

EXHIBIT 1

April 1, 1998

The undersigned have agreed to the attached statement of principles, which will be implemented upon and after (i) approval thereof by the ISO Board of Governors, and (ii) subsequent issuance by the ISO to SCE of unconditional, irrevocable, written consent by the ISO to the assignments of the relevant RMR Agreements from SCE to the respective SCE Purchasers, all by Friday, April 3, 1998. The ISO management supports the statement of principles and will recommend its approval to the ISO Board of Governors. The parties' agreement to the statement of principles shall not be construed (i) as the only reasonable basis for the ISO's consent to the assignment of an RMR Agreement, or (ii) in the event the ISO Board of Governors fails to approve the statement of principles, or the ISO does not otherwise consent to the assignment of the RMR Agreements, to foreclose any party's contention that the ISO's failure to consent to such assignment without the attached is unreasonable. This sheet may be signed in multiple counterparts.

SOUTHERN CALIFORNIA
EDISON COMPANY

HOUSTON INDUSTRIES POWER
GENERATION, INC.

By: _____

By: _____

EL SEGUNDO POWER, LLC

CALIFORNIA INDEPENDENT
SYSTEM OPERATOR
CORPORATION

By: _____

By: _____

THE AES CORPORATION

By: _____

Principles of Agreement

In consideration for the ISO consenting to the assignment of SCE's RMR Agreement to the SCE Purchasers by Friday, April 3, 1998, the ISO, SCE and the SCE Purchasers agree as follows:

1. Each SCE Purchaser will amend its RMR Agreement excusing the ISO from any obligation to pay the SCE Purchaser amounts due for RMR service, to the extent such amounts have been invoiced to SCE, but not paid to the ISO, unless such nonpayment is due to (i) offset by SCE unrelated to the RMR payment obligation, or (ii) an alleged breach or default by the ISO of any of its obligations to SCE. This "pay when paid" language will not excuse the ISO from its obligation to pay notwithstanding that it has not received revenues from any other entity. The SCE Purchasers will file this amendment with FERC. SCE and the ISO will intervene in support of the SCE Purchasers' filing of such amendment with FERC.

2. SCE will agree to pay all amounts shown on the RMR invoice without offset. To the extent SCE disputes an invoice, it shall pay the invoice under protest and subject to refund with interest, and the ISO shall in turn pay such amounts to the SCE Purchaser, also under SCE's protest, and subject to refund with interest (without duplication). The ISO and each SCE Purchaser will agree that if a settlement or determination of a dispute results in an amount paid under protest being due from the ISO to SCE, then such amounts with interest would be deducted from the next succeeding amounts otherwise due from SCE to the ISO with respect to the RMR Agreement in question. SCE, the ISO and the SCE Purchasers will, respectively, intervene in support of the filing with FERC of necessary amendments to the ISO Tariff (including Protocols) by the ISO and the RMR Agreements by the SCE Purchasers made to implement this Paragraph 2.

3. The ISO will agree, for purposes of the RMR Agreement and ISO Tariff (including Protocols), that each SCE Purchaser shall to the extent set forth herein be a third party beneficiary of, and shall have all rights that the ISO has under the ISO Tariff, at law, in equity or otherwise, to enforce SCE's obligation to pay all sums invoiced, but not paid to the ISO for RMR services provided to the ISO by the SCE Purchaser under its RMR Agreement to the extent the ISO does not pay such SCE Purchaser (including payments made under protest) on a timely basis as a result of SCE's nonpayment. To that end, the ISO shall take no actions to enforce its related rights against SCE unless requested by the SCE Purchaser. The ISO shall cooperate with such SCE Purchaser in a timely manner as necessary or appropriate to most fully effectuate the SCE Purchaser's rights related to such enforcement, including use of its best efforts to enforce such obligations if, as and to the extent, and within the time frame, requested by the SCE Purchaser. The ISO Tariff shall provide, if it does not already, that all billings and payments between the ISO and SCE shall be made on a unit-by-unit basis. SCE and the SCE Purchasers will intervene in support of the ISO's filings of such amendments with FERC, and SCE shall take such actions as shall be necessary to recognize the SCE Purchasers' rights described above. The rights of an SCE Purchaser as third party

beneficiary are (i) no greater than the ISO's rights against SCE, and (ii) subject to Section 13 of the ISO Tariff regarding dispute resolution. *Either* the ISO *or* the relevant SCE Purchaser (but not both) will be entitled to enforce any claim arising from a related set of facts and only one such party will be a "disputing party" under Section 13 with respect to any such claim provided that the ISO shall have the right to intervene for the purpose of participating in the proceeding (it being understood that the SCE Purchasers shall nevertheless control the disposition of claims against SCE for non-payments described in paragraph 1 and that SCE will not be subject to duplicative claims or recoveries). Subject to the foregoing, the ISO shall participate where procedurally necessary to the assertion of a claim by an SCE Purchaser.

4. The ISO will waive the provisions of its Tariff requiring SCE, as a Transmission Owner, to provide the ISO with a letter of credit or cash deposit in an amount equal to two months billings under its RMR Agreement. SCE and the SCE Purchasers will intervene in support of the ISO's filing of such waiver with FERC.

5. The ISO will not seek a letter of credit or similar credit support by SCE to secure SCE's RMR payments with respect to SCE's RMR units.

6. The ISO will not seek to recover any risk premium charged by Bank of America for the ISO's assumption of RMR payment risk from SCE or the SCE Purchasers, except to the extent that such cost is part of the overall cost of service of the ISO.

7. SCE, the ISO and the SCE Purchasers will agree to support approval of the foregoing arrangements for the settlement of the "pay/no pay" issue as an integrated settlement. In the event any aspect of the settlement herein is changed, altered, not accepted or disapproved by FERC, the parties shall (i) be released from their obligations to support approval of the remaining settlement terms and each party shall be free to take such positions as it deems appropriate in connection with any proceedings relating to such remaining settlement terms, and (ii) negotiate in good faith to effectuate the original intent of the parties represented by these Principles of Agreement.

8. Each party, prior to making any of the above-described filings with FERC, will consult with and obtain the approval of the other parties. In this regard, each party agrees to act in good faith in connection with the preparation and approval of such filings. It is understood that no party shall be responsible for any particular outcome before FERC or any other regulatory agency.

EXHIBIT 2

Principles of Agreement

San Diego Gas & Electric Company (“SDG&E”) and the California Independent System Operator Corporation (“ISO”) hereby agree and, in the event that SDG&E should sell or otherwise dispose of a generation facility or unit that is the subject of the Reliability Must Run (“RMR”) Agreement (“RMR Agreement”) between SDG&E and ISO (a “Facility Sale”), SDG&E, as a condition of such Facility Sale, shall cause the purchaser or acquirer of such RMR facility or unit (the “New Owner”) to agree as follows:

1. The ISO shall be excused from any obligation to pay the New Owner amounts due for RMR service under the RMR Agreement, if assigned to such New Owner, or any successor agreement to the RMR Agreement (“Successor Agreement”), to the extent such amounts have been invoiced to SDG&E, but not paid to the ISO, unless such nonpayment is due to (i) offset by SDG&E unrelated to the RMR payment obligation, or (ii) an alleged breach or default by the ISO of any of its obligations to SDG&E. This “pay when paid” agreement will not excuse the ISO from its obligation to pay notwithstanding that it has not received revenues from any other entity. The New Owner will reflect the required agreement in an amendment to the RMR Agreement, if the RMR Agreement is assigned to such New Owner(s), or in the Successor Agreement which the New Owner will file with the Federal Energy Regulatory Commission (“FERC”). SDG&E and the ISO will intervene in support of such filing by the New Owner with FERC.

2. Following any such Facility Sale, SDG&E will pay all amounts shown on the RMR invoice without offset. To the extent SDG&E disputes an invoice, it shall pay the invoice under protest and subject to refund with interest, and the ISO shall in turn pay such amounts to the New Owner, also under SDG&E’s protest, and subject to refund with interest (without duplication). If a settlement or determination of a dispute results in an amount paid under protest being due from the ISO to SDG&E, then such amounts with interest would be deducted from the next succeeding amounts otherwise due from SDG&E to the ISO with respect to the RMR Agreement in question. SDG&E, the New Owner, and the ISO will, respectively, intervene in support of the filing with FERC of necessary amendments to the ISO Tariff (including Protocols) by the ISO and the RMR Agreement or Successor Agreement by the New Owner made to implement this Paragraph 2.

3. Following any such Facility Sale, each New Owner shall to the extent set forth herein be a third party beneficiary of, and shall have all rights that the ISO has under the ISO Tariff, at law, in equity or otherwise, to enforce SDG&E’s obligation to pay all sums invoiced, but not paid to the ISO for RMR services provided to the ISO by the New Owner under its RMR Agreement to the extent the ISO does not pay such New Owner (including payments made under protest) on a timely basis as a result of SDG&E’s nonpayment. To that end, the ISO shall take no actions to enforce its related rights against SDG&E unless requested by the New Owner. The ISO shall cooperate with such New Owner in a timely manner as necessary or appropriate to most fully effectuate the New Owner’s rights related to such enforcement, including use of its best efforts to

enforce such obligations if, as and to the extent, and within the time frame, requested by the New Owner. All RMR related invoices issued by the ISO to SDG&E will contain detailed unit charges. SDG&E and the New Owner (as a condition of the Facility Sale) will intervene in support of the ISO's filings of such amendments with FERC, and SDG&E shall take such actions as shall be necessary to recognize the New Owner's rights described above. The rights of a New Owner as third party beneficiary shall be (i) no greater than the ISO's rights against SDG&E, and (ii) subject to Section 13 of the ISO Tariff regarding dispute resolution. *Either* the ISO *or* the New Owner (but not both) will be entitled to enforce any claim arising from a related set of facts and only one such party will be a "disputing party" under Section 13 with respect to any such claim provided that the ISO shall have the right to intervene for the purpose of participating in the proceeding (it being understood that the New Owner shall nevertheless control the disposition of claims against SDG&E for non-payments described in paragraph 1 and that SDG&E will not be subject to duplicative claims or recoveries). Subject to the foregoing, the ISO shall participate where procedurally necessary to the assertion of a claim by a New Owner.

4. The ISO will waive the provisions of its Tariff requiring SDG&E, as a Transmission Owner, to provide the ISO with a letter of credit or cash deposit in an amount equal to two months billings under its RMR Agreement. SDG&E and the New Owner will intervene in support of the ISO's filing of any necessary waiver with FERC.
5. The ISO will not seek a letter of credit or similar credit support by SDG&E to secure SDG&E's RMR payments with respect to SDG&E's RMR units.
6. The ISO will not seek to recover any risk premium charged by Bank of America for the ISO's assumption of RMR payment risk from SDG&E or the New Owner, except to the extent that such cost is part of the overall cost of service of the ISO.
7. SDG&E, the ISO and the New Owner will support approval of the foregoing arrangements for the settlement of the "pay/no pay" issue as an integrated settlement. In the event any aspect of the settlement herein is changed, altered, not accepted or disapproved by FERC, the parties shall (i) be released from their obligations to support approval of the remaining settlement terms and each party shall be free to take such positions as it deems appropriate in connection with any proceedings relating to such remaining settlement terms, and (ii) negotiate in good faith to effectuate the original intent of the parties represented by these Principles of Agreement.

8. SDG&E, the ISO and the New Owner, prior to making any of the above-described filings with FERC, will consult with and obtain the approval of the other parties. In this regard, each party agrees to act in good faith in connection with the preparation and approval of such filings. It is understood that no party shall be responsible for any particular outcome before FERC or any other regulatory agency.

9. Nothing in these Principles of Agreement shall affect otherwise applicable provisions of the ISO Tariff or the RMR Agreement regarding the ISO's rights in connection with the assignment or termination of SDG&E's RMR Agreement.

The undersigned have agreed to the above Statement of Principles this 28th day of April, 1998.

SAN DIEGO GAS AND ELECTRIC
COMPANY

CALIFORNIA INDEPENDENT
SYSTEM OPERATOR
CORPORATION

By: _____

By: _____

EXHIBIT 3

ARTICLE VII ARTICLE VII

NEGATIVE COVENANTS OF THE ISO

So long as the Letter of Credit is outstanding and until all of the Payment Obligations and the Term Loans shall have been paid in full, the ISO shall not do any of the following, without the prior written consent of the Issuing Agent, the Agent and the Majority Banks:

SECTION VII.9 Must-Run Agreement Units SECTION VII.9 Must-Run Agreement Units. The ISO shall not designate a unit as of such unit has agreed that it has no recourse to the ISO in respect of any Reliability Must-Run Charge in the event the ISO has not received the Reliability Must-Run Charge from the applicable PTO (a "Pay When Paid RMR") and (ii) the applicable PTO has agreed that it will pay to the ISO all Reliability Must-Run Charges invoiced to the PTO in respect of such Reliability a Reliability Must-Run Unit as provided in Section 5.2.3 of the Tariff unless (i) the Owner Must-Run Unit without setoff; provided, however, that such agreement may allow such PTO to make such payment under protest and to obtain a refund, with interest, of any invoiced amount determined not to have been due and payable, which refund (with interest) shall be netted against future payments from such Owner.

EXHIBIT 4

ARTICLE VIIIARTICLE VIII

DEFAULTS AND REMEDIES

SECTION VIII.1 Events of DefaultSECTION VIII.1 Events of Default. The occurrence and continuance of one or more the following events shall constitute an "Event of Default":

- (a) (i) The ISO fails to perform or observe any term, covenant or agreement contained in Section 2.6, 2.8, 6.1, 6.2(i), 6.9(b), 6.9(c), 6.13, 6.14 or Article VII or (ii) the ISO fails to perform or observe any other term, covenant or agreement contained in this Agreement (other than those referred to in Section 8.1(a) and 8.1(c)(i) and (x) any such failure cannot be cured or (y) any such failure, if curable within 30 days, remains uncured for 30 days after notice thereof to the ISO or (z) if such failure is curable within 270 days but not within 30 days, the ISO fails to commence curing such failure within 30 days after notice thereof to the ISO or fails to diligently pursue such cure or fails to effect such cure within such 270 day period; or

SECTION VIII.2 Rights and Remedies Upon DefaultSECTION VIII.2 Rights and Remedies Upon Default. Upon the occurrence of an Event of Default hereunder, the Agent may, upon the request of the Majority Banks do any or all or none of the following:

- (a) By notice to the ISO, declare all Unreimbursed Purchase Drawings, all Term Loans and all interest thereon, immediately due and payable, whereupon the same shall become immediately due and payable (provided that, if an Event of Default specified in Section 8.1(i) shall occur, the result which would occur upon the giving of written notice of such declaration shall occur automatically without the giving of any such notice; and/or
- (b) By notice to the Trustee, require the Trustee to give notice of mandatory tender for purchase of all outstanding Bonds, and by written notice to each Remarketing Agent, instruct each Remarketing Agent to cease remarketing the Bonds until further written notice from the Agent; and/or
- (c) By notice to the Trustee, require the Trustee to declare an "Event of Default" under the Indenture and accelerate all outstanding Bonds; and/or
- (d) Petition a court of competent jurisdiction to issue a mandamus order to the ISO to compel specific performance of the covenants of the ISO contained in any of the Related Documents; and/or
- (e) Give written notice of the occurrence of an Event of Default to the Trustee and/or the Blocked Account Bank and exercise any rights and

remedies available to the Issuing Agent, the Agent or any Bank at law, equity or under any Related Document.