

**Southwest Power Pool
BOARD OF DIRECTORS MEETING
Teleconference Minutes
February 19, 2004**

Agenda Item 1 - Administrative Items

SPP Chair Mr. Al Strecker called the meeting to order at 9:04 a.m. and thanked everyone present for attending. The following Board members were in attendance or represented by proxy:

Ms. Phyllis Bernard, independent director,
Mr. Nick Brown, Southwest Power Pool
Mr. David Christiano, City Utilities of Springfield, MO,
Mr. Harry Dawson, Oklahoma Municipal Power Authority,
Mr. Michael Deihl, Southwestern Power Administration,
Mr. Jim Eckelberger, independent director,
Ms. Trudy Harper, Tenaska Power Services Company,
Mr. Doug Henry, Westar Energy,
Mr. Quentin Jackson, independent director,
Mr. Joshua Martin, independent director,
Mr. Mike Palmer, Empire District Electric Co.,
Mr. Stephen Parr, Kansas Electric Power Coop.,
Mr. Gary Roulet, Western Farmers Electric Cooperative,
Mr. Robert Schoenberger, independent director,
Mr. Harry Skilton, independent director,
Mr. Richard Spring, Kansas City Power & Light,
Mr. Jim Stanton, Calpine Energy Services,
Mr. Al Strecker, OG+E,
Mr. Michael Desselle, proxy for Mr. Richard Verret, American Electric Power,
Mr. Gary Voigt, Arkansas Electric Cooperative Corp.,
Mr. Walt Yeager, Cinergy Services

SPP Staff included Carl Monroe, Tom Dunn and Stacy Duckett. Guests participating included Carl Huslig (Aquila), Mel Perkins (OG+E), Shah Hossain and Tom Stuchlik (Westar), Seth Brown (ETXC), Bill Clark (The Energy Authority), Ricky Bittle (AECC), Ed Farrar and Karen Forbes (OCC), Sam Loudenslager and Pat Mosier (APSC), and Bary Warren (Empire). The secretary received one proxy statement (Proxy – Attachment 1) and a quorum was declared.

Agenda Item 2 - SPP Market Recommendation

Mr. Nick Brown presented SPP Staff's recommendation and background information regarding market expenditures (Market Recommendation – Attachment 2). Mr. Brown explained that approval is needed from the Board of Directors to expend the funds necessary to continue the market implementation project. Mr. Brown stated that specific Board of Directors approval would also be required prior to executing new long-term borrowing arrangements. Mr. Brown made the following motion:

The SPP Staff recommends that the Board of Directors release the 2004 budgeted funds required to resume the Energy Imbalance and Market Monitoring/Mitigation components of the market implementation project.

During considerable discussion, many directors expressed hesitancy to release the funds without benefit of the Strategic Planning Committee's recommendations related to FERC's RTO order and more fully understanding its related conditions. In light of expecting those recommendations in mid-March, Mr. Brown withdrew the motion and stated that it would be packaged with the SPC RTO compliance actions.

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Future Meetings

The next Board of Directors meeting is Tuesday, March 16, 2004 in Dallas, Texas at the DFW Hyatt Regency Hotel from 10:00 a.m. to 4:00 p.m.

Adjournment

With no further business, Mr. Strecker thanked everyone for participating and adjourned the teleconference at 10:15 a.m.

Stacy Duckett, Corporate Secretary

Subject: SPP Board of Directors meetings

From: rpverret@aep.com [mailto:rpverret@aep.com]
Sent: Wednesday, February 18, 2004 1:32 PM
To: Stacy Duckett
Cc: Desselle, Michael
Subject: Re: SPP Board of Directors meetings- Responses Requested

Stacy, I will not be able to participate in tomorrow's conference call but Michael Desselle will on the call and will carry the AEP proxy.

**Southwest Power Pool
STAFF RECOMMENDATION
Board of Directors Teleconference Meeting
February 19, 2004**

Background

At its October 28, 2003 meeting, the SPP Board of Directors approved a 2004 administrative budget as summarized below, with the requirement that authority to expend funds for items identified in the budget as Imbalance Energy expenditures, Market Monitoring/ Mitigation expenditures, and Congestion Management expenditures be subject to future specific approval of the SPP Board of Directors, following an affirmative order from the Federal Energy Regulatory Commission on SPP's RTO application.

	<u>Operating</u>	<u>Capital</u>
Base Operations	\$ 28,593,156	\$ 3,036,804
Imbalance Energy	9,034,497	5,052,455
Market Monitoring/Mitigation	620,629	3,000,000
Congestion Management	84,000	4,800,000

Upon approval from the Board of Directors to expend the funds necessary to continue the market implementation project, the Finance Working Group and SPP Staff were authorized to negotiate with lenders to arrange suitable financing to fund 2004's capital expenditures. Specific Board of Directors approval will be required prior to executing new long-term borrowing arrangements.

Analysis

On February 10, 2004, the Federal Energy Regulatory Commission (the "Commission") issued an affirmative order in the SPP RTO filing docket. Included in the order is a condition that SPP have an Independent Market Monitor (IMM) in place as a prerequisite to obtain RTO recognition from the Commission. Although the IMM would initially have a role limited to analysis, the anticipation from the Commission is that this IMM would provide a much-expanded role in the establishment and monitoring of the Imbalance Market and cost-benefit studies for the subsequent markets. SPP organizational groups have been diligently working and have developed and issued a Request For Proposal for an IMM, recognizing the need to involve an IMM in design of procedures and systems implemented in Phase 1 of the markets project. Several vendors have indicated interest in providing this function and a Board level Task Force is being formed to select the vendor for an IMM (the IMM Selection Task Force).

In addition, the Commission accepted SPP's commitment for a phased implementation of its Energy Imbalance Market (which satisfies the requirements of Order No. 2000 for Day 1 Operation of an RTO), and to fulfill its commitment to "complete its proposed plan for ... an energy imbalance market". The Commission also stated that this plan furthered their goal of establishing efficient reliable markets throughout the region.

There are several consequences of the delay in receiving this order that carry a financial impact. First, SPP has not expended funds that were budgeted in 2003 (approximately \$500,000) that are required to implement the Board approved plan. Second, the schedule for implementation cannot be met based on the lack of major work that was required in late 2003/early 2004. SPP Staff has revisited these impacts and will work with the SPP organizational groups to provide an updated schedule and attempt to work within the 2004 budget based on this updated schedule.

Recommendation

The SPP Staff recommends that the Board of Directors release the 2004 budgeted funds required to resume the Energy Imbalance and Market Monitoring/Mitigation components of the market implementation project.

Action Requested: Approve the recommendation