Southwest Power Pool

REGIONAL STATE COMMITTEE REGULAR MEETING

September 15, 2004

• M I N U T E S • [1]

Agenda Items 1 & 2 – Administrative Items

RSC President Denise Bode, Oklahoma Corporation Commission (OCC) called the meeting to order at approximately 3:10 p.m.[2] Other members in attendance or represented by proxy were:

Sandra Hochstetter, Arkansas Public Service Commission (APSC)
Brian Moline, Kansas Corporation Commission (KCC) (by telephone)
Steve Gaw, Missouri Public Service Commission (MPSC) (by telephone)
Ben Montoya, Proxy for David King, New Mexico Public Regulation Commission (NMPRC) (by telephone)
Julie Parsley, Texas Public Utility Commission (TPUC)

Others in attendance were:

Richard House, Arkansas Public Service Commission
Sam Loudenslager, Arkansas Public Service Commission (by telephone)
Mary Cochran, Arkansas Public Service Commission (by telephone)
Diana Brenske, Arkansas Public Service Commission (by telephone)
Larry Holloway, Kansas Corporation Commission
J. Michael Peters, Kansas Corporation Commission (by telephone)
Greg R. Meyer, Missouri Public Service Commission
Mike Proctor, Missouri Public Service Commission
Joyce Davidson, Oklahoma Corporation Commission
Kelly Leaf, Oklahoma Corporation Commission (by telephone)
David Dikeman, Oklahoma Corporation Commission (by telephone)
Ed Farrar, Oklahoma Corporation Commission (by telephone)
Karen Forbes, Oklahoma Corporation Commission (by telephone)
Paul Hudson, Chairman, Texas Public Utility Commission
Evan Rowe, Texas Public Utility Commission
Erin Bain, Texas Public Utility Commission
Jess Totten, Texas Public Utility Commission
Bridget Headrick, Texas Public Utility Commission
Nick Brown, SPP
Bruce Rew, SPP

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[1] These minutes were compiled from the transcript take by Lou Ray, C.S.R., with Kennedy Reporting Service (Attachment 1).

[2] Chairman Paul Hudson also called the open meeting of the Public Utility Commission of Texas to order.

Les Dillahunty, SPP
Mark Rossi, Barker, Dunn & Rossi (Consultants for SPP)
Bary Warren, Empire District Electric Company
David Brian, East Texas Cooperatives
Michael Desselle, AEP
Todd Eagleston, Wind Coalition, RES Amer. Develop.
Susan Williams Sloan, Wind Coalition
Mike Sloan, Wind Coalition
Wayne Walker, Wind Coalition
Zeina El-Azzi, Wind Coalition, Gamesa Energia
Elizabeth Stipnielzs, Edison Electric Institute
Steve Neinast, Entergy Gulf States
Jack Blakley, Entergy Gulf States
Walt Shumate, EEI Consultant
(inaudible), AEP (by telephone)
Terri Gallup, AEP (by telephone)
Al Yakki, AEP (by telephone)
Riksha Krishna, EEI (by telephone)
John Guensch, OG&E (by telephone)
David Kays, OG&E (by telephone)
Bill Wylie, OG&E (by telephone)
Terrill Gillam, Southwestern Power Administration (by telephone)
Robert Shields, Arkansas Electric Cooperative (by telephone)
Tom Stuchlik, Western Energy (by telephone)
Dick Ross, Western Energy (by telephone)
Dennis Reed, Western Energy (by telephone)
Littleton, Okla Municipal Power Authority (by telephone)
Bernie Liu, Xcel Energy (by telephone)

A quorum was declared. President Bode asked for adoption of the August 18, 2004 meeting minutes**. Secretary Julie Parsley moved to adopt the August 18 minutes. Vice President Hochstetter seconded the motion. There was no discussion and no objections, and the minutes were adopted by acclamation.**

Agenda Item 3 – Updates

President Bode asked for an update from the RSC Treasurer. Ben Montoya (NMPRC) stated that Treasurer King provided the latest travel policy (Attachment 2). President Bode indicated that it would be taken up later during the business meeting, if time was available.

Nick Brown (SPP) informed the committee of the following outstanding issues regarding the SPP's RTO filing at FERC:

1. The JOA with MISO and the market-to-nonmarket provisions; and
2. Status of schedule AA.

There were no other reports.

Agenda Item 4 – Business Meeting

Cost Benefit Study: Sam Loudenslager (APSC) reported that they are working on three outstanding issues with the consultants:

1. The contract itself;
2. The methodology and assumptions memo; and
3. Ensuring that the data gets submitted to the consultants from the members and the SPP.

Mr. Loudenslager reported that they are about one month behind schedule and that a final report may be issued by the end of November. Mr. Loudenslager asked who would be signing the contract, and Mike Peters (KCC) reported that Article Nine of the Bylaws states that contracts and other things requires two signatures, the President and Vice President, and one other Officer or the Executive Director. It was noted that the Commissioners from the various states would look into whether they can sign the contract.

Cost Allocation Working Group: Mike Proctor (MPSC) provided a handout on the CAWG strawman proposal concerning transmission upgrade and expansion cost allocation for the SPP footprint (Attachment 3). Mr. Proctor discussed the handout and described information contained in each slide. The group discussed the Base Plan proposal in detail, focusing on issues related to the length of the contract term required for designated network resources, potential periodic re-examination or true-up of the allocation percentages, and the parameters for flexibility and changes. After extensive debate, Vice President Hochstetter noted that the dialogue needed to be continued because it was getting late and no resolution had been reached on the issues. Vice President Hochstetter suggested that the CAWG get together and work on two or three options that are refinements of the current CAWG proposal and that reflect the comments provided by the group. Joyce Davidson (OCC) stated that the CAWG was meeting in the morning on September 16, and it was their hope to take the input and rework the options. It was agreed that the revised proposal would be discussed on September 22.

No other items were taken up.

<u>Agenda Item 5 – Future Meetings</u>

The next special meeting will be held by teleconference on September 22, 2004, at 10:00 a.m.

<u>Adjournment</u>

Vice President Hochstetter asked for a motion to adjourn. **Secretary Parsley moved to adjourn. Hearing no objection, the meeting adjourned at 5:45 p.m.**

Respectfully Submitted,

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Julie Parsley, Secretary

SOUTHWEST POWER POOL

REGIONAL STATE COMMITTEE

SEPTEMBER 15, 2004

AUSTIN, TEXAS

P R O C E E D I N G S

WEDNESDAY, SEPTEMBER 15, 2004

(3:02 p.m.)

CHAIRMAN HUDSON: This meeting of the Public Utility Commission of Texas will come to order having been duly posted with the Secretary of State for September 15th, 2004. And I'm just going to sit in the back of the room and listen in.

(Discussion off the record)

PRESIDENT BODE: All right. Let's do call this meeting to order -- regular meeting posted for September 15th, 2004, of the Regional State Committee of the Southwest Power Pool, and we'll ask our Secretary to call roll.

SECRETARY PARSLEY: Chairman Hochstetter?

VICE PRESIDENT HOCHSTETTER: Here.

SECRETARY PARSLEY: Chairman Bode?

PRESIDENT BODE: Here.

SECRETARY PARSLEY: Steve Gaw?

MR. PROCTOR: Mike Proctor on behalf Steve Gaw.

SECRETARY PARSLEY: David King?

MR. MONTOYA: Ben Montoya on behalf of David King.

SECRETARY PARSLEY: Brian Moline?

MR. PETERS: Brian Moline is here and (phone tone) on as a proxy. I'm here (inaudible) Mike Peters for the KCC.

SECRETARY PARSLEY: And I'm here, Julie Parsley.

PRESIDENT BODE: Okay.

SECRETARY PARSLEY: And there is a quorum present. Is anybody present on the phone from Louisiana? Is Walter on?

(No response)

PRESIDENT BODE: Okay. We do have a quorum declared, and I think the other preliminary matter is adoption of the August 18th minutes. Do we have the minutes ready for us to look at? I think we have, and that's been shared.

Julie, would you like to move adoption and then we can begin discussion?

SECRETARY PARSLEY: Okay. I move that the minutes be adopted.

VICE PRESIDENT HOCHSTETTER: I second that motion.

PRESIDENT BODE: Moved and seconded. Is there any discussion or any changes or corrections on the minutes?

(No response)

If not, all in favor "aye."

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(All those wishing to vote in favor did so)

PRESIDENT BODE: All opposed?

(No response)

PRESIDENT BODE: Okay. The minutes are

adopted.

(Phone tone) the updates -- I think the first update we have is by David King, the ROC Treasurer.

MR. MONTOYA: Madam Chair, this is Ben Montoya for David King. I think he's submitted to the Committee the latest travel policy, and I think -- he asked me to just have you-all just review it, and, if it is fine with you-all, to make a motion to have it approved.

PRESIDENT BODE: Okay. We're going to take that up under our business meeting, if that's okay with you, Ben?

MR. MONTOYA: Yes, ma'am.

PRESIDENT BODE: Is there anything else that you have with regard to funding, financing, budget, anything like that that you need to bring to our attention just as a report or an update?

MR. MONTOYA: No, ma'am, not at this time.

PRESIDENT BODE: Okay. Thank you.

Are there any other updates by any of the other officers that you need to bring to our attention?

SECRETARY PARSLEY: I just want to remind

everybody there's a sign-in sheet going around, and if everybody would sign in and -- we have a court reporter that's taking minutes, so, if you are speaking, please identify yourself for the record and say "yes" and "no" as opposed to shaking.

PRESIDENT BODE: And prior to the beginning of our business meeting -- I'm going to allow a little bit more time for these reports, but before we start actually doing reports and discussion and voting, I'm going to ask for everyone on the telephone to identify themselves for the record. And I'll let more people kind of check in in the interim phase here.

Okay. The next thing that we have on the agenda is an update by the Federal Energy Regulatory Commission. Do we have an update or --

VICE PRESIDENT HOCHSTETTER: Is Tony Ingram on the phone?

(No response)

PRESIDENT BODE: Okay. No update.

All right. Anything from Southwest Power Pool? Nick?

MR. BROWN: The primary item from Southwest Power Pool's perspective is also a FERC perspective. We were docketed on yesterday's agenda for the FERC on our RTO application. Unfortunately, that was -- actually it was for

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today. It was pulled yesterday.

My understanding and dialogue with Pat Wood is that it will be issued very shortly -- next week is what I was told notationally.

The outstanding issue appears to be the joint operating agreement between ourselves and the Midwest ISO that we filed in an unexecuted fashion between ourselves and the Midwest ISO over what form of agreement we should reach.

Our document is -- contains provisions that is -- that are acceptable to the Midwest ISO and, in fact, are the identical provisions in an agreement between the Midwest ISO and PJM on nonmarket-to-nonmarket issues.

The Midwest ISO-PJM joint operating agreement also contains market-to-nonmarket provisions that have been worked out between the Midwest ISO and PJM, and the Midwest ISO would like for us to just unilaterally agree to those same provisions, to which we responded, "No, we would not without going through our stakeholder process and getting input from our members on that."

If you recall, FERC gave us 30 days to comply with the conditions in the last order. And while we did in fact host a stakeholder meeting, it was to reach consensus on the nonmarket-to-nonmarket issues that we're, quite frankly, operating under today. Neither organization has a market up and operating yet, and the Midwest ISO's own

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schedule is not to implement until, I believe, February or March of next year to the extent that they meet that schedule.

While I will agree that the Midwest ISO-PJM agreement is a good starting point -- because we were involved in some of those negotiations, quite frankly, many years back during merger talks -- still will not allow a bilateral agreement between two other entities to, in effect, set a national standard to which we would be held accountable.

So, bottom line, a lot of people have intervened around that particular issue and comments -- many comments from a lot of participants were filed as late as last Friday. So, as a result, the Commissioners have a lot of new material to read and dissect. But my understanding is they're very close, but they still wanted to go through the comments.

VICE PRESIDENT HOCHSTETTER: Okay.

PRESIDENT BODE: Any comments or questions from anybody?

(No response)

PRESIDENT BODE: Okay. Staff, do y'all have any comments or questions for Nick?

(No response)

Anything else, Nick, that you want to bring to

our attention?

MR. BROWN: That's it.

PRESIDENT BODE: Where are we on the -- where are we on the low-hanging fruit issue?

MR. BROWN: The low-hanging fruit issue, what we call, I guess, Schedule AA?

PRESIDENT BODE: You started it.

(Laughter)

MR. BROWN: Yes, I did. And I want to finish it, too.

We actually have complied with the request for additional information. So right now it's in their hands.

PRESIDENT BODE: Holding pattern --

MR. BROWN: Well, we did utilize a meeting in last week in Kansas, the Kansas Transmission Summit, to, again, twist Pat's arm and others on that particular initiative. And we certainly have visited in detail with Tony Ingram, who is now the FERC representative located in Little Rock. They understand the need to push that through --

PRESIDENT BODE: Okay.

MR. BROWN: -- so they say. So, hopefully, we'll get that moved along very, very quickly. We very much appreciate the comments on behalf of RSC in support of that.

PRESIDENT BODE: Okay. Thank you.

Anything else that anybody else has that --

(No response)

PRESIDENT BODE: All right. Let's move on to the business meeting. Before we begin our official business meeting, let's record whoever is on -- whoever is checked in with us by telephone so that we can have you part of our official minutes.

SECRETARY PARSLEY: And please speak slowly and spell your name if it's in any way confusing.

PHONE PARTICIPANT: (Inaudible) with American Electric Power.

MS. GALLUP: Terri Gallup with AEP.

MR. YAKKI: Al Yakki (phonetic) with AEP.

MS. SHAKRISHNA: Rik Shakrishna with EEI.

SECRETARY PARSLEY: Could you please spell your name?

MS. SHAKRISHNA: That's R-i-k S-h-a-k-r-i-s-h-n-a.

SECRETARY PARSLEY: Thank you.

COMMISSIONER GAW: This is Steve Gaw, Missouri Commission.

PRESIDENT BODE: Hey, Steve. How do you spell that?

(Laughter)

COMMISSIONER GAW: "How do you spell that?"

That's a question I get asked all the time.

PRESIDENT BODE: Golly. Okay.

MR. LOUDENSLAGGER: Sam Loudenslagger, Larry Cochran and Diana Brenske with the Arkansas Commission.

SECRETARY PARSLEY: Can you spell Diana's last name real quickly?

MR. LOUDENSLAGGER: B-r-e-n-s-k-e.

SECRETARY PARSLEY: Thank you.

MR. MONTOYA: Ben Montoya on behalf of Commissioner David King from New Mexico, M-o-n-t-o-y-a.

MS. LATHE: Kelly Lathe (phonetic) and David Dikeman (phonetic), Oklahoma Corporation Commission.

MR. FARRAR: Also Ed Farrar (phonetic) and Karen Forbes with Oklahoma Commission.

MR. KAYS: David Kays and John Dennish (phonetic) with Oklahoma Gas & Electric.

SECRETARY PARSLEY: I'm sorry, Kays?

MR. KAYS: Kays, K-a-y-s.

SECRETARY PARSLEY: Thank you.

MR. KAYS: Thank you.

MR. GILLAM: Terrill Gillam, Southwestern Power Administration.

MR. SHIELDS: Robert Shields (phonetic) with Arkansas Electric Cooperative.

MR. STUCHLIK: Tom Stuchlik and Dick Ross and

Dennis Reed from Western Energy.

SECRETARY PARSLEY: I'm sorry, we couldn't hear the first name.

MR. STUCHLIK: Tom Stuchlik. You want me to spell it for you?

SECRETARY PARSLEY: Please.

MR. STUCHLIK: S-t-u-c-h-l-i-k.

SECRETARY PARSLEY: Thank you.

PRESIDENT BODE: Is there anybody else?

MR. LITTLETON: (Inaudible) Littleton with the Okla Municipal Power Authority.

MR. LUVIN: Bernie Luvin (phonetic), Excel Energy.

PRESIDENT BODE: Anybody else?

MR. WYLIE: Bill Wylie, OG&E.

PRESIDENT BODE: Anyone else? Okay. Let's move on to our business meeting. If someone else comes in, if you would -- or if you haven't had your name read out, please let us know.

The first issue that we have on previously-discussed issues is our cost/benefit study that's been commissioned by the SPP RSC, and I think that's kind of top priority for this meeting is that issue, right?

VICE PRESIDENT HOCHSTETTER: Was this the cost/benefit analysis or the cost allocation working group?

I don't remember --

PRESIDENT BODE: The cost/benefit study.

VICE PRESIDENT HOCHSTETTER: That would be a quick update from Sam Loudenslagger.

MR. LOUDENSLAGGER: I'm here if y'all want to hear that.

(Phone tone)

PRESIDENT BODE: Right.

SECRETARY PARSLEY: Yes, sir, please.

MR. LOUDENSLAGGER: Yes, Commissioners. Right now -- quick status report is -- we're working through three items with the consultants and with the members. The first is the contract itself, still working through that. The second is the methodology and assumptions memo. The third is ensuring that the data gets submitted to the consultants from the members and the SPP that the consultants need. Right now I'm hoping that we can wrap up the assumptions memo and the transfer of the data by this Friday.

What I would tell you is that you need to keep in mind we're probably a month behind schedule right now and counting. So -- and we didn't have -- we didn't have any fat in the schedule to begin with, so that's kind of where we're at right now. The -- everybody has been working diligently to try to finalize this, both the members of the SPP, the SPP staff and the RSC staff. We're just not there

yet.

VICE PRESIDENT HOCHSTETTER: Sam, this is Sandy. If the internal target dates that you've set just within the last few days for folks to get the data to the consultants are met, will the, I guess, 30-day extension and the time schedule hold such that we'd be looking at the end of November for the consultants' analysis.

MR. LOUDENSLAGGER: Yeah. The way I'm looking at it right now is if everything falls into place this week, we're probably looking at a final report to be issued by the end of November.

PRESIDENT BODE: Okay.

MR. LOUDENSLAGGER: I guess that was a long "yes," Chairman.

VICE PRESIDENT HOCHSTETTER: Thank you, Sam.

MR. LOUDENSLAGGER: Sorry.

PRESIDENT BODE: Are there any other comments by any of the other folks on the cost/benefit study working group?

MR. LOUDENSLAGGER: This is Sam again. Can I ask a question?

PRESIDENT BODE: Sure.

MR. LOUDENSLAGGER: Can y'all provide me some guidance on the issue of who will actually be signing the contract? I believe last week there was a discussion about

the bylaws require two of the officers of the RSC to sign. Is that right?

SECRETARY PARSLEY: I don't have my copy of the bylaws right here. This is Julie. I think --

MR. BROWN: I think that was on expenses.

SECRETARY PARSLEY: I think it's on expenses that it's two signatures.

UNIDEN. SPEAKER: I think we talked about this at the last meeting -- maybe on the minutes.

VICE PRESIDENT HOCHSTETTER: On Page 8 of the bylaws it says that, "Contracts may be entered into or debts incurred only as directed by resolution of the SPP RSC Board of Directors." So it may be that -- from a signature standpoint -- you know, as Nick pointed out -- a contract is distinct from expense approval. So it may be that only one officer perhaps is necessary to sign on behalf of the RSC as opposed to two. You know, I'm legally authorized in Arkansas to sign for these types of contracts. Julie, you may be -- I know Denise had expressed some concerns from an Oklahoma standpoint. I don't know if you have similar issues in Texas or not.

PRESIDENT BODE: Well, generally, Joyce, our Director of our Public Utility Division on contracts entered into with consultants on public utility issues -- Joyce is our signatory on those issues, not the Commissioners. So if

we need to have, you know, her designated to sign for me, then we can do that. But if we've got sufficient signatures (phone tone) without me signing it, then I think that would be the way to go.

SECRETARY PARSLEY: And typically that's -- our general counsel is our signatory as well -- or our Executive Director, one or the other.

MR. PETERS: Excuse me, this is Mike Peters at the KCC. It doesn't seem to me to be particularly controversial. Article nine four plainly states that for contracts and other things two signatures are required, the president or vice president and one other officer or the Executive Director and it doesn't seem to be ambiguous. I'm not sure --

VICE PRESIDENT HOCHSTETTER: Thank you for actually reading all of the bylaws, Mike. I skipped that part. You're right. Okay.

Well, I can certainly be one of those officers. And since we don't have an Executive Director, it sounds like we'll need a second officer. So that would need to be David King or Julie, I guess, if -- depending upon what your Texas situation is.

MR. LOUDENSLAGGER: Okay. Thank you.

PRESIDENT BODE: Ben, can David sign this? Ben? Ben Montoya, are you on the phone?

(Phone tone)

MR. MONTOYA: Okay. I'm back on again.

PRESIDENT BODE: Okay. The question arises over signing the SPP RSC cost/benefit analysis contract. Is there any prohibition on Commissioner King signing that as an officer and our treasurer?

MR. MONTOYA: At this point I think there's still some negotiations going on with that, but my understanding is that -- has not been a clear indication from either the attorney general or our attorney here that there is a prohibition against it.

PRESIDENT BODE: Okay. Well, you know, if you could check on that, I think we're getting close to needing a signature, so we need to determine who else is going to be our second signature on this.

SECRETARY PARSLEY: And I'll get our General Counsel to look at it, too, just to see, so that way we can figure that out just in case.

PRESIDENT BODE: Okay. Thank you -- we'll look into who can do it, and we'll get whatever is necessary in order to comply with the bylaws before it comes time to sign.

Is there any other discussion on that? Is there any input that you need, Sam, other than what we've given you?

MR. LOUDENSLAGGER: No, ma'am. I just wanted to --

PRESIDENT BODE: You want to make sure and get it signed, huh?

MR. LOUDENSLAGGER: (Inaudible)

PRESIDENT BODE: You want to make sure if you get it agreed to you can get it signed and out as quickly as possible, huh?

MR. LOUDENSLAGGER: You're reading my mind. Thank you.

PRESIDENT BODE: Thank you. Okay. Let's move on. If there's no required vote on this item, then I think we'll move on to the cost allocation working group and we need a report on that. Is that you, Mike?

MR. PROCTOR: I think so. In front of you, Commissioners, is a handout -- a summary -- that was distributed last week on the transmission expansion cost allocation proposal that we've prepared for you-all. And, hopefully, you've had a chance to look at it and look at some of the issues that are involved with it, and we'd like to have some time to discuss that with the board today.

Basically, if you -- I don't want to spend a lot of time on going through the slides, because I think what we're really here for is to hear where the various state commissions are on these particular issues. What I will do is kind of say that the second page of your handout has (phone tone) Slides 3 and 4 on it and people out there may or may not have copies and they may want those copies.

Slide 3 shows the areas of agreement on the -- among the cost allocation work group. And, basically, what we have agreed to is to look at upgrades -- base plant upgrades, and, essentially, those are upgrades that are done looking at the reliability of the system. And we have -- we believe that it is proper to include new designated resources in this plan and load growth. But those need to be included in the base plan that is being looked at for reliability purposes.

Then that raises some issues, and the issues are found on Slide 4. And one of the major issues there is, well, what level of flexibility do people have in designating network resources to meet their load growth? More details of that are laid out in the rest of the summary, but that's one of the issues that we need some feedback from -- from the state commissions and also from the stakeholders -- and are there any limits on this, how -- you know, can I -- if I want to, can I put in 200 percent of my peak load as network resources, or is there some limit to it? Should it only be 125 percent of that or what should that be?

Other limits that were talked about was should

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something that's a real short-term contract be allowed to be in this -- in this plan, something that you only have a two-or three-year contract on, or should you require ten-year or seven-year contracts in order for it to go into this plan, because you're going to be building transmission facilities that are going to be there for 30 years. So that was one of the other items that was discussed. Anyway, that's one of the things we wanted to get some feedback on today.

And the other parts of it on Slide 4 -- the other two questions -- are what percentage of the upgrade costs -- and we've called it "x" percent here -- should go into a systemwide, postage-stamp-type of rate that gets charged to everyone? And for the remainder -- the remaining portion of that upgrade cost, how does that get allocated to the various zones? As you know, the zones are essentially the transmission owners. I don't want to -- that's not quite exactly right, but it's close to right -- the various control areas in these zones.

And so in the past the status quo has been if you built it in the zone, then that cost went to the zone. Okay? And the argument has been -- and we've listened to these arguments now for a month -- that there are more than just benefits to a single zone when you put an upgrade in the zone. And we've looked at various types of flow studies. SPP has put some together for us that indicate

that there are multi-zone benefits to an upgrade that's built in the single zone. So we have to address that one.

That one is typically a little bit more technical. This is where a lot of the flow-based methods that people have been interested in have come into place. SPP has put together some flow-based methods, and I don't want to simplify, but, basically, they focus on megawatt-mile measures to indicate benefits.

And AEP has also proposed a method where they've looked at primarily the economic benefits of an upgrade, whether it's an economic upgrade or a reliability upgrade. It really doesn't matter. Those upgrades, whatever it is, do produce economic benefits, and their flow-based method is essentially a -- a least-cost dispatch in the whole region to find out do costs go down when you do these upgrades and in what zones do those costs go down? And that's the measure -- the measure that AEP essentially has put forward, and we just got those results yesterday.

VICE PRESIDENT HOCHSTETTER: Do you have those results to share with us today, Mike.

MR. PROCTOR: I believe SPP has a copy. Those have been sent out --

VICE PRESIDENT HOCHSTETTER: Because I don't know see their methodology listed on your Slide 6, and I think we very much need to consider it as one of the

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flow-based methodologies.

MR. PROCTOR: Well, I think it's listed on Slide 7. Okay?

MR. BROWN: Yeah.

MR. PROCTOR: And by the way, I have found out that while the original proposal was to do benefits by net import, that's not what the proposal is now. The proposal now is to look at the decrease in cost in each of the zones.

VICE PRESIDENT HOCHSTETTER: Decrease in generation costs as a result of the transmission upgrades?

MR. PROCTOR: Yes -- well, no, not generation costs. They're basically using an LMP model. So they're looking at the decrease in cost as measured by the price.

VICE PRESIDENT HOCHSTETTER: But that would be the wholesale generation market price similar to the CERA study that was done recently? Is that accurate?

MR. PROCTOR: I would think so.

VICE PRESIDENT HOCHSTETTER: Is that correct?

MR. PROCTOR: I'm not familiar with the other study that --

UNIDEN. SPEAKER: Terri is on the line. She may be able to answer that.

VICE PRESIDENT HOCHSTETTER: Could someone answer that question for me that's on the phone?

MS. GALLUP: I'm sorry, I didn't hear what the

question was.

VICE PRESIDENT HOCHSTETTER: Mike Proctor was describing the AEP flow-based model, and he analogized -- well, he described it as a method whereby you use LMP to determine which zones receive reductions in wholesale generation costs as a result of the transmission upgrades. Is that accurate -- and accurate description, Terri?

MS. GALLUP: That (inaudible)

VICE PRESIDENT HOCHSTETTER: Pardon me? Did you say "yes," Terri? I'm sorry, you kind of broke up there.

MS. GALLUP: I'm sorry, yes.

VICE PRESIDENT HOCHSTETTER: Okay. Thank you very much.

MS. GALLUP: You're welcome.

SECRETARY PARSLEY: And, I'm sorry, would everybody remember to identify themselves when they talk? That would be really helpful. Thanks.

MR. PROCTOR: And I thought what we might do, if it's okay with the board, to start out with, I don't think we need to go on to the economic upgrades right now. I would like to get back to that if we have time. But, clearly, the priority, I think, of the CAWG is on the base-funded upgrades, the ones that are necessary for reliability purposes.

And we've laid out three questions, and believe me -- if Commissioner Gaw is still on the phone -- it's hard to answer these three questions -- you know, to come out with specific answers to each of those.

But what I'd like to do, if we could this afternoon, is have some discussion among the board members as to where -- generally where they're at on these issues -- on the base issues that we've laid out. So I'm going to stop talking and start listening and taking notes here, because we need some guidance on this as a group.

VICE PRESIDENT HOCHSTETTER: Denise, do you want to start or do you want --

PRESIDENT BODE: Go ahead.

VICE PRESIDENT HOCHSTETTER: -- someone else to jump in? If we start with Slide 3, Mike, I'd say that, you know, I'm certainly in agreement with those particular concepts that it looks like the CAWG is in agreement on. I think where we need to start answering questions is at Slide 4, if I'm not mistaken.

And I would say that -- I guess one of the first questions has to be the level of flexibility that we should accord transmission owners in terms of changing resource designations in the base plan. If you want to start there -- do you want to start with a different issue first?

MR. HOLLOWAY: Excuse me. It wouldn't just be transmission owners. It would also be transmission users.

VICE PRESIDENT HOCHSTETTER: I'm sorry, the transmission -- the TDUs, like co-ops and munis. Thanks for the correction, Larry, yes.

PHONE PARTICIPANT: (Inaudible) actually more of the network integration transmission service customers that would be signed up under the SPP tariff.

VICE PRESIDENT HOCHSTETTER: Okay. Thanks for the clarification.

One of the questions I asked last Wednesday on the call -- and I guess to skip over to Slide 5 -- I'm an

Option 3 sort of a person -- or at least that's the direction I'm leaning -- that there needs to be some flexibility for changing network resources, but I do think there needs to be a commitment to serve the load on behalf of that change designation. And I think that we could do that either via demonstration of long-term contract, whether it be 5, 7, 10 years, 20 years, whatever. I mean, I don't -- I think something significantly greater than one year is appropriate, particularly if a certain percentage of this is going to be rolled into a region-wide postage stamp rate. And I think -- you know, I'm open to discussion on how -- whether it's a contract link that we need to be looking at or whether it's the type of generation.

I think last Wednesday I asked the question about whether or not we should look at baseload generation as, you know, something that is a long-term resource, that, you know, could qualify in the category of a resource that can be redesignated or changed and than rolled into, you know, regional rates to a certain percentage versus just looking at contract links -- or maybe some variation or combination of the two, looking at the type of generation resources as well as the length of the contract.

SECRETARY PARSLEY: This is Julie, and I guess I'm asking this question because I'm -- this is something I'm ignorant of in SPP. In ERCOT we don't have a lot of contracts go beyond three years, so I'm curious -- it seems to me like anything beyond a three-year contract would be difficult to find, so I'm just curious how many long-term contracts are there in SPP? And how long is the length? I'm just curious, because if we say they have to be 10-year contracts, yet there are no 10-year contracts, then we've created an impossible hurdle. So I'm just trying to find out what those contracts are.

MR. BROWN: The overall magnitude of the longer-term ones are very small, but we do have SWPA as a prime example that has very lengthy terms, but the magnitude is very, very small.

PRESIDENT BODE: By lengthy terms?

MR. BROWN: I've heard them characterize it as perpetual.

SECRETARY PARSLEY: Okay.

VICE PRESIDENT HOCHSTETTER: If you were an LSE -- and I think this is the question Julie is getting to -- if you were a load-serving entity like, let's say, AEP and you were going to go out in and, in lieu of building and owning -- you know, self-building a generation plant -- how long would a baseload generation contract be for? Or, if you were a co-op or a muni, how long would a new baseload or even intermediate -- I understand peaking contracts are short-term in nature -- but if it was baseload or intermediate, what's the length of term -- contract term? Does anybody in here --

MR. DESSELLE: This is Michael Desselle. And I think Terri has an answer to this from AEP's perspective, I think we're thinking about seven years as a minimum.

Terri, is that right?

MR. LOUDENSLAGGER: Michael, this is Sam Loudenslagger. How long?

VICE PRESIDENT HOCHSTETTER: He said seven, Sam.

MR. LOUDENSLAGGER: Thank you.

MR. PROCTOR: Is Terri on the phone?

MS. GALLUP: Yes, this is Terri. That's what

we propose.

SECRETARY PARSLEY: How many contracts would that be or what percentage would that be of --

MS. GALLUP: This is Terri again. I don't know how many that would be. I was -- we just came up with that value. Some people had been talking about 3 and some at 10, and AEP felt 7 (inaudible).

PHONE PARTICIPANT: (Inaudible) not only talking about contracts here, but you're also talking about owned generation. You're talking about a -- maybe a coal plant you're building (inaudible) that's got another 20 or 30 years of life on it. That's also considered as designated network resource underneath the tariff.

MS. GALLUP: And for AEP's 7 years we were trying to come up with something that was far enough out that if you're going to build transmission and have it rolled into rates that it was going to be there a while if everybody was going to be paying for it.

MR. PROCTOR: I can -- Julie, I can answer the question for Missouri, because I'm familiar with the contracts. Probably every once in a while we will see a short-term contract -- you know, a year or less. Most of the contracts are 5 years, I'd say, up to 10 years in length that our utilities have entered into. But these are regulated utilities. These are not -- they're not

load-serving entities that are trying to serve retail load on a competitive basis. And I think that's kind of where some of this trade-off occurs is. It's kind of the difference between the way regulated utilities function and the way that load-serving entities function in a nonregulated environment.

SECRETARY PARSLEY: Well, maybe -- that's kind of why -- this is Julie again -- maybe that's why it's a little confusing because we've got merchant generation in here as well, and so we have the integrated utilities that function, by necessity, differently than the merchant generators, and the merchant generators are supposed to have open access to the transmission system. So I'm just worried about making a contract requirement that is so long that it's not really feasible to be met.

VICE PRESIDENT HOCHSTETTER: I think that the retail competition environment that you're in here in Texas is what makes your contract length so short relative to what it is in the other states. If you're a load-serving entity under a monopoly public service obligation as we have in the other states and they are -- you know, they have to perpetually serve, you know, a set of customers for a long period of time, they'll have a portfolio of contracts. But I would imagine that for the majority of at least baseload contracts, the contracts would be very -- it it's not a

self-build and self-owned for the life of the asset, it would be a very long-term contract -- at least 10 years.

I guess the intermediate term -- the intermediate-type of generation would be shorter term in duration.

SECRETARY PARSLEY: How would someone who is a merchant generator get a 10-year contract if it didn't have the transmission to move the power out from its generating unit to the load?

VICE PRESIDENT HOCHSTETTER: They would negotiate those two things simultaneously I would imagine. They'd negotiate a contract with an LSE and --

SECRETARY PARSLEY: I think we may -- I mean, kind of a chicken and egg sort of idea. I'm a little -- I just worried -- I'm just curious about that, too. How does that happen? How does that work?

VICE PRESIDENT HOCHSTETTER: Does Bruce want to -- I think Bruce wants to -- is dying to answer that question.

MR. REW: Bruce Rew with SPP. In Southwest Power Pool the transmission request would be made through the SPP tariff for transmission service and then we would evaluate that and build any new transmission facilities that were necessary for the long-term request.

SECRETARY PARSLEY: I guess the question is,

though, how would you maintain -- if you had to wait for the transmission to be built, then it seems that the contractors would not be willing to hold a contract for the length of time it would take to actually build the transmission. We've had some of these issues here as well, and you end up with a chicken and an egg sort of an issue because you need the transmission, but you can't get the transmission without a contract, but you can't get the correct without the transmission, because you can't move the power out. So you can't actually execute the contract.

VICE PRESIDENT HOCHSTETTER: How many years in advance do folks start negotiating these generation deals knowing that they have to build incremental transmission?

SECRETARY PARSLEY: That's a good question.

VICE PRESIDENT HOCHSTETTER: Can you identify yourself?

MR. BRIAN: Yes, ma'am. David Brian, and I'm here on behalf of several of the TDUs, and I did want to respond.

You know, as to your specific question, typically, I think it's anywhere from one to three years out that load-serving entities, particularly some of the wholesale customers that I represent, get started making those plans. And, you know, as far as the term of commitment, you know, we are seeing a lot of resistance from

suppliers in terms of pricing power any further out than about five to seven years these days. You're talking about someone who is actually purchasing power off the market and reselling it to you.

A lot of the reason for that is the uncertainty in the markets. Currently, you know, the SPP market is evolving. There are rules being discussed as far as how the market will work going forward, how the congestion management scheme will work, all those types of things, and nobody right now knows how the market is going to look beyond next year. And it's very difficult to get any sort of competitive market or any sort of competitive bid or sort of commitment from a supplier for anything longer than a couple of years right now.

Now, that's different if you're subscribing to a power plant. If you're an entity that's going and negotiating with a power plant developer for jointly developing -- building a unit for yourself, that's a different situation. And I guess what we're concerned about is if you've got something that's longer than somewhere in the three-year range, which is what we've been proposing, you're going to change the market by doing that, because it's going to drive people to longer-term resources. And what you see in some of the more advanced markets like ERCOT are people going to shorter terms because the transmission is there, the market is robust, the competition is robust, and people can have more choices. And that's really what, you know, we believe the name of the game should be here.

SECRETARY PARSLEY: May I ask a really quick follow-up question?

MR. BRIAN: Yes.

SECRETARY PARSLEY: You said if you were self-building it would make -- it would change the situation, but I didn't really understand how. Could you just explain that really quickly.

MR. BRIAN: Sure. I mean, if -- obviously if you're -- if you're committing to a power plant, that's a long-term obligation. And you can do that a couple of different ways. You can build one yourself or with a partner, or you can agree to be an anchor tenant in a plant that an IPP is developing. And those situations, you know, a lot of those are significantly longer-term commitments than -- than you would see if you were just buying power under a purchased power contract.

SECRETARY PARSLEY: What size TDUs do you represent?

MR. BRIAN: Generally speaking, they are from 50 megawatts up to about 600 megawatts, if that is the number you're looking for. I'm an engineer, so I talk megawatts.

(Laughter)
SECRETARY PARSLEY: That's good. So it's mid-size to smaller?
MR. BRIAN: Yes, mid-size to smaller TDUs.
PRESIDENT BODE: So which option did -- which option are you -- do you prefer?
MR. BRIAN: We lean towards the three-year side --
PRESIDENT BODE: Okay.
MR. BRIAN: Because that's -- really today that's where the market seems to be.
SECRETARY PARSLEY: Is it possibly a market power issue at all or --
MR. BRIAN: It absolutely can be a market power issue.
SECRETARY PARSLEY: Can you explain that to me?
MR. BRIAN: Yes, I can. You know, the markets are still evolving. There's still a lot of leftover incumbent generation, and particularly in some areas -- I don't know if y'all have been following some of what FERC has been doing on market power, but some areas, even in SPP and SWEPCO's area, that was identified as being an area where there may be some market power issues. And those are of major concern for us, because if you don't get the

transmission built, then it leads to a situation where the market power issues don't get resolved. You need transmission built to provide generation alternatives and to provide more competition.

So, yeah, we lean towards the shorter term. Get the transmission built, create a more robust grid, and allow competition to happen and less of these market power issues raised. We don't like raising them. We don't like to see them raised. We'd like to see the market power issues resolved.

VICE PRESIDENT HOCHSTETTER: If you have a shorter-term contract parameter or criteria in here, should that maybe be taken out of the base plan and put into the participant funding category where, you know, the person makes up-front payments to have the upgrade built, they get credits against the cost of their transmission service, and then at a future point in time when there's, you know, a wide swath of beneficiaries demonstrated, then it gets rolled into a regional rate or several zonal rates?

MR. BRIAN: That would make sense. You know, actually, to be honest, the 3-year is sort of a compromise for us. We would like to see the system robust enough to accommodate shorter-term contracts than 3 years. We also have -- my clients also have load in ERCOT. There's no such requirement in ERCOT, and in ERCOT load-serving entities --

which include the co-ops, the munis and the IOUs -- all submit their annual load and resource plans. The system -- the ISO plans to build to meet those plans.

In the meantime, if the IOUs or the co-ops or what have you can't get the transmission built, they are faced with congestion charges until the upgrades are built. And that's sort of the short-term issue you face as a load-serving entity. If you don't give the ISO enough notice to build something to meet your needs and get it in the plan to get it built, then you will face congestion charges until those upgrades are built and put in place.

So that's -- you know -- and the problem we've got here, of course, is we can't say that's the way it's going to be in SPP because the market development rules are lagging behind what we're doing here. So that's why, you know, we're willing, I guess, to consider, you know, some sort of term commitment on these upgrades.

SECRETARY PARSLEY: What Sandy described, I guess, is Order 2003 A -- the procedure set out in there. And did you say you agreed with that or --

MR. BRIAN: Yeah, yeah, I'm sorry --

SECRETARY PARSLEY: I just want to make sure --

MR. BRIAN: Yeah, I mean, up until --

PRESIDENT BODE: That was my question,

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actually, which of the options --

MR. BRIAN: -- 3 years or 5 years or 7 years, whatever -- when somebody comes forward with a 1-year contract, probably what that's going to do is result in that load-serving entity recognizing that that's a risk that they face, and they'll probably end up buying power from someone that they know they won't have to make an upgrade for.

VICE PRESIDENT HOCHSTETTER: It seems like we need to, I guess, look at which bucket of transmission upgrade we're talking about to then decide what -- what the length of the contract ought to be and then what the methodology ought to be that goes with it. In other words, if you're talking base plan upgrade, which we are right now, and we determine in advance that some change -- some degree of network resource changes can be accommodated in the base plan, those types of upgrades, it seems to me, ought to be associated with long-term commitments because of the fact that you're socializing some of those costs, some percentage; whereas, in some of these other buckets in the transmission upgrade categories, either the economic or -- I forgot what the third category is -- then you could have shorter-term contracts go into those buckets and tie that with participant funding in the Order 2003 A. Does that make sense?

MR. BRIAN: Yes, it certainly does. And,

yeah, most of my comments were with regard to designated network resources that are on a firm basis serving load in the SPP (inaudible). That's really the focus of the TDUs. You know, they're not out, you know, playing games in the market, you know, that sort of thing. They're interested in reliably serving their own load.

PRESIDENT BODE: And just for y'all's benefit, we just handed this document out that has the slides on it. What we're really working from are the options -- I don't know that Mike said this -- but the option for 1.a are on Slide 5, and that's what we've kind of been looking at up here. I just wanted to make sure everyone else is out here looking at those same things so that when you speak on behalf of an option you might tell us which one you're referring to. That would probably be helpful.

Steve, do you have a copy of that? Steve Gaw, are you there or have you -- you've given him one, Mike, right?

MR. PROCTOR: He has a copy of this presentation, yeah.

PRESIDENT BODE: Okay.

MR. PROCTOR: I don't know if he has it with him, but --

PRESIDENT BODE: Would you have any comments, Steve, on that.

COMMISSIONER GAW: I know what -- I think I know what you're working off of.

PRESIDENT BODE: Okay. I just wanted to make sure that if you had any questions or comments that you were --

VICE PRESIDENT HOCHSTETTER: Can I ask what SPP's thought would be on this with respect to the base plan? I mean, if we're -- if we're just talking base plan here and we're going to do something more than reliability and will allow LSEs to change designated resources periodically, what length of contract term do you think would be appropriate for that bucket of upgrades as contrasted with, you know, shorter-term desires under economic or direct funded --

MR. REW: SPP -- we would prefer Option 3. And our initial discussion is that approximately a 5-year time frame is what we had initially discussed.

VICE PRESIDENT HOCHSTETTER: Can we successfully, I guess, amortize those costs or get a pay-back on the transmission upgrade costs for those types of, you know, new network resource designations within that period of time? I guess it would depend on what percentage you put into a regional rate versus zonal --

MR. HOLLOWAY: If I could respond to that -- this is Larry Holloway. I don't think the intent is to try

to recover the costs over that period of time. You would have the transmission built and then recovered over whatever the appropriate depreciation period was. And, I mean, you know, that's one of the issues, quite frankly. I think what people are concerned about is that after four or five years it's really hard to tell how that piece of transmission is being used.

So the cost -- I mean, this isn't tied necessarily to cost recovery. I think it's the important thing to understand --

VICE PRESIDENT HOCHSTETTER: Well, that's why

I asked the question. Because if we've going to have a really short period of time that the resource has to be committed to load within the region, and yet we're rolling a certain percentage into 20-, 30-year, you know, life of the transmission asset rates that everybody has to pay for, there's a disconnect unless there's such a huge economic advantage to that transmission upgrade and the use of that particular designated resource to be able to reap those benefits within the five years. That's why I asked that question.

MR. HOLLOWAY: And I think the answer is there's probably not a close connection because -- and I think it kind of goes back to FERC's Order 2003 A -- there's some recognition that after a certain period of time it's

really hard to tell -- you know, the system is used so differently that it's hard to tell who caused what or why it's there.

Additionally, once you have this element in place -- at least, this is my opinion -- once you have the element in place, you could likely be looking at that element and go, "Gee, you know, we need to do some upgrades to meet all the rest of the load. Oh, gee, look, there's a transmission element that was built only for this one resource. Let's connect up to it and strengthen the grid over here." So it will be incorporated into the planning after that point and probably used by a lot of other people for different purposes. But that's the logic.

SECRETARY PARSLEY: And maybe I'm confused -- so I probably need more clarification -- but I'm getting confused between reliability upgrades -- which I thought was the base plan upgrades -- and the economic upgrades, which I thought were the second bucket. And we were just talking about economic upgrades as opposed to reliability upgrades, I think, which are two different things I thought.

VICE PRESIDENT HOCHSTETTER: Well, I actually -- maybe I added to the confusion. I was talking about the new category we've added to reliability, which is being able to change designated resources. You know, originally, the base plan was just reliability, and then we

started talking amongst ourselves a couple of months ago that, well, maybe in addition to that, we ought to allow -- and when I say "economic" I mean the ability of an LSE to choose a more economic generation option by virtue of changing the designated resource. So I'm sorry for the confusion --

SECRETARY PARSLEY: No, I'm sorry, I was --

VICE PRESIDENT HOCHSTETTER: So that's why in my mind I'm trying to marry up the length of time that that resource is committed to load with the way that we choose to fund it, because if we're going to socialize a part of the cost, whether it's 25 percent, 33 percent or whatever, in my mind we need everybody in that region, then, to be benefiting from that new generation resource as opposed to it being sold off-system or whatever.

And maybe this is one of those things where we just kind of have to split the baby -- you know, whether it's five years or seven years -- and see how it works. And it's something we can always change -- I mean, we don't have to design this to be perfect --

PRESIDENT BODE: It's not in concrete.

VICE PRESIDENT HOCHSTETTER: Exactly. We just need a starting point and then we can always modify as we go forward.

PRESIDENT BODE: Go ahead.

MR. WARREN: I'm Barry Warren with Empire District Electric Company. We're also a member committee -- investor-owned utility sector on the board -- so on behalf of that sector, just to give you a feel for the kind -- what we're thinking right now -- these limits that's being discussed on the base plan roll-ins -- trying to give a lot of thought to that, and term is a key one for designated capacity resources. And so right now I would say the thinking is more in lines of the 10-year type time frame in terms of a long-term resource -- capacity resource for a long-term significant transmission base plant upgrade -- kind of marry the two together.

So I just wanted to provide you some feedback -- we're thinking about the limits and we're working on it. We just haven't had a sufficient amount of time to really put a lot of meat on those limits, but just wanted to provide that feedback to you.

PRESIDENT BODE: So we've got AEP at 7, Empire at 10. We've got TDUs at 3 years and SPP at 5 years. I'm just keeping tabs here.

SECRETARY PARSLEY: You're doing --

(Laughter)

VICE PRESIDENT HOCHSTETTER: Split the baby or draw straws or something.

PRESIDENT BODE: Are there other folks that

are on the phone that would like to -- I'll just call on Steve because I know we had another Commissioner, and Larry, I think, is speaking here for at least his view, and I assume that that represents to a great extent the Kansas -- but, Brian, obviously anyone there -- anybody else like to comment on this issue?

VICE PRESIDENT HOCHSTETTER: Well, Larry, I haven't heard a number from you. What's your particular preference?

MR. HOLLOWAY: I think, you know, the basic question was whether -- which of the options, and I think Option 3, in my discussions with -- Mike and Brian and I met and discussed these issues last week -- and I think we're in favor of Option 3. You know, we -- I'm not sure what the right number is, so I guess I can't give you a number to write down, but I think there should be some limits on it.

PRESIDENT BODE: Shorter versus longer?

MR. HOLLOWAY: Yeah, one of the concerns I've had personally is that somehow you need to make sure that there's no -- and maybe there isn't -- but I'm not convinced there isn't a possibility to game between this and generation interconnection. Because on one hand you have the customer saying "I want to hook up to that generator" and paying for the upgrades. On the other hand you have the generators saying "I want to hook up and I want network

upgrades so I can connect." So I think you have to make sure that one of them isn't a way of -- one of them doesn't have an advantage over paying less. That's my major concern is that the two come together well and there's not a reason to game between the two.

PRESIDENT BODE: I haven't heard from any of the folks from OG&E, and that's our largest footprint in Oklahoma in terms of company. Is there anyone from OG&E that would like to offer us some recommendations or suggestions?

MR. WYLIE: Bill Wylie (phonetic) with OG&E, Commissioner Bode. We've been working with the other transmission owners. From our own viewpoint -- from OG&E -- we believe that there ought to be a term recognition or a number -- we're not ready to commitment to a number, although it's probably more in the range of the 7- to 10-year than 1- to 3-year, certainly.

We also think there ought to be some thought to -- that would be one aspect of the matrix, but some thought given to what is the proximity that the designated resource to the load-serving entity as well. So there's a distance factor that we believe ought to be played in somehow. We're just not (inaudible) not at this time.

PRESIDENT BODE: Okay. I just wanted to make sure. How about -- how about -- I heard the Oklahoma

municipal folks are on. Do y'all have any comments?

MR. LITTLETON: Well, we had multiple lengths of contracts, and we understand the problem. I think before you pick a term -- this is Tom Littleton.

PRESIDENT BODE: Thank you, Tom.

MR. LITTLETON: I think we need to remember that the transmission portion of the rate really is not near as big as the distribution or generation portion. So we're wiggling on the small -- on the smaller piece. And we're worrying about a smaller piece of the smaller piece when we start worrying about what ought to be and what ought not to be. I think we ought to take that into perspective also, because I go back to the issue that was mentioned by -- and I didn't catch his name -- who was talking about TDUs, that there is -- and unless there's something done about it, there is a significant amount of market power being exercised in the movement of power in the pool. We just believe that the more robust the system is that the less risk you have of that occurring. And so we -- we support anything that can help the market work. And the shorter the term, the better the market is going to work. The longer the term, then you really don't have as much flexibility to take advantage of the markets. So that's just kind of a general sense I'm getting out of this.

PRESIDENT BODE: Thank you very much.

Appreciate it.

Does anybody else have any comments that they'd like to make?

Wayne?

MR. WALKER: Yes, Madam Chair. Wayne Walker with Zilltha Energy here with my energy partners -- coalition. We don't really have a firm number that we want to latch on to. In general, we are a baseload resource -- wind -- even though we're thought to be small (inaudible) we're growing probably quicker than any type of resource.

Looking forward, there is a possibility that there could be some wind merchant plants, but it's probably going to be outside 4 to 5 years. So, you know, a 3- to 5-year term would certainly be something we could support. I guess the thing I'd like to bring forward to the committee is that while the cost allocation working group may be in agreement on a plan, we as a stakeholder do not think this is the best way to go forward. Because under the current -- the way things are going now, we basically would be a participant-funded resource. We're very constrained in terms of location. We have to go where the wind blows the most to produce the most economic power possible in the marketplace. And under this protocol, since we can't really deal with a firm point-to-point transmission type of structure because of the additional cost penalties it gives us, you know, our energy is not going to be competitive if we've got to carry the full weight of all this stuff.

So what we propose is to go with a system that -- similar to the TDU's proposal and spread across a broader base. And I'd like to echo Mr. Littleton's comments that, you know, that we're spending a lot of time talking about something that's a relatively little amount of money. As an example, if we funded the whole approximately $350-million upgrade to accommodate the Kansas-Texas Panhandle-Oklahoma Panhandle upgrades, we're talking about 50 to 60 cents a month for the average ratepayer, which is about what you pay for one gallon of gasoline to fill up your car. I mean, it's just not a lot of money. And the benefits we bring is the economical energy resource, in addition to the economic and environmental benefits, spread across the whole region we think more than outweigh the cost for the transmission built to our areas.

VICE PRESIDENT HOCHSTETTER: Just out of curiosity, though, when you're talking about competition, aren't you supposed to be comparing apples to apples and, you know, everybody bearing their own costs and competing on a level playing field?

MR. WALKER: Yes, but, you know, like I said, we can't locate a wind plant -- we can't locate a wind plant next to Little Rock Arkansas. It's just -- the wind doesn't blow there. We have to go where it blows. And as we've proven in Texas and proven in other areas, you know, we can be more cost competitive than natural gas. But at some point in windy areas you run out of transmission because there's no load there. But the overall benefits to the ratepayers, because they have another source of -- type of energy to diversify and hedge against the risk of fossil fuel prices, you know, we think far outweighs the transmission costs to get there (inaudible) not carry the whole burden.

MR. PROCTOR: Commissioners, can I kind of respond to this? Maybe there's some misunderstanding here --

PRESIDENT BODE: Thank you, Mr. Walker. Appreciate it.

MR. PROCTOR: -- because what is put into the base plan is not participant funded. What is put into base plan is rolled into rates. So if a customer has a wind contract in -- and that's a resource for that customer, then the transmission that's needed for that particular resource would be rolled into rates. It would not be participant funded.

Now, having said that, let me indicate one of the particular problems that wind, as an example, raises. Suppose the utilities in Missouri want to designate wind as a resource. And, frankly, we've got three of them that are looking at that and looking at it very seriously. And in order for that to occur, there needs to be upgrades in the transmission system maybe in Kansas. Okay? And part of the issue that that raises is, you know, under the current policy, what would happen is all of that upgrade would -- if we rolled it in -- would be rolled into Kansas ratepayers and they would pay for it, and that's not fair. And that's not what we're proposing here.

What we're proposing here is that SPP looks at that and says, "Who's going to benefit from this transmission," and then that would determine, then, who would pay for it. That is the direction that we're heading. We're talking about getting rid of what is called the "end pricing" for network resources. We think that's a tremendous benefit -- competitive benefit, and one of the major things that we're doing.

But we don't see -- I really don't agree that we're asking them to participant fund transmission if wind is a designated resource to serve load. So I just wanted to clarify at least my view on that and I -- maybe Larry can speak up or --

PRESIDENT BODE: I think Michael Desselle is dying to say something.

MR. HOLLOWAY: Well, I did want to add a

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little bit to what -- oh, I'm sorry --

MR. DESSELLE: Go ahead, Larry.
PRESIDENT BODE: Go ahead, Larry.
MR. HOLLOWAY: -- to what Mike was saying -- Mike Proctor was saying, and that is, I think, just to add to your example, say the utilities are in a zone in Missouri, and the zone where the wind generation is is in western Kansas and there's two zones in between there, and those two zones are where the transmission needs to be upgraded. If you stick with zonal pricing, then the customers inside those two zones end up paying for all the upgrades. They don't have the generation there to help them out with the property tax or the jobs or whatever, and they don't -- and they're not using it either. And, in fact, they probably have higher energy costs due to energy losses.
MR. DESSELLE: This is Michael Desselle, and both what Mike has said and Larry has said really kind of goes to the point that I wanted to rebut, you know, this idea that, "geez, it's only pennies and it's not going to cost you anything." Well, if it gets rolled in, we're going to get an allocated share of 22 to 25 percent of whatever that cost is rolled in, whether it benefits us or not as was sort of proposed here. So that's -- I wanted to make that point, and I agree with both what Larry and Mike are saying that with respect to that issue.

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PRESIDENT BODE: Any additional comments?
MR. PROCTOR: I might say on behalf of Missouri, in terms of these options, we have been focusing

on Option 3 as well, and asking the question -- and I've been asking it for two months now -- what are the proper limits to set there? Our sense is that there do need -- it is reasonable to set some limits and to give the SPP board some guidance in terms of those limits and give a rational explanation for why.

Now, generally, we know that the SPP board will have to approve the base plan. So if somebody is proposing something that's just totally off the wall -- you know, it's going to cost millions of dollars and provide no benefit except to that one person -- then rolling it in isn't the proper answer and the SPP board, hopefully, would recognize that, that here we're trying to give the -- that board some additional guidelines that would be the types of guidelines that SPP could put into the tariff and, hopefully, the types of guidelines that FERC could accept. So that's what we're kind of looking for here, and "term" was one of these things that we had asked about.

VICE PRESIDENT HOCHSTETTER: Are there any other parameters besides -- we've been focusing on the length of the contract. Are there any other parameters that are logical to consider that maybe we ought to look at in

addition to or as an alternative to the length of the contract?

PRESIDENT BODE: And we had one other comment that wanted to respond before we went off this subject, if we could.

Yes, sir?

MR. SLOAN: Actually, this segues into the other one. I'm Mike Sloan on behalf of the Wind Coalition. And just to build on some comments that Wayne Walker had made, the wind resource in the SPP states is tremendous. I mean, there's great resource there. There's also tremendous natural gas consumption at power plants, so there's a great opportunity to reduce generation costs with very expensive fuel use.

The industry is very, very interested -- and I think it's reflected by the fact that almost 60 percent of the interconnection requests right now at SPP are for wind projects. There's a lot of interest from the wind industry in being in the Southwest Power Pool. And a fundamental (inaudible) question is the participant funding plan you come up with, "Do you want to accommodate wind generation into the future?" And if the answer is "yes," there's some specifics, because wind is a different resource. It's not a traditional resource, and there's some things that are going to have to be paid -- special attention to these factors.

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And to get into some of the specifics --

PRESIDENT BODE: But are you talking about -- we're just talking about the base issues -- the base --

MR. SLOAN: Base funded?

PRESIDENT BODE: -- base-funded issues right now. We haven't gotten to, sort of, the economic upgrades. And I think what they were saying is that if they're considered baseload, then they would be rolled in whether they're wind or anything else. Right?

SECRETARY PARSLEY: And I guess that's what we were getting to next is whether baseload was something we wanted to look at in addition to terms of contract --

VICE PRESIDENT HOCHSTETTER: And any other factor that the CAWG has been looking at.

PRESIDENT BODE: So go ahead and segue --

MR. SLOAN: -- recognize that if you're just dealing with base-funded resources and they have the flexibility to accommodate wind, then that works quite a bit better than some of the other of the economic resources or just full-participant-funded resources. And if the Southwest Power Pool is able to do that, to work in where wind becomes base funded, then it's going to really help it work out a lot.

There are a couple of issues that are overarching -- sort of -- it doesn't depend what bucket you

put it into, they are issues you have to deal with. And Southwest Power Pool, I think, has done an excellent job of devising a plan proactively -- you know, moving forward to come up with a transmission plan to get more wind out of West Kansas and West Oklahoma, this "X" plan. But it needs about 2500 megawatts to subscribe that line. And if you think -- you know, the average wind project might be 100 megawatts, that's 25 projects. And if you're requiring them to have their full deals together, the full interconnection agreements, before those lines can move forward, that's an obvious issue that's going to have to be dealt with.

VICE PRESIDENT HOCHSTETTER: I think that for purposes of base plan we're talking about a load-serving entity designating a generation resource as a long-term resource -- no matter how you define "long-term" -- as a long-term resource of serving its customers' needs. That's what we're talking about right now in terms of the base plant, whether it's a self-build option or a contract. And, you know, I don't think we're talking about, you know, spot energy stuff or intermediate or peaking stuff. We're talking long-term dedicated to customers -- to LSE customers' generation.

So -- I mean, I don't know where you fit into the mix. I don't know if you'll be a long-term baseload resource or if you're intermediate or if you're peaking or

what. But, you know, if you fit -- if your generation fits within an LSE's load profile for a long-term designated resource, then you could be eligible for base plan, you know, cost allocation. But it would -- you know, I think where we're getting to now is what would be those parameters to determine the long-term dedication of the resource to the load?

MR. SLOAN: Just two following comments there. In the nature of many wind contracts, they are very long-term -- 10 to even 20 years terms on wind contracts. So if that is the particular question, then it shouldn't be

so much of an issue for wind. But, again, if a utility, basically, has to subscribe a wind project, it's going to be fairly small. And you have to have 25 of them or even 5 of them before you could move forward with building that project. You can understand that that's going to be a drawback to moving forward with any wind development since it all depends on this new infrastructure out in west --
VICE PRESIDENT HOCHSTETTER: Would a utility designate wind as a designated resource? I mean, what --
MR. PROCTOR: Yeah, I think what he's talking about --
VICE PRESIDENT HOCHSTETTER: I'm confused.
MR. PROCTOR: -- he's talking about suppose only one utility subscribes 100 -- 200 megawatts wind as

designated resource. But in order for that to occur, SPP has to build a very expensive (inaudible), one that has a capacity of -- his example is 2500 megawatts. So one of the other criteria that you need to think about, you know, you're going, "My gosh, to get this one resource in, I'm having to spend multi-millions of dollars." Is the SPP board going to turn that down because it's just way too expensive to put in -- and there is another place where the economic -- in my mind the economic and the reliability criteria cross, because you're building the excess -- you're building excess into the system above what you need for reliability purposes. That's what he's talking about.
When you do that, does it -- what are the

other limits you -- if it isn't going to provide economic benefits to the rest of the region, you may not want to build it.

VICE PRESIDENT HOCHSTETTER: Either that, or it seems like a certain percentage of it should be participant-funded, and then that small percentage that is in fact needed for the load to be served would be what is rolled into rates.

MR. BROWN: Can I ask a clarifying questions of you, Mike? It sounded what you are proposing is not drawing a bright line today, but saying that, in the process, that there be, oh, minimums and maximums of term --

maybe it's not 3 years and maybe it's not 10 years, but depending on, maybe, distance, maybe dollar magnitude of investment, that discretion would be used to determine, "Well, gee, if you're going to build this, then we need a 10- or 15-year commitment in order to roll those costs in?

MR. HOLLOWAY: I think one of the things we talked about, Nick, is not only in -- and that's an interesting perspective, because one of the things we looked at is maybe a year limit and some reasonableness test. But, you know, what you're suggesting I think is an interesting perspective, too. But I don't know that we'd actually discussed that so much --

MR. BROWN: Yeah, I wasn't really suggesting -- that's what I thought I heard Mike arguing, that "let's go with Option 3. Let's say that, you know, the range is anywhere from 3 to 10 years, but there may be other mitigations or reasons why it might be shorter or it might be longer, depending on things such as distance from the resource to the load and the magnitude of the project."

MR. PROCTOR: Yeah, I mean, there is -- Nick, you're characterizing the approach that I feel comfortable with very well. I don't know how comfortable FERC is going to feel with that or how you put together tariff language to do that. And -- I mean, that's one of the struggles that you have, because people tend to like to have these bright

lines "boom, boom, boom, I can come in and I can test this," and it meets all these tests and, therefore, in that -- in favor of that is it efficient? Okay? Whereas, when you're working with a flexible thing, that tends to take longer to make a determination that it -- so we need to think about this and how do we put these two concepts together and are there things that should be hard limits (phone tone) so you know -- you know you're got going to get any applications that don't meet these limits. And then maybe there's this other, more -- I don't want to call it a softer test -- but less-well-defined type of test --

PRESIDENT BODE: Flexibility --

MR. PROCTOR: -- yeah, flexibility --

PRESIDENT BODE: -- to address these issues that have been raised.

VICE PRESIDENT HOCHSTETTER: Well, it seems like the base plan would probably -- whatever is in the base plan should give us more flexibility to determine a cost allocation methodology as long as there's always the participant funding option. I mean, I think as long as we're complying with Order 2003 A for transmission projects and people have always had that as an option, whether or not you, you know, roll it into rates either with the postage stamp rate or that in combination to so many zones with the flow-based model, that -- you know, I think FERC would be

happy with that. And, I mean, the way we're splitting this up into three buckets accommodates that.

MR. TOTTEN: Chairman Bode, you asked if there was another way of looking at this, and I have argued for a somewhat different way. I'm very much in favor of hard and fast rules for the cost allocation, but recognize that the decision to make an investment in an expensive transmission project is not necessarily something that you want to have hard and fast rules for; that it's really a decision for whoever is making that investment whether it is a good use of their capital in terms of serving their customers' needs and providing a return on their investment.

So I've argued that the SPP board should really look at all of the projects that are proposed for base plant projects and decide on the ones that really provide the benefits for the region's customers. And so you would give the board a lot of discretion, but then once you decide that it is a base plan project, then you have very hard and fast rules about how the costs would be allocated.

MR. HOLLOWAY: Actually --
PRESIDENT BODE: Thanks, Jess.
MR. HOLLOWAY: -- if I could, there's an issue that I probably should bring up. And I'm not sure it's covered here, but I don't think it's going to get us too far off track, so I just wanted -- I know we have discussed it a

little bit before. That is -- I know that Oklahoma Municipal Group has brought this up, I believe, and in Kansas now our Legislature passed a law that allowed transmission projects that -- I think it's pretty vague -- primarily benefit Kansas to get KDFA financing, which essentially means they can issue an industrial revenue bond.

So the issue really is -- lots of times when we think about this, we think about what we're going to order a transmission owner to invest its money in, but I think we need -- with the RSC's blessing I would hope that we would be trying to think of ways that other folks could put the money up for these transmission projects or, perhaps, you know, if we can get a KDFA-financed -- financial put together to pay for some -- you know, however it's paid for, at least we could lower the cost of service -- the annual cost of service of that line quite a bit, and we probably need to think in terms of being flexible enough to allow other types of investment in -- other types of financing packages --
PRESIDENT BODE: Joyce, do you have any

comments? I know that our folks have been talking -- you've been talking to a lot of our constituents in Oklahoma out there as well.

MS. DAVIDSON: Really, the conversations that

I've had have basically gone with the Option 3 to -- as far as looking at the designated network resource and the time frame at which that -- one should designate that network resource is kind of a question. And the discussion has been around how long of a notice does it take when you actually need to build the transmission so you're not -- the idea at one time, I thought, that it was going to be changed out, you know, every other year. Well, we finally reached the conclusion that we don't think that's going to happen because of the time that it takes in order to build -- to put the plans in place and actually build a network resource. To have the commitment, however, for the base plan, or base fund it for some period of time, is definitely mooted and the option of having hard and fast rules -- I guess I support that more so and then some flexibility. I don't think whatever we put on the table will cover 100 percent of the issues that come to the table, but, hopefully, we'll cover 90 percent and then you would have to do some kind of detailed look at those other options that come to the table.

If we say that the contract has to be five years and then they come and say, "I only get a contract for four years," do you say, "okay, you don't fall into the base-funded option, but now you can do a participant funding." You know, you still have an option.

The issue of looking at the project and running, necessarily, the flows to see where the regional benefit is, where the zone benefit is, really helps to determine which bucket it really falls in. And then that gets back to the next question -- which we haven't gotten to -- what percent should that be to really say that it's regional or zonal and how do you get there based upon that? But we're certainly in for having a contract of some time which kind of indicates a commitment to the use. But I also -- based upon all our conversations that we've had -- feel that after some period of time, if you run another flow-based model, you will find that that particular line is probably used by a number of other participants that didn't start out with in the first place, which may lead you more to the megawatt-mile or the postage stamp kind of allocation. If you start to run the various projects individually, and by the time you sum them all up, you may find that you've not really gained a lot by separately identifying and building out for that. So...

MR. BROWN: Joyce --

MS. DAVIDSON: Yes.

MR. BROWN: -- you may have hit on something. Maybe the way to split it and to have a bright line but, at the same time, not close the door on additional thought to the extent a particular project warrants it, is to put in the tariff, Mike, a bright line of five years or some number, and then say also, to the extent the board or the RSC or the combination thereof believes something else warrants, then we would file an exception.

PRESIDENT BODE: You can waive it.

MR. BROWN: Yeah, ask for a waiver of that particular provision for a given project.

MR. PROCTOR: That probably provides the efficiency you need and the flexibility --

VICE PRESIDENT HOCHSTETTER: And then maybe put in that language what factors you would look at to make it a little bit more objective like cost, distance, fuel diversity --

MR. PROCTOR: Sure.

VICE PRESIDENT HOCHSTETTER: -- you know, reliability -- whatever, you know, sorts of characteristics, you know, would be logical to consider for exception purposes -- I think that makes a lot of sense.

MR. HOUSE: Yeah, this is Richard House, and I've just got an additional comment. You know, Jess is right when the decision is made by the board, but most of these projects that they'll be looking at will come through a planning process where, you know, there will be a lot of stakeholder involvement and RSC involvement and you'll be making those judgments along the way. So there's that aspect to consider as well.

PRESIDENT BODE: How did the wind projects that we've been talking about fit into this -- fit into this planning process?

MR. BROWN: To the extent they're claimed as a designated network resource, they would be included just like any other generation resource.

VICE PRESIDENT HOCHSTETTER: So it would be up to the LSE to designate them --

MR. BROWN: Yes.

VICE PRESIDENT HOCHSTETTER: -- as a resource?

PRESIDENT BODE: And if they're not designated are --

MR. BROWN: For these base-funded projects. Now, we can talk about it again --

PRESIDENT BODE: Okay.

MR. BROWN: -- when we get to the economic upgrades.

PRESIDENT BODE: Barry?

MR. WARREN: This is Barry with Empire. Just a quick comment. I think so far we've looked at the base-plan-type upgrades being related to capacity and energy resources -- on the base plan for reliability purposes, and viewed more of the renewables as an economic-requested-type upgrade. Now, to the extent, you know, those economic upgrades are requested -- upgrades get rolled in as part of the next part of the discussion, we've looked at them as a -- as not a base-plan-type upgrade because of reliability and capacity and energy-type resource --

PRESIDENT BODE: If you said -- if you said that -- if they said that they had 70 percent of the new applications were REM related, how many of those were suggested as -- in terms of --

MR. BROWN: Well, those are interconnection requests. I don't have a clue to what extent any of those were claimed as designated network resources by load serving entities --

PHONE PARTICIPANT: -- we agree with what Barry is saying is that those network base plan upgrades should probably be tied back to units that supplier (inaudible) to the inadequacies, but the unit does not have a designation of a certain amount of ability for capacity, then it would not be a baseload unit --

SECRETARY PARSLEY: Well, I think --

MR. BROWN: But there's nothing that precludes wind from being claimed as a baseload capacity.

PHONE PARTICIPANT: -- depend on that criteria.

MR. BROWN: Exactly.

PRESIDENT BODE: Well, I think we had that

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discussion at the last SPP meeting --

MR. BROWN: Yes.

PRESIDENT BODE: -- which is unresolved at this point, I think, as to what the -- and we're going to have further discussion on that --
MR. BROWN: Yes.
PRESIDENT BODE: -- or you-all are having further discussion on that.
VICE PRESIDENT HOCHSTETTER: On what?
PRESIDENT BODE: On the wind power and the capacity issue.
MR. BROWN: What capacity rating you give to a particular wind unit because it's not there all the time and --
PRESIDENT BODE: The intermittency of it or whatever?
MR. BROWN: Exactly. We're working on criteria on how to give a capacity rating to a particular wind --
VICE PRESIDENT HOCHSTETTER: And I think a certain amount of this issue is going to be resolved by the state commissions to the extent that the LSEs are state jurisdictional. You know, it wouldn't apply to the co-ops in some states and it wouldn't apply to the munis, but all the co-ops are regulated in Arkansas and, of course, all the

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IOUs are. So -- you know, we have to approve the generation plan. So, you know, what an LSE designates as a network resource is going to have to be pre-approved by state commissions to a large extent anyway, so that can -- that will answer a lot of the questions that have been raised today.

MR. PROCTOR: If I could, you know, I really appreciate the input and things that we've heard here. And I don't know that we want to reach a conclusion on this particular topic today, but I would like to -- if I can move this to Slide 6 --

SECRETARY PARSLEY: Can I ask one quick question --

MR. PROCTOR: Sure.

SECRETARY PARSLEY: -- before we move?

PRESIDENT BODE: Okay.

SECRETARY PARSLEY: And this is going to make everybody go -- is anybody else on the phone or out there in support of Option 1 besides the smaller TDUs and the wind resources?

MR. BROWN: Well, maybe I need clarification. Were you-all arguing for Option 1?

UNIDEN. SPEAKER: Yes, our preference would be Option 1. Option 3 is a compromise.

MR. BROWN: Okay.

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PRESIDENT BODE: But I thought you said that that's what you were -- that that was a -- I guess I didn't hear a No. 1 either. I heard No. 3 with three years -- No.3 with three years is what I thought you heard.

UNIDEN. SPEAKER: That's what we're willing to agree to. We've been trying to work through the (inaudible) energy process in trying to reach consensus and converge on something, and we're willing to compromise on that. But our preference would be No. 1, absolutely.

PRESIDENT BODE: Okay.

VICE PRESIDENT HOCHSTETTER: Since it seemed like there was a lot of consistency -- and I know that, you know, we're trying to get to as many decisions as we can today even, you know, as opposed to continually postponing everything to the next meeting -- I heard a lot of consistency for Option 3. I think the question is how to phrase the guideline portion of it. And maybe what we should do -- could do -- is ask perhaps the SPP folks in combination with the CAWG to draft some terminology to go along with Option 3 to specify, you know, whether it's 5 years, 7 years -- whatever -- in addition to flexibility to consider some alternative parameters on a project-by-project basis.

PRESIDENT BODE: Which have been raised by the wind folks and the TDU folks. So would you-all be willing

to work with them on trying to accomplish that objective?

MR. SLOAN: Yes.

PRESIDENT BODE: Okay.

MR. LOUDENSLAGGER: This is Loudenslagger. So the focus is on Option 3 and the focus within Option 3 is trying to define that question of long-term and then spelling out what some alternatives or options to the long-term might be?

VICE PRESIDENT HOCHSTETTER: Right. How much flexibility there is in that and what parameters, I guess, would be looked at.

SECRETARY PARSLEY: And I just -- I guess for my standpoint -- from our standpoint I would prefer 3 years, actually, as opposed to 7 or 10, but would probably be willing to compromise more on the 5 years in terms of --

PHONE PARTICIPANT: Is that Commissioner Parsley?

SECRETARY PARSLEY: Yes.

PHONE PARTICIPANT: Thank you.

SECRETARY PARSLEY: So just to kind of put that out there, too, I think 5 years would be -- with some flexibility on either side would be a good number.

VICE PRESIDENT HOCHSTETTER: Like if the dollars were large it might bump up to 10 years, if the dollars were small it might bump you down to something less

than 5 years, you know, depending upon (inaudible) factors.

MR. HOLLOWAY: I would prefer they give it as the regional benefits were large or small --

VICE PRESIDENT HOCHSTETTER: Okay. Excuse me.

MR. HOLLOWAY: -- you could have large dollars and have a lot of benefits --

PRESIDENT BODE: And, Joyce, I think that's where we had come out was more on the five-year range --

MS. DAVIDSON: Yes.

PRESIDENT BODE: Okay. Let's move on. Mike, take us through this list.

MR. PROCTOR: Okay. Page 6 we've got a list of proposals that range from a low of 10 percent up to a high of 100 percent. And somewhere -- this has to do with the percentage of the upgrade cost that we go into a region-wide postage stamp rate. It's really a rate design issue. Do you -- how much of this do you think is there in support of the whole region? And people that argue 100 percent, for example, believe that over time all the upgrades benefit everyone and pretty much on an equal basis or a comparable basis and should go into a postage stamp rate to keep it simple. I mean, that's their argument.

At the other end of it, people believe that for reliability purposes these upgrades are very specific in terms of who benefits from those upgrades on a reliability

basis. And SPP has run some tests -- for example, the one I'll pick out here is the one at 33 percent. They looked at every load serving entity serving its load from its own resources. So essentially those are the transfers that they're doing.

And what this indicates is that 33 percent of the flows in the system are what we call "loop flows" on other people's system. I'm serving my load from my resources, but my electricity flows are flowing onto other people's transmission systems, and we call those loop flows. And those vary from a low of less than 5 percent, I believe it was, for the entity that they had the lowest loop flow, up to almost 80 percent at the other extreme for an entity to get that much in terms of loop flow.

So that was one of the things we looked at. And on the average -- those average out to about 33 percent. SPP brought that information to us to be considered as a way of measuring -- using a flow-based measure of regional benefit -- I don't know if -- "benefits" not the right word -- but regional use of the transmission system --

VICE PRESIDENT HOCHSTETTER: Can I clarify as to what -- I thought that the methodology was going to drive the numbers. Are these numbers applied to a set of transmission improvements that you have identified today?

MR. PROCTOR: That's Page 7. This is not --

that is Page 7.

VICE PRESIDENT HOCHSTETTER: I just wanted to make clear that we're not picking arbitrary numbers that are going to go into a regional postage stamp rate, but the methodology is going to drive the allocation of a regional benefit versus which zones benefit --

MR. PROCTOR: Correct.

VICE PRESIDENT HOCHSTETTER: Okay. Because it's not clear on Slide 6 as to the fact that these percentages are based upon one set of transmission upgrades that you've identified, like, as of today.

MR. PROCTOR: They're not --

UNIDEN. SPEAKER: -- based on transmission --

MR. REW: Our goal was to determine the

regional versus zonal use of the transmission system as it exists today.

VICE PRESIDENT HOCHSTETTER: As it exists today --

MR. BROWN: In general.

MR. REW: In general.

VICE PRESIDENT HOCHSTETTER: Okay.

MR. BROWN: Any and all facilities.

VICE PRESIDENT HOCHSTETTER: So you're not talking about the new facilities that you've identified in your current planning process?

MR. BROWN: No.

MR. REW: No.

MR. PROCTOR: Bruce did indicate to me, however, that they have rerun that with the 10-year -- 20/10 upgrades in it --

MR. REW: Well, we looked at the 2010 model with and without the upgrades in it, and the range was from about 60 percent -- actually, I should talk -- from 40 percent down to 30 percent, which we included in the upgrades. So the range is relatively small around that one-third.

VICE PRESIDENT HOCHSTETTER: But these numbers do change a little bit when you take the upgrades?

MR. REW: They will change with each model. As the topology changes, you add the transmission lines and designated network resource to serve load, that will also change. If somebody adds a new resource, that's further away from the load in a (inaudible) regional and vice versa.

VICE PRESIDENT HOCHSTETTER: And have you had a chance to run the numbers on the AEP flow-based model to see what percentage would be rational versus what goes into zonal buckets?

MR. REW: Well, the AEP model is a methodology of allocating the costs, not looking at regional versus zonal use. Its purpose is not to do what we did here.

VICE PRESIDENT HOCHSTETTER: So it's more forward-looking as opposed to looking at the existing use of the system as it is today?

MR. REW: Yes.

MS. DAVIDSON: This is the presentation that was given that -- that megawatt mile results by company that shows what their use -- how they're serving their load, whether they're linking all their own facilities, or whether they're loop flows, and this is the result of that that was presented to the group, which is where we came up with the 33 percent.

MR. REW: Yes, that's a weighted average, too.

MS. DAVIDSON: Right.

MR. REW: So if you're a smaller company than 95 percent, you don't drive the numbers. It's weighted based on the size of the entities.

MS. DAVIDSON: Right.

MR. PROCTOR: Can I comment on the AEP study?

Because I -- I agree as the study has been proposed it has been proposed to be used to allocate costs as specific -- not to split between a regional versus a zonal allocation. That is AEP's proposal.

VICE PRESIDENT HOCHSTETTER: Although if every single zone benefited from something, then that would go into a regional postage stamp rate, so it's the same thing.

It's just a matter of how many zones benefit from how many megawatts, right?

MR. PROCTOR: That's the way --

VICE PRESIDENT HOCHSTETTER: I mean, six one way half a dozen another.

MR. PROCTOR: That's the way I have begun to look at it. And what it's saying is even though you're doing a reliability upgrade, that has economic benefits. And the AEP approach is one way to measure what those benefits are. And one of the things that you will see is that the economic benefits tend to be more diverse -- that is, spread out -- over the region than the reliability benefits.

The reliability benefits, which is actually the test -- on SPP test on Slide 7 -- that test tends to indicate that the reliability benefits tend to be fairly narrow. They tend to be within the region where it was built. It may be three or four other surrounding regions that benefit from this. And their measure of a benefit in that case is "when you build this new facility, does the use of your existing facilities go down?" And "do you gain more capacity on your own system," was their measure. That tends to be fairly subregional, fairly narrow.

But when you start looking at the AEP results, and you look at the economic benefit -- not just the

reliability benefits -- those tend to get spread out over a larger -- over the larger region. And so I -- I have begun in view of -- I would add the AEP to Slide 6, let me put it that way. I think the AEP test would be beneficial in helping to determine what are regional benefits compared to just zonal benefits.

VICE PRESIDENT HOCHSTETTER: Let me ask another clarifying question -- I thought the transmission tariffs that we had to file by the end of the year were for transmission upgrades -- incremental transmission investment -- which is why I thought Slide 6 had to do with incremental transmission investment. But instead you're saying it has to do -- so this is just an example, an illustrative example of how the models would apply -- I guess what I'm asking is has anybody run the numbers for incremental -- and it sounds like you have -- but I'd like to see the numbers for the incremental transmission investment, because that's what we have to file on our tariffs, right? We're not looking at reallocating the cost of existing embedded plant.

MR. BROWN: No, we're not. But if you look at Slide 6, the question between Slide 6 and Slide 7 is of four facilities that are identified for the base needs of the system, what portion, if any, should be included in a region-wide rate and what portion should go into the

individual zones?

MR. DESSELLE: Let me ask a question then. Does that assume --

VICE PRESIDENT HOCHSTETTER: That's Michael Desselle with AEP for you-all on the phone.

MR. DESSELLE: I'm sorry.

PRESIDENT BODE: It's for the court reporter.

MR. DESSELLE: This is Michael Desselle from AEP. Then what you just said -- does that assume that when we file tariffs at the end of the year for these facilities that would be base funded, if you make this determination that some of it is regional in nature and some of it is zonal in nature, then the regional stuff is something that would be recovered from that tariff in the future?

MR. BROWN: Yes, exactly.

VICE PRESIDENT HOCHSTETTER: But you're --

MS. DAVIDSON: I think the confusion --

UNIDEN. SPEAKER: -- multi-part rate.

MS. DAVIDSON: Right. I think the confusion may be that we were trying to make a determination as Nick said to see if in a project there was a certain percent or there may be not -- there may not be a certain percent, but they're trying to figure out using the various methods if currently they could show that there's a certain percent of what's out there now that being used not only by the zone,

but it's benefiting the region as well.

VICE PRESIDENT HOCHSTETTER: -- you're not talking reallocating costs of existing --

MS. DAVIDSON: No, no --

MR. ROSSI: No, no, no.

MS. DAVIDSON: No, no, no. There's no reallocation. It was just to --

VICE PRESIDENT HOCHSTETTER: It's just an illustration?

MS. DAVIDSON: Well, I say an illustration, but some of this is based on facts of what's happening in the system today to give us an indication as to what percent you might use for the future.

VICE PRESIDENT HOCHSTETTER: But the methodology drives what you use for the future, so here again these are just illustrative numbers.

MS. DAVIDSON: -- two places. This is just first to say: Is there or should there be a regional zonal split?

VICE PRESIDENT HOCHSTETTER: Okay.

MS. DAVIDSON: And if there is, what should the percentage be --

VICE PRESIDENT HOCHSTETTER: Okay.

PRESIDENT BODE: -- allocated to the zones --

MS. DAVIDSON: -- would be allocated

between --

VICE PRESIDENT HOCHSTETTER: -- but the percentage should be driven by the allocation model.

MR. DESSELLE: Right.

VICE PRESIDENT HOCHSTETTER: You don't arbitrarily pick a number first. You let the model dictate the percentage split. Okay. I just needed that clarified --

MR. TOTTEN: But I think it should be clear --

PRESIDENT BODE: -- to identify whether there is a need to go -- to even look at a model --

VICE PRESIDENT HOCHSTETTER: It sounds like all the models show that there is going to be some regional benefit to all the allocation methodologies.

MS. DAVIDSON: Well, the issue then becomes which model do you decide to choose and on what basis do you choose that, which gets back to the percent of regional zonal split.

MR. TOTTEN: But you also have to decide whether you take that number forever -- or you take that model forever and apply it --

VICE PRESIDENT HOCHSTETTER: I thought we were going to do this on an annual basis -- periodically reallocate base -- because of the fact we don't want free riders, we don't want, you know, one zone to perpetuate and have to pay for something if in fact -- or two or three zones -- if in fact three years from now all the zones benefit. This shouldn't be static. It should be an annual re-look. I thought we were all pretty much in agreement on that.

MR. TOTTEN: No, we're not.

MR. HOLLOWAY: I think that is a decision that we need to look to the RSC for, because -- I mean, the issue is exactly as Jess said, whether or not you do your best -- you know, like you do whatever rate design now where you do the best model you can come up with and come up with a percent, and that percent is just what you use until the next time you do it, or whether you adopt a model that automatically updates every year.

So, I mean, you know, what Bruce has shown from his analysis is that if you look out over the next 10 years, it really doesn't change that much; that that percent using that method wouldn't change that much for the regional versus the zonal allocation.

VICE PRESIDENT HOCHSTETTER: But that's based on what we know today. We have no idea how our markets are going to develop over the next 10 years.

MR. HOLLOWAY: Once again, if -- and I do want to throw this point out there. You mentioned how markets would develop, if you -- that indicates -- there are -- I'm

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not sure that the base plan model is actually -- would actually consider that because I think you're using designated network resources when you dispatch in that.

A designated network resource would be where the load serving entity has bought capacity from a generator. That may not be the generator that dispatches, but the idea of the reliability plan is to have transmission there so that they can get power from that generator in times of -- you know, in times where all you can serve is firm transmission load.

So the issue is -- if you run some sort of AEP model, what AEP has done -- if you use this for base plan -- and I'm going to be a little bit critical because I've expressed this criticism to them -- is that what they have used is an economic dispatch model to look at how you use the system that you've built for reliability that only serves the designated network resources with capacity. So I think -- my personal opinion is SPP's model does a better job, at least in the regional zonal, in the first cut -- in the first allocation -- because it looks at what you're building the system for. And that's so that the units you have bought capacity and claimed as designated network resources can serve the loads.

MR. PROCTOR: I kind of -- I don't necessarily disagree with Larry, but I think you are building a system

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for reliability, and the SPP approach to allocate reliability benefits as the chosen -- I think is valid. But

I think that the AEP study shows that even though you build something for reliability, it also provides economic benefits. And one of the ways I'm beginning to look at this is this split between "x" percent and 1 minus "x" percent. And the "x" percent is what you roll into the regional rate, is -- would be -- the economic benefits would mirror those economic benefits, but the 1 minus -- the remainder, whatever it is -- say it's 25/75. You know, 25 percent would roll into the rate because we recognize that everybody in the region is going to get some economic benefit from this. And the 75 percent, if that's the number, is allocated to the specific zones that are getting reliability benefits from an upgrade.

Now, whether the 25/75 is the right split between those two, I don't have the answer to that. But that's kind of the way I'm beginning to see it.

PRESIDENT BODE: Mike, I would like your input on the concept that the percentage could vary by the voltage level under the SPP loop flow test.

MR. PROCTOR: Larry put some numbers together -- well, we had SPP put the numbers together. What we looked at was this megawatt-mile loop flow that SPP had run. And what this -- what it indicated was pretty -- I'll

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call extra high voltage lines. I kind of split it -- and Larry tried to put a graph together. I kind of split it between extra-high voltage --

PRESIDENT BODE: Right, 345 kV and above.

MR. PROCTOR: -- and I kept the 69 kV out. So I did above 100 kV to 345 and grouped those. And what it indicates is that overall -- remember it was 33 percent --

PRESIDENT BODE: Right.

MR. PROCTOR: -- it showed the extra-high voltage lines -- the loop flows with those -- I'm trying to remember the numbers, but they were 45 percent that were higher. And then for the -- for the other -- the lower-voltage lines -- the 180 to 250 or whatever it was -- those tended to have lower loop flows on those lines.

So you could definitely see that the higher voltage lines tend to -- I'm going to use the word -- I hope not inappropriately -- "attract" more loop flow than the lower-voltage lines.

So it's possible we looked at some numbers on that. We really haven't had time to analyze those in great detail whether or not we were even going to go this route. And if we did go that route, would it make sense to say if it's an extra-high-voltage project, then we ought to put a larger percentage into the regional rate.

You know, my guess is that when you run the

AEP study, the same thing is going to happen. I'm guessing -- I don't know if somebody on the line from AEP has any thoughts on that -- but when you put in higher voltage lines, you're probably going to produce more economic benefits throughout the region than you would with the lower voltage lines, particularly -- just the length and --

VICE PRESIDENT HOCHSTETTER: Does SPP have any feel for how much the voltage level percentage is going to vary from your basic megawatt-mile loop flow test?

MR. REW: I think it goes back to what Mike said. In our analysis the percentage was declining, starting with the higher level is much more regional, going down to -- I think the lowest one was approximately 20 percent for the 69 kV lines. Does that answer your question?

VICE PRESIDENT HOCHSTETTER: No. I mean, would the number be higher or lower than 33 percent for the voltage level variation on your megawatt-mile loop-flow test for the percentage that goes --

MR. REW: Well, let's say a 345 facility, which would be much more regional --

VICE PRESIDENT HOCHSTETTER: Right.

MR. REW: -- approximately 50, 60 percent regional. But if you're looking at your 10-year plan -- the

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projects you looked at for the next 10 years -- would that number be higher or lower than 33 percent? Do you have more high voltage lines in your next 10-year plan or lower voltage lines?

MR. REW: We have more -- we have more lower kV lines, but we do have a few high voltage lines. So whether or not they'll offset each other --

VICE PRESIDENT HOCHSTETTER: -- because of the weighting?

MR. REW: Yeah, because of the weighing.

VICE PRESIDENT HOCHSTETTER: I was just curious if you had a feel for it -- the answer is "no."

PRESIDENT BODE: Does it make sense to do that as opposed to fixing it at one of these 10 or 25 or 30 or 50 or whatever? I guess you had 33 as your weighted number on your test?

MR. REW: Yes. And that 33 -- there's several things that we considered in that. One is that for high voltage contingencies the flow will go to the lower kV lines. So at that point the lower kV lines will be carrying more regional transfers. And the opposite applies as well. When you put in a higher kV line, it reduces flows on the lower kV facility. So they kind of offset each other.

So by looking at what the existing use of the system is, we can use that to allocate transmission upgrades

for the next designated period. Then at that point, if we want to, let's say, on an annual or every-other-year basis recalculate this and then designate the next set of upgrades based on the new usage, that's something that could be done --

PRESIDENT BODE: So it might address the issue that Sandy has been talking about, in terms of the AEP model, that your model might more accurately reflect and provide that flexibility?

MR. REW: Yeah. And that's to show that if we were trending the more regional -- more local --

VICE PRESIDENT HOCHSTETTER: I think the goal -- in my mind anyway -- is to reflect the changed nature of the beneficiaries based on the changed use of the system, have a way of, as accurately as possible, matching beneficiaries with the investment.

MR. BROWN: They could be updated every two years on the planning cycle.

VICE PRESIDENT HOCHSTETTER: Yeah.

MR. REW: Yes.

PHONE PARTICIPANT: This is (inaudible) for AEP, and can I add something to what you say?

PRESIDENT BODE: Sure.

PHONE PARTICIPANT: Maybe (inaudible) is the one that we are kind of proposing. Only difference is that

the (inaudible) look at that snapshot for one year on (inaudible) load conditions. Our matter goes to the details (inaudible) and looks at hourly or weekly dispatch for the entire year and trying to find out the actual usage on a different time of the year. So if it is the same method as SPP is talking (inaudible), our method goes to the smaller details to find out the system usage on an hourly basis.

(Inaudible) used by SPP (inaudible) sort of an -- just a snapshot. So you examine the same line, and the matters that we are proposing can be used and easily -- using the megawatt mile --

PHONE PARTICIPANT: -- also add to that that in the summertime a lot of times what you find out is those EHV lines are not as heavily loaded as they are in the off season.

PHONE PARTICIPANT: That's right.

PHONE PARTICIPANT: The percentage usage of the HVs will be allocated a lot higher than what you're coming up in (inaudible) summer time.

MR. PROCTOR: What I think you're hearing now --

MR. PROCTOR: Commissioners, if I can interject, it's the difference between capacity benefits and reliability benefits and energy benefits --

MR. HOLLOWAY: Yeah.

MR. PROCTOR: -- they're saying I absolutely agree with. But they are talking about the use of the line throughout the year, which is energy benefits.

VICE PRESIDENT HOCHSTETTER: Denise and I were just kind of having a side-bar conversation and, you know, our history is from the natural gas industry. Would it make sense -- I mean, we do this with fuel adjustment clauses -- would it make sense to begin with an allocation methodology -- or an allocation proposal that makes sense, maybe using the SPP model, but then use the AEP model as a true-up approach to fine tuning what the original allocation was via the SPP methodology?

MR. HOLLOWAY: I think what Mike -- and I wanted to make sure that you understood where we were kind of thinking -- what the CAWG was saying -- at least I know Mike and I had talked about this -- and that is because the SPP model does reflect how you're upgrading the system to meet reliability, you would use that to kind of determine how much went into the regional side of it. Now, when you got to the zonal allocation -- when you look at these upgrades, they also have economic benefits. So you use the AEP allocation to kind of figure out what the economic benefits were -- as least that's my thoughts on it.

VICE PRESIDENT HOCHSTETTER: So are you saying the SPP model for the regional and the AEP model for the

zonal allocation?

MR. HOLLOWAY: -- among the zones.

VICE PRESIDENT HOCHSTETTER: Oh, okay.

UNIDEN. SPEAKER: There's nothing wrong with that.

MR. PROCTOR: Or some variation.

MR. HOLLOWAY: That's our thoughts. I can't say they're firmly developed --

MR. BROWN: There you go.

MR. HOLLOWAY: -- and do a true-up on the regional allocation and the --

PRESIDENT BODE: Yeah.

VICE PRESIDENT HOCHSTETTER: I like that. There's some --

PRESIDENT BODE: -- there a cost factor involved in the modeling and stuff?

MR. REW: That's --

PRESIDENT BODE: -- what do you prefer, Bruce?

MR. REW: To me, simpler is better. The economic analysis, in determining a region-wide versus local, I think requires a lot of assumptions to be made. And, you know, moving forward to determine the "x" I think -- I'm biased, but I think I like our proposal of a one-third allocation to start with, and then we can look at how the system changes over time and adjust that number if

we need -- if we move to more regional or if we move to more local.

MR. LOUDENSLAGGER: This is Sam Loudenslagger. Can I ask a question?

PRESIDENT BODE: Yes.

MR. LOUDENSLAGGER: You just said something that kind of caught my attention. So the 33 percent figure wouldn't be reevaluated on an annual basis and changed upward or downwards? It would be -- if I understand you right -- it would be used until such time as the deviation from that 33 percent is significant enough to warrant the change. Am I understanding or not understanding you?

MR. REW: We could do it that way, Sam, or you could do it on an annual basis at the end of each planning cycle. We could put all the new upgrades into the system, we could determine what the regional versus zonal allocation is and allocate the costs for those upgrades based on that number.

VICE PRESIDENT HOCHSTETTER: Could you also, though, at the same time as you do a renewed look at it with your allocation methodology, would it make sense to do a true-up via the AEP methodology to look at how the system was actually used? Because yours is forward-looking; AEP's is what actually happened.

MR. HOLLOWAY: Let me express one concern

about a true-up that I hadn't thought of -- and I know we do it in Kansas, but I'm not sure it's legal in all states. I know Missouri does not have an energy clause adjustment --

PRESIDENT BODE: Now, don't disclose anything you don't want on the record here, Larry.

(Laughter)

MR. HOLLOWAY: No, I'm saying this as an engineer talking about the law. So, I mean, I want to clarify, you know, my --

VICE PRESIDENT HOCHSTETTER: That is a good point. Yeah. We could do that with an ECR, although, if we put this in a federal tariff and it's through the RTO and you approve your utility's participation in the RTO, it would be an automatic FERC tariff that would automatically apply to your rates. It wouldn't have to be KCC jurisdictional.

MR. HOLLOWAY: Well, yeah, like I said, I don't think we have trouble in Kansas. You might have trouble getting Missouri to support that, though, if it's against what their --

VICE PRESIDENT HOCHSTETTER: I mean, I would think the same FERC approach would apply in Missouri, too --

MR. PROCTOR: -- your concern --

VICE PRESIDENT HOCHSTETTER: -- that's federal preemption.

MR. PROCTOR: -- your concern, Larry?

MR. HOLLOWAY: Well, my concern is I know in Missouri you can't do an energy clause adjustment. So, I mean, if you have -- you know, whether you would be -- whether you would be prohibited from having some fluctuating transmission true-up at the end of the year or something, maybe a -- maybe it's an invalid concern.

SECRETARY PARSLEY: This is Julie --

MR. PROCTOR: I'll talk to you later about that.

SECRETARY PARSLEY: This is Julie. I think we're creating a mess -- I mean, just to be kind of blunt. I mean, I don't know how you would true it up. What if you paid -- what if it changed going forward? Would you go back and adjust to the day the tariff went into place for those rates that had been paid? Would you true-up going forward? How would you -- you're talking about -- I just don't know how -- how you would actually, as a practical matter, make it work if you started doing true-ups to try to be more accurate with the use of the system.

VICE PRESIDENT HOCHSTETTER: Maybe we would -- instead of truing up on a retroactive basis, you'd true-up on a forward-looking basis. In other words, take last year's historic data and use that to forecast the future one year or two years use of the system and the beneficiaries.

MR. HOUSE: Yeah, they're already going to be a formula rate that's, you know, altered slightly every year anyway.

MR. HOLLOWAY: I think that might address everybody's concern if you just did it at the end of that year and then you had that -- that amount that went into the formula rate that was split out and you didn't have to worry about truing up based on actual revenues.

SECRETARY PARSLEY: What would you do if you got a lawsuit from someone in the zone that said, "I'm now paying way too much because the region is actually using 60 percent of this and I'm actually -- I'm paying -- I'm paying more than my share"?

MR. HOLLOWAY: Well, I would talk to my attorneys.

(Laughter)

MR. BROWN: What's popping into my mind is a plea for simplicity here, because, you know, in the grand scheme of things today, we've got 5 percent of the business constraining 95 percent of the business and we need to move past that.

SECRETARY PARSLEY: And I suppose maybe what I was trying --

MR. BROWN: From a staff perspective, if we use the AEP versus the SPP, well, okay, fine.

SECRETARY PARSLEY: And I think what got my attention was when Bruce said there were a lot of assumptions. And assuming things means you're not going to get a real world and you're truing up -- so you're actually truing up a hypothetical world to a second hypothetical world. And I guess that's what I mean by you're getting people in zones who are going to be concerned they're paying more when, actually, they're being used regionally -- or vice versa.

If we knew there was 100 percent or even a 99 or 95 percent we were going to get something close to what the real world is if we sort of kept running these models going forward, that would be one thing. But I think --

PRESIDENT BODE: You're saying at least doing rough justice would provide certainty?

SECRETARY PARSLEY: Right. I think certainty in this situation, which is what I think everybody is looking for, is -- in my opinion, humble as it is -- that is what I think would be the best for the RTO going forward, especially if what we're trying to do is figure out what's going to be the most equitable and doing kind of more of a rough justice where we think we're going to be allocating those costs in a definitive fashion so that we aren't always second guessing ourselves is -- to me seems preferable.

VICE PRESIDENT HOCHSTETTER: I think rough justice on a forward-looking basis makes a lot of sense. But if the AEP model actually captures the data -- and I thought somebody was going to be running this computer model to capture actual real data -- so that our historic look would be based on real transactions, and you can use the historic, real transaction data for forward allocation purposes -- that's not what we're doing?

MR. BROWN: No.

MR. DESSELLE: No. I'd need Raj to clarify that, but it seems to me that what I think we talked about -- this is Michael Desselle again -- is that basically a load flow model that projects into the future and doesn't actually take the data, to go back and get all that historic data on an annual basis for that load flow model --

UNIDEN. SPEAKER? That would take a lot of work.

MR. DESSELLE: -- and it would require somebody to actually collect --

VICE PRESIDENT HOCHSTETTER: Well, I thought the market monitor, as a for instance, was going to be collecting that sort of data. I thought it was going to be collected somewhere by somebody --

MR. DESSELLE: -- I think what we were proposing is essentially the same thing. We're both using the same model. All we're doing is proposing some more granularity to that model to not only just look at the snapshot in time at the peak, but what the impacts are at different seasons throughout the year, and you get a much better impact of who benefits at that -- in using that proposal. And in a sense, if, you know -- I know what they're suggesting is use our model where we look at the snapshot, and then on the annual basis evaluate and see if that was right and then modify it on an annual basis. But, you know, essentially you could do the same thing with our proposal, take that granularity, evaluate it on an annual basis, and make an adjustment each year if it's -- or every two years or whatever is decided. I think going back and actually using actual data might be somewhat difficult, but maybe that is --

VICE PRESIDENT HOCHSTETTER: I just assumed it was going to be tracked and collected.

MR. DESSELLE: It may be.

MR. REW: Well, the --

PRESIDENT BODE: Bruce?

MR. REW: -- discussion we had yesterday was if we looked at actual data, we'd still have to make the assumption on what the prices would have been with or without the upgrades in there. And that's where you have to get into big assumptions. You may know what the price is, but you don't know what the price would have been.

MR. HOLLOWAY: It's similar to -- and we've had a couple of cases in Kansas where you had utilities merge and you allowed some merger savings to compensate for acquisition premiums. And, you know, whether -- whether you wait until the future and try to look backwards and say, "How would these two utilities have operated had the merger not occurred," or whether you take this point in time and look forward and try to see what would have been -- you know, what the difference is going to be now that they've merged. Either way you have to make a lot of estimates, and that's the difficulty that we --

PRESIDENT BODE: Do we have any more comments on this?

MR. BRIAN: David Brian, East Texas Co-op and others. These flow-based models sound really neat. And I'm an engineer, and for that reason I can kind of appreciate --

PRESIDENT BODE: -- models, are you talking about both the SPP and --

MR. BRIAN: Yes. Both the SPP and the AEP flow-based-megawatt-mile-type approaches. But there are a lot of problems with them, and then the assumptions are one thing.

I would also ask you to consider the anti-competitive implications. And really there's two things there. First of all, to the extent that you're

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looking at flows and reallocating costs (phone tone) in the transmission system, it has an anti-competitive implication, because parties that enter into transactions that require these upgrades, you know -- remember designated network resources are going to be in the base plan -- and two parties enter into a transaction, one of them is going to be a winner and one of them is going to be a loser when it comes to the transmission piece because it's going to recalculate during the term of the transaction potential some of these approaches. And that, you know, is problematic.

Another thing to consider is that flow-based models are basically a form of (inaudible) of rates. And to the extent that an entity is being allocated costs for a remote system, then it -- it provides a disincentive for somebody to buy power from a distance away. It favors the local incumbent generation --

VICE PRESIDENT HOCHSTETTER: Ah -- doesn't it just favor whoever is cheapest?

MR. BRIAN: It favors whoever is nearby and, you know, it's a disincentive for expanding the transmission system. And I think -- you know, we'd like to think of this as being a big regional market, but what we're talking is a big regional market which would mean that all generation within the footprint would be competitive. And to -- to

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allocate costs -- more costs for generation that's further away, all it does is says, "Well, I'm going to buy it from the guy next door and I'm not going to spend money to make that upgrade."

VICE PRESIDENT HOCHSTETTER: But isn't that part of the cost? You're looking at the delivered cost. If you're going to do apples to apples, you have to look at G plus T combined, the cost delivered to the load, right?

MR. BRIAN: Absolutely. And I would say that, you know, if you build these upgrades, you're going to save more money on G than the cost of the T.

MR. BROWN: But that's not what's being debated here. We're not talking about that at all. I mean, philosophically, I won't argue with you at all. But this application of the megawatt-mile methodology has absolutely nothing to do with the issues you're talking about.

MR. BRIAN: No, it absolutely does.

MR. BROWN: No, it doesn't. No.

MR. BRIAN: To the extent you're -- the perpetuation of the zones is a real problem in our view. We would encourage you to consider getting away from these zones in the long term -- in the long term. I know there will be transition, but there is absolutely a problem. The problem you have today under the tariff -- and Mike alluded to it earlier -- is the end pricing. If I'm over in

Oklahoma and somebody in Texas or Arkansas does something to cause an upgrade in Oklahoma, I can certainly understand why people in Oklahoma are sitting there saying, "Why should we pay for that? That's somebody over there."

So these zones are a real problem, and to allocate -- getting back to his point -- to allocate costs in an adjacent zone based on megawatt miles from something -- to allocate costs to Arkansas for Oklahoma, using a megawatt-mile approach, to allocate those costs is allocating costs from a remote region, and so it has an end-pricing effect to that Arkansas zone. And we would encourage you to think about getting away from these zones and going to a regional rate long-term.

PRESIDENT BODE: But I thought that's what we were doing. We're talking about how much you allocate to the regional-wide rate.

VICE PRESIDENT HOCHSTETTER: -- in the zones --

MR. BRIAN: Well, to allocate a portion --

MR. BROWN: Well, your argument is 100 percent ought to go to the region-wide rate.

PRESIDENT BODE: Right. No, I understand that.

MR. BRIAN: Absolutely long-term.

PRESIDENT BODE: Well, and if you're talking

about -- they're talking about at least beginning with 33 percent and the other -- and yours is like 100 and then we're talking also about -- as a starting point, and then I think the other idea that we talked about at the beginning was varying that percentage by voltage level. So if you had a large 345 kV, it could be as high as 50 or 60 or higher percent would be a regional benefit, and if you had a lower kV line then it would be much more localized. So you may get closer to what you're interested in by going that approach than by just going with a straight out 33 percent.

MR. BRIAN: It is absolutely a step in the right direction and a big step in the right directions, but we encourage you to think beyond that if you could.

PRESIDENT BODE: Okay. Well, now -- you know, I think what we're all trying to figure out is a starting point right now. And I may agree with you that having our regional rate is the right objective overall, but I'm not sure that we've got a consensus on that, and that what we have to figure out is how we get there. You know, I think a lot of folks want to feel comfortable with where we're going, and I certainly want to accommodate, you know, everyone in the group feeling comfortable where we're going. I think that's why I'm probably a little bit more interested in the SPP megawatt-mile approach, maybe with a variation that you could look at voltage levels, to determine as

opposed to just the flat 33 percent.

VICE PRESIDENT HOCHSTETTER: I think we need to look at more granularity, too, like AEP's proposal. You know, I'm just a firm believer in --

PRESIDENT BODE: Sure.

VICE PRESIDENT HOCHSTETTER: -- cost causers pay the cost. Beneficiaries pay for whatever upgrades have to be made. You know, socialized pricing is the absolute last thing I want to see in this industry because it destroys the transparency. It destroys the economics of the generation resources. So on -- did somebody say something on the phone?

PHONE PARTICIPANT: I heard an "amen," Chairman.

VICE PRESIDENT HOCHSTETTER: Yeah. So whatever approach we come up with as a consensus, I just feel strongly it needs to have, you know, some symmetry between costs and who pays for those costs.

MS. DAVIDSON: I have a question. Is the granularity that you think that's occurring in the AEP model because they run it more than just a snapshot in time? Is that what you're referring to when you say that?

VICE PRESIDENT HOCHSTETTER: The AEP model looks more at actual usage of the system during all times of the year as opposed to peak usage alone. That's one of the

benefits of that, because the system usage does vary.

MS. DAVIDSON: Right. That's what I'm saying. They take a snapshot -- I guess the SPP model took a snapshot, but I don't know that -- AEP didn't look at 365 days in a year. They had certain -- that's all I'm asking for, that looking at it six times versus one-time during the year is what you're calling more granularity?

VICE PRESIDENT HOCHSTETTER: I'm not sure how much granularity is in the AEP approach, but, you know --

MR. DESSELLE: They have an hourly base-- Raj, can you clarify that?

VICE PRESIDENT HOCHSTETTER: Yeah. Are you there?

MR. BROWN: Let me suggest something. If I look at the -- and, Michael, tell me if I'm wrong -- but if I look at the AEP modeling process, it's really not to decide what "x" is.

MR. DESSELLE: No, no, it's for new facilities. But you could use the same -- well, let me -- that's why I was trying to ask the question earlier -- this is Michael Desselle again -- is what we're looking at here going to ultimately change the way we pay for transmission today? When we -- you know, if we come up with this -- let's say we chose 33 percent and we went with the SPP number, so today in our tariffs we have --

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MR. BROWN: We have a zero regional rate --

MR. DESSELLE: Yeah, we recovered from retail. So now what you're suggesting is that 33 percent of the cost now would be recovered --

MR. BROWN: For new upgrades -- only new upgrades.

MR. DESSELLE: So is that what this is for?

MR. BROWN: Absolutely. We're only talking about new stuff.

MR. DESSELLE: All right.

VICE PRESIDENT HOCHSTETTER: But they used the existing investment to -- just as a proxy or an illustration of what it might be on a going-forward basis using these different methodologies.

MR. DESSELLE: Then I think that -- I think --

I don't know. Raj, are you on the phone? What is the difference for -- is our proposal to do economic -- an analysis of economic upgrades or for new base-funded upgrades?

PHONE PARTICIPANT: It is both for both, Michael. It is for both, for reliability as well as economics. And it can identify the reliability benefits as well as after you calculate the reliability rate you go into the economics bucket.

MR. BROWN: But I still don't see that being

used to determine what portion ought to be in a regional rate. I do see it being used to decide what the allocation should be between zones.

PHONE PARTICIPANT: -- rate, but you look at the benefiting. Who is benefiting and how much?

MR. BROWN: Exactly. I absolutely agree with you.

PHONE PARTICIPANT: That now --

MR. BROWN: That's Page 7. We're on Page 6, and --

MR. PROCTOR: Can I respond?

MR. BROWN: -- and I agree with Page 7.

MR. PROCTOR: Let me respond. In a pure sense I absolutely agree with what you're saying. I have significant problems with doing allocations based upon a calculation of economic benefits, and here's my problem is, as you were making assumptions about gas prices --

MR. BROWN: Oh, yeah.

MR. PROCTOR: -- you change those prices and the benefits are going to dramatically change in terms of who they go to.

MR. BROWN: Yes.

MR. PROCTOR: Now -- however --

PHONE PARTICIPANT: (Inaudible)

MR. PROCTOR: -- Raj -- Raj -- yeah, I know.

Let me finish and then you can talk. So were you present -- one of the things that was very clear to me in the SPP study, though, was that the reliability benefits (phone tone) that you were measuring in terms of megawatt miles when you look at these projects weren't region-wide. They didn't show up region-wide. They showed up to three or four zones. They weren't region-wide.

And I -- I'm not comfortable with this 33 percent, which is -- I mean, yeah, you've got these loop flows, but I'm not comfortable with that as a region-wide indicator. However, the AEP study showed that any reliability upgrade also has economic impacts, and that those impacts tend to be more region-wide.

And so I began to look at that to say: Does their studies provide more of a rationale -- not for a specific allocation to specific people, that might vary from gas prices and do all that. But my (inaudible) indication of how much -- when we do these upgrades -- how much of a benefit really gets spread throughout the entire region?

Because I think more economic benefits from these upgrades, even though they're reliability upgrades, affect the entire region than just the reliability portion of it. And they have those, too -- and by the way --

MR. BROWN: And then I guess my question is: What does this percentage end up being? I mean, do we know

that?

VICE PRESIDENT HOCHSTETTER: With the AEP model, which is the question I asked about an hour ago.

MR. BROWN: Is it 31 percent --

MR. PROCTOR: We don't know yet --

PHONE PARTICIPANT: (Inaudible) depends on the project you're looking at --

MS. DAVIDSON: (Inaudible)

VICE PRESIDENT HOCHSTETTER: -- you looked at the 10 years worth of projects --

MR. PROCTOR: Yes, now you're --

VICE PRESIDENT HOCHSTETTER: That's all we -- we need to look at the 10 years, Michael, of projects that SPP has come up with for the next iteration of the plan and run them through your model to see what that percentage figure looks like, what the breakout is.

MR. DESSELLE: I know we keep saying "our model" and "their model," it's the same model --

MR. BROWN: Well, it's a different application.

MR. DESSELLE: -- with different granularity, but I thought that's what SPP was running.

Now, Raj, do I have that incorrect?

PHONE PARTICIPANT: That's correct. It is the same approach (inaudible) just slight variations.

MR. DESSELLE: But the question is, Raj, who's running that analysis? Are you doing it or is SPP doing it?

PHONE PARTICIPANT: SPP is doing this.

MR. REW: The analysis --

PHONE PARTICIPANT: (Inaudible) all the tools and expertise to do that, and they have --

MR. REW: Yeah, the analysis that we're going to look at is including all of the upgrades in our existing 10-year plan, which is approximately 30 upgrades all in one bunch.

VICE PRESIDENT HOCHSTETTER: All right.

MR. REW: Now, to go and do those individually will take a huge amount of time --

VICE PRESIDENT HOCHSTETTER: Well, I think we're looking at doing it -- yeah -- all at one time. And when can we get that information? When can we get the cost allocation --

MR. REW: We'll try to get done by the end of next week.

VICE PRESIDENT HOCHSTETTER: Because -- I mean, I think that would be helpful to us as Commissioners to see that and see how much similarity there is with that and these other approaches versus variation.

MS. DAVIDSON: But isn't that -- I mean help
me, Bruce -- in the SPP model that you ran -- the example

that we have where you did the 24 million project, I think -- I was thinking if you ran the AEP model to see the benefit that AEP is talking, you'd have to run each project because you have different beneficiaries as opposed to trying to lump it all into a single run. Is that -- I mean --

MR. REW: Yes, what we discussed here is lumping it all into a single run, which would reflect the total change in the topology, and that's where we -- the new SPP transmission system would be, and that would be a comparison of today's transmission system versus with all the upgrades and what the difference in economic impacts would be.

MS. DAVIDSON: Okay. We don't have data now with the total SPP model with the way the base is now to compare that with in none of the data that you've provided us so far?

PRESIDENT BODE: In other words, the 33 percent that you're talking about --

MS. DAVIDSON: Like -- yeah --

MR. REW: Well, there's not a change. The AEP methodology you'd have to look at a change in the system --

MS. DAVIDSON: Right.

MR. REW: -- to come up with a benefit.

MR. PROCTOR: We do have the base model --

MS. DAVIDSON: The base model -- that's what I'm saying --

MR. REW: Yeah, we have the base model --

MS. DAVIDSON: -- we have the --

MR. PROCTOR: -- don't want to look at one project compared to base and --

MS. DAVIDSON: No, no, no, I understand that. I understand that. I just want to know which run do we have now that you've already given us would be the base? Do you know one of the --

MR. PROCTOR: Well --

MS. DAVIDSON: -- but --

MR. PROCTOR: -- you're seeing a difference between the base and one project, the Northwest Arkansas project. So the base results you are not -- you're just seeing the difference.

MR. HOLLOWAY: Can I express a concern about this approach? And my concern is that if you had one transmission owner out there today -- and I don't know what the 10-year plan looks like. You had one transmission owner out there today and you looked over the next 10 years and you said, "Their system is going to fall apart, we've got to put in the plan that they replace it just like it is," then they would replace it like it is and this would show no change whatsoever for what they did.

MR. PROCTOR: Well, Bruce, you might address that. I think it's important to know what's going into the plan.

MR. REW: What's going into the plan are the upgrades that have been identified to maintain criteria over the planning horizon. So if you look at a five-year out model, you see a transmission overload, we would put in a new facility or upgrade that facility so that it meets criteria and compliance with standards.

MR. PROCTOR: Your plan isn't really addressing facilities that are -- I don't know how to characterize them -- that need to be totally replaced because they're 30 years old or 40 years old or --

MR. REW: No. The only time that would show up is if the facility was overloaded and then they were going to reconductor it and expand the capacity or -- well, yeah, they would have to expand the capacity --

MR. PROCTOR: Which is really more of a question of the load on those facilities given the capacity --

MR. REW: Yes, it's the loading on the facility. It's not rebuilding the facility to the same capacity.

MR. PROCTOR: One of the things that we won't have -- if Bruce does this and does it by the end of the week -- we will not have new designated resources in that plan, because we're just not there. The original plan did not include new designated resources, so we will not see that aspect of it in anything that Bruce runs.

SECRETARY PARSLEY: Would that change the percentages, Mike? I mean, how would that impact it?

MR. PROCTOR: Potentially -- potentially it could, particularly if you're doing the AEP study, because if you're (phone tone) if you're adding new resources, you're going to get different economics.

MR. REW: Yeah. But, again, it depends on -- it kind of depends upon the ratio of base and peaking resources that people are planning to add over the next several years. The IPP resources or the noncommitted resources would probably stay pretty much the same.

But if -- you know, some people in some regions may be planning to put in baseload resources over the next several years, in the other regions -- peaking resources. So you could get some switches once you went and added the new network resources, but I don't think -- I just wanted to --

VICE PRESIDENT HOCHSTETTER: If they're dedicated network resources, though, to a particular LSE's load, I would think that the zonal benefits would be -- I would think that there would be less of a regional

system-wide impact and more of a zonal impact so that the percentage allocation into the region-wide postage stamp rate wouldn't vary that much.

MR. HOLLOWAY: Well, the problem is you're doing an economic dispatch. If you add more resources, you change the dispatch, and that's the concern -- well, yeah, I mean, it depends on how many resource --

VICE PRESIDENT HOCHSTETTER: If you're talking about capacity commitments, I wouldn't think it's going to change your economic dispatch that much -- I mean new capacity.

MR. PROCTOR: Well, Larry, I think that what's going to change (inaudible) the transmission additions. I think when you start putting in new network resources that the base plan is going to increase quite a bit more additions to the transmission system -- and, Bruce, tell me if I'm wrong -- I think that's where you're going to see the biggest impact.

VICE PRESIDENT HOCHSTETTER: Cost impact?

MR. PROCTOR: Impact in terms of -- in terms of benefits. If you start expanding that transmission system to reliably meet load and new network resources. The capacity for that system to do economic transactions, particularly in the off-peak and the shoulder period, is going to increase significantly. In other words, you're

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going to be eliminating things that were constraints prior by adding additional transmission, and I -- that would be my bigger concern about not having new network resources in there. So you may end up getting a lower estimate of the economic benefits than you would actually see if we had new network resources in.

PRESIDENT BODE: So, Mike, where are you coming from? What's your recommendation? I want a bottom line -- I want some bottom lines from people.

MR. PROCTOR: -- bottom lines and --

PRESIDENT BODE: And that's okay. I mean, y'all can talk amongst yourselves. I have to leave here in a little bit and I'd really like to know kind of where people are on this.

MR. PROCTOR: In terms of -- and I already said we support Option 3. In terms of the percentage, we are probably in the lower end of that percentage -- "x" percent factor as the Missouri Commission. I have talked to Commissioner Gaw -- I don't think we can say, "Hey, we support a specific percentage level." We tend to support more the cost causality approach to it in looking at the cost causation. I do realize there are some regional benefits out there --

PRESIDENT BODE: So none of these -- none of these things are -- you don't support any of the options you

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put on your page?

MR. PROCTOR: I didn't -- those were options that other people presented.

PRESIDENT BODE: Oh, okay.

VICE PRESIDENT HOCHSTETTER: Well, would the

AEP option, do you think, come closer to the cost causation policy that you were just articulating?

MR. PROCTOR: I think -- I think what you're going to find is -- and, again, now I'm stepping out on a limb and predicting because I haven't seen the results yet. But I think what you'll find is that as you start putting in these projects -- not just one or two that you've looked at, but across the entire SPP region -- and you start looking at the economic benefits from those, that those would be pretty widespread.

And they won't be exactly even -- I mean, I don't hope for that. If I predicted that, I'd be crazy. But I think -- I think you'll see that the -- over this five-year period that they'll be looking at -- I think it's 2005 to 2010 -- I think what you're going to see is that those economic benefits are fairly proportional to --

MR. DOTTHEIM: Excuse me, this is Steve Dottheim. Chairman Gaw was on the call. He dropped off and he's at the car and no one can dial in. It's a lockout. If somebody hits star 7 -- yeah, I think they'll let him in. I

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will call him on his cell phone and I will be back and, hopefully, he'll be able to get back in.

VICE PRESIDENT HOCHSTETTER: Well, Nick just hit star 7, Steve --

MR. DOTTHEIM: Okay. I'm sorry for interrupting. I'm going to try to --

SECRETARY PARSLEY: No, thank you for telling us. We had no idea.

MR. BROWN: There we go.

SECRETARY PARSLEY: Are y'all all still there?

PHONE PARTICIPANT: Yes.

SECRETARY PARSLEY: Oh, good.

MR. BROWN: I hit pound 7 --

(Laughter)

PRESIDENT BODE: It's been a long day, Nick --

MR. BROWN: -- initially.

PRESIDENT BODE: The pounds and the stars are not necessarily all the same.

Yes, sir. You haven't spoken all day.

MR. MARSHALL: Ward Marshall with GE Wind Energy. And you were just asking for some bottom line -- kind of bottom line comments -- I just want to echo from the standpoint of whether it's wind equipment or gas turbines or whatever, as -- you know, we work with a lot of folks out there building power plants. I would implore you guys to

try to keep this as simple as possible.

You know, I've only been here a short time, and maybe through osmosis and attending more meetings I'll start understanding more what's going on, but if you have to try to explain this to a bunch of bankers who are trying to do project financing on any new generation being built, their eyes would be glazed over to the point of just like they wouldn't even know whether this is good, bad -- figure out what the costs are. So I think I heard before some folks saying "simple is better" and I just absolutely -- I mean, I think just err on the side of simplicity, guys.

VICE PRESIDENT HOCHSTETTER: As long as simplicity tracks costs with beneficiaries, then I'm okay with that, too.

SECRETARY PARSLEY: Well, I guess -- this is Julie -- I had indicated that -- I'm concerned about requiring to get in the base plan at all a five-year contract, yet we're going to change the methodology every year with a true-up. So I'd have to kind of go back and think about that. I don't know that I could support -- if we're going to true-up and change the rates going forward -- that I could support as a requirement to be in the base plan a set term contract, because I just don't think those match up. I think it changes the economics.

VICE PRESIDENT HOCHSTETTER: Are you thinking

about going back to where we were at the very beginning and having only reliability upgrades in the base plan and looking at participant funding for the other upgrades?

SECRETARY PARSLEY: No, no, I would be -- I'd be back to Option 1, frankly. I mean from -- in terms of our standpoint and our -- the way we would look at it. I just -- I think it's very inconsistent to require a set term of contract and then say that, "Oh, but by the way, over the term of that contract we're going to vary the methodology of how this is going to go into the rates." I think that that's going to cause problems with financing. I think it's going to cause problems with competitiveness. I think it's going to cause huge market power concerns because only the really huge players are going to be able to afford to do this. And I think that the co-ops and the munis and the smaller guys and the medium-size guys and even some of the big guys who have financing issues right now, are going to have a hard time getting out there and getting the money to do this.

So that's -- I just put that out there. It's kind of -- I guess a plea towards the simple, I suppose, but I'm just pointing out that there are some compromises that we might have to make along the way but that -- I'm concerned that if we start truing these things up or looking at them on-going, but yet we're requiring long-term

contracts, I think those are inconsistent.

VICE PRESIDENT HOCHSTETTER: Well, it seems like a long-term contract -- very long-term, 10 years or more -- would go with a base plan if you're not going to true-up. The only reason to have to true up in my mind is if you're allowing short terms contracts -- i.e. short-term commitments -- and, you know, things are going to be changing all the time. Then you'd have to change your allocations all the time. I wouldn't, you know, have a problem with fixing an allocation if we had a dedicated long-term resource that matches the amount of money going into the transmission rate base.

So, you know, to me there's got to be some symmetry. You know, if you're going to fund anything with a regional rate, it needs to have a long-term commitment. So maybe, you know, the true-up kind of stuff really shouldn't be trued up. It should just be participant funded, and something that goes into the base plan is really long-term. I mean, that makes some sense to me. There's some logical symmetry there.

Les?

MR. DILLAHUNTY: We really need to have more iterations like we had today -- I mean, with the deadline out there -- you folks as policymakers and the stakeholders and the CAWG. It is a bit of a chicken and an egg thing,

but we do need to continue to have this type of dialogue so that we can get this resolved.

VICE PRESIDENT HOCHSTETTER: I agree. I was just going -- Denise and I were talking about the fact that we need to continue this dialogue since it's getting late tonight, because we do need to reach resolution on some of these issues. And, you know, maybe in next Wednesday's call -- next Wednesday morning's RSC call from 10:00 to 12:00 -- we can continue to, you know, work through some of these things. I think that, you know, we may want to --

PRESIDENT BODE: -- our staff having been given this kind of --

VICE PRESIDENT HOCHSTETTER: Yeah, maybe you guys can put down two or three options on paper that are refinements from where, you know, this proposal was.

MS. DAVIDSON: Well, that was our hope. The team is meeting in the morning here, so that's why we're all here to necessarily get the input and then rework what we've heard (phone tone) today as input and options and to move us forward. So, yes, we're there.

VICE PRESIDENT HOCHSTETTER: Have y'all got enough feedback on the different options that you'd want to -- that we should consider?

MR. PROCTOR: For the base plan projects I believe we have --

MS. DAVIDSON: Yes.

MR. PROCTOR: -- and appreciate that. And that's really our priority. I mean, we can get back to --

MR. BROWN: Yeah, I want to make a point on that. From a reliability perspective, we have the transmission we need today. We do. The issue is we're not efficient. I mean, my plea would be let's focus on the other. I mean, yes, it would be good to resolve the reliability piece going forward. But right now we've got what we need.

My focus is to create an infrastructure that is more robust than what we have today to support more of the economies that are available out there. And that's why, in my view, we really need to focus on the economic upgrades so that we can get more transmission built. I mean -- to me, that's my goal. I'll just tell you my goal is we need more transmission. Transmission expansion hasn't kept up with generation expansion. And right now our market is not as efficient as it could be because we have constraints.

Reliability is being met. Okay? I mean end-use load is being served. But it's not necessarily being served from the most economic resources that are out there. So, yes, we need something resolved and -- but I want to be careful that we don't say, "Well, gee, okay, let's just deal with the reliability piece and we'll worry

about the economic piece later." My concern is that's really where the real need is from an efficiency perspective.

VICE PRESIDENT HOCHSTETTER: Is there any way that we can get the AEP analysis done in time for the RSC to look at it during our next Wednesday morning conference call? And I know that's putting a lot of pressure on you, Bruce, but, you know, if in fact that analysis answers a lot of our questions on this regional versus zonal cost allocation question --

PRESIDENT BODE: Sandy is going to take over for me just to conclude the meeting because I'm going to miss my flight. So I apologize.

VICE PRESIDENT HOCHSTETTER: Thanks, Denise.

SECRETARY PARSLEY: Good-bye, Denise.

VICE PRESIDENT HOCHSTETTER: See you later.

PRESIDENT BODE: And Joyce will be here for tomorrow. Thank you. Julie, thank you.

MR. REW: We'll certainly give it our best shot to meet next Wednesday's meeting deadline.

VICE PRESIDENT HOCHSTETTER: Okay. Does next Wednesday morning work for you, Julie? Are you going to be able to participate --

SECRETARY PARSLEY: Oh, you know, I'm so sorry. I'm sitting here thinking -- I think I can. I think

so.

VICE PRESIDENT HOCHSTETTER: Okay.

SECRETARY PARSLEY: Next Wednesday morning --

VICE PRESIDENT HOCHSTETTER: Yeah. I can't remember --

SECRETARY PARSLEY: Oh, I have a hearing. We have a hearing, a telecom hearing -- an arbitration.

VICE PRESIDENT HOCHSTETTER: Will Jess be available to be your proxy on the call?

SECRETARY PARSLEY: Jess is always a very good proxy if he's available --

MR. TOTTEN: Is it --

SECRETARY PARSLEY: It's telecom. I don't know if you've got other things going on.

VICE PRESIDENT HOCHSTETTER: Yeah, I think that -- you know, we've narrowed down some of the issues -- it seems like whittled some of them down -- but I guess I'm a little concerned about going backwards. I mean it seemed like we -- you know, we had -- we all thought that Option 3 was a good one and it was just a matter of how to define the length of time and the parameters for flexibility and changes, and then, I guess, I heard from you some concern on that --

SECRETARY PARSLEY: Right.

VICE PRESIDENT HOCHSTETTER: -- which would

take us back to maybe only having reliability in the base plan and looking at other upgrades differently --

SECRETARY PARSLEY: Or not truing up every year. I mean, that's -- the other option is having a set contract and then a set percentage. I mean that's another option -- another way to go -- rather than -- and keep the flexibility for the -- for the load serving entities.

VICE PRESIDENT HOCHSTETTER: So the debate would be on how long a contract term would have to be to fix the percentage and not true it up, right?

It sounds like -- maybe y'all could put down all the different options that we -- I mean, has anybody kept track of all the different options we've talked about today besides the court reporter?

MR. PROCTOR: Yes.

(Laughter)

VICE PRESIDENT HOCHSTETTER: Okay.

SECRETARY PARSLEY: Okay. I'm just worried about -- you said "symmetry" -- I think symmetry is very important, and I think that we lose the symmetry if you have a fixed-term contract but you're truing up the rate every year and then it's varying. So that's my basic concern. So that's -- so we can just keep talking about that and see what other options are out there.

MR. BROWN: Maybe rather than true-up it's

just a re-look at the percentage on a going-forward basis.

VICE PRESIDENT HOCHSTETTER: And then like -- if a deviation -- a standard deviation or whatever is minor, you don't change it, if it's major you do?

MR. BROWN: Right. But it's only going forward. It's not going back and re-addressing --

VICE PRESIDENT HOCHSTETTER: Right. Yeah. Not retroactive refunds or anything like that, Julie, just a true-up on a going-forward basis. And it probably -- might be negligible, it might not, but --

MR. PROCTOR: I think part of the question is how does -- how does whatever this true-up is, whether it's changing the "x" percent over time or the way that you allocate to the zones the 1 minus "x" percent -- how does it affect and what will be the overall impact on rates to the customers for transmission? And I think one of the things to keep in mind is that the way this is set up, load will pay the rates. Okay?

It's not -- it's not like -- it's not like the wind folks are going to pay the rates or an IPP is going to pay the rates. It's that the load serving entity is the one that's going to pay the rates and you pass that on to load. And I don't think the variations that we're talking about are very significant. And I may be wrong, but I've heard the argument that it's the tail wagging the dog.

Transmission costs are a very low percentage of the total cost, and now we're talking about some minor variations on that low percentage of total costs, and I don't -- and it's the load that's paying it. I don't think it's going to mess up the deal.

But I -- I mean, I think we need to look at that. I don't think under the SPP methodology that the percentage going to regional would change very much over time. And I don't think it would change very much at all. And which zones projects get allocated to is going to be a function of those projects and the time frame in which they're brought into play, because those are not region-wide. Those tend to be very -- more local or -- I'm a little bit less concerned about this, but, again, we'll lay out the option for you. I mean, I understand the concern that's been addressed here.

MR. HOLLOWAY: And I think what Mike is saying is the zone -- the "x" probably won't change that much over time, but -- but as the projects come on line there's probably going to be a different zonal allocation to each one, and that will be different depending on the project.

MR. BROWN: And my plea is "something is better than nothing, sooner is better than later" --

VICE PRESIDENT HOCHSTETTER: Right.

MR. BROWN: And, you know, I repeat -- years back when we implemented our first regional tariff, it had, as Mike is well aware -- I mean, we got bloody in meetings arguing over megawatt-mile pricing. And everybody's fear was, "Oh, gosh, if we go down that road, then we'll be stuck with it forever," and it was less than 18 months later we went to the zonal rate methodology.

VICE PRESIDENT HOCHSTETTER: Yeah, I'm sure this will be changed many, many times in the future --

MR. BROWN: I mean, I can't count the number --

VICE PRESIDENT HOCHSTETTER: I keep thinking, "don't let perfection be the enemy of the good." You know, that keeps popping up in my mind. So we need to probably all keep that in mind.

Is there anything else -- I know we need to let the court reporter and staff go and we probably need to wind it down. Can y'all get that list of options to us -- in enough time for us to have a chance to look at it before the Wednesday morning call?

MR. PROCTOR: Yes, we'll be working on that tomorrow. So we'll try to get it out to you real quick.

VICE PRESIDENT HOCHSTETTER: And, then, I don't want to put any of that nasty pressure on you, Bruce, but to the extent that y'all can do -- and maybe get AEP folks to help you run that analysis, that will be really helpful.

Anything else today before we -- I guess -- do we have a motion to adjourn if there's no other -- or, Julie --

SECRETARY PARSLEY: So move.

VICE PRESIDENT HOCHSTETTER: Is there a second to that motion?

MR. LOUDENSLAGGER: Chairman, are you going to cover the travel policy next week?

VICE PRESIDENT HOCHSTETTER: I guess so, if we can work out our cost allocation issues. We may have to have a separate meeting just on the travel policy.

MR. PROCTOR: Sam, the policy is no more travel until we get this resolved.

(Laughter)

VICE PRESIDENT HOCHSTETTER: Okay. Well, hearing no objection to the adjournment, I'll call this meeting adjourned. Thank you very much for being here today.

SECRETARY PARSLEY: And before we go off the record, I need to conclude this Open Meeting of the Public Utility Commission of Texas at 5:45.

(Proceedings concluded at 5:45 p.m.)

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C E R T I F I C A T E

STATE OF TEXAS)
COUNTY OF TRAVIS)

I, Lou Ray, Certified Shorthand Reporter in and for the State of Texas, do hereby certify that the above-mentioned matter occurred as hereinbefore set out.

I FURTHER CERTIFY THAT the proceedings of such were reported by me or under my supervision, later reduced to typewritten form under my supervision and control and that the foregoing pages are a full, true, and correct transcription of the original notes.

IN WITNESS WHEREOF, I have hereunto set my hand and seal this 29th day of September 2004.

____
Lou Ray
Certified Shorthand Reporter
CSR No. 1791 - Expires 12/31/05

Kennedy Reporting Service, Inc.
Firm Certification No. 276
1801 Lavaca, Suite 115
Austin, Texas 78701.

Travel Policy

The Southwest Power Pool Regional State Committee ("RSC") will reimburse RSC members (and their delegates assigned to specific task forces and working groups) and RSC associate members (hereinafter severally and jointly referred to as "Member(s)") for all fair and reasonable expenditures incurred by Members when conducting RSC business. It is intended that Members should neither lose nor gain money as a result of reimbursement.

1. Travel expenses must be submitted on the RSC expense reimbursement form within 30 days after the conclusion of the travel. Receipts are required for all expenses.
2. The RSC expense reimbursement form must be signed by Member seeking reimbursement and in the case of an assigned delegate, by the individual state Commissioner assigned to the RSC.
3. While traveling and away from home, Members are expected to use good judgment when incurring expenses for lodging, meals, transportation, etc. RSC will reimburse business related mileage at the rate approved by the IRS. Reimbursement will be for mileage claimed due to travel to business location and return.

4. Members are responsible for making their own arrangements for transportation, lodging and car rentals. All accommodations should be purchased as far in advance as possible to obtain available discount fares/rates. All air travel is to be booked at the lowest accommodating fare.

5. Lodging reservations should be made at mid-priced establishments, when available. If a Member is attending a meeting or function being held at a specific facility, then reservations may be made at that facility.

6. The RSC will not accommodate advances for travel expenses; the RSC will only reimburse expenses after the fact with supporting documentation and approval as specified in this policy.

7. If a spouse or family member accompanies a Member on a business trip for non-business reasons, the family member's travel expenses are not reimbursable.

Travel Guidelines

These numbers are provided as guidelines and are based on historical averages. Members are expected to use their best judgment while traveling.

Price Guidelines:

1. Airfare - $500 roundtrip within the SPP footprint
2. Hotel - $130/night
3. Meals - $45/ day
4. Car Rental - $70/day
5. Parking - $10/day
6. Tips & Gratuities – 15% tip for meals, 10% tip for cab fare, $1 per bag for baggage handling

Expense Reimbursement Policy

This policy is intended to identify reasonable, necessary and customary business expenses, which are eligible for reimbursement. Southwest Power Pool Regional State Committee ("RSC") participants eligible for reimbursement include RSC members (and their delegates assigned to specific task forces and working groups) and RSC associate members (hereinafter severally and jointly referred to as "Member(s)")

<u>Business Mileage</u> – Members will be reimbursed for all mileage incurred while using a personal vehicle for business. The Member will be reimbursed at the standard IRS mileage rate.

<u>Personal Auto Use on Company Business</u> – If a Member requests use of a personal vehicle in lieu of air travel, reimbursement will be made at the approved reimbursement rate for the most direct mileage to and from the business destination unless round trip air travel is less expensive. When this occurs, the round trip air travel cost will be reimbursed instead.

Mileage will be reimbursed at the then current IRS mileage rate. This expense is to be turned in on an expense account (within 30 days) with the number of miles and the purpose of the trip.

<u>Rental Cars, Taxis, Bus Fares, tolls, etc.</u> – Reimbursement will be made for transportation while on RSC business, including transportation to and from airports and transportation to and from local businesses. Members are expected to use cost effective methods. The standard rental automobile will be a mid-size sedan.

<u>RSC Meals</u> –Members will be reimbursed for meals under the following circumstances:

- When out of town on business, the reasonable costs of the Member's meals will be reimbursed.
- Business meals will be reimbursed when business is discussed and the Member documents the business purpose and who attended.

<u>Lodging</u> – Members will be reimbursed for lodging expenses incurred while on RSC business.

Meetings - The following are guidelines for a meeting the RSC might incur.

1. Lunch – plan for $25/ person
2. Continental Breakfast – plan for $10/person
3. Afternoon Break – plan for $150/total
4. Beverages – plan for $12/person
5. Meeting Room (<20 people) - $250/day
6. Meeting Room (>20 people) - $650/day
7. Supplies (<20 people) - $350/day
8. Supplies (>20 people) - $700/day
9. A/V Equipment
10. Conference Phones

11. Internet Access
12. Teleconference : 25 ports/2 hr. meeting

Receipts are required on all expenses.

Reimbursement will be approved per this policy. Periodically, reimbursements will be reviewed by the RSC officers for compliance with this policy.

Regional State Committee Expense Account

Name (Print) ______________________ **Purpose** ______________ **Date** ________
Address ______________________
____

Date	Location	Description/Business Purpose	Mileage/ Airline	Misc. Exp.	Taxi	Parking	Breakfast	Lunch	Dinner	Lodging	Total	Due RSC Member
											$0.00	$0.00
											$0.00	$0.00
											$0.00	$0.00
											$0.00	$0.00
											$0.00	$0.00
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											$0.00	$0.00
											$0.00	$0.00
											$0.00	$0.00
											$0.00	$0.00
		Totals	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	**$0.00**	**$0.00**

____
RSC Member or Delegate Date

____
Commissioner Date

Summary
Transmission Expansion Cost Allocation Proposal

for the

SPP RSC

September 8, 2004

Overview of Straw Proposal on Cost Allocation for Transmission Upgrades

- Base funded upgrades
  - Upgrades necessary to meet reliability criteria and projected load growth in region
- SPP approved economic upgrades
  - May be partly voluntarily funded and partly rolled into rates
- Other requested upgrades
  - Upgrades requested by and paid for by one or more parties

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Areas of Agreement on Cost Allocation

1. Base Plan Upgrades
   – Regional/zonal cost allocation approach
   – X% through a single region-wide SPP rate
   – 100-X% recovered through the zonal rate of zone or zones which benefit from the upgrade
2. SPP approved economic upgrades
   – Y% directly from the party or parties that volunteer to pay for such upgrades
   – 100-Y% through a single region-wide SPP rate
3. Participant funded
   – Requested upgrades funded 100% directly from the requestor; i.e., no change from today.

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RSC Guidance Required on Several Key Issues

1. Base Funding Issues
   a. What level of flexibility, if any, should transmission customers have in resource designations in the base plan?
   b. What percentage of upgrade costs (X%) to be allocated to region-wide rate?
   c. How should the remaining portion of costs be allocated among the zones?
2. Economic Upgrade Issues
   a. Percentage of cost of economic upgrades to be allocated to region-wide rate (Y%).
   b. What rights does a Participant receive for voluntarily funding non-based funded projects?

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1.a. Base Funded Upgrades Flexibility in Designating Network Resources

- All stakeholders agree Base Plan must be developed to meet reliability requirements and projected load growth
- Clear split over the scope of the Base Plan and treatment of designated network resource change requests. Options include:
  - Option 1 – Base plan should include transmission customer requests to change designated resources to meet their changing supply requirements
  - Option 2 – Base Plan should be developed for existing transmission service and projected load growth; changes to designated network resources should not be in Base Plan
  - Option 3 - Same as Option 1 except that transmission customer must demonstrate that DNR change meets certain guidelines (e.g. level of commitment to resource, long-term nature, etc.)
- CAWG requires direction from RSC on preferable option

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1.b. Base Funded Upgrades X% in Region-wide Rate

- What percent of BPF costs should be assigned as regional?
  - 10% or less via Transfer Reserve Margin Test
  - 25% via SPP 3% Transfer Test
  - 33% via SPP Megawatt-Mile Loop Flow Test
  - 50% via Sunflower Proposal
  - 100% via TDU Network System Proposal
  - % could vary by voltage level via SPP Megawatt-Mile Loop Flow Test

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1.c. Base Funded Upgrades Allocation of (1-X)% to Zones

- Choice between two proposed flow-based tests and current practice
  - AEP Test: those zones that benefit from economy transactions as measured by net imports.
  - SPP Test: those zones whose megawatt-mile use of the existing system decrease from the addition of a system upgrade.
  - Status Quo: Cost assigned to the zone in which the facilities are located.

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2.a. SPP Approved Economic Upgrades Y% Voluntarily Funded

- Projects would require a certain level of voluntary funding (Y%) before the remaining portion is funded by the region.
  - Should Y% be determined as a policy matter to represent strong support from market participants for the project – say 2/3rds or 3/4ths voluntarily funded;
  - Should Y% change with the strength of the economic benefits that are expected to result from the upgrade; or
  - Should Y% be low to facilitate completion of projects that provide energy benefits?

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2.b. SPP Approved Economic Upgrades Participant Rights

- Should a crediting policy analogous to Order 2003-A be adopted for participant funded projects; or
- Should participant funded projects be treated as directly assigned costs with no credits back to participant?

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