



Southwest Power Pool, Inc.

MARKETS AND OPERATIONS POLICY COMMITTEE

Report and Recommendation to the Board of Directors/Members Committee

July 25, 2006

Organizational Roster

The following members represent the Regional Tariff Working Group:

AEP-West	Mr. Dennis Bethel
Arkansas Electric Cooperative Corp.	Mr. Ricky Bittle
Calpine Energy Services	Mr. James Stanton
East Texas Electric Cooperative	Mr. David Brian
Empire District Electric Co.	Mr. Bary Warren
Kansas City Power & Light	Mr. Charles Locke
Kansas Electric Power Cooperative	Mr. Robert Bowser
Lafayette Utilities System	Mr. Ron Gary
Midwest Energy	Mr. Bill Dowling
Missouri Public Service Commission	Mr. Mike Proctor
OG+E Electric Services	Mr. David Kays
Oklahoma Municipal Power	Mr. Gene Anderson
Redbud Energy LP	Mr. Orlando Martinez
Southwest Power Pool	Mr. Pat Bourne
Southwestern Public Service Co.	Mr. Bernard Liu
Tenaska Power Services Co.	Mr. Mark Foreman
Westar Energy	Mr. Dennis Reed
Western Farmers Electric	Mr. Mitchell Williams

The following stakeholders participated in group discussions:

AEP-West	Mr. Robert Pennybaker
Arkansas Electric Cooperative Corp.	Mr. Ricky Bittle
Arkansas Electric Cooperative Corp.	Mr. Robert Shields
Empire District Electric Co.	Mr. Bary Warren
Kansas City Power & Light	Mr. Charles Locke
Kansas Corporation Commission	Mr. Tom DeBaun
Kansas Electric Power Cooperative	Mr. Robert Bowser
KMU	Mr. Curtis Irby
KMU	Mr. Colin Hansen
KMU/KPP	Mr. Colin Whitley
Lafayette Utilities System	Mr. Ron Gary
Lafayette Utilities System	Mr. Gary Newell
Midwest Energy	Mr. Bill Dowling
OG+E Electric Services	Mr. David Kays
Southwestern Power Administration	Ms. Tracey Stewart
Southwest Power Pool	Mr. Les Dillahunty
Southwest Power Pool	Mr. Pat Bourne
Southwest Power Pool	Mr. Wayne Camp



Southwestern Public Service Co.
Westar Energy
Western Farmers Electric

Mr. Bernard Liu
Mr. Dennis Reed
Mr. Mitchell Williams

Background

Compliance Filing – Attachment AE

Subsequent to the July 11 – 12 MOPC meeting, the RTWG developed modifications to Section 1.3.8 of Attachment AE to address the issues raised at that meeting.

Language was added to Section 1.3.8 that permits any Designated Balancing Authority to register a unique loss Settlement Location to be used exclusively for the purpose of receiving self-provided losses as the Designated Balancing Authority for transactions through and out of the SPP Region. Additionally, Section 1.3.8 (a)(ii)(3) has been modified to clarify that to serve as a Designated Balancing Authority for through transactions, such DBA must have a projected minimum hourly total Reported Load for the next calendar year greater than or equal to 500 MW.

Attachment S – MW-Mile Clarification

At the July 11 – 12 MOPC meeting the RTWG provided its report on the results of the application of the cost allocation provisions of the Tariff to Base Plan Upgrades that had been identified. Dennis Reed (RTWG Chair) reported that there were unintended consequences associated with use of the net MW-Mile allocation methodology to allocate 67% of the revenue requirements associated with Base Plan Upgrades to benefiting Zones. At its July 5, 2006 teleconference, the RTWG concluded that use of the net MW-Mile allocation methodology was flawed and that the sum of the positive MW-Mile impacts method provided more reasonable results. At its July 11 – 12 meeting, the MOPC endorsed the RTWG recommendation that the RTWG be directed to change the language of Tariff Attachment S to reflect use of the sum of the positive MW-Mile impacts method and file this change at FERC as soon as possible and that the cost of the current set of Base Plan Upgrades under consideration be allocated using this method after FERC approval of the change in methodology.

Attachment O – Board Approval of the SPP Transmission Expansion Plan

Recently, it had been pointed out that Attachment O does not explicitly specify that the SPP Board of Directors must approve the reliability upgrades identified in the SPP Transmission Expansion Plan prior to implementation of the upgrades. Attachment O has been modified to clarify that board approval is necessary.

Attachment X – Credit Policy Modifications

In the context of the settlement of SPP's application for a certificate of convenience and necessity to serve as a public utility in the state of Kansas, SPP agreed that municipalities should be given the opportunity to provide a guarantee for payment for service taken by a joint action agency, acting on behalf of such municipality, in the same way and to the same extent as it would be able to do if it had directly taken service on its own behalf. Attachment X, SPP's Credit Policy, has been modified to permit this opportunity.

Analysis

Compliance Filing – Attachment AE



At its teleconference on July 18, 2006, the RTWG approved the revisions to Section 1.3.8 of Attachment AE by a vote of 14 in favor, none opposed and one abstention. The first proposed change to Section 1.3.8 resolves AEP's issue related to serving as the Designated Balancing Authority associated with self-provision of losses for through transactions for the first year of EIS market operations. The second change is the clarification necessary to state DBA qualification requirements in terms of minimum load, as observed by the MOPC at its July 11, 2006 meeting.

Attachment S – MW-Mile Clarification

At its teleconference on July 18, 2006, the RTWG concluded revisions to Tariff Attachment S to set out this allocation methodology change by a vote of 13 in favor, none opposed and two abstentions. In the approving motion for MOPC and Board approval, the RTWG seeks to retain the opportunity to make additional non-substantive changes to the attachment prior to filing, if necessary.

Attachment O – Board Approval of the SPP Transmission Expansion Plan

At its teleconference on July 18, 2006, the RTWG approved the revisions to Attachment O by a vote of 15 in favor, none opposed and no abstentions.

Attachment X – Credit Policy Modifications

At its teleconference on July 18, 2006, the RTWG approved the revisions to certain sections of the SPP Credit Policy (Attachment X) by a vote of 15 in favor, none opposed and no abstentions. Limited modifications are proposed to Articles 2 and 6 to provide this new credit mechanism.

Recommendation

The RTWG recommends that the proposed changes to the Tariff be approved.

Approved: Regional Tariff Working Group July 18, 2006

The Markets and Operations Policy Committee recommends the proposed changes to the Tariff be approved as shown below:

Attachment AE – Passed with two abstentions.

Attachment S – MOPC approved the changes to Attachment S to implement any Board of Directors approved response to unintended consequences for cost allocation of base plan upgrades including ability for non-substantive changes by RTWG. Passed with one no vote.

Attachment O – Unanimous approval.

Attachment X – Unanimous approval.

Markets and Operations Policy Committee July 20, 2006

Action Requested: Approval of modifications to the Tariff

Attachments: Attached Tariff modifications

Attachment AE

NOTE: Only Section 1.3.8 is included

1.3.87 Self-Provision of Losses for Through and Out Transactions

The Transmission Provider shall identify the Designated Balancing Authority for purposes of accounting for self-provided losses relating to transactions through and out of the SPP Regions ~~as follows~~. The Transmission Provider will permit all potential Designated Balancing Authorities to register a unique loss Settlement Location to be used exclusively for the purpose of receiving losses as the Designated Balancing Authority. The Locational Imbalance Price associated with that unique loss Settlement Location shall be the Locational Imbalance Price for the Designated Balancing Authority's load Settlement Location. Such loss Settlement Locations shall not have any associated metered Resources or Loads and shall not be subject to any of the scheduling requirements specified in Section 6.5 of the Market Protocols.

(a) Through Transactions.

(ia) For the first calendar year following the EIS Market Effective Date, American Electric Power ("AEP") shall serve as the Designated Balancing Authority for purposes of accounting for self-provided losses relating to transactions through the SPP Region and AEP shall designate a Settlement Location to which the Transmission Provider shall deliver self-provided loss energy associated with transactions through the SPP Region.

(iib) Subsequent Designated Balancing Authorities will be selected on an annual basis by the Transmission Provider utilizing the following procedure. By the end of the month following the EIS Market Effective Date month for each

subsequent calendar year following the EIS Market Effective Date, the Transmission Provider shall:

- (1) calculate the average cost of self-provided losses associated with transactions through and out of the SPP Region for the previous 12 month period as follows:

Average Cost of Self-Provided Losses = [sum of previous 12 months Self-Provided Loss Credits] / [sum of previous 12 months of Self-Provided Losses], where:

Self-Provided Loss Credits are payments to Market Participants associated with transactions through and out of the SPP Region as calculated in accordance with Section 4B.2 of Attachment M; and

Self-Provided Losses are the total of all losses associated with all transactions through and out of the SPP system where such losses are specified on the transaction tag;

- (2) calculate the average Locational Imbalance Price for each load Settlement Location for the previous 12 month period; and

- (3) ~~(iii)~~—compare the Average Cost of Self-Provided Losses, as calculated under Section 1.3.78(ab)(ii)(1), to the average Locational Imbalance Price of each load Settlement Location, as calculated under Section 1.3.78(ab)(ii)(2), and select the Balancing Authority with the load Settlement Location with the average Locational Imbalance Price that is closest to the Average Cost

of Self-Provided Losses, provided that such Balancing Authority's projected minimum hourly total Reported Load for the next calendar year ~~in any hour within the previous 12 month period~~ is greater than or equal to 500 megawatts. Such selected Balancing Authority shall serve as the Designated Balancing Authority for the applicable calendar year and the Transmission Provider shall deliver self-provided loss energy associated with transactions through the SPP Region to such Designated Balancing Authority's associated Settlement Location.

(b) **Out Transactions**

~~(e)~~—The Designated Balancing Authority associated with transactions out of the SPP Region shall be the Balancing Authority associated with the transaction Point of Receipt. The Transmission Provider shall deliver self-provided loss energy associated with transactions out of the SPP Region to such Designated Balancing Authority's Settlement Location associated with the transaction Point of Receipt.

ATTACHMENT S

Procedure for Calculation of MW-Mile Impacts for Use in Assignment of Revenue Requirements, Revenue Allocation and Determination of Losses

1. Introduction

The purpose of this Attachment S is to set out of the procedures for calculation of MW-mile impacts for use in assignment of revenue requirements, revenue allocation and determination of losses as implemented by the Transmission Provider. The megawatt-mile technique is a distance based impact method of assessing transmission use and topology recognizing that power will, to some extent, flow over all available paths from the generating source to the load. Definitions of the models and parameters used in the calculations are presented, as well as a description of the calculations performed. Details of the application of MW-mile impacts to the assignment of revenue requirements, allocation of revenues and the determination of losses are discussed in Attachments J, L and M respectively.

2. Definitions, Models and Parameters Used

2.1 Composition of the Network Model - The network models used in the MW-mile calculations are derived from loadflow models of the Transmission System assembled annually by SPP. Prior to April 1 each year, data are submitted, models assembled, modifications required for using the models in the MW-mile impact calculations are made, and the impact tables for the upcoming Summer and Winter seasons are computed.

2.1.1 Seasonal Models - The seasonal models used in the calculations are the Summer Peak Load Operating Model and the Winter Peak Load Operating Model, as modified for use in the MW-mile analysis. Modifications to the models include some AREA (SPP Transmission Owners are represented by AREAs in the model) renumbering and required changes to phase shifter representations as outlined in section 2.1.4. Estimated MW-mile impacts for future Summer and Winter seasons may be calculated using the appropriate planning model from the annual series of SPP models.

2.1.2 Transmission Elements Included in the MW-mile Analysis - The intent in constructing the network model(s) is to include and accurately represent all facilities that are expected to exhibit a material response to changes on

the Transmission System. This set of facilities may not include all facilities that are included in a Transmission Owner's revenue requirement.

2.1.3 Transmission Facility Rating Assumptions - The ratings used are the most limiting rating reported in the then-current SPP operating model for the normal continuous MVA capacity of each transmission facility for the applicable season. For transmission lines, these ratings are normally the lesser of the conductor thermal rating and the rating of terminal equipment such as switches, wavetraps, etc. For transformers, these ratings are normally the continuous rating of the transformers. The corresponding ratings from the applicable SPP planning model are used in estimating MW-mile impacts for future years.

2.1.4 Modeling Phase Shifters - Phase shifting transformers within SPP are represented based on typical operations.

2.2 Transmission Facility Ownership Representation - Transmission Owners are required to update their transmission facility ownership representation annually. This update shall reflect all new transmission facility additions and retirements for the prior calendar year including any new network facilities constructed pursuant to any regional transmission planning process.

2.2.1 Transmission Lines and Terminals - Each transmission line which is to be included in the calculation of the MW-mile impacts has a record in a branch ownership file. The ownership file contains two types of records for every transmission line: one record contains the total line mileage; the other reflects the percent of each Transmission Owner's "ownership" (i.e., for collecting rents) of the line. If ownership percentages for a given branch are not provided, the ownership will be divided equally to the AREA numbers in which the buses on either end of the branch reside in the loadflow model. If a transmission line does not have a mileage entry in the ownership file, it will not be included in the calculation since the line mileage is not known.

2.2.2 Transformers - The transformer ownership file is similar to the branch ownership file, except that there is no mileage record associated with the

transformer. The records for transformers serve the same function as for transmission lines. If ownership percentages for a given branch are not provided, the ownership will be divided equally to the AREA numbers in which the buses on either end of the branch reside in the loadflow model.

2.2.3 Generation and Load - The ownership representation for generation and load is maintained in generation and load ownership files. These files are required in order to model transactions. For each bus that has either generation or load, a record in the ownership file is used to allocate to the AREAs their percent ownership. If no record is entered for a load bus or generator bus, the ownership is allocated to the AREA in which the bus resides in the loadflow model.

2.2.4 Representation of Utilities Outside of SPP - Utilities outside of SPP are to be represented in the model as needed to result in accurate impact calculations. Minimum representation for a non-Member involved in a sale to a SPP Member is ownership of a generator bus in the non-Member's system or a generator bus judged to be electrically close to the non-Member's system. Similarly, minimum representation for a non-Member involved in a purchase from a Member is ownership of a load bus in the non-Member's system or a load bus judged to be electrically close to the non-Member's system.

3. Calculating Impacts for Revenue Allocation and Determination of Losses

3.1 Explanation of the Impact Calculation - The distribution of flows over each and every facility due to transactions between each combination of potential parties is calculated. A commercially available power systems analysis software package is used to perform the necessary network flow calculations

3.2 The "Megawatt-Mile" Method

(a) The megawatt-mile technique starts from a solved loadflow model of the Transmission System. Transactions are modeled between each combination of potential parties by changing generation on the sending, or selling end, and changing the load on the receiving, or buying end. The amount by which the generation and load are changed is small. A linear

analysis technique is then used to determine the distribution of flows on each branch in the network. This value is used in subsequent calculations.

- (b) Individual branch impacts are calculated given the flow on the branch due to the transaction and the line mileage (for transmission lines) as described in Section 2.2. The individual branch impacts for transmission lines are determined as follows:

$$\text{Transmission Line Impacts} = P * L \text{ [MW-miles]}$$

where

P = calculated flow due to the transaction

L = line length in miles

- (c) Similarly, the individual branch impacts for transformers are determined as follows:

$$\text{Transformer Impacts} = P * \text{mile [MW-miles]}$$

where

P = calculated flow due to the transaction.

- (d) The sum of all the individual branch impacts for each Transmission Owner is calculated in units MW-miles. These impacts can be summarized, by Transmission Owner, for all combinations of power transfers between Transmission Owner systems.

$$\text{MW-mile Impacts} = \phi \text{ MW-miles [MW-miles]}$$

- 3.3 Application to Determination of Losses - Transmission service MW-mile impacts using this MW-mile methodology shall be set forth in matrices developed by SPP and posted on SPP OASIS. The matrices shall be changed twice per year. The Summer season shall consist of the months of June through September inclusive. The Winter season shall consist of the months of October through May inclusive.

- 3.4 Generator and Load Dispatch - All capacity transactions are simulated as coming from all of a seller's on-line generation, except for that generation which is already fully loaded, in proportion to unit MVA base (nameplate rating). The transaction is simulated as delivered to all of the buyer's load.

Energy transactions are simulated as coming from all of the seller's on-line generation, except for that generation which is already fully loaded, in proportion to the unit MVA base (nameplate rating) and delivered to all of the buyer's load.

Each load on a bus at which the buyer represents load ownership will be allocated a proportionate amount of the transaction. The portion of the transaction allocated to at any given bus is the amount of load owned by the buyer on that bus divided by the total load owned by the buyer.

4. Calculating the Impact for Base Plan Zonal Annual Transmission Revenue Requirement Assignment

- 4.1 The zonal portion of the revenue requirements associated with Base Plan Upgrades shall be assigned to Zones using the ~~Incremental MW-mile~~ **Benefit Determination**. ~~A MW-mile calculation is performed by measuring the flows on each element multiplied by the distance as described in Section 3.2.~~ SPP shall develop a summer season model of the Transmission System, as specified in this Attachment S, using the most recent information available, that includes all of the transmission enhancements included in the approved SPP Transmission Expansion Plan. For this benefit determination, a comparison is made between ~~the resultant flows in this model with all upgrades~~ **Base Plan Upgrades** in service and ~~the resultant flows in the same model with each approved upgrade~~ **individually removed** from service, one at a time. ~~The difference in MW-mile impacts for each Zone provides the information necessary for the determination of the magnitude of benefit for each Zone.~~ The results of this MW-mile analysis shall be posted on the SPP website.
- 4.2 The process for the determination of the incremental MW-mile benefit associated with the addition of each Base Plan Upgrade is as follows:
 - (a) The process is initiated by developing a power flow base case model with all elements in service including all Base Plan Upgrades in the approved SPP Transmission Expansion Plan to be installed during the calendar year being evaluated. This model is used to measure baseline MW-mile impacts for each element in the load flow case.
 - (b) Next, each Base Plan Upgrade is removed, one at a time, to determine the incremental MW-miles impact on each element in the load flow case upon such removal.
 - (c) For each element in the load flow case, a positive increase in MW-mile impacts, upon removal of a Base Plan Upgrade, indicates that the element

is unloaded by the addition of the upgrade. The sum of all such positive incremental MW-mile impacts is deemed to be the indicator of the benefit of such upgrade.

- (d) The incremental MW-mile benefit for each Zone, associated with each Base Plan Upgrade, shall be the sum of the positive incremental MW-mile impacts for all elements in the load flow case contained in each such Zone divided by the sum of the positive incremental MW-mile impacts for all elements in the load flow case contained in all Zones, upon removal of each Base Plan Upgrade.

~~4.1 Explanation of the Incremental MW-mile Benefit Determination Calculation—The incremental MW-mile is determined by building the base case with all Base Plan Upgrades in service. A MW-mile calculation is performed by measuring the~~

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July 18, 2006

~~flows on each line multiplied by the distance as described in Section 3.2. The net change of the MW-mile impacts is used for this calculation. Then a benefit determination calculation is made with each new transmission upgrade removed individually. The reduction in MW-mile impact due to each new transmission upgrade is the measure of its zonal benefit.~~

~~4.2 The results of this MW-mile analysis shall be posted on the SPP website.~~

ATTACHMENT O

TRANSMISSION PLANNING AND EXPANSION PROCEDURES

These Procedures describe transmission planning and expansion procedures for the SPP Transmission System. Transmission Owners are obligated to build facilities subject to regulatory approval under the provisions of this Tariff. The Transmission Provider will not build or own transmission facilities. These procedures neither obligate the Transmission Provider nor Transmission Owners to build or own facilities within another Transmission Owner's area where a limit may exist. Transmission Owners may at any time voluntarily form associations and partnerships between Members or with non-Members to jointly construct and finance new transmission facilities provided such projects are subject to the assessment process of these Procedures.

1.0 Planning Criteria

The individual planning criteria of each Transmission Owner shall be the basis for determining whether a violation of criteria exists and when a need for new facilities should be considered. This planning criteria shall, at a minimum, conform to SPP Criteria and NERC Planning Standards. Transmission Owners shall submit their transmission planning criteria to the Transmission Provider. This criteria may be modified at any time provided that, if the criteria is made more stringent, the increased requirements shall not apply retroactively to transmission planning studies previously completed nor studies already underway by the Transmission Provider.

2.0 Planning and Assessment Studies

The Transmission Provider shall independently perform regional transmission planning studies. These studies shall assess the reliability and economic operation of the SPP Transmission System. Transmission planning studies may also be performed by individual Transmission Owners. Members shall contact the Transmission Provider whenever new facilities that impact interconnected operation are in the conceptual planning stage so that the optimal integration of any new facilities and potentially benefiting parties can be identified. The Transmission Provider shall periodically inform the Transmission Owners of identified operating constraints that should be addressed in future studies. Seasonal transmission assessments shall be performed by the Transmission Provider. These planning studies and seasonal assessments are for purposes

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of identifying any planning criteria violations that may exist. Transmission Owners shall submit their five-year transmission construction plans to the Transmission Provider.

In the event the assessment process identifies a violation, the violation shall be directed to the associated Transmission Owner. The responsible Transmission Owner shall respond by explaining why the violation is not valid or by identifying alterations in its transmission plan which correct the criteria violation. The Transmission Owner with an identified limit shall be responsible for performing studies to determine alternatives that remove the limit. If corrective action causes regional impacts and is therefore subject to cost sharing, the Transmission Provider's Staff shall participate in these studies if requested by the Transmission Owner or another Member.

Recommendations developed by the responsible Transmission Owner to mitigate an identified violation shall be presented for review and approval by the Transmission Provider. This review shall evaluate study results for negative impacts on the transmission systems of other Members. If such negative impacts are found, the Transmission Provider, the impacted Member and the Transmission Owner shall participate in a joint effort to modify the recommendation to the satisfaction of all involved Members. If negative impacts are not found, the Transmission Provider shall accept the recommendation. If the Transmission Provider finds the study incomplete, the Transmission Owner shall make further analysis to the satisfaction of the Transmission Provider. Once the recommendation is shown to address the violation and any negative impacts have been mitigated to the extent practicable, the Transmission Provider shall accept the recommendation. The Transmission Provider shall independently make the final determination in the process, subject to the Dispute Resolution Procedures and subject to review by the FERC or state regulatory authorities where appropriate.

3.0 Need for New Facilities

Undue limitation on the maintenance of the Transmission System and the provision of firm transmission service shall be deemed to create a need for new or upgraded facilities. Either situation shall require submittal of a transmission plan for review by the Transmission Provider to resolve the issue and may result in cost sharing among the entities that benefit from facility additions or improvements. This review can be initiated by any Member requesting firm

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transmission service under any applicable tariff. This review can also be initiated by any SPP organizational group as a result of its performance of operational assessments.

If the Transmission Owner with an identified limit is unable to determine alternatives in a timely manner, the Transmission Provider may establish a task force to determine appropriate options and make a recommendation. Such task force roster shall include representation from the Member with the limiting facility and Members with transmission service or facilities that might be affected by the limiting facility or corrections. The task force shall provide a recommendation, along with options considered to the Transmission Provider for a review of impacts. ~~Based on its review of the task force recommendations, the~~The Transmission Provider shall ~~independently prepare a proposal for consideration by~~include its conclusion in the SPP Transmission Expansion Plan submitted to the SPP Board of Directors for approval. Approval of the reliability upgrades identified in the SPP Transmission Expansion Plan by the Board of Directors shall constitute approval for ~~to direct~~the appropriate Transmission Owners to begin implementation of ~~the project~~projects for which financial commitment is required prior to the approval of the next SPP Transmission Expansion Plan.

4.0 Construction

a. Each Transmission Owner shall use due diligence to construct transmission facilities as directed by the SPP Board of Directors subject to such siting, permitting, and environmental constraints as may be imposed by state, local and federal laws and regulations, and subject to the receipt of any necessary federal or state regulatory approvals. Such construction shall be performed in accordance with Good Utility Practice, applicable SPP Criteria, industry standards, each Transmission Owner's specific reliability requirements and operating guidelines (to the extent these are not inconsistent with other requirements), and in accordance with all applicable requirements of federal or state regulatory authorities. Each Transmission Owner shall be fully compensated to the greatest extent permitted by The Commission, for the costs of construction undertaken by such Transmission Owner in accordance with this Tariff.

b. ~~After a new transmission project has been approved, the Transmission Provider will direct the appropriate Transmission Owners to begin implementation of the project.~~ If the project forms a connection between facilities of a single Transmission Owner, that Owner will be

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July 18, 2006

designated to provide the new facilities. If the project forms a connection between facilities owned by two different Transmission Owners or between a new facility and the facilities of a Transmission Owner, both entities will be designated to provide the new facilities. The two entities will agree between themselves how much of the project will be provided by each entity. If agreement cannot be reached, the Transmission Provider will facilitate the ownership determination process.

c. A designated provider for a project can elect to arrange for another entity or another existing Transmission Owner to build and/or own the project in their place. If a designated provider or providers do not or cannot agree to implement the project in a timely manner, the Transmission Provider will solicit and evaluate proposals for the project from other entities and select a replacement designated provider.

ATTACHMENT X

NOTE: Only sections with changes are included

**SOUTHWEST POWER POOL, INC.
CREDIT POLICY**

**ARTICLE TWO
Definitions**

2.1 Definitions. The following definitions apply in this Credit Policy. Capitalized terms used herein and not defined herein shall be given the meaning assigned to them under the Tariff.

Affiliate

A business concern, organization, or individual is an affiliate of another business concern, organization, or individual, including a Credit Customer, that directly or indirectly: (a) has the power to control or is controlled by it; or (b) is under common control of a third party. Elements of control include interlocking management or ownership, shared facilities and equipment, and common use of employees.

Affiliated Credit Customers

Credit Customers that are Affiliates.

Issued by: L. Patrick Bourne, Director
Transmission and Regulatory Policy

Issued on: March 30, 2006

Effective: March 1, 2006

Filed to comply with order of the Federal Energy Regulatory Commission, Docket No. ER06-432-000, issued February 28, 2006, 114 FERC ¶ 61,222 (2006).

Agreements

The Tariff, including this Credit Policy, any and all agreements entered into by the Credit Customer under, pursuant to or in connection with the Tariff and/or this Credit Policy, and any and all other Agreements to which SPP and the Credit Customer are parties.

Business Day

A day on which the Federal Reserve System is open for business.

Cash Deposit

Cash collateral provided to SPP to secure a Credit Customer's performance under the Tariff, this Credit Policy, and/or any other Agreements, and any other cash to which the Credit Customer has title or rights in the possession of SPP (cash SPP has applied to payment of an obligation under the Tariff or Agreements is not cash to which a Credit Customer has title or rights).

Central Prevailing Time

As established by national time standards, either Central Standard Time or Central Day-Light Time.

Composite Credit Score or Credit Score

This term shall have the meaning given in Section 4.2.

Corporate Guaranty

A legal document used by an Affiliate of a Credit Customer to guarantee the obligations of such Credit Customer for the benefit of SPP.

Credit and Security Agreement

A legal document, outlining certain terms pursuant to which a security interest in certain collateral is granted to SPP, in the form incorporated herein as Appendix "B".

Credit Application

The completed, executed, and submitted Credit Application in the form attached as Appendix "A" hereto, together with the Credit Information required under this Credit Policy.

Credit Assessment

This term shall have the meaning given in Article Three.

Credit Contact

This term shall have the meaning given in Section 9.1.

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Transmission and Regulatory Policy

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Credit Customer

Any person that takes or seeks to take service under the Tariff including all Transmission Service or other services under the Tariff, including any market services.

Credit Information

This term shall have the meaning given in Section 1.2.3.

Credit Ratings

Rating assigned by a Rating Agency based on an obligor's creditworthiness to pay financial obligations.

Default or Event of Default

Any default under Article Eight or otherwise under this Credit Policy.

FERC

The Federal Energy Regulatory Commission.

Financial Security

A Cash Deposit or Irrevocable Letter of Credit in amount and in forms as described in Article Seven of this Credit Policy, provided by a Credit Customer to SPP as security.

Financial Statements

This term shall have the meaning given in Section 3.1.1.1.

Guarantor

An entity that guarantees the obligation of another entity under a ~~Corporate~~ Guaranty.

Guaranty

A guaranty pursuant to Article Six.

Irrevocable Letter of Credit

An irrevocable standby letter of credit, with SPP as beneficiary, substantially in the form attached as Appendix "C" to this Credit Policy and reasonably acceptable to SPP.

Large Company Credit Customers or Large Company

This term shall have the meaning given in Section 4.2.1.

Market Exposure

This term has the meaning given in Section 5.2.1.

Issued by: L. Patrick Bourne, Director
Transmission and Regulatory Policy

Issued on: March 30, 2006

Effective: March 1, 2006

Filed to comply with order of the Federal Energy Regulatory Commission, Docket No. ER06-432-000, issued February 28, 2006, 114 FERC ¶ 61,222 (2006).

Material

The lesser of (i) the materiality standard established by the certified public accounting firm performing the Credit Customer's annual audit, (ii) an amount that equals or exceeds

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five percent (5%) of the Credit Customer's Tangible Net Worth using the last audited financial statements, calculated in accordance with generally acceptable accounting principles; and (iii) a change, event, proceeding, or other occurrence, that results (or if adversely determined could result) in a change of five percent (5%) or more in the Credit Customer's Tangible Net Worth compared to the Tangible Net Worth of the Credit Customer using the last audited financial statements, calculated in accordance with generally acceptable accounting principles.

Material Change

This term shall have the meaning given in Section 3.2.7.

Not-For Profit Credit Customers or Not-For-Profit

This term shall have the meaning given in Section 4.2.3.

Peak Market Activity Day

The day in which a Credit Customer's calculated charges owed to SPP are the greatest, over a specified period.

Potential Exposure Window

The number of days of credit exposure for a Credit Customer equal to the sum of days of service that have been invoiced but not paid, days of service that have been calculated but not invoiced, days of service in the cure period, and days before service can be terminated.

Qualitative Score

This term has the meanings applicable under Article Four.

Quantitative Score

This term has the meanings applicable under Article Four.

Rating Agency(ies)

Any Rating Agency that is a "Nationally Recognized Statistical Rating Organizations" as defined by the US Securities Exchange Commission. Currently there are four — Dominion Bond Rating Service Ltd., Fitch, Inc., Moody's Investors Service, and the Standard & Poor's Division of the McGraw Hill Companies Inc.

SEC

The Securities and Exchange Commission.

Small Company Credit Customers or Small Company

This term shall have the meaning given in Section 4.2.2..

Issued by: L. Patrick Bourne, Director
Transmission and Regulatory Policy

Issued on: March 30, 2006

Effective: March 1, 2006

Filed to comply with order of the Federal Energy Regulatory Commission, Docket No. ER06-432-000, issued February 28, 2006, 114 FERC ¶ 61,222 (2006).

Tangible Net Worth

This term shall have the meaning given in Section 4.3.

Total Credit Limit

This term shall have the meaning given in Section 4.5.

Total Potential Exposure or TPE

SPP's estimate of the Credit Customer's current or anticipated transaction activity and resulting obligations for all services under the Tariff or otherwise.

Total Potential Exposure Violation

This term shall have the meaning given in Section 5.4.1.

Transmission Service Potential Exposure

This term shall have the meaning give in Section 5.2.2.

Unsecured Credit Allowance

This term shall have the meaning given in Section 4.3.

ARTICLE SIX

~~Corporate Guaranty~~ Guarantees

- 6.1 ~~Corporate Guaranty.~~** A ~~Corporate~~ Guaranty approved by SPP transfers to the Credit Customer a portion of the Guarantor's creditworthiness and thereby increases the Credit Customer's Total Credit Limit. Unlike a bank guaranty or Irrevocable Letter of Credit, a ~~Corporate~~ Guaranty is not Financial Security. A ~~Corporate~~ Guaranty that is backed by Financial Security will have the same impact upon the Total Credit Limit as Financial Security. A ~~Corporate~~ Guaranty that is not backed by Financial Security is unsecured and will be considered unsecured credit in the determination of the Unsecured Credit Allowance.
- 6.2 ~~Approval Process.~~** SPP will determine whether to approve a ~~Corporate~~ Guaranty based upon the creditworthiness of the proposed Guarantor as though it were a Credit Customer under this Credit Policy. All Credit Information required under this Credit Policy with respect to a Credit Customer must be submitted initially for the proposed Guarantor and regularly thereafter. SPP will evaluate the Credit Information and determine any Unsecured Credit Allowance and the Total Credit Limit for the Credit Customer beneficiary of the proposed ~~Corporate~~ Guaranty. SPP shall have the right to revise the Unsecured Credit Allowance and Total Credit Limit from time to time based upon continued assessment of the Credit Information of the Guarantor.

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6.3 Requirements for Corporate Guaranty. A Credit Customer can utilize a Corporate Guaranty if all of the following conditions are satisfied:

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- 6.3.1 Guarantor's Satisfaction of Financial Standards under this Credit Policy.** A Guarantor is subject to the same financial review procedures as a Credit Customer. A Guarantor will be eligible to provide a Corporate Guaranty to the extent, if any, of the Guarantor's creditworthiness under this Credit Policy.
- 6.3.2 The Form and Substance of the Corporate Guaranty Acceptable to SPP.** Appendix "D" of this Credit Policy is a form of Corporate Guaranty. The Corporate Guaranty must:
- 6.3.2.1** Be duly authorized by the Guarantor and signed by an officer of the Guarantor
 - 6.3.2.2** State an effective period, or provide for automatic renewal or other basis for periodicity subject to cancellation on no less than sixty (60) days notice and provided that in all events the Corporate Guaranty is effective for all obligations of the Credit Customer undertaken prior to cancellation.
 - 6.3.2.3** Include certification of the corporate secretary that the execution, delivery, and performance of the Corporate Guaranty have been duly authorized;
 - 6.3.2.4** Obligate the Guarantor to submit Credit Information on an ongoing basis as required under this Credit Policy;
 - 6.3.2.5** Incorporate default provisions, including default provisions referred to in Section 6.3.4;
 - 6.3.2.6** Secure, in combination with other forms of financial security, all obligations of the Credit Customer under or in connection with this Tariff and/or other Agreements; and
 - 6.3.2.7** Be supported by adequate consideration and be otherwise binding as a matter of law.
- 6.3.3 Legal Opinion.** The Guarantor shall provide a legal opinion in form satisfactory to SPP that the Corporate Guaranty is duly authorized, not in violation of other undertakings or requirements applicable to the Guarantor, and enforceable against the Guarantor in accordance with its terms. The opinion shall include as an attachment thereto the resolution(s) of the board of directors or other governing body of the Guarantor authorizing the Corporate Guaranty.

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6.3.4 Default. Any breach of the Corporate Guaranty by the Guarantor or the requirements of the Guarantor under this Credit Policy shall be deemed a Default of this Credit Policy and a default under the Tariff by the Guarantor and the Affiliates whose obligations are supported by the Corporate Guaranty. The following also shall be a Default of this Credit Policy and a default under the Tariff: (i) the Corporate Guaranty expires or terminates (other than in accordance with its terms or upon the written consent of SPP); (ii) the Guarantor disaffirms, disclaims, repudiates, rejects or challenges the validity of all or any part of the Corporate Guaranty; or (iii) the Corporate Guaranty or any material provision of the Corporate Guaranty ceases to be in full force and effect (other than in accordance with its terms or upon the written consent of SPP).

6.4 Corporate Guaranty for Affiliates. A single Corporate Guaranty may support the Total Credit Limits of Affiliates. With respect to such a Corporate Guaranty, the sum value of the Unsecured Credit Allowance of all such Affiliates and the Guarantor shall not exceed the lesser of:

- (i) the approved Unsecured Credit Allowance for the Guarantor based on SPP's financial review of Guarantor; or
- (ii) \$25 million.

If a Corporate Guaranty is utilized to establish an Unsecured Credit Allowance for a Credit Customer, the value of the Corporate Guaranty shall be no greater than the lesser of:

- (i) The credit limit imposed in the Corporate Guaranty; or
- (ii) The portion of the Unsecured Credit Allowance calculated for the Guarantor that is allocated to such Credit Customer in SPP's sole discretion; provided that the Unsecured Credit Allowance calculated for the Guarantor may not exceed \$25 million; or
- (iii) \$25 million.

6.5 Guarantees for Not for Profit Credit Customers. SPP shall allow other guarantees for Not for Profit Credit Customers so long as any guarantees for such customer satisfy the requirements of Section 6.3. The form in Attachment D shall be used (subject to modifications to reflect the not for profit nature of the customer and the structure of the guarantee). An example of a permissible guarantee would be individual cities guaranteeing the payments by a municipal energy entity.

6.65 Costs. The Credit Customer shall bear all costs of obtaining and maintaining the ~~Corporate~~ Guaranty.

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6.76 Withdrawal. A Credit Customer or the Guarantor may request the withdrawal of the ~~Corporate~~ Guaranty by written request to SPP. A ~~Corporate~~ Guaranty may be withdrawn and/or terminated only upon SPP's written approval. SPP will not approve withdrawal or termination of a ~~Corporate~~ Guaranty unless and until:

- (i) alternate Financial Security acceptable to SPP has been provided; or
- (ii) all financial obligations of a Credit Customer under the Agreements have been irrevocably satisfied in full, all Service Agreements have been terminated, and the Credit Customer is no longer a Credit Customer.

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Southwest Power Pool, Inc.
MARKETS AND OPERATIONS POLICY COMMITTEE
Meter Agent Agreement

Recommendation to the Board of Directors/Members Committee
July 25, 2006

Background

FERC required a standard metering agreement in paragraph 115 of the March 20, 2006 market order:

The Commission accepts as reasonable the role that the transmission owners act as meter agents in the first year. In serving as meter agents, the transmission owners will be the conduit for data that they currently collect to allow them to assess charges for ancillary service under their own OATTs. We do not see that there are measurable additional costs to transmission owners in forwarding the information that they already collect to SPP. However, we concur with Westar that two issues related to this conduit role, i.e., the limitations on liability for transmission owners performing the function and the standards for estimating meter data when metering equipment malfunctions, need clarification prior to market implementation. Therefore, we direct SPP to resolve these issues and submit a standard metering agent agreement no later than 60 days prior to the date of market implementation.

Analysis

The SDMSTF developed a draft agreement for review and approval by the MWG. The MWG has reviewed and approved the attached agreement unanimously. The discussion included a vote on inserting the term “gross negligence” in the indemnification section (section 3.2), which failed by one vote. It is recognized and expected that a discussion on “gross negligence” and “negligence” will occur at MOPC.

Recommendation

Approve the attached meter agent agreement for filing in the SPP Tariff as an Attachment.

Approved:	Market Working Group - Unanimous	July 18, 2006
	Markets and Operations Policy Committee	July 20, 2006
	Approves Meter Agent Agreement as proposed by the MWG with SPP legal to align Sections 3.1 and 3.2 with the protections of the tariff, as well as any additional nonsubstantive changes from both the RTWG and Legal review. Approved with 66.7% in favor of the recommendation.	

Action Requested: Approve Recommendation

**METER AGENT SERVICES AGREEMENT
FOR
SPP MARKET
BETWEEN
MARKET PARTICIPANT
AND
THEIR DESIGNATED METER AGENT
AUGUST 1, 2006**

This Agreement made and entered this ___ day of _____, 2006, is between ____
____ ("Market Participant") and _____ ("Meter Agent"). Market Participant and
Meter Agent are each sometimes referred to in the Agreement as a "Party" and
collectively as the "Parties."

WITNESSETH:

WHEREAS, for the initial year of the EIS market, the Balancing Authority will act as
the Meter Agent for all Market Participant Resources and Load within the Transmission
Owner's zone unless otherwise mutually agreed upon by the Balancing Authority and
Market Participant.

WHEREAS, Market Participant and Meter Agent are registered entities of the
Southwest Power Pool Market ("SPP").

NOW, THEREFORE, in consideration of the premises and mutual covenants and
agreements hereinafter set forth, the parties hereto mutually agree as follows:

ARTICLE I
Responsibilities of the Parties

1.1 Market Participant Responsibilities:

1. **Governing Documents:** Market Participant agrees that the services provided by the Meter Agent shall be in accordance with the SPP OATT and Market Protocols as they may be amended from time to time
2. **Data Communications:** Market Participant shall provide or arrange for communication of meter data in a mutually acceptable format to the Meter Agent.
3. **Settlement Location Definition:** Exhibit A defines the meter(s) and calculations associated with each SL.
4. **Notice of Meter Changes:** Market Participant shall inform the Meter Agent of any additions, deletions, and modifications of metering that will impact the market data.
 - a. Market Participant shall provide full details of the meter information to the Meter Agent a minimum of 60 days prior to the implementation of the change, except when the meter equipment is changed or replaced due to equipment failure. This information to be provided shall include the following:
 1. Establishing retrieval of the meter data from the data source – method, communications, and full description of the meter.
 2. Establishing the calculation method that will be applied for the new or modified SL and the impact to other existing SL or NAI calculations.
 3. Completing the SPP Market registration required, which includes real-time data exchange and modeling coordination with SPP.
 4. Updating of Exhibit A,
 5. Developing and testing a complete system for submission of data.
 - b. Market Participant shall notify Meter Agent of any significant metering issues related to the data provided to the Meter Agent within 24 hours after issue is identified. This includes change out of a meter, meter failures, real-time data failures, etc.
5. **Settlement Location Notification:** Market Participant shall notify any other entity affected by the change in the SL (i.e. Other Market Participant, Balancing Authority).

6. **Data Exchange and Data Quality:** Market Participant shall provide meter data for each Meter identified in Exhibit A to the Meter Agent in a timely manner.
 - a. Data shall be provided to the Meter Agent at least one (1) full business day prior to SPP's deadline for submission of meter data.
 - b. Upon notification to or upon discovery by the Market Participant that the data exchange has failed or data quality is questionable, the Market Participant will resolve the issue with the meter data source.
 - c. It is the Market Participant's responsibility to provide estimates to the Meter Agent; however, if the Market Participant or their meter data source fails to provide the meter data in a timely manner, the Meter Agent will estimate the data for submission to SPP by the appropriate deadline. The Meter Agent will be held harmless as set forth in section 3.2.
7. **Submission Failures:** If the Meter Agent fails to submit the meter data or NAI data by the Final Settlement Statement data cutoff, the Market Participant is responsible for initiating and pursuing the SPP OATT Dispute process. The Meter Agent must provide any data they have available to help resolve the dispute.

1.2 **Meter Agent Responsibilities:**

1. **Governing Documents:** Meter Agent shall provide services on behalf of the Market Participant in accordance with SPP's OATT and Market Protocols as they may be amended from time to time.
2. **Meter Agent Registration:** Meter Agent will maintain acceptance as a registered Meter Agent with the SPP Market.
3. **Settlement Location Development:** Meter Agent will coordinate with the Market Participant to maintain Exhibit A.
4. **Data Communications:** Meter Agent will coordinate with the Market Participant or their meter data source for the mutually agreeable exchange of data.

5. **Settlement Location Values**

Meter Agent shall calculate the Settlement Location values for each of the Settlement Locations identified in Exhibit A by applying all parameters as identified therein.

6. **Data Issue Notifications:**

- a. Meter Agent will notify the Market Participant of any data exchange issues with the meter data source.
 - b. Upon failure to receive meter data from the Market Participant or their meter data source by the data deadline, the Meter Agent will notify the Market Participant and if necessary estimate the data.
7. **Data Submission:** Meter Agent shall submit Settlement Location values to SPP and the appropriate Balancing Authority by the deadlines outlined in the governing documents.

ARTICLE II Term and Termination

- 2.1 **Initial Term:** This Agreement shall become effective on _____, 2006 and shall continue until the first anniversary of the start of the SPP EIS Market.
- 2.2 **Extended Term:** This Agreement shall continue on a year to year basis at the conclusion of its Initial Term, unless terminated as specified in the Agreement.
- 2.3 **Termination:** This Agreement may be terminated at any time by mutual agreement of the Market Participant and Meter Agent. Either the Market Participant or the Meter Agent may terminate the Agreement after the Initial Term, upon giving 60 days written notice to the other Party.

ARTICLE III Miscellaneous

- 3.1 **Uncontrollable Forces:** A Party will not be considered in default as to any obligation under this Agreement to the extent such Party is prevented or delayed from fulfilling such obligation due to the effect of Uncontrollable Forces. A Party whose performance under this Agreement is prevented or delayed by an Uncontrollable Force shall make all reasonable efforts to perform its obligations under this Agreement, and shall take all reasonable steps to eliminate the cause; however, neither Party shall be required to settle or resolve labor disturbances or strikes, or to accept or agree to governmental or regulatory orders or conditions without objection or contest except on any basis agreeable to such Party in its sole discretion. The affected Party, as soon as reasonably possible, shall give notice of Uncontrollable Forces.
- 3.2 **Indemnification:** Each Party hereto shall indemnify and hold harmless the other Party (in such case, the "Indemnified Party"), its officers, directors, agents and employees from and against any and all claims for death or injury to persons or destruction of or damage to property, demands, suits, recoveries, costs and expenses, court costs, attorneys fees, and all other obligations by or to third parties (collectively "liabilities"), arising out of or resulting directly or indirectly

from such Party's performance of its obligations under this Agreement on behalf of the Indemnified Party, except to the extent any such liability arises, directly or indirectly, from the Indemnified Party's negligence or intentional wrongdoing.

3.3 **Successors and Assignment:** This Agreement shall be binding upon the Parties and their respective successors and assigns. This Agreement shall not be assignable by either Party except with the prior written consent of the other Party which shall not be unreasonably withheld.

3.4 **Good Utility Practices:** The Parties shall conduct their affairs under this Agreement in accordance with Good Utility Practices. Good Utility Practices shall mean any of the practices, methods, and acts engaged in or approved by a significant portion of the electric utility industry during the relevant time period, or any of the practices, methods and acts which, in exercise of reasonable judgment in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result as a reasonable cost consistent with good business practices, safety, and expedition. Good Utility Practices is not intended to be limited to the optimum practice, method or act to the exclusion of all others, but rather to be acceptable practices, methods or acts, generally accepted by the region.

3.5 **No third party beneficiaries.** There shall be no third party beneficiaries to this Agreement.

**ARTICLE IV
Notices**

4.1 **Agreement Notices:** Any notice, demand or request required or authorized by this Agreement shall be deemed properly made, given to, or served on the party to whom it is directed when sent by United States Mail addressed as follows:

Market Participant:

Meter Agent:

Title

Title

Company

Company

Address

Address

City, State, Zip

City, State, Zip

Notice of change in the above addresses shall be given in the manner specified above.

ARTICLE V

Complete Agreement

- 4.1 **Complete Agreement:** This Agreement represents the Parties' final and mutual understanding concerning its subject matter. It replaces and supersedes any prior agreements or understandings, whether written or oral. No representations, inducements, promises, or agreements, oral or otherwise, have been relied upon or made by either Party, or anyone on behalf of a Party, that are not fully expressed in this Agreement.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed and attested by their duly authorized officers as of the day and year first above stated.

Market Participant:

Meter Agent:

Company

Company

By: _____

By: _____

Title: _____

Title: _____

Attest: _____

Attest: _____

Title: _____

Title: _____

Market Participant Settlement Location Definitions

Resource Settlement Locations:

#	Settlement Location Name	Meter	Physical Location	Voltage Level	Losses	Operand
1	Plant 1 – 230	Gross Meter	Unit 1	230kV	1.5%	-
		Aux Meter	Unit 1	230kV	1.5%	+
		Gross Meter	Unit 2	230kV	1.5%	-
		Aux Meter	Unit 2	230kV	1.5%	+
2	Plant 1 – 115	Gross Meter	Unit 3	115kV	0%	-
		Aux Meter	Unit 3	115kV	0%	+
3						
4						
5						

Gross Generation output is negative, auxiliary use is positive. MWh received by the Transmission System is negative.

Load Settlement Locations:

#	Settlement Location Name	Meter	Physical Location	Voltage Level	Distrib. Losses	Transm. Losses*	Operand
1	CA XX_CITY X	Line A	Sub X	69kV	0%	2.94%	+
		Line B	Sub X	69kV	0%	2.94%	+
		Line C	Sub X	12kV	1.39%	2.94%	+
		Deduct	Sub X	12kV	1.39%	2.94%	-
2	CA XX_CITY Y	Xfmr 1	Sub AA	69kV	0%	2.94%	+
		Xfmr 2	Sub AA	69kV	Eng**	2.94%	+
3							
4							

* SPP OATT Attachment M Losses

** Engineered Adjustment with Assumption – reference SPP Protocols Appendix D and E

Residual Load Settlement Locations:

#	Settlement Location Name	Meter	Operand
1	CA XX_LOAD	Settlement Location Plant 1-230	-
		Settlement Location Plant 1 – 115	-
		Settlement Location CA XX_CITY X	+
		Settlement Location CA XX_CITY Y	+
		Net Actual Interchange CA XX	-

Assumes sign of other SL data used is in polarity required for submission to SPP Market.

Net Actual Interchange for Settlement Area:

#	NAI Name	Meter	Operand
1	CA XX_SA	Tie 1	+
		Tie 2	+
		Tie 3	+
		Tie 4	+
		Tie 5	+

Southwest Power Pool, Inc.
Markets and Operations Policy Committee
Recommendation to the Board of Directors/Members Committee
July 25, 2006

Organizational Roster

The following members represent the Market Working Group:

Richard Ross, AEP, Chairman
Gene Anderson, OMPA
Doug Base, WFEC
Gary Clear, OG&E
Terri Eaton, Xcel Energy
Robert Janssen, Redbud Energy
Charles Locke, KCPL
Rick McCord, EDE
Tambra Offield, ETEC
Tom Saitta, Aquila
James Stanton, Calpine
John Stephens, Springfield MO
Tom Stuchlik, Westar
Keith Sugg, AECC
Richard Dillon, SPP, Secretary

Background

The Strategic Planning Committee, at their July 13, 2006 meeting, debated and approved a recommendation to the Board that read:

Recommend to the Board of Directors to start parallel operations on October 1 with binding settlement starting on November 1 barring any issues with testing.

The Board of Directors will consider the proposed delay at their July 25 meeting.

Analysis

The MWG reviewed the recommendation of the SPC during the July 18, 2006 meeting and determined that additional clarity was necessary if the Board adopts the SPC recommendation.

Recommendation

- The meaning of the recommendation from the SPC to the Board is not clear to the MWG.
- It would appear, based on discussions with some SPC members, observers, and staff that:
 - The SPC recommendation intended to indicate the entire month of October would be spent performing a Deployment Test (745 hours) that is not financially binding
 - The SPC recommendation was to effectively delay the start of market operations including financial settlements, until November 1, 2006
- MWG does not believe a month long deployment is feasible since it will result in substantial accumulations of inadvertent or limited participation by market participants due to uncertain and uncompensated financial impacts.

- Parties that are not Balancing Authorities, if they participate, would be performing based on market instructions and be compensated or charged based on existing non-market rates.
- Parties that are Balancing Authorities, if they participated, would be performing based on market instructions and be compensated or charged at existing Schedule 4 Tariff rates or through inadvertent payback.
- If the Board intends to effectively delay the implementation of the market to November 1, 2006, the MWG recommends that the MITF and SPP staff evaluate/determine the best use of the time being made available by such an extension.

Action Requested: Approve the above statement for review at the Board meeting of July 25, 2006 in conjunction with any discussion of the SPC motion.

Approved: Market Working Group – Approved with 3 abstentions July 19, 2006
Markets and Operations Policy Committee
Endorses the last two major bullets in the recommendation.
Unanimous approval. July 20, 2006

Action Requested: Approve Recommendation