

AGENDA

REGULAR MEETING

Monday, January 30, 2006

1:00 pm- 5:00 pm

Omni Mandalay Hotel at Las Colinas

221 East Las Colinas Blvd.

Irving, TX

1. CALL TO ORDER

2. PRELIMINARY MATTERS

- a. Declaration of a quorum
- b. Adoption of October 24, 2005 Minutes

3. UPDATES

- a. RSC Financial Report
- b. Other RSC officer reports
- c. FERC
- d. SPP

4. BUSINESS MEETING-ALL ITEMS SUBJECT TO DISCUSSION AND ACTION

- a. Cost Allocation Working Group (CAWG) status report Dr. Mike Proctor
 - Large Generator Interconnection Agreement Task Force (LGITF)
 - Attachment Z
 - Base Plan Guidelines Task Force (BPGTF)
- b. 2005: the Year in Review Nick Brown
- c. SAS70 Audit ReportDianne Branch
- d. Results of Customer Satisfaction Survey Nick Brown/Michael Desselle
- e. EIS Market Implementation Update Carl Monroe
- f. Other issues

5. SCHEDULING OF NEXT REGULAR MEETING, SPECIAL MEETINGS OR EVENTS

6. ADJOURNMENT



**Southwest Power Pool
REGIONAL STATE COMMITTEE
Santa Fe, New Mexico
October 24, 2005**

• M I N U T E S •

Administrative Items:

Members in attendance or represented by proxy were:

- Denise Bode, Oklahoma Corporation Commission (OCC)
- Sam Loudenslager, proxy for Sandra Hochstetter, Arkansas Public Service Commission (APSC)
- Mike Peters, proxy for Brian Moline, Kansas Corporation Commission (KCC)
- Julie Parsley, Public Utility Commission of Texas (PUCT)
- Mike Proctor, proxy for Steve Gaw, Missouri Public Service Commission (MPSC)

Others in attendance:

- Tom DeBaun, Kansas Corporation Commission
- Joyce Davidson, Oklahoma Corporation Commission
- Adrienne Brandt, Public Utility Commission of Texas
- Bridget Headrick, Public Utility Commission of Texas
- Jim Eckelberger, SPP Director
- Harry Skilton, SPP Director
- Phyllis Bernard, SPP Director
- Carl Monroe, SPP
- Les Dillahunty, SPP
- Stacy Duckett, SPP
- Cheryl Robertson, SPP
- Lamona Lawrence, SPP
- Tony Ingram, Federal Energy Regulatory Commission
- John Rogers, Federal Energy Regulatory Commission
- Cynthia Marlette, Federal Energy Regulatory Commission
- David Fleischaker, Secretary of Energy, OK
- Bobby Wegener, Deputy Secretary of Energy, OK
- Walter Wolf, Stone, Pigman, Walther, Wittman, LLC
- Steve Owens, Entergy
- Bill Wylie, OG+E
- David Kays, OG+E
- Mel Perkins, OG+E
- Richard Ross, AEP
- Calvin Crowder, AEP
- David Brian, East Texas Cooperatives
- Walt Shumate, EEI
- Carl Huslig, Aquila
- Kristy Ashley, Exelon

Richard Spring, KCPL
Walt Yeager, Cinergy
Ron Gary, Lafayette Utilities System
Gary Roulet, WFECC
Harry Dawson, OMPA
Ricky Bittle, AECC
Dave Christiano, City of Springfield
Shah Hossain, Westar
Doug Henry, Westar
Tom Stuchlik, Westar
Bill Berg, Exelon
Rick Wolfinger, Constellation

President Bode called the meeting to order at 1:00 PM. Secretary Parsley called roll and a quorum was declared. President Bode asked for adoption of the July 27, 2005 meeting minutes.

Sam Loudenslager moved to adopt the June 22, 2005 minutes. Secretary Parsley seconded the motion. Hearing no objection, the minutes were adopted.

President Bode stated that Mr. Tom Kraemer from BNSF addressed the RSC at noon regarding the Powder River Basin and coal transportation.

Amendment of Bylaws:

Secretary Parsley provided a report regarding two amendments to the RSC Bylaws (RSC Bylaws Amendments – Attachment 1):

1. Current RSC Bylaws state: “The President, Vice-president, Secretary, and Treasurer shall be elected by the SPP RSC Board of Directors for a term of one year, or until their successors are elected, and shall not consecutively serve for more than one term in any one office.” Secretary Parsley recommended eliminating term limits.
2. Either combine the offices of secretary and treasurer into one office or allow the duties of the secretary or treasurer to be fulfilled by a designee of the SPP RSC Board of Directors. Secretary Parsley suggested that four offices remain, with the ability for the RSC to delegate duties of either the secretary or treasurer in the event an office is not filled.

Secretary Parsley moved to approve amendments to the RSC Bylaws as stated. Mike Proctor seconded the motion, which passed unopposed.

Election of Officers:

President Bode called for election of RSC officers. **Secretary Parsley moved that Denise Bode continue to serve as President of the RSC. Sam Loudenslager seconded the motion. There was no discussion and no nominations from the floor. All voted aye and the motion passed unopposed.**

President Bode moved to elect Julie Parsley for Vice President. Mike Proctor seconded the motion. There was no discussion and no nominations from the floor. All voted aye and the motion passed unopposed.

Vice President Parsley moved to elect Brian Moline as Treasurer. Sam Loudenslager seconded the motion. There was no discussion and no nominations from the floor. All voted aye and the motion passed unopposed.

Vice President Parsley designated the secretarial duties to SPP with Les Dillahunty as the SPP Staff contact. Vice President Parsley will oversee the secretarial duties.

Updates:

President Bode asked for updates from the RSC officers. Hearing none she moved on to the FERC report presented by Tony Ingram. Mr. Ingram introduced Cyndy Marlette, previously General Counsel under Chairman Pat Wood and now the Principal Deputy General Counsel. Tony Ingram reported on the Commission's issuance of the (1) policy statement in Docket No. PL06-1-000, addressing enforcement of the Commission's orders and regulations, penalties for violations, and credit for compliance and (2) proposed rulemaking on market manipulation in Docket No. RM06-3-000, addressing prohibited behavior by market participants. He also noted the Commission's issuance in September 2005 of a notice of inquiry (NOI) on reforming Order No. 888 and a Notice of Proposed Rulemaking (NOPR) addressing standards for certification of an Electric Reliability Organization (ERO).

Cyndy Marlette, Principal Deputy General Counsel, reported on a number of Commission initiatives required under the Energy Policy Act of 2005, including (1) the ERO rulemaking; (2) convening regional joint boards to study security-constrained economic dispatch, noting the first meeting scheduled for the South and West regions on November 13, 2005; (3) exercising its authority to facilitate planning and expansion of transmission facilities to allow load-serving entities to satisfy native load obligations and secure long-term transmission rights for long-term power supply; (4) implementing rules related to jurisdiction over holding companies under the new PUHCA statute; (5) addressing its amended merger/corporate authority, which now includes authority over acquisitions of generating facilities and over holding company mergers and (6) NOPR on cogeneration rules. Ms. Marlette stressed the importance of the ERO rulemaking, a key issue of delegation of authority, and noted the deadline of February 2006 for issuance. She noted further that the Commission must address transmission rate incentives within the first year after enactment of the statute and issue a rule on long-term transmission rights; backstop authority on transmission; and comparable open access to be provided by non-regulated transmission utilities. Regarding the Commission's additional responsibilities under the new PUHCA statute, Ms. Marlette noted that a big concern is cross-subsidization and that the Commission will need to work with states to assure adequate oversight. She also encouraged state input on the Commission's review of demand side management and suggested contacting NARUC to get information.

Mr. Carl Monroe provided an update of Southwest Power Pool (SPP) activities:

- The EIS Market has completed the first round of testing with 67% completion. Software delivery for Phase II is expected by November 14. The Markets and Operations Policy Committee (MOPC) reviewed the status of participants at their October 12 meeting.
- FERC rejected the initial filing of tariff language for the Market and gave guidance. Market protocols are now being written in tariff language and due to be filed before the end of the year.
- The economic study is complete regarding transmission expansion. This was divided into the reliability and the economic aspects. A workshop is scheduled for November 10

- in Dallas.
- A SAS-70 Audit, Type 1 is underway.
- The Strategic Planning Committee is moving forward with an issue of the Strategic Plan, Integrated Resource Planning. Processes for this planning will be presented to the RSC. A workshop is planned for 2006.
- SPP responded to the Energy Policy Act via comments of the ISO/RTO Council concerning FERC ERO NOPR and expects the final order in mid-December. It is SPP's belief that reliability and economics are inseparable.

President Bode inquired about the recent refusal of transmission service for Redbud Energy. At this time FERC representatives Tony Ingram, John Rogers, and Cyndy Marlette removed themselves from the meeting. Discussion followed concerning the roles of the various market monitors and the recent change in how operational models calculate transmission availability. It was noted by Carl Monroe that the models previously calculated from control area to control area, and now the models focus on commonly dispatched generators and loads. David Fleischaker noted that there appears to be an inherent conflict between competitive bidding and service based on a first-come, first-served basis, and that this conflict should be considered. SPP will provide feedback to the RSC concerning competitive bidding.

Review and Approval of 2006-2007 RSC Budgets:

Mr. Les Dillahunty provided a report on the 2006-2007 RSC Budgets (RSC Budget - Attachment 2). Mr. Dillahunty stated that the RSC was considerably under budget for 2005. A Cost Benefit Study is shown to begin in 2006 and carried into 2007 for ancillary services if desired. **Vice President Parsley moved to approve the 2006-2007 RSC Budgets. Mike Proctor seconded the motion, which passed unopposed.**

Business Meeting:

President Bode called on Mike Proctor for a report from the Large Generation Interconnection Task Force (LGIA Task Force Report – Attachment 3). Dr. Proctor reviewed the LGIA Task Force recommendation. The Cost Allocation Working Group (CAWG) supports this proposal. **Mike Proctor moved to approve the LGIA proposal and send it to SPP for approval. Vice President Parsley seconded the motion, which passed with Arkansas abstaining.**

Carl Monroe informed the RSC that the MOPC approved a recommendation from the Operation Reliability Working Group (ORWG) regarding Market implementation. Should the Market miss the May 1, 2006 target for going live, the Market will be delayed until October 1, 2006 to avoid any chance of interference with summer operations.

Les Dillahunty reported on possible action on the recent FERC decision on the Organization of MISO States confidential data and pending action of the SPP regarding confidential information (Confidential Data – Attachment 4). FERC representatives removed themselves from the meeting. Mr. Dillahunty emphasized that SPP needs the support of the RSC when filing the SPP Confidentiality Provisions in order to be successful. The draft language will be a part of the EIS filing package to be considered in the near future by the MOPC as a part of the next EIS filing package. President Bode and the RSC were in support and agreed that a conference call can be called if necessary to move quickly to file an intervention with comments in support.

Charles Yeung provided a report of the 2005 Energy Bill (Energy Policy Act 2005 Title II –

Attachment 5). Mr. Yeung stated that SPP's comments regarding the FERC Notice of Proposed Rulemaking for ERO were filed on October 7, 2005. SPP's comments included:

- Member support for combined RTO/RE going forward
- Combined RTO/RE is efficient and effective
- SPP reliability record
- Independence through recent organization changes to separate SPP compliance staff from operations staff.

The FERC final order for ERO is expected in mid-December 2005. Jim Eckelberger urged the group to stand tall as RTO/RE is the right process. The public wants reduced cost and putting these functions together is the less expensive method. The RSC offered a consensus of support.

Scheduling of Next Regular Meeting, Special Meetings or Events:

President Bode noted that the next regularly scheduled RSC meeting is in Dallas on January 30, 2006. It was also noted that there is a SPP Board meeting on December 6 in Dallas for organizational review purposes, and that the RSC could keep this date in mind if anything comes up that requires a RSC meeting before January.

With no further business, the meeting was adjourned.

Respectfully submitted,

Julie Parsley, Secretary

Notice of Meeting of the Southwest Power Pool Regional State Committee

The Southwest Power Pool (SPP) Regional State Committee (RSC) will hold a public meeting at 1:00 pm CDT on January 30, 2006. The business meeting will involve discussion and possible action as set forth in the attached Agenda. Members who are not able to attend in person should submit a proxy in accordance with the Bylaws.

Persons planning to attend the meeting by teleconference should register online at least one day prior to the meeting at <http://www.spp.org> in order to obtain the telephone number for conference bridge access. The telephone number will be provided at close of business the day before the meeting.



Southwest Power Pool, Inc.
COST ALLOCATION WORKING GROUP
Report to the Regional State Committee
January 30, 2006

Organizational Roster

The following members represent the Cost Allocation Working Group:

Mike Proctor, Chair
Larry Holloway
Joyce Davidson
Adrienne Brandt
Richard House

Missouri Public Service Commission
Kansas Corporation Commission
Oklahoma Corporation Commission
Public Utility Commission of Texas
Arkansas Public Service Commission

Activity Update

The Cost Allocation Working Group has been working with the Generation Interconnection Task Force (GITF) chaired by Bob Tumilty (AEP). The GITF has spent time discussing the cost allocation process for the generation interconnection credit process. The RSC endorsed in their October meeting the approach that provides for the cost of the Interconnection Facility and the Attachment Facility to be directly assigned to the Interconnection Customer. Therefore the Interconnection Customer will not be eligible to receive credits for these facilities. The CAWG is in agreement that Network Upgrades required to relieve stability and short circuit problems will be identified in the interconnection study process. These Network Upgrades will be "mandatory" Requested Upgrades. That is, completion of the upgrades will be required as part of the Generator Interconnection process and the funding/crediting will be handled as a Requested Upgrade in Attachments J and Z.

The CAWG chaired by Mike Proctor is working through the details of Tariff language revisions for Attachment Z and J to be sure the Revenue Crediting for the Requested Upgrades (including economic upgrades) considers the necessary differences and similarities between new Network Transmission Service and new Point to Point Transmission Service. A predominate feature of the proposed Tariff modifications is the application of funding credits for the use of the new category of Requested Upgrades. The CAWG has determined there are three types of Network Upgrades: Reliability, Requested and Generator Interconnections. SPP staff has created and continues to modify "straw man" language for Attachment Z and J during and following each CAWG meeting. The January meeting discussed the Revenue Crediting requirement differences between how a Project Sponsor and the typical Transmission Customer would be treated. In future meetings, the Waiver process will be discussed along with the Future Roll-in of Requested Upgrades.

Upcoming Meetings

Future CAWG meetings have been scheduled for: February 8, 2006; March 1, 2006; March 29, 2006

Additional Information

The CAWG continues to meet in connection with monthly meetings of the RTWG, allowing for greater ease of participation by stakeholders in the activities of both organizations.

Southwest Power Pool, Inc.
2005 Goals and Accomplishments and 2006 Goals
for President and CEO

2005 Goals and Accomplishments

1. Outreach / relationship growth

- a. FERC – commissioner meetings
- b. State commissions – meet new commissioners, engage LA & NM
- c. Provide ICT Services to Entergy
- d. Customers – meet with complainants
- e. Members and new members – site visits, attend board meetings
- f. Add Sunflower and Aquila as Transmission Owners
- g. Neighboring regions – AECE, OPPD, NPPD, MidAmerican Energy

There were considerably more interface opportunities during 2005 with state and federal commissioners. Some were due to the formation of the Regional State Committee, but additionally, officers and directors attended many industry and regulatory conferences (for example, MARC was hosted in Little Rock), and made many personal visits to commissioner offices. SPP hosted six social events at Board meetings and regulatory conferences bringing stakeholders, directors, staff and regulators together to build relationships. I was particularly proud that FERC Chair Pat Wood attended our April Board meeting. Louisiana and New Mexico continue to be less committed and, while gaining ground, the going is slow. I specifically targeted complaining customers and potential members for visits and participation in Board and/or annual meetings. As noted throughout the year this included Golden Spread Cooperatives, The Oklahoma Municipal Association, Kansas Electric Cooperatives, Kansas Municipal Utilities, The Energy Bar Association and the Electric Power Supply Association. Aquila's transmission facilities were added to the regional tariff; Sunflower is only waiting for Rural Utility Service approval to do the same. Entergy ICT implementation is proceeding on schedule despite the hurricanes. Louisville Gas & Electric has been added as a contract customer, pending regulatory approvals. All industry eyes are on our implementation of this new model for regional participation. Growth opportunities are substantial with MidAmerican Energy right around the corner and potentially others down the road.

2. Transmission Utilization

- a. Increase transmission capacity
- b. File and implement cost assignment processes
- c. Promote alternative investment processes

Texas HB989, Kansas HB2045 and Oklahoma HB1910 were all passed into law facilitating funding and cost recovery for transmission expansion. The transmission cost allocation filing was made in March and accepted by FERC in May – both very positive media events. We asked for and received from FERC a time extension for application of Attachment AA to our tariff for prepayment of transmission service to fund upgrades. We filed our transmission definition in

July and received an affirmative order at the end of September. This was clearly a milestone for SPP and one that exercised just about every facet of the organization. Additional filings included de-pancaking Schedule 1 charges and Multi-Owner Compensation. We have completed the first aggregate study, learning many new processes. In April 2005, the Board approved the Phase 1 Reliability Report of the SPP RTO Expansion Plan, which included 89 new and/or accelerated projects totaling \$172M of incremental investment that will be required in the 2005 - 2010 planning horizon. Processes were developed to track/report on the status of \$552M of all transmission projects, including Transmission Owner committed projects, within the footprint. For Phase II, Staff developed economic planning processes and identified four potential 345 kV economic upgrades that provided reasonable paybacks based on conservative models and assumptions. The SREP has evolved throughout 2005 to include in excess of \$700M of transmission expansion projects within SPP, which includes \$20M of upgrades resulting from the 1st Aggregate Study. SPP Staff is working with stakeholders to conclude numerous expansion plans to identify optimal transmission expansion plans for the Kansas/Panhandle region to accommodate new wind and coal plant developments, new High Voltage Direct Current interconnections with ERCOT, transmission expansion within Kansas to address existing constraints, as well as potential ties to Nebraska and other areas. We made significant progress on the final phases of the regional transmission expansion plan. I was hopeful for Board approval during 2005, but the MOPC raised valid questions about this cutting-edge process that need answering. Last, but certainly not least, senior staff continues to visit with institutional investors (specifically Prudential, Morgan Stanley and two venture capitalists) to explore opportunities for their investment in transmission expansion projects to provide a funding source other than simply rate-basing these costs. An incredibly successful year!

3. Board Development

- a. Activate Corporate Governance Committee
- b. Activate Compliance Committee
- c. Implement director training program
- d. Attend major business school advanced management training program
- e. Develop new multi-year strategic plan

Both the Corporate Governance Committee and the Compliance Committee were activated this year. These were no simple tasks given our transition to the non-stakeholder Board, relatively new responsibilities and functions, and the high profile and somewhat controversial nature of responsibilities. The Compliance Committee spent much time on our Independent Market Monitor relationship and hearing an appeal from members on non-compliance with NERC Standards. The Corporate Governance Committee focused on filling Bob Schoenberger's vacancy with Larry Altenbaumer and presenting a slate of nominees to the membership for the class of 2008. Much time was spent laying the groundwork for director training in the future with addition of the June Board meeting in Little Rock specifically for this purpose. Work has already begun on the development of initial materials, which will also be useful in our future work with legislators and regulators. To facilitate director development, the compensation schedule for director involvement in organizational group meetings was modified. Additionally, we had the historic technical conference at FERC and the MARC conference in Little Rock, both of which provided unique educational opportunities. Attendance at Harvard's Advanced Management

Program was not only a highlight accomplishment for this director, but also for our relatively new officer team. I have new found enthusiasm for the job and I am very proud that things were well managed during my absence despite the frantic pace of activities. We hosted a strategic planning retreat in May and published a Board-approved plan in July. While we were unable to get the group focused on the longer term during that process, folks are now open to a more strategic, less tactical approach to planning. Having said that, I do not want to take away from the very important initiatives included in the plan. It is impressive in these dynamic times to stay a course for more than 18 months and our plate is certainly full of worthy initiatives.

4. Reliability Improvement

- a. Complete construction of coordination center
- b. Implement energy imbalance market
- c. Pass NERC audits of Reliability Coordinator and Compliance Monitoring Functions

Our initial project team goal developed in January for the new coordination center called for groundbreaking in mid-July with keys being handed over at the end of March 2006 and operation in June 2006. We now expect to break ground in December 2005 with operation in January 2007. Reasons for the delay include: an inexperienced and unfocused initial project lead that eventually left the company; a project team that was unfocused due to other priorities; firing the original project management firm; and, changing requirements with expanding contract services. We are now hiring an outside project manager to oversee construction. We passed our NERC audits with flying colors and were recognized for several “best practices”. We are now performing Control Area Scheduling services for four members and have implemented the Joint Operating Agreement with Midwest ISO. The energy imbalance market was initially scheduled for implementation in March 2005, but is now scheduled for implementation in May 2006. Reasons for the delay include: lack of communication between reliability groups and market development groups; scope changes from market development; recognition of more effort needed in market participant readiness; tariff development issues; and, SAS70 audit processes. Operations is now more engaged and mitigating some of the communications issues in the membership as well as adding project management (internal and external) to focus the efforts on market testing and implementation. We passed a watershed event in November when participants actually moved generation in response to our deployment signals as they will under the energy imbalance market. The first formal phase of market trials began November 1. Participants representing 40 percent of generation capacity have successfully demonstrated the ability to meet our deployment instructions and timelines associated with daily market activities using a range of realistic scenarios. Our goal is to have participants representing at least 65 percent of generation capacity complete this testing by the end of the year.

5. Accountability Tracking

- a. Implement monthly Board reports & a phone consultations
- b. Implement appraisal process for officers and Board
- c. Implement incentive compensation process

I began distributing monthly reports to the Board in March. Based on initial feedback I believe these are achieving the desired information flow. Additionally, each officer has been in much closer contact with directors on their respective committees to ensure proper opportunity for consultation. In October, the Board approved a performance compensation program developed by staff and the Human Resources Committee. In addition, we implemented a 360-degree review process for the officer team. Finally, the Strategic Planning Committee implemented a process for an annual assessment of organizational effectiveness, building on the process developed for the Board of Directors last year.

6. Administrative Process

- a. Officers to wander around more
- b. Establish monthly cycle for managers meetings
- c. Identify backup for all key personnel (including every supervisor)
- d. Identify and develop high potential employees
 - i. Rotate responsibilities
 - ii. Assign special projects
 - iii. NERC/NAESB/IRC assignments
- e. Institute Officer lunches with staff

All these administrative processes were accomplished to some degree, but the three most notable accomplishments in the administrative area were not on the list of goals: completion of the cost/benefit study for the organization; completion of the SAS70 Type 1 audit; and, documentation of our corporate culture. Publication of the cost/benefit study was a significant event and one that required considerable staff resources to accomplish. While each SPP service has been cost justified as it was approved over our 64-year history, the true economic benefit of the total organization has never before been quantified. In simple terms, the study reported that the organization provides a 270% return on investment! The decision on timing and scope of a SAS70 audit came after the first of the year and despite a heavy impact on the organization, an unqualified opinion was received on our Type 1 audit. This required the development, documentation and implementation of many new control procedures. As an externally driven project, I was amazed at the response of our staff to meeting this challenge. Last but certainly not least, we have finally captured our corporate culture in written word to use as a barometer in our hiring, appraisal and training efforts as we continue to undergo tremendous growth. This was a foundational step for implementation of quality control initiatives in 2006 and involved significant time from the staff and officers.

Goals for 2006

1. Outreach / relationship growth

- a. FERC & States, engage LA & NM
- b. Provide ICT Services to Entergy & LGE
- c. Customers – meet with complainants
- d. Members and new members – site visits, attend board meetings
- e. Add Sunflower as Transmission Owners
- f. Neighboring regions – AECl, MidAmerican Energy

2. Transmission Utilization

- a. Increase transmission capacity

3. Board Development

- a. Implement director training program
- b. Begin process for multi-year strategic plan
- c. Assess Market Monitoring
- d. Director site visits to Members

4. Reliability Improvement

- a. Complete construction of coordination center
- b. Implement energy imbalance market
- c. Document and test emergency response plan
- d. Market development future steps plan
- e. Cyber Security Standard implementation

5. Administrative Process

- a. Hire quality assurance analyst
- b. Implement quality assurance processes
- c. Market settlement renegotiation
- d. Establish monthly cycle for all staff meetings
- e. Document backup for all key personnel
- f. Document and provide substantive development plans for all staff

Section One – Report of Independent Accountants

To the Board of Directors and Management
of the Southwest Power Pool, Inc.

We have examined the accompanying description of the controls, included in Tables I-XIII of Section Two, of the Southwest Power Pool, Inc. (“SPP”) applicable to the business processes and information technology processes for transmission/ancillary service requests, scheduling, settlements, billing, and cash clearance services provided by and administered by SPP. Our examination included procedures to obtain reasonable assurance about whether: (1) the accompanying description presents fairly, in all material respects, the aspects of SPP’s controls that may be relevant to a user organization’s internal control as it relates to an audit of financial statements, (2) the controls included in the description were suitably designed to achieve the control objectives specified in the description, if those controls were complied with satisfactorily, and user organizations applied the controls contemplated in the design of SPP’s controls, and (3) such controls had been placed in operation as of October 31, 2005. The control objectives were specified by the management of SPP. Our examination was performed in accordance with standards established by the American Institute of Certified Public Accountants and included those procedures we considered necessary in the circumstances to obtain a reasonable basis for rendering our opinion.

We did not perform procedures to determine the operating effectiveness of controls for any period. Accordingly, we express no opinion on the operating effectiveness of any aspects of SPP’s controls, individually or in the aggregate.

As described in Section Two, certain of the control activities associated with Control Objective 10 relating to logical security controls associated with SPP’s information systems, were not in place as of October 31, 2005 to provide reasonable assurance that the related Control Objective 10 was met as of October 31, 2005.

In our opinion, except for the deficiency described in the preceding paragraph, the accompanying description of the aforementioned controls presents fairly, in all material respects, the relevant aspects of SPP’s controls that had been placed in operation as of October 31, 2005. Also in our opinion, the controls, as described, are suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls were complied with satisfactorily and user organizations applied the controls contemplated in the design of SPP’s controls.

The description of controls at SPP is as of October 31, 2005, and any projection of such information to the future is subject to the risk that, because of changes, the description may no longer portray the system in existence. The potential effectiveness of specific controls at SPP is subject to inherent limitations and, accordingly, errors or irregularities may occur and not be detected. Furthermore, the projection of any conclusions, based on

our findings, to future periods is subject to the risk that changes made to the system or controls, or the failure to make needed changes to the system or controls may alter the validity of such conclusions.

This report is intended solely for use by the SPP Board of Directors, SPP management, SPP market participants, and the independent auditors of market participants.

December 1, 2005
Philadelphia, Pennsylvania

Southwest Power Pool, Inc.
BOARD OF DIRECTORS EVALUATION FORM
November 2005

	Considerations	5 Strongly Agree	4	3	2	1 Strongly Disagree	2005 Results	2005 Average	2004 Average
1	Board has full and common understanding of the roles and responsibilities of a Board						N/A	N/A	4.22
2	Board members understand the organization's mission and its services	3 - D	2 - D 3 - M	4 - M	2 - M		4.60 D 3.10 M	3.64	3.50
3	Organization structure is clear (Board, officers, committees, executive and staff)	3 - D	2 - D 7 - M	1 - M	1 - M		4.60 D 3.67 M	4.00	4.28
4	Board has clear goals and actions resulting from relevant and realistic strategic planning	2 - D	1 - M	3 - D 7 - M	1 - M		3.80 D 3.00 M	3.29	3.39
5	Board attends to policy-related decisions which effectively guide operational activities of staff	2 - D	2 - D 5 - M	1 - D 2 - M	2 - M		4.20 D 3.33 M	3.64	3.67
6	Board receives regular reports on finances/budgets, performance and other important matters	1 - D	3 - D 7 - M	1 - D 2 - M			4.00 D 3.78 M	3.86	4.22
7	Board effectively represents the organization to the stakeholder community	3 - D	1 - D 4 - M	1 - D 2 - M	3 - M		4.40 D 3.11 M	3.57	3.28
8	Board meetings facilitate focus and progress on important organizational matters	2 - D	1 - D 4 - M	2 - D 4 - M	1 - M		4.00 D 3.33 M	3.57	3.72
9	Board regularly monitors and evaluates progress toward strategic goals and objectives	1 - D	3 - D 2 - M	1 - D 6 - M	1 - M		4.00 D 3.11 M	3.43	3.22
10	Board regularly evaluates and provides development plans for the Chief Executive	3 - D 1 - M	1 - D 5 - M	1 - D 3 - M			4.40 D 3.78 M	4.00	3.50
11	Each member of the Board is involved and interested in the Board's work	4 - D 3 - M	1 - D 3 - M	3 - M			4.80 D 4.00 M	4.29	4.22
12	All necessary skills, stakeholders and diversity are represented on the Board						N/A	N/A	3.44
13	Board considers the diverse positions of the membership in a non-discriminatory manner	5 - D	3 - M	2 - M	4 - M		5.00 D 2.89 M	3.64	N/A

**Southwest Power Pool Board of Directors Evaluation
December 1, 2005**

Points on which the Board of Directors should focus attention in 2006

Member Comments

- I feel strongly that the board should ensure that the by-laws are followed. If the by-laws do not meet the needs of the organization, then we should change them. It is a slippery slope to head down when we pick and choose when and which by-laws we want to follow.
- 1. Successful launch of the EIS market. 2. Making the SPP region attractive to generation and transmission investors. 3. Keep front and center the reasons for an RTO to exist, which is to mitigate discrimination by vertically integrated utilities and deliver efficient energy products to consumers. 4. Ensure the cost savings identified by the cost/benefit study are realized and/or exceeded. 5. Consult with individual members, not just staff, about their concerns and positive experiences with the SPP process.
- Board needs to reach independent decisions on matters brought to it, not just rubber stamp committee reports, particularly when there are divergent opinions. Not enough accountability for meeting budgets and schedules placed on staff. Start up of Markets is an example.
- Integrate RSC processes and initiatives into those of the SPP stakeholder groups - Ensure the expansion plan and cost allocation plan are fair to all including those that must recover costs from retail jurisdictions - Assist the state jurisdictional entities with approvals necessary to remain members of the SPP RTO
- Learn more about each of the members of SPP. Try to determine how their decisions impact end use consumers. Try to remember that not all companies are rate of return or return on investment oriented. Manage and control expenses effectively.
- Do a better job of balancing the minority opinion with the results of committee work. You are too focused on making everybody happy. Continue to work with Nick in his development as President. Continue to work with Nick and the other officers to assure that they and their staffs are up to the challenges before them.
- One area where I feel the Board should focus is getting more exposure to the Members Senior Management. Hold conferences, make visits to corporate offices, etc. This would add significantly to the organizations credibility. Another area is a better understanding of State and Federal issues and how they interrelate and impact members.
- Progress towards goal of minimizing transmission congestion in region. Progress towards actually seeing new transmission facilities constructed in the region.

Director Comments

- Long-term strategic planning
- Helping Management ensure that the market implementation happens on time and on budget. Receive education about the changes going on at FERC and NERC and the implications for SPP. Provide appropriate guidance to Management to help manage the significant staff increases budgeted for 2006.
- [1] continue evolution to longer term strategic vision and plans ; [2]Improvement of staff operational reporting to BOD and members ;[3] BOD training ; [4]Facilitate intra BOD interface ; [5] facilitate [BOD] to [CEO & Senior staff] exchange and discussion
- Actually getting transmission built 2. Cost efficacious way to meet reliability organizational issues 3. Making the market and not the membership key to the financial stability of the organization 4 understanding the scope of IRP which would be useful and important to members and regulators 5. Focusing on time to action within the member driven structure 6. Finding ways to combine efforts with sister orgs to share software costs
- assuring that minority and public/consumer interests are not overlooked assuring that transmission is built, not merely planned assuring there are effective means to hear all views and develop consensus without going through formal grievance, investigation or adjudicatory processes

**Southwest Power Pool
2005 Customer Satisfaction Survey Summary
December 1, 2005**

1. What is SPP’s overall satisfaction rating?

On a scale from 1 (least satisfied) to 5 (most satisfied), the rating is 3.64.

2. How did SPP’s services rate?

Reliability Coordinator	3.85
Scheduling	3.76
Tariff Studies	3.35
Interconnection Studies	3.41
Planning /Studies	3.12
Settlements	3.38
Meeting Facilitation/Organization	3.78
Market Implementation	2.79

3. Is SPP doing a “good” job with committee and work group meetings?

Yes, each related question had an average rating above 3.55.

4. Within the written responses, are there consistent themes?

More than one respondent commented on issues related to communication, transmission planning, market implementation, and staff support and resources.

5. Survey response rate was 33%. The mix of survey respondents is a good reflection of our overall constituency mix.

6. How does satisfaction vary among SPP’s constituencies?

Vendors	4.52
Regulators	4.23
Members	3.46
Customers	3.31

7. Does a respondent’s role within their organization affect how they rate SPP?

Other	4.19
Operations	3.78
Engineers	3.74
Executives	3.45
Management	3.24
IT	3.06

Customer Comments

- SPP must work towards complete independence as an RTO and look after the interests of customers and TOs alike. They should not focus on satisfying the TOs as they did under the old SPP. SPP should quickly move to assert control over all the transmission upgrades within the footprint. Currently, TOs upgrade their systems without even notifying SPP. This practice should be stopped. SPP should have total control of network upgrades throughout the system. This will help ensure equal treatment of wholesale and TO affiliate retail transmission access and service.
- I am disappointed with the billing statements from SPP. Most billing I am familiar with show clearly the detail for the billing - how much I am buying and what I am paying for each item in one document. If I want to find out these things, I often must go to several documents and rely on someone other than SPP to supply the detail. I would like to see improvement in this area.
- First of all SPP has some shining stars within its organization, in terms of human resources. I have relationships with several SPP employees that I am proud of. Unfortunately they are constantly battling excessive work loads without proper resources to assist them. This problem is further magnified by the fact that many of the employees are required to play lead roles in an excessive number of working groups that meet frequently because the items at hand are too complex, due to the extensive history and agenda of all the parties involved. Another concern is that whenever there is a pending tariff filing at FERC, it becomes all SPP parties involved #1 priority, further impacting customer responsiveness. As an interconnection and transmission customer, my projects end up bearing the ultimate business risk of this dynamic and this is not acceptable. As a wind energy developer and plant owner, at the broadest level I am concerned about the continued heavy influence of traditional IOU's at the working group level. IPP's, munis, coops, etc. are almost always heavily outweighed on key policy decisions, thus ultimately adding more lead to the sled as SPP struggles in its uphill climb toward a truly open market place in the future. The SPP's slow pace of moving to an open market ultimately impacts the rate payer (tax payers, voters) who ultimately pay for the majority of SPP's overhead. These stakeholder groups' voice is not heard at the working group level (I don't consider the RSC to adequately represent these parties' interest). Finally, I am very disturbed about the level of conservatism being utilized in SPP's interconnection and transmission delivery models. Time and time again we are hit with unbelievable upgrade costs that are far in excess of what independent, vastly experienced, consultants have advised would be reasonable for our new projects. I know that many parties who participated in the recent transmission delivery study process feel the same way. This is not a case of my company having a "bad" consultant as we have used more than one and get similar answers. Overall, the SPP seems to satisfy its mission on reliability, maybe too well, but has not evolved quickly enough to satisfy its other primary role as an RTO, which in my view is to get the region to a competitive and open market place as soon as possible. This is clearly the direction FERC wants to go, other regions have already accomplished it and it would be the greatest benefit to rate payers in the near and long term.

Member Comments

- There is a substantial lack of communication between the various stakeholder groups. Also, staff is going to have to communicate their views on what is best for the overall market and organization as stakeholder consensus becomes harder to achieve.
- I am concerned about the corporate governance and feel improvement is required in this area, particularly attention to following the bylaws of the organization. If we are to be successful we must strive for the highest standards in all that we do which may entice others to join our organization.
- SPP needs to push harder to get a complete (imbalance, day ahead mkt, ancillary services) market up and running.
- While the implementation of the market is extremely important, SPP must not take attention away from its operations. I do not believe the operations staff is getting the support and resources it needs to do the excellent job that it is capable of doing.
- There is considerable time lag in some (but not all) staff response time. Do not feel that the staff follows the spirit or letter of the tariff consistently.
- I have found many of the processes very cumbersome and unclear. After the fact I am told "we did not do it right" and were not given the opportunity to fix.
- As with any growing organization there are challenges and chances for improvement. We have slipped into a culture of "good enough" due to the pace of changes and need to take a step back and promote solutions that are complete end to end problem solvers rather than the incremental approaches accepted today. thanks – pete
- What I worry about the most with entering this new market is that the majority of the knowledge needed for this market lies with only a few people within SPP. The people interacting with the members simply do not have the knowledge needed to perform the work.
- question 9, part 3 or C: the materials are well-prepared; however, too often, delivered just in time for the meeting, not for advance review.
- When scheduling meetings please request the hotel to provide internet access in the meeting rooms
- The planning process is broken and does not facilitate the construction of new transmission projects. Thus, it harms new generation development.
- My primary contact with SPP is through the working groups, and conflicting meeting schedules continue to be a problem. As a result, multiple people from my company are required to attend conflicting meetings. However, I do believe that SPP has been working to resolve this issue.
- SPP is too focused on expanding with market functions that basic services -- like accurate and timely facilities studies -- take a back seat. Transmission will not be constructed as it should if studies can't be done timely and accurately.
- Clearly there is a difference in meaning between the "SPP" and the "SPP Staff". I have a very high regard for the SPP Staff. As an organization, the SPP always appears to me to be 6 months away from disaster. The so called tariff is a perfect example. The umbrella approach, where each TO effectively has it's own tariff underneath the SPP "umbrella", was ill conceived, and in practice has been a nightmare to administer and for TC's to use. The market is another example of the failure of SPP as the organization. There has never been a true consensus within the organization as to what the market will look like, and how it will work. The only consensus that has been reached is that the SPP WILL spend less than MISO, ERCOT, or the CALISO. All of which is only in small part the staff's responsibility.

Vendor Comments

- As a vendor it is a pleasure to do business with SPP.
- Excellent company. I sometimes wish that I was an employee.
- Hope this helps...as a vendor, my perspective is a bit different than an SPP "customer". Overall, my feedback would be that SPP is going through the normal RTO/ISO "growing pains" of an organization implementing a markets capability. The overall growth in staff/infrastructure/processes/etc are significant and SPP is still progressing through this growth. Overall, SPP is progressing along a similar path as other ISOs/RTOs implementing a markets solution. There are still some significant challenges, but the work ahead of us is certainly within our capability.

Regulator Comments

- Your web site homepage needs to be revised.

