NORTH AMERICAN ENERGY STANDARDS BOARD
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October 3, 2003

An Open Letter from Michael Desselle, NAESB Vice-Chairman for the Wholesale Electric Quadrant

Progress Report for the NAESB Wholesale Electric Quadrant

1 Year Later

To: NAESB Wholesale Electric Quadrant Board Members and Executive Committee Members

cc: NAESB Managing Committee; NAESB Wholesale Electric Quadrant Members; Electric Industry Trade Associations;
Michehl Gent, President of the North American Electric Reliability Council;
William Museler, Chairman of the ISO/RTO Council;
Chuck Gray, Executive Director of National Association of Regulatory Utility Commissioners;
Jimmy Glotfelty, Director Office of Electric Transmission and Distribution; US Department of Energy;
Mark W. Menezes, Chief Counsel for Energy and the Environment House Committee on Energy and Commerce;
FERC Chairman Patrick Wood; FERC Commissioner Nora Mead Brownell; FERC Commissioner William Massey

Dear NAESB Wholesale Electric Quadrant Board and Executive Committee Members:

We have just completed our first year in NAESB and I wanted to take this opportunity to talk about our achievements this year, describe the challenges for the coming year and most importantly to thank you, our members, for your hard work and dedication to the organization this past year.

The quadrant challenged itself in its inaugural year with some very ambitious goals. As the year progressed our priorities evolved and we entered into major collaborative partnerships first with the North American Electric Reliability Council and second with ISO/RTO Council. As national policy has evolved and our partnerships have matured, the quadrant's goals and objectives have been refocused more toward the development of voluntary standards addressing the market aspects of grid reliability, transmission seams and related issues.

While the quadrant has only ratified one standard to date (a contract addendum, the Funds Transfer Agent Agreement), recent developments have set the stage for significant success in the coming year. The recent establishment of an Information Technology Subcommittee – made up of the members of the long-standing Open Access Same-Time Information Systems (OASIS) Standards Collaborative (OSC) – represents a major step forward for the quadrant. That subcommittee is now embarking on the development of the next generation of OASIS standards providing greater transparency and flexibility for the marketplace. Additionally, with the support of FERC and the ISO/RTO Council, we are currently developing a national catalogue of "seams issues" to be shared with the industry in early December for the collective prioritization and development of reliability and business practice standards.

Make no mistake: this is a critical year for the quadrant's continued success. Because we are a new organization, we have enjoyed the support and encouragement of FERC and other organizations. We will need to provide tangible proof that our efforts bring value to the marketplace for us to continue to enjoy that support. Our 2004 annual plan contemplates significant effort to develop complementary business practices to NERC reliability standards and NERC policies. Success in the coming year will be measured by our ability to "come through" and the flexibility to redirect our efforts potentially on an "urgent-action" basis. Today, under the leadership of *one* individual (the chair of standards review subcommittee)

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development of 5 different business practices complementary to NERC reliability practices is underway[1]. Other efforts are also underway for drafting standards[2]. *We urge you to provide knowledgeable personnel to assist in such efforts in order to achieve sustainable results. In my view, this is the biggest challenge we face in the upcoming year.*

We haven't yet achieved the degree of successful interaction with the ISO/RTO Council that I would have anticipated and I will be pressing that issue very hard in the coming year, seeking more tangible cooperation from the ISO/RTO Council. This is particularly important as RTO development in the country is in varying stages of development. Rae and I will actively continue our efforts to meet and address many of the concerns raised by our members in the western United States.

Recent events in our country have highlighted the importance of the Memorandum Of Understanding with NERC and the ISO/RTO Council and have presented the WEQ an unprecedented opportunity for success. As Congress moves forward on energy legislation, we will continue in a collaborative manner working with NERC and the ISO/RTO Council to provide the basic rules of the road for markets, transmission planning and reliability. *I can't emphasize enough that our success depends upon the commitment of resources necessary to develop these complementary standards.* Our efforts over the last year have created a platform for the collective prioritization and resolution of issues for the evolving wholesale electricity marketplace.

Finally, I want to thank the quadrant members for their hard work and dedication to the organization this past year; particularly the executive committee leadership who have expended countless hours negotiating with the OSC/ESC and others, requesting their participation in NAESB's efforts, and facilitating the cooperation and coordination we enjoy today with NERC and the ISO/RTO Council. We have been blessed with the gracious support of many of our trade associations over the past year: organizations who have committed personnel, facilities and other resources to facilitate our efforts. On behalf of NAESB, we thank you all for your efforts and we look forward to working together this coming year.

I look forward to the challenges of the coming year and expanding our list of accomplishments in my report to you next year. Next year I hope to report to you that our efforts have significantly advanced our mutual goal of providing a reliable efficient wholesale electricity marketplace in North America!

Best Regards,

Michael Desselle

Director of Public Policy, AEP

Vice-Chair, Wholesale Electric Quadrant, NAESB Board of Directors and Incoming Chairman of the NAESB Board of Directors for 2004

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1 Coordinate Interchange, Coordinate Operations, Balance Resources and Demand, Facility Ratings, Operate Within Limits

2 Public Key Infrastructure, Inadvertent Interchange Payback