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Public Utility Commission of Texas

Memorandum

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Dated: September 23, 2002

To: James P. Cargas, General Counsel
Generation Power, Inc.
1111 Caroline Street
Houston, TX 77010

From: Parviz Adib *P.A.*
Division Director, Market Oversight Division
Public Utility Commission of Texas

RE: Project No. 25937, PUC Investigation into Possible Manipulation of the ERCOT Market

On June 12, 2002, the Public Utility Commission of Texas directed that you respond to a memorandum which was issued in Project Number 25937 and distributed to all Qualified Scheduling Entities, Resources Entities and all Power Marketers.

In Part II of the June 12, 2002 memorandum, you were directed to submit an affidavit certifying that you are committed to the precepts expressed in the memorandum. Those precepts include not engaging in physical withholding. Please be advised that your response to Part II is incomplete because you have not addressed the issue of physical withholding. Please submit a complete affidavit in compliance with Part II by October 7, 2002.

Please be advised that on July 12, 2002, the Commission issued a notice concerning revisions to Part II. Pursuant to that notice, the June 12, 2002 memorandum, Part II, is revised to read as follows:

The Commission expects you to conduct your affairs in ERCOT consistent with recognized standards of ethics and in a manner that adheres to both the letter and the spirit of the ERCOT Protocols and Operating Guides, as well as any other

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ERCOT rules and any agreements that you have with ERCOT. In particular, the Commission expects you to commit to the following precepts to the extent that they are applicable to your activities in ERCOT:

- A. You will engage in any activity described in Part I of this memorandum;
- B. You will not engage in physical withholding; *i.e.*, you will not declare your resources to be unavailable to ERCOT for the purpose of increasing prices for ERCOT-procured services;
- C. You will comply with all ERCOT rules, even when the ERCOT rules or your agreements with ERCOT do not specify a penalty for non-compliance; and
- D. You will monitor trading behavior of your employees.

You are hereby directed to submit an affidavit certifying that you commit to the foregoing precepts to the extent that they are applicable to the activities engaged in by you in ERCOT and that you have sufficient management controls in place to ensure compliance with those precepts.

Please contact Rosa Rohr at 512-936-7275 if you have any questions regarding this matter.