RSC Regional State Committee
FOR THE SOUTHWEST POWER POOL

1000 Center St. Little Rock, AR 72201

**Southwest Power Pool**

**REGIONAL STATE COMMITTEE**

**Omni Mandalay Hotel at Las Colinas, Dallas, Texas**

**January 30, 2006**

**• M I N U T E S •**

**<u>Administrative Items:</u>**

Members in attendance or represented by proxy were:

Denise Bode, Oklahoma Corporation Commission (OCC)
Brian Moline, Kansas Corporation Commission (KCC)
Adrianne Brandt, proxy for Julie Parsley, Public Utility Commission of Texas (PUCT)
Steve Gaw, Missouri Public Service Commission (MPSC)
Mary Cochran, proxy for Sandra Hochstetter, Arkansas Public Service Commission (APSC)

Others in attendance in person or via phone:

Tom DeBaun, Kansas Corporation Commission
Larry Holloway, Kansas Corporation Commission
Matt Tome, Kansas Corporation Commission
Joyce Davidson, Oklahoma Corporation Commission
Karen Forbes, Oklahoma Corporation Commission
Bridget Headrick, Public Utility Commission of Texas
Mike Proctor, Missouri Public Service Commission
Ryan Kind, Missouri Office of the Public Counsel
Richard House, Arkansas Public Service Commission
Jim Eckelberger, SPP Director
Harry Skilton, SPP Director
Josh Martin, SPP Director
Nick Brown, SPP
Carl Monroe, SPP
Les Dillahunty, SPP
Stacy Duckett, SPP
Jeff Price, SPP
Dianne Branch, SPP
Cheryl Robertson, SPP
Lamona Lawrence, SPP
Nora Mead Brownell, Federal Energy Regulatory Commission
Tony Ingram, Federal Energy Regulatory Commission
John Rogers, Federal Energy Regulatory Commission
Penny Murrell, Federal Energy Regulatory Commission
David Fleischaker, Secretary of Energy, OK
Walter Wolf, Stone, Pigman, Walther, Wittman, LLC
Craig Roach, Boston Pacific
Mel Perkins, OG+E
Bob Koenig, OG+E

Alan Derichsweiler, Western Farmers
Michael Desselle, AEP
David Brian, East Texas Cooperatives
Walt Shumate, EEI
Tim Woolley, Xcel Energy
Robin Kittel, Xcel Energy
Terri Eaton, Xcel Energy
Carl Huslig, Aquila
Ron Gary, Lafayette Utilities System
Harry Dawson, OMPA
Doug Henry, Westar
Dennis Reed, Westar
Mike Palmer, Empire
Bary Warren, Empire
Rick Wolfinger, Constellation

President Bode called the meeting to order at 1:00 p.m. Joyce Davidson called roll and a quorum was declared. President Bode asked for adoption of the October 24, 2005 meeting minutes (RSC Minutes 10/24/05 – Attachment 1)**. Adrianne Brandt moved to adopt the October 24, 2005 minutes as modified by Vice President Parsley. Steve Gaw seconded the motion. Hearing no objection, the minutes were adopted.**

**Updates:**
President Bode called on Dianne Branch (SPP) to present the RSC Financial Report (RSC Financial Report – Attachment 2). Ms. Branch reviewed the RSC 2005 income statement concluding and reporting that the RSC was under budget for the year.

President Bode asked for updates from the RSC officers. Hearing none she moved on to the FERC report presented by Tony Ingram. Tony Ingram introduced Commissioner Nora Brownell and Penny Murrell from FERC. Commissioner Brownell saluted the RSC efforts and stated her belief that FERC and the states must work together to assure benefits to consumers. She also highlighted the Commission's planned final rule addressing requirements for an Electric Reliability Organization, stressing its importance, and its relationship with regional authorities. Regarding the Commission's recent final rule addressing its increased authority stemming from PUHCA repeal, Commissioner Brownell stated her belief that a less fragmented industry is better for all the states and should provide tangible benefits but she recognized the political pressure on states. She also summarized the meeting with Kansas stakeholders and regulators earlier the same day which addressed economic and reliability upgrades of transmission, characterizing this meeting as a case study in what the FERC and the states need to look at to assure that adequate infrastructure is in place and the costs of upgrades are appropriately allocated. Following Commissioner Brownell, Mr. Ingram reported that the Commission issued, in December, its final rule on RTO/ISO cost accounting which will facilitate tracking RTO costs, enhancing transparency. He also noted the Commission's final rule addressing market manipulation and its proposed rule on transmission pricing incentives, which prompted comments from a diverse group of industry participants and interested parties.

Nick Brown was asked to provide an update of Southwest Power Pool (SPP) activities. Mr. Brown stated that he would cover the 2005 Year in Review (2005 Year in Review – Attachment 3) and address an action item under 4b of the agenda. Mr. Brown highlighted 6 initiatives of 2005:

Outreach/relationship growth, Transmission Utilization, Board Development, Reliability Improvement, Accountability Tracking, and Administrative Process. Mr. Brown stated that 2005 was a landmark year in terms of furthering transmission expansion. This was due in large part to the cost allocation plan, which was a bold action from the RSC and provided a procedure allowing for Base Plan upgrades. Attachment AA allowed the ability to pre pay smaller upgrades. A transmission definition was determined, which was not a small undertaking. Mr. Brown added that plans and financing are underway for a primary coordination center, which would be separate and secure. Mr. Brown asked Jeff Price (SPP) to present an update on the Cost Benefit Study conducted using higher fuel costs (Cost Benefit Study Presentation – Attachment 4). Mr. Price stated that the updated study for Arkansas and Missouri indicated that higher fuel prices significantly increase the benefits of the SPP EIS Market.

President Bode then asked for a round of introductions including those joining via phone.

**Business Meeting:**
President Bode called on Mike Proctor to report on the Cost Allocation Working Group status (CAWG Report – Attachment 5). Dr. Proctor reviewed work with the Generation Interconnection Task Force (GITF) including the cost allocation process for the generation interconnection credit process. The CAWG is working through Tariff revisions for Attachment Z and J to assure that revenue crediting for requested upgrades considers differences and similarities between new Network Transmission Service and Point to Point Transmission Service. SPP staff is working on “strawman” language. Future discussion will include the waiver process and the future roll-in of requested upgrades. The Base Plan Guidelines Task Force (BPGTF) is dealing with what projects are included in the Cost Allocation Base Plan. Standards are needed and it is planned to finish these standards by the end of March 2006. President Bode requested that projects be prioritized and that information be provided on new issues with a brief write up on all issues. President Bode inquired about the aggregate study. The second study is almost complete and it was asked that information be provided to the group.

Nick Brown asked to discuss a Service Agreement filed with FERC in August of 2005. At this time, the FERC members excused themselves from the room. Mr. Brown explained that the signed Service Agreement, Docket ER05-1416, had been denied by FERC in an October 27, 2005 order, which SPP feels is a departure from precedent. SPP filed a Request for Rehearing and Clarification in November 2005. Mr. Brown asked for a show of support from the RSC for a technical conference, which can be done without taking sides. It was the consensus of the group that a technical conference would be beneficial for understanding. The RSC may try to file joint comments. Hard copies of the order and the request for rehearing were distributed (Order and Request for Rehearing – Attachment 6).

Carl Monroe provided an update on the EIS Market implementation. Mr. Monroe reported that SPP made a Market Tariff filing on January 4. To date, fourteen comments/interventions/protests have been filed. SPP is working on their response, which is due on February 9. Mr. Monroe reported on the status of Market tasks. Generation was moved where SPP did deployment testing, Day in the life enhanced testing began January 23 with success, operated with scripted inputs, and unscripted Market trials will begin on February 20. Market participants were asked to present their status at the MOPC meeting. All stated that they would be ready for the May 1 Market implementation. Market readiness metrics were approved by MOPC, which provides objective criteria to evaluate each stage of testing.

Dianne Branch provided a SAS70 audit report (Report of Independent Accountants and Presentation – Attachment 7). Ms. Branch stated that the first ever SAS70 Type1 audit had been performed in 2005 and reviewed the process, the outcome, and the remediation plan. A Type II audit, which is required to run no less than six months, is planned for May through October 2006. March 2006 will mark the beginning of the audit readiness assessment. Mr. Brown stated that the SAS70 audit helps our members who are under the Sarbanes Oxley Act by allowing one audit rather than many. SPP is not required to perform an audit under this act.

Nick Brown provided a report on the Board of Directors Evaluation and the Customer Satisfaction Survey (Board Evaluation and Customer Satisfaction Survey Results – Attachment 8). The Corporate Governance Committee formed an Organizational Effectiveness Task Force (OETF) in 2005 to evaluate Board of Directors effectiveness. This evaluation covered three primary areas including long-term strategy, need for more Board involvement, and a customer satisfaction survey. In regards to long-term strategy, the Strategic Planning Committee has scheduled a retreat in June. In addition to a Board evaluation, the OETF performed an organizational self-assessment looking at the process and improvements of various stakeholder committees and task forces. Group scopes were also reviewed.

Les Dillahunty inquired about the RSC internal audit and asked if anything was being done. President Bode stated that the process was started but that no timeline had been set as yet. She said that they would have a report at the April meeting on the auditor and the schedule of the audit.

**Scheduling of Next Regular Meeting, Special Meetings or Events:**
President Bode noted that the next regularly scheduled RSC meeting is in Oklahoma City on April 24, 2006. Scheduled meetings and locations for the balance of 2006, in addition to the April meeting are (Remaining 2006 RSC and SPP Board Meetings – Attachment 9):

July 24 – Kansas City, MO

October 23 (Annual Meeting) – Tulsa, OK

With no further business, the meeting was adjourned.

Respectfully Submitted,

Les Dillahunty

RSC Regional State Committee
FOR THE SOUTHWEST POWER POOL

1000 Center St. Little Rock, AR 72201

# 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 Report ...................................................................Dianne 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**

## 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**

**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
Adrianne 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, WFEC
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.

**<u>Amendment of Bylaws</u>:**
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.**

**<u>Election of Officers</u>:**
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.

**<u>Scheduling of Next Regular Meeting, Special Meetings or Events</u>:**
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.

# Regional State Committee
## 2005 Income Statement
### Actual vs. Budget

| | Actuals | Budget | Fav/(Unfav) Variance |
|---|---|---|---|
| **Income** | | | |
| Other Income | 982,661 | 1,422,665 | (440,004) |
| **Total Income** | 982,661 | 1,422,665 | (440,004) |
| **Expense** | | | |
| Operating Expense | | | |
| Travel | 46,653 | 72,275 | 25,622 |
| Administrative | 2,719 | 120,200 | 117,481 |
| Meetings | 11,114 | 30,190 | 19,076 |
| Total Operating Expense | 60,485 | 222,665 | 162,180 |
| Outside Services | | | |
| Cost Benefit Study | | | |
| Energy Imbalance | 922,176 | - | (922,176) |
| Ancillary Services | - | 400,000 | 400,000 |
| Congestion Management | - | 800,000 | 800,000 |
| Total Cost Benefit Study | 922,176 | 1,200,000 | 277,824 |
| Total Outside Services | 922,176 | 1,200,000 | 277,824 |
| **Total Expense** | 982,661 | 1,422,665 | 440,004 |
| **NET INCOME** | - | - | - |

**NOTE: Net income for actual results and budgeted amounts will be $0 due to the fact that expenses incurred are reimbursed 100% by SPP. Reimbursements are recorded as income. Therefore, expenses will always equal income.**

# 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 – AECI, 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. **<u>Board Development</u>**
    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. **<u>Administrative Process</u>**
   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 – AECI, 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

SPP

# Cost Benefit Study Fuel Price Update for Arkansas and Missouri

Jeffrey Price
Contract Services
Southwest Power Pool

Regional State Committee Meeting

January 30, 2006

Dallas, TX



SPP

## Background

- Study completed in April 2005 and revised in July 2005.
- Reasons for Fuel Price Update
  - Amount of time between initial study and the updated analysis
  - Significant rise in natural gas prices (currently 80-90% higher than the August 2004 initial assumptions)
  - Forecasts show continued high gas prices
  - Possible impact of change in fuel prices on study results
- Update to study initiated on November 8, 2005 and filed in Arkansas on December 22, 2005



SPP

## Background

- Focus of the Analysis
  - Arkansas jurisdictional Utilities only
  - Updated fuel prices
  - 2006 study horizon
- After the analysis was performed, the Missouri PSC also requested that the sensitivity be conducted for Missouri jurisdictional utilities
- Analysis updated all fuel types including coal, natural gas and fuel oil with November 2005 projections of 2006 prices.
- CRA is currently updating the focused analysis for Kansas, Oklahoma, and Texas.



SPP

## Updated Fuel Prices

- Fuel prices were taken from NYMEX, Platts and Cantor-Fitzgerald

Table 3: Delivered Natural Gas Prices for 2006, South Region
*(2004 $/mmBtu)*

| | Cost Benefit Study | Fuel Price Update |
|---|---|---|
| Jan | 6.26 | 12.05 |
| Feb | 6.21 | 11.98 |
| Mar | 6.06 | 11.67 |
| Apr | 5.39 | 9.85 |
| May | 5.27 | 9.59 |
| Jun | 5.28 | 9.61 |
| Jul | 5.30 | 9.64 |
| Aug | 5.31 | 9.66 |
| Sep | 5.30 | 9.63 |
| Oct | 5.31 | 9.65 |
| Nov | 5.54 | 10.08 |
| Dec | 5.72 | 10.49 |



SPP

## Arkansas Results

- For all Transmission Owners under the SPP OATT, EIS benefits and wheeling impacts increase from $50.5 million to $104.5 for the year 2006.
- In Arkansas, the benefits increase from 1.7 million to 3.9 Million for 2006.
- **The specific utility totals are below:**

Table 1: 2006 EIS Market Trade and Net Wheeling Benefits for Arkansas Retail Customers
*(thousands of dollars)*

| | SWEPCO | Empire | OGE | Total Arkansas Retail |
|---|---|---|---|---|
| Cost Benefit Study | 120 | 249 | 1,317 | 1,685 |
| Fuel Price Update | 831 | 348 | 2,677 | 3,855 |
| Increase in Benefits with Fuel Price Update | 711 | 99 | 1,360 | 2,169 |



SPP

## Arkansas Results

- CRA also provided the 10 year results by assuming that the 2006 differential between an updated gas price forecast and the original study would remain roughly constant in real terms for the rest of the study period.
- In Arkansas, the 10 year benefits increase from $8.6 million to $23.8 Million.
- The specific utility totals are below:

Table 2: Estimated EIS Market 10-Year Benefits (Costs) for Arkansas Retail Customers
If 2006 Gas Price Increase Applies in Subsequent Study Years
*(thousands of 2006 present value dollars)*

| | SWEPCO | Empire | OGE | Total Arkansas Retail |
|---|---|---|---|---|
| Original Study Results | (2,942) | 1,446 | 10,046 | 8,550 |
| Estimated Benefits Increase w/Updated Fuel Prices | 4,996 | 695 | 9,557 | 15,248 |
| Estimated Results with Updated Fuel Prices | 2,054 | 2,141 | 19,603 | 23,798 |

# Missouri Results

- In Missouri, the benefits increase from $8.2 million to $12 Million
- **The specific utility totals are below:**

**Table 1: 2006 EIS Market Trade and Net Wheeling Benefits for Missouri Retail Customers**
*(thousands of dollars)*

| | Empire | KCPL | Total Missouri Retail |
|---|---|---|---|
| Cost Benefit Study | 6,808 | 1,425 | 8,233 |
| Fuel Price Update | 9,517 | 2,496 | 12,013 |
| Increase in Benefits with Fuel Price Update | 2,708 | 1,071 | 3,779 |



# Missouri Results

- In Missouri, the 10 year benefits increase from $41.7 million to $68.2 Million.
- The specific utility totals are below:

**Table 2: Estimated EIS Market 10-Year Benefits (Costs) for Missouri Retail Customers If 2006 Gas Price Increase Applies in Subsequent Study Years**
*(thousands of 2006 present value dollars)*

| | Empire | KCPL | Total Missouri Retail |
|---|---|---|---|
| Original Study Results | 39,592 | 2,073 | 41,664 |
| Estimated Benefits Increase w/Updated Fuel Prices | 19,035 | 7,529 | 26,564 |
| Estimated Results with Updated Fuel Prices | 58,627 | 9,602 | 68,229 |



# Conclusions

- **Updated Fuel Prices significantly increase the benefits of the SPP EIS Market**
  - **CRA did not model future years, and current projections indicate that the gas price difference between the original study and the update will begin to narrow after 2006.**
  - **However, any natural gas price higher than the price in the original study will produce greater benefits to the SPP transmission owning members.**



# Questions?

Southwest Power Pool

**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 | Missouri Public Service Commission |
| Larry Holloway | Kansas Corporation Commission |
| Joyce Davidson | Oklahoma Corporation Commission |
| Adrianne Brandt | Public Utility Commission of Texas |
| Richard House | 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.

113 FERC ¶ 61,101
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;
Nora Mead Brownell, and Suedeen G. Kelly.

Southwest Power Pool, Inc. Docket No. ER05-1416-000

ORDER ACCEPTING SERVICE AGREEMENT, AS MODIFIED, FOR FILING

(Issued October 27, 2005)

1. On August 31, 2005, Southwest Power Pool, Inc.'s (SPP) filed a proposed executed service agreement for 35 MW of long-term firm point-to-point transmission service (Agreement) with Southwestern Public Service Company (Southwestern) d/b/a Xcel Energy Marketing (Xcel). In this order, the Commission accepts the Agreement for filing, as modified below, to become effective August 1, 2005, and directs SPP to make a compliance filing removing limitations on Southwestern's rollover rights. Further, we find that the Agreement, by providing for redispatch service to accommodate the service under the agreement, does not provide an undue preference to Southwestern.

**Background**

2. On August 31, 2005, SPP filed the Agreement, newly executed by Southwestern. The Agreement has a term of one year and five months, and would terminate on January 1, 2007. The Agreement provides for 35 MW of capacity from within Southwestern's pricing zone to the Eddy County Interchange. The Agreement proposes a provision, section 2.0 of the specifications attached to the Agreement, restricting Southwestern's future use of rollover rights that would otherwise be available for contract terms of one year or more pursuant to section 2.2 of the SPP Open Access Transmission Tariff (OATT). Additionally, under section 2.0, Southwestern commits to operating its Maddox No. 1 and Cunningham No. 4 generation units at sufficient levels to maintain voltage at the Eddy County Interchange 345 kV bus, at or above 90 percent of the nominal level until both Cunningham units No. 2 and No. 3 have been returned to service.

3. SPP requests a waiver of the Commission's 60-day prior notice requirement to allow the Agreement to become effective on August 1, 2005. SPP states that "[i]f the Commission does not accept the proposed limitation on rollover rights, then the Commission should consider the transmission service agreement as withdrawn."[1]

---

[1] Transmittal Letter at 5.

**Notice of Filing and Responsive Pleadings**

4. Notice of the August 31, 2005 filing was published in the *Federal Register*, 70 Fed. Reg. 54,041 (2005), with interventions and protests due on or before September 21, 2005. On September 21, 2005, Occidental Permian Ltd. and Occidental Power Marketing, L.P. (collectively Occidental) filed a timely motion to intervene and protest. On October 6, 2005, SPP filed an answer to the protest. Finally, on October 10, 2005, Occidental filed an answer to SPP's answer.

**Discussion**

**A. Procedural Matters**

5. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2005), the timely, motion to intervene filed by Occidental serves to make it a party to this proceeding.

6. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2005), prohibits an answer to a protest unless otherwise ordered by the decisional authority. We are not persuaded to accept SPP's or Occidental's answers and will, therefore, reject them.

**B. Limitation on Rollover Rights**

**SPP's Proposal**

7. SPP proposes in section 2.0 to limit Southwestern's exercise of rollover rights. Section 2.0 provides that SPP "will not provide service beyond November 30, 2007 because it has performed an analysis . . . that indicates that, beginning December 1, 2007, insufficient voltage support and thermal capacity exist to accommodate the future rollover of this Service Agreement …" Further, section 2.0 provides that the limitation is due to forecasted increase in native and network load and due to currently committed network and point-to-point reservations.

8. In support of the limitation, SPP cites to its System Impact Study (SIS) assessing the Southwestern 35 MW transmission service request and identifying system problems and potential system modifications necessary to accommodate the request through SPP's remaining planning horizon. SPP states that it used 16 seasonal models and that the results of various scenarios, provided to the Commission, show that SPP will not be able to allow Southwestern to rollover the Agreement without threatening reliability and potentially harming existing customers and native load. SPP states that the base models used in the SIS were modified to reflect current modeling information and account for forecasted increases in native and network load, and pre-existing network and point-to-

point transmission service commitments. Also, in support of its rollover limitation, SPP provides a table listing the load growth in the Southwestern region associated with overloads from Southwestern's 35 MW request in the Fall 2006 Peak, the Winter 2007 Peak and the Summer 2015 Peak and a table showing specific facility overloads compared to load growth in the Southwestern region.

**Commission Response**

9. The Commission has consistently stated that a transmission provider can deny a customer the ability to rollover its long-term firm service contract only if the transmission provider includes in the original service agreement a specific limitation based on reasonably forecasted native load needs for the transmission capacity provided under the contract at the end of the contract term.[2] The Commission has further stated that a transmission provider may limit the terms under which a new long-term agreement may be rolled over if it has a pre-existing contract obligation that commences in the future.[3] For example, if the transmission provider knows at the time of the execution of the original service agreement that available transfer capability to serve the customer will only be available for a particular time period, after which it is already committed to another transmission customer under a previously-confirmed transmission request (*i.e.*, an agreement under which service would commence at some time in the future), the transmission provider can reflect those obligations in the long-term contract and thereby limit the prospective transmission customer's rollover rights.

10. In order to make this demonstration, a transmission provider must identify the pre-existing contracts that commence in the future or show that native load growth projections are sufficiently specific and supported in the record at the time of the original transmission service agreement.[4] We find the situation in *Southern I* and *Southern II* analogous to the situation here. There, the transmission provider failed to demonstrate that native load growth or pre-existing contract obligations would constrain the transmission provider's system such that it could not provide transmission service to the customer beyond the term of the subject transmission service agreements.

11. We find that SPP has failed to make a sufficient demonstration to allow a limitation on rollover rights. Specifically, SPP has not supported its projections of native

---

[2] *Southern Company Services, Inc.*, 110 FERC ¶ 61,379 (2005) (*Southern I*), *reh'g pending*; *Southern Company Services, Inc.*, 108 FERC ¶ 61,093 at P 10-11 (2004) (*Southern II*), *reh'g pending*; *accord Southwest Power Pool, Inc.*, 109 FERC ¶ 61,041 at P 6-7 (2004).

[3] *Id*.

[4] *See Nevada Power Co.*, 97 FERC ¶ 61,324 (2001); *American Electric Power Service Corp.*, 101 FERC ¶ 61,384 (2002).

load growth impacting the Southwestern to Eddy County Interchange path in the record. Additionally, SPP has not demonstrated with specificity that native load growth will constrain transmission within the Southwestern pricing zone such that SPP cannot provide transmission service to Southwestern beyond the end of its Agreement.

12. Further, SPP has failed to demonstrate that pre-existing contract obligations that commence sometime in the future will constrain SPP's transmission system such that it cannot provide transmission service to Southwestern beyond the Fall 2006 Peak season. SPP included in the Agreement a list of currently committed network and point-to-point reservations flowing during or extending beyond the period of Southwestern's request that affect the request.[5] SPP also included in this list, transactions that end in early 2006, but have rollover rights thereafter. SPP improperly included agreements with rollover rights in assessing the availability of rollover rights in the Agreement. Such transactions, if rolled over in the future, would not have rights that are superior to the rights reflected in the Agreement. As we have previously stated, once a transmission provider evaluates the impacts on its system of providing transmission service to a customer and decides to grant such requests, as SPP has done here, the Commission' rollover rights policy obligates the transmission provider to plan and operate its system with the expectation that it will continue to provide service to that customer should the customer request rollover of its contract term.[6] If the transmission system becomes constrained (for reasons other than those initially identified, *i.e.*, reasonably forecasted native load growth or pre-existing contract obligations that commence in the future) such that the transmission provider cannot satisfy all existing long-term customers, then the obligation is on the transmission provider to either curtail service to all affected customers (not just the later accepted firm customers) pursuant to provisions of its OATT or to build more capacity to relieve the constraint. Restricting rollover rights based on the potential exercise of other customers' rollover rights is not an option.

13. Therefore, we will reject the rollover limitation in SPP's proposed section 2.0 based on SPP's failure to show evidence of specific and supported native load growth or pre-existing contract obligations that commence in the future that would limit its ability to provide rollover rights to Southwestern. Accordingly, we direct SPP to make a compliance filing removing the rollover limitation in section 2.0 within 30 days of the date of this order.

---

[5] Agreement, Table 2.

[6] *Southern Company Services, Inc.*, 104 FERC ¶ 61,140 (2003), *dismissing petition in relevant part sub nom. Southern Company Services, Inc. v. FERC*, 416 F.3d 39 (D.C. Cir. 2005); *accord Southern II* at P 11; *Southern I* at P 14.

### C. Undue Preference for Redispatch Service and Cost Shifting

#### SPP Proposal

14. The Agreement provides that Southwestern will operate its Maddox No. 1 and Cunningham No. 4 generation units to relieve voltage constraints that might occur in the Fall of 2006.[7]

#### Protest

15. Occidental argues that the Agreement is unjust, unreasonable and unduly discriminatory because it provides undue preference for redispatch service and facilitates cost shifting. Occidental states that the transmission service for Southwestern d/b/a Xcel would not be available absent Southwestern's commitment to redispatch of what it describes to be older, relatively expensive generation units to maintain voltage levels that would not otherwise be run for system reliability. Occidental maintains that Southwestern has granted an undue preference to its affiliate Xcel by agreeing to redispatch the units under terms or conditions that would not be available to non-affiliated entities.

16. Additionally, Occidental contends that the Agreement may allow Southwestern to shift costs to its wholesale and retail cost-of-service customers to subsidize the transmission costs associated with transactions made by Southwestern's power marketing affiliate, Xcel. Occidental asserts that this transaction appears to be part of a pattern of Southwestern using its market power within its control area to force its cost-of-service wholesale and retail customers to subsidize Southwestern's market-based transactions. Occidental requests that the Commission determine that the proposed Agreement will not enable Southwestern to require its cost-of-service customers to bear additional fuel costs either through the redispatch provisions of the Agreement, or through Southwestern's practice of allocating the incremental fuel costs of its market-based rate sales to its cost-of-service customers. Finally, Occidental requests that the Commission set the Agreement for hearing and suspend it for five months.

---

[7] Agreement at 3; *see also* SPP System Impact Study (SPP-2004-084-1) at 9 ("if the customer agrees to redispatch the applicable [Southwestern] units to relieve the impacts on the limiting constraints identified during the reservation period, the 35 MW request will be accepted with a term of 8/1/05 to 1/1/07.")

**Commission Response**

17. We address first Occidental's concern that Southwestern is preferring its affiliate Xcel over non-affiliated entities by committing to operate certain generation units under terms and conditions that would not be available to non-affiliated entities. SPP's OATT provides for redispatch service by a Transmission Owner, such as Southwestern, for any entity requesting firm point-to-point transmission service where: (1) SPP determines that the transmission system is not capable of providing for the service; (2) SPP determines that redispatch is more economic than system upgrades; and (3) the transmission customer agrees to pay SPP for the redispatch service.[8] Further, SPP's OATT provides that any redispatch costs to be charged to the transmission customer on an incremental basis must be specified in the service agreement,[9] and the instant Agreement provides for the payment of redispatch costs consistent with the provisions of Attachment K to SPP's OATT.[10] Therefore, since the terms and conditions of redispatch service, as well as the methodology for determining the price paid for the service are specified in the SPP OATT, we find that all entities seeking firm transmission service, affiliated and non-affiliated, have the opportunity to arrange for a redispatch from a transmission owner. Thus, we find no merit in Occidental's contention that the redispatch service provided in the Agreement by Southwestern is offered at terms and conditions that are not available to entities not affiliated with Southwestern.

18. Turning to Occidental's concern regarding whether Southwestern could use the Agreement to pass its market-based rate related costs to its cost-of-service wholesale or retail customers or to pass the redispatch costs under the Agreement to its costs-of-service customers, we find that Occidental has not shown that the Agreement in itself provides an opportunity to shift costs of sales made pursuant to market-based rates to cost-of-service customers. Nor has Occidental explained a method whereby costs paid to SPP under a transmission service agreement can be shifted to cost-of-service customers who do not benefit from the transmission service. We expect that the redispatch costs that are part of the cost-of-service transmission charge in the Agreement will be paid by Southwestern as required by the Agreement and the OATT and that those costs will not be shifted to those who do not benefit from the firm point-to-point service.

---

[8] SPP OATT, § 13.5, FERC Electric Tariff Fourth Revised Vol. No. 1 Original Sheet No. 33. *See also* SPP OATT, Attachment K, § I.B., FERC Electric Tariff Fourth Revised Vol. No. 1 Superseding First Revised Sheet No. 165 (providing that SPP shall arrange for the redispatch of the generation resources of the Transmission Owner(s) in order to accommodate a firm transmission service request).

[9] *Id.*

[10] Agreement at section 8.1.

19. To the extent that Occidental's protest raises market power issues, we note the Commission is currently investigating other allegations that Southwestern and its affiliates have engaged in affiliate abuse and the exercise of market power in Docket No. ER01-205-007, *et al.* Additionally, the Commission is investigating the cost shifting issues raised here by Occidental in determining whether the allocation of average system fuel costs to market-based rate sales by Southwestern is just and reasonable in Docket No. EL05-19-000, *et al.* We note that Occidental is an intervenor in both of these proceedings and has had an opportunity to raise the same issues raised in its protest there.

20. Finally, for the reasons stated above, we reject Occidental's request to suspend the Agreement for five months and set it for hearing, and find that the Agreement does not provide an undue preference for Southwestern.

21. SPP's proposed Agreement, as modified, appears to be just and reasonable and has not been shown to be unduly discriminatory. Also, the Commission will grant waiver of the Commission's 60-day prior notice requirement to make the agreements effective on the date service commenced, as requested.[11] Therefore, we will accept the Agreement, as modified, to become effective on August 1, 2005.

<u>The Commission orders</u>:

(A) SPP's Agreement with Southwestern is hereby accepted for filing, as modified, to become effective August 1, 2005.

(B) SPP is hereby direct to submit a revised Agreement, as discussed in the body of this order, within 30 days of the date of this order.

By the Commission.

( S E A L )

Magalie R. Salas,
Secretary.

[11] *See Prior Notice and Filing Requirements under Part II of the Federal Power Act*, 64 FERC ¶ 61,139 at 61,984, *order on reh'g*, 65 FERC ¶ 61,081 (1993) (waiver of prior notice will be granted if service agreements are filed within 30 days after service commences); *accord Southern Company Services, Inc.*, 102 FERC ¶ 61,319 at P 12 (2003).

**UNITED STATES OF AMERICA**
**BEFORE THE**
**FEDERAL ENERGY REGULATORY COMMISSION**

| | | |
|---|---|---|
| Southwest Power Pool, Inc. | )<br>)<br>) | Docket No. ER05-1416-___ |

## REQUEST FOR REHEARING AND CLARIFICATION

Pursuant to Rules 212 and 713 of the Federal Energy Regulatory Commission's regulations, 18 C.F.R. §§ 385.212 and 385.713, as well as Section 313 of the Federal Power Act ("FPA"), 16 U.S.C. § 825l, Southwest Power Pool, Inc. ("SPP") submits this request for rehearing and clarification of the Commission's October 27, 2005 order in this proceeding.[1] In support, SPP states the following:

**STATEMENT OF ISSUES.**

In the October 27 Order, the Commission rejected an uncontested provision in a firm transmission service agreement which limited the customer's right to rollover the firm transmission past November 30, 2007. The first issue is whether the Commission properly rejected that uncontested provision without holding a hearing or technical conference or requesting additional information. The Commission has not satisfied the legal standards necessary to support summary rejection of a portion of a filing. The Commission also has acted contrary to its precedent under which it typically sets for hearing or technical conference filings or issues where it concludes that they may not have been sufficiently justified.

---

1 *See Southwest Power Pool, Inc.*, 113 FERC ¶ 61,101 (2005) ("October 27 Order").

The second issue is whether the Commission engaged in reasoned decision-making. The answer is no. Its order will have a potentially adverse effect on reliability and possibly lead to fewer firm transmission requests being approved. SPP performed not one, not two, but 16 studies to support its proposed limitation on rollover rights and included an affidavit and summaries of the studies. Yet, with little analysis of the studies (which are highly technical studies using SPP's system models), the Commission rejected the rollover limitation. In addition, the Commission has taken an action which will cause SPP to be in violation of its Open Access Transmission Tariff ("Tariff") in that SPP will be providing transmission which it has concluded will result in violation of North American Electric Reliability Council ("NERC") and SPP reliability criteria.

A related issue is what deference the Commission should accord to the technical determinations of the independent Regional Transmission Organizations ("RTOs") it has charged with maintaining reliability. The Commission here has overruled SPP's technical determination and provided no deference whatsoever. It is SPP's belief, based upon its technical analysis, that allowing this firm transmission to go forward beyond December 1, 2007 will create serious reliability issues and potentially could result in native load curtailments. The Commission's basic assumption that transmission will be built to avoid any such curtailments is unrealistic, given the problems and lengthy time frames associated with constructing new transmission.

Finally, SPP requests that the Commission explain its requirements in detail with specific examples, including references to any cases where it has found the showing to be sufficient. SPP devoted very substantial resources in an attempt to meet the Commission's requirements, yet was found to be wanting notwithstanding that effort. SPP understands that many others in the industry similarly do not know what must be done in order to support a limitation on rollover rights. SPP and the industry necessarily are confused as it does not appear that the Commission has yet to accept a rollover limitation in recent times, at least in a published order.[2]

In support of this request, SPP relies on cases showing that the Commission has not engaged in reasoned decision-making[3] and also cases where the Commission indicated its desire to accord some deference to RTOs, particularly on technical matters.[4] SPP also relies on cases detailing when it can summarily act on a filing and orders indicating that in instances in which the Commission believes that the filing party has not submitted sufficient information that it orders additional procedures.[5]

---

2 *See, e.g.*, *Nev. Power Co.*, 112 FERC ¶ 61,072, at PP 8 and 9 (2005) (stating that limitations on rollover rights will be permitted in certain cases, but rejecting proposal in particular case); *S. Co. Servs., Inc.*, 108 FERC ¶ 61,093, at PP 10-12 (2004) (same); *Sw. Power Pool, Inc.*, 100 FERC ¶ 61,239, at PP 22-27 (2002) (same), *reh'g denied*, 103 FERC ¶ 61,293 (2003); *Constellation Power Source, Inc. v. Am. Elec. Power Serv. Corp.*, 100 FERC ¶ 61,157, at PP 32-33 (2002) (same), *reh'g denied*, 102 FERC ¶ 61,142 (2003).

3 *See Tenn. Gas Pipeline Co. v FERC*, 400 F.3d 23 (D.C. Cir. 2005); *Pac. Gas & Elec. Co. vs. FERC*, 373 F.3d 1315, *reh'g denied*, 2004 U.S. App. LEXIS 18393 (D.C. Cir. 2004); *Gas Transmission Nw. Corp. v. FERC*, 363 F.3d 500 (D.C. Cir. 2004); *Williston Basin Interstate Pipeline Co. v. FERC*, 358 F.3d 45 (D.C. Cir. 2004); *El Paso Elec. Co. v. FERC*, 201 F.3d 667 (5th Cir. 2000); *ANR Pipeline Co. v. FERC*, 71 F.3d 897 (D.C. Cir. 1995); *Detsel v. Sullivan*, 895 F.2d 58 (2nd Cir. 1990); *Pennzoil Co. v. FERC*, 789 F.2d 1128 (5th Cir. 1986); *Farmers Union Cent. Exch. v. FERC*, 734 F.2d 1486 (D.C. Cir. 1984); *Hatch v. FERC*, 654 F.2d 825 (D.C. Cir. 1981).

4 *See Regional Transmission Organizations*, Order No. 2000, 1996-2000 FERC Stats. & Regs., Regs. Preambles ¶ 31,089 (1999), *order on reh'g*, Order No. 2000-A, 1996-2000 FERC Stats. & Regs., Regs. Preambles ¶ 31,092 (2000), *petitions for review dismissed sub nom. Pub. Util. Dist. No. 1 v. FERC*, 272 F.3d 607 (D.C. Cir. 2001); *Policy Statement Regarding Regional Transmission Groups*, 1991-96 Stats and Regs., Regs. Preambles ¶ 30,976 (1993) ("RTG Policy Statement").

5 *See* 18 C.F.R. § 35.5; *Mun. Light Bds. of Reading and Wakefield Mass. v. Fed. Power Comm'n*, 450 F. 2d 1341 (D.C. Cir. 1971), *cert. denied*, 405 U.S. 989 (1972); *NorAm Gas Transmission Co.*, 69 FERC ¶ 61,118 (1994).

**REQUEST FOR REHEARING.**

**A. The Commission Has Not Engaged In Reasoned Decision Making.**

The Commission must support its decisions by substantial evidence. 16 U.S.C. § 825l(b). The Commission must articulate a satisfactory explanation for its actions including a "'rational connection between the facts found and choices made.'"[6] At the end of the process, the agency must articulate a logical basis for its decision.[7] When presented with evidence (such as SPP's studies), the Commission also must evaluate that evidence.[8] The Commission also must act consistent with its precedent or provide a reasoned explanation for any departures.[9] In this case, the Commission has not engaged in reasoned decision-making through its violations of these principles. The Commission also acted arbitrarily in summarily rejecting the limitation. If it had any questions, the proper course under its precedent would have been to set the filing for hearing or at least a technical conference, rather than taking an action which SPP's studies show will result in reliability problems and violations of NERC and SPP reliability criteria.

---

6 *See Gas Transmission Nw. Corp.*, 363 F.3d at 502 (internal citation omitted).

7 *See Detsel*, 895 F.2d at 63.

8 *See El Paso Elec. Co.*, 201 F.3d at 671 (requiring the Commission to give "reasoned consideration" to the evidence before it); *see also Pennzoil Co.*, 789 F.2d at 1139 (stating that a failure to consider all the relevant factors and provide a reasoned basis for the agency's decision may render an opinion arbitrary and capricious); *Farmers Union Cent. Exch.*, 734 F.2d at 1499-1500 ("Normally, an agency rule would be arbitrary and capricious if the agency . . . entirely failed to consider an important aspect of the problem [or] offered an explanation for its decision that runs counter to the evidence before the agency . . .") (internal citations omitted).

9 *See ANR Pipeline Co.*, 71 F.3d at 901 ("Where an agency departs from established precedent without a reasoned explanation, its decision will be vacated as arbitrary and capricious."); *Hatch*, 654 F.2d at 834.

### 1. Background.

SPP submitted a service agreement executed by both the customer and by SPP relating to Xcel's request for 35 MWs of firm point to point transmission service from Southwestern Public Service to the Eddy County Tie which contained the following limitation on rollover rights:

> The Transmission Provider will not provide service beyond November 30, 2007 because it has performed an analysis (SPP study number SPP-2004-084) that indicates that, beginning December 1, 2007, insufficient voltage support and thermal capacity exist to accommodate the future rollover of this Service Agreement by the Transmission Customer. This is due to the forecasted increase in native and network load and due to currently committed network and point-to-point reservations flowing during and either extending beyond the period of this requirement or having no rollover limitations. Table 1 describes the limitation to renewal rights necessary to avoid voltage collapse that could result from an outage of the Tolk Interchange-Eddy County Interchange 345 Kv line. Table 2 lists the currently committed network and point-to-point reservations affecting this request.

Section 2.0.

In support of this limitation SPP submitted an affidavit by Mr. Jody D. Holland, SPP's Manager of Tariff Studies. SPP also submitted the System Impact Study showing violations of NERC and SPP reliability criteria resulting from the transmission request.

In his affidavit, Mr. Holland explained that analyses have determined that beginning on December 1, 2007 there will be "insufficient voltage support and thermal capacity to support the future of this service." Affidavit, Para 2. Mr. Holland referred to the July 14, 2005 System Impact Study ("SIS") which was based on 16 seasonal models through the end of SPP's planning model. These analyses were from various periods in 2005, 2006, 2007, 2010, and 2015. Affidavit, Para 3. Table 2 to the Service Agreement shows the pre-existing transmission obligations. Table 1 to the Service Agreement shows the expected native load for this area. *See also* Tables 5 and 6 to the SIS.

The SIS showed numerous reliability problems and violations of NERC and SPP Criteria, including the following for the period beginning on December 1, 2007 through the end of SPP's planning cycle:

- Facility overloads occurring during each of the post-December 1, 2007 periods studied (*i.e.*, winter 2007, 2010 and 2015). SIS, Table 5.
- Voltage violations occurring during each of the post-December 1, 2007 periods studied. SIS, Table 6.
- Voltage collapses upon the outage of the Tolk-Interchange Eddy County during the 2007 Winter Peak and the 2015 Summer Peak. SIS, Table 6.

SPP performed its standard analysis here that it uses to study long term transmission service requests. This is the analysis required by Attachments D and O of the SPP Tariff. These analyses included steady state contingency analysis and available transfer capability analysis. SIS, Section 2. The purpose of these analyses was to determine whether there were any violations of NERC or SPP reliability or planning criteria resulting from the transaction. These analyses used the load forecasts and existing transmission services reflected in SPP's models.

**2. The Commission acted improperly in summarily rejecting the rollover rights limitation.**

The Commission summarily rejected SPP's proposed limitation on rollover rights. In order to summarily reject a filing or a portion of a filing, the Commission is obligated to determine that the filing is patently deficient.[10] In order to summarily dispose of an

10 *See* 18 C.F.R. § 35.5; Mun. Light Bds. of Reading and Wakefield Mass, 450 F.2d at 1346.

issue as it did here, the Commission must find that the proposal is contrary to Commission policy and that there are no material issues of fact.[11]

The Commission did not find that the rollover rights provision was patently deficient, as required by law. It simply found that some portions of the filing were not adequately supported. However, the Commission for decades has taken the approach that when a filing (or a part thereof) is not adequately supported, it sets it for hearing or a conference.[12] It does not reject it as it did here. Moreover, it would be clearly unreasonable for the Commission to find that this portion of the filing was so patently deficient that it needed to reject it. As explained above, SPP submitted detailed support for the rollover limitation which exceeded the Commission requirements[13] in that SPP submitted an affidavit together with the SIS which showed the results of 16 separate analyses.

Nor was there a basis for rejecting this provision summarily based upon a conclusion that it was inconsistent with Commission policy. The Commission has repeatedly stated that including a limitation on rollover rights based upon future

---

11 *See NorAm Gas Transmission Co.*, 69 FERC at 61,458 ("The Commission may only reject a proposal where the facts are not in dispute and the [proposal] contravenes valid and explicit Commission regulations or policy").

12 *See, e.g., Midwest Indep. Transmission Sys. Operator, Inc.*, 111 FERC ¶ 61,462, at P 9 (2005) (rejecting request for rejection based on previous finding that proponent did not provide adequate cost support for proposal, and set matter for hearing); *Penn-York Energy Corp.*, 61 FERC ¶ 61,291, at 62,107 (1992) (same); *see also Koch Gateway Pipeline Co.*, 77 FERC ¶ 61,332, at 62,486 (1996) (Commission must give filing party adequate opportunity to support filing).

13 The filing requirements are set out in Section 35.13 of the Commission's rules, 18 C.F.R. § 35.13, and SPP satisfied those requirements as detailed in the transmittal letter for the filing. *See Southwest Power Pool, Inc.*, Filing of Executed Service Agreement for Long-Term Firm Point-to-Point Transmission Service, at 5-6, Docket No. ER05-1416-000 (Aug. 31, 2005).

expectations of load growth and existing transactions is appropriate.[14] Thus, there is no *per se* violation of Commission policy. In addition, this is a very fact intensive issue. SPP conducted detailed analyses which showed very specific overloads, voltage violations, and voltage collapses. As the Commission did not accept these studies and offered some criticisms, there clearly are material issues of fact here which would prevent the Commission from summarily rejecting the rollover limitation provision. The Commission, for example, questions the inclusion of contracts with rollover rights in the analyses as well as the level of loads. SPP could readily show the reasonableness of the data used and disputes any implied or overt suggestion that the study results may not be correct

Therefore, the Commission erred in summarily rejecting the provision limiting rollover rights. If the Commission had questions, it should have established further procedures consistent with its typical practice instead of taking a summary action which SPP's analyses show will cause reliability problems including the possibility of future curtailments.

**3. The Commission's order is arbitrary and its explanations do not stand up.**

As discussed above in Section 1, SPP submitted substantial information and data showing that without a rollover limitation, the SPP transmission system would experience reliability problems in the form of outages, voltage collapse, and violations of voltage limits. SPP submitted a study and an affidavit explaining the study. In response, the Commission basically made three points: (1) SPP has not supported its projections of native load growth (October 27 Order at P 11); (2) SPP has included other contracts with

---

[14] *See* note 2, *supra*.

rollover rights in its list of existing contracts (October 27 Order at P 12); and (3) any problems or concerns caused by the rejection of the rollover limitation can be taken care of by new construction (October 27 Order at P 12).

**a. The Commission Acted Arbitrarily.**

It was plainly arbitrary for the Commission to issue this order which completely disregards the reliability findings of an independent RTO. Under the SPP Tariff, SPP is obligated to abide by NERC and SPP Criteria in providing transmission services. *See* n. 14, *infra*. The Commission's order will cause SPP to be in violation of that tariff requirement, which is a surprising development given the Commission's expanded role in reliability.[15] It simply makes no sense for the Commission to take an action which studies show will cause outages, voltage collapses, and voltage violations. The Commission has taken this action without concluding and providing a basis for a conclusion that SPP's studies are incorrect. Inexplicably, even though reliability should be the paramount concern here, the Commission has taken an action directly inconsistent with maintaining reliability and directly contrary to SPP's Tariff which requires that NERC and SPP criteria be followed.[16]

Further, one of the major purposes associated with establishing RTOs, like SPP, was to have an independent entity on which the Commission could rely to monitor and

---

15 The Energy Policy Act of 2005 ("EPAct") considerably broadened the Commission's authority with regard to reliability matters. *See* Pub. L. No. 109-58, 119 Stat. 594, at § 1211 (2005).

16 *See* SPP Tariff, Attachment C (in performing studies SPP shall do so "in accordance with the reliability and transmission planning criteria of the North American Electric Reliability Council ("NERC") (or its successor organization) and SPP."

preserve reliability.[17] In fact, the Commission even stated that it would provide deference to the RTO.[18] Given the highly technical nature of this issue, it is quite surprising that the Commission here has provided no deference to SPP and rejected the rollover limit without any detailed analysis as to why SPP's conclusions are incorrect.

Stated simply, it was plainly unreasonable for the Commission to disregard studies done in the ordinary course of business, utilizing the same analytical tools and models used by SPP (as provided in its Tariff) to evaluate all new long term firm transmission requests, and instead to take an action contrary to the study results, which according to the studies would result in reliability problems. The Commission's action is all the more difficult to understand because the Commission never concluded that the results of the studies were not valid, yet by taking the action that it did it completely disregarded the study results.

Given the substantial evidence submitted by SPP, the requirements of the SPP Tariff, and the Commission's statutory obligations, in response to an assertion by the entity responsible for maintaining reliability in a particular region that a service

---

17 *See* 18 C.F.R. §§ 35.34(j), (k); *Am. Elec. Power Service Corp.*, 107 FERC ¶ 61,011, at P 23 (2004).

18 *See Standardization of Generator Interconnection Agreements and Procedures*, Order No. 2003-A, III FERC Stats. & Regs., Regs. Preambles ¶ 31,160, at P 691, order on reh'g, Order No. 2003-B, III FERC Stats. & Regs., Regs. Preambles ¶ 31,171 (2004), *order on reh'g*, Order No. 2003-C, III FERC Stats. & Regs., Regs. Preambles ¶ 31,190 (2005) (stating that the Commission gives deference to RTOs in many areas "because they have no incentive to administer the Transmission System in a discriminatory manner"); Order No. 2000 at 31,027-28 (reiterating the Commission's willingness to defer to regional solutions proposed by an independent system operator in response to identified regional problems, and stating that the Commission will defer to RTOs with the appropriate procedural mechanisms to ensure fair representation of viewpoints); RTG Policy Statement at 30,871-72, 30,875 (describing how regional transmission entities

agreement provision was needed to preserve reliability, the Commission must do more than to simply reject the provision with limited reasoning. The Commission must explain why its action will not adversely affect reliability, including explaining why the detailed studies and models are wrong.[19] That it failed to do so is clearly not reasoned decision-making.

**b. The Commission has failed to justify its order.**

The Commission's specific reasons are insufficient to support an action which overrides the reliability determinations of SPP supported by detailed studies. As to the Commission's statement that SPP did not support the native load projections in its studies, those are the projections in SPP's models which have been used for all firm transmission requests. Thus, there should be a presumption that these projections are correct given their common-place use in day-to-day SPP operations. In addition, these are projections that the independent RTO has adopted. Thus, there should not be a concern that may be present with non-independent transmission providers in that they may adopt inflated projections to limit future competition. Here, these are SPP's projections. If the Commission had concerns about the support for these projections, the more prudent and reasonable approach would have been for the Commission to request whatever detailed support it required, as it did in another similar case[20] rather than rejecting a provision which is important for reliability purposes. Further, the Commission has not shown that this issue alone should cause it to reject SPP's study

---

provide an open forum wherein companies can address difficult technical issues and craft efficient solutions to region-wide problems).

19 *See* note 8 *supra.*

20 *See S. Co. Servs., Inc.*, Letter Order, Docket No. ER04-563-000 (Apr. 19, 2004) (deficiency letter requesting additional support).

results. Thus, on this issue, there is no rational connection between the facts found and the choice made.[21]

SPP also would note that a cursory examination of the projections used in the study would indicate that there should be no issue here. The 2004 Summer Peak used was 4594.4 and the 2006 Summer Peak used was 4679.5. This difference was only about an 85 MW increase for a two year period over the 2004 actuals, or about a 1.8 percent increase for that two year period. The difference between 2006 and 2007 summer peak projections was similarly small involving only about 71.6 MWs or about 1.5 percent. While the winter peak differences were slightly higher, they were still minimal with increases of 2-3 percent per year. *See* Table 1. The fact that minimal increases are shown provides further proof that the filing projections are presumptively reasonable.

The Commission's assertion that SPP should not have reflected contracts which expired before December 1, 2007 and had rollover rights is not reasoned. By requiring rollover rights, the Commission has left transmission providers with no choice but to assume that those rollover rights are exercised until notice is provided to the contrary. The Commission has imposed a firm obligation on transmission providers to grant the rollover rights. By including the rollover contracts as continuing contracts, transmission providers are able to better plan their systems to allow those rollover rights to be exercised without causing reliability problems. If SPP did not follow this approach, then it would face major reliability problems in that it could not satisfy rollover requests and firm transmission requests. It would show ATC for new transmission service which would not be there if the rollovers were exercised. If SPP granted firm transmission by

---

21 *See* note 6, *supra*.

ignoring rollover rights as suggested by the Commission's order, the end result would be that SPP would be forced to curtail native load as well as all other firm uses of the transmission system. There also would be violations of NERC and SPP reliability criteria. Therefore, this is a Commission statement that upon further analysis does not stand up.[22]

The Commission's suggestion that new construction can take care of reliability concerns does not address the issue. Problems which have been recognized by the Commission and the Department of Energy are that construction of transmission is difficult, has not occurred in substantial parts of the country, and takes years to accomplish.[23] SPP's studies show reliability problems in about two years. There is very little possibility that new facilities will be constructed to remedy this problem by then.

Finally, SPP would note that this case shares some similarities with *Southern California Edison Co. v. FERC*, 415 F.3d 17 (D.C. Cir. 2005). In that case, the Commission established a policy regarding cost recovery of ISO costs by its approval of a tariff provision and later attempted to avoid following that policy. Here, the Commission established a general policy of allowing limits on rollover rights in new service agreements relating to pre-existing transmission obligations and native load growth, but similarly has chosen to avoid applying that general policy. Indeed, it appears

---

22 SPP also would point out that only a relatively small portion of the contracts in the list involved rollovers prior to December 1, 2007; *i.e.*, 265 MWs out of 2020 MWs total.

23 *See Removing Obstacles to Increased Elec. Generation & Natural Gas Supply in the W. U.S.*, 94 FERC ¶ 61,272, at 61,969, 61,973-74, *order on reh'g*, 95 FERC ¶ 61,225, at 61,762-73, *order on reh'g*, 96 FERC ¶ 61,155 (2001); *W. Area Power Admin.*, 100 FERC ¶ 61,331, at P 7 (2002), *aff'd. sub nom.*, *Pub. Utils. Comm'n v. FERC*, 367 F.3d 925 (D.C. Cir. 2004); U.S. Dep't of Energy*, National Grid*

that the Commission has rejected most if not all attempts by transmission providers to impose this limit.[24] Thus, as the court found, "agencies may not keep regulations in place and then disregard them in order to disapprove actions taken by regulated entities to conform with those regulations. Doing so is perhaps the essence of 'arbitrary and capricious.'"[25] Here too, the Commission's repeated rejection of filings, including this one, seeking to implement this policy is arbitrary and capricious.

Therefore, the Commission should grant rehearing of its October 27 Order. The order as written is not legally sustainable. It also creates reliability issues, including possible native load curtailments, for portions of the SPP region. Thus, from a policy viewpoint, rehearing also is warranted.

**REQUEST FOR CLARIFICATION.**

In addition to granting rehearing, the Commission also should provide a much more detailed explanation as to what type of support it finds to be sufficient to support a limitation on rollover rights. In its orders, the Commission has identified general areas, such as native load growth and existing contracts, which might allow a limitation. It has not, however, specifically detailed what it wants to see.

For SPP, this is a substantial issue. In preparing its filing in this case, SPP researched the other filings and the types of support submitted in those filings, and found no clear indication as to precisely what it needed to file. Currently, with the Commission rejecting the proposed limitation here, SPP does not know what it would take to satisfy

---

*Transmission Study,* at 5-7, 50-56 (May 2002) (available at http://www.eh.doe.gov/ntgs/gridstudy/main_screen.pdf).

24 As shown at page 3, SPP's research has only turned up cases in which the Commission has rejected attempts to impose limits under this policy.

25 *See S. Cal. Edison Co.*, 415 F. 3d at 23.

the Commission. If SPP is not able to impose some rollover limits, then SPP will be forced to curtail additional firm transmission requests in order to maintain system reliability.

SPP also understands that it is not alone in not knowing what the Commission requires to sustain a rollover limit.[26]

Therefore, SPP would request that the Commission provide a much more detailed explanation as to what it requires from transmission providers in order to approve rollover limits. Currently, transmission providers face the unattractive choice of including a condition and having it rejected thereby creating reliability issues or an increased need to curtail existing firm transmission service.

---

[26] *See, e.g.*, Comments of the Edison Elec. Inst. on Notice of Inquiry Preventing Undue Discrimination and Preference in Transmission Services, at 59-61, Docket No. RM05-25-000 (Nov. 22, 2005) (discussing how Section 2.2 of the Commission's pro forma Tariff does not establish what a transmission provider must do in order to preserve transmission capacity for its native load in light of customer rollover rights, or how or when the transmission provider can limit a customer's rollover rights if it determines sufficient transmission capacity will not be available at some future date to accommodate the customer's rollover rights without new construction of facilities).

## CONCLUSION

For the foregoing reasons, the Commission should grant rehearing and provide clarification as requested in this filing.

Respectfully submitted,

*Matthew K. Segers*
Michael E. Small
Matthew K. Segers
Wright & Talisman, P.C.
1200 G Street, NW, Suite 600
Washington, D.C. 20005
(202) 393-1200
(202) 393-1240 (fax)

**Attorneys for**
**Southwest Power Pool, Inc.**

November 28, 2005

K:\SPP\1001-462-258.doc

## CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Washington, D.C., this 28th day of November, 2005.

*Matthew K. Segers*
Matthew K. Segers
Wright & Talisman, P.C.
1200 G Street, NW, Suite 600
Washington, D.C. 20005
(202) 393-1200
(202) 393-1240 (fax)

Attorney for
Southwest Power Pool, Inc.

## 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

SPP Southwest Power Pool

SPP

# 2005 SAS 70 Audit Program

Dianne Branch

2

SPP

## Discussion Points

- 2005 SAS 70 Engagement Overview
- Background and Scope of Readiness Assessment & SAS 70 Type I Audit
- SAS 70 Type I Audit Findings & Remediation Plan
- Path Forward and Final Thoughts

3

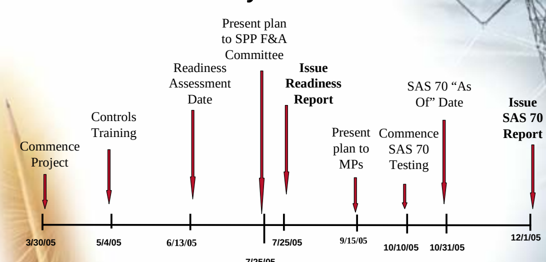
SPP

## SAS 70 Engagement Overview

4

SPP

## SPP SAS 70 Summary Timeline of Events




5

SPP

## SAS 70 Type I verses Type II

| SAS 70 Characteristics | Type I | Type II |
|---|---|---|
| ***Controls Description of Controls Stated Properly –*** Whether the service organization's description of its controls presents fairly, in all material respects, the relevant aspects of the service organization's controls that had been placed in operation **as of a specific date**. | ✓ | ✓ |
| ***Controls Suitably Designed –*** Whether the controls are suitably designed to achieve specified control objectives. | ✓ | ✓ |
| ***Controls Operating Effectively Over Period of Time –*** Whether the controls that were tested were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the control objectives were achieved during the period specified. | | ✓ |

6

SPP

## Background and Scope - Readiness Assessment & SAS 70 Type I Audit

7

---

SPP

## Scope of Processes Covered by Readiness Assessment & SAS 70 Type I Audit

- Readiness Assessment Scope :
  - SPP management provided PwC 13 control objectives to be evaluated for design effectiveness.
- SAS 70 Audit Scope:
  - Substantially the same as Readiness Assessment
  - Changes primarily presentation related (not substantive)
  - Scope comprises 13 control objectives :
    - 8 control objectives cover business processes.
    - 5 control objectives cover general computer controls

8

---

SPP

## Scope of SAS 70 Type I Audit

- Business processes include:
  - Transmission Service Request Validation
  - Transmission Service Request Processing
  - OASIS Service Requests
  - Charges and Revenue Distribution
  - Transmission Service Rates
  - Invoicing
  - Billing Adjustments
  - Cash Clearing
- Information Technology (IT) processes include:
  - IT Organization and Administration
  - Computer Operations
  - Configuration and Change Management
  - Logical and Systems Security
  - Physical Security

9

---

SPP

## Background on Readiness Assessment

- Finance Committee was initially briefed on PwC's approach to perform a SAS 70 Type 1 Audit and Readiness Assessment in February 2004.
- Readiness Assessment was conducted in June 2005.
- Assessment performed in accordance with AICPA Standards which does not provide for an opinion or other assurance.
- Readiness Assessment was issued by PwC in July 2005 to SPP management & Board of Directors for their use only.
- Reported Readiness Assessment results to Finance Committee in August 2005.

10

---

SPP

## Overview of SAS 70 Type I Audit

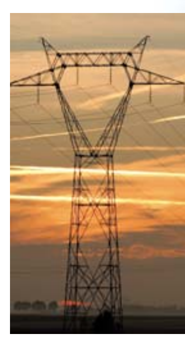
- SAS 70 Audit testing was conducted during October and early November 2005 for controls in place as of October 31, 2005.
- Audit conducted Pursuant To AICPA Statement on Auditing Standards No. 70, as Amended.
- Audit procedures comprised various tests of procedures including inspection, inquiry, walkthroughs, etc.
- SAS 70 Audit was issued by PwC on December 1, 2005 to the SPP Board of Directors and management, and their transmission owners/customers and the independent auditors of SPP's transmission owners/customers – distribution is limited to those users.

11

---

SPP

## SAS 70 Type I Audit Findings & Remediation Plan



12

SPP

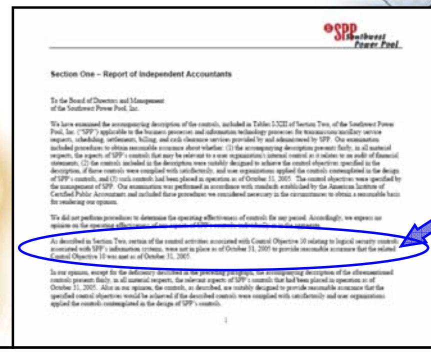
## SAS 70 Type I Audit – Summary of Findings

- Control Objectives with Unqualified Results
  - **All Eight Business Processes**
  - **Four of Five IT Processes**
- Control Objective with Qualified Results
  - Logical Security - Control Objective 10: **Controls are in place to provide reasonable assurance that the process of maintaining systems security minimizes the risk of the unauthorized use, disclosure or modification, damage or loss of information.**
  - **Design of controls are acceptable**
  - **Certain control activities were not in placed in operation**

13

SPP

## SAS 70 Type I Audit – Summary of Findings


SPP Southwest Power Pool

**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.

1

14

SPP

## SAS 70 Audit Findings & Remediation Plan

*Logical Security activities not placed in operation*

- ***Control Activity 10.4**: Procedures are in place to maintain the effectiveness of authentication and access mechanisms (e.g. regular password changes)*

**REMEDIATION PLAN:**

**The deficiency noted by the auditors was the lack of evidence of a quarterly review of password aging reports. This process is in now fully place with the first review scheduled for January.**

15

SPP

## SAS 70 Audit Findings & Remediation Plan

*Logical Security activities not placed in operation*

- ***Control Activity 10.6**: Procedures are in place to facilitate timely action relating to requesting, establishing, issuing, suspending, and closing user accounts.*

**REMEDIATION PLAN:**

**Many of the deficiencies noted in this area have already been corrected. Remediation for all subactivities is expected to be completed no later than March 31, 2006.**

16

SPP

## SAS 70 Audit Findings & Remediation Plan

*Logical Security activities not placed in operation*

- ***Control Activity 10.12**: Controls available within the operating systems are configured to control system level security in accordance with SPP policies.*

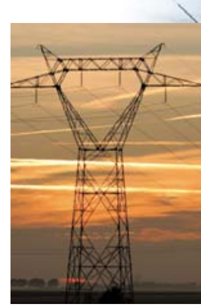
**REMEDIATION PLAN:**

**This control requires that configuration standards be defined for each type of server and then periodically review the servers against the standard. The development of the configuration standards will be completed no later than March 31, 2006.**

17

SPP

## Path Forward and Final Thoughts



18

## Path Forward and Final Thoughts

- Sustaining controls after audit requires internal discipline
- Energy markets – planned Market start of May 1st
  - Significant increase to scope of business process controls (and scale of settlement clearings)
- SAS 70 Type II Audit
  - Covers a period of time no less than six months in duration.
  - Starting SAS 70 period concurrent with significant change is challenging

19

dbranch@spp.org

SPP Southwest Power Pool

Lighting the past...powering the future!

http://www.spp.org

General Inquiries: 501-614-3200

Southwest Power Pool

**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<br>3 – M | 4 - M | 2 - M | | 4.60 D<br>3.10 M | 3.64 | 3.50 |
| 3 | Organization structure is clear (Board, officers, committees, executive and staff) | 3 - D | 2 - D<br>7 - M | 1 - M | 1 - M | | 4.60 D<br>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<br>7 - M | 1 - M | | 3.80 D<br>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<br>5 - M | 1 - D<br>2 - M | 2 - M | | 4.20 D<br>3.33 M | 3.64 | 3.67 |
| 6 | Board receives regular reports on finances/budgets, performance and other important matters | 1 - D | 3 - D<br>7 - M | 1 – D<br>2 - M | | | 4.00 D<br>3.78 M | 3.86 | 4.22 |
| 7 | Board effectively represents the organization to the stakeholder community | 3 - D | 1 - D<br>4 - M | 1 - D<br>2 - M | 3 - M | | 4.40 D<br>3.11 M | 3.57 | 3.28 |
| 8 | Board meetings facilitate focus and progress on important organizational matters | 2 – D | 1 - D<br>4- M | 2 - D<br>4 - M | 1 - M | | 4.00 D<br>3.33 M | 3.57 | 3.72 |
| 9 | Board regularly monitors and evaluates progress toward strategic goals and objectives | 1 - D | 3 - D<br>2 - M | 1 - D<br>6 - M | 1 - M | | 4.00 D<br>3.11 M | 3.43 | 3.22 |
| 10 | Board regularly evaluates and provides development plans for the Chief Executive | 3 – D<br>1 - M | 1 - D<br>5 - M | 1 - D<br>3 - M | | | 4.40 D<br>3.78 M | 4.00 | 3.50 |
| 11 | Each member of the Board is involved and interested in the Board's work | 4 - D<br>3 - M | 1 - D<br>3 - M | 3 - M | | | 4.80 D<br>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<br>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-lays 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 with in 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 they many of the employees are required to play lead roles in an excessive number of working groups that meet to 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 baring 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.

Southwest Power Pool

# Southwest Power Pool, Inc.

## Regional State Committee and Board of Directors/Members Committee

## 2006 Meetings

| **Regional State Committee** | **Board of Directors/Members Committee** |
|---|---|
| April 24<br>(Oklahoma City, OK) | April 25 |
| July 24<br>(Kansas City, KS) | July 25 |
| October 23<br>(Annual Meeting)<br>(Tulsa, OK ) | October 24<br>(Annual Meeting of Members) |

**Additional Board of Directors/Members Committee Meetings**

Training Meeting: June 13, 2006 Little Rock, AR

Organizational Meeting: December 5, 2006 Dallas, TX