

William J. Museler
President & CEO
(518) 356-6070
(518) 356-4702 (fax)
email: wmuseler@nyiso.com

May 29, 2002

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

Re: Wholesale Electric Quadrant

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 to the NAESB stakeholders to express our deep concerns with certain aspects of the formation of the Wholesale Electric Quadrant. Our concerns are both from a process as well as substantive standpoint.

At the last NAESB meeting, we understand that, by a narrow margin, the stakeholders reversed their previous decision to support the Electronic Scheduling Collaborative's designation of sectors. Moreover, sentiments were expressed that Regional Transmission Organizations and Independent System Operators be relegated to the Transmission sector of the yet-to-be formed Wholesale Electric Quadrant. We also understand that there were a number of concerns raised with the voting processes utilized at the meeting.

We believe that ISOs and RTOs are integral to the success of the Wholesale Electric Quadrant. Without the independent view and operational evaluation provided by the ISOs and RTOs, the standards which NAESB will arrive at may not be feasible or practical to implement. The designation of ISOs and RTOs in the Transmission, or other 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—in fact, we were formed for that very purpose. Placing the ISOs and RTOs with market participants clearly departs from that very principle. We 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. In Order 2000, FERC specified that, whatever governance arrangements are put in place, "the overarching (independence) standard" must be met, and that an ISO and RTO decision-making process must be independent of individual market participants and class of market participants.

Moreover, as CEOs of our respective organizations, we have much experience in making stakeholder processes work and ensuring that they are deemed fair by all sides. We do not believe that the voting processes that were employed at the last meeting were fair to all of the stakeholders. Quite simply, the credibility of the NAESB process is flawed when companies can vote in more than one sector. We have addressed these issues in our respective stakeholder processes by rules, which require the company and its affiliates to only be able to vote in a single sector. We think such a rule is sorely needed in the NAESB process if the voting process is to remain credible.

For these reasons, we are writing to seek reconsideration by the stakeholders of the changes that must be made to be compatible with ISO and RTO structures. All of the stakeholders indicated to FERC that they wanted to see coordination of reliability and business practices. The ISOs and RTOs undertake that function every day and we believe can provide that critical link that stakeholders were seeking.

We believe that NAESB holds much promise for the industry. For it to launch successfully however, our respective neutral organizations should be viewed as partners in the standard-setting process. The credibility of the NAESB process will be seriously undermined if the ISOs and RTOs are not properly recognized for the unique role they play in this industry to make markets work and maintain the reliability of the grid, and if the voting process is not deemed fair by the various segments of the industry.

We will have representatives at the Birmingham, Alabama meeting this week to raise these issues. We hope that we can operate in an environment that is open and practical and welcomes the unique value-added role that the ISOs and RTOs can provide in this process. We look forward to working with you to make the NAESB process a success.

Very truly yours,



William J. Museler
President & CEO

For the ISO/RTO CEOs:

David Goulding, IMO
Phillip G. Harris, PJM Interconnection
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 STAKEHOLDERS
Chairman Pat Wood III
Commissioner Linda Breathitt
Commissioner Nora Mead Brownell
Commissioner William Massey
Daniel Larcamp, FERC
Marvin Rosenberg, FERC