

**Southwest Power Pool  
BOARD OF DIRECTORS MEETING  
Doubletree Hotel – Little Rock, Arkansas  
May 13, 1999**

**- Summary of Action Items -**

1. Approved minutes of the November 10-11, 1998 meeting as corrected and distributed with meeting background material.
2. Approved the following meeting schedule:

Monday & Tuesday, November 8-9, 1999	Kansas City, Missouri
Monday & Tuesday, November 6-7, 2000	Wichita, Kansas
Tuesday, May 8, 2001	Little Rock, Arkansas
Tuesday, July 20, 1999	Dallas, Texas
3. Accepted the 1998 audit report of Deloitte and Touche, LLP and approved the President's recommendation for the retention of Deloitte and Touche, LLP to perform the 1999 audit.
4. Approved the Employee Benefits Committee recommendation of a 1999 funding of \$346,000 for the SPP retirement plan and \$110,664 for the retiree medical coverage of employees retiring at the Normal Retirement Date.
5. Approved the Engineering & Operating Committee recommendation that SPP procure tag authority and tag approval services for all SPP control areas and transmission providers at an unbudgeted expenditure of \$100,000 in order to comply with new NERC policy.
6. Approved the Engineering & Operating Committee recommendation that SPP and its control areas each procure a satellite phone station for use over the Y2K transition as well as to be evaluated as a replacement for the existing Emergency Communication Network.
7. Directed that the Transmission Assessment Working Group charter be modified to allow broad membership representation, allow limited participation sessions for discussion of market sensitive information, and not restrict regulatory representative participation.
8. Approved the Commercial Practices Committee recommendation on the formation of a Discounting Working Group to establish discounting policy for non-firm transmission service and to direct the Staff regarding discounting implementation.
9. Agreed to allow limited participation during organizational group meeting discussions subject to FERC's Code of Conduct and directed Staff to specifically address this issue in the draft ISOTF bylaws to be considered later in the year.
10. Approved an Independent System Operator Task Force recommendation for a special called meeting of the Board of Directors for July 20 for consideration of final documents and concurrence with the current course of direction.
11. Approved a motion that, to the extent that legal and regulatory requirements as determined by SPP's General Counsel are met, the disputed third party impact issue be sent to the Commercial Practices Committee for development of a recommendation for consideration by the Board of Directors on July 20, 1999. Further, due to a potential conflict of interest of the Commercial Practices Committee chair, the vice chair should serve as chair during these deliberations.

**Southwest Power Pool  
BOARD OF DIRECTORS MEETING  
Dallas/Ft. Worth Airport Hyatt Hotel  
May 13, 1999**

**Agenda Item 1 - Administration**

SPP Chair Mr. Robert Zemanek called the regular meeting to order at 8:01 a.m., thanked everyone for attending what is meant to be an informative meeting (Agenda – Attachment 1) and then asked for a round of introductions. The following Board members were in attendance or represented by proxy:

Mr. Gene Anderson, proxy for Mr. Roland Dawson, OK Muni. Power Authority,  
Mr. Mike Apprill, UtiliCorp United,  
Mr. Marvin Carraway, City of Clarksdale, MS,  
Mr. David Christiano, City Utilities of Springfield, MO  
Mr. Tom Grennan, Western Resources  
Mr. Carey Jordan, proxy for Mr. Darrell Hayslip, Calpine Corp.,  
Mr. Henry Janhsen, proxy for Mr. David Wilks, Southwestern Public Service,  
Mr. Rick McCord, proxy for Mr. Myron McKinney, Empire District Electric Co.,  
Mr. Mel Perkins, Engineering & Operating Committee Chair  
Mr. Gene Reeves, proxy for Mr. Michael Deihl, Southwestern Power Admin.,  
Mr. J. M. Shafer, Western Farmers Electric Cooperative,  
Mr. Al Strecker, proxy for Mr. Steve Moore, OG+E,  
Ms. Trudy Utter, Tenaska Power Services Company,  
Mr. Gary Voigt, Arkansas Electric Cooperative, Corp.,  
Ms. Lydia Vollmer, PECO Power Team,  
Mr. Larry Wells, proxy for Mr. David Eppler, Central Louisiana Electric Company,  
Mr. Robert Zemanek, Chair, Central and South West Corp.,  
Mr. Jimmy Crosslin, OK Corp. Commission,  
Mr. John Marschewski, President, Southwest Power Pool

There were 37 persons in attendance representing 30 members and 2 regulatory agencies (Attendance List - Attachment 2). Seven proxy statements were received by the Secretary (Proxies - Attachment 3). Mr. Marschewski stated that a quorum was present.

Mr. Zemanek referred to draft minutes of the November 10-11, 1998 meeting and asked for necessary corrections or a motion for approval. Mr. Wells motioned and Mr. Carraway seconded that the minutes be approved as distributed with the background material. This motion passed unopposed.

Mr. Zemanek then referred to the meeting background material for future meeting information (Future Meetings - Attachment 4). Mr. Voigt motioned and Mr. Shafer seconded that the proposed meeting schedule be approved. This motion passed without opposition.

Mr. Nick Brown reported that the Board of Directors had approved via email vote requested on February 22, 1999, the filing with the Federal Energy Regulatory Commission the Engineering & Operating Committee's recommended capacity and energy service agreement. Mr. Brown stated that this agreement was filed March 25, noticed on March 30 as Docket No. ER99-2257 and received one intervention protest by ECI on April 14. SPP responded to the protest on April 29 and is currently awaiting FERC action prior to distributing the agreement for participant execution.

**Agenda Item 2 – President's Report**

Mr. Marschewski presented a first quarter 1999 financial report (Q199 Financial Report – Attachment 5) and stated that SPP was on budget year to date. Mr. Marschewski then presented the 1998 fiscal year auditor's report (1998 SPP Audit Report – Attachment 6) for Board of Directors acceptance and stated that the independent auditor Deloitte & Touche, LLP found that SPP's financial statements present fairly, in all material respects, the financial position of SPP and are in conformity with generally accepted accounting principles. Mr. Shafer motioned and Mr. Carraway seconded that the Board of Directors accept the audit as presented. This motion passed without opposition. Mr. Marschewski then recommended the retention of Deloitte & Touche, LLP to perform the 1999 audit. Mr. Shafer motioned and Mr. Voigt seconded that the Board of Directors approve this recommendation. This motion passed unopposed.

**Agenda Item 3 – Employee Benefits Committee Report**

Mr. Zemanek asked Mr. Shafer to give the Employee Benefits Committee Report. Mr. Shafer referred to a report from the Employee Benefits Committee (EBC Report – Attachment 7) and summarized its content. Mr. Shafer then motioned that the Board of Directors approve the EBC recommendation of a 1999 funding of \$346,000 for the SPP retirement plan and \$110,664 for the retiree medical coverage of employees retiring at the Normal Retirement Date. Ms. Utter seconded this motion which passed unopposed.

**Agenda Item 4 - Engineering & Operating Committee Report**

Mr. Zemanek then asked Mr. Perkins to give the Engineering & Operating Committee (EOC) report. Mr. Perkins began by referencing an EOC report on NERC electronic tagging (ETAG Report – Attachment 8). Mr. Perkins stated that the EOC is recommending that SPP procure tag authority and tag approval services for all SPP control areas and transmission providers at an unbudgeted expenditure of \$100,000 in order to comply with new NERC policy. Mr. Perkins then motioned that the Board of Directors approved this recommendation. This motion was seconded by Mr. Voigt and was approved without opposition.

Mr. Perkins then referred to an EOC report on backup communications (Y2K Backup Comm. Report – Attachment 9). Mr. Perkins stated that the EOC is recommending that SPP and its control areas each procure a satellite phone station for use over the Y2K transition as well as to be evaluated as a replacement for the existing Emergency Communication Network. Mr. Perkins then motioned that the Board of Directors approve the EOC recommendation as contained in the report. Ms. Vollmer seconded this motion which was approved without opposition.

Mr. Perkins then concluded his report by stating that the EOC approved new charters for its working groups. Mr. Perkins noted that the Transmission Assessment Working Group (TAWG) intends to limit participation in certain discussion to those members who have executed NERC's confidentiality agreement. Mr. Christiano noted that the EOC had agreed to modify the TAWG charter to allow broad membership representation, even though some sessions may be limited to certain members. Mr. Christiano stated that the charter distributed with the background material (TAWG Charter – Attachment 10) did not clarify this intention. Mr. Crosslin expressed desire that regulatory participants not be excluded from any discussions. Following discussion, the Board of directors agreed that the TAWG charter should be modified to allow broad membership representation, allow limited participation sessions for discussion of market sensitive information, and not restrict regulatory representative participation.

#### **Agenda Item 5 - Commercial Practices Committee Report**

Mr. Sherman then reported on the Commercial Practices Committee (CPC) activities and stated that the CPC was recommending the formation of a working group to establish discounting policy for non-firm transmission service and to direct the Staff regarding discounting implementation (Discounting Working Group Formation Report – Attachment 11). Mr. Sherman motioned and Ms. Trudy Utter seconded that this CPC recommendation be approved by the Board of Directors. During discussion, Mr. Sherman noted specific language in the report "Membership on this working group is to be open to all members, with voting per SPP Bylaws, except for decisions subject to FERC's Code of Conduct, where executive sessions would be held on members who have signed the agency agreement and the FERC Code of Conduct." Based on subsequent discussion, Mr. Sherman and Ms. Utter agree to a modification of the recommendation striking the language following "...except for decisions subject to FERC's Code of Conduct, ... ." Upon calling the question on this motion, it was approved without opposition. The Board of Directors agreed to allow limited participation during organizational group meeting discussion subject to FERC's Code of Conduct and directed Mr. Nick Brown to specifically address this issue in the draft

ISOTF bylaws to be considered later in the year.

**Agenda Item 6 - NERC Board of Trustees Report**

Mr. Zemanek then asked Mr. Gary Voigt to give an update on activities of the NERC Board of Trustees (NERC BOT Highlights – Attachment 12). Mr. Voigt mentioned that the independent board members had been installed and were now actively participating in deliberation. Mr. Voigt also mentioned that the new standing committee rosters had been approved and are now effective. Mr. Voigt concluded his comments by noting that the NERC expenses are increasing and that a new funding group was being formed to recommend how future NERC costs should be recouped.

**Agenda Item 7 – Independent System Operator Report**

Mr. Zemanek and Mr. Ingersoll updated the Board of Directors on the ISO Task Force actions. Mr. Zemanek reported that SPP's Independent System Operator Task Force (ISOTF) and Regional Pricing Working Group (RPWG) have been actively engaged in creating ISO documents for Board of Directors consideration in May, pursuant to a work plan approved last November. Though both groups have worked diligently to complete this assignment, there were several issues proving difficult to resolve with the typical approach to an ISO involving a filing under Section 203 of the Federal Power Act, transferring operational control of transmission facilities to SPP. Mr. Zemanek stated that he and Mr. Dick Ingersoll notified the Board of Directors of a modification in direction recommended by the ISOTF in a letter dated April 15, 1999. Mr. Zemanek then asked Mr. Nick Brown to summarize the current direction of the ISOTF.

Mr. Nick Brown stated that of great significance is the shifting of transmission costs between customers as the transition occurs from zone rates (each Transmission Owner's current rate) to a single regional (average) rate. Though access to a larger market is afforded by ISO formation and could justify higher transmission cost, many small transmission customers have entered into long-term agreements for local resources. Regional access is simply not that beneficial to these customers, regardless of price. Also troublesome is the lack of guarantee that revenue requirements will be recovered during the transition period because all load is not under a single tariff.

Another significant issue related to Section 203 filings is the impact on formation of for-profit transmission companies. SPP has maintained that an ISO and a Transco are not mutually exclusive and that independent regional security coordination and tariff administration by an ISO would actually add merit to the transmission company business model from a regulatory perspective and would promote consistency and coordination. However, Section 203 filings could mean relinquishing of individual

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returns on equity that may diminish the benefits of for-profit transmission company formation if the ISO cannot justify a higher return than the individual entity.

In response to these concerns, the ISOTF is proposing a Regional Transmission Organization model that establishes a relationship between transmission owners and SPP via an agency agreement for independent regional security coordination and tariff administration. This is simply an expansion of the mode SPP is currently in for administration of the point-to-point regional tariff. This proposed approach is meant only to resolve the issues stated above; maintenance of individual Transmission Owner return of equity, and maintenance of zone rates to mitigate cost shifting and ensure revenue requirement recovery. This proposed approach provides NO difference in SPP functionality between the ISO model and the RTO model in the following areas:

- Non-discriminatory administration of all transmission services,
- Independent security coordination (non-discriminatory use of line loading relief),
- Congestion management (both redispatch and construction of new facilities),
- Regional coordination and planning of transmission system additions, and
- Tariff terms and conditions, revenue allocation or the provision of ancillary services.

Mr. Zemanek stated that while this may appear to be a dramatic change in direction, it was believed to be the best, next step in achieving the primary goals of any ISO – broad, independent and regional security coordination and tariff administration. Mr. Brown concluded the introduction by stating that this approach produces most of the benefit without significant impediments, can be implemented with less cost and effort, and maintains flexibility for the future.

Mr. Zemanek and Mr. Ingersoll stated that the ISOTF had directed the RPWG to proceed with tariff finalization pursuant to this direction and the ISOTF is modifying draft bylaws and membership agreement documents accordingly. Mr. Zemanek then recommended a special called meeting of the Board of Directors for July 20 for consideration of final documents and Board of Directors concurrence with this course of direction. Mr. Carraway motioned that the Board of Directors approved Mr. Zemanek's recommendation. Mr. Grennan seconded this motion which was approved without opposition.

Summary presentations were then made on the draft Bylaws (Bylaws – Attachment 13 and Bylaws Slides – Attachment 14), Membership Agreement (Membership Agreement – Attachment 15 and Membership Agreement Slides – Attachment 16) and Tariff (Tariff Slides – Attachment 17) by Messrs. Nick Brown, Ricky Bittle and Dick Dixon respectively. Comments on the Bylaws focused primarily on liability. Comments on the

Membership Agreement focused primarily on the right of first refusal by transmission owners for construction of new facilities and the three-year minimum commitment. Mr. Dick Dixon reported that the most significant outstanding issue for the Regional Pricing Working Group was development of a standard network operating agreement.

**Agenda Item 8 – State Retail Access Coordination**

Mr. Richard House of the Arkansas Public Service Commission reported that legislation had passed in Arkansas calling for retail access by January 1, 2002 (AR Legislation Summary – Attachment 18). Mr. House noted that the legislation required an obligation for utilities to join a regional transmission organization and that the Arkansas commission is interested in working closely with SPP. Mr. House stated that the legislation did not address the issue of backup supply in the event of non-performance by energy suppliers, but that this difficult issue must be resolved. Mr. House concluded his comments by stating that the legislation did give the Arkansas commission the authority to order construction, in the event that such authority were needed by SPP in its planning processes. Mr. Brown noted a memorandum of understanding (PJM Memo – Attachment 19) that had been executed between PJM and its state regulatory commission dealing with retail access implementation.

**Agenda Item 9 – Operations Report**

Mr. Zemanek then asked Mr. Nick Brown to give a report on SPP operations. Mr. Brown began by giving a brief update on transmission revenue and SPP income from administration of the regional tariff (Tariff Slide – Attachment 20), and then briefed the Board of Directors on a conflict between SPP and two previous transmission providers, Utilicorp's operating companies and Sunflower Electric Power Corp. Mr. Brown stated that the Staff was billing these members for what are characterized as 'third party impacts' pursuant to the tariff as interpreted by the Regional Pricing Working Group and SPP's General Counsel, Mr. Mike Small. Mr. Brown gave a brief description of the 9-month old conflict, noting that most of the tariff language on dealing with billing conflicts is written to address a provider-customer relationship, not a provider-administrator relationship. Mr. Brown then notified the Board of Directors that if the disputed moneys are not placed in escrow pending dispute resolution, that SPP would file with the FERC for termination of service to these members. Mr. Brown then asked Mr. Mike Apprill to add any comments. Mr. Apprill noted a written summary of Utilicorp's position ( Utilicorp Position on 3<sup>rd</sup> Party Impacts – Attachment 21). Mr. Apprill asked that the Board of Directors consider the findings of the Commercial Practices Committee on the issue prior to SPP filing for termination of service.

Mr. Max Sherman stated that if the issue is sent to the CPC for resolution, that he was willing to step aside as chair during the deliberation due to his affiliate relationship with

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Utilicorp and the potential conflict of interest. Following considerable discussion, Mr. Marvin Carraway motioned that, to the extent that legal and regulatory requirements as determined by SPP's General Counsel are met, the issue be sent to the Commercial Practices Committee for development of a recommendation for consideration by the Board of Directors on July 20, 1999. Further, due to a potential conflict of interest of the CPC chair, the vice chair should serve as chair during these deliberations. This motion was seconded by Mr. J. M. Shafer and was approved without opposition.

**Agenda Item 10 – Adjournment**

With no further business, Mr. Zemanek adjourned the meeting at 12:34 p.m.

- Nicholas A. Brown, Corporate Secretary