



BOARD OF DIRECTORS MEETING and SPECIAL MEETING OF MEMBERS

April 26 - 27, 2004

The Westin Hotel – Oklahoma City, OK

• A G E N D A •

Monday, April 26

5:00 – 7:00 p.m.

Reception hosted by Oklahoma Corporation Commission Chairman Denise Bode at her home.

Tuesday, April 27

9:00 a.m. – 3:00 p.m.

(Continental Breakfast will be available at 8 a.m.)

Board of Directors Meeting

- 1. Administrative Items..... Mr. Al Strecker
- 2. President’s Report.....Mr. Nick Brown
- 3. Regional State Committee Report..... State Representatives
- 4. Strategic Planning Committee Report Mr. Richard Spring
- 5. Independent Market Monitor Selection Task Force Mr. Jim Stanton
- 6. Operations Policy Committee Report Mr. Mel Perkins
- 7. Corporate Governance Committee Report.....Mr. Nick Brown
- 8. Finance Working Group Report..... Mr. Harry Skilton

Adjourn for Special Meeting of Members

Special Meeting of Members

- 1. Administrative Items..... Mr. Al Strecker
- 2. Board of Directors Report Mr. Richard Spring
- 3. Corporate Governance Committee ReportMr. Nick Brown

**Southwest Power Pool
BOARD OF DIRECTORS MEETING
DFW Airport Hyatt Regency, Dallas, TX
March 16, 2004**

- Summary of Action Items -

1. Approved minutes of the January 27 and February 29, 2004 meetings.
2. Approved the Strategic Planning Committee's recommendations to comply with conditions in SPP's RTO order including:
 - 1) SPP staff should make a compliance filing in the RTO docket indicating compliance status with the conditions/issues noted by FERC and in accordance with the reports provided, as soon as possible following the April 27 Board of Directors meeting.
 - 2) Acceptance of the SPP Bylaws as presented, including an effective date of May 1, 2004.
 - 3) Acceptance of the SPP Membership Agreement as filed, including an effective date of May 1, 2004.
 - 4) The SPP Board of Directors should recommend for approval to the SPP Membership the revisions to Section 4.0 of the SPP Bylaws required by the compliance filing.
 - 5) In accordance with the revised Bylaws, the Corporate Governance Committee should be developed and convene for purposes of preparing:
 - a. Slates of candidates for the committees reporting to the Board of Directors to be nominated to the Board of Directors at its April 27 meeting; and
 - b. A slate of candidates for the Members Committee to be nominated to the Membership at its April 27 meeting.
 - c. Elections would be effective with the revised Bylaws (May 1).
 - 6) Release of the budgeted funds required to resume the Energy Imbalance and Market Monitoring/Mitigation components of the market implementation project, including authorization for the officers of the company to obtain proposals for the long-term financing needed to provide those funds.
 - 7) Direct the RTWG to review prior to, but no later than, its April 8 meeting the tariff language suggested by Mike Small to clarify that SPP is the sole transmission provider, and make a recommendation to the OPC for consideration at its April 14-15 meeting, for further recommendation to the Board of Directors at its April 27 meeting.
3. Approved the Finance Working Group's recommendation for SPP staff to obtain an \$8 million revolving credit facility, and to negotiate but not yet commit to borrow \$25 million in medium-term financing to meet SPP's capital budget requirements.
4. Approved the Finance Working Group's recommendation regarding Member Overpayments, and applying \$3.3 million in member equity to future financial needs.

**Southwest Power Pool
BOARD OF DIRECTORS MEETING
DFW Airport Hyatt Regency, Dallas, TX
March 16, 2004**

Agenda Item 1 - Administrative Items

SPP Chair Mr. Al Strecker called the meeting to order at 10:04 a.m. and thanked everyone present and participating by phone for attending. Mr. Strecker then called for a round of introductions and referred to the agenda (Agenda – Attachment 1). 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. Jim Sherwood, proxy for Mr. Michael Deihl, Southwestern Power Administration
Mr. Jim Eckelberger, independent director
Ms. Trudy Harper, Tenaska Power Services Company
Mr. Doug Henry, Westar
Mr. Quentin Jackson, independent director
Mr. Joshua Martin, independent director
Mr. Mike Palmer, Empire District Electric Company
Mr. Stephen Parr, Kansas Electric Power Cooperative
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
Mr. Al Strecker, OG+E
Mr. Richard Verret, American Electric Power
Mr. Ricky Bittle, proxy for Mr. Gary Voigt, Arkansas Electric Cooperative Corporation
Mr. Walt Yeager, Cinergy Services

There were 37 persons in attendance representing 19 members (Attendance List - Attachment 2). Mr. Brown received two proxy statements (Proxies - Attachment 3) and a quorum was declared.

Mr. Strecker referred to draft minutes of the January 27 meeting (1/27/04 and 2/19/04 Meeting Minutes - Attachment 4) and asked for corrections or a motion for approval. Mr. Martin moved that the minutes be approved as presented. Mr. Schoenberger seconded the motion, which passed unopposed. Mr. Strecker then referred to draft minutes of the February 19, 2004 meeting and asked for corrections or a motion for approval. Mr. Skilton moved that the minutes be approved as presented. Mr. Bittle seconded the motion, which passed unopposed.

Agenda Item 2 – President's Report

Mr. Nick Brown presented the President's Report. He stated that Southwest Power Pool received a conditional order from FERC for recognition as a Regional Transmission Organization (RTO) on February 10, 2004 in response to the October 2003 application after making three previous filings in December 1999, October 2000, and May 2001. This order was conditional with compliance required for the following issues:

- Implement independent Board
- SPP as sole transmission provider
- Sufficient transmission authority
- Independent market monitor
- Independent transmission planning
- MISO seams agreement

The Strategic Planning Committee will present recommendations for a compliance filing addressing these conditions. Last week was the deadline for filings and comments on the RTO order. Twelve filings were made and will be distributed by Friday. A summary of the issues raised will also be compiled and provided to the Board.

On Friday, March 19, FERC is holding a technical conference for SPP on a White Paper on Bulk Power Market Design. This conference is in conjunction with a Participant Funding Symposium scheduled for Thursday, March 18.

Implementation of NERC Blackout recommendations began last week with a Readiness Audit for AEP. A Compliance Template Task Force has been formed and templates were posted on March 15 with a deadline for comments of March 19. Mr. Brown encouraged members to be mindful and aware that Blackout recommendations and compliance are on a very fast track. A NERC Policy Transmission Task Force has formed to adopt current NERC policies and make new policies going forward with the Compliance Template Task Force.

NAESB has four initiatives to be aware of: reliability, OASIS, improve current operations, and the wholesale gas quadrant.

Mr. Brown addressed administrative issues and stated that SPP is currently \$2.3 million under budget due to the freezing of funds and slow down of the market initiative. A quarterly report will soon be distributed to the Board and membership. He stated that SPP is reviewing its tax status, which is currently a 501(c)(6) and will probably remain the same, but warrants a review by counsel. Reasons to review the tax status include: 1) SPP cannot lobby with the current status, and 2) the shift in governance. Mr. Brown noted that SPP had reached a technical milestone in that 45,000 minutes of teleconference meetings had been logged thus far in 2004. He pointed out that every port used is a cost and encouraged companies where several were dialing in to gather in a single room rather than each individual dial in. This would help mitigate costs for teleconference meetings.

Mr. Brown stated that he was in the process of making visits to each of the seven states in the SPP footprint. Currently he has met face-to-face with three states and is also trying to meet with as many members as possible.

Mr. Brown recognized the need to form a Regional State Committee (RSC) sooner rather than later. He emphasized that transmission expansion costs are due to be rolled-in to zone rates in 2005 and SPP desperately needs collective state input. He encouraged all to attend the FERC conference scheduled for Friday.

Agenda Item 3 – Strategic Planning Committee Report

Mr. Richard Spring presented the Strategic Planning Committee Report (SPC Presentation & Report – Attachment 5). Mr. Spring reviewed the history of SPC activities and outlined recommendations to make a compliance filing in the RTO docket meeting FERC conditions. Mr. Skilton moved to approve and Ms. Phyllis Bernard seconded the following SPC recommendations to the Board of Directors:

1. SPP staff should make a compliance filing in the RTO docket indicating compliance status with the conditions/issues noted by FERC and in accordance with the reports provided, as soon as possible following the April 27 Board of Directors meeting.
2. Acceptance of the SPP Bylaws as presented, including an effective date of May 1, 2004.

SPP Board of Directors Minutes
March 16, 2004

3. Acceptance of the SPP Membership Agreement as filed, including an effective date of May 1, 2004.
4. The SPP Board of Directors should recommend for approval to the SPP Membership the revisions to Section 4.0 of the SPP Bylaws required by the compliance filing.
5. In accordance with the revised Bylaws, the Corporate Governance Committee should be developed and convene for purposes of preparing:
 - a. Slates of candidates for the committees reporting to the Board of Directors to be nominated to the Board of Directors at its April 27 meeting; and
 - b. A slate of candidates for the Members Committee to be nominated to the Membership at its April 27 meeting.Elections would be effective with the revised Bylaws (May 1).
6. Release of the budgeted funds required to resume the Energy Imbalance and Market Monitoring/Mitigation components of the market implementation project, including authorization for the officers of the company to obtain proposals for the long-term financing needed to provide those funds.
7. Direct the RTWG to review prior to, but no later than, its April 8 meeting the tariff language suggested by Mike Small to clarify that SPP is the sole transmission provider, and make a recommendation to the OPC for consideration at its April 14-15 meeting, for further recommendation to the Board of Directors at its April 27 meeting.

Prior to discussion, Mr. Doug Henry presented an alternative to the SPC's recommendations representing Empire District, Kansas City Power & Light, Midwest Energy and Westar (MO-KS Presentation – Attachment 6). He stated there is a recognized need for market implementation but that the current order contains regulatory uncertainties for utility members, primarily that of state commission approval for participation, and timing of RTO compliance and market implementation. He outlined major outstanding issues and an alternative schedule for RTO compliance. Mr. Henry made the following recommendation to the Board of Directors:

- Take no significant, irreversible actions (e.g., releasing market development funds and transitioning to the Independent Board) without some clarity on state approvals
- Incorporate the attached timeline into the SPC recommendation.

After much discussion including several changes suggested by Mr. Harry Dawson, an amendment was added to the SPC recommendations to clarified implied intentions that were not specifically stated:

8. Direct SPP Committees, Working Groups and Staff to accelerate regional transmission planning initiatives, document and publicize the 8-year financial plan, and augment the efforts of Member companies to perform timely cost-benefit analysis for their respective regulatory bodies.

It was agreed that all documents for the RTO compliance filing would come back to the Board at the April 27, 2004 meeting for final review. Mr. Strecker called for a vote on the SPC recommendations with the addition of the eighth recommendation. The motion passed with opposing votes from Mr. Henry and Mr. Palmer, and Mr. Sherwood abstaining. It is planned to make a compliance filing in early May.

Agenda Item 4 – Finance Working Group Report

Mr. Harry Skilton gave the Finance Working Group report (FWG Report – Attachment 7). He explained that in reviewing the conditions set forth in the order for recognition as an RTO received on February 10,

SPP Board of Directors Minutes
March 16, 2004

2004 and the Board of Directors authorizing SPP to move forward, SPP needed to obtain financing sufficient to fund these market initiatives and SPP's working capital needs. Mr. Skilton moved to approve the following FWG recommendation:

The Finance Committee recommends the SPP Board of Directors approve the following resolution authorizing the SPP President to execute the required financing documents to obtain an \$8 million revolving credit facility to fund working capital needs. The Finance Committee further recommends that SPP staff take necessary steps to negotiate \$25 million in medium-term financing. However, these recommendations stop short of authorizing SPP to commit to borrow \$25 million in medium-term financing. The Finance Committee further recommends that SPP staff report to the Finance Committee and the SPP Board of Directors following negotiations with lenders, the terms and conditions under which SPP may commit to borrow at the April 27 meeting.

Mr. Bob Scheonberger seconded this motion, which passed with Mr. Sherwood abstaining.

Mr. Skilton then presented a report regarding Member Overpayment (Member Overpayment Resolution – Attachment 8). He explained that since the implementation of the SPP Tariff when assessments of members have exceeded 20% of SPP annual expenditures this was termed "Member Overpayments". Effective October 1, 2003, the member assessment formula was changed to eliminate any future additions to overpayments. As of December 31, 2003 the accumulated cash balance totaled \$3.3 million. It was the intent as resolved in November 1999 to repay Member Overpayments. In reviewing these repayments and future expenditures required for initiatives that will result in increased costs for members and customers through 2006, the FWG thought it would best serve everyone if the \$3.3 million would be applied to reduce future financial burdens. Mr. Skilton moved to approve the following recommendation:

The Finance Committee recommends the SPP Board of Directors adopt the attached resolution authorizing resolution of the Member Overpayment issue by utilizing excess cash on hand currently to reduce future cash requirements.

Mr. Quentin Jackson seconded this motion, which passed unopposed.

Other Business

Mr. Jim Eckelberger reported that the Employee Benefit Working Group (EBWG) has agreed to employ a firm to do a salary survey and would bring an RFP and information to the Board meeting in April. The Board of Directors will hire this firm; however, the SPP staff will have access to contract negotiations as well as data gathered.

The next Board of Directors Meeting and a special called Meeting of Members is April 27, 2004, in Oklahoma City.

Adjournment

With no further business, Mr. Strecker thanked everyone for participating and adjourned the meeting at 2:20 p.m.

Stacy Duckett, Corporate Secretary



Southwest Power Pool
INDEPENDENT MARKET MONITOR SELECTION TASK FORCE
Recommendation to the Board of Directors
April 27, 2004

Background

The Chair of the SPP Board of Directors chartered the Independent Market Monitor Selection Task Force (IMMSTF) in February with the responsibility of evaluating and selecting an Independent Market Monitor. The membership consisted of three members of the SPP Board of Directors (two being independent Directors), chair of the Operation Policy Committee (OPC), chair of the Market Working Group (MWG), and chair of the Market Monitoring and Market Power Mitigation Task Force (MMMPMTF). The members of the IMMSTF began work on March 8.

Recent Activity

The IMMSTF is comprised of: Jim Stanton (Calpine), Chair, Seth Brown (ETEC), Joshua Martin (independent Director), Mel Perkins (OG&E), Richard Ross (AEP), Bob Schoenberger (independent Director); Carl Monroe is the SPP staff member. A Request for Proposal (RFP) had been prepared and distributed by the MMMPMTF prior to the formation of the IMMSTF (having been approved by the MWG). Expression of interest was open to any party. The IMMSTF met twice by teleconference in preparation for the selection process. The RFP was for the employment of an Independent Market Monitor for both Transmission and Market Operations purposes, including software systems necessary to perform the evaluation. The RFP contemplates the operation of a Market Monitoring Unit by SPP Staff, with the IMM providing periodic oversight and consulting in the development of Market Operations. Expressions of interest were due by January 23; proposals were due by March 29; and vendor finalists presented to the IMMSTF on April 13. A vendor recommendation was approved by the IMMSTF on April 19.

Analysis

Four vendors submitted bids to SPP in response to the RFP. After review of the bid documents, the IMMSTF met with three vendors for oral presentations. Following the oral presentations, the IMMSTF evaluated each vendor. An evaluation matrix was developed to aid in the process. The matrix appears below with the vendor names masked due to confidentiality concerns.

IMM Decision Matrix

	Vendor A	Vendor B	Boston Pacific
Depth of resources and specific expertise, including regulatory interaction.	3	4	5
Independence/Conflict of Interest	5	3	3
Comply with present and future SPP requirements of system on a timely and cost effective basis	3	4	5
Current Monitoring and Mitigation Analysis Experience and routines for any industry	3	4	3
Commitment of specific resources over the life of the contract	4	4	5
Flexibility to respond to changing needs of SPP and participants	3	5	4
Meet Market Implementation Timelines	4	4	5
Current bulk power electric industry experience	4	5	5
References	3	3	3
	32	36	38

1 - Low
5 - High

The recommended vendor’s cost estimate is within the budgeted amount for 2004. Contract negotiations will result in refining the cost estimate and scope of work.

Recommendation

Based on review of the proposals and evaluation of the vendors, the IMMSTF recommends that the Board of Directors ratify the selection of Boston Pacific and direct the SPP staff to develop and execute a contract under the SPP contract approval guidelines for the engagement of the Independent Market Monitor, absent any material deviation from the proposal.

Approved

Independent Market Monitor Selection Task Force

April 19, 2004

Action Requested

Approve the recommendation.



Southwest Power Pool, Inc.
OPERATIONS POLICY COMMITTEE
Recommendation to the Board of Directors
April 27, 2004

SPP CRITERIA 2 CHANGES

Background

SPP Criteria 2 concerning Capacity Margin has not been revised since May 2000.

Recent Activity

It is not clear as to when required records relating to the criteria are to be provided to SPP Staff. Due to the voluminous nature of the records, Staff would like them upon request. At its January 15 meeting the OPC requested that the GWG clarify the criteria concerning adequate capacity. Added language is needed so as not to inadvertently omit generation and/or loads within the reporting member's system. Along with a couple of other minor wording changes, the GWG feels these changes need to be reflected in Criteria 2.

Conclusion

The proposed changes to Criteria 2 are shown on the attached red-line version.

Recommendation

The OPC recommends the Board of Directors approve changes to Criteria 2.

Approved:	Generation Working Group Operations Policy Committee	April 7, 2004 April 15, 2004
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Action Requested: Approve recommendation.

2.0 CAPACITY MARGIN

This Criteria requires and provides for the sharing of reserve generating capacity as a means of reducing capacity requirements of each Member and providing reliable electric service to firm customers due to the equitable purchase, sale and exchange of generating capacity among Members.

2.1 Definitions

2.1.1 Load Serving Member

A Load Serving Member shall mean any SPP Member assuming legal obligation to provide firm electric service to a customer or group of customers within SPP.

2.1.2 Firm Power

Firm Power shall mean electric power which is intended to be continuously available to the buyer even under adverse conditions; i.e., power for which the seller assumes the obligation to provide capacity (including SPP defined Capacity Margin) and energy. Such power shall meet standards of reliability and availability as that delivered to native load customers. For purchases and sales, the contract amount governs regardless of the amount actually delivered at the time of such Load Serving Member's greatest Net Load. Power purchased shall only be considered to be Firm Power if Firm Transmission Service is in place to the Load Serving Member for delivery of such power. Firm Power does not include "financially firm" power.

2.1.3 System Capacity

A Load Serving Member's System Capacity shall be equal to the capability of its generating facilities, including its ownership share of jointly owned units, demonstrated under procedures set forth in SPP [Rating of Generating Equipment Criteria](#), adjusted to reflect the purchase from and/or sale to any other party of generating capacity or SPP defined Operating Reserve, under any appropriate agreement. For purchases and sales, the contract amount governs regardless of the amount actually delivered at the time of such Load Serving Member's greatest Net Load. Capacity purchases shall only be considered if Firm Transmission Service is in place to the Load Serving Member for delivery of power from such capacity.

[Unless reported separately, generating facilities owned by others within the Load Serving Member's system that are obligated to furnish firm power to customers within the Load Serving Member's system shall also be reported. Absent any bilateral contractual arrangements with the host Control Area, the host Control Area will not be required to be responsible for capacity and/or](#)

reserve requirements. The reporting of generating facilities owned by others does not constitute an obligation on the Load Serving Member's part to furnish reserves or back up power for that generation.

2.1.4 Net Load

The term Net Load for any Load Serving Member shall mean, for any clock hour:

- (a) Net generation by the Load Serving Member's facilities; plus
- (b) Net receipts into the Load Serving Member's system; minus
- (c) Net deliveries out of such Load Serving Member's system

Unless reported separately, the Net Load of other non-Load Serving Members located within the Load Serving Member's system shall also be reported. Absent any bilateral contractual arrangements, the reporting of these loads does not constitute an obligation on the Load Serving Member's part to furnish reserves, back up power, or incur financial obligations from SPP for that load.

2.1.5 Capacity Year

Capacity Year shall mean a period of twelve consecutive months beginning on October 1 of each calendar year. Any period less than a Capacity Year shall be designated as Short Term.

2.1.6 System Peak Responsibility

System Peak Responsibility of a Load Serving Member for any Capacity Year shall mean the Load Serving Member's greatest Net Load during that Capacity Year plus:

- (a) The contract amount of Firm Power sold to others under agreements in effect as of the time of such Load Serving Member's greatest Net Load which provide for the sale of a specified amount of Firm Power; and minus
- (b) The contract amount of Firm Power purchased from others under agreements in effect as of the time of such Load Serving Member's greatest Net Load which provide for the purchase of a specified amount of Firm Power.

In each case, the contract amount governs regardless of the amount actually delivered at the time of a Load Serving Member's greatest Net Load.

2.1.7 Capacity Margin

Capacity Margin shall mean the amount by which a Load Serving Member's System Capacity exceeds its System Peak Responsibility.

2.1.8 Percent Capacity Margin

Percent Capacity Margin shall be defined by the formula:

$$\text{Percent Capacity Margin} = (\text{Capacity Margin}/\text{System Capacity}) \times 100$$

2.1.9 Minimum Required Capacity Margin

Each Load Serving Member's Minimum Required Capacity Margin shall be twelve percent. If a Load Serving Member's System Capacity for a Capacity Year is comprised of at least seventy-five percent hydro-based generation, then such Load Serving Member's Minimum Required Capacity Margin for that Capacity Year shall be nine percent.

2.1.10 System Capacity Responsibility

A Load Serving Member's System Capacity Responsibility for any Capacity Year shall mean the sum of that Load Serving Member's System Peak Responsibility and its Minimum Required Capacity Margin.

2.1.11 Capacity Balance

Capacity Balance shall mean the amount by which a Load Serving Member's System Capacity exceeds its System Capacity Responsibility.

2.1.12 Firm Transmission Service

Firm Transmission Service is that service defined in any applicable transmission service provider tariff.

2.2 Capacity Responsibility

(a) Each Capacity Year, each Load Serving Member shall possess System Capacity at least equal to its System Capacity Responsibility.

(b) Prior to the establishment of its System Peak Responsibility for each Capacity Year, each Load Serving Member shall provide System Capacity by one or more of the following means:

- (i) Establishing a unit rating consistent with SPP generating equipment rating Criteria, prior to establishing its System Peak Responsibility;
- (ii) Reducing its System Peak Responsibility by purchase of Firm Power from any Member or non-Member by separate agreement;
- (iii) Separate written agreement with another Member or a non-Member for purchase of a specified amount of capacity; and/or

(iv) Reducing its Net Load.

(c) A Load Serving Member may purchase Short Term capacity to provide a part of its System Capacity or Short Term Firm Power to reduce its System Peak Responsibility subject to each of the following restrictions:

- (i) Such Short Term period shall not be less than four consecutive months, and shall include the day the Load Serving Member establishes its System Peak Responsibility. Such period shall begin during May 1 to June 1 or November 1 to December 1;
- (ii) The amount of Short Term capacity or Short Term Firm Power purchased shall not exceed 25% of the Load Serving Member's System Peak Responsibility; and
- (iii) The Load Serving Member shall purchase such Short Term Capacity or Short Term Firm Power prior to the start of the Short Term period.

(d) A Load Serving Member may sell Short Term Capacity or Short Term Firm Power from resources comprising its Capacity Balance, provided that its System Capacity Responsibility is met.

2.3 Records

Each Load Serving Member, [upon request](#), shall provide accurate and detailed records of information related to this Criteria to the SPP Staff. Except for System Peak Responsibility, all other information shall be provided prior to establishing System Peak Responsibility for a Capacity Year and shall include; validation of System Capacity per SPP [Rating of G](#)generating [E](#)equipment ~~rating~~ Criteria, Capacity purchase and sale contracts, Firm Power purchase and sale contracts, and firm transmission service agreements. The SPP Staff shall verify information supplied by each Load Serving Member. Calculations shall be based on the highest peak load of each of the Load Serving Members during the Capacity Year. All capacity and demand values will be rounded to the nearest whole MW for purposes of this Criteria. All data submitted to SPP related to this Criteria shall be considered confidential by the SPP Staff and shall not be released in any form except by force of law.

2.4 Generation Planning

2.4.1 Design Features

- a. In order to maintain a balanced design of the electric system, excessive concentration of generating capacity in one unit, at one location, or in one area shall be avoided.
- b. Auxiliary power sources shall be provided in each major generating station to provide for the safe shutdown of all the units in the event of loss of external power.

- c. In each major load area of SPP, a unit capable of black start shall be provided having the capability of restarting the other units in the area.
- d. Boiler controls and other essential automation of major generating units shall be designed to withstand voltage dips caused by system short circuits.

2.4.2 Fuel Supply

Assurance of having desired generating capacity depends, in part, on the availability of an adequate and reliable fuel supply. Where contractual or physical arrangements permit curtailment or interruption of the normal fuel supply, sufficient quantities of standby fuel shall be provided. Due to the dependence of hydroelectric plants on seasonal water flows, this factor shall be taken into consideration when calculating capacity for capacity margin requirements.



Southwest Power Pool, Inc.
OPERATIONS POLICY COMMITTEE
Report to the Board of Directors
April 27, 2004

Modifications to Tariff Part IV Including Addition of New Section 39

Background and Analysis

On February 10, 2004, in Docket RT04-1-000, the Federal Energy Regulatory Commission (the Commission) issued an Order Granting RTO Status Subject to Fulfillment of Requirements. As one of its conditions, the Commission stated:

Consistent with our holding in Opinion No. 453 and related orders, under a functioning SPP RTO, the SPP transmission owners will no longer be the transmission providers. SPP will become the sole provider of transmission service, as prescribed by Order No. 2000, and the transmission owners must take all transmission services from SPP. In implementing the requirement that all load be placed on the tariff, the Commission will be able to ensure that all service is provided on a non-discriminatory basis by the RTO transmission provider and, importantly, will also ensure that native load continues to receive adequate transmission to reliably meet its needs.

In response to the request of the Strategic Planning Committee (SPC) at its March 5, 2004 meeting, Mike Small provided an analysis of the Order on this issue and developed tariff language consisting of a modification of Part IV including a new Section 39. . A copy of the analysis was included in background material and discussion at the Board of Directors Meeting on March 16, 2004.

The SPC at its March 9, 2004 meeting accepted these proposed tariff provisions for inclusion in its Report to the Board of Directors. The Board of Directors at its March 16, 2004 meeting approved the SPC's recommendations to comply with conditions in the Order and directed the RTWG to review the tariff language proposed by counsel to clarify that SPP is the sole transmission provider and make a recommendation by April 8, 2004 to the OPC for its consideration at its April 14-15, 2004 meeting for further recommendation to the Board of Directors at its April 27, 2004 meeting. At its April 8, 2004 meeting the RTWG considered and approved the proposed change to Part IV including the new Section 39 as drafted for inclusion in the SPP OATT.

Recommendation

The Board of Directors approves the proposed modifications to Part IV of the Tariff including the addition of new Section 39 for filing.

Approved: Regional Transmission Working
Operations Policy Committee

April 8, 2004
April 15, 2004

Action Requested: Approval of the OPC recommendation

IV. SPECIAL RULES ON USE OF TARIFF

37. **During Transition Period**

37.1 Service Not Required for Bundled Customers or Customers Under

Retail Access Programs: A Transmission Owner shall not be obligated to take Network Integration Transmission Service or Point-to-Point Transmission Service from the Transmission Provider in accordance with this Tariff for (1) bundled retail load not having a choice of power suppliers or (2) for bundled retail load it continues to serve that had the right to choose a different power supplier under a state retail access program or legislation and that was retail load served by the Transmission Owner prior to the retail load receiving the right to choose a different supplier.

37.2 Availability of Network Integration Transmission Service: All Transmission Owners shall have the option of electing Network Integration Transmission Service for retail loads or customers whether or not such loads or customers have the right to choose a different power supplier during the Transition Period.

37.3 Unbundled Wholesale: A Transmission Owner shall be obligated to take Network Integration Transmission Service or Point-to-Point Transmission Service from the Transmission Provider in accordance with this Tariff for any sales to wholesale load the Commission requires to be unbundled unless such service is arranged by another entity or is pursuant to a Grandfathered Agreement.

37.4 Grandfathered Transactions: During the Transition Period, transmission provided pursuant to Grandfathered Agreements shall continue to term in accordance with the provisions of the Grandfathered Agreement ~~rather than under this Tariff~~ unless the parties agree otherwise. Grandfathered Transactions are defined in Section 1.14a.

38 After Transition Period

- 38.1 Applicability to Retail Load Having Choice:** Beginning on the first day after the end of the Transition Period, this Tariff shall be applicable to all transmission service over the Transmission System provided for retail loads having the right to choose a different power supplier except for deliveries made pursuant to Grandfathered Agreements.
- 38.2 Applicability to Retail Load Not Having Choice:** Beginning at the end of the fifth year after the last day of the Transition Period, the Transmission Owner shall take Network Integration Transmission Service or Point-To-Point Transmission Service from the Transmission Provider in accordance with this Tariff for sales to retail customers not having the right to choose a different power supplier.
- 38.3 Grandfathered Agreements:** Transmission Service provided pursuant to Grandfathered Agreements shall continue to term in accordance with the provisions of the Grandfathered Agreements ~~rather than under this Tariff~~ unless the parties agree otherwise.
Grandfathered Agreements are defined in Section 1.14a.

39. Applicability of Non-Rate Terms and Conditions

- 39.1 Bundled Retail and Grandfathered Load:** Notwithstanding Sections 37 and 38 of this Tariff, Each Transmission Owner (which is not otherwise taking Network Integration Transmission Service) is subject to the non-rate terms and conditions of this Tariff for: (1) its bundled retail load not having a choice of power suppliers; (2) its bundled retail load that had the right to choose a different power supplier under a state retail access program or legislation and that was retail load served by the Transmission Owner prior to the retail load receiving the right to choose a different supplier; and (3) its bundled load under Grandfathered Agreements. For purposes of this provision the non-rate terms and conditions are those that would apply to Network

Customers except for (1) Section 28 other than the provision in Section 28.1 requiring Ancillary Services pursuant to Section 3 and Section 28.2; (2) Section 29 other than Sections 29.3 and 29.4; and (3) Sections 34.1, 34.2 and 34.3. In addition, unless a Transmission Owner executes a Service Agreement under this Part III, it will not be considered as taking Network Integration Transmission Service.



Southwest Power Pool, Inc.
OPERATIONS POLICY COMMITTEE
Report to the Board of Directors
April 27, 2004

Modifications to Tariff Attachment O

Background and Analysis

On February 10, 2004, in Docket RT04-1-000, the Federal Energy Regulatory Commission (the Commission) issued an Order Granting RTO Status Subject to Fulfillment of Requirements. As one of its conditions, the Commission stated:

We also agree with commenters that Attachment O of SPP's OATT does not provide SPP with the authority to independently oversee the regional transmission plan and solely determine the priority of transmission planning projects that address reliability and economic needs. For example, while TOs can perform their own transmission planning studies, SPP's OATT does not provide that SPP should independently review and conduct such studies. Attachment O suggests that SPP would serve largely as a consolidator and reviewer of plans that others conduct. This role, as described in Attachment O, concerning SPP's authority to plan transmission is inconsistent with the revised Membership Agreement. Consistent with Order No. 2000, the RTO must independently decide which projects should be included and how they should be prioritized. We will require SPP to modify its Attachment O to make it consistent with the revised Membership Agreement with respect to the SPP's and the TOs' role in the transmission planning process. The TOs may perform studies and evaluate changes to their transmission systems; however, SPP should provide independent oversight of the individual TO's studies to assure that any proposed changes would not impede SPP's ability to provide efficient, reliable and non-discriminatory transmission service. Accordingly, we direct SPP to file changes to Attachment O of its OATT to reflect SPP's authority to plan transmission, consistent with the discussion above.

In response to the order, SPP Staff modified Attachment O and presented a draft to the Strategic Planning Committee (SPC) for discussion. The Regional Tariff Working Group (RTWG) and the Transmission Working Group (TWG) were directed to review the draft and finalize for filing. Staff was directed to provide another draft for consideration addressing Mike Small's concerns.

The SPC included the then current draft of Attachment O in its March 16, 2004 Report to the Board of Directors. The Board of Directors at its March 16, 2004 meeting approved the SPC's recommendations to comply with conditions in the Order including a review of the Attachment O by the RTWG and OPC.

At its March 24, 2004 meeting the TWG considered and approved the proposed Attachment O with modifications for inclusion in the SPP OATT. At its April 8, 2004 meeting the RTWG considered and approved the proposed Attachment O, as approved by the TWG, for inclusion in the SPP OATT.

Recommendation

The Board of Directors approves the proposed modifications to Tariff Attachment O for filing.

Approved: Regional Transmission Working
Operations Policy Committee

April 8, 2004
April 15, 2004

Action Requested: Approval of the OPC recommendation

ATTACHMENT O
COORDINATED TRANSMISSION PLANNING AND EXPANSION
PROCEDURES

~~The highly interconnected nature of the Transmission System, and the associated high degree of interdependence of the facilities of the Transmission Owners, requires coordination of transmission planning efforts.~~ These Procedures describe coordination requirements for transmission planning within the SPP Region and expansion procedures for the SPP Transmission System. Transmission Owners are obligated to build facilities subject to regulatory approval under the provisions of this Tariff. The Transmission Provider will not build or own transmission facilities. These procedures neither obligate the Transmission Provider nor Transmission Owners to build or own facilities within another Transmission Owner's area where a limit may exist. Transmission Owners may at any time voluntarily form associations and partnerships between Members or with non-Members to jointly construct and finance new transmission facilities provided such projects are subject to the assessment process of these Procedures.

1.0 Planning Criteria

The individual planning criteria of each Transmission Owner shall be the basis for determining whether a violation of criteria exists and when a need for new facilities should be considered. This planning criteria shall, at a minimum, conform to SPP Criteria and NERC Planning Standards. Transmission Owners shall submit their transmission planning criteria to the Transmission Provider. This criteria may be

modified at any time provided that, if the criteria is made more stringent, the increased requirements shall not apply retroactively to transmission planning studies previously completed nor studies already underway by ~~SPP's~~the Transmission ~~Assessment Working Group (TAWG).~~Provider.

2.0 Planning and Assessment Studies

The Transmission Provider shall independently perform regional transmission planning studies. These studies shall assess the reliability and economic operation of the SPP Transmission System. Transmission planning studies ~~shall~~may also be performed by individual Transmission Owners. Members shall contact the ~~TAWG~~Transmission Provider whenever new facilities that impact interconnected operation are in the conceptual planning stage so that the optimal integration of any new facilities and potentially benefiting parties can be identified. The Transmission Provider's ~~operating personnel~~ shall periodically inform the ~~TAWG~~Transmission Owners of identified operating constraints that should be addressed in future studies. Seasonal transmission assessments shall be performed by the ~~TAWG~~Transmission Provider. These planning studies and seasonal assessments are for purposes of identifying any planning criteria violations that may exist. Transmission Owners shall submit their five-year transmission construction plans to the Transmission Provider. ~~The initial plans, existing as of January 1, 1999, shall be considered grandfathered and shall not be subject to review or approval by the TAWG.~~

In the event the assessment process identifies a violation, the violation shall be directed to the associated Transmission Owner. The responsible Transmission Owner shall respond by explaining why the violation is not valid or by identifying alterations in its transmission plan which correct the criteria violation. The Transmission Owner with an identified limit shall be responsible for performing studies to determine alternatives that remove the limit. If corrective action causes regional impacts and is therefore subject to cost sharing, the Transmission Provider's Staff shall participate in these studies if requested by the Transmission Owner or another Member.

Recommendations developed by the responsible Transmission Owner to mitigate an identified violation shall be presented for review and approval by the ~~TAWG~~Transmission Provider. This review shall evaluate study results for negative impacts on the transmission systems of other Members. If such negative impacts are found, the ~~TAWG~~Transmission Provider, the impacted Member and the Transmission Owner shall participate in a joint effort to modify the recommendation to the satisfaction of all-involved Members. If negative impacts are not found, the ~~TAWG~~Transmission Provider shall accept the recommendation. If the ~~TAWG~~Transmission Provider finds the study incomplete, the Transmission Owner shall make further analysis to the satisfaction of the ~~TAWG~~Transmission Provider. Once the recommendation is shown to address the violation and any negative impacts have been mitigated to the extent practicable, the ~~TAWG~~Transmission Provider shall accept the recommendation. The Transmission Provider shall independently make the final determination in the process, subject to the

Dispute Resolution Procedures and subject to review by the FERC or state regulatory authorities where appropriate.

3.0 Need for New Facilities

Undue limitation on the maintenance of the Transmission System and the provision of firm transmission service shall be deemed to create a need for new or upgraded facilities. Either situation shall require submittal of a transmission plan for review by the TAWG Transmission Provider to resolve the issue and may result in cost sharing among the entities that benefit from facility additions or improvements. This review can be initiated by any Member requesting firm transmission service under any applicable tariff. This review can also be initiated by any SPP organizational group as a result of its performance of operational assessments.

If the Transmission Owner with an identified limit is unable to determine alternatives in a timely manner, the TAWG Transmission Provider may establish a task force to determine appropriate options and make a recommendation. Such task force roster shall include representation from the Member with the limiting facility and Members with transmission service or facilities that might be affected by the limiting facility or corrections. The task force shall provide a recommendation, along with options considered to the TAWG Transmission Provider for a review of impacts. Based on its review of the task force recommendations, the TAWG Transmission Provider shall

independently prepare a proposal for consideration by the SPP Board of Directors to direct the appropriate Transmission Owners to begin implementation of the project.

4.0 Construction

- a. Each Transmission Owner shall use due diligence to construct transmission facilities as directed by the SPP Board of Directors subject to such siting, permitting, and environmental constraints as may be imposed by state, local and federal laws and regulations, and subject to the receipt of any necessary federal or state regulatory approvals. Such construction shall be performed in accordance with Good Utility Practice, applicable SPP Criteria, industry standards, each Transmission Owner's specific reliability requirements and operating guidelines (to the extent these are not inconsistent with other requirements), and in accordance with all applicable requirements of federal or state regulatory authorities. Each Transmission Owner shall be fully compensated to the greatest extent permitted by The Commission, for the costs of construction undertaken by such Transmission Owner in accordance with this Tariff.

- b. After a new transmission project has been approved, the Transmission Provider will direct the appropriate Transmission Owners to begin implementation of the project. If the project forms a connection between facilities of a single Transmission Owner, that Owner will be designated to provide the new facilities. If the project forms a connection between facilities owned by two different Transmission Owners or between a new facility and the facilities of a Transmission Owner, both entities will be designated to provide the new facilities. The two entities will agree between themselves how much of the project

will be provided by each entity. If agreement cannot be reached, the Transmission Provider will facilitate the ownership determination process.

c. A designated provider for a project can elect to arrange for another entity or another existing Transmission Owner to build and/or own the project in their place. If a designated provider or providers do not or cannot agree to implement the project in a timely manner, the Transmission Provider will solicit and evaluate proposals for the project from other entities and select a replacement designated provider.



Southwest Power Pool, Inc.
OPERATIONS POLICY COMMITTEE
Report to the Board of Directors
April 27, 2004

Modifications to Attachment P

Recent Activity

The Business Practices Working Group (BPWG) proposed to the RTWG approval of modifications to SPP's Tariff Attachment P, the timing table for reservation and scheduling of service under the SPP Tariff.

Background and Analysis

At its February 5, 2004 meeting, the RTWG approved a modification to SPP's Tariff Attachment P. The RTWG concurred with the BPWG finding that it is appropriate to change the Non-Firm hourly "No Later Than" Energy Scheduling deadline from 1500 day prior to 20 minutes prior to the hour. The change facilitates conduct of the Non-Firm hourly market.

Recommendation

The Board of Directors approves the proposed modifications to Tariff Attachment P for filing.

Approved:	Regional Transmission Working Operations Policy Committee	February 5, 2004 April 15, 2004
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Action Requested: Approval of the OPC recommendation

ATTACHMENT P

Transmission Service Type	Term	Transmission Requests 2/		SPP Response to Application	Determine Capacity or System Impact Study (From Date of Customer Commitment)		Customer Response 3/	Energy Scheduling 2/ Changes	
		No Later Than	No Earlier Than		30 days	60 days		No Later Than	No Earlier Than
Long Term Firm	1 Year or More	60 Days Prior		15 days	30 days	60 days	15 days	1200 day prior	20 mins prior to hour
Short-Term Firm	More than 1 month (monthly)	31 days prior	120 days prior	24 hrs	30 days	60 days	4 days	1200 day prior	20 mins prior to hour
Short-Term Firm	1 mo (monthly)	8 days prior	90 days prior	24 hrs	30 days	60 days	4 days	1200 day prior	20 mins prior to hour
Short-Term Firm	More than 1 wk up to 1 month (weekly)	8 days prior	60 days prior	24 hrs	30 days	60 days	48 hrs	1200 day prior	20 mins prior to hour

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Transmission Service Type	Term	Transmission Requests 2/		SPP Response to Application	Determine Capacity Available (From Date of Customer Commitment) or System Impact Study		Customer Response 3/	Energy Scheduling 2/ Changes	
		No Later Than	No Earlier Than					No Later Than	No Earlier Than
Short-Term Firm	1 wk (weekly)	2 days prior	30 days prior	24 hrs	30 days	60 days	48 hrs	1200 day prior	20 mins prior to hour
Short-Term Firm	More than 1 day up to 1 wk (daily)	2 days prior	14 days prior	24 hrs	30 days	60 days	24 hrs	1200 day prior	20 mins prior to hour
Short-Term Firm	1 Day (daily)	1000 day prior	3 days prior 4/	24 hrs	queued > 24 hrs to start: 30 days	60 days	queued > 24 hrs to start: 24 hrs	1200 day prior	20 mins prior to hour
					queued < 24 hrs to start: best effort		queued < 24 hrs to start: 2 hrs		
Non-Firm	1 month or greater (monthly)	3 days prior	60 days prior	N/A	2 days	N/A	24 hrs	1500 day prior	20 mins prior to hour

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Transmission Service Type	Term	Transmission Requests 2/		SPP Response to Application	Determine Capacity Available or Study (From Date of Customer Commitment)		System Impact Study	Customer Response 1/	Energy Scheduling 2/ Changes	
		No Later Than	No Earlier Than		No Later Than	No Earlier Than				
Non-Firm	1 wk up to 1 mo (weekly)	2 days prior	14 days prior	N/A	4 hrs	N/A	24 hrs	1500 day prior	20 mins prior to hour	
Non-Firm	1 day up to 1 wk (daily)	1200 day prior	2 days prior 4/	N/A	30 mins	N/A	2 hrs	1500 day prior	20 mins prior to hour	
Non-Firm	1 hour up to 1 day (hourly)	30 Mins prior	1200 day prior	N/A	Queued > 1 hr prior to start: 30 mins	N/A	Queued day prior: 30 mins	1500 day prior	20 mins prior to hour	
					Queued < 1 hr prior to start: best effort		Queued current day: 5 min /5	20 mins prior to hour		

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Transmission Service Type	Term	Transmission Requests 2/		SPP Response to Application	Determine Capacity Available or (From Date of Customer Commitment)		System Impact Study	Customer Response 1/	Energy Scheduling 2/ Changes	
		No Later Than	No Earlier Than						No Later Than	No Later Than
Next-Hour Market	next-hour (hourly)	20 mins prior3/	1 hour prior3/	N/A	Best effort	N/A	N/A 3/	20 mins prior to hour3/	20 mins prior to hour3/	

1/ For transactions not covered by an umbrella service agreement, the customer response must be execution of a service agreement or a request that an unexecuted service agreement be filed with the Commission pursuant to Section 15.3 of the Tariff. For transactions under an umbrella service agreement, the above times are the deadlines by which time the customer must notify The Transmission Provider of its acceptance of the offer to provide transmission.

2/ The Transmission Provider, in its discretion exercised on a non-discriminatory basis, may waive any of these requirements.

3/ All Next-Hour Market requests are submitted on schedule request and are deemed to be pre-confirmed.

4/ Excluding Sundays and NERC Holidays.

5/ Or 2300 of previous day if for first hour of day.

6/ Non-firm schedules will be accepted after 1500 day prior if there are no new reliability risks identified since the reservation was accepted. This includes but is not limited to NERC TLR in effect

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Southwest Power Pool, Inc.
OPERATIONS POLICY COMMITTEE
Report to the Board of Directors
April 27, 2004

Addition of New Attachment Z

Background and Analysis

At its March 4, 2004 meeting, the RTWG approved the work of its queue improvement task force regarding the development of the new Attachment Z to the SPP Tariff and other tariff changes necessary to accommodate the inclusion of the new attachment. This new attachment provides for the aggregation of transmission service requests for evaluation.

Under the current pro-forma transmission tariff, SPP processes all requests on a first-come first-served basis. This process lends itself well to short-term requests for which ATC is posted and which can be quickly evaluated. However, long-term requests require more extensive study to determine if the transmission system is capable of providing the requested service and subsequent renewals. This has led to a backlog of requests that cannot be responded to within the desired 60-day time frame. The current process also has the first request in the queue pay for its upgrades, which may increase the cost of service substantially pricing many requests out of the market.

SPP proposes to implement a process that allows aggregation of multiple requests received during a specified time frame into a single study. This will allow SPP to process multiple requests together improving the response time for long-term requests. Additionally, cost sharing of upgrades will be implemented to distribute the costs of upgrades that provide benefit to multiple requests.

The proposed aggregate transmission study is handled through an open season process. The open season will be 4 months in duration. All requests that are in the queue at the end of the open season and sign an aggregate system impact study agreement will be included in the aggregate impact study.

The aggregate impact study will evaluate all of the requested transmission service simultaneously. SPP will evaluate the upgrades required and determine if a regional solution would provide a cost reduction. Once the final list of required upgrades is determined, SPP shall estimate the total cost and allocation of such costs for the upgrades. This will provide customers with the detailed impacts and costs of their transmission service request. Any constraint that is contractually limited, such as the DC ties, shall be allocated on a first-come first-served basis.

The aggregate impact study shall provide the transmission customers who remain in the queue after the impact study with a statement of the necessary costs and lead-time for construction of upgrades. It shall specify a final cost allocation and estimated cost of service for each request after the optimal set of solutions has been determined. Cost responsibility for each upgrade will be allocated to customers based on the pro-rata impact of each customer's reservation on the overloaded facility under summer peaking conditions for all summer seasons within the term of each request. Only flows in the overloaded direction will be considered. The revenue requirements associated with each upgrade, as allocated, will be calculated on a levelized monthly basis, consistent with SPP's current pricing policy.

Any charges paid by a customer in excess of the transmission service base rate as compensation for the revenue requirements for allocated network upgrades, shall be recovered by such customer from future transmission service revenues until the customer has been fully reimbursed with interest. For each new point-to-point reservation made after the facility upgrade is completed, the customer shall receive a



portion of the transmission service charge equal to the positive response factor of the upgraded facility calculated on a monthly basis.

Transmission Owners shall have the right of first refusal to upgrade the facility. If they exercise this right, the cost of the upgrade is removed from the transmission customer charges. The Transmission Owner shall be allowed to recover the costs per the cost recovery mechanism otherwise applicable to customers set out in Section 8 of Attachment Z.

When facilities being paid for pursuant to the provisions of the proposed Attachment Z are rolled into the revenue requirement used for the development of generally applicable transmission service rates, the amount rolled in shall be the remaining balance of total revenue requirements, less amounts refunded to customers less the total cost of the service pursuant to applicable base rates. All customer and Transmission Owners who have a remaining balance subject to cost recovery shall be paid in full.

Changes to the SPP Tariff are proposed to include several other minor changes to allow for the aggregation of requests and cost sharing.

Recommendation

The Board of Directors approves the proposed modifications to Tariff Attachment Z and minor associated other Tariff changes for filing.

Approved: Regional Transmission Working
Operations Policy Committee

March 4, 2004
April 15, 2004

Action Requested: Approval of the OPC recommendation

ATTACHMENT Z

Aggregate Transmission Service Study Procedures

1. Introduction

This attachment describes the process used to evaluate long-term transmission service requests using an Aggregate Transmission Service Study process. The Transmission Provider will combine all long-term point-to-point and long-term designated network resource requests received during a specified period of time into a single Aggregate Transmission Service Study. Using this aggregate study process, SPP will combine all requests received during an open season to conclude an optimal expansion of the transmission system that provides the necessary ATC to accommodate all such requests at the minimum total cost. The cost of transmission upgrades required to reliably provide all of the requested service will be allocated among the requests in proportion to the impacts of each request on each upgrade component.

2. Open Season

The Aggregate Transmission Service Study process commences with the initiation of an open season. The open season will be 4 months in duration. During that period, customers may make requests for long-term transmission service that starts no earlier than 4 months after the close of the season. Customers may submit and withdraw requests during the open season without any obligation. At the close of the open season, the Aggregate System Impact Study (ASIS) will include only queued requests for which Aggregate System Impact Study Agreements (ASISAs) have been executed. At the close of the open season, customers will have 15 days to execute such ASISAs per Section 19.

Existing long-term firm service Customers who desire to exercise a reservation priority under Section 2.2 shall do so pursuant to the terms of Section 2.2 and shall not be included in the aggregate study.

3. Aggregate Impact Study

At the close of the Open Season, all transmission service requests subject to an ASISA will be included in the ASIS. This study shall be done in accordance with Section 19. The power flow models shall be developed for each season for the period from the earliest start of service to the latest end of service for the applicable requests. The models will include all other applicable existing reservations having equal or greater queue priority including prospective renewals of existing service having a reservation priority pursuant to Section 2.2. System constraints will be identified and appropriate upgrades determined during the ASIS. The Transmission Provider shall determine the upgrades required to reliably provide all of the requested service. SPP shall also perform a regional review of the required upgrades to determine if alternative solutions would reduce overall cost to customers. The Transmission Provider shall estimate the total cost and the allocation of such costs of these upgrades to each request impacting each constraint in conjunction with completion of the ASIS and in accordance with Section 5 of this Attachment Z.

SPP shall recognize constraints due to contractually limited facilities and allocate available capacity on a first come first served basis on the contractual constraint only. The cost of each component of all other upgrades in SPP shall be allocated on the basis of pro-rata MW impact described in Section 5, Cost Allocation, of this Attachment Z.

Within the ASIS the Transmission Provider will identify the overloaded facilities limiting the availability of the requested aggregate transmission service and the upgrades required to provide this service. It will also provide an estimate of the cost of those upgrades. The assignment of upgrade costs to each reservation will be provided to enable customers to estimate their costs. Upon receipt of the Impact Study, customers will have 15 days to execute an Aggregate Facilities Study Agreement (AFSA) per Section 19.

4. Aggregate Facilities Study

The Transmission Provider shall perform an Aggregate Facilities Study including the requests of all customers who have executed an Aggregate Facilities Study Agreement (AFSA). The first phase of the facilities study process shall consist of a revision of the impact study to reflect the withdrawal of requests for which an AFSA was not executed, if any. The Aggregate Facilities Study shall be done in accordance with Section 19 of the Tariff. The Transmission Provider, in conjunction with the applicable Transmission Owners, shall determine the necessary cost and lead-time for construction of each upgrade and the estimated cost of service for each request. The Transmission Provider, in conjunction with the applicable Transmission Owners, shall determine the optimal set of solutions to reduce the overall costs for the study group and reliably provide the requested service in a timely manner. The Impact Study results shall be used to assign pro-rata MW impact allocation of upgrades to customers.

Pursuant to Section 7, Transmission Owner Upgrades, of this Attachment Z, Transmission Owners shall have the right of first refusal to use the cost recovery provisions of Section 8 to pay for the facilities they construct, rather than allocating such costs to customers.

After concluding the final cost allocations to each reservation in the aggregate group, the Transmission Provider shall determine the levelized monthly revenue requirement associated with the transmission service requested by each customer in the aggregate group. This levelized monthly revenue requirement is determined by calculating the present worth of the revenue requirements associated with the upgrades as allocated to each customer in the aggregate group and then assigning the appropriate monthly charge for each customer in the aggregate group for each respective reservation. For Point-to-Point Service, this charge will be compared to the charge applicable for each request under the base transmission service rates of Schedule 7, Section 1, and each customer will be required to pay the higher of the total monthly base rate charges or the monthly revenue requirement associated with the facility upgrades. For Network Integration Service this charge will be applied as a direct assignment charge pursuant to Schedule 9, Section 4 and each customer will be required to pay the monthly revenue requirement associated with the facility upgrades in addition to the total monthly base rate charges applicable under Schedule 9, Section 1.

5 Cost Allocation

For the purpose of determining the cost responsibility for each transmission service request, all upgrades required to provide transmission service for all transmission service reservations included in an Aggregate Facility Study shall be included in an Aggregate Cost Allocation Assessment.

The cost of each transmission upgrade component will be allocated to each customer in the aggregation group on a pro-rata impact basis. The pro-rata allocation shall be determined by averaging the increased (positive) flow impact on the overloaded facility during the summer seasons within the term of each reservation. The cost of an upgrade will be allocated to all

customers in the aggregate group whose reservation period begins after or includes the commercial operation date of a facility upgrade. If an upgrade is first required during a season after completion of service, no cost would be assigned to the customer.

6 Financial Calculation of Upgrade Costs:

First, SPP shall review all upgrades and determine the earliest date that each upgrade is required. This date is considered the end of construction (EOC) date for each upgrade. All requests that have a positive impact on the upgrade and for which the service has not been completed prior to the EOC for such upgrade, shall be allocated costs for the upgrade. These requests shall be reviewed and the request that ends at the latest point in time (End of Term: EOT), shall define the amortization period for the facility

7 Transmission Owner Upgrades:

SPP Transmission Owners shall each have the right of first refusal to obtain all rights and responsibilities afforded to customers under this Attachment Z by assuming the cost responsibility for any or all of the upgrades to their facilities or new facilities which it constructs to provide transmission service pursuant to this Attachment Z. If a Transmission Owner elects to exercise this right of first refusal, the cost of the upgrade shall not be allocated to the requests in the aggregate group. SPP shall notify each Transmission Owner of the upgrades required and provide the Transmission Owner the opportunity to exercise its right of first refusal.

8 Cost Recovery:

Any charges paid by a customer in excess of the transmission service base rate, in compensation for the revenue requirements for allocated upgrades shall be recovered by such customer from future transmission service revenues until the customer has been fully

compensated. Such amount shall be recovered, with interest, from new service that increases loading on the new facility in the direction of the initial overload. For each new point-to-point reservation made after the facility upgrade is completed (EOC date), the customer shall receive a portion of the transmission service charge equal to the positive response factor calculated on a monthly basis. This allocation from new service shall continue until the customer has been fully compensated for all charges paid in excess of the transmission service base rate.

9 Future Roll-In:

When facilities being paid for pursuant to the provisions of this Attachment Z are rolled into the revenue requirements used for the development of generally applicable transmission service rates, the amount rolled in shall be the remaining balance of total revenue requirements, less amounts refunded to customers less the total cost of the service pursuant to applicable base rates. All customers and Transmission Owners, who have upgraded facilities and have remaining balances subject to cost recovery pursuant to Section 8, Cost Recovery, of this Attachment Z, shall be paid in full. The customer shall continue to pay the charges specified in the customer's transmission service agreement for the transmission service initially reserved.

Southwest Power Pool
FERC Electric Tariff
Fourth Revised Volume No. 1

OPEN ACCESS

TRANSMISSION TARIFF

FOR SERVICE OFFERED BY
SOUTHWEST POWER POOL

Includes Modifications for
Transmission Aggregate Study

Issued by: L. Patrick Bourne, Manager,
Transmission and Regulatory Policy

Issued on:

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I. COMMON SERVICE PROVISIONS

1 Definitions

1.1 Aggregate Transmission Study: Transmission system impact and facilities studies that aggregate Transmission Service requests received over a 120-day period. These requests are evaluated simultaneously to provide for optimization of transmission expansion.

1.1a Ancillary Services: Those services that are necessary to support the transmission of capacity and energy from resources to loads while maintaining reliable operation of the Transmission Provider's and Transmission Owner's(s) Transmission System in accordance with Good Utility Practice.

1.2 Annual Transmission Cost: The total annual cost of the Transmission System for purposes of Network Integration Transmission Service shall be the amount specified in Attachment H until amended by the Transmission Provider or modified by the Commission.

1.3 Application: A request by an Eligible Customer for transmission service pursuant to the provisions of the Tariff.

1.3a Attachment Facilities: Facilities that serve to interconnect a generating unit with a Transmission Owner's transmission facilities.

1.4 Commission: The Federal Energy Regulatory Commission.

1.5 Completed Application: An Application that satisfies all of the information and other requirements of the Tariff, including any required deposit.

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II. POINT-TO-POINT TRANSMISSION SERVICE

Preamble

The Transmission Provider will provide Firm and Non-Firm Point-To-Point Transmission Service pursuant to the applicable terms and conditions of this Tariff. Point-To-Point Transmission Service is for the receipt of capacity and energy at designated Point(s) of Receipt and the transmission of such capacity and energy to designated Point(s) of Delivery.

13 Nature of Firm Point-To-Point Transmission Service

13.1 Term: The minimum term of Firm Point-To-Point Transmission Service shall be one day and the maximum term shall be specified in the Service Agreement.

13.2 Reservation Priority: Long-Term Firm Point-To-Point Transmission Service shall be available based on the results of an aggregate study. Requests will be aggregated during a 120- day open season and all Point-To-Point service requests and designated network resource requests received during that time shall be deemed received at the same time if they are not using a contractually limited interface (e.g. a DC-Tie). For contractually limited interfaces, the first-come, first-served principles shall apply for the purpose of allocating limited interface capacity only. The allocation of remaining ATC on contractually limited interfaces shall occur as if all requests are received at the same time.

Reservations for Short-Term Firm Point-To-Point Transmission Service will be conditional based upon the length of the requested transaction and relative impact on available transmission capability. If the Transmission System becomes oversubscribed, requests for longer term service may preempt

17.1 Application: A request for Firm Point-To-Point Transmission Service for periods of one year or longer must contain a written Application to: Southwest Power Pool, 415 North McKinley, 8700 Plaza West, Little Rock, AR 72205-3020, at least sixty (60) days in advance of the calendar month in which service is to commence for renewals under Section 2.2 and for new long-term service no

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earlier than 120 days in advance of the closing date of the open season during which the customer is submitting the new request.

The Transmission Provider will consider requests for such firm service on shorter notice when feasible. Requests for firm service for periods of less than one year shall be subject to expedited procedures that shall be negotiated between the Parties within the time constraints provided in Section 17.5. All Firm Point-To-Point Transmission Service requests should be submitted by entering the information listed in Section 17.2 on the Transmission Provider's OASIS.

17.1a Time Requirements: Attachment P lists the time requirements applicable to when the requests must be made, the evaluation of the requests, and the Transmission Customer responses. Requests for long-term service received during any specified open season shall be processed no later than 15 days after the close of the open season.

17.2 Completed Application: A Completed Application shall provide all of the information included in 18 CFR § 2.20 including but not limited to the following:

- (i) The identity, address, telephone number and facsimile number of the entity requesting service;

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Transmission and Regulatory Policy

Issued on:

Effective:

Study Agreement and return it to the Transmission Provider within fifteen (15) days. If the Eligible Customer elects not to execute the System Impact Study Agreement, its Application shall be deemed withdrawn and its deposit, pursuant to Section 17.3, shall be returned with interest.

19.2 System Impact Study Agreement and Cost Reimbursement:

- (i) The System Impact Study Agreement will clearly specify the Transmission Provider's estimate of the actual cost, and time for completion of the System Impact Study. The charge shall not exceed the actual cost of the study. For Aggregate Transmission Service Study Procedures, the cost for System Impact Study will be pro-rata based on the MW capacity requested. In performing the System Impact Study, the Transmission Provider shall rely, to the extent reasonably practicable, on existing transmission planning studies. The Eligible Customer will not be assessed a charge for such existing studies; however, the Eligible Customer will be responsible for charges associated with any modifications to existing planning studies that are reasonably necessary to evaluate the impact of the Eligible Customer's request for service on the Transmission System.
- (ii) If in response to multiple Eligible Customers requesting service in relation to the same competitive solicitation, a single System Impact Study is sufficient for the Transmission Provider to accommodate the requests for service, the costs of that study shall be prorated among the Eligible Customers.
- (iii) Each Transmission Owner shall pay the Transmission Provider for System Impact Studies that the Transmission Provider conducts on the Owner's behalf in instances where merchant employees of the Transmission Owner have requested

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transmission service, the same as any non-Transmission
Owning customer.

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Transmission and Regulatory Policy

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Effective:

or requests in writing that the Transmission Provider file a proposed unexecuted Service Agreement with the Commission, and (iv) the Eligible Customer executes a Network Operating Agreement with the Transmission Provider pursuant to Attachment G, or requests in writing that the Transmission Provider file a proposed unexecuted Network Operating Agreement.

29.2 Application Procedures: An Eligible Customer requesting service under Part III of the Tariff must submit an Application, with a deposit approximating the charge for one month of service; provided, however, the Transmission Provider shall have the right to waive deposits on a nondiscriminatory basis for service requests if the Transmission Provider determines that the Transmission Customer is creditworthy. Unless subject to the procedures in Section 2, Completed Applications for new designated network resources, having a term of one year or longer, associated with Network Integration Transmission Service will be part of the aggregate study for long-term requests as defined in Attachment Z. Completed Applications for new designated network resources, having a term of less than one year, will be assigned a priority according to the date and time the Application is received, with the earliest Application receiving the highest priority. Applications should be submitted by entering the information listed below on the Transmission Provider's OASIS. A Completed Application shall provide all of the information included in 18 CFR § 2.20 including but not limited to the following:

- (i) The identity, address, telephone number and facsimile number of the party requesting service;
- (ii) A statement that the party requesting service is, or will be upon commencement of service, an Eligible Customer under the Tariff;
- (iii) A description of the Network Load at each delivery point. This description should separately identify and provide the Eligible Customer's best estimate of the total loads to be served at each transmission voltage level, and the loads to be served from each Transmission Provider substation at the

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same transmission voltage level. The description should include a ten (10) year forecast of summer and winter load and resource requirements beginning with the first year after the service is scheduled to commence;

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Issued on:

Effective:

ATTACHMENT D

Methodology for Completing a System Impact Study

Upon receipt of a Completed Application, the Transmission Provider will determine whether transmission transfer capability ("Available Transfer Capability" or "ATC") will be available to accommodate the transmission service requested in such Application. The Transmission Provider will apply the criteria and practices described in Attachment C to determine ATC for Short-Term Firm and Non-Firm Transmission Service requests. The Transmission Provider's Coordinated Planning Procedures, Attachment O, will be used to determine ATC for Long-Term Firm and Network Integration Transmission Service requests. Long-term transmission service requests will be processed using the aggregate study methodology set out in Attachment Z.

If sufficient ATC will exist to support the transaction described in the Eligible Customer's Application, as supplemented with necessary details such as the sources and sinks of the power to be scheduled under the request, the Transmission Provider will so inform the Eligible Customer. If the Transmission Provider determines that existing ATC is insufficient to provide the requested service, the Transmission Provider will notify the Eligible Customer. Upon a request by the Eligible Customer, the Transmission Provider will tender a Study Agreement to the Eligible Customer for a System Impact Study.

Upon receipt of a completed Study Agreement, the Transmission Provider, in coordination with the affected Transmission Owners, will perform a System Impact Study to determine whether the request for transmission service can be accommodated through construction of Direct Assignment Facilities or Network Upgrades or through redispatch, if available. The System Impact Study will provide an estimate of the cost of redispatch.

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All requests received during an open season shall be combined into a single Long-Term aggregate study. SPP shall determine facility additions necessary to support aggregated requests.

If the studies predict that a constraint will occur in the system of a non-SPP transmission provider or non-SPP control area, the Transmission Provider will so inform the Eligible Customer requesting service. The Transmission Provider and Eligible Customer will need to work with the appropriate parties to determine if the limitation is valid and to determine the facility additions or redispatch that may be required by others to support the transfer. The Eligible Customer requesting service shall have the option to reduce the request to a level that can be sustained without experiencing the constraint.

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Effective:

ATTACHMENT J

Recovery Of Costs Associated With New Facilities

1. Direct Assignment Facilities

Where a System Impact and/or Facilities Study indicates the need to construct Direct Assignment Facilities to accommodate a request for Transmission Service, the Transmission Customer shall be charged the full cost of such Direct Assignment Facilities. Such costs shall be specified in a Service Agreement.

2. Network Upgrades

a. The costs of completed Network Upgrades shall be handled as follows:

i. During the Transition Period:

The Transmission Customer(s) requesting Transmission Service which requires Network Upgrades shall pay the costs associated with those Network Upgrades to the extent consistent with Commission policy. Such costs shall be specified in a Service Agreement to be filed with the Commission.

ii. After the Transition Period:

All Network Upgrades constructed for service under this Tariff shall be rolled-in with all other transmission facilities. There shall be no direct assignment of Network Upgrade costs to Transmission Customers. However, the Transmission Provider shall not allow the construction and roll-in of a Network Upgrade when the Transmission Provider finds more economic or efficient alternatives. This roll-in of Network Upgrade costs shall not include the portion of any such Network Upgrades paid for during the Transition Period through direct assignment to Transmission Customer(s).

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b. The costs of Network Upgrades that are not completed shall be handled as follows:

If a proposed Network Upgrades was included in a Transmission Provider-approved Transmission Plan, required by the Transmission Provider, or otherwise accepted or approved by the Transmission Provider, the Transmission Owner(s) that incurred the costs shall be reimbursed for those costs by the Transmission Provider. These costs shall include, but are not limited to: the costs associated with attempting to obtain all necessary approvals for the project and studies and any construction costs. The Transmission Provider shall develop a mechanism to recover those costs which will be filed with the Commission on a case by case basis.

3. Aggregate Transmission Service

Cost recovery for transmission upgrades during the Aggregate Transmission Service Study Procedures shall be in accordance with Attachment Z.

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ATTACHMENT L

TREATMENT OF REVENUES

I. Payments and Distribution of Revenues

Payment will be made in accord with Section 7 of the Tariff to the Transmission Provider as agent for the Transmission Owners for all services provided under this Tariff. The Transmission Provider will distribute the revenues received to the Transmission Owners in accord with the provisions of this Attachment L.

II. Allocation of Base Transmission Revenues

A. Grandfathered Agreements

Except by mutual agreement of the Parties to Grandfathered Agreements, the Transmission Provider shall have no claim to the revenues collected under such agreements, and shall not collect or allocate any revenues for transmission service related to such transactions. The Transmission Owner providing the transmission service under the Grandfathered Agreements, therefore, will continue to receive payment directly from the customer under the Grandfathered Agreement.

B. Network Integration Transmission Service

Revenues collected by the Transmission Provider for Network Integration Transmission Service under Schedule 9 shall be fully allocated to the Transmission Owner(s) of the host Zone. Where a Network Customer has designated Network Load not physically interconnected with the Transmission System under Section 31.3, revenues collected by the Transmission Provider for Network Integration Transmission Service for that network load shall be allocated to the Transmission Owners on the same basis as Point-To-Point Transmission Service.

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C. Point-To-Point Transmission Service

1. Revenues collected by the Transmission Provider for Point-To-Point Transmission Service under Schedules 7 and 8 associated with power transactions where the generation source(s) and load(s) are located within the host Zone shall be fully allocated to the Transmission Owner of that host Zone whether the generation source is controlled by the Transmission Owner or another entity.

2. All other Transmission Provider Point-To-Point Transmission Service revenues under Schedules 7 and 8 collected by the Transmission Provider (i.e., other than those revenues specified in paragraph C.1) are shared between all Zones fifty percent (50%) in proportion to annual revenue requirements; and fifty percent (50%) based upon the MW-mile impacts incurred by the Transmission Owners. The annual revenue requirements used shall be those stated in Attachment H. The MW-mile impacts shall be determined by use of the procedures in Attachment S.

3. Where there are Transmission Owners within a Zone whose facilities have not been included in the rates stated in Attachments H and T, the Transmission Provider will further allocate the Point-to-Point Transmission Service revenues allocated to that Zone among the Zones Transmission Owners on the same basis as the revenues are allocated to the Zone. For the application of this provision each Transmission Owner shall have an annual revenue requirement filed with the Commission.

4. For Point-to-point revenue collected for use over transmission facilities that have been upgraded in an aggregate study, a portion of the revenue will be credited to the Transmission Customers. Transmission Customers who funded the upgrade will receive a portion of the revenue equal to the response factor percentage of each reservation based on the monthly ATC calculation. Allocation shall continue for all new requests until such time as Transmission Customers have been fully compensated for the portion of the upgrade over the base transmission service rate, including

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7. The revenues associated with Direct Assignment Facilities shall go directly to the Transmission Owner(s) owning the facilities. The revenues associated with Network Upgrades shall be first assigned to the Transmission Owner building the Network Upgrades to meet the annual revenue requirements of such facilities. If multiple Transmission Owners construct the facilities, the revenues shall be shared in accordance with each Transmission Owner's respective revenue requirement for such facilities or as otherwise agreed by the Transmission Owners. The remaining revenues shall be allocated in accordance with Section II of this Attachment L.

8. The revenues associated with Wholesale Distribution Service shall go directly to the Transmission Owner(s) owning the facilities consistent with Schedule 10.

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9. Any additional revenues received under Section 22.1 shall be treated in the same manner as revenues under Section II.D. of this Attachment L.

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Transmission and Regulatory Policy

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Effective:



Southwest Power Pool, Inc.
OPERATIONS POLICY COMMITTEE
Report to the Board of Directors
April 27, 2004

New Tariff Attachment AA

Background and Analysis

The timing parameters for SPP Short-term transmission service reservations (less than one year in length) require customers to make requests during a limited period in advance of the start of service. The time frames provided are not sufficient to allow for transmission facilities to be expanded for the benefit of short-term service. This proposal is designed to allow customers who deal in the short-term market, the option to prepay for service in order to fund transmission expansion for the benefit of short-term service. Customers will receive a credit for service at the time the funds are used for transmission expansion. This is proposed on a one-year experimental basis.

Under this proposal transmission customers have the optional ability to prepay for transmission service. This prepayment shall be provided back to the customer as a credit. The prepayment will be placed in an interest bearing account with the interest added to the credited amount. The credits will be applied to the customer's monthly invoice at the time the transmission owner expenditures occur. This shall continue until the customer has been fully reimbursed for the prepayment.

The prepayment amount is limited to the greater of either \$50,000 or the largest monthly aggregate charge paid by the customer for service under schedules 7 and 8 during the 6 months prior to the prepayment. The transmission customer must have paid at least \$50,000 in total charges during the prior calendar year to participate. This limitation is made to ensure that customers using this procedure are active in the SPP market and with the expectation that the customer will receive the credits in a short period of time.

The transmission customers can designate system upgrades that their prepayments will fund. If these requested facilities are determined to provide benefit, the funds will be allocated for construction based on the need and benefit of the system. SPP as the transmission provider will work with the transmission owners in determining the upgrades. The transmission provider shall maintain a list of upgrades that would improve available transfer capability.

The procedure is proposed under an experimental basis for one year. After that time the merits of continued use of this procedure will be evaluated. If it is determined to discontinue this procedure, the applied credits will continue until completely reimbursed.

Recommendation

The Board of Directors approves the new Tariff Attachment AA for filing.

Approved: Regional Transmission Working
Operations Policy Committee

April 8, 2004
April 15, 2004

Action Requested: Approval of the OPC recommendation

ATTACHMENT AA

TRANSMISSION SERVICE PREPAYMENT(Experimental)

1.0 Transmission Service Prepayment

This Attachment allows Transmission Customers to make Transmission Service prepayments for the Transmission Provider's use in expanding the Transmission System. The total individual Transmission Customer prepayment shall be capped at the greater of either \$50,000 or the largest monthly aggregate charge paid by the Customer for services under Schedules 7 and 8 during the prior 6 months. Transmission Customers must have had at least \$50,000 in total charges during the prior calendar year to participate.

2.0 Treatment of Service Prepayment

The Transmission Provider shall use the prepayment made to improve the transmission system. The Transmission System improvements made shall relieve constraints that limit shall be based on upgrading Available Transfer Capability. The Transmission Provider shall maintain a list of system upgrades that would improve Available Transfer Capability. The Transmission Customer can designate the system upgrades for which the service prepayment is requested to be used or allow the Transmission Provider and the Transmission Owners to determine which system upgrades to complete first. The Transmission Provider shall direct the Transmission Owner to construct the determined system upgrades. The Transmission Provider and the Transmission Owner will coordinate the timing, costs, payment schedule and conditions for the upgrade. The Funds provided by the Transmission Customer under this procedure shall be deposited in an escrow account.

3.0 Transmission Service Credit for Prepayment

The Transmission Customers who make a prepayment shall receive future credit for transmission services provided under Schedules 7 and 8. The credit shall be provided at the same time and in the same amount as expenditures are made from the escrow account for the upgrades. If construction expenditures have not been made, the crediting shall begin one year after the date of receipt. The Transmission Customer shall receive a credit on all portions of schedule 7 and 8 service that do not already provide for system upgrades.

This shall continue on a monthly basis until the Transmission Customer has received full credit back for the amount of prepayment made. Transmission Customers shall receive interest on the balance in the escrow account.

4.0 Experiment Description

This Transmission Service Prepayment Procedure is hereby implemented on an experimental basis and may be terminated one year after its effective date; except that credits for prepayments will continue until such time as the Transmission Customer has been completely reimbursed. In the course of the experiment, SPP will assess the merit of continued offering of this service.



Southwest Power Pool, Inc.
OPERATIONS POLICY COMMITTEE
Report to the Board of Directors
April 27, 2004

Modifications to Service Schedule 4-A

Background and Analysis

Ancillary Service Schedule 4-A, Generation Imbalance Service, was approved for inclusion in the SPP OATT by SPP's Board of Directors in a notational vote on January 19, 2004 as part of the SPP filing in compliance with FERC's Order 2003. This filing was made on January 20, 2004.

At the time of the Board's consideration of the Order 2003 compliance filing, OMPA representatives raised concerns about Schedule 4-A. Subsequent to that filing the RTWG has received and considered a proposal made by a representative of OMPA intended to:

1. Clarify that Schedule 4-A would only apply to transactions across a Control Area boundaries;
2. Provide a default basis for allocation of generation output among multiple schedules from a single generator where the generation operator fails to provide a timely basis for settlement;
3. Set a reasonableness standard for acceptance of other arrangements as alternatives to Schedule 4-A; and
4. Establish a new pricing basis for the charges under Schedule 4-A, replacing the use of the individual Transmission Owner's FERC approved Schedule 4 rates.

At its April 8, 2004 meeting, the RTWG approved the attached Schedule 4-A for inclusion in the SPP OATT. This proposal adopts OMPA's proposal with regard to items 1, 2, and 3 above, and rejects item 4. The proposal retains the individual Transmission Owner's Schedule 4 rates as approved by the Commission.

If approved for filing with the Commission for inclusion in the SPP OATT, the proposed revisions to Schedule 4-A would be included in a new Section 205 filing and a filing would be made to withdraw the version of Schedule 4-A pending before the Commission in Docket ER04-434-000.

Recommendation

The Board of Directors approves the proposed modifications to Service Schedule 4-A for filing.

Approved: Regional Transmission Working
Operations Policy Committee

April 8, 2004
April 15, 2004

Action Requested: Approval of the OPC recommendation

SCHEDULE 4-A

Generation Imbalance Service

Generator Obligations. For a generating station in a Control Area, but not dispatchable by that Control Area ("Generator"), Generation Imbalance Service is provided when a difference occurs over a single hour between the scheduled and the actual delivery of energy between the Generator and the Control Area [for transactions that cross Control Area boundaries](#).

Generator shall use commercially reasonable efforts to avoid the creation of any imbalance.

The Transmission Provider shall not impose both a Schedule 4 charge and a Schedule 4-A charge on the same transaction within a host Control Area; provided, however, that when one or more schedules from the same generator (one or more generators with jointly metered output) are being delivered to more than one load entity (load) within the host Control Area, the Generator must provide a breakdown or allocation of the actual output of the generator to be credited to each load. If the Generator fails to provide such breakdown within 3 business days after the end of the month, the Transmission Provider and/or host Control Area Operator shall [allocate the actual output in proportion to the original schedules and](#) settle imbalances separately for the Generator and for each load [in accordance with Schedule 4 or Schedule 4-A as appropriate](#). Separate settlements for the Generator and loads shall not ~~be considered as imposition of~~ [impose](#) both a Schedule 4 and Schedule 4-A charges if such action results from the failure of the Generator to provide the required output allocation within the specified time period.

In the event that the Generator operates in a separate Control Area or the Generator's output is dynamically scheduled out of the Transmission Owner's Control Area to another Control Area and the equipment and related telemetry necessary to accomplish such dynamic scheduling is operational, then Generation Imbalance Service shall not apply. The Generator must either purchase this service from the Transmission Provider or make alternative comparable arrangements to satisfy its Generation Imbalance Service obligation. Unless the Generator makes alternative comparable arrangements, the Transmission Provider will obtain this service from the host Control Area or elsewhere, where appropriate, and the Generator shall pay the Transmission Provider for this service when the Transmission Provider provides this service to the Generator. In satisfaction of this obligation, an appropriate agent or customer of the

Generator (e.g., its power marketer(s) or customers(s)) may make prior contractual arrangements for the assumption of the responsibility for this service.

The Transmission Provider will offer this service subject to its determination of the Transmission Owner's or Control Area operator's ability to maintain system reliability and to serve other commitments that exist at the commencement of the hour. In the event that the Transmission Provider determines during any hour that this service cannot be provided due to Transmission Owner's or Control Area operator's need to maintain system reliability and/or to serve prior commitments, the Transmission Provider shall on a non-discriminatory basis adjust Generator's schedules as necessary, and provide the Generator with as much notice of such adjustment as is reasonably possible. Generator shall respond promptly to Transmission Provider's directions to make such schedule adjustments, pursuant to NERC requirements.

If the Generator intends to rely on other arrangements to avoid imbalances, the Generator must demonstrate, to the Transmission Provider's [reasonable](#) satisfaction, that it has satisfied the requirements of this Schedule 4-A prior to the submission of any schedules for delivery from the Generator. In the event that the Generator fails to demonstrate to the Transmission Provider that the Generator has otherwise satisfied the requirements of this Schedule 4-A, the Generator shall be deemed to have elected to take Generator Imbalance Service under this Schedule 4-A.

Charges. Charges for Generation Imbalance Service shall be calculated pursuant to Schedule 4 of the SPP OATT; provided, however, that if the Transmission Owner of the host Control Area providing the service has an applicable rate for Generation Imbalance Service on file with the Commission, the Generator shall pay the Generation Imbalance Service charge of such Transmission Owner. Charges to the Generator are to reflect only a pass-through of the costs charged to the Transmission Provider by the host Control Area operator or other suppliers. The Transmission Provider shall pass through the revenues it receives for this service to the Control Area operator or other suppliers providing the service. In calculating charges for Generation Imbalance Service pursuant to Schedule 4 of the SPP OATT, Generator's scheduled deliveries of energy at the Point of Interconnection with the host Control Area shall be adjusted for ramping, which shall be in accordance with NERC Policy 3, when such schedules are compared to the integrated values for the hours affected by such ramping.

**Southwest Power Pool
CORPORATE GOVERNANCE COMMITTEE
Report to the Board of Directors
April 27, 2004**

BOARD APPOINTMENT OF COMMITTEE REPRESENTATION

Background

On February 10, 2004, the Federal Energy Regulatory Commission (the "Commission") issued an order in the SPP RTO filing docket (RT04-1) conditionally approving SPP as an RTO. Per the order, SPP is directed to, among other things, modify its governance structure. The order provided direction as to the sectors that must be represented on the Members Committee and the Corporate Governance Committee (formerly the Nominating Task Force).

Analysis

The Commission was clear in its requirement that SPP transition to the non-stakeholder Board of Directors in advance of receiving RTO recognition. This transition includes a new committee structure for the *Committees Reporting to the Board of Directors*, per Section 6.0 of the Bylaws effective May 1, 2004. In accordance with Sections 6.0 *Committees Reporting to the Board of Directors* and 6.6 *Corporate Governance Committee* in the Bylaws dated May 1, 2004, the Corporate Governance Committee met for purposes of creating a slate of nominees for these committees for consideration and appointment by the Board of Directors (Attachment). In accordance with those Bylaws, it is the Board's responsibility to appoint the representatives to serve on these committees.

Recommendation

The Corporate Governance Committee recommends that the Board of Directors approve the slate of nominees presented for the Committees Reporting to the Board of Directors to become effective May 1, 2004.

Approved: Corporate Governance Committee April 9, 2004

Action Requested: Approve the recommendation

pre-RTO

Compliance Working Group

Dave Christiano, Chair

Mike McGeeney

Ron Ciesiel, Secretary



post-RTO

Compliance Committee

(3 BOD members)

Josh Martin, Chair

Phyllis Bernard

Quentin Jackson

Ron Ciesiel, Secretary

pre-RTO

Employee Benefits Working Group

Jim Eckelberger, Chair

Nick Brown

Harry Dawson

Trudy Harper

Quentin Jackson

Richard Spring

Tom Dunn, Secretary

post-RTO

Human Resources Committee

(2 BOD members; 2 TOs; 2 non-TOs)

BOD

Quentin Jackson, Chair

Phyllis Bernard

TOs

Richard Spring KCPL

Mike Deihl SPA

Non-TOs

Harry Dawson OMPA

Trudy Harper Tenaska

Tom Dunn, Secretary

pre-RTO

Finance Working Group

Harry Skilton, Chair

Nick Brown

Jim Eckelberger

Trudy Harper

Tom Dunn, Secretary

post-RTO

Finance Committee

(2 BOD members; 2 TOs; 2 non-TOs)

BOD

Harry Skilton, Chair

Bob Schoenberger

TOs

Doug Henry Westar

Michael Desselle AEP

Non-TOs

Trudy Harper Tenaska

Gary Voigt AECC

Tom Dunn, Secretary

pre-RTO

Strategic Planning Committee

Richard Spring, Chair
Ricky Bittle
Nick Brown
Dave Christiano
Michael Desselle
Trudy Harper
Mel Perkins
Jim Stanton

Nick Brown, Secretary

post-RTO

Strategic Planning Committee

(3 BOD members; 4 TOs; 4 non-TOs)

BOD

Jim Eckelberger
Josh Martin
Harry Skilton

TOs

Richard Spring, Chair	KCPL
Mike Palmer	Empire District
Mel Perkins	OGE
Michael Desselle	AEP

Non-TOs

Ricky Bittle	AECC
Dave Christiano	City Utilities (Springfield)
Steve Parr	KEPCO
Jim Stanton	Calpine

Stacy Duckett, Secretary

**Southwest Power Pool
Finance Working Group Recommendation
To the Board of Directors
April 27, 2004**

Finance Committee Charter

Background

The Board of Directors of Southwest Power Pool, Inc. established a Finance Committee in its draft bylaws submitted with SPP's RTO application to the FERC. The duties of the Finance Committee are summarized in the draft bylaws. A more specific scope document will detail the responsibilities and authorities of the committee.

Analysis

The Finance Working Group has met several times dating back to mid-2003 to document its activities in a scope document. This scope document was being developed to support the existence of the proposed Finance Committee that is intended to replace the functions of the Finance Working Group.

Recommendation

The Finance Working Group recommends the SPP Board of Directors accept the Finance Committee Scope Statement as the charter of the Finance Committee, and approve the detailed responsibilities and authorities of the Finance Committee.

Approved: Finance Working Group

April 16, 2004

Action Requested: Approve Recommendation



**Southwest Power Pool
FINANCE COMMITTEE
Organizational Group Scope Statement
May 1, 2004**

Purpose

The purpose of the Finance Committee is to oversee all aspects of SPP's financial operations, primarily insure appropriate controls, policies and procedures are documented and adhered to allowing SPP to report accurate financial reports, access external capital as required, while not exposing the company or its membership to undue risks.

Scope of Activities

The Committee, in discharging its oversight role, is empowered to study or investigate any matter of interest or concern that the Committee deems appropriate. In this regard, the Committee shall have the authority to retain outside legal, accounting or other advisors for this purpose, including the authority to approve the fees payable to such advisors and any other terms of retention. The Committee is directly responsible for the compensation and oversight of the work (including both audit and non-audit services) of the independent auditors and for recommending engagement of the independent auditors for Board of Directors approval. The Committee shall be given full access to the corporation's accounting staff, Board of Directors, corporate executives and independent accountants as necessary to carry out these responsibilities.

Specific tasks include:

1. Review and discuss with management and the independent auditors, prior to public dissemination, the corporation's annual audited financial statements.
2. The Committee shall annually recommend for Board of Directors approval engagement of independent auditors.
3. Develop, in conjunction with management, a schedule for the preparation and development of the annual operating budget, capital budget and each special budget that provides sufficient time for preliminary development by management, review by the Committee, consideration of the proposed budget by the Board of Directors, and final approval of the proposed budget by the Board of Directors, in accordance with the overall budget cycle established by the Board of Directors.
4. Monitor the methodology of cost recovery to insure continuing equity for Members.
5. Develop policies for management of the company's capitalization, financing and long-term contracts.
6. Review periodically, with the corporation's counsel, any legal matter that could have a significant impact on the corporation's financial statements.
7. Discuss with management and the independent auditors the corporation's guidelines and policies with respect to risk assessment and risk management. The Committee should discuss the corporation's major financial risk exposures and the steps management has taken to monitor and control such exposures.
8. Report regularly to the full Board of Directors including:
 - a. any issues that arise with respect to the quality or integrity of the corporation's financial statements, the corporation's compliance with legal or regulatory requirements, the

- performance and independence of the corporation's independent auditors or the performance of the internal audit function;
 - b. actual financial results in comparison to budgeted results;
 - c. following all meetings of the Committee; and
 - d. with respect to such other matters as are relevant to the Committee's discharge of its responsibilities.
9. Review with management and the independent auditors their assessments of the adequacy of internal controls and the resolution of any identified material weaknesses or reportable conditions.
 10. Review annually the Company's Business Continuity Planning and Disaster Recovery Programs as related to financial and MIS risks as well as significant Information Security matters and any actions being taken to address weaknesses noted.
 11. Review and approve annually significant financial and compliance policies which fall under the purview of the Committee (e.g. Reconciliations, Code of Ethics, Privacy, Compliance, Regulation O, BSA, Vendor Management, etc.)
 12. The Committee shall perform a review and evaluation, at least annually, of the performance of the Committee and its members, including reviewing the compliance of the Committee with this Charter.

The Committee is not responsible for certifying the corporation's financial statements or guaranteeing the auditor's report. The fundamental responsibility for the corporation's financial statements and disclosures rests with management.

Representation

The Finance Committee shall be comprised of six members. Two representatives shall be members of the Board of Directors and one of these will be the chairperson. Two representatives from the Transmission Owner category of membership and two representatives from the non-Transmission Owner category of membership will be members of the Committee. The Board of Directors and the Members' Committee shall separately appoint their representatives at the regular meeting of the Board of Directors immediately following the Annual Meeting of Members. The Board of Directors will designate their two representatives and designate the chairperson. The Transmission Owners on the Members' Committee will designate their two representatives and the non-Transmission Owners will designate their two representatives. Persons designated as representatives on the Finance Committee will continue to serve until their successors have been appointed. Where a vacancy occurs, the Corporate Governance Committee will fill the vacancy in accordance with SPP Bylaws.

Duration

The Finance Committee is a permanent committee. The Committee shall meet a minimum of two times per fiscal year and at other times as called by the Chair. A quorum will constitute at least half of the members of the committee but no less than three members. Proxies are allowed if reported to the Chair prior to the meeting. All meetings of the Finance Committee shall be open to all interested parties unless closed by the Chair of the Committee.

Reporting

The Finance Committee reports directly to the Board of Directors.

**Southwest Power Pool
MEETING OF MEMBERS
Peabody Hotel – Little Rock, Arkansas
October 29, 2003**

Agenda Item 1 – Administrative Items

SPP Board of Directors Chair, Mr. Al Strecker, called the meeting to order at 8:31 a.m. (Agenda Attachment 1). There were 50 people in attendance representing 23 members (Attendance List – Attachment 2). The secretary received two proxy statements (Proxies – Attachment 3). Mr. Strecker asked if there were any necessary corrections to the minutes of November 12, 2002 (11/12/02 Minutes – Attachment 4). Mr. Desselle moved to approve the previous minutes. Mr. Spring seconded this motion, which passed unopposed.

Agenda Item 2 – President's Report

Mr. John Marschewski presented a report on SPP activities for 2003 (President's Report – Attachment 5). Mr. Marschewski reported on the merger dissolution, strategic plan, retirements, presidential search team, membership, and staffing. He also gave a brief update on NERC and NAESB activities (NERC Report – Attachment 6).

Agenda Item 3 – 2003 Organization Overview/2004 Outlook

Mr. Nick Brown gave the organizational overview for 2003 and outlook for 2004 (2003 Organizational Overview/2004 Outlook – Attachment 7). Mr. Brown reviewed 2003 highlighting the LaCygne-Stillwell project and the Strategic Planning Committee Plan. In the 2004 Outlook a Regional Planning Summit is planned and SPP will focus on implementation of the market.

Agenda Item 4 – 2003 Operation Overview/2004 Outlook

Mr. Carl Monroe gave the operational overview for 2003 and outlook for 2004 (2003 Operational Overview/2004 Outlook – Attachment 8).

Agenda Item 5 – Financial Overview/2004 Outlook

Mr. Tom Dunn presented the Financial Overview and 2004 Outlook (2003 Financial Overview/2004 Outlook – Attachment 9).

Agenda Item 7 – Nominating Task Force

Mr. Christiano referred to the current board roster (NTF Report – Attachment 10). Mr. Christiano pointed out that the election of officers was very important due to decisions and impacts this Board of Directors would have as an Independent Board after receiving RTO status. The new Board structure would become effective on the first of the month falling 30 days and no longer than 60 days after the final RTO ruling. Mr. Christiano presented the following:

The Nominating Task Force nominates to the Membership for their expiring terms: Dick Dixon, Richard Verret, Gary Voigt, Harry Dawson, and Harry Skilton; and that Gary Roulet be nominated to the Membership to fill the unexpired term of J. M. Shafer. The Nominating Task Force also nominates to the Membership Robert Schoenberger to fill the vacant director position, Joshua Martin to fill the expiring term of Larry Sur, and Phyllis Bernard to fill the unexpired term of Tom McDaniel.

Mr. Sur requested not to be nominated for a new term and Mr. McDaniel resigned his unexpired term. Both were due to time constraints. Mr. Strecker called attention to the ballot of nominations as presented from the Nominating Task Force and opened the floor for additional nominees (Ballot – Attachment 10). Hearing no additional nominees, Mr. Strecker closed the nomination process and asked each member to mark their ballots. The ballots were collected and votes counted. Mr. Brown reported that nominees had been unanimously elected and the ballots will be kept on file at the SPP office.

Adjournment

With no further business, Mr. Strecker adjourned the Meeting of Members at 10:08 a.m.

Respectfully Submitted,

Nicholas A. Brown, Corporate Secretary

**Southwest Power Pool
BOARD OF DIRECTORS
Report to the Membership
April 27, 2004**

MEMBERSHIP APPROVAL OF BOARD STRUCTURE CHANGE

Background

On February 10, 2004, the Federal Energy Regulatory Commission (the "Commission") issued an order in the SPP RTO filing docket (RT04-1) conditionally approving SPP as an RTO. Per the order, SPP is directed to, among other things, transition to a non-stakeholder Board of Directors as a pre-condition to RTO approval. This transition was contemplated to occur immediately following RTO recognition in SPP's initial filing.

Analysis

At its March 16 meeting, the Board of Directors approved the Strategic Planning Committee's (SPC) recommendation to move forward in complying with all conditions/issues in the SPP RTO order. The Commission was clear in its requirement that SPP transition to the non-stakeholder Board of Directors in advance of receiving RTO recognition. The Commission desires that this transition occur as soon as possible in that SPP is already making implementation decisions regarding Order 2000 compliance. The SPC recommended and the Board of Directors concurred with the changes to the SPP Bylaws necessary to accomplish these requirements. Pursuant to Section 8.0 of the current Bylaws, changes to Section 4.0 of the Bylaws regarding the structure and authorities of the Board of Directors must be approved by the Membership (Attachment).

Recommendation

The Board of Directors recommends that the Membership approve changes to Section 4.0 of the Bylaws to become effective May 1, 2004.

Approved: Board of Directors March 16, 2004

Action Requested: Approve the recommendation

SPP BYLAWS

Current Section 4.0 Board of Directors

4.1 Duties

The Board of Directors shall manage, control and direct the general business of SPP and its duties shall include, but are not limited to the following:

- a. Direct activities of all SPP Organizational Groups,
- b. Select and review the SPP President and Corporate Secretary, who shall serve at the pleasure of the Board of Directors,
- c. Determine positions, duties, qualifications, salaries, benefits and other necessary matters pertaining to the SPP Staff,
- d. Review, approve, disapprove or recommend revision to the actions of any committee, working group, or task force,
- e. Act on appeals,
- f. Approve or revise the annual budget and any additional expenditures,
- g. Convene a Meeting of Members at least annually and additionally as necessary,
- h. Approve amendments to these bylaws,
- i. Approve SPP Criteria containing planning and operating standards and policies and penalties for non-compliance with such Criteria, and
- j. Authorize filings with regulatory bodies.

4.2 Composition and Qualifications

4.2.1 Composition

Provided that Membership is sufficient to accommodate these provisions, the Board of Directors shall consist of 21 persons. Seven directors shall be representatives of Transmission Owning Members, seven directors shall be representatives of Transmission Using Members, and seven directors shall be independent of any Member. Within the Transmission Owning sector, at least two directors shall be representatives of non-investor owned utilities. Within the Transmission Using Member sector, 2 directors shall be representatives of municipal Members (including municipal joint action agencies), 2 directors shall be representatives of cooperative Members and 3 directors shall be representatives of marketer and/or independent power producer and/or other Members. The President shall serve as one of the seven independent directors; provided, that the President shall be excluded from voting on business related to the office of President or the incumbent of that office. No other Staff member shall be permitted to serve as a director. If Membership is insufficient to accommodate these provisions the Nominating Task Force shall make appropriate recommendations to the Membership; provided, that in no instance shall the number of directors in each sector be unequal.

4.2.2 Qualifications

A Member director shall be an officer or employee of a Member with decision-making responsibility over SPP related activities, and must be the Member's representative to the Membership. Independent directors shall have recent and relevant senior management expertise and experience in one or more of the following utility profession disciplines; finance, accounting, transmission or generation planning or operation, law and regulation, commercial markets, and trading and associated risk management. Independent directors shall not be a director, officer, or employee of, and shall have no direct business relationship, financial interest in, or other affiliation with, a Member or customer of services provided by SPP. Independent directors may indirectly own any securities through a mutual fund or similar arrangement (other than a fund or arrangement specifically targeted towards the electric industry or any segments thereof) under which the director does not control the purchase or sale of such securities. Participation in a pension plan of a Member or customer shall not be deemed to be a direct financial

benefit if the Member's or customer's financial performance has no material effect on such pension plan.

4.3 Term and Election

Except for the President, directors shall be elected each year at the Meeting of Members to staggered three-year terms commencing upon election and continuing until their duly elected successors take office. Initial staggering of terms will be decided by lottery within each sector. The election process shall be as follows:

- a. At least three months prior to the Meeting of Members when election of new directors is required, the Chair of the Board of Directors shall appoint a Nominating Task Force of six representatives consisting of three representatives from each Membership sector of the Board of Directors,
- b. The Nominating Task Force shall nominate persons equal in number to the directors to be elected, with representatives nominating persons solely for their respective Membership sector, and all six representatives nominating persons for the independent sector,
- c. At least one month prior to the Meeting of Members, the Nominating Task Force shall notify the President in writing of the persons it nominates for election as directors, specifying the nominee for any vacancy to be filled. The President shall prepare the ballot accordingly, leaving space for additional names, and shall deliver same to Members at least two weeks prior to the Meeting of Members,
- d. For purposes of electing directors only, all Members with Affiliate Relationships shall be limited to a single vote within a single Membership category. These Affiliate Relationship Members are free to specify the Membership category in which to cast their vote in cases where Membership is held in both Membership categories and such election shall remain in effect for three years,
- e. At the Meeting of Members, any additional nominee or nominees may be added to the ballot if a motion is made and seconded from within the Membership category to add such nominee or nominees, or if from the entire Membership to add a nominee for an independent director, and
- f. At the Meeting of Members, the required number of directors shall be elected by written ballot. Each Member shall be entitled to vote for each nominee of its choice from within its Membership category and for each independent nominee of its choice, but not for more nominees than the number of directors to be elected in each such category. The Member candidates receiving the most votes within each Membership category will fill Member director vacancies. The six independent candidates receiving the highest percent of the average of approving vote ratios within each Membership category will fill independent director vacancies.

4.4 Resignation and Removal of Directors

Any director may resign by written notice to the President noting the effective date of the resignation. If the resignation notice does not include an effective date, the resignation shall take effect upon receipt of the notice by the President. The Membership may remove a director with cause, by an affirmative vote taken in the same manner as the director was elected. Removal proceedings may only be initiated by a petition signed by not less than twenty percent of the Members. The petition shall state the specific grounds for removal and shall specify whether the removal vote is to be taken at a special Meeting of Members or at the next regular Meeting of Members. A director sought to be removed shall be given fifteen days to respond to the petition in writing to the President.

4.5 Vacancies

If a vacancy occurs the Board of Directors will elect an interim director representing the same Membership category to serve until a replacement director is elected and takes office. A special election shall be held at the next Meeting of Members to fill the vacancy for the unexpired term. The replacement director shall take office immediately following the election.

4.6 Functioning of the Board of Directors

In reaching any decision and in considering the recommendations of any Organizational Group, the Board

of Directors shall abide by the principles in the SPP Articles of Incorporation and these Bylaws.

4.6.1 Meetings and Notice of Meetings

The Board of Directors shall meet at least three times annually and additionally upon the call of the Chair or upon concurrence of at least seven directors. At least fifteen days' written notice shall be given to each director by the President of the date, time, place and purposes of a meeting of the Board of Directors, unless such notice is waived by the Board of Directors. Telephone conference meetings may be called as appropriate by the Chair with at least one-day prior notice.

4.6.2 Chair and Vice Chair; Election and Terms

The Board of Directors shall elect from its membership a Chair and a Vice Chair for two-year terms, commencing upon election and continuing until their duly elected successors take office or until their term as a director expires without reelection. The Vice Chair shall act for the Chair at the request of the Chair; or in the event the Chair should become incapacitated and unable to discharge the functions of the office; or the office of Chair becomes vacant, until the next regularly scheduled meeting of the Board of Directors, at which meeting a new Chair shall be elected by the Board of Directors to fill the vacancy. The Chair shall appoint a director to fill a vacant Vice Chair position until the next meeting of the Board of Directors.

4.6.3 Quorum and Voting

Two-thirds of the directors shall constitute a quorum of the Board of Directors; provided, that a lesser number may adjourn the meeting to a later time. Decisions of the Board of Directors shall be by two-thirds majority vote of the directors present or represented by proxy and voting. To facilitate timely administration, voting by mail may be used for actions outside of regular or called meetings. Voting by mail will occur only at the direction of the Chair and the action must have a motion and second by Members of the Board of Directors. Voting by mail will be expeditiously administered by the Staff Secretary by any widely available means. The outcome of votes taken by mail will be reported at the next meeting of the Board of Directors and recorded in the meeting minutes.

4.6.4 Compensation of Independent Directors

Independent directors shall receive compensation as established by the Membership and shall be reimbursed for actual expenses reasonably incurred or accrued in the performance of their duties.

4.6.5 Executive Session

Executive sessions (closed to all but directors and parties invited by the Chair) shall be held as necessary upon agreement of the Board of Directors to safeguard confidentiality of sensitive information regarding employee or legal matters.

Proposed Section 4.0 Board of Directors

4.1 Duties

The Board of Directors shall at all times act in the best interest of SPP in its management, control and direction of the general business of SPP. The Board of Directors shall solicit and consider a straw vote from the Members Committee as an indication of the level of consensus among Members in advance of taking any actions other than those occurring in executive session. Its duties shall include, but are not limited to the following:

- a. Direct activities of all SPP Organizational Groups;
- b. Serve on SPP Organizational Groups;
- c. Remove Members, and approve the re-entry of Members that have been removed;
- d. Authorize all major contracts and debt instruments;
- e. Select and review the performance of Officers, who shall serve at the pleasure of the Board of Directors;
- f. Determine positions, duties, qualifications, salaries, benefits and other necessary matters pertaining to the SPP Staff;
- g. Review, approve, disapprove or recommend revision to the actions of any Organizational Group;
- h. Act on appeals pursuant to Section 3.10;
- i. Approve or revise the operating and capital budgets and any additional expenditures;
- j. Convene a meeting of Members at least annually;
- k. Approve amendments to these Bylaws;
- l. Approve amendments to the Membership Agreement;
- m. Approve Criteria pertaining to planning and operating standards and policies and penalties for non-compliance with such Criteria; and
- n. Authorize filings with regulatory bodies.

4.2 Composition and Qualifications

4.2.1 Composition

The Board of Directors shall consist of seven persons. The seven directors shall be independent of any Member; one director shall be the President of SPP. A Director shall not be limited in the number of terms he/she may serve. The President shall be excluded from voting on business related to the office of President or the incumbent of that office. No other Staff member shall be permitted to serve as a director.

4.2.2 Qualifications

Directors shall have recent and relevant senior management expertise and experience in one or more of the following disciplines: finance, accounting, electric transmission or generation planning or operation, law and regulation, commercial markets, and trading and associated risk management.

4.2.3 Conflicts of Interest

Directors shall not be a director, officer, or employee of, and shall have no direct business relationship, financial interest in, or other affiliation with, a Member or customer of services provided by SPP. Directors may indirectly own securities through a mutual fund or similar arrangement (other than a fund or arrangement specifically targeted toward the electric industry or any segments thereof) under which the director does not control the purchase or sale of such securities. Participation in a pension plan of a Member or customer shall not be deemed to be a direct financial benefit if the Member's or customer's financial performance has no material effect on such pension plan.

4.3 Term and Election

Except for the President, a director shall be elected at the meeting of Members to a three-year term

commencing upon election and continuing until his/her duly elected successor takes office. Initial staggering of terms will be decided by lottery with two directors' terms to expire in the first year, two in the second year, and two in the third year. The election process shall be as follows:

- a. At least three months prior to the meeting of Members when election of new directors is required, the Corporate Governance Committee shall commence the process to nominate persons equal in number to the directors to be elected;
- b. At least one month prior to the meeting of Members, the Corporate Governance Committee shall notify the President in writing of the persons it nominates for election as directors, specifying the nominee for any vacancy to be filled. The President shall prepare the ballot accordingly, leaving space for additional names, and shall deliver same to Members at least two weeks prior to the meeting of Members;
- c. For purposes of electing or removing directors only, each group of Members with Affiliate Relationships shall be considered a single Member;
- d. At the meeting of Members, any additional nominee or nominees may be added to the ballot if a motion is made and seconded by Members; and
- e. At the meeting of Members, the required number of directors shall be elected by written ballot. Each sector of the Membership votes separately with the result for that sector being a percent of approving votes to the total number of Members voting. Each Member shall be entitled to cast a number of votes equal to the number of directors to be elected. A Member may not cumulate votes. The candidates receiving the highest percent of the average of approving vote ratios within each Membership sector will fill vacancies.

4.4 Resignation and Removal of Directors

Any director may resign by written notice to the President noting the effective date of the resignation. The Membership may remove a director with cause by the vote of a majority of each Membership sector at a meeting of Members. Removal proceedings may only be initiated by a petition signed by not less than twenty percent of the Members. The petition shall state the specific grounds for removal and shall specify whether the removal vote is to be taken at a special meeting of Members or at the next regular meeting of Members. A director who is the subject of removal proceedings shall be given fifteen days to respond to the Member petition in writing to the President.

4.5 Vacancies

If a vacancy occurs, the Corporate Governance Committee will present to the Board of Directors for consideration and election an interim director to serve until a replacement director is elected and takes office. A special election shall be held at the next meeting of Members to fill the vacancy for the unexpired term. The replacement director shall take office immediately following the election.

4.6 Functioning of the Board of Directors

In reaching any decision and in considering the recommendations of any Organizational Group or task force, the Board of Directors shall abide by the principles in these Bylaws.

4.6.1 Meetings and Notice of Meetings

The Board of Directors shall meet at least three times per calendar year and additionally upon the call of the Chair or upon concurrence of at least four directors. At least fifteen days' written notice shall be given by the President to each director, the Members Committee, and the Regional State Committee of the date, time, place and purpose of a meeting of the Board of Directors, unless such notice is waived by the Board of Directors. Telephone conference meetings may be called as appropriate by the Chair with at least one-day prior notice. Board of Directors' meetings shall include the Members Committee and a representative from the Regional State Committee (as defined in Section 5.2) for all meetings except when in executive session; provided however, the failure of representatives of the Members Committee and/or of the

Regional State Committee to attend, in whole or in part, shall not prevent the Board of Directors from convening and conducting business. The Chair shall grant any Member's request to address the Board of Directors.

4.6.2 Chair and Vice Chair; Election and Terms

The Board of Directors shall elect from its membership a Chair and Vice Chair for two-year terms commencing upon election and continuing until their duly elected successors take office or until their term as a director expires without re-election. The President of SPP may not serve as the Chairman of the Board of Directors. The Vice Chair shall act for the Chair:

- a. at the request of the Chair;
- b. in the event the Chair should become incapacitated and unable to discharge the functions of the office; or
- c. if the office of Chair becomes vacant, until the next regularly scheduled meeting of the Board of Directors, at which meeting a new Chair shall be elected by the Board of Directors to fill the vacancy. The Chair shall appoint a director to fill a vacant Vice Chair position until the next meeting of the Board of Directors, at which meeting a new Vice Chair shall be elected by the Board of Directors to fill the vacancy.

4.6.3 Quorum and Voting

Five of the directors shall constitute a quorum of the Board of Directors; provided, that a lesser number may adjourn the meeting to a later time. Decisions of the Board of Directors shall be by simple majority vote of the directors present and voting. Directors must be present at a meeting to vote; no votes by proxy are permitted. Voting will be by secret ballot. The Secretary will collect and tally the ballots, and announce the results of a vote. Only voting results will be announced and recorded in the minutes; individual votes will not be announced or recorded.

4.6.4 Compensation of Directors

Directors shall receive compensation as recommended by the Human Resources Committee, and approved by the Membership, and shall be reimbursed for actual expenses reasonably incurred or accrued in the performance of their duties.

4.6.5 Executive Session

Executive sessions (open only to directors and to parties invited by the Chair) shall be held as necessary upon agreement of the Board of Directors to safeguard confidentiality of sensitive information regarding employee, financial, or legal matters.

**Southwest Power Pool
CORPORATE GOVERNANCE COMMITTEE
Report to the Membership
April 27, 2004**

ELECTION OF MEMBERS COMMITTEE REPRESENTATIVES

Background

On February 10, 2004, the Federal Energy Regulatory Commission (the "Commission") issued an order in the SPP RTO filing docket (RT04-1) conditionally approving SPP as an RTO. Per the order, SPP is directed to, among other things, modify its governance structure. The order provided direction as to the sectors that must be represented on the Members Committee and the Corporate Governance Committee (formerly the Nominating Task Force). The Strategic Planning Committee (SPC) reviewed the sectors of other regional organizations, and the sectors included in the Commission's White Paper on Standard Market Design. In considering those and the requirement as stated in SPP's RTO Order, the SPC formulated a structure to comply with the Commission's directive. The Board of Directors accepted that recommendation at its March 16 meeting.

Analysis

Staff facilitated discussions among the members in the various sectors in order to select representatives for the Corporate Governance Committee. In accordance with Sections 5.1 *Members Committee* and 6.6 *Corporate Governance Committee* in the Bylaws dated May 1, 2004, the Corporate Governance Committee then met for purposes of creating a slate of nominees for the Members Committee for consideration and election by the membership (Attachment). In accordance with those Bylaws, it is the Membership's responsibility to elect the representatives to serve on the Members Committee.

Recommendation

The Corporate Governance Committee recommends that the Membership elect the slate of nominees presented for the Members Committee to become effective May 1, 2004.

Approved: Corporate Governance Committee April 9, 2004

Action Requested: Approve the recommendation

SPP MEMBERS COMMITTEE

SECTOR	REQ'D REPS	CURRENT	COMPANY
Investor Owned Utilities	4	Doug Henry	Westar
		Mike Palmer	EDE
		Richard Spring	KCPL
		Michael Desselle	AEP
Cooperatives	4	Steve Parr	KEPCo
		Gary Roulet	WFEC
		Gary Voigt	AECC
		Rick Tyler	NTEC
Municipals	2	Dave Christiano	City Utilities of Springfield
		Harry Dawson	OMPA
IPPs/Marketers	3	Trudy Harper	Tenaska
		Jim Stanton	Calpine
		Walt Yeager	Cinergy
State/Federal Agencies	1	Mike Deihl	SPA
Retail/Alternative/Public Interest	2		