Management Charge may change quarterly to reflect anticipated cost savings projected during the current fiscal year, or to reflect unanticipated collections of fines and penalties as specified elsewhere in this Tariff. Such quarterly adjustments to the ISO Revenue Requirement are intended only for reductions of the Revenue Requirement.

Each year the Grid Management Charge will be recalculated to reflect the following year's budget estimates and to adjust for any difference between the previous year's revenue and cost estimates and actual revenues and costs, as reflected in Part D of this Schedule, "Information Requirements". The annual filing requirement shall not affect the ISO's ability to adjust the Grid Management Charge on a quarterly basis, when warranted.

Part C - Costs Recovered through the GMC

As provided in Section 8 of the ISO Tariff, the Grid Management Charge includes the following costs:

- Operating costs (as defined in Section 8.2.2)
- Financing costs (as defined in Section 8.2.3), including Start-Up and Development costs and
- Operating and Capital Reserve costs (as defined in Section 8.2.4)

Such costs, for the ISO as a whole, are allocated to the three service charges that comprise the Grid Management Charge: (1) Control Area Services Charge, (2) Congestion Management Charge, and (3) Ancillary Services and Real-Time Energy Operations Charge, using appropriate methodologies, and

adjusted annually for:

 any surplus revenues from the previous year as deposited in the Operating and Capital Reserve Account, as defined under Section 8.5, or deficiency of revenues, as recorded in a memorandum account;

divided by:

- forecasted annual billing determinant volumes in MWh;
- adjusted quarterly for:
 - a change in the volume estimate used to calculate the individual Grid Management Charge components, if, on an annual basis, the change is 5% or more.

The Grid Management Charge Revenue Requirement Formula is as follows:

Grid Management Charge Revenue Requirement =

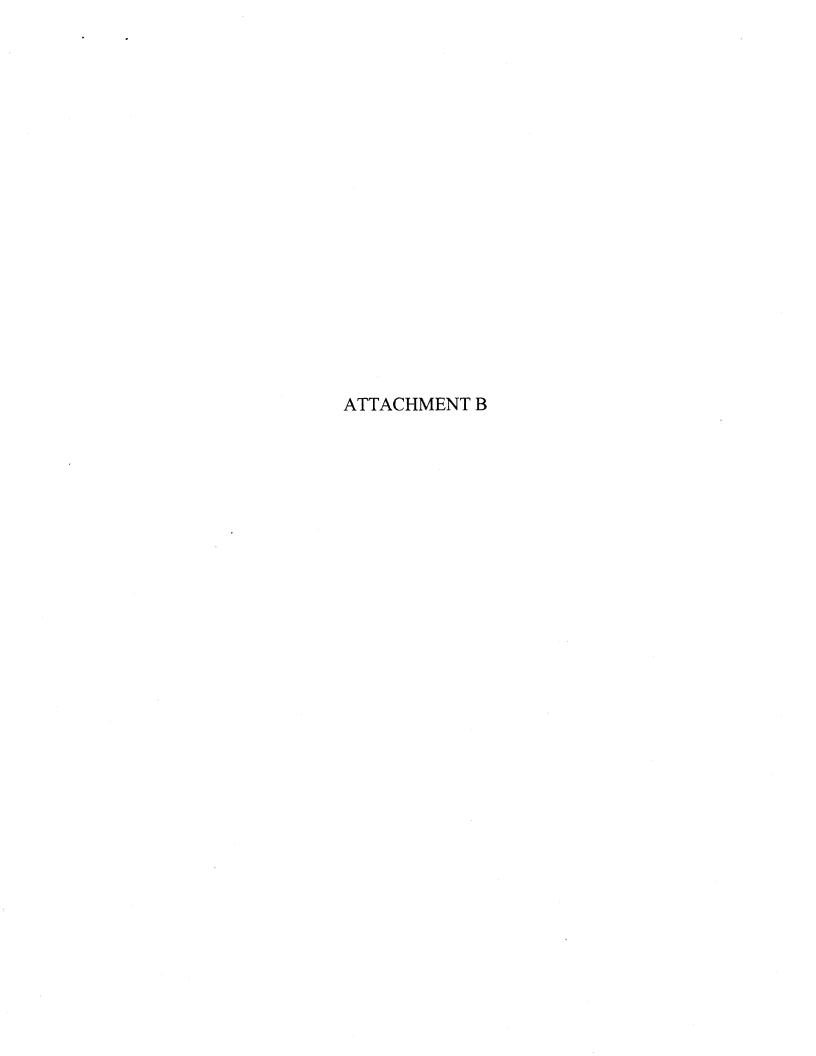
 Operating Expenses + Debt Service + [(Coverage Requirement x Senior Lien Debt Service) or (Cash Funded Capital Expenditures)] - Interest Earnings - Other Revenues - Reserve Transfer

Where.

 Operating Expenses = O&M Expenses plus Taxes Other Than Income Taxes and Penalties

Issued by: Charles F. Robinson, Vice President and General Counsel

Issued on: December 7, 2001 Effective: January 1, 2002



Part B - Quarterly Adjustment, If Required

Each component rate of the Grid Management Charge may change quarterly if the estimated billing determinate volumes for that component, on an annual basis, change by 5% or more during the year. Additionally, each component rate of the Grid Management Charge may change quarterly to reflect anticipated cost savings projected during the current fiscal year, or to reflect unanticipated collections of fines and penalties as specified elsewhere in this Tariff. Such quarterly adjustments to the ISO Revenue Requirement are intended only for reductions of the Revenue Requirement.

Each year the Grid Management Charge will be recalculated to reflect the following year's budget estimates and to adjust for any difference between the previous year's revenue and cost estimates and actual revenues and costs incurred, as reflected in Part D of this Schedule, "Information Requirements". The annual filing requirement shall not affect the ISO's ability to adjust the Grid Management Charge on a quarterly basis, when warranted.