



North American Energy Standards Board

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via email and posting

TO: NAESB WEQ Contracts Subcommittee Participants and Interested Parties
FROM: Rae McQuade, Executive Director
RE: Wholesale Electric Quadrant Contracts Subcommittee Kick-Off Meeting Minutes – January 28, 2003
DATE: January 31, 2003

**NORTH AMERICAN ENERGY STANDARDS BOARD
WEQ CONTRACTS SUBCOMMITTEE KICK-OFF MEETING
January 28, 2003**

1. Welcome

Mr. Dison welcomed participants to the WEQ Contracts Subcommittee Kick-Off Meeting and introduced himself and Mr. Johnson as the interim chairs of NAESB WEQ Contracts Subcommittee. Mr. Oncken gave the antitrust advice. Meeting participants introduced themselves. Mr. Dison reviewed the agenda. A review of work being done in the WGQ Contracts Subcommittee was added under agenda item 4.

Mr. Dison reviewed the structure of and voting in NAESB subcommittees. Of note, Mr. Dison informed participants that NAESB meetings are governed by Roberts Rules of Order and open to participation from anyone, regardless of NAESB membership. However, he said those participants not members of the NAESB WEQ needed to align themselves with a NAESB WEQ segment for balanced voting purposes. Mr. Dison explained that balanced voting, which is used for actions that draft standards and work papers, is based on segment, with each segment having two weighted votes and no individual having more than one vote per segment.

2. Elect Co-Chairs

Mr. Dison opened discussion of selection of leadership for the subcommittee. Items to be decided included method of election and number of co-chairs. Mr. Dison recommended a nominations process through the NAESB office and a subsequent election at the next subcommittee meeting or through notational vote.

Mr. Dison volunteered to be considered for a subcommittee co-chair, but requested other co-chairs also be nominated. Mr. Dison envisioned a balanced leadership team, possibly with someone from the West or from another segment. Mr. Poche moved, seconded by Mr. Desselle that Mr. Dison remain as one of the co-chairs of the WEQ Contracts Subcommittee. Mr. Dison opened the floor for additional nominations, noting that self nomination is acceptable. Mr. Dison moved to table Mr. Poche's motion, submit other nominations to the NAESB office, and then hold an election at the next subcommittee meeting. Mr. Dison's motion passed by general consensus.

3. Review of Annual Plan Items Assigned to Contracts Subcommittee

Mr. Johnson reviewed Annual Plan Items 5 a through f which were assigned to the WEQ Contracts Subcommittee. Mr. Johnson informed the group these items were derived from a brainstorming session at the October 2002 Executive Committee meeting with the goal of increasing efficiency in the wholesale electric market. As format, Mr. Johnson reviewed the



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annual plan items and then opened discussion. Below is the summary of the discussion on each item:

- 5 a A review of both the Western Systems Power Pool (WSPP) and the Edison Electric Institute (EEI) Master Service agreements and other related agreements would be in order with the objective of developing standard short term and long term master-service agreements:

Mr. Johnson proposed a task force be formed to address item 5 a. There was discussion as to the need to replace two contracts that are sufficient for the market needs. Mr. Dison said that there is not consensus on whether the two contracts will be replaced by a single contract but there was agreement to review both documents for possible actions. EEI, WSPP and ISDA agreement summaries will be provided later in the meeting. Mr. Corneli noted that modifications to the existing contracts or a new contract might be appropriate now because the EEI Master Service agreement is expected to be updated shortly. Additionally, it was noted the WSPP is a member contract and the EEI is a bilateral contract, a formal difference which goes to the use and effect of the two agreements.

- 5 b A review of the EEI Master netting agreement with the objective of developing standard terms and conditions for netting settlements (perhaps this is a subset discussion of the master service agreements above)

Participants briefly discussed the EEI Master netting agreement. Points outlined include the difference in application if this is a bilateral agreement instead of an addendum to a base agreement and complications that could arise with affiliate use.

- 5 c A review of the terms and conditions of the standard liquidated damages contracts (Into Entergy, Into Cinergy, etc.) with the objective of developing standard LD contract terms.

Participants did not comment on this item.

- 5 d A review of the International Swaps and Derivatives Association (ISDA) cross commodity netting agreement

Participants did not comment on this item.

- 5 e Identify and develop business practices that would facilitate transactions between 2 parties when creditworthiness is an issue.

Participants were informed about the work being undertaken by the Wholesale Gas Quadrant in the Business Practices Subcommittee for capacity release and Contracts Subcommittee in the development of a credit annex. Interested parties were invited to attend and participate.

- 5 f Develop the Funds Transfer Agency Agreement:

Ms. Gasca said a red-line version of the NAESB WGQ FTAA has been completed, converting the existing natural gas document into a document suitable for use by the electric market. Ms. Gasca said she envisioned the process and documentation of the electric FTAA would mimic the gas FTAA. She noted this would have great benefit, since banks are familiar with the existing FTAA procedures.

In addition to the items contained in the 2003 WEQ Annual Plan, Mr. Dison noted ISDA has approached NAESB about a possible gas annex and power annex, but did so after the annual plan was set. So, while not included in the annual plan, the ISDA annex item will be incorporated into an existing portion of the plan.



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Mr. Dison asked for a sense of the room on the priority of the items, noting the stated priorities were projections during drafting. Mr. Dison noted the FERC has placed a high priority on development of the WEQ FTAA. Additionally, Ms. McQuade noted the current NAESB WGQ FTAA garners strong support from the US Department of Energy (DOE), and the has DOE has urged NAESB to explore a version of the FTAA agreement for use with electric power.

4. Review of activities underway by other organizations that are related to the Annual Plan Items Assigned to Contracts Subcommittee

Reports on initiatives by the following organizations were given: NAESB Wholesale Gas Quadrant Contracts Subcommittee, Edison Electric Institute, Western Systems Power Pool, and International Swaps and Derivatives Association. Additionally, a pending Joint Technical Conference was discussed.

NAESB Wholesale Gas Quadrant Contracts Subcommittee

Ms. Calcagno, the WGQ Contracts Subcommittee co-chair, provided an update on the work of the WGQ Contracts subcommittee. Ms. Calcagno reported the subcommittee met on January 21, 2003 and produced a draft credit support addendum to the NAESB Base Contract for Sales/Purchases of Natural Gas. Ms. Calcagno noted the group has agreed to work from Cinergy's document as a base, since there was previous agreement that the document reflected key aspects of the EEI and ISDA agreements. For next steps, Ms. Calcagno identified a redraft of the January 21 draft document and a February 24, 2003 meeting.

Edison Electric Institute

Mr. Dison reported that during a recent meeting with the Edison Electric Institute (EEI) regarding the EEI Master Service agreement and EEI Master Netting agreement, parties discussed the history and future of the EEI agreements. Ms. Lauderdale, a representative from EEI, addressed the current status of the EEI efforts. Ms. Lauderdale noted EEI has been working on the EEI Master Netting Agreement, which is currently available for free on the EEI website. According to Ms. Lauderdale, EEI is considering reworking certain portions of the EEI Master Service agreement to update the contract for the current market, including examining changes to address the collateral agreement. Ms. Lauderdale welcomed a joint process with NAESB on this contract with hopes that a joint effort would result in broad industry participation. Ms. Lauderdale noted the EEI process is open to all interested parties, regardless of membership.

Western Systems Power Pool (WSPP)

Mr. Small, a representative from the WSPP, reported on work being done by the WSPP. Mr. Small informed the group of a conversation recently held regarding the interplay of the NAESB process and the WSPP. Mr. Small stated there was some concern among WSPP members that NAESB was reviewing the WSPP agreement, and that for the most part, the WSPP members are satisfied with the existing WSPP contract. Specifically, Mr. Small noted that his members are concerned that a review through the NAESB process with possible changes resulting could damage the WSPP agreement and that they are skeptical of the need to have another master agreement. Further, Mr. Small noted the WSPP process is a FERC approved process and the WSPP contract is consistently updated. Mr. Small proposed that if the NAESB focus was on certain more controversial issues, NAESB consensus on those provisions could be presented to the WSPP for its consideration and inclusion in its established contracts revision process.

Mr. Dison stated it is not necessarily NAESB's intent to replace any contracts unless industry consensus establishes that a replacement document is necessary. Further, Mr. Dison said that the decision will ultimately be made by the NAESB membership if and when the WEQ



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Contracts Subcommittee proposes a new master agreement. He urged those interested in the process to become involved.

International Swaps and Derivatives Association (ISDA)

Mr. Bunkin provided background on the ISDA agreements. Mr. Bunkin asserted that at the end of the day, under the current system, companies are left with a lot of different agreements that undermine market participants' ability to effectively net and use credit lines. In response, ISDA has developed a bridge contract to augment the agreements. Under the ISDA system, Mr. Bunkin explained a default under one agreement triggers a default under all agreements and a subsequent netting process. Mr. Bunkin asserted the ISDA agreements are easy to enter into and require little negotiation. Mr. Bunkin said a power annex is being discussed with EEI and he would be interested in working together with NAESB on it and on the development of a gas annex. Mr. Bunkin likened the process to a modular framework with segments for the relevant markets. Several work papers discussing ISDA are posted on the WEQ Contracts Subcommittee page of the NAESB website.

Joint Technical Conference

Mr. Dison referenced the group to a Joint Technical Conference scheduled for February 5 between the FERC and the Commodity Futures Trading Commission which will have significant impacts to the electric industry. Mr. Dison encouraged attendees interested in the credit issues or multilateral clearing to attend. Mr. Dison stated he did not know the impact this technical conference would have on the WEQ Contracts Subcommittee work plan. Ms. McQuade noted she would be attending the meeting to monitor any impacts on all of the NAESB quadrants' work on creditworthiness. Mr. Dison noted the results of this technical conference will be discussed at the next WEQ Contracts Subcommittee meeting, if appropriate.

Mr. Dison opened the floor for general discussion on the industry or annual plan items. Mr. Dison suggested three options for WEQ Contracts subcommittee future work: 1) after a review of current documents, take no further action; 2) review individual provisions or terms and conditions with the potential to standardize those items rather than the entire contract; or 3) develop a NAESB standard contract, or multiples if necessary. Mr. Johnson concurred those were appropriate options.

During discussion on subsequent action, the need for education on the existing contracts was emphasized. Accordingly, Mr. Dison proposed to invite representatives from the various affected organizations to give an educational presentation on their document. Possible topics for those presentations include the history, intent, and benefits of the documents. Additionally, it was noted some education can arise from the task force participants.

In addition to evaluating the current documents, Mr. Corneli identified the necessity of evaluating industry needs, current and future. Mr. Dison concurred on the issue of looking to the future, noting that examination could lead to proceeding under his option 3.

Ms. Gasca commented the FTAA item is not as complicated as many others this subcommittee faces. She favors expediting review and drafting of the FTAA, since it is basically just a process to execute deals. Mr. Dison concurs with moving quickly on the FTAA, noting the work has really already been done through the red-line document, but that document needs review by a broader NAESB cross-section.

Mr. Severance suggested approaching review of the Master Agreements through option 2. Mr. Severance asserted this approach accounts for the uncertainty of the market. Mr. Corneli asserted option 2 has many advantages; in part; it could prepare the subcommittee for later option 3 work.



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5. Identification of work plan steps for the Contracts Subcommittee

See discussion in Items 4 and 6.

6. Set Up of Task Forces to address plan items if needed

The WEQ Contracts Subcommittee defined two task forces, the FTAA Task Force and the Master Service Agreements Task Force.

FTAA Task Force: The FTAA Task Force is charged with reviewing the red-lined NAESB WGQ FTAA and reporting back to the next WEQ Contracts Subcommittee meeting with a recommendation for adoption as a standard, if appropriate. The following participants volunteered to work on the FTAA Task Force: Ms. Gasca (chair), Mr. Johnson, Mr. Dison, Mr. Poche, and Ms. McQuade would contact Mr. Thorsen and Mr. Freitas to see if they would like to participate.

Master Service Agreements Task Force: The Master Service Agreements Task Force is charged with identifying controversial or unaddressed issues of Master Service or Netting agreements and providing a status report of those issues defined at the next WGQ Contracts Subcommittee meeting. The following participants volunteered to work on the Master Service Agreements Task Force: Mr. Bunkin (point person), Mr. Dison, Mr. Johnson, Mr. Corneli, Mr. Small, Ms. Russo, Mr. Miller, Kimberly, Ms. Lauderdale (point person), Mr. Crespo (point person), Ms. Silvey, Mr. Johnson, Mr. Sayuk, and Mr. Oberski.

Ms. McQuade informed meeting participants of NAESB's obligations under the NERC/NAESB MOU, including the agreement that all standards requests be presented to the NERC/NAESB Joint Interface Committee (JIC) for mutual consideration and discussion on which group should develop the standards. Ms. McQuade said that while it appears all contracts-related standards will be worked on by NAESB, those standards requests still need to proceed through the JIC process. However, Ms. McQuade noted where work was primarily research in nature, JIC review would not be required until the determination was made that standards development should be pursued.

7. Calendar of Meetings

WEQ Executive Committee Meeting: Tuesday, February 18, 2003, New Orleans, LA

WEQ Contracts Subcommittee Meeting: Wednesday, March 5, 2003, place TBD

WEQ MOS Meeting: Thursday, March 6, 2003, place TBD

The WEQ Contracts, Standards Review Subcommittee and MOS will meet at the same location, either Phoenix, AZ or Las Vegas, NV on March 5-7, 2003. The above outlined meeting schedule will allow time for task forces to meet a couple of times prior to the next WEQ Contracts subcommittee meeting.

8. Other Business

In summary, Mr. Corneli informed meeting participants that the Executive Committee is relying on the subcommittees to do the work that needs to be done. He encouraged focused and productive work from the task force members.

9. Adjourn

Mr. Dison adjourned the meeting at 1:00 p.m. EST.



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10. Meeting Attendees:

Name	Company	Notes
Eric Arriess	Portland General Electric	Phone
Laura Barrickman	Mirant	
W. Shannon Black	Sacramento Municipal Utility District	
Steve Bunkin	Goldman Sachs	
Ollie Burke	Entergy Services, Inc.	
Suzanne Calcagno	UBS Warburg Energy	Phone
Yvette Camp	Southern Company	Phone
Randy Corbin	Ohio Consumers' Counsel	Phone
Kyle Cornish	Entergy Services, Inc.	
Steve Corneli	NRG Power Marketing	
John Crespo	American Electric Power	
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Ed Davis	Entergy	Phone
Michael Desselle	American Electric Power	
Joel Dison	Southern Company	Interim Chair
Dave Domansky	Preston Gates & Ellis	Phone
Andy Dotterweich	Consumers Energy	Phone
Derek Empie	Troutman Sanders LLP	
Duane Farmer	Public Service Co. of New Mexico	
Bruce Fleeger	Allegheny Power	Phone
Amy Gasca	AmPro Energy	Phone
Raquel Gayle	Troutman Sanders LLP	
Kimberly Gentle	Avista Energy	Phone
Brian Harms	Troutman Sanders LLP	
Kathy Hevezi	ACES Power Marketing	
Martha Hewitt	Seminole Electric Cooperative	Phone
Linda Horn	Wisconsin Electric	
Gary Jackson	Tennessee Valley Authority	Phone
Alan Johnson	Mirant	Interim Chair
Jim Johnson	Ameren Energy	
Arlene Jorgensen Hillstead	NRG Energy	Phone
Miki Kolobara	Salt River Project	
Melissa Lauderdale	EEl	
Cecilia Liang-Nicol	Allegheny Energy Supply	
Bill Lohrman	NERC	Phone
Anne Lovett	PPL Energy Plus	Phone
Rae McQuade	NAESB, Executive Director	Administrative
Cary Metz	MCV	Phone
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Jeff Mueller	PSE&G	
Sherri Monteith	American Electric Power	



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Lou Oberski	Dominion	
Todd Oncken	NAESB	Phone/Administrative
Ray Phillips	Alabama Municipal Electric Authority	
Jay Poche	Entergy Services, Inc.	
	National Energy Marketers	
Stacey Rantala	Association	Phone
Tony Reed	Southern Company	
Joe Rosignoli	National Grid	
Rich Roth	Wisconsin Public Service Corp.	Phone
Dede Russo	Reliant	Phone
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Henry Tilman	PacifiCorp	Phone
Son Tran	Tran Delta	Phone
Jim Trangsrud	Salt River Project	
Jeremy Weinstein	PacifiCorp	Phone
Brad Woods	8769, Inc.	
Charles Yeung	Reliant Energy	