

**Southwest Power Pool
BOARD OF DIRECTORS
Teleconference Meeting Minutes
Tuesday, October 6, 1998**

- Summary of Action Items -

1. Modified and approved a Regional Pricing Working Group recommendation that SPP file with the Federal Energy Regulatory Commission a request for an extension of time to June 1, 2000 to implement customer self provision of losses in real time. By doing so, SPP is committing to becoming a regional scheduling agent for loss energy transactions involving control areas with facilities under its regional transmission service tariff at a 1999 budgeted cost of \$350,000.

2. Approved a Staff recommendation for SPP to intervene in support of a Western Resources complaint with the Federal Energy Regulatory Commission over the closed nature of MAPP's regional transmission service tariff (Docket No. EL98-76).

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SPP Chair Mr. Bob Zemanek called the special meeting to order at 9:04 a.m. A roll call was taken for determination of attendance, quorum and proxies. The following Board members were present on the call or represented by proxy:

Mr. Mike Apprill, proxy for Mr. Harvey Padewer, UtiliCorp United,
Mr. Marvin Carraway, City of Clarksdale, MS,
Mr. David Christiano, City Utilities of Springfield, MO
Mr. Michael Deihl, Southwestern Power Administration,
Mr. Darrell Hayslip, Dynegy
Mr. Henry Janhsen, proxy for Mr. David Wilks, Southwestern Public Service,
Mr. Myron McKinney, Empire District Electric Company,
Mr. Mel Perkins, Engineering and Operating Committee Chair and proxy for Mr. Steve Moore, Oklahoma Gas & Electric Co.,
Mr. J. M. Shafer, Western Farmers Electric Cooperative,
Mr. Gary Voigt, Arkansas Electric Cooperative, Corp.,
Mr. Robert Zemanek, Chair, Central and South West Corp.,
Mr. John Marschewski, Secretary, Southwest Power Pool.

Also present were Nick Brown and Pat Bourne of the SPP Staff.

Mr. Zemanek asked Nick Brown to facilitate discussion on the recommendation presented by the Regional Pricing Working Group (RPWG) for Board of Directors consideration. Nick referred to the RPWG report distributed with the meeting notice and stated that since its approval by the RPWG an additional alternative had been conceived to more efficiently respond to the issue before the Board of Directors. Nick then dictated necessary changes to the RPWG report to describe this alternative proposal. The RPWG report follows in its entirety with the modifications indicated.

**Southwest Power Pool
REGIONAL PRICING WORKING GROUP
Report to the
BOARD OF DIRECTORS**

Regional Tariff – Real Time Self Provision of Losses

Background

After just one short month of operation under SPP's regional tariff, the market place literally cried for SPP to seek modification of the regional tariff to require the purchase of transmission losses in lieu of customer self provision. SPP's original filing sought this type of loss compensation but the Federal Energy Regulatory Commission's (Commission) initial order required self provision consistent with their pro forma tariff. SPP agreed to this in its compliance filing in order to get something implemented as soon as possible. In June the Regional Pricing Working Group (RPWG)

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unanimously agreed to seek Board of Directors and Commission reconsideration of this as soon as possible. In just one short month following this decision the RPWG and Board of Directors approved filing materials, a technical conference had been held with key Commission staff, and the filing was made. Interventions were due August 13, and while the filing received many concurring comments, one protest was filed by SPP member Electric Clearinghouse. At their September 16 meeting the Commission approved the following order on their consent agenda which was issued on September 18:

“Given SPP’s inability to accommodate the simultaneous supply of losses at this time and the difficulties experienced by SPP and its customers with SPP’s existing loss provision, we will allow SPP to provide for losses on an interim basis, as it proposes, pending technical upgrades to its software. However, we concur with Clearinghouse that our acceptance should be conditioned on SPP implementing simultaneous supply of losses on a date certain. We believe that Clearinghouse’s proposal of a November 1, 1998, implementation deadline is unrealistic given the technical upgrades required. We will therefore condition our simultaneous supply of losses by March 1, 1999.”

Under the Commission’s Rules of Practice and Procedure, SPP has 30 days from the order’s issuance to file a response. There is absolutely no way possible for SPP to comply with the March 1, 1999 date at any cost or effort.

Options

SPP basically has two options in response to the Commission’s order; disagree with the mandate to allow real time self provision of losses and seek rehearing, or concede to implement real time self provision of losses and seek an extension of time in which to implement regional scheduling agent functionality. Both options will require significant and similar justification in a filing with the Commission.

Requirements for Real Time Self Provision of Losses

As SPP stated in its filing, real time self provision of losses within a multi control area region has yet to be done. Aside from becoming a single control area at very significant cost, SPP’s only option to allow real time self provision of losses is to serve as a scheduling agent for **this energy on behalf of** its twelve control areas with transmission facilities under the regional tariff. The Security Working Group and the Regional Pricing Working Group are already considering this functionality to provide other benefits that could justify related cost and effort. A related recommendation is being presented at the October 21-22 Engineering & Operating Committee to pursue research and development following member consent. Staff prepared a budget for scheduling agent and real time self provision of losses functionality that includes;

- One time \$500~~350~~,000 for scheduling software development (1/4~~2~~ in Q3 & Q4 1999, 1/4 in Q1 & Q2 2000),
- ~~One time \$200,000 for losses software development (1/4 in Q3 & Q4 1999, 1/4 in Q1 & Q2 2000), and~~
- ~~Annual recurring \$500,000 for employees (one information technology specialist beginning Q1 1999 and a scheduling coordinator shift position of five persons beginning Q2 2000).~~

Though there would also be individual control area costs to fully automate scheduling within their energy management system computers, Staff recommends that initial implementation occur by sending messages to control areas via SPP’s Computer Communication System. This approach is similar to what is now done with operating reserve sharing schedules where control areas manually enter schedules into their energy management systems and then acknowledge receipt of the message. Specification, development and implementation of these processes are optimistically estimated to take 18 months from approval.

Discussion

The question fundamentally posed to SPP members and the Board of Directors is whether it is desirable and expected for SPP to become a regional scheduling agent at some time in the future. As discussed above, consideration has already been given to scheduling agent functionality. However, this discussion was in the context of other needs and benefits and would have been the result of member concurrence that benefits justified the cost, rather than response to a Commission order to resolve an issue that does not singularly justify such expense. Regardless, if SPP concedes to the inevitability of regional scheduling agent functionality at some time in the future, disagreeing with the mandate and

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seeking rehearing would be wasted effort except to attempt delaying implementation. The success of being granted rehearing and the outcome of such rehearing on this issue is questionable given the Commission's long standing position on customer self provision of losses, which SPP conceded was theoretically correct but practically complex in proposing the interim approach. Rehearing can also bring other uncertainties due to other issues being called to into question during the process. Conceding to implement real time self provision at some designated time in the future commits SPP to related expense now, without membership concurrence that benefits justify related cost. This is particularly an important issue when many members are weighing the benefits of continued membership in light of significant increasing cost. SPP is continuing to work on assigning tariff related costs to transmission service customers to reduce member burden and Staff would seek joint participation by ERCOT and the Midwest ISO in scheduling agent and real time self provision of losses costs.

Recommendation

The RPWG recommends that SPP file with the Commission a request for an extension of time to June 1, 2000 to implement customer self provision of losses in real time. By doing so, SPP is committing to becoming a regional scheduling agent for ~~ALL~~ **loss energy** transactions involving control areas with facilities under its regional transmission service tariff at the costs described above.

Approved: Regional Pricing Working Group September 17, 1998

Action Requested: Approve Recommendation

Mr. Brown then explained that the reason for the alternative proposal was based on several conversations with members of the Board of Directors related to concerns about scheduling agent functionality for "all" transactions. These concerns included; doubt in SPP's ability to implement by June 1, 2000 given project complexity, doubt in SPP's ability to implement within the specified software costs, doubt in SPP's ability to implement with the proposed personnel, and doubt in SPP's ability to sufficiently automate processes given the complex nature of grandfathered transactions under individual transmission provider tariffs. Mr. Brown stated that it was clear to him from these conversations that, without modification of the proposed action, the recommendation would likely fail to receive Board of Directors concurrence and SPP would be faced with seeking rehearing of the order. Mr. Brown then explained that the logic behind the recommendation for regional scheduling agent functionality for all transactions, rather than just transactions due to regional tariff loss energy, was due primarily to the desire by transmission providers to reduce administrative overheads if SPP were going to spend significant money implement this functionality. Given that the RPWG recommendation was developed the next day following FERC's order, Staff and the RPWG had not had time to adequately consider all possible responses to the order or to consider the concerns subsequently raised by members of the Board of Directors.

Mr. Deihl then asked about the feasibility of seeking rehearing. Mr. Brown referred to the pros and cons of this action discussed in the RPWG report and Mr. Carraway stated that the rehearing process would likely cost more than the proposed implementation plan. Mr. Hayslip questioned the deliberation process where the

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RPWG recommendation was being altered by Staff based on discussion with individual members of the Board of Directors. Mr. Brown stated that the recommended modifications did not come without serious consideration of the RPWG's intent and full discussion with RPWG Chair Mr. Dick Dixon. Mr. Dixon stated that the intent of the RPWG was implement real time self provision of losses and developed the recommendation based on their belief that SPP could handle ALL transactions within the context of personnel and software necessary for scheduling loss energy transactions only. Mr. Hayslip then asked whether the reduction in software process complexity would allow sooner implementation. Mr. Brown stated strong preference for maintaining the June 1, 2000 implementation date because; the Security Working Group's task force must develop detailed specifications for software that is custom and state-of-the-art, a vendor must be selected to develop this new software, the software must be developed, installed and tested, and members must be trained on the new scheduling processes. Mr. Brown stated that to implement earlier with existing staff that are already overworked and behind schedule on more important tasks, and with year 2000 problems looming, would be unwise. Mr. Hayslip expressed his displeasure at the apparent lack of moving forward expeditiously on an issue with such equity ramifications.

Following additional discussion Mr. Perkins motioned and Mr. Voigt seconded that the RPWG recommendation, as modified per earlier discussion, be approved to guide Staff action. Mr. Zemanek then asked for a roll call vote on the motion. The motion passed with 11 votes in favor and two votes in opposition (Messrs. Deihl and Hayslip).

Mr. Zemanek then asked if there was any additional business before the Board of Directors at this time. Mr. Brown stated that Western Resources filed a complaint with the Federal Energy Regulatory Commission on September 21, 1998 (EL98-76) charging that the Mid-Continent Area Power Pool is violating Order No. 888 by denying regional transmission service to non-MAPP members. Mr. Brown stated that SPP's original regional tariff approved by the Board of Directors contained a reciprocal service clause limiting MAPP member use of SPP's tariff unless MAPP regional service was afforded to SPP members. FERC's order on SPP's tariff struck this clause as unnecessary due to Order 888 requirements – however, FERC has yet to act on MAPP's 888 compliance filing. Nick recommended that SPP intervene in this docket in support of Western Resources' position, suggesting that this is consistent with previous Board of Directors action regarding regional open transmission access. Following little additional discussion, Mr. Carraway motioned and Mr. McKinney seconded that SPP intervene in this docket in support of Western Resources complaint. With no further discussion this motion passed unopposed.

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With no further business, the meeting was adjourned at 10:04 a.m.

John Marschewski, President
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