

RICK SERGEL
President and CEO

NORTH AMERICAN ELECTRIC RELIABILITY COUNCIL

Princeton Forrestal Village, 116-390 Village Boulevard, Princeton, New Jersey 08540-5731

March 3, 2006

TO: BOARD OF TRUSTEES

Dear Trustees:

NERC Reorganizes, Identifies Future Staffing Needs, Proposes Washington Office

In anticipation of filing our application with the Federal Energy Regulatory Commission to become the electric reliability organization (ERO), NERC has made sweeping internal changes. To enhance its organizational effectiveness and efficiency, we will modify our internal structure, reorganize existing staff, increase staff levels by more than 15 percent, and open an office in Washington, D.C.

Internal Reorganization

Effective today, NERC will reorganize to support six principal programs:

1. Standards
2. Compliance and Organization Certification
3. Reliability Readiness
4. Training, Education, and Personnel Certification
5. Reliability Assessment and Performance Analysis
6. Situation Awareness and Infrastructure Security

We will devote significant additional resources toward these mission-critical programs. Six groups under the new organizational structure will directly implement these programs:

Standards — Gerry Cauley, Vice President and Director of Standards, will continue to lead Standards. The current staff of 4.5 will grow to a total of 12. Maureen Long will be responsible for the standards development process; Richard Schneider will lead the standards drafting process; and Bill Blevins will serve as the liaison to the North American Energy Standards Board and the Standards Authorization Committee.

Compliance and Organization Certification — David Hilt, Vice President and Director of Compliance, will direct Compliance and Organization Certification. The current staff of six will grow to 15. Tim Kucey will be responsible for enforcement and mitigation, and Mike DeLaura will manage reporting, analysis, and tracking.

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Reliability Readiness — Gerry Adamski will assume the new position of Director of Reliability Readiness. Reporting to Gerry will be a current staff of nine, which will increase to 11.

Training, Education, and Personnel Certification — Marty Sidor will take on the new role of Director of Training, Education, and Personnel Certification and will lead a team that will grow from three to six. Rick Byrne will be responsible for personnel certification and John Theotonic will handle continuing education.

Reliability Assessment and Performance Analysis — Dave Nevius, Senior Vice President and Director of Reliability Assessment & Performance Analysis will lead a team that will increase from 3.5 to nine. Bob Cummings will direct events analysis and information exchange, and Jeff Norman will be responsible for benchmarking.

Situation Awareness and Infrastructure Security — Stan Johnson, Manager – Critical Infrastructure Protection, will lead a team of 3.5 that will grow to 4.5. Lou Leffler will manage the Electricity Sector Information Sharing and Analysis Center, and Larry Kezele will handle reliability tools support.

A new group called “Members’ Forums” will actively engage the technical expertise of the industry in pursuit of NERC’s reliability mission. Through this group, NERC intends to bring together people with diverse knowledge and common interests to recommend voluntary best practices that enhance reliability. Don Benjamin, Vice President and Director of Members’ Forums, will lead this initiative.

NERC’s new organizational structure also includes four groups that will support NERC and its programs. These groups are (1) Legal and Regulatory, which will be led by Vice President, General Counsel, and Director of Regulatory Services David Cook, (2) Finance and Accounting, led by Chief Financial Officer Joe Conner, (3) Information and Technology, directed by Chief Information Officer Lynn Costantini, and (4) Human Resources, headed by Julie Morgan, who will assume the new position of Manager of Human Resources.

Staff Increases

To meet the objectives of the ERO, NERC will need to increase its staff resources. We propose to increase the number of staff from 69 to 80 in 2007.

We will immediately focus on additional personnel in five program areas:

Reliability Assessment and Performance Analysis: This position will lead the ERO’s efforts to independently assess the overall reliability, adequacy, and associated risks of the interconnected North American bulk power system.

Situation Awareness and Infrastructure Security: This position will build a progressive, far-reaching program that effectively monitors and evaluates security conditions on the bulk power system, coordinates emergency response, and facilitates information exchange between governmental agencies and private sector entities.

Standards: This position will provide oversight and guidance to regional standards development programs and promote the development of uniform and consistent standards across all regions.

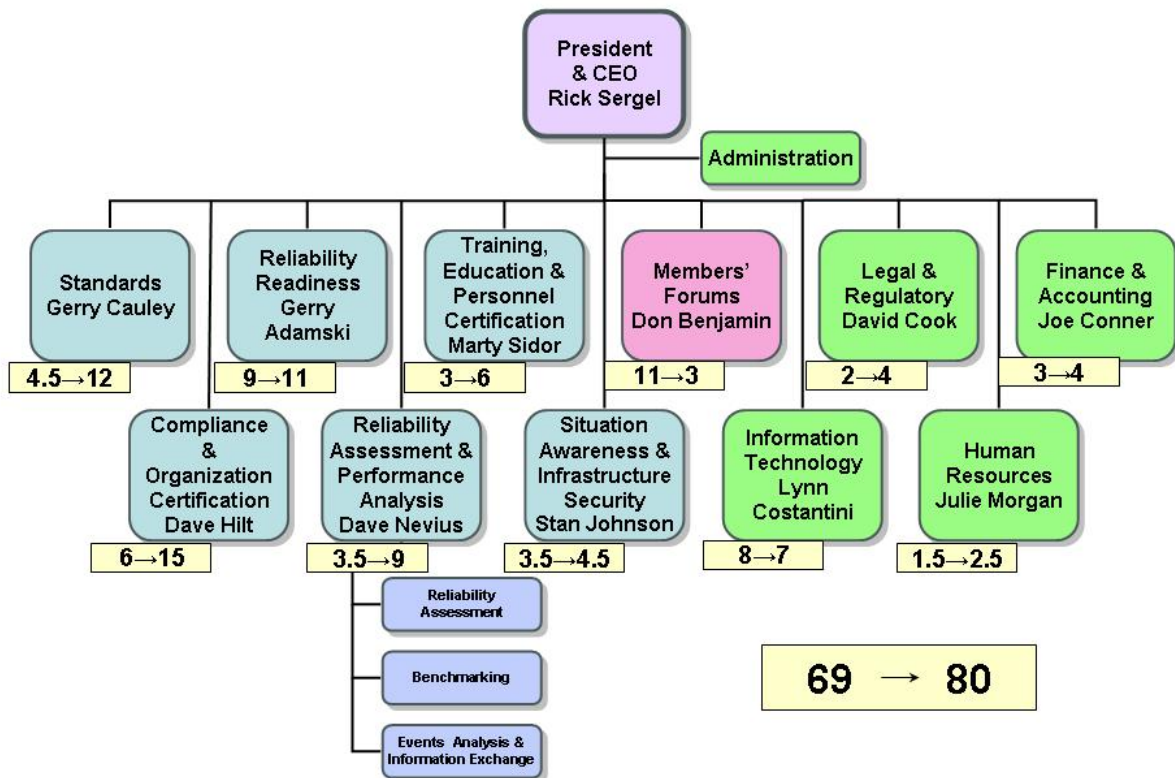
Compliance and Organization Certification: The first position will monitor and evaluate regional compliance with NERC standards, audit regional entity compliance enforcement program implementation, and manage organization registration and certification. A second position will assist and provide direct oversight of regional compliance enforcement program implementation delegated to regional reliability entities.

Training, Education, and Personnel Certification: This position will develop education programs and training tools to support the implementation of NERC reliability standards and determine appropriate training venues and delivery mechanisms.

New Office in Washington, D.C.

Finally, as we discussed at our meeting, we are exploring effective ways to open an office in Washington, D.C. We will seek to hire an additional attorney with regulatory and compliance expertise who will be based in the Washington office.

I believe that, with these changes, NERC will be best positioned to take on the responsibilities of the ERO.



Sincerely,