

**Southwest Power Pool
BOARD OF DIRECTORS MEETING
Hyatt Hotel – Dallas/Ft. Worth Airport
February 19, 2002**

- Summary of Action Items -

1. Approved minutes of the December 12, 2001 Board of Directors meeting as presented.
2. Approved the Transco Task Force recommendation to dissolve the task force and ensure rights of transmission owners for future transco participation in the SPP/MISO merger.
3. Approved *basic principles* and *key functions* as presented by the Reliability Task Force to guide development of documents for the restructured SPP.
4. Approved the definitive merger documents (as modified) and a resolution authorizing SPP Officers to take steps necessary to close the merger between SPP and MISO.

**Southwest Power Pool
BOARD OF DIRECTORS MEETING
Hyatt Hotel – Dallas/Ft. Worth Airport
February 19, 2002**

Agenda Item 1 – Administrative Items

SPP Chair Mr. Al Strecker called the meeting to order at 9.36 a.m. The following directors were in attendance or represented by proxy:

- Mr. Gene Argo, Midwest Energy, Inc.;
- Ms. Kim Casey, Dynegy Marketing and Trade;
- Mr. David Christiano, City Utilities of Springfield, MO;
- Mr. Harry Dawson, OK Municipal Power Authority;
- Mr. Michael Deihl, Southwestern Power Administration;
- Mr. Dick Dixon, Westar Energy;
- Mr. Jim Eckelberger, non-stakeholder director;
- Mr. Greg Geisler, proxy for Ms. Trudy Harper, Tenaska Power Services;
- Mr. Quentin Jackson, non-stakeholder director;
- Mr. John Marschewski, Southwest Power Pool, Inc.;
- Mr. Tom McDaniel, and proxy for Mr. Larry Sur, non-stakeholder directors;
- Mr. Mikel Kline, proxy for Mr. Stephen Parr, KS Electric Power Cooperative;
- Mr. J. M. Shafer, Western Farmers Electric Cooperative;
- Mr. Harry Skilton, non-stakeholder director;
- Mr. Richard Spring, Kansas City Power & Light;
- Mr. Al Strecker, OG+E;
- Mr. Michael Desselle, proxy for Mr. Richard Verret, American Electric Power; and
- Mr. Ricky Bittle, proxy for Mr. Gary Voigt, Arkansas Electric Cooperative Corp.

There were 34 persons in attendance representing 18 members, 3 guests and 1 regulatory agency (Attendance List – Attachment 1). The Secretary received 4 proxy statements (Proxies – Attachment 2). Mr. Strecker referred to the agenda (Agenda – Attachment 3) and stated that reports and recommendations would be allowed full presentation before comment and action considered prior to entertaining modifications. If the recommendation fails, then discussion and necessary modifications would be entertained. Mr. Strecker also stated that following presentations of non-action items, he would entertain a motion to accept reports for the record. Mr. Strecker then asked for any modifications to draft minutes of the December 12, 2001 meeting or a motion for approval (12/12/01 Meeting Minutes – Attachment 4). Mr. Deihl moved that the minutes be approved as presented. Mr. Dawson seconded this motion, which passed unopposed.

Agenda Item 2 – Finance and Security Report

Mr. Tom Dunn presented the SPP Finance Report reviewing a comparative balance sheet and income statement, cash flow, and a fixed charge coverage calculation (Finance and Security Report – Attachment 5). As SPP's Security Officer, Mr. Dunn also addressed the importance of physical and cyber security and pointed out SPP initiatives currently in place and future initiatives to insure company security. Mr. Jackson moved to accept this report.

SPP Board of Directors
February 19, 2002

Mr. Deihl seconded this motion, which passed unopposed.

Agenda Item 3 – Operations Report

Mr. Nick Brown in the absence of Mr. Carl Monroe presented the Operations Report (COS/MOS Report – Attachment 6). Mr. Brown stated that the Market Settlement System was ready to implement. This process started with formation of the Market Settlement Working Group in January of 2000, development of principles in March 2000, and the request for proposal in June 2000. The chosen vendor (Accenture) started system development in August 2000. The design was complete in May 2001, a factory acceptance test completed in November 2001, and currently is in the market trial phase which began in January 2002. All this was accomplished at a total cost of just over \$20M and approximately twenty change orders. Lacking is market participant readiness which was put on hold during the merger process until direction was determined. Mr. McDaniel moved to accept this report. Mr. Dawson seconded the motion, which passed unopposed.

Agenda Item 4 – Transco Task Force Report

Mr. Mel Perkins presented the Transco Task Force Report (TTF Report – Attachment 7). Mr. Perkins stated TTF researched benefits and did an analysis of various business models. At conclusion, there was a moderate level of interest by transmission owners but a lack of willingness to commit prior to the SPP/MISO merger. The TTF recommends their dissolution at this time and that transmission owners' rights to transfer facilities to transcos be preserved in the SPSP/MISO merger purchase and assumption agreement and membership agreement. Mr. Jim Torgerson, CEO of Midwest ISO, said that MISO has allowed transmission owners to transfer to transcos on two occasions in the past and would continue this practice in the future. Mr. Shafer moved to accept the TTF recommendation as presented. Mr. Jackson seconded this motion, which passed unopposed.

Agenda Item 5 – Reliability Task Force Report

Mr. David Christiano presented the Reliability Task Force Report (RTF Report – Attachment 8). Mr. Christiano stated that the RTF had been formed to investigate and prepare necessary documents defining the reliability scope, functions, and structure of SPP, Inc. following the SPP/MISO merger. Final recommendations are to be made by April 1, 2002. RTF requested Board approval of the *basic principles* and *key functions* drafted as guidelines to develop bylaws and a membership agreement for the restructured SPP. On behalf of RTF, Mr. Christiano moved and Mr. Voigt seconded this recommendation. The motion passed unopposed.

Agenda Item 6 – SPP/MISO Consolidation Report

Mr. Brown presented the SPP/MISO Consolidation Report (SPP/MISO Consolidation Report– Attachment 9). Final documents were distributed to the Board of Directors and members February 7, 2002. Mr. Brown pointed out that the documents had been fine-tuned since the December distribution but have substantially remained unchanged. He stated that the FERC was anxious for the SPP/MISO consolidation to move forward and hoped for closing to be before the end of the second quarter. SPP Officers recommend the Board of Directors approve the resolution (SPP/MISO Recommendation – Attachment 10 and Resolution - Attachment 11) authorizing them to take steps necessary to close the merger between SPP and MISO. Mr. Marschewski moved to approve the resolution of the Board of Directors for the SPP/MISO consolidation. Mr. Shafer seconded the motion. Mr. Strecker

SPP Board of Directors
February 19, 2002

announced that Mr. Dawson had requested to make a presentation (Dawson Presentation - Attachment 12). Following his presentation, Mr. Dawson offered two amendments: 1) moved to amend the Conditional Withdrawal Agreement (CWA) eliminating section 2b and other related items (seconded by Mr. Greg Geisler) and 2) moved to develop a list of specific concerns of SPP members and to negotiate final arrangements with MISO (seconded by Mr. Michael Desselle). Following discussion, the question was called for the first amendment. The motion failed unanimously. Mr. Dawson withdrew the second amendment. For clarification of the previous discussion, Mr. Marschewski read from MISO's membership agreement, Article 5 Section 1 for the record: *A Member who is not an Owner may, upon submission of a written notice of withdrawal to the President, withdraw from membership in the Midwest ISO at any time which withdrawal shall be effective thirty (30) days after the receipt of such notice by the President. A Member who is also an Owner may, upon submission of a written notice of withdrawal to the President, commence a process of withdrawal of its facilities from the Transmission System.* Mr. Dawson stated from the same document, Article 5 Section 2B, for the record: *All financial obligations incurred and payments applicable to time periods prior to the effective date of such withdrawal shall be honored by the Midwest ISO and the withdrawing Owner.*

The CWA Schedule 1, repayment obligations, and Schedule 2, members pro rata portion of SPP financial obligations, were distributed (CWA Schedules – Attachment 13). Mr. Dixon moved to eliminate Exhibit A of the Conditional Withdrawal Agreement, replacing it with the requirement that Schedule 2 funds be refunded by Resulting Company to SPP members upon merger closing. Mr. Christiano seconded the motion, which passed unopposed. Mr. Christiano then called the question of the original motion to approve the resolution of the SPP Board of Directors. The motion passed unopposed. Subsequently, a roll call vote was requested which yielded the following results: 17 affirmative, 1 opposition by Mr. Desselle (AEP), and 1 abstention by Mr. Dawson (OMPA). Mr. Christiano asked Mr. Desselle why AEP was in opposition. Mr. Desselle stated that AEP did not have enough information to make an informed decision. Mr. Marschewski asked for a list of concerns in order to address the issues. Mr. Desselle shared a list of AEP's concerns (AEP Merger Concerns– Attachment 14). It was requested that members continue to be informed as the consolidation process moves forward.

Mr. Brown commended Stacy Duckett, Tom Dunn, Walter May and John Tisdale for their hard work in the consolidation effort and a job well done.

Adjournment

With no further business, Mr. Strecker adjourned the meeting at 1:40 p.m. and thanked everyone for their participation.

Addendum to the Minutes

Arkansas law requires that, in addition to the approval of the SPP Board of Directors, a sale of substantially all of SPP's assets must be approved by SPP's Members. A written ballot for that purpose was emailed to members on February 11, 2002, asking that all ballots be returned on or before the Board meeting to allow a preliminary tally during or immediately after the meeting. The final tally after the February 20, 2002 deadline was: transmission owners - 83% FOR and 17% OPPOSED and transmissions users - 96% FOR and 4% OPPOSED. The total vote represented a 90% affirmative vote.

SPP Board of Directors
February 19, 2002

A SPP Board of Directors vote was taken via email concerning modification of the conditional withdrawal agreement as amended and approved by the MISO Board of Directors at their meeting on February 21, 2002 (amended conditional withdrawal agreement– Attachment 15). Voting deadline was set no later than noon February 27, 2002. This vote failed – lacking the necessary two-thirds support with 11 votes FOR, 7 votes AGAINST, and 1 abstention. Believing the reason for the failure of this vote was primarily due to a concern about the voting process, Mr. Strecker called a special teleconference meeting of the SPP Board of Directors for Friday, March 1, 2002, at 8:30 a.m. CST to ensure that our voting action is in accordance with the SPP Bylaws, as well as, to give an opportunity for clarifying discussion with all directors, and move forward as quickly as possible.

Nicholas A. Brown, Corporate Secretary

Southwest Power Pool
 BOARD OF DIRECTORS MEETING
 Hyatt Regency Dallas/Fort Worth Airport
 February 19, 2002

ATTENDANCE LIST

Name	System
RICK HENLEY	CUL-JONESBORO AR
Larry Wells	Cleco
✓ GREG GEISLER	TENASKA
Max Speegle	OMPA
✓ John Marschewski	SPP
Jim TORGERSON	Midwest ISO
✓ MIKE DEHL	SWPA
✓ Harry Dawson	OMPA
✓ Jim J. McDonnell	Independent Director
Richard A. Spring	Kansas City Power & Light Co.
✓ Harry Skilton	Independent Director
✓ Michael Desselte	AEP
WALTER MAY	WRIGHT, LINDSEY & JENNINGS
JOHN R. TISDALE	"
Stacy Duckett	SPP
Frank Boyston	SPP
NICK ARINS	AEP
DAVID STODHAM	XCEL Energy (SAS)
Mel Perkins	OG&E



**Kansas Electric
Power Cooperative, Inc.**

February 19, 2002

Mr. John Marschewski
President
Southwest Power Pool
415 North McKinley
#700 Plaza West
Little Rock, Arkansas 72205-3020

Dear John:

Mikel Kline, Vice President Energy Services at KEPCo, will attend the Board of Directors meeting on Tuesday, February 19, 2002 and he has been given the authority to vote in my absence.

Please let me know if anything further is required.

From
Stephen E. Parr
Executive Vice
President & CEO

Phone: 785.271.4831

Fax: 785.271.4884

www.kepco.org

P.O. Box 4877
Topeka, KS 66604-0877

600 Corporate View
Topeka, KS 66615

Sincerely,



Stephen E. Parr, Executive Vice
President & CEO

TENASKA® POWER SERVICES Co.

1701 E. Lamar Boulevard, Suite 100
Arlington, Texas 76006 USA
817-462-1521
FAX: 817-462-1035

February 18, 2002

Mr. Al Strecker
President of the Board
Southwest Power Pool
415 North McKinley
Little Rock, AR 72205-3020

Dear Al:

I will be unable to attend the SPP Meeting on Tuesday, February 19, 2002. Greg Geisler will be attending the meeting and will hold my proxy for all voting matters.

Sincerely,



Trudy Harper
President

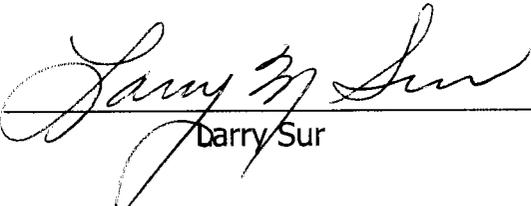


February 8, 2002

TO: Southwest Power Pool
Board of Directors

RE: February 19, 2002 Meeting

Because of my necessary absence from the meeting, I hereby assign my proxy for my votes to Tom McDaniel, Independent Director.


Larry M. Sur

**2215 South Oneida Street
Green Bay, WI 54304**

phone: (920) 491-0342
fax: (920) 491-0346
e-mail: info@logistics.com

From: Verret, Richard
Sent: Wednesday, February 06, 2002 10:18 AM
To: Robertson, Cheryl
Cc: Desselle, Michael
Subject: Re: Board of Directors Meeting 2/19/02

Cheryl, I will not be able to attend this meeting and have asked Michael Desselle to represent AEP in my place. Please apprise John or Nick and let me know if there are any other notifications needed.
Thanks....

**Southwest Power Pool
BOARD OF DIRECTORS MEETING
Tuesday, February 19, 2002
Dallas/Ft. Worth Airport Hyatt Hotel – NOVA Room**

- A G E N D A -

8:30 a.m. – Continental Breakfast

9:30 a.m. – 3:00 p.m. – Meeting

1. Administrative ItemsMr. Al Strecker
2. Finance & Security Report..... Mr. Tom Dunn
3. Operations Report..... Mr. Carl Monroe
4. Transco Task Force Report..... Mr. Mel Perkins
5. Reliability Task Force Report..... Mr. David Christiano
6. SPP/MISO Consolidation Report..... Mr. Nick Brown
7. Adjournment.....Mr. Al Strecker

**Southwest Power Pool
BOARD OF DIRECTORS MEETING
The Westin – Oklahoma City, OK
December 12, 2001**

- Summary of Action Items -

1. Approved minutes of the October 17, 2001 Board of Directors meeting as presented.
2. Approved Engineering and Operating Committee recommendations to modify SPP Criteria changes: Criteria 4, Criteria 5.2.4.1, Criteria 7.3.1.3, Criteria 9, and Criteria 10.
3. Approved the 2001 SPP Administrative Budget of \$28,488,785 as recommended by the Finance Working Group.
4. Approved SPP Staff's recommendation to terminate ENRON Power Marketing's membership in order to end ENRON's growing debt leaving the remaining financial obligations at approximately \$185,000.
5. Elected Mr. Al Strecker, chair, and Mr. J. M. Shafer, vice chair, for two-year terms.
6. Directed finalization of SPP/MISO merger documents by the February 19, 2002 meeting allowing ample time for review and comment by the SPP Board of Directors and Membership.

**Southwest Power Pool
BOARD OF DIRECTORS MEETING
The Westin – Oklahoma City, Oklahoma
December 12, 2001**

Agenda Item 1 – Administrative Items

SPP Chair Mr. Gary Voigt called the meeting to order at 9:58 a.m. The following directors were in attendance or represented by proxy:

Mr. Gene Argo, Midwest Energy, Inc.;

Ms. Kim Casey, Dynegy Marketing and Trade;

Mr. John Stephens, proxy for Mr. David Christiano, City Utilities of Springfield, MO;

Mr. Harry Dawson, OK Municipal Power Authority;

Mr. Michael Deihl, Southwestern Power Administration;

Mr. Jim Eckelberger, and proxy for Mr. Harry Skilton, non-stakeholder directors;

Ms. Trudy Harper, Tenaska Power Services;

Mr. John Marschewski, Southwest Power Pool, Inc.;

Mr. Tom McDaniel, non-stakeholder director;

Mr. Stephen Parr, KS Electric Power Cooperative;

Mr. J. M. Shafer, Western Farmers Electric Cooperative;

Mr. Quentin Jackson, non-stakeholder director;

Mr. Richard Spring, Kansas City Power & Light;

Mr. Al Strecker, OG+E;

Mr. Larry Sur, non-stakeholder director;

Mr. Richard Verret, American Electric Power; and

Mr. Gary Voigt, Chair, Arkansas Electric Cooperative Corp.

There were 41 persons in attendance representing 24 members, 2 guest and 4 regulatory agencies (Attendance List – Attachment 1). The Secretary received 2 proxy statements (Proxies – Attachment 2). Mr. Voigt referred to the agenda (Agenda – Attachment 3) and asked for any modifications to draft minutes of the October 17, 2001 meeting or a motion for approval (10/17/01 Meeting Minutes – Attachment 4). Mr. Sur moved that the minutes be approved as presented. Mr. Dawson seconded this motion, which passed unopposed.

Agenda Item 2 – Engineering & Operating Committee Recommendations

Mr. Mel Perkins reviewed and discussed five recommended modifications to SPP criteria (Criteria 4, Criteria 5.2.4.1, Criteria 7.3.1.3, Criteria 9, and Criteria 10) as distributed in the background material for Board of Directors consideration (EOC recommendations – Attachment 5). Mr. Eckelberger suggested in regard to Criteria 10 that SPP should maintain a back up for the satellite system especially for crisis purposes. Mr. Perkins said that would be noted. Mr. Dixon moved to accept Criteria changes as presented. Mr. Sur seconded and the motion passed unopposed.

Agenda Item 3 – Finance Working Group Recommendations

Ms. Trudy Harper, acting chair of the Finance Working Group consisting of Mr. Dick Dixon, Mr. Gene Argo, Mr. Jim Eckelberger, Mr. Harry Skilton and Mr. John Marschewski, presented

the 2002 Administrative Budget for approval (FWG Recommendation – Attachment 6). Ms. Harper stated that until the merger is finalized, SPP and MISO both need administrative budgets for 2002. Each organization has approached future budgets with the merger in mind and has the same philosophical approach. Concerns were voiced about the need to continue expenditures for the COSMOS project until the merger is complete and RTO status reached. Staff explained that SPP is currently under contract with Accenture for five years, that it would be costly to terminate, and it is important to maintain a valuable asset. Following discussion, Ms. Harper moved to accept the 2002 Administrative Budget of \$28,488,785. Mr. Verret seconded and the motion passed with one opposing vote from Mr. Dixon.

Agenda Item 4 – Staff Recommendation on Member Termination

Mr. Nick Brown presented the SPP Staff recommendation to terminate membership of ENRON Power Marketing in light of their December 2, 2001 filing for Chapter 11 bankruptcy protection (Member Termination – Attachment 7). Mr. Brown stated that termination appeared to be in the best interest of both SPP and ENRON ending ENRON's growing debt to SPP as soon as possible. As of December 3, 2001, ENRON has failed to pay SPP its October and November membership assessments. If the Board of Directors terminated ENRON's membership, ENRON's financial obligation to SPP, excluding the delinquent assessments, is approximately \$185,000. Staff has contacted ENRON representatives to discuss a membership termination approach but has been unsuccessful in receiving a response. Ms. Harper moved to terminate ENRON Power Marketing, Inc. conditioned on approval or consent of the Bankruptcy Court. Mr. Dawson seconded and the motion passed unopposed.

Agenda Item 5 – Election of Chair & Vice Chair

Mr. Brown in the absence of Mr. Dave Christiano presented Nominating Task Force recommendations to fill the Board of Directors chair and vice chair positions. The Nominating Task Force consists of Mr. Christiano, chair; Ms. Kim Casey; Mr. Stephen Parr; Mr. Michael Deihl; Mr. J.M. Shafer and Mr. Al Strecker. Mr. Brown said that typically the vice chair would move up to chair but in this case Mr. Tom Grennan's resignation has left that position open. Recommended nominees are: Mr. Al Strecker for chair and Mr. J. M. Shafer for vice chair. Mr. Dixon moved to accept the slate of officers as presented. Mr. Dawson seconded and the motion passed unopposed. Mr. Voigt turned over the chair to Mr. Strecker who presided over the remainder of the meeting. Mr. Marschewski commended Mr. Voigt on a job well done.

Agenda Item 6 – SPP/MISO Consolidation Report

Mr. Strecker called on Ms. Stacy Duckett to present the SPP/MISO Consolidation Report (SPP/MISO Consolidation Report – Attachment 8). Ms. Duckett stated that documents for consolidation were about 90-95% complete. The following documents were presented and discussed:

- Purchase and Assumption Agreement
 - Assignment and Assumption Agreement
 - Bill of Sale
 - Certificate of Incorporation
 - Bylaws
 - Services Agreement

SPP Board of Directors Minutes
December 12, 2001

- Conditional Withdrawal Agreement
- SPP-MISO Membership Agreement Comparison
- SPP-MISO Tariff Comparison

Following questions and discussion, the Board requested that these documents be finalized before February 19, 2001 allowing ample time for Board of Directors and Members review and comments. All comments are to be directed to Ms. Duckett at sduckett@spp.org.

Adjournment

At 12:39 a.m., Mr. Strecker thanked everyone for their participation and following a short break, reconvened in executive session to discuss personnel matters.

Nicholas A. Brown, Corporate Secretary



SPP COMPARATIVE BALANCE SHEET 1999-2001

Balance Sheet (\$000)	Unqualified 1999	Unqualified 2000	Co. Prepared 2001
Assets			
Current Assets			
Cash and Equivalents	\$7,356	\$17,497	\$9,188
Accounts Receivable	2,141	9,012	7,088
Prepaid Expenses	158	225	225
Total Current Assets	\$9,655	\$26,734	\$16,501
Property and Equipment (net)	2,505	4,777	24,922
Other	123	0	0
TOTAL ASSETS	\$12,283	\$31,511	\$41,423
Liabilities and Member Equity			
Current Liabilities			
Accounts Payable	\$1,985	\$8,223	\$7,834
Customer Deposits	6,930	13,520	5,084
Accrued Expenses	317	451	436
Current Maturities of Short and Long Term	673	5,820	0
Total Current Liabilities	\$9,905	\$28,014	\$13,354
Long Term Obligations	566	0	25,000
Total Liabilities	\$10,471	\$28,014	\$38,354
Member's Equity	\$1,812	\$3,497	\$3,069
TOTAL LIABILITIES AND MEMBER'S EQUITY	\$12,283	\$31,511	\$41,423

SPP COMPARATIVE INCOME STATEMENT 1999-2001

Income Statement (\$000)	Unqualified 1999	Unqualified 2000	Co. Prepared 2001
Income			
Member Assessments	\$6,466	\$7,483	\$9,608
Tariff Fees	2,337	6,521	7,903
Other Income	776	2,337	3,776
Total Income	\$9,579	\$16,341	\$21,287
Expenses			
Salary & Benefits	\$4,716	\$7,114	\$9,835
Employee Travel	298	409	633
Administrative	332	430	550
NERC Assessment	629	733	1,072
SPP/NERC Meetings	119	238	250
Communications	508	587	645
Leases & Maintenance	516	586	793
Office Supplies	356	300	924
Consulting Services	585	1,370	1,931
Depreciation & Amortization	1,309	1,604	2,326
Interest Expense	484	1,285	2,756
Total Expenses	\$9,852	\$14,656	\$21,715
Net Income/(Loss)	(\$273)	\$1,685	(\$428)

CASH FLOW

Cash Flow (\$000)	Unqualified 1999	Unqualified 2000	Co. Prepared 2001
OPERATING ACTIVITIES			
Net Income	(\$273)	\$1,685	(\$428)
Depreciation	1,309	1,604	2,326
Changes in Assets and Liabilities			
Accounts Receivable	51	(6,748)	1,924
Prepaid Expenses	(44)	(67)	0
Accounts Payable	324	6,238	(389)
Customer Deposits	6,687	6,590	(8,436)
Accrued Exp.	78	134	(15)
Cash From Operations	\$8,132	\$9,436	(\$5,018)
INVESTING ACTIVITIES			
Purchase of Property and Equipment	(637)	(3,881)	(22,470)
Proceeds from Disposal of Property and Equipment		5	
Cash From Investing	(\$637)	(\$3,876)	(\$22,470)
FINANCING ACTIVITIES			
Contributions from Members	8		
Proceeds from Short-term Financing and Long-term Debt	300	5,252	25,000
Repayment of Capital Lease Obligations	(804)	(671)	(568)
Repayment of Short-term Financing and Long-term Debt	(300)		(5,253)
Cash From Financing	(\$796)	\$4,581	\$19,179
NET INCREASE (DECREASE) IN CASH	\$6,699	\$10,141	(\$8,309)
Cash at Beginning of Year	656	\$7,355	\$17,496
Cash at End of Year	\$7,355	\$17,496	\$9,187

**Fixed Charge Coverage Calculation
For the Period January 1, 2001 through
December 31, 2001**

Consolidated Cash Flow (\$000)	
Net Income (Loss) for Period	(\$428)
Depreciation and Amortization	2,326
Interest	2,756
Leases and Rents	435
Total Consolidated Cash Flow	\$5,089
Fixed Charges (\$000)	
Interest	\$2,756
Leases and Rents	435
Total Fixed Charges	\$3,191
Fixed Charge Coverage Ratio	1.59 Actual
	1.00 Covenant

**Physical and
Cyber
Security at
SPP**

**Report to the SPP
Membership**

The Issues

Physical and Cyber Security is vital to protecting the critical infrastructure of the United States.

Greater emphasis on security following 9/11/01 terrorist attack.

Presidential Decision Directive

Presidential Decision Directive 63

- Signed by President Clinton, May 1998.
- Requires Executive Branch to assess the Cyber vulnerabilities of the Nation's critical infrastructures and to develop National Plan for asset protection.
- Private sector participation is voluntary.

Executive Order

Executive Order 13231 – Critical Infrastructure Protection in the Information Age

- Signed by President Bush on October 16, 2001.
- Established the "President's Critical Infrastructure Protection Board"
- Includes a voluntary public-private partnership, involving corporate and nongovernmental organizations.

Critical Infrastructures

Critical infrastructures are those systems – both physical and cyber – so vital to the Nation that their incapacity or destruction would have a debilitating impact on national security, national economic security, and/or national public health and safety.

ENERGY is one in PDD-63

SPP Initiatives

Security Assessment performed February, 2000 under DOE Infrastructure Assurance Outreach Program. Numerous recommendations made and implemented concerning physical and cyber security.

Federal Government - Regular communication with DOE, FBI, NIPC, and other Government agencies including staff with DOE security clearances. Key staff have GETS access for emergency communications.

SPP Initiatives

Coordination with Law Enforcement

- Active member of InfraGard.
- Regular communication with Little Rock FBI office.
- Report incidents to the NIPC in accordance with the IAW Reporting Procedure.

SPP Initiatives

Member Communications through, e-mail exploder, member outreach and training program, and regular CIPWG reports at SWG and EOC meetings.

NERC - SPP representative is Chair of the NERC Critical Infrastructure Protection Working Group.

SPP Initiatives

Policies

- Security Officer appointed.
- SPP Policy Committee established to review policies.
- Developing physical and cyber security policies.
- Full-time cyber security administrator.

SPP Initiatives

Physical Security

- All external office doors and restricted access areas (computer room, coordination center, telecomm) doors locked 24x7.
- Implemented proximity card access system to include employee badges and visitor sign-in.
- Implemented CCTV Surveillance system with 24x7 video recording on 4th and 7th floors.

SPP Initiatives

Cyber Security

- Triple Barrier E-Mail Security
- Monitoring for security patch updates, from Microsoft, Compaq, CERT, and SANS Institute. Each evaluated and installed.
- Policies written and implemented for System backups, restoration, and Off-site storage.
- Computer network enhanced with multiple layers of firewalls from multiple firewall vendors and blocking at routers.
- Strong password policy and remote system access controls including locking screen savers.

SPP Initiatives

Employee Awareness

- Security awareness discussed at manager and employee meetings.
- Security articles published in employee newsletter.
- Warnings and advisories circulated when appropriate.

SPP Initiatives

Data Security

- HR systems protected from non-HR access.
- Sensitive documents are beginning to be encrypted when stored electronically.
- All magnetic media and disk drives degaussed when taken out of service or returned to vendor.
- Sensitive information removed from SPP web site and transferred to secure web site. Positive identification required before sending sensitive information to requesting party.

SPP Initiatives

Plans for 2002

- Implement Intrusion Detection Systems within networks.
- Implement token-based two-tier authentication for access to SPP systems.
- Implement router-based encryption across SPPNET.

Tom Dunn
tdunn@spp.org



Lighting the past...powering the future!

www.spp.org

Southwest Power Pool
COMMERCIAL OPERATIONS SYSTEM / MARKET OPERATIONS SYSTEM
Report to the Board of Directors
February 19, 2002

Background

The Market Settlement Working Group (MSWG) was established by the Board of Directors and held the first meeting in January 2000. The charge was to develop a market settlement system to support members in retail open access environment and compliant with FERC Order 2000 by December 15, 2001. The MSWG first met in January 2000. Principles were developed and approved by the Commercial Practices Committee (CPC) in March 2000. Design work was performed necessary to have an RFP approved by the CPC for issuance in June 2000. A consultant was recommended by the CPC and approved by the Board of Directors in August 2000. The design work, compliant with the principles approved by the CPC, was complete in May 2001 and presented to the CPC for comment in June 2001 – no comments were received. The systems had end-to-end testing performed between September and November 2001. Market participant warranty testing was performed during December 2001 – January 2002.

The system is prepared for implementation with major to-do task being Market Participant readiness.

Analysis

The original build contract is approximately \$20 million. Change orders from expanding the number of LMP nodes (approved by the Board of Directors for \$1.6 million) and various software and hardware changes for \$0.2 million were the only changes in the build cost. In addition to the changes orders mentioned above, other change orders reduced the five-year operating cost by \$0.4 million and thirteen change orders had no cost impact. In total, approximately twenty change orders were issued directly for this project.

The solution focuses on the real-time balancing market with support for capacity markets and a migration path to operation of a day-forward energy market. The solution supports SPP balancing generation and load while managing congestion; is bid-based and calculates locational marginal clearing prices; calculates nodal pricing and accounts for losses between resource and load; bids are voluntary and form a base of dispatch; permits self-scheduling; allows demand to be treated as a resource; delivers real-time balancing price transparency to the market in near real-time; multiple Control Area operations; and SPP as a provider of last resort for other ancillary services

The system is integrated with the Energy Management Program (EMP), energy scheduling, Automated Reserve Sharing, accounting and electronic payment systems within SPP. The system also uses the existing Tariff Billing system for transmission charges.

Market Participants interact through ICCP for traditional meter data and the internet for market data. The Market Participants are registered in the system and have control over

what their users can access and also submit online service requests. Through both physical resource and energy offer data, the participants control the extent to which a resource is managed by SPP.

The LMP solution designed calculates the prices (5,000 nodal and 100 zonal) every fifteen minutes based on a security constrained economic dispatch model. Unit specific deployment instructions that minimize congestion and price, are sent to operators of resources (*e.g.* Control Area operators, marketers) for implementation. This supports Control Area operation of their assets, while incorporating a centralized dispatch. Regardless of compliance, the prices are set from this optimal solution and the hourly settlement prices are posted on the public SPP web site immediately following the operating hour. These prices are also designed for use in calculation of the congestion charges upon implementation of the market based congestion management system.

Market Participants, through the internet, may access the daily settlement details and are invoiced on a monthly basis. The system supports an initial, final, and up to twelve months of resettlements associated with a specific operating day.

Summary

In addition to the testing performed during development, the end-to-end integration testing of all components included more than 750 test conditions. These conditions resulted in approximately 400 investigation requests that were opened, resolved and closed.

**Southwest Power Pool
TRANSCO TASK FORCE
Report to the Board of Directors
February 19, 2002**

Background

At the October 17, 2001 Board of Directors meeting, SPP Staff was instructed to facilitate the formation of a task force reporting to the Board of Directors to research the benefits and potential problems of developing a Transco/Gridco within SPP as discussed during the SPP Board planning retreat. The initial thought expressed was a Transco/Gridco that would belong to a RTO, based on the existing SPP footprint. Models discussed ranged from TRANSLink to American Transmission Company, but the task force was free to examine all options. Gary Voigt appointed Mel Perkins to serve as Chair, John Marschewski as Staff Secretary and the remaining roster was solicited from the entire SPP membership and represents all who responded. The roster consists of: Trudy Harper (Tenaska), Harry Dawson (OMPA), Kurtz Stowers (PGE), Anthony Due (GRDA), Jim Sherwood (SWPA), Richard Spring (KCPL), Dick Dixon (WERE), Martin Penning (EMDE), and Gary Roulet (WFEC). Nick Brown worked with Mel Perkins in facilitating group activities. The Transco Task Force (TTF) met on January 22, 2002.

Analysis

Participant expectations of this assignment included establishment of a SPP transco to provide more influence in the MISO footprint, consistent rules for all transcos under the RTO footprint, and to learn more about transco business models. The TTF identified numerous options/business models, including: TRANSLink, American Transmission Company, International Transmission Company, National Grid, West Connect, Alliance, Entergy, SETrans, Grid Florida, TRANS Connect, and Grid South. Each of these models differed somewhat with respect to the following various characteristics: operational status, multiplicity of owners, current footprint/members, asset owning/divestiture, state interests, independence, scope configuration, tariff administration, operational control, planning/expansion, market monitoring, dispute resolution, ancillary services market, security coordination, accommodation of public power, and asset valuation. The TRANSLink business model was discussed in more detail and several values of transco participation were identified and included; increased asset value, liquidity, new investment, income security, and cost savings in labor and synergies.

Though the TTF developed a plan for further evaluation of various models, a survey of participating transmission owners revealed an unwillingness to commit to transco participation prior to completion of the SPP/MISO merger and RTO operation. However, several participating transmission owners expressed a strong desire to maintain transco options and requested assurance that future options would not be limited by the SPP/MISO merger process. A legal opinion by SPP's regulatory counsel, Mike Small, is attached which addresses the preservation of transmission owners' rights for future transco participation in the merger purchase and assumption agreement and membership agreement. All participants expressed a desire to minimize the number of transcos that would operate under the RTO footprint.

Recommendation

The Transco Task Force recommends that it be dissolved at this time and that transmission owners' rights for future transco participation be preserved in the SPP/MISO merger purchase and assumption agreement and membership agreement.

**Southwest Power Pool
RELIABILITY TASK FORCE
Report to the Board of Directors
February 19, 2002**

Background

SPP Chair Al Strecker formed the Reliability Task Force (RTF) on January 29, 2002 to investigate and prepare, for consideration of the SPP Board of Directors, necessary documents defining the reliability scope, functions, and structure of SPP, Inc. after the closing of the MISO/SPP merger and to present final recommendations by April 1, 2002. Members of the RTF are David Christiano (SPRM) serving as chair, Dick Dixon (WERE), Bill Wylie (OKGE), Gary Voigt (AREC), Scott Moore (AEP) and John Marschewski (SPP).

Analysis

The RTF developed and agreed to the following *basic principles* to guide the restructuring process:

- Despite this effort of separating regional reliability organization (RRO) functions from regional transmission organization (RTO) functions, the ultimate goal is to re-merge these functions in the future;
- The restructured SPP is to have a stakeholder board;
- The restructured SPP is to contract for administrative services from the resulting organization of the SPP/MISO merger (at least initially), meaning there will be no direct employees;
- The restructured SPP will allow ease of membership entry/exit, including lack of indebtedness; and
- The restructured SPP will be funded by an assessment based on previous year net energy for load with a monthly membership fee for members without quantifiable load serving obligation.

The RTF developed and agreed to the following *key functions*:

- Development and maintenance of regional reliability standards;
- Fulfillment of regional responsibilities as delegated from the NERC;
- NERC and SPP standards compliance monitoring and enforcement;
- Data gathering and reporting; and
- Reliability Assessment.

The RTF will meet again by teleconference call on Friday, March 1, 2002 from 10 a.m. until noon CST to review draft bylaws and membership agreement for the restructured SPP.

Recommendation

The RTF recommends that the Board of Directors approve the above *basic principles* and *key functions* to guide RTF development of bylaws and a membership agreement for the restructured SPP.



Background

- ❖ Aug 13: Term Sheet presented and approved
- ❖ Sept 20: Staff status report
- ❖ Oct 17: Business case approved
- ❖ Dec 12: Preliminary documents presented for comment and staff directed to finalize
- ❖ Jan 21: Documents redistributed for membership review and comment
- ❖ Feb 7: Documents distributed for final consideration and vote

Documents

- ❖ Purchase and Assumption Agreement
 - ❖ Assignment and Assumption Agreement
 - ❖ Bill of Sale
 - ❖ Conditional Withdrawal Agreement
 - ❖ Resulting Company/Membership Agreement (as amended)
 - ❖ Services Agreement
 - ❖ Certificate of Incorporation
 - ❖ Amended Bylaws

Documents

(continued)

- ❖ Amendments to SPP Bylaws
- ❖ Cost Assignment Comparison
- ❖ Q&A
- ❖ Members' Comments/Issues Report
- ❖ Schedules
- ❖ Resolution

Conditions to Closing

- ❖ All regulatory and third-party consents obtained
- ❖ All revisions to MISO documents adopted and accepted by FERC
- ❖ MISO has initiated tariff administration
- ❖ FERC Order expanding MISO-ARTO super-regional rate to SPP footprint
- ❖ FERC Order recognizing Resulting Company as an RTO

Conditions to Closing

- ❖ SPP Members representing at least 174,000 GWh of Annual Schedule 1 Billing Units have signed Resulting Company Membership Agreement
- ❖ MISO Members representing at least 372,000 GWh of Annual Schedule 10 Billing Units shall have signed the Resulting Company Agreement
- ❖ SPP Members have executed Conditional Withdrawal Agreement

Exhibits Amended Bylaws

MISO Bylaws amended to reflect:

- ❖ 11-member Board of Directors
- ❖ Super-majority voting required for Board of Directors for initial 6-month term
- ❖ Officers and respective duties/authorities
- ❖ **Advisory Committee will include SPP and MAPP reps for initial terms**

Membership Transition**

- ❖ Ideal is for all current SPP Members to join Resulting Company
- ❖ Make transition as smooth as possible for Members
- ❖ Avoid violations of current SPP Agreement and Bylaws
- ❖ Ensure all current obligations resulting from SPP Agreement are met by SPP and/or Resulting Company and SPP Members

** Assumes debt-holder consents to assignment **

Conditional Withdrawal Agreement

- ❖ Allows SPP Members to withdraw without the usual "waiting period"
- ❖ Assigns obligations of Member and SPP at effective date to Resulting Company
- ❖ **Financial obligations to SPP only become due and payable in full if Member does not join Resulting Company**

Approvals

- ❖ Feb 19: SPP Board of Directors
- ❖ Feb 20: SPP Member votes tallied
- ❖ Feb 21: MISO Board of Directors
- ❖ TBA: MISO Transmission Owners

Next Steps...

- ❖ SPP Transmission Owners decisions
- ❖ FERC Filings
 - ❖ Plan to file early March
 - ❖ Will seek expedited action

CLOSING END OF 2nd QUARTER

Resolution of the Board of Directors of SPP

**Southwest Power Pool
Board of Directors Meeting
February 19, 2002**

Staff Report – SPP/Midwest ISO Merger

Background

At its August 13, 2001 meeting, SPP President John Marschewski presented to the Board of Directors for consideration a draft term sheet detailing a potential merger between SPP and the Midwest ISO. The Board of Directors authorized the continued good faith negotiation with MISO based on the proposed term sheet and that the resulting due diligence review and the best possible terms be offered to the Board of Directors for further consideration by the end of September. At its October 17, 2001 meeting the Board of Directors discussed the Staff's September 20, 2001 report concerning the consolidation which included responses to member comments solicited following the August 13, 2001 Board meeting, a business case for the merger, alternatives to the merger, and financial analysis of the merger. At this meeting, the Board of Directors authorized SPP officers to prepare documents necessary to effect the merger of SPP with the Midwest ISO. At the December 12, 2001 Board of Directors meeting Staff discussed near-final draft definitive documents necessary to effect the merger that were distributed with meeting background material. Included in this report was a comparison of SPP and MISO membership agreements and transmission service tariffs. The Board directed finalization of the merger documents by the February 19, 2002 meeting, thereby allowing ample time for review and comment by the Board and membership on the draft documents. A second set of documents was distributed to the Board and membership on January 21, 2002 containing revisions agreed upon by managements based on Board and member feedback to date. Final comments were requested by February 4.

Analysis

Staff did receive additional member comments on the January 21, 2002 drafts and has prepared a response to these comments that is attached to this report. Based on these comments, additional minor modifications to the merger documents have also been agreed upon by managements. These revisions are: 1) in the Purchase and Assumption Agreement Article 8.1 (f); and 2) in E. C Conditional Withdrawal Agreement Section 6.

Enclosed with this report are documents necessary to effect the merger between SPP and the Midwest ISO. These documents include:

- The Purchase and Assumption Agreement and its exhibits (except Resulting Company bylaws, as previously advised)
- Amendments to the current SPP Bylaws
- Cost Assignment Comparison
- Expanded Q&A
- Members' Issues report
- Board Resolution

Staff and counsels will provide a detailed verbal report at the meeting and respond to questions.

Recommendation

SPP Officers recommend that the Board of Directors approve the attached resolution authorizing them to take steps necessary to close the merger between SPP and the Midwest ISO as contemplated in the attached documents.

**RESOLUTION OF
THE BOARD OF DIRECTORS OF
SOUTHWEST POWER POOL, INC.**

WHEREAS, Southwest Power Pool, Inc. (the “Company”) and Midwest Independent Transmission System Operator, Inc. (“MISO”) have, at the direction of their respective Boards of Directors, engaged in discussions relating to the possible combination of the Company and MISO into a single entity; and

WHEREAS, the management of the Company and MISO have determined that such a combination may best be effected by MISO’s acquisition of substantially all of the assets and assumption of substantially all of the liabilities of the Company, excluding certain assets and liabilities relating to the Company’s NERC-related reliability council functions; and

WHEREAS, counsel for the Company and MISO have prepared a Purchase and Assumption Agreement (the “Purchase Agreement”) by and between MISO and the Company, which provides for the Company to convey to MISO substantially all of the assets of the Company and for MISO to assume substantially all of the liabilities of the Company, excluding certain assets and liabilities relating to the Company’s NERC-related reliability council functions; and

WHEREAS, written ballots have been circulated to the Company’s members requesting their approval or disapproval of the transactions contemplated by the Purchase Agreement, and, subject to the approval by the Company’s members of those transactions, the Board of Directors desires to approve certain matters necessary to complete the transactions contemplated by the Purchase Agreement; and

WHEREAS, the closing of the transactions contemplated by Purchase Agreement (the “Closing”) requires the termination of all memberships in the Company, and to effect such terminations as of the Closing counsel for the Company have prepared a Conditional Withdrawal Agreement, pursuant to which members of the Company would voluntarily terminate their memberships, and an amendment to the Bylaws of the Company, permitting the Company’s Board of Directors to terminate memberships in connection with a sale of substantially all of the assets of the Company; and

WHEREAS, the Board of Directors desires to ratify the actions taken with respect to the negotiation of the Purchase Agreement and, subject to the approval of the Company’s members, to authorize the Company to enter into the Purchase Agreement and to take other actions to consolidate its business with that of MISO, and thereafter to continue the operation of the Company as a NERC-related reliability council;

NOW, THEREFORE, it is hereby:

RESOLVED, that, subject to approval by the Company's members of the transactions contemplated by the Purchase and Assumption Agreement (the "Purchase Agreement") by and between Midwest Independent Transmission System Operator, Inc. ("MISO") and Southwest Power Pool, Inc. (the "Company"), the Purchase Agreement, in substantially the form of the draft exhibited to the Board of Directors, is hereby approved, and the president, any vice president and the secretary of the Company be and hereby are authorized and directed to complete, execute and deliver the Purchase Agreement for and on behalf of the Company, with such amendments or changes thereto as the officer so acting may approve, such approval to be conclusively evidenced by his execution and delivery of the same; and

FURTHER RESOLVED, that, subject to approval by the Company's members of the transactions contemplated by the Purchase Agreement, the Conditional Withdrawal Agreement, in substantially the form of the draft exhibited to the Board of Directors, is hereby approved, and the president, any vice president and the secretary of the Company be and hereby are authorized and directed to complete, execute and deliver, for and on behalf of the Company, each Conditional Withdrawal Agreement that any member of the Company shall execute and deliver to the Company, with such amendments or changes thereto as the officer so acting may approve, such approval to be conclusively evidenced by his execution and delivery of the same; and

FURTHER RESOLVED, that the Amendments to the Southwest Power Pool, Inc. Bylaws dated January 1, 2000, in the form attached to this Resolution as Exhibit A, are hereby approved, and the secretary of the Company is authorized and directed to record the same in the official records of the Company; and

FURTHER RESOLVED, that, subject to approval by the Company's members of the transactions contemplated by the Purchase Agreement, any member of the Company that does not execute and deliver to the Company a Conditional Withdrawal Agreement prior to the closing of the transactions contemplated by the Purchase Agreement (the "Closing") shall have its membership terminated under the Bylaws as revised by this Resolution, and the president, any vice president and the secretary of the Company be and hereby are authorized to take such actions as in the judgment of the officer so acting are necessary or desirable to terminate the membership of any such member; and

FURTHER RESOLVED, that, subject to approval by the Company's members of the transactions contemplated by the Purchase Agreement, the Company is authorized and directed to settle all financial and other affairs with members who terminate their membership in the Company or who have their memberships terminated under the Bylaws as revised by this Resolution, and, without limiting the foregoing, to issue and receive promissory notes as contemplated by the Conditional Withdrawal Agreement and, as contemplated by the Purchase Agreement, to assign to MISO any rights or obligations in respect of the members' financial and other affairs; and

FURTHER RESOLVED, that, subject to any member approvals that may be required, the president, any vice president and the secretary of the Company be and hereby are authorized and

DRAFT

For discussion purposes only

2/7/2002

directed to complete, execute and deliver, for and on behalf of the Company, all documents, instruments, certificates and schedules required or necessary to undertake and complete the transactions contemplated by this Resolution, and to do or take, or cause to be done or taken, all other acts and actions (including, without limitation, the granting of waivers, consents or extensions of time) required or necessary in the judgment of the officer so acting to complete such transactions in accordance with the terms and provisions of the applicable agreement(s) and this Resolution; and

RESOLVED, that the Board of Directors hereby approves, ratifies and confirms the actions of the Company's management in negotiating the Purchase Agreement and submitting to a vote of the Company's members the transactions contemplated by the Purchase Agreement.

APPROVED as of February ____, 2002.

Chair

ATTEST:

Secretary

MISO Merger: Needs more Work

Oklahoma Municipal Power Authority

Negotiating A Better Merger

- A vote of SPP members should have the benefit of complete documents
- SPP member concerns should be presented to MISO
- A noncoercive method of getting people to join MISO should be developed

2/19/02

OMPA

2

Situation on February 19

- SPP Members are being asked to vote without complete documents
- Concerns of at least OMPA are not satisfied
 - Merger questions
 - Coercive nature of transfer (Not in Oct 17 discussion or approvals)
- Questions remain, and should be answered before voting

2/19/02

OMPA

3

Current Documents

- MISO is acquiring SPP
 - All Assets, and part of obligations (Not a merger of equals)
- The Only changes to MISO
 - Name (NEWCO) to be determined
 - Management and Employees are taken care of
 - The board is reconstituted, 7 MISO, 4 SPP
 - Board requires 2/3 vote for 6 months
 - Probably less time than required to merge tariffs
 - Applies mostly to major financial issues, not tariff merger

2/19/02

OMPA

4

Current Documents (Continued)

- An Advisory committee is set up
 - All members may have representatives in all sectors they are eligible for
 - No limit on how many sectors, if eligible, can participate in
 - Told that this issue "is under consideration"
- A draft provision is in final documents
 - "...revenue distribution and rates for SPP members will be..." per FERC
 - Location in documents to be determined

2/19/02

OMPA

5

Current Documents (Continued)

- On Dec 12, 1st time, concept of Conditional Withdrawal Document was introduced
 - Requires a member to join MISO in 60 days
 - Or sign a promissory note
 - Or (an apparent closing of a loophole when we expressed strong reservations) a retro change to the bylaws providing for involuntary removal
 - (This is contrary to every presentation made before this date, and the board approved terms)

2/19/02

OMPA

6

OMPA Issues list

- Final set of documents
- More specificity as to how the merger of tariffs will occur
- Grand fathered contracts
 - Clear definition that they will be honored by MISO
 - Will be supported at FERC by MISO
- SPA needs to be specifically addressed
 - Not left to "As SPP has done in the past, it is anticipated that..."

2/19/02

OMPA

7

OMPA Issues list (Continued)

- A clear statement that the merged tariff will follow SPP guides on maximization of revenues by encouraging transactions (ie, discounting)
- A better understanding of what the differences are between 100 KV (MISO) and 60 KV (SPP) for Transmission means
- What "Obligations" are being incurred under A5,11,B
- There may be other issues for other members

2/19/02

OMPA

8

OMPA Issues list (Continued)

- Finally, a fair way to encourage voluntary MISO membership should be developed
 - The documents require about 2/3 to join
 - If MISO gets 2/3, then they should be happy
 - OMPA will pay twice for not joining (w/1 60 D)
 - \$539,911 for failure to join in 60 days
 - \$0.126/mwh (\$461,000 year) footprint, which includes amortization of SPP debt (\$1 Million)
 - We do not think it is either equitable, or legal

2/19/02

OMPA

9

Options

- Vote today without complete documents and unanswered questions and concerns; or
- Delay the vote; appoint a committee to work with staff to develop final documents
- Delay should not cause detriment
- If voted today, split vote to remove the coercive nature of the CWA
 - Otherwise, it makes a mockery of collaborative process SPP has been so proud

2/19/02

OMPA

10

OMPA Recommendation

- Develop a list of specific concerns of SPP members
- Go to MISO with the concerns and negotiate final arrangements
- Develop a positive way to encourage people to join MISO
- Return to SPP with complete proposal to submit for vote

2/19/02

OMPA

11

**Southwest Power Pool
2002 Capital and Operating Obligations
By Member System**

System	Net Energy For Load (MWh)	Accrued Financial Percentage	Accrued Financial Obligation
Arkansas Electric Cooperative Corporation	10,958,175	4.668%	\$ 1,837,185
Board of Public Util., Kansas City, KS	2,474,288	1.426%	\$ 561,302
Central Louisiana Electric Company, Inc	9,256,867	4.018%	\$ 1,581,327
City Power & Light, Independence, Missouri	1,075,514	0.892%	\$ 350,942
City Utilities, Springfield, Missouri	2,925,769	1.599%	\$ 629,200
City of Lafayette, Louisiana	2,113,035	1.288%	\$ 506,974
Empire District Electric Company	4,794,585	2.313%	\$ 910,249
Grand River Dam Authority	3,946,363	1.989%	\$ 782,686
Kansas City Power & Light Company	15,224,659	6.299%	\$ 2,478,818
Westar Energy-KGE	10,598,009	4.531%	\$ 1,783,020
Westar Energy-KPL	11,556,608	4.897%	\$ 1,927,183
Midwest Energy, Inc.	951,704	0.844%	\$ 332,322
ENRON Power Marketing	0	0.481%	\$ 189,196
Oklahoma Gas & Electric Company	26,961,050	10.784%	\$ 4,243,842
Central & Southwest Corp. - PSO	18,103,699	7.399%	\$ 2,911,794
Central & Southwest Corp. - SWEPCO	23,109,689	9.312%	\$ 3,664,640
Southwestern Power Administration	3,277,013	1.733%	\$ 682,023
Southwestern Public Service Company	22,864,093	9.218%	\$ 3,627,705
Sunflower Electric Power Corp.	2,034,617	1.258%	\$ 495,180
Western Farmers Electric Cooperative	5,773,122	2.687%	\$ 1,057,410
Utilicorp United Inc. - WestPlains Energy	2,623,885	1.484%	\$ 583,800
Utilicorp United Inc. - Missouri Public Service	5,428,258	2.555%	\$ 1,005,547
City of Clarksdale, Mississippi	214,856	0.563%	\$ 221,508
North Texas Electric Cooperative	1,849,602	1.188%	\$ 467,356
Oklahoma Municipal Power Authority	2,332,051	1.372%	\$ 539,911
Louisiana Energy & Power Authority	254	0.481%	\$ 189,234
Reliant Energy Services (NorAm)	0	0.481%	\$ 189,196
Exelon Power Team (PECO)	0	0.481%	\$ 189,196
Cargill Alliant	0	0.481%	\$ 189,196
PG&E National Energy Group	0	0.481%	\$ 189,196
Duke Energy Trading & Marketing	0	0.481%	\$ 189,196
Edison Mission Marketing & Trading, Inc.	0	0.481%	\$ 189,196
El Paso Merchant Energy (Sonat)	0	0.481%	\$ 189,196
Mirant Americas Energy Marketing, LP	0	0.481%	\$ 189,196
Aquila Power	0	0.481%	\$ 189,196
Dynegy Marketing & Trade	0	0.481%	\$ 189,196
Williams Energy Marketing & Trading Co.	0	0.481%	\$ 189,196
Calpine Energy Services, L. P.	0	0.481%	\$ 189,196
PSI Energy (Cinergy)	0	0.481%	\$ 189,196
Tenaska Power Services	0	0.481%	\$ 189,196
Constellation Power Source	0	0.481%	\$ 189,196
East Texas Electric Coop.,	1,529,461	1.065%	\$ 419,210
Tex-La Electric Coop. of Texas	584,262	0.704%	\$ 277,063
Public Service Comm. Of Yazoo City, Ms.	119,826	0.527%	\$ 207,217
Coral Power LLC	0	0.481%	\$ 189,196
LG&E Energy Marketing	0	0.481%	\$ 189,196
Kansas Electric Power Coop. (KEPCo)	1,636,786	1.106%	\$ 435,351
City Water & Light -Jonesboro, AR	244	0.481%	\$ 189,233
Entergy Services, Inc.	0	0.481%	\$ 189,196
Utilicorp United - St. Joseph Light & Power	1,936,788	1.221%	\$ 480,468
NRG Power Marketing, Inc.	0	0.481%	\$ 189,196
TXU Energy Trading Co.	0	0.481%	\$ 189,196
Total	196,255,132	100%	\$ 39,352,821

Obligations as of January 1, 2002

Capital Obligations	\$ 32,828,125
Operating Obligation	\$ 6,524,696
Total	\$ 39,352,821

22-Feb-02

Member	Total Refund Due
	as of December 31, 2001
Aquila Power	89,144
Arkansas Electric Cooperative Corporation	772,477
Board of Public Util.,Kansas City,KS	258,617
Calpine Power Services Co.	89,144
Cargill Alliant	89,144
Central & Southwest Corp. - PSO	1,424,981
Central & Southwest Corp. - SWEPCO	1,695,508
Central Louisiana Electric Company, Inc	736,112
City of Clarksdale, Mississippi	104,203
City of Lafayette, Louisiana	237,631
City Power & Light, Independence, Missouri	165,462
City Utilities, Springfield, Missouri	297,534
Constellation Power Source	89,144
Duke Energy Power Formally L. Dreyfus	89,144
Dynegy Marketing & Trade	89,143
Edison Mission Mkt & Trading (Citizens Pwr)	89,144
El Paso Merchant Energy (Sonat Pwr Mktg)	89,144
Empire District Electric Company	432,458
ENRON Power Marketing	89,144
Grand River Dam Authority	416,303
Kansas City Power & Light Company	1,155,619
Louisiana Energy & Power Authority	111,139
Midwest Energy, Inc.	166,180
Mirant Americas Energy Mrkg (Southern Co)	89,144
North Texas Electric Cooperative	176,370
Oklahoma Gas & Electric Company	2,066,657
Oklahoma Municipal Power Authority	236,685
PECO Energy Co.	89,144
PG&E Energy Trading Power	89,144
PSI Energy (Cinergy)	89,143
Rayburn Country / Tex-La Electric Coop.	123,957
Reliant Energy Services	89,144
Sam Rayburn G&T / East Texas Elec Coop.	175,176
Southwestern Power Administration	407,172
Southwestern Public Service Company	1,786,802
Sunflower Electric Power Corp.	269,995
Tenaska Power Services	89,144
Utilicorp United Inc. - Missouri Public Service	472,908
Utilicorp United Inc. - WestPlains Energy	298,132

Western Farmers Electric Cooperative	553,650
Western Resources - KGE	899,273
Western Resources - KPL	970,863
Williams Energy Marketing & Trading Co.	89,144
Departed Members	
Avista Energy, Inc	29,413
City Light & Water-Paragould, AR	11,595
City of Sikeston, Missouri	42,802
CNG Power Services Corp.	29,414
Duke Energy Power Services, Inc. (Pan Energy)	9,902
Enserch Energy Services, Inc.	26,921
Fina Energy Services Co.	26,921
Koch Energy Trading Inc.	29,414
LG&E Power Marketing	79,279
Municipal Energy Agency of MS	13,759
NP Energy Inc.	29,414
Texaco Energy Services	9,901
New Members	
City of Jonesboro, Arkansas	51,747
Coral Power LLC	74,200
Entergy (Marketing)	47,346
Kansas Electric Power Coop.	144,588
NRG Power Marketing	17,275
PanCanadian Energy Services	69,377
Public Service Comm. Of Yazoo City, MS	86,489
TXU Energy Trading	10,365
Utilicorp United St. Joseph Light & Power	44,360
Totals	18,722,645

AEP's concerns as both a Board member and member are:

Unknowns

- Concern about full disclosure of MISO costs;
- Concern about ITC responsibilities (ability of an ITC like TransLink to select services from MISO on a menu basis) and how the sharing of those responsibilities may ultimately impact MISO costs;
- Concern about the on-going negotiations between Alliance and MISO and how those negotiations may ultimately impact costs;
- Concerns about the potential cost implications of the proposed PJM/MISO/SPP single market development (although I acknowledged that I heard a satisfactory answer from Jim Torgerson that the market participants would bear those costs);
- Concerns about Tariff design and revenue allocation after Year 1;
 - 1. What PSO/SWEPCO would receive for contributing its transmission assets?, and
 - 2 What would PSO and SWEPCO generators pay?;
 - I took issue with the characterization provided to FERC that there would not be any revenue allocation issues.

Concerns about the Conditional Withdrawal Agreement (CWA)

- PSO/SWEPCO has previously tendered notice to withdraw from SPP;
- Concerns about applicability of the CWA to PSO/SWEPCO;
- Concern about the absence of a schedule in the documents to be approved listing members' obligations (although I acknowledge it was provided to me at the meeting for the first time);
- Concern about the detail supporting member obligations;
- Concern about the potential for ongoing costs associated with SPP's efforts to close the transaction (closing date issue).

Concern about the 2/3 GWH SPP Closing Condition (Admittedly, that issue is moot given other member actions.)

Regulatory Concerns

- SWEPCO is required to seek Arkansas and Louisiana Commission approval prior to joining any RTO;
- PSO may ultimately also require OCC approval;
- Concern about entity that would administer the AEP OATT in the interim between AEP RTO selection and dissolution of SPP (This issue was alluded to but not articulated at the Board meeting.)

CONDITIONAL WITHDRAWAL AGREEMENT

This **CONDITIONAL WITHDRAWAL AGREEMENT** (“Agreement”) is made as of _____, 2002, by and among **SOUTHWEST POWER POOL, INC.** (“SPP”) and the undersigned parties (each, a “Member” and, collectively, the “Members”), each of whom is a signatory to that certain Southwest Power Pool Membership Agreement dated July 1999 (the “SPP Membership Agreement”).

RECITALS

A. SPP and Midwest Independent Transmission System Operator, Inc. (“MISO”) have entered into a Purchase and Assumption Agreement dated as of _____, 2002 (the “Purchase Agreement”), under which MISO has agreed to purchase substantially all of SPP’s tangible and intangible assets and assume substantially all of SPP’s obligations, as of the closing date described therein (the “Closing Date”).

B. It is the intention of SPP and MISO that, following the Closing Date, MISO (as restructured in accordance with the terms of the Purchase Agreement) will make available to such of the Members who elect to become members of MISO substantially the same services currently provided them under the SPP Membership Agreement, excluding only NERC-related reliability council functions that will remain with SPP.

C. The closing of the transactions contemplated by the Purchase Agreement (the “Closing”) is subject to the satisfaction of certain conditions, including the conditions that all signatories to the SPP Membership Agreement either agree to withdraw from the SPP Membership Agreement or are removed from membership pursuant to the SPP Bylaws and, further, that SPP members representing a specified minimum amount of Annual Billing Determinants, as defined in the Purchase Agreement, have executed the membership agreement of MISO.

D. The Members and SPP intend that certain obligations between them that arise under the SPP Membership Agreement and survive the withdrawal of the Members shall be assigned to and assumed by MISO upon the Closing.

E. SPP has previously collected amounts from the Members to cover tariff income shortfalls, and may collect additional amounts prior to the Closing Date. Any amounts so collected are subject to repayment under the Repayment Policy adopted by the SPP Board of Directors at the meeting held on November 8-9, 1999 (the “Repayment Policy”). The exact amount to be repaid to the Members by SPP will be determined as of the Closing Date. Concurrent with the Closing, SPP will issue promissory notes to the Members representing such repayment and, pursuant to the Purchase Agreement, the SPP promissory notes and all obligations thereunder will be assumed by MISO immediately following the Closing shall, or shall cause MISO to, pay to the Members the amounts owed them under the Repayment Policy.

F. Upon a Member's withdrawal from SPP, it becomes obligated to pay to SPP its pro rata share of all financial obligations of SPP incurred prior to such withdrawal. If the Member chooses not to become a member of MISO following its withdrawal from the SPP Membership Agreement pursuant to this Agreement, the Member shall ~~issue to SPP a promissory note representing the Member's obligation to pay to SPP concurrent with the Closing, pay to SPP, or following the Closing to MISO,~~ its pro rata share of all financial obligations of SPP incurred prior to the Closing Date, whether or not such financial obligations are then presently due and payable. The exact amount of ~~the promissory note to be issued by the Member to SPP~~ such Member's payment to SPP or MISO will be determined as of the Closing Date, ~~which will also be the date upon which the Member's promissory note will be issued.~~ It is expressly understood by the Member that the Member's ~~promissory note and all rights thereunder obligation to pay SPP its pro rata share of all financial obligations of SPP and all rights related thereto~~ may be transferred and assigned to MISO.

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth herein, SPP and the Members hereby agree as follows:

1. **Conditional Withdrawal of Members.** Upon the terms and subject to the conditions set forth herein, and as of the Effective Time (as defined in Section 5 below), each Member shall be deemed to have withdrawn as a member of SPP and from the SPP Membership Agreement and shall thereafter have the rights and obligations of a withdrawing member as provided in the SPP Membership Agreement, in Section 4.2 and elsewhere, and the rights and obligations provided in this Agreement. SPP and each Member hereby consent to withdrawals effected under this Agreement notwithstanding the fact that such withdrawals fail to comply with all the terms set forth in the SPP Membership Agreement pertaining to Member withdrawals. Following the Member's withdrawal from the SPP Membership Agreement and its ceasing to be a member of SPP, the Member has the express right to rejoin, at no cost or charge, SPP in its capacity as the provider of services in connection with SPP's NERC-related reliability functions.

2. **Consent to Assignment and Assumption.** At the Effective Time, some or all of the rights and obligations of SPP under the SPP Membership Agreement (which, in light of the withdrawal or removal of all signatories to the SPP Membership Agreement, shall consist only of rights and obligations in respect of withdrawing members, herein called "Withdrawn Member Obligations") may, at MISO's discretion, be assigned to and assumed by MISO. The following Withdrawn Member Obligations shall be assigned to and assumed by MISO.

(a) the obligations of the Members to pay, and the corresponding rights of SPP to collect from the Members, any assessments under the SPP Membership Agreement that are accrued and unpaid at the Effective Time; and

(b) the obligations of the Members to pay, and the corresponding rights of SPP to collect from the Members, their respective pro rata shares of all financial obligations of SPP incurred prior to the Effective Time, whether or not such obligations are then due and payable, including but not limited to obligations in respect of SPP's \$25 Million Senior Unsecured Notes, all as specifically described in Section 4 below.

Each Member (regardless of whether it becomes a member of MISO) hereby (i) consents to the assignment and assumption of the Withdrawn Member Obligations and (ii) agrees that the Withdrawn Member Obligations shall be valid, binding and enforceable between it and MISO, and that MISO, as assignee, shall be entitled to enforce any of the Withdrawn Member Obligations.

3. **Repayment of Tariff Income Shortfalls.** SPP and the Members hereby agree that the attached Schedule 1 accurately reflects, as of February ___, 2002, the repayment obligations of SPP to the various SPP ~~members~~ Members under the Repayment Policy (such repayment obligations, together with any additional repayment obligations accrued during the period between February ___, 2002 and the Effective Date being referred to, collectively, as the “Repayment Obligations”). ~~Simultaneously~~ Concurrent with the Closing, SPP agrees that it shall issue to ~~each Member a promissory note, substantially in the form attached hereto as Exhibit A, in the principal amount of the Repayment Obligation then accrued in respect of such Member (collectively, the “SPP Notes”),~~ or shall cause MISO to, pay the Repayment Obligations in full. The Members (regardless of whether they become members of MISO) hereby agree that such ~~SPP Notes, payments,~~ payments, when issued made, will constitute full satisfaction for the amounts payable under the Repayment Policy, ~~and consent to the assignment to, and assumption by, MISO of the SPP Notes at the Effective Time.~~

4. **Payment by the Member of Obligations Upon Withdrawal.** SPP and the Members hereby agree that any Member which ~~elects as of the Closing~~ has not to become a member of MISO, notwithstanding such Member’s withdrawal as a member of SPP and from the SPP Membership Agreement pursuant to the terms of this Agreement, ~~will issue~~ shall pay, as of the Effective Time, ~~a promissory note payable to SPP representing such Member’s obligation to pay to SPP upon withdrawal~~ to SPP, or to MISO as the holder of the right to receive such payment pursuant to the terms of the Purchase Agreement, its pro rata share of all financial obligations of SPP incurred prior to its withdrawal as of the Effective Time, whether or not such financial obligations are then presently due and payable. As of February ___, 2002, the amount of each Member’s obligation is reflected on Schedule 2. The amount of each Member’s obligation will be recalculated on or before, but as of, the Effective Time. ~~Simultaneously with the Closing, each Member which elects not to become a member of MISO agrees that it shall issue to SPP a promissory note, substantially in the form attached hereto as Exhibit B, in a principal amount equal to the Member’s obligation as of the Effective Time (the “Member Note”);~~ SPP hereby agrees that such ~~Member Note payment,~~ payment, when issued made, will constitute full satisfaction for the amounts payable by such Member to SPP. The Member hereby agrees and consents to the transfer of ~~the Member Note~~ such payment and all rights thereunder to MISO.

5. **Effectiveness.** Section 1 of this Agreement shall become effective upon the Closing described in the Purchase Agreement, and the term “Effective Time” as used in this Agreement shall mean the effective time of the Closing under the Purchase Agreement. Notwithstanding anything to the contrary herein, Section 1 of this Agreement shall not become effective except upon satisfaction of each of the following conditions:

(a) All of the signatories to the SPP Membership Agreement shall have signed this Agreement or been removed as members of SPP under the SPP Bylaws prior to the Effective Time and none of the Members that have signed this Agreement shall have taken any action to withdraw from or disavow its obligations under this Agreement;

(b) All of the conditions precedent to the Closing described in the Purchase Agreement shall have been satisfied or waived; and

(c) SPP shall have ~~issued the SPP Notes paid, or caused MISO to pay, the~~ Repayment Obligations as provided in Section 3 hereof or such payment shall have been netted against the payment required to be made by such Member to MISO as contemplated by Section 4 hereof.

Should any Member described in Section 4 above refuse to ~~execute and deliver its Member Note~~ make the payment described in Section 4, SPP (or MISO as SPP's assignee) shall be entitled to withhold ~~the issuance of such Member's SPP Note~~ payment of the Repayment Obligation to such Member and pursue and enforce its rights under the SPP Membership Agreement and this Agreement or otherwise under applicable law for collection in full of the amounts payable by such Member to SPP plus reasonable attorneys' fees.

This Agreement shall be void and of no further force and effect if, and at the same time as, the Purchase Agreement shall be terminated for any reason.

6. **Counterparts.** This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Any counterpart signature page delivered by facsimile transmission shall be deemed to be and have the same force and effect as an originally executed signature page. This Agreement shall be binding, as between SPP and any Member, upon such Member's execution and delivery to SPP of the Member's counterpart signature page, subject to approval(s) of federal or state regulatory agencies, if any, that may be required to be obtained by such Member.

7. **Assignment.** SPP may, at the Effective Time or any time thereafter, assign all or part of its rights under this Agreement to MISO.

[Signature Pages Follow]

IN WITNESS WHEREOF, the undersigned, by its duly authorized officer, has caused this Conditional Withdrawal Agreement to be signed as of the date set forth first above, to be effective subject to the conditions recited therein.

SOUTHWEST POWER POOL, INC.

By: _____

Name: _____

Title: _____

IN WITNESS WHEREOF, the undersigned, by its duly authorized officer, has caused this Conditional Withdrawal Agreement to be signed as of the date set forth first above, to be effective subject to the conditions recited therein.

MEMBER COMPANY

By: _____

Name: _____

Title: _____

Schedule 1 to Conditional Withdrawal Agreement

Repayment Obligations as of _____, 2002

Schedule 2 to Conditional Withdrawal Agreement

Members Pro Rata Portion of SPP Financial Obligations as of _____, 2002

Exhibit A to Conditional Withdrawal Agreement

Form of SPP Note

PROMISSORY NOTE

\$ _____ Little Rock, Arkansas
_____, 2002

For value received, SOUTHWEST POWER POOL, INC. ("Maker") promises to pay to _____ the sum of _____ Dollars (\$ _____), without interest. Principal shall be due and payable in nine (9) equal annual installments, the first such installment being due and payable on the second (2d) anniversary of the date of this promissory note and subsequent installments being due and payable on each anniversary thereafter until paid in full.

Maker shall have the right to prepay all or any part of the amount due hereunder without penalty at any time.

If this obligation after default is placed in the hands of an attorney for collection, Maker agrees to pay the holder, as an additional sum, a reasonable attorney's fee not to exceed ten percent (10%) of the unpaid principal.

Maker hereby waives presentment for payment, notice of non payment and protest.

Maker's obligations hereunder may be assigned to Midwest Independent Transmission System Operator, Inc. ("MISO") in connection with the transactions contemplated by the Purchase and Assumption Agreement, dated _____, 2002, between Maker and MISO, and, upon such assignment, shall be the exclusive obligations of MISO.

SOUTHWEST POWER POOL, INC.

By
Name:
Title:

Exhibit B to Conditional Withdrawal Agreement

Form of Member Note

PROMISSORY NOTE

\$ _____ [City, State]
_____, 2002

For value received, _____ (“Maker”) promises to pay to Southwest Power Pool, Inc. or its assigns the sum of _____ Dollars (\$ _____), without interest. Principal shall be due and payable in _____ (_____) equal annual installments, the first such installment being due and payable on the _____ (_____) anniversary of the date of this promissory note and subsequent installments being due and payable on each anniversary thereafter until paid in full.

Maker shall have the right to prepay all or any part of the amount due hereunder without penalty at any time.

If this obligation after default is placed in the hands of an attorney for collection, Maker agrees to pay the holder, as an additional sum, a reasonable attorney’s fee not to exceed ten percent (10%) of the unpaid principal.

Maker hereby waives presentment for payment, notice of non-payment and protest.

Southwest Power Pool, Inc.’s interests herein and rights hereunder may be assigned to Midwest Independent Transmission System Operator, Inc. (“MISO”) in connection with the transactions contemplated by the Purchase and Assumption Agreement, dated _____, 2002, between Southwest Power Pool, Inc. and MISO. Maker may not transfer or assign its obligations under this note without holder’s prior consent.

[MAKER NAME]

By
Name:
Title:

WSH\72203.2

----- COMPARISON OF HEADERS -----