

August 5, 2002

Mr. William Boswell  
North American Energy Standards Board  
Suite 3625  
1100 Louisiana St.  
Houston, Texas 77002

Re: Wholesale Electric Quadrant Procedures

Dear Mr. Boswell:

On behalf of the Chief Executive Officers of North America's Regional Transmission Organizations and Independent System Operators, we are writing to you and the NAESB Board members regarding recent events in the formation of the Wholesale Electric Quadrant (WEQ). At the most recent NAESB WEQ formation meeting, in Wilmington, the five-segment model was confirmed. Although we are disappointed that the proposed 6<sup>th</sup> segment for RTOs and ISOs did not pass, we appreciated the opportunity to express our views with the WEQ stakeholders. The level of support we did receive during this meeting also encouraged us. We understand that the 6<sup>th</sup> segment was favored by a majority and came within 4 votes of passing.

Following the Wilmington meeting we are optimistic that there is a clear understanding of the ISO and RTO issues, in particular that independence precludes participation in a Segment with Market Participants. The ISOs and RTOs have a concern related to the July 14, 2002 "Review of Proposed Quadrant Procedures for the Wholesale Electric Quadrant" provided to the NAESB Board. The review suggests that the WEQ procedures be interpreted to designate "a legitimate business interest by RTOs, RROs, ISOs, and IMOs in the Transmission Segment." This interpretation is not workable for the RTOs and ISOs (IMOs).

We must reiterate our previous concerns that "the designation of ISOs and RTOs in the Transmission, or anyother sector with market participants, conflicts directly with our corporate governance principles and our Boards' fiduciary responsibilities to all users of the grid. By FERC Order and comparable Canadian legislation and regulations, we are required to be independent of transmission owners and other market participants" Placing the ISOs and RTOs with market participants clearly departs from that principle.

The five segment WEQ organization does not include a single segment that would appropriately fit the nature and definition of an ISO and RTO: *Any entity that is engaged in the independent administration of competitive energy markets, and the reliable and safe operation of the bulk power system, under approved transmission and market services tariffs/protocols and, applicable NERC and regional reliability standards.* ISOs and RTOs are no more aligned with transmission owners than we are with any other market participant and to so categorize ISOs and RTOs will compromise our independence.

We are assessing options for the most effective role to participate with NAESB that is compatible with ISO and RTO structures and look forward to the success of the NAESB process.

Very truly yours,

The ISO/RTO CEOs:

David Goulding, IMO  
Phillip G. Harris, PJM Interconnection  
William J. Museler, NYISO  
Thomas E. Noel, ERCOT  
James P. Torgerson, Midwest ISO  
Gordon vanWelie, ISO New England  
Lorry A. Wilson, Power Pool of Alberta  
Terry M. Winter, California ISO

cc: NAESB Board  
Chairman Pat Wood III  
Commissioner Linda Breathitt  
Commissioner Nora Mead Brownell  
Commissioner William Massey  
Daniel Larcamp, FERC  
Marvin Rosenberg, FERC