

May 31, 2002

William J. Museler
President & CEO
NY ISO
3890 Carman Road
Schenectady, NY 12303

Re: Your Letter of May 29, 2002

Dear Mr. Museler:

I have your letter of the above date. In passing, I would note that I received a copy of the letter (not the original) on May 30 at the NAESB WEQ formation meeting in Birmingham, AL, along with approximately 140 other people. Indeed, my copy was handed to me after everybody else received theirs. For the future, I and NAESB will be in a better position to respond to your concerns – or indeed any concerns expressed by the many other interested parties – if we are given time to consider and respond to them.

Moving to the substance of your comments, NAESB is and will remain an inclusive organization. As with the formation of GISB in the early 90's and with the recent formation of the two NAESB Retail Quadrants, the purpose of the continuing WEQ discussions begun earlier this year is to develop quadrant procedures that meet the needs of the stakeholders and that give them the forum and the opportunity to have their interests raised and discussed.

Procedurally, the NAESB Board will approve any quadrant procedures for the WEQ that are not inconsistent with the NAESB bylaws. Accordingly, the Board will not determine the number or definitions of segments in the WEQ; rather that will be left to the quadrant participants themselves. That said, if the proposed quadrant procedures do not provide a place for all interested stakeholders, including ISOs and RTOs, they will not be approved by the Board.

We are, of course, a standards-setting organization, and different rules apply to organizations such as ours – as distinguished from ISOs and RTOs which have their own unique functions. First, anyone, member or non-member, may participate in the NAESB process of standards development. This includes the right to vote at all subcommittee and task force meetings that develop standards, but not the right to vote to ratify standards or the right to hold a seat on the Board or the Executive Committee (EC). Further, under NAESB's bylaws, if one has a legitimate business interest in a given

segment, one may join it. Also, under the NAESB bylaws, stakeholders having legitimate business interests in multiple segments may join each such segment should they wish to do so. This latter process has been approved by both FERC and ANSI.

The WEQ formation group, using Robert's Rules of Order, defined the voting procedures to be followed, including the percentages necessary for approval of motions. The percentage chosen was 67%, which, of interest, is the same percentage used by NAESB for the approval of standards at the EC. That percentage was reaffirmed following another vote at the Birmingham meeting this week. FERC and ANSI are likewise aware of the NAESB bylaws' 67% threshold for standards approval and are satisfied with it, so I do not see that the decision by the WEQ formation group to apply the same percentage is either unfair or not credible. It certainly was democratically adopted by the participants, and I don't know who would have the authority to overrule it or for what legitimate reason.

Like you and your fellow CEOs, we have substantial experience in making stakeholder processes work – in our case since 1994. The entire GISB process has been endorsed by FERC, and we are an ANSI-accredited organization. Moreover, the reason NAESB was formed is that there was an overwhelming sentiment in the electricity industry that the GISB process for standards development had the credibility to permit development and adoption of market standards in the electricity industry. I can say this because I was an integral part of the development process from the time the idea was first proposed to the GISB Board by representatives of the electricity industry in September of 1999. Recently, as you know, the FERC's May 16th Order reaffirmed its approval of and commitment to the NAESB process. To suggest otherwise is simply not correct.

I also should reaffirm two thoughts that may continue to be overlooked. First, NAESB does not set policy. Policy is set by the FERC and other regulatory bodies, and NAESB's members attempt to implement such policy by setting market standards. Second, all NAESB standards are voluntary. Thus, if any stakeholder group perceives problems following the adoption and ratification of a standard, or if it feels that system integrity might be compromised by implementing the standard in question, it may simply decline to follow the standard. Until FERC or some other body with the authority to mandate a standard does so, there is no obligation to do otherwise.

Moreover, there is always the additional opportunity to raise the concern prior to a regulatory body taking action. Given the threshold for approval contained in NAESB's bylaws, I cannot imagine any scenario where NAESB would adopt a standard over the objection that it compromises reliability. Nor can I imagine the FERC turning that standard into a regulation given the same concern.

The last thing I'd like to mention is that NAESB (through its WEQ) and NERC will adopt an MOU (perhaps preceded by an LOI) to describe our communications protocols and joint workings. We had planned to do this in any event, but the FERC's Order makes clear that they expect it to be done. It also may be that together we and NERC will cooperatively develop standards having both commercial and reliability components, so as to move the market forward. I certainly hope that this will be the case.

In the interim, I would be happy to meet with you and your members in advance of the next WEQ meeting, currently scheduled for Columbus, OH, on June 20/21. There apparently remains a lingering misunderstanding regarding NAESB and how we operate, which I hope I have clarified in this letter, but perhaps a discussion would move matters forward as well. It is critical that consistent with the FERC's May 16 Order, we do everything that we can to ensure that FERC has confidence that an organization is in place "to consider business practice issues arising from standard market design, interconnection procedures or other areas where business practice standards development is needed to improve the efficiency of the market." We sincerely welcome your help in achieving this goal by the Fall.

Very truly yours,

William P. Boswell
Chairman, Board of Directors

cc: NAESB Stakeholders (electronic posting)
The Honorable Patrick Wood, Chairman, FERC
The Honorable Linda Breathitt, Commissioner, FERC
The Honorable Nora Brownell, Commissioner, FERC
The Honorable William Massey, Commissioner, FERC
Mr. Larcamp, Federal Energy Regulatory Commission
Mr. Rosenberg, Federal Energy Regulatory Commission