Southwest Power Pool, Inc. (SPP) is a group of 50 electric utilities serving more than 4 million customers across all or parts of eight southwestern states. This membership is comprised of investor-owned utilities, municipal systems, generation and transmission cooperatives, state authorities, federal agencies, wholesale generators, and power marketers. SPP serves as a regional reliability council of the North American Electric Reliability Council and, since 1997 has provided independent security coordination and tariff administration, pursuant to a FERC approved tariff, across its service area with over 33,000 miles of transmission lines with a gross plant investment approaching $4 billion.
Background

On March 20, 2003, the Strategic Planning Task Force (SPTF) was formed to report to the Board of Directors to completely review the SPP organization considering the current industry environment and to make appropriate recommendations to the Board of Directors. The Initial Report from the SPTF was presented and accepted by the Board of Directors at its April 14 meeting. This Secondary Report provides an update on all the components of the Plan. It also requests action by the Board of Directors necessary to effect some components of the Plan.

Strategic Planning Task Force

The SPTF is comprised of a diverse group of representatives from SPP members:

Richard Dixon, Co-Chair
Sr. VP Operations Strategy
Westar Energy, Inc.

Richard Spring, Co-Chair
VP Transmission Services
Kansas City Power & Light

Michael Gildea
Manager Regulatory Policy
Duke Energy North America

Trudy Harper
VP & General Manager
Tenaska

Mel Perkins
Director Transmission Policy
Oklahoma Gas & Electric, Co.

Ricky Bittle
Vice-President
Arkansas Electric Cooperatives

Michael Desselle
Director Public Policy
American Electric Power

David Christiano
Director Electric Systems Control
City Utilities of Springfield, MO

John Marschewski
President
Southwest Power Pool, Inc.

Nick Brown & Carl Monroe, Facilitators
Sr. VP & VP Operations
Southwest Power Pool, Inc.
The Strategic Plan

ACTIVE STATE INVOLVEMENT

Initial Recommendation: SPP should work very closely with its states on the components of the Strategic Plan in continuing SPP’s evolutionary approach to the provision of services to its members and customers.

Representatives from the SPP state regulatory bodies are meeting weekly via teleconference to discuss issues. State representatives have also taken an active role in working group meetings. SPP Staff has had one-on-one dialog with the Arkansas, Kansas, Louisiana, Missouri, and Oklahoma Commissions; others are being scheduled. SPTF representative and SPP staff hosted a conference on June 6 in Atlanta that included representatives from the state commissions as well as FERC Chair Pat Wood and Commissioner Massey. On June 23, SPP is hosting an Imbalance and Congestion Workshop in Kansas City for State Commissioners and their staffs. SPTF representatives and Staff are working through a collaborative process to propose modifications to SPP’s Bylaws to enhance regulatory agency involvement by providing a forum for collective input into SPP’s decision-making processes at all levels of the organization while retaining existing rights of each jurisdiction to be individually represented.

ORDER 2000 COMPLIANCE

Initial Recommendation: SPP should evaluate with the states options for and a phased implementation of a real-time balancing market, market monitoring, and market-based congestion management.

These actions were assigned to the combination of the Market Settlement Working Group and the Congestion Management Working Group (the Market Working Group). The Group met several times and provided a recommended plan to the SPTF that was accepted on May 28. The detailed plan is provided as Attachment #1.

Summary of the plan: The plan is to be implemented in three phases: Phase 1 - Real-Time Balancing Market with Market Monitoring and Market Power Mitigation; Phase 2 - Market Based Congestion Management; Phase 3 - Ancillary Services Market. Implementation is to begin with the prior market system design developed by SPP during 2001, and perform a detail design for Phase I and a high-level design for the other phases. Changes in Phase I to support other phases will be incorporated with an objective of November 2004 implementation for all of Phase I. Phase I will be broken down into three distinct increments: a) Settlement of Imbalance at tariff filed rates of each Transmission Owner with an objective of February 2004; b) Enhanced Reliability Data and Net Schedule Interchange with an objective of April 2004; and c) Offer-based energy imbalance market resulting in the use of market-based rates for imbalance.
settlement with an implementation objective of November 2004. The objective for Phase 2 – Market Based Congestion Management is for implementation in November 2005 and Phase 3 – Ancillary Services Market studied for implementation in November 2006.

The implementation of each successive phase will proceed working with the state and federal regulators based on cost benefit analysis implications. Each successive phase of SPP or neighboring entity requires seams management/coordination.

**Initial Recommendation:** SPP should continue to work with neighboring entities on regional membership expansion opportunities and should develop seams agreements and/or joint markets with neighboring companies who choose not to participate in SPP and with neighboring regional entities.

At the April 15 meeting of the SPTF, members of the task force were assigned entities they were to contact as part of the member outreach and interregional coordination efforts. These contacts are on going with updates provided at the SPTF meetings. Interregional coordination and seams management is required with each neighboring entity. SPP Staff is in discussions with AECI resolving seams issues. SPTF has begun discussions with SeTrans and provided a proposal for seam management. SPP Staff is engaged with the MISO/PJM seams coordination efforts through the Joint and Common Market as stated below. The North American Electric Standards Board (NAESB) has formed a Seams Subcommittee to address the identification and potential development of business practice standards that may be needed by the industry, both nationally and regionally. NAESB working with NERC and the ISO/RTO Council (IRC) and its members will first catalogue these seams issues. Once the catalogue of seams issues has been developed, both reliability and business practices will be identified for further development. Finally, SPTF representatives and Staff participated in a Kansas Transmission Summit hosted by Kansas state representative Tom Sloan to discuss intra- and inter-Kansas transmission issues with FERC Chair Pat Wood and senior FERC staff.

**Initial Recommendation:** SPP should continue to participate in the Joint and Common Market development with MISO and PJM.

In a May 19 report to FERC, SPP provided the following regarding its participation in the Joint and Common Market development:

SPP commits to continue its participation in the Joint and Common Market development with the Midwest ISO and PJM and to continually evaluate this participation based on SPP’s approach to market structure, timing, and state regulatory input. While SPP’s initial participation in the Joint and Common Market was predicated on the merger with the Midwest ISO, SPP will now pursue participation as a separate regional entity.

Just as with the merger attempt, the Joint and Common Market effort has produced significant processes enabling all the parties to better manage seams between market-
to-nonmarket regions, and market-to-market regions. SPP’s ultimate participation in the Joint and Common Market will, consistent with FERC’s April 28, 2003 White Paper on Wholesale Power Market Platform, depend on a timetable and budget for implementation established in conjunction with SPP’s stakeholders and state regulatory authorities.

**Initial Recommendation:** *SPP should file an attachment to its tariff facilitating independent transmission company participation by interested transmission owners.*

SPP SPTF has started discussions with Translink to determine what agreements need to be modified or created to include their participation. These include more than just attachments to the SPP regional tariff.

**Initial Recommendation:** *SPP should visit with FERC commissioners and senior staff regarding this strategic plan and seek their participation in related development activities.*

SPTF representatives and SPP staff have met and continue to meet with commissioners and commission staff regarding SPP activities. On April 22, SPTF representatives and SPP staff met with Rob Gramlich (Chairman Wood’s Special Assistant on Markets), Commissioner Brownell and Commissioner Massey. SPTF representatives and SPP staff hosted a conference on June 6 in Atlanta that included representatives from the state commissions as well as FERC Chair Pat Wood and Commissioner Massey.

**Initial Recommendation:** *Provided that the previous actions are successfully implemented, SPP should seek RTO recognition by the FERC.*

The SPTF discussed in its June 10-11 meeting the large amount of attention given the questions of whether and when SPP should submit a filing seeking FERC recognition as an independent regional organization. Given the nature of other recommendations made as part of this strategic plan and the budgetary impacts of those recommendations, the SPTF believes that certainty of FERC recognition is needed as soon as possible, and the SPTF is recommending that it be directed to prepare necessary filing documents for Board consideration at their August 26, 2003 meeting.

**REGIONAL TRANSMISSION SERVICE TARIFF**

**Initial Recommendation:** *All load, including native load and grandfathered load should be subject to Schedule 1 fees of the regional tariff.*

See the sixth Initial Recommendation under “**ADMINISTRATIVE PROCESSES**”.
**Initial Recommendations:** SPP should develop a recommendation on formula rates. This will require SPP to develop a consistent definition of transmission facilities to be included in regional tariff charges and an equitable revenue distribution methodology. SPP should implement changes to streamline the queue for generation interconnection and transmission service requests. SPP should review its participant funding methodology and explore enhancements in conjunction with its regional transmission planning process. SPP should also explore and develop transmission expansion incentives and a mechanism for allowing investment by all interested stakeholders.

These actions are assigned to the Regional Tariff Working Group with support from senior SPP staff and the Transmission Assessment Working Group. The RTWG has met several times to date. Various task forces have been assigned some of the issues pending. Related tariff modifications will be recommended to the Board of Directors from the RTWG through the Policy Committee at its August meeting.

**ADMINISTRATIVE PROCESSES**

**Initial Recommendation:** SPP should affirm its Board governance structure with continued meaningful stakeholder participation on the Board of Directors and state regulatory participation.

While it was thought that this action was accomplished by the Board of Directors adoption of the Initial Strategic Plan, the SPTF readdressed the issue of SPP governance, particularly with respect to structure of the Board of Directors, following the series of discussion with FERC commissioners mentioned above. The SPTF has now reached the conclusion that SPP governance affirmed at the last Board meeting does not meet the expected requirements of independence expressed by FERC. As such, the SPTF is now recommending that SPP modify its governance to allow only non-stakeholder directors to vote on Board of Directors actions, while recognizing the need to maintain the current level of stakeholder input at all Board of Directors meetings. Specific bylaws modifications will be needed to the extent that the Board of Directors supports the SPTF conclusion. The SPTF can develop these bylaws modifications for consideration of the Board of Directors at their next meeting in August. The SPTF will include active state involvement in the development of these recommendations.

**Initial Recommendation:** SPP should add a state regulatory advisory committee reporting to the Board of Directors as designed in consultation with the state regulatory authorities within the SPP footprint.

As noted above, representatives from state commissions are meeting weekly via teleconference and sending representatives to working group meetings. SPTF representatives and Staff have been working through a collaborative process to propose modifications to SPP’s Bylaws to enhance regulatory agency involvement by providing a forum for collective input into SPP’s
decision-making processes at all levels of the organization while retaining existing rights of each jurisdiction to be individually represented. Related modifications to the Bylaws will be recommended to the Board of Directors at its August meeting.

**Initial Recommendation:** *SPP should combine its Engineering & Operating Committee with its Commercial Practices Committee to have only one full representation committee reporting to the Board of Directors.*

The SPTF proposes that the Policy Committee be formed to replace the two committees and that a Strategic Planning Committee be formed from the SPTF. Revisions to Sections 5.1 and 5.2 of the SPP Bylaws are required to accomplish this. The proposed revisions are noted in Attachment #2.

**Initial Recommendation:** *SPP should assess its working groups and task forces to ensure efficient and effective administration of SPP services.*

The SPTF has reviewed the organizational structure of SPP’s committees, working groups and task forces and proposes some restructuring to more efficiently address the needs of the organization. As noted above, the EOC and CPC should be combined into the Policy Committee. Further, the SPTF recommends the modifications shown in the attached organizational group structure chart that deletes the Ancillary Services, Black Start Study, Control Area Implementation, and Scheduling Task Forces, and adds the Strategic Planning Committee reporting to the Board of Directors, and the Business Practices, Operation Model Development and the Critical Infrastructure Protection Working Groups reporting to the Policy Committee. In addition, the SPTF recommends that the responsibilities of the Congestion Management System and Market Settlement Working Groups be combined and managed by the Market Working Group, reporting to the Policy Committee. Scope documents for each of the added groups are also attached. The proposed scope statements of each of these groups, as well as an organizational chart for the revised structure are provided in Attachment #3.

The SPTF also recommends that SPP’s remaining organizational groups review their scope statements and present any necessary modifications for Board of Directors consideration at their August 2003 meeting.

**Initial Recommendation:** *SPP should immediately reassess its 2003 administration budget based on these recommendations and make appropriate modifications.*

A revised budget for the remainder of 2003 reflecting adoption of the action items in this Plan has been presented to the Finance Working Group for consideration and will be presented at the June 24 Board of Directors meeting.
Initial Recommendation: SPP should evaluate the cost allocation of SPP expenses to tariff versus membership assessment. SPP may refund to members funds advanced via assessments to support tariff operations.

The SPTF recommends a significant change in the methodology SPP utilizes to assess its membership for operating and capital expenses. SPP’s existing assessment methodology does not equitably share the expenses incurred by SPP to provide its services. The recommendation to the Board of Directors is as follows:

- Effective January 1, 2004, members with Net Energy for Load will pay an annual membership fee of $0.0053 multiplied by their annual net energy for load; members without Net Energy for Load will pay an annual membership fee of $6,000;
- Effective July 1, 2003, members will share in SPP’s NERC assessment utilizing the existing SPP membership assessment formula;
- Effective July 1, 2003, monthly assessments will be levied against those members whose transmission facilities are in the regional transmission tariff, as well as those members embedded within the transmission facilities that are in the regional transmission tariff, equal to each member’s peak demand per hour per month multiplied by the Schedule 1 fee under the SPP regional tariff. Members with an assessment will be credited for Schedule 1 fees paid by that member in that month under the SPP regional tariff. The Schedule 1 fee will be determined at least annually by the SPP Board of Directors based upon budgeted expenditures and projected peak demand.

A letter has been sent to members advising them of the proposed changes. A spreadsheet showing the impact of this change to each member organization as well as the necessary revisions to Section 7 of the SPP Bylaws are provided in Attachment #4.

Initial Recommendation: SPP should immediately fill the independent director vacancy on the Board of Directors.

The Nominating Task Force is considering this vacancy and will have a nominee to present at the June 24 Board of Directors meeting.

Regional Reliability Council Status

Initial Recommendation: SPP should retain its own Regional Reliability Organization status.

This action was accomplished by the Board of Directors at the April 14 meeting by its adoption of the Initial Strategic Plan. John Marschewski has resigned as a director of the Midwest Reliability Organization.
Recommendations for Action

The SPTF recommends that the SPP Board of Directors:

- Accept the proposed revisions to the committee structure of the organization and the related scope documents for newly formed committees/groups effective immediately; direct that the inaugural members of the new Strategic Planning Committee include those current members of the Strategic Planning Task Force; accept the revisions to Section 5 of the SPP Bylaws necessary to effect the re-organization of the committees/working groups effective immediately; and, direct that SPP’s remaining organizational groups review their scope statements and present any necessary modifications for Board of Directors consideration at the November 2003 meeting;

- Accept the Market Implementation Plan as proposed by the Congestion Management Systems and Market Settlement Working Groups and the SPTF as the approach for SPP to become compliant with FERC Order 2000;

- Accept the proposed changes in the methodology SPP utilizes to assess its membership for operating and capital expenses effective July 1, 2003 and January 1, 2004 as proposed, and the requisite revisions to Section 7 of the SPP Bylaws to effect these changes;

- Accept that SPP governance affirmed at the last Board meeting does not meet the expected requirements of independence expressed by FERC and directs the SPTF to submit further governance recommendations, including bylaw changes, to the Board in August recognizing the need to maintain the current level of stakeholder input at all Board meetings. The SPTF will include active state involvement in the development of these recommendations; and

- Accept that FERC recognition as an independent regional organization is needed as soon as possible and direct the SPTF to prepare necessary filing documents for Board of Directors consideration at the August 26, 2003 meeting.
Phase 1 Order 2000 Compliance Process Description

May 26, 2003

(Endorsed by the Strategic Planning Task Force May 28, 2003)
Objective

Implement a real-time balancing market, market monitoring with market power mitigation, and market-based congestion management using a phased approach. Involve FERC and the state regulatory commissions throughout the process.

Assumptions

The following are some general assumptions for the development of SPP Market Systems.

Types of Markets

The SPP Market System will be compliant with FERC Order 2000. Additional proposed requirements outlined in the FERC NOPR for Standard Market Design will be considered but not adopted unless approved by the stakeholder process in collaboration with the state regulatory commissions.

SPP will implement a Real-time Energy Balancing Market as quickly as possible as the first phase of Market Operations. The Energy Balancing market will be implemented using physical transmission rights.

SPP will have an independent market monitor established in conjunction with the RT Energy Balancing Market. The market monitoring activities will include market power mitigation.

SPP will transition from a physical transmission rights market to a financial transmission rights market with Market-based Congestion Management as the second phase of its Market Operations.

SPP will have an Ancillary Services market as part of Phase 3 of its Market Operations.

Member/Customer/Regulatory Roles

SPP members and customers desire to pursue a market and are willing and able to dedicate the resources (monetary, time and staff) to the design and implementation of a market.

SPP Control areas will continue to exist and operate at least until a Regional Ancillary Services market is created. They will be responsible for Control Performance and Disturbance Control standards as well as sharing of operational data as they are today.

Decisions on the Market Rules will be made through a stakeholder process.

Stakeholders will actively participate in development of readiness and implementation initiatives.

The state regulatory commissions are responsible for impacts to customers within their states. The state regulatory commissions of the states where SPP members serve customers will be invited to participate actively in the stakeholder process to evaluate and advise SPP with regards to impacts to customers.

Participation in the offer-based dispatch SPP market is voluntary.

All load serving entities and generation owners connected to the transmission systems of Transmission Owners that are signatories to the current SPP Regional OATT will be considered as the starting footprint for the SPP Market System. SPP may provide other entities Tariff Administration Services, Scheduling Services, and Reliability Authority services without requiring them to be a part of the Market System footprint.
The SPP Market System must be designed to accommodate additional entities that may wish to join SPP. It must also accommodate the formation of Independent Transmission Companies.

**Design and Implementation**

The selection of implementation dates of the market phases should minimize testing, training and implementation in the summer months. This is in order to avoid additional risks to reliability, personnel unavailability, and potential price instability associated with the summer peak conditions.

SPP must have significant market rules decisions developed prior to system design starting. System Requirement documents will be developed following the market rules. This is to minimize the pitfalls of trying to do both simultaneously and having to redesign significant aspects due to major Market Rules decisions.

Third party contractors will be involved with the development of the SPP Market System.

Transmission Service Billing and Market Settlement will be maintained separately.

**Additional Assumptions**

SPP recognizes that seams issues exist and will need to be resolved by market implementation. SPP will continue to participate in the MISO/PJM/SPP joint and common market forum and actively participate in seams resolution efforts with MISO, non-MISO MAPP members, Entergy, Associated Electric Cooperative, ERCOT and WECC to ensure a smooth transition to energy markets.

The SPP Regional Tariff Working Group will have liaisons in this process to help facilitate incorporation of the market rules into the Regional OATT where required.

SPP will build on prior knowledge gained from the development process for the initial SPP Market and the MISO/SPP market project. The stakeholder process will develop this market system from the top down utilizing the information from the previous two efforts and potentially concepts from other markets that have been enacted.

Some new hardware will be required for the Market System. Some computer resources purchased for the previous project have been reformatted and deployed for other purposes in lieu of purchasing new equipment as needs in other departments have arisen requiring upgrades of outdated equipment or to provide necessary redundancy of other systems.

**Phase Definitions and Impacts**

**Implementation Phases**

Each of the options considered included a phased approach as listed below.

**Phase 1** - Real-Time Balancing Market with Market Monitoring and Market Power Mitigation

**Phase 2** - Market Based Congestion Management

**Phase 3** - Ancillary Services Market
Phase 1 Participant Impacts

- Submit energy schedules that include native load.
- Submit generator operating characteristics such as limits and ramp rates.
- Receive and act on real-time NSI (net-scheduled interchange) from SPP.
- Submit voluntary offers for the sale of generation.
- Receive and act on real-time dispatch instructions from SPP.

Phase 2 Participant Impacts

- Subject to Market Rules decisions.

Phase 3 Participant Impacts

- Subject to Market Rules decisions.

Options Considered

Option 1: Enhance 2001 Market Design

Implement the market design and supporting systems developed by SPP during 2001, with only minor changes and the addition of market monitoring, in Spring 2004 for Phase 1. Implementing other phases on an annual cycle basis thereafter.

Option 2: Utilize “Off the Shelf” Software

Adopt “Off the Shelf” software for an implementation in Spring 2004 of Phase 1, modifying market rules to adhere to the capabilities of that solution. Implementing other phases on an annual cycle basis thereafter.

Option 3: Develop New Market Rules

Defer any implementation until Spring 2005 (Phase 1) and begin developing new market rules immediately. Implementing other phases on an annual cycle basis thereafter.

Option 4: High-level Design of ALL phases and Full Phase 1 Implementation April 2005

Begin with the system design developed by SPP during 2001 and perform a detail design for Phase 1 and high-level design for other phases. Changes in Phase 1 to support other phases will be incorporated with an objective of implementation by spring 2005. Implement other phases on an annual cycle basis thereafter.
Option 5: High-level Design of ALL phases and Incremental Implementation of Phase 1 finishing November 2004

Begin with the prior market system design developed by SPP during 2001 and perform a detail design for Phase I and a high-level design for the other phases. Changes in Phase I to support other phases will be incorporated with an objective of November 2004 implementation for all of Phase I. Phase 1 will be broken down into three distinct increments: 1) Settlement of Imbalance at tariff filed rates of each Transmission Owner with an objective of February 2004, 2) Enhanced Reliability Data and Net Schedule Interchange with an objective of April 2004 and 3) Offer-based energy imbalance market resulting in the use of market-based rates for imbalance settlement with an implementation objective of November 2004. Implement other phases on an annual cycle basis thereafter.

Option Analysis

Decision Drivers used in the evaluation were: Systems Costs; Schedule; Participant Impacts; Market Rule Flexibility; Market Participant experience, and relevance of the market system work in 2001. An additional driver discussed but deferred to the SPTF efforts is the impact of any decision in the State and Federal Regulatory environments. In all options, there is recognition that the highest risk factors are the participants’ system development and readiness efforts and regulatory buy-in. Without both of these, a market system could be built but would not become operational. As a result, the Group emphasizes that implementation dates are subject to change as a result of scheduled milestone reviews. The scheduled milestone reviews include resolution of issues, e.g. inadvertent handling amongst SPP Control Areas. This requires commitment of resources for both participants and SPP to accomplish these tasks.

Option 1 is the most feasible option to achieve a Spring 2004 implementation. Use of Option 1 results in: (1) Knowledge from the MISO development efforts not being incorporated, (2) Risk of not having regulatory support, (3) Increased risk to participant readiness. Option 1 is not recommended for these reasons.

Option 2 has a very restrictive timeline to implement by Spring 2004 and has a high risk for participant readiness and systems testing. It is improbable that an acceptable “off the shelf” product could be located within a reasonable timeframe because the “off the shelf” concept would require adoption of the underlying rules which may not meet SPP requirements. All prior work for the initial 2001 implementation would also be discarded, including the capital invested in that effort. Option 2 is not recommended for these reasons.

Option 3 would discard all prior work, including the capital invested in that effort. The earliest possible start-up of Phase 1 of the market under this option would be Spring 2005 and there is a high risk associated with achieving this date. It does provide the most flexibility for making sure the system design provides for smooth transitions from one phase to the next. Option 3 is not recommended due to the improbability of achieving this timeline.

Option 4 delays the start-up to Spring 2005 but by building on the prior work done in 2001 has a lower risk of meeting that timeline than option 3 while still providing most of the flexibility to make sure the Market Rules have gone through a thorough review. Starting in Spring 2005 also allows for all training and Market Trials to be conducted during the fall and winter off-peak time periods when resources are readily available. The later start date also allows more time to ensure regulatory buy-in. It does require a “big bang” implementation with all new functions starting at one time. Option 4 is not recommended due to the projected start date of Spring 2005 and the “big bang” implementation.

Option 5 is an effort to implement along the lines of Option 4 but target a start date in Fall 2004 by further instituting the SPP guiding principle of “evolution not revolution”. Breaking the implementation of Phase I into three increments will allow participants and SPP staff to test and implement necessary infrastructure
and data collection processes to support the market that have fewer design issues and “Market” impact while taking additional time to resolve any Market Rules issues regarding the offer submittal, centralized dispatch and market pricing. This also lowers the risk for participant and staff readiness by avoiding the “big bang” implementation that is inherent in each of the other four options and does not require the complete system to be available for market trials at one time. This targets part of the system to be tested and implemented prior to the Summer of 2004 reducing the amount of training and development efforts during the summer and early fall. Option 5 is recommended.

The first increment will be for the settlement of imbalance, using tariff filed rates of each of the Transmission Owners. This increment, targeted for implementation in February 2004, will require the market settlements system, SPP scheduling system changes and after-the-fact meter data submission processes to be in place. The second increment, targeted for implementation in April 2004, will be an enhanced reliability implementation to collect the unit commitment and resource plan information through the market system and also send out the net scheduled interchange to control areas for incorporation into their systems. The final increment, with an implementation objective of November 2004, would be to roll out the submission of resource offers, centralized dispatch and use of market based pricing for imbalance settlement.

Market trials and training would be split accordingly into smaller efforts to test each of the increments prior to implementation including a final “Market Trial” prior to implementation of the resource offers, centralized dispatch and market pricing for imbalance. The first increment will primarily affect settlements personnel and the commercial operations aspects of the market system with some impacts to scheduling. The second increment will primarily involve operations personnel and the data input or front-end aspects of the market operations system. The final increment will involve both operations and settlements to transition to the centralized dispatch and market based pricing for imbalance settlement. The market trial for the final increment would start in September 2004.

Use of the incremental process does require development and production systems to be used on a parallel path. This may also result in some personnel issues due to part of the market system being implemented and other parts in development or testing.

### Decision Drivers Table

<table>
<thead>
<tr>
<th></th>
<th>Option 1</th>
<th>Option 2</th>
<th>Option 3</th>
<th>Option 4</th>
<th>Option 5</th>
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</thead>
<tbody>
<tr>
<td><strong>System Costs</strong></td>
<td>Takes advantage of investment to-date (estimated increase in cost of $200-$500 K, could be more depending upon modifications.)</td>
<td>Likely more cost than Option 1; adoption of “Off the Shelf” would require additional integration efforts and costs; likely scraps prior investment.</td>
<td>More costly than Options 1 or 2 since totally new system build.</td>
<td>At least the same cost as Option 1; likely more costly due to modifications resulting from Phase 2 impacts.</td>
<td>Same costs as 4 Additionally Requires production and development systems operating in parallel, which may affect Participant costs.</td>
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<tr>
<td></td>
<td>Option 1</td>
<td>Option 2</td>
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<tr>
<td><strong>Schedule</strong></td>
<td>High schedule risk.</td>
<td>More schedule risk than Option 1; 2004 implementation questionable.</td>
<td>2005 implementation at earliest.</td>
<td>Lower schedule risk given lengthened design time.</td>
<td>Lower schedule risk than option 1 to meet overall by Nov 2004. Greater risk than Option 4 but incremental implementation allows some additional design/development time and avoids “big bang” implementation.</td>
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<tr>
<td><strong>Participant Impacts</strong></td>
<td>Less resource time required for rules development/revision. Development start would be immediate. May have more immediate budgetary impact for that development.</td>
<td>Up front costs relative to market rules development. Development start would be delayed. Increases budgetary impact.</td>
<td>Greater resource commitment to development of rules. Development start would be delayed.</td>
<td>Greater resource commitment to development of rules. Easier budget management due to multi-year build. Development start would be immediate to delayed.</td>
<td>Higher resource commitment to develop rules faster but some Market issues have additional time. Higher resource commitment than Option 4 to get partial system ready by Spring. Personnel and systems must cover some implemented operations and some final development in parallel. Participants must budget for Spring Implementation items in 2003 Development still starts immediately.</td>
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<tr>
<td><strong>Market Rules Flexibility</strong></td>
<td>Allows minimal flexibility for modifications to design/rules and still meet schedule</td>
<td>No flexibility</td>
<td>Flexible</td>
<td>Flexible</td>
<td>Less flexible than option 4 but does allow some additional time for significant “Market” issue resolution.</td>
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Critical Path Activities

Market Rule Development: Market Rules will be the primary requirements document for implementation of the market phases. As such, finalization of these market rules is crucial to providing an accurate estimate of schedule and cost and providing stable requirements for participant system development. Before finalization of market rules for each phase, a check against the overall market direction must be completed to minimize risks of significant changes in the following phases. Mitigation of risks in this area will include aligning specific market rule versions with specific software releases at agreed upon dates.

Participant Readiness: Participants need to be prepared from an operational viewpoint and technical viewpoint. Operationally, participant staff will require proper and timely training in order to understand and develop their own business practices and business process changes. Technically, existing participant systems must be enhanced, and new systems must be designed and developed. Minimizing risk in the operational area will include phasing in training with two goals – Overall Market Objectives and Focused Objectives. Minimizing risk in the technical area will include early releases of technical requirements and incremental releases of data exchange requirements as a result of market rule versions.

Regulatory Approval: Crucial to the implementation of each phase are regulatory approvals. In order to minimize the risk in this area, regulatory representatives will be included in the market rule development process.

Schedule
### Option 5

<table>
<thead>
<tr>
<th>Year</th>
<th>2003</th>
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<th>2005</th>
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<tr>
<td>July</td>
<td>Aug</td>
<td>Sep</td>
<td>Oct</td>
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<tr>
<td><strong>Market Design</strong></td>
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<tr>
<td>Review &amp; Finalize Phase I - Imbalance/Reliability Increment</td>
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<td>System Design and Test - Phase 2</td>
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<td>Develop Overall Design for all Phases</td>
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<td>Identify &amp; Prioritize Enhancements</td>
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<tr>
<td>Develop &amp; Test System</td>
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<td>Select Market Monitor and Define Requirements</td>
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<td>Validate/Registration of Data</td>
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<td>Develop &amp; Test</td>
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**Note:** Requires both development and production environments.
Proposed Revisions to Section 5 of the SPP Bylaws

Attachment 2
Proposed Revisions to Section 5 of the SPP Bylaws
To replace current sections 5.1 and 5.2

5.1 Policy Committee

Representatives to the Policy Committee shall be the officer or employee designated by each Member. The Policy Committee shall:

a. Recommend practices for system design, regional transmission service tariff, interconnection, and operation that will help to assure efficient and reliable power supply among the systems in SPP,

b. Continue coordination of its efforts with the efforts of NERC, including periodic review of NERC Policies and Standards and their applicability to SPP and its Members,

c. Review Member operating plans and problems that are pertinent to SPP planning and operation,

d. Maintain an annual series of load flow and short circuit models and associated stability data bases representing the current and planned electric network of the region, and maintain a data base of all transmission facilities within SPP,

e. Review and assess the current and planned electric system of the region,

f. Make use of studies available from other regions,

g. Recommend to the Board of Directors criteria for planning and operations,

h. Coordinate interregional and intraregional plans and facilitate planning and operations between interregional and intraregional entities,

i. Develop a coordinated plan for intraregional transmission for greater efficiency and reliability of electric power supply,

j. Recommend to the Board of Directors and to Members, individual or joint action to improve the operation of the systems comprising SPP,

k. Respond to activities as requested by the Strategic Planning Committee, and

l. Monitor the current state and evolution of the electric energy supply industry and proactively recommend commercial practices that meet industry needs and promote commerce,

m. Work with all SPP Organizational Groups to promote a high standard of operational reliability, and

n. Continue coordination of its efforts with the efforts of North American Energy Standards Board (NAESB) and the ISO/RTO Council (IRC), including periodic review of NAESB business practices and IRC policies and their applicability to SPP and its members.
5.2 Strategic Planning Committee

The Strategic Planning Committee (SPC) reports to and is subject to the control of the Board of Directors. The Strategic Planning Committee is responsible for the development and recommendation to the Board of Directors of strategic direction for the corporation. The SPC is to be comprised of at least eight and no more than twelve members, including a Chair and Vice Chair, who are appointed by the Board of Directors pursuant to SPP Bylaws. At all times, a majority of the members must be elected Directors. Every attempt will be made to maintain a membership with balanced representation from Transmission Owning Members and Transmission Using Members. At least two members will be non-stakeholder Directors with one being the SPP President. Business shall be done in accordance with SPP Bylaws. There are no term limitations.

The Strategic Planning Committee shall:

a. Gather information from SPP members, customers, Staff, regulatory jurisdictions, market monitors, and legislative bodies on industry trends, forecasts and directions.

b. Assess the industry environment in which SPP will be operating.

c. Assess SPP’s capabilities and competencies against the industry environment, including coordination with neighboring entities.

d. Develop and recommend to the SPP Board of Directors a mission and vision statement and accompanying goals and objectives as needed.

e. Formulate strategies to ensure achievement of SPP’s mission statement, goals, objectives and responsibilities and recommend necessary modifications to SPP processes to carry out these strategies.

f. Work with other SPP organizational groups in developing related action plans, schedules and budgets.
COMBINED:
- Engineering & Operating Committee & Commercial Practices Committee

DELETED:
- Ancillary Services Task Force
- Black Start Study Task Force
- Control Area Implementation Task Force
- Scheduling Task Force

ADDED:
- Strategic Planning Committee
- Operation Model Development Working Group
- Business Practices Working Group
- Critical Infrastructure Protection Working Group

Group Organizational Chart
Purpose
The Business Practices Working Group (BPWG) is responsible for development and implementation of SPP’s Open Access Transmission Tariff (OATT) Business Practices. The BPWG will propose new practices and changes to existing practices that facilitate effective and efficient administration of the SPP OATT. The BPWG will develop practices that supplement and clarify the understanding of OATT provisions while conforming with those provisions and principles.

Scope of Activities
In carrying out its purpose, the BPWG will:
1. Meet periodically to review existing business practices, discuss needed improvements, and propose new practices;
2. Evaluate existing or proposed business practices to determine their consistency with SPP OATT provisions, FERC Orders 888, 889, and 638, and other established FERC precedent;
3. Forward proposed new or modified business practices to the Regional Tariff Working Group (RTWG) and SPP Staff for assessment of tariff revenue impacts and/or conformity of BPWG proposals with the SPP OATT;
4. Work closely with the Operating Reliability Working Group (ORWG) and SPP Staff to assess reliability impacts associated with new or modified business practices being proposed;
5. Submit proposed new or modified business practices, accepted by the RTWG as conforming with the SPP OATT, along with supporting rationale, implementation costs, reliability impacts, to the Policy Committee for approval;
6. Develop solutions and recommendations in response to commercial issues raised at other SPP forums;
7. Respond to special assignments from the SPP Board of Directors (BOD); and
8. Work with Staff and other SPP organizational groups to prioritize activities.

Representation
BPWG membership will consist of a Chair, a Vice-Chair, and at least 6 but no more than 8 voting members. Representatives will consist of transmission customers under SPP’s tariff, half of which will be merchant group or power supply affiliates of transmission owners with facilities under the SPP OATT. Members will be representative of the diverse nature of the SPP membership. The BOD, following consultation with Policy Committee leadership, appoints BPWG membership and leadership.

Duration
SPP Working Groups are permanently assigned as outlined in the SPP Bylaws. Each new Chair of the BOD will review Working Group representation for appropriateness. The term of the BPWG Chair shall coincide with the two-year term of the Chair of the BOD. SPP Bylaws do not prevent renewal of the current Chair’s term.

Reporting
The BPWG reports to the Policy Committee. The BPWG Chair will periodically report to the Policy Committee and the BOD, as required, on BPWG activities, assignments, and recommendations requiring approval. The BPWG Chair will report to other Working Groups when issues require their input and/or endorsement.

Meeting Participation
Per SPP Bylaws, BPWG meetings are open to all interested parties.
Southwest Power Pool
Market Working Group
Organizational Group Scope Statement
June 11, 2003

Purpose
The Market Working Group (MWG) is responsible for the development and maintenance of SPP administered wholesale market(s), including energy, congestion management and market power mitigation consistent with direction from the Policy Committee. The MWG is also responsible for coordination of these markets both intra and inter regionally.

Scope of Activities
In carrying out its purpose, the MWG will:

1. Develop and recommend the market rules for the wholesale market, including energy, congestion management, and market power mitigation.
2. Propose modifications to SPP processes and computer systems necessary to implement any SPP administered wholesale market(s) to affected SPP Committees.
3. Propose and coordinate modifications to computer systems and processes on an ongoing basis, including coordination with SPP organizational groups.
4. Participate in oversight of any ongoing market development process.
5. Coordinate with regulators and task forces in implementation of SPP administered wholesale market(s).
6. Coordinate with other committees and working groups, as appropriate, in the development of market rules.
7. Coordinate the implementation of systems necessary for market monitoring and market power mitigation from the Independent Market Monitor.

Representation
The MWG is comprised of at least nine and no more than fifteen members, including a chair and vice-chair, which are appointed by the Board of Directors pursuant to SPP Bylaws. The MWG shall maintain a membership with balanced representation from the market participants.

Reporting
The MWG reports to the Policy Committee for activities related to the design and modification of any SPP administered market(s).
Purpose
The purpose of the Critical Infrastructure Protection Working Group (CIPWG) is to advance the physical and cyber security of the electricity infrastructure within the SPP Region. This group will serve as a forum for discussing security issues, for establishing security policies and procedures for SPP Member-common resources, and will serve as an interface between the NERC CIP Advisory Group and the SPP membership.

Scope of Activities
The CIPWG:
- Serves as an expert advisory panel to the SPP Board of Directors, committees, and members.
- Provides a forum for discussion of physical and cyber security issues within the SPP Region.
- Serves as the interface between the NERC CIP Advisory Group and the SPP membership, including:
  1. Serving as a conduit for information flow between the CIPAG and SPP members.
  2. Developing guidance and recommendations to the NERC CIPAG members representing the SPP Region.
- Develops policies and procedures for SPP-managed resources, including:
  1. Security of SPP Frame Relay Network (SPPNET) member connections.
  2. Acceptable use policies for SPP-managed wide area networks (SPPNET, Internet, etc).
  3. Security of SPP-managed systems and applications, including ICCP, Automated Reserve Sharing (ARS), and scheduling data transfer.
  4. Incident reporting and dissemination.
- Assist SPP Compliance Manager with the conduct and evaluation of compliance self-certification and field audits of NERC security standards.

Representation
The voting membership of the CIPWG represents the SPP members employing ICCP, ARS, and/or scheduling data transfer systems connected to the SPPNET Frame Relay Network. The voting Members of the CIP Working Group are nominated by SPP member companies and the chair, vice-chair and members are appointed by the Board of Directors pursuant to SPP Bylaws. Representatives from other SPP member companies may participate as non-voting members.

Reporting
The CIPWG reports to the Policy Committee.
Southwest Power Pool
Operational Model Development Working Group
Organizational Group Scope Statement
June 11, 2003

Purpose
The Operational Model Development Working Group (OMDWG) is responsible for developing a procedure to ensure ongoing, timely updates of SPP’s state-estimator model. The OMDWG is also responsible for facilitating periodic maintenance and review of the state-estimator model. The state-estimator model should contain sufficient representation of the current electrical network contained within the SPP footprint and surrounding control areas necessary to support SPP’s Reliability Coordination, regional tariff administration, and any future market operation functions.

Scope of Activities
In carrying out its purposes, the OMDWG will:

1. Develop and review SPP Criteria related to the development and maintenance of the SPP state-estimator model.

2. Review and periodically monitor the impacts of NERC Operating Policies on the SPP state-estimator model.

3. Maintain a current state-estimator model that represents the current network of SPP and necessary external control areas.

4. Ensure that the SPP state-estimator model adequately support the needs of the SPP Reliability Coordination, regional Tariff Administration, and any future market operation functions.

Representation
The OMDWG is comprised of at least three and no more that eight members, including a chair and vice-chair, which are appointed by the Board of Directors pursuant to SPP Bylaws. Members should be experienced in power system network modeling. The representation should exhibit diversity in geography.

Reporting
The OMDWG reports to the Policy Committee. The OMDWG Chair will periodically report to the Policy Committee and Board of Directors, as required, on the Working Group’s activities, assignments, and recommendations requiring Policy Committee approval.
Southwest Power Pool  
Strategic Planning Committee  
Organizational Group Scope Statement  
June 11, 2003

Purpose  
The Strategic Planning Committee (SPC) is responsible for the development and recommendation to the Board of Directors of strategic direction for the corporation.

Scope of Activities  
In carrying out its purpose, the SPC will:

1. Gather information from SPP members, customers, Staff, regulatory jurisdictions, market monitors, and legislative bodies on industry trends, forecasts and directions.
2. Assess the industry environment in which SPP will be operating.
3. Assess SPP’s capabilities and competencies against the industry environment, including coordination with neighboring entities.
4. Develop and recommend to the SPP Board of Directors a mission and vision statement and accompanying goals and objectives as needed.
5. Formulate strategies to ensure achievement of SPP’s mission statement, goals, objectives and responsibilities and recommend necessary modifications to SPP processes to carry out these strategies.
6. Work with other SPP organizational groups in developing related action plans, schedules and budgets.

Representation  
The SPC is to be comprised of at least eight and no more than twelve members, including a Chair and Vice Chair, who are appointed by the Board of Directors pursuant to SPP Bylaws. At all times, a majority of the members must be elected Directors. Every attempt will be made to maintain a membership with balanced representation from Transmission Owning Members and Transmission Using Members. At least two members will be non-stakeholder Directors with one being the SPP President. Business shall be done in accordance with SPP Bylaws. There are no term limitations.

Reporting  
The SPC reports to the Board of Directors.
June 13, 2003

Dear Membership,

The Strategic Planning Task Force (”SPTF”) of Southwest Power Pool (”SPP”) will recommend a significant change in the methodology SPP utilizes to assess its membership for operating and capital expenses at the June 24, 2003 Board of Directors meeting in Kansas City, Missouri. This change, outlined below, will most likely have a meaningful impact on the magnitude of your company’s monthly assessments from SPP.

SPP’s existing assessment methodology does not equitably share the expenses incurred by SPP to provide its services. SPP’s provision of transmission service under the SPP regional transmission service tariff increased the total SPP expenses. Currently, SPP’s tariff administrative fee revenues are netted against total monthly expenses with the remainder assessed to the membership. Depending on the individual member, this structure may result in that member paying an abnormally large share of SPP’s expenses through the tariff and assessments versus other members and versus the benefits derived from membership in SPP. This is primarily a result of the flexibility members have in placing their bundled retail load und the regional network service tariff – some have and most have not.

The recommendation to the Board of Directors will be as follows:

- All members with Net Energy for Load will pay an annual membership fee of $0.0053 multiplied by their annual net energy for load;
- All members without Net Energy for Load will pay an annual membership fee of $6,000;
- All members will share in SPP’s NERC assessment utilizing the currently existing SPP membership assessment formula, which shares 25% of the expense equally among all members and 75% of the expense pro-rata based on Net Energy for Load;
- Monthly assessments will levied against those members whose transmission facilities are in the regional transmission tariff as well as those members embedded within the transmission facilities that are in the regional transmission tariff. Assessments assigned to these members will equal each member’s peak demand per hour per month multiplied by the Schedule 1 fee under the SPP