A MESSAGE FROM THE CHAIRMAN AND CEO

We experienced significant steps forward on many fronts at SPP in 2008. Our Energy Imbalance Service market continued to perform in an outstanding fashion, and we were able to document its projected savings are very real. We devoted considerable attention to planning for Extra High Voltage transmission, designed a new approach for postage stamp funding of economic projects, and accelerated our capability to employ the growing amount of new wind resources. We added Nebraska to the footprint, allowing us to reduce our administrative fee by 10 percent. Our planning processes became overwhelmed with the increasing demand for access to the grid, so we charged ourselves with looking for unique solutions that will lead to building more transmission now. We believe the opportunities are vast and the region has a major part to play as the nation considers its future policies for energy.

You’ve heard us say it many times: reliability and economics are inseparable. Today’s economic projects become tomorrow’s reliability requirements. The work SPP stakeholders accomplished during 2008 on cost allocation and transmission expansion planning will open up new economic options for our members, while also addressing future reliability needs in a proactive rather than reactive manner.

Throughout 2008, SPP realized the increasing importance of looking beyond our borders to interregional and national approaches to transmission planning. The SPP Regional State Committee has worked for the past several years to find a way to spur transmission construction by allocating economic upgrade costs region-wide. Their hard work took a significant step forward when Tariff changes to implement a “Balanced Portfolio” of economic projects, the costs of which will be shared across the region, were very favorably received and approved by FERC commissioners. It has been exciting to witness the development of our first Balanced Portfolio, a process which should conclude in early 2009.

This year we further defined our Extra High Voltage (EHV) Overlay Plan, a vision for adding 765 kV transmission to the grid. An EHV overlay has the potential to enhance reliability; reduce system losses, operating reserve requirements and production costs; and increase competition in wholesale markets, among other benefits. Our EHV Overlay Plan must be integrated into a long-range vision of transmission expansion in the Eastern Interconnection. To this end, we have also developed a Balanced Portfolio of economic projects for the region.

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end, SPP continues its involvement in the Joint Coordinated System Plan, a multi-regional and multi-organizational effort to plan for and build transmission on a continental scale.

In the past year we saw a national groundswell of discussion about the need for federal leadership for transmission siting and cost allocation, within and outside of the electric utility industry. Several credible organizations estimate that U.S. electric utilities will need to invest $1.5 to $2 trillion in the construction of new facilities between 2010 and 2030 to maintain electric reliability. Solutions to the challenges will be encumbered due to the fact that our national transmission infrastructure runs 200,000 miles and has 500 different owners. Finding these solutions will require cooperation by, not confrontation among, all stakeholders. SPP is prepared and able to participate in and help facilitate this debate.

We add our voice to those supporting the goal of a national transmission grid, similar to Eisenhower’s interstate highway system. We also support federal leadership in helping find solutions to complex issues such as aging infrastructure, the integration of renewables, the continuous increase in demand for electricity, the role of demand response, and managing greenhouse gas emissions. Simply put, it is time for a whole new way of thinking about transmission planning. We must move out of the historical reactionary mode and allow bulk transmission to be a visionary enabler for economic development.

Our staff has worked diligently with stakeholders to plan the grid of the future, as maintaining electric reliability is always our primary goal. A 2008 audit by the North American Electric Reliability Corporation praised SPP for its well-organized control room, high level of support for reliability coordination, and good coordination between operations and transmission planning. We are diligently making improvements to our aggregate study and generation interconnection processes to enable the addition of more generation to the grid.

A major milestone for our organization this year was the addition of three new members - Lincoln Electric System, Nebraska Public Power District, and Omaha Public Power District. The addition of the Nebraska entities brings our member count to 53, and increased the number of states in which we have members from eight to nine. Adding these new members will provide tremendous benefits to operations and market services and contributed to lowering our administrative fee for services from 19 cents per megawatt hour to 17 cents. In these difficult economic times, we were pleased to be able to reduce this fee for our customers.

We are also pleased with the results of two 2008 studies that determined the first year of our Energy Imbalance Service market was successful. SPP performed a study that found net trade benefits of $103 million from the first year of operation. A report from SPP’s external market advisor found our market to be robust and noted that its success should give our members confidence in developing new markets.

We want to say “thank you” to our stakeholders for continuing to help SPP achieve your goals. We are committed to living up to our value propositions of being a member-driven and relationship-based organization. 2009 promises to be another exciting year, and we look forward to working with you to keep the lights on, today and in the future.

Jim Eckelberger
Nick Brown
On August 15, 2008, after two years of collaborative efforts by the SPP Regional State Committee and its Cost Allocation Working Group, SPP filed amendments to the SPP Tariff to establish a process for including a “Balanced Portfolio” of economic upgrades into the SPP Transmission Expansion Plan and allocating the upgrade costs regionally. Projects in the Balanced Portfolio are transmission upgrades of 345 kV or higher that will provide customers with potential savings that exceed the cost of the project. These economic upgrades will reduce congestion on the SPP transmission system, resulting in savings in generation production costs. Economic upgrades may provide other benefits to the power grid, such as increasing reliability and lowering costs, including capital costs and end-use consumer costs.

Under the Balanced Portfolio approach, SPP will evaluate the benefits of a group of economic upgrades rather than evaluating the benefits of individual upgrades solely on a project-by-project basis. A portfolio approach alleviates potential disputes that may arise from the construction of a single project that may benefit one zone but not others. By evaluating a portfolio of economic upgrades, benefits to the entire system can be achieved.

On October 16, 2008, FERC unanimously voted to approve SPP’s filing. Further Tariff revisions were filed at FERC in December.

Chairman Joseph T. Kelliher’s statement on SPP’s Balanced Portfolio – October 16, 2008

“I want to commend SPP and the SPP Regional State Committee for submitting this interesting proposal. This filing was developed carefully over a two-year period, and enjoys broad support in the region. One of the most difficult barriers to grid expansion is cost allocation and recovery. For a number of reasons, cost allocation and recovery is much more difficult for transmission projects than other network facilities, such as interstate natural gas pipelines...

SPP and the Regional State Committee cut through the Gordian Knot of the regional cost allocation problem with this filing. The SPP filing takes a portfolio approach, providing that a regional transmission plan for economic expansions must be both cost beneficial and balanced over a ten year period... This is a new approach, and I believe this approach will work well in the SPP region.”

Commissioner Marc Spitzer’s statement on SPP’s Balanced Portfolio – October 16, 2008

“This order approves SPP’s ‘balanced portfolio’ approach to economic upgrades. This will allow for regional, postage-stamp cost allocation for the group of economic upgrades that SPP’s stakeholders see as mutually beneficial. As I have discussed on several occasions, the financing, siting and construction of high voltage transmission is incredibly difficult...

Even before the credit crisis, construction of backbone transmission was often arduous, lengthy, and controversial. Citizens are reluctant to site and pay for projects even when benefits can be clearly articulated. I have learned there is no political constituency for transmission. I applaud SPP’s stakeholders, particularly the Regional State Committee members, for recognizing that a mutually-agreeable solution may be the only way to get transmission built. This scenario of win-win-win may not be replicable everywhere. But SPP and its stakeholders have from whole cloth created a political constituency for transmission that is desperately needed to benefit customers. I am pleased to support today’s order.”
2008 SPP Transmission Expansion Plan

The 2008 SPP Transmission Expansion Plan (STEP) summarizes activities, including expansion planning and long-term Tariff studies, that impact future development of the SPP transmission grid. Six key topics are included in the STEP: Tariff studies, the regional reliability assessment 2009-2018, subregional and local area planning, high priority economic studies, interregional coordination, and project tracking. These topics are critical to meeting mandates either of the SPP strategic plan or FERC Orders 890, 890A, and 890B. The complete STEP may be downloaded from SPP.org.

Planning Study Presented to Oklahoma State Legislature

Expansion planning at SPP has evolved significantly in recent years to move beyond the development of comprehensive reliability plans to the identification of economic expansion opportunities as part of the STEP. The STEP 2008-2017 provided a foundation for a special study to identify transmission expansion needs in and around the state of Oklahoma. The Oklahoma Electric Power Transmission Task Force (OEPTTF), created by the Oklahoma legislature in 2007, directed the study. The OEPTTF study considered the impact of four to 15 gigawatts of wind development in the central and south plains of the SPP region.

Although the primary focus of the OEPTTF was transmission expansion in the state of Oklahoma to facilitate wind development, a regional assessment was necessary given the dynamic nature and interdependencies of the bulk power transmission network. The study’s primary focus was to identify the bulk power transmission expansion needed to integrate and deliver wind resources to customers based on approved projects in the STEP 2008-2017 and current projections for wind development in the central and south plains of the SPP region. SPP performed the analysis and provided its report to stakeholders and the Oklahoma legislature in early 2008.

Improvements to Generation Interconnection and Aggregate Study Processes

The Generation Queuing Task Force (GQTF) was formed by the Regional Tariff Working Group (RTWG) in January 2008 to address concerns with the Generation Interconnection Queue. The efforts of the GQTF resulted in new policy recommendations. Following SPP and FERC approval, implementation of the new policy could begin in 2009. In the interim, stakeholders approved a plan that was filed at FERC in November 2008 and would allow SPP to cluster backlogged interconnection requests into clusters of 15,000 megawatts each. This interim plan will allow a partial clearing of the backlog of interconnection requests until GQTF recommendations can be fully implemented.

An Aggregate Study Improvement Task Force (ASITF) was formed by the Markets and Operations Policy Committee in April 2007. The efforts of the ASITF resulted in new policy that could be implemented in 2009. In the interim, stakeholders approved a short-term plan that was filed at FERC in August 2008. It allows the pairing of sequential open windows of the prescribed transmission service request process through January 2010. This approach will expedite the backlog of pending transmission service requests. SPP continues to search for a mechanism that more closely links the Aggregate Study and Generation Interconnection processes and fits those results into long-range plans.
2008 SPP EHV Overlay Study:  
A Blueprint for the Grid of the Future

An Extra High Voltage (EHV) overlay is a collection of 765 kV transmission projects added to the existing transmission system to help facilitate the economic transfer of power and reduce congestion impeding these transfers. In March 2008, an update to the 2007 SPP EHV Overlay Study was published that evaluated the impact of intensified wind development and added the western portion of the SPP “X Plan” to the analysis.

SPP used this updated study as the starting point for the 2008 SPP EHV Overlay Plan. The purpose of the 2008 SPP EHV Overlay Plan was to quantify the benefits of EHV expansion, focusing on the adjusted production cost metric. Adjusted production cost savings demonstrate the measure of impact to a particular zone’s production cost, taking into account any economic purchases and sales of energy between entities.

SPP staff created six different wind scenarios: high, expected, and low for both 2017 and 2027. These scenarios determined the expected production cost savings and benefits of transmission expansion projects. Analysis was also conducted to determine the impact on the results of adding 2,500 megawatts of wind development in Nebraska in 2017 and 5,000 megawatts of wind in 2027.

It is somewhat difficult to justify each component of the plan incrementally, but when considered as part of a comprehensive network of upgrades, implementing the 2008 SPP EHV Overlay Plan would have a positive return. SPP will continue to study the EHV overlay on an annual basis as the assumptions and topology evolve.

ICT Facilitates Louisiana Transmission Project with Entergy, Cleco, and LUS

As the Independent Coordinator of Transmission (ICT) for Entergy Services, Inc., SPP facilitated an agreement between Cleco Power, L.L.C; Entergy Gulf States Louisiana, L.L.C. (Entergy); and Lafayette Utilities System (LUS) to expand and upgrade the electric transmission infrastructure in south central Louisiana.

The project includes upgrades to certain existing electric facilities as well as the construction of new substations, transmission lines, and capacitor banks, at an estimated cost of approximately $200 million. Each utility is responsible for various components of the project work. All upgrades are expected to be completed between 2010 and 2012.

The project will take place in an area the utilities call the “Acadiana Load Pocket,” which is south of Highway 190 between the Atchafalaya Basin and Jennings, Louisiana. Upgrading the interconnected transmission system will increase capacity, reduce transmission constraints, and improve the electric service for customers served by all three utilities. While an agreement has been signed by all the parties, the project will not commence until each party obtains necessary approvals.

This project illustrates how the ICT is working with Entergy stakeholders and SPP’s neighboring utilities to help coordinate planning for future transmission needs. By factoring in all customer needs for the ten-year planning horizon, through coordination with the ICT, the three companies are providing for current and future needs of their customers. The implementation of this project will provide for long-term reliability and economic benefits in the Acadiana area.
Interregional Planning Gains Momentum

SPP recognizes the need to work with neighboring entities to plan for and build transmission on a continental scale. SPP, the Midwest ISO, PJM Interconnection, the National Renewable Energy Laboratory, and the Tennessee Valley Authority formed a Joint Coordinated System Plan (JCSP) in 2007 to focus on interregional, collaborative transmission expansion plans to address reliability and economic needs.

Evaluation of this interregional footprint is unprecedented. This joint, long-range transmission expansion plan is based on consistent modeling and data assumptions across all NERC regions and Independent System Operators/Regional Transmission Organizations (ISOs/RTOs). The JCSP scope reflects the footprints of the entities noted above, captures areas included in ISO/RTO oversight responsibilities, and demonstrates the collaborative efforts of the Central Public Power Partners.

The JCSP includes a 2018 reliability assessment, followed by a 2024 economic assessment. A final iteration for optimizing 2024 expansion plans is in process, along with 2018 reliability assessments and 2024 economic models.

The JCSP study results will be used to demonstrate the value of using bulk power transmission to transport wind resources from the central plains, rather than building local wind generation solely to meet local needs. SPP will continue to support and provide leadership in the JCSP. Interregional joint planning leads to discussions about significant policy issues, the need and value of major coordinated EHV transmission expansion in the Eastern Interconnection, potential cost allocation mechanisms, and seams agreements, all of which must be addressed before major transmission expansion can be implemented.
First Year of EIS Market a Success

The first year of operation of the SPP Energy Imbalance Service market was successful. SPP performed a study that found net trade benefits of $103 million from the first year of market operation. Separately, Boston Pacific Company, Inc., SPP’s External Market Advisor, published an annual report on SPP’s electricity market conditions reflecting a robust market.

At the request of its Board of Directors, SPP performed a market trade benefits study as a follow-up to a pre-market assessment. A cost-benefit study conducted in advance of market launch estimated $86 million in net trade benefits. The SPP study determined actual net trade benefits for the first year of operation were $103 million from the market settling 8% of total energy consumed in the EIS footprint.

Market participation was robust. On average, 81% of online capacity was made available for dispatch. There was at least one flowgate experiencing congestion 56% of the time; 75% of the congestion occurred on just 10 flowgates. The market was able to resolve 85% of the congestion. The Boston Pacific report noted that SPP has made good progress in achieving market-based resolution of transmission congestion, and suggested the organization continue efforts to attract more market competitors.

2008 Operations Data

Peak load: 43,703 megawatts non-coincident (August 4)

Generation mix:

- Wind
- Other
- Nuclear
- Gas/Oil
- Hydro
- Coal

Miles by voltage:

- 69 kV: 13,402 miles
- 115 kV: 9,308 miles
- 138 kV: 6,324 miles
- 161 kV: 4,204 miles
- 230 kV: 3,032 miles
- 345 kV: 4,909 miles
- 500 kV: 106 miles

Total miles of transmission lines: 41,285

Number of substations: 3,150

Generating plants: 718

Capacity resources: 56,500 megawatts
Supply and Demand

Each year, SPP submits a 411 Form to the Energy Information Administration (EIA), which collects data on actual and projected energy and peak demand, existing and future generating capacity, historical data, and projection of capacity. SPP uses this data in planning models and to monitor trends in load growth and consumption. The EIA uses 411 data from SPP and other organizations to compile national energy forecasts.

Forecast Capacity Margin:

Members Enjoy First Market Operations Users Conference

In June 2008, SPP hosted the first annual Market Operations Users Conference in Little Rock. Participants learned about Area Control Error impact, system maintenance, real-time market information exchanges, and SPP’s market monitoring function. Break-out sessions covered congestion management, IT systems change management, registration changes, and modeling coordination.

The conference brought market participants and SPP market operations staff together for face-to-face interaction. SPP staff and stakeholders found the conference to be such a valuable learning experience that another conference is being planned for 2009.

SPP Training Department Continues to Grow

SPP has become an industry leader in regional restoration drills in which operators simulate the entire region going offline. During the drills, operators log-in to a dispatcher training simulator through a virtual private network and use net conferencing and teleconferencing for information-sharing and communication. Each participant has the opportunity to perform several roles during the drill to gain a broader perspective on system needs. Participants use their organizations’ blackstart/system restoration plans and coordinate with the SPP Reliability Coordinator and neighboring Balancing Authorities when tying systems.

These exercises allow participants to test their respective blackstart plan(s) and determine if they need adjustments or corrections. These simulations also allow operators to practice three-way communication as required in NERC Reliability Standard COM-002-2.

In addition to its successful restoration drills, the SPP Training Department provides continuing education for operations personnel at SPP and throughout the region. In 2008, the SPP Training Department awarded a total of 13,936 continuing education hours to 390 attendees representing 29 different entities, including SPP. The number of participants in SPP’s training program increased 15% since 2007.
2008 Regional Entity Update

The SPP Regional Entity (RE) continues to perform its delegated responsibilities in its first full year under mandatory rules. The SPP RE has the authority to audit, investigate, and ensure that NERC Registered Entities (owners, operators, and users of the bulk power system) comply with mandatory NERC reliability standards. The SPP RE is also responsible for establishing regional reliability standards. There are 116 registered entities performing 368 functions registered in the SPP RE footprint.

In 2008, the SPP RE staff continued to expand. This staff reports to the independent Regional Entity Trustees. In 2008, the SPP RE conducted seven on-site and 11 off-site compliance audits.

The SPP RE hosted workshops in the fall and spring to discuss the 2008 compliance program. Attendance ranged from 115 to 140 participants per workshop. Workshop topics included compliance program results, registration issues, compliance data management system updates, and compliance program schedules.

2008 Compliance Update

To ensure that SPP complies with mandatory reliability standards, SPP’s Compliance Department coordinates and facilitates the development of compliance plans, policies, procedures, and systems to track and monitor compliance programs. In 2008, the Compliance Department prepared for audits of the SPP Regional Transmission Organization, Independent Coordinator of Transmission, and Independent Transmission Organization. The department also provides assistance to registered entities in the SPP region to support compliance and share best practices. The first annual compliance forum for registered entities was successfully conducted in 2008.

NERC Conducts Readiness Evaluation

In February 2008, a team of NERC, RE, and industry representatives reviewed documents, toured control facilities, and conducted on-site interviews with SPP employees to evaluate SPP’s readiness to maintain the reliable operation of the bulk power system. The NERC Readiness Evaluation is performed once every three years.

The evaluation team focused on fundamental aspects of reliability: culture, operations, maintenance, operational planning, training, and infrastructure. The team offered nine positive observations and nine recommendations for enhancing SPP’s reliability coordination.

The NERC team praised SPP for its well-organized control room, high level of support for reliability coordination, and good coordination between the operation analysis group and transmission planning group. The team was also pleased with the extensive NERC certification of personnel beyond the reliability coordinator desk, and the power-industry curriculum developed with the University of Arkansas at Little Rock to provide personnel with industry training.

The evaluation team commended the SPP Training Department by requesting the SPP restoration drills be submitted as an Example of Excellence. Examples of Excellence are electric industry practices that NERC has identified as being exceptionally effective in ensuring and protecting the reliability of the interconnected bulk electric system. NERC highlights these practices as examples for the electric industry to use in achieving excellence in system operations.
Addition of Nebraska the Outcome of Collaboration

A major advancement took place in 2008 as three utilities in Nebraska signed membership agreements with SPP. The three utilities plan to complete, by April 1, 2009, transition activities such as installing IT infrastructure and training staff, so they can fully participate in SPP services.

Lincoln Electric System, Nebraska Public Power District, and Omaha Public Power District began analyzing options for membership in a regional transmission organization in 2007. Because the northern edge of SPP’s service territory borders Nebraska, it made geographical, as well as organizational and financial sense for the organizations to join SPP.

Membership in SPP will be beneficial to electric customers in the organizations’ service areas by providing each utility with more operational flexibility as part of a larger region. Joining SPP will also give the utilities access to a larger marketplace, and enhance coordination throughout the mid-section of the country as SPP and its members address transmission expansion and more efficient operation of the electric grid.

“...I believe that this expansion will bring significant benefits to consumers in both the state of Nebraska and in the other eight states that already have utilities participating in the SPP. Consumers will benefit by both spreading the fixed costs of the RTO across a larger footprint, and by the improved efficiency and coordination available to Nebraska and all SPP members in the SPP market.

This expansion is designed to provide Nebraska utilities with improved reliability, operational flexibility, and enhanced coordination — all at a time when the nation, and the SPP in particular, is addressing transmission expansion and more efficient operation of the electric network.”

- FERC Commissioner Philip D. Moeller

2008 Stakeholder Survey Reflects Increased Satisfaction

Results of the 2008 SPP Stakeholder Survey reflected increased satisfaction with SPP’s provision of services, support of meetings, and customer service as compared to 2007. Almost half of respondents commented on SPP’s excellent customer service, using words such as friendly, professional, and responsive. Some respondents expressed concern with the timeliness of transmission studies; billing, invoicing, and settlements issues; and operational issues. During 2009, SPP’s management team will develop action plans to address noted concerns. The organization will also look for ways to continue improving the processes and services with which stakeholders are satisfied.

Performance Metrics Help Track Progress

This year, SPP began reporting monthly metrics to track the progress of regional operations performance indicators. Based on a balanced scorecard approach, these monthly metrics reports are presented at quarterly Board of Directors meetings, along with an explanation of the results.

Two groups of metrics are tracked to monitor the overall status of the regional transmission system and market operation performance. Additional metrics track SPP’s financial situation, success in maintaining and supporting desired employee staffing and growth, performance with its registered entities’ compliance with NERC standards, and major information technology systems’ stability and availability.

The metrics give stakeholders a “snapshot” of SPP’s organizational health and help them understand how well SPP is performing the processes and services we facilitate on their behalf. Corporate metrics are posted on the About SPP page of SPP.org.
OUR MEMBERS

Cooperatives
Arkansas Electric Cooperative Co. *
East Texas Electric Cooperative, Inc. *
Golden Spread Electric Cooperative *
Kansas Electric Power Cooperative
Mid-Kansas Electric Company ^
Midwest Energy, Inc. * ^
Northeast TX Electric Cooperative *
Rayburn Country Electric Cooperative *
Sunflower Electric Power Corp. * # ^
Tex - La Cooperative of Texas, Inc. *
Western Farmers Electric Cooperative # ^

Independent Power Producers
Calpine Energy Services, L.P. *
Dogwood Energy, LLC *
Entergy Power Ventures, L.P.
Tenaska Power Services Co. *

Independent Transmission Companies
ITC Great Plains
Trans-Elect Development Company, LLC

Investor-Owned
American Electric Power #
   Public Service Company of Oklahoma ^
   Southwestern Electric Power Company ^
Cleco Power, LLC #
Empire District Electric Company # ^
Entergy Services, Inc. *
Exelon Power Team *
Kansas City Power & Light Company # ^
   KCP&L Greater Missouri Operations
   Company # ^
OG+E Electric Services # ^
Westar Energy, Inc. # ^
   Kansas Gas and Electric Company ^
Xcel Energy
   Southwestern Public Service Company # ^

State Agencies
Grand River Dam Authority # ^
Louisiana Energy and Power Authority #
Nebraska Public Power District *
Omaha Public Power District *

Marketers
Aquila Power - Aquila, Inc. *
Cargill Power Markets LLC *
Constellation Energy Commodities Group, Inc. *
Coral Power, LLC *
Duke Energy Americas, LLC *
Dynegy Power Marketing, Inc. *
Edison Mission Marketing & Trading, Inc. *
El Paso Merchant Energy, L.P. *
Luminant Energy Company, LLC
NRG Power Marketing, Inc. *
Williams Power Company, Inc. *

Municipals
Board of Public Utilities (Kansas City, Kansas) * #
City of Clarksdale, Mississippi *
City of Lafayette, Louisiana * #
City Power and Light (Independence, Missouri) * #
City Utilities of Springfield, Missouri *
Kansas Municipal Energy Agency *
Lincoln Electric System *
Oklahoma Municipal Power Authority
Public Service Commission of Yazoo City, Mississippi *

SPP Contract Participants
Southwestern Power Administration # ^

* Transmission Dependent Member
# Balancing Authority/Control Area within SPP
^ Transmission Owner
Shared Learning Experiences Help Employees Better Serve Members

SPP’s projects could not be successfully completed without its knowledgeable staff. Eighty-three employees were hired in 2008, bringing the total employee count to 345. Two employees celebrated long-term service anniversaries this year. Executive Vice President and Chief Operating Officer Carl Monroe celebrated 25 years, and Senior Technical Lead Dan Hazelwood celebrated 30 years of service.

To further employees’ professional development, the third annual Leadership Conference was held in May for all staff. The topic of the conference was “facilitation”. Hellen Davis, President and CEO of Indaba, Inc., lectured on the importance of facilitation in organizations and the skills needed to be a successful facilitator. With facilitation a critical function for SPP, the event was not only a shared learning experience for employees, but will benefit our members as well.

In the summer of 2008, 35 SPP employees participated in the Dale Carnegie Leadership Training class. Participants included new managers and employees identified by their supervisors as having leadership potential. The goal of the class was to give emerging SPP leaders new skills for successfully working with stakeholders and co-workers. A wide range of leadership and management topics were covered, including leading effective meetings, managing conflict and change, and developing flexibility.

In February 2008, SPP employees volunteered at the Little Rock Girls of Promise conference, which encourages middle-school girls to stay interested in math and science and educates them about career opportunities in those areas. Over 100 eighth grade girls attended the event, which included workshops with women professionals in math/science fields. SPP’s involvement in the Girls of Promise program will hopefully inspire more girls to pursue careers in IT and engineering.

Organizational Improvement Group Formed

A new staff-led committee called the Organizational Improvement Group (OIG) worked diligently in 2008 to try and make SPP a better place to work. Their purpose was to provide a conduit through which employees can communicate to management their recommendations for improving SPP’s processes and culture, and to foster an environment of collaboration and innovation. Suggestions are objectively reviewed by the group for feasibility, potential value, and redundancy, and those that pass the initial test are recommended for executive approval. Depending on the nature of the project and the resources required to carry it out, the project will go through the appropriate channels for implementation.

First Employee Survey Reveals High Engagement

SPP recently conducted its first staff survey to measure employees’ motivation, satisfaction, and engagement. The goal of the survey was to better understand the views of SPP’s employees in areas critical to the organization’s continuing success. Overall engagement at SPP in 2008 is “very good” with 90% of employees responding favorably to all questions and stating they are “engaged in doing their best work”. Employees were asked to participate in action planning to improve concerns noted in the survey.

Research shows that high employee engagement leads to improved stakeholder satisfaction. SPP plans to conduct future staff surveys to improve both the working experience of its employees and the customer service SPP provides to its members and customers.
James E. Eckelberger, Chairman of the Board
Elected April 2000; Member, Strategic Planning Committee, Corporate Governance Committee
Jim is a consultant for Supply Chain Management. His career history includes time with Huttig Building Products, netMercury, and Compaq Computer Corporation, after serving 30 years in the U.S. Navy.

Harry I. Skilton, Vice-Chairman of the Board
Elected April 2000; Chairman, Finance Committee; Member, Strategic Planning Committee
Harry is a consultant with over 25 years of senior executive and general management experience in Fortune 500 manufacturing companies. He retired as President and Chief Executive Officer of American Meter Company.

Larry Altenbaumer
Elected July 2005; Member, Finance Committee, Human Resources Committee
Larry provides business advisory and consulting services to the energy industry. He retired in April 2004 as President of Illinois Power and Executive Vice President, Regulated Energy Delivery of Dynegy Inc.

Phyllis Bernard
Elected October 2003; Chair, Human Resources Committee; Member, Oversight Committee
Phyllis is a Robert S. Kerr Jr. Distinguished Professor of Law and Director of the Center on Alternative Dispute Resolution at the Oklahoma City University School of Law.

Julian Brix
Elected April 2008; Member, Oversight Committee, Markets and Operations Policy Committee
Julian most recently served as executive consultant for Brix International, an independent consulting company, and as board member and co-chair of TRANSlink Management Development Corporation.

Nick Brown, President and Chief Executive Officer
Elected January 2004; Chairman, Corporate Governance Committee
Prior to January 2004, Nick served SPP in several capacities including Senior Vice President, Corporate Secretary, Director of Engineering and Operations, and Manager of Engineering Services.

Quentin Jackson
Served through January 2008; Chairman, Human Resources Committee; Member, Oversight Committee
Quentin has worked in the nuclear insurance business since 1973, and was most recently President and Chief Executive Officer of Nuclear Electric Insurance Limited.

Joshua W. Martin, III
Elected October 2003; Chairman, Oversight Committee; Member, Strategic Planning Committee
Joshua is a partner in the Potter Anderson & Corroon law firm. In March, 2005, he joined the firm’s Business Practices Group, which focuses on telecommunications and public utility issues.
MEMBERS COMMITTEE

Kevin Easley
General Manager and Chief Executive Officer,
Grand River Dam Authority

Trudy Harper
President, Tenaska Power Services Co.

Kelly Harrison
Vice President Transmission Operations and Environmental,
Westar Energy

Cindy Holman
Director of Operations and CFO,
Oklahoma Municipal Power Authority

Rob Janssen
President, Dogwood Energy

Jeff Knottek
Assistant Manager of Transmission Planning,
City Utilities of Springfield, Missouri

Steve Parr
Executive Vice President and CEO,
Kansas Electric Power Cooperative, Inc.

Mel Perkins
Vice President of Power Delivery, OG&E Electric Services

Gary Roulet
Chief Executive Officer,
Western Farmers Electric Cooperative

Stuart Solomon
President, Public Service Company of Oklahoma

Richard Spring
Senior Vice President of Transmission,
Kansas City Power & Light Company

Richard M. Tyler
General Manager, Northeast Texas Electric Cooperative

Gary Voigt
Chief Executive Officer,
Arkansas Electric Cooperative Corporation

Rick Wolfinger
Vice President, Constellation Energy Commodities Group, Inc.

REGIONAL STATE COMMITTEE

1. David King, President
   New Mexico Public Regulation Commission

2. Michael Moffet
   Kansas Corporation Commission

3. Paul Suskie
   Arkansas Public Service Commission

4. Collette Honorable (served through July 2008)
   Arkansas Public Service Commission

5. Julie Parsley (served as President through July 2008)
   Public Utilities Commission of Texas

6. Barry Smitherman
   Public Utilities Commission of Texas

7. Jeff Cloud
   Oklahoma Corporation Commission

8. Jeff Davis
   Missouri Public Service Commission
COMMITTEE ORGANIZATION

MEMBERSHIP

SPP STAFF
- Business Practices
- Change
- Critical Infrastructure Protection
- Generation
- Market
- Model Development
- Operating Reliability

BOARD OF DIRECTORS AND MEMBERS COMMITTEE

MARKET AND OPERATIONS POLICY COMMITTEE
- Operation Model Development
- Operations Data
- Operations Training
- Regional Tariff
- System Protection and Control
- Transmission

REGIONAL ENTITY TRUSTEES

REGионаL STATE COMMITTEE

Cost Allocation Working Group

OVERSIGHT COMMITTEE

CORPORATE GOVERNANCE COMMITTEE

FINANCE COMMITTEE

HUMAN RESOURCES COMMITTEE

STRATEGIC PLANNING COMMITTEE
P continues to be the low-cost provider of regional services, in large part a result of robust member participation in SPP’s operations and initiatives.

SPP’s administrative fee, the primary source of cost recovery, was 19¢ per megawatt hour in 2008 versus actual costs of 20.3¢. While the company expected to under-collect against expenses in 2008 due to over-collections in prior years, actual under-collection exceeded expectations due to decreased usage of the transmission system during the year. Nonetheless, SPP was able to reduce its administrative fee in 2009 to 17¢ per megawatt hour and expects to remain at this level in the near future.

SPP’s members’ equity balance fell below zero at the end of 2008. The dissipation of our equity has been swift, largely due to changes in accounting rules rather than actual cash losses. In 2007, SPP adopted Financial Accounting Standard No. 158 (FAS158), which in its simplest terms requires SPP to recognize the funded status of its pension plans – measured as the difference between plan assets at fair value and the projected benefit obligation. Prior to adopting FAS158, SPP was only required to record differences between the accumulated benefit obligation and the fair value of plan assets. Adoption of FAS158 has reduced members’ equity by almost $9 million since 2007.

Similarly, accounting rules requiring mark-to-market accounting of financial instruments has resulted in erosion of SPP’s members’ equity balances. Specifically, SPP is a party to two interest rate swap agreements whereby SPP exchanges a floating interest rate for a fixed interest rate. Lower short-term interest rates have resulted in a reduction in value of the swap contracts. SPP is required to recognize the reduction in value of these contracts in its financial statements. However, since SPP has used these swap contracts to hedge its floating rate debt instruments, we are unlikely to realize a cash loss on the contracts. SPP’s members’ equity has been reduced by $4.3 million related to unrealized losses on these interest swap contracts.

Finally, Fitch Ratings completed a comprehensive review of SPP’s financial profile during 2008 and reaffirmed SPP’s debt and issuer ratings of “A”. This rating will prove very beneficial as SPP obtains additional debt financing to fund its future developments.

- Tom Dunn, Chief Financial Officer

## Balance Sheet *

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>42,119</td>
<td>48,423</td>
</tr>
<tr>
<td>Other Current Assets</td>
<td>13,901</td>
<td>9,882</td>
</tr>
<tr>
<td>Fixed Assets</td>
<td>41,272</td>
<td>42,987</td>
</tr>
<tr>
<td>Other Assets</td>
<td>277</td>
<td>1,087</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$97,569</td>
<td>$102,379</td>
</tr>
</tbody>
</table>

## Liabilities

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Deposits</td>
<td>$17,777</td>
<td>14,644</td>
</tr>
<tr>
<td>Other Current Liabilities</td>
<td>36,265</td>
<td>35,750</td>
</tr>
<tr>
<td>Long Term Debt</td>
<td>39,574</td>
<td>37,780</td>
</tr>
<tr>
<td>Other Long Term Liabilities</td>
<td>11,494</td>
<td>5,322</td>
</tr>
<tr>
<td>Members’ Equity</td>
<td>(7,541)</td>
<td>8,883</td>
</tr>
<tr>
<td>Total Liabilities and Equity</td>
<td>$97,569</td>
<td>$102,379</td>
</tr>
</tbody>
</table>

## Statement of Income

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue</td>
<td>$92,045</td>
<td>$87,884</td>
</tr>
<tr>
<td>Salary and Benefits</td>
<td>41,880</td>
<td>34,519</td>
</tr>
<tr>
<td>Other Expenses</td>
<td>66,589</td>
<td>57,357</td>
</tr>
<tr>
<td>Net Income (Loss)</td>
<td>$(16,424)</td>
<td>$(3,992)</td>
</tr>
</tbody>
</table>

* All figures in thousands