Exhibit No. ISO-3

Purpose

To comply with California's restructuring legislation (AB1890) and Section 7.1.6 of the ISO Tariff, develop and file with the Federal Energy Regulatory Commission (FERC) an ISO transmission Access Charge methodology by December 31, 2000. The fundamental principle for the transmission Access Charge is to allocate and recover the transmission costs of all ISO Controlled Grid facilities from the Market Participants who use the transmission facilities that comprise the ISO Controlled Grid.

Scope and Deliverables of the Project

Development of the ISO transmission Access Charge, which balances costs and benefits, will evaluate various transmission Access Charge options, including sensitivities, and other factors which impact transmission costs.

> ***Options*** for rates include but are not limited to utility specific, regional/local, access pricing areas (IndeGo's approach), postage stamp, network, distance sensitive, rolled-in versus subfunctional, varying transmission levels (generation/load ties, extra high voltage, transmission, and subtransmission), load-based versus generation-based, energy versus demand based, and point-to-point.
>
> ***Sensitivities*** include but are not limited to off-peak/mid-peak/on-peak, seasonally, coincident versus non-coincident peak, and time differentiated.
>
> ***Other factors*** to consider include but are not limited to transmission expansion costs, support payments, revenue crediting, opportunity costs, reactive power charges, parallel flows and Reliability Must-Run generation costs.
>
> ***Goals*** for the transmission Access Charge should include:
> - Prevent pancaking by treating the ISO Controlled Grid as a single system.
> - Be economically efficient.
> - Provide predictable and stable transmission prices that facilitate needed new investment.
> - Be consistent with other transmission-related costs such as congestion management and loss recovery.
> - Minimize cost-shifting among transmission users.
> - Result in a charge that is equitable considering the user's use of the system.
> - Be reflective of the underlying physics of the transmission system.
> - Encourage entities to join the California ISO.
> - Be acceptable to all transmission owners who are or will be participating in the ISO.

The charge that is developed will need to be approved by the ISO Governing Board and filed with FERC. Additionally, any charge developed must consider cost evaluations of

potential participants, settlement and implementation concerns, and compliance mechanisms.

The sole deliverable is a FERC filing prior to December 31, 1999. During the project, interim status reports will need to be available to the ISO Management, ISO Governing Board and Market Participants.

ISO Project Team

Executive Sponsor - Beth Emery

Team Leader - Debi Le Vine

Team Members -

- Brad Bouillon
- Mike Dozier
- Mike Epstein
- Kevin Graves
- Steve Greenleaf
- Vicken Kasarjian
- Fred Lee
- Jeff Miller
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- Byron Woertz

Swidler & Berlin: Ed Berlin and David Rubin
Brattle Group: Peter Fox-Penner, Frank Graves, and Steven Stoft

Time Line and Major Milestones

Transmission Access Charge development:

December 5	Distribute ISO questions and format to Market Participants soliciting transmission Access Charge proposals.
1999	
February 26	Market Participants submit transmission Access Charge proposals to the ISO.
March 29	Kick-off meeting with Market Participants addressing: project goals; Market Participant principles and interests; summary matrix of proposals received from Market Participants; and rules for the discussions/data/information.
April	Develop uniform data requests, including revenue requirements, and gather additional information.

May 11	Discuss proposals and impacts of other factors with Market Participants.
June	Develop system scope definition for software.
June 8	Continue discussions with Market Participants on proposals.
July 13	Present preliminary results to Market Participants.
Aug-Sept	Refine results
September	Finalize functional requirements for software design.
September 8	Present to Market Issues Forum (MIF) proposed transmission Access Charge, any sensitivities and other factors.
September 23	Status report to the ISO Governing Board
Oct 13 & 28	Present final proposal to MIF and ISO Governing Board for approval.
November	Finalize ISO Tariff language.
November 18	Obtain ISO Governing Board approval of ISO Tariff amendment for the ISO transmission Access Charge.
December 31	File ISO transmission Access Charge with FERC.

Background

The State of California passed restructuring legislation (AB1890) which requires the ISO to recommend for approval to the Federal Energy Regulatory Commission no later than two years after the initial operations date, a rate methodology for the transmission Access Charge which has been approved by the ISO Governing Board. The ISO Governing Board must adopt principles for the charge including, but not limited to, an equitable balance of costs and benefits; a definition for the transmission facility costs which shall be rolled in to the transmission service rate and spread equally among all ISO users; and which transmission facility costs should be assigned to a specific utility's service area. (§9600(a)(2)(A))

If there is no ISO Governing Board decision, the rate methodology shall be determined following the Alternative Dispute Resolution (ADR) process in Section 13 of the ISO Tariff. (§9600(a)(2)(B)) If no ADR decision is rendered, the default rate methodology will be a uniform regional transmission Access Charge and a utility specific local Access Charge. Regional transmission facilities are defined to be 230 kV or above plus an appropriate percentage of facilities operating below 230 kV. But the default methodology may not be implemented until termination of the competitive transition costs (CTC) recovery or March 31, 2000, whichever is later. (§9600(a)(2)(C))

If the rate methodology is different from the utility specific Access Charge, the amount of the difference between the new rate and the prior rate will be recorded in a tracking account to be recovered from customers and paid to the appropriate transmission owners by the transmission facility owner after termination of the CTC recovery. Recovery and payment shall be based on an amortization period not to exceed three years for the investor-owned utilities and five years for local publicly owned electric utilities. (§9600(a)(3))

The transmission Access Charge may not compel any Market Participant to violate restrictions required by tax-exempt bonds or contractual limitations, provided such Existing Contract was executed as of December 20, 1995. (§9600(a)(6)) Once FERC has approved the charge, no California investor-owned utility or local publicly owned electric utility is authorized to collect any CTC unless it commits control of its transmission facilities to the ISO. (§9600(b))

FERC, in its Order of November 26, 1996, states:

> Regardless of the procedural process, the ISO-recommended rate methodology is to be filed with the Commission at least sixty days before the end of the two-year period. If the ISO-Governing Board recommended or the ADR-recommended rate methodology is accepted, the rates are proposed to go into effect when the two-year period ends. The default rate methodology is proposed to become effective on the latter of the end of the two-year period or the termination of the stranded cost recovery period.

ISO Tariff Section 7.1.6:

7.1.6 ISO FILED ACCESS CHARGE METHODOLOGY.

No later than two years after the ISO Operations Date, the ISO Governing Board shall recommend to FERC a rate methodology for Access Charges. The ISO Governing Board shall base its decision on such principles it approves (including, but not limited to, the introduction of off-peak transmission rates and an equitable balance of costs and benefits and shall define the transmission facility costs, if any, which shall be borne equally by all Market Participants and those transmission facility costs, if any, which should be specifically assigned to specific Market Participants or category of Market Participants I If the ISO Governing Board has made no such decision, the rate methodology for Access Charges shall be determined pursuant to the ISO ADR Procedure. If no decision is rendered under the ISO ADR Procedure, then the default rate methodology for calculating the Access Charge shall be a uniform regional Access Charge and a utility specific local Access Charge, provided that the default rate methodology shall be filed with FERC by the ISO Governing Board as its recommendation for implementation upon termination of the cost recovery plan set forth in Section 368 of the California Public Utilities Code (as added by AB 1890) or no later than two years after the ISO Operations Date, whichever is later. "Regional" transmission facilities for purposes of this Section, are defined as transmission facilities operating at or above 200 kilovolts plus an appropriate percentage of transmission facilities operating below 230 kilovolts; all other transmission facilities are defined as "local." The appropriate percentage of transmission facilities described above shall be consistent with the guidelines in FERC Order No. 888 and any exceptions to Order No. 888 which are approved by FERC.

- **Tracking Account**. If the Access Charge rate methodology implemented pursuant to Section 7.1.6 results in Access Charge rates for any Participating TO which are different from those in effect prior to the application of Section 7.1.6, an amount equal to the difference between the new rates and the prior rates shall be recorded in a tracking account. The balance of that tracking account will be recovered from customers and paid to the appropriate Participating TO after termination of the cost recovery plan set forth in Section 368 of California Public Utilities Code (as added by AB 1890). The recovery and payments shall be based on an amortization period not exceeding three years in the case of electric corporations regulated by the CPUC or five years for Local Publicly Owned Electric Utilities.

- **Addition of New Facilities After ISO Implementation**. The costs of transmission facilities placed in service after the ISO Operations Date shall be recovered consistent with the cost recovery determinations made pursuant to Section 3.2.7.

- **Effect on Tax-Exempt Status**. Nothing in this Section shall compel any Participating TO to violate any restrictions applicable to facilities financed with tax-exempt bonds or contractual restrictions and covenants regarding the use of transmission facilities existing as of December 20, 1995.