Evolutionary Strategic Plan
Becoming an RTO

LaCygne-Stilwell
UPGRADE PROJECT

Evolutionary Strategic Plan
Becoming an RTO

SPP Regional Planning Summit

Blue Canyon Wind Farm
PHASE 1 COMPLETE

Southwest Power Pool, Inc.
2003 ANNUAL REPORT | Special Issue

Auditors’ Report and
03/FINANCIALS

Growth While Retiring
Independence Through Diversity

SPP membership has been one of the most diverse of any regional organization in the industry since its inception. With membership comprised of investor-owned utilities, municipal systems, generation and transmission cooperatives, state authorities, federal agencies, independent power producers and power marketers, any and all opinions are heard in organizational group meetings. As a member-driven organization, meaningful stakeholder involvement by decision-makers with "skin in the game" has driven SPP’s growth. This diversity truly is the "power of the pool."
INVESTOR-OWNED UTILITIES
American Electric Power #
Public Service Company of Oklahoma
Southwestern Electric Power Company
Aquila, Inc.
Missouri Public Service #
St. Joseph Light & Power *
WestPlains Energy #
Cleco Power LLC #
Entergy Services, Inc. *
Exelon Power Team *
Kansas City Power & Light Company #
OG&E Electric Services #
Southwestern Public Service Company #
The Empire District Electric Company #
Westar Energy #
Western Resources, Inc.
Kansas Gas & Electric

COOPERATIVES
Arkansas Electric Cooperative Corporation *
East Texas Electric Cooperative, Inc. *
Kansas Electric Power Cooperative
Midwest Energy, Inc. *
Northeast Texas Electric Cooperative *
Sunflower Electric Power Corporation # *
Tex-La Cooperative of Texas, Inc. *
Western Farmers Electric Cooperative #

MUNICIPALS
City of Clarksdale, Mississippi *
City of Lafayette, Louisiana *
City Power & Light, Independence, Missouri *
City Utilities, Springfield, Missouri *
Public Service Commission of Yazoo City, Mississippi *
The Board of Public Utilities, Kansas City, Kansas # *

STATE AGENCIES
Grand River Dam Authority #
Louisiana Energy & Power Authority #
Oklahoma Municipal Power Authority

FEDERAL AGENCY
Southwestern Power Administration #

INDEPENDENT POWER PRODUCERS
Calpine Energy Services, L.P. *
InterGen Services, Inc. *
Tenaska Power Services Company *

MARKETERS
Aquila Power - Aquila, Inc. *
Cargill - Alliant, LLC *
Cinergy Corporation *
Constellation Power Source *
Coral Power LLC *
Duke Energy Trading & Marketing *
Dynegy Marketing & Trade *
Edison Mission Marketing & Trading, Inc. *
El Paso Merchant Energy, L.P. *
Mirant Americas Energy Marketing, L.P. *
NRG Power Marketing, Inc. *
TXU Energy Trading Company
Williams Energy Marketing & Trading Company *

Member Statistics as of 12/31/2003

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48 Members

* Transmission Dependent Member    # Denotes Control Areas within SPP
Southwest Power Pool found itself at a critical crossroad during 2003. At the start of the year the company was moving full-steam ahead to consummate the merger with the Midwest Independent Transmission System Operator, Inc. However, by March it was readily evident that the merger conditions would not be met in the foreseeable future and would continue to be a distraction to both parties. Therefore, the Boards of Directors of both entities agreed to terminate the merger agreement.

The SPP Board of Directors recognized the need for the organization to refocus its strategy, set a course to create and find opportunities and to create a visible and positive strategic plan. As such, the Strategic Planning Task Force (now Committee) was formed to completely review the SPP organization considering the current industry environment and to make appropriate recommendations to the Board of Directors. We wish to take this opportunity to personally thank this group for its dedication and hard work on behalf of this historic organization. They held 19 meetings during the year. Now, that’s dedication!

No stone was left unturned as the group evaluated options from dissolution, to negotiating another merger, to again seeking recognition from the Federal Energy Regulatory Commission (the Commission) as a Regional Transmission Organization (RTO). On April 14, the Board of Directors unanimously approved the Initial Report of the Strategic Planning Task Force that documented the evaluation process, analysis of results and SPP’s value proposition. This report included a plan moving SPP forward as a stand-alone organization in compliance with FERC Order 2000, expanding regional transmission services, actively involving state regulatory agencies, improving administrative processes and maintaining regional reliability council status.

Particularly noteworthy is that the initial report reaffirmed continuation of SPP’s hybrid board structure, containing both stakeholder and non-stakeholder directors. Following subsequent consultation with both state and federal regulators, the Secondary Report of the Strategic Planning Task Force contained a recommendation for SPP to transition to a complete non-stakeholder Board of Directors. Our Board of Directors approved this and other recommendations at its meeting on June 24. This act, above all others, represents the strong commitment of this member-driven organization to solidifying and enhancing regional transmission management.

We also had some changes to the make-up of our Board of Directors. Two longtime supporters and board members retired from their respective companies: Gene Argo, Midwest Energy, Inc. and Dick Dixon, Westar Energy, Inc. Three new independent directors joined the board: Phyllis E. Bernard, Joshua W. Martin, III and Robert G. Schoenberger. Ms. Bernard 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. Mr. Schoenberger is chairman, CEO and president of Unitil Corporation. Mr. Martin is president of Verizon Delaware, Inc.

In addition to the organizational activities noted above, SPP continues to improve its internal processes and services. A major undertaking during the year involved the improvement of the generator interconnection study queue process by aggregating multiple similar requests into a single study. This process dovetails with the overall transmission planning process that has been a priority for this organization since its inception. In addition, SPP hosted its first Regional Planning Summit in November in an effort to share ideas and issues and bring about a plan with far-reaching benefits. Our efforts will continue into 2004 and beyond.

SPP also implemented meaningful changes to the process governing the assessment of the membership starting in October. The revised process now allocates SPP’s expenses to those members served by transmission facilities under the SPP regional tariff. An assessment rate of $0.15/MWh was established by the Board of Directors. The Board also approved a reduction in the Schedule 1 administrative fee of the SPP regional tariff to $0.15/MWh. In terms of cost per MWh, SPP continues to be the standard bearer across the country as the most cost effective organization of its kind. For 2004, an annual membership fee was also developed to ensure that all members, including those without retail load, share in the cost of providing reliability services. We believe the revised assessment process provides greater equity across the entire membership in terms of supporting SPP’s operations.

During the year, SPP said goodbye to two long-term employees: John Marschewski and Frank Royster. Both gentlemen gave generously of their time and commitment to SPP for over 20 years each, and SPP is a better organization because of their efforts. We wish them well as they enjoy more quality time with their families and friends. We also had three members withdraw: Louisville Gas & Electric Energy Marketing, Reliant Energy Services, Inc. and P&G&E National Energy Group. Finally, we are very pleased to welcome to the membership InterGen Services, Inc. an independent power producer.

The year’s efforts culminated with approval by the Board of Directors in August of a third filing with the Commission for RTO recognition and the submittal of that filing on October 15. We received conditional approval on February 18, 2004, and are moving quickly to comply with the conditions. These phenomenal results are due to the strength of relationships among our members and a common focus on maintaining a reliable, highly interconnected and interdependent bulk electric system.

Thanks to each of you for your efforts!

Al M. Strecker
Chairman of the Board
Executive Vice President, Chief Operating Officer
OGE Energy Corporation, OG&E Electric Services

Nick Brown
President, Chief Executive Officer
Southwest Power Pool, Inc.

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Order 2000 Compliance
To satisfy the requirements of Order 2000, the Strategic Plan recommended developing plans for implementing the three services required for RTOs but not yet provided by SPP: a real-time balancing market, market monitoring and market-based congestion management. This implementation is currently in progress.

The plan also stated that SPP should continue to work with neighboring entities on regional membership expansion opportunities, the development of seams agreements and/or joint markets.

Regional Transmission Service Tariff
Another area in the report focused on how SPP will refocus efforts on the evolutionary development of its current regional transmission service tariff. The Strategic Plan: Initial Report was presented to the Board of Directors. The Strategic Plan: Secondary Report was presented in June and included a recommendation that the task force become the Strategic Planning Committee (SPC). The initial report identified several key areas of focus, the secondary report expanded on and more clearly defined each area.

Active State Involvement
The plan recommended organizing individual meetings with each state regulatory body in the SPP footprint. The SPC also recommended that a Regional State Committee be supported to formalize the input of state regulatory agencies in SPP’s decision-making processes.

While organizational group meetings are open to all interested parties, this new approach will encourage even more active state participation.

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Regional Reliability Council Status
The plan reaffirmed that SPP will retain its regional reliability organization status.

Recognition as RTO
In August, the Board of Directors authorized the staff to file an application with FERC, as soon as practicable, seeking recognition for SPP as an RTO pursuant to FERC Order 2000. This filing was made in October. SPP received conditional approval from the Commission in February 2004, and is in the process of meeting those conditions.

The SPP difference, the values and principles that set SPP apart from other regional entities performing similar services:

- Relationship-based
- Member-driven
- Independence through diversity
- Reliability and economic/equity issues inseparable
- Evolution, not revolution

The Strategic Plan
- Active state involvement
- Order 2000 compliance
- Regional transmission service tariff
- Administrative processes
- Regional reliability council status

Member-Driven Organization Creates Evolutionary Strategic Plan
SPP Files for Recognition as RTO

Timeline
- March: SPP/MISO Merger Termination
- March: Strategic Planning Task Force Formed
- April: SPP Strategic Plan: Initial Report Issued
- June: SPP Strategic Plan: Secondary Report Issued
- August: Board Approved RTO Filing
- October: RTO Filing
- November: Board of Directors Selected Nick Brown as President and CEO

SPP Background
- 1941: Formed to serve defense needs
- 1968: NERC Regional Council
- 1980: Telecommunications network
- 1991: Operating Reserve Sharing
- 1994: Incorporated
- 1997: Security Coordination
- 1998: Tariff Administration
- 2001: Regional Scheduling

On March 20, 2003, SPP and Midwest Independent Transmission System Operator, Inc. mutually agreed to terminate a proposed consolidation of their organizations that originated in August 2001. The process had been long and involved, and it increasingly became apparent that the many conditions required to close the merger could not be met in the near term.

Strategic Planning Group Formed
At merger termination the chair of SPP’s Board of Directors immediately established a task force to assist the organizations in refocusing its strategy, to set a course to create and find opportunities and to create a visible and positive strategic plan. The Strategic Planning Task Force (SPTF) was formed to conduct a comprehensive review of the SPP organization and to make appropriate recommendations to the Board as to the future of SPP.

At the initial meeting of the SPTF in April, the group reviewed SPP’s history of decision-making to identify and understand the organization’s values – the principles that have driven its history. The process utilized for strategic planning focused on three basic questions: Where are we? Where do we want to go? How do we get there? The group recognized from the outset that its task was not a race to one ideal regional structure but rather to uniqueness in order to create and sustain value for SPP members.

Of particular focus, was an exhaustive analysis of SPP’s ability to comply with the requirements of the Federal Energy Regulatory Commission (FERC) Order 2000 and separately, FERC’s Notice of Proposed Rulemaking on Standard Market Design in order to be recognized as a Regional Transmission Organization (RTO).

Regional Transmission Service Tariff
Another area in the report focused on how SPP will refocus efforts on the evolutionary development of its current regional transmission service tariff. SPP organizational groups are developing a number of tariff enhancements, including, but not limited to: attachments to facilitate Independent Transmission Company (ITC) participation, administrative cost recovery schedules, formula rate proposals, participant funding mechanisms and changes to streamline generation interconnection and transmission service request queues.

Administrative Processes
To comply with Order 2000, the SPC proposed changes to the Board of Directors structure and the structure of committees reporting to and/or advising the Board of Directors. The changes provide for a complete non-stakeholder board of seven directors, which is required to meet with an elected Members Committee. The plan also suggested reviewing and modifying SPP’s administrative processes, state regulatory participation structure, cost allocation and associated documents for possible improvements and enhancements. As a result, some restructuring did occur.

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Growth while Retiring

While SPP’s staff continued to grow, two staff leaders retired in 2003. After 23 years of service to SPP, Frank Royster retired on July 1. John Marschewski retired on January 1, 2004, after committing 28 years to SPP. In 2003, SPP gained seven full-time staff for a total of 116 employees.

Longtime SPP Employee Retires in 2003: Frank Royster
Frank began his career with SPP in 1980, as a systems analyst. He was responsible for integrating the Data Acquisition System, the first pool-wide communication system.
He was also instrumental in bringing the engineering lead flow model update application in-house. Frank was involved in the development of the first phase of OASIS in 1996. From 1996 until his retirement, he served as the director of corporate services.

Marschewski Retires
On August 27, John Marschewski, announced his retirement from SPP effective January 1, 2004. The Board of Directors established a search committee to consider candidates for the position.

“John is responsible for the significant growth and success SPP has experienced,” said Al Strecker, chairman of the Board of SPP. “He has served SPP and its members very well during a time of tremendous change in our industry.”

Under Marschewski’s leadership, SPP successfully implemented regional security coordination and tariff administration. He helped to develop an administrative staff of four persons into a respected, customer-focused technical services organization of over 115 professionals.

“I make this decision with very mixed emotions,” said Marschewski. “My time at SPP has been very fulfilling and quite exciting, especially in recent years.” Marschewski’s career spanned over 35 years in the electric utility industry.

Brown Selected as President
On November 17, the Board of Directors selected Nicholas A. Brown to serve the organization as President and Chief Executive Officer.

“Nick brings a great deal of corporate knowledge and history to the position, but also the vision and skills necessary to move SPP into its next iteration as a regional transmission organization,” said Al Strecker.
Brown was selected following a recommendation by the Presidential Search Committee, which was comprised of nine members of SPP’s Board of Directors. Brown has served SPP in various positions for 18 years, most recently as senior vice president and corporate secretary.

John Marschewski Leadership Award Established
In honor of his leadership to SPP, the John Marschewski Leadership Award was established in 2003. Marschewski committed over 35 years to serving the electric power industry and through his leadership and example, created a highly effective, challenging and positive place to work. As president of SPP, Marschewski cared deeply for people and held that people are SPP’s most important asset – a value that continues to be the foundation of the organization. His leadership focus was based upon collaboration, human development and earnest concern for electric system reliability.

The John Marschewski Leadership Award will be presented annually to an employee nominated by management and selected by SPP officers, who has displayed a continuation of Marschewski’s legacy of ideals that are paramount to the success of SPP. Recipients will not only be hard working, but also maintain a positive, encouraging attitude toward customers and co-workers, and understand and portray that relationships and positive attitude are very important in achieving goals, both personal and corporate.

First Leadership Award Presented to Carlos Ordaz
On December 18, the first annual John Marschewski Leadership Award was presented to Carlos Ordaz. Ordaz started with SPP in 2000, and was promoted to engineer associate II in 2002.

“Carlos’ role within the engineering department is much more than his title. He provides a tremendous amount of leadership at SPP. He has consistently demonstrated his value to SPP and its members through his exceptional work ethic, attitude and results,” explained Bruce Raw, director, engineering.

Regional Solution for Congestion on LaCygne-Stilwell Solved with Live Upgrade

Our members are what make SPP a relationship-based, evolutionary organization. Projects such as the LaCygne-Stilwell upgrade are great examples of how members worked to solve a regional problem and helped keep the lights on in SPP.

Transmission congestion on the Kansas City Power & Light 345 kV LaCygne-Stilwell Line represented a serious bottleneck for members and customers of SPP and neighboring entities. As a result of members working together, SPP and KCP&L developed a plan to upgrade the line and its capacity from 1,251 MVA to 1,972 MVA.

“This project is an example of the kind of benefits that regional transmission organizations can bring to the general public through the regional approach to transmission planning and coordination,” said Nick Brown, SPP. “We had a regional problem that required a regional solution. The benefits of this solution transcend many state boundaries and regions.”

On February 20, 2003, SPP filed with FERC an agreement between SPP and its 11 transmission owners proposing a creative solution for the LaCygne-Stilwell capacity issue.

On August 27, 2003, SPP filed with FERC an agreement between SPP and its 11 transmission owners proposing a creative solution for the LaCygne-Stilwell capacity issue. With a target completion date of July 1, 2003, KCP&L agreed to construct the upgrade with the assistance of PAR Electric Electrical Contractors, a Quanta Services Company.

At the time of the agreement, transmission owners participating in the SPP OATT were: American Electric Power, City Utilities, Springfield, Missouri; Empire District Electric Company; Grand River Dam Authority; KCP&L; Midwest Energy, Inc.; OG&E Electric Services; Southwestern Power Administration; Southwestern Public Service Company; Westar Energy; and Western Farmers Electric Cooperative.

Advances with LaCygne-Stilwell
• Revolutionary agreement between SPP and its transmission owners to pool future revenues to pay for upgrade to achieve regional benefit
• Normally, this type of upgrade would require installation of another line taking as long as three to five years to complete
• Reconductored using new technology allowing use of existing structures and for the work to be done within the line is “hot” resulting in minimal disruption to the transmission market
• Cost approximately 70% less than traditional approach and completed in less than four months
• Capacity increased from 1,251 MVA to 1,972 MVA
• No rate impact to retail and wholesale power customers

Our members are what make SPP a relationship-based, evolutionary organization. Projects such as the LaCygne-Stilwell upgrade are great examples of how members worked to solve a regional problem and helped keep the lights on in SPP.
to cost approximately 70% less than the usual approach. Normally, the cost of a new facility of this nature would have been borne solely by KCP&L. In this instance, the SPP transmission owners recognized the regional benefit of this upgrade and agreed to pool future revenues to pay for the upgrade."

Construction of a new transmission line would have required a significant increase of funds as well as a considerable increase in time required to complete the project.

SAFETY

Important safety considerations centered on alleviating potential hazards created by induced voltages during conductor installation. The Equal Potential Stringing Method (EPSM) ensures the safety of workers, conductors and the public. The technique isolates the work area and the conductor being pulled and permits all work on the conductor to be carried out without mishap at the induced voltage. For the LaCygne-Stilwell project, the induced voltages ranged from 2,000 to 30,000 Volts, while the circulating currents did not exceed 30 Amps.

During construction, handling of the wire at night when the crews were not working was a concern. "Normally, under de-energized conditions, the wire is tied or 'caught off' to a Caterpillar front-end loader. The Quanta crews developed a proprietary dead-end structure, which safely insulates the conductor being strung and to protect the electrical crews and public," explained John E. White, director of energized services at Quanta Services, Inc.

Another issue involved the process of transferring large loads from the existing conductor to the temporary line and then from the temporary line to the new conductor. Quanta developed detailed work plans to allow sequential transfer of electrical load between the three existing phases and a temporary transfer bus.

FUNDING

A FERC order concerning Section 2.2 of the SPP Open Access Transmission Tariff (OATT) required SPP to renew several firm point-to-point transmission reservations. As a result of circuit limitations, SPP did not have sufficient available transfer capability (ATC) to renew the reservations. SPP transmission owners recognized that an upgrade to LaCygne-Stilwell line would help to solve the need for increased transmission line capacity in the region.

As a part of the agreement, SPP and KCP&L recommended an innovative solution to fund the upgrade. SPP transmission owners agreed to pool future revenues to cover the upgrade costs so that revenues generated by the additional capacity as a result of the upgrade fund the expense. Ratepayers were saved from higher rates. KCP&L was relieved of budget-busting construction costs and transmission customers have an improved, high-capacity transmission system.

At the time of the filed agreement, Richard Spring, senior vice president, transmission for KCP&L said, "This upgrade is expected to solve the problem with a proprietary 26-step process and a large mobile breaker used for high-voltage switching."

SCHEDULE AND COMPLETION

Originally targeted for completion on July 1, the upgrade was finished on June 18. The short timeline was possible using the new technologies and procedures selected for the project.

"The project ran smoothly and finished almost a month ahead of schedule, which was a major accomplishment considering the team endured hostile weather from the start in February with frozen ground, snow, mud, copious spring rains and May tornados," explained Paul S. Beaulieu, senior engineer in the transmission and substation engineering for KCP&L.

To test the connections, KCP&L used infrared and then released the line for service with an increased voltage from 1,251 MV A to 1,972 MV A. The line's ultimate conductor rating is higher; however, other components on the system limit the capacity to 1,972 MV A.

"The project was completed in approximately four months, well below the normal three to five years required for this type of upgrade," explained Spring.

"We had a regional problem that required a regional solution. The benefits of this solution transcend many state boundaries and regions."  

–Nick Brown, President and CEO, Southwest Power Pool, Inc.

Special thanks to the following contributors: KCP&L, Quanta and T&D World.
Regional Planning: Breaking New Ground

While planning is not new to SPP, the focus continues to grow. With the constant changes in the way the transmission system is used, the importance of regional planning is increasing. SPP’s proposed regional planning process is a natural extension of the collaborative, cooperative efforts to date. The SPP Regional Planning Summit started this effort to develop a regional planning process and the associated transmission expansion plan.

Throughout the year, several assessments are completed: transmission, demand and energy, and generation.

Transmission Assessment
Seasonal studies were performed on the bulk transmission system considering various current and planned operational states. These studies determine first contingency incremental transfer capability (FCITC) and give an indication of the ability to move power between various areas of the electrical network. The FCITC measure indicates incremental capability under first contingency (i.e., additional transfer above that already scheduled between systems) and is indicative of the relative strength of the transmission system. Transmission studies show marginal degradation in regional and sub-regional transfer capabilities from season to season, but these capabilities remain adequate to handle planned transactions.

Demand and Energy Assessment
Data reported by SPP members in the EIA-411 provides actual and forecasted peak demand and energy for the region. The forecast is a summation of all SPP member forecasts and represents the most probable demand and energy requirement for electricity over the next decade.

The 2003 non-coincident peak for SPP members was 40,318 MW. This was 0.6% lower than the 2002 projected forecast of 40,564 MW and 0.7% higher than the 2004 projected forecast of 40,040 MW. The 2003 actual summer peak demand was 39,120 MW, which was 3% lower than the 2003 non-coincident peak. The region’s 2003 net energy was 185.574 GW, which was 5% lower than the 2002 regional net energy of 194.876 GW and 4.8% lower than the 2004 regional net energy forecast of 194,522 GW.

Generation Assessment
According to data in the EIA-411 released on April 1, 2003, the SPP capacity margin for 2003 was projected to be 17.8%, well above the minimum criteria for individual members of 12%. With this capacity margin, the SPP system was not expected to experience a capacity shortfall during 2003 summer peak load conditions. The projected capacity margin for 2004 is 20.4%, again, well above the minimum requirement. The capacity margin does not reflect the entire amount of new capacity that is installed within the SPP footprint. Significant amounts of uncommitted merchant generation capacity exist in the region, which are not included in the EIA-411. Although, all of the uncommitted resources may not be deliverable to serve load within the SPP footprint, they could provide additional reliability margin if needed.

First Ever Regional Planning Summit

The first ever Regional Planning Summit took place on November 17, in Kansas City. The summit was designed to solicit feedback and comments from participants as SPP begins its collaborative regional transmission expansion planning process.

Over 100 participants attended the summit including state and federal regulators, consultants, developers, neighboring regional reliability councils, neighboring systems and transmission operators, independent power producers, merchants and industrial customers.

“Our goal was to trigger discussions on a regional planning effort and solicit feedback on regional transmission expansion planning,” explained Jay Caspary, manager of planning for SPP.

The proposed planning process involves a two-year cycle with an initial reliability assessment, followed up with an economic analysis of the commercial market needs within the footprint.

In August 14, 2003, at 4:13 EDT, the northeastern portion of the United States and neighboring portions of Canada experienced the largest blackout of the electrical system in the history of North America. The sequence of events leading up to the blackout involved many factors, including computer failures, human error, the laws of physics and vegetation. While the SPP footprint was not impacted by this blackout, SPP was watching the grid to ensure reliability in its region.

A joint U.S.-Canada Power System Outage Task Force was established to investigate the causes of the blackout and to determine ways to reduce the possibility of future outages.

An initial report was released on November 19. The report focused on several areas that should be considered for prevention of future blackouts, including: vegetation management, voltage support, stronger communications, notification of computer failures, conservative transmission operations, emergency conditions and enhanced operating staff.

Committed to the integrity of the transmission grid for all members, SPP reviewed and assessed the interim report along with a multitude of other information provided about the 2003 blackout. The SPP operations department continues to closely monitor the recommendations of the task force and NERC in hopes of benefiting from what is learned so as to avoid issues in the future in the SPP region.

In considering the issues raised, SPP noted the following:

> SPP has been providing reliability coordination since 1997 across a single NERC Region
> SPP systems have been in operation for several years and are mature (including OASIS, OASIS Automation, EMS, ARS, etc.)
> SPP processes and procedures have evolved over a long period of time and have proven dependable and accurate
> SPP personnel are very experienced in reliability coordination with most having over 20 years of power system experience and over five years of reliability coordination experience at SPP
> SPP relationships with its member systems are very well established; many of our personnel, particularly in operations, came from member systems and are very familiar with the individuals and the systems at our member organizations

The SPP Operating Reliability Working Group (ORWG) has formed two task forces to address some of the issues raised in the report. The Reliability Enhancements Task Force was established to review, prioritize and establish implementation timelines for a list of proposed improvements to the reliability coordination function at SPP. The Voltage and Reactive Management Task Force was formed to develop procedures and criteria to ensure sufficient voltage support for reliable operations within the SPP footprint. The ORWG task forces were created to assist SPP staff in prioritizing the actions necessary to improve SPP operations with respect to the blackout.
Tariff Administration

SPP administers an Open Access Transmission Tariff (OATT) providing regional transmission service across 11 transmission owners in all or part of seven southwestern states. Tariff related services include: calculating and posting ATC; processing requests for service; performing impact and facility studies; providing tariff billing and revenue distribution; and providing regulatory assistance.

A significant increase in transmission service sold and approved occurred in December with 58,754 GWh approved. This was largely due to the acceptance of several requests to renew or “roll-over” existing long-term transmission service. Active transmission service peaked in December at nearly 14,860 GWh.

Transmission service revenue received in 2003 totaled $206 million.

Scheduling

SPP offers regional scheduling through an electronic scheduling system referred to as RTO_SS. SPP acts as a scheduling entity for all interchange transactions using SPP regional transmission service.

The number of active schedules in the SPP region peaked in January at nearly 12,300 schedules with SPP acting as a scheduling entity on approximately 10,800 of those.

State Estimator Provides Overview of Transmission Grid

Scheduling

Keeping the Lights On

Reliability and Economic/Equity Issues Inseparable

In 1968, SPP took on the responsibility of serving as a regional reliability council under the National (now North American) Electric Reliability Council (NERC). NERC was formed in response to the massive 1965 northeast blackout to develop planning and operating standards to mitigate risk of a repeat event.

SPP members have long maintained that electric reliability issues should not and cannot be separated from economic/equity issues and this is why SPP took on reliability coordination, tariff administration and scheduling responsibilities and is pursuing facilitation of wholesale markets.

Reliability Coordination

As a NERC-recognized reliability coordinator, SPP maintains reliability of the electric transmission system of its members and has the authority to direct actions required to maintain adequate regional generation capacity, adequate system voltage levels and transmission system loading within specified limits. SPP also coordinates planned transmission and generation outages with its members and neighbors.

The primary method utilized by SPP to relieve excessive loading on transmission facilities is NERC’s Transmission Loading Relief (TLR) procedure. This procedure calls for reduction of energy schedules impacting an identified over-loaded facility or facilities. SPP experienced increased TLR activity in 2003. For the year, SPP had 225 events representing approximately 229,300 MWh of energy flows, 23 of which involved curtailment of firm transmission service.

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The number of active schedules in the SPP region peaked in January at nearly 12,300 schedules with SPP acting as a scheduling entity on approximately 10,800 of those.

Reliability Coordination

As a NERC-recognized reliability coordinator, SPP maintains reliability of the electric transmission system of its members and has the authority to direct actions required to maintain adequate regional generation capacity, adequate system voltage levels and transmission system loading within specified limits. SPP also coordinates planned transmission and generation outages with its members and neighbors.

The primary method utilized by SPP to relieve excessive loading on transmission facilities is NERC’s Transmission Loading Relief (TLR) procedure. This procedure calls for reduction of energy schedules impacting an identified over-loaded facility or facilities. SPP experienced increased TLR activity in 2003. For the year, SPP had 225 events representing approximately 229,300 MWh of energy flows, 23 of which involved curtailment of firm transmission service.

The dynamic system uses calculations based on current line flows and generation. The state estimator program models 9,900 substations including 36,000 nodes. It receives data from over 30,000 telemetry points (a number which continues to grow). All the data is processed, analyzed, corrected and used to estimate the state of the transmission system on a minute-to-minute basis.

As a result, the state estimator is the primary tool used to monitor the flow of electricity over transmission lines throughout the SPP footprint and neighboring areas. The system is also used as the initial input for available transfer capability (ATC) calculations to evaluate reservations.

“The state estimator is essential in order for us to manage the transmission system and maintain a high level of reliability,” said Lanny Nickell, director of operations for SPP.

On a daily basis, the state estimator results are used to consider potential events that could impact reliability. The “what if” analysis looks at what would occur on the transmission system if various events occurred. If the analysis shows that an event could cause a problem, SPP curtails schedules to reduce the flow of electricity on a particular transmission line.

The state estimator helps to ensure enhanced reliability and ultimately helps SPP achieve the goal of keeping the lights on. As the transmission system is utilized in a number of new and varied ways, the use of this technology provides our operators and members detailed and frequently updated information to better maintain reliability.
Phase One of Blue Canyon Wind Farm
Constructed and Operational in 2003

First Wind Farm to Pass Through SPP Tariff Interconnection Process

Rising high above limestone, 45 wind turbines turn gracefully against the southwest Oklahoma sky. It is technology at its latest capturing a natural resource to be used for energy by SPP member Western Farmers Electric Cooperative (WFEC), the power supplier for 19 of Oklahoma's rural electric cooperatives.

It is also the first wind farm in Oklahoma. Blue Canyon Windpower LLC is co-owned by Zilkha Renewable Energy of Houston, Texas and Kirmart Corporation of Wichita Falls, Texas. Blue Canyon Wind Farm is located within the service territories of two of WFEC’s member cooperatives and is interconnected to the WFEC transmission system.

“WFEC saw a need to use a native, natural, abundant and renewable Oklahoma resource. It was our commitment to community and rural economic development that led us to search out and develop this new energy source,” stated Gary Roulet, WFEC chief executive officer.

Southwestern Oklahoma has long been known for its vigorous wind resource. Located approximately 15 miles northwest of Lawton, Blue Canyon Wind Farm is positioned on a geological feature known as the Slick Hills. The east-west orientation of the Slick Hills places them directly perpendicular to the prevailing wind direction.

INTERCONNECTING THE GRID
Blue Canyon Wind Farm is the first wind farm to pass completely through SPP’s Open Access Transmission Tariff (OATT) generation interconnection process. When new developments are considered, members and customers of SPP start the process by requesting to be added to the SPP generation interconnection study queue. SPP uses generation interconnection study procedures as approved by the Federal Energy Regulatory Commission (FERC). The procedures allow for multiple studies and analysis to determine if the project is a feasible and reliable addition to the transmission system.

As a project progresses, three types of studies are completed: feasibility, system impact and facility. A feasibility study analyzes effects on the transmission system. A system impact study analyzes transient stability effects on the transmission system and all generators due to specific events or outages. A facility study provides the interconnection customer with detailed cost and construction time estimates and any required system upgrades.

The SPP tariff study engineers manage the entire interconnection process from the initial request through signing of the interconnection agreement. The interconnection agreement used by SPP is based on a FERC approved pro forma agreement. The agreement specifies cost responsibilities, reliability criteria and other operating guidelines for the generation development. SPP tariff study engineers, regulatory affairs and legal staff work with the member company to determine specific interconnection agreement details.

The Blue Canyon Wind Farm project entered the SPP study queue in 2001. In August 2002, the impact study was finalized. The facilities study was completed in March 2003, and the interconnection agreement was executed in May.

PURCHASE AGREEMENT
In January 2003, WFEC announced that they signed a 20-year Purchase Power Agreement (PPA) with Blue Canyon Windpower LLC.

When announced, the agreement was the first and the largest wind farm power purchase in Oklahoma. “Renewable power is good for the environment and will help provide price stability to our member-consumers in times of turbulent fuel prices,” explained Roulet.

PHASE ONE CONSTRUCTION
The construction of the wind farm was designed in stages, with initial construction starting in late May. Phase one was made up of 45 NEG Micon 1.65 MW turbines to create 74.25 MW, enough to power approximately 22,300 residential houses.

At the same time, WFEC was constructing the high voltage transmission line from its Washita Switch Station, west of Anadarko, to the wind farm. The line was completed in October and consists of 24-miles of 138 kV transmission line.

By September, large wind turbines were starting to tower more than 300 feet in the air. Testing started in November, and commercial operations of phase one began on December 23.

“Wind, as a power generation method, has come a long way in the past few years making it a more feasible option. We feel that we are taking a monumental step for the state through the purchase of all of the energy produced from this wind farm,” Roulet stated.

NEXT PHASE
Construction and development of the first phase helped identify several issues that will fine-tune future building processes in a location that is characterized by limestone hills and scrubby flora. Built for phase one, the transmission line will be utilized for each stage, and real wind electricity production data will be used to further refine wind energy estimates.

Zilkha’s plans at Blue Canyon call for expanding the project to an eventual $300 million investment, and WFEC’s commitment for an additional seven turbines means more investment in Oklahoma and more clean low-cost energy for its members,” said Michael Zilkha, owner of Zilkha Renewable Energy.

To be located just north of the wind farm, the operations and maintenance building which is expected to be finished in the spring of 2004, will house a high-tech Supervisory Control and Data Acquisition (SCADA) system to monitor the wind turbines around the clock. Once all phases of construction are completed, as much as 300 MW will be produced with as many as 150 turbines.

Special thanks to the following contributors: WFEC and Zilkha.
## Balance Sheet
### December 31, 2003 and 2002

### Assets

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash</td>
<td>$15,111,085</td>
<td>$7,266,977</td>
</tr>
<tr>
<td>equivalents</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade</td>
<td>$105,332</td>
<td>$1,787,733</td>
</tr>
<tr>
<td>Tariff</td>
<td>$21,097,147</td>
<td>$16,373,179</td>
</tr>
<tr>
<td>Total accounts</td>
<td>$21,202,479</td>
<td>$18,160,912</td>
</tr>
<tr>
<td>receivable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>$92,062</td>
<td>$251,649</td>
</tr>
<tr>
<td>Total current</td>
<td>$36,405,626</td>
<td>$25,679,538</td>
</tr>
<tr>
<td>assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>**Property and</td>
<td>$19,840,956</td>
<td>$23,289,498</td>
</tr>
<tr>
<td><strong>Equipment, Net</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Other, Net</strong></td>
<td>$303,924</td>
<td>$322,128</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$56,550,506</td>
<td>$49,291,164</td>
</tr>
</tbody>
</table>

### Liabilities and Members’ Equity

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Liabilities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>$368,069</td>
<td>$615,294</td>
</tr>
<tr>
<td>Trade</td>
<td>$17,333,067</td>
<td>$15,211,422</td>
</tr>
<tr>
<td>Tariff</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total accounts</td>
<td>$17,701,136</td>
<td>$15,826,716</td>
</tr>
<tr>
<td>payable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer deposits</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$11,319,713</td>
<td>$4,939,297</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>$1,123,722</td>
<td>$1,429,421</td>
</tr>
<tr>
<td>Long-term debt</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- current portion</td>
<td>$5,000,000</td>
<td>$2,000,000</td>
</tr>
<tr>
<td>Total current</td>
<td>$35,144,573</td>
<td>$24,195,434</td>
</tr>
<tr>
<td>liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term Debt</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$20,000,000</td>
<td>$24,195,434</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>$55,144,571</td>
<td>$49,291,164</td>
</tr>
<tr>
<td>Commitments and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contingencies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Members’ Equity</td>
<td>$1,405,935</td>
<td>$95,730</td>
</tr>
<tr>
<td>Total</td>
<td>$56,550,506</td>
<td>$49,291,164</td>
</tr>
</tbody>
</table>

See notes to financial statements.

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**INDEPENDENT AUDITORS’ REPORT**

Board of Directors and Members
Southwest Power Pool, Inc.
Little Rock, Arkansas

We have audited the accompanying balance sheets of Southwest Power Pool, Inc. (the “Company”) as of December 31, 2003 and 2002, and the related statements of income and members’ equity and of cash flows for the years then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

May 11, 2004
### Operating Activities:

<table>
<thead>
<tr>
<th>Description</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income (loss)</td>
<td>1,310,205</td>
<td>(4,203,300)</td>
</tr>
<tr>
<td>Adjustments to reconcile net income (loss) to</td>
<td></td>
<td></td>
</tr>
<tr>
<td>cash provided by (used in) operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>4,406,970</td>
<td>4,376,684</td>
</tr>
<tr>
<td>Gain on disposal of property and equipment</td>
<td>(2,825)</td>
<td>(21,833)</td>
</tr>
<tr>
<td>Changes in assets and liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>(3,041,567)</td>
<td>(9,726,629)</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>137,404</td>
<td>(211,458)</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>1,874,420</td>
<td>8,646,611</td>
</tr>
<tr>
<td>Customer deposits</td>
<td>6,380,416</td>
<td>(1,603,260)</td>
</tr>
<tr>
<td>Accrued liabilities</td>
<td>(305,699)</td>
<td>229,164</td>
</tr>
<tr>
<td>Net cash provided by (used in) operating activities</td>
<td>10,759,324</td>
<td>(2,514,021)</td>
</tr>
</tbody>
</table>

### Investing Activities:

<table>
<thead>
<tr>
<th>Description</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase of property and equipment</td>
<td>(922,239)</td>
<td>(1,414,279)</td>
</tr>
<tr>
<td>Proceeds on disposal of property and equipment</td>
<td>7,023</td>
<td>23,000</td>
</tr>
<tr>
<td>Net cash used by investing activities</td>
<td>(915,216)</td>
<td>(1,391,279)</td>
</tr>
</tbody>
</table>

### Financing Activities:

<table>
<thead>
<tr>
<th>Description</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions from members</td>
<td>3,846</td>
<td></td>
</tr>
<tr>
<td>Proceeds from long-term debt</td>
<td>2,000,000</td>
<td></td>
</tr>
<tr>
<td>Repayments of long-term debt</td>
<td>(2,000,000)</td>
<td></td>
</tr>
<tr>
<td>Net cash (used in) provided by financing activities</td>
<td>(2,000,000)</td>
<td>2,003,846</td>
</tr>
</tbody>
</table>

### Net Increase (Decrease) in Cash and Cash Equivalents

<table>
<thead>
<tr>
<th>Description</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net increase (decrease) in cash and cash</td>
<td>7,844,108</td>
<td>(1,001,454)</td>
</tr>
</tbody>
</table>

### Cash and Cash Equivalents:

<table>
<thead>
<tr>
<th>Description</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning of year</td>
<td>7,266,977</td>
<td>9,168,431</td>
</tr>
<tr>
<td>End of year</td>
<td>15,311,085</td>
<td>7,266,977</td>
</tr>
</tbody>
</table>

### Supplemental Disclosure of Cash Flow Information

<table>
<thead>
<tr>
<th>Description</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash paid during the year for interest</td>
<td>1,837,144</td>
<td>1,775,873</td>
</tr>
</tbody>
</table>

See notes to financial statements.
1. Organization and Significant Accounting Policies

Net Operating Areas - Southwest Power Pool (the “Company”) is a not-for-profit entity headquartered in Little Rock, Arkansas. The Company is organized for the purpose of operating a regional transmission organization that provides wholesale electricity transmission service to its membership. The Company’s activities are located in 12 states and the District of Columbia.

Net Operating Areas - The Company is classified as a Section 501(c)(8) business league and is exempt from federal and state income taxes under section 501(c)(8) of the Internal Revenue Code.

Property and Equipment - Property and equipment are stated at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. The estimated useful lives of property and equipment are as follows:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Useful Life (Years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>40</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>10</td>
</tr>
<tr>
<td>Trucks and similar equipment</td>
<td>8</td>
</tr>
<tr>
<td>Office equipment</td>
<td>7</td>
</tr>
</tbody>
</table>

Amortization is provided for software costs. The Company capitalized software costs of approximately $2,195,168 in 2002 and $2,195,168 in 2001. Capitalized software costs of $8,500,000 were expensed in connection with the line of credit agreement in 2002. Capitalized software costs of $3,820,000 were expensed in connection with the restructuring of the asset in 2001.

Software - The Company capitalized $28,827,000 of internal-use software development costs in 2003, $20,630,000 in 2002, and $17,000,000 in 2001. These costs are included in property and equipment. Depreciation was approximately $4,367,000 and $4,336,000, respectively, in 2003 and 2002.

Depreciation - Depreciation is provided on the straight-line method over the estimated useful lives of the assets. The estimated useful lives of property and equipment are as follows:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Useful Life (Years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>40</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>10</td>
</tr>
<tr>
<td>Trucks and similar equipment</td>
<td>8</td>
</tr>
<tr>
<td>Office equipment</td>
<td>7</td>
</tr>
</tbody>
</table>

Accounting for the Impairment or Disposal of Long-Lived Assets - The Company applies Statement of Financial Accounting Standards No. 121, “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of” (SFAS No. 121), to evaluate its property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset is in excess of net cash flows expected to be generated by the asset. If such assets are considered impaired, the impairment is recognized in the financial statements by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of at less than the carrying amount are written down to fair value.

Customer Deposits - Customer deposits are received in advance deposits with the Company prior to the performance of transmission service. These amounts are typically held for purposes of billing the customer and applied to the customer’s final invoice.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Investment in Joint Ventures - The Company is a member of Southwest Power Pool and has a 21.5% ownership interest in the pool. The Company’s investments in Southwest Power Pool and its affiliates are accounted for using the equity method of accounting.

2. Accounting for Long-Term Debt

Long-Term Debt - The Company has long-term debt outstanding as of December 31, 2003, representing $15,000,000 of 7.5% notes due March 15, 2004. These notes were issued in partnership with the Wisconsin Public Service Corporation and are secured by a first lien mortgage on the parent company’s property. The debt is used to construct market settlement software and is unsecured.

3. Income Taxes

Income Taxes - The Company is subject to federal, state, and local income taxes in various jurisdictions. The Company files consolidated income tax returns that include the Company and all of its wholly-owned subsidiaries.

4. Commitments and Contingencies

Commitments and Contingencies - The Company has entered into agreements for the development of software to be used for emergency weather market under FERC Order No. 2000 (the “Order”). The software system is composed of three major components: the market settlement software, the market participant software, and the software support system. Costs capitalized in association with the software in development are fully recoverable over the anticipated life of the asset.

5. Related Party Transactions

Related Party Transactions - General solicitation of the Company is operated or sponsored by the Board of Directors of the Company. The Company has a 21.5% ownership interest in the pool. The Company’s investments in Southwest Power Pool and its affiliates are accounted for using the equity method of accounting.

6. Employee Benefits Plans

Employee Retirement Plan - The Company sponsors a noncontributory defined benefit pension plan (the “Plan”) covering substantially all employees. Benefits are based on final average monthly earnings and benefit is subject to retirement date. For assets and benefits of the Company’s retirement plans are accounted for as of December 31, 2003.
The Company has put in place a well-established framework that incorporates comprehensive risk management policies and practices to manage the risks of commodity price volatility, thermal constraints, market power, and credit risk. The goal of this framework is to manage risk within a prudent range. The Company operates under the following risk management policies:

- **Open Access Transmission Operations:**
  - Implement its independent Board and modify its governance structure;
  - Expand the coverage of SPP's tariff to include services provided under previously grandfathered transmission service agreements;
  - Obtain a clear and sufficient authority to exercise day-to-day operational control over appropriate transmission facilities;
  - Have an independent market monitor in place;
  - Obtain clear and precise authority to independently and solely determine over appropriate transmission facilities;

- **Financial Notes (Continued):**
  
  **Plan Assets:** The Company’s pension plan asset allocation as of December 31, 2003 and 2002, as follows:

<table>
<thead>
<tr>
<th>Plan Asset Allocation</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mid Cap Equity Funds</td>
<td>-4.00</td>
<td>-2.00</td>
</tr>
<tr>
<td>Large Cap Growth Equity Funds</td>
<td>-27.6</td>
<td>-25.4</td>
</tr>
<tr>
<td>U.S. Government Bond Funds</td>
<td>-1.7</td>
<td>-2.7</td>
</tr>
<tr>
<td>Large Cap Index Equity Funds</td>
<td>-6.3</td>
<td>-5.0</td>
</tr>
<tr>
<td>High Grade Corporate Bond Funds</td>
<td>-16.6</td>
<td>-15.7</td>
</tr>
<tr>
<td>Large Cap Equity Income Funds</td>
<td>-27.6</td>
<td>-25.4</td>
</tr>
<tr>
<td>International Equity Funds</td>
<td>-5.0</td>
<td>-3.7</td>
</tr>
<tr>
<td>Mid Cap Growth Equity Funds</td>
<td>-7.2</td>
<td>-7.6</td>
</tr>
<tr>
<td>Commodity stack</td>
<td>-20.5</td>
<td>-20.3</td>
</tr>
<tr>
<td>Total</td>
<td>$7,042,542</td>
<td>$7,042,542</td>
</tr>
</tbody>
</table>

The Company’s investment strategy for the postretirement health benefits plan is based on an expectation that equity securities will support their employer securities over the long term, thus the target allocation of 30%/50% between equity and debt securities. The current composition of 51%/49% between equity and debt securities reflects changes in market value. The strategy utilizes an actively managed mutual fund investment and a core commodity stock index across the spectrum of investment subcategories.

The Company’s policy is to contribute to the defined benefit pension plans an amount equal to 100% of the accrued benefit cost. The annual contribution is determined by actuarial calculations at the end of each plan year using assumptions for discount rates and expected rates of return.

The Company’s postretirement health care plan as of December 31, 2003 and 2002, was as follows:

<table>
<thead>
<tr>
<th>Postretirement Health Care Plan Benefit Costs</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defined benefit plan cost</td>
<td>$7,042,542</td>
<td>$7,042,542</td>
</tr>
<tr>
<td>Defined contribution plan cost</td>
<td>$4,100</td>
<td>$3,280</td>
</tr>
<tr>
<td>Total</td>
<td>$7,046,642</td>
<td>$7,045,822</td>
</tr>
</tbody>
</table>

The health care cost trend rate used in the calculation of expected benefits was 5.0% in 2003 and is assumed to decline by one percentage point each year to a minimum of 3.0%.

The Company’s expected return on plan assets is determined by actuarial assumptions, which are reviewed at least annually and revised when appropriate. The expected long-term rate of return on plan assets is 7.5% for 2003, which is the same as the assumed rate of return for plan assets.

The Company’s postretirement health benefit plans as of December 31, 2003 and 2002, as follows:

<table>
<thead>
<tr>
<th>Postretirement Benefit Plan Asset Allocation</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money Market Funds</td>
<td>15.4%</td>
<td>14.0%</td>
</tr>
<tr>
<td>High Grade Corporate Bond Funds</td>
<td>37.7</td>
<td>25.4</td>
</tr>
<tr>
<td>Large Cap Equity Income Funds</td>
<td>15.7</td>
<td>6.0</td>
</tr>
<tr>
<td>Large Cap Indexed Equity Funds</td>
<td>6.3</td>
<td>27.6</td>
</tr>
<tr>
<td>International Equity Funds</td>
<td>5.5</td>
<td>8.7</td>
</tr>
<tr>
<td>Mid Cap Growth Equity Funds</td>
<td>7.2</td>
<td>-</td>
</tr>
<tr>
<td>Commodity stack</td>
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</tr>
<tr>
<td>Total</td>
<td>$61,556</td>
<td>$51,156</td>
</tr>
</tbody>
</table>

The health care cost trend rate used in the calculation of expected benefits was 5.0% in 2003 and is assumed to decline by one percentage point each year to a minimum of 3.0%.

The Company expects to contribute to its postretirement health benefits plan an amount equal to 100% of the accrued benefit cost. The annual contribution is determined by actuarial calculations at the end of each plan year using assumptions for discount rates and expected rates of return.

7. Open Access Transmission Operations

The Company provides “one-stop-shopping” for short- and long-term firm and new firm point-to-point transmission services and network integration transmission service across 13 providers in eight northeast states. The Company keeps a portion of the amount recovered from the customer as a fee for facilitating the transmission process. The price is recorded as a tariff from the Company’s statement of income for the years ended December 31, 2003 and 2002, the Company generated gross fees of $280,874,467 and $276,394,711, respectively, from customers of the open access transmission operations, and incurred gross expenses of $56,290,500 and $56,180,408, respectively, to the transmission providers for use of their lines. As of December 31, 2003 and 2002, the Company had recorded in the balance sheet receivables from transmission customers of $31,967,169 and $35,170,179, respectively. The Company had paid to transmission providers of $17,310,024 and $17,311,422, respectively, as of December 31, 2003 and 2002.

8. Subsequent Events

During February 2004, the Company was granted conditional FTR status by FERC, with full approval upon completion of specific FERC requirements. The Board approved the action plan to achieve full FTR status, which will allow the Company to service new customers and adjust the market software previously developed in the February 2004 order granting the Company conditional FTR status. FERC directed the Company to comply with the following provisions to better conform to the Order:

- Implement its independent Board and modify its governance structure;
- Expand the coverage of SPP’s tariff to include services provided under previously grandfathered transmission service agreements;
- Obtain a clear and sufficient authority to exercise day-to-day operational control over appropriate transmission facilities;
- Have an independent market monitor in place;
- Obtain clear and precise authority to independently and solely determine over appropriate transmission facilities;
- Have a clause in agreement with the Midwest Independent Transmission System Operator Inc. (“MISO”) on file.

On March 15, 2004, the Company repaid $15,000,000 in principal on its senior notes outstanding.

On May 11, 2004, the Company issued an offering memorandum for $25,000,000 of Senior Unsecured Notes with a final maturity of seven years and an average life of five years. The proceeds will be used to fund additional contributions. The changes in the accumulated benefit obligation and funded status of the plan as of December 31, 2003 and 2002, were as follows (in thousands):

<table>
<thead>
<tr>
<th>Plan Asset Allocation</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from operations</td>
<td>$1,441,858</td>
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</tr>
<tr>
<td>Interest cost</td>
<td>134,510</td>
<td>134,510</td>
</tr>
<tr>
<td>Actuarial (gains)/losses</td>
<td>121,137</td>
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</tr>
<tr>
<td>Total benefits</td>
<td>$1,487,215</td>
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The following weighted-average assumptions were used to determine the Company’s benefit obligations under the pension plan and net pension costs for the years ended December 31:

<table>
<thead>
<tr>
<th>Pension Plan Weighted-Average Assumptions</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discounted rate</td>
<td>7.00%</td>
<td>7.00%</td>
</tr>
<tr>
<td>Expected rate of return</td>
<td>7.00</td>
<td>7.00</td>
</tr>
<tr>
<td>Rates of compensation increase</td>
<td>4.00</td>
<td>4.00</td>
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</table>
| The Company’s expected future benefit payments under the pension plan as follows:

- **Plan Assets:** The Company’s pension plan asset allocation as of December 31, 2003 and 2002, as follows:

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- **Plan Assets:** The Company’s pension plan asset allocation as of December 31, 2003 and 2002, was as follows:

<table>
<thead>
<tr>
<th>Postretirement Benefit Plan Asset Allocation</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money Market Funds</td>
<td>15.4%</td>
<td>14.0%</td>
</tr>
<tr>
<td>High Grade Corporate Bond Funds</td>
<td>37.7</td>
<td>25.4</td>
</tr>
<tr>
<td>Large Cap Equity Income Funds</td>
<td>15.7</td>
<td>6.0</td>
</tr>
<tr>
<td>Large Cap Indexed Equity Funds</td>
<td>6.3</td>
<td>27.6</td>
</tr>
<tr>
<td>International Equity Funds</td>
<td>5.5</td>
<td>8.7</td>
</tr>
<tr>
<td>Mid Cap Growth Equity Funds</td>
<td>7.2</td>
<td>-</td>
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The Company’s expected return on plan assets is determined by actuarial assumptions, which are reviewed at least annually and revised when appropriate. The expected long-term rate of return on plan assets is 7.5% for 2003, which is the same as the assumed rate of return for plan assets.

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Member-Driven Organization

SPP’s organizational structure of broad-based committees, working groups and ad-hoc task forces is the true source of SPP’s service product. Over two hundred persons are involved in SPP efforts that are driven by these groups. SPP’s tradition is that the rosters of these groups match the diversity of its membership, requiring representatives from across the footprint and recognizing the uniqueness of members with respect to several aspects including type and size. It is this principle that keeps SPP’s staff size the smallest in the industry and coined the often-used phrase “working together to keep the lights on, today and in the future.”
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*Chairman of the Board*  
Executive Vice President, Chief Operating Officer  
OGE Energy Corporation, OG&E Electric Services

**Gene Argo**
*President and General Manager*  
Midwest Energy, Inc.

**Phyllis E. Bernard**
+Professor of Law*  
Oklahoma City University

**Nick Brown**
#President and Chief Executive Officer*  
Southwest Power Pool, Inc.

**David Christiano**
Manager – System Planning*  
City Utilities (Springfield, MO)

**Harry Dawson**
General Manager*  
Oklahoma Municipal Power Authority

**Michael A. Deihl**
Administrator*  
Southwestern Power Administration

**Richard A. Dixon**
Senior Vice President Operations Strategy*  
Westar Energy, Inc.

**Jim Eckelberger**
Consultant*  

**Michael Gildea**
Resigned in 2003*  
Manager of Regulatory Policy*  
Duke Energy North American L.L.C.

**Trudy Harper**
Vice President and General Manager*  
Tenaska Power Services Company

**Doug Henry**
Vice President – Power Delivery*  
Westar Energy

**Quentin Jackson**
President and Chief Executive Officer*  
Nuclear Electric Insurance Ltd.

**John Marschewski**
Retired in 2003*  
President*  
Southwest Power Pool, Inc.

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Effective in October 2003*  
President*  
Verizon Delaware, Inc.

**Tom J. McDaniel**
Resigned in 2003*  
President*  
Oklahoma City University

**Stephan Parr**
Effective in January 2004*  
Executive Vice President and Chief Executive Officer*  
Kansas Electric Power Cooperative

**Mike Palmer**
Effective in January 2004*  
Vice President of Commercial Operations*  
Empire District Electric Company

**Gary Roulet**
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Unitil Corporation

**Robert G. Schoenberger**
*Chairman, President & CEO*  
Unitil Corporation

**Harry I. Skilton**
Consultant

**James R. Stanton**
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Calpine Energy Service, L.P.

**Richard Spring**
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Kansas City Power & Light Company

**Larry M. Sur**
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Chief Executive Officer*  
Co-Founder, Logistics, Inc.

**Richard Verret**
Effective in January 2004*  
Senior Vice President, Transmission*  
American Electric Power

**Gary Voigt**
Effective in January 2004*  
Chief Executive Officer*  
Arkansas Electric Cooperative Corporation

**Walt Yeager**
Managing Director, Market Development*  
Cinergy Services, Inc.