

**Southwest Power Pool
BOARD OF DIRECTORS MEETING
Embassy Suites – Outdoor World - Dallas, Texas
February 14, 2000**

- Summary of Action Items -

1. Approved minutes of the November 8-9, 1999 meeting as previously distributed.
2. Approved SPP filing comments in FERC Docket No. RM00-7-000 related to assessment of costs to jurisdictional entities seeking clarification of how non-jurisdictional entities were to be treated within a regional tariff.
3. Approved changing the Retail Market Settlement Process Task Force to a permanent Working Group reporting to the Commercial Practices Committee (initially with the same roster and chair) with the responsibility to evaluate, design new processes, request bids, and oversee the implementation of the necessary changes to the wholesale scheduling, settlement, and ancillary services processes necessary to implement retail open access and RTO operations.
4. Approved a budget of \$1.1 million to be incrementally added to SPP's 2000 Administrative Budget with cost recovery consistent with current policy and also approved modification of SPP's Bylaws and Regional Tariff to collect all administrative costs through transmission service fees, except for revenue received from a nominal annual membership fee.
5. Approve the SPP organizational group leadership positions and NERC representatives.
6. Approved action that: "SPP will continue current efforts to aggressively pursue FERC recognition as an RTO without MISO consolidation at this time; SPP will begin work on developing strong cooperative agreements with neighboring RTO's to create seamless trading areas in accordance with FERC Order 2000; and SPP will continue searching for opportunities that produce immediate economic efficiencies and quickly resolve seams issues."

**Southwest Power Pool
BOARD OF DIRECTORS MEETING
Embassy Suites Outdoor World – Grapevine, Texas
February 14, 2000**

Agenda Item 1 - Administrative Items

SPP Chair Mr. Gary Voigt called the meeting to order at 10:00 a.m., thanked everyone present for attending and called for a round of introductions. The following Board members were in attendance or represented by proxy:

- Mr. Gene Argo, Midwest Energy, Inc.;
- Mr. David Christiano, City Utilities of Springfield, MO;
- Ms. Kim Casey, Dynegy Marketing & Trade;
- Mr. Jimmy Crosslin, Oklahoma Corporation Commission;
- Mr. Harry Dawson, Oklahoma Municipal Power Authority;
- Mr. Michael Deihl, Southwestern Power Administration;
- Mr. Tom Grennan, Western Resources;
- Ms. Trudy Harper, Tenaska Power Services Company;
- Mr. Myron McKinney, Empire District Electric Company;
- Mr. Stephen Parr, Kansas Electric Power Co.;
- Mr. J. M. Shafer, Western Farmers Electric Cooperative;
- Mr. Al Strecker, proxy for Mr. Steve Moore, OG+E;
- Mr. Gary Voigt, Chair, Arkansas Electric Cooperative Corp.;
- Ms. Lydia Vollmer, PECO Power Team;
- Mr. Robert Zemanek, Central and South West Corp.; and
- Mr. John Marschewski, Southwest Power Pool, Inc.

There were 26 persons in attendance representing 18 members, 1 guest and 1 regulatory agency. In addition to the Board members, the following persons were also in attendance: Messrs. Dick Dixon and Tom Bozeman (WERE); Messrs. Mel Perkins and Melvin Bowen (OKGE); Mr. Keith Sugg (AREC); Mr. Rick Henley (Jonesboro); Mr. Larry Kline (KEPCo); Ms. Christine Ryan (ETEX Coops); and Mr. Nick Brown (SPP). The Secretary received one proxy statement (Proxy – Attachment 1).

Mr. Voigt referred to draft minutes of the November 8-9, 1999 Meeting (11/8-9/99 Meeting Minutes - Attachment 2) and asked for necessary corrections or a motion for approval. Mr. Zemanek motioned that the minutes be approved as distributed. Ms. Casey seconded this motion, which passed unopposed.

Mr. Voigt referred to the full agenda (Agenda – Attachment 3) and stated that while the intent from the November 9, 1999 board meeting was for SPP/MISO consolidation discussions to occur in the open, the Board must discuss this agenda item executive session because of MISO requirements that their due diligence information be treated confidentially. As such, Mr. Voigt stated that agenda item 4 would be deferred until the end of the meeting.

Agenda Item 2 – Regulatory Update

RTO Filing

Mr. Voigt asked Mr. Brown to give an update on FERC activities. Mr. Brown reported that SPP filed for FERC recognition as an RTO/ISO on December 30, 1999 pursuant to action taken by the Board at their November 9, 1999 meeting. Mr. Brown stated that FERC originally assigned Docket No. ER00-975 and later changed it to EL00-39, supposedly to alleviate their 60-day response obligation. Mr. Brown noted that 9 relatively minimal protests were submitted primarily focused on stakeholder governance, lack of Section 203 filings, minimal regional scope, and absence of the tariff with the filing. Mr. Brown noted that SPP filed an answer to these protests on February 3, 2000 and would not be answering a late protest submitted on behalf of the Arkansas, Missouri and Kansas regulatory commissions. Mr. Brown concluded his RTO report by stating that he tentatively plans to attend three of the five regional RTO workshops sponsored by FERC – specifically the workshops in Cincinnati, Kansas City and Atlanta.

SPP Administrative Fee

Mr. Brown noted that with SPP's comprehensive tariff filing (Docket No. ER99-4392), SPP requested an interim administrative fee of 5 cents per MWh for network service customers as an incentive to place bundled retail load under the regional tariff. The proposal was protested by several intervenors and FERC rejected the approach. As such, Mr. Brown stated that the current 20 cents per MWh was a strong disincentive to these customers. To spur discussion, Mr. Brown distributed information on various fee scenarios (Administrative Fee Scenarios – Attachment 4) and solicited input on ways to deal with this problem. Mr. Brown stated that he would be coordinating further work on this issue with the Regional Tariff Working Group.

FERC Cost Allocation NOPR

Mr. Brown then reported that FERC issued a notice of proposed rulemaking on January 28, 2000 (Docket No. RM00-7-000) related to assessment of their costs to jurisdictional entities. Mr. Brown stated that the notice left unclear how the assessment would apply to regional entities such as SPP and he suggested that SPP file comments seeking clarification of how non-jurisdictional entities were to be treated. Following discussion, the Board of Directors agreed for Staff to develop such comments and allow membership comment on a draft prior to filing with the FERC.

Third Party Impact Charge Complaint

Finally, Mr. Brown reported that the FERC had dismissed SPP's complaint (Docket No. EL99-95) against Sunflower and Utilicorp for failure to pay other SPP transmission owners for impacts due to their transactions under the MAPP regional tariff. Mr. Brown noted that FERC found SPP's tariff unambiguous, and regardless of SPP's intent, these parties were not liable for the charges. Mr. Brown stated that he had released the

escrowed monies and started the process to rebate monies paid in good faith by Kansas City Power & Light. Mr. Brown stated that FERC left the door open to collect certain monies, but the order was more ambiguous than SPP's tariff language, besides the fact that SPP never intended that these other parties be liable for the charges, and that such charges would be levied as much as eighteen months after the fact. Mr. Brown stated that he was seeking a waiver to collect these monies from the four parties empowered to negotiate this issue on behalf of all transmission owners and that he had received such a waiver from 3 of the 4.

Agenda Item 4 – Retail Market Settlement Process Task Force Report

Mr. Voigt then asked Mr. Sugg to present the Retail Market Settlement Process Task Force (RMSPTF Report – Attachment 5) report and recommendations. Mr. Sugg noted that out of the eight states in which SPP has members, four have legislation mandating retail open access and Mr. Sugg distributed a timeline showing critical dates (Retail Access Timeline – Attachment 6). Mr. Sugg stated that since its inception on December 16, 1999 to develop and recommend a market settlement process that can be endorsed by SPP's Board of Directors and then be used to influence the debate in each relevant state, the group now believes that it is appropriate for SPP to perform the scheduling and settlement functions, and serve as provider of last resort of ancillary services in a retail open access environment.

Following discussion, of specific recommendations contained in the RMSPTF report, Mr. Zemanek motioned and Mr. Dawson seconded that the Board support these fundamental principles to influence debate in each relevant state:

- a. Independent operation of the transmission system;
- b. Scheduling administered by a party independent of the market participants;
- c. Settlement administered by a party independent of the market participants;
- d. A settlement structure that allows the market to develop its own solutions;
- e. Open access processes that recognize the developing nature of the market and support flexibility and rapid implementation of changes; and
- f. Processes conducive to open participation by market entrants.

This motion passed without opposition and with Mr. Deihl abstaining.

Following more discussion, Ms. Harper motioned and Ms. Vollmer seconded that the Board of Directors change the RMSPTF to a Working Group reporting to the Commercial Practices Committee (initially with the same roster and chair) with the responsibility to evaluate, design new processes, request bids, and oversee the implementation of the necessary changes to the wholesale scheduling, settlement, and ancillary services processes necessary to implement retail open access and RTO operations. This motion passed without opposition.

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[Secretary's Note - The RMSPTF roster consists of the following persons: Keith Sugg (AREC), Chair; Dave Davia (SWPS); Jake Langthorn (OMPA); Robin Kittel, ENRON; Hans Mertens (Williams); Gary Roulet (WFEC); Les Brown (OKGE); Wayman Smith (CSW); Mark Chesney (GRDA); and Richard Dillon (SPP).]

Agenda Item 5 – Market Settlement Functionality Budget Recommendation

Mr. Voigt then asked Mr. Brown to report on a Staff (Market Settlement Functionality Report – Attachment 7) recommendation that the Board of Directors approve the initial budget for implementation of market settlement processes related to RTO and state retail access requirements. Mr. Brown noted that due to time constraints on SPP's implementation of these functions, Staff had prepared an initial budget to allow for immediate added personnel. Mr. Brown added that the Retail Market Settlement Process Working Group, based on their final recommendations for Board consideration, would prepare a more refined budget. Mr. Brown noted that the recommended expenditures would be incrementally added to SPP's 2000 Administrative Budget with cost recovery consistent with current policy. Mr. Brown noted that with this action, Staff also recommended that the Board of Directors approve modification of SPP's Bylaws and Regional Tariff to collect all administrative costs through transmission service fees, except for revenue received from a nominal annual membership fee. Mr. Zemanek motioned and J.M. Shafer seconded that the Board of Directors approve Mr. Brown's recommendation.

During discussion, Mr. Brown offered as an alternative that the Board of Directors approve the initial budget with the incremental costs to be underwritten by members in states with retail access until such time as administrative fees can collect these costs from customers with retail choice, or some other funding mechanism approved by the Board of Directors at a later date. Mr. Christiano motioned an amendment to the main motion that the Board of Directors approve Mr. Brown's alternative scenario. This amending motion died for lack of a second.

Following additional discussion a roll call vote was taken on the main motion and it was approved with eight votes in favor, 3 votes in opposition (Messrs. Parr, Christiano and McKinney) and three abstentions (Messrs. Dawson and Deihl and Ms. Vollmer). Ms. Harper asked that the Bylaws be checked to verify that abstentions were not counted against a motion.

[Secretary's Note – Section 4.6.3 of the Bylaws on Board quorum and voting states "Decisions of the Board of Directors shall be by two-thirds majority vote of the directors present or represented by proxy *and voting*." Further, this emphasized language was added to prevent non-participation from blocking action and is consistent with *Robert's Rules of Order Newly Revised* with respect to the doctrine that representatives should not be compelled to cast a vote on a motion.]

Agenda Item 6 - Nominating Task Force Report

Mr. Voigt then asked Mr. Zemanek to present a report and recommendations of the Nominating Task Force.

Organizational Group Assignments

Mr. Zemanek noted that Section 3.3 of SPP's Bylaws requires that leadership terms of all organizational groups coincide with the term of the SPP chair and the positions are appointments made by the Board of Directors (NTF Report and Draft SPP Roster – Attachment 8). With the new chairmanship of Gary Voigt, Mr. Zemanek stated that the NTF reviewed draft copies of the SPP Directory and NERC organizational group representation by SPP members and does not recommend any changes at the working group or task force level. Mr. Zemanek added that the NTF was recommending that Ms. Kim Casey (Dynergy) be appointed as vice chair of the Commercial Practices Committee and also to serve as SPP's representative to the NERC Market Interface Committee beginning in June. Messrs. Marschewski and Dixon noted several additional changes to the directory. Mr. Zemanek then motioned the Board of Directors approve the SPP organizational group leadership positions and NERC representatives contained in the directory. Mr. Dawson seconded the motion that passed without opposition.

Non-Stakeholder Director Search Update

Mr. Zemanek referred to the NTF minutes (NTF 1/4/00 and 2/2/00 Minutes – Attachment 9) and reported SPP had retained Russell Reynolds Associates (RRA) to assist in the non-stakeholder director search for a fixed contract amount of \$190,000. Mr. Zemanek stated that the NTF will meet on February 21 to reduced the candidate list from 20 to 10 candidates (plus alternates) for subsequent personal interviews on February 29 and March 1. The final slate of 6 nominees will be presented to SPP's membership for election prior to the regular May meeting of the Board of Directors.

EXECUTIVE SESSION

Agenda Item 3 – SPP/Midwest ISO Combination Report

Mr. Voigt convened the meeting in Executive Session at 1:12 p.m. to discuss the SPP/Midwest ISO combination. While in executive session the Board of Directors unanimously approved the following action:

SPP will continue current efforts to aggressively pursue FERC recognition as an RTO without MISO consolidation at this time; SPP will begin work on developing strong cooperative agreements with neighboring RTO's to create seamless trading areas in accordance with FERC Order 2000; and SPP will continue searching for opportunities that produce immediate economic efficiencies and quickly resolve seams issues.

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The Board of Directors also directed Mr. Marschewski to immediately notify the membership of this action (Marschewski Letter – Attachment 10).

Agenda Item 7 – Adjournment

With no further business, Mr. Voigt thanked everyone for their participation and adjourned the meeting at 2:49 p.m.

Nicholas A. Brown, Corporate Secretary