

2008 SPP Strategic Plan

Developed by the
Southwest Power Pool, Inc.
Strategic Planning Committee

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Background

SPP approved its most recent Strategic Plan in October 2006. The Strategic Planning Committee (SPC) held a retreat May 12-14, 2008. Included in the planning retreat were members of the committee, SPP executive staff, and facilitator Pete Hoelscher.

Strategic Planning Committee

The SPC is comprised of a diverse group of representatives from the SPP membership and the Board of Directors:

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| Richard Spring, Chair VP, Transmission Policy, Planning and Compliance Kansas City Power & Light | Ricky Bittle Vice President Arkansas Electric Cooperative Corporation |
| Mike Wise Vice President, Transmission & Operations Golden Spread Electric Cooperative | Tim Woolley Manager, Regional Transmission Policy Xcel Energy |
| Rob Janssen President Dogwood Energy | Mike Palmer VP, Commercial Operations The Empire District Electric Company |
| Mel Perkins VP, Power Delivery OG+E Electric Services | Les Evans VP, Power Supply Kansas Electric Power Cooperative |
| Jim Eckelberger Chairman, SPP Board of Directors | Harry Skilton Vice Chair, SPP Board of Directors |
| Joshua Martin SPP Board of Directors | |

Strategic Planning Process

In revising the Strategic Plan the SPC considered three basic questions: Where are we, with respect to what is happening regionally and nationally? Where do we want to go? How do we get there? The group sought to modify SPP's strategic goals for moving forward, while retaining its uniqueness in the industry and continuing to provide benefit to its members.

Where are we?

This data-gathering phase produced an understanding of SPP's relative position in the industry and the environment in which SPP operates. The group assessed changes since the current plan was approved in October 2006, changes expected to occur during the planning period horizon, and an executive staff-developed strawman proposal of potential plan modifications. This phase also included a review of the state and federal regulatory environments to which SPP members are subject.

Where do we want to go?

The SPC recommends modifications to the plan focusing on the following components:

1. Communication and Education
2. Membership Development/Expansion/Contract Services
3. Transmission Expansion
4. Future Market Development/Design
5. Reliability Compliance – Regional Entity

How do we get there?

The SPC recommends that SPP organizational groups further investigate certain issues and make appropriate recommendations to the Board of Directors and Regional State Committee.

SPP's Value Propositions

To provide guidance during the planning process, the SPC reviewed SPP's values – the principles that have driven its history and frame its future. These principles are very familiar to SPP members, and they distinguish this organization from other regional organizations.

Relationship-Based

SPP dates to 1941 when 11 utilities across seven states pooled their generation resources to serve a critical defense plant in central Arkansas. After the war, the organization continued to exist. It grew to a peak membership of 78 entities without any legal recognition, until it incorporated in December of 1993. Until 1998, the membership agreement consisted of a single paragraph obligating members to abide by the organization's bylaws. As in the past, relationships, rather than contracts, continue to keep this diverse organization together.

Member-Driven

SPP's organizational structure of broad-based committees, working groups, and ad hoc task forces is the true source of SPP's product. More than 360 people are involved in efforts driven by these groups. These groups' rosters match the organization's diverse membership, requiring participants from across the footprint and recognizing the various member types and sizes. These principles promote member ownership in the organization's products, reduce interventions in regulatory proceedings, and continue to keep SPP's staff size the smallest in the industry.

Independence Through Diversity

Since its inception, SPP's membership has been one of the most diverse of any regional organization in the industry. With membership comprised of investor-owned utilities, independent power producers and independent transmission companies, municipal systems, generation and transmission cooperatives, state authorities, wholesale generators, and power marketers, any and all opinions are heard loudly and clearly in organizational group meetings.

As a member-driven organization, meaningful stakeholder involvement drives SPP's efforts and effectively balances diverse opinions. Since 2004, this independence has been further enhanced with governance residing in an independent Board of Directors. When SPP was recognized as a Regional Transmission Organization (RTO), the SPP Regional State Committee (RSC) was formed, adding an important formal layer of diversity.

Reliability & Economic/Equity Issues Inseparable

In 1968, SPP took on the responsibility of serving as a regional reliability council under what became the North American Electric Reliability Corporation (NERC). The Federal Energy Regulatory Commission (FERC) approved SPP as an RTO in 2004 and a Regional Entity (RE) in 2007. As an RTO, SPP provides transmission planning, tariff administration, reliability coordination, and wholesale market services to our members in an efficient and cost-effective manner. As an RE, SPP enforces

reliability standards for our members and other users, owners, and operators of the bulk electric system in the SPP region.

SPP members have long maintained that electric reliability issues cannot be debated in the absence of economic/equity issues. History has shown that attempts to separate reliability and economic/equity issues result in the same people meeting in different venues with confusion over which organization should attempt to resolve problems. A single organization providing both RTO and RE services results in greater cost-effectiveness and organizational efficiency for SPP's members.

Evolution, Not Revolution

SPP's original purpose was to pool power to support the war effort. In the decades since then, SPP's mission and our members' needs have changed. Reliability remains SPP's preeminent focus; however, a deliberate evolutionary process has guided the growth in services delivered by the organization, resulting in a carefully staged maturation.

The Industry Today

The SPC discussed the current environment of the electric utility industry to identify key drivers that may impact SPP and its members. This section highlights some of the topics discussed.

The electric power system continues to be characterized as vital, while strides are being made to calm turbulence, remove uncertainty, and minimize risk and costs by establishing and stabilizing market rules. Industry participants are realizing that an aging utility infrastructure is impacting system reliability, and that the transmission component of the infrastructure must be upgraded to provide for economic growth and reliability. Many utilities are in a 'back to the basics' mode, focusing on reliability and cost/performance improvement, resulting in improved financial performance by many. Strides are being made toward increasing regulatory certainty, investing in infrastructure, and researching new, efficient, and affordable ways to "keep the lights on."

The industry is experiencing significant cancellations and rejections of new coal-fired base load generation, exacerbating diminishing capacity margins. Given the growing interest in Renewable Portfolio Standards (RPS), carbon-trading programs (or taxes), and demand response initiatives, renewable generation technologies such as wind will only become more important going forward. In the SPP footprint in 2007, wind generation was responsible for approximately 2.6% of the generation in the Energy Imbalance Service market footprint. SPP has over 50,000 megawatts (nominal or nameplate) of wind generation in the generation interconnection queue, so the potential for wind growth in SPP is large.

New high-voltage transmission expansion will be needed to bring wind energy to consumers. Cost uncertainty is a particular concern. The cost of construction labor and materials has been extremely volatile world-wide, causing it to be increasingly difficult to accurately forecast the cost of new investment.

The Energy Policy Act of 2005 had significant implications for the industry. The act authorized FERC

to certify an Electric Reliability Organization (ERO). In 2006, FERC certified NERC as the nation's ERO and made it responsible for establishing and enforcing mandatory reliability standards for the bulk power system. This was a shift from voluntary compliance standards in place since NERC's founding, and a major step in the transition to a strong reliability environment.

The needs of the industry, particularly for transmission infrastructure enhancements and expansion, are capital intensive. There are numerous regulatory, political, financial and implementation hurdles that must be overcome so this infrastructure can be moved from the drawing board to in-service operations.

The implementation of SPP's Energy Imbalance Service market has been successful. The first year of operation realized net trade benefits (production cost savings) of over \$100 million. There is evidence that the market is resolving the majority of congestion in the market footprint. While there may not be less congestion in the SPP footprint, it is clear that the market is generally addressing congestion in a reliable and efficient manner. SPP tracks metrics that clearly demonstrate the market is providing necessary redispatch solutions to resolve the majority of that congestion in a timely manner. Local high congestion prices are the result of historical compromises between building transmission and generation and will not necessarily be relieved by first contingency reliability planning. SPP has started preliminary efforts to potentially develop Ancillary Services and Day-Ahead markets.

SPP Today

SPP manages reliability coordination, wholesale markets, and transmission services on behalf of its members, using members' transmission systems. SPP's 50 members serve approximately 4.5 million customers across a 255,000 square mile region spanning eight states.

SPP's footprint includes 16 control areas responsible for matching electricity supply and demand within their regions. The 2007 peak electric demand in SPP's reliability footprint was 43,346 coincidental megawatts, approximately 0.7% higher than in 2006.

Electric energy usage increased between 2006 and 2007. In 2007, it was 207.3 million MWh, an increase of 1.6% over 2006. Customers within the five largest control areas in SPP (American Electric Power West, Oklahoma Gas and Electric, Westar Energy, Inc., Southwestern Public Service Company, and Kansas City Power and Light) account for 73% of SPP's total electric energy usage.

SPP's 2007 capacity resources totaled 50,392 megawatts, resulting in a significant Resource Margin (generation capacity in excess of peak demand) of 14,074 MW or 33%, presuming all generating capacity would be deliverable when peak electricity demand occurs. Of the total generating capacity in SPP, 42% is natural gas-fired and 43% is coal-fired.

Prior to 2005, SPP saw limited regional transmission expansion in the footprint, despite the fact that certain areas were constrained. With the help and feedback of stakeholders, SPP has since completed its *fourth* annual SPP Transmission Expansion Plan (STEP). In 2005, \$150 million in transmission capacity improvements were completed. Since 2005, transmission capacity improvements completed included \$90M million in 2006, \$190 million in 2007, and over \$300 million in 2008. Approximately \$600 million is scheduled for 2009. These are substantial amounts of investment in the transmission system.

The STEP includes projects from four sources: projects identified by SPP as needed for reliability; economic projects with voluntary sponsors; projects or upgrades needed as a result of the transmission service aggregate study process and the generation interconnection request process; and transmission owner or other stakeholder projects planned apart from the STEP. Cost estimates and descriptions are provided for all STEP projects.

In 2005, the Board of Directors approved a strategic plan that included six primary areas of focus:

1. Markets development
2. Transmission expansion
3. Administrative processes
4. Retention and addition of participants
5. Enhanced regional planning
6. Long-range planning

SPP has made significant progress toward these goals. The Energy Imbalance Service market was implemented in February 2007, and cost/benefit analyses are underway for the next phases of market development.

The 2006 Strategic Plan was developed in response to the organization's desire to engage in a longer-term planning horizon and to refocus some of the topic areas. The longer-term perspective yielded some additional focus areas including:

1. Communication and Education – an effort of SPP and its members with federal/state regulatory and legislative constituencies.
2. Center of Excellence – an effort to leverage collective knowledge, expertise and provision of leadership and shared services to members.
3. Contract Services – provision of service on contract basis to increase revenue, further membership in SPP and enhance the quality of existing services; and,
4. SPP Regional Entity – an effort to organize as a Regional Entity under the Electric Reliability Organization (ERO) to perform the delegated responsibilities related to the compliance, enforcement and development of mandatory reliability standards.

The recent effort to assess the Organization's progress on the 2006 Strategic Initiatives has overtaken the '06 Plan and this 2008 version represents an enhanced and updated strategic plan. This 2008 Strategic Plan reflects a 5-10 year planning horizon and there are no distinctions in terms of priority ranking as was the case in the 2006 Plan.

The Outlook for SPP

This section highlights some of the major issues facing SPP and its members. These issues can impact the business plans, effectiveness, and efficiency of SPP and its stakeholders in providing reliable and cost-effective services to their respective customers.

Regulatory and Legislative Drivers

As a public utility, SPP is subject to the jurisdiction of FERC and the limited jurisdiction of some states' retail regulatory commissions. State and federal regulators and legislators have significant impact on SPP's business. There is a high degree of turnover in these constituencies, as some commissioners serve by appointment and others by election. Terms will continue to expire for a number of commissioners who have authority over SPP and its members. Also, these commissions regulate much more than the electric utility industry, including such complex industries as gas, water, telecommunications, and transportation. High turnover, steep learning curves, and numerous and diverse demands create a formidable challenge to developing and maintaining an adequate level of understanding of SPP and its values. This is particularly significant as members are under increased scrutiny and pressure to justify investments in regional improvements such as new markets and transmission systems. SPP will focus on continually communicating and educating to these audiences the intricacies of strategic issues facing SPP and its members.

The region has experienced significant uncertainty associated with the cancellations of base-load generation, especially coal-fired generation. These cancellations ripple through to SPP's transmission plans and create further uncertainty from a transmission expansion perspective. These base-load generation uncertainties potentially confound the integration of wind generation in SPP's footprint. Wind energy is intermittent and to maintain electric reliability, wind energy needs to be supplemented with traditional energy sources.

Other external issues creating uncertainties include the potential for RPS and carbon legislation. RPS will require utilities to obtain minimum percentages of their power from renewable energy sources by a certain date. It is anticipated that states with an RPS or an imposed national RPS, but insufficient renewable energy to meet such standards would possibly be interested in importing wind energy from sources within SPP's footprint. Uncertainty also exists regarding carbon legislation, which would impact generating resources in and around SPP's footprint and may negatively impact generation Resource Margins.

Human Resources

The number of qualified technical employees electing a career in the utility sector is waning and causing a human resources shortage. This issue is not isolated to SPP's region, and is impacting both SPP and its members. SPP spends significant time and resources training engineers. This training provides valuable experience to employees, enabling them to be a commodity in the marketplace for engineering talent. Escalating salary and benefits pressure will be exacted on SPP to retain this type of talent.

Mandatory Reliability Standards

The Energy Policy Act of 2005 requires both SPP and its members to comply with new mandatory reliability standards. These reliability standards became effective in 2007, and are applicable to all users, owners and operators of the bulk-power system. Under a delegation agreement conditionally approved by FERC, the SPP RE is charged with developing regional standards and ensuring compliance and enforcement with FERC-approved reliability standards for over 120 registered entities (users, owners and operators of the bulk power system) in the SPP footprint.

Expansion of SPP Services and Cost Containment

Implementing mandates from stakeholders and regulators will put upward pressures on SPP's costs and administrative fees to its members, primarily due to investments in infrastructure. This will require the Organization to continue to maintain a high degree of focus on cost control. There are a number of entities in and outside the region that are interested in retaining SPP to provide certain services, but are not interested in full SPP membership; this offsets some of that upward cost pressure. However, providing these services must be balanced with maintaining a high level of support to SPP's members and providing a net economic benefit to SPP that does not diminish or restrict in any way SPP's fundamental focus or its resources.

To implement our members' requests, SPP has grown significantly in recent years. Staff growth over the next 10 years isn't expected to approach its recent rapid rate; SPP anticipates employee growth to average 6% per year through 2013, stabilizing with approximately 550 employees at that time. Growth during 2013-2018 is expected to be 2% annually. This anticipated growth will necessitate expansion of SPP's facilities.

A number of factors have to be considered when deciding on the most cost-effective solution to SPP's facility and data center needs, including NERC Critical Infrastructure Protection standards, environmental considerations (tornado paths and floodplains), redundant power and communications source requirements, employee demographics, and distance between the primary and backup facility.

Analysis of these needs through 2018 has shown the most viable option is to relocate SPP's corporate offices and primary operation center to a campus in west Little Rock, with the Maumelle facility serving as our disaster recovery site.

As the organization moves forward in time, it will need to remain ever vigilant in managing and controlling the costs to provide its services which are ultimately borne by the members.

Transmission Expansion

SPP's members are under increased scrutiny and face significant hurdles in the approval of new transmission infrastructure and cost recovery processes. The approval and implementation of new infrastructure is complicated and requires significant time and resources, which only adds to the delay in getting additional facilities built.

With the assistance of the RSC, SPP has made significant headway since 2006 on transmission expansion cost allocation and funding. First, a "base-plan" funding mechanism (which allocates costs for reliability upgrades identified in the STEP) was developed and approved by FERC. The next step in the evolution of cost recovery for transmission upgrades includes a "balanced portfolio" funding mechanism for "economic" transmission investment. This methodology is a result of an intense collaborative effort among SPP staff, the RSC, and stakeholders. This mechanism was approved by the FERC on October 16, 2008.

While significant headway has been achieved regarding cost allocation, a large remaining hurdle is to develop funding mechanisms for implementing a robust Extra High Voltage (EHV) transmission backbone in the SPP footprint, capable of accommodating expected increases in wind generation. The SPP region has huge wind energy potential. In Kansas, Oklahoma, New Mexico, and the Texas panhandle, there is enough high-capacity wind to potentially add over 50,000 megawatts to the electric grid. By comparison, our record demand for electricity set in 2007 was just over 43,000 megawatts. SPP has 1,800 megawatts of wind in service, with approximately 50,000 megawatts proposed and under study. To connect large volumes of new wind energy to the electric grid, more transmission must be constructed to carry the energy to where the demand is. SPP is studying how a "transmission superhighway" of EHV lines would enable us to connect tens of thousands of renewable megawatts into the electric grid.

Any new generation, fossil fuel or renewable, has to go through the generation interconnection process to be added to the transmission grid. First, the generator completes an interconnection request. SPP then completes three studies: load flow (feasibility), impact (stability) and facility. Finally, a service interconnection agreement is completed. This process can take more than a year, creating uncertainty. Adding to this uncertainty are operational issues surrounding wind generation, including the capacity contributions that can be reliably counted upon from wind resources. Due to the intermittent nature of wind, capacity and energy needed from other generating resources is needed to support operating requirements like voltage, stability and regulation.

To address concerns with the Generation Interconnection Queue, the Generation Queuing Task Force (GQTF) was formed by the Regional Tariff Working Group (RTWG) on January 2, 2008. The efforts of the GQTF resulted in policy recommendations that should be complete and submitted to the MOPC and BOD in early 2009. Assuming SPP and ultimate FERC approval, implementation of the new policy could begin in 2009. An interim plan was also filed at FERC on November 11, 2008 that would allow SPP to cluster backlogged interconnection requests into clusters of 15,000MW each. This interim plan will allow a partial clearing of the backlog of interconnection requests until the GQTF recommendations can be implemented.

A number of policy and technical issues will need to be resolved for SPP to achieve its goal of establishing the optimal transmission grid. SPP's current policies do not easily permit non-transmission owners the opportunity, or incentive, to invest in the needed expansion of the

transmission grid. Of necessity these policies are under re-examination as a part of the Strategic Planning Committee and the Markets and Operations Policy Committee ongoing activities. Ensuring cost recovery (i.e. state regulatory approval of cost recovery), and enhanced benefit determination and quantification are keys to optimizing the SPP transmission grid, particularly when proposed projects impact multiple jurisdictions. Creating efficient and effective seams agreements, which determine how neighboring transmission providers interact at their borders from both an economic and operational perspective, will be a critical step in the implementation of any major EHV developments for interregional projects.

SPP Markets

As noted above, SPP is studying the cost and benefits of implementing Ancillary Services and Day-Ahead markets. SPP will work closely with its members, the Board of Directors, the RSC, and FERC to address any concerns before implementation of new markets. Preliminary cost-benefit analyses of future market scenarios demonstrate that there are benefits to be gained for SPP's members. SPP will conduct market trials to test market software. During these trials SPP will be able to correct problems encountered before the implementation of new markets.

Since the implementation of the Energy Imbalance Market (EIS) FERC has encouraged SPP to "coordinate with utilities, state commissioners and other interested parties to consider provisions for participation of demand resources in the imbalance market." Federal initiatives are growing and state initiatives are developing. FERC has allowed retail aggregators to bid customers' demand responses into wholesale markets where state laws do not prohibit such activity and retail aggregators in SPP's footprint have recently sought to become SPP market participants. While SPP's Markets Working Group has begun work on incorporating Demand Response (DR) into its EIS Market and future markets, SPP's stakeholders and the Regional State Committee must work together to develop fair and equitable rate and cost recovery mechanisms. SPP will require acknowledgement from registering market participants that retail load to be bid into SPP's wholesale markets is not a violation of applicable state laws. SPP will also provide notification to the wholesale energy provider and relevant retail regulatory agencies.

The Strategic Plan

Communication and Education

In an effort to further enhance credibility and align its mission with its members' goals, SPP will continue its systematic program to communicate with and educate the region's federal/state regulatory and legislative constituencies. This will allow SPP to better assist its members in advancing projects in the region. In 2008 the Communications Department developed and implemented a plan for proactive Communication and Education outreach focused on seven audiences: regulators, legislators, the general public, other organizations, SPP members and customers, the Central Arkansas community, and the media. When appropriate, execution of this initiative will be coordinated with the Regional State Committee.

The following steps should be taken:

1. The Communications Department will continue facilitating quarterly meetings with SPP's executives to plan outreach for the seven focus audiences.
2. SPP will continue to be proactive in assisting its members with issues that impact the region's transmission system or markets.

Outreach planned for 2009:

- SPP officers will continue making visits to regulators, legislators, and SPP members.
- The Communications Department will:
 - Work with a vendor to produce an educational video about SPP.
 - Work with the members of the SPP Board of Directors to publish editorials and opinions in pertinent newspapers and trade journals.
 - Participate in the 2009 Girls of Promise program.
 - Host quarterly teleconferences with communicators from SPP member organizations.
 - Work with the Museum of Discovery to launch the new transmission exhibit.
 - Create new SPP fact sheets and informational pieces to be used proactively in a variety of public forums.
 - Issue news releases, post news to SPP.org, and facilitate media interviews.
 - Look for opportunities to publish editorials.

Assigned to: SPP Officers and SPP Corporate Communication Staff

Membership Development and Expansion

SPP will continue to pursue expansion of its membership and its geographic footprint to further leverage its capabilities and lower costs. SPP will continue to offer services on a contract basis, pursuant to Board-approved assessment criteria, in order to increase revenues, further membership in SPP, and enhance the quality of existing services.

The following steps should be taken:

1. The Board of Directors will receive a quarterly report from the President on Membership status, pending opportunities for Membership expansion and/or the provision of Contract Services.
2. Existing Members will be engaged in the recruitment of new members.
3. Working with guidance from the SPP Strategic Planning Committee, SPP senior staff will periodically assess the potential for member additions and which potential members would be beneficial to pursue on behalf of the Organization.
4. SPP staff will develop a process to include advice and input from current membership with respect to the addition of new members or contract service offerings. This process will be complete by the first quarter of 2009.
5. SPP staff will continue to evaluate contract service opportunities as they arise to ensure that such offerings fit within SPP's Mission and Value Statements, provide net economic benefits to the existing SPP Members (in terms of reduced administrative fees, optimized shared services and enhanced operations and seams integration) and do not diminish or restrict in any way SPP's fundamental focus or its resources.
6. SPP will continue to provide contract service offerings to non-SPP Members that leverage SPP's existing infrastructure.

Assigned to: SPP Officers

Transmission Expansion

SPP will consolidate all of its Transmission expansion efforts into one overarching title. The following steps should be taken:

SPP staff working with the Regional State Committee should develop and implement methodologies to deal with the following subcategories of transmission expansion:

1. Inter-regional transmission expansion matters such as: Seams Agreements, EHV policies and build-out considerations, and wind energy exports;
 - This EHV effort is being conducted in parallel with efforts to reach conclusive seams agreements, including transmission cost allocation, with neighboring regions. Without such seams agreements, efforts to meet the strategic initiative of facilitating a robust regional transmission system will be hampered.

2. Intra-regional transmission expansion matters such as: continuous improvement in current tools and processes like the Aggregate Study process, the Generator interconnection queuing process and the STEP, as well as policy issues associated with transmission ownership and construction
 - There are three issues that negatively impact the length of time required to reach a timely conclusion to a transmission service request:
 1. customers are using the process to screen a wide variety of resource and transmission options in an effort to determine the optimal choice,
 2. customers withdrawal of transmission service requests due to the customers decision not to proceed with proposed generation,
 3. impacts that transmission service requests have on non-SPP parties which take time to resolve.
 - To address these concerns an Aggregate Study Improvement Task Force (ASITF) was formed by the Markets and Operations Policy Committee (MOPC) on June 18, 2007. The efforts of the ASITF resulted in policy recommendations approved by SPP's Board of Directors (BOD) that are presently being converted to Tariff language by the RTWG. The effort should be complete and submitted to the MOPC and BOD by the January 2009 meeting cycle. Assuming approval by SPP and a successful review at FERC, implementation of the new policy could begin in 2009. In the interim, stakeholders have approved a short-term plan that was filed at FERC on August 8, 2008 that would allow the pairing of sequential open windows of the prescribed transmission service request process through January 2010 to expedite the backlog of pending transmission service requests.
 - To assist with the resource screening process, beginning in September 2008; one customer is participating in a beta-screening project with the support of SPP staff. Assuming the beta screening process achieves the expected results, SPP staff plans to have a posted customer driven screening process in place by the end of 2008. The posted process will include modeling and other tools intended to provide customers greater flexibility in the self screening of projects. Ultimately, SPP must find a mechanism to more closely link the Aggregate Study and Generator Interconnection processes and fit those results into our long range plans.;

- The Generation Queuing Task Force (GQTF) policy recommendations endorsed by the RTWG on September 25, 2008 are awaiting review and approval of the RTWG before submission to the MOPC and SPP BOD. This effort should be complete and submitted to the MOPC and BOD in early 2009. Assuming approval by SPP and subsequent review and approval at FERC, implementation of the new policy could begin in 2009; and,
3. Transmission expansion cost allocation matters dealing with such issues as: the allocation of costs for an EHV system, introduction and implementation of renewable technologies and the associated transmission system impacts, and transmission expansion cost-beneficiary calculation improvements.
- The initial Balanced Portfolio of economic upgrades is expected to include as a part of the annual STEP process, reviewed by the RSC and endorsed by the Board of Directors in January 2009.
 - Having completed the policy decisions related to the Balanced Portfolio the Regional State Committee (RSC) turned their attention to an Economic Evaluation for the EHV Overlay. The RSC's Cost Allocation Working Group (CAWG) initiated the stakeholder process in August 2008 presenting an EHV Overlay Concepts paper to the RSC in October 2008. The proposal contained in the Concepts Paper will consider a number of scenarios i.e.; types and locations of the generating resources, potential for varying RPS standards, differing environmental scenarios, etc. The RSC agreed to provide additional feedback to the CAWG in their January 2009 meeting.
 - This EHV effort is being conducted in parallel with efforts to reach conclusive seams agreements, including transmission cost allocation, with neighboring regions. At the same time, SPP's tariff mandates at a minimum that once every five years the method of determining project beneficiaries is to be reviewed and that review process is included in the RSC's Work Plan. This review will address the megawatt-mile method currently utilized as well as other available options. In addition the RSC's Concepts Paper on Economic Upgrades considered the potential for expanding the benefits of transmission beyond production cost modeling. Expanded benefits that need to be considered include, at a minimum, reduced reliability margins (capacity margins requirements), improved efficiencies in delivery in terms of capacity and energy losses, the ability to manage fuel supply disruptions/natural disasters, etc., notwithstanding the benefits of a more robust transmission system to facilitate timely and flexible generation and demand response decisions. It is expected that these EHV and transmission cost allocation efforts will continue throughout 2009. SPP conducts an "unintended consequences" review as a part of its approval of the annual SPP Transmission Expansion Plan (STEP). SPP will consider a review process that over some period of time would assess whether or not all of the efforts in transmission planning, including the encouragement necessary for both transmission owners and non-transmission owners to participate in the process, that were intended to strategically implement a robust transmission grid have occurred.

Assigned to: SPP staff; RSC and RSC Cost Allocation Working Group; Regional Tariff Working Group

Market Development and Design

SPP will evaluate future market development offerings for the region including the requisite cost/benefit studies. A strategic decision including consultation with the SPP RSC will then be made concerning further market services (external generation, Demand Response (DR) and energy efficiency, ancillary services markets, day-ahead markets, and physical or financial transmission rights) development in the region.

As part of the future Market Development and Design, SPP will seek to develop and implement Consolidated Balancing Authority (CBA) services for its members to have both elements become operational in a coordinated effort thereby providing cost savings and developmental efficiencies.

The following steps should be taken:

1. Develop cost/benefit analyses and recommendation for future market offerings to be presented to the RSC and Board of Directors including next steps, estimated costs and timelines for development and implementations. The Plan should address how future markets, along with a CBA, are most efficiently and cost-effectively developed.
2. The RSC and Board will approve the next steps; i.e. strawman approach, cost/benefit analysis and approach.
3. The current expected schedule follows:

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| MWG begin Business Requirement detail specifications | November 2008 – November 2009 |
| Present Final Cost/Benefit Study & Schedule | January 2009 |
| BOD Approval of Cost Benefit Study | January 2009 |
| Completion of Requirements (MWG, ORWG) | December 2009 |
| Vendor Development | December 2009 - December 2010 |
| System Testing | January 2011 - July 2011 |
| Market Trials | August 2011 - January 2012 |
| Implementation | March 2012 |

Assigned to: SPP Staff, MWG, ORWG

4. SPP’s stakeholders working with the MWG, MOPC and the Regional State Committee must work together to develop fair and equitable rate and cost recovery mechanisms that address retail aggregator demand response participation in SPP markets.

Assigned to: MOPC, MWG, RSC

Reliability Compliance – SPP Regional Entity

SPP will continue to support its model of functional separation in order to continue providing reliability and transmission service value to its members in an efficient and cost effective manner. The SPP RE will continue to perform the delegated responsibilities of compliance and enforcement with strong functional separation from the non-statutory responsibilities of the SPP RTO.

SPP will undertake measures to strengthen the functional separation of the SPP RE, including:

1. Hire a RE Manager.
2. Eliminate conflict-of-interest reporting relationships amongst RE and RTO employees.
3. Develop and administer separate RE employee performance compensation policies.
4. Institute procedures to ensure that confidential compliance information is not shared between the RE and RTO employees.

Assigned to: SPP RE Trustees

SPP is also undertaking measures to provide reliability excellence in the SPP footprint by instituting forums that provide compliance advice and guidance to SPP Members and Registered Entities.

Assigned to: SPP Compliance staff