

September 12, 2002

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

Re: MOU Between ISOs/RTOs and NAESB

Dear Mr. Boswell:

Following up on our previous discussions, I am attaching a draft Memorandum of Understanding (MOU) on behalf of the CEO's of the North American ISOs/RTOs, which defines the proposed relationship between NAESB and the ISOs/RTOs with respect to Business Practice Standards. We look forward to discussing this relationship with you as soon as possible, and I believe that this document can form the basis of a mutual agreement in this regard.

We are also providing a copy of the MOU to the FERC for their information. Mr. Tom Noel of ERCOT, and Mr. Gordon vanWelie of ISO-NE will be discussing this with several of the Commissioners, among other things, on Friday, September 13th.

I will contact you next week to determine how best to proceed to reach agreement on an appropriate relationship between NAESB and the ISOs/RTOs. We look forward to continuing to work with NAESB to develop appropriate business practice standards for the competitive wholesale markets in North America.

Thank you for your continued cooperation.

Sincerely,

A handwritten signature in black ink, appearing to read "W. J. Museler". The signature is written in a cursive style with a large, prominent "M".

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

John Marschewski, SPP

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

DRAFT – 9/12/02

MEMORANDUM OF UNDERSTANDING

BETWEEN THE INDEPENDENT SYSTEM OPERATORS AND

REGIONAL TRANSMISSION ORGANIZATIONS IN NORTH AMERICA

AND THE NORTH AMERICAN ENERGY STANDARDS BOARD

This Memorandum of Understanding, between the Independent System Operators and the Regional Transmission Organizations in North America (independent organizations collectively or individually referred to as the “ISOs/RTOs”) and the North American Energy Standards Board (“NAESB”), collectively referred to as the “Parties,” establishes the protocol for ISO/RTO review of business practice standards, which include, but are not limited to, model business practices and communication protocols, and electronic data interchange (“EDI”) record formats (“business practice standards”). This Memorandum of Understanding is intended to promote collaboration between the ISOs/RTOs and NAESB in the design and development of business practice standards for the wholesale electric markets and to solicit public input, both domestic and international, for an open decision making process. These mechanisms will promote the flexibility needed to adapt to changes in the composition of market designs.

WHEREAS: NAESB has been charged with the development and maintenance of business practice standards for the competitive wholesale electricity markets in North America.

WHEREAS: The ISOs/RTOs, who are the operators of the competitive wholesale electricity markets in North America, and are also charged with the responsibility for operational reliability of the electricity grid, support the creation and maintenance of market standards that are applicable on an international basis.

WHEREAS: The ISOs/RTOs have initiated the development of a process that would provide ISO/RTO positions on matters relating to business practice standards as well as on other matters relating to the role that the Federal Energy Regulatory Commission (“FERC”) has defined for the ISOs/RTOs through its Notice of Proposed Rulemaking (“NOPR”) “Remedying Undue Discrimination through Open Access Transmission Service and Standard Market Electricity Design (“SMD”) and otherwise.

WHEREAS: The ISOs/RTOs and the Wholesale Electricity Quadrant (“WEQ”) of NAESB share a common purpose to propose, evaluate and adopt voluntary business practice standards. Such standards are intended to be designed to promote more competitive, efficient and reliable wholesale electricity markets.

WHEREAS: The ISOs/RTOs and the WEQ of NAESB desire to work closely to strive for business practice standards that promote the implementation of SMD and seek to eliminate market seams.

NOW, THEREFORE, IT IS HEREBY AGREED TO AS FOLLOWS:

I. GOVERNING PRINCIPLES:

The Parties agree to abide by the following governing principles:

- A. The Parties shall collaborate on design and development of business practice standards that support and promote efficient competitive markets.
- B. The Parties acknowledge the unique responsibilities of the ISO/s/RTOs to assure fairness and non-discrimination of market rules and operation and the need of the ISOs/RTOs to preserve a market design and development process that is independent of control or influence by any market participants or class of market participants.
- C. The ISOs/RTOs shall review and comment on proposed NAESB business practice standards consistent with NAESB processes.
- D. The NAESB WEQ Executive Committee and Board shall each obtain and consider the advice of the ISOs/RTOs to ensure that proposed NAESB business practice standards as well as its work plan are compatible with the markets and operations of the individual ISOs/RTOs and do not intrude upon individual ISO/RTO stakeholder processes or the ability of the Boards of the ISOs/RTOs to meet their fiduciary obligations.
- E. The Parties shall work to ensure feasibility of implementation of business practice standards.
- F. The Parties shall work to assure fairness and non-discrimination of market rules and operation.
- G. The Parties shall work toward a common set of rules for business practice standards to promote consistency with entities outside of FERC jurisdiction.
- H. The Parties shall act in a non-arbitrary and reasonable manner.

II. COORDINATION:

A. General.

The ISO/RTOs will have the right to participate and interact with NAESB throughout the business practice standards development process. Each organization will notify the other of its anticipated related activities in a timely manner. The ISOs/RTOs and NAESB will maintain fair and open communications with one another.

B. Interactions.

The Parties agree to perform the following activities in support of standards development:

1. The ISOs/RTOs shall advise on the proposed annual work plan for NAESB.
2. The ISOs/RTOs may propose specific business practice standards for development to the NAESB Triage Committee.
3. The ISOs/RTOs shall review all requests for proposed business practice standards submitted to NAESB and provide recommendations to the Triage Committee regarding, at a minimum, feasibility, market design implications, and urgency for development.
4. The ISOs/RTOs may provide an opinion on recommendations from the NAESB Triage Committee to the NAESB WEQ Executive Committee.
5. ISOs/RTOs may participate, in a non-voting capacity, in the NAESB business practice standards development process.
6. The ISOs/RTOs may comment on recommended business practice standards when they are posted for industry review in the 30-day comment period.
7. The ISOs/RTOs shall comment on all recommended business practice standards when they are presented to the NAESB WEQ Executive Committee for vote. Such comments may include unqualified endorsements, rejections, or may provide additional recommendations and discussion of concerns.

8. The NAESB WEQ Executive Committee or the Board shall formally respond to all comments made by the ISOs/RTOs before any final action is taken on any business practice standard.
9. The ISOs/RTOs may comment directly to FERC on all approved NAESB business practice standards submitted to FERC for adoption.

III. MISCELLANEOUS

1. Relationship of the Parties; Apportionment of Costs

The Parties are not forming a partnership or other legal entity and no party is authorized by this Agreement to act as agent for any other party. Each party shall be responsible for all its own expenses incurred in connection with this Agreement, including, but not limited to, the cost of travel to meetings, administrative costs, and legal or other consulting fees. This Agreement contemplates no transfer of funds amongst the ISOs/RTOs or between the Parties.

2. Term And Modification; Termination Of Agreement

This Agreement shall be for an initial term of two (2) years. This Agreement shall become effective when signed by all Parties. The Agreement may be modified, amended or terminated at any time by written mutual agreement of all Parties. Any Party may terminate its participation in this Agreement upon sixty (60) days notice to each of the other parties.

3. Hold Harmless; No Third Party Beneficiaries

No ISO/RTO shall have any liability to any other ISO/RTO arising out of this Agreement. Nothing in this Agreement is intended for the benefit of third parties and no third party may claim for damages or otherwise to enforce such benefit.

4. Notices

Any notice under this Agreement shall be given in writing and delivered by deposit with the United States Postal Service, Canada Post or by overnight courier to the following address:

To the NYISO:

To the ISO-New England:

To the IMO:

To PJM:

To the ERCOT:

To the MIDWEST ISO:

To the CAISO:

To the POWER POOL OF ALBERTA:

To NAESB:

AGREED:

NYISO

IMO

By: _____

William J. Museler
CEO
Date:

By: _____

David Goulding
CEO
Date:

PJM

By: _____
Phillip G. Harris
CEO
Date:

ERCOT

By: _____
Thomas E. Noel
CEO
Date:

MIDWEST ISO

By: _____
James P. Torgerson
CEO
Date:

ISO-New England

By: _____
Gordon van Welie
CEO
Date:

POWER POOL OF ALBERTA

By: _____
Lorry A. Wilson
CEO
Date:

CAISO

By: _____
Terry M. Winter
CEO
Date:

NAESB

By: _____
Bill Boswell
Chairman
Date:

SOUTHWEST POWER POOL

By: _____
John Marschewski
President
Date: