

Exhibit No. ISO 2(3)

March 6, 1998

STEERING COMMITTEE CONFERENCE CALL

Epstein, Michael

From: Ayoub, Vanda
Sent: Monday, March 02 1998 9:17 AM
To: 'angles@howrey.com'; Ayoub, Vanda; 'bbarkovich@aol.com'; 'bgokbu@ladwp.com'; 'bjobson@smud.org'; 'bobby.campo@southernenergy.com'; 'braun@cmua.org'; Woertz, Byron; Emery, Beth; 'cmkehrrein@ems-ca.com'; 'crochlin@pacent.com'; 'cuillija@sce.com'; 'clkebler@calpx.com'; Smart, Charles A; 'david_cohen@rmiinc.com'; 'ddretz@wapa.com'; 'ddyson@noram.com'; Fuller, Don; 'dparque@ect.enron.com'; 'dws@keywaycorp.com'; 'echang@wapa.com'; 'eelsesser@aandellp.com'; ellen@tca-us.com; 'elucero@sdge.com'; 'frierson@aol.com'; 'greg_clumpner@rmiinc.com'; jack@energy-exchange.com; 'jkritikson@calpx.com'; 'kawamura@wapa.gov'; Fluckiger, Kellan; 'kjohans@legal.ladwp.com'; 'lstikeleather@edison-source.com'; 'lkw2@pge.com'; 'macknemd@sce.com'; 'matt@ncpa.com'; 'mawagner@tca-us.com'; 'mfrazee@anaheim.net'; Epstein, Michael; 'michael_dozier@rmiinc.com'; 'mmonard@smud.org'; 'mwerner@water.ca.gov'; 'mwynne@uoc.com'; Leiber, Phil; 'rmi@aracnet.com'; 'rfbarreno@calpx.com'; Johnson, Roger; 'roger.smith@ferc.fed.us'; 'rthomas@rwbeck.com'; Brown, Rosaline; Schneider, Susan; 'sgreen888@aol.com'; 'sworg@worldnet.att.net'; 'vernonlp@globalpac.com'
Subject: GMC Unbundling-Friday March 6 conference call

Hello!

I would like to follow up on the dialing information for the conference call that has been set up for Friday, March 6.

The conference call will start at 9:00am - 11:00am on Friday, March 6.
Please dial: 1-888-790-1732
Passcode is: 13228

Topics for discussion

- Status of RFP package
- Schedule for consultant selection
- Schedule for next meeting

Thank you

Vanda

Chair audit committee

Notes from March 6, 1998 conference call.

Roll call: Michelle Wynne, Barbara Barkovich, Rachel Axelrad, Ellen Banaghan, Carolyn Kehrein, Mike Epstein, Jeff Pasquinelli, Roger Johnson, David Cohen, Greg Clumpner, Steve Angle, Steve Greenleaf, Ed Lucero, Jack Ellis, D'Lisa Dyson, Don Fuller

The RFP went out to 18-20 prospective consultants on Thursday March 5, 1998.

The first part of the call concentrated on the process of proposal review, selection of finalists, interviews, and criteria for selection of the consultant. The second part of the call discussed the process for the first phase of the study leading up to the first draft in June.

I have tried to summarize the major topics below. The group identified various items during the call that should be sent as an addendum to the RFP to the prospective consultant list. I find today while writing this that some of my notes were unintelligible. So for those of you in the call, if you have corrections or additions please send via email. Also I specifically need your inputs on the criteria below. If I can get your comments by early Monday evening March 9, I can incorporate into RFP addendum packages going out on Tuesday.

1. Consultant Selection

Timeline

- March 6 RFPs out
- March 10 RFP addenda out
- March 20 Proposals due at noon, and FEDEX'd to interview team.

March 25 Interview team meets to review proposals. Narrow to 4-5? Finalists. (Location and time to be set no later than Tuesday March 10.)

March 30,31 Interviews (Location and times to be set soon, preference for 3/30, probably best in Bay Area because of people coming from out of state, esp. East Coast)

April 3 Complete contract, initiate consultant study.

quick quals

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Interview Team

Ed Lucero
Don Fuller
Barbara Barkovich
Steve Greenleaf
Ellen Banaghan or alternate
Transmission operations expertise (Roger Johnson has graciously agreed to help here if we can't locate this experience)

2. Items that should be sent in the RFP addendum

Provide an indication of whether they plan to bid.
ISO Contract language
ISO Confidentiality agreement.
Rest of schedule. Notification of interviews on March 30/31, kickoff 4/3
Description of matrix
Selection criteria

3. Interaction with Consultant during development of the first draft.

Start consultant with careful instructions. It was debated and agreed that there was not a need for a large group meeting with the consultant up-front.

Also feedback, comments, and questions from general meetings should be summarized by the steering committee. Members of the committee should not contact the consultant directly.

Mid-term Review, tentatively May 1.

The Consultant should review a revised matrix with the study group before specific cost allocation. Scope of services should be refined, including possible alternate scenarios for the study. Group will need time to review consultant recommendation and provide comments, which we will do on May 7-8.

May 7 or 8 study team conference call.

Sometime in mid-May the consultant should provide an overview of allocation methodology that he/she will be using.

ii. Consultant selection criteria.

This was discussed in general terms during the call but the outline below was generated by Barbara and myself after the call. Your comments are welcome and needed.

A. Can they do a good job for us? (Weight these 6 criteria evenly?)

- ◆ Experience with cost of service, cost allocation and rate design experience
- ◆ Experience with FERC transmission access proceedings, FERC rate proceedings, including capability to present testimony at FERC if needed.
- ◆ Knowledge of transmission operations/control area operations
- ◆ Knowledge of ISO type structures, experience with other restructuring that will bring a fresh perspective.
- ◆ Ability to work in team environment with ISO staff and Steering Committee.
- ◆ Knowledge of California ISO and general market structure.

Go-NO/GO criteria. Do these get a percentage evaluation or are they go-no/go criteria?

- ◆ Price
- ◆ Neutrality re: California stakeholders
- ◆ Resources to perform on time.

Other miscellaneous topics

Must carefully address revenue stream under any restructuring of the GMC, and must look at Level of Usage carefully. Ultimately we would probably need to address sensitivity to assumptions. Even with an automatic adjustment, it could cause cash flow situations or exacerbate any errors, meaning if level of usage is much lower than expected, allocating all the costs to fewer participants through an adjustment could make that service prohibitively expensive. An example is the ISO approach on funding the MCI Wenet system. Revenue stability and certainty

Debate of whether and when to distinguish customer classes. Must be addressed in final recommendation. Purpose of study is whether to establish classes or groups.

But the risk of duplication too much. Consultant needs to operate independently and they bring us the greatest value if they operate independently.

Revised Study Requirements

1. Review lists of services and determine whether refinements should be made to the list. This will take the form of a recommendation to the stakeholder steering committee and CAISO staff.
Part of Mid-term review
2. Review the matrix mapping costs to services prepared by the CAISO staff. Possibly make recommendations for modifications. 1998 budget costs will be used except where significant changes might be expected in subsequent years.
Part of Mid-term review
3. Perform allocation of direct costs to the final list of services.
After Mid-term review
4. Develop an allocation methodology for joint and common costs that cannot be directly assigned to the final list of services. This methodology should be detailed in the final report.
Interim deliverable in outline form after mid-term review, before first draft
5. As part of tasks 3 and 4, develop a spreadsheet-based (Excel preferred) allocation model that will be delivered to the CAISO as part of the project work product. There should be versions of this work product based on both fully allocated costs (reflecting the allocation under #4 above) and incremental costs (looking at the savings to the ISO from not performing the functions examined. Candidate consultant should state ability to provide the model costs in accordance with FERC Accounting standards.
6. Develop a recommendation for the basis and amounts of charges identified in the analysis in #5. This could include groupings of services for certain client types and may include recommendations on appropriate billing determinants and rate design.
7. Work with the ISO's Finance personnel to assess the potential revenue implications of the alternative structures examined.
Plus revenue requirement maintained.
8. Work with ISO staff and steering committee to ascertain impact on expected revenue and to assess the cost of implementation of the recommended options. (Delete reference to software modifications and training here. this will be completed by the ISO and not the consultant)

9. Prepare a final report encompassing all of the above.

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