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July 19, 2002

MEMORANDUM FOR MEMBERS OF THE GOVERNMENT REFORM SUBCOMMITTEE ON ENERGY POLICY, NATURAL RESOURCES AND REGULATORY AFFAIRS

FROM:

Doug Ose



SUBJECT: Briefing Memorandum for Monday July 22, 2002 hearing, "California Electricity Markets: The Case of Enron and Perot Systems"

On Monday July 22, 2002, at 2:00 p.m., in Room 2154 of the Rayburn House Office Building, the Subcommittee on Energy Policy, Natural Resources and Regulatory Affairs will hold a hearing to explore the trading schemes employed by the Enron Corporation, with a focus on steps taken by the California Independence System Operator (CAISO) to prevent such schemes. The hearing will also investigate allegations that Perot Systems shared confidential market information on how to game the California electricity market.

Enron Trading Schemes

In May 2002, press reports revealed memoranda from Enron Corporation lawyers describing the trading schemes employed by Enron traders. Trading schemes referred to as "Get Shorty," "Fat Boy," "Death Star," and "Ricochet," described various techniques to profit in Western energy markets. The strategies took advantage of congestion on transmission lines, arbitrage opportunities between capped and un-capped markets, and design flaws in the California Power Exchange (PX) and the CAISO.

On May 8, 2002, the Federal Energy Regulatory Commission (FERC) began an investigation of the Enron trading strategies. FERC asked for details of energy trading activities from all market participants in Western energy markets. The Department of Justice is also investigating Enron's trading strategies to determine if criminal activity occurred.

Perot Systems

In 1996, the California State Legislature passed a sweeping electricity deregulation plan. The plan created two entities -- the PX and the CAISO -- to run the electricity market and the transmission system, respectively. The CAISO hired two computer software providers to satisfy its information technology needs. The first -- ABB -- was hired to

hired to provide business operations and accounting software for purposes of administration. In 1997, Perot Systems was hired to integrate the two systems. In 1998, the PX also hired Perot Systems to integrate its computer system with the CAISO's. Perot Systems did not create the software that ran the PX's electricity market. This software was created by OM-Handell, a Swedish company.

Beginning in 1997, Perot Systems made efforts to market its knowledge of the CAISO's protocols and tariffs to other market participants. During 1997 and 1998, Perot Systems marketed its consulting abilities to San Diego Gas & Electric (SDG&E), Pacific Gas & Electric (PG&E), Southern California Edison (SCE), Enron, Reliant and possibly other companies. In the fall of 1997, SDG&E contacted the CAISO to inform it that Perot Systems had attempted to market its knowledge of the California electricity market. On October 22, 1997, CAISO President Jeffery Tranen wrote a letter to Perot Systems expressing his serious concern with Perot System's contacts with market participants. Tranen cited the contract between the CAISO and Perot Systems, which expressly prohibited Perot Systems from performing services for others which may create a material conflict-of-interest with the CAISO. Through a series of letters and meetings, the CAISO and Perot Systems came to an agreement that allowed Perot Systems to continue to market its consulting services given the following conditions:

- A disclaimer to prospective clients stating that Perot Systems will offer services based on its knowledge of the market, not proprietary information;
- An ethics wall between employees who worked on the ISO computer systems and those who offer consulting services; and
- A letter to all past and future prospective clients of Perot Systems stating the disclaimer and the existence of an ethics wall.

On November 26, 1997, Perot Systems sent drafts of these agreements to CAISO's lawyers as requested by CAISO and indicated that the Perot Systems proposal would be implemented upon CAISO's approval of the drafts. On February 9, 1998, Perot Systems wrote a follow-up letter to CAISO's lawyers noting that CAISO had not responded to the November letter, and stating that Perot Systems would use a disclaimer in its sales and marketing presentations. This was the last correspondence between the CAISO and Perot Systems on this matter. Attached to the briefing memo is a compilation of the exchanges between Perot Systems and the CAISO regarding the apparent conflict-of-interest.

Other than a 1-day workshop on deregulated energy markets provided to Reliant Energy, no market participant hired Perot Systems as a result of its marketing efforts.

Invited witnesses include: Terry Winter, President, CAISO; H. Ross Perot, Chairman, Perot Systems; Paul Gribik, former Perot Systems employee; George Backus, Policy Assessment Corporation; Tim Belden, former Enron energy trader; and Dr. Charles J. Cicchetti, Jeffrey Miller Chair in Government, Business and the Economy, University of Southern California.

Attachment

CALIFORNIA INDEPENDENT SYSTEM OPERATOR

October 22, 1997

Mr. H. Ronald Nash
Vice President
Perot Systems Corporation
Suite 1100
12377 Merit Drive
Dallas, Texas 75251

Re: ISO Alliance and Perot Systems Corporation Conflicts of Interest

Dear Mr. Nash:

This is to follow up on our telephone conversation of October 21, 1997 regarding reported solicitations by Perot Systems Corporation ("Perot Systems") of parties expected to market energy in California.

As we discussed, such solicitations are inconsistent with the ISO's Alliance's and Perot Systems' conflict of interest obligations under the Scheduling Applications, Scheduling Infrastructure and Business Systems Contract between the ISO Alliance and the ISO Restructuring Trust dated as of March 14, 1997 (the "Contract") which you executed on behalf of the ISO Alliance and Perot Systems.

Specifically, it was reported to me that representatives of Perot Systems contacted Gary Cotton of San Diego Gas & Electric (SDG&E), and perhaps other potential market participants, and offered the services of Perot Systems in helping SDG&E to exploit the new California energy market by exploiting potential weaknesses and shortcomings in the ISO's system to their commercial advantage.

It was further reported that Perot Systems' representatives at these solicitations included Ed Smith and Paul Gribik, both of whom have been significantly involved in ISO Alliance's and Perot Systems' activities in negotiating and performing the Contract, and that Perot Systems' involvement in developing the ISO's system was cited as evidence of Perot Systems' knowledge of the potential weaknesses and shortcomings in that system.

Perot Systems' marketing of its inside knowledge of the ISO's system to third parties so that they may economically exploit the new California energy market, in addition to being a flagrant violation of basic norms of business ethics and indicative of bad faith dealing, would seriously erode the integrity of the new California energy market and materially compromise the work being performed and the system being produced by the ISO Alliance and Perot Systems for the ISO. Article 31 of the Contract expressly prohibits the ISO Alliance, including Perot

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PSC 003893

EXHIBIT 99.3

DRAFT

October 24, 1997

California Independent System Operator Inc.
Attn. Mr. Jeffrey D. Tranen
President and Chief Executive Officer
151 Blue Ravine Road
Sacramento, California 95630

Re: Allegation of Conflict of Interest

Dear Mr. Tranen:

This letter is in response to your letter dated October 22, 1997, and our earlier telephone discussion regarding your allegations that associates of Perot Systems Corporation discussed "inside information" with a third party in purported breach of the Scheduling Applications, Scheduling Infrastructure and Business Systems Contract between the ISO Alliance and the ISO Restructuring Trust dated as of March 14, 1997 (the "Contract"), or that we may have a conflict of interest in pursuing certain sales and marketing activities.

First, I'd like to assure you unequivocally that no "inside information" of the ISO has been, or will be, disclosed by Perot Systems or any of its associates to anyone, except as permitted by the Contract. The confidentiality of our client's affairs is a cornerstone of our business, and we will not tolerate any such breach of client's trust.

I have spoken to Ed Smith, Paul Gribik and other members of our team about your letter and have satisfied myself that no inappropriate disclosures of "inside information" have occurred. At no time has Perot Systems offered to assist anyone to exploit "potential weaknesses and shortcomings in the ISO's system," or suggested that our involvement in developing the ISO's system would allow us to exploit any knowledge we have about the ISO's system. Without discussing this matter further with you, we can only speculate that someone has not distinguished between the ISO's business protocols and the systems that implement these protocols.

I can also assure you that neither Perot Systems nor, to our knowledge, the ISO Alliance has introduced any changes or modifications other than those specified by the ISO Contract, the Detailed Statement of Work (DSOW), or documented change orders. The introduction of surreptitious code into the ISO System, or the unauthorized disclosure or use of any legitimate functionality of the ISO System, by

Mr. Jeffrey D. Tranen
24 October 1997
Page 3

Contract. In fact, the Work is progressing substantially in accordance with the terms of the Contract.

With respect to your request that Perot Systems cease offering its consulting services to potential ISO market participants, we have concluded that the Contract contains no such requirement and that doing so could harm our business prospects.

We hope that this letter satisfactorily resolves your concerns in this matter. Accordingly, we are declining to provide you with additional information you have requested at this time.

I hope that you will take the opportunity to meet with Ed, Paul, Ken Scott and me to develop a more thorough understanding of our service offerings and our approach to this new market. Perhaps, this will allow our companies to avoid any disagreements based on incomplete or erroneous information and will allow the good relationship that we have established to date with the ISO to continue to develop.

Perot Systems and each of the individuals named in your letter would appreciate receiving a retraction of your allegations, since your publication of these allegations to the participants in the ISO Alliance, your law firm and possibly other, could cause considerable damage to our and their reputations. We would appreciate your attention to this task and would be glad to assist you in any way to facilitate this.

Thank you for calling me when you had concerns about our performance. Only by such direct and clear communication can we keep on track and provide the best service level to the ISO. As always, all of us on the Perot Systems team stand ready to help you whenever we can.

Sincerely,

H. Ronald Nash
Vice President

November 24, 1997

I appreciate your looking into the form of the "teaming" arrangements between Perot and PAC for provision of the services so that we can be aware of their circumstances. Also of importance is your continuing assessment regarding how the ISO can receive assurance that the system is free of any gratuitous insertions or "hooks" designed to enable some feature of the Services, both past and future.

Again, Ron, thank you for your positive response to our concerns. We look forward to responding rapidly to the items set forth above, after we receive your draft proposal.

Sincerely,



Jeffrey Tranen
President and Chief Executive Officer

PSC 003892

Mr. Martin R. Hoffman
26 November 1997
Page 2

contractual relationship with PAC, except for mutual non-disclosure agreements. Perot Systems and PAC make periodic joint sales presentations in situations where we have mutual business interests, and we have discussed various potential joint projects. However, we have not yet engaged in any joint projects and none are currently pending. Perot Systems has not provided any services to PAC, but has received consulting services from PAC. In addition, PAC does not employ any current or former associates of Perot Systems.

Upon your approval of the forms of these documents, Perot Systems will promptly (i) formally communicate the content of the Ethics Wall to the appropriate associates, (ii) send the Letter to each of potential participants to whom Perot Systems has made sales and marketing presentations regarding our consulting capabilities with respect to California market restructuring, and (iii) ensure that the Disclaimer appears as part of our sales and marketing presentations regarding our consulting capabilities with respect to California market restructuring.

Based on our discussions of November 18th, and following our compliance with Mr. Tranen's requests in this matter, it is our understanding that the ISO will make similar requests to each of the ISO's vendors who offer consulting services relating to California market restructuring and that Mr. Tranen will formally withdraw the allegations made in his letter dated October 22, 1997.

If you have any questions regarding these matters, please call me at 972/383-5615 at your earliest convenience. Best wishes for the holidays.

Sincerely,



Charles N. Bell

cc: Jeffrey D. Tranen (w/ attachments)
California Independent System Operator, Inc.

Andy Goletz (w/ attachments)
Ron Nash (w/ attachments)
Ken Scott (w/ attachments)
Ed Smith (w/ attachments)

PSC 003887

DRAFT

Proposed Letter to Contacts:

The California Independent Service Operator (ISO) has retained Perot Systems Corporation (Perot Systems) as a member of the ISO Alliance, LLC to provide professional services to the ISO in the design, development, integration and roll-out of the information technology applications supporting the ISO's business operations.

Recently, the ISO expressed concerns over the potential insights which Perot Systems and the ISO's other service providers may possess into its proprietary systems or operations.

To address these concerns and avoid any suggestion, whether real or perceived, of Perot Systems using information not in the public domain in performing services to other clients, Perot Systems agreed to initiate several actions, including contacting its present clients and those prospects with whom we have been discussing matters of California market restructuring to reinforce our position in matters of this nature.

I am writing to you in support of these agreements.

Perot Systems' offering of our services addressing the restructuring of California's power markets and development of supporting infrastructure and services, are based on our understanding of the ISO's and the California Power Exchange's business protocols; not the use of, or knowledge of, any proprietary client systems.

We are fortunate to count amongst the members of our team, subject matter experts in such issues as congestion theory and in other equally critical aspects of the business rules governing these markets. It is through these Associates' comprehension of the business rules and their applications to the market that our strategic service offerings are shaped.

Perot Systems' Standards and Ethical Principals embody the highest concepts and standards of honesty and integrity. Our values require that we operate with absolute integrity and that each of our associates conduct themselves in a manner that will bring credit to themselves, their families and the company at all times. Each and every associate pledges his or her personal and professional commitment to these principals and values. There are no exceptions.

It is understandable that the major changes all of us are facing in deregulating this industry should be accompanied by states of anxiousness. Perot Systems feels it important that our clients can be assured that one constant they can expect is the measure of integrity with which we will approach their business dealings. We welcome the opportunity to discuss these matters if you have any concerns or questions whatsoever. We will be contacting each of you directly to review any concerns which you may have.

These are exciting times. We look forward to working with you to shape the future.

Sincerely,

PSC 003889

DRAFT

**CALIFORNIA INDEPENDENT SYSTEM OPERATOR
ETHICS WALL**

November 17, 1997

THIS DOCUMENT REQUIRES YOUR IMMEDIATE CAREFUL REVIEW

The core concepts of Perot Systems Corporation's ("Perot Systems") Standards and Ethical Principals are the highest standards of honesty and integrity. Our values require that we operate with integrity and that each of our associates conduct themselves in a manner that will bring credit to themselves, their families and the company at all times.

California Independent System Operator, Inc. (the "Client") has engaged the ISO Alliance, LLC (the "Alliance") to provide certain project management, system development, system integration, system testing and training services in connection with electric utility deregulation and the new competitive environment in the California electric industry. Perot Systems is a member of, and a subcontractor to, the Alliance and has certain contractual obligations to the Alliance and our Client with respect to (1) the disclosure and use of the Alliance's and our Client's confidential information and (2) the acceptance of certain third party client engagements.

Perot Systems' Standards and Ethical Principals, as well as your Associate Agreement, Independent Contractor Agreement, or Confidentiality and Proprietary Rights Agreement, as the case may be, prohibit the disclosure or use of our Client's confidential or proprietary business and technical information without Perot Systems' and our Client's approval.

From time to time, you may be called upon to participate in discussions with the California Power Exchange (the "PX"), one or more investor owned utilities, one or more scheduling coordinators (including the PX when acting in such capacity), vendors or other persons who may use or have another interest in the computer systems of our Client. In addition, you should be aware that certain Perot Systems associates may be engaged in marketing consulting or technology services to these parties.

In order to ensure compliance with Perot Systems' Standards and Ethical Practices and our contractual obligations to our Client and to avoid the appearance of a conflict of interest, Perot Systems is formally establishing a so-called "Ethics Wall" with respect to all associates who perform services for our Client. This Ethics Wall will serve to reinforce, to the greatest extent practicable, the care to be exercised by all associates involved in Perot Systems' work for our Client, particularly when talking to persons who are involved in Perot Systems' work for third parties who may have an interest in our Client's confidential or proprietary information.

**ALL PEROT SYSTEMS ASSOCIATES AND CONTRACT PERSONNEL MUST
CAREFULLY REVIEW AND COMPLY WITH THE FOLLOWING RESTRICTIONS
WHICH COMPRISE THE ETHICS WALL**

DRAFT

**CALIFORNIA INDEPENDENT SYSTEM OPERATOR
ETHICS WALL**

November 17, 1997

- (b) notify all members of the Client Team each time a new associate or independent contractor joins or leaves the Client Team;
- (c) distribute this document to each associate and independent contractor who performs services for the Client and each other Perot Systems associate who is reasonably expected to be a member of the Marketing Team; and
- (d) maintain a file containing the Affirmations of this Ethics Wall executed by all members of the Client Team, Marketing Team and Joint Team.

6. Members of the Client Team are absolutely barred from disclosing any of Client's Confidential Information to any person other than (1) members of the Client Team and, except where such person is a member of the Marketing Team or Joint Team, their supervisors, or (2) persons authorized by Client or a Perot Systems attorney to receive such Confidential Information; provided, in each case, that such person has entered into a confidentiality agreement with Perot Systems or Client.

7. Members of the Joint Team may actively participate in Perot Systems' marketing activities and may provide consulting services for third parties other than Client, provided that such person does not disclose any Confidential Information to any third party.

8. Each member of the Client Team, Marketing Team and Joint Team will execute the Affirmation attached to this document.

Perot Systems associates and independent contractors who have concerns about perceived violations of the requirements set forth in this document will immediately report such information to Perot Systems' legal department at 972/383-5600.

If you are not designated as a member of the Client Project Team, the Marketing Team, or the Joint Team, but believe that you should be included on one of those lists, please contact the Account Manager or the Perot Systems legal department immediately.

If you have any questions concerning the requirements of this Ethics Wall, please contact the Account Manager or the Perot Systems legal department.

EXHIBIT 99.6

[PEROTSYSTEMS (TM) LETTERHEAD]

9 February 1998

VIA FAX: 202/393-5760

Skadden, Arps, Slate, Meagher & Flom LLP
Attn: Martin R. Hoffman
1440 New York Avenue, N.W.
Washington, D.C. 20005-2111

Re: California Independent System Operator

Dear Marty:

On November 26, 1997, Perot Systems Corporation proposed to take certain steps to address concerns raised by Mr. Jeffrey Tranen of the California independent System Operator Corporation with respect to our consulting services. We have not received a response to our letter, but wish to assure Mr. Tranen of our continued commitment to act in an ethically responsible manner.

Accordingly, pending a complete resolution of the issues raised by Mr. Tranen, Perot Systems will continue to use a disclaimer in its sales and marketing presentations involving the California energy market deregulation that is substantially similar to that proposed in our November 26, letter.

If you have any questions regarding this matter, please call me at 972/385-5615 at your earliest convenience.

Sincerely,

Charles N. Bell

cc: Jeffrey D. Tranen
California Independent System Operator Corporation

Andy Goletz
Ron Nash
Ken Scott
Ed Smith