



Nicholas Brown  
Senior Vice President & Corporate Secretary

June 13, 2003

Mr. Gene Argo	Ms. Trudy Harper	Mr. Richard Spring
Mr. David Christiano	Mr. Quentin Jackson	Mr. Al Strecker
Mr. Roland "Harry" Dawson	Mr. John Marschewski	Mr. Larry Sur
Mr. Michael A. Deihl	Mr. Tom McDaniel	Mr. Richard Verret
Mr. Dick Dixon	Mr. Stephen Parr	Mr. Gary Voigt
Mr. Jim Eckelberger	Mr. J. M. Shafer	Mr. Walt Yeager
Mr. Michael Gildea	Mr. Harry Skilton	

**Hello!**

Enclosed is an agenda and background materials for our upcoming SPP Board of Directors Meeting Tuesday, June 24, 2003, at the Hilton Hotel Kansas City Airport, Kansas City, Missouri. The meeting will be from 10:00 a.m. until 3:00 p.m.

As always, please call with any questions or comments. I look forward to seeing you all again!

**Take Care,**

A handwritten signature in black ink, appearing to read 'Nick', written in a cursive style.

NAB:cr  
Enclosure  
cc: SPP Membership (via email)

**Southwest Power Pool  
BOARD OF DIRECTORS MEETING  
Tuesday June 24, 2003  
Hilton Hotel – Kansas City Airport – Kansas City, MO**

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

**10:00 a.m. – 3:00 p.m. – Meeting**

1. Administrative Items .....Mr. Al Strecker
2. Audit Report.....Mr. Harry Skilton
3. Strategic Planning Task Force Report ..... Messrs. Richard Spring/Dick Dixon
4. Finance Working Group Report .....Mr. Harry Skilton
5. Nominating Task Force Report ..... Mr. David Christiano
6. Employee Benefits Working Group Report..... Mr. Jim Eckelberger
7. Executive Session

**Southwest Power Pool  
BOARD OF DIRECTORS MEETING  
Embassy Suites Outdoor World – Grapevine, Texas  
April 14, 2003**

**- Summary of Action Items -**

1. Approved minutes of the March 12, 2003 meeting and the March 20, 2003 teleconference meeting.
2. Approved an amendment to the strategic plan concerning the participant funding methodology to include a mechanism allowing investment by all interested stakeholders.
3. Approved an amendment to the strategic plan to develop a recommendation on formula rates to include an equitable revenue distribution methodology.
4. Approved adoption of the proposed strategic plan as amended and authorized the delegation of responsibilities to SPP organizational groups as well as Board action on subsequent specific recommendations related to this plan by the June 24, 2003 meeting.

**Southwest Power Pool  
BOARD OF DIRECTORS MEETING  
Embassy Suites Outdoor World – Grapevine, Texas  
April 14, 2003**

**Agenda Item 1 - Administrative Items**

SPP Chair Mr. Al Strecker called the meeting to order at 9:59 a.m. The following Board members were in attendance or represented by proxy:

Mr. Gene Argo, Midwest Energy,  
Mr. Ricky Bittle, proxy for Mr. Gary Voigt, Arkansas Electric Cooperative Corp.,  
Mr. David Christiano, City Utilities of Springfield, MO,  
Mr. Harry Dawson, Oklahoma Municipal Power Authority  
Mr. Michael Desselle, proxy for Mr. Richard Verret, American Electric Power,  
Mr. Michael Deihl, Southwestern Power Admin.,  
Mr. Dick Dixon, Westar Energy,  
Mr. Jim Eckelberger, independent director,  
Ms. Trudy Harper, Tenaska Power Services Company,  
Mr. Quentin Jackson, independent director,  
Mr. Stephen Parr, Kansas Electric Power Coop.,  
Mr. John Marschewski, Southwest Power Pool,  
Mr. Tom McDaniel, independent director  
Mr. Gary Roulet, Proxy for Mr. J. M. Shafer, Western Farmers Electric Cooperative,  
Mr. Harry Skilton, independent director,  
Mr. Richard Spring, Kansas City Power & Light,  
Mr. Al Strecker, OG+E,  
Mr. Larry Sur, independent director

Mr. Strecker asked Mr. Nick Brown to take roll call, recognized state regulators and asked for a round of introductions. A quorum was declared with 49 persons in attendance representing 25 members, 0 guests and 7 regulatory agencies were present (Attendance List - Attachment 1). The Secretary received three proxy statements (Proxies - Attachment 2). Mr. Strecker thanked everyone present for attending and announced the agenda (Agenda – Attachment 3). He then referred to draft minutes of the March 12, 2003 meeting (3/12/03 Meeting Minutes - Attachment 4) and asked for necessary corrections or a motion for approval. Mr. Dawson moved that the minutes be approved as presented. Mr. Deihl seconded this motion, which passed unanimously. Mr. Strecker next referred to draft minutes of the March 20, 2003 teleconference meeting (3/20/03 Teleconference Meeting Minutes – Attachment 5) and asked for corrections or a motion for approval. Mr. Marschewski moved the minutes be approved as presented. Mr. McDaniel seconded this motion, which passed unanimously.

**Agenda Item 2 – Strategic Planning Task Force Report**

Mr. Nick Brown, Mr. Tom Dunn, and Mr. Carl Monroe were asked to introduce and provide background for the Strategic Planning Task Force Report (SPTF Report – Attachment 6). Mr. Brown reported that the SPP/MISO merger, driven by the FERC July 2000 order denying SPP RTO status, had been terminated as of March 20, 2003. Many conditions required to close the merger could not be met in near term. Mr. Strecker formed the SPTF to review the SPP organization and make recommendations to the Board. SPTF members are: Co-Chairs, Dick Dixon (WESTAR) and Richard Spring (KCPL), Michael Gildea (DUKE), Trudy Harper (TENASKA), Mel Perkins (OKGE), Ricky Bittle (AREC), Michael Desselle (AEP), David Christiano (SPRM), John Marschewski (SPP), and facilitators, Nick Brown and Carl Monroe (SPP). The planning process addressed: where are we, where do we want to go and how do we get there? It was determined that SPP's value proposition is:

- Relationship Based
- Member Driven
- Independence Through Diversity

SPP Board of Directors Minutes  
April 14, 2003

- Reliability & Economic/Equity Issues Inseparable
- Evolution, Not Revolution

Mr. Dunn presented the SPP current financial status discussing the 2003 budget, assured revenue source, member overpayment, capital market interest, member withdrawals, and credit concerns. Mr. Monroe reviewed the market situation per FERC Order 2000 pointing out the minimum characteristics and functions of an RTO and the impact on SPP. He also addressed market functions. Mr. Marschewski reported on the current industry environment. He stated that FERC desires a restored financial certainty of electric utilities and state commissions are taking a more active role.

Members of SPTF reported on the following issues:

**Options:** Mr. Desselle reviewed organizational options including renegotiation with MISO, other possible mergers, other possible organizational structures, geographic separation of organization, and a stand-alone SPP regional organization.

**Strategic Plan:**

**State Involvement:** Mr. Spring stated that it was necessary to work closely with states and have state support.

**Order 2000 Compliance:** Mr. Dixon stated that SPP would work to become Order 2000 compliant, visit with FERC commissioners and seek RTO recognition.

**Regional Tariff:** Mr. Bittle discussed necessary tariff changes.

**Administrative Processes:** Mr. Perkins stated that SPP would affirm the Board of Directors governance structure, add a state regulatory advisory committee, combine Engineering and Operating Committee with the Commercial Practices Committee, and assess working groups and task forces.

**RRO:** Mr. Christiano stated that SPP would retain RRO status and not pursue participation in the MRO.

Mr. Dixon presented the SPTF recommendation: *The SPTF recommends that the SPP BOD adopt the proposed strategic plan included in this report, and authorize the delegation of responsibilities to SPP org. groups also contained herein under the coordination oversight of the SPTF. The SPTF also recommends that the BOD schedule mtg. for the mid-June timeframe to act on subsequent specific recommendations related to this plan.* Mr. Spring emphasized that all plans would need to be implemented with a sense of urgency and reviewed a suggested timeline for April through July. Mr. Dixon then moved to accept the SPTF recommendation as written. Mr. Desselle seconded the motion and the floor was open for discussion. After much discussion, Mr. Spring's summary listed three areas of concern: 1) combining Engineering and Operating Committee and the Commercial Practices Committee into one full representation committee reporting to the Board of Directors, 2) how seeking RTO recognition would differ from the denied FERC July 2000 filing, and 3) retaining RRO status as opposed to participation in the newly formed MRO.

Mr. Dawson moved to amend item 4 under the Regional Transmission Service Tariff section of the SPTF Report to state: *SPP should review its participant funding methodology and explore enhancements in conjunction with its regional transmission planning process. SPP should also explore and develop transmission expansion incentives and a mechanism for allowing investment by all interested stakeholders.* Mr. Christiano seconded the motion which passed unanimously. Mr. Dawson also moved to amend item 2 under Regional Transmission Service Tariff to read: *SPP should develop a recommendation on formula rates. This will require SPP to develop a consistent definition of transmission facilities to be included in regional tariff charges and an equitable revenue distribution methodology.* Mr. Eckelberger seconded the motion which passed unanimously.

Ms. Harper expressed concerns about the Regional Reliability Council Status as stated in the SPTF

SPP Board of Directors Minutes  
April 14, 2003

Report. She moved to amend this section to read: *Because of the inextricable links between SPP's Criteria and its current functions as a regional security coordinator and tariff administrator, and the additional links necessary with any market facilitation responsibilities, the SPTF recommends that SPP work with MAPP and its members to reevaluate the need for the MRO.* After discussion, Ms. Harper withdrew this motion. Mr. Yeager moved to change the Regional Reliability Council Status section to read: *Because of the inextricable links between SPP's Criteria and its current functions as a regional security coordinator and tariff administrator, and the additional links necessary with any market facilitation responsibilities, the SPTF recommends that SPP retain its own Regional Reliability Organization status.* Mr. Marschewski seconded this motion which passed unanimously. Mr. Dixon then called for a vote on the original question to approve the SPTF recommendation as amended. The motion passed unanimously.

Mr. Marschewski announced the next meeting date as June 24, 2003 from 10:00 a.m. – 3:00 p.m. with meetings to follow on August 26, 2003 and October 28, 2003. Kansas City was chosen by consensus as the site for the June meeting, other meeting locations to be announced.

**Adjournment**

Mr. Strecker thanked the task force for their hard work and with no further business, adjourned the meeting at 1:47 p.m.

Nicholas A. Brown, Corporate Secretary

# ***Southwest Power Pool***

*Financial Statements for the Years Ended  
December 31, 2002 and 2001, and  
Independent Auditors' Report*

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Members of  
Southwest Power Pool  
Little Rock, Arkansas

We have audited the accompanying balance sheets of Southwest Power Pool (the "Company") as of December 31, 2002 and 2001, and the related statements of income and members' equity and of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Deloitte & Touche LLP*

March 10, 2003, except for Note 8,  
which is March 20, 2003  
Little Rock, Arkansas



# SOUTHWEST POWER POOL

## BALANCE SHEETS DECEMBER 31, 2002 AND 2001

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<b>ASSETS</b>	<b>2002</b>	<b>2001</b>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 7,266,977	\$ 9,168,431
Accounts receivable:		
Trade	1,787,733	767,929
Tariff	16,373,179	7,655,593
Other	<u>                    </u>	<u>10,761</u>
Total accounts receivable	18,160,912	8,434,283
Prepaid expenses	<u>251,649</u>	<u>40,191</u>
Total current assets	25,679,538	17,642,905
PROPERTY AND EQUIPMENT, Net	23,289,498	26,150,326
OTHER, Net	<u>322,128</u>	<u>424,872</u>
<b>TOTAL</b>	<b><u>\$49,291,164</u></b>	<b><u>\$44,218,103</u></b>
 <b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable:		
Trade	\$ 615,294	\$ 130,571
Tariff	<u>15,211,422</u>	<u>7,049,534</u>
Total accounts payable	15,826,716	7,180,105
Customer deposits	4,939,297	6,542,557
Accrued expenses	1,429,421	1,200,257
Long-term debt - current portion	<u>2,000,000</u>	<u>                    </u>
Total current liabilities	24,195,434	14,922,919
LONG-TERM DEBT	<u>25,000,000</u>	<u>25,000,000</u>
Total liabilities	49,195,434	39,922,919
COMMITMENTS AND CONTINGENCIES		
MEMBERS' EQUITY	<u>95,730</u>	<u>4,295,184</u>
<b>TOTAL</b>	<b><u>\$49,291,164</u></b>	<b><u>\$44,218,103</u></b>

See notes to financial statements.

# SOUTHWEST POWER POOL

## STATEMENTS OF INCOME AND MEMBERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

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	2002	2001
INCOME:		
Member assessments	\$ 10,553,865	\$ 9,607,512
Tariff fees	16,268,153	8,425,263
Other member services	2,014,901	1,981,197
Interest income	143,469	1,100,552
Other	<u>349,039</u>	<u>475,678</u>
Total income	29,329,427	21,590,202
EXPENSES:		
Salary and benefits	10,983,822	10,085,042
Employee travel	759,573	633,209
Administrative	777,332	564,580
NERC assessment	810,130	868,398
SPP/NERC meetings	108,400	250,417
Communications system	1,034,463	644,539
Leases and maintenance	1,449,528	761,703
Office supplies	408,935	840,536
Consulting services	10,241,557	2,769,976
Depreciation and amortization	4,376,684	1,699,393
Interest expense	2,244,623	1,294,746
Miscellaneous	<u>337,680</u>	<u>58,623</u>
Total expenses	<u>33,532,727</u>	<u>20,471,162</u>
NET INCOME (LOSS)	(4,203,300)	1,119,040
MEMBERS' EQUITY:		
Beginning of year	4,295,184	3,176,144
Members' contributions	<u>3,846</u>	<u>          </u>
End of year	<u>\$ 95,730</u>	<u>\$ 4,295,184</u>

See notes to financial statements.

# SOUTHWEST POWER POOL

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002	2001
OPERATING ACTIVITIES:		
Net income (loss)	\$ (4,203,300)	\$ 1,119,040
Adjustments to reconcile net income (loss) to cash used in operating activities:		
Depreciation and amortization	4,376,684	1,699,393
(Gain) loss on disposal of property and equipment	(21,833)	11,205
Changes in assets and liabilities:		
Accounts receivable	(9,726,629)	(64,976)
Prepaid expenses	(211,458)	(78,386)
Accounts payable	8,646,611	(1,042,902)
Customer deposits	(1,603,260)	(6,976,742)
Accrued liabilities	<u>229,164</u>	<u>749,021</u>
Net cash used in operating activities	<u>(2,514,021)</u>	<u>(4,584,347)</u>
INVESTING ACTIVITIES:		
Purchase of property and equipment	(1,414,279)	(23,043,287)
Proceeds on disposal of property and equipment	<u>23,000</u>	<u>                    </u>
Net cash used by investing activities	(1,391,279)	(23,043,287)
FINANCING ACTIVITIES:		
Loan acquisition costs		(201,963)
Contributions from members	3,846	
Proceeds from long-term debt	2,000,000	25,000,000
Repayment of obligations under capital leases		(567,941)
Repayments of long-term debt	<u>                    </u>	<u>(5,252,541)</u>
Net cash provided by financing activities	<u>2,003,846</u>	<u>18,977,555</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,901,454)	(8,650,079)
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>9,168,431</u>	<u>17,818,510</u>
End of year	<u>\$ 7,266,977</u>	<u>\$ 9,168,431</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION -		
Cash paid during the year for interest	<u>\$ 2,244,623</u>	<u>\$ 2,756,366</u>

See notes to financial statements.

# SOUTHWEST POWER POOL

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

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### 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

**Nature of Operations** - Southwest Power Pool (the "Company") was incorporated January 1, 1994, to facilitate joint planning and coordinating the generation and transmission systems of the members of the Company and to participate in interregional studies to provide for increased operating efficiency, adequate bulk supply systems, and better service reliability. In 1998, the Company commenced its open access transmission operations, whereby the Company provides "one-stop-shopping" for short-term firm and non-firm point-to-point transmission services, firm point-to-point transmission services, and network transmission service across 11 providers in seven southwestern states. The Company had 50 members as of December 31, 2002, operating in Kansas, Arkansas, Missouri, Mississippi, Louisiana, Texas, Oklahoma, and New Mexico.

During March 2002, the Board of Directors of the Company approved the sale of the Company's assets to Midwest Independent Transmission System Operator, Inc. ("MISO"). The Company and MISO received final approval from the Federal Energy Regulatory Commission ("FERC") during May 2002 (see Note 8).

**Basis of Accounting** - The Company prepares its financial statements on the accrual basis of accounting. Revenues, consisting of member assessments, tariffs, working capital contributions from members, and miscellaneous revenues are recognized when earned, and expenses are recognized when incurred.

**Cash and Cash Equivalents** - The Company considers all short-term investments with maturities at acquisition of three months or less to be cash equivalents.

**Property and Equipment** - Property and equipment are stated at cost. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets.

**Internal Use Software Costs** - The Company capitalizes certain internal use software costs in accordance with Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. These costs are included in property and equipment.

**Customer Deposits** - Customers are required to make deposits with the Company prior to the performance of transmission services. These amounts are typically held for the duration of the service and applied to the customer's final invoice.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Income Taxes** - The Company is classified as a Section 501c(6) business league and is exempt from federal income tax.

***Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of*** - Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (“SFAS 144”). Under SFAS 144, long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. The adoption of SFAS 144 did not have a material effect on the Company’s financial position or results of operations.

***Recently Issued Accounting Standards*** - In June 2002, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. This Statement requires that a liability for costs associated with an exit or disposal activity be recognized when the liability is incurred and be measured at fair value and adjusted for changes in estimated cash flows. Existing generally accepted accounting principles provide for the recognition of such costs at the date of management’s commitment to an exit plan. Under SFAS No. 146, management’s commitment to an exit plan would not be sufficient, by itself, to recognize a liability. The Statement is effective for exit or disposal activities initiated after December 31, 2002. The adoption of SFAS 146 is not expected to have a material effect on the Company’s financial position or results of operations.

In November 2002, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation 45, *Guarantor’s Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others* (“FIN 45”). For financial statements issued after December 15, 2002, FIN 45 requires that a guarantor make certain disclosures regarding guarantees or indemnification agreements. Starting January 1, 2003, FIN 45 will require that a liability be recognized at the fair value of the guarantee. The adoption of FIN 45 is not expected to have a material effect on the Company’s financial position or results of operations.

## 2. PROPERTY AND EQUIPMENT

The Company’s property and equipment consisted of the following at December 31:

	<b>2002</b>	<b>2001</b>
Furniture and fixtures	\$ 2,113,962	\$ 1,491,274
Equipment and machinery	4,010,002	3,912,508
Software	10,485,121	7,798,379
Software in development	<u>16,650,332</u>	<u>19,050,332</u>
	33,259,417	32,252,493
Less: accumulated depreciation and amortization	<u>(9,969,919)</u>	<u>(6,102,167)</u>
Property and equipment, net	<u>\$23,289,498</u>	<u>\$26,150,326</u>

Depreciation was approximately \$4,336,000 and \$1,659,000, respectively, in 2002 and 2001.

During 2001, the Company accepted delivery of software in development to support the emerging wholesale energy market under FERC Order No. 2000 (the “Order”). The software system is composed of three major components: customer service, power operations, and settlement/invoicing. The design of the system is to enable the Company to operate a real-time balancing market, which facilitates the

purchase and sale of energy in real-time, and meet the requirements, under the Order of being the provider of last resort for ancillary services. Although the power operations, and related settlement/invoicing, have been idle during the merger discussions (see Note 8), the customer service component has been utilized for call tracking by the customer service department. The power operations and settlement/invoicing components will be used as the core for development of the Independent Systems Operator (“ISO”) system and will be used in any future market activities by the Company. Management of the Company is of the opinion that all costs capitalized in association with the software in development are fully recoverable over the anticipated life of the asset.

### 3. COMMITMENTS AND CONTINGENCIES

At December 31, 2002, the Company was obligated under various noncancellable operating lease agreements for office space and communication connections. For the years ended December 31, 2002 and 2001, the Company incurred lease expense for lease payments under these operating leases of \$1,449,528 and \$761,703, respectively. Future minimum lease payments under these leases are as follows:

2003	\$ 959,140
2004	641,414
2005	659,206
2006	677,531
2007	668,627
Thereafter	<u>2,792,573</u>
Total	<u>\$ 6,398,491</u>

The Company entered into an agreement for the development of software to be used for internal use. Total costs capitalized as of December 31, 2002, for this project is \$20,332,000, which is included as software in property and equipment. Remaining commitments under this agreement are approximately \$1,500,000 per year, with inflationary increases, through 2006 for commercial operations outsourcing services.

### 4. LONG-TERM DEBT

In 2001, the Company authorized and issued \$25,000,000 aggregate principal amount of its 7.5% senior notes due March 15, 2008. Principal is payable \$5,000,000 per year, beginning in 2004 through 2008. The debt was used to construct market settlement software and is unsecured.

At December 31, 2002 and 2001, the Company had a \$4,000,000 line-of-credit agreement with a bank, which expires in June 2003. Interest on these borrowings is computed at a variable rate based on the bank prime rate (4.25% at December 31, 2002). At December 31, 2002, \$2,000,000 was outstanding under this arrangement.

### 5. RELATED PARTY TRANSACTIONS

General disbursements of the Company are apportioned to members based on the formula described in the Bylaws of the Company. During the years ended December 31, 2002 and 2001, disbursements for the SPPNET project, AEP Project, ARS Project, and Frame Relay Project were billed directly to those members participating in such projects. The Company’s receivables from members totaled \$1,793,070 and \$767,929 at December 31, 2002 and 2001, respectively. The Company recognized revenues of \$10,553,865 and \$9,607,512 from members for the years ended December 31, 2002 and 2001, respectively.

Those members who choose to terminate their membership in the Company are assessed an amount for their portion of the long-term financial obligations that the Company incurred while they were a member. The Company has a receivable from departed members in the amount of \$183,859 as of December 31, 2002.

## 6. EMPLOYEE BENEFIT PLANS

### a. Employee Retirement Plan

The Company has a defined benefit pension plan (the "Plan") which covers substantially all employees. Benefits are based on final average monthly earnings and benefit service to retirement date.

The funded status of the Plan as of December 31, is as follows:

	<b>2002</b>	<b>2001</b>
Projected benefit obligation	\$ 5,186,542	\$ 4,099,580
Plan assets at fair value, primarily mutual funds	<u>2,206,766</u>	<u>1,808,510</u>
Projected benefit obligation in excess of plan assets	<u><u>\$(2,979,776)</u></u>	<u><u>\$(2,291,070)</u></u>

The prepaid pension asset was \$200,968 and \$263,325 at December 31, 2002 and 2001, respectively. Net periodic pension cost for 2002 and 2001 was \$699,379 and \$461,804, respectively. Contributions to the plan were \$637,020 and \$499,999 for 2002 and 2001, respectively. No benefits were paid during 2002 and 2001. The weighted average discount rate used in determining the actuarial present value of the projected benefit obligation and the expected long-term rate of return on assets was 7% for 2002 and 2001. The assumed rate of increase in future compensation levels used was 4% for 2002 and 2001.

### b. Defined Contribution Plan

The Company has a defined contribution plan (the "401(k) plan") which covers all employees who choose to participate. The Company's policy is to contribute a percentage of the amount the employee elects to contribute. The Company's contributions to this plan totaled \$314,681 and \$296,291 in 2002 and 2001, respectively.

### c. Postretirement Benefits Other Than Pensions

The Company has a postretirement health plan for eligible retirees. The Company provides its retirees, including those retiring between the ages of 55-65 and hired prior to January 1, 1996, the same health care benefits and premium payments provided to active employees.

The funded status of the plan is as follows:

	2002	2001
Accumulated postretirement benefit obligation:		
Eligible active employees	\$ 179,807	\$ 147,894
Other active employees	<u>1,668,037</u>	<u>1,368,273</u>
Total accumulated postretirement benefit obligation	1,847,844	1,516,167
Plan assets at fair value, primarily mutual funds	<u>980,275</u>	<u>617,606</u>
Excess of accumulated postretirement benefit obligation over plan assets	<u>\$ (867,569)</u>	<u>\$ (898,561)</u>

The accrued postretirement health benefit liability was \$8,308 at December 31, 2002 and 2001. Net periodic postretirement benefit cost was \$319,437 and \$237,986 for 2002 and 2001, respectively. Contributions to the plan totaled \$319,437 and \$237,986 for 2002 and 2001, respectively. No benefits were paid during 2002 and 2001.

The health care cost trend rate used to measure the expected cost of benefits was 8% in 2002 and is assumed to decline by one percentage point each year to a minimum of 5% assumption in five years.

The weighted average discount rate used in determining the actuarial present value of projected benefit obligations and the expected long-term rate of return on assets was 7% in 2002 and 2001.

## 7. OPEN ACCESS TRANSMISSION OPERATIONS

The Company provides “one-stop-shopping” for short-term firm and non-firm point-to-point transmission services, firm point-to-point transmission service and network service across 11 providers in 7 southwestern states. The Company receives fees from transmission customers for the use of the transmission lines. The Company keeps a portion of the amount received from the customer as a fee for facilitating the transmission process. This portion is recorded as tariff fees in the Company’s statement of income. For the years ended December 31, 2002 and 2001, the Company generated gross fees of \$176,394,211 and \$97,088,684, respectively, from customers of the open access transmission operations and incurred gross expenses of \$160,126,058 and \$88,663,421, respectively, to the transmission providers for use of their lines. At December 31, 2002 and 2001, the Company had recorded in the balance sheet, receivables from transmission customers of \$16,373,179 and \$7,655,593, respectively. The Company had payables to transmission providers of \$15,211,422 and \$7,049,534, respectively, at December 31, 2002 and 2001.

## 8. SUBSEQUENT EVENTS

On March 20, 2003, the Company and MISO mutually agreed to terminate the consolidation of the organizations. Maintaining its separate, independent status, the Company will continue to coordinate the generation and transmission systems for the members of the Company. FERC has been informed of the termination of the proposed sale of the Company’s assets to MISO.



Also on March 20, 2003, the Company's Board of Directors (the "Board") formed the Strategic Planning Task Force to completely review the Company's organization considering the current industry environment and to make appropriate recommendations to the Board. The Company's Board and management plan to implement the power operations and settlement/invoicing components (see Note 2) of the market settlement software with the goal of establishing a real-time balancing market. This process will entail the following seven steps:

1. Review and revise rules of market definition
2. Define system changes needed to implement market rules
3. Implementation and enhancement of hardware and software systems
4. Testing of hardware and software systems in parallel with market participant training and interface implementation
5. Testing market participant interface and system interactions
6. Market trials to test market systems and market participant interactions
7. Market implementation

\* \* \* \* \*



# *Strategic Plan*

## **Secondary Report – June 11, 2003**

**(Initial Report adopted by the SPP Board of Directors on April 14, 2003)**

*Southwest Power Pool, Inc. (SPP) is a group of 50 electric utilities serving more than 4 million customers across all or parts of eight southwestern states. This membership is comprised of investor-owned utilities, municipal systems, generation and transmission cooperatives, state authorities, federal agencies, wholesale generators, and power marketers. SPP serves as a regional reliability council of the North American Electric Reliability Council and, since 1997 has provided independent security coordination and tariff administration, pursuant to a FERC approved tariff, across its service area with over 33,000 miles of transmission lines with a gross plant investment approaching \$4 billion.*

**Developed by the  
Southwest Power Pool  
Strategic Planning Task Force**

## ***Background***

On March 20, 2003, the Strategic Planning Task Force (SPTF) was formed to report to the Board of Directors to completely review the SPP organization considering the current industry environment and to make appropriate recommendations to the Board of Directors. The Initial Report from the SPTF was presented and accepted by the Board of Directors at its April 14 meeting. This Secondary Report provides an update on all the components of the Plan. It also requests action by the Board of Directors necessary to effect some components of the Plan.

## ***Strategic Planning Task Force***

The SPTF is comprised of a diverse group of representatives from SPP members:

**Richard Dixon, Co-Chair**

Sr. VP Operations Strategy  
Westar Energy, Inc.

**Richard Spring, Co-Chair**

VP Transmission Services  
Kansas City Power & Light

**Michael Gildea**

Manager Regulatory Policy  
Duke Energy North America

**Trudy Harper**

VP & General Manager  
Tenaska

**Mel Perkins**

Director Transmission Policy  
Oklahoma Gas & Electric, Co.

**Ricky Bittle**

Vice-President  
Arkansas Electric Cooperatives

**Michael Desselle**

Director Public Policy  
American Electric Power

**David Christiano**

Director Electric Systems Control  
City Utilities of Springfield, MO

**John Marschewski**

President  
Southwest Power Pool, Inc.

**Nick Brown & Carl Monroe, Facilitators**

Sr. VP & VP Operations  
Southwest Power Pool, Inc.

## *The Strategic Plan*

### **ACTIVE STATE INVOLVEMENT**

**Initial Recommendation:** *SPP should work very closely with its states on the components of the Strategic Plan in continuing SPP's evolutionary approach to the provision of services to its members and customers.*

Representatives from the SPP state regulatory bodies are meeting weekly via teleconference to discuss issues. State representatives have also taken an active role in working group meetings. SPP Staff has had one-on-one dialog with the Arkansas, Kansas, Louisiana, Missouri, and Oklahoma Commissions; others are being scheduled. SPTF representative and SPP staff hosted a conference on June 6 in Atlanta that included representatives from the state commissions as well as FERC Chair Pat Wood and Commissioner Massey. On June 23, SPP is hosting an Imbalance and Congestion Workshop in Kansas City for State Commissioners and their staffs. SPTF representatives and Staff are working through a collaborative process to propose modifications to SPP's Bylaws to enhance regulatory agency involvement by providing a forum for collective input into SPP's decision-making processes at all levels of the organization while retaining existing rights of each jurisdiction to be individually represented.

### **ORDER 2000 COMPLIANCE**

**Initial Recommendation:** *SPP should evaluate with the states options for and a phased implementation of a real-time balancing market, market monitoring, and market-based congestion management.*

These actions were assigned to the combination of the Market Settlement Working Group and the Congestion Management Working Group (the Market Working Group). The Group met several times and provided a recommended plan to the SPTF that was accepted on May 28. The detailed plan is provided as Attachment #1.

**Summary of the plan:** The plan is to be implemented in three phases: Phase 1 - Real-Time Balancing Market with Market Monitoring and Market Power Mitigation; Phase 2 - Market Based Congestion Management; Phase 3 - Ancillary Services Market. Implementation is to begin with the prior market system design developed by SPP during 2001, and perform a detail design for Phase I and a high-level design for the other phases. Changes in Phase I to support other phases will be incorporated with an objective of November 2004 implementation for all of Phase I. Phase 1 will be broken down into three distinct increments: a) Settlement of Imbalance at tariff filed rates of each Transmission Owner with an objective of February 2004; b) Enhanced Reliability Data and Net Schedule Interchange with an objective of April 2004; and c) Offer-based energy imbalance market resulting in the use of market-based rates for imbalance

settlement with an implementation objective of November 2004. The objective for Phase 2 – Market Based Congestion Management is for implementation in November 2005 and Phase 3 – Ancillary Services Market studied for implementation in November 2006.

The implementation of each successive phase will proceed working with the state and federal regulators based on cost benefit analysis implications. Each successive phase of SPP or neighboring entity requires seams management/coordination.

**Initial Recommendation:** *SPP should continue to work with neighboring entities on regional membership expansion opportunities and should develop seams agreements and/or joint markets with neighboring companies who choose not to participate in SPP and with neighboring regional entities.*

At the April 15 meeting of the SPTF, members of the task force were assigned entities they were to contact as part of the member outreach and interregional coordination efforts. These contacts are on going with updates provided at the SPTF meetings. Interregional coordination and seams management is required with each neighboring entity. SPP Staff is in discussions with AECI resolving seams issues. SPTF has begun discussions with SeTrans and provided a proposal for seam management. SPP Staff is engaged with the MISO/PJM seams coordination efforts through the Joint and Common Market as stated below. The North American Electric Standards Board (NAESB) has formed a Seams Subcommittee to address the identification and potential development of business practice standards that may be needed by the industry, both nationally and regionally. NAESB working with NERC and the ISO/RTO Council (IRC) and its members will first catalogue these seams issues. Once the catalogue of seams issues has been developed, both reliability and business practices will be identified for further development. Finally, SPTF representatives and Staff participated in a Kansas Transmission Summit hosted by Kansas state representative Tom Sloan to discuss intra- and inter-Kansas transmission issues with FERC Chair Pat Wood and senior FERC staff.

**Initial Recommendation:** *SPP should continue to participate in the Joint and Common Market development with MISO and PJM.*

In a May 19 report to FERC, SPP provided the following regarding its participation in the Joint and Common Market development:

SPP commits to continue its participation in the Joint and Common Market development with the Midwest ISO and PJM and to continually evaluate this participation based on SPP's approach to market structure, timing, and state regulatory input. While SPP's initial participation in the Joint and Common Market was predicated on the merger with the Midwest ISO, SPP will now pursue participation as a separate regional entity.

Just as with the merger attempt, the Joint and Common Market effort has produced significant processes enabling all the parties to better manage seams between market-

to-nonmarket regions, and market-to-market regions. SPP's ultimate participation in the Joint and Common Market will, consistent with FERC's April 28, 2003 White Paper on Wholesale Power Market Platform, depend on a timetable and budget for implementation established in conjunction with SPP's stakeholders and state regulatory authorities.

**Initial Recommendation:** *SPP should file an attachment to its tariff facilitating independent transmission company participation by interested transmission owners.*

SPP SPTF has started discussions with Translink to determine what agreements need to be modified or created to include their participation. These include more than just attachments to the SPP regional tariff.

**Initial Recommendation:** *SPP should visit with FERC commissioners and senior staff regarding this strategic plan and seek their participation in related development activities.*

SPTF representatives and SPP staff have met and continue to meet with commissioners and commission staff regarding SPP activities. On April 22, SPTF representatives and SPP staff met with Rob Gramlich (Chairman Wood's Special Assistant on Markets), Commissioner Brownell and Commissioner Massey. SPTF representatives and SPP staff hosted a conference on June 6 in Atlanta that included representatives from the state commissions as well as FERC Chair Pat Wood and Commissioner Massey.

**Initial Recommendation:** *Provided that the previous actions are successfully implemented, SPP should seek RTO recognition by the FERC.*

The SPTF discussed in its June 10-11 meeting the large amount of attention given the questions of whether and when SPP should submit a filing seeking FERC recognition as an independent regional organization. Given the nature of other recommendations made as part of this strategic plan and the budgetary impacts of those recommendations, the SPTF believes that certainty of FERC recognition is needed as soon as possible, and the SPTF is recommending that it be directed to prepare necessary filing documents for Board consideration at their August 26, 2003 meeting.

## **REGIONAL TRANSMISSION SERVICE TARIFF**

**Initial Recommendation:** *All load, including native load and grandfathered load should be subject to Schedule 1 fees of the regional tariff.*

See the sixth Initial Recommendation under "ADMINISTRATIVE PROCESSES".

**Initial Recommendations:** *SPP should develop a recommendation on formula rates. This will require SPP to develop a consistent definition of transmission facilities to be included in regional tariff charges and an equitable revenue distribution methodology. SPP should implement changes to streamline the queue for generation interconnection and transmission service requests. SPP should review its participant funding methodology and explore enhancements in conjunction with its regional transmission planning process. SPP should also explore and develop transmission expansion incentives and a mechanism for allowing investment by all interested stakeholders.*

These actions are assigned to the Regional Tariff Working Group with support from senior SPP staff and the Transmission Assessment Working Group. The RTWG has met several times to date. Various task forces have been assigned some of the issues pending. Related tariff modifications will be recommended to the Board of Directors from the RTWG through the Policy Committee at its August meeting.

### **ADMINISTRATIVE PROCESSES**

**Initial Recommendation:** *SPP should affirm its Board governance structure with continued meaningful stakeholder participation on the Board of Directors and state regulatory participation.*

While it was thought that this action was accomplished by the Board of Directors adoption of the Initial Strategic Plan, the SPTF readdressed the issue of SPP governance, particularly with respect to structure of the Board of Directors, following the series of discussion with FERC commissioners mentioned above. The SPTF has now reached the conclusion that SPP governance affirmed at the last Board meeting does not meet the expected requirements of independence expressed by FERC. As such, the SPTF is now recommending that SPP modify its governance to allow only non-stakeholder directors to vote on Board of Directors actions, while recognizing the need to maintain the current level of stakeholder input at all Board of Directors meetings. Specific bylaws modifications will be needed to the extent that the Board of Directors supports the SPTF conclusion. The SPTF can develop these bylaws modifications for consideration of the Board of Directors at their next meeting in August. The SPTF will include active state involvement in the development of these recommendations.

**Initial Recommendation:** *SPP should add a state regulatory advisory committee reporting to the Board of Directors as designed in consultation with the state regulatory authorities within the SPP footprint.*

As noted above, representatives from state commissions are meeting weekly via teleconference and sending representatives to working group meetings. SPTF representatives and Staff have been working through a collaborative process to propose modifications to SPP's Bylaws to enhance regulatory agency involvement by providing a forum for collective input into SPP's

decision-making processes at all levels of the organization while retaining existing rights of each jurisdiction to be individually represented. Related modifications to the Bylaws will be recommended to the Board of Directors at its August meeting.

**Initial Recommendation:** *SPP should combine its Engineering & Operating Committee with its Commercial Practices Committee to have only one full representation committee reporting to the Board of Directors.*

The SPTF proposes that the Policy Committee be formed to replace the two committees and that a Strategic Planning Committee be formed from the SPTF. Revisions to Sections 5.1 and 5.2 of the SPP Bylaws are required to accomplish this. The proposed revisions are noted in Attachment #2.

**Initial Recommendation:** *SPP should assess its working groups and task forces to ensure efficient and effective administration of SPP services.*

The SPTF has reviewed the organizational structure of SPP's committees, working groups and task forces and proposes some restructuring to more efficiently address the needs of the organization. As noted above, the EOC and CPC should be combined into the Policy Committee. Further, the SPTF recommends the modifications shown in the attached organizational group structure chart that deletes the Ancillary Services, Black Start Study, Control Area Implementation, and Scheduling Task Forces, and adds the Strategic Planning Committee reporting to the Board of Directors, and the Business Practices, Operation Model Development and the Critical Infrastructure Protection Working Groups reporting to the Policy Committee. In addition, the SPTF recommends that the responsibilities of the Congestion Management System and Market Settlement Working Groups be combined and managed by the Market Working Group, reporting to the Policy Committee. Scope documents for each of the added groups are also attached. The proposed scope statements of each of these groups, as well as an organizational chart for the revised structure are provided in Attachment #3.

The SPTF also recommends that SPP's remaining organizational groups review their scope statements and present any necessary modifications for Board of Directors consideration at their August 2003 meeting.

**Initial Recommendation:** *SPP should immediately reassess its 2003 administration budget based on these recommendations and make appropriate modifications.*

A revised budget for the remainder of 2003 reflecting adoption of the action items in this Plan has been presented to the Finance Working Group for consideration and will be presented at the June 24 Board of Directors meeting.



**Initial Recommendation:** *SPP should evaluate the cost allocation of SPP expenses to tariff versus membership assessment. SPP may refund to members funds advanced via assessments to support tariff operations.*

The SPTF recommends a significant change in the methodology SPP utilizes to assess its membership for operating and capital expenses. SPP's existing assessment methodology does not equitably share the expenses incurred by SPP to provide its services. The recommendation to the Board of Directors is as follows:

- Effective January 1, 2004, members with Net Energy for Load will pay an annual membership fee of \$0.0053 multiplied by their annual net energy for load; members without Net Energy for Load will pay an annual membership fee of \$6,000;
- Effective July 1, 2003, members will share in SPP's NERC assessment utilizing the existing SPP membership assessment formula;
- Effective July 1, 2003, monthly assessments will be levied against those members whose transmission facilities are in the regional transmission tariff, as well as those members embedded within the transmission facilities that are in the regional transmission tariff, equal to each member's peak demand per hour per month multiplied by the Schedule 1 fee under the SPP regional tariff. Members with an assessment will be credited for Schedule 1 fees paid by that member in that month under the SPP regional tariff. The Schedule 1 fee will be determined at least annually by the SPP Board of Directors based upon budgeted expenditures and projected peak demand.

A letter has been sent to members advising them of the proposed changes. A spreadsheet showing the impact of this change to each member organization as well as the necessary revisions to Section 7 of the SPP Bylaws are provided in Attachment #4.

**Initial Recommendation:** *SPP should immediately fill the independent director vacancy on the Board of Directors.*

The Nominating Task Force is considering this vacancy and will have a nominee to present at the June 24 Board of Directors meeting.

## **REGIONAL RELIABILITY COUNCIL STATUS**

**Initial Recommendation:** *SPP should retain its own Regional Reliability Organization status.*

This action was accomplished by the Board of Directors at the April 14 meeting by its adoption of the Initial Strategic Plan. John Marschewski has resigned as a director of the Midwest Reliability Organization.

## ***Recommendations for Action***

The SPTF recommends that the SPP Board of Directors:

- Accept the proposed revisions to the committee structure of the organization and the related scope documents for newly formed committees/groups effective immediately; direct that the inaugural members of the new Strategic Planning Committee include those current members of the Strategic Planning Task Force; accept the revisions to Section 5 of the SPP Bylaws necessary to effect the re-organization of the committees/working groups effective immediately; and, direct that SPP's remaining organizational groups review their scope statements and present any necessary modifications for Board of Directors consideration at the November 2003 meeting;
- Accept the Market Implementation Plan as proposed by the Congestion Management Systems and Market Settlement Working Groups and the SPTF as the approach for SPP to become compliant with FERC Order 2000;
- Accept the proposed changes in the methodology SPP utilizes to assess its membership for operating and capital expenses effective July 1, 2003 and January 1, 2004 as proposed, and the requisite revisions to Section 7 of the SPP Bylaws to effect these changes;
- Accept that SPP governance affirmed at the last Board meeting does not meet the expected requirements of independence expressed by FERC and directs the SPTF to submit further governance recommendations, including bylaw changes, to the Board in August recognizing the need to maintain the current level of stakeholder input at all Board meetings. The SPTF will include active state involvement in the development of these recommendations; and
- Accept that FERC recognition as an independent regional organization is needed as soon as possible and direct the SPTF to prepare necessary filing documents for Board of Directors consideration at the August 26, 2003 meeting.



## ***Phase 1 Order 2000 Compliance Process Description***

May 26, 2003

(Endorsed by the Strategic Planning Task Force May 28, 2003)

Southwest Power Pool, Inc.  
Phase 1 Order 2000 Compliance Process Description

**Table of Contents**

<b>Objective .....</b>	<b>2</b>
<b>Assumptions .....</b>	<b>2</b>
Types of Markets .....	2
Member/Customer/Regulatory Roles .....	2
Design and Implementation .....	3
Additional Assumptions.....	3
<b>Phase Definitions and Impacts .....</b>	<b>3</b>
Implementation Phases .....	3
Phase 1 Participant Impacts .....	4
Phase 2 Participant Impacts .....	4
Phase 3 Participant Impacts .....	4
<b>Options Considered .....</b>	<b>4</b>
Option 1: Enhance 2001 Market Design.....	4
Option 2: Utilize "Off the Shelf" Software.....	4
Option 3: Develop New Market Rules.....	4
Option 4: High-level Design of ALL phases and Full Phase 1 Implementation April 2005.....	4
Option 5: High-level Design of ALL phases and Incremental Implementation of Phase 1 finishing November 2004 .....	5
<b>Option Analysis .....</b>	<b>5</b>
Decision Drivers Table.....	6
<b>Critical Path Activities.....</b>	<b>8</b>
<b>Schedule.....</b>	<b>8</b>

# Southwest Power Pool, Inc.

## Phase 1 Order 2000 Compliance Process Description

### ***Objective***

Implement a real-time balancing market, market monitoring with market power mitigation, and market-based congestion management using a phased approach. Involve FERC and the state regulatory commissions throughout the process.

### ***Assumptions***

The following are some general assumptions for the development of SPP Market Systems.

### **Types of Markets**

The SPP Market System will be compliant with FERC Order 2000. Additional proposed requirements outlined in the FERC NOPR for Standard Market Design will be considered but not adopted unless approved by the stakeholder process in collaboration with the state regulatory commissions.

SPP will implement a Real-time Energy Balancing Market as quickly as possible as the first phase of Market Operations. The Energy Balancing market will be implemented using physical transmission rights.

SPP will have an independent market monitor established in conjunction with the RT Energy Balancing Market. The market monitoring activities will include market power mitigation.

SPP will transition from a physical transmission rights market to a financial transmission rights market with Market-based Congestion Management as the second phase of its Market Operations.

SPP will have an Ancillary Services market as part of Phase 3 of its Market Operations.

### **Member/Customer/Regulatory Roles**

SPP members and customers desire to pursue a market and are willing and able to dedicate the resources (monetary, time and staff) to the design and implementation of a market.

SPP Control areas will continue to exist and operate at least until a Regional Ancillary Services market is created. They will be responsible for Control Performance and Disturbance Control standards as well as sharing of operational data as they are today.

Decisions on the Market Rules will be made through a stakeholder process.

Stakeholders will actively participate in development of readiness and implementation initiatives.

The state regulatory commissions are responsible for impacts to customers within their states. The state regulatory commissions of the states where SPP members serve customers will be invited to participate actively in the stakeholder process to evaluate and advise SPP with regards to impacts to customers.

Participation in the offer-based dispatch SPP market is voluntary.

All load serving entities and generation owners connected to the transmission systems of Transmission Owners that are signatories to the current SPP Regional OATT will be considered as the starting footprint for the SPP Market System. SPP may provide other entities Tariff Administration Services, Scheduling Services, and Reliability Authority services without requiring them to be a part of the Market System footprint.

# Southwest Power Pool, Inc.

## Phase 1 Order 2000 Compliance Process Description

The SPP Market System must be designed to accommodate additional entities that may wish to join SPP. It must also accommodate the formation of Independent Transmission Companies.

### **Design and Implementation**

The selection of implementation dates of the market phases should minimize testing, training and implementation in the summer months. This is in order to avoid additional risks to reliability, personnel unavailability, and potential price instability associated with the summer peak conditions.

SPP must have significant market rules decisions developed prior to system design starting. System Requirement documents will be developed following the market rules. This is to minimize the pitfalls of trying to do both simultaneously and having to redesign significant aspects due to major Market Rules decisions.

Third party contractors will be involved with the development of the SPP Market System.

Transmission Service Billing and Market Settlement will be maintained separately.

### **Additional Assumptions**

SPP recognizes that seams issues exist and will need to be resolved by market implementation. SPP will continue to participate in the MISO/PJM/SPP joint and common market forum and actively participate in seams resolution efforts with MISO, non-MISO MAPP members, Entergy, Associated Electric Cooperative, ERCOT and WECC to ensure a smooth transition to energy markets.

The SPP Regional Tariff Working Group will have liaisons in this process to help facilitate incorporation of the market rules into the Regional OATT where required.

SPP will build on prior knowledge gained from the development process for the initial SPP Market and the MISO/SPP market project. The stakeholder process will develop this market system from the top down utilizing the information from the previous two efforts and potentially concepts from other markets that have been enacted.

Some new hardware will be required for the Market System. Some computer resources purchased for the previous project have been reformatted and deployed for other purposes in lieu of purchasing new equipment as needs in other departments have arisen requiring upgrades of outdated equipment or to provide necessary redundancy of other systems.

## ***Phase Definitions and Impacts***

### **Implementation Phases**

Each of the options considered included a phased approach as listed below.

Phase 1 - Real-Time Balancing Market with Market Monitoring and Market Power Mitigation

Phase 2 - Market Based Congestion Management

Phase 3 - Ancillary Services Market

# Southwest Power Pool, Inc.

## Phase 1 Order 2000 Compliance Process Description

### Phase 1 Participant Impacts

- Submit energy schedules that include native load.
- Submit generator operating characteristics such as limits and ramp rates.
- Receive and act on real-time NSI (net-scheduled interchange) from SPP.
- Submit voluntary offers for the sale of generation.
- Receive and act on real-time dispatch instructions from SPP.

### Phase 2 Participant Impacts

- *Subject to Market Rules decisions.*

### Phase 3 Participant Impacts

- *Subject to Market Rules decisions.*

## ***Options Considered***

### **Option 1: Enhance 2001 Market Design**

Implement the market design and supporting systems developed by SPP during 2001, with only minor changes and the addition of market monitoring, in Spring 2004 for Phase 1. Implementing other phases on an annual cycle basis thereafter.

### **Option 2: Utilize “Off the Shelf” Software**

Adopt “Off the Shelf” software for an implementation in Spring 2004 of Phase 1, modifying market rules to adhere to the capabilities of that solution. Implementing other phases on an annual cycle basis thereafter.

### **Option 3: Develop New Market Rules**

Defer any implementation until Spring 2005 (Phase 1) and begin developing new market rules immediately. Implementing other phases on an annual cycle basis thereafter.

### **Option 4: High-level Design of ALL phases and Full Phase 1 Implementation April 2005**

Begin with the system design developed by SPP during 2001 and perform a detail design for Phase 1 and high-level design for other phases. Changes in Phase 1 to support other phases will be incorporated with an objective of implementation by spring 2005. Implement other phases on an annual cycle basis thereafter.

# Southwest Power Pool, Inc.

## Phase 1 Order 2000 Compliance Process Description

### **Option 5: High-level Design of ALL phases and Incremental Implementation of Phase 1 finishing November 2004**

Begin with the prior market system design developed by SPP during 2001 and perform a detail design for Phase I and a high-level design for the other phases. Changes in Phase I to support other phases will be incorporated with an objective of November 2004 implementation for all of Phase I. Phase 1 will be broken down into three distinct increments: 1) Settlement of Imbalance at tariff filed rates of each Transmission Owner with an objective of February 2004, 2) Enhanced Reliability Data and Net Schedule Interchange with an objective of April 2004 and 3) Offer-based energy imbalance market resulting in the use of market-based rates for imbalance settlement with an implementation objective of November 2004. Implement other phases on an annual cycle basis thereafter.

### ***Option Analysis***

Decision Drivers used in the evaluation were: Systems Costs; Schedule; Participant Impacts; Market Rule Flexibility; Market Participant experience, and relevance of the market system work in 2001. An additional driver discussed but deferred to the SPTF efforts is the impact of any decision in the State and Federal Regulatory environments. In all options, there is recognition that the highest risk factors are the participants' system development and readiness efforts and regulatory buy-in. Without both of these, a market system could be built but would not become operational. As a result, the Group emphasizes that implementation dates are subject to change as a result of scheduled milestone reviews. The scheduled milestone reviews include resolution of issues, e.g. inadvertent handling amongst SPP Control Areas. This requires commitment of resources for both participants and SPP to accomplish these tasks.

**Option 1** is the most feasible option to achieve a Spring 2004 implementation. Use of Option 1 results in: (1) Knowledge from the MISO development efforts not being incorporated, (2) Risk of not having regulatory support, (3) Increased risk to participant readiness. Option 1 is not recommended for these reasons.

**Option 2** has a very restrictive timeline to implement by Spring 2004 and has a high risk for participant readiness and systems testing. It is improbable that an acceptable "off the shelf" product could be located within a reasonable timeframe because the "off the shelf" concept would require adoption of the underlying rules which may not meet SPP requirements. All prior work for the initial 2001 implementation would also be discarded, including the capital invested in that effort. Option 2 is not recommended for these reasons.

**Option 3** would discard all prior work, including the capital invested in that effort. The earliest possible start-up of Phase 1 of the market under this option would be Spring 2005 and there is a high risk associated with achieving this date. It does provide the most flexibility for making sure the system design provides for smooth transitions from one phase to the next. Option 3 is not recommended due to the improbability of achieving this timeline.

**Option 4** delays the start-up to Spring 2005 but by building on the prior work done in 2001 has a lower risk of meeting that timeline than option 3 while still providing most of the flexibility to make sure the Market Rules have gone through a thorough review. Starting in Spring 2005 also allows for all training and Market Trials to be conducted during the fall and winter off-peak time periods when resources are readily available. The later start date also allows more time to ensure regulatory buy-in. It does require a "big bang" implementation with all new functions starting at one time. Option 4 is not recommended due to the projected start date of Spring 2005 and the "big bang" implementation.

**Option 5** is an effort to implement along the lines of Option 4 but target a start date in Fall 2004 by further instituting the SPP guiding principle of "evolution not revolution". Breaking the implementation of Phase I into three increments will allow participants and SPP staff to test and implement necessary infrastructure



## Southwest Power Pool, Inc. Phase 1 Order 2000 Compliance Process Description

and data collection processes to support the market that have fewer design issues and “Market” impact while taking additional time to resolve any Market Rules issues regarding the offer submittal, centralized dispatch and market pricing. This also lowers the risk for participant and staff readiness by avoiding the “big bang” implementation that is inherent in each of the other four options and does not require the complete system to be available for market trials at one time. This targets part of the system to be tested and implemented prior to the Summer of 2004 reducing the amount of training and development efforts during the summer and early fall. Option 5 is recommended.

The first increment will be for the settlement of imbalance, using tariff filed rates of each of the Transmission Owners. This increment, targeted for implementation in February 2004, will require the market settlements system, SPP scheduling system changes and after-the-fact meter data submission processes to be in place. The second increment, targeted for implementation in April 2004, will be an enhanced reliability implementation to collect the unit commitment and resource plan information through the market system and also send out the net scheduled interchange to control areas for incorporation into their systems. The final increment, with an implementation objective of November 2004, would be to roll out the submission of resource offers, centralized dispatch and use of market based pricing for imbalance settlement.

Market trials and training would be split accordingly into smaller efforts to test each of the increments prior to implementation including a final “Market Trial” prior to implementation of the resource offers, centralized dispatch and market pricing for imbalance. The first increment will primarily affect settlements personnel and the commercial operations aspects of the market system with some impacts to scheduling. The second increment will primarily involve operations personnel and the data input or front-end aspects of the market operations system. The final increment will involve both operations and settlements to transition to the centralized dispatch and market based pricing for imbalance settlement. The market trial for the final increment would start in September 2004.

Use of the incremental process does require development and production systems to be used on a parallel path. This may also result in some personnel issues due to part of the market system being implemented and other parts in development or testing.

### Decision Drivers Table

	Option 1	Option 2	Option 3	Option 4	Option 5
<b>System Costs</b>	Takes advantage of investment to-date (estimated increase in cost of \$200-\$500 K, could be more depending upon modifications.)	Likely more cost than Option 1; adoption of “Off the Shelf” would require additional integration efforts and costs; likely scraps prior investment.	More costly than Options 1 or 2 since totally new system build.	At least the same cost as Option 1; likely more costly due to modifications resulting from Phase 2 impacts.	Same costs as 4  Additionally Requires production and development systems operating in parallel, which may affect Participant costs.

Southwest Power Pool, Inc.  
Phase 1 Order 2000 Compliance Process Description

	Option 1	Option 2	Option 3	Option 4	Option 5
<b>Schedule</b>	High schedule risk.	More schedule risk than Option 1; 2004 implementation questionable.	2005 implementation at earliest.	Lower schedule risk given lengthened design time.	Lower schedule risk than option 1 to meet overall by Nov 2004 Greater risk than Option 4 but incremental implementation allows some additional design /development time and avoids "big bang" implementation.
<b>Participant Impacts</b>	<p>Less resource time required for rules development/revision.</p> <p>Development start would be immediate.</p> <p>May have more immediate budgetary impact for that development.</p>	<p>Up front costs relative to market rules development.</p> <p>Development start would be delayed.</p> <p>Increases budgetary impact.</p>	<p>Greater resource commitment to development of rules.</p> <p>Development start would be delayed.</p>	<p>Greater resource commitment to development of rules.</p> <p>Easier budget management due to multi-year build.</p> <p>Development start would be immediate to delayed.</p>	<p>Higher resource commitment to develop rules faster but some Market issues have additional time.</p> <p>Higher resource commitment than Option 4 to get partial system ready by Spring. Personnel and systems must cover some implemented operations and some final development in parallel.</p> <p>Participants must budget for Spring Implementation items in 2003</p> <p>Development still starts immediately.</p>
<b>Market Rules Flexibility</b>	Allows minimal flexibility for modifications to design/rules and still meet schedule	No flexibility	Flexible	Flexible	Less flexible than option 4 but does allow some additional time for significant "Market" issue resolution.

Southwest Power Pool, Inc.  
Phase 1 Order 2000 Compliance Process Description

	Option 1	Option 2	Option 3	Option 4	Option 5
<b>Other</b>	Earliest start of participant market experience	Early start of participant market experience.  Market design does not consider gains from 2001.	Later start of participant market experience.  Market design does not consider gains from 2001.	Later start of participant market experience.  Market design builds on 2001 effort and a plan for the future.	Earlier start of participant market experience than option 4  Market design still builds on 2001 effort and a plan for the future.  Initial imbalance implementation will require review of SPP Tariff and individual Provider Tariffs for possible additional FERC filings.

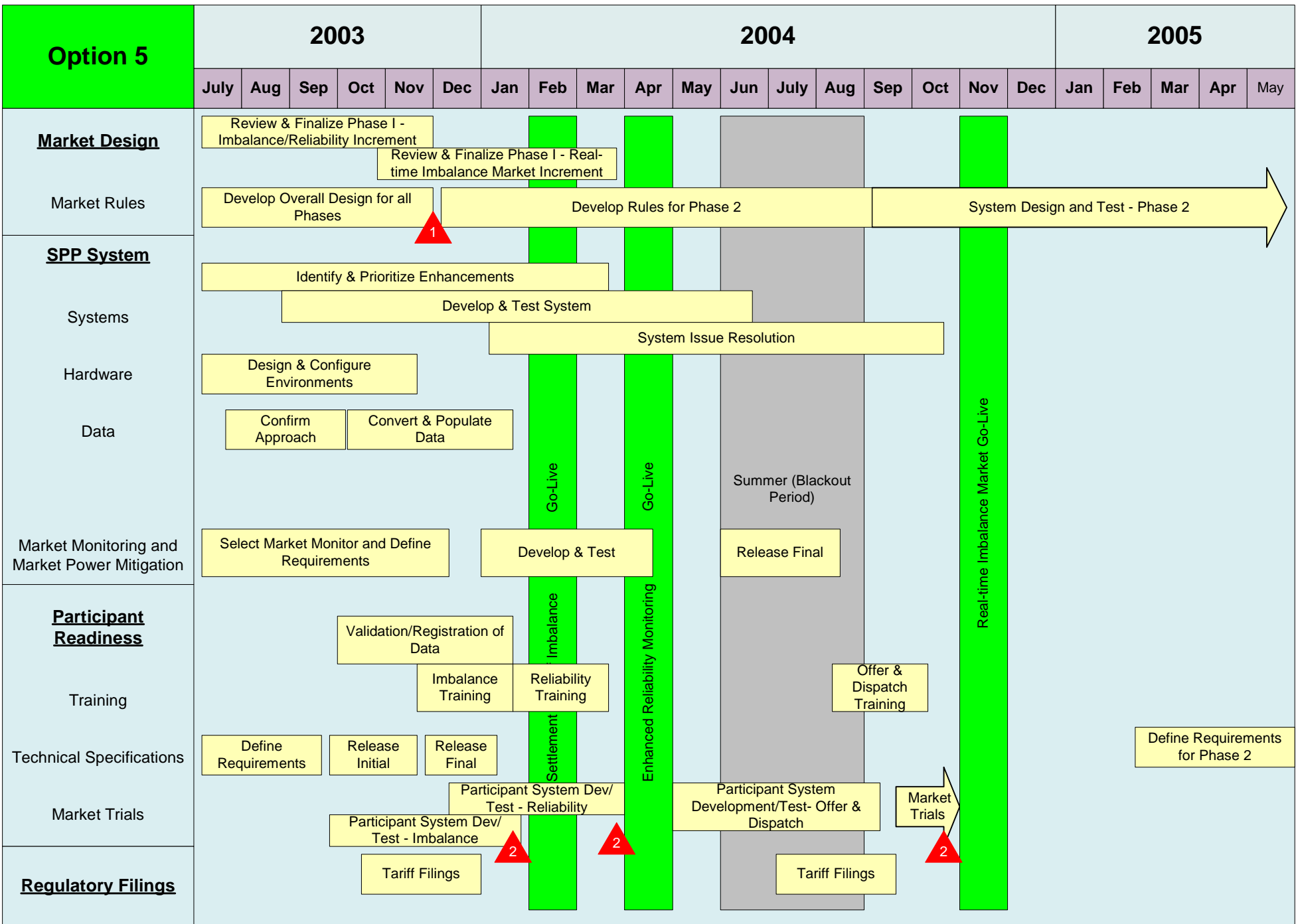
### ***Critical Path Activities***

Market Rule Development: Market Rules will be the primary requirements document for implementation of the market phases. As such, finalization of these market rules is crucial to providing an accurate estimate of schedule and cost and providing stable requirements for participant system development. Before finalization of market rules for each phase, a check against the overall market direction must be completed to minimize risks of significant changes in the following phases. Mitigation of risks in this area will include aligning specific market rule versions with specific software releases at agreed upon dates.

Participant Readiness: Participants need to be prepared from an operational viewpoint and technical viewpoint. Operationally, participant staff will require proper and timely training in order to understand and develop their own business practices and business process changes. Technically, existing participant systems must be enhanced, and new systems must be designed and developed. Minimizing risk in the operational area will include phasing in training with two goals – Overall Market Objectives and Focused Objectives. Minimizing risk in the technical area will include early releases of technical requirements and incremental releases of data exchange requirements as a result of market rule versions.

Regulatory Approval: Crucial to the implementation of each phase are regulatory approvals. In order to minimize the risk in this area, regulatory representatives will be included in the market rule development process.

### ***Schedule***



1 Confirm Cost & Schedule

2 Confirm Go-live

Note: Requires both development and production environments

**Attachment 2**  
**Proposed Revisions to Section 5 of the SPP Bylaws**  
**To replace current sections 5.1 and 5.2**

**5.1 Policy Committee**

Representatives to the Policy Committee shall be the officer or employee designated by each Member. The Policy Committee shall:

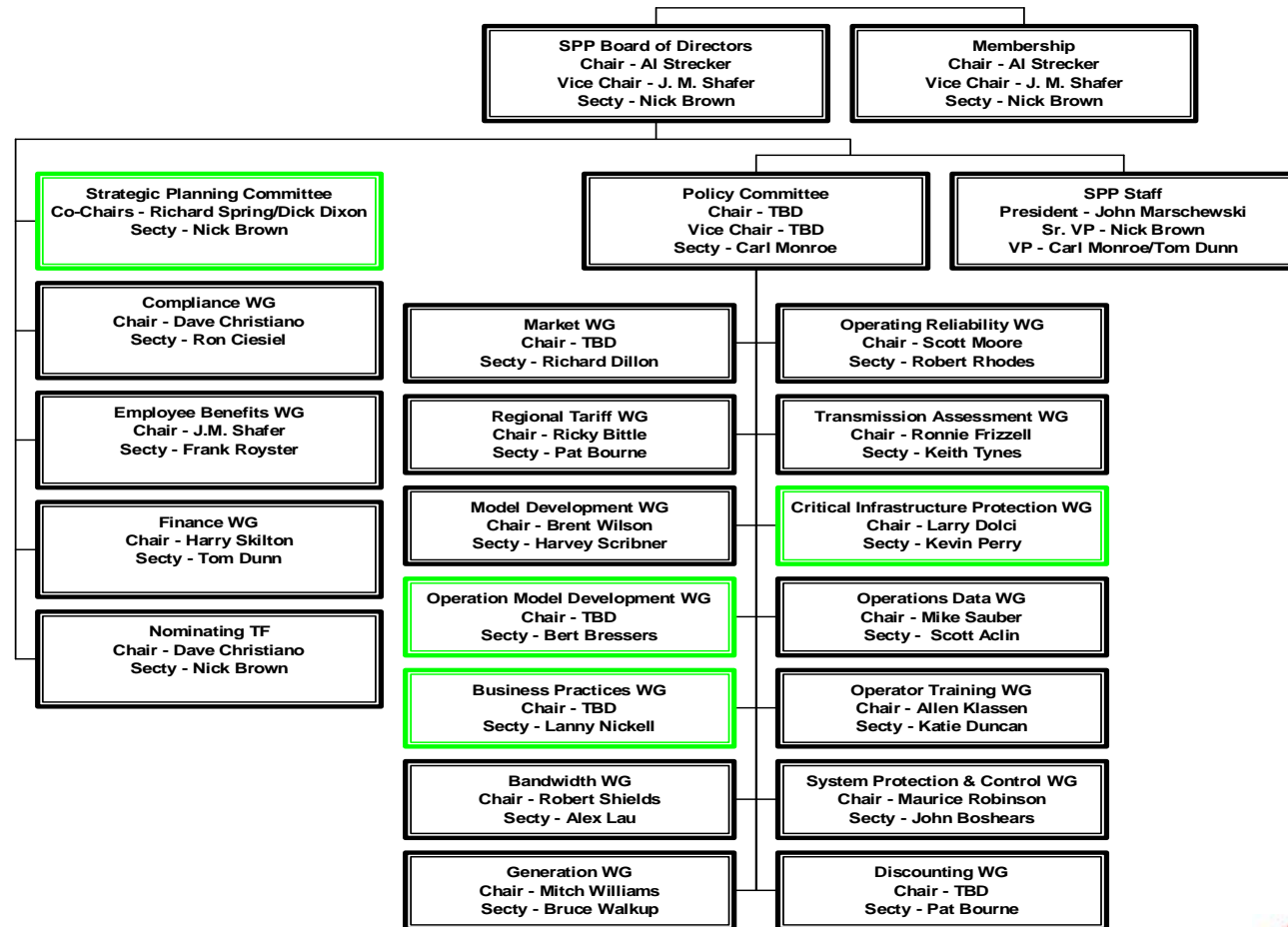
- a. Recommend practices for system design, regional transmission service tariff, interconnection, and operation that will help to assure efficient and reliable power supply among the systems in SPP,
- b. Continue coordination of its efforts with the efforts of NERC, including periodic review of NERC Policies and Standards and their applicability to SPP and its Members,
- c. Review Member operating plans and problems that are pertinent to SPP planning and operation,
- d. Maintain an annual series of load flow and short circuit models and associated stability data bases representing the current and planned electric network of the region, and maintain a data base of all transmission facilities within SPP,
- e. Review and assess the current and planned electric system of the region,
- f. Make use of studies available from other regions,
- g. Recommend to the Board of Directors criteria for planning and operations,
- h. Coordinate interregional and intraregional plans and facilitate planning and operations between interregional and intraregional entities,
- i. Develop a coordinated plan for intraregional transmission for greater efficiency and reliability of electric power supply,
- j. Recommend to the Board of Directors and to Members, individual or joint action to improve the operation of the systems comprising SPP,
- k. Respond to activities as requested by the Strategic Planning Committee, and
- l. Monitor the current state and evolution of the electric energy supply industry and proactively recommend commercial practices that meet industry needs and promote commerce,
- m. Work with all SPP Organizational Groups to promote a high standard of operational reliability, and
- n. Continue coordination of its efforts with the efforts of North American Energy Standards Board (NAESB) and the ISO/RTO Council (IRC), including periodic review of NAESB business practices and IRC policies and their applicability to SPP and its members.

## **5.2 Strategic Planning Committee**

The Strategic Planning Committee (SPC) reports to and is subject to the control of the Board of Directors. The Strategic Planning Committee is responsible for the development and recommendation to the Board of Directors of strategic direction for the corporation. The SPC is to be comprised of at least eight and no more than twelve members, including a Chair and Vice Chair, who are appointed by the Board of Directors pursuant to SPP Bylaws. At all times, a majority of the members must be elected Directors. Every attempt will be made to maintain a membership with balanced representation from Transmission Owning Members and Transmission Using Members. At least two members will be non-stakeholder Directors with one being the SPP President. Business shall be done in accordance with SPP Bylaws. There are no term limitations. The Strategic Planning Committee shall:

- a.** Gather information from SPP members, customers, Staff, regulatory jurisdictions, market monitors, and legislative bodies on industry trends, forecasts and directions.
- b.** Assess the industry environment in which SPP will be operating.
- c.** Assess SPP's capabilities and competencies against the industry environment, including coordination with neighboring entities.
- d.** Develop and recommend to the SPP Board of Directors a mission and vision statement and accompanying goals and objectives as needed.
- e.** Formulate strategies to ensure achievement of SPP's mission statement, goals, objectives and responsibilities and recommend necessary modifications to SPP processes to carry out these strategies.
- f.** Work with other SPP organizational groups in developing related action plans, schedules and budgets.

# Group Organizational Chart



**COMBINED:**

- Engineering & Operating Committee & Commercial Practices Committee
- Market Settlement Working Group & Congestion Management Systems Working Group

**DELETED:**

- Ancillary Services Task Force
- Black Start Study Task Force
- Control Area Implementation Task Force
- Scheduling Task Force

**ADDED:**

- Strategic Planning Committee
- Operation Model Development Working Group
- Business Practices Working Group
- Critical Infrastructure Protection Working Group



**Southwest Power Pool  
Business Practices Working Group  
Charter  
June 11, 2003**

**Purpose**

The Business Practices Working Group (BPWG) is responsible for development and implementation of SPP's Open Access Transmission Tariff (OATT) Business Practices. The BPWG will propose new practices and changes to existing practices that facilitate effective and efficient administration of the SPP OATT. The BPWG will develop practices that supplement and clarify the understanding of OATT provisions while conforming with those provisions and principles.

**Scope of Activities**

In carrying out its purpose, the BPWG will:

1. Meet periodically to review existing business practices, discuss needed improvements, and propose new practices;
2. Evaluate existing or proposed business practices to determine their consistency with SPP OATT provisions, FERC Orders 888, 889, and 638, and other established FERC precedent;
3. Forward proposed new or modified business practices to the Regional Tariff Working Group (RTWG) and SPP Staff for assessment of tariff revenue impacts and/or conformity of BPWG proposals with the SPP OATT;
4. Work closely with the Operating Reliability Working Group (ORWG) and SPP Staff to assess reliability impacts associated with new or modified business practices being proposed;
5. Submit proposed new or modified business practices, accepted by the RTWG as conforming with the SPP OATT, along with supporting rationale, implementation costs, reliability impacts, to the Policy Committee for approval;
6. Develop solutions and recommendations in response to commercial issues raised at other SPP forums;
7. Respond to special assignments from the SPP Board of Directors (BOD); and
8. Work with Staff and other SPP organizational groups to prioritize activities.

**Representation**

BPWG membership will consist of a Chair, a Vice-Chair, and at least 6 but no more than 8 voting members. Representatives will consist of transmission customers under SPP's tariff, half of which will be merchant group or power supply affiliates of transmission owners with facilities under the SPP OATT. Members will be representative of the diverse nature of the SPP membership. The BOD, following consultation with Policy Committee leadership, appoints BPWG membership and leadership.

**Duration**

SPP Working Groups are permanently assigned as outlined in the SPP Bylaws. Each new Chair of the BOD will review Working Group representation for appropriateness. The term of the BPWG Chair shall coincide with the two-year term of the Chair of the BOD. SPP Bylaws do not prevent renewal of the current Chair's term.

**Reporting**

The BPWG reports to the Policy Committee. The BPWG Chair will periodically report to the Policy Committee and the BOD, as required, on BPWG activities, assignments, and recommendations requiring approval. The BPWG Chair will report to other Working Groups when issues require their input and/or endorsement.

**Meeting Participation**

Per SPP Bylaws, BPWG meetings are open to all interested parties.



**Southwest Power Pool  
Market Working Group  
Organizational Group Scope Statement  
June 11, 2003**

**Purpose**

The Market Working Group (MWG) is responsible for the development and maintenance of SPP administered wholesale market(s), including energy, congestion management and market power mitigation consistent with direction from the Policy Committee. The MWG is also responsible for coordination of these markets both intra and inter regionally.

**Scope of Activities**

In carrying out its purpose, the MWG will:

1. Develop and recommend the market rules for the wholesale market, including energy, congestion management, and market power mitigation.
2. Propose modifications to SPP processes and computer systems necessary to implement any SPP administered wholesale market(s) to affected SPP Committees.
3. Propose and coordinate modifications to computer systems and processes on an ongoing basis, including coordination with SPP organizational groups.
4. Participate in oversight of any ongoing market development process.
5. Coordinate with regulators and task forces in implementation of SPP administered wholesale market(s).
6. Coordinate with other committees and working groups, as appropriate, in the development of market rules.
7. Coordinate the implementation of systems necessary for market monitoring and market power mitigation from the Independent Market Monitor.

**Representation**

The MWG is comprised of at least nine and no more than fifteen members, including a chair and vice-chair, which are appointed by the Board of Directors pursuant to SPP Bylaws. The MWG shall maintain a membership with balanced representation from the market participants.

**Reporting**

The MWG reports to the Policy Committee for activities related to the design and modification of any SPP administered market(s).

**Southwest Power Pool  
Critical Infrastructure Protection Working Group  
Organizational Group Scope Statement  
June 11, 2003**

**Purpose**

The purpose of the Critical Infrastructure Protection Working Group (CIPWG) is to advance the physical and cyber security of the electricity infrastructure within the SPP Region. This group will serve as a forum for discussing security issues, for establishing security policies and procedures for SPP Member-common resources, and will serve as an interface between the NERC CIP Advisory Group and the SPP membership.

**Scope of Activities**

The CIPWG:

- a. Serves as an expert advisory panel to the SPP Board of Directors, committees, and members.
- b. Provides a forum for discussion of physical and cyber security issues within the SPP Region.
- c. Serves as the interface between the NERC CIP Advisory Group and the SPP membership, including
  1. Serving as a conduit for information flow between the CIPAG and SPP members.
  2. Developing guidance and recommendations to the NERC CIPAG members representing the SPP Region.
- d. Develops policies and procedures for SPP-managed resources, including:
  1. Security of SPP Frame Relay Network (SPPNET) member connections.
  2. Acceptable use policies for SPP-managed wide area networks (SPPNET, Internet, etc).
  3. Security of SPP-managed systems and applications, including ICCP, Automated Reserve Sharing (ARS), and scheduling data transfer.
  4. Incident reporting and dissemination.
- e. Assist SPP Compliance Manager with the conduct and evaluation of compliance self-certification and field audits of NERC security standards.

**Representation**

The voting membership of the CIPWG represents the SPP members employing ICCP, ARS, and/or scheduling data transfer systems connected to the SPPNET Frame Relay Network. The voting Members of the CIP Working Group are nominated by SPP member companies and the chair, vice-chair and members are appointed by the Board of Directors pursuant to SPP Bylaws. Representatives from other SPP member companies may participate as non-voting members.

**Reporting**

The CIPWG reports to the Policy Committee.

**Southwest Power Pool  
Operational Model Development Working Group  
Organizational Group Scope Statement  
June 11, 2003**

**Purpose**

The Operational Model Development Working Group (OMDWG) is responsible for developing a procedure to ensure ongoing, timely updates of SPP's state-estimator model. The OMDWG is also responsible for facilitating periodic maintenance and review of the state-estimator model. The state-estimator model should contain sufficient representation of the current electrical network contained within the SPP footprint and surrounding control areas necessary to support SPP's Reliability Coordination, regional tariff administration, and any future market operation functions.

**Scope of Activities**

In carrying out its purposes, the OMDWG will:

1. Develop and review SPP Criteria related to the development and maintenance of the SPP state-estimator model.
2. Review and periodically monitor the impacts of NERC Operating Policies on the SPP state-estimator model.
3. Maintain a current state-estimator model that represents the current network of SPP and necessary external control areas.
4. Ensure that the SPP state-estimator model adequately support the needs of the SPP Reliability Coordination, regional Tariff Administration, and any future market operation functions.

**Representation**

The OMDWG is comprised of at least three and no more than eight members, including a chair and vice-chair, which are appointed by the Board of Directors pursuant to SPP Bylaws. Members should be experienced in power system network modeling. The representation should exhibit diversity in geography.

**Reporting**

The OMDWG reports to the Policy Committee. The OMDWG Chair will periodically report to the Policy Committee and Board of Directors, as required, on the Working Group's activities, assignments, and recommendations requiring Policy Committee approval.

**Southwest Power Pool  
Strategic Planning Committee  
Organizational Group Scope Statement  
June 11, 2003**

**Purpose**

The Strategic Planning Committee (SPC) is responsible for the development and recommendation to the Board of Directors of strategic direction for the corporation.

**Scope of Activities**

In carrying out its purpose, the SPC will:

1. Gather information from SPP members, customers, Staff, regulatory jurisdictions, market monitors, and legislative bodies on industry trends, forecasts and directions.
2. Assess the industry environment in which SPP will be operating.
3. Assess SPP's capabilities and competencies against the industry environment, including coordination with neighboring entities.
4. Develop and recommend to the SPP Board of Directors a mission and vision statement and accompanying goals and objectives as needed.
5. Formulate strategies to ensure achievement of SPP's mission statement, goals, objectives and responsibilities and recommend necessary modifications to SPP processes to carry out these strategies.
6. Work with other SPP organizational groups in developing related action plans, schedules and budgets.

**Representation**

The SPC is to be comprised of at least eight and no more than twelve members, including a Chair and Vice Chair, who are appointed by the Board of Directors pursuant to SPP Bylaws. At all times, a majority of the members must be elected Directors. Every attempt will be made to maintain a membership with balanced representation from Transmission Owning Members and Transmission Using Members. At least two members will be non-stakeholder Directors with one being the SPP President. Business shall be done in accordance with SPP Bylaws. There are no term limitations.

**Reporting**

The SPC reports to the Board of Directors.



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415 N. McKinley, #800 Plaza West  
Little Rock, AR 72205-3020  
501/664-0146 \* Fax: 501/664-9553  
Thomas P. Dunn, Vice President Finance

June 13, 2003

Dear Membership,

The Strategic Planning Task Force ("SPTF") of Southwest Power Pool ("SPP") will recommend a significant change in the methodology SPP utilizes to assess its membership for operating and capital expenses at the June 24, 2003 Board of Directors meeting in Kansas City, Missouri. This change, outlined below, will most likely have a meaningful impact on the magnitude of your company's monthly assessments from SPP.

SPP's existing assessment methodology does not equitably share the expenses incurred by SPP to provide its services. SPP's provision of transmission service under the SPP regional transmission service tariff increased the total SPP expenses. Currently, SPP's tariff administrative fee revenues are netted against total monthly expenses with the remainder assessed to the membership. Depending on the individual member, this structure may result in that member paying an abnormally large share of SPP's expenses through the tariff and assessments versus other members and versus the benefits derived from membership in SPP. This is primarily a result of the flexibility members have in placing their bundled retail load und the regional network service tariff – some have and most have not.

The recommendation to the Board of Directors will be as follows:

- All members with Net Energy for Load will pay an annual membership fee of \$0.0053 multiplied by their annual net energy for load;
- All members without Net Energy for Load will pay an annual membership fee of \$6,000;
- All members will share in SPP's NERC assessment utilizing the currently existing SPP membership assessment formula, which shares 25% of the expense equally among all members and 75% of the expense pro-rata based on Net Energy for Load;
- Monthly assessments will levied against those members whose transmission facilities are in the regional transmission tariff as well as those members embedded within the transmission facilities that are in the regional transmission tariff. Assessments assigned to these members will equal each member's peak demand per hour per month multiplied by the Schedule 1 fee under the SPP

regional tariff. Members with an assessment will be credited for Schedule 1 fees paid by that member in that month under the SPP regional tariff;

- Schedule 1 rate will be determined at least annually by the SPP Board of Directors based upon budgeted expenditures and projected billing determinants. The Board will possess the discretion to adjust the Schedule 1 rate within a budget year should conditions warrant. The fee will be “trued-up” annually.

A revision in the assessment formula was identified by the SPTF as an important component of SPP’s strategic plan. The change outlined above will more accurately allocate the costs of operating SPP to those who have the opportunity to derive the most benefit from the services SPP offers.

The SPTF has identified resolution of the member overpayment situation as an additional concern. The revision to the assessment methodology will relieve future instances of member overpayment. SPP has tracked historical overpayments from the membership since implementation of the tariff. SPP’s Finance Working Group has been tasked with determining a strategy to resolve the historical overpayment balances.

Attached is a schedule illustrating the impact of this proposal on your individual company. We look forward to your comments, concerns, and questions. Please contact me if I may provide any assistance.

Sincerely,

Thomas P. Dunn, CFA  
Vice President

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)
Member	2002 Actual	2002 Proposec	Impact	2002 w/o Network Service in SPP	2002 Proposec	Impact	July - December 2003	2004 Proforma
EMDE	\$637,617	\$762,844	\$125,226	\$380,795	\$762,844	\$382,049	\$462,026	\$1,399,549
INDP	\$92,913	\$187,864	\$94,951	\$147,477	\$187,864	\$40,388	\$120,183	\$342,275
KACP	\$798,584	\$2,290,257	\$1,491,674	\$1,149,708	\$2,290,257	\$1,140,549	\$1,439,434	\$4,212,235
KACY	\$148,932	\$352,563	\$203,631	\$231,924	\$352,563	\$120,639	\$215,465	\$636,994
Westar(KGE&KPL)	\$7,662,614	\$3,236,463	(\$4,426,150)	\$2,800,367	\$3,236,463	\$436,096	\$2,038,523	\$5,975,964
KEPCO	\$113,956	\$180,152	\$66,196	\$183,013	\$180,152	(\$2,861)	\$109,733	\$318,619
MIDW	\$90,962	\$156,420	\$65,457	\$143,373	\$156,420	\$13,046	\$93,799	\$278,735
SPRM	\$665,217	\$473,372	(\$191,845)	\$528,445	\$473,372	(\$55,074)	\$301,195	\$847,091
AREC	\$483,034	\$513,878	\$30,845	\$732,229	\$513,878	(\$218,351)	\$271,000	\$824,200
GRRD	\$225,687	\$559,371	\$333,684	\$323,978	\$559,371	\$235,393	\$350,572	\$1,028,118
OKGE	\$1,122,654	\$3,632,417	\$2,509,763	\$1,718,304	\$3,632,417	\$1,914,112	\$2,243,568	\$6,639,717
OMPA	\$162,857	\$368,101	\$205,244	\$240,233	\$368,101	\$127,868	\$241,109	\$677,919
AEP	\$1,948,136	\$5,271,422	\$3,323,286	\$2,827,191	\$5,271,422	\$2,444,231	\$3,208,759	\$9,596,824
NTEC	\$118,109	\$460,137	\$342,027	\$197,989	\$460,137	\$262,147	\$265,385	\$864,277
ETEC	\$72,815	\$69,754	(\$3,061)	\$181,239	\$69,754	(\$111,485)	\$31,608	\$102,826
TXLA	\$129,736	\$78,251	(\$51,485)	\$167,678	\$78,251	(\$89,427)	\$45,575	\$142,220
SWPA	\$245,724	\$805,893	\$560,169	\$507,686	\$805,893	\$298,207	\$489,781	\$1,469,470
SWPS	\$3,359,606	\$2,887,950	(\$471,656)	\$3,902,841	\$2,887,950	(\$1,014,891)	\$1,721,475	\$5,174,345
WEFA	\$278,728	\$784,154	\$505,425	\$420,518	\$784,154	\$363,635	\$490,098	\$1,483,267
AEMC	\$1,038,265	\$495,378	(\$542,887)	\$988,282	\$495,378	(\$492,905)		
CALP	\$74,127	\$21,381	(\$52,746)	\$109,305	\$21,381	(\$87,924)		
CELE	\$415,776	\$87,710	(\$328,066)	\$683,589	\$87,710	(\$595,879)		
CLWL	\$58,128	\$5,704	(\$52,424)	\$92,066	\$5,704	(\$86,362)		
CORP	\$840,122	\$399,996	(\$440,126)	\$875,300	\$399,996	(\$475,304)		
CPMT	\$49,988	\$10,059	(\$39,929)	\$85,166	\$10,059	(\$75,107)		
CPS	\$52,801	\$11,152	(\$41,648)	\$87,979	\$11,152	(\$76,826)		
CRGL	\$181,243	\$70,457	(\$110,785)	\$216,421	\$70,457	(\$145,963)		
DETM	\$292,091	\$129,933	(\$162,158)	\$327,269	\$129,933	(\$197,336)		
DYPM	\$85,424	\$30,690	(\$54,734)	\$120,602	\$30,690	(\$89,912)		
EMMT(Citizen)	\$49,983	\$10,057	(\$39,926)	\$85,161	\$10,057	(\$75,104)		
ENTE	\$49,898	\$10,008	(\$39,890)	\$85,076	\$10,008	(\$75,068)		
EPME	\$52,424	\$11,434	(\$40,990)	\$87,602	\$11,434	(\$76,168)		
EXGN	\$1,447,700	\$699,621	(\$748,079)	\$1,482,878	\$699,621	(\$783,257)		
LAFA	\$131,616	\$13,755	(\$117,861)	\$191,324	\$13,755	(\$177,569)		
LEPA	\$50,510	\$15,144	(\$35,367)	\$146,019	\$15,144	(\$130,876)		
LG&E	\$49,983	\$13,208	(\$36,775)	\$85,173	\$13,208	(\$71,965)		
MAEM	\$59,789	\$14,280	(\$45,508)	\$94,967	\$14,280	(\$80,686)		
MIPU-Aquila-STJO-MOPUB	\$356,599	\$71,529	(\$285,070)	\$706,393	\$71,529	(\$634,864)		
NRG	\$137,115	\$48,492	(\$88,623)	\$172,293	\$48,492	(\$123,801)		
PGET	\$57,725	\$14,142	(\$43,583)	\$92,903	\$14,142	(\$78,761)		

SUNC	\$123,837	\$27,583	(\$96,254)	\$248,879	\$27,583	(\$221,296)
RES	\$571,106	\$257,377	(\$313,729)	\$606,284	\$257,377	(\$348,907)
TNSK	\$461,278	\$214,555	(\$246,724)	\$496,456	\$214,555	(\$281,902)
TXU	\$76,031	\$24,857	(\$51,174)	\$111,209	\$24,857	(\$86,352)
UCU	\$7,522	\$3,636	(\$3,886)	\$7,522	\$3,636	(\$3,886)
WEPL	\$201,109	\$27,265	(\$173,844)	\$223,768	\$27,265	(\$196,503)
WESC	\$55,032	\$12,883	(\$42,149)	\$90,226	\$12,883	(\$77,343)
Non-members	\$863,240	\$424,794	(\$438,446)	\$863,240	\$424,794	(\$438,446)
	<u>\$26,248,341</u>	<u>\$26,248,341</u>		<u>\$26,248,340</u>	<u>\$26,248,341</u>	



## **Proposed Revisions to Section 7 of the SPP Bylaws To replace current Section 7**

### **7.1 Operating Budget**

The SPP Staff and the Finance Working Group will prepare an annual budget of expenditures for the next fiscal year and an estimate for an additional two years. The proposed budget shall be submitted to the Board of Directors not less than two weeks prior to the meeting at which the budget is to be considered for approval. Once approved by the Board of Directors, the budget shall constitute the authority for expenditures for the ensuing year. Modifications to the budget during the fiscal year must be recommended to the Board of Directors by the Finance Working Group. The President shall have the authority to approve unbudgeted expenditures of up to \$250,000 individually or in the aggregate during the fiscal year. The President may approve unbudgeted expenditures in excess of \$250,000 but less than \$1,000,000 with the concurrence of the Finance Working Group. Unbudgeted expenditures in excess of \$1,000,000 require prior approval of the Board of Directors.

### **7.2 Annual Membership Fee**

All SPP members will be subject to an annual membership fee to recover the cost incurred by the SPP related to maintaining reliability criteria and related compliance. Members without "Net Energy for Load" will pay an annual membership fee of \$6,000, or as otherwise established by the Board of Directors. The SPP Board of Directors shall determine the annual membership fee for the upcoming year at the Annual Meeting of Members. Those members serving load will be subject to a fee based on their annual Net Energy for Load for the preceding year, all other members will be subject to a flat fee. SPP will not refund membership fees.

### **7.3 NERC Assessment**

The NERC assessment is to be a direct pass-through and will be charged to the membership per the assessment formula outlined below at the time SPP is invoiced by NERC:

$$A = [ 0.25(1/N) + 0.75(B/C) ] X,$$

where; A = Member's Share of NERC Assessment,  
N = Total number of Members,  
B = The Member's previous year Net Energy for Load within SPP,  
C = Total of factor B for all Members, and  
X = Actual NERC Assessment to SPP

### **7.4 Monthly Assessments**

SPP will assess all costs not otherwise collected via a monthly assessment. Costs recovered under the assessment will include all operating, financing, and capital costs associated with the performance of SPP's functions as assigned by the Board of Directors. Significant among these are costs associated with regional security coordination and the provision of transmission service. SPP shall determine the assessment rate based on its annual budgeted net expenditures divided by estimated annual Schedule 1-A billing units for service sold under SPP's tariff and member load eligible to take, but not taking, Network Integration Transmission Service under SPP's tariff. The SPP Board of Directors may review the assumptions used in determining the assessment rate at any time and may adjust the assessment rate appropriately should conditions warrant. Each load-serving member shall then be assessed the monthly assessment rate applied to its load eligible to take Network Integration Transmission Service under the SPP tariff. Further, each load-serving member shall receive a credit against the

monthly assessment for that month's Schedule 1-A fees paid for Network Integration Transmission Service and for Point-to-Point Transmission Service that had a delivery point within the SPP region, under SPP's transmission service tariff.

#### **7.5 Fiscal Agent**

The President shall serve as the Fiscal Agent of SPP. The President shall keep an up-to-date record of receipts and disbursements and furnish reports to the Board of Directors and the Finance Working Group.

#### **7.6 Auditors**

The Finance Working Group shall annually engage an independent certified public accounting firm to perform an annual audit of SPP's financial records and prepare a report on the financial condition of SPP. The Finance Working Group shall present the audit report to the Board of Directors upon completion.

#### **7.7 Financial Obligation of Withdrawing Members**

The financial obligation of a withdrawing or a terminated Member, in conjunction with terms and conditions of SPP's membership agreement, is calculated as follows:

$$A = [ 0.25(1/N) + 0.75(B/C) ] X,$$

- where; A = Member's withdrawal or termination obligation,  
N = Total number of Members,  
B = The Member's previous year Net Energy for Load within SPP,  
C = Total of factor B for all Members, and  
X = SPP long-term financial obligations.

## 2003 PROPOSED ADMINISTRATIVE BUDGET - REVISED EXECUTIVE SUMMARY

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The combination of Southwest Power Pool, Inc. ("SPP") and Midwest Independent Transmission System Operator, Inc. ("MISO") was officially terminated March 20, 2003. Immediately thereafter a strategic planning task force was convened to develop a plan for SPP to move forward as an independent entity. A report was presented and adopted at the April 14, 2003 meeting of SPP's Board of Directors. Initiatives outlined in the plan created a need to review the adequacy of SPP's existing 2003 budget. Paramount among the initiatives was the need to develop and implement a real-time imbalance energy market and also substantially increase interaction with state and federal regulators.

Results against budget through the first quarter of fiscal 2003 are detailed below:

Category	Actual 1Q'03	Budget 1Q'03
Salary & Benefits	\$2,841,833	\$3,140,083
Travel	\$139,383	\$208,395
Administrative	\$488,868	\$543,825
NERC Assessment	\$311,450	\$185,600
Meetings	\$19,461	\$38,380
Communications	\$255,379	\$398,480
Leases & Maintenance	\$1,170,127	\$1,418,576
Capital Expenditures	\$277,031	\$723,025
Outside Services	\$837,208	\$963,585
Misc. Income	<u>(\$1,084,446)</u>	<u>(\$305,000)</u>
Total	\$5,256,294	\$7,314,949

The revised 2003 SPP Administrative Budget is composed of the actual results for the first quarter of 2003, the existing budget for the second quarter of 2003 and revised expenditures for the second half of the year:

Category (\$000)	Actual 1Q'03	Budget 2Q'03	Revised 3Q'03	Revised 4Q'03	Total
Salary & Benefits	\$2,842	\$3,140	\$2,996	\$3,688	\$12,666
Travel	\$139	\$209	\$194	\$191	\$733
Administrative	\$489	\$256	\$90	\$111	\$946
NERC Assessment	\$311	\$186	\$186	\$186	\$869
Meetings	\$19	\$34	\$60	\$73	\$186
Communications	\$255	\$380	\$469	\$432	\$1,536
Leases/Maintenance	\$1,170	\$704	\$661	\$797	\$3,332
Capital Expenditures	\$277	\$260	\$1,176	\$428	\$2,141
Outside Services	\$837	\$791	\$1,055	\$964	\$3,647
Misc. Income	(\$1,084)	(\$185)	(\$375)	(\$375)	(\$2,019)
Total	\$5,255	\$5,775	\$6,512	\$6,495	\$24,037

May 22, 2003

## **2003 PROPOSED ADMINISTRATIVE BUDGET - REVISED EXECUTIVE SUMMARY**

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Significant new items are described below:

### **Category 1 - SALARY/EMPLOYEE BENEFITS**

- Addition of 9 staff phased in throughout the third and fourth quarter, positions as follows:
  - Director of Regulatory Affairs
  - Regulatory Analyst
  - Technical Trainer
  - Manager, Security (physical and cyber)
  - Engineer III (2) – Market Development and Analysis
  - Shift Operators (2)
  - IT Specialist (1)

### **Category 5 - SPP/NERC MEETINGS**

Addition of several committee, working group, and task force meetings required to implement strategic initiatives.

### **Category 6 - COMMUNICATIONS**

\$100,000 increase in expenditures for frame relay services.

### **Category 8 – CAPITAL EXPENDITURES**

Strategic initiative to implement imbalance energy market in 2004 will necessitate acquisition of computer hardware to support system. Hardware previously acquired in 2001 for markets has been utilized to meet other needs. Timing of expenditures assumes a three-phase implementation beginning Spring 2004. Additionally, we believe hardware may be acquired under budget based on utilizing refurbished equipment and end of year sales by manufacturers.

### **Category 9 - OUTSIDE SERVICES**

Increased legal expense to support regulatory filings. Additional use of consultants to develop markets and prepare training materials. Compliance audits originally budgeted to occur throughout the year have all been scheduled in the second half of 2003; therefore, expense associated with these audits has been moved to the second half.

## Budget Forecast

### 3rd and 4th Quarter 2003

Category	Description	<u>July</u>	<u>August</u>	<u>September</u>	<u>Third Quarter</u>	<u>October</u>	<u>November</u>	<u>December</u>	<u>Fourth Quarter</u>	<u>Total</u>
1	Salaries & Benefits	1,019,986	974,710	1,001,034	<b>2,995,731</b>	1,047,357	1,559,989	1,080,640	<b>3,687,987</b>	<b>6,683,718</b>
2	Travel	62,000	65,260	67,210	<b>194,470</b>	67,630	67,190	55,920	<b>190,740</b>	<b>385,210</b>
3	Administrative	40,795	25,595	24,095	<b>90,485</b>	56,795	23,095	31,095	<b>110,985</b>	<b>201,470</b>
4	NERC Assessment	185,600	-	-	<b>185,600</b>	185,600	-	-	<b>185,600</b>	<b>371,200</b>
5	SPP/NERC Meetings	18,855	15,600	25,425	<b>59,880</b>	36,275	27,225	9,075	<b>72,575</b>	<b>132,455</b>
6	Communications	182,289	143,215	143,216	<b>468,720</b>	145,289	143,215	143,216	<b>431,720</b>	<b>900,440</b>
7	Leases & Maintenance	229,237	217,637	213,862	<b>660,736</b>	215,862	213,762	367,862	<b>797,486</b>	<b>1,458,222</b>
8	Capital Expenditures	979,000	73,200	124,200	<b>1,176,400</b>	278,200	63,200	86,200	<b>427,600</b>	<b>1,604,000</b>
9	Outside Services	413,511	259,311	382,511	<b>1,055,333</b>	382,511	264,311	317,511	<b>964,333</b>	<b>2,019,666</b>
	<b>GROSS CASH OUTFLOWS</b>	<b>3,131,273</b>	<b>1,774,528</b>	<b>1,981,553</b>	<b>6,887,355</b>	<b>2,415,519</b>	<b>2,361,987</b>	<b>2,091,519</b>	<b>6,869,026</b>	<b>13,756,381</b>
	2003 Original Budget				<b>5,554,889</b>				<b>6,041,116</b>	<b>11,596,005</b>
	2002 Actual				<b>6,832,347</b>				<b>6,469,288</b>	<b>13,301,635</b>
	2001 Actual				<b>5,226,319</b>				<b>4,563,546</b>	<b>9,789,865</b>
10	<b>Miscellaneous Income</b>	<b>(125,000)</b>	<b>(125,000)</b>	<b>(125,000)</b>	<b>(375,000)</b>	<b>(125,000)</b>	<b>(125,000)</b>	<b>(125,000)</b>	<b>(375,000)</b>	<b>(750,000)</b>
	2003 Original Budget				<b>(125,000)</b>				<b>(125,000)</b>	<b>(250,000)</b>
	2002 Actual				<b>(1,088,930)</b>				<b>(353,625)</b>	<b>(1,442,555)</b>
	2001 Actual				<b>(366,671)</b>				<b>(433,680)</b>	<b>(800,351)</b>
	<b>2003 NET BUDGET</b>	<b>3,006,273</b>	<b>1,649,528</b>	<b>1,856,553</b>	<b>6,512,355</b>	<b>2,290,519</b>	<b>2,236,987</b>	<b>1,966,519</b>	<b>6,494,026</b>	<b>13,006,381</b>
	2003 Original Budget				<b>5,429,889</b>				<b>5,916,116</b>	<b>11,346,005</b>
	2002 Actual				<b>5,743,417</b>				<b>6,115,663</b>	<b>11,859,080</b>
	2001 Actual				<b>4,859,648</b>				<b>4,129,866</b>	<b>8,989,514</b>

# Salaries & Benefits

## Category 1

SALARIES	July	August	September	Third	October	November	December	Fourth	Total
	<u>July</u>	<u>August</u>	<u>September</u>	<u>Quarter</u>	<u>October</u>	<u>November</u>	<u>December</u>	<u>Quarter</u>	<u>Total</u>
Salaries	641,248	641,248	641,248	1,923,744	641,248	641,248	641,248	1,923,744	3,847,488
Staff Additions	46,225	53,491	43,360	143,076	52,691	88,858	115,758	257,307	400,383
Staff Promotions	3,083	3,083	3,083	9,250	13,083	13,083	13,083	39,250	48,500
Board Compensation	-	18,000	-	18,000	18,000	-	-	18,000	36,000
Incentive Compensation	-	-	-	-	-	512,890	-	512,890	512,890
Subtotal	690,556	715,822	687,691	2,094,070	725,022	1,256,079	770,089	2,751,191	4,845,261
2003 Original Budget				2,222,741				2,735,631	4,958,372
2002 Actual				1,964,268				2,231,405	4,195,673
2001 Actual				1,919,636				2,149,910	4,069,546

PAYROLL TAXES	July	August	September	Third	October	November	December	Fourth	Total
	<u>July</u>	<u>August</u>	<u>September</u>	<u>Quarter</u>	<u>October</u>	<u>November</u>	<u>December</u>	<u>Quarter</u>	<u>Total</u>
FICA/Medicare	36,407	36,093	36,544	109,044	37,626	38,077	38,845	114,548	223,592
Federal Unemp. Ins.	-	-	-	-	-	-	-	-	-
State Unemp. Ins.	-	-	-	-	-	-	-	-	-
Workers' Comp.	-	-	-	-	-	-	-	-	-
Subtotal	36,407	36,093	36,544	109,044	37,626	38,077	38,845	114,548	223,592
2003 Original Budget				172,300				175,027	347,327
2002 Actual				143,700				143,974	287,674
2001 Actual				128,625				118,791	247,416

BENEFITS	July	August	September	Third	October	November	December	Fourth	Total
	<u>July</u>	<u>August</u>	<u>September</u>	<u>Quarter</u>	<u>October</u>	<u>November</u>	<u>December</u>	<u>Quarter</u>	<u>Total</u>
Pension Funding	69,722	69,722	69,722	209,166	69,722	69,722	69,722	209,166	418,332
Savings Plan	31,954	31,726	32,578	96,258	33,360	33,687	34,241	101,288	197,546
Welfare	76,071	76,071	79,223	231,365	82,351	83,148	84,467	249,966	481,331
Retiree Medical Benefits	32,193	32,193	32,193	96,579	32,193	32,193	32,193	96,579	193,158
Subtotal	209,940	209,712	213,716	633,368	217,626	218,750	220,623	656,999	1,290,367
2003 Original Budget				712,167				712,167	1,424,334
2002 Actual				697,422				705,186	1,402,608
2001 Actual				432,428				405,262	837,690

RELOCATION/TRAINING					Third				Fourth	Total
	July	August	September	Quarter	October	November	December	Quarter		
Relocation	62,000	-	45,000	107,000	45,000	30,000	30,000	105,000	212,000	
Hiring	10,000	-	5,000	15,000	7,000	2,000	2,000	11,000	26,000	
Continuing Education	11,083	13,083	13,083	37,249	15,083	15,083	19,083	49,249	86,498	
Subtotal	83,083	13,083	63,083	159,249	67,083	47,083	51,083	165,249	324,498	
2003 Original Budget				75,000				75,000	150,000	
2002 Actual				69,688				87,125	156,813	
2001 Actual				127,966				39,991	167,957	

SALARIES & BENEFITS SUMMARY					Third				Fourth	Total
	July	August	September	Quarter	October	November	December	Quarter		
Salaries	690,556	715,822	687,691	2,094,070	725,022	1,256,079	770,089	2,751,191	4,845,261	
Payroll Taxes	36,407	36,093	36,544	109,044	37,626	38,077	38,845	114,548	223,592	
Benefits	209,940	209,712	213,716	633,368	217,626	218,750	220,623	656,999	1,290,367	
Relocation/Training	83,083	13,083	63,083	159,249	67,083	47,083	51,083	165,249	324,498	
<b>TOTAL</b>	<b>1,019,986</b>	<b>974,710</b>	<b>1,001,034</b>	<b>2,995,731</b>	<b>1,047,357</b>	<b>1,559,989</b>	<b>1,080,640</b>	<b>3,687,987</b>	<b>6,683,718</b>	
2003 Original Budget				3,182,208				3,697,825	6,880,033	
2002 Actual				2,875,078				3,167,690	6,042,768	
2001 Actual				2,608,655				2,713,954	5,322,609	

Key Points:

- Existing Salaries for filled positions remain at the same level as April 30, 2003. Currently SPP has 114 authorized positions, with 108 of those positions filled.
- New staff additions budgeted for the second half of 2003 include:
  - 1 Director of Regulatory Affairs;
  - 1 Senior Retulatory Analyst;
  - 2 Shift Operators, with duties in Tariff Operations, Security and Scheduling;
  - 1 Technical Trainer, with expertise in developing and delivering web-based training;
  - 2 Engineers supporting market development and analysis;
  - 1 Manager of Cyber and Physical Security;
  - 1 Information Technology Specialist.
- Salaries for staff additions budgeted at the mid-point of the expected grade level of the new hire.
- Staff Promotions include a pool of funds granted by the President.
- The Employee Benefits Working Group developed an incentive and retention program for SPP Staff in 2001. Payment of \$512,890 is budgeted in November.
- FICA is budgeted at 6.2% of Salaries, with an individual cut-off when an employee reaches total salary paid of \$87,000 for the year.
- Medicare is budgeted at 1.45% of Salaries, with no cut-off.
- Pension funding is at the level budgeted by the Employee Benefits Working Group to meet the needs of the defined pension plan.
- SPP will match employee contributions at 75 cents on the dollar to a maximum of 4.5% matched by SPP. The budget assumes that existing employees maintain their current matching level and new employees will be matched at the maximum of 4.5%.
- Welfare includes health, dental, life insurance and other employee benefits. The budget assumes that existing employees maintain their current coverage and new employees enroll in all programs with full family coverage.
- Relocation for the new employees listed above averages \$7,000 per employee. Relocation generally costs \$15,000 for out-of-town moves, however, all new employees will not necessarily come from outside of the area.
- Hiring expenses are budgeted at \$750 per employee.
- Continuing Education is budgeted based upon Department Managers' estimates of the needs of their employees.

## Employee Travel Expenses

### Category 2

Line Item	<u>July</u>	<u>August</u>	<u>September</u>	<u>Third Quarter</u>	<u>October</u>	<u>November</u>	<u>December</u>	<u>Fourth Quarter</u>	<u>Total</u>
<b>TRAVEL</b>									
Administration	21,000	21,000	23,000	<b>65,000</b>	21,500	21,500	10,000	<b>53,000</b>	<b>118,000</b>
Corporate Affairs	6,730	6,730	6,730	<b>20,190</b>	6,730	6,730	6,730	<b>20,190</b>	<b>40,380</b>
Engineering	10,300	11,000	11,000	<b>32,300</b>	11,000	10,300	8,700	<b>30,000</b>	<b>62,300</b>
Information Technology	11,000	11,000	11,000	<b>33,000</b>	12,200	12,200	12,200	<b>36,600</b>	<b>69,600</b>
Markets	4,500	4,500	4,500	<b>13,500</b>	4,500	4,500	4,500	<b>13,500</b>	<b>27,000</b>
Operations	3,470	6,030	5,980	<b>15,480</b>	6,700	6,960	8,790	<b>22,450</b>	<b>37,930</b>
Regulatory	5,000	5,000	5,000	<b>15,000</b>	5,000	5,000	5,000	<b>15,000</b>	<b>30,000</b>
<b>TOTAL</b>	<b>62,000</b>	<b>65,260</b>	<b>67,210</b>	<b>194,470</b>	<b>67,630</b>	<b>67,190</b>	<b>55,920</b>	<b>190,740</b>	<b>385,210</b>
2003 Original Budget				<b>208,395</b>				<b>210,095</b>	<b>418,490</b>
2002 Actual				<b>244,197</b>				<b>184,663</b>	<b>428,860</b>
2001 Actual				<b>148,013</b>				<b>130,618</b>	<b>278,631</b>

Key Points:

- Travel is budgeted based upon Department Managers' estimates of travel needs for their department.
- Travel can include travel for continuing education or attendance at working group or task force meetings, and includes travel related to implementation of an energy market in the footprint.



## Administrative

### Category 3

Line Item	July	August	September	Third Quarter	October	November	December	Fourth Quarter	Total
<b>ADMINISTRATION</b>									
Office Expense	5,900	5,900	5,900	17,700	5,900	5,900	5,900	17,700	35,400
Business Cards	250	-	-	250	250	-	-	250	500
Copier Supplies	275	275	275	825	275	275	275	825	1,650
Banking Charges	1,500	1,500	1,500	4,500	1,500	1,500	1,500	4,500	9,000
Annual Audit	-	-	-	-	-	-	-	-	-
Dues	2,750	-	-	2,750	2,750	-	-	2,750	5,500
Publications	-	-	-	-	-	4,000	-	4,000	4,000
Energy Usage	7,000	7,000	7,000	21,000	7,000	7,000	7,000	21,000	42,000
Postage	420	420	420	1,260	420	420	420	1,260	2,520
Freight	1,250	1,250	1,250	3,750	1,250	1,250	1,250	3,750	7,500
Employee Events	1,350	7,150	5,650	14,150	750	650	12,650	14,050	28,200
Insurance (GL/Contents)	-	-	-	-	-	-	-	-	-
Insurance (Off. Liability)	-	-	-	-	-	-	-	-	-
Insurance (E&O/Indemn)	-	-	-	-	-	-	-	-	-
Insurance (Credit)	-	-	-	-	-	-	-	-	-
Managers Fund	-	-	-	-	-	-	-	-	-
Property Tax	15,000	-	-	15,000	30,000	-	-	30,000	45,000
Capital Fire (FM200 Suppression)	-	-	-	-	1,000	-	-	1,000	1,000
Use Tax	2,100	2,100	2,100	6,300	2,100	2,100	2,100	6,300	12,600
Generator Fuel	250	-	-	250	250	-	-	250	500
Generator Batteries	-	-	-	-	600	-	-	600	600
Subtotal	38,045	25,595	24,095	87,735	54,045	23,095	31,095	108,235	195,970
<b>CORPORATE AFFAIRS</b>									
Mktg/PR/Promo Items	1,500	-	-	1,500	1,500	-	-	1,500	3,000
Subscriptions	1,250	-	-	1,250	1,250	-	-	1,250	2,500
Subtotal	2,750	-	-	2,750	2,750	-	-	2,750	5,500
<b>TOTAL</b>	<b>40,795</b>	<b>25,595</b>	<b>24,095</b>	<b>90,485</b>	<b>56,795</b>	<b>23,095</b>	<b>31,095</b>	<b>110,985</b>	<b>201,470</b>
2003 Original Budget				76,225				64,225	140,450
2002 Actual				93,754				50,740	144,494
2001 Actual				79,723				54,892	134,615

**Key Points:**

- All insurance premiums were incurred during the first quarter of 2003, thus no additional premiums are due.
- Estimates were based upon historical figures.
- Employee Events includes monthly employee socials, tickets for sporting events, a fall family picnic and a December holiday party.

## NERC Assessment

### Category 4

Line Item	<u>July</u>	<u>August</u>	<u>September</u>	<u>Third Quarter</u>	<u>October</u>	<u>November</u>	<u>December</u>	<u>Fourth Quarter</u>	<u>Total</u>
<b>ADMINISTRATION</b>									
NERC	185,600	-	-	185,600	185,600	-	-	185,600	371,200
<b>TOTAL</b>	<b>185,600</b>	<b>-</b>	<b>-</b>	<b>185,600</b>	<b>185,600</b>	<b>-</b>	<b>-</b>	<b>185,600</b>	<b>371,200</b>
2003 Original Budget				185,600				185,600	371,200
2002 Actual				203,192				225,000	428,192
2001 Actual				317,134				203,190	520,324

Key Points:

- SPP's share of NERC's 2003 budget is \$742,000 (\$185,600 quarterly).

## SPP/NERC Meetings

### Category 5

Line Item	<u>July</u>	<u>August</u>	<u>September</u>	<u>Third Quarter</u>	<u>October</u>	<u>November</u>	<u>December</u>	<u>Fourth Quarter</u>	<u>Total</u>
<b>MEETINGS</b>									
Board of Directors	-	3,250	-	<b>3,250</b>	3,250	-	-	<b>3,250</b>	<b>6,500</b>
Business Practices WG	-	2,200	-	<b>2,200</b>	2,200	-	2,200	<b>4,400</b>	<b>6,600</b>
Compliance WG	1,200	-	-	<b>1,200</b>	1,200	-	-	<b>1,200</b>	<b>2,400</b>
Critical Infrastructure Prot. WG	2,200	-	-	<b>2,200</b>	2,200	-	-	<b>2,200</b>	<b>4,400</b>
Employee Benefits WG	-	1,275	-	<b>1,275</b>	-	1,275	-	<b>1,275</b>	<b>2,550</b>
Finance WG	1,275	-	-	<b>1,275</b>	1,275	-	-	<b>1,275</b>	<b>2,550</b>
Gen. Availability WG	1,030	-	-	<b>1,030</b>	-	-	-	-	<b>1,030</b>
Generation WG	-	-	800	<b>800</b>	-	-	-	-	<b>800</b>
Market Overview Class	-	-	11,000	<b>11,000</b>	11,000	-	-	<b>11,000</b>	<b>22,000</b>
Markets WG	5,100	5,100	5,100	<b>15,300</b>	5,100	5,100	5,100	<b>15,300</b>	<b>30,600</b>
Members	-	-	-	-	5,000	-	-	<b>5,000</b>	<b>5,000</b>
Model Development WG	-	-	-	-	-	800	-	<b>800</b>	<b>800</b>
Operating Reliability WG	2,375	-	2,375	<b>4,750</b>	-	2,375	-	<b>2,375</b>	<b>7,125</b>
Operational Data WG	-	-	-	-	1,275	-	-	<b>1,275</b>	<b>1,275</b>
Operational Model Devel. WG	-	-	1,275	<b>1,275</b>	-	-	1,275	<b>1,275</b>	<b>2,550</b>
Strategic Planning Task Force	2,375	-	2,375	<b>4,750</b>	-	2,375	-	<b>2,375</b>	<b>7,125</b>
System Operators WG	-	-	-	-	-	-	-	-	-
System Protection & Con. WG	800	-	-	<b>800</b>	-	800	-	<b>800</b>	<b>1,600</b>
Task Forces	1,500	1,500	1,500	<b>4,500</b>	1,500	1,500	500	<b>3,500</b>	<b>8,000</b>
Trans. Assessment WG	-	1,275	-	<b>1,275</b>	1,275	-	-	<b>1,275</b>	<b>2,550</b>
Webcasts	1,000	1,000	1,000	<b>3,000</b>	1,000	1,000	-	<b>2,000</b>	<b>5,000</b>
XML Class	-	-	-	-	-	12,000	-	<b>12,000</b>	<b>12,000</b>
<b>TOTAL</b>	<b>18,855</b>	<b>15,600</b>	<b>25,425</b>	<b>59,880</b>	<b>36,275</b>	<b>27,225</b>	<b>9,075</b>	<b>72,575</b>	<b>132,455</b>
2003 Original Budget				<b>35,195</b>				<b>35,605</b>	<b>70,800</b>
2002 Actual				<b>12,004</b>				<b>57,605</b>	<b>69,609</b>
2001 Actual				<b>32,406</b>				<b>31,978</b>	<b>64,384</b>

Key Points:

- Meeting expenses were estimated by individuals facilitating the meetings.
- Two classes for customer preparation (Market Overview, XML) of implementation of energy markets in SPP will occur during the second half of 2003.

# Communications

## Category 6

Line Item	July	August	September	Third Quarter	October	November	December	Fourth Quarter	Total
<b>INTERNET</b>									
Primary Internet Service	2,500	2,500	2,500	7,500	2,500	2,500	2,500	7,500	15,000
Secondary Internet Service	2,000	2,000	2,000	6,000	2,000	2,000	2,000	6,000	12,000
Employee Internet Service	3,800	3,800	3,800	11,400	3,800	3,800	3,800	11,400	22,800
Subtotal	8,300	8,300	8,300	24,900	8,300	8,300	8,300	24,900	49,800
<b>OFFICE</b>									
Local Phone Service, LR Office	5,500	5,500	5,500	16,500	5,500	5,500	5,500	16,500	33,000
Remote LAN Access/MCI RLD	2,700	2,700	2,700	8,100	2,700	2,700	2,700	8,100	16,200
Local Phone Serv., Backup Site	550	550	550	1,650	550	550	550	1,650	3,300
Audio Conferencing	5,000	5,000	5,000	15,000	5,000	5,000	5,000	15,000	30,000
Long Distance Service	4,500	4,500	4,500	13,500	4,500	4,500	4,500	13,500	27,000
Video Teleconferencing	5,000	5,000	5,000	15,000	5,000	5,000	5,000	15,000	30,000
Cellular Service	4,400	4,400	4,400	13,200	4,400	4,400	4,400	13,200	26,400
Pagers	-	-	-	-	-	-	-	-	-
Satellite Phone Services	200	200	200	600	200	200	200	600	1,200
Cable TV	65	65	65	195	65	65	65	195	390
Badging Supplies	700	-	-	700	-	-	-	-	700
Video Surveillance	300	-	-	300	-	-	-	-	300
Subtotal	28,915	27,915	27,915	84,745	27,915	27,915	27,915	83,745	168,490
<b>PHONE EQUIPMENT</b>									
Phone Sets	1,375	-	-	1,375	1,375	-	-	1,375	2,750
Phone System Upgrade	7,000	-	-	7,000	-	-	-	-	7,000
Voice Mail Upgrade	5,000	-	-	5,000	-	-	-	-	5,000
Telephone Headsets	700	-	-	700	700	-	-	700	1,400
Subtotal	14,075	-	-	14,075	2,075	-	-	2,075	16,150
<b>NERC REQUIRED</b>									
NERC Net/Redundant NERCNET	1,500	1,500	1,500	4,500	1,500	1,500	1,500	4,500	9,000
Redundant NERCNET Circuit	1,500	1,500	1,500	4,500	1,500	1,500	1,500	4,500	9,000
Subtotal	3,000	3,000	3,000	9,000	3,000	3,000	3,000	9,000	18,000

	<u>July</u>	<u>August</u>	<u>September</u>	<u>Third Quarter</u>	<u>October</u>	<u>November</u>	<u>December</u>	<u>Fourth Quarter</u>	<u>Total</u>
<b>SPP WAN</b>									
Frame Relay Networks	66,666	66,667	66,667	<b>200,000</b>	66,666	66,667	66,667	<b>200,000</b>	<b>400,000</b>
Redundant Frame Relay Networks	33,333	33,333	33,334	<b>100,000</b>	33,333	33,333	33,334	<b>100,000</b>	<b>200,000</b>
Backhaul Redundant Access	4,000	4,000	4,000	<b>12,000</b>	4,000	4,000	4,000	<b>12,000</b>	<b>24,000</b>
Remote SmartNet Support	24,000	-	-	<b>24,000</b>	-	-	-	<b>-</b>	<b>24,000</b>
Subtotal	127,999	104,000	104,001	<b>336,000</b>	103,999	104,000	104,001	<b>312,000</b>	<b>648,000</b>
<b>TOTAL</b>	<b>182,289</b>	<b>143,215</b>	<b>143,216</b>	<b>468,720</b>	<b>145,289</b>	<b>143,215</b>	<b>143,216</b>	<b>431,720</b>	<b>900,440</b>
2003 Original Budget				<b>376,980</b>				<b>376,980</b>	<b>753,960</b>
2002 Actual				<b>188,606</b>				<b>349,095</b>	<b>537,701</b>
2001 Actual				<b>179,982</b>				<b>170,283</b>	<b>350,265</b>

Key Points:

- Internet Expenses include primary and back-up service, as well as home internet service for key IT staff to remotely evaluate and repair system difficulties.
- Office Expenses include local phone service, remote phone access, audio and video conferencing, long distance service and cellular service.
- Pager service is paid for annually in the first quarter.
- Phone Equipment includes purchase of phone sets and accessories for new employees, as well as incremental upgrades for the phone and email systems.
- NERC Required covers SPPNet monthly charges for being connected to the NERC security system.
- SPP WAN covers fees for SPPNet monthly service.

## Capital/Operating Leases and Maintenance

### Category 7

Line Item	July	August	September	Third Quarter	October	November	December	Fourth Quarter	Total
<b>ADMINISTRATION</b>									
Copier	6,620	6,620	6,620	19,860	6,620	6,620	6,620	19,860	39,720
Office Space - LR	47,726	47,726	47,726	143,178	47,726	47,726	47,726	143,178	286,356
Office Space - Ohio	-	-	-	-	-	-	-	-	-
Payment on Note - Principal	-	-	-	-	-	-	-	-	-
Payment on Note - Interest	156,250	156,250	156,250	468,750	156,250	156,250	156,250	468,750	937,500
Postage Meter	-	-	-	-	-	-	-	-	-
Subtotal Administration	210,596	210,596	210,596	631,788	210,596	210,596	210,596	631,788	1,263,576
<b>INFORMATION TECHNOLOGY</b>									
<b>Maintenance</b>									
SC Hardware	500	-	-	500	500	-	-	500	1,000
Compaq (EMS)	-	-	-	-	-	-	-	-	-
Mapboard	400	-	-	400	400	-	-	400	800
Time & Materials	700	-	-	700	700	-	-	700	1,400
Printer Maintenance	500	500	600	1,600	500	500	600	1,600	3,200
Air Conditioning	3,875	3,875	-	7,750	-	-	-	-	7,750
UPS Replacements	1,000	1,000	1,000	3,000	1,000	1,000	1,000	3,000	6,000
UPS Replacements SPP/CR	10,000	-	-	10,000	-	-	-	-	10,000
EMS Workstation Upgrades	-	-	-	-	-	-	-	-	-
Subtotal	16,975	5,375	1,600	23,950	3,100	1,500	1,600	6,200	30,150
<b>Maintenance - Software</b>									
Red Hat Subscription	-	-	-	-	500	-	-	500	500
Siebel	-	-	-	-	-	-	52,000	52,000	52,000
Lodestar	-	-	-	-	-	-	102,000	102,000	102,000
Subtotal	-	-	-	-	500	-	154,000	154,500	154,500
<b>OASIS</b>									
Digital Certificates	1,666	1,666	1,666	4,998	1,666	1,666	1,666	4,998	9,996
Subtotal	1,666	1,666	1,666	4,998	1,666	1,666	1,666	4,998	9,996
Subtotal Information Technology	18,641	7,041	3,266	28,948	5,266	3,166	157,266	165,698	194,646
<b>TOTAL</b>	<b>229,237</b>	<b>217,637</b>	<b>213,862</b>	<b>660,736</b>	<b>215,862</b>	<b>213,762</b>	<b>367,862</b>	<b>797,486</b>	<b>1,458,222</b>
2003 Original Budget				668,576				651,076	1,319,652
2002 Actual				856,443				617,495	1,473,938
2001 Actual				629,297				621,186	1,250,483

#### Key Points:

- Office Space in Little Rock will remain at current levels.
- Office Space in Ohio will be eliminated since the functions of this remote location will be brought into Little Rock effective 6/1/03.
- Maintenance in the Information Technology is based upon historical figures.
- Annual maintenance fees on Lodestar and Siebel software (associated with the market system) will be paid in the fourth quarter.

# Capital Expenditures

## Category 8

Line Item	July	August	September	Third Quarter	October	November	December	Fourth Quarter	Total
<b>ADMINISTRATION</b>									
Furniture	30,000	20,000	10,000	60,000	20,000	10,000	10,000	40,000	100,000
New Accounting Platform			30,000	30,000				-	30,000
Subtotal Administration	30,000	20,000	40,000	90,000	20,000	10,000	10,000	40,000	130,000
<b>CORPORATE AFFAIRS</b>									
Software	1,800	-	-	1,800	-	-	-	-	1,800
Subtotal Corporate Affairs	1,800	-	-	1,800	-	-	-	-	1,800
<b>ENGINEERING</b>									
Additional PTI PSS/E	500	-	-	500	500	-	-	500	1,000
Additional PTI MUST	500	-	-	500	500	-	-	500	1,000
Engineering Database	-	-	25,000	25,000	-	-	25,000	25,000	50,000
Software Upgrades	-	3,000	-	3,000	-	3,000	-	3,000	6,000
Software (AutoCAD/TEXTPA)	-	-	1,000	1,000	-	-	1,000	1,000	2,000
Subtotal Engineering	1,000	3,000	26,000	30,000	1,000	3,000	26,000	30,000	60,000
<b>INFORMATION TECHNOLOGY</b>									
<b>Office</b>									
New Employee PC's	32,000	-	8,000	40,000	4,000	-	-	4,000	44,000
PC Replacements	11,500	11,500	11,500	34,500	11,500	11,500	11,500	34,500	69,000
Hdwe/Cables/Etc.	1,000	1,000	1,000	3,000	1,000	1,000	1,000	3,000	6,000
Conference Phones	3,000	-	-	3,000	3,000	-	-	3,000	6,000
SW Licenses	34,000	34,000	34,000	102,000	34,000	34,000	34,000	102,000	204,000
Backup Tapes	3,000	3,000	3,000	9,000	3,000	3,000	3,000	9,000	18,000
Server Upgrades	134,000	-	-	134,000	-	-	-	-	134,000
Intel Switch Replacement	43,000	-	-	43,000	-	-	-	-	43,000
Cyber Authentication	10,000	-	-	10,000	-	-	-	-	10,000
Subtotal	271,500	49,500	57,500	378,500	56,500	49,500	49,500	155,500	534,000
<b>Security Center</b>									
Implement Emergency Backup	200,000	-	-	200,000	200,000	-	-	200,000	400,000
Subtotal	200,000	-	-	200,000	200,000	-	-	200,000	400,000

	<u>July</u>	<u>August</u>	<u>September</u>	<u>Third Quarter</u>	<u>October</u>	<u>November</u>	<u>December</u>	<u>Fourth Quarter</u>	<u>Total</u>
<b>Miscellaneous</b>									
Incremental PC Upgrades	525	525	525	1,575	525	525	525	1,575	3,150
Generator Repair	4,000	-	-	4,000	-	-	-	-	4,000
Reference Manuals	175	175	175	525	175	175	175	525	1,050
Subtotal	4,700	700	700	6,100	700	700	700	2,100	8,200
<b>Market Capital Requirements</b>									
Hardware	470,000	-	-	470,000	-	-	-	-	470,000
Subtotal	470,000	-	-	470,000	-	-	-	-	470,000
Subtotal Information Technology	946,200	50,200	58,200	1,054,600	257,200	50,200	50,200	357,600	1,412,200
<b>TOTAL</b>	<b>979,000</b>	<b>73,200</b>	<b>124,200</b>	<b>1,176,400</b>	<b>278,200</b>	<b>63,200</b>	<b>86,200</b>	<b>427,600</b>	<b>1,604,000</b>
2003 Original Budget				45,125				43,125	88,250
2002 Actual				364,655				333,000	697,655
2001 Actual				827,021				191,599	1,018,620

Key Points:

- Furniture includes accommodations for new employees, as well as some modification of existing offices spaces.
- A new accounting software platform will be acquired in the third quarter to replace the existing QuickBooks system.
- Engineering Database covers the implementation of a new system.
- New Employee PC's are budgeted to provide workstations for new hires (does not include operators since they are located in the Control Room).
- PC Replacements accounts for incremental workstation replacement in regular rotation (life of a PC is generally considered at least 3 years). Upon replacement, PC's are used for training machines.
- Software Licenses includes purchases of new software and upgrading software and licenses.
- Server Upgrade includes incremental replacement of servers providing critical services.
- Intel Switch Replacement covers replacement of switch for communications systems.
- Cyber Authentication covers expenses for RSA remote system authentication.
- Implement Emergency Backup covers implementation of Phase 2 of the Disaster Recovery Site Plan to equip the remote operations center with critical backup systems. Currently the remote operations center must access systems in the main SPP offices, this project will provide independent, redundant systems at the remote location.
- Replacement hardware to support implementation of an Energy Market in SPP is budgeted for purchase at a total of \$470,000. This amount is estimated in accordance with CMSWG/MSWG recommendation of a staged implementation schedule (Option 5) for an Energy Market. With the termination of the 2001 market implementation project, hardware that was previously purchased has been used for other purposes. Replacement of all imbalance energy market hardware is estimated to approach \$4 million and is expected to be incurred in 2004.



## Outside Services

### Category 9

Line Item	<u>July</u>	<u>August</u>	<u>September</u>	<u>Third Quarter</u>	<u>October</u>	<u>November</u>	<u>December</u>	<u>Fourth Quarter</u>	<u>Total</u>
<b>ADMINISTRATION</b>									
Consulting - Benefits	300	2,100	70,300	<b>72,700</b>	4,300	2,100	300	<b>6,700</b>	<b>79,400</b>
Consulting - Accounting	400	400	400	<b>1,200</b>	400	400	400	<b>1,200</b>	<b>2,400</b>
Payroll Administration	1,000	-	-	<b>1,000</b>	1,000	-	-	<b>1,000</b>	<b>2,000</b>
Savings Plan 401(k)	4,000	1,000	1,000	<b>6,000</b>	10,000	1,000	1,000	<b>12,000</b>	<b>18,000</b>
Outside Training	5,000	-	5,000	<b>10,000</b>	5,000	5,000	-	<b>10,000</b>	<b>20,000</b>
Compliance	21,000	21,000	21,000	<b>63,000</b>	21,000	21,000	21,000	<b>63,000</b>	<b>126,000</b>
MAPPCOR Services	4,000	-	-	<b>4,000</b>	-	-	60,000	<b>60,000</b>	<b>64,000</b>
Subtotal	<b>35,700</b>	<b>24,500</b>	<b>97,700</b>	<b>157,900</b>	<b>41,700</b>	<b>29,500</b>	<b>82,700</b>	<b>153,900</b>	<b>311,800</b>
<b>CORPORATE AFFAIRS</b>									
Training Development	-	-	-	-	100,000	-	-	<b>100,000</b>	<b>100,000</b>
Subtotal	-	-	-	-	<b>100,000</b>	-	-	<b>100,000</b>	<b>100,000</b>
<b>ENGINEERING</b>									
Impact Studies	25,000	25,000	25,000	<b>75,000</b>	25,000	25,000	25,000	<b>75,000</b>	<b>150,000</b>
Subtotal	<b>25,000</b>	<b>25,000</b>	<b>25,000</b>	<b>75,000</b>	<b>25,000</b>	<b>25,000</b>	<b>25,000</b>	<b>75,000</b>	<b>150,000</b>
<b>INFORMATION TECHNOLOGY</b>									
Network (router) Consulting	10,000	-	-	<b>10,000</b>	-	-	-	-	<b>10,000</b>
Computer Consulting	8,333	8,333	8,333	<b>24,999</b>	8,333	8,333	8,333	<b>24,999</b>	<b>49,998</b>
RTO_SS Runtime/OATI Scheduling	28,945	28,945	28,945	<b>86,835</b>	28,945	28,945	28,945	<b>86,835</b>	<b>173,670</b>
OATI Change Orders	8,333	8,333	8,333	<b>24,999</b>	8,333	8,333	8,333	<b>24,999</b>	<b>49,998</b>
Secure Vision Support	1,000	-	-	<b>1,000</b>	1,000	-	-	<b>1,000</b>	<b>2,000</b>
CISCO Consulting Fees	20,000	-	-	<b>20,000</b>	-	-	-	-	<b>20,000</b>
OASIS Modifications	100,000	-	-	<b>100,000</b>	-	-	-	-	<b>100,000</b>
Consulting	10,000	-	-	<b>10,000</b>	5,000	-	-	<b>5,000</b>	<b>15,000</b>
Weather Forecast	1,700	1,700	1,700	<b>5,100</b>	1,700	1,700	1,700	<b>5,100</b>	<b>10,200</b>
Map Physical Facilities	2,000	-	-	<b>2,000</b>	-	-	-	-	<b>2,000</b>
COS Operations	120,000	120,000	120,000	<b>360,000</b>	120,000	120,000	120,000	<b>360,000</b>	<b>720,000</b>
Subtotal	<b>310,311</b>	<b>167,311</b>	<b>167,311</b>	<b>644,933</b>	<b>173,311</b>	<b>167,311</b>	<b>167,311</b>	<b>507,933</b>	<b>1,152,866</b>
<b>OPERATIONS</b>									
OASIS Automation	30,000	30,000	30,000	<b>90,000</b>	30,000	30,000	30,000	<b>90,000</b>	<b>180,000</b>
Subtotal	<b>30,000</b>	<b>30,000</b>	<b>30,000</b>	<b>90,000</b>	<b>30,000</b>	<b>30,000</b>	<b>30,000</b>	<b>90,000</b>	<b>180,000</b>

	<u>July</u>	<u>August</u>	<u>September</u>	<u>Third Quarter</u>	<u>October</u>	<u>November</u>	<u>December</u>	<u>Fourth Quarter</u>	<u>Total</u>
<b>REGULATORY</b>									
Legal	12,500	12,500	62,500	87,500	12,500	12,500	12,500	37,500	125,000
Subtotal	12,500	12,500	62,500	87,500	12,500	12,500	12,500	37,500	125,000
<b>TOTAL</b>	<b>413,511</b>	<b>259,311</b>	<b>382,511</b>	<b>1,055,333</b>	<b>382,511</b>	<b>264,311</b>	<b>317,511</b>	<b>964,333</b>	<b>2,019,666</b>
2003 Original Budget				776,585				776,585	1,553,170
2002 Actual				1,994,418				1,484,000	3,478,418
2001 Actual				404,088				445,846	849,934

Key Points:

- Consulting – Benefits includes actuarial services in support of the Pension Plan, Retiree Medical Coverage and Vacation Funds; as well as a Salary Survey.
- Savings Plan 401(k) covers fees paid to Principal for management of 401(k).
- Outside Training covers staff development and training courses facilitated by Human Resources.
- Compliance covers costs to perform NERC Compliance audits.
- MAPPCOR Services covers pro-rata costs incurred in the formation of the MRO in connection with the MISO merger.
- Training Development covers third party development of training materials in support of implementation of an Energy Market.
- Impact Studies reflects costs associated with performing studies for members. These costs are recovered through the "Miscellaneous Income" budget category.
- Computer Consulting covers costs associated with adhoc programming for system modifications.
- RTO\_SS Runtime/OATI Scheduling covers contractual monthly service fee.
- OATI Change Orders covers software modifications.
- CISCO Consulting provides telecommunications expertise provided by Pomeroy.
- OASIS Modifications covers software modifications.
- COS Operations covers support of the customer service portal by Accenture.
- OASIS Automation covers fees for system modifications for ATC calculations.
- Legal Fees (Regulatory) covers FERC filings and counsel, including \$50,000 for an RTO filing in September.

## Miscellaneous Income

### Category 10

Line Item	<u>July</u>	<u>August</u>	<u>September</u>	<u>Third Quarter</u>	<u>October</u>	<u>November</u>	<u>December</u>	<u>Fourth Quarter</u>	<u>Total</u>
<b>MISCELLANEOUS INCOME</b>									
AEP	65,000	65,000	65,000	<b>195,000</b>	65,000	65,000	65,000	<b>195,000</b>	<b>390,000</b>
Impact Studies	60,000	60,000	60,000	<b>180,000</b>	60,000	60,000	60,000	<b>180,000</b>	<b>360,000</b>
<b>TOTAL</b>	<b>125,000</b>	<b>125,000</b>	<b>125,000</b>	<b>375,000</b>	<b>125,000</b>	<b>125,000</b>	<b>125,000</b>	<b>375,000</b>	<b>750,000</b>
2003 Original Budget				<b>125,000</b>				<b>125,000</b>	<b>250,000</b>
2002 Actual				<b>1,088,930</b>				<b>353,625</b>	<b>1,442,555</b>
2001 Actual				<b>366,671</b>				<b>433,680</b>	<b>800,351</b>

Key Points:

- AEP Miscellaneous Income represents income from SPP providing security coordination and reliability to AEP as dictated by FERC as a condition of the merger of AEP and CSW.
- Impact Studies applies to income received from members for SPP to perform studies. Costs associated with this income are captured in Outside Services – Impact Studies.

**Southwest Power Pool  
Finance Working Group Recommendation  
To the Board of Directors  
June 24, 2003**

**Repayment of Member Overpayments**

In June 1998, Southwest Power Pool (SPP) implemented the SPP Open Access Transmission Tariff (OATT) that was intended to recover sixty percent of SPP's expenses. The recovery percentage was revised to 75% in February 1999 and then 80% in February 2000. To date, schedule 1-A fees from the OATT have not met the recovery threshold. SPP has been tracking the amount of under recovery or member overpayment since the inception of the regional tariff. This "member overpayment" is not a part of the SPP Balance Sheet as there is not a documented obligation or debt indicating that SPP has this liability to repay its members. However, this obligation continues to be tracked and as of December 2002 is \$20.9 million.

At the June 13<sup>th</sup> meeting of the Finance Working Group, SPP staff discussed the potential revisions to the SPP Bylaws impacting the methodology used by SPP to assess the membership for SPP's expenses. The change in assessment methodology would eliminate future "member overpayment" accruals.

On June 13, 2003 the Finance Working Group chaired by Harry Skilton and consisting of Dick Dixon, Gene Argo, Jim Eckelberger and John Marschewski met by conference call to discuss methods to refund to the membership these accrued overpayments. Their recommendation to the Board is as follows:

**Borrow From Financial Institution to Repay Members Overpayment**

Borrow the entire member overpayment amount and provide immediate payment to current and former members of SPP.

**PROS**

- The payment to current members will financially assist them with the new assessment methodology. Several members will experience an immediate and substantial increase in their ongoing assessments from SPP, which may or may not have been previously budgeted.
- Settles the issue of member repayment immediately.
- Formalizes historical expenditures associated with start-up of tariff operations, members joining in the future will be required to support repayment of this obligation.
- Member's pro-rata obligation of additional debt is not significant for the vast majority of SPP members.

**CONS**

- Increased expense associated with obtaining and servicing additional debt obligation.
- Increased leverage may limit SPP access to capital in the future.
- Member's withdrawal obligation increase.

**Recommendation**

The Finance Working Group recommends the approval for SPP to arrange sufficient financing to fully repay the accrued member overpayments

**Approved:** Finance Working Group  
**Action Requested:** Approve Recommendation

06/13/2003

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

WHEREAS, Southwest Power Pool, Inc. (the "Company") desires to repay membership overpayments made to the Company; and

WHEREAS, it has been determined that long-term financing in the approximate amount of \$23 million will be required to effect this plan;

NOW, THEREFORE, it is hereby:

RESOLVED, that the President and the Secretary of the Company are (is) hereby authorized for and on behalf of the Company to negotiate such terms and conditions for the financing as said officers may deem best, and to execute and deliver for and on behalf of the Company agreements, modification agreements and such other instruments or written obligations of this Company as may be desired or required in connection with the financing and containing such terms and conditions as may be acceptable to either of said officers, such acceptance and agreement to be conclusively evidenced by both of said officer's execution and delivery thereof;

FURTHER RESOLVED, that both of said officers are authorized and empowered to do or cause to be done all such acts or things and to sign and deliver or cause to be signed and delivered, all such documents, instruments and certificates (including, without limitation, any and all notices and certificates required or permitted to be given or made under the terms of any of the instruments executed on behalf of the Company in connection with the financing), in the name and on behalf of the Company or otherwise, as both of said officers, in their joint discretion, may deem necessary, advisable or appropriate to effectuate or carry out the purposes and intent of the foregoing Resolutions and to perform the obligations of the Company under all instruments executed on behalf of the Company in connection with the financing;

APPROVED as of June 24, 2003.

\_\_\_\_\_  
Chair

ATTEST:

\_\_\_\_\_  
Secretary

## Southwest Power Pool

Case: Option 1 – Borrow Members Overpayment

File: SPP Projections-Borrow

Date: 13-Jun-03

### RATIO ANALYSIS

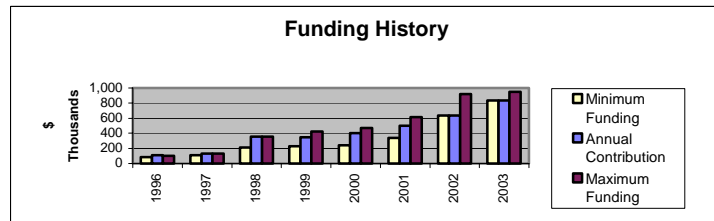
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	Projected <u>2006</u>
<b><u>DEBT COVERAGE</u></b>						
EBIT/Interest	(0.88)	(1.99)	(0.80)	2.89	5.32	5.30
EBITDA/Interest+CMLTD	0.43	(0.04)	0.43	1.35	1.94	1.77
EBITDA/Int+CMLTD+Taxes+Capex	0.43	(0.04)	0.36	1.00	1.00	1.00
EBITDAR/Int+CMLTD+Rents+Taxes+Capex	0.43	(0.04)	0.36	1.00	1.00	1.00
<b><u>LEVERAGE</u></b>						
Senior Debt/EBITDA	N/A	N/A	11.45	3.00	1.80	1.62
Senior Debt/Capitalization	N/A	N/A	234.10%	220.54%	158.73%	121.49%
Total Debt/Tangible Net Worth	5.82	282.04	(1.75)	(1.83)	(2.70)	(5.65)

**Employee Benefits Working Group  
2003 Annual Expenses for  
SPP Retirement Plan and Retiree Medical Benefit  
Recommendation to the Board of Directors**

**BACKGROUND**

The SPP Employee Benefits Working Group (EBWG) is charged to review and recommend to the SPP Board of Directors the annual SPP Retirement Plan and Retiree Medical Coverage expense.

In the 2003 approved budget that assumed merger completion in July, 2003, SPP budgeted to contribute \$637,044 to the SPP Retirement Fund, based on netting zero additions to the staff in 2002 for a year-end total of 110. The SPP actuary computed the 2003 minimum and maximum contribution requirements at \$836,662 and \$948,884 respectively. The contribution levels have increased over last year as the previous credits SPP had



built up by contributing more than the minimums were exhausted by contributing at the minimum in 2002. The actuary assumes assets earn 7% per year, yet the investment return for 2002 was -11.2% and the assets on December 31<sup>st</sup>, 2002 were \$388,000 below the expected amount. This results in increasing the contribution by \$26,000. As a percentage of covered salary, the maximum contribution level for 2003 (11.39%) is about the same for 2003 (11.45%).

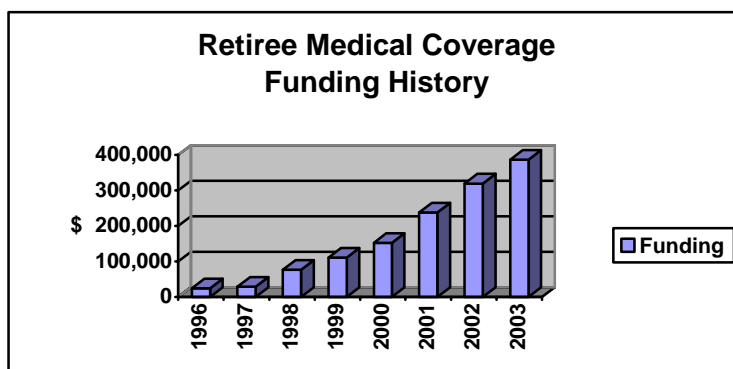
The total liability, if the plan were terminated on January 1, 2003, is estimated to be \$2,842,000, which compares to assets of \$2,207,000 on Dec 31, 2002. During the year 2003 the employees are estimated to accrue additional benefits of \$650,000, therefore estimating the total liability of \$3,492,000 at the end of 2003.

These numbers do not include the value of the subsidized early retirement feature, which applies when an active employee retires after age 55. It does not apply when an employee terminates before age 55. The current value of this subsidy, assuming that it would apply to everyone who currently has ten or more years of service, is about \$1,000,000.

The EBWG recommends a 2003 contribution level of \$836,662 for the SPP Retirement Plan.

In 2002, the Board approved a contribution of \$637,022 to the Plan.

In 1995, the Board of Directors approved retiree medical coverage for the SPP employees who retire at their Normal Retirement Date as defined in the SPP Retirement Plan. The benefit covers all SPP employees who retired at their normal retirement age. The Board also approved



those employees of record on January 1, 1996 could retire early after the age of 55 with medical benefits. The early retirement medical coverage was not specifically funded.

The SPP actuary computed the 2003 net periodic post retirement benefit cost to be \$386,306. This computation is based on a 7% discount rate, and a 7% investment return on plan assets, and retirement at age 65. The health care cost trend was assumed to increase an average of 8% for 5 years and 5% thereafter.

In the 2003 approved budget that assumed merger completion in July 2003, \$319,437 is budgeted for retiree medical coverage. In 2002 the Board approved a \$319,437 funding level for this benefit.

## RECOMMENDATION

Approve the 2003 funding of \$836,662 for the SPP Retirement Plan and \$386,306 for the retiree medical benefit for all SPP employees.

**Approved:**

**Employee Benefits Working Group**

**05/21/03**

**Action Requested:**

**Approve Recommendation**



**Employee Benefits Working Group  
Changes to SPP Savings 401(k) Plan  
Recommendation to the Board of Directors**

**Background**

The SPP Savings 401(k) plan has a loan provision that is administered by the loan administrator. In 2000 the Board approved changes in defining the loan administrator and trustees of the Savings Plan to be named positions instead of named individuals. The approved changes were for loan administrator to be "Human Resources Generalist" and "Human Resources System Analyst." The plan trustees were changed to President, Director of Corporate Services, Human Resource Generalist, and Human Resources Systems Analyst.

**Analysis**

Since 2000 the organization of SPP has changed such that by the end of the second quarter of 2003, the Director, Corporate Services and Human Resources System Analyst positions will no longer exist. In addition the trustees of the plan should be officers of the company due to the fiscal responsibility of the plan. Therefore, the EBWG is recommending changing the loan administrator to named positions of Manager, Accounting and Human Resources Generalist II. In addition, changing the trustees to positions of President and Senior Vice President and Corporate Secretary.

**RECOMMENDATION**

The Employee Benefit Working Group recommends the approval to 1) changing the trustees for the SPP Savings Plan in Section T (1) "Investment" of the plan document to President and Senior Vice President and Corporate Secretary; 2) modifying the loan administrator to Manager, Accounting and Human Resources Generalist II in Section T (1) (b) (iii).

**Approved: Employee Benefits Working Group**

**05/21/2003**

**Action Requested: Approve Recommendation**