

**Southwest Power Pool  
BOARD OF DIRECTORS MEETING  
Embassy Suites Outdoor World – D/FW Airport  
July 20, 2000**

**- Summary of Action Items -**

1. Approved minutes of the May 11, 2000 meeting as distributed.
2. Approved a memorandum of understanding containing terms and conditions for the development of a contractual attachment to SPP's membership agreement for an independent transmission company (Transco) including Entergy to operate within the structure and under the oversight of the SPP RTO.
3. Endorsed a report of the RTO Working Group as indication the organizational documents, to be modified pursuant to RTOWG recommendations, meet with the Board's satisfaction for a second SPP filing seeking FERC recognition as an RTO.

**Southwest Power Pool  
BOARD OF DIRECTORS MEETING  
Embassy Suites Outdoor World – D/FW Airport  
July 20, 2000**

**Agenda Item 1 - Administrative Items**

SPP Chair Mr. Gary Voigt called the meeting to order at 8:01 a.m., thanked everyone present for attending, called for a round of introductions and referred to the agenda containing important issues for Board consideration (Agenda – Attachment 1). The following Board members were in attendance or represented by proxy:

- Ms. Kim Casey, Dynegy Marketing & Trade;
- Mr. David Christiano, City Utilities of Springfield, MO;
- Mr. Jimmy Crosslin, Oklahoma Corporation Commission;
- Mr. Harry Dawson, OK Municipal Power Authority;
- Mr. Michael Deihl, Southwestern Power Administration;
- Mr. Bill Dowling, proxy for Mr. Gene Argo, Midwest Energy, Inc.;
- Mr. Jim Eckelberger;
- Mr. Tom Grennan, Western Resources;
- Ms. Trudy Harper, Tenaska Power Services Company & proxy for Ms. Lydia Vollmer, PECO Power Team;
- Mr. Quentin Jackson;
- Mr. Mikel Kline, proxy for Mr. Stephen Parr, KS Electric Power Cooperative;
- Mr. Tom McDaniel;
- Mr. Myron McKinney, Empire District Electric Company;
- Mr. John Oxendine;
- Mr. J. M. Shafer, Western Farmers Electric Cooperative;
- Mr. Harry Skilton
- Mr. Al Strecker, OG+E;
- Mr. Larry Sur (by telephone);
- Mr. Richard Verret, American Electric Power;
- Mr. Gary Voigt, Chair, Arkansas Electric Cooperative Corp.; and
- Mr. John Marschewski, Southwest Power Pool, Inc.

There were 62 persons in attendance representing 19 members, 8 guests and 1 regulatory agency (Attendance List – Attachment 2). The Secretary received three proxy statements (Proxies – Attachment 3).

Mr. Voigt referred to draft minutes of the May 11, 2000 meeting and asked for necessary corrections or a motion for approval. Mr. Deihl motioned that the minutes be approved as distributed. Mr. McDaniel seconded this motion, which passed unopposed.

**Agenda Item 2 – Secretary’s Report**

Interim Action

Mr. Brown stated that on Friday, June 23, an email vote was sought by Staff seeking Board of Directors approval of a Regional Tariff Working Group recommendation for a filing with the FERC seeking to add Southwestern Public Service as a zone under SPP’s regional tariff. Messrs. Voigt and Marschewski moved and seconded respectively for approval. Mr. Brown reported the Board of Directors approved this recommendation unanimously with 17 of 21 directors voting by noon, Tuesday, June 27. Mr. Brown noted the filing was made late afternoon on June 27 and is pending FERC action, and that SPP began administering service over SPS’s facilities on June 29.

Follow-up Items from May 11, 2000 Meeting

Mr. Brown stated that at the May 11, 2000 meeting of the Board of Directors, he presented a Staff recommendation concerning SPP assuming the member debt of funds not presently supported by tariff administrative fee income. In so doing, tariff customers would bear 80 percent of the carrying charges and members would bear 20 percent. Mr. Brown noted that several directors questioned why this issue was not noted in the audit and asked for an auditor’s opinion of SPP assuming this debt prior to action. Mr. Brown stated that Staff is continuing to evaluate options for future Board consideration but have received the following initial response from the auditor.

1. Why was the member debt not footnoted in the 1999 SPP Audit?  
Answer: We are aware of the manner in which SPP views the tariff shortfall and how SPP is keeping track of the funds owed to its members. However, we did not comment on this because the shortfall is not a true liability, that is, any shortfall repayment or recognition of the debt is not addressed in a SPP document thereby verifying the debt and recognizing the repayment procedure. If there is such a document, then SPP should provide it.
2. What is Deloitte and Touche opinion of SPP assuming the debt and showing it as a liability?  
Answer: We offer opinions on the application of accounting principals as they relate a proposed transaction that has accounting implications and how these transactions would be accounted for. We do not offer opinions on whether a future transaction is a sound business decision.

Messrs. Skilton and Oxendine expressed opinions that these responses were unsatisfactory. Mr. Marschewski stated that he would follow-up on the issue with the auditors.

Filling Board Vacancies

Mr. Brown stated that SPP had received resignation letters from directors Bob Zemanek of Central and South West Corp. and Steve Moore Oklahoma of Gas & Electric Co. Mr. Brown reported that per SPP Bylaws Section 4.5, if a vacancy occurs, the Board of

Directors is to elect interim directors representing the same Membership category to serve until a replacement director is elected at the next Meeting of Members to fill the vacancy for the unexpired term. SPP Chair and Vice Chair, Messrs. Voigt and Grennan respectively, recommend and nominate Mr. Richard Verret of American Electric Power and Mr. Al Strecker of Oklahoma Gas & Electric Co. to fill the respective vacancies. Mr. Dawson motioned and Mr. McDaniel seconded that the Board elect the proposed nominees. This motion passed unopposed.

**Agenda Item 3 – RTO Working Group Report**

Mr. Voigt asked RTO Working Group Co-Chair Mr. Mel Perkins to update the Board of Directors on the activities of his group. Mr. Perkins referred to the July 12, 2000 draft report (RTOWG July 12, 2000 Draft Report – Attachment 4) and gave a detailed verbal report on each of the main issues identified in the report. Mr. Perkins noted that work has continued since distribution of this report to the Board and he noted a consensus had been reached on the issues of governance, section 203 filings, public and regulatory education, and scope and configuration. Mr. Perkins noted additional work is needed in the areas of market settlement, tariff, seams, and congestion management.

Mr. Perkins noted that the RTOWG approved recommendations from its Partnership Sub-Team the prior day and he presented these recommendations for Board of Directors consideration. Specifically, these recommendations are:

- 1.) The Partnership Sub-Team proposes no modifications to SPP documents and that FERC accepted independent transmission companies be accommodated through individually proposed and approved attachments to SPP's membership agreement specifying any special provisions. Any such attachments would also require FERC acceptance.
- 2.) The Partnership Sub-Team further proposes the RTOWG recommend the above terms and conditions for approval of the Board of Directors that would allow a Transco including Entergy to operate within the structure, and under the oversight, of an SPP RTO, and that a contractual attachment to SPP's membership agreement be developed for execution of officers of SPP and Transco participants.

Mr. Verret motioned and Mr. Christiano seconded that the Board of Directors approve the RTOWG recommendation. Significant discussion ensued on issues including, but not limited to: appearance of conceding two tariffs and two congestion management schemes, lack of details, specific language in some of the terms, and whether the Board would approve the resulting contract language. Mr. McKinney moved to modify the main motion by adding the phrase "subject to ratification by the SPP Board of Directors" at the very end

of the recommendations. Mr. Dawson seconded this amending motion which, following discussion, was approved without opposition with 15 votes cast. The question was then called on the main motion, which was approved with 14 votes in favor and 3 votes in opposition. Mr. Dawson then suggested several modifications (indicated below) to specific terms of the proposal for inclusion of a transco, including Entergy, within the SPP RTO and moved the modified terms be approved by the Board of Directors as a memorandum of understanding for the development of contractual attachment to SPP's membership agreement for subsequent Board of Directors ratification. Mr. Christiano seconded this motion which, after discussion, passed with 20 votes in favor and 1 vote in opposition. The approved terms are shown here:

**PROPOSAL FOR INCLUSION OF A TRANSCO  
INCLUDING ENTERGY WITHIN THE SPP RTO**

This Proposal outlines the terms and conditions in a proposed Appendix to the Southwest Power Pool's ("SPP's") Membership Agreement that, provided SPP and Transco agree to implement the same congestion management regime, would allow a Transco including Entergy ("the Transco") to operate within the structure, and under the oversight, of an SPP RTO. This is referred to as a Partnership RTO structure.

1. *Basic Governance and Operational Responsibilities.* This proposal will allow the Transco to operate under the oversight of the Partnership RTO. The SPP's role shall include (1) acting as regional Security Coordinator for the SPP and Transco systems; (2) performing, subject to the conditions set forth in paragraph 4, the ATC and TTC calculations for the Transco; (3) fostering full and complete input by market participants into the Transco's policies; (4) overseeing a regional transmission expansion planning process; and (5) providing an appropriate forum for market monitoring and dispute resolution. The proposal should also prevent rate pancaking in the SPP's and Transco's regions. Transco shall have the option of participating on the SPP RTO Board of Directors on the same terms and conditions as all other SPP RTO Members. These provisions are currently set out in Sections 4.2 and 4.3 of the Southwest Power Pool Bylaws.

2. Because SPP will perform multiple roles under the Partnership RTO model, the staff structure and organization will be reviewed and appropriately modified to ensure non-discriminatory treatment of all parties with respect to Partnership RTO functions. The organizational structure will be designed to provide independence between the Partnership RTO functions: oversight, planning, security coordination and market monitoring, all of which will be performed by SPP, and the transmission provider and tariff administrator functions, which will be performed by SPP, by SPP non-Transco members, and by Transco. These changes are focused on complying with the objectives outlined in FERC Order No. 2000. In particular, the following functions will be separated with a code of conduct specifying the policies and procedures that must be followed in all business transactions between these functions:

- a) Transmission provider and tariff administration functions. SPP will be a transmission provider ~~and control area operator~~ within the Partnership RTO territory, as will Transco. There should be a level playing field among all transmission providers, control area operators, and transmission users under the Partnership RTO.

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- b) Regional coordination and planning functions. SPP will provide security coordination and regional planning functions for the entire Partnership RTO region. The security coordinator function should be clearly separated from the transmission provider and tariff administrator function. The separation of the security coordinator function may be achieved, at the election of the SPP Board, either through the use of a strict code of conduct or by organizational separation, in which case the security coordinator would report to the SPP Board of Directors, independently from the tariff administrator function. The code of conduct would strictly forbid the security coordinator from taking any actions in carrying out the duties and responsibilities of security coordinator that advantage the transactions over one transmission owners system over the transactions over any other transmission owners system.
- c) Oversight functions. Under this proposal, SPP's oversight responsibilities include market monitoring and ADR. These functions will be carried out by a separate group of employees and managers reporting directly to the SPP Board. The Board may use an independent outside firm to assist in the monitoring activities. The scope of the monitoring function is described below in paragraph 16. It includes monitoring of the other functions of SPP, including security coordination.

3. *FERC Review and Approval of the Transco Proposal.* The Transco shall seek and obtain FERC approval to establish and operate as a Transco under the SPP RTO.

4. *Transmission Tariff.* ~~In the event that SPP and Transco agree to implement the same congestion management regime,~~ The Partnership RTO shall administer a single tariff that will apply to transmission service within the SPP and Transco. Transco will have control over those portions of the tariff that affect the commercial terms and conditions of transmission service over Transco's facilities, as detailed in Schedule A. Transco shall possess the unilateral right, without receiving any SPP or Partnership RTO approval, to make filings at FERC proposing rate or rate structure changes (including incentive rate structures) involving transmission charges for service to load within the Transco or transmission service that does not cross any of the SPP transmission operator facilities. Transco also retains the right to unilaterally make filings at FERC for the purposes of implementing new transmission services that are not contained in the RTO Transmission Tariff. Transco will provide SPP with a copy of any such filing 30 days prior to filing with FERC and will make reasonable efforts to resolve any issues regarding the new service prior to filing at FERC, but in no circumstances shall this extend beyond 45 days from the time SPP is provided a copy of the proposed filing. A detailed list of the pro forma tariff provisions that Transco will have the unilateral right to change through FERC filings will be developed and attached to this agreement as Appendix A.

The Transco will be responsible for conducting studies and scheduling transactions on the Transco's system and shall be the provider of last resort for ancillary services in accordance with FERC Order Nos. 888 and 2000. The SPP and Transco agree to use a single model incorporating the VST model (Vacar, Southern and TVA) for calculating ATC/TTC. Provided that the SPP and Transco agree to utilize the same congestion management regime, the SPP RTO will perform all ATC/TTC calculations utilizing a methodology that is mutually agreed to between Transco and the SPP, including the requirement that the SPP RTO agrees: (1) to accommodate Transco's ATC/TTC calculation frequency requirements; (2) to coordinate with adjoining reliability regions to ensure that differing calculation assumptions or methods between the adjoining regions and Transco/SPP do not invalidate the border ATC/TTC values; (3) that Transco shall be responsible for establishing the ratings of its facilities; (4) to ensure that TTC/ATC values are consistent with a simultaneously feasible set of transmission rights; and (5) to coordinate with Transco to ensure that the most up-to-date VST model information is included in the SPP model. - The Transco shall have real-time access to the ATC/TTC calculations. If the Transco and the SPP cannot resolve a disagreement over the calculation of ATCs or TTCs, then the Transco can submit that disagreement to the Partnership RTO's ADR process, provided that, in the absence of System security issues, the Transco's calculation shall be binding during the pendency of the ADR proceeding.

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5. *Transmission Rates.* In designing transmission rates, SPP and Transco agree that there shall be no pancaked rates for transmission service with respect to transactions using both the Transco and SPP systems. To implement this, they will agree to reciprocal waiver of access charges for transactions scheduled on one system that terminate on the other system. For transmission service on either the Transco's system or the SPP's system, but not both, that is scheduled to sink outside the Partnership RTO's system (including transmission through and out service), the customer shall pay the transmitting system's rate. For transmission service on both the Transco's and SPP's systems to load outside the system (including transmission through and out service), the Transco and the SPP shall develop an appropriate single joint rate. The Transco and the SPP shall develop a rate formula that compensates the Transco and the SPP for their proportionate contribution to these transactions. Within these limitations, the Transco shall possess the unilateral right to propose rates and rate structures (including innovative rate-making proposals) for transmission service over the Transco's transmission facilities.

6. *Billing.* The Transco shall be responsible for billing for transmission service that terminates on or only crosses the Transco's system. The SPP shall be responsible for billing for transmission service that terminates on or only crosses the SPP system. For transactions on both the SPP's and the Transco's systems that terminate outside the combined region, the billing shall be handled by the system on which the power exits the combined region, provided, however, that the rate for such service will be the single joint rate described in paragraph 4 of this document.

SPP's Schedule 1 tariff administration fee shall apply to transmission service within the Transco. If Transco maintains a separate tariff, Transco shall develop, file and apply a rate schedule to collect this fee and will provide such revenues to SPP on a monthly basis, consistent with SPP's billing processes. Transco's total responsibility for SPP costs incurred to provide services and systems that are used by Transco and other SPP members shall be capped at a level equal to such costs multiplied by the ratio of the share of annual load served by Transco's transmission system to the annual load served by the Partnership RTO's transmission system.

7. *Unified OASIS Site.* The SPP and the Transco shall work to jointly develop and administer a unified OASIS site for transmission service under the SPP's and Transco's tariff. Both parties, however, shall have the option to build, maintain and administer additional features to the OASIS site in response to the needs of customers or the market. SPP and Transco shall ensure that market participants have the ability to obtain transmission service across the transmission facilities of the SPP/Transco RTO through the use of one OASIS site.

8. *Congestion Management.* The Transco and SPP shall develop and implement a congestion management plan for managing and relieving constraints within the Transco's system. The Transco and the SPP agree to work together in an effort to develop a single regional approach to congestion management. If the SPP so requests, Transco agrees to make its congestion management system available to SPP members at cost. Should SPP elect to develop its own system for congestion management, Transco and SPP will coordinate their systems to ensure maximum efficiency. At a minimum, they agree to develop a system for the joint procurement of ancillary services and a joint protocol to address the effect of parallel flow within the combined region that is caused by transactions scheduled on either SPP or Transco.

9. *Losses.* The Transco shall develop and implement a proposal for loss responsibility within the Transco's system. The Transco will coordinate with the SPP, and its members, to develop a proposal to calculate losses on transactions over the SPP's and the Transco's system.

10. *Curtailments.* SPP shall act as the regional Security Coordinator for the SPP and Transco systems. In its role as Security Coordinator, SPP will allow Transco to provide redispatch alternatives to the Security Coordinator for transactions not scheduled by Transco that affect Transco flowgates that will alleviate the need for transmission line loading relief (TLR). These redispatch instructions will be by Transco.

## SPP Board of Directors Minutes July 20, 2000

11. *Operations.* The Transco shall be responsible for the operation of the Transco's transmission system. This includes the responsibility to establish ratings and operating procedures, and develop transmission and generation outage schedules which will be coordinated with the SPP RTO, and to develop congestion management proposals. Transco and SPP will develop transmission and generation outage schedules designed to balance grid optimization with good utility practice.

12. *New Generator Interconnections.* Transco shall be responsible for evaluating and implementing requests for new generator interconnections on its system. SPP and Transco will work together to develop a single procedure for generator interconnections within the Partnership RTO. Market participants seeking generator interconnections with Transco may use the SPP dispute resolution process.

13. *Reliability Oversight and Input.* The SPP shall be informed of, and shall be allowed to provide input into, the operational practices of the Transco so that the SPP can determine whether such practices have an adverse reliability impact anywhere in the region. The SPP may challenge operational procedures or practices of the Transco through the SPP's dispute resolution process; provided that the Transco's actions shall be binding pending the dispute resolution process.

14. *Planning and Expansion.* The Transco shall develop its own transmission plan for its region that includes both market-funded and rate-funded projects. This will be submitted to the SPP for review and inclusion in an RTO-wide plan which the SPP shall prepare. Transco may, at its option, participate in the expansion of the transmission grid through market-funded projects. The SPP shall review all rate-funded projects for reliability considerations and appropriateness and then incorporate such projects into the overall Partnership RTO expansion plan. The SPP's review of market-funded projects shall be limited to reliability considerations. SPP and Transco will develop a formula to be used to apportion responsibility among all RTO transmission owners for the funding of projects that were not included in the Transco's plan but that the SPP has determined are required for regional reliability reasons.

SPP, through its affected members, and Transco mutually agree to construct facilities to meet new requests for firm transmission service subject to the development of appropriate cost-sharing arrangements and subject to obtaining all necessary governmental and regulatory approvals. In carrying out this obligation, Transco and SPP agree to use due diligence in meeting these requests regardless of whether the request originates on the Transco system or the portion of the grid under the control of the SPP transmission operator. SPP and Transco also agree to work together to determine the financial responsibility and the sharing of costs required to construct any new facilities required to meet these requests.

15. *Multi-State Transmission Planning Agreements.* SPP and Transco agree to work together jointly to support any multi-state transmission planning compact that is developed in their region.

16. *Monitoring.* The Partnership RTO shall be responsible for all market monitoring activities required of the Partnership RTO. The monitoring function will also extend to SPP's security coordination function. In its role as market monitor, the SPP shall have the authority to collect information and issue reports to appropriate regulatory agencies, but it shall not have the authority to impose penalties. The SPP's cost of monitoring the Transco's markets shall be borne by the Transco and its customers. The SPP and Transco shall be responsible for enforcing compliance with the provisions of their respective tariffs.

17. *Liability.* The Transco shall assume liability for all acts or omission resulting from the functions performed by the Transco and shall indemnify and hold the SPP harmless for its actions in performing those functions.

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18. *Dispute Resolution.* The SPP, and its dispute resolution process, shall be utilized for addressing all disputes between the Transco and SPP concerning the arrangements set forth in this RTO Partnership Agreement provided that disputes between the SPP and Transco shall be subject to non-binding arbitration unless the parties agree otherwise. Disputes between Transco, SPP members, or other market participants shall be subject to non-binding dispute resolution procedures unless the parties agree otherwise.

19. *Coordination.* The Transco and the SPP shall cooperate and use their best efforts to develop procedures and protocols to allow the Transco to operate within the structure of the SPP.

20. *Stakeholder and State Commission Input.* The SPP's oversight shall allow input from state commissions and market participants into the Transco's operations and procedures. This may take the form of an SPP advisory committee to be established for this purpose. The Transco shall establish a liaison with such advisory committee, or comparable organization, and shall support the process allowing input from state commissions and market participants. Additionally, Transco will establish a Market Rules Committee, comprised of market participants, for the purpose of providing input and recommendations to Transco on changes to the market rules that will improve the overall efficiency and operation of the competitive generation market.

21. *Expandability of Transco.* The Transco shall be structured to reasonably accommodate other SPP members and non-members who elect to join. Any current SPP member shall have the right, upon one year's advance notice, (consistent with Section 4 of the SPP Members Agreement) to commit its assets to the Transco and to have its transmission facilities included within the Transco Tariff on terms and conditions comparable to the terms and conditions provided to the initial Transco members.

22. *Survivability.* This Agreement shall remain binding and shall be accommodated in the event that the SPP merges or combines with another regional transmission entity. In any instance where the provisions contained within this RTO Partnership Agreement, are in conflict with the SPP Bylaws or the SPP Membership Agreement, the terms and conditions of this document shall control.

23. *Withdrawal Rights.* The Transco shall have the same rights to withdraw from the SPP as other SPP members under section 4 of the SPP Membership Agreement. Such withdrawal shall be subject to FERC approval.

Upon completing his report on remaining issues, Mr. Perkins presented the following RTOWG recommendation:

The RTOWG recommends that the Board of Directors endorse this RTOWG report as indication the organizational documents, to be modified pursuant to RTOWG recommendations, meet with the Board's satisfaction for a second SPP filing seeking FERC recognition as an RTO.

Mr. Dawson motioned and Mr. McDaniel seconded that the Board of Directors approve the RTOWG recommendation. This motion passed without opposition. Mr. Perkins stated that the RTOWG was hosting a public workshop on Wednesday, July 26, 2000, to provide education on SPP's RTO proposal and seek final public input. He concluded by stating the

SPP Board of Directors Minutes  
July 20, 2000

RTOWG would be meeting again August 9, 2000 to finalize documents for Board consideration.

**Agenda Item 5 – Future Meetings**

Mr. Marschewski noted that the Board of Directors will need to meet again toward the end of August to act on final documents for SPP's RTO filing. Following discussion, Mr. Verret motioned and Mr. Dowling seconded that the Board of Directors meet on Wednesday, August 30, 2000. Mr. Brown stated the location would be in the Dallas/Ft. Worth Airport vicinity and would be scheduled to allow same-day in and out travel.

**Agenda Item 6 – Adjournment**

Mr. McKinney commended the RTO Working Group and its leadership for the extraordinary amount of work in such a short time. Mr. Jackson expressed his appreciation for the director orientation session held on July 6 in Little Rock. Mr. Rick Henley expressed his appreciation to Entergy for their spirit of cooperation in developing the memorandum of understanding approved by the Board of Directors. With no further business, Mr. Voigt thanked everyone for their participation and adjourned the meeting at 11:15 a.m. CDT.

Nicholas A. Brown, Corporate Secretary

**Southwest Power Pool  
BOARD OF DIRECTORS MEETING  
July 20, 2000 Called Meeting  
Embassy Suites Outdoor World – Dallas/Ft. Worth Airport**

**- A G E N D A -**

WEDNESDAY, JULY 19

*6 to 7:30 p.m. – Reception – La Buena Vida Room*

THURSDAY, JULY 20

*7:30 a.m. – Continental Breakfast – Pheasant Ridge V*

*8 to noon – Meeting*

1. Administrative Items ..... Gary Voigt
  - a. Call to Order, Introductions, Receipt of Proxies
  - b. Approval of May 11, 2000 Meeting Minutes
  
2. Secretary's Report..... Nick Brown
  - a. Interim Action
  - b. Follow-up Items from 5/11/00 Meeting
  - c. Filling Board Vacancies
  
3. RTO Working Group Report..... Mel Perkins/David Christiano
  
4. Entergy Transco Proposal..... Frank Gallaher
  
5. Future Meetings..... Gary Voigt
  
6. Adjournment..... Gary Voigt

Southwest Power Pool  
BOARD OF DIRECTORS  
Embassy Suites Outdoor World - Grapevine, TX

July 20, 2000

ATTENDANCE LIST

Name	System
SUSAN Skipper	SPP
Keith Sugg	Ark. Elect. Coop. Corp.
CARL A. MONROE	SPP
Gene Anderson	OMPA
Jim Stanton	Calpine
PAT BOURNE	SPP STAFF
Ricky BITTLE	AECC
MARY COHRAN	ARK. PSC
Richard House	Ark PSC
DAVID MENABB	AECC
Christine Ryan	East Texas Cooperatives
Melvin Bowen	OGE
RICK TYLER	NORTHEAST TX ELEC. COOP.
WAYNE MILLER	NTEC, ETEC, Tex-LA
Bill Burchette	NTEC, ETEC, Tex-LA

Southwest Power Pool  
BOARD OF DIRECTORS  
Embassy Suites Outdoor World - Grapevine, TX

July 20, 2000

ATTENDANCE LIST

Name	System
JOHN H. BLITS	EAST TEXAS ELEC. COOP, INC.
Jess Totten	Texas PUC
TOM BOZEMAN	WESTERN RESOURCES
Dick Dixon	WERE
Jimmy Crosslin	Oklahoma Corporation Commission
Deborah Jacobson	OKla Corp. Comm.
Mel Perkins	OG ETC
Dave Christiano	City Util. Sptd., Mo.
Myron McKinney	Empire District Electric
Harry Dawson	OMPA
Tom McDaniel	Ind. Director
MIKE DEHL	SWPA
KIM CASEY	DYNEGY
QUENTIN JACKSON	Independent Director
Mikel Kline	REPRESENTING/PROXY FOR Stephen Parr KEPCo

Southwest Power Pool  
BOARD OF DIRECTORS  
Embassy Suites Outdoor World - Grapevine, TX

July 20, 2000

ATTENDANCE LIST

Name	System
John Marschewski	Southwest Power Pool
Gary Voigt	Arkansas Electric Cooperative
Tom Grenon	Western Resources
Jim Eckelberger	Independent Director
Richard Verret	AEI
Bill Downing	MIDWEST ENERGY, INC
JOHN OXENDINE	INDEPENDENT DIRECTOR
J. M. Shafer	Western Farmers Elect. Co-op.
HARRY SKILTON	IND. DIRECTOR
TRUDI HARPER	TENASKA
AL STRECKER	OG & E
FRANK GALLANER	Energy
BARBARA DeGrosso	SPRA
Jim Sherwood	SWPA
Mike Proctor	Missouri Public Service Comm.

Southwest Power Pool  
**BOARD OF DIRECTORS**  
 Embassy Suites Outdoor World - Grapevine, TX

July 20, 2000

**ATTENDANCE LIST**

Name	System
Marc Conklin	Kansas City Board of Public Utilities
Bernie Cervera	" " "
MARK BECKER	AMERICAN ELECTRIC POWER
Alan Derichsweller	WESTERN FARMERS ELEC COOP
Michael Desselle	American Electric Power
Kim Despeaux	Entergy Services, Inc.
Steve Owens	ENTERGY
Larry Wells	Cleco
Terry Whitmore	Cleco
Mark MacDonald	Cleco
Mike Apprill	UtiliCorp United
RON KITE	KANSAS CITY POWER & LIGHT
GERRY BURROWS	" "
Nick Brown	SPP
Mike Small	Windsor Telephone for SPP



**Steven E. Moore**  
Chairman, President and  
Chief Executive Officer

**OGE Energy Corp.**  
PO Box 321  
Oklahoma City, Oklahoma 73101-0321  
405-553-3203  
www.oge.com



July 19, 2000

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

Dear John:

Al Strecker will be attending the July Board of Directors meeting and has been given the authority to vote in my absence.

Sincerely,

A handwritten signature in cursive script, appearing to read "Steve", written in black ink.



## Kansas Electric Power Cooperative, Inc.

KANSAS ELECTRIC POWER COOPERATIVE, INC.

### PROXY

Mikel Kline, KEPCo, with full power of substitution is hereby authorized to vote on all matters which may properly come before the Board meeting of the Southwest Power Pool, to be held in Dallas, Texas on July 20, 2000.

Dated 7/17/00

Stephen E. Parr

Phone: 785.273.7010

Fax: 785.271.4888

[www.kepco.org](http://www.kepco.org)

P.O. Box 4877

Topeka, KS 66604-0877

600 Corporate View

Topeka, KS 66615

A Tri-State Energy Cooperative 

**Brown, Nick**

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**From:** Vollmer, Lydia  
**Sent:** Sunday, July 16, 2000 7:14 PM  
**To:** Harper, Trudy; Brown, Nick  
**Subject:** Re: SPP Board of Directors July 20, 2000 Called Meeting

Nick - I designate Trudy Harper as my proxy for the board meeting that will be held on July 20, 2000.

Thank you,  
Lydia Vollmer

**Southwest Power Pool**  
**REGIONAL TRANSMISSION ORGANIZATION WORKING GROUP**  
**Report to the Board of Directors**  
**WORKING DRAFT – July 12, 2000**

**BACKGROUND**

On December 30, 1999 Southwest Power Pool (SPP) filed a petition with the Federal Energy Regulatory Commission (FERC) seeking recognition as a Regional Transmission Organization (RTO) pursuant to FERC Order 2000 (Docket No. EL00-39-000). On May 17, 2000, FERC denied SPP's proposal finding that it required modification to meet the standards necessary for recognition as an RTO and the order provided guidance regarding certain aspects of SPP's filing. SPP leadership immediately decided not to seek rehearing and committed to developing a filing that meets FERC expectations.

In response to FERC's order and other Board of Directors action regarding Entergy's RTO/Transco partnership proposal presented to the Board at their May 11, 2000 meeting, SPP Chair Gary Voigt established the Regional Transmission Organization Working Group (RTOWG) reporting to the Board of Directors. The charge of this working group is to develop and recommend to the Board of Directors organizational documents necessary for SPP to receive FERC recognition as a RTO pursuant to their Order No. 2000 and order on SPP's initial filing. During this process, the RTOWG also acted as the 'policy team' directed to be formed by the Board of Directors to develop necessary modifications to SPP's documents to include a transco under the SPP RTO as conceptually proposed by Entergy. This group was formed under the Board of Directors because the subject involves both commercial and engineering and operating issues and time precluded having the group report to two committees. A conference was envisioned to seek member and public comment on a product prior to final Board approval.

As with all SPP research and development activities a working group was formed that was well representative of the membership and contained necessary expertise to accomplish its assigned task. Though participation in SPP meetings is open to all interested parties, additional Transmission Customer members were added after the first meeting and were balanced by the addition of an equal number of Transmission Provider representatives. The RTOWG roster consists of:

Transmission Providers

Mel Perkins, OKGE  
Mike Desselle, CESW  
J. M. Shafer, WEFA  
Henry Janhsen, SWPS  
Dick Dixon, WERE  
Jim Sherwood, SWPA  
Ron Kite, KCPL

Transmission Customers

David Christiano, SPRM  
Ricky Bittle, AREC  
Rick Henley, Jonesboro  
Bob Reilley, Coral  
Kurtz Stowers, PGE  
Christine Ryan, ETEC  
Betsy Carr, Dynegey

Nick Brown, SPP

**RECENT ACTIVITIES**Meeting With FERC

SPP representatives met with FERC commissioners and staff on May 31 to gain additional guidance on SPP's goal of achieving FERC recognition as an RTO and questions specifically focused on SPP's collaborative process, operational control, governance, and scope. Representing SPP were Mel Perkins and David Christiano (as RTOWG co-chairs), Dick Dixon (as chair of the Regional Tariff Working Group), and John Marschewski, Nick Brown and Pat Bourne (SPP Staff). Steve Owens and Kim Despeaux of Entergy also participated. Meetings were held with Commissioners Breathitt and Massey, and with Commissioner Hebert's legal advisor Joshua Rokach. The group also met with several FERC staff representatives including Dan Larcamp, Kevin Kelly, Shelton Canon, Bill Longnecker and Leon Lowery. FERC staff encouraged primary focus on regional scope, seams issues, and the Entergy partnership proposal. The commissioners and staff minimized SPP's proposed governance structure as an issue. As a result of the meeting, all SPP participants agreed that pre-filing conferences will be absolutely essential in the future in order to provide accurate and complete information to the FERC staff and commissioners about SPP filing.

Collaborative Process

The RTOWG met initially on June 6 and 7 with 40 persons in attendance and quickly agreed to the following collaborative plan of action: identification of major issues; formation of sub-teams to work in an open and self directed fashion in addressing the major issues; hosting public workshops as necessary to gain additional information and understanding; and presenting a final product to the Board of Directors on July 20 for consideration. FERC's order on SPP's initial RTO filing directed "SPP to conduct a more thorough evaluation of those aspects of its proposal not addressed in this order. In so doing, SPP can address Intervenor's relevant concerns during any collaborative process it adopts." The RTOWG co-chairs established an objective for the RTOWG that a SPP RTO filing is made without protests, and a second objective that, if a protest is made, that the issue had at least been considered by the RTOWG. To this end, the co-chairs made a plea at each and every RTOWG meeting to get issues on the agenda.

Following identification of issues, the RTOWG concurred with formation of the following sub-teams to respond to the various outstanding issues:

- Governance – RTOWG,
- Section 203 Filings – Staff/Counsel,
- Tariff (zones/expansion) – Regional Tariff Working Group,
- Settlement – Market Settlement Working Group,
- Public and Regulatory Education – RTOWG leadership,
- Seams – At large participation led by Mike Apprill,
- Congestion Management – At large participation led by Ricky Bittle,
- RTO/Transco Partnership – At large participation led by Gene Anderson, and
- Scope & Configuration – At large participation led by Michael Desselle.

Email exploder lists were created for the RTOWG and each issue sub-team for dissemination of ALL correspondence and were open to self-subscription by any and all interested parties. RTOWG meeting minutes and ALL working documents were distributed via the RTOWG and sub-team exploder lists and were posted for public viewing and access via SPP's homepage at [www.spp.org](http://www.spp.org). FERC representatives were formally invited to participate in ALL related activities and all parties that protested SPP's initial RTO filing were also invited to participate.

In considering recommendations before the RTOWG, straw votes of concurrence were taken from all participants prior to official votes by the RTOWG members to insure that any and all concerns were considered. To ensure completely open participation, Staff agreed to not to utilize RTOWG voting records in arguments before the FERC. The RTOWG met a second time on June 20 with 46 persons attending to hear initial sub-team reports and strawman votes of concurrence were taken indicating that the sub-teams were proceeding in the right direction.

As congestion management is of critical importance in designing the SPP RTO, the Congestion Sub-Team hosted a public conference on June 19 with over 75 persons attending to hear presentations on various alternatives from industry experts including Larry Ruff of Energy & Economic Consulting, Bill Hogan of Harvard University, Narasimha Rao of Tabors Caramanis & Associates, and Ed Cazalet of Automated Power Exchange.

### Summary of Meetings

The following items briefly describe meeting events related to RTOWG efforts:

- RTOWG meetings on June 6-7, 20 and July 19,
- Education Sub-Team teleconference calls on June 9, 12 and 16,
- Partnership Sub-Team meetings on June 14-15, 19, 29 and July 17,
- Seams Sub-Team meetings on June 7 and 19 and two-hour teleconference calls on June 12, 15, 30 and July 7,
- Congestion Sub-Team meetings on June 7 and 19 and over two-hour teleconference calls on June 27 and July 5,
- Market Settlement Working Group meeting on June 5, and
- Regional Tariff Working Group meeting on June 28 and four-hour teleconference calls on June 16 and 22,

### **ANALYSIS**

Sub-Team reports are contained in separate sections that follow. Several issues were specifically debated and resolved by the RTOWG rather than making an assignment to a self-directed sub-team.

### Governance

FERC Order 2000 requires that RTO be governed in a fair and non-discriminatory manner, independent of undue influence by any individual or group of market

participants. SPP's RTO filing proposed maintaining its newly approved and implemented structure for the Board of Directors. The FERC order on SPP's RTO filing instructed SPP to use the collaborative process to address intervenors' independence concerns prior to submitting its modified RTO filing. The existing governance structure was discussed at the first RTOWG meeting and a plea was made for any issues to be raised during the meeting or distributed via the RTOWG email exploder. No issues were raised during the entire RTOWG deliberation process with SPP's current governance structure being maintained in the context of SPP's RTO filing. A straw vote of all participants on maintaining SPP's current governance structure in SPP's RTO filing indicated no opposition and a motion to maintain SPP's current governance structure in SPP's RTO filing passed without opposition.

### **Section 203 Filings**

FERC Order 2000 requires transmission owners to turn over operational control of their transmission facilities to an RTO. The transfer of operational control of FERC-jurisdictional transmission facilities occurs via a FERC filing under Section 203 of the Federal Power Act. SPP's initial filing proposed that SPP's administration of service over transmission owner facilities be governed by its membership agreement, which formed an agency relationship with owners for SPP's tariff administration responsibilities. SPP proposed this contractual approach, as opposed to Section 203 filings, to maintain similar treatment of its jurisdictional and many non-jurisdictional transmission owners. FERC's order on SPP's initial RTO filing found that an RTO proposal that provides for full transfer of operational control of jurisdictional facilities will require Section 203 filings. This issue was not assigned to a sub-team, but Staff and Counsel were directed to develop a proposal concerning Section 203 filings for FERC-jurisdictional transmission owners. The following two-point proposal was presented for RTOWG consideration.

1. *203 Applications* – FERC's SPP RTO order makes clear that all FERC regulated public utilities owning transmission to be transferred to SPP's operational control must file 203 Applications as part of an RTO proposal. Regional Transmission Organizations, Order No. 2000, III FERC Stats. & Regs., Regs. Preambles ¶ 31,089, at 30,944 n.5. These public utilities are the investor owned utilities plus any other transmission owners that are no longer exempted from FERC regulation under Section 201 of the Federal Power Act such as Coops that have paid off their RUS loans. A standardized 203 Application should be developed as the reasoning for approval generally will be the same in all cases; i.e., the transfer of control is necessary to carry out FERC's statement of the public interest as reflected in Order 2000. Each transmission owner will need to develop a list of facilities or maps showing the facilities covered by the 203 application. These 203 applications should be filed together with the RTO filing so that there is no question that operational control is being transferred. See Section 35.34 (d).

2. *Membership/Agency Agreements* – All transmission owners will continue being covered by a Membership Agreement. The Membership Agreements currently in effect will be used with a few modifications. For non-FERC jurisdictional entities, the contractual relationship will be maintained as no explicit 203 application will be filed for those entities. SPP, however, will file those agreements with FERC which will treat those agreements as it sees fit. Those non-FERC jurisdictional entities also should specify which facilities are being transferred to SPP's control. The changes to be considered to the Membership Agreements include:
- Eliminating the use of the term “agent” and instead imposing fiduciary obligations,
  - Explicitly stating that all transmission owners are transferring operational control of the designated transmission facilities to SPP,
  - Providing SPP with approval authority for transmission maintenance,
  - Making clear that SPP will have exclusive authority for receiving, confirming and implementing all interchange schedules,
  - Adding in statements that these membership agreements are intended to transfer to SPP all operational control required by Order 2000,
  - Whether any changes need to be made to the filing rights provisions in the membership agreement, and
  - Other miscellaneous changes to comply with Order 2000 such as the agreement to study within two years whether the division of operational control is working.

A straw vote of all participants on the proposed process for Section 203 filings with SPP's RTO filing and modifications of the membership agreement indicated no opposition. A motion to proceed with the proposed process to guide specific modifications to SPP's tariff and membership agreement for use in SPP's RTO filing was approved by the RTOWG without opposition.

### **Market Settlement**

FERC's Order 2000 requires the RTO to be provider of last resort for ancillary services and to operate a real-time balancing market accessible to all transmission customers. In its initial RTO filing, SPP submitted that its regional tariff supported SPP as provider of last resort of all ancillary services and that the real-time balancing market was being evaluated in a retail open access context and had not been developed as of the time of the filing. The Market Settlement Working Group (MSWG) was chartered on March 22, 2000 with the responsibility to coordinate the changes necessary to the wholesale scheduling, settlement, and ancillary services processes necessary to implement retail open access and RTO operations under Order 2000. The MSWG provides oversight and direction to SPP in the modification of scheduling, settlement and ancillary services processes and computer systems. As such, the RTOWG assigned the MSWG the responsibility of developing the settlement process that SPP would propose in an RTO filing.

In response to SPP's initial RTO filing FERC directed SPP to develop an approach to operate a real-time balancing market by the time it files its modified RTO proposal. FERC requires the proposal to include a thorough and detailed justification of whether customers pay for all imbalances or only imbalances within a specified band, including an explanation of how the filing party proposes to overcome any disadvantages of the market approach selected. FERC will require SPP to have, at the very least, a process in place whereby such development will occur and to file details of that process, including a timeline for implementation. On June 29, 2000, the MSWG sent a Request for Proposal (RFP) to vendors. The RFP was for the acquisition of systems to support scheduling, ancillary service bids and dispatch, and settlement. Bids are expected by July 31, 2000. The following processes were approved without opposition by the MSWG for recommendation to the RTOWG to be used in SPP's RTO filing.

The real-time balancing market is based on hour-ahead bids to the RTO from resources. These bids are voluntary and will be stacked by price. Upon selection performance instructions for energy imbalance service will be sent from the RTO directly to the resource. Regulation instructions will be sent from the control area operators directly to the resource. Schedules of all load and resources committed for the load will be submitted to the RTO on a day-ahead and hour-ahead basis. The RTO will prepare a forecast and make this information and the gap between its forecast and the market committed resources through scheduling available to the market participants on an hour-ahead basis.

The settlement function accounts for all energy by using the net input into the grid as a control number. The end-use is calibrated to the net input and compared to the schedule data and the difference, positive or negative, is settled based on the market clearing price of the energy imbalance market. The market participants may mitigate the impact of energy imbalance services through the independent contracting for energy imbalance resources and offering those resources to the RTO for operational dispatch.

The advantage of settling on all energy imbalances is that the market-clearing price can be used for settling both the supply of and the use of energy imbalance. Settling on only imbalances outside a bandwidth would require billing parties using energy imbalance at a different rate than the suppliers of energy imbalance resources. This would reduce the transparency of the market, especially to participants who might be both users and suppliers into energy imbalance services. This approach is also consistent with the settling of inadvertent energy between control areas. All market participants would see the same price, set through the deployment of market bid resources, during the settlement interval. Another advantage of settling all imbalance at the market clearing price is that the RTO can neither under nor over-recover.

The process detailed above allows the market to establish the price used in the spot balancing market and renders price transparency to all market participants supplying or

utilizing energy imbalance services within a settlement period. This also recognizes SPP's role as an active facilitator of the real-time balancing market and the availability of the resources under that market to all market participants.

### **Congestion Management**

In its Order 2000, the FERC set out specific requirements regarding an RTO's development and implementation of a congestion management system. It must ensure that market mechanisms are used to manage transmission congestion. Order 2000 at (§35.4(j)(2)(i)) states the following:

The market mechanisms must accommodate broad participation by all market participants, and must provide all transmission customers with efficient price signals that show the consequences of their transmission usage decisions. The Regional Transmission Organization must either operate such markets itself or ensure that the task is performed by another entity that is not affiliated with any market participant.

The FERC also provided the RTO with significant flexibility to experiment with various market approaches to manage congestion. A number of such approaches were enumerated and discussed in Order 2000. Although the FERC did not prescribe a specific mechanism, it found that “. . . some approaches appear to offer more promise than others.” “As we stated in our order approving the PJM ISO and reiterated in the NOPR, markets based on locational marginal pricing and financial rights for firm transmission service appear to provide a sound framework for efficient congestion management.” Yet, it also stated: “While our experience has shown that, in specific situations, some approaches to congestion pricing appear to have advantages over others, we have not yet identified one approach as being clearly superior to all others. Furthermore, the Commission recognizes that an RTO's choice of a congestion pricing method will depend on a variety of factors, many of which may be unique to that RTO. Therefore, we will allow RTOs considerable flexibility to propose a congestion pricing method that is best suited to each RTO's individual circumstances.”

In its initial RTO filing SPP offered Section 33 of its regional tariff and the related Attachment K (Redispatch Procedures and Redispatch Costs) as the means initially to satisfy the market based congestion management system RTO requirement. The FERC order noted that Order 2000 provides an RTO up to one year to finalize market mechanisms to manage congestion, as long as effective protocols for managing or preventing congestion are in place at start-up. It then found that, although SPP has a congestion management plan in place, it is not fully developed and directed it to use the collaborative process to address intervenor concerns prior to filing a modified RTO proposal. Pursuant to this direction from the Commission, the Regional Transmission Organization Working Group (RTOWG) commissioned the formation of this Congestion Sub-Team to manage this collaborative effort. There are several time constraints that must be addressed. The FERC, in Order 2000, expects a market-based solution for congestion management to be implemented within one year of initial operation of the

RTO. The Arkansas and Texas legislation requiring open access will allow retail choice as early as 1/1/2002.

At the June 19 congestion management symposium three methods of congestion management were discussed. They were Locational Marginal Pricing (LMP), Zonal with physical rights (ZPR) and Flow-based Congestion Management (ZCM). Although variants of these three methodologies have been discussed, no other significant methodology has been advanced. The discussions have not lead to a consensus opinion. Because of the amount of information presented to the Congestion Sub-Team, it has not yet voted on the proposals. To date Entergy has sponsored LMP, Coral has sponsored ZPR and Dynegy has sponsored FCM. Each proponent is capable of pointing out flaws of the other systems.

The following description of the three methods is taken from a comparison of congestion management mechanisms provided by Larry Ruff.

*Locational Marginal Pricing* - The RTO operates an integrated dispatch/spot market process that determines market-clearing energy prices at every node based on the actual security-constrained dispatch. These prices are used to settle energy imbalances, to price congestion for both spot and contract transactions and to settle point-to-point "financial transmission rights" (FTRs) that are allocated and/or auctioned by the RTO. When it is efficient and practical to do so, ancillary services are procured and priced by the RTO as part of this same integrated dispatch/pricing process.

*Zonal with Physical Rights* - The RTO determines the dominant transmission constraints that are "commercially significant," defines the "flow factors" indicating how injections at each node affect flows across each "flowgate," and allocates/ auctions "flowgate rights" (FGRs) for each flowgate. Market participants trade energy and FGRs among themselves and then submit balanced bilateral schedules that are consistent with their FGRs and the flow factors. The RTO then uses some market process(es) to redispatch generation in real time to deal with residual congestion and contract imbalances. The costs of meeting any constraints not represented by the few flowgates are "socialized" or spread across the market. To the extent practical, ancillary services are procured in separate and even non-RTO markets.

*Flow-based Congestion Management* - The RTO delineates pricing zones within which LMP differences are not deemed "commercially significant" and then defines and allocates/auctions "physical transmission rights" (PTRs) on each of the interfaces between zones. Spot (unscheduled) trading may be allowed at the uniform, RTO-determined settlement price within each zone, but interzonal trades must be scheduled with the RTO consistent with PTRs held by the traders. The RTO manages intrazonal congestion and interzonal flows by making constrained on/off payments to generators redispatched out of merit. To the extent practical, ancillary services are procured in separate and even non-RTO markets.

In order to provide some reference material the following are provided as attachments to this report:

- Attachment No. 1 - Comparison of congestion management mechanisms by Larry Ruff
- Attachment No. 2 - Comparison of congestion management schemes by Narasimha Rao
- Attachment No. 3 - Questions about congestion management by APX
- Attachment No. 4 - Questions and answers for understanding Flow-based scheduling by APX
- Attachment No. 5 - Coral's response to questions by David McNabb (AECI)
- Attachment No. 6 - Questions about Congestion Management by Narasimha Rao
- Attachment No. 7 - SPP staff straw man

During the telephone discussions on June 27<sup>th</sup> the following goals for a congestion management system were discussed:

1. Current generation and transmission assets, as well as future asset additions should be used efficiently. A congestion management system should be developed that allows generation and transmission solutions to congestion to compete.
2. Real-time price signals are necessary for proper operation.
3. There should be a fair allocation of risk.
4. The congestion management system used should result in the lowest possible cost to end-use customers.
5. Information must be provided that allows the market to develop forward price forecasts. "Ex Ante" pricing is necessary.
6. There must be price certainty. "Post Ante" pricing should be minimized, if not eliminated.
7. System implementation must be timely.
8. The congestion management system must be market based.
9. The congestion management system must be flexible and responsive to market need.
10. The congestion management System must integrate with the market settlement system.
11. The congestion management system must be compatible with the anticipated implementation of retail competition in the various jurisdictions contained within the SPP.
12. The congestion management system must be operationally efficient and administratively feasible.
13. The congestion management system must be seamless.
14. The congestion management system should provide for participation by load. Proper price signals should be conveyed to the end user.
15. The congestion management system should be designed in such a way that it is difficult to game.

Attachment No.2 provides one assessment of how congestion management schemes met each of these goals.

The sub-team leader provides the following observations for RTOWG and Board of Directors consideration:

1. No one likes Transmission Loading Relief (TLR)
2. There is not a perfect congestion management scheme. It is not possible to simultaneously provide absolute price certainty and absolute certainty of delivery. All three of the proposed methods require the ability to "socialize" some cost.
3. Congestion management will not provide the incentive for building transmission. Congestion management will provide information regarding price differences between areas.
4. In order to provide liquidity in markets that trade physical rights, the physical rights must be traded at market prices not at cost.
5. Physical rights models function best with a minimum number of constraints.
6. Actual implementation of any of the three options will depend on the rules that are adopted.
7. Seams will continue to cause problems. Because the SPP is a part of the eastern interconnection, loop flow issues/impacts must be dealt with as part of the market design.

A two-day meeting in Dallas will be proposed to the CMS in order to understand the concerns of interested parties and begin the process of developing future direction. Interested parties will be invited to present their concerns about the application of specific methods using detailed examples of the problems they have experienced or expect. These presenters also will be asked to demonstrate how their preferred method addresses those concerns. At the same time, the CMS will discuss how the congestion management system alternatives discussed address the distinctive needs of the SPP. For example, discussions should address how zones would be developed for the SPP and whether, and to what extent, retail settlement zones relate to congestion zones. Additionally, this meeting will be used to start the process of developing estimates of cost and time required for implementation of the selected methodology. At the end of the meeting, straw votes will be taken on these fundamental issues in order to narrow the options under evaluation and to set future direction.

The Congestion Sub-Team recommends that SPP's RTO filing contain a more extensive description and defense of SPP's existing redispatch procedures as well as a discussion of activities and progress made toward completion of new market-based procedures as of the date of the filing.

### **UtiliCorp Proposals**

During early RTOWG deliberation, UtiliCorp presented specific proposals for RTOWG consideration. These proposals are presented below, each followed by responses

unanimously endorsed by straw votes and unanimously approved by vote of the RTOWG.

- A. SPP should seriously consider merging with the new proposed MAPP/MISO organization. The key reasons are that MISO already has ISO recognition and very little extra work is expected for SPP to obtain FERC approval. Several Commissioners at FERC talk about the idea instate as a small number of large regional RTO's. State Commissions and market players continue to complain about the seams problems in the Midwest. The main oppositions that we have heard from SPP about the concept are the added cost, and time delay. Since SPP's RTO was rejected, the time delay issue is much less significant. Regarding cost, the administrative fee figures we have heard from MISO are within three cents of what SPP has proposed. UtiliCorp believes that SPP will ultimately merge with MISO at some point, so tackling this issue up front will save the members a lot of time and money.

*SPP RTOWG Response:*

On February 14, 2000, the Southwest Power Pool Board of Directors voted to continue current efforts to aggressively pursue FERC recognition as an RTO without MISO consolidation at this time. This was not a vote to indefinitely terminate discussions; therefore the Board is at liberty to open these negotiations at any time. Realizing that SPP consolidation with the MISO could at some future point be beneficial to the SPP membership, the RTOWG recommends that the status of the MISO development be monitored. The RTOWG feels that any new pursuit of consolidation with the MISO is not within its current scope.

- B. A second alternative would be an organization like what Commissioner Massey proposed at the Members meeting on April 26, 2000. In his keynote address, the Commissioner suggested that SPP consider an RTO structure similar to ComEd's ITC concept under the MISO. In other words, subgroups under MISO that could be made up of SPP transmission systems. Under this concept, SPP could have more than one subgroup. One subgroup could include transmission owners where control is transferred with a section 203 filing while another subgroup could include a transco or ITC. This concept has merit because it can leave most of the SPP reliability council, security coordinator and many of the other organizational structures and systems intact. If desired, the SPP subgroup could continue a governance to resemble what SPP has now with the added step of final approvals by the MISO independent BOD. This concept will allow SPP to leverage more of what it may want as an RTO organization from FERC and MISO because it creates the larger RTO that they both would like to see. As an example, the ComEd ITC proposal to operate under the MISO obtained FERC's favor even though the MISO filed comments opposing some elements.

*SPP RTOWG Response:*

This is a unique proposal that could interest the SPP membership. More details would need to be presented before determining the merit. If Utilicorp and others are interested in pursuing this type of organizational structure, the RTOWG recommends that a proposal be presented to the SPP BOD. In development of the proposal, the RTOWG would welcome the opportunity to review the documents after the RTO filing is completed.

- C. The final option is for SPP to develop reciprocity and seamless operation with adjacent utilities and regional entities. UtiliCorp believes this step will need to be done by SPP as a minimum to address the scope and configuration issues the FERC included in the order rejecting the SPP RTO. UtiliCorp also believes that to address these issues, much of the time and effort to accomplish A or B above will have been addressed any way. UtiliCorp would rather see the SPP pursue either of the other options first, but if the majority desire otherwise, then we would support option C as a minimum effort of what needs to be done for SPP to comply with FERC's comments.

*SPP RTOWG Response:*

The RTOWG agrees with the Utilicorp recommendation. The Seams issues are within the scope of and very important to the RTOWG. It will be critical to successfully address seams resolution in the new RTO filing. A Seams subteam has been formed from the RTOWG and is chaired by Mike Apprill of Utilicorp to investigate and provide solutions for the filing.

**Scope and Configuration**

In its order on SPP's initial RTO filing, the FERC found "... that SPP's regional configuration is inadequate based on this record." FERC directed SPP to address the following concerns in its new proposal: 1) the extent to which SPP's operations will be impacted by the absence of its former members situated at the boundaries, 2) whether it is feasible – or even possible – to include them in the proposed RTO, and 3) specific procedures and rate structures for operation with adjacent entities and whether it is feasible for SPP to join with other groups engaged in forming RTOs in the region.

No specific sub-team meetings were held aside from responding to Entergy's (a former member) RTO/Transco partnership proposal, but SPP Staff and SPP members made substantial contact with SPP's neighbors to address their concerns. Several face-to-face meetings were held with Associated Electric Cooperatives (a former member) personnel and their representatives attended and actively participated in RTOWG and sub-team meetings. SPP has three members that previously had their transmission facilities under the regional tariff, but later withdrew those facilities for various reasons. Two of these three members, UtiliCorp and CLECO, actively participated in RTOWG and sub-team meetings. Southwestern Public Service, a SPP transmission-owning member that had previously not placed its facilities under the regional tariff has since done so. Contact was also specifically made with TVA and Southern Company to invite

their participation in SPP's development process and to understand any concerns they may have.

Indeed, while SPP has attempted to solicit interest in its RTO by neighboring transmission owners and to address any of their stated concerns, SPP membership and RTO participation is still a voluntary action on their part.

### **Seams**

In its Order 2000, the FERC set out specific requirements regarding an RTO's scope and configuration. It stated that an RTO should be of sufficient configuration to encompass contiguous geographic areas and highly interconnected portions of the grid, taking into account useful existing regional boundaries. In the context of this boundaries discussion, intervenors pointed out, and the Commission agreed, that it is important that there be integration and coordination among RTOs, particularly with respect to reliability and market practices, and that scope of a particular RTO becomes less important if it is part of an RTO group that has eliminated the negative effects of seams.

By virtue of the significance of comments on this issue, the Commission was persuaded to add Interregional Coordination (Minimum Function 8) to the explicit list of RTO minimum functions set out in the RTO NOPR. In its discussion of this minimum function, the Commission required that an RTO develop mechanisms to coordinate activities with other regions, whether or not such regions are included in another RTO. Such RTO must explain how it will pursue integration of reliability and market interface practices, thereby ensuring that market activity is not limited due to different practices within the adjoining regions.

In its initial RTO proposal SPP specified that Section 2.1.1(e) of its Membership Agreement obligates it to continue to coordinate with neighboring regional organizations. Moreover, it committed to continue being active in addressing seams issues. At that time, SPP had already engaged in negotiations with both the Mid-Continent Area Power Pool ("MAPP") and the Midwest ISO for the purpose of addressing these issues and had, during these discussions, addressed parallel path flow problems external to it.

In its discussion of SPP's scope and configuration, the FERC emphasized the requirement that an RTO must create a seamless trading area and enumerated intervenor concerns that SPP had not specified the mechanisms by which it will coordinate operations with other regional utilities. It required SPP to address "... what specific procedures and rate structures SPP will implement when coordinating its operations with adjacent utilities and regional entities; and whether it is feasible for SPP to join with other groups engaged in forming RTOs in the region."

The Seams Sub-Team identified seams issues for SPP to consider when addressing FERC's concerns in a revised RTO filing. The main FERC concerns that the Seams

Sub-Team is addressing are in regard to the need for procedures and rate structures to coordinate SPP's operations with adjacent transmission providers and regional entities. To the extent that there are different tariffs or differences within a tariff, the seams issues may occur with Transcos within SPP as well as other transmission providers or other RTOs that interconnect with SPP. This document will refer to the terms "RTO" or "Transmission Provider" (TP) as covering all of these categories. The Seams Sub-Team developed a set of goals to achieve in addressing these issues, which are identified below. The Seams Sub-Team has identified the adjacent entities across the seams that will be invited to address the seams issues with the RTOWG Seams Sub-Team.

The Seams Sub-Team identified the following list of goals to be met for seams recommendations that SPP would advocate in its future RTO filing:

1. The seams recommendations should provide added value to market participants and should address FERC's concerns about the lack of procedures and rate structure to coordinate SPP's operation with adjacent transmission providers and regional entities to facilitate efficient transmission with adjacent transmission utilities and regional entities and create seamless trading areas.
2. The seams recommendations must be operationally efficient and administratively feasible. Attempt to meet the requirements of Order 2000 with present systems and minimal increase in the SPP and market participants administrative cost.
3. The seams recommendations must be consistent with or be shown to be superior to FERC Open Access Tariff requirements. Develop an RTO proposal that meets or exceeds Order 2000 or FERC's guidance from SPP's order. The RTO proposal should deter the exercise of participants market power.
4. The seams recommendations should be compatible and equitable with the processes, procedures and tariffs of adjacent transmission utilities and regional entities to meet Order 2000 requirements to expand regional configuration and to address gaps in the SPP geographic coverage.
5. The seams recommendations should address transactions that affect adjacent transmission utilities and regional entities to insure equitable compensation to address lack of control of inter-tie facilities of adjacent transmission utilities for the purpose of improving interregional coordination.

The Seams Sub-Team recommends the following principles for development of specific tariff language:

- a. Provide One Stop Shopping as an option to the present procedure.
- b. Provide tariff reciprocity with specific procedures and rate structures to coordinate with adjacent utilities and regional entities.

- c. Provide pricing methodologies for transactions across multiple regions that reduce or eliminate pancaking while at the same time minimize revenue shortfall and unequal revenue distribution.
- d. Include a protocol development process to improve and expand the Planning, System Expansion and Outage Coordination with adjacent utilities and regional entities.

A series of slides have been prepared and attached to this report that describe proposed implementation details.

#### *Reservation/Oasis*

The present arrangement for a transaction between two regions requires a minimum of accessing two reservation systems to obtain separate OASIS numbers for the same transaction. In addition there are different standards for the lead-time required to make reservations. The ideal situation is to have “One Stop Shopping” on one reservation system to make the request and that all analysis would be done for all regional transmission groups involved at the same time with approval or rejection done at that time. The process should include having to generate only one OASIS number.

One Stop Shopping (OSS) procedures and protocols will need to be identified to deal with multiple tariffs while still maintaining present mechanisms for those not wanting OSS. The general idea is to offer OSS as an alternative to the existing process. The Midwest ISO Appendix I has language on protocol development processes between the Midwest ISO and the ITC that may provide guidance on how to apply a similar process between two RTO's.

The following is the referenced language from the Midwest ISO Appendix I:  
*Section 16. OPERATING PROCEDURES AND PROTOCOLS*

- 16.1 The ITC and the Midwest ISO shall cooperate and use their best efforts to develop the necessary operating procedures and protocols to allow timely start-up of the ITC pursuant to this Appendix I. Any disagreement shall be resolved pursuant to dispute resolution. Once such procedures and protocols have been developed, either through agreement or after dispute resolution, the Midwest ISO shall post such procedures and protocols on its website.*

Proposed Actions: Provide in the SPP RTO filing, the OSS option for any other RTO or TP that is interconnected with SPP.

#### *Scheduling/Tagging*

This issue is similar to the Reservation seams issue. When individual schedules are submitted there should be provision of “One Stop Shopping” with only one tag. In

addition standards are needed for such features as the time deadline on when tags can be submitted.

The same would apply as for Reservation/OASIS above. Key issues yet to be determined include whether source or sink RTO or TP would administer the OSS process and what scheduling fees would be collected (just source and sink RTO's/TP's or all RTO's/TP's involved) and would there be a discount or premium for this service?

Proposed Actions: Same as Reservation/OASIS above and to address scheduling fees question.

#### *Loop Flow*

The Sub-Team did not see this as an issue, if congestion management, TLR and Security Coordination seams issues are properly addressed. TLR is presently being standardized by NERC. The method to calculate ATC, TTC should also be standardized.

Proposed Actions: See the sections on Congestion Management and Planning and System Expansion.

#### *Tariff*

##### a. Transmission Pricing

There should be one transmission rate for transactions across regions that would be made available at the time the reservation is made. There may be different methodologies to determine the rate but the total price should be provided to the requesting party. Methodologies should be explored that reduce or eliminate pancaking while at the same time minimize the impact of revenue shortfall and unequal distribution of revenues.

The SPP/MISO collaborative process is already discussing this issue and is considering alternate pricing proposals. The key issue is how to address revenue shortfall during the transition period before all load (wholesale and retail) is under the tariff. The Seams Subteam believes that some pricing approaches may be more appropriate during the transition period before all load is under the tariff and others may be better suited for the long term.

Nick Brown presented a straw man proposal at the FERC's RTO Workshop in Kansas City that has the customer paying the sink RTO rate with revenue to the sink RTO and a surcharge applied to load in the source RTO to cover foregone source RTO pt-to-pt revenue (Proposal 1). Another variation is to have the surcharge applied to all of the load in the sink RTO (Proposal 2) or some sharing between and source and sink RTO's (Proposal 3: 50/50 sharing). . Yet other proposals mirror the SPP tariff where the customer only pays the sink RPT zone rate with an agreed to allocation of revenues between the RTO's (Proposal 4 – revenue allocation between RTO's in proportion to

MW-mile impacts). Proposals with the surcharge concept may be better situated for a transition period. After extensive discussion on July 7 the Seams Subteam favored only further consideration of Proposals 3 and 4. Examples of this implementation have been developed and are included as an attachment to this report.

Other concepts may be more situated for long-term solutions such as one from Clair Moeller (NSP) presented at the SPP/MISO collaborative meetings with a three-component rate. This concept includes a source RTO rate, a sink RTO rate and a Highway rate. The Highway rate has mechanisms for distribution of the revenue to remaining zones in both RTO's. The Seams Subteam believes concepts like this should be explored for long term solutions, but would be too difficult to develop for the filing deadline.

Proposed Actions: The short term recommendation is have the Seams Subteam review the alternative rates, specifically Proposals 3 and 4, that address pancaked rates with the revenue shortfall issue and submit a recommendation to the RTWG for including in the proposed RTO filing that would serve as a transitional rate proposal for transactions between and through multiple reciprocating RTO's and TP's. A longer term action item is to review various pricing and revenue shortfall concepts that would apply when all load is under the tariff, forward the material to the RTWG, and ask them to address when they address formula rates.

#### b. Ancillary Services

The pricing for Ancillary Services should include a consolidated rate that would apply for transactions between and across multiple RTO's and TP's. Some regions require charges for Ancillaries like Var/Voltage while others do not. The key Ancillary Services that need to be addressed are Reactive Supply/Voltage Control (RSVC) and Scheduling.

In SPP, RSVC primarily represents the generation component of fixed cost for the TP's (transmission system fixed cost is typically included in the transmission rate). RSVC is also generally a small portion of the total transmission services. Presently, the rate for transactions sunk in the SPP is based on and paid to the sink zone. The rate for transactions out of or through SPP is the weighted average of all zones distributed back to the TP's. The SPP Scheduling service is normally based on transactions using a skip schedule and includes the source and sink control area fees.

Proposed Actions: The recommendation is for SPP to offer reciprocity on RSVC consistent with the ultimate treatment of the base rate for transmission service. The recommendation for Scheduling as part of reciprocity is to use skip scheduling from source to sink and the customer would pay the source and sink zones of both RTO's. This is consistent with SPP the transmission pricing concept since both zones would have cost associated with setting up the schedule.

c. Losses

Losses are different from other ancillaries in that they represent variable cost and are distance sensitive. In SPP customer pays sink zone losses and revenue goes to sink zone. The losses rate for transactions out of SPP is the weighted average of zones distributed back to the providers.

Proposed Actions: SPP needs to develop reciprocity procedures for losses similar to the transmission rate component for the filing. The Seams Subteam believes the loss charge should equal the sum of the loss charges for all the RTOs providing the subject service.

d. Administrative Charges

Typically these fees are cost based and justified by the RTO's and TP's. The coordination and consolidation of transmission services into "One Stop Shopping" may require additional up front cost to implement, but over time should reduce the on-going cost because duplication is being avoided. Regional tariffs should provide mechanisms to reflect ultimate reduced administrative fees. Regions could consider incentives in exchange for reciprocity. The administrative charge could be less for transactions across two regions with reciprocity versus two that do not.

Proposed Actions: For transactions across two or more RTO's, it is recommended that the customer should pay the sink RTO rate plus an additional charge equal to the sum of the administrative charge of all of the other RTO's in the contract path with such additional charge capped at five cents per megawatt hour. The sink RTO collects its sink fee and the adder is distributed to the other RTO's in the contract path.

*Congestion Management*

Ideally the analysis for identifying congestion and the procedures to relieve it should be standardized between adjacent regions and should be implemented jointly when effective. The method to calculate ATC, TTC should be standardized with standard timing requirements. A separate Subteam is addressing Congestion issues for SPP as an RTO, but the Seams Subteam believes it is important that the Congestion Management Subteam also needs develop procedures that will accommodate seams congestion.

Proposed Actions: Communicate to the Congestion Management Subteam to address appropriate seams issues as part of the Congestion Management for SPP as an RTO. Before the Congestion Management Subteam finalizes the congestion issues, the Seams Subteam should review and provide input. Included in the seams congestion issues should be features that address the seams elements of Planning and System Expansion.

*Planning and System Expansion*

Transmission planning and identification of system expansions should include impacts on adjoining regions. Reciprocity provisions need to include how to deal with tariff issues regarding upgrade cost and sharing of cost.

Proposed Actions: SPP should develop procedures and protocols for planning and system expansion with other RTO's. The process should include dealing with loop flow impacts, cost assignments and recovery of revenue requirements. Would language similar to what is developed for the RTO/Transco Partnership be appropriate?

*Outage Coordination*

Presently there is some information being exchanged on maintenance outages of equipment.

Proposed Actions: A full coordination of maintenance outages is required for proper security analysis. RTOs should assure that is accomplished through coordination between the appropriate Security Coordinators.

*Regional and Individual Utility SEAMS*

The Seams Subteam had identified several regions and transmission providers where the seams issues have an impact. It is recommended that discussions should be initiated with these groups to develop as much detail as possible on the seams issues and to include it in the SPP RTO filing. The Seams Subteam is identifying contact people within these organizations and will soon be initiating discussions. The plan is to use the existing SPP/MISO collaborative process for MISO and possibly MAPP. The regional group and transmission providers identified are:

1. MAPP
2. MISO
3. ERCOT
4. SERC
5. Entergy
6. AECI
7. Other former SPP Regional Tariff members
8. WSCC

**Placement of Bundled Load Under Regional Tariff**

An issue raised during early RTOWG debate was placement of transmission owner bundled retail load under the regional tariff to ensure equitable treatment of all transmission customers. This issue was not assigned to a sub-team, but Staff and Counsel were directed to develop an issue list concerning the placement of all load under the SPP regional tariff. The following issues were presented to the RTOWG:

- SPP can recover 100 percent of costs under Tariff,
- Schedule 1 charge will be substantially lower,

- Eliminates comparability arguments on this issue as all load would be under the same rules and therefore FERC should like it,
- Allows the design of transmission rates to fully recover transmission revenue requirements and can eliminate cost under-recoveries resulting from the elimination of pancaking,
- Makes it easier to argue at FERC for the direct assignment of new transmission facilities as FERC denied direct assignment for SPP and MISO based on comparability concerns; in contrast, it has allowed direct assignment of network upgrades for regions with all load under the Tariff such as California and PJM,
- Allows the full recovery of the costs of new transmission facilities by the transmission owner even without direct assignment as the costs can be rolled into rates and the owner would be fully paid the revenue requirements associated with that facility, and also would facilitate entities other than the SPP transmission owner's constructing the transmission facilities,
- Eliminates the need for transmission owners to maintain separate transmission tariffs assuming that all grandfathered load would be under the SPP Tariff,
- May eliminate grandfathering pancaking disputes - In a PJM order FERC required the elimination of pancaking caused by grandfathered agreements,
- Eliminates disputes on the portion of congestion uplift charges, maintenance costs, etc that should be recovered from bundled load,
- Should make it easier to argue for recovery of redispatch costs without caps on top of embedded cost rates because it would eliminate comparability issues,
- All scheduling will be under the SPP tariff so there will not be multiple schedulers,
- Allows transmission owners to take network service for all of their load, thereby avoiding point-to-point charges for purchases into their systems,
- State commissions may see this as an infringement on their jurisdiction as bundled retail load would be under a FERC tariff,
- There may be a problem of incompatibility with bundled retail rates as transmission owners would be paying SPP for network service (together with Schedule 1 charges) and receiving their revenue requirements - If a transmission owner pays more for transmission than it has embedded in retail rates, then it will face a cost recovery problem particularly if it is not able to adjust its retail rates,
- Schedule 1 costs would be paid for all load which could result in some companies paying more than they pay today though as noted above the level of the Schedule 1 charge will go down,
- Putting all transmission under a FERC tariff provides transmission owners with a better argument that the state must allow recovery of all of the increased costs resulting from the RTO, and
- Disrupts existing grandfathered agreements.

This issue has been further debated by the Regional Tariff Working Group with respect to tariff provisions on the transitioning of load from individual transmission owner tariffs to the regional tariff.

### **Entergy RTO/Transco Partnership**

The Partnership Sub-Team systematically discussed and addressed each of the 23 points in Entergy's proposed term sheet for the transco/RTO partnership. At the current state of negotiations, ten points are characterized as "no disagreement noted;" seven points are characterized as "OK as modified and clarified for Board understanding;" and six points need more work to reach consensus. Troubling issues remain in two primary areas: congestion management (point 7), which is being addressed by the Congestion Sub-Team; and maintenance of two tariffs (points 4, 5, 8, 15 & 21). Several participants noted strong concern over the separate calculation of Available Transfer Capability or ATC. The following points are a result of negotiations to date:

This Proposal outlines the terms and conditions in a proposed Appendix to the Southwest Power Pool's ("SPP's") Membership Agreement that would allow a Transco including Entergy ("the Transco") to operate within the structure, and under the oversight, of an SPP RTO. This is referred to as a Partnership RTO structure.

1. *Basic Governance and Operational Responsibilities.* This proposal will allow the Transco to operate under the oversight of the SPP RTO. The SPP's role shall include (1) acting as regional Security Coordinator for the SPP and Transco systems; (2) coordinating with the Transco on the ATC and TTC calculations and methodologies; (3) fostering full and complete input by market participants into the Transco's policies; (4) overseeing a regional transmission expansion planning process; and (5) providing an appropriate forum for market monitoring and dispute resolution. The proposal should also prevent rate pancaking in the SPP's and Transco's regions. Transco shall have the option of participating on the SPP RTO Board of Directors on the same terms and conditions as all other SPP RTO Members. These provisions are currently set out in Sections 4.2 and 4.3 of the Southwest Power Pool Bylaws.

2. Because SPP will perform multiple roles under the Partnership RTO model, the staff structure and organization will be reviewed and appropriately modified to ensure non-discriminatory treatment of all parties with respect to RTO functions. The organizational structure will be designed to provide independence between the RTO functions: oversight, planning, security coordination and market monitoring, all of which will be performed by SPP, and the transmission provider and tariff administrator functions, which will be performed by SPP, by SPP non-Transco members, and by Transco. These changes are focused on complying with the objectives outlined in FERC Order No. 2000. In particular, the following functions will be separated with a code of conduct specifying the policies and procedures that must be followed in all business transactions between these functions:

a) Transmission provider and tariff administration functions. SPP will be a transmission provider and control area operator within the RTO territory, as will Transco. There should be a level playing field among all transmission providers, control area operators, and transmission users under the SPP RTO.

b) Regional coordination and planning functions. SPP will provide security coordination and regional planning functions for the entire RTO region. The security coordinator function should be clearly separated from the transmission provider and tariff administrator function. The separation

of the security coordinator function may be achieved, at the election of the SPP Board, either through the use of a strict code of conduct or by organizational separation, in which case the security coordinator would report to the SPP Board of Directors, independently from the tariff administrator function. The code of conduct would strictly forbid the security coordinator from taking any actions in carrying out the duties and responsibilities of security coordinator that advantage the transactions over one transmission owners system over the transactions over any other transmission owners system.

c) Oversight functions. Under this proposal, SPP's oversight responsibilities include market monitoring and ADR. These functions will be carried out by a separate group of employees and managers reporting directly to the SPP Board. The Board may use an independent outside firm to assist in the monitoring activities. The scope of the monitoring function is described below in paragraph 16. It includes monitoring of the other functions of SPP, including security coordination.

3. *FERC Review and Approval of the Transco Proposal.* The Transco shall seek and obtain FERC approval to operate as a Transco under the SPP RTO..

4. *Transmission Tariff.* In the event that SPP and Transco agree to implement the same congestion management regime, the RTO shall administer a single tariff that will apply to transmission service within the SPP and Transco RTO. Transco will have control over those portions of the tariff that affect the commercial terms and conditions of transmission service over Transco's facilities. Transco shall possess the unilateral right, without receiving any SPP RTO approval, to make filings at FERC proposing rate or rate structure changes (including incentive rate structures) involving transmission charges for service to load within the Transco or transmission service that does not cross any of the SPP transmission operator facilities. Transco also retains the right to unilaterally make filings at FERC for the purposes of implementing new transmission services that are not contained in the RTO Transmission Tariff. Transco will provide SPP with a copy of any such filing 30 days prior to filing with FERC and will make reasonable efforts to resolve any issues regarding the new service prior to filing at FERC, but in no circumstances shall this extend beyond 45 days from the time SPP is provided a copy of the proposed filing. A detailed list of the pro forma tariff provisions that Transco will have the unilateral right to change through FERC filings will be developed and attached to this agreement as Appendix A.

The Transco will be responsible for conducting studies and scheduling transactions on the Transco's system and shall be the provider of last resort for ancillary services in accordance with FERC Order Nos. 888 and 2000. The SPP shall have real time access to the Transco's ATC and TTC calculations and shall coordinate with the Transco in developing a consistent method for calculation of ATC and TTC over the combined regions of SPP and Transco. Transco agrees to utilize the same model as used by SPP if SPP agrees to incorporate the VST model (Vacar, Southern, TVA) data and also agrees to work with Transco on the process, method and timing of updates to ensure that neither party's practices will invalidate the TTC/ATC calculations. If the Transco and the SPP cannot resolve a disagreement over an ATC or TTC calculation, then the SPP can submit that disagreement to the SPP's ADR process, provided that the Transco's calculation shall be binding during the pendency of the ADR proceeding.

5. *Transmission Rates.* In designing transmission rates, SPP and Transco agree that there shall be no pancaked rates for transmission service with respect to transactions using both the Transco and SPP systems. To implement this, they will agree to reciprocal waiver of access charges for transactions scheduled on one system that terminate on the other system. For transmission service on both the Transco's and SPP's systems to load outside the system (including transmission through and out service), the Transco and the SPP shall develop an appropriate single joint rate including a rate formula that compensates the Transco and the SPP for their proportionate

contribution to the transaction. The Transco tariff will reflect these arrangements, and SPP will file the necessary amendments to its tariff to reflect these arrangements as well. Within these limitations, the Transco shall possess the unilateral right to propose rates and rate structures (including innovative rate-making proposals) for transmission service under the Transco's transmission tariff.

6. *Unified OASIS Site.* The SPP and the Transco shall work to jointly develop and administer a unified OASIS site for transmission service under the SPP's and Transco's tariff. Both parties, however, shall have the option to build, maintain and administer additional features to the OASIS site in response to the needs of customers or the market. SPP and Transco shall ensure that market participants have the ability to obtain transmission service across the transmission facilities of the SPP/Transco RTO through the use of one OASIS site.

7. *Congestion Management.* The Transco shall develop and implement a congestion management plan for managing and relieving constraints within the Transco's system. The Transco and the SPP agree to work together in an effort to develop a single regional approach to congestion management. If the SPP so requests, Transco agrees to make its congestion management system available to SPP members at cost. Should SPP elect to develop its own system for congestion management, Transco and SPP will coordinate their systems to ensure maximum efficiency. At a minimum, they agree to develop a system for the joint procurement of ancillary services and a joint protocol to address the effect of parallel flow within the combined region that is caused by transactions scheduled on either SPP or Transco.

8. *Losses.* The Transco shall develop and implement a proposal for loss responsibility within the Transco's system. The Transco will coordinate with the SPP, and its members, to develop a proposal that avoids loss pancaking for losses on transactions over the SPP's and the Transco's system.

9. *Curtailments.* SPP shall act as the regional Security Coordinator for the SPP and Transco systems. In its role as Security Coordinator, SPP will allow Transco to provide redispatch alternatives to the Security Coordinator for transactions not scheduled by Transco that affect Transco flowgates that will alleviate the need for transmission line loading relief (TLR). These redispatch instructions will be by Transco.

10. *Operations.* The Transco shall be responsible for the operation of the Transco's transmission system. This includes the responsibility to establish ratings and operating procedures, develop transmission and generation outage schedules which will be coordinated with the SPP RTO, and to develop congestion management proposals. Transco and SPP will develop transmission and generation outage schedules designed to balance grid optimization with good utility practice.

11. *New Generator Interconnections.* Transco shall be responsible for evaluating and implementing requests for new generator interconnections on its system. SPP and Transco will work together to develop a single procedure for generator interconnections within the SPP/Transco RTO. Market participants seeking generator interconnections with Transco may use the SPP dispute resolution process.

12. *Reliability Oversight and Input.* The SPP shall be informed of, and shall be allowed to provide input into, the operational practices of the Transco so that the SPP can determine whether such practices have an adverse reliability impact anywhere in the region. The SPP may challenge operational procedures or practices of the Transco through the SPP's dispute resolution process; provided that the Transco's actions shall be binding pending the dispute resolution process.

13. *Planning and Expansion.* The Transco shall develop its own transmission plan for its region that includes both market-funded and rate-funded projects. This will be submitted to the SPP

for review and inclusion in an RTO-wide plan which the SPP shall prepare. Transco may, at its option, participate in the expansion of the transmission grid through market-funded projects. The SPP shall review all rate-funded projects for reliability considerations and the appropriateness of cost recovery through Transco rates. The SPP's review of market-funded projects shall be limited to reliability considerations. SPP and Transco will develop a formula to be used to apportion responsibility among all RTO transmission owners for the funding of projects that were not included in the Transco's plan but that the SPP has determined are required for regional reliability reasons.

SPP and Transco mutually agree to construct facilities to meet new requests for firm transmission service [subject to the development of appropriate cost-sharing arrangements.] In carrying out this obligation, Transco and SPP agree to use due diligence in meeting these requests regardless of whether the request originates on the Transco system or the portion of the grid under the control of the SPP transmission operator. SPP and Transco also agree to work together to determine the financial responsibility and the sharing of costs required to construct any new facilities required to meet these requests.

14. *Multi-State Transmission Planning Agreements.* SPP and Transco agree to work together jointly to support any multi-state transmission planning compact that is developed in their region.

15. *Billing.* The Transco shall be responsible for billing for transmission service that terminates on the Transco's system. The SPP shall be responsible for billing for transmission service that terminates on the SPP system. For transactions on both the SPP's and the Transco's systems that terminate outside the combined region, the billing shall be handled by the system on which the power exits the combined region, provided, however, that the rate for such service will be the single joint rate described in paragraph 4 of this document.

16. *Monitoring.* The SPP shall be responsible for monitoring all markets facilitated by Transco and/or SPP and its other members, including energy markets, ancillary services markets, and markets for transmission service and transmission rights. The monitoring function will also extend to SPP's security coordination function. In its role as market monitor, the SPP shall have the authority to collect information and issue reports to appropriate regulatory agencies, but it shall not have the authority to impose penalties. The SPP's cost of monitoring the Transco's markets shall be borne by the Transco and its customers. The SPP and Transco shall be responsible for enforcing compliance with the provisions of their respective tariffs.

17. *Liability.* The Transco shall assume liability for all acts or omission resulting from the functions performed by the Transco and shall indemnify and hold the SPP harmless for its actions in performing those functions.

18. *Dispute Resolution.* The SPP, and its dispute resolution process, shall be responsible for resolving all disputes between the Transco and SPP concerning the arrangements set forth in this RTO Partnership Agreement. Disputes between the SPP and Transco shall be subject to non-binding arbitration unless the parties agree otherwise. Disputes between Transco, SPP members, or other market participants shall be subject to non-binding dispute resolution procedures unless the parties agree otherwise.

19. *Coordination.* The Transco and the SPP shall cooperate and use their best efforts to develop procedures and protocols to allow the Transco to operate within the structure of the SPP.

20. *Stakeholder and State Commission Input.* The SPP's oversight shall allow input from state commissions and market participants into the Transco's operations and procedures. This may take the form of an SPP advisory committee to be established for this purpose. The Transco shall

establish a liaison with such advisory committee, or comparable organization, and shall support the process allowing input from state commissions and market participants. Additionally, Transco will establish a Market Rules Committee, comprised of market participants, for the purpose of providing input and recommendations to Transco on changes to the market rules that will improve the overall efficiency and operation of the competitive generation market.

21. *Expandability of Transco.* The Transco shall be structured to reasonably accommodate other SPP members and non-members who elect to join. Any current SPP member shall have the right, upon one year's advance notice, (consistent with Section 4 of the SPP Members Agreement) to commit its assets to the Transco and to have its transmission facilities included within the Transco Tariff on terms and conditions comparable to the terms and conditions provided to the initial Transco members.

22. *Survivability.* This Agreement shall remain binding and shall be accommodated in the event that the SPP merges or combines with another regional transmission entity. In any instance where the provisions contained within this RTO Partnership Agreement, are in conflict with the SPP Bylaws or the SPP Membership Agreement, the terms and conditions of this document shall control.

23. *Withdrawal Rights.* The Transco shall have the same rights to withdraw from the SPP as other SPP members under section 4 of the SPP Membership Agreement. Such withdrawal shall be subject to FERC approval.

The Partnership Sub-Team proposes no modifications to SPP documents and that FERC accepted independent transmission companies be accommodated through individually proposed and approved attachments to SPP's membership agreement specifying any special provisions. Any such attachments would also require FERC acceptance.

### **Tariff (zones & expansion)**

In its Order 2000, the FERC set out specific requirements regarding an RTO's responsibilities with respect to system planning and expansion. It specifically requires an RTO take ultimate responsibility for transmission planning and expansion within its region. In doing so, it must encourage market-motivated operation and investment actions necessary to relieve transmission congestion and accommodate state regulatory commission efforts to create multi-state agreements to review and approve new transmission facilities. The RTO must satisfy this requirement when it commences operation or file a plan, which includes specific milestones designed to ensure that the RTO will meet the requirement no later than three years after initial operation. This responsibility translates into the need to consider nontraditional mechanisms for the recovery of costs related to new transmission facilities.

In its initial RTO proposal SPP specified that, pursuant to the Membership Agreement, it will be responsible for regional planning in coordination with its members and that it retains the authority to direct the construction of new transmission facilities. Additionally, it stated that together with SPP's previously discussed market-based congestion management/pricing mechanism, such transmission planning and expansion responsibility enables SPP to administer efficient and reliable transmission service in

coordination with state and regional authorities consistent with the RTO Final Rule. No revisions to the filed tariff were filed with the RTO application.

FERC issued its RTO NOPR on May 13, 1999. The SPP comprehensive tariff was still in development and was ultimately filed on September 7, 1999 and accepted by the FERC on December 17, 1999. SPP had developed its tariff cognizant of the NOPR requirements and believed that this tariff would be determined to be in compliance with the ultimate rule. Order 2000 was issued by the FERC on December 20, 1999. Based on its review of Order 2000, SPP did not see a need to re-file the Tariff as part of its RTO filing.

FERC's order on SPP's filing found that SPP's tariff does not necessarily comply with its RTO requirements. It directed SPP to include in its subsequent RTO proposal a revised tariff or a detailed discussion of how the current tariff meets all of the RTO requirements of Order 2000. The SPP was also required to address how transmission expansion will be priced and how such pricing affects incentives for efficient expansion. With respect to its continued use of license plate rates, the Commission required that SPP explain the continued use of this rate system. Pursuant to this direction from the Commission, the Regional Transmission Organization Working Group (RTOWG) commissioned the RTWG to cover zones and expansion issues in preparation for the upcoming RTO filing.

I. RTO Issues - The following issues were raised in protests at the time of SPP's RTO filing or in subsequent collaboratives as RTO related transmission issues.

A. Transmission Planning and Expansion / Multi-state Agreements / Market Based Expansion of the Transmission System - Current planning requirements contained in the Tariff and their current implementation were reviewed. Attachment S to the Tariff currently allows for construction of transmission expansions and upgrades by others if the designated transmission owner cannot or will not construct the project in a timely manner. The construction of the project would be assigned based on the evaluation of proposals for project implementation. No changes to the Tariff provisions were suggested.

B. Costs Recovery/New Transmission Facilities - The current conclusion of the RTWG is that the method of cost recovery for new facilities does not need to be part of the initial RTO Tariff filing.

C. Rate Issues

i. Formula Rates - The RTWG has previously committed to assess the use of formula rates. A schedule for this assessment was concluded before the RTO discussions were reopened. The RTWG does not believe that schedule can be accelerated in consideration of the initial RTO Tariff filing. Concern was raised that the RTO effort was detracting from the ability to meet the established schedule.

ii. Levelized Rates, Performance Based Rates, Depreciation Rates for New Facilities - In Order 2000, FERC indicated a willingness to consider rate proposals including levelized rates, performance based rates, and accelerated depreciation rates for new facilities. The current conclusion of the RTWG is that the consideration of these mechanisms is not a necessary part of an initial RTO Tariff filing.

iii. Reassessment of License Plate Rates - The issue of the zonal rate design included in the current Tariff was discussed at length. The current zonal rate design was agreed upon as a method of getting through the transition period and of moving to retail open access. Moving immediately to a postage stamp rate for the entire SPP would result in significant cost shifting, creating winners and losers. The current discussion relating to this issue is that SPP should retain the current zonal rate design, while committing to a date certain for re-evaluation of the zonal rate design.

D. Market Based Congestion Management System, Real Time Balancing Market / Settlement of Imbalances, Development of an Ancillary Services Market - The Market Based Congestion Management System is within the scope of the Congestion Management Subteam. The Real Time Balancing Market / Settlement of Imbalances and Development of an Ancillary Services Market are currently within the scope of the Market Settlement Working Group and are significantly related to the design of the Congestion Management System. As these issues are concluded by the RTOWG, the Tariff will be revised as necessary (incrementally) to reflect such conclusions.

E. Transmission User Obligations (Attachment V in Comprehensive Tariff Filing) - The FERC rejected language in the September 7, 1999 Tariff filing that would have imposed certain tariff obligations on generators within the SPP even if they were not Tariff customers. This rejection was at least in part due to SPP's lack of ISO status at the time. The current conclusion of the RTWG is the inclusion of tariff obligations for generators is not a necessary part of an initial RTO Tariff filing.

F. Transition Issues

- i. Bundled Load / Grandfathered Load. - All load under the same contract
- ii. Transition Period
- iii. Crediting issues - Transmission Customer Facilities.

It is the expressed desire of the marketers that all load, including native load and grandfathered contracts, be under the Tariff. This would allow one set of rules for all customers. While most participants have agreed in principal that placing all load under the tariff is an appropriate long-term goal, there are significant short term obstacles to achieving that goal. Currently several states have legislated retail rate freezes. This would require the owners of the transmission to bear the risk of any change to the rate. In states that do not currently have a rate moratorium, it is not possible to seek a rate change only on a single issue. Consequently, a company would be required to file a complete retail rate case, with its incumbent cost and risks, to reflect changes in its

transmission costs in retail rates. The FERC has chosen not to abrogate existing grandfathered contracts. Absent the mutual agreement of the parties to these agreements, these contracts will remain in effect to their term.

The current Tariff has two sequential 5-year transition periods. The first period started with the approval of the Comprehensive Tariff (February 1, 2000). In the first period, there is no obligation to use the Tariff except for point-to-point service and service to wholesale loads where transmission has been unbundled or unbundling has been required by FERC. The Tariff may be used at the election of the transmission owner. During the second 5-year period all retail loads with the right to choose its power supplier must be served under the tariff. After the second transition period all native load is to be served under the tariff. These transition periods do not apply to grandfathered contracts, or the delivery of Federal hydropower within the SPA system. Grandfathered and Federal transmission contracts are assumed to continue to term.

While discussion will continue on this issue, lack of resolution will insure some protest of the tariff filing. Issues relating to inclusion of facilities of multiple transmission owners within a single zone (or rate credits crediting) are being discussed between AEP West, SPP and ETEC. The RTWG will continue to discuss this issue.

#### G. Seams Issues

- A. Rate Reciprocity with adjoining RTOs.
- B. Congestion Management with adjoining RTOs.
- C. One Stop Shopping across RTO boundaries.

These issues are within the scope of the RTOWG Seams Sub-team. The Tariff will be revised as necessary to reflect the conclusions of the RTOWG when finalized.

H. Scheduling deadlines for firm service - There was discussion of changing the Attachment P of the Tariff that contains the scheduling deadlines for firm schedules. The current requirement is that for a firm reservation holder to utilize the reservation a schedule must be in place by 10:00 A.M. the day prior to the actual schedule.

The current deadline was included in Attachment P to encourage the development of the non-firm energy market. The RTWG felt that frequent preemption of non-firm transmission by customers holding firm reservation would stifle the development of the non-firm market.

The objection raised was that the effect of the current rules is that, in current day operations, a firm reservation holder has no greater priority than a non-firm user even though a firm rate was being paid. There was some feeling that the firm reservation holder would put a schedule in place by the scheduling deadline and then request hourly changes just to ensure the ability to use the reservation if necessary.

I. Issues Arising after Scheduled Meetings - The ongoing evolution of FERC policy as stated in FERC orders continue to precipitate issues to be addressed. As an example, the following email from Mike Small indicates that the RTWG will need to have additional discussions regarding some of the planning and cost allocation aspects of the Tariff.

From: Small, Mike  
Sent: Wednesday, July 05, 2000 11:06 AM  
To: Bourne, Pat  
Cc: Brown, Nick  
Subject: NEPOOL Order

On June 28, 2000, FERC issued a lengthy order involving NEPOOL which contains discussions of some issues relevant to SPP's RTO development. ISO New England, 91 FERC 61,311. On planning, FERC directed the ISO to eliminate any decisional role transmission owners may have in the current plan. FERC wants the ISO alone to have the authority to develop the expansion plan. FERC also stated that all projects in the plan should be built following a competitive solicitation process including non-NEPOOL transmission owners.

As to cost responsibility for upgrades (aside from interconnecting generators), FERC stated that "[o]ur general principle is to assign costs of various upgrades to those who benefit to the extent that they can be identified . . . ." FERC required the ISO to directly assign costs where there is agreement among the participants for such assignment and to develop objective, non-discriminatory guidelines to allocate costs where participants are unable to agree on the allocation of costs." FERC referred to PJM which among other things spreads the costs of all 500KV facility upgrades.

On generation interconnection upgrades needed to maintain system reliability, FERC found that it was appropriate to allow direct assignment to the generator "of costs associated with direct interconnection and related upgrades."

On congestion management, FERC accepted a nodal/zonal LMP approach as a "reasonable initial approach". FERC, however, expressed concerns that establishing different prices for generators and loads may create opportunities for gaming. Second, in calculating the weighting to be used in calculating the zonal prices, FERC directed that the weighting be based on actual hourly load at each node. Third, FERC wanted transmission customers to be able to submit bids indicating the highest price they are willing to pay for congestion.

II. Other Issues - There are other issues under consideration by the RTWG that are part of the ongoing evolution and development of the SPP Tariff and that have not been considered as RTO Issues or linked to SPP's filing for RTO status:

A. Interpretation of SPP Tariff, Section 2.2. - Right of first refusal  
The decision of the FERC in docket ER00-46-000, upheld Entergy Power Marketing Inc.'s position that under the FERC's pro forma tariff and current SPP Tariff language a

holder of a long-term reservation could wait as late as a date 60 days prior to the end of the reservation to exercise its right of first refusal to continue the contract.

The ability of a customer to maintain a right of first refusal until 60 days before the end of a reservation, prospectively requiring service indefinitely, raises concerns related to the effect of a customer reservation, of as little as one year duration, to drive speculative capacity expansion, impede the sale of other long term service or effectively lock up constrained interfaces. These issues are under active discussion and consideration is being given to any need to modify Tariff language.

B. SPP Tariff, Section 22.2. Modification of Firm Reservations - There has been a request to modify the Tariff to allow firm reservations to be modified for use of an alternative path on a firm basis for the remaining term of the reservation with consideration given for payment obligations incurred for the original reservation. If the modification could be accommodated the rate charged would be modified to that of the new path. After discussion, the motion as presented failed. Further discussion of alternative proposals is expected.

### **Public and Regulatory Education**

FERC's order on SPP's initial RTO filing and the subsequent visit to FERC provided indication that particular emphasis needed to be placed on public information and pre-filing visits with FERC Staff and commissioners to provide education on SPP's collaborative process and its product. FERC's order stated "Moreover, we noted that all filings under Order No. 2000 would require a description of the efforts undertaken to permit public power entities and cooperatives to participate in the RTO. To date, SPP has not informed us of these efforts." Though the first two sections of SPP's initial filing provided detailed information on SPP's diverse membership and the open and inclusive development process, the message was not received. Therefore, the RTOWG agreed to place specific emphasis on public and regulatory education.

The RTOWG will host a public workshop on July 26 to provide information on SPP's RTO plan and seek final input from any and all interested parties. The RTOWG will meet on August 1 to consider input from the conference and determine if any modifications are necessary and prepare its final recommended documents for subsequent Board of Directors consideration.

Two visits are presently contemplated; one toward the end of filing development to inform the FERC of SPP's collaborative process and initial positions, and a second following Board of Directors approval of organizational documents as a pre-filing conference. Because of the potential for diverse positions on aspects of SPP's filing, participation in these visits be limited to the RTOWG co-chairs, staff and counsel with the specific intent to represent the consensus product only. This design is to mimic the transmission owner, transmission user and independent sectors of the Board of

Directors. Staff will notify the RTOWG of the dates and agendas for these FERC meetings.

Lastly, to ensure that SPP's filing considers the interest of all parties, after SPP Staff and counsel draft the FERC filing letter petitioning FERC recognition of SPP as an RTO, SPP membership and other parties that have participated in the collaborative process will be allowed at least one week to review and comment on the filing letter. The staff will then attempt to resolve any conflicts in resulting suggestions.

### **ORGANIZATIONAL DOCUMENTS**

In fulfilling its charge, the RTOWG has developed proposed modifications to SPP's regional transmission service tariff and membership agreement that it believes are necessary for SPP to receive FERC recognition as an RTO pursuant to FERC Order 2000 and order on SPP's initial RTO filing. A form of a Section 203 filing is also provided for the benefit of jurisdictional transmission owners. No modification of SPP's bylaws is proposed. The modified membership agreement is attached indicating the proposed changes and a document from SPP's counsel is included which provides a brief explanation for each change.

### **RECOMMENDATION**

The RTOWG recommends that the Board of Directors endorse this RTOWG report as indication that the organizational documents to be modified pursuant to RTOWG recommendations meet with the Board's satisfaction for a second SPP filing seeking FERC recognition as an RTO.