

**Minutes of Regional State Committee (RSC) for the Southwest Power Pool (SPP)
Teleconference Special Meeting on May 12, 2004**

CALL TO ORDER. Denise Bode, RSC President, called the meeting to order at approximately 10:03 a.m.

PRELIMINARY MATTERS.

a. Declaration of a Quorum. The following individuals were in attendance:

RSC Members:

President Denise Bode, Chairman of the Oklahoma Corporation Commission
Commissioner Randy Bynum, proxy for Vice-President Sandra Hochstetter, Arkansas
Public Service Commission
Secretary Julie Parsley, Texas Public Utility Commission¹
Treasurer David King, New Mexico Public Regulation Commission
Board Member Brian Moline, Kansas Corporation Commission
Board Member Steve Gaw, Missouri Public Service Commission

Associate Members and Non-Members:

Commissioner John Wine, Kansas Corporation Commission
Nick Brown, CEO of SPP
Allen McQuire, SPP
Carl Morrow, SPP
Members of the Kansas Commission (unidentified)
Walter Wolf, Stone, Pigman, Walther, Wittman, LC (outside counsel for the Louisiana
Public Service Commission)
Mike Proctor, Missouri Public Service Commission
Steve Dottheim, Missouri Public Service Commission
Kelli Leaf, Oklahoma Corporation Commission
Ken Zimmerman, Oklahoma Corporation Commission
Adrienne Brandt, Texas PUC
Bridget Headrick, Texas PUC
Michael Deselle, AEP
Jim Hostler, AEP
Terry Gallup, AEP
Richard Ross, AEP
Rash (last name inaudible), Edison Electric
Christine Ryan, South Texas Electric Cooperative
Steve Owens, Entergy
Burton Crawford, Kansas City Power and Light
Ken McClure, Springfield Missouri
Diana Far, Empire District Electric Co.

¹ Commissioner Parsley was called to a hearing before a Texas Legislative Committee during the conference call, and she gave her proxy to Adrienne Brandt with the Texas PUC.

John Gunesca, (affiliation inaudible)
Representative from Southwest Power Administration (name inaudible)
Douglas Base, WPEC
Tom Stuchlik, West Star Energy
Walt Shumate, Consultant

It was determined that a quorum was present.

b. Adoption of the April 26, 2004 Meeting Minutes. Secretary Parsley reported that the minutes were not yet available, but would be distributed soon.

c. Update from Treasurer. Treasurer King reported that he is working on setting up the accounts in Arkansas and it will need three signatures (President, Vice President, and Treasurer). Treasurer King is also working with the IRS to make sure that everything needed to set up the account as a non-profit organization will be in place.

BUSINESS MEETING.

Previously discussed issues.

a. Report, discussion and VOTE on cost-benefit study RFP to be commissioned by the SPP RSC.

Ken Zimmerman with the Oklahoma Corporation Commission provided a staff report concerning the RFP that was emailed to RSC members (Attachment A).² Mr. Zimmerman noted that the RFP was only sent to the RSC and staff, and was not posted on the internet. The group identified 11 vendors who they will be talking to about the RFP. The RFP is designed for two part analysis, with the first part focusing on the benefits and costs surrounding SPP's operation of the transmission system and the second part analyzing the costs and benefits of SPP's implementation of an energy imbalance market. Mr. Zimmerman discussed the timeline which contemplates a final report by October 29, 2004.

Steve Dottheim with the Missouri Public Service Commission noted that the issue of whether the Cost Benefit Task Force (CBTF) is controlled by the SPP or entity under the RSC was left unaddressed. Board Member Brian Moline noted that the SPP Board of Directors' discussion in April is not clear on who the contracting party is for the cost benefit study (CBS).

Mr. Steve Dottheim presented a spectrum of options for discussion on this issue of CBS control. On one end of the spectrum the RSC would control with direct input from the Commissioners, or alternatively, the RSC would direct the CBS with input from staff, but not have direct input from the Commissioners. On the other end of the spectrum, the SPP would direct the CBS. The group is continuing to work on the issue.

² The RFP is designated confidential.

Board Member Brian Moline noted that the rationale for the RSC to be the contracting party is to give ownership to study, and that could be a double edged sword. While the States need confidence in the process, the RSC does not have to be the contracting party.

Nick Brown with SPP noted that SPP staff is concerned about being expeditious with the CBS. Mr. Brown noted that to the extent that the RSC becomes the contracting party, the SPP must still do administrative matters to transfer money for the study. The CBTF could report to the SPP planning committee, with active involvement of RSC. RSC approval of the RFP would be beneficial to show approval from the states at the front end.

President Bode noted that there are two different options. One is the proposal sent yesterday that would have the RSC directing the CBTF and monitoring and supervising the progress of the study, with the RSC as the contracting party. The other proposal has the CBTF reporting to the SPP strategic planning committee and SPP would be the contracting entity.

Treasurer King noted that the New Mexico Attorney General needed to be assured that states have adequate input to the process, so that would weigh in favor of direction through the RSC. If the RSC performs the study, it may appear more independent.

Michael Deselle with AEP inquired how it would work if the CBTF reported up through RSC. Board Member Steve Gaw noted that the CBTF is a joint effort between industry, SPP, and RSC staff working together. It was noted that the current RFP is generic and the CBTF membership is open to all regardless of whether the CBTF is a subgroup of the RSC, the SPP, or some combination thereof. Mr. Deselle questioned whether a multi-disciplined group like the CBTF could work for RSC since the RSC is only state Commissioners. In response, it was noted that there is nothing in the RSC bylaws to prevent such a structure.

Mr. Deselle also requested feedback from the Louisiana Public Service Commission with respect to the RFP and whether the Louisiana Public Service Commission is comfortable with the CBS. Walter Wolf responded that the Louisiana Public Service Commission has not changed its position, and that they did not provide input and are not officially participating in the study.

Treasurer King moved that the RSC be the contracting party. Vice President Proxy Randy Bynum seconded. Voting aye through a roll-call vote were Vice President Proxy Randy Bynum (Arkansas), Board Member Steve Gaw (Missouri), Treasurer David King (New Mexico), President Denise Bode (Oklahoma), and Secretary Proxy Adrienne Brandt (Texas). Board Member Brian Moline (Kansas) abstained. The motion carried.

The entire RFP document was then discussed.

Nick Brown with SPP noted that the number of years covered by the CBS was expanded from 5 to 10 to give a longer time consideration. It was also clarified that the CBS would evaluate the costs and benefits from the perspective of a “typical” member that would be defined as the various membership entities in SPP. The CBTF will do all substantive work.

Vice President Proxy Randy Bynum moved to approve the RFP document with notation that some clean-up language changes may be necessary. The motion was seconded by Treasurer David King. Voting aye through a roll-call vote were Vice President Proxy Randy Bynum (Arkansas), Board Member Steve Gaw (Missouri), Treasurer David King (New Mexico), President Denise Bode (Oklahoma), and Secretary Proxy Adrienne Brandt (Texas). Board Member Brian Moline (Kansas) abstained. The motion carried.

It was noted that Treasurer King needs to work with Mr. Brown to facilitate the financing aspects. There is a meeting scheduled the first week in June to work through the details.

b. Report, discussion and possible action with respect to policy concerning transmission upgrade and expansion cost allocation for the SPP.

Mike Proctor with the Missouri Public Service Commission noted that he sent a document via email concerning several issues addressed by the Cost Allocation Working Group (CAWG). This document discusses key issues raised during the mini-symposium in Dallas with respect to the SPP transmission funding alternatives (Attachment B). The document does not state solutions. There is a two part plan for expansions. The first part looks at a base plan including reliability, load, and committed resources to make a determination on what transmission is needed to make sure the resources can get to the load. The second part looks at supplemental economic issues. The document discusses how the nine principles apply to the issues raised and is in draft form that still needs editing.

The first issue is whether the RSC Board wants the CAWG to go forward with the document responding to the questions, and adopt the document as the RSC’s response to these key issues before the June 9 symposium on transmission funding. President Bode noted that the principles are a work in progress and the RSC is on record as wanting to have principles worked on and refined. Mr. Proctor explained the advantages of answering the questions to clarify how the principles will be applied. It was noted that an RSC panel was requested for the June 9 symposium, which would mean that the document would have to be finalized by the next RSC meeting on June 2. Mr. Proctor will send drafts as the document evolves so RSC members will have a chance to see it before the June 2 meeting.

Treasurer King made a motion for the CAWG to go forward and develop a response to the issues raised at the mini-symposium on behalf of the RSC. The motion was seconded by board Member Steve Gaw. It was noted that the RSC is not

voting on the actual document as that is a work in progress. **Voting aye through a roll-call vote were Vice President Proxy Randy Bynum (Arkansas), Board Member Brian Moline (Kansas), Board Member Steve Gaw (Missouri), Treasurer David King (New Mexico), President Denise Bode (Oklahoma), and Secretary Proxy Adrienne Brandt (Texas). The motion carried.**

The second issue raised by Mr. Proctor was what type of collaborative working group would work on the transmission funding issues. Nick Brown noted that the effort to date has been facilitated in workshops, symposiums, etc., and the reason that it has not been given to one group is because it involves so many groups. Mr. Brown noted that broad participation is encouraged to get a comprehensive proposal that would be approved up through RSC, and up through all the SPP groups until it finally gets up to the SPP Board for final approval.

Treasurer King moved that the RSC work in a collaborative basis (much like the CBTF) with SPP staff, stakeholders, and the SPP Board on developing principles on cost allocation. Board Member Brian Moline seconded the motion. All voted aye to a verbal group vote. The motion carried.

NEW BUSINESS.

No policy issues or assignments.

No administrative issues or assignments.

SCHEDULING OF UPCOMING SPECIAL MEETINGS OR EVENTS.

There will be a SPP Board teleconference meeting scheduled for a half day on Wednesday, Thursday, or Friday, June 2 to June 4. Staff is currently polling members and directors for their exact date preference. Items that will be discussed include the funding for the CBS, action on SPP's audit that was recently completed, financing contractual note agreements for capital budgets for this year and next, operations policy committee on transmission approval process (business practices need by customers and members on a fast track), and administrative issues include electing the Chair and Vice Chair. July 27 is the next regular meeting.

There will be a participant funding symposium and transmission planning summit on June 8 and 9.

There are two meetings/seminars in Kansas City next week, May 18 and 19. May 18 will be Market 101, an open training at a basic level to explain work on the imbalance market and what it means to stakeholders. May 19 will focus on changes in NERC reliability standards.

The RSC is scheduled to meet in person in Kansas City on July 26. That will be followed by the meeting between the RSC and the SPP Board on July 27.

President Bode will get back to the RSC with a date for the future face-to-face meeting in October in Little Rock. Possibilities are the annual meeting of the SPP Board on October 26 or 27, with the RSC on the October 25 or 26.

SCHEDULING OF NEXT REGULAR MEEING.

The next regular meeting of the RSC is on June 2 at 10:00.

OTHER ITEMS.

Treasurer King announced that he and Tom Dunn will work together to craft the RSC budget to get to the SPP. The two components are the costs that SPP will handle from an administrative standpoint and the monies that will be funded into an RSC account for use by signatories of RSC. This is an action item for the SPP Board in June. RSC will vote on the Treasurer's report in June. Treasurer King will get out a proposal after working with Mr. Brown and Mr. Dunn.

President Bode reported that she spoke with Pat Wood and the FERC is sending a permanent member of its staff (Tony Ingram) to work with the SPP, and that FERC would post for second staff person in Little Rock to also work with SPP. These FERC employees will office in Little Rock, but not in the SPP offices, and should be in place by the first of August.

ADJOURN.

The meeting adjourned at approximately 11:45 a.m.

Secretary, Julie Parsley



1000 Center St.

Little Rock, AR 72201

Attachment A to the May 12, 2004 minutes, the draft Request for Proposal for the purpose of conducting a cost/benefit study of SPP's evolution into a Regional Transmission Organization, is designated as
CONFIDENTIAL.

Key Issues for SPP Transmission Funding

Base Plan Expansions:

- 1) The TDUs have a problem with the concept of the base plan only including “committed resources,” in that there is bias to the vertically integrated utilities because they don’t have to turn over purchase power contracts as often as do those who are more dependent on purchase power contracts for capacity and energy requirements. The concern then is that if the TDU is paying for transmission service and it has a change in designated resource, it then may have to pay additional transmission costs to change its designation of a network resource.

Response: The base plan should be revised at least every two years. If there a committed resource is added subsequent to the previous base plan, it should be included in the updated base plan. If there are additional costs associated with changing designated resources, RSC **Principle 1** (equity) would require the beneficiary to pay those costs. However, **Principle 2** (equity) would not require the beneficiary to pay for incremental costs above what it receives in additional transmission benefits. Finally, **Principle 5** (competitive supply) could require that a portion of the incremental costs of the revised base plan be funded by all transmission customers.

- 2) Obsolete transmission facilities – should upgrades of obsolete facilities be include in base plan facilities or should they be included as updates to the transmission zones embedded costs?

Response: The upgrade of obsolete transmission facilities will likely involve improvements in transmission capability as well as transmission losses, and **Principle 6** (reliability) requires that such upgrades be made. With respect to the allocation of the costs of an upgrade to obsolete transmission facilities, **Principle 3** (equity) addresses this issue in terms of “free riders.” While this principle was originally written to address internal loop flow issues related to the zonal pricing used for the existing transmission system, it can also be applied to this issue as it deals with the consistency between access pricing of existing transmission facilities and the pricing of new transmission facilities. It would be unfair to allow an entity with low cost transmission facilities due to age and obsolescence to benefit from upgrades by passing its zonal costs off onto other users of the system. There are several possible solutions to this problem. One is to apply the same principles and thus pricing to existing facilities that is applied to new facilities. If that is not attainable in the short-run, the percent of capacity of the obsolete facilities could be applied to the cost of the new facilities and this portion of the cost assigned to the zonal rate.

- 3) Market power related -- when you start assigning costs, doesn't this turn into a barrier to entry so that once the allocation is approved, you strengthen the position of the incumbent? Isn't this a barrier to competition (R. Bittle)

Response: Assigning costs on a beneficiaries pays basis sends the proper long-run price signals to generators as to where to locate in accordance with **Principle 4** (efficiency).

Moreover, with a beneficiaries pays approach, a competitive supplier of generation capacity will have the incentive to locate close to where load is in need of new generation capacity. However, in the short-run, assigning transmission costs on the basis of cost causation does strengthen the position of the incumbent or a alternative suppliers when that incumbent or alternative suppliers have excess generation capacity for sale that is located near to the load needing the additional generation capacity. In the particular case where an incumbent has excess generation capacity near the load, but alternative suppliers do not, the incumbent will have a competitive advantage over alternative suppliers. However, having a short-run competitive advantage over alternative suppliers is not necessarily a barrier to competition, nor does it result in what is called “market power.”

Supplemental Economic Expansions:

- 1) The SPP proposal is that, in order to be built, economic transmission expansion projects should be participant funded, but there is a concern about beneficiaries being unwilling to pay their allocated share of the costs of the transmission expansion when done on a voluntary basis. The voluntary approach also raises issues about what share of the costs that multiple beneficiaries would pay – is this negotiated or is it formula based?

Response: The net benefits of various projects will depend on the assumptions made as the basis for calculating net benefits. Robust projects are those that show positive net benefits over a wide range of assumptions. These are projects that everyone is likely to agree should be built. Economic transmission expansion projects that are robust should be mandatory, not voluntary and the costs of these projects should be assigned to beneficiaries based on a formula. Such an approach is consistent with **Principle 7** (allocation), but would require a definitive criteria for determining which projects are robust and should be funded on a mandatory basis. Consistent with **Principle 8** (voluntary economic upgrades) additional projects, whose net benefits are positive over some range of assumptions should be allowed to be built on a voluntary basis. The beneficiaries can be identified by SPP studies, but participation in such projects should be strictly voluntary and the portion of funding from each participant should be negotiated among the participants. If a project results in excess transmission capability, to deal with the issue of possible free riders, the SPP should withhold the excess transmission capability from its dispatch of energy imbalance until the excess transmission is sold to a transmission user.

Supplemental Requested Expansions:

- 1) A concern was raised regarding the possibility of requiring transmission requests to be used for designating new network resources.

Response: Consistent with **Principle 6** (Reliability) all new network resources should be include in the base plan. If the base plan needs to be revised more often than every two years, then the SPP should attempt to accommodate such revisions. However, supplemental requests for transmission should be for projects not required for designated resources and not identified as mandatory economic expansion projects. Consistent with

Principle 8 (voluntary economic upgrades), requested transmission expansion projects may include projects not included in the SPP studies as showing net benefits.

- 2) A concern was raised regarding the issue of free riders on transmission expansions that were funded through requests – do they have to pay?

Response: What is at issue here is whether or not an entity that is not a party to the request should be forced to pay on a non-mandatory project being built at the request of other parties. Keep in mind that a requested economic upgrade is at the risk of those making the request as to whether or not it produced net benefits, and consistent with **Principle 8** (voluntary economic upgrades) such participation should be based on a customer's willingness to accept its allocated share of the costs. If mandatory payments are not allowed, the question is how to prevent free riders, or put another way, how to give incentives for those who are likely to benefit to participate on a voluntary basis. One way to do this is to withhold any transmission capacity not sold from the project from the SPP energy imbalance market. Alternatively, transmission usage charges (not funding or access charges) could be automatically assessed by the SPP for those who benefit from the use of additional capability provided by the project. Both approaches would be consistent with **Principle 1** (equity). The distribution of revenues from the sale of transmission or the automatic transmission charges back to those who funded the project would be consistent with **Principle 2** (equity).

Supplemental Requests for Interconnection:

- 1) Issue over whether sudden load growth (a large load that was not anticipated), not included in the base plan but requires transmission upgrades - should be included as an interconnection.

Response: This appears to be a timing issue with respect to the base plan. The circumstance would be one in which a large industrial customer decides to locate or significantly expand its operations and upgrades are then required to the existing transmission system, but such upgrades have not yet been included in the base plan. Unlike generation interconnections, it is hard to imagine that a load would request interconnection service that is separate from a request for transmission service. Thus, the SPP should make every effort to include such transmission expansions in its base plan, including both the load and the generation sources that are planned to serve that load.

Merchant Transmission Facilities:

- 1) If this is not a DC facility can SPP be sure of who is using the facility?

Response: The question is not so much the use of the facility, but the reservation of firm transmission service requiring the existence of the facility. In this context, load flow studies can indeed determine those who will receive transmission benefits from a market built transmission facility. However, the real question here may be whether or not transmission customers should be forced to pay for a merchant built transmission facility when they did not request it be built? Consistent with **Principle 8** (voluntary economic upgrades), customers not requesting such facilities that are not included in the SPP base plan should not be required to pay.

2) Will merchant transmission facilities have control of the use of the facility?

Response: Since SPP is the only transmission provider, it appears that FERC's answer would be no. However, SPP would act as the agent for merchant built transmission facilities, and SPP could control or limit the use of the facilities to reflect sales of transmission service across such facilities.

June 9 Presentation:

- More detailed discussion of today's paper on June 9.
- To develop recommendations for the SPP participant funding process in connection with the RSC.
- Will allow specific stakeholders to make presentations on June 9.
- How specific will recommendations be on June 9? No specific tests will be included on June 9.
- This will be "blessing of" a process rather than specifics – looking for a declaratory order from the FERC in August.
- SPP wants the RSC to tell it how it can work the RSC in developing the recommendations.
- Questions about how the RSC's role fits into the SPP collaborative process – requires further specification of the process; e.g., how will the RSC obtain input from other SPP stakeholders?