

Exhibit No. ISO 2(1)

February 4, 1998

**STAKEHOLDER STEERING COMMITTEE
KICKOFF MEETING**

Draft Scope of Work for Consultant Study On Grid Management Charge Unbundling

Background

The California Independent System Operator (CAISO or ISO) is responsible for reliable operation of the transmission grid and to facilitate certain market activities that will provide free and open access to all market participants. The transmission grid under control of the ISO includes facilities owned by Pacific Gas & Electric, San Diego Gas & Electric, and Southern California Edison. The ISO is headquartered in Folsom, CA, with back-up facilities in Alhambra, CA.

The ISO was chartered by the state of California. It is an independent non-profit corporation with a governing board representing the stakeholders involved in the generation, transmission and consumption of electricity.

The CAISO provides an array of services associated with grid management and reliability (also known as control area functions or services) and facilitation of electricity-related markets (e.g. for balancing energy and ancillary services). The ISO maintains revenue neutrality on all market operations, meaning it acts as an agent for the market, collecting and disbursing funds associated with the markets it operates.

The CAISO will be funded through a Grid Management Charge (GMC) that recovers the annual cost of operating the CAISO, including financing costs, and amortizing the costs of the hardware and software necessary for its operations. The GMC will be assessed on transactions through the CAISO. It has been approved for recovery by the Federal Energy Regulatory Commission, subject to refund once the charge has been adjudicated. One key issue in the FERC proceeding will be the extent to which the CAISO's provision of services may be different for various users of the grid and whether and how the GMC may be unbundled so that these users only pay for services they use. The CAISO is thus undertaking a study that will determine how and to what extent the GMC can be unbundled to reflect differences in services provided.

Such a study necessarily requires:

- A definition of services provided, disaggregated to the extent feasible.
- An analysis of costs to provide the services (largely labor and hardware/software).
- A functionalization of CAISO costs into categories that can be allocated.
- A direct assignment of costs to the services provided, where feasible.
- A valid means of allocating potential substantial joint and common costs among the services where direct assignment is not possible. Some of these joint and common costs are typical in cost of service studies (e.g. A&G expense). Others are not (e.g. running an ancillary services auction for customers that do not wish to self-provide these ancillary services which both provides for needed ancillary services to support the grid and facilitates a marketplace in ancillary services).

The CAISO staff is undertaking an analysis of current costs (based on its 1998 budget) and will map those costs (type and dollar amount) to various services through the creation