

**Southwest Power Pool
BOARD OF DIRECTORS MEETING
August 30, 2000 Called Meeting
Dallas/Ft. Worth Airport Hyatt Hotel**

- A G E N D A -

11:00 a.m. – West Tower – Skyline B

1. Administrative Items Gary Voigt
 - a. Call to Order, Introductions, Receipt of Proxies
 - b. Approval of July 20, 2000 Meeting Minutes

2. RTO Working Group Report Mel Perkins/David Christiano

3. Secretary's Report Nick Brown

3:00 p.m. - Adjournment

**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

SPP Board of Directors Minutes
July 20, 2000

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

SPP Board of Directors Minutes
July 20, 2000

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

SPP Board of Directors Minutes
July 20, 2000

(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.
- 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

SPP Board of Directors Minutes July 20, 2000

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.

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

SPP Board of Directors Minutes July 20, 2000

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.

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.

SPP Board of Directors Minutes July 20, 2000

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.

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

SPP Board of Directors Minutes July 20, 2000

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 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

SPP Board of Directors Minutes
July 20, 2000

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
REGIONAL TRANSMISSION ORGANIZATION WORKING GROUP
Report to the Board of Directors
August 30, 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, PG&E
Christine Ryan, ETEC
Betsy Carr, Dynegey

Nick Brown, SPP

RECENT ACTIVITIESMeeting 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.

The following persons participated in conference call with the FERC Staff on August 7: John Marschewski, Nick Brown, Pat Bourne & R. J. Robertson (SPP Staff); SPP RTOWG co-chairs, David Christiano (SPRM) and Mel Perkins (OKGE). FERC Staff on the call included; Kevin Madden, Leon Lowery, Rick Armstrong, Larry Greenfield, Marsha Gransee, Pat Alexander, Mike Coleman, Alan Haymes.

Assuming concurrence by the Board of Directors on the RTOWG report at their August 30, 2000 meeting, the Co-Chairs, Staff and Counsel will meet personally with the commissioners on September 14 to provide a briefing on SPP's 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. 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, July 19 and August 9;
- 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, 19, July 31 & August 1 and over two-hour teleconference calls on June 27 and July 5;
- Market Settlement Working Group meeting on June 5 and August 1-2;

- Regional Tariff Working Group meetings on June 28, August 2 and 16 and four-hour teleconference calls on June 16 and 22; and
- RTO Workshop on July 26.

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 over 40 RTOWG 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. A straw vote of the 80 participants at the RTOWG Workshop indicated no disagreement with maintaining SPP's current governance structure.

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 transmission 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 over 40 RTOWG 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. A straw vote of the 80 participants at the RTOWG Workshop indicated no disagreement with the proposed process for Section 203 filings with SPP's RTO filing and modifications of the membership agreement.

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 hosted a public workshop on July 26 to provide information on SPP's RTO plan and seek final input from any and all interested parties. Eighty persons attended and participated in the workshop. The RTOWG met on August 9 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.

A second meeting with FERC commissioners is scheduled for September 14 as a pre-filing conference, assuming the Board of Directors approval of organizational documents. Because of the potential for diverse positions on aspects of SPP's filing, participation in these visits will 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.

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. A straw vote of the 80 RTOWG Workshop participants indicated no opposition to these public and regulatory education initiatives.

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.

The following is a brief description of the proposed market settlement process:

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.

On June 29, 2000, the MSWG sent a Request for Proposal (RFP), approved by the Commercial Practices Committee, 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 proposed market settlement process was approved without opposition by the MSWG for recommendation to the RTOWG to be used in SPP's RTO filing. In a straw vote of the 80 participants at the RTOWG Workshop on the proposed market settlement process, 4 participants expressed non-concurrence due to the lack of resolution on a congestion management process.

The MSWG met on August 1-2 to review vendor bids on systems to support scheduling, ancillary service bids and dispatch, and settlement and will interview finalists on August 10-11. Based on finalist bids, the MSWG recommends that the RTOWG approve and recommend to the Board of Directors budgeting items covering a six-year net present worth value of \$42 million (9% cost of money) for implementation of necessary systems and additional personnel. Due to confidentiality requirements of the vendors, more specific cost data cannot be provided at this time. Actual values based on a specific proposed vendor will be presented at the August 30, 2000 Board of Directors meeting. Staff estimates 24 additional employees will be required to support this function at an annual cost of approximately \$2.3 million. A summary of proposed staffing additions is attached to this report.

Market Monitoring

Staff drafted a proposed market monitoring process document that was distributed to the RTOWG for consideration. SPP counsel crafted this based on a simplified PJM process that had been accepted by FERC. This document was distributed for discussion at the RTOWG Workshop and a straw vote of the 80 workshop participants indicated no opposition to the proposed procedures. These procedures are attached to this report. Staff proposes the addition of three employees (a manager and two analysts) to perform this function, or the outsourcing of these responsibilities if it proves to be more cost effective.

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, Nebraska Public Power District, Omaha Public Power District and Southern Company to invite their participation in SPP's development process and to understand any concerns they may have.

The Partnership Sub-Team systematically discussed and addressed each of the 23 points in Entergy's proposed term sheet for the transco/RTO partnership which led to a memorandum of understanding approved by the RTOWG and Board of Directors at their July 19 and July 20 meetings respectively. The memorandum of understanding contains 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. The Partnership Sub-Team proposed 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.

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. In a straw vote of the 80 RTOWG Workshop participants on the process of dealing with scope and configuration, 4 participants expressed caution or non-concurrence based on their concern about balkanizations from the RTO/Transco partnership agreement.

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, Zonal with physical rights and Real-Flow (flow-based management). Although variants of these three methodologies have been discussed, no other significant methodology has been advanced. The Congestion Sub-Team waded through an enormous amount of materials in understanding and evaluating the various options to market-based

congestion management and in the end, the debate focus on two alternatives; Locational Marginal Pricing (financial rights) versus Real-Flow (physical rights).

During the telephone discussions on June 27th 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.

The sub-team leader developed 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 market-based options will depend on the rules that are adopted.
7. Seams will continue to cause problems. Because SPP is a part of the Eastern Interconnection, loop flow issues/impacts must be dealt with as part of the market design.

The CMSG meet in Dallas on July 31 through August 1, 2000 to hear presentations from the two main proposals for congestion management. Each proponent was given time to provide detail on the proposals and to answer questions and concerns about each method. The "Real Flow" proposal has physical transmission rights traded at market prices in a forward market. The proposal also has a locational pricing in the real-time with various options on how to treat real-time operational concerns. The "LMP" proposal has financial transmission rights traded at market prices in a forward market, with a nodal Locational Marginal Price for the real-time energy market. The group discussed in details the implications of each method on real-time operations of the RTO, the effects on existing Control Areas, the effects on current rights holders, the concerns with price certainty and deliverability, the application of theories of operations, present and future implementations of the methods, etc. As the discussion progressed a set of compromise principles was discussed to try to find common ground between the two.

The CMSG took several straw votes near the end of the meeting in order to provide further direction and reporting to the RTOWG. The first straw vote was to determine if the group felt like they had enough information to proceed with a selection of direction on the two proposals and/or hybrid principles. There were 6 votes to continue gathering information including analysis of advantages/disadvantages and ranking of criteria. There were 9 votes to choose between the two proposals and 40 votes to go forward with the hybrid principles. The next vote was between the two proposals, if the group had to choose right then. There were 11 votes for "Real Flow" and 40 votes for "LMP/FTR". The last vote was on general agreement with the hybrid principles and there were 35 votes in support and 9 votes in opposition. The following are the hybrid principles were forwarded to the RTOWG:

1. Locational Pricing will be used for real-time market clearing of energy imbalance and congestion pricing in the day of and possibly in the day prior. Marginal pricing will be used nodally for generators and zonally for loads, with option for loads to request nodal.
2. Transmission Rights will have a forward market that:
a. Will allow flexible physical and financial ownership rights to minimize price uncertainty and maximize deliverability in the real-time market
b. Existing transmission rights and obligations will be maintained
Compliment and Facilitate Regional Transmission Planning

4. Market rules will be developed within the next six months for initial implementation by 10/01.

The Congestion Sub-Team provided the following recommendations to the RTOWG:

1. Concur with the above hybrid principles, and
2. Form a Market Rules Working Group, reporting to the Commercial Practices Committee with balanced representation from transmission owners and users, to proceed with the development of market rules to implement the hybrid principles.

A straw vote of all RTOWG participants on the recommendations produced 35 votes in concurrence and no opposition. The RTOWG approved the recommendations with 12 votes in favor and 2 abstentions. The RTOWG is establishing a Market Rules Task Force to immediately begin working until the Board of Directors can act on the formation of the new working group under the Commercial Practices Committee.

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.”

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.

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. SPP should consider becoming a subgroup under MISO that could be made up of SPP transmission systems.

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.

- C. The final option is for SPP to develop reciprocity and seamless operation with adjacent utilities and regional entities.

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 Sub-Team has been formed from the RTOWG and is chaired by Mike Apprill of Utilicorp to investigate and provide solutions for the filing.

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 transmission provider 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 OSS 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 transmission provider would administer the OSS process and what scheduling fees would be collected (just source and sink RTOs or all RTO'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 Sub-Team 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 Sub-Team 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 Sub-Team 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 Sub-Team 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 RTOs and transmission providers. 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 RTOs and transmission providers. Some regions require charges for Ancillaries like VAr/Voltage while others do not. 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 transmission owner (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 transmission owners. 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 the SPP 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. SPP customers may self provide loss energy or pay a rate based on an indexed gas price and a fixed heat rate. Network service loss revenue is allocated to the sink zone while point-to-point loss revenue is allocated to transmission owners based on MW-Miles impacts of the various transactions.

Proposed Actions: SPP needs to develop reciprocity procedures for losses similar to the transmission rate component for the filing. The Seams Sub-Team 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 RTOs and transmission providers. 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 RTOs, 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 RTOs 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 RTOs 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 sub-team is addressing Congestion issues for SPP as an RTO, but the Seams Sub-Team believes it is important that the Congestion Management Sub-Team also needs to develop procedures that will accommodate seams congestion.

Proposed Actions: Communicate to the Congestion Management Sub-Team to address appropriate seams issues as part of the Congestion Management for SPP as an RTO. Before the Congestion Management Sub-Team finalizes the congestion issues, the Seams Sub-Team 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 Sub-Team 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 Sub-Team 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

A straw vote of over 40 RTOWG participants indicated no opposition to accepting the Seams Sub-Team proposed actions for further development. A similar RTOWG motion was approved without opposition. Finally, a straw vote of the 80 participants at the RTOWG Workshop indicated no opposition to accepting the proposed actions for further development and one participant indicated a preference that SPP be further along with this process. These proposed actions have been presented to the Regional Tariff Working Group for specific development of tariff provisions to negotiate with neighboring regions and transmission providers.

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.

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. A straw vote of over 40 RTOWG participants was taken on an informational filing by February 1, 2005; where 21 participants indicated this was appropriate and 7 indicated this was too long. A RTOWG motioned to approve and recommend to the Board of Directors a commitment to submit an informational filing reassessing SPP's utilization of

license plate rates on or before February 1, 2005 passes with 9 votes in favor and 3 votes in opposition.

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 Sub-Team. 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. Transmission owners in a zone/new zone

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. FERC indicated it would address existing transmission contract on a RTO by RTO basis (Order No. 2000 at 933). RTOs were encouraged to address how and when they might convert existing contracts and to submit a contract transition plan. 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 are being discussed between AEP West, SPP and ETEC. In addition, the formation of new zones was discussed. 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.

In a straw vote of the 80 participants at the RTOWG Workshop, one-third of the participants expressed concurrence with the proposed regional tariff, one-third expressed uncertainty, and one-third expressed non-concurrence. Non-concurring participants preferred all load to be placed under the regional tariff as soon as possible.

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 has been developed and distributed 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. The proposed regional transmission service tariff is not attached but modifications are summarized in the body of this report. The Regional Tariff Working Group will approve the final document prior to filing. Finally, a proposed market monitoring process is attached.

RECOMMENDATION

The RTOWG recommends that the Board of Directors take the following actions with regard to the documents for a second SPP filing seeking FERC recognition as an RTO:

1. Acceptance of this RTOWG report as indication the collaborative process used in its development met with the Board of Director's satisfaction (participants indicated no opposition);
2. Concurrence on maintenance of SPP's existing Bylaws, including SPP's current governance structure (participants indicated no opposition);
3. Approval of proposed process for Section 203 filings by FERC jurisdictional transmission owning members with SPP's RTO filing (participants indicated no opposition);
4. Approval of attached RTO membership agreement (participants indicated no opposition);
5. Approval of proposed public and regulatory education process to be used in development of SPP RTO filing (participants indicated no opposition);

6. Approval of proposed market settlement process and budgeting items covering a six-year net present cost of \$42 million for implementation of necessary systems and additional personnel, subject to a specific vendor recommendation by the Commercial Practices Committee (participants indicated strong consensus in the proposed process, not necessarily systems cost or personnel);
7. Approval of attached market monitoring procedures and proposed personnel (3 FTEs), or the outsourcing of this responsibility if more cost-effective (participants indicated no opposition to these procedures);
8. Acceptance of this report as indication the efforts undertaken to address SPP's scope and configuration meet with the Board of Director's satisfaction (participants indicated strong consensus);
9. Approval of proposed hybrid principles for market-based congestions management and formation of a Market Rules Working Group, reporting to the Commercial Practices Committee, to proceed with development of market rules to implement the hybrid principles (participants indicated strong consensus);
10. Acceptance of this report as indication the Seams Sub-Team proposed actions meet with the Board of Director's satisfaction and are to be further developed for subsequent action (participants indicated no opposition); and
11. Approval of proposed modifications to SPP's regional transmission service tariff with specific changes to be approved by the Regional Tariff Working Group prior to filing (one-third of the participants expressed concurrence with the proposed regional tariff, one-third expressed uncertainty, and one-third expressed non-concurrence, with non-concurring participants preferring all load to be placed under the regional tariff as soon as possible).

Approved: Regional Transmission Organization Working Group August 9, 2000

Action Requested: Approved Recommendation

MEMORANDUM

TO: Nick Brown

FROM: Mike Small

DATE: August 11, 2000

RE: Latest version of Membership Agreement

I made most of the changes proposed by various members. There were a few that simply don't work in the document and create problems but were not intended to be substantive. Below are four changes which I did not make which are substantive:

Western Resources, add to 2.3d:

“In this regard, the SPP shall be obligated to pay the Transmission Owners their full revenue requirement as determined by the Commission and employ as necessary, a true-up mechanism if the SPP fails to recover the costs it owes to the Transmission Owners in a particular period.”
[Note: See Order 2000-A, p. 42 for support of the added language.]

SWPA, change last sentence of 2.1.3c to:

“The Transmission Owners shall revise maintenance outages to address such circumstances to the extent practicable.”

Dynegy/Coral, add at end of 3.0b:

“If a generator’s capacity is already committed pursuant to a bilateral contract, the generator is not obligated to make the capacity available for ancillary services.”

Dynegy/Coral, Section 3.10

Provision “appears to interfere with the RTO’s independent authority over rate design” and should be modified to reflect the Order No. 2000-A language.

K:\SPP\081100 Memo.doc

**ATTORNEY-CLIENT/ATTORNEY
WORK PRODUCT PRIVILEGED AND CONFIDENTIAL
(Michael E. Small)**

**DESCRIPTION OF CHANGES TO
SPP MEMBERSHIP AGREEMENT(6-30-00)
AND POTENTIAL ISSUES**

Part A of this memorandum describes the rationale for the major changes to the SPP Membership Agreement. As explained below, the changes principally involve adding language to show compliance with Order 2000 and reorganizing existing provisions. Part B describes a few issues of RTO compliance on which Order 2000 may not be clear or there are policy judgments that must be made.

A. Description Of Major Changes

1. Section 1.4 - The definition of “Distribution Facilities” was broadened to include other facilities which are not under the tariff to recognize that some customers, for example, may need transmission over a radial or a generator lead in addition to true distribution facilities and that they would pay a separate charge for the use of those facilities.
2. Section 1.5 - Changed the definition of “Effective Date” to state that this Agreement will be effective when the RTO is effective; i.e. accepted by FERC.
3. Section 1.12 - Added a definition of “Operational Control” as part of revisions to make clear that operational control will be transferred to SPP.
4. Section 1.13 - Added definition of “RTO Effectiveness” because some actions in the Agreement will be tied to that date including the basic effectiveness of the Agreement.

5. Section 1.15 - Included Board as part of definition of “SPP” as SPP acts pursuant to the direction of its Board. I am concerned about separating SPP Staff and Officers from the Board.
6. Section 1.21 - Added a definition of “Transmission Facilities” to detail the facilities subject to SPP’s operational control.
7. Section 1.22 - Changed the definition of “Transmission Owner” largely to reflect the necessity of filing 203 applications by FERC regulated public utilities.
8. Section 2.1.1 - Added provisions which incorporate language and requirements from Order 2000 primarily on operational control. Moved most of the deleted sections to the transmission administration section and to the general section.
9. Section 2.1.2 a - Incorporated language from Order 2000 on Security Coordination.
10. Section 2.1.2 g - Incorporated language from Order 2000 on redispatch and also made clear that redispatch is not elective if necessary for the reliable operation of the Transmission Facilities.
11. Section 2.1.3 - Revised the transmission maintenance section to better conform to Order 2000 requirements by making clear that scheduled transmission maintenance outages must be changed if necessary to preserve reliability.
12. Section 2.1.4 f - Added language from Order 2000 on generation maintenance.
13. Section 2.1.5 - Added provisions incorporating language from Order 2000 on language.
14. Section 2.2.1 - In this section on transmission service, “General” included provisions from other sections which related to the provision of transmission.

15. Section 2.2.2 - Added language regarding transmission pricing to make clear that there would be no pancaking which is a FERC requirement. Also added a provision stating that SPP would re-evaluate zonal pricing in five years consistent with our discussions with the FERC Staff.
16. Section 2.2.4 - On ancillary services, added language to indicate compliance with Order 2000 requirements.
17. Section 2.2.6 - On ATC calculations, added language from Order 2000 on SPP testing and checking the data and having its position in place pending resolution of any dispute.
18. Section 2.2.7 - On congestion management, added language essentially stating that SPP will comply with FERC's requirements on congestion management.
19. Section 2.2.8 - On parallel path flows, included language stating that SPP's tariff administration addresses parallel path flows to show compliance with an Order 2000 requirement.
20. Section 2.2.9 - I was informed that there may be some facilities that are not transferred to SPP's operational control but which will be under the tariff. This provision recognizes this fact.
21. Section 2.3 - I revised this section to eliminate the agency relationship between SPP and the TO's and instead established a fiduciary relationship on a few items such as collecting and distributing revenues and discounting transmission. FERC had a concern about the agency relationship. A fiduciary relationship is more limited. I also added a provision which is found earlier in the agreement imposing a fiduciary obligation to make best efforts to design rates to allow full

- cost of service recovery. Given the language in Order 2000 on RTO's having control over rate design, I thought that making this a fiduciary obligation may be important.
22. Section 2.4.3 - Governance Audit-Added a provision to satisfy FERC's requirement that the effectiveness of the governance structure be evaluated in two years.
 23. Section 2.4.4 - Market Monitoring-Added a provision stating that SPP will cause implementation of the procedures necessary for compliance with Order 2000 market monitoring requirements.
 24. Section 2.4.5 - General Filing Authority-Moved from another section to this general section.
 25. Section 2.4.6 - Penalties and Incentives-Moved from another section to this general section.
 26. Section 2.4.7 - General Authority-Moved from another section to this general section.
 27. Section 3.0 - Revised to require the transfer of Operational Control to SPP.
 28. Section 7.0 b - Termination of Agreement-Included language stating that prior obligations remain upon termination of the current agreement to prevent parties from escaping those obligations once the new Membership Agreement becomes effective.
 29. Section 8.0 - Open Architecture-Added the language from FERC's regulations on Open Architecture.

B. Potential Issues

1. Filing Rights Of Transmission Owners

In Order No. 2000 and 2000-A, FERC stated that Transmission Owners control revenue requirements and may file to change their revenue requirements. See Order No. 2000-A, FERC Regs. Preambles ¶ 31,092 at 31,370 (“transmission owners may make Section 205 filings at any time to establish their requirement requirements and the just and reasonable payments they may charge the RTO for use of their facilities”). However, FERC provided the RTO with control over rate design. See Order No. 2000-A at 31,370 (RTO ultimately determines that rate design to file). Notwithstanding this statement, in Order No. 2000-A, FERC stated that:

“We note that we stated in the Final Rule that we would entertain other approaches to the division of filing authority ‘as long as they ensure the independent authority of the RTO to seek changes in rates, terms or conditions of transmission service and the ability of transmission owners to protect the level of the revenue needed to recover the costs of their facilities.’”

Order No. 2000-A at 31,371, quoting Order No. 2000 at 31,076.

The language in the Membership Agreement provides Transmission Owners with the clear ability to file to establish different rate designs for their zones. Section 3.10. It also provides SPP with the authority to file pricing charges. Section 2.2.2. As a result the Membership Agreement appears to satisfy Order No. 2000 on this point as SPP will have the right to file rate design changes. However, I cannot state with absolute certainty that FERC will accept the provision allowing Transmission Owners to change the rate design.

2. Transmission Maintenance

In Order No. 2000, FERC required that the RTO “must have authority to approve and disapprove all requests for scheduled outages of transmission facilities to ensure that

the outages can be accommodated within established reliability standards.” Order No. 2000 at 31,104 (emphasis added). The Membership Agreement provides SPP with control over transmission maintenance outages “if forced transmission outages or other circumstances compromise the integrity or reliability of the Electric Transmission System.” Section 2.1.3.c. SPP, however, does not have the right under the current draft to require a change in an outage schedule in other circumstances. The transmission owner coordinates such outages with SPP. The question is whether SPP’s control over outages needs to go beyond reliability in order to comply with Order No. 2000. Again, I believe that the language complies with Order No. 2000; however, there is some uncertainty here.

3. Transfer Of Operational Control For Non-Jurisdictional Transmission Owners

The Membership Agreement contemplates that Transmission Owners that are not FERC-jurisdictional will not be transferring operational control through a § 203 filing at FERC. They instead will transfer operational control by executing the agreement. FERC Staff indicated that it may require that SPP ask for § 203 authority to assume operational control from these entities. FERC Staff, however, indicated that this issue can be finessed through the filing. I do not propose any changes to the language of the Membership Agreement to address this point. We will need to decide whether to have SPP request the authority under § 203 to assume operational control. To my knowledge, this is an issue which FERC has yet to address.

4. SPP’s Fiduciary Responsibilities To the Transmission Owners

In Section 2.3, I have revised the current Membership Agreement to change SPP’s relationship from an agency to a fiduciary relationship on four specified matters. I expect

that this change will be accepted by FERC as the FERC approved Midwest ISO Agreement contains a similar provision. However, I cannot state this conclusively here as FERC has yet to address this issue in an RTO context.

5. Transmission Construction

Section 3.3 of the draft assumes that the Transmission Owners will construct the new facilities. In a recent NEPOOL order, FERC stated that “all projects in the Plan should be built following a competitive solicitation.” ISO New England, Inc., 91 FERC ¶ 61,311 (June 28, 2000). Also, in the planning and expansion section of Order No. 2000, FERC stated that an RTO must “encourage market-motivated operating and investment actions for preventing and relieving congestion.” Order No. 2000 at 31,163. Therefore, there is some uncertainty on the acceptability of this provision.

SPP/tariff/description of changes to SPP membership agreement

SOUTHWEST POWER POOL
RTO MEMBERSHIP AGREEMENT |

TABLE OF CONTENTS

1.0 Definitions 1

 1.1 Agreement 1

 1.2 Board of Directors..... 1

 1.3 Bylaws 1

 1.4 Distribution Facilities..... 1

 1.5 Effective Date 1

 1.6 Electric Transmission System 1

 1.7 FERC..... 1

 1.8 Good Utility Practice 1

 1.9 Members..... 2

 1.10 NERC 2

 1.11 Non-Transmission Owner..... 2

 1.12 Operational Control 2

 1.13 RTO Effectiveness 2

 1.14 Security Coordinator 2

 1.15 SPP..... 3

 1.16 SPP Criteria 3

 1.17 SPP Region 3

 1.18 SPP RTO Filing 3

 1.19 SPP Staff 3

 1.20 Standards of Conduct..... 3

 1.21 Tariff Facilities 3

 1.22 Transmission Customer 3

 1.23 Transmission Facilities 3

 1.24 Transmission Owner 4

 1.25 Transmission Tariff..... 4

2.0 Rights, Powers And Obligations Of Southwest Power Pool 4

 2.1 Operation, Reliability, Maintenance and Planning 4

 2.1.1 General..... 4

 2.1.2 Reliability 6

 2.1.3 Transmission Maintenance 7

 2.1.4 Generation Maintenance 9

 2.1.5 Planning Activities..... 10

 2.2 Non-Discriminatory Transmission Service 10

2.2.1 General..... 10

2.2.2 Pricing..... 11

2.2.3 Standards of Conduct..... 11

2.2.4 OASIS..... 11

2.2.5 Ancillary Services 12

2.2.6 Transmission Service Scheduling 12

2.2.7 Congestion Management 12

2.2.8 Parallel Path Flows 12

2.2.9 Facilities Not Under SPP’s Operational Control 13

2.3 Fiduciary Responsibilities and Duties of Southwest Power Pool to Members..... 13

2.4 Additional Obligations and Rights of SPP..... 14

2.4.1 Inspection and Auditing Procedures..... 14

2.4.2 Stranded Cost Recovery Charges..... 14

2.4.3 Governance Audit..... 14

2.4.4 Market Monitoring..... 14

2.4.5 General Filing Authority 14

2.4.6 Penalties and Incentives..... 15

2.4.7 General Authority..... 15

3.0 Commitments, Rights, Powers, And Obligations Of Transmission Owners and Non-Transmission Owners 15

3.1 Redispatch, and Curtailment 16

3.2 Transmission and Generation Maintenance Practices..... 16

3.3 Construction 17

3.4 Use of Distribution Facilities 18

3.5 Providing Information..... 18

3.6 Facilities Access 18

3.7 Inspection and Auditing Procedures..... 18

3.8 Compliance with Bylaws and Other Policies and Procedures 19

3.9 Planning and Participation 19

3.10 Pricing..... 19

4.0 Withdrawal Of Transmission Owners’ Facilities And Withdrawal By Non-Transmission Owners 19

4.1 Withdrawal Notice..... 19

a. Transmission Owners..... 19

b. Non-Transmission Owners..... 20

4.2 Effect of Withdrawal on Contractual Obligations 20

 4.2.1 Users Held Harmless 20

 4.2.2 Existing Obligations 21

 4.2.3 Construction of Facilities 21

 4.2.4 Regulatory and Other Approvals or Procedures..... 21

5.0 Regulatory, Tax, And Other Authorities 21

 5.1 Regulatory and Other Authorities 21

 5.2 Tax Authorities..... 22

 5.3 Effectiveness as to Certain Members..... 23

6.0 Removal Of Members 23

7.0 Effectiveness, Duration, And Transition 24

8.0 Open Architecture..... 24

9.0 Miscellaneous Provisions 24

 9.1 Governing Law..... 24

 9.2 Successors and Assigns 25

 9.3 No Implied Waivers 25

 9.4 Severability 25

 9.5 Renegotiation..... 26

 9.6 Representations and Warranties..... 26

 9.7 Further Assurances 27

 9.8 Delivery of Notices..... 27

 9.9 Entire Agreement..... 27

 9.10 Good Faith Efforts 27

 9.11 Third Party Joint Agreements 28

 9.12 Amendment 28

 9.13 Counterparts..... 29

Southwest Power Pool
RTO Membership Agreement

This Agreement is made between and among the Members and SPP, as defined herein.

1.0 Definitions

1.1 Agreement

This RTO Membership Agreement.

1.2 Board of Directors

The Board of Directors elected consistent with SPP's Bylaws.

1.3 Bylaws

SPP's Bylaws or any successor document.

1.4 Distribution Facilities

Facilities which are not offered for service under the Transmission Tariff and which would be the the subject of a separate distribution charge separate from the Transmission Tariff charges pursuant to the Transmission Tariff.

1.5 Effective Date

For each Member, this Agreement is effective on the date of RTO Effectiveness, as such term is defined herein, ~~January 1, 2000~~ or upon the date of execution by that Member if after such date ~~January 1, 2000~~.

1.6 Electric Transmission System

The transmission facilities subject to SPP's tariff administration except for any Distribution Facilities.

1.7 FERC

The Federal Energy Regulatory Commission.

1.8 Good Utility Practice

2000 July 1999

Any of the practices, methods, and acts engaged in or approved by a significant portion of the electric utility industry during the relevant time period, or any of the practices, methods, and acts which, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good business practices, reliability, safety, and expedition. Good Utility Practice is not intended to be limited to the optimum practice, method, or act, to the exclusion of all others, but rather to be a range of acceptable practices, methods, or acts generally accepted in the region. SPP Criteria and NERC Policies and Standards are considered Good Utility Practice.

1.9 Members

Signatories to this Agreement that have completed the application requirements pursuant to the Bylaws.

1.10 NERC

North American Electric Reliability Council or successor organizations.

1.11 Non-Transmission Owner

Those signatories which are not Transmission Owners under this Agreement.

1.12 Operational Control

The authority provided to SPP pursuant to Section 2 of this Agreement.

1.13 RTO Effectiveness

The date the FERC allows the SPP Regional Transmission Organization (RTO) to become effective pursuant to FERC Order Nos. 2000 and 2000-A.

1.142 Security Coordinator

SPP in performing its security coordinator function as recognized by NERC pursuant to its policies, pursuant to SPP Criteria and pursuant to this Agreement.

1.153 SPP

Southwest Power Pool, Inc., its officers, employees, ~~and~~ agents and Board of Directors. ~~This definition does not include the Board of Directors.~~

1.164 SPP Criteria

SPP's approved operating and planning criteria.

1.175 SPP Region

The geographic area encompassing the transmission systems of SPP Transmission Owners.

1.18 SPP RTO Filing

The filing submitted to FERC pursuant to Order No. 2000 which was developed in conjunction with this Agreement.

1.19 SPP Staff

Southwest Power Pool, Inc. officers, employees, and agents.

1.1206 Standards of Conduct

SPP's Standards of Conduct which apply to conduct of independent board directors, officers, employees, and consultants.

1.1217 Tariff Facilities

The Transmission Facilities and Distribution Facilities subject to SPP's tariff administration.

1.2248 Transmission Customer

A customer under the Transmission Tariff.

1.23 Transmission Facilities

The facilities subject to SPP's Operational Control. These facilities consist of transmission facilities that are 60 KV and above and transformers with two primary windings of 60KV and above. SPP may direct the transfer of other transmission facilities to its Operational Control subject to all necessary regulatory approvals being received.

1.2419 Transmission Owner

A signatory to this Agreement which transfers Operational Control to SPP through filings under Section 203 of the Federal Power Act together with this Agreement or simply by executing this Agreement or appoints ~~appoints~~ SPP as its agent to provide service under the Transmission Tariff over Tariff Facilities which it owns or controls which are not Transmission Facilities subject to SPP's Operational Control. All Transmission Owners that are public utilities under Section 201 of the Federal Power Act shall submit or effect the submission of applications under Section 203 of the Federal Power Act to transfer Operational Control to SPP of all of their Transmission Facilities.

1.250 Transmission Tariff

The nondiscriminatory, open-access transmission service tariff ~~on file with~~ approved by the FERC pursuant to Section 205 of the Federal Power Act under which SPP ~~will offer~~s transmission service, or any such ~~nondiscriminatory~~ successor tariff approved by the FERC.

2.0 Rights, Powers And Obligations Of Southwest Power Pool

SPP possesses the rights, powers, and obligations as detailed in this Section 2 and shall exercise Operational Control as defined herein.

2.1 Operation, Reliability, Maintenance and Planning

2.1.1 General

a. SPP shall control the operation of the Transmission Facilities either directly or through the issuance of directives to the Transmission Owners. SPP's control includes directing the switching of transmission elements into and out of operation in the transmission system, monitoring and controlling real and reactive power flows, monitoring and controlling voltage levels, and scheduling and directing the operation of reactive resources.

b. With regard to operational functions that are shared by SPP and Transmission Owners, SPP shall ensure that this sharing of operational functions shall not adversely affect reliability or provide any Market Participant with an unfair competitive advantage.

c. SPP shall exercise Operational Control and its Security Coordination functions in a non-discriminatory manner for all Market Participants.

d. SPP shall possess the authority for or to direct the receiving, confirming, and implementing of all interchange schedules.

e. Within two years after RTO Effectiveness, SPP shall prepare a public report assessing the efficacy of its operational arrangements including whether any division of Operational Control hinders it in providing reliable, non-discriminatory and efficiently priced transmission service.

~~a. SPP is authorized by the Transmission Owners pursuant to this Agreement to schedule transactions and to administer transmission service over Tariff Facilities as an agent of the Transmission Owners as necessary to provide service in accordance with the SPP Transmission Tariff. SPP shall not operate or direct the operation of the Tariff Facilities except in its role as Security Coordinator.~~

fb. SPP shall function in accordance with Good Utility Practice and shall conform to applicable reliability criteria, policies, standards, rules, regulations, guidelines and other requirements of SPP and NERC, each Transmission Owner's specific reliability requirements and operating guidelines (to the extent these are not inconsistent with other requirements specified in this paragraph), and all applicable requirements of federal and state regulatory authorities. SPP shall notify FERC immediately if implementation of these criteria, etc. prevents it from providing reliable, non-discriminatory transmission service.

ge. SPP shall maintain a publicly available registry of all facilities that constitute the Electric Transmission System.

~~d. SPP shall review and approve, as appropriate, requests for service and schedule transmission transactions and shall determine available transfer capability under the Transmission Tariff; provided that SPP shall coordinate with affected Transmission Owners when processing requests for service involving such Transmission Owners' Tariff Facilities.~~

he. SPP shall ~~be responsible for~~ coordinating with neighboring regional organizations as appropriate. SPP shall implement procedures to address parallel path flow issues with other regions, subject to any necessary regulatory approvals, to be effective within three years after RTO Effectiveness.

~~f. SPP shall not exercise its administration of transmission service over the Tariff Facilities in such a way as to interfere with rights of Transmission Owners or Transmission Customers in contracts between a Transmission Owner and a Transmission Customer that are in effect as of the Effective Date of this Agreement except as permitted by the Transmission Tariff.~~

~~g. SPP shall be responsible for documenting all transmission service requests, the disposition of such requests, and any supporting data required to support the decision with respect to such requests. SPP shall negotiate as appropriate to develop reciprocal service, equitable tariff application, compensation principles, and any related arrangements.~~

~~h. SPP shall propose and file modifications with FERC to the Transmission Tariff and to make any other necessary filings subject to necessary Board of Directors approval for those filings that the Board requires be brought to it for its approval pursuant to the provisions of Section 2.2.1 and subject to reserved Transmission Owner rights pursuant to Section 3.10.~~

~~i. SPP shall develop penalties and incentives, subject to FERC filings where appropriate.~~

ij. SPP shall direct Transmission Owners pursuant to the provisions of Section 3.3 to construct transmission facilities in accordance with coordinated planning criteria or if necessary under the Transmission Tariff.

~~k. SPP shall take any actions necessary for it to carry out its duties and responsibilities subject to receiving any necessary regulatory approvals and any necessary approvals by the Board of Directors.~~

j. Notwithstanding the transfer of Operational Control detailed in this Agreement, such transfer does not override operating conditions in Grandfathered Agreements, as that term is used in the Transmission Tariff, or any operating conditions associated with Nuclear Regulatory Commission licenses. Transmission Owners shall detail such exceptions in their filings submitted under section 203 of the Federal Power Act, if applicable. Transmission Owners that are not required to submit such filings shall identify to SPP their exceptions.

2.1.2 Reliability

SPP shall have responsibility for reliability of the Electric Transmission System in connection with its rights, powers, and obligations under this Agreement. SPP shall act as the Security Coordinator of the Electric Transmission System, and as such, shall have security monitoring and emergency response responsibilities pursuant to related SPP Criteria and the following requirements:

~~a. As Security Coordinator, SPP shall (i) perform load flow and stability studies to anticipate, identify and address security problems, (ii) exchange security information with local and regional entities; and (iii) monitor real-time operating characteristics such as the availability of~~

reserves, actual power flows, interchange schedules, system frequency and generation adequacy.

ba. SPP shall monitor real-time data to determine whether any control areas are experiencing generation capacity deficiencies. If a generation capacity deficiency event threatens the security of the Electric Transmission System, SPP shall be authorized to and shall direct the acquisition of generation capacity and, if that direction is not satisfied, the shedding of firm load in the deficient control area.

cb. SPP shall work with other security coordinators to develop regional security plans and emergency operating procedures.

de. SPP shall maintain emergency response procedures for responding to specified critical contingencies and shall continuously analyze issues that may require the initiation of such actions.

ed. SPP is authorized to and shall direct the response to any emergency and Members shall carry out the required emergency actions as directed by SPP (except in cases involving endangerment to the safety of employees or the public), including the shedding of firm load if required for regional security.

fe. After the conclusion of an emergency condition, any affected entity that disagrees with SPP's handling of the emergency may resolve that disagreement pursuant to SPP's dispute resolution procedures.

gf. SPP shall monitor and coordinate the maintenance of adequate Electric Transmission System voltage levels with control areas and Transmission Owners, where appropriate.

hg. SPP shall direct redispatch of generation if necessary for the reliable operation of the Transmission Facilities. ~~SPP shall pay the generator for the redispatch in accordance with the Transmission Tariff subject to the generator receiving appropriate compensation~~ pursuant to an applicable rate schedule. SPP shall be allowed to recover these costs through a FERC approved rate schedule.

2.1.3 Transmission Maintenance

Coordination with SPP is required for all planned maintenance ~~of Tariff or Transmission of Tariff~~ Facilities consistent with the following requirements:

- a. SPP shall review planned transmission maintenance schedules for Tariff Facilities submitted by Transmission Owners ~~for a minimum of a rolling one-year period~~consistent with SPP's business practices and procedures. These planned maintenance schedules shall be updated daily within time intervals consistent with SPP's business practices and procedures. ~~Planned transmission maintenance requests shall be submitted to SPP at least one week in advance of an outage.~~
- b. Planned transmission maintenance requests shall be submitted to SPP consistent with the time requirements set forth in SPP's business practices and procedures. SPP shall analyze such planned transmission maintenance requests to determine their effect on available transfer capability, ancillary services, the security of the Electric Transmission System, and any other relevant effects. ~~Within two business days of receiving a planned maintenance request~~Consistent with the time requirements set forth in SPP's business practices and procedures, SPP shall provide a response. If SPP's response indicates that such planned transmission maintenance will have an adverse impact, Transmission Owners shall work with SPP to minimize the impact of such planned maintenance.
- c. SPP shall notify Transmission Owners of the need to change previously-reviewed planned transmission maintenance outages for Transmission Facilities if forced transmission outages or other circumstances compromise the integrity or reliability of the Electric Transmission System. ~~If the Transmission Owners are fully compensated for any additional costs resulting from any changes in maintenance schedules as provided in an applicable rate schedule, t~~he Transmission Owners shall revise maintenance outages to address such emergency circumstances.
- d. As part of its review process, SPP shall identify planned transmission maintenance schedules that limit available transfer capability. If requested by a Transmission Customer, SPP shall identify opportunities and associated costs for rescheduling planned maintenance to enhance available transfer capability. Transmission Owners shall be compensated for the additional costs of rescheduled maintenance as provided in an applicable rate schedule.
- e. SPP shall be responsible for documenting all planned transmission maintenance requests, the disposition of those requests, and all data supporting the disposition of each request and shall update and publish maintenance schedules as needed.

- f. SPP shall coordinate with Transmission Owners to the extent practicable to implement schedules for unplanned transmission maintenance when conditions endanger the safety of employees or the public, may result in damage to facilities, or may result in the unsatisfactory operation of the Transmission Owner's transmission system or any other transmission system.
- g. SPP shall maintain as part of its Transmission Tariff a provision providing for compensation to Transmission Owners for changes to planned maintenance schedules.

2.1.4 Generation Maintenance

SPP shall coordinate the maintenance of generating units as appropriate to the extent such generation maintenance directly affects the capacity or reliability of the Electric Transmission System and the generation is located in the SPP Region as follows:

- a. SPP Staff shall review planned generating unit maintenance schedules submitted by generators or generation owners ~~for a minimum of a rolling one-year period~~ for time periods as provided in its business practices and procedures. The planned maintenance schedules shall be updated ~~daily~~ consistent with those practices and procedures. SPP Staff shall keep such information confidential.
- b. SPP Staff shall analyze a planned generating unit maintenance schedule to determine its effect on available transfer capability, ancillary services, the security of the Electric Transmission System, and any other relevant effects. SPP Staff shall inform a generator or generation owner if its maintenance schedule is expected to have an impact on the security of the Electric Transmission System.
- c. As part of its review process, SPP Staff shall identify generating unit maintenance schedules that limit available transfer capability and shall identify opportunities and associated costs for rescheduling planned maintenance to enhance available transfer capability.
- d. The owner of any generator that changes planned maintenance as a result of SPP Staff review or coordination pursuant to this Section 2.1.4 shall be compensated fully for additional costs associated with rescheduling such planned generation maintenance in accordance with an applicable rate schedule.
- e. SPP Staff shall be responsible for documenting all planned generating unit maintenance schedules, all schedule changes, and all SPP studies and services performed with respect to planned generation maintenance.

f. SPP Staff shall not share information as to the generators' maintenance schedules with any market participants or affiliates of market participants.

2.1.5 Planning Activities

a. SPP shall engage in such planning activities, in coordination with affected Transmission Owners and other Members, as are necessary to fulfill its obligations under this Agreement, SPP Criteria and the Transmission Tariff. Such planning shall conform to applicable reliability requirements of SPP, the North American Electric Reliability Council, or any successor organizations, each Transmission Owner's specific reliability requirements and operating guidelines (to the extent these are not inconsistent with other requirements), and all applicable requirements of federal or state regulatory authorities. Such planning shall seek to minimize costs, consistent with the reliability and other requirements set forth in this Agreement. The division of responsibility for planning between Non-Transmission Owners, Transmission Owners, and SPP is set forth in SPP Criteria.

b. As part of its planning activities, SPP shall be responsible for planning, and for directing or arranging, necessary transmission expansions, additions, and upgrades that will enable it to provide efficient, reliable and non-discriminatory transmission service and to coordinate such efforts with the appropriate state authorities.

c. SPP shall develop and implement no later than three years after RTO Effectiveness a planning and expansion process that encourages market-driven operating and investment actions.

d. SPP also shall encourage and accommodate efforts by state commissions to create multi-state agreements to review and approve new transmission facilities.

2.2 Non-Discriminatory Transmission Service

SPP shall offer and administer transmission service over Tariff Facilities as specified in the Transmission Tariff.

2.2.1 General

a. SPP is authorized by the Transmission Owners pursuant to this Agreement to schedule transactions and to administer transmission service over Tariff Facilities as necessary to provide service in accordance with the SPP Transmission Tariff.

- b. SPP shall review and possess the sole authority to approve or deny, as appropriate, requests for service including interconnection requests and schedule transmission transactions and shall independently determine available transfer capability under the Transmission Tariff; provided that SPP shall coordinate with affected Transmission Owners when processing requests for service involving such Transmission Owners' Tariff Facilities.
- c. SPP shall not exercise its administration of transmission service over the Tariff Facilities in such a way as to interfere with rights of Transmission Owners or Transmission Customers in contracts between a Transmission Owner and a Transmission Customer that are in effect as of the Effective Date of this Agreement except as permitted by the Transmission Tariff.
- d. SPP shall be responsible for documenting all transmission service requests, the disposition of such requests, and any supporting data required to support the decision with respect to such requests. SPP shall negotiate as appropriate to develop reciprocal service, equitable tariff application, compensation principles, and any related arrangements.

2.2.24 Pricing

In connection with its administration of the Transmission Tariff, SPP on behalf of its Members may propose to the FERC such transmission pricing for transmission service as is necessary to fulfill its obligations under this Agreement, and may propose to the FERC such changes in prices, pricing methods, terms, and conditions as are necessary to continue to fulfill such obligations. Board of Directors approval of such filings is required for any matters that the Board deems as appropriate for its consideration and approval. The Transmission Tariff rates shall be designed and administered so as to recover full cost of service to the greatest extent practicable associated with the provision of transmission service under the Transmission Tariff for Tariff Facilities. Notwithstanding the foregoing, each Transmission Owner possesses the right to revise certain rates as provided in Section 3.10 of this Agreement.

2.2.32 Standards of Conduct

SPP, its independent directors, officers, employees, contractors, and agents shall adhere to the SPP Standards of Conduct.

2.2.43 OASIS

SPP shall administer an Open Access Same-time Information System (OASIS) or successor systems for administration of transmission service. The OASIS, or any successor system, shall conform to the requirements for such systems as specified by the FERC.

2.2.54 Ancillary Services

~~SPP shall be the supplier of last resort for the ancillary services required by the FERC. SPP shall have the authority to decide the minimum required amounts of each ancillary service and, if necessary, the locations at which these services will be provided. SPP also shall maintain provisions in its Transmission Tariff allowing transmission customers access to a real-time balancing market. SPP, as part of the Transmission Tariff, shall facilitate the provision of such ancillary services as are required to be offered by the FERC.~~

2.2.65 Transmission Service Scheduling

- a. SPP shall schedule and curtail transmission service in accordance with the Transmission Tariff.
- b. SPP shall, in consultation with Members, develop and from time-to-time amend when necessary, detailed scheduling protocols and procedures for service under the Transmission Tariff, which shall be provided to all Members and be made publicly available.
- ~~c. To the extent SPP relies on available transfer capability data supplied by Transmission Owners, SPP shall test and check the data. In the event of a dispute between SPP and the Transmission Owner, SPP's position shall be maintained pending resolution of the dispute.~~

2.2.7 Congestion Management

~~Beginning no later than one year after RTO Effectiveness, SPP shall maintain in its Transmission Tariff a market mechanism to manage transmission congestion over the Transmission Facilities. If such market mechanism is not in place upon RTO Effectiveness and until such time as it is in effect, SPP shall maintain in its Transmission Tariff an effective protocol for managing congestion.~~

2.2.8 Parallel Path Flows

SPP's administration of the Transmission Tariff shall address parallel path flows within SPP through [among other things] its flow-based reservation and scheduling system.

2.2.9 Facilities Not Under SPP's Operational Control

By agreement of SPP and a Transmission Owner, the Transmission Owner's facilities that are not Transmission Facilities under this Agreement may be included under the Transmission Tariff. SPP shall have the right to exercise agreed to authority over those facilities necessary for SPP to administer transmission service and which meaningfully impact transfer capability.

2.3 Fiduciary Responsibilities and Duties of Southwest Power Pool to Transmission OwnersMembers

~~SPP shall have the following fiduciary responsibilities and duties to its Members administer transmission service and receive and distribute revenues to Transmission Owners under this Agreement: as their agent in accordance with the Transmission Tariff and this Agreement. Notwithstanding the foregoing, SPP shall act pursuant to the direction of the Board of Directors except that neither the Board of Directors nor SPP may take any action which interferes with the following obligations:~~

- ~~a. Using In performing their obligations under this Agreement, SPP, and the Board of Directors shall use their individual and collective~~ best efforts to avoid damage to the Tariff Facilities or any other facilities property of the ~~Transmission Owners or Non-Transmission OwnersMembers~~ affected by SPP activities.
- ~~b. SPP shall Collecting and~~ distributing revenues to ~~the Transmission OwnersMembers~~ in accordance with the Transmission Tariff and any other applicable documents.
- ~~c. Using In discounting transmission services in accordance with the Transmission Tariff, it shall be the duty of SPP to use~~ best efforts to maximize transmission service revenues associated with such transmission services in discounting transmission services in accordance with the Transmission Tariff.
- ~~d. Using best efforts to promote the design and development of Transmission Tariff rates to assure recovery by Transmission Owners of transmission revenue requirements to the greatest extent practicable and subject to receiving necessary regulatory approvals.~~

2.4 Additional Obligations and Rights of SPP

2.4.1 Inspection and Auditing Procedures

SPP shall grant each Member, their employees, agents, or external auditors, and federal and state regulatory authorities having jurisdiction over SPP or any Member, such access to SPP's books and records as is necessary to verify compliance by SPP with this Agreement and to audit and verify transactions under this Agreement. Such access shall be at reasonable times and under reasonable conditions. SPP shall also comply with the reporting requirements of federal and state regulatory authorities having jurisdiction over SPP with respect to the business aspects of its operations. Contacts between officers, employees, and agents of any Member and those of SPP shall comply with the Standards of Conduct.

2.4.2 Stranded Cost Recovery Charges

SPP shall collect and distribute, as appropriate, any stranded cost recovery charges pursuant to applicable schedules accepted by appropriate regulatory entities.

2.4.3 Governance Audit

No later than thirty days before the two year anniversary of RTO Effectiveness, SPP shall submit an audit to FERC analyzing the independence of its governance process. SPP shall make available copies of the report to each SPP Member.

2.4.4 Market Monitoring

SPP shall implement or effect the implementation of market monitoring in accordance with Order Nos. 2000 and 2000-A and any other applicable FERC orders.

2.4.5 General Filing Authority

SPP shall propose and file modifications with FERC to the Transmission Tariff and make any other necessary filings. Such modifications and filings are subject to necessary Board of Directors approval for those filings that the Board requires be brought to it for its approval pursuant to the provisions of Section 2.2.2 and subject to reserved Transmission Owner rights pursuant to Section 3.10.

2.4.6 Penalties and Incentives

SPP shall develop penalties and incentives, subject to FERC approval where appropriate.

2.4.7 General Authority

SPP shall take any actions necessary for it to carry out its duties and responsibilities subject to receiving any necessary regulatory approvals and any necessary approvals by the Board of Directors.

3.0 Commitments, Rights, Powers, And Obligations Of Transmission Owners and Non-Transmission Owners

Transmission Owners and Non-Transmission Owners have made the following commitments, and shall have the following rights and shall be responsible for the following functions some of which apply only to Transmission Owners, some only to Non-Transmission Owners, and some to both. In order to be considered as a Transmission Owner under this Agreement, each Member intending to be a Transmission Owner shall identify itself as a Transmission Owner when executing this Agreement. A non-Transmission Owner under this Agreement owning or controlling Tariff Facilities may ~~have change~~ its status ~~changed to a~~ Transmission Owner under this Agreement upon notice to SPP and execution of this Agreement as a Transmission Owner.

a. Each Transmission Owner shall transfer Operational Control of its Transmission Facilities, subject to receiving all necessary regulatory authorizations, thereby allowing ~~authorizes~~ SPP to (i) direct the operation of the Transmission Facilities in accordance with the terms of this Agreement and (ii) to administer act as its agent (ii) in providing transmission service under the Transmission Tariff over that Transmission Owner's Tariff Facilities. ~~and (ii) in receiving funds from Transmission Customers relating to transmission service over Tariff Facilities and in distributing funds to it.~~

b. Transmission Owners and Non-Transmission Owners, if they own generators within the SPP Region which directly affect the capacity or reliability of the Electric Transmission System, shall offer to provide the ancillary services required under the Transmission Tariff at rates approved by regulatory authorities, where appropriate to the extent such generators are able to provide such ancillary services.

- c. Transmission Owners shall operate and maintain their Tariff Facilities subject to the requirements of this Agreement.
- d. Transmission Owners that are control area operators shall continue to operate their control areas for local generation control and economic dispatch, and shall be responsible for identifying and addressing local problems in a secure and reliable manner.
- e. Transmission Owners shall provide transmission service over their Tariff Facilities at the direction of SPP pursuant to the terms of the Transmission Tariff.
- f. Members agree to comply with instructions of SPP in its role as Security Coordinator.
- g. Transmission Owners shall retain all rights of ownership including legal and equitable title in their Tariff Facilities, subject to the provisions of this Agreement. Nothing in this Agreement shall be deemed to restrict or prohibit access to their Tariff Facilities by the Transmission Owners, or those acting under their authority, consistent with the provisions of this Agreement.
- h. Notwithstanding any other provision in this Agreement, no Transmission Owner shall be obligated or be considered as allowing transmission over its facilities if such transmission would cause the loss of the tax exempt status of any Transmission Owner or any bonds or other debt of a Transmission Owner.

3.1 Redispatch, and Curtailment

Each Member which owns or controls generation shall follow the directions of SPP in its role as Security Coordinator, in redispatching generation if such generation directly affects the reliability and capability of the Electric Transmission System and if it is located within the SPP Region. Each Member also shall follow the directions of SPP to effectuate curtailment of load, if so directed by SPP, [in](#) its role as Security Coordinator or as administrator of the Transmission Tariff. Members shall submit and coordinate with SPP unit schedules and must-run units within the SPP Region that affect Electric Transmission System capability or reliability. Members providing such redispatch shall receive appropriate compensation in accordance with appropriate rate schedules and market conditions, if applicable.

3.2 Transmission and Generation Maintenance Practices

Each Transmission Owner shall maintain its Tariff Facilities in accordance with Good Utility Practice. Each Member shall maintain its generation facilities subject to this Agreement in

accordance with Good Utility Practice. Transmission Owners shall coordinate maintenance on their Tariff Facilities or abide by directions issued by SPP regarding such maintenance in accordance with Section 2.1.3 of this Agreement. Members owning or controlling generation facilities within the SPP Region directly affecting Electric Transmission System capability or reliability shall submit schedules and coordinate maintenance of such facilities with SPP ~~in accordance with~~ to allow SPP to carry out the coordination set forth in Section 2.1.4 of this Agreement.

3.3 Construction

- a. Each Transmission Owner shall use due diligence to construct transmission facilities as directed by SPP in accordance with the Transmission Tariff, subject to such siting, permitting, funding, and environmental constraints as may be imposed by state, local and federal laws and regulations, and subject to the receipt of any necessary federal or state regulatory approvals. Such construction shall be performed in accordance with Good Utility Practice, applicable SPP Criteria, industry standards, each Transmission Owner's specific reliability requirements and operating guidelines (to the extent these are not inconsistent with other requirements), and in accordance with all applicable requirements of federal or state regulatory authorities. Each Transmission Owner shall be fully compensated to the greatest extent permitted by FERC, or other regulatory authority for the costs of construction undertaken by such Transmission Owner in accordance with the Transmission Tariff.
- b. After a new transmission project has been approved, SPP will direct the appropriate Transmission Owners to begin implementation of the project. If the project forms a connection between facilities of a single Transmission Owner, that Transmission Owner will be designated to provide the new facilities. If the project forms a connection between facilities owned by two different Transmission Owners or between a new facility and the facilities of a Transmission Owner, both entities will be designated to provide the new facilities. The two entities will agree between themselves how much of the project will be provided by each entity. If agreement cannot be reached, SPP will facilitate the ownership determination process.
- c. A designated provider for a project can elect to arrange for a new entity or another existing Transmission Owner to build and/or own the project in their place. If a designated provider or providers do not or cannot agree to implement the project in a timely manner, SPP will solicit

and evaluate proposals for the project from other entities and select a replacement designated provider.

3.4 Use of Distribution Facilities

Each Transmission Owner shall provide such service over its Distribution Facilities, where applicable, as is necessary to effectuate transmission transactions administered by SPP, at approved rates, and subject to a separate tariff or agreement as appropriate.

3.5 Providing Information

Each Member shall provide such information to SPP as is necessary for SPP to perform its obligations under this Agreement and the Transmission Tariff and for planning and operational purposes. Such information may be treated as confidential when so designated by the providing member so long as its designation is reasonable.

3.6 Facilities Access

Each Transmission Owner shall allow SPP, such access to Tariff Facilities as is necessary for SPP to perform its obligations under this Agreement. Such access shall be at reasonable times and under reasonable conditions.

3.7 Inspection and Auditing Procedures

Each Transmission Owner shall grant SPP and each regulatory authority having jurisdiction over that Transmission Owner, such access to the Transmission Owner's books and records as is necessary for SPP to perform its obligations under this Agreement and to audit and verify transactions under this Agreement. Such access shall be at reasonable times and under reasonable conditions. A Transmission Owner shall not be required to provide access to confidential information unless it consents, its consent not to be unreasonably withheld. Such Transmission Owner may require reasonable disclosure conditions before giving its consent. Disclosure of confidential information shall be made consistent with such disclosure conditions or in accordance with any effective order requiring production of such confidential information issued by a court or regulatory authority. SPP shall provide the affected Transmission Owner immediate notice of any request by an entity to review any such confidential information.

3.8 Compliance with Bylaws and Other Policies and Procedures

- a. Each Member agrees to and will comply with and abide by the provisions of the SPP Bylaws.
- b. Each Member shall comply with all approved and applicable SPP and NERC policies, principles, criteria, standards, and guides and monitoring and certification procedures.
- c. Members who are also members of another NERC regional reliability council may, at their request and upon approval of the President, be granted a waiver of responsibilities associated with SPP Criteria and/or Bylaws that are duplicative of or inconsistent with responsibilities of membership in another council. Members receiving such a waiver agree to forgo voting privileges on issues before any organizational group pertaining to waived responsibilities.

3.9 Planning and Participation

Each Member shall be entitled to participate and each Transmission Owner shall participate in regional joint planning and coordinated operation of the Electric Transmission System.

3.10 Pricing

Each Transmission Owner shall possess the unilateral right to file with FERC to change the rates or rate structure for transmission service over its Tariff Facilities and to submit proposals or filings governing new construction with FERC; provided, however, a Transmission Owner may not submit a proposal which results in a Transmission Customer paying two or more transmission charges for transmission for one transaction ~~under-using~~ the Transmission Tariff involving Tariff Facilities (excluding Distribution Facilities ~~and transmission facilities not under the Transmission Tariff~~ for which an additional charge may be imposed and Grandfathered Agreements as defined in the Transmission Tariff). No SPP approval is required for such filings though the Transmission Owner shall notify SPP in advance of the filing of its intention to submit a filing with FERC and provide SPP with a copy of the filing.

4.0 Withdrawal Of Transmission Owners' Facilities And Withdrawal By Non-Transmission Owners

4.1 Withdrawal Notice

4.1.1 Transmission Owners

A Transmission Owner may, upon submission of a written notice of withdrawal to the President, commence a process of withdrawal of its Tariff Facilities from SPP's administration [and Operational Control \(where applicable\)](#). Such withdrawal shall not be effective until October 31 of the calendar year following the calendar year in which notice is given; provided that the Transmission Owner must provide at least 12 months notice. With regard to any such withdrawal by a FERC public utility, the withdrawing Transmission Owner's withdrawal shall not become effective until FERC has accepted the notice of withdrawal or otherwise allowed such withdrawal. At the time the withdrawal becomes effective and unless otherwise requested by the withdrawing Transmission Owner, it shall be classified as a Non-Transmission Owner under this Agreement. If such withdrawal of facilities creates a situation in which a second Transmission Owner is no longer physically interconnected with the Electric Transmission System, SPP shall determine if such withdrawal affects the ability of such second Transmission Owner to continue its membership as a Transmission Owner.

4.1.2 Non-Transmission Owners

Non-Transmission Owners may withdraw upon providing written notice to the President. Such withdrawal shall not be effective until October 31 of the calendar year following the calendar year in which notice is given. Non-Transmission Owners withdrawing shall pay all Existing Obligations as defined in Section 4.2.2.

4.2 Effect of Withdrawal on Contractual Obligations

This Section 4.2 applies to withdrawals under both Sections 4.0 and 5.0 of this Agreement as well as any termination pursuant to Section 6.0.

4.2.1 Users Held Harmless

Transmission Customers taking service which involves facilities being withdrawn by a Transmission Owner from SPP's administration [and/or Operational Control](#) and which involves transmission contracts executed before the Transmission Owner provided notice of its facilities withdrawal shall continue to receive the same service for the remaining term of the contract at the same rates, terms, and conditions that would have been applicable if there were no withdrawal of facilities. The withdrawing Transmission Owner shall agree to continue providing

service to such Transmission Customers, and shall receive revenues calculated in accordance with the Transmission Tariff but no more in revenues for that service than if there had been no withdrawal of facilities by such Transmission Owner.

4.2.2 Existing Obligations

All financial obligations incurred and payments applicable to time periods prior to the effective date of such withdrawal shall be honored by SPP and the withdrawing Member. The withdrawing Member's existing obligations shall include, as calculated pursuant to the SPP Bylaws, all costs or expenses incurred up until the date withdrawal becomes effective. The withdrawing Member shall pay such costs or expenses it owes within 30 days after receiving an invoice from SPP. SPP shall pay the withdrawing Member any monies it owes that Member within 30 days after the withdrawal became effective. The withdrawing Member or SPP may net the amounts due it by any amounts it owes.

4.2.3 Construction of Facilities

Obligations relating to the construction of new facilities pursuant to an approved plan of SPP shall be renegotiated between SPP and the withdrawing Member, where applicable. If such obligations cannot be resolved through negotiations, they shall be resolved in accordance with SPP dispute resolution procedures.

4.2.4 Regulatory and Other Approvals or Procedures

The withdrawal by a Transmission Owner of its facilities from SPP shall also be subject to applicable federal and state law and regulatory approvals or procedures.

5.0 Regulatory, Tax, And Other Authorities

5.1 Regulatory and Other Authorities

This Agreement and the participation of the signatories is subject to acceptance or approval by the FERC and may be subject to actions of respective state regulatory authorities to which respective signatories may be subject and to the actions of any other governmental body which may affect the ability of any signatory to participate in this Agreement. The following items

describe the signatories' rights and obligations in the event regulatory and other approvals or acceptances are not obtained or changes are required.

a. In the event the FERC disapproves or refuses to accept this Agreement or ~~the changes to the Transmission Tariff developed together with this Agreement~~[the SPP RTO Filing](#), then this Agreement shall cease to be effective except that the signatories shall be obligated to attempt expeditiously and in good faith to negotiate a substitute agreement and tariff which address the reasons for such FERC action. If, despite such good faith negotiation, the signatories are unable to produce such a substitute agreement and tariff, then the signatories shall have no further obligations under this Agreement or any filing associated herewith.

b. In the event of any order or decision by [\(i\)](#) the FERC or by a court modifying this Agreement or ~~the Transmission Tariff submitted as part of the initial filing seeking FERC acceptance or approval~~[the SPP RTO Filing or \(ii\) a state regulatory authority which prevents the Member from becoming a signatory to this Agreement,](#), that in the judgment of the Member adversely affects it, then such Member, at its sole discretion, may withdraw from this Agreement by providing written notice to the President of SPP no later than thirty days after such order or decision without receiving any FERC authorization. In such event, the Member will in good faith negotiate to determine whether changes should be made to the Agreement or [Transmission Tariff](#) or [other documents](#) to address the reasons for such Member's withdrawal.

[c. The withdrawal rights in this Section 5.1 shall apply only to actions by regulators or courts involving the SPP RTO Filing.](#)

5.2 Tax Authorities

If the Internal Revenue Service or any other federal, state, or local taxing authority issues, or fails to issue, any ruling, or imposes any requirement or obligation, in connection with this Agreement on any Member, adverse to such Member (in its sole judgment) or if participating as a Transmission Owner or Member jeopardizes the tax exempt status of any Transmission Owner or Member or any Transmission Owner's or Member's bonds, then such Transmission Owner or Member may, within 30 days of the date of such final order, or a good faith belief of such adverse consequences, withdraw from this Agreement subject to receiving any necessary regulatory approvals. In such event, the signatories, including the withdrawing party, will, in

good faith, negotiate to determine whether changes should be made to the Agreement to address the reasons for such signatory's withdrawal.

5.3 Effectiveness as to Certain Members

The effectiveness of this Agreement as to a Member which is a governmental entity and which has outstanding tax-exempt bonds issued to finance, in whole or in part, generation, transmission, or distribution facilities is dependent upon satisfaction or written waiver of the following conditions precedent:

- a.** Receipt of an unqualified opinion of a qualified bond counsel to the effect that the provisions of this Agreement do not adversely affect the exclusion from gross income of interest on any such outstanding bonds issued to finance generation, transmission, and distribution facilities under the Internal Revenue code of 1986, as amended;
- b.** Receipt of an unqualified opinion of a nationally recognized bond counsel and general counsel to such governmental entity to the effect that the provisions of this Agreement do not constitute a breach or impairment of, or a default under, any agreement to which such governmental entity is a party, including, but not limited to, its master bond resolution, as amended, and any power sales contracts with its municipal transmission users (if any), as amended, or other agreements;
- c.** Receipt of a certificate of the trustee for any such outstanding bonds issued for generation, transmission and distribution facilities to the effect that the governmental entity's entry into this Agreement is permitted under the master bond resolution, as amended; and
- d.** Receipt of an opinion of nationally recognized bond counsel and general counsel to the governmental entity that such governmental entity has full constitutional and statutory authority to enter into this Agreement. In the event that any of the foregoing conditions are not satisfied or waived by a governmental entity, then the adversely affected governmental entity shall promptly give notice of its objections or conditions which have not been satisfied to the other signatories, and the signatories shall expeditiously attempt in good faith to negotiate a substitute agreement.

6.0 Removal Of Members

The Board of Directors may terminate the Membership of any Member for cause including, for example, violation of the SPP Bylaws or nonpayment. Such Board of Directors termination shall be after an affirmative vote consistent with the voting procedures in SPP's Bylaws. A Member terminated by the Board shall comply with the requirements of Section 4.2 of this Agreement as if it has voluntarily withdrawn from the Agreement.

7.0 Effective Date, Duration, And Transition

a. This Agreement shall be effective for any signatory on the Effective Date and shall remain in force until the Member's withdrawal becomes effective under this Agreement or this Agreement is terminated. In the event of termination of this Agreement, all financial obligations incurred and payments applicable to time periods prior to the effective date of such termination shall be honored by SPP and each Member as of the date of termination. In addition, all obligations incurred pursuant to Section 4.2 of this Agreement shall survive such termination.

b. For any Member that prior to the Effective Date of this Agreement executed an agency agreement and/or a membership agreement with SPP, upon the Effective Date of this Agreement those prior agreements shall be considered terminated between the Member and SPP; provided, however, that all provisions imposing obligations on the Member and on SPP relating to obligations incurred before termination shall survive such termination.

8.0 Open Architecture

Nothing in this Agreement is to be read or construed, in any way, as preventing SPP from entering into arrangements with independent transmission companies or other entities which requires a structure different than the structure set forth in this Agreement or as preventing SPP from evolving into a different structure subject to Board of Directors and regulatory approvals.

98.0 Miscellaneous Provisions

98.1 Governing Law

This Agreement shall be interpreted, construed, and governed by the laws of the State of Arkansas, except to the extent preempted by the law and/or unless a court with jurisdiction rules otherwise, provided, however, that all matters relating to real property or any interest in

realty shall be governed by the laws of the State wherein such real property or interest in realty is physically located.

98.2 Successors and Assigns

This Agreement shall inure to the benefit of, and be binding upon Members, their respective successors and assigns permitted hereunder, but shall not be assignable by a Member, by operation of law or otherwise, without the approval of the Board of Directors which approval shall not be unreasonably withheld, except that no Board of Directors approval is required as to a successor in the operation of the Transmission Owner's Tariff Facilities committed to administration by SPP by reason of a merger, consolidation, reorganization, sale, spin-off, or foreclosure, as a result of which substantially all such transmission facilities are acquired by such successor, and such successor becomes a Transmission Owner under this Agreement.

98.3 No Implied Waivers

The failure of a Member or SPP to insist upon or enforce strict performance of any of the specific provisions of this Agreement at any time shall not be construed as a waiver or relinquishment to any extent of such Member's or SPP's right to assert or rely upon any such provisions, rights, or remedies in that or any other instance, or as a waiver to any extent of any specific provision of this Agreement; rather the same shall be and remain in full force and effect.

98.4 Severability

Each provision of this Agreement shall be considered severable, and if for any reason any provision of this Agreement, or the application thereof to any person, entity, or circumstance, is determined by a court or regulatory authority of competent jurisdiction to be invalid, void, or unenforceable, then the remaining provisions of this Agreement shall continue in full force and effect and shall in no way be affected, impaired, or invalidated, and such invalid, void, or unenforceable provision shall be replaced with a suitable and equitable provision in order to carry out, so far as may be valid and enforceable, the intent and purpose of such invalid, void, or unenforceable provision. This Section 98.4 does not modify or change in any way the right of a Member to withdraw as provided elsewhere in this Agreement.

98.5 Renegotiation

If any provision of this Agreement, or the application thereof to any person, entity or circumstance, is held by a court or regulatory authority of competent jurisdiction to be invalid, void, or unenforceable, or if a modification or condition to this Agreement is imposed by a regulatory authority exercising jurisdiction over this Agreement, then Members and SPP shall endeavor in good faith to negotiate such amendment or amendments to this Agreement as will restore the relative benefits and obligations of the signatories under this Agreement immediately prior to such holding, modification, or condition. If after sixty days such negotiations are unsuccessful, then Members or SPP may exercise any individual or collective withdrawal or termination rights available under Sections 4 and 5 of this Agreement.

98.6 Representations and Warranties

Each Member and SPP represents and warrants to other signatories that as of the later of the date it executes this Agreement or the Effective Date of this Agreement:

- a.** It is duly organized, validly existing, and in good standing under the laws of the jurisdiction where organized.
- b.** Subject to any necessary approvals by federal or state regulatory authorities of SPP, the execution and delivery by each Member and SPP of this Agreement, and the performance of its obligations hereunder have been duly and validly authorized by all requisite action on the part of the signatories and do not conflict with any applicable law or with any other agreement binding upon the signatories, other than third party joint agreements covered in this Agreement. This Agreement has been duly executed and delivered by Members and SPP, and, subject to the conditions set forth in this Agreement, constitutes the legal, valid, and binding obligation on the part of each Member and SPP, enforceable against it in accordance with its terms except insofar as the enforceability thereof may be limited by applicable bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium, or other similar laws affecting the enforcement of creditor's rights generally, and by general principles of equity regardless of whether such principles are considered in a proceeding at law or in equity.
- c.** There are no actions at law, suits in equity, proceedings, or claims pending or, to the knowledge of each Member or SPP, threatened against the Members or SPP before or by any

federal, state, foreign or local court, tribunal, or governmental agency or authority that might materially delay, prevent, or hinder the performance by such entity of its obligations hereunder.

98.7 Further Assurances

Each Member and SPP agree that it shall hereafter execute and deliver such further instruments, provide all information, and take or forbear such further acts and things as may be reasonably required or useful to carry out the intent and purpose of this Agreement and as are not inconsistent with the provisions of this Agreement.

98.8 Delivery of Notices

Except as otherwise expressly provided herein, notices required under this Agreement shall be in writing and shall be sent to each Member or SPP by U.S. mail, overnight courier, hand delivery, facsimile, or other reliable electronic means. Any notice required under this Agreement shall be deemed to have been given either upon delivery, if by U.S. mail, overnight courier, or hand delivery, or upon confirmation, if given by facsimile or other reliable electronic means.

98.9 Entire Agreement

This Agreement, the Bylaws, SPP Criteria, and the Transmission Tariff, and their duly approved replacements, constitute the entire agreement among Members and SPP with respect to the subject matter of this Agreement, and no previous oral or written representations, agreements, or understandings made by any officer, agent, or employee of any Member or SPP shall be binding on any such Member or SPP unless contained in this Agreement, the Bylaws, SPP Criteria, or the Transmission Tariff, ~~or the Agency Agreement.~~

98.10 Good Faith Efforts

Each Member and SPP agree that it shall in good faith take all reasonable actions necessary to permit it and other signatories to fulfill their obligations under this Agreement. Where the consent, agreement, or approval of any Member or SPP must be obtained hereunder, such consent, agreement, or approval shall not be unreasonably withheld, conditioned, or delayed. Where any Member or SPP is required or permitted to act, or omit to act, based on its opinion

or judgment, such opinion or judgment shall not be unreasonably exercised. To the extent that the jurisdiction of any federal or state regulatory authority applies to any part of this Agreement and/or the transactions or actions covered by this Agreement, each Member and SPP shall cooperate with all other signatories to secure any necessary or desirable approval or acceptance of such regulatory authorities of such part of this Agreement and/or such transactions or actions.

98.11 Third Party Joint Agreements

This Agreement, the Bylaws, and the Transmission Tariff shall not be construed, interpreted, or applied in such a manner as to cause any Transmission Owner to be in material breach, anticipatory or otherwise, of any agreement (in effect on the later of the Effective Date of this Agreement or the date that it becomes a Transmission Owner under this Agreement) between such Transmission Owner and one or more third parties who are not signatories (regardless of the inclusion of one or more other Transmission Owners as parties to such agreement) for the joint transmission, operation, or maintenance of any electrical facilities covered by this Agreement or the Transmission Tariff. A Transmission Owner who has such a third party joint agreement shall discuss with the Board of Directors any material conflict between such third party joint agreement and this Agreement, the Bylaws or the Transmission Tariff raised by a third party to such joint agreement, but the resolution of such a conflict shall be and remains within the sole discretion of such signatory; provided, however, that such signatory shall, if otherwise unresolved, utilize the available remedies and dispute resolution procedures to resolve such conflict, including, but not limited to, submitting such conflict to the FERC for resolution; provided, further, that in no event shall such signatory enter into a resolution of such conflict which would impair the reliability of the Electric Transmission System.

98.12 Amendment

This Agreement may be amended by SPP's Board of Directors, subject to receiving any necessary regulatory approvals. The signatories to this Agreement agree to be bound by this Agreement as it may be amended, provided that the signatories possess the right to challenge any amendments at FERC and to exercise any withdrawal rights that they possess under this Agreement if they are dissatisfied with the amendment.

98.13 Counterparts

This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument, binding upon all of the Members and SPP, notwithstanding that all such Members, and SPP may not have executed the same counterpart.

IN WITNESS WHEREOF, the Member and SPP have caused their duly authorized representatives to execute and attest this Agreement, on their respective behalves.

MEMBER:

Name of Member

Type of Entity (Transmission Owner or Non-Transmission Owner)

Name of Authorized Representative

Title of Authorized Representative

Signature of Authorized Representative

Date of Execution

SOUTHWEST POWER POOL, INC.:

Nicholas A. Brown _____
Name of Authorized Representative

Vice President and Corporate Secretary _____
Title of Authorized Representative

Signature of Authorized Representative

July 26, 1999 _____
Date
k:\spp\tariff\membership-agencyagreement799

**Southwest Power Pool
STAFF
Recommendation to the Board of Directors
August 30, 2000**

MEMBER REBATE OF ADMINISTRATIVE FUNDS

Background

In 1997 the Board of Directors modified the method by which SPP collects its operating costs in conjunction with implementation of the regional transmission service tariff. Historically, SPP assessed members each month a prorated portion of its previous months' actual operating costs. As SPP's operating costs increased dramatically with tariff administration responsibilities, a new method was approved and accepted by the FERC allowing SPP to collect a majority of its costs (currently 80 percent) through a fee applied to transmission service under the regional tariff (currently at the cap of 20 cents/MWh). To date, SPP's tariff is used only for a small portion of total transmission service within the SPP region due to grandfathered service under individual transmission owner tariffs. As such, SPP has been unable to collect its allowed percentage of actual costs through the transmission service fee. Per SPP Bylaws, the residual amount is assessed to members each month on a prorated basis. This residual assessment is booked for repayment when SPP regional transmission service expands. This amounts to a loan from SPP members to transmission service customers, which through 1999 is at \$6.3 million. Though in most cases these entities (members and customers) are one in the same, SPP's open access tariff provides service to all eligible customers regardless of membership. Also, in many cases where members and customers are the same corporate entities, the business units are different, and therefore costs should ultimately be booked appropriately.

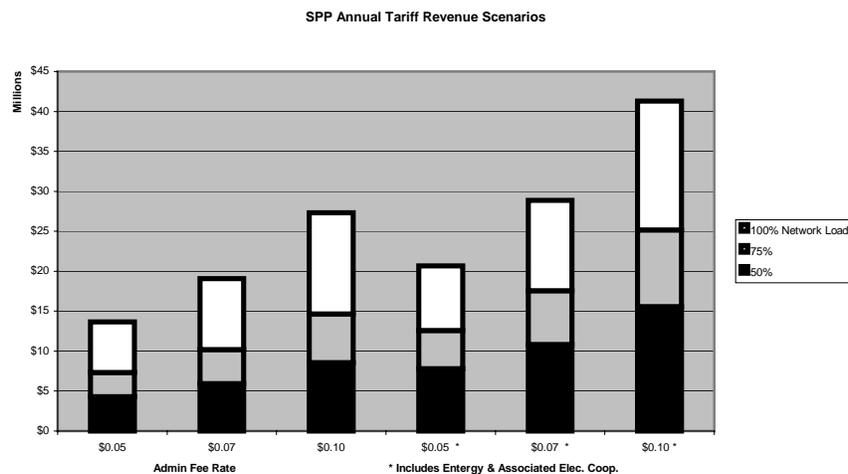
	Quarterly Net Expenses	Quarterly			Accumulative Shortfall	Shortfall With Interest
		Tariff Income	Tariff Shortfall	Expected Tariff Income		
Q198	\$ 1,563,218	\$ -	\$ -	\$ -	\$ -	\$ -
Q298	\$ 1,619,058	\$ -	\$ 397,380	\$ 397,380	\$ 397,380	\$ 405,824
Q398	\$ 1,850,137	\$ 181,578	\$ 928,504	\$ 1,110,082	\$ 1,325,884	\$ 1,342,952
Q498	\$ 1,885,233	\$ 283,516	\$ 847,624	\$ 1,131,140	\$ 2,173,508	\$ 2,219,114
Q199	\$ 2,177,329	\$ 170,604	\$ 1,343,870	\$ 1,514,474	\$ 3,517,378	\$ 3,608,309
Q299	\$ 2,245,284	\$ 338,954	\$ 1,345,009	\$ 1,683,963	\$ 4,862,387	\$ 5,023,229
Q399	\$ 2,105,554	\$ 1,094,923	\$ 484,243	\$ 1,579,166	\$ 5,346,630	\$ 5,604,797
Q499	\$ 2,311,646	\$ 662,546	\$ 1,071,189	\$ 1,733,735	\$ 6,417,819	\$ 6,787,242
Q100	\$ 2,787,216	\$ 413,658	\$ 1,765,584	\$ 2,179,242	\$ 8,183,403	\$ 8,693,491
Q200	\$ 3,166,474	\$ 902,413	\$ 1,630,766	\$ 2,533,179	\$ 9,814,170	\$ 10,510,733

Recent Activity

On February 1, 2000, SPP's tariff began offering network integration transmission service, completing service offerings under the regional tariff. With the comprehensive tariff filing, SPP requested an interim administrative fee of 5 cents per MWh for network

service customers as an incentive to place bundled retail load under the regional tariff while the fee for point-to-point service remained at the cap of 20 cents per MWh. This was also proposed to prevent network service customers from repaying an inordinate share of the debt that point-to-point customers had caused and accelerate amortization of customer debt to members. The proposal was protested by several intervenors and FERC rejected the approach, stating that the same fee must be applied to all service types. As such, the current 20 cents per MWh charge fee is perceived to be a strong disincentive to take network service under the regional tariff. While SPP could reduce the administrative fee to attract network service customers, the indebtedness to members would increase and payback deferred if a significant number of members do not take regional transmission service.

On August 30, 2000, the SPP Board of Directors will consider recommendations from the RTO Working Group in preparation for a second filing with the FERC seeking RTO recognition. These recommendations include significant budget additions to manage the increased functions required of RTOs under FERC Order 2000; namely, market settlement, market monitoring and market-based congestion management. The six-year net present cost is estimated at \$42 million. Forecasting the timing and magnitude of network service under the regional tariff is complicated by many issues including, but not limited to: numerous and complex grandfathered agreements for transmission service, many of which are bundled with capacity and/or energy purchase agreements; retail access legislation requirements and provisions on a state-by-state basis; and SPP size with and/or without Entergy, Associated Electric, and others. At worst, SPP can expect to cover no more than fifty percent of its existing budget based on point-to-point transmission service and very minimal network service. The chart below shows SPP income based on several scenarios of percent of load under the regional tariff versus SPP administrative fee levels.



Analysis

Staff has identified three alternatives for financing the under-recovery of tariff revenues in order to pay members back (if this is desired) and for the added costs related to RTO functions and is prepared to discuss each option more fully at the August 30 Board of Directors meeting.

Remain Member-Financed

SPP can continue to be member-financed. This current scenario results in Members continuing to be assessed the difference between monthly tariff administrative income and SPP operating expenses. The chart above indicates the current magnitude of this indebtedness. This scenario results in the Members bearing the entire financial burden for under-recovery of tariff revenues during start-up and is the default option per current organizational documents absent Board of Directors action to the contrary.

Secure Long-Term Bank Financing

SPP could secure long-term bank financing, similar to the financial approach for previous large purchases, but for a higher amount and longer period. The members would then be reimbursed for the estimated carryover through the end of year 2000. This alternative would also have to consider obtaining sufficient financing to cover excess of operating expenses over tariff income for 2001 to 2005. Based on the lack of network service being placed under the SPP tariff in 2000, tariff revenues to cover operating expenses would gradually increase over the next five years until the requirement under the RTO filing would become effective. Considering that the SPP operating budgets could be of the magnitude of \$20 million each of the next five years, additional financing of \$8 to \$10 million would be required each of the next five years to avoid having the Membership finance the under-recovery. This identifies the need for long-term financing of at least \$50 million over the next five years until monthly operations are sufficiently supported by tariff revenues. An additional five years would most likely be needed to repay the loan in full.

The advantage of long-term bank financing is that there are generally no loan origination fees and therefore, the expense of obtaining financing is limited to interest expense. However, these loans generally have to be renewed annually. Although monthly repayments are calculated over an agreed upon term of years, the risk exists that the financial institution making the loan has the discretion of not renewing the loan at some point prior to SPP paying off the loan. SPP would then be placed in the position of negotiating with another financial institution for a new loan. Also, currently, there is no SPP financial record for the liability to reimburse the Membership for the additional assessments. Should SPP obtain the necessary financing to repay the Membership, it would be necessary to record the carry-forward under-recovery and related liability for the loan obtained. This would result in a negative equity situation for financial reporting purposes, which could result in difficulty obtaining future financing

should the original lender decide not to renew. Also, the magnitude of the amount needed could make obtaining bank financing difficult.

Secure Long-Term Bond Financing

A third alternative is to secure long-term bond financing for a term of 10 to 15 years. This type of financing is estimated to incur loan origination expenses and legal fees in the range of 1% of the amount financed. However, the loan is secured for the full term of the bond issue with no risk for annual renewal. SPP is currently in the process of negotiating with Paine Webber for such a bond issue in the \$50 million range. SPP will have an immediate need by early 2001 for the financing of RTO related software estimated to be \$30 million. This immediate need, together with any plans to reimburse the Membership for the under-recovery through 2000, as well as potential excess of operating expenses over tariff revenues through 2005, makes the long-term bond financing an attractive alternative.

Also, SPP Bylaws require SPP to maintain approximately one sixth of the approved budget as working capital. Members are currently only contributing a total of \$400,000 to working capital, while \$1.1 million has been borrowed from funds that SPP maintains from transmission service deposits to minimize impact on member assessments. Should the load approach be pursued to rebate member costs, Staff plans to withhold funds to satisfy the working capital requirement, and return deposit funds to credit worthy customers per recently approved tariff modifications.