Background

SPP developed a Strategic Plan in 2003. As of early 2005, virtually all components of that plan had been achieved, with the remainder in process. The Strategic Planning Committee held a retreat May 12-13, 2005 for purposes of developing a new plan for SPP. Included in the planning retreat were members of the committee, the Board of Directors, representatives from the Regional State Committee, and SPP executive staff.

Strategic Planning Committee

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

**Richard Spring, Chair**  
Sr. VP, Transmission  
Kansas City Power & Light

**Ricky Bittle**  
Vice President  
Arkansas Electric Cooperative Corporation

**David Christiano**  
Manager, System Planning  
City Utilities of Springfield

**Michael Desselle**  
Director Public Policy  
American Electric Power

**Mike Palmer**  
VP, Commercial Operations  
The Empire District Electric Company

**Steve Parr**  
Exec VP and CEO  
Kansas Electric Power Cooperative

**Mel Perkins**  
VP, Transmission  
OG+E Electric Services

**Jim Stanton**  
Director, Market Design  
Calpine Energy Services

**Jim Eckelberger**  
Chairman, SPP Board of Directors

**Harry Skilton**  
Vice Chair, SPP Board of Directors

**Josh Martin**  
SPP Board of Directors
**Strategic Planning Process**

The strategic planning process utilized by the SPC was similar in nature to any planning process that answers three basic questions: Where are we? Where do we want to go? How do we get there? The group sought to develop goals for SPP to move forward, but doing so while retaining SPP’s uniqueness in the industry and continuing to provide benefit to its members.

**Where are we?**
This data-gathering phase produced an understanding of where the organization is in relation to its environment with respect to both industry structure and SPP’s relative position. The SPC began with a brief overview of SPP’s organizational structure, governance, staffing and finances. This phase also included a review of the regulatory environments to which SPP members are subject at both the state and federal levels. This phase concluded with a reaffirmation of the organization’s values - the principles that have driven the decision-making processes of the organization:

- Relationship Based
- Member Driven
- Independence through Diversity
- Reliability and Economic/Equity Issues Inseparable
- Evolution, Not Revolution

**Where do we want to go?**
The SPC is recommending actions specific to five areas of regional needs:

1. Markets Development
2. Transmission Expansion
3. Administrative Processes
4. Retention and Expansion of Participants
5. Enhanced Regional Planning

**How do we get there?**
The SPC recommends that, in addition to its work, SPP organizational groups assist in further investigation of certain detailed issues to make appropriate recommendations through SPP organizational structure, culminating with approval of the Board of Directors and regulatory agencies.
**Current Industry Environment**

The electric power system continues to be characterized as vital, while strides are being made to calm turbulence, remove uncertainty, and minimize risk by establishing and stabilizing market rules. Many members are in a ‘back to the basics’ mode of focusing on reliability and cost/performance improvement, which is resulting in improved financial performance by many Members and market participants. Stakeholders are realizing that an aging infrastructure and a lack of system reliability go hand in hand, and that if the infrastructure is not upgraded to provide for growth as well as reliability, remaining critical issues are of no consequence. Strides are being made toward increased regulatory certainty with a cultural change focusing on investment in an updated infrastructure and new, more efficient and affordable ways to “keep the lights on.”

Comprehensive energy legislation has remained on the drawing board for more than five years. The current draft promotes reliability through mandatory compliance with standards and regional coordination on energy policy and infrastructure issues. However, many are skeptical that this legislation will resolve the critical issues facing the nation and may not become law in the near future. Despite the lack of legislation, FERC continues to push for open transmission access to create more vibrant regional wholesale energy markets, while participation in Regional Transmission Organizations by utilities continues to be voluntary.

In 2004, U.S. electricity consumers spent more than $1 billion financing the operation of six ISO/RTOs with standardized markets. These organizations’ costs more than doubled since 2001 as their markets were implemented, and many now argue that the costs outweighs the benefits. However, most of this criticism originates in non-RTO portions of the nation, which arguably would not be able to operate reliably in the highly interconnected/interdependent network but for the coordination afforded by the very organizations in which they choose not to participate. SPP’s Regional State Committee sponsored an independent cost/benefit study to quantify the benefits of SPP participation by its state jurisdictional utilities. The implementation of an energy imbalance service market in the SPP footprint is estimated to yield $1.2 billion in savings to the Eastern Interconnect over a ten-year period, with over half of that directly benefiting the region (some interpret the study results to reflect an even greater benefit to the region). Transmission Owners in the SPP region are expected to realize benefits of over $370 million, net of their costs to implement the market.  

SPP provides services using the transmission systems of its members. SPP’s Members cover a 400,000 square mile region over all or part of eight states containing 18 million people (this region is also known as SPP’s “footprint”). SPP currently has 45 members, and its footprint includes seventeen separate control areas that individually are responsible for matching electricity supply and demand within their service areas. The peak electric demand in the SPP footprint in 2004 was 38,584 MW. This 2004 peak demand was 1% higher than in 2003. Electric energy use in 2004 was 193 million MWh. At the end of 2004, the total generating capacity in SPP was 55,036 MW. In comparison to the peak demand of 38,584 MW during 2004, SPP has a

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1 Source: Charles River Associates Study
significant resource margin of 16,452 MW or 43%. Since 2000, there has been a surge in construction of new natural gas-fired generating plants. Of the total generating capacity in SPP about 54% is gas-fired; approximately 91% of capacity in SPP is either coal- or gas-fired.²

SPP’s highest level of connectivity with a surrounding region is with the Southeast Electric Reliability Council (SERC). Most of SPP’s link to SERC is with Entergy and Associated Electric Cooperative, Inc. (AECE, a non-jurisdictional G&T cooperative) with approximately 40,000MVA in total line capability. However, over half of SPP’s connectivity with Entergy is due to transmission lines connecting the Entergy control area in SERC and three control areas in SPP that are all relatively isolated from the rest of the SPP system. Direct transmission connectivity between SPP and two surrounding regions (the Midwest Reliability Organization (MRO) and the Mid-America Interconnected Network, Inc. (MAIN) is significantly less then SPP’s direct connectivity with SERC. SPP shares five high voltage DC ties with the Western Electricity Coordinating Council (WECC) and the Electric Reliability Council of Texas (ERCOT). These DC ties give 600 MW of transfer capability with WECC and 820 MW with ERCOT.³

Overall levels of TLR curtailments have increased in SPP during the past few years. This increase is due to an increase in non-firm service curtailment. Firm service curtailments were very minor compared to non-firm service curtailment and actually decreased in 2004 as compared to the prior two years. Major areas or sub-regions of congestion during 2004 were westward and southward out of eastern Kansas and southward at the eastern portion of the border between Oklahoma and Texas along the edge of the ERCOT region. The locations of congestion have also changed from year-to-year during the period from 2001 to 2004 due to the effect of transmission upgrades designed to solve existing congestion in the SPP region.⁴

Average on-peak prices in SPP increased by 21% from 2001 to 2004 (from $37.45/MWh in 2001 to $45.20/MWh in 2004.) Average off-peak prices increased by 28% (from $16.09/MWh in 2001 to $20.58/MWh in 2004.) In the 2001 to 2004 period, there were few significant price spikes. Prices rose above $100/MWh on only two occasions. Rising natural gas prices are a driving force in the increase of on-peak electricity prices in the current bilateral electricity market in the SPP footprint. Average daily natural gas prices for pricing points in SPP increased by 41% from 2001 to 2004. Changes in electricity prices in SPP also are highly correlated with those in surrounding regions.⁵

SPP has active transmission expansion and generation interconnection processes in place to encourage increases in electricity supply availability. Under SPP’s current transmission expansion plan, approximately $564 million will be invested in increasing the reliability of the transmission system in SPP between 2004 and 2010. In addition, as of the end of 2004, nearly $400 million in economic expansion projects were also being studied by SPP. SPP’s generation

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² Source: SPP State of the Market Report, Boston Pacific
³ Source: SPP State of the Market Report, Boston Pacific
⁴ Source: SPP State of the Market Report, Boston Pacific
⁵ Source: SPP State of the Market Report, Boston Pacific
interconnection queue contains approximately 7,700 MW of proposed projects. Over half of this capacity is for new wind facilities located primarily in western SPP. The rest of the capacity is for coal and natural gas fired units mostly located in eastern SPP, particularly in eastern Kansas and western Missouri. If all of these active projects are built, generating capacity in SPP could increase by up to 14%.  

In 2003, the Board of Directors approved a strategic plan that included five primary areas of focus:

1. active state involvement;
2. compliance with FERC Order 2000;
3. SPP’s regional transmission service tariff;
4. SPP administrative processes; and
5. SPP’s regional reliability council responsibilities.

To date SPP has achieved virtually all the goals established in this plan. The Regional State Committee has become an integral part of SPP’s organizational process. SPP has implemented many revisions to its tariff and the processes therein, resulting in enhanced services to customers, particularly with respect to SPP’s study and interconnection queues. SPP’s organizational structure has been streamlined to create efficiencies, and the transition to a fully independent Board of Directors has been successful in its first year. SPP has continued to assert that reliability and economic issues can and should be managed within one organization. Members and customers continue to realize the benefits of this operational approach. Finally, SPP was recognized as a Regional Transmission Organization. Short of implementation of the energy imbalance market, SPP is Order 2000 compliant.

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6 Source: SPP State of the Market Report, Boston Pacific
The Strategic Plan

MARKETS DEVELOPMENT
SPP should continue with the implementation of an Energy Imbalance Market for the region. Additional market development should be considered, but only following cost/benefit studies and/or an assessment of customers as to their needs for these additional services. In contrast to the 2003 Strategic Plan, SPP will consider ancillary services markets in advance of market-based congestion management, as these markets are of most interest to customers and stand to provide more immediate benefits. SPP will defer any transition to financial transmission rights (FTRs) until otherwise recommended by the RSC, as is its responsibility per the SPP Bylaws. SPP must also continuously monitor and manage the impact of its various seams/coordination agreements on its operations.

The following steps should be taken:
1. Implementation of the Energy Imbalance Market with regular status reports provided to and progress monitored by the Markets and Operations Policy Committee (MOPC), the Regional State Committee (RSC) and the SPC.
2. Continued attention by staff to seams/coordination agreements and their impacts, with appropriate reporting to the stakeholder committees.
3. Development of a proposal for the development and implementation of other market services, starting with ancillary services markets, as assigned by the MOPC.

TRANSMISSION EXPANSION
Additional transmission infrastructure is needed across the country, including in the SPP region. The RSC developed and FERC has approved a plan for the funding of transmission expansion that is beneficial to the region for reliability. Evaluation of a funding mechanism for those upgrades that provide only economic benefits to the region is underway. SPP also received approval for an experimental program allowing participants to pre-pay for minor upgrades specifically benefiting short-term transmission transactions.

The following steps should be taken:
1. Follow-through on the approved transmission expansion funding plan for upgrades meeting reliability needs.
2. Continue development by the RSC, and SPP stakeholder committees as appropriate, of a funding plan for transmission expansion for upgrades providing only economic benefits to the region.
3. Evaluate and continue, if deemed appropriate, on a permanent basis the FERC-approved experimental pre-payment program for upgrades for short-term transmission service.
4. Review of all these new funding plans to assure that no “unintended consequences” arise, and if so, ensure that they are presented for consideration and mitigation.
ADMINISTRATIVE PROCESSES
SPP’s administrative processes should continue to be reviewed and adjusted to assure efficiency in the stakeholder process/organizational group structure including interaction with the RSC and its working groups. Included in this review is the consideration of additional Board of Directors/Members Committee meetings on an as needed and practical basis.

The following steps should be taken:
1. SPP staff should encourage Director involvement in organizational group meetings to enhance understanding of issues, process, and diverse positions.
2. SPP staff and members should coordinate site visits for Directors to enhance industry and organizational knowledge.
3. Two additional Board of Directors/Member Committee meetings should be added annually focused on education and administrative process rather than business/action items.

RETENTION AND ADDITION OF PARTICIPANTS
SPP should focus on the retention of existing Members and addition of new and/or former participants in the organization, including members, customers, and state regulatory representatives. This will allow the organization to grow and develop as a service provider and strong leader for the region.

The following steps should be taken:
1. SPP Staff should pursue an analysis to improve understanding of the Charles River Associates cost/benefit study regarding the benefits of utilities participating in SPP for purposes of mitigating any perceived negative results.
2. SPP should consider and implement, as appropriate, waiver of withdrawal obligation fees for Large Retail Customer Members, Small Retail Customer Members, and Public Interest/Alternative Power Members so long as such a Member is not a Market Participant as defined in the SPP OATT.
3. SPP Staff should continue to develop customer services and programs for members and customers, such as reserve sharing, reliability coordination, and transmission coordination.
4. SPP Staff should place a priority on working with FERC for revision of the application of its annual fee, mitigating unfair impacts to RTOs.

ENHANCED REGIONAL PLANNING
SPP is in a unique position as a regional transmission and reliability organization. It can serve as a conduit for various issues and positions that impact localities, states, the region, and national matters. Given the success with the development of regional transmission planning, SPP should consider other ways in which it can be a leader/facilitator/coordinator of regional solutions for regional issues, including generation planning, economic impacts of alternative energy sources and its development, and integrated resource planning.
The following steps should be taken:

1. SPP staff will develop a white paper for the SPC addressing the expansion of its portfolio of services and the impact on the organization to do so.
2. SPP will host a technical conference for educational purposes, to coordinate/facilitate discussion of various issues of interest in the region.
3. SPP staff and the SPC will support the RSC’s efforts to evaluate the need for and develop, when appropriate, a practical integrated resource solution for the region.

**LONG-RANGE PLANNING**

The Strategic Planning Committee will approach strategic planning with a more long-term and proactive orientation in its upcoming meetings.

**Recommendation**

The Strategic Planning Committee recommends that the SPP Board of Directors adopt the proposed Strategic Plan included in this report, and authorize the delegation of responsibilities to SPP organizational groups also contained herein under the coordination oversight of the SPC and MOPC.