

**Southwest Power Pool
BOARD OF DIRECTORS MEETING
Embassy Suites Hotel – Kansas City, Missouri
November 8-9, 1999**

- Summary of Action Items -

1. Approved minutes of the September 28, 1999 called meeting as distributed.
2. Approved and/or confirmed the following meeting schedule:

Tuesday, January 11, 2000	Dallas, Texas
Thursday, May 11, 2000	Tulsa, Oklahoma
Monday & Tuesday, November 6-7, 2000	Wichita, Kansas
Tuesday, May 8, 2001	Little Rock, Arkansas
Tuesday & Wednesday, November 6-7, 2001	Oklahoma City, Oklahoma
3. Approved a Commercial Practices Committee recommended Regional Tariff Working Group scope, combining the functions of the Tariff Operations Task Force with those of the Regional Pricing Working Group.
4. Approved an Engineering & Operating Committee recommendation for SPP to begin implementing a four-step process to allow SPP to act as a scheduling agent for its member control areas.
5. Approved a Staff recommended repayment policy for tariff income shortfall that has been covered by SPP members.
6. Approved a Staff recommendation for SPP to file an answer opposing a motion made by PECO Energy Company - Power Team seeking a cease and desist order on electronic tagging pursuant to NERC Policy 3 - Interchange.
7. Approved a Staff recommendation for the addition to the SPP Staff of a Manager, Retail Services.
8. Approved a Finance Working Group recommended 2000 SPP administrative budget of \$11,592,400.
9. Approved Employee Benefits Working Group recommendations of: A 4.3% merit increase for the SPP Staff for 2000; A defined contribution match of 75 cents on the dollar up to 6% of salary; and modifications of EBWG responsibilities as contained in Section 5.3 of the SPP Bylaws.
10. Approved a letter agreement for execution by the President on the ultimate combination of SPP and the Midwest ISO.
11. Elected Mr. Gary Voigt chair and Mr. Tom Grennan vice chair.
12. Approved the filing by SPP Staff of existing SPP documents with the FERC seeking their recognition of SPP as an ISO under existing rules and as a RTO upon FERC issuance of such a rule.

**Southwest Power Pool
BOARD OF DIRECTORS MEETING
Embassy Suites Hotel – Kansas City, Missouri
November 8-9, 1999**

MONDAY

Agenda Item 1 - Administrative Items

SPP Chair Mr. Bob Zemanek called the regular meeting to order at 2:05 p.m., thanked everyone present for attending and referred to a full agenda (Agenda – Attachment 1). Mr. Zemanek then called for a round of introductions. The following Board members were in attendance or represented by proxy:

Mr. Mike Apprill, UtiliCorp United,
Mr. David Christiano, City Utilities of Springfield, MO,
And proxy for Mr. Marvin Carraway, City of Clarksdale, MS,
Mr. Jimmy Crosslin, Oklahoma Corporation Commission,
Mr. Michael Deihl, Southwestern Power Admin.,
Mr. Tom Grennan, Western Resources
Ms. Trudy Harper, Tenaska Power Services Company,
Mr. Darrell Hayslip, Calpine Corporation,
Mr. Henry Janhsen, proxy for Mr. David Wilks, Southwestern Public Service,
Mr. Myron McKinney, Empire District Electric Company,
Mr. John McNish, Kansas Corporation Commission,
Mr. Mel Perkins, Engineering & Operating Committee Chair
Mr. J. M. Shafer, Western Farmers Electric Cooperative,
Mr. Al Strecker, proxy for Mr. Steve Moore, OG+E,
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.

There were 33 persons in attendance representing 23 members and 2 regulatory agencies (Attendance List - Attachment 2). Four proxy statements were received by the Secretary (Proxies - Attachment 3).

Mr. Zemanek referred to draft minutes of the September 28, 1999 Meeting (9/28/99 Meeting Minutes - Attachment 4) and asked for necessary corrections or a motion for approval. Mr. Shafer motioned that the minutes be approved as distributed. Mr. Deihl seconded this motion which passed unopposed.

Mr. Zemanek then referred to the meeting background material for future meeting information (Future Meetings - Attachment 5). Mr. Janhsen motioned and Mr. Hayslip seconded that the proposed meeting schedule be approved. This motion passed unopposed.

Mr. Zemanek then asked Mr. Marschewski to give a President's report. Mr. Marschewski reported that Avista and City of Sikeston, MO had given notice prior to the October 31 deadline of intent to withdraw from SPP membership at the end of the year.

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Mr. Marschewski then noted that nearly all investor-owned, cooperative, municipal, federal, state, and IPP members have executed the new membership agreement. However, Mr. Marschewski stated that many marketers have yet to execute the new agreement and that Staff would be following up with these members for execution prior to the end of the year. If members fail to execute the new membership agreement, the Board of Directors may be faced with termination proceedings for violation of the bylaws.

Mr. Brown, as corporate secretary, then reported results of an email vote of the Board of Directors for the record. Mr. Brown stated that the Board of Directors asked to ratify final modifications of the January 1, 2000 Bylaws and the Comprehensive Tariff that were approved at their July 20, 1999 meeting. Mr. Brown reported that these documents were approved by the Board of Directors via email vote with a final tally of 13 votes in affirmative, 1 vote opposed, and 3 abstentions.

Agenda Item 2 - Commercial Practices Committee Report

Mr. Zemanek asked Mr. Sherman to present recommendations from the Commercial Practices Committee. Mr. Sherman referred to the Commercial Practices Committee report and draft scope of the Regional Tariff Working Group (CPC Recommendation & RTWG Scope - Attachment 6). The recommendation involves combining the Regional Pricing Working Group and Tariff Operations Task Force responsibilities. The basic intent is to apply a new name and broadened responsibilities to the existing Regional Pricing Working Group. Tariff Operation Task Force issues will be forwarded to the new Regional Tariff Working Group. Mr. Zemanek accepted Mr. Sherman's recommendation in the form of a motion, that the Regional Tariff Working Group scope be accepted as recommended. Mr. Deihl seconded the motion and it passed unopposed.

Agenda Item 3 - Engineering & Operating Committee Report

Mr. Zemanek then asked Mr. Perkins to report on Engineering & Operating Committee (EOC) activities. Mr. Perkins stated that the EOC was bringing a specific recommendation on an implementation process for SPP to perform regional scheduling functions and referred to the background materials for a related written report (EOC Recommendation & Proposal - Attachment 7). Mr. Perkins stated that added pressures on Control Areas and Transmission Providers caused the Security Working Group to charge a Scheduling Task Force (STF) to determine if there are advantages for SPP to act as a Scheduling Agent. The STF believes that SPP should implement scheduling agent functionality in a staged approach to allow changes at each incremental step with maximum flexibility and minimal costs as NERC and regulatory requirements change. The STF report outlines a four-step process, which starts at the current level of SPP involvement and concludes with the SPP being involved with the scheduling of power under retail access. Each step builds on the work done under previous steps. The

work in each step would be coordinated with any changes in E-tagging and OASIS specifications.

In discussing the four-phase implementation process, Mr. Perkins noted that specific details on phases two-four would be developed by the Scheduling Task Force of the Security Working Group and would require EOC approval prior to implementation of each phase by the Staff. Mr. Perkins then motioned and Ms. Harper seconded that the Board of Directors approve the EOC recommended process for implementation of regional scheduling functionality. Specifically, the Engineering & Operating Committee recommends that the Board of Directors approve SPP beginning to implement a four-step process to allow SPP to act as a scheduling agent for its member control areas. The estimated 2000 budget needed for the first two steps is \$720,000. \$400,000 of this would be one time computer programming costs and modifications to the coordination center; the remainder would be increased personnel (one schedule supervisor, one 6-man shift and two IT support personnel). Estimated on going costs would be \$720,000/yr through stage three. Stage four may require additional staff. These expenses would be recovered from a scheduling fee. The specifications would be written by the STF, and approved by the SWG and EOC for each stage before any expenditure is made or any personnel hired. Following discussion this motion passed unopposed.

Agenda Item 4 - Tariff Income Repayment Policy

Mr. Zemanek then asked Mr. Marschewski to report on a Staff proposed repayment policy for tariff income. Mr. Marschewski noted that members have been providing a loan to transmission customers by covering the residual of SPP monthly expenses when the tariff does not recover its allocated percentage, currently 80%. Mr. Marschewski noted that the Staff has booked these dollars and expects to be able to start pay back in 2000. Mr. Marschewski reported that in the 2000 SPP proposed administrative budget, Staff estimates tariff income in 2000 to be \$13,000,000. Projected monthly tariff income exceeds eighty percent of monthly expenses beginning in the 2nd quarter of 2000. Mr. Marschewski proposed a policy for repayment of the tariff income shortfall loan (Repayment Policy & Table - Attachment 8) and recommended its approval by the Board of Directors. Mr. Zemanek accepted this recommendation in the form of a motion. Mr. Perkins seconded the motion, which passed unopposed.

Staff Recommendation on FERC Filing

Mr. Zemanek then asked Mr. Brown to report on a Staff recommendation for SPP to file an answer to a motion made by PECO Energy Company - Power Team seeking a cease and desist order on electronic tagging pursuant to NERC Policy 3 - Interchange. Mr. Brown distributed a background report (FERC Filing Report - Attachment 9) on the issue and stated that electronic tagging was critically needed by SPP in support of its

automated tariff administration processes. Mr. Brown then asked Ms. Lydia Vollmer of the PECO Power Team to comment on the issue. Ms. Vollmer summarized the PECO filing and concluded her statement by agreeing that the problems were not found in the SPP region. Mr. Brown then recommended that the Board of Directors approve SPP filing an answer to PECO's motion and ask the FERC to deny the motion. Mr. Christiano motioned and Mr. Wells seconded that SPP make this filing. Following discussion, agreement was reached for Staff and counsel to work with Ms. Trudy Harper in developing this filing. Also, due to concern about filing a document without specific Board approval, agreement was reached that the Board of Directors would approve the final document by email vote prior to filing. Due to the tight timeline, Mr. Brown asked that this email vote be taken by passive approval - that is, if a vote is not received, approval is assumed. The Board of Directors concurred with this process and the motion was approved without opposition and with one abstention (Ms. Vollmer).

Agenda Item 5 – Retail Services Functionality

Mr. Zemanek then asked Mr. Brown to report on retail services functionality. Mr. Brown reported that retail access legislation has been enacted in Oklahoma, Arkansas and Texas and other states are currently in formative stages (Retail Services Report & Recommendation - Attachment 10). As a result SPP members have begun considering implementation implications and requirements for an independent organization to perform several infrastructure functions. SPP Staff investigated the formation of a SPP subsidiary to perform the independent organization functions contemplated in Texas and other state retail access legislation. Such subsidiary would be funded by a separate cost allocation based upon participating members.

SPP Staff has taken initial steps to get involved in the implementation processes in Oklahoma and Arkansas and now demands are greater than ever with Texas moving very aggressively toward sophisticated implementation with complex regional demands. Initial discussion has also indicated a strong need for immediate project management support within the SPP Staff. Though funding for this effort was to be handled through the proposed subsidiary, Mr. Brown stated that Staff and interested members recommend the hiring of a project manager as soon as possible to handle immediate needs and to coordinate the details of subsidiary formation. Mr. Zemanek accepted this recommendation in the form of a motion. Specifically, that the Board of Directors approve the addition to the SPP Staff of a Manager, Retail Services reporting to the Senior Vice President and Corporate Secretary at a 2000 incremental budgeted cost of \$140,000. Mr. Janhsen seconded the motion. Mr. Christiano made an amending motion that these costs be allocated to members within the states with retail access legislation. This amending motion died for lack of a second. During subsequent discussion, Mr. Brown noted that these costs were not included in the proposed budget and he agreed to book related costs in the event that the Board of Directors subsequently decides to roll these costs into any subsidiary that may be formed related

to retail services. Mr. Zemanek then called for a vote on the motion, which passed unopposed.

Agenda Item 6 – Finance Working Group

Mr. Zemanek then asked Mr. Mel Perkins for a report from the Finance Working Group (FWG), in the absence of FWG chair Mr. Gary Voigt. Mr. Perkins stated that the Staff developed the proposed 2000 administrative budget (SPP 2000 Budget - Attachment 11) based on potential action items within SPP's various organizational groups and internal Staff needs. Mr. Perkins then highlighted the significant modifications to the budget as compared to 1999 costs, which included; 14 new employees (9 related to scheduling functions), NERC Assessment and software purchases. Mr. Perkins then motioned that the Board of Directors approve the FWG's recommended 2000 administrative budget of \$11,592,400 for SPP, subject to other action of the Board of Directors on specific items. Mr. Christiano seconded this motion, which passed unopposed.

Agenda Item 7 – Recognition of SPP as Independent

Mr. Zemanek stated that the Board of Directors had considered the issue of SPP seeking recognition by the FERC as independent at the July 20 called meeting and agreed to reconsider the issue at this meeting (Recognition of SPP as Independent Report - Attachment 12). Mr. Zemanek presented various SPP organizational groups' recommendations and the actions that have followed in moving toward an ISO/RTO filing. Following discussion, agreement was reached to defer action on this issue until after discussion of Agenda Item 9, Regional Consolidation.

Agenda Item 8 – Employee Benefits Working Group

Mr. Zemanek then asked Mr. Mike Deihl to present Employee Benefits Working Group (EBWG) recommendations. Mr. Deihl stated that the EBWG is recommending that the Board of Directors approve a 4.3% merit increase for the SPP Staff for 2000 (Staff Merit Increase - Attachment 13) based on a report from Hewitt and Associates. Mr. Deihl then motioned that the recommendation be approved. Ms. Vollmer seconded the motion, which passed unopposed.

Mr. Deihl then stated that the EBWG is recommending that the Board of Directors approve a defined contribution match of 75 cents on the dollar up to 6% of salary (Change of Defined Contribution Match - Attachment 14), up from 50 cents on the dollar. Mr. Deihl motioned that the recommendation be approved. Mr. Shafer seconded the motion, which passed unopposed.

Finally, Mr. Deihl reported that the EBWG had received a legal review of its responsibilities as contained in SPP Bylaws and the various SPP benefit plans. Based on this review, Mr. Deihl stated that the EBWG is recommending that the Board of

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Directors approve modifications of their responsibilities and changes to Section 5.3 of the SPP Bylaws (EBWG Report & Recommendation - Attachment 15). Mr. Deihl then motioned that the Board of Directors approve the recommendation. Mr. McKinney seconded the motion, which passed unopposed.

Agenda Item 9 – Regional Consolidation

Mr. Zemanek convened the meeting in Executive Session at 4:35 p.m. to discuss regional consolidation (Regional Consolidation Report - Attachment 16). In this session, Ms. Vollmer motioned and Mr. Janhsen seconded that the Board of Directors approve a letter agreement for execution by the President on the ultimate combination of SPP and the Midwest ISO. This motion was approved with 1 vote in opposition and no abstentions. Mr. Zemanek concluded the discussion by stating that certainly there are significant issues yet to be resolved and while SPP can't make commitments on behalf of its individual members, this intended combination is a step in the right direction to meeting the needs of our members and customers.

Adjournment

The meeting was adjourned for the day at 5:55 p.m.

TUESDAY

Administrative & Other Items

Mr. Zemanek called the Board of Directors meeting back to order at 10:02 a.m. following the annual meeting of members.

Agenda Item 1 – Election of Chair & Vice Chair

Mr. Christiano motioned and Mr. McKinney seconded that the Board of Directors elect Mr. Gary Voigt chair and Mr. Tom Grennan vice chair. No other nominations were presented and the motion passed without opposition.

Recognition of SPP as Independent

Mr. Zemanek again raised the issue of SPP seeking recognition by the FERC as independent and stated that it was time for SPP to make this decision, one way or the other. SPP General Counsel Mr. Mike Small was asked to explain what modifications to SPP documents he thought would be necessary to receive FERC recognition as an ISO/RTO. Mr. Small mentioned the following items with respect to ISO recognition:

- A filing by jurisdictional entities under section 203 of the FPA transferring operational control of facilities to SPP,
- SPP acting as scheduling agent for all transactions within the region, and
- SPP approval of transmission ratings and maintenance.

Mr. Small mentioned the possibility of the following additional items with respect to RTO recognition based on FERC's RTO notice of proposed rulemaking:

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- Congestion management mechanism to trade transmission rights,
- Ancillary services market,
- Market monitoring functionality, and
- Energy imbalance market.

Following additional discussion, Mr. Grennan motioned and Ms. Harper seconded that SPP Staff file existing SPP documents with the FERC seeking their recognition of SPP as an ISO under existing rules and as a RTO upon FERC issuance of such a rule. Mr. Grennan noted that the FERC may very well notify SPP of the deficiencies as described by Mr. Small and that SPP should be ready to comply. Mr. Zemanek then called for a vote on the motion and it passed unopposed.

Adjournment

The Board of Directors agreed to a called meeting on Tuesday, January 11, 2000 at the Dallas/Ft. Worth Airport from 10 a.m. until 2 p.m. to discuss regional consolidation issues. With no further business, Mr. Zemanek thanked everyone for their participation and adjourned the meeting at 10:17 a.m.

Nicholas A. Brown, Corporate Secretary

**Southwest Power Pool
BOARD OF DIRECTORS MEETING & ANNUAL MEETING OF MEMBERS
1999 Fall Meeting – Embassy Suites Hotel – Kansas City, Missouri**

- A G E N D A -

MONDAY, NOVEMBER 8

2:00 – 5:00 p.m. – Board of Directors Meeting

1. Administrative Items Bob Zemanek
 - a. September 28, 1999 Meeting Minutes
 - b. Future Meetings
2. Commercial Practices Committee Report Max Sherman
 - a. Regional Tariff Working Group Scope
3. Engineering & Operating Committee Report Mel Perkins
 - a. Regional Scheduling Agent Functionality
4. Tariff Income Repayment Policy John Marschewski
5. Retail Services Functionality Nick Brown
6. Finance Working Group Report Gary Voigt
7. Recognition of SPP as Independent Bob Zemanek
8. Employee Benefits Work Group Report Mike Deihl
 - a. Staff Merit Increase
 - b. Defined Contribution Match
 - c. Employee Benefits Working Group Responsibilities – Bylaws Modification
9. Regional Consolidation John Marschewski

5:30 – 7:00 p.m. Reception

TUESDAY, NOVEMBER 9

7:15 a.m. – Continental Breakfast, 8:00 a.m. – Annual Meeting Of Members

1. Administrative Items Bob Zemanek
2. NERC Board of Trustees Report Gary Voigt
3. Regional Transmission Service Tariff Update Nick Brown
4. 1999 Operational Highlights Bill Phillips
5. Year 2000 Readiness Disclosure Carl Monroe
6. Generation Interconnection Procedures Mike Gevaza
7. Regional Consolidation Report Bob Zemanek
8. Election of Board of Directors J. M Shafer

10:30 a.m. – Board of Directors Meeting

1. Election of Chair & Vice Chair J. M. Shafer

**Southwest Power Pool
BOARD OF DIRECTORS MEETING
Embassy Suites/Kansas City Airport - Kansas City, Missouri**

November 8-9, 1999

ATTENDANCE LIST

Name	System
J. M. Thost	KCC
Jerry Cross	QCC
Al Streckee	OGTE
Ken Anderson	WFEC
Carroll Waggoner	SUNC
Mike Small	Wright + Jalisman
Dick Brown	SPP
May Sherman	Aquila
Stephen Parr	Kepco
Mike Deill	SWPA
Lydia Vellner	PECO
Mike Appill	Util
Dave Christianso	SPPM
Henry Jansen	SWPS
J. M. Shayer	WEFA

**Southwest Power Pool
BOARD OF DIRECTORS MEETING
Embassy Suites/Kansas City Airport - Kansas City, Missouri**

November 8-9, 1999

ATTENDANCE LIST

Name	System
John Marschewski	SPP
Bob Zemanek	CSW
Tom Grannas	WERE
Myron McKinney	EMDE
Judy Harper	Inaska
Bill Adams	DATE
Mel Perkins	DGT E
Darrell Hagship	Calpine
Larry Wells	Cleco
Tim Casey	Synergy
Dick Dixon	WERE
Kurtz Stoness	
Bill Phillips	SPP
Dave Macey	Util
Richard Tyler	

**Southwest Power Pool
BOARD OF DIRECTORS MEETING
Embassy Suites/Kansas City Airport - Kansas City, Missouri**

November 8-9, 1999

ATTENDANCE LIST

Name	System
<i>John Marschewski</i>	<i>SPP</i>
<i>Bob Zemanek</i>	<i>CSW</i>
<i>Tom Gennas</i>	<i>WERE</i>
<i>Myron McKinney</i>	<i>EMDE</i>
<i>Judy Harper</i>	<i>Inaska</i>
<i>Al Strecker</i>	<i>OGTE</i>
<i>Mel Perkins</i>	<i>OGTE</i>
<i>Darrell Hagship</i>	<i>Calpine</i>
<i>Larry Wells</i>	<i>Cleco</i>
<i>Kim Casey</i>	<i>Synergy</i>
<i>Dick Dixon</i>	<i>WERE</i>
<i>Kurtz Stoners</i>	
<i>Bill Phillips</i>	<i>SPP</i>
<i>Dave Macey</i>	<i>Util</i>
<i>Richard Tyler</i>	

Steven E. Moore
Chairman, President and
Chief Executive Officer

OGE Energy Corp.
PO Box 321
Oklahoma City, Oklahoma 73101-0321
405-553-3203
www.oge.com



November 2, 1999

Mr. John Marschewski
President
Southwest Power Pool
415 North McKinley
#700 Plaza West
Little Rock, Arkansas 72205-3020

Dear John:

Al Strecker will be attending the Board of Directors meeting on November 8, 1999 and has been given the authority to vote in my absence.

Please let me know if anything further is required.

Sincerely,

Steve Moore / dp



**NEW CENTURY
ENERGIESSM**

**PUBLIC SERVICE
COMPANY OF COLORADOSM**

**SOUTHWESTERN
PUBLIC SERVICE COMPANYSM**

**CHEYENNE LIGHT
FUEL & POWERSM**

DAVID M. WILKS
President, Delivery Services

PO Box 1261
Amarillo, Texas 79170
Telephone **806.378.2418**
Fax 806.378.2995

October 25, 1999

John Marschewski, President
Southwest Power Pool
415 N. McKinley @ Lee
Plaza West Bldg. #700
Little Rock, AR 72205-3020

Dear John:

Due to other business commitments, I will not be able to attend the November 9, 1999, Southwest Power Pool meeting.

Henry Janhsen will attend in my absence. Attached is a proxy giving Henry authority to vote in my stead.

Should you have any questions, please contact me at (806) 378-2418.

Sincerely,

A handwritten signature in cursive script that reads 'David M. Wilks'.

David M. Wilks

DMW/da

PROXY

The undersigned hereby nominates and appoints Henry Janhsen who will be present at the November 9, 1999, meeting of the Board of Directors, Southwest Power Pool, to be the proxy of the undersigned according to the number of votes the undersigned would be entitled to cast if personally present, upon any and all matters and questions which may come before said meeting, including particularly, but without limitation of the generality of the foregoing, the matters and questions referred to in the notice of said meeting, with full power of substitution and revocation, hereby ratifying all that said proxy may lawfully do or cause to be done, by virtue hereof. This appointment shall cover any and all adjourned sessions of said meeting.

A handwritten signature in black ink, appearing to read "David M. Wilks", written over a horizontal line.

David M. Wilks 10/25/99



Cleco Corporation

2030 Donahue Ferry Road

PO Box 5000

Pineville, LA 71361-5000

Tel 318 484-7659

Fax 318 484-7777

David M. Eppler

President & Chief Operating Officer

October 26, 1999

Mr. John Marschewski
President
Southwest Power Pool
#700 Plaza West
415 McKinley Street
Little Rock, AR 72205-3020

Dear John:

I will be unable to attend the executive session meeting of the Southwest Power Pool Board of Directors on November 8 & 9, 1999, in Kansas City. I am giving Larry R. Wells, Vice President Transmission Services, Cleco Corporation, my proxy for voting purposes at the meeting.

Sincerely,

A handwritten signature in black ink, appearing to read "David M. Eppler". The signature is fluid and cursive.

David M. Eppler

jm

cc: Mr. Nick Brown
Mr. Gregory L. Nesbitt
Mr. Larry R. Wells

CLARKSDALE PUBLIC UTILITIES

416 THIRD STREET • P. O. Box 70 • CLARKSDALE, MS 38614
601-627-8403 • FAX 601-627-8404

MARVIN L. CARRAWAY
GENERAL MANAGER

November 5, 1999

Mr. Robert Zemanek, Chairman
SPP Board of Directors
c/o Southwest Power Pool
415 North McKinley, #700 Plaza West
Little Rock, AR 72205-3020

Re: Proxy

Dear Bob:

I have had additional surgery and I am confined to bed rest for a short period. Please accept this as my proxy for David Christiano. I have discussed the Board package with Dave and he understands my position.

Thanks for your cooperation.

Very truly yours,



Marvin L. Carraway, P.E.
General Manager

MLC:tb

**Southwest Power Pool
BOARD OF DIRECTORS MEETING
Dallas / Ft. Worth Airport Hyatt Hotel
September 28, 1999 Called Executive Session Meeting**

SPP Chair Mr. Robert Zemanek brought the called meeting to order at 9:56 a.m. and thanked everyone for attending the called meeting. The following Board members were in attendance or represented by proxy:

Mr. Mike Apprill, UtiliCorp United,
Mr. David Christiano, City Utilities of Springfield, MO
Mr. Roland Dawson, OK Muni. Power Authority,
Mr. Michael Deihl, Southwestern Power Admin.,
Mr. Dick Dixon, proxy for Mr. Tom Grennan, Western Resources,
Ms. Trudy Harper, Tenaska Power Services Co., and proxy for Ms. Lydia Vollmer, PECO Power Team,
Mr. Henry Jahnsen, proxy for Mr. David Wilks, Southwestern Public Service,
Mr. Myron McKinney, Empire District Electric Co.,
Mr. Errol Ortego, proxy for Mr. Marvin Carraway, City of Clarksdale, MS,
Mr. Mel Perkins, Engineering & Operating Committee Chair
Mr. J. M. Shafer, Western Farmers Electric Cooperative,
Mr. Al Strecker, proxy for Mr. Steve Moore, OK Gas & Electric Co.,
Mr. Gary Voigt, Arkansas Electric Cooperative, Corp.,
Mr. Larry Wells, proxy for Mr. David Eppler, Cleco Corp.,
Mr. Robert Zemanek, Chair, Central and South West Corp., and
Mr. John Marschewski, President, Southwest Power Pool.

Non-Board members in attendance were Mr. Nick Brown, SPP Vice President & Corporate Secretary, and Mr. Mike Small, SPP General Counsel. Mr. Darrell Hayslip, Calpine, was unable to attend or to be represented by proxy. The Secretary received six proxy statements as indicated above. With all but one Board member present or represented by proxy a quorum was established.

While in executive session, the Board of Directors took the following actions:

1. Approved without opposition the July 20, 1999 Board of Directors meeting minutes as distributed to the membership on July 27, 1999;
2. Supported without opposition the continuation of discussion between SPP leadership and the leadership of the Midwest Independent System Operator, Inc. to develop specific details on the combination of the two organizations for further consideration by the respective boards of directors;
3. Approved without opposition a SPP salary structure recommended by the Employee Benefits Working Group to become effective October 1, 1999; and
4. Approved without opposition a Central & South West recommendation that Staff investigate the formation of a SPP subsidiary to perform the independent organization functions contemplated in Texas Senate Bill 7 and other state retail access legislation. Such subsidiary would be funded by a separate cost allocation based upon participating members. The Staff is to report their findings and recommendations at the November 8, 1999 Board of Directors meeting.

With no further business, Mr. Zemanek thanked everyone for their active participation and adjourned the meeting at 1:28 p.m.

- Nicholas A. Brown, Corporate Secretary

**Southwest Power Pool
BOARD OF DIRECTORS
1999 Fall Meeting
Staff Recommendations**

Future Meeting Schedule

Background

The following dates and locations have been approved for future Board of Directors meetings:

Thursday, May 11, 2000	Tulsa, Oklahoma
Monday and Tuesday, November 6-7, 2000	Wichita, Kansas
Tuesday, May 8, 2001	Little Rock, Arkansas

Recommendation

Set the date and location for the fall 2001 meeting to:

Tuesday and Wednesday, November 6-7, 2001	Oklahoma City, Oklahoma
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Action Requested: Approve Recommendation

**Southwest Power Pool
BOARD OF DIRECTORS
1999 Fall Meeting
Commercial Practices Committee Recommendations**

Regional Tariff Working Group Scope

Background

At their February 4-5, 1999 meeting the Commercial Practices Committee agreed to the formation of a Tariff Operations Task Force (TOTF) to advise the Staff on market related issues needing immediate decisions and to explore ways to improve ease of scheduling transmission service. Staff was seeking direction on market related implementation issues that were not specified in the tariff and had no impact on system security or tariff terms, conditions or rates. Because tariff implementation issues generally impact both reliability, market and rate concerns, confusion has occurred within the TOTF on their authority and how conflicts between the TOTF and the Security Working Group and Regional Pricing Working Group should be resolved to minimize back and forth steps on certain issues. Though several issues could be resolved by the RPWG and are within the RPWG's scope, the RPWG had been extremely busy on development of future tariff revisions under direction of the ISOTF.

At their June 7-8, 1999 meeting the Commercial Practices Committee approved a recommendation that the TOTF be recreated as a working group with balanced representation between customers and providers. Because functional responsibilities of this new group may conflict with the RPWG scope, a detailed scope statement was to be developed by Max Sherman (CPC Chair), Trudy Harper (TOTF Chair and CPC Vice Chair), Dick Dixon (RPWG Chair) and Nick Brown (Staff) prior to seeking Board of Directors approval of adding this proposed working group. Because this scope statement was not developed prior to the Board of Directors July 20, 1999 meeting, the agenda item was deferred.

Recent Activity

Staff had prepared several scope documents to facilitate discussion on group responsibilities. Discussion of these documents by the TOTF at their September 7, 1999 meeting led to the development of a recommendation from the TOTF that RPWG and TOTF responsibilities be combined and handled by a single working group - the Regional Tariff Working Group (RTWG). The basic intent in this action is to apply a new name and a broadened scope of responsibilities to the existing RPWG. TOTF outstanding issues will be forwarded to the new RTWG for consideration, and include:

- Revenue credits for true source to sink scheduling,
- Friday for Monday business reservations,
- Use of counterflows in determining commercially viable ATCs, and
- Utilization of tags as schedule confirmation.

Prior to taking specific action on this recommendation, the CPC agreed that the RPWG should be given an opportunity to comment on the scope. The RPWG has since provided input and concurred with the scope document.

Recommendation

The TOTF and the RPWG recommends that the Commercial Practices Committee approve the attached Regional Tariff Working Group scope for recommendation to the Board of Directors.

Approved: To be officially acted on by the Commercial Practices Committee November 2, 1999.

Action Requested

Approve recommendation.

**Southwest Power Pool
Regional Tariff Working Group
Charter
DRAFT – October 20, 1999**

PURPOSE

The Regional Tariff Working Group (RTWG) is responsible for development, recommendation, overall implementation and oversight of SPP's open access regional transmission service tariff. The RTWG will further advise the Staff on regulatory or implementation issues not specifically covered by the tariff or issues where there may be conflict or differing interpretations of the tariff.

SCOPE OF ACTIVITIES

In carrying out its purposes, the RTWG will:

1. Meet periodically to review and discuss tariff implementation, service, cost recovery, regulatory filings and interventions, customer complaints, and Staff performance,
2. Advise and direct the Staff on market related issues needing immediate decisions,
3. Identify tariff enhancing modifications and recommend any such modifications for regulatory filings,
4. Identify areas where specific procedures need to be developed to guide Staff's implementation and work with Staff in the development of those procedures,
5. Work with Staff in providing training to transmission service customers on tariff implementation details,
6. Advise Staff on regulatory issues not specifically covered by the tariff or issues where there may be conflict or differing interpretations of the tariff,
7. Respond to special assignments from the Board of Directors,
8. Recommend resources necessary to administer the tariff for inclusion in SPP's administrative budget, and
9. Work with Staff and other SPP organizational groups to prioritize activities.

REPRESENTATION

RTWG membership will consist of a Chair, a Vice-Chair, and at least 8 at large representatives. Representatives will consist of an equal number of transmission customers under SPP's tariff and transmission owners with facilities under SPP's tariff. Representatives will also come from across SPP's service area and be representative of the diverse nature of SPP's members. The Board of Directors, following consultation with Commercial Practices Committee leadership, appoints RTWG membership and leadership. The issues confronting the RTWG are varied, numerous and changing with time. To handle these issues, task forces may be formed as needed by the RTWG Chair and may include members of other organizational groups or any representative of a member.

DURATION

SPP Working Groups are permanently assigned as outlined in the SPP Bylaws. Working Group representation will be reviewed for appropriateness by each new Chair of the Board of Directors. The term of the Chair of the RTWG shall coincide with the two-year term of the Chair of the Board of Directors. SPP Bylaws do not prevent renewal of the current Chair's term.

REPORTING

The RTWG reports to the SPP Commercial Practices Committee. The RTWG Chair will periodically report to the Commercial Practices Committee, Engineering & Operating Committee, and the Board of Directors, as required, on RTWG activities, assignments, and recommendations requiring approval.

MEETING PARTICIPATION

Per SPP Bylaws, RTWG meetings are open.

**Southwest Power Pool
BOARD OF DIRECTORS
1999 Fall Meeting
Engineering and Operating Committee Recommendation**

SPP As A Scheduling Agent

Background

Because of added pressures on Control Areas and Transmission Providers, the Security Working Group charged a Scheduling Task Force (STF) to determine if there are advantages for SPP to act as a Scheduling Agent. The STF discussed this issue and related costs and benefits. The STF produced a report summarizing their investigation progress and future work and this report is attached. The STF believes that SPP should implement scheduling agent functionality in a staged approach to allow changes at each incremental step with maximum flexibility and minimal costs as NERC and regulatory requirements change. The STF report outlines a four-step process, which starts at the current level of SPP involvement and concludes with the SPP being involved with the scheduling of power under retail access. Each step builds on the work done under previous steps. The work in each step would be coordinated with any changes in E-tagging and OASIS specifications.

Under its RTO NOPR, FERC indicated that the RTO or other independent body should handle energy balance and scheduling at a minimum. As SPP considers seeking FERC recognition as an ISO or RTO, it appears that SPP must also consider serving as a regional scheduling agent for its control areas. This would include at least all schedules under the regional tariff and all other schedules for Control Areas who have signed an agency agreement. SPP would also be capable of providing this service to all SPP Control Areas.

The immediate benefit received by control areas will be decreased workload for their operators. Reducing paperwork burden from the operators allows them to spend more time monitoring the system. Decreasing the number of times a schedule must be handled also reduces the chance of errors. Clerical and accounting staffs at the various control areas may not need to increase with the implementation of retail access as SPP handles more energy accounting functions.

Recommendation

The Engineering & Operating Committee recommends that the Board of Directors approve SPP beginning to implement a four-step process to allow SPP to act as a scheduling agent for its member control areas. The estimated 2000 budget needed for the first two steps is \$720,000. \$400,000 of this would be one time computer programming costs and modifications to the coordination center; the remainder would be increased personnel (one schedule supervisor, one 6-man shift and two IT support personnel). Estimated on going costs would be \$720,000/yr through stage three. Stage four may require additional staff. These expenses would be recovered from a scheduling fee. The specifications would be written by the STF, and approved by the SWG and EOC for each stage before any expenditure is made or any personnel hired.

Approved: Engineering & Operating Committee

October 15, 1999

Action Requested: Approve Recommendation

Proposal for SPP to Act As A Scheduling Agent

Overview

The SPP Scheduling Task Force (STF) has been charged by the Security Working Group (SWG) to review a proposal to have SPP act as a scheduling agent by defining how it would be accomplished, what are the benefits and costs to the membership and to what extent is it needed to implement the FERC order requiring simultaneous self-provision of losses and other regulatory mandates.

This proposal offers a staged implementation where SPP becomes more involved in the scheduling process and where each stage addresses scheduling issues with the final stage having SPP act as a scheduling agent on behalf of all SPP control areas (CAs). This staged implementation will be discussed with the STF and SWG to reach agreement on SPP involvement in each stage and the timing on going from one stage to the next stage. By agreeing on a staged approach and the requirements for each stage, this will ensure any work done on earlier stages will be compatible with future stages. Once agreement is reached on the stages and their timing, detailed design documents will be prepared.

This proposal identifies an approximate cost and anticipated benefits for each stage. The cost will be used for budget purposes.

Base Stage

SPP current involvement in the scheduling process:

- Review all regional tariff schedules. These schedules must be approved by SPP before CAs implement.
- Issue loss schedules. Currently have only two transmission customers that have elected to self-supply losses (limited activity from one customer and no activity from the other).

This forms the base scheduling activity that is currently being performed by SPP. The other stages supplement this base activity.

First Stage

SPP reviews all schedules that are either regional tariff schedules or schedules using transmission service sold by a SPP TP. In this stage, all SPP CA schedules must be approved by SPP before CAs implement. SPP will review all tagged schedules (including Joint Owned Units, dynamic schedules, and any tagged intra-CA schedules) to:

- Verify appropriate use of transmission service.
- Verify transmission capacity available to accommodate schedule (OASIS Automation will be used to make verification).
- Will also check for TLRs that affect schedule.

This first stage will be done with the existing staff and can be accomplished at a minimum level with only slight modifications to JTAG. At this minimum level, JTAG will be modified to have SPP as the approval TP for all tags where an Agency Agreement TP has sold transmission service and possibly tags where the SPP TPs that have not signed the Agency Agreement (CLEC, MPS, SECI, SPS and WPEK) have sold transmission service. The estimated cost to modify JTAG for this minimum level is under \$50,000.

At this minimum level, SPP will receive the tag and act on behalf of the TP who sold the transmission service. This means the TP who sold the service does not receive the tag for approval. However, the CAs that are listed as the source and sink do receive the tag. As part of the change to JTAG, SPP could also ask that both the TP that sold the transmission service and SPP receive the tag. In essence, SPP would be added to the list of TPs along the path and the tag would require the approval of both SPP and the TP that sold the service. This JTAG change would not significantly change the estimated cost of under \$50,000 to modify JTAG.

At a higher level of change, JTAG could be modified such that SPP will receive the tag as the approval TP and once SPP has approved the tag, it would then go-on to the TP who sold the transmission service for their approval. If SPP does not approve the tag, the tag does not get forwarded. The estimated cost to modify JTAG at this higher level is under \$100,000.

Another cost item to be considered is the use of OASIS Automation to verify whether the transmission system can accommodate the schedule. The original OASIS Automation concept always envisioned it would be used for both reserving and scheduling transmission service. If OASIS Automation is to be used for scheduling, there needs to be enhancements to the software. An estimated cost for these enhancements is \$150,000. This cost estimate assumes some form of cost sharing with another OASIS Automation user. At a minimum level of change, this feature may not be needed. However, this feature allows SPP to evaluate system reliability before approving a schedule. Without this change, SPP will rely on TLR or knowledge of system problems as its reliability criteria to approve a schedule.

If SPP commits to the minimum level of change to JTAG to implement Stage 1, this could be done in approximately 3 months (ready by January 1, 2000). The higher level of change would not be available until February 1 or March 1, 2000 and an enhanced OASIS Automation that could be used for scheduling would not be available until June 1, 2000.

Many of the checks made by SPP to verify appropriate use of regional transmission service are done automatically. The three checks that currently require manual review by a tariff administrator are:

- Whether the transaction is being held due to TLR.
- Whether the source and sink on the tag are appropriate with the source and sink on the reservation (will be different for secondary POR/POD).
- Whether the summation of all schedules that are using the same reservation exceed the reservation capacity.

If these checks are automated such that they do not require tariff administrator review, the verification software could be provided to the SPP TP who sold the transmission service and SPP would not need to be involved in the review. Even with a system that automatically reviews tags, someone needs to respond when the system finds a problem on a tag. Before providing the verification software to the TPs who sold the transmission service, there would need to be an understanding on who will respond to tags that contain problems.

The benefits of this stage result from having a review process that ensures NERC TLR is being administered properly. While this benefit does not result in a direct savings to SPP CAs in the form of reduced labor cost or increased revenue, it does ensure the reduced likelihood of a NERC TLR violation (starting of schedules when a NERC TLR hold is in-place). Instances where there have been apparent violations of NERC TLR have resulted in audits and scrutiny by NERC committees and possibly the FERC. If a violation is caused by an inadequate review process, the responsible SPP control area and SPP will be directed to improve their processes. Other benefits include having a consistent scheduling practice within SPP where all SPP tags (those using transmission service sold under the regional tariff and those using transmission service sold under a TPs individual tariff) are submitted to SPP for review and having assurance that SPP is receiving tags promptly for transmission service sold by an SPP TP to administer ATC.

Under JTAG, SPP will only receive copies of tags for transmission service that sinks in an SPP CA or where transmission service was reserved using the regional tariff.

Issues that will need to be resolved:

- Implementing this stage will be mandatory for TPs who have signed the Agency Agreement and optional for TPs who have not signed the Agency Agreement. For those who have not signed the Agency Agreement, SPP will need a written agreement designating that SPP is acting on their behalf when approving or denying the use of transmission service sold by them.
- How to address the variety that may exist in the different implementations of the pro-forma tariff (i.e. different scheduling deadlines, ability to change source and sink, requirements for losses, etc.).
- It is not practical to have SPP review all of the unique details that are specific to a TP's tariff. SPP and TPs will discuss unique checks that are being done by the TPs. SPP will see if there are common areas amongst all the TPs which SPP can add to its list of checks. TPs will still need to check unique item that cannot be checked by SPP.

Second Stage

This stage is for the development of a process and a system that will allow SPP to act as the scheduling agent responsible for all SPP transactions. Once the process and system have been developed, SPP will add scheduling staff and expand the Coordination Center in preparation for Stages 3 and 4 during which SPP assumes the role of the scheduling agent. Stage 2 will include thoroughly testing the process and system using actual schedules and training CA operators and other involved parties on its use.

With this stage, SPP will develop a scheduling system software package that is capable of containing all SPP schedules, producing an hourly net schedule for use by the CAs and producing the individual schedules if needed by the CAs. The scheduling system will be used for checkout, inadvertent accounting and transmission service billing (no longer submit after-the-fact schedules to SPP for tariff billing). The scheduling system will accommodate all daily monthly and yearly reporting requirements. A future use of the system will be for generation/energy billing.

The scheduling system will be designed to accommodate retail access where an entity is reserving transmission service and scheduling that service on behalf of retail load. In the case of the California ISO, the entity is known as a scheduling coordinator. In the case of the ERCOT ISO, the entity is known as a retail electric provider. The retail access features will not be utilized until Stage 4.

There are two options whereby SPP is acting as the scheduling agent for all SPP transactions:

First-All CAs continue to schedule with other CAs as they do now and the schedules are between the two CAs. The SPP scheduling system would be a computerized system that accommodates this CA to CA scheduling. It would produce hourly net schedules (by CA) that can be entered into Interchange Schedulers, as well as all individual detail needed for billing. In this scheduling agent role, SPP is responsible for administration of the system and will take corrective steps any time there is a system problem. The system will have a standard set of business rules to follow which should reduce the number of scheduling problems that currently exist.

Second-SPP establishes itself as a quasi-CA where CAs would schedule directly to SPP. The schedule to SPP would be a net schedule of all receipts and deliveries to other CAs during the hour. This is similar to the loss scheduling process SPP currently follows. As a quasi-CA, SPP would not have generation under its control, would not have a frequency bias and would not have an inadvertent account. SPP would need an arrangement with one or more CAs that have signed the Agency Agreement to be responsible for any inadvertent created by SPP.

Of the two options, the second option eliminates the need for a scheduling CA when a first tier CA refuses to do regional scheduling (provided they agree to schedule with one more entity, SPP) and when transmission service has been arranged for "across" transactions. It also allows for gradual implementation of the scheduling system by using the system for schedules where the first tier control area refuses to do regional scheduling and for "across" schedules. The biggest drawback of the second option is receiving some form of NERC recognition as a quasi-CA. Without that recognition, CAs outside SPP will refuse to schedule with SPP or follow any scheduling business rules that have been created. Since CA responsibilities are under review by the NERC CATF, there probably would be reluctance on NERC committees to allow the formation of any type of new CA entity.

The first option still has scheduling CAs involved when a first tier CA refuses to do regional scheduling and for "across" transactions. However, those schedules are included as part of the net schedule the scheduling CA receives each hour.

The implementation of the first option will be more difficult. Ideally, the scheduling system would be phased-in using a limited number of schedules where a problem would not disrupt business. This is the case for schedules involving first tier CAs that refuse to do regional scheduling and "across" transactions. However, under option 1, these schedules would be combined with other schedules between the first tier CA and the scheduling CA and it would be difficult for the scheduling CA to check-out since SPP processed some of the schedules and the scheduling CA processed some of the schedules.

Under the first option, the scheduling system would need to be tested using some kind of phased-in testing process. This could be accomplished by running in parallel with the current scheduling process, selecting certain transactions that would only be done on the new system (transactions into, out-of and across SPP) or using specific control areas to phase-in the implementation. Each of these has some problems:

- Running in parallel is extra work that could not be done for more than a couple days per week. This could be done by running in parallel a couple days to identify problems, take down the system to work on problems and then run in parallel a couple more days. This cycle would be repeated as many time as needed to correct problems.
- By using selective transactions to test the system, will have problems with checkout and coordination in that SPP will have done some schedules and the control area will have done some schedules.
- By bringing-on certain control areas for all of their schedules, this will eliminate the problems with checkout described in the second bullet and will avoid bringing the whole system up at one time.

SPP will add a 6 man shift of schedulers, a scheduling supervisor, will expand the Coordination Center and will add a scheduling console for this stage. Development of the scheduling system software package will require a one-time commitment of \$250,000 for software development, \$100,000 for hardware and the addition of 2 IT personnel. Development of software will take 2 months of design, 2 months for bidding by outside contractors, 6-month implementation and 2 months for testing. Assuming this effort started on January 1, 2000, the software system would be ready for Stage 3 implementation by January 1, 2001. To meet this implementation date, SPP would expand the Coordination Center and begin recruiting a shift of schedulers in June 2000.

Since Stage 2 is dedicated to developing a process and a system that is not utilized until future stages, there is no direct benefit from Stage 2. As a result of the work being done for Stage 2, it is anticipated that the following benefits will occur in Stages 3 and 4:

- Have a scheduling system to address scheduling problems that currently exist.
- The scheduling system and its business rules should remove some of the manpower burden that CAs have committed or anticipate committing to address scheduling problems.
- Would have a system that could be used for retail access (Stage 4).
- This system could be used as the prototype for OASIS Phase 2.
- This stage represents a first step toward adopting electronic scheduling process in SPP.

The issues that need to be resolved:

- Could the cost of software development and ongoing O&M be recovered from a SPP scheduling fee.
- Whether have included an adequate number of schedulers to administer the system.
- Will CAs that are not SPP members be willing to adhere to SPP scheduling business rules.
- The scheduling system must continuously update schedules as they change and keep all CAs informed of the changes.

Third Stage

All schedules must be entered into the scheduling system. The scheduling system will be kept up-to-date and will contain all SPP schedules. The scheduling system will produce hourly net schedules for use by the CAs and will produce individual schedules if needed by the CAs. The scheduling system will be used for checkout, inadvertent accounting, and billing (both CA billing and SPP transmission service billing). This stage precedes retail access.

This stage occurs after implementation of the comprehensive tariff. If SPP control areas have elected to put some or all of their load under the network service tariff, SPP will sell transmission service and schedule that service in the same manner as retail access customers. This will provide an opportunity to establish procedures and protocols that will be used to reserve and schedule network transmission service and make arrangements for ancillary services under retail access.

This stage will require a system to verify ancillary services have been arranged.

Fourth Stage

This stage takes effect when retail access is implemented in one or more SPP CAs. SPP will have procedures and protocols in-place that will be used to reserve and schedule transmission service and make arrangements for ancillary services under retail access. SPP anticipates the use of scheduling coordinators to aggregate a group of retail access loads together and reserve and schedule transmission service and ancillary services for aggregated loads. This will be similar to the control area treatment of native load under the network service tariff in the Third Stage.

This stage would also coincide with the implementation of any required ancillary service balancing markets that SPP would be tasked to perform based on members' desires or the requirements of FERC.

This stage will require two 6 man shifts of schedulers (the addition of another 6 man shift of schedulers) and will require the development of software that can be used for congestion management and real-time balancing of retail load.

**Southwest Power Pool
BOARD OF DIRECTORS
1999 Fall Meeting
Staff Report & Recommendation**

Repayment Policy

Background

In 1998 and 1999 tariff income was significantly below that budgeted due not only to certain types of transmission service not being under the SPP regional tariff but also a large volume of business remaining grandfather under individual transmission owner tariffs. At the beginning of 1999 the tariff income shortfall was \$2,173,508. Staff estimates additional tariff income shortfall in 1999 of \$4,947,528 resulting in a total tariff income shortfall of \$7,121,036 as of January 1, 2000. This shortfall represents an interest free loan by SPP members that staff books for payback with future tariff income above actual monthly expenses.

As indicated in the 2000 SPP proposed administrative budget, Staff estimates tariff income in 2000 to be \$13,000,000. Projected monthly tariff income exceeds eighty percent of monthly expenses beginning in the 2nd quarter of 2000. Complicating the repayment policy is SPP membership changes from year to year. At the end of each year departing members are assessed their pro-rata share of SPP's accrued financial obligation and remaining members continue to cover these expenses by their normal monthly assessments. A policy is needed to direct Staff on repayment of tariff income shortfall loan.

SPP Repayment Policy

Staff developed the following repayment policy for Board of Directors consideration:

- When the SPP monthly tariff income exceeds eighty percent of monthly expenses, Staff will refund the amount over eighty percent to the previous year(s) shortfall, crediting the earliest year carryover first.
- Current members who were members in a given year in which repayment is due will receive a refund credit on their monthly statement.
- Former members who were members in a given year in which repayment is due will receive a refund based on the number of months of membership in that year.
- New members joining in a given year in which repayment is due will receive a refund credit based on the number of months of membership in that year.

An estimated repayment schedule for all members and former members is attached.

Recommendation

Staff recommends that the Board of Directors approve the proposed SPP Repayment Policy.

Action Requested: Approve Recommendation

Estimated Repayment in 2000

Member	1998			1999		2000	Comments
	Voting Strength (%)	Estimated Refund due	Departed Member Accrued Financial Obligation - Paid -	Voting Strength (%)	Estimated Refund Due	Estimated Repayment - Total -	
Aquila Power	0.455	\$9,902		0.455	\$15,736	\$25,638	
Arkansas Electric Cooperative Corporation	2.969	\$64,675		2.904	\$100,518	\$165,193	
Board of Public Util.,Kansas City,KS	1.197	\$26,076		1.219	\$42,182	\$68,259	
CNG Power Services Corp.	0.455	\$9,902		0.455	\$15,736	\$25,638	
Calpine Power Services Co.	0.455	\$9,902		0.455	\$15,736	\$25,638	
Cargill Alliant	0.455	\$9,902		0.455	\$15,736	\$25,638	
Central & Southwest Corp. - PSO	7.791	\$169,734		7.775	\$269,153	\$438,887	
Central & Southwest Corp. - SWEPCO	8.304	\$180,899		8.259	\$285,898	\$466,797	
Central Louisiana Electric Company, Inc	3.654	\$79,604		3.629	\$125,615	\$205,219	
Cinergy Corp.	0.455	\$9,901		0.455	\$15,736	\$25,637	
Citizens Lehman Power	0.455	\$9,902		0.455	\$15,736	\$25,638	
City Power & Light, Independence, Missouri	0.841	\$18,323		0.841	\$29,129	\$47,452	
City Utilities, Springfield, Missouri	1.420	\$30,936		1.413	\$48,916	\$79,853	
City of Clarksdale, Mississippi	0.529	\$11,530		0.526	\$18,223	\$29,753	
City of Lafayette, Louisiana	1.173	\$25,543		1.186	\$41,051	\$66,594	
City of Sikeston, Missouri	0.663	\$14,445		0.661	\$22,869	\$37,314	
Constellation Power Source	0.455	\$9,902		0.455	\$15,736	\$25,638	
Dynegy Marketing & Trade	0.455	\$9,901		0.455	\$15,736	\$25,637	
Enserch Energy Services, Inc.	0.455	\$7,410		0.455	\$15,736	\$23,145	Joined 04/01/1998
Empire District Electric Company	2.341	\$51,004		2.165	\$74,939	\$125,943	
ENRON Power Marketing	0.455	\$9,902		0.455	\$15,736	\$25,638	
Fina Energy Services Co.	0.455	\$7,410		0.455	\$15,736	\$23,145	Joined 04/01/1998
Grand River Dam Authority	2.700	\$58,816		2.438	\$84,388	\$143,204	
Kansas City Power & Light Company	5.705	\$124,287		5.667	\$196,173	\$320,460	
Koch Energy Trading Inc.	0.455	\$9,902		0.455	\$15,736	\$25,638	
Louis Dreyfus Electric Power	0.455	\$9,902		0.455	\$15,736	\$25,638	
Louisiana Energy & Power Authority	0.794	\$17,295		0.795	\$27,512	\$44,807	
Midwest Energy, Inc.	0.950	\$20,692		0.936	\$32,387	\$53,078	
NorAm Energy Services	0.455	\$9,902		0.455	\$15,736	\$25,638	
North Texas Electric Cooperative	0.889	\$19,375		0.798	\$27,641	\$47,016	
NP Energy Inc.	0.455	\$9,902		0.455	\$15,736	\$25,638	
Oklahoma Gas & Electric Company	10.933	\$238,176		11.081	\$383,613	\$621,789	
Oklahoma Municipal Power Authority	0.973	\$21,202		1.016	\$35,159	\$56,361	
PG&E Energy Trading Power	0.455	\$9,902		0.455	\$15,736	\$25,638	
PECO Energy Co.	0.455	\$9,902		0.455	\$15,736	\$25,638	
Rayburn Country / Tex-La Electric Coop.	0.596	\$12,980		0.524	\$18,149	\$31,129	
Sam Rayburn G&T / East Texas Elec Coop.	0.680	\$14,814		0.680	\$23,544	\$38,358	
Sonat Power Marketing, Inc.	0.455	\$9,902		0.455	\$15,736	\$25,638	
Southern Company Energy Marketing	0.455	\$9,902		0.455	\$15,736	\$25,638	
Southwestern Power Administration	3.001	\$65,367		2.942	\$101,831	\$167,198	
Southwestern Public Service Company	9.807	\$213,643		9.852	\$341,039	\$554,682	
Sunflower Electric Power Corp.	1.503	\$32,753		1.824	\$63,149	\$95,902	
Tenaska Power Services	0.455	\$9,902		0.455	\$15,736	\$25,638	
Utilicorp United Inc. - Missouri Public Service	2.401	\$52,296		2.379	\$82,346	\$134,642	
Utilicorp United Inc. - WestPlains Energy	1.783	\$38,842		1.754	\$60,718	\$99,560	
Avista Energy, Inc	0.455	\$9,901		0.455	\$15,736	\$25,637	
Western Farmers Electric Cooperative	3.430	\$74,717		3.382	\$117,074	\$191,791	
Western Resources - KGE	5.106	\$111,243		5.092	\$176,257	\$287,500	
Western Resources - KPL	5.339	\$116,320		5.690	\$196,991	\$313,311	
Williams Energy Marketing & Trading Co.	0.455	\$9,902		0.455	\$15,736	\$25,638	
Departed Members							
City Light & Water-Paragould, AR	0.532	\$11,595	\$16,056		\$0	\$11,595	
Duke Energy Power Services, Inc.	0.455	\$9,902	\$13,734		\$0	\$9,902	
LG&E Power Marketing	0.455	\$9,902	\$0	0.455	\$7,780	\$17,682	Rejoined 07/01/1999
Municipal Energy Agency of MS	0.632	\$13,759	\$19,076		\$0	\$13,759	
Texaco Energy Services	0.455	\$9,901	\$13,734		\$0	\$9,901	
New Members							
Coral Power LLC		\$0		0.455	\$11,670	\$11,670	Joined 04/01/1999
PanCanadian Energy Services		\$0		0.455	\$7,780	\$7,780	Joined 07/01/1999
Public Service Comm. Of Yazoo City, MS		\$0		0.494	\$17,113	\$17,113	Joined 01/01/1999
Kansas Electric Power Coop.		\$0		0.717	\$6,137	\$6,137	Joined 10/01/1999
Totals	100	\$ 2,173,508	\$ 62,600	100	\$ 3,423,127	\$ 5,596,635	

**Southwest Power Pool
BOARD OF DIRECTORS
1999 Fall Meeting
Staff Report and Recommendation**

FERC Intervention & Protest Filing – Docket EL00-10-000

Background

On October 26, 1999, SPP member PECO Energy Company - Power Team filed a motion with the FERC seeking a cease and desist order on electronic tagging pursuant to NERC Policy 3 - Interchange. This filing was noticed in the Federal Register on November 2 as Docket EL00-10-000 and motions or protests are due on or before November 18, 1999.

Discussion

Though SPP Staff had been working with PECO Power Team representatives to hopefully minimize the relevance of such a filing on SPP activities, the filing was made prior to Staff review and input. Because of SPP's high degree of automation in its tariff administration functions, it is very dependent on e-tagging and PECO's filing could significantly impact SPP and its members and customers.

Recommendation

Staff recommends that the Board of Directors approve SPP filing a protest to PECO's motion and ask the FERC to deny the motion. Such a filing would not be aimed at criticizing PECO or supporting NERC procedural process, but the following major points would be made to the FERC:

1. SPP was/is/will not (be) involved in the business practices alluded to in PECO's motion;
2. E-tagging is critically needed by SPP to support the Interchange Distribution Calculator and Transmission Loading Relief processes that allow for consistent and reliable provision of SPP transmission service which must be automated due to the greatly expanding next-hour market; and
3. PECO's motion misses the mark in achieving the relief being sought, as the problems PECO alleges are business practices that were in place prior to e-tagging and can continue even if e-tagging is stopped.

The Commercial Practices Committee concurred that SPP should file comments based on these stated points.

**Southwest Power Pool
BOARD OF DIRECTORS
1999 Fall Meeting
Staff Report and Recommendation**

Retail Services Functionality

Background

Retail access legislation has been enacted in Oklahoma, Arkansas and Texas and other states are currently in formative stages. As a result SPP members have begun considering implementation implications and requirements for an independent organization to perform several infrastructure functions. Specifically, in Texas, an independent organization is to provide:

- • Non-discriminatory transmission access (tariff administration);
- • Reliability (security coordination);
- • Settlements (wholesale billing); and
- • Registration & enrollment of customers.

FERC acceptance of an organization's independence satisfies the governance requirements for tariff administration and security coordination functions listed above. Assuming SPP moves forward in obtaining FERC recognition as an ISO and/or RTO CSW recommended and the Board of Directors approved on September 28 that the SPP Staff investigate the formation of a SPP subsidiary to perform the independent organization functions contemplated in Texas and other state retail access legislation. Such subsidiary would be funded by a separate cost allocation based upon participating members. The Staff was directed to report preliminary findings and recommendations at the November 8, 1999 Board of Directors meeting.

Analysis

SPP Staff has taken initial steps to get involved in the implementation processes in Oklahoma and Arkansas and now demands are greater than ever with Texas moving very aggressively toward sophisticated implementation with complex regional demands. Ideally, Staff would have presented subsidiary formation details for Board of Directors consideration at this meeting. However, discussion with members in Oklahoma and Texas has indicated a need for additional public debate to solicit input, interest and support from non-investor owned members and non-members alike. Initial discussion has also indicated a strong need for immediate project management support within the SPP Staff. Though funding for this effort was to be handled through the proposed subsidiary, Staff and interested members agree and support the hiring of a project manager as soon as possible to handle immediate needs and to coordinate the details of subsidiary formation. Due to the recent development of this issue, this position was not included in the proposed 2000 administrative budget.

Recommendation

Staff recommends that the Board of Directors approve the addition to the SPP Staff of a Manager, Retail Services reporting to the Senior Vice President and Corporate Secretary at a 2000 incremental budgeted cost of \$140,000

**Southwest Power Pool
BOARD OF DIRECTORS
1999 Fall Meeting
Finance Working Group Report & Recommendation**

SPP 2000 Administrative Budget

Background

The SPP Staff developed a proposed 2000 administrative budget based on potential action items within SPP's various organizational groups and internal Staff needs. This proposed budget was reviewed by SPP Finance Working Group at their meeting on October 7, 1999.

Recommendation

The Finance Working Group recommends that the Board of Directors approve the enclosed 2000 Administrative Budget of \$11,592,400 for SPP, subject to other action of the Board of Directors on specific items.

Approved: Finance Working Group October 7, 1999

Action Requested: Approve Recommendation

**Southwest Power Pool
BOARD OF DIRECTORS
1999 Fall Meeting
Staff Report and Recommendation**

Recognition of SPP as Independent

Background

At its July 20, 1999 called meeting, the SPP Board of Directors approved ISO Task Force recommendations to:

1. File comments on FERC's Regional Transmission Organization Notice of Proposed Rulemaking by August 16, 1999 under the direction of the ISOTF to encourage favorable consideration of SPP's approach to regional independent security coordination and tariff administration.
2. File a comprehensive tariff with the FERC to replace MW-Mile pricing with zonal postage stamp rates for all point-to-point service by November 1, 1999, and to add network service to SPP's regional transmission service tariff by February 1, 2000.
3. Modify SPP's existing Bylaw provisions on transition with an immediate effective date to facilitate transition to the proposed new Bylaws by electing Member directors under the proposed Bylaws at the 1999 Meeting of Members.
4. Modify SPP's existing Bylaw provisions on governance with an effective date of January 1, 2000, subject to the transition provisions on election of independent directors at a Meeting of Members to precede the May 11, 2000 meeting of the Board of Directors.
5. Adopt a new Membership/Agency Agreement with an effective date of January 1, 2000 and to seek Transmission Owner execution of these agreements prior to filing of the comprehensive tariff.
6. Adjust the 1999 SPP budget for initial implementation of the functionality contained in the ISOTF report of \$104,750 in 1999 and anticipated \$628,936 annually thereafter.
7. Defer the decision to seek FERC recognition of Regional Transmission Organization status until issuance of a related order by the FERC, implementation of the proposed Bylaws and implementation of the comprehensive tariff.

SPP organizational groups and Staff immediately began acting on these approved recommendations and the following actions have resulted:

1. SPP filed comments on FERC's Regional Transmission Organization Notice of Proposed Rulemaking on August 23, 1999 (deadline extended).
2. SPP filed with the FERC on August 31 to replace MW-Mile pricing with zonal postage stamp rates for all point-to-point service by November 1, 1999. SPP also filed with the FERC on September 7 to add network service to SPP's

regional transmission service tariff by February 1, 2000 and numerous other enhancements to the regional tariff.

3. Staff modified SPP's Bylaws adding the new transition provisions and posted these new Bylaws dated July 20, 1999 on the SPP website.

4. Staff modified SPP's existing Bylaw provisions on governance (and other miscellaneous provision changes) and posted these Bylaws with an effective date of January 1, 2000 on SPP's website.

5. Staff distributed the new Membership/Agency Agreement with an effective date of January 1, 2000 to Transmission Owners for execution and included 10 of these agreements (all existing providers except Cleco) in the filing of the comprehensive tariff.

6. Staff adjusted the 1999 SPP budget for initial implementation of the functionality contained in the ISOTF report of \$104,750 in 1999 and included the anticipated \$628,936 annually thereafter cost in the draft 2000 administrative budget to be considered by the Budget Working Group in early October.

7. No action has occurred with respect to SPP seeking ISO/RTO recognition.

ISO/RTO Filing

Any SPP ISO or RTO filing package must ultimately contain SPP's Articles of Incorporation, Bylaws, Criteria, and all Membership Agreements. To maintain maximum flexibility, the ISOTF believed that there was merit in delaying placing these documents under FERC jurisdiction as long as possible. The ISOTF believed and recommended that the decision to seek FERC recognition of RTO status should be deferred until: 1) issuance of a related order by the FERC, 2) approval and implementation of the proposed Bylaws, and 3) implementation of the comprehensive tariff.

Impediments to Seeking ISO/RTO Recognition

There have been two specific issues serving as impediments to SPP seeking recognition by the FERC as an ISO/RTO, though these issues have been mostly mitigated by recent developments. The typical approach to ISO formation involves a filing under Section 203 of the Federal Power Act to transfer operational control of transmission facilities to the ISO. Some believe that Section 203 filings ultimately lead to a single regional average rate. 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 costs, 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 failure to recover revenue requirements during the transition period because not all load is under a single tariff.

The second significant concern with Section 203 filings is that SPP would become a public utility under the Federal Power Act, thereby becoming FERC jurisdictional and

subject to FERC administrative fees estimated at \$8 million per year. These fees are currently pancaked on those individually paid by jurisdictional ISO members. Neither FERC jurisdictional status nor related overheads provide any benefit to SPP members. Section 203 filings also require state filing processes and related delays. Many believe that Section 203 filings could also impede transmission company participation.

In response to these concerns, the ISOTF developed a regional transmission organization model that would maintain the current agency agreement relationship between transmission owners and SPP for independent security coordination and tariff administration. This model was meant only to resolve the issues stated above. This model provided no difference in SPP functionality 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), and
- Regional coordination and planning of transmission system additions.

Also, no differences exist with respect to tariff terms and conditions, revenue allocation or the provision of ancillary services between the facility transfer mechanisms.

Differences do exist between the facility transfer mechanisms in the following areas:

<u>Agency Agreement</u>	<u>Section 203 Filing</u>
SPP not FERC regulated	SPP becomes "Public Utility" and therefore FERC regulated
Owners pay FERC administrative assessments	SPP pays FERC administrative assessment and possibly owners as well
Perpetual zone rates	Transition to single rate
New facilities rolled into zone rate	New facilities rolled into SPP rate
Grandfathered contracts maintained	Grandfathered contracts maintained subject to FERC approval
No impact on joint ownership agreements	Potential impact on joint ownership agreements
Owner rate base facilities	All facilities 60 kV and above & FERC's "7 factor test"

Following lengthy debate, the ISOTF and RPWG recommended pursuing development of a regional transmission organization implemented by virtue of an agency agreement between owners and SPP, and with no option of transferring facilities to SPP via a filing under section 203 of the Federal Power Act. The Board of Directors concurred with this course of action at their May 13, 1999 meeting and, as stated above approved all of the necessary supporting documents at their July 20, 1999 called meeting. However, there is significant doubt by many industry experts that the FERC will accept an ISO/RTO proposal that lacks Section 203 filings by jurisdictional entities.

Recent Developments

There have been recent developments that partially mitigate both impediments discussed above. In its Regional Transmission Organization Notice of Proposed Rulemaking, FERC asks whether perpetual zone rates are an effective way of dealing

with the cost shifting that occurs in migrating toward a single regional rate. Several state regulatory jurisdictions have also entered this debate and support perpetual zone rates. Also, on July 28, 1999, FERC issued an order in Docket EL98-71-000 suspending the assessment of its costs to ISO's until it can further review its cost allocation procedures.

In considering the merger of SPP and the Midwest ISO, SPP's Board of Directors should be aware that a significant difference between the organizations is that the Midwest ISO structure is approved by the FERC, though the functional organization currently only consists of members, a board of directors and CEO. Conversely, while SPP is fully operational and providing all ISO services, its structure lacks FERC approval. Several members and potential members have a desire or requirement to commit to an ISO due to merger proposals and/or state retail access legislation. Though SPP is currently providing ISO services in an effective and efficient manner (and does so in a low key, behind the scenes manner), SPP is at a competitive disadvantage with the Midwest ISO due to its FERC acceptance and high profile.

An additional pressure to achieving FERC recognition as independent is the passage of retail access legislation in Oklahoma, Arkansas and Texas. Each of these pieces of legislation places infrastructure requirements on an independent entity and many members are expecting SPP to effectively and efficiently fill this role. The Board of Directors discussed SPP seeking FERC recognition as independent at its September 28, 1999 called meeting and agreed to discuss the issue again at the November 8, 1999 regular meeting.

Recommendation

Continue discussion of SPP seeking recognition by the FERC as independent.

**Southwest Power Pool
BOARD OF DIRECTORS
1999 Fall Meeting
Employee Benefits Working Group Report & Recommendation**

Staff Merit Increase

Background

Every 2 years Staff retains Hewitt Associates (Hewitt) for market analysis of staff positions, development of a compensation structure, and recommendation of merit salary increase guidelines. This year Hewitt developed a salary structure that was approved by the Board of Directors on September 28, 1999. Hewitt also provided current trends of merit increase guidelines.

Analysis

Hewitt's report to SPP referenced "Hewitt's Annual Salary Increase Survey Report" which indicated a 4.3% merit increase in 1999 for the Utility Industry. Hewitt's report to SPP recommended this same merit increase for 2000. The financial impact of a 4.3% merit increase for 2000 is \$160,000. The Employee Benefits Working Group discussed this merit increase and agreed with Hewitt's conclusions.

Recommendation

The Employee Benefits Working Group recommends that the SPP Board of Directors approve a 4.3% merit increase for the SPP Staff for 2000.

Approved: Employee Benefits Working Group September 28, 1999

Action Requested: Approve Recommendation

**Southwest Power Pool
BOARD OF DIRECTORS
1999 Fall Meeting
Employee Benefits Working Group Report & Recommendation**

Change of Defined Contribution Match

Background

The 1999 Hewitt Associates (Hewitt) salary survey requested information on salary, benefits, perquisites, long and short-term incentives from SPP peer organizations. These organizations included the California ISO, ERCOT, ISO New England, MAPP, the New York ISO, NERC, PJM, and six SPP members. In 1997 SPP changed the defined contribution plan from a 401(a) thrift plan, a post tax plan with a 75 cent match on the dollar up to 6% of pay, to the current 401(k) savings plan, a pretax plan with a 50 cent match on the dollar up to 6% of pay. The salary survey reports the results of the defined contribution comparison in the Broad-Based Benefits section of the document.

Analysis

In the comparison of Broad-Based Benefits section of the salary survey report, specifically on defined contribution plans, the report indicates that SPP's match of 50 cents on the dollar up to 6% of salary lags behind peer organizations. In comparison to peer organizations, this report shows the SPP match in 1997 was in the middle of the survey participants. However, this same report shows that in 1999 SPP is next to last among the survey participants. Match percentages higher than SPP's ranged from 50% up to 1/3 of the IRS deferred limit (\$3,333) to 100% match up to 3% of salary. A SPP defined contribution match of 75 cents on the dollar up to 6% of salary to remain competitive will impact the 2000 budget by an increase of \$75,000.

Recommendation

The Employee Benefits Working Group recommends the Board of Directors approve a defined contribution match of 75 cents on the dollar up to 6% of salary.

Approved: Employee Benefits Working Group September 28, 1999

Action Requested: Approve Recommendation

**Southwest Power Pool
BOARD OF DIRECTORS
1999 Fall Meeting
Employee Benefits Working Group Report & Recommendation**

SPP Bylaws - EBWG Duties and Responsibilities

Background

In 1995 the Benefits Advisory Task Force (BATF) recommended to the Board of Directors a SPP compensation and benefits plans and formation of the Employee Benefit Committee, now the Employee Benefits Working Group (EBWG) to oversee and administer these plans. The BATF also developed responsibilities of the Employee Benefits Committee for inclusion in SPP's bylaws approved by the Board of Directors in May of 1999. Since some of these responsibilities are described in the SPP Retirement Plan, Staff asked for a review of these responsibilities by the legal advisor for the SPP Retirement Plan.

Analysis

The legal review found a few internal inconsistencies in EBWG responsibilities. For example, the EBWG has the ability to employ persons to render advice under the plan and the EBWG may make recommendations to the Board of Directors to "employ consultants to advise on plans". These actions appear redundant. Also, the EBWG should have the role of the Plan Administrative Committee in the plan documents and have the authority to act as a plan administrator. This responsibility removes the Board of Directors from acting on normal administrative duties of the plans, such as directing the trustee concerning payments made out of the plan. Other actions, such as the ability to amend the plans, terminate the plans, and authorize participation in the plans, would continue to be Board of Directors responsibilities and the EBWG would only act in an advisory capacity. The Board of Directors appoints the EBWG which consists of as many members as the Chairman of the Board of Directors may appoint, and serves at the pleasure of the Board of Directors to operate and administer the plans.

The EBWG modified Section 5.3 of SPP's bylaws based on finding of the legal review and suggested modifications are shown in the attached document. If the Board of Directors approves these bylaw modifications the Retirement Plan document will be amended to make the Employee Benefits Working Group the Committee as defined in the plan.

Recommendation

The Employee Benefits Working Group recommends that the Board of Directors approve modifications of their responsibilities as indicated in the attached document indicating changes to Section 5.3 of the SPP Bylaws.

Approved: Employee Benefits Working Group

September 28, 1999

Action Requested: Approve Recommendation

5.3 Employee Benefits Working Group

The Employee Benefits Working Group shall report to and is subject to the control of the Board of Directors with representatives named by the Chairman of the Board of Directors. The Employee Benefits Working Group shall:

- a. Interpret employee benefit plans for intent and ambiguity,
- b. Resolve all questions concerning eligibility for benefits,
- c. Employ persons to render advice under the plans,
- d. Compute the amount of benefits payable under the ~~plans,~~defined benefit plan.
- e. ~~Appoint trustees and define rights, powers and duties of trustees, Direct the trustee concerning payments from the trust fund of the defined benefit plan,~~
- f. Administer the trust agreement of the defined benefit plan,
- ~~f.g.~~ Establish a claims procedure for the defined benefit plan,
- ~~g.h.~~ Recommend amendments to the plan, Appoint and remove investment managers for all plans.
- i. Evaluate performance of investment managers,
- ~~h.i.~~ Adopt rules and regulations for the plans,
- ~~j.k.~~ Establish and carry out funding policy, Carry out the funding policy for the plans.
- ~~k.l.~~ Annually evaluate performance of investment of plans,
- m. Annually review the employee compensation plan, and
- n. make recommendations to the Board of Directors as necessary ~~to; appoint and remove investment managers for all plans, designate portion of to:~~ (i) Appoint and remove plan trustees, (ii) determine the amount of the employer's contribution to the plans, ~~participate in trust agreement, direct trustee concerning payments made out of trust fund, set investment goals, employ consultants to advise on plans,~~ (iii) amend all plans, (iv) terminate plans, and (v) authorize participation in all plans.

**Southwest Power Pool
BOARD OF DIRECTORS
1999 Fall Meeting
Staff Report and Recommendation**

Regional Consolidation

Background

Southwest Power Pool, Inc. (SPP) and Midwest Independent System Operator, Inc. (MISO) representatives met initially on August 16, 1999 for initial discussion on a possible combination of the two organizations. From this meeting, discussion papers were developed for consideration of the chairs, vice chairs, officers and legal counsel of the organizations at a subsequent meeting held August 30, 1999.

In January 1998 nine transmission owning companies located in central states filed a proposal with the FERC seeking approval for development of the MISO organization to manage their collective transmission systems. FERC accepted the filing (subject to certain modifications) in September 1998, which had grown to 12 transmission owners by that time. In December 1998 MISO members elected a seven-member non-stakeholder board of directors in accordance with the governance structure and bylaws approved by FERC. The MISO has 28 members with 72,000 MW of generation and covers over 200,000 square miles in all or part of 11 states. MISO members include 12 investor-owned utilities, 3 cooperatives, 4 municipals, 1 independent power producer, 6 power marketers, and 2 end-users. In July 1999 the MISO Board of Directors named a president and chief executive officer to manage the organization that is headquartered in Indianapolis, Indiana. Northern States Power and Alliant have recently announced their joining the MISO.

The MISO Board of Directors consists of: JAMES H. YOUNG, JR. - Chairman, Former Senior Vice President, Business Development, South Carolina Electric & Gas Company, Columbia, SC; PAUL E. HANAWAY - Vice Chairman, Former Commissioner, Rhode Island Public Utilities Commission; WILLIAM O. ALBERTINI, Former Executive Vice President and Chief Financial Officer, Bell Atlantic Corp.; DAVID F. DEROSA, Ph.D., President, DeRosa Research and Trading, Inc.; DONALD L. STOKLEY, Former President and Chief Executive Officer, Municipal Electric Authority of Georgia; WILLIAM P. VITITOE, Former Chairman, Chief Executive Officer and President, Washington Natural Gas Company, Seattle, WA; and J. CLIFFORD DODD, Chief Information Officer Ameritech Corporation.

Analysis

Both organizations have as fundamental goals to:

- Independently administer transmission service providing access to a large regional area,
- Solve transmission pricing problems – pancaking of rates and parallel flow issues,
- Maintain and improve system reliability and security, and
- Coordinate planning and expansion of the transmission system.

SPP- Midwest ISO Letter Agreement

November 8, 1999

John Marschewski
President
Southwest Power Pool, Inc.
415 N. McKinley
Suite 700, Plaza West
Little Rock, Arkansas 72205-3020

Matt Cordaro
President and Chief Executive Officer
Midwest Independent Transmission System
Operator, Inc.
5517 West 74th Street
Indianapolis, Indiana 46288

The purpose of this letter agreement (“Agreement”) is to detail in writing the principal points on which John Marschewski and Matt Cordaro have agreed regarding combining the Midwest ISO Independent Transmission System Operator, Inc. (“Midwest ISO”) and Southwest Power Pool, Inc. (“SPP”). The following are the basic elements of the Agreement:

1. The Midwest ISO and SPP Boards shall remain unchanged in their composition, responsibilities and duties. SPP and the Midwest ISO shall continue to operate under their own bylaws, rules, and procedures and pursuant to the direction of their respective Boards without any involvement of the other Board with two exceptions detailed in this paragraph. Specifically, in the interim period from the effective date of this Agreement until the Operational Date, Midwest ISO Board members shall be available for consultation and advice to SPP. In addition, at least two Midwest ISO Board members shall attend each SPP Board meeting during this interim period. The Midwest ISO Board members will not be members of the SPP Board but will be available for advice and consultation. After the Operational Date, any SPP non-stakeholder members of its Board of Directors that desire to be considered for the Midwest ISO Board of Directors will be eligible to be placed on the slate of candidates for the annual Midwest ISO election of Board members; provided, however, that (1) the SPP Director must satisfy the qualification requirement set forth in Article Two, Section III, A.2 of the Midwest ISO Agreement for the Midwest ISO Board slot up for election; and (2) this provision shall be effective only for the first three elections after the Operational Date.
2. No later than the date on which the Midwest ISO becomes operational; i.e. begins providing transmission service (“Operational Date”), it is intended that SPP members

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SPP- Midwest ISO Letter Agreement

shall become members of the Midwest ISO with consenting SPP transmission owners under the SPP open access transmission tariff (“SPP Tariff”) becoming signatories to the “Agreement of Transmission Facilities Owners to Organize the Midwest Independent Transmission System Operator, Inc., a Delaware Non-Stock Corporation” (“Midwest ISO Agreement”) and the “Agency Agreement for Open Access Transmission Service offered by the Midwest ISO for Non-transferred Transmission Facilities” except for those owners which do not transfer operational control of their transmission facilities. It is intended that those owners not transferring operational control shall enter into a contractual arrangement with the Midwest ISO allowing the Midwest ISO to provide transmission service over their facilities.

3. Beginning on the date of agreement on the items in Section 10 and Section 14 of this Agreement until January 1, 2002, the Midwest ISO Board will hire the current president of SPP, John Marschewski under a contract with Southwest Power Pool. John Marschewski shall serve at the pleasure of the Midwest ISO Board as Executive Vice President while maintaining employee benefits from SPP. In his role as Executive Vice President, John Marschewski will be primarily responsible for the infrastructure development of the combined organization, will serve as chairman of the Midwest ISO infrastructure committee or any similar successor committees, and will assist in developing the staffing of the Midwest ISO. Effective on January 1, 2002 or a mutually agreed later date, Mr. Marschewski shall be offered an early retirement package that is appropriate given his position, experience, and years of service .
4. After action on Section 3, the SPP Board will name the current Vice President of SPP, Nick Brown, to succeed Mr. Marschewski as president of SPP. After the Operational Date, Nick Brown shall be offered the position as head of the SPP regional operating center and also will serve a key role in the combined Midwest ISO organization.
5. The corporate headquarters of the combined organization will be located in Indianapolis, Indiana, but this does not preclude corporate functions from being located in Little Rock. The Midwest ISO shall maintain a regional operating centers in Little Rock for at least six years after the Operational Date. The Little Rock facility will be staffed by existing SPP personnel, although SPP employees also will be given an opportunity to obtain employment in Indianapolis subject to need and qualifications. The technical details of integrating the operations of SPP and the Midwest ISO shall be developed involving the SPP technical staff. SPP employees will be offered employment packages, including benefits, comparable to the compensation and benefits provided by SPP. The Midwest ISO will grant SPP employees credit for their years of service in SPP in any such employment package. The Midwest ISO’s assumption of these obligations to SPP employees shall be conditioned on the Midwest ISO performing a due diligence review of these obligations and the Midwest ISO concluding, after such due diligence review, that the costs associated with these obligations are reasonable. The Midwest ISO shall

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SPP- Midwest ISO Letter Agreement

conclude this due diligence review within sixty (60) days of the effective date of this Agreement.

6. SPP and the Midwest ISO agree that as a goal for the future the Midwest ISO should become the regional reliability council for the Midwest ISO region. SPP shall develop a transitional plan to detail how to accomplish this goal. SPP and the Midwest ISO also shall work together with the other applicable reliability councils to attempt to develop uniform standards to be applied to SPP and the Midwest ISO during the interim period prior to the Operational Date.
7. Within thirty days after the effective date of this Agreement the Midwest ISO shall file with FERC to expand the Midwest ISO advisory committee by one seat for each of the specified categories of members set forth in Article Two, Section VI of the Midwest ISO Agreement and that seat will be assigned to SPP members. SPP working groups and committees will be maintained for matters involving the SPP region to the extent desired by SPP members for at least some initial period after the start-up of Midwest ISO operations.
8. SPP staff will be made available to the Midwest ISO during the period of Midwest ISO development prior to the Operational Date subject to the availability of such staff in accordance with SPP policy. The Midwest ISO shall compensate SPP for SPP's employee time and other costs involved in such start-up activities based upon SPP costs.
9. Prior to the effective date of the Midwest ISO open access transmission tariff ("Midwest ISO Tariff"), SPP shall continue to administer the SPP Tariff. After the Operational Date of the Midwest ISO, there will be one open access transmission tariff applicable to the Midwest ISO and SPP regions. In order to accommodate SPP, the following changes shall be made to the Midwest ISO Tariff, subject to FERC approval, to be effective beginning on the first day of Midwest ISO operations:
 - a. SPP's Tariff contains a transition provision which sets forth treatment of bundled load and grandfathered agreements and allows transmission owners to elect network service. This transition provision shall continue for loads within the SPP region. This transition mechanism instead of the Midwest ISO transition mechanism shall apply to SPP loads under the Midwest ISO Tariff.
 - b. SPP's Tariff contains stated rates for transmission as compared to the Midwest ISO rate formula. For those SPP transmission owners who desire to continue to use the stated rates, they will be able to continue to do so.
 - c. The improvements to the Midwest ISO Tariff contained in the SPP tariff will be considered such as the schedules imposing obligations on generators and the

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SPP- Midwest ISO Letter Agreement

calculation of deferred maintenance costs. Representatives of SPP and the Midwest ISO and of their members shall meet to determine which of these additional provisions should be added to the Midwest ISO Tariff.

- d. The zones contained in the SPP Tariff will be added to the Midwest ISO Tariff and shall continue unless SPP transmission owners agree otherwise. As a result, Section II.B.1. b, c, and d of Appendix C of the Midwest ISO Agreement shall not apply to an SPP transmission owner unless that owner agrees to be bound by that provision.
 - e. With these exceptions, the Midwest ISO Tariff and revenue distribution will be unchanged.
10. SPP and the Midwest ISO agree that budget caps for the Midwest ISO and SPP should be developed and made effective. These budget caps shall apply to both administrative and non-administrative expenses and would apply to periods both before and after the Operational Date. After this Agreement becomes effective, SPP and the Midwest ISO shall enter into negotiations to establish budget caps to become effective no later than four months after this Agreement becomes effective unless both SPP and the Midwest ISO agree to extend the date. If SPP and the Midwest ISO are unable to reach agreement on the budget caps, then SPP may unilaterally withdraw from this Agreement. If SPP withdraws under this Section 10, then neither the Midwest ISO nor SPP shall be responsible to the other for any costs or expenses prior to such withdrawal.
11. The Presidents of the Midwest ISO and of SPP shall present to their Boards by no later than four months after this Agreement becomes effective an incentive package for meeting the targeted Operational Date and reducing expenses below the caps.
12. During the Transition period, the Midwest ISO and SPP shall have as a goal becoming FERC approved Regional Transmission Organizations (RTOs).
13. Aspects of this Agreement may be subject to receiving regulatory approvals from FERC. If those approvals are not obtained, SPP and the Midwest ISO shall negotiate in good faith the alternative steps which may need to be taken as a result of the FERC action.
14. In the event that either organization terminates the combination effort during the Transition Period, the terminating organization shall compensate the other organization for incremental expenses incurred by that organization as a result prior to receiving notice of such termination except as provided in Section 10. SPP and the Midwest ISO shall in good faith attempt to negotiate the applicable incremental expense categories and caps,

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SPP- Midwest ISO Letter Agreement

with such negotiations to be completed within four months of this Agreement becoming effective. Disagreements shall be resolved through dispute resolution.

15. A transmission owning member of SPP that joins the Midwest ISO shall agree, to the extent permitted by applicable law, to guarantee (for the fee set for Midwest ISO transmission owners) interim financing for the Midwest ISO, until such time as the Midwest ISO shall have obtained permanent financing, in an amount equal to such member's load ratio share of the total load of transmission owning members of the Midwest ISO times the aggregate financing obligation of the Midwest ISO and SPP, less the member's financial obligation to SPP.
16. This agreement shall become effective upon signature of authorized representatives of the SPP and the Midwest ISO.

By our signature, we agree to the foregoing principles.

John Marschewski
President
Southwest Power Pool, Inc.

Matt Cordaro
President and Chief Executive Officer
Midwest Independent Transmission System Operator, Inc.

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While each organization is individually responding to the needs of an increasingly competitive industry, the scope of both organizations can be better served by broadened regional boundaries. Seams issues are prevalent in the electric supply industry due to differing regional reliability policies and differing terms and conditions for the provision of transmission service. While solutions require new industry structures and coordination, the increasingly competitive nature of the industry is forcing focus on cost reduction and efficiency.

There is significant benefit to the market in standardizing operating practices across two vast geographic regions. While these benefits may be hard to quantify, they are undoubtedly large for transmission service customers in terms of expanding market potential with one-stop shopping. Potential cost reduction to organization members may be achieved by combining two non-profit corporations providing similar services to their respective members and customers. These savings could be realized in personnel resources, training and certification of personnel and possibly in the provision of employee benefits. In addition, utilizing joint facilities to provide mutual backup service to coordination centers can enhance service reliability at minimal cost. Combination of the organizations may also aid the MISO in meeting its aggressive schedule for operation by providing access to SPP operating and communications systems that may be adaptable.

The window of opportunity to realize significant cost savings from an organizational combination is very narrow and general agreement by the respective Boards of Directors is quickly needed if this is to be pursued. At the August 30, 1999 meeting the leadership of both organizations agreed that there was merit to pursuing organizational combination of SPP and the MISO. At their September 28, 1999 called meeting, the Board of Directors supported without opposition the continuation of discussion between SPP leadership and the leadership of the Midwest ISO to develop specific details on the combination of the two organizations for further consideration by the respective boards of directors. SPP General Counsel, Mike Small has facilitated discussion between the two presidents, John Marschewski and Matthew Cordaro and prepared a letter agreement containing consensus provisions for consideration of the Boards of Directors.

Recommendation

The Staff recommends that the Board of Directors approve a letter agreement for execution by SPP President John Marschewski.