



November 12, 2002

NAESB Board of Directors
c/o NAESB
1100 Louisiana St.
Suite 3625
Houston, TX 77002

Reference: Posted Draft NERC – NAESB Memorandum of Understanding

Dear Fellow Board Members:

I am providing this letter for your consideration of specific issues associated with the current draft of the NERC – NAESB Memorandum of Understanding (“MOU”) that we will be asked to vote upon and approve at our upcoming meeting in San Diego.

I would first like to thank the dedicated NERC and NAESB teams of negotiators for their tireless efforts under a very tight deadline. This was a task that was bound to end with less than total satisfaction for everyone involved in the process.

Next I would like to make my own intentions clear as to my support for this draft. I intend, and would encourage others, to support and vote *for* acceptance and approval of the MOU. Having said this, I would not want my support to be interpreted as complete agreement without reservation for this draft. In fact, my support can only be provided if the record on this subject includes my concerns for those portions of the draft that I feel are deficient. It would be my strong preference that the draft be further revised to correct these areas of concern - however I don't believe this is a practical expectation at this time. Given that I see no reasonable alternative to accepting an “imperfect” solution to NERC – NAESB coordination, and recognizing that my most serious concerns are based upon my perception of past historical performance, I have chosen to suspend any skepticism I might have in a hope that the future will see a different level of harmony among participants than we have experienced to date.

I would like to briefly outline the three areas of the draft with which I have serious concern.

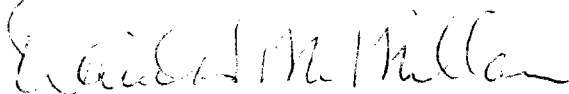
1. "Tie-breaking on the Joint Interface Committee" (Section 2.3) - I have suggested that the tie breaking vote be that of a truly objective third party who has had the benefit of listening to the debate regarding assignment of drafting privileges which has resulted in the tie between NERC and NAESB. The MOU draft assigns this role to the "chairmen of the two organizations or their board-level appointees".
2. "Ability of either party to walk away from the MOU process for any decision that they choose to disagree upon" (Section 2.8) – My understanding is that this was insisted upon by the NERC negotiators and, in my opinion, renders the MOU impotent. If an entity invokes their right to walk, and thereafter proceeds to create a standard where the JIC believes such standards should rightly be the province of the other entity, we will have anarchy in the standards creation activity with both entities creating competing standards.
3. "Failure to establish the coordination guideline that any standard which mandates the provision of a product, service, or operational process also must explicitly deal with the issue of compensation for such requirement" - I lobbied hard for this concept to be established in this document but was unsuccessful. We will have to work within each standard's creation process to ensure this gets done each and every time.

It is my belief that each of these three concerns could have been effectively dealt with and I provided the NAESB negotiating team with my suggestions for how each one might have been improved upon. I am disappointed that none of my suggestions, or alternative suitable recommendations in these three areas, was incorporated in the draft MOU before us.

In supporting this MOU, I must urge both NERC and NAESB to be vigilant about these three areas of concern. If any of these issues prove to be the barriers to smooth coordination in standards creation that I believe they could be, there will be significant discussions at the FERC regarding how these issues can be remedied after the fact.

Wishing not to close on a negative note, please join with me in approving and then monitoring closely the performance of the parties to this MOU.

Respectfully,



David H. McMillan
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Calpine Corporation