

**Southwest Power Pool
BOARD OF DIRECTORS MEETING
Embassy Suites Outdoor World – D/FW Airport
July 20, 2000**

- Summary of Action Items -

1. Approved minutes of the May 11, 2000 meeting as distributed.
2. Approved a memorandum of understanding containing terms and conditions for the development of a contractual attachment to SPP's membership agreement for an independent transmission company (Transco) including Entergy to operate within the structure and under the oversight of the SPP RTO.
3. Endorsed a report of the RTO Working Group as indication the organizational documents, to be modified pursuant to RTOWG recommendations, meet with the Board's satisfaction for a second SPP filing seeking FERC recognition as an RTO.

MINUTES NO. 71

**Southwest Power Pool
BOARD OF DIRECTORS MEETING
Embassy Suites Outdoor World – D/FW Airport
July 20, 2000**

Agenda Item 1 - Administrative Items

SPP Chair Mr. Gary Voigt called the meeting to order at 8:01 a.m., thanked everyone present for attending, called for a round of introductions and referred to the agenda containing important issues for Board consideration (Agenda – Attachment 1). The following Board members were in attendance or represented by proxy:

Ms. Kim Casey, Dynegy Marketing & Trade;
Mr. David Christiano, City Utilities of Springfield, MO;
Mr. Jimmy Crosslin, Oklahoma Corporation Commission;
Mr. Harry Dawson, OK Municipal Power Authority;
Mr. Michael Deihl, Southwestern Power Administration;
Mr. Bill Dowling, proxy for Mr. Gene Argo, Midwest Energy, Inc.;
Mr. Jim Eckelberger;
Mr. Tom Grennan, Western Resources;
Ms. Trudy Harper, Tenaska Power Services Company & proxy for Ms. Lydia Vollmer, PECO Power Team;
Mr. Quentin Jackson;
Mr. Mikel Kline, proxy for Mr. Stephen Parr, KS Electric Power Cooperative;
Mr. Tom McDaniel;
Mr. Myron McKinney, Empire District Electric Company;
Mr. John Oxendine;
Mr. J. M. Shafer, Western Farmers Electric Cooperative;
Mr. Harry Skilton
Mr. Al Strecker, OG+E;
Mr. Larry Sur (by telephone);
Mr. Richard Verret, American Electric Power;
Mr. Gary Voigt, Chair, Arkansas Electric Cooperative Corp.; and
Mr. John Marschewski, Southwest Power Pool, Inc.

There were 62 persons in attendance representing 19 members, 8 guests and 1 regulatory agency (Attendance List – Attachment 2). The Secretary received three proxy statements (Proxies – Attachment 3).

Mr. Voigt referred to draft minutes of the May 11, 2000 meeting and asked for necessary corrections or a motion for approval. Mr. Deihl motioned that the minutes be approved as distributed. Mr. McDaniel seconded this motion, which passed unopposed.

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Agenda Item 2 – Secretary’s Report

Interim Action

Mr. Brown stated that on Friday, June 23, an email vote was sought by Staff seeking Board of Directors approval of a Regional Tariff Working Group recommendation for a filing with the FERC seeking to add Southwestern Public Service as a zone under SPP’s regional tariff. Messrs. Voigt and Marschewski moved and seconded respectively for approval. Mr. Brown reported the Board of Directors approved this recommendation unanimously with 17 of 21 directors voting by noon, Tuesday, June 27. Mr. Brown noted the filing was made late afternoon on June 27 and is pending FERC action, and that SPP began administering service over SPS’s facilities on June 29.

Follow-up Items from May 11, 2000 Meeting

Mr. Brown stated that at the May 11, 2000 meeting of the Board of Directors, he presented a Staff recommendation concerning SPP assuming the member debt of funds not presently supported by tariff administrative fee income. In so doing, tariff customers would bear 80 percent of the carrying charges and members would bear 20 percent. Mr. Brown noted that several directors questioned why this issue was not noted in the audit and asked for an auditor’s opinion of SPP assuming this debt prior to action. Mr. Brown stated that Staff is continuing to evaluate options for future Board consideration but have received the following initial response from the auditor.

1. Why was the member debt not footnoted in the 1999 SPP Audit?
Answer: We are aware of the manner in which SPP views the tariff shortfall and how SPP is keeping track of the funds owed to its members. However, we did not comment on this because the shortfall is not a true liability, that is, any shortfall repayment or recognition of the debt is not addressed in a SPP document thereby verifying the debt and recognizing the repayment procedure. If there is such a document, then SPP should provide it.
2. What is Deloitte and Touche opinion of SPP assuming the debt and showing it as a liability?
Answer: We offer opinions on the application of accounting principals as they relate a proposed transaction that has accounting implications and how these transactions would be accounted for. We do not offer opinions on whether a future transaction is a sound business decision.

Messrs. Skilton and Oxendine expressed opinions that these responses were unsatisfactory. Mr. Marschewski stated that he would follow-up on the issue with the auditors.

Filling Board Vacancies

Mr. Brown stated that SPP had received resignation letters from directors Bob Zemanek of Central and South West Corp. and Steve Moore Oklahoma of Gas & Electric Co. Mr. Brown reported that per SPP Bylaws Section 4.5, if a vacancy occurs, the Board of

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Directors is to elect interim directors representing the same Membership category to serve until a replacement director is elected at the next Meeting of Members to fill the vacancy for the unexpired term. SPP Chair and Vice Chair, Messrs. Voigt and Grennan respectively, recommend and nominate Mr. Richard Verret of American Electric Power and Mr. Al Strecker of Oklahoma Gas & Electric Co. to fill the respective vacancies. Mr. Dawson motioned and Mr. McDaniel seconded that the Board elect the proposed nominees. This motion passed unopposed.

Agenda Item 3 – RTO Working Group Report

Mr. Voigt asked RTO Working Group Co-Chair Mr. Mel Perkins to update the Board of Directors on the activities of his group. Mr. Perkins referred to the July 12, 2000 draft report (RTOWG July 12, 2000 Draft Report – Attachment 4) and gave a detailed verbal report on each of the main issues identified in the report. Mr. Perkins noted that work has continued since distribution of this report to the Board and he noted a consensus had been reached on the issues of governance, section 203 filings, public and regulatory education, and scope and configuration. Mr. Perkins noted additional work is needed in the areas of market settlement, tariff, seams, and congestion management.

Mr. Perkins noted that the RTOWG approved recommendations from its Partnership Sub-Team the prior day and he presented these recommendations for Board of Directors consideration. Specifically, these recommendations are:

- 1.) The Partnership Sub-Team proposes no modifications to SPP documents and that FERC accepted independent transmission companies be accommodated through individually proposed and approved attachments to SPP's membership agreement specifying any special provisions. Any such attachments would also require FERC acceptance.
- 2.) The Partnership Sub-Team further proposes the RTOWG recommend the above terms and conditions for approval of the Board of Directors that would allow a Transco including Entergy to operate within the structure, and under the oversight, of an SPP RTO, and that a contractual attachment to SPP's membership agreement be developed for execution of officers of SPP and Transco participants.

Mr. Verret motioned and Mr. Christiano seconded that the Board of Directors approve the RTOWG recommendation. Significant discussion ensued on issues including, but not limited to: appearance of conceding two tariffs and two congestion management schemes, lack of details, specific language in some of the terms, and whether the Board would approve the resulting contract language. Mr. McKinney moved to modify the main motion by adding the phrase "subject to ratification by the SPP Board of Directors" at the very end

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of the recommendations. Mr. Dawson seconded this amending motion which, following discussion, was approved without opposition with 15 votes cast. The question was then called on the main motion, which was approved with 14 votes in favor and 3 votes in opposition. Mr. Dawson then suggested several modifications (indicated below) to specific terms of the proposal for inclusion of a transco, including Entergy, within the SPP RTO and moved the modified terms be approved by the Board of Directors as a memorandum of understanding for the development of contractual attachment to SPP's membership agreement for subsequent Board of Directors ratification. Mr. Christiano seconded this motion which, after discussion, passed with 20 votes in favor and 1 vote in opposition. The approved terms are shown here:

**PROPOSAL FOR INCLUSION OF A TRANSCO
INCLUDING ENTERGY WITHIN THE SPP RTO**

This Proposal outlines the terms and conditions in a proposed Appendix to the Southwest Power Pool's ("SPP's") Membership Agreement that, provided SPP and Transco agree to implement the same congestion management regime, would allow a Transco including Entergy ("the Transco") to operate within the structure, and under the oversight, of an SPP RTO. This is referred to as a Partnership RTO structure.

1. *Basic Governance and Operational Responsibilities.* This proposal will allow the Transco to operate under the oversight of the Partnership RTO. The SPP's role shall include (1) acting as regional Security Coordinator for the SPP and Transco systems; (2) performing, subject to the conditions set forth in paragraph 4, the ATC and TTC calculations for the Transco; (3) fostering full and complete input by market participants into the Transco's policies; (4) overseeing a regional transmission expansion planning process; and (5) providing an appropriate forum for market monitoring and dispute resolution. The proposal should also prevent rate pancaking in the SPP's and Transco's regions. Transco shall have the option of participating on the SPP RTO Board of Directors on the same terms and conditions as all other SPP RTO Members. These provisions are currently set out in Sections 4.2 and 4.3 of the Southwest Power Pool Bylaws.

2. Because SPP will perform multiple roles under the Partnership RTO model, the staff structure and organization will be reviewed and appropriately modified to ensure non-discriminatory treatment of all parties with respect to Partnership RTO functions. The organizational structure will be designed to provide independence between the Partnership RTO functions: oversight, planning, security coordination and market monitoring, all of which will be performed by SPP, and the transmission provider and tariff administrator functions, which will be performed by SPP, by SPP non-Transco members, and by Transco. These changes are focused on complying with the objectives outlined in FERC Order No. 2000. In particular, the following functions will be separated with a code of conduct specifying the policies and procedures that must be followed in all business transactions between these functions:

- a) Transmission provider and tariff administration functions. SPP will be a transmission provider ~~and control area operator~~ within the Partnership RTO territory, as will Transco. There should be a level playing field among all transmission providers, control area operators, and transmission users under the Partnership RTO.

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- b) Regional coordination and planning functions. SPP will provide security coordination and regional planning functions for the entire Partnership RTO region. The security coordinator function should be clearly separated from the transmission provider and tariff administrator function. The separation of the security coordinator function may be achieved, at the election of the SPP Board, either through the use of a strict code of conduct or by organizational separation, in which case the security coordinator would report to the SPP Board of Directors, independently from the tariff administrator function. The code of conduct would strictly forbid the security coordinator from taking any actions in carrying out the duties and responsibilities of security coordinator that advantage the transactions over one transmission owners system over the transactions over any other transmission owners system.
- c) Oversight functions. Under this proposal, SPP's oversight responsibilities include market monitoring and ADR. These functions will be carried out by a separate group of employees and managers reporting directly to the SPP Board. The Board may use an independent outside firm to assist in the monitoring activities. The scope of the monitoring function is described below in paragraph 16. It includes monitoring of the other functions of SPP, including security coordination.

3. *FERC Review and Approval of the Transco Proposal.* The Transco shall seek and obtain FERC approval to establish and operate as a Transco under the SPP RTO.

4. *Transmission Tariff.* ~~In the event that SPP and Transco agree to implement the same congestion management regime,~~ The Partnership RTO shall administer a single tariff that will apply to transmission service within the SPP and Transco. Transco will have control over those portions of the tariff that affect the commercial terms and conditions of transmission service over Transco's facilities, as detailed in Schedule A. Transco shall possess the unilateral right, without receiving any SPP or Partnership RTO approval, to make filings at FERC proposing rate or rate structure changes (including incentive rate structures) involving transmission charges for service to load within the Transco or transmission service that does not cross any of the SPP transmission operator facilities. Transco also retains the right to unilaterally make filings at FERC for the purposes of implementing new transmission services that are not contained in the RTO Transmission Tariff. Transco will provide SPP with a copy of any such filing 30 days prior to filing with FERC and will make reasonable efforts to resolve any issues regarding the new service prior to filing at FERC, but in no circumstances shall this extend beyond 45 days from the time SPP is provided a copy of the proposed filing. A detailed list of the pro forma tariff provisions that Transco will have the unilateral right to change through FERC filings will be developed and attached to this agreement as Appendix A.

The Transco will be responsible for conducting studies and scheduling transactions on the Transco's system and shall be the provider of last resort for ancillary services in accordance with FERC Order Nos. 888 and 2000. The SPP and Transco agree to use a single model incorporating the VST model (Vacar, Southern and TVA) for calculating ATC/TTC. Provided that the SPP and Transco agree to utilize the same congestion management regime, the SPP RTO will perform all ATC/TTC calculations utilizing a methodology that is mutually agreed to between Transco and the SPP, including the requirement that the SPP RTO agrees: (1) to accommodate Transco's ATC/TTC calculation frequency requirements; (2) to coordinate with adjoining reliability regions to ensure that differing calculation assumptions or methods between the adjoining regions and Transco/SPP do not invalidate the border ATC/TTC values; (3) that Transco shall be responsible for establishing the ratings of its facilities; (4) to ensure that TTC/ATC values are consistent with a simultaneously feasible set of transmission rights; and (5) to coordinate with Transco to ensure that the most up-to-date VST model information is included in the SPP model. - The Transco shall have real-time access to the ATC/TTC calculations. If the Transco and the SPP cannot resolve a disagreement over the calculation of ATCs or TTCs, then the Transco can submit that disagreement to the Partnership RTO's ADR process, provided that, in the absence of System security issues, the Transco's calculation shall be binding during the pendency of the ADR proceeding.

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5. *Transmission Rates.* In designing transmission rates, SPP and Transco agree that there shall be no pancaked rates for transmission service with respect to transactions using both the Transco and SPP systems. To implement this, they will agree to reciprocal waiver of access charges for transactions scheduled on one system that terminate on the other system. For transmission service on either the Transco's system or the SPP's system, but not both, that is scheduled to sink outside the Partnership RTO's system (including transmission through and out service), the customer shall pay the transmitting system's rate. For transmission service on both the Transco's and SPP's systems to load outside the system (including transmission through and out service), the Transco and the SPP shall develop an appropriate single joint rate. The Transco and the SPP shall develop a rate formula that compensates the Transco and the SPP for their proportionate contribution to these transactions. Within these limitations, the Transco shall possess the unilateral right to propose rates and rate structures (including innovative rate-making proposals) for transmission service over the Transco's transmission facilities.

6. *Billing.* The Transco shall be responsible for billing for transmission service that terminates on or only crosses the Transco's system. The SPP shall be responsible for billing for transmission service that terminates on or only crosses the SPP system. For transactions on both the SPP's and the Transco's systems that terminate outside the combined region, the billing shall be handled by the system on which the power exits the combined region, provided, however, that the rate for such service will be the single joint rate described in paragraph 4 of this document.

SPP's Schedule 1 tariff administration fee shall apply to transmission service within the Transco. If Transco maintains a separate tariff, Transco shall develop, file and apply a rate schedule to collect this fee and will provide such revenues to SPP on a monthly basis, consistent with SPP's billing processes. Transco's total responsibility for SPP costs incurred to provide services and systems that are used by Transco and other SPP members shall be capped at a level equal to such costs multiplied by the ratio of the share of annual load served by Transco's transmission system to the annual load served by the Partnership RTO's transmission system.

7. *Unified OASIS Site.* The SPP and the Transco shall work to jointly develop and administer a unified OASIS site for transmission service under the SPP's and Transco's tariff. Both parties, however, shall have the option to build, maintain and administer additional features to the OASIS site in response to the needs of customers or the market. SPP and Transco shall ensure that market participants have the ability to obtain transmission service across the transmission facilities of the SPP/Transco RTO through the use of one OASIS site.

8. *Congestion Management.* The Transco and SPP shall develop and implement a congestion management plan for managing and relieving constraints within the Transco's system. The Transco and the SPP agree to work together in an effort to develop a single regional approach to congestion management. If the SPP so requests, Transco agrees to make its congestion management system available to SPP members at cost. Should SPP elect to develop its own system for congestion management, Transco and SPP will coordinate their systems to ensure maximum efficiency. At a minimum, they agree to develop a system for the joint procurement of ancillary services and a joint protocol to address the effect of parallel flow within the combined region that is caused by transactions scheduled on either SPP or Transco.

9. *Losses.* The Transco shall develop and implement a proposal for loss responsibility within the Transco's system. The Transco will coordinate with the SPP, and its members, to develop a proposal to calculate losses on transactions over the SPP's and the Transco's system.

10. *Curtailments.* SPP shall act as the regional Security Coordinator for the SPP and Transco systems. In its role as Security Coordinator, SPP will allow Transco to provide redispatch alternatives to the Security Coordinator for transactions not scheduled by Transco that affect Transco flowgates that will alleviate the need for transmission line loading relief (TLR). These redispatch instructions will be by Transco.

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11. *Operations.* The Transco shall be responsible for the operation of the Transco's transmission system. This includes the responsibility to establish ratings and operating procedures, and develop transmission and generation outage schedules which will be coordinated with the SPP RTO, and to develop congestion management proposals. Transco and SPP will develop transmission and generation outage schedules designed to balance grid optimization with good utility practice.

12. *New Generator Interconnections.* Transco shall be responsible for evaluating and implementing requests for new generator interconnections on its system. SPP and Transco will work together to develop a single procedure for generator interconnections within the Partnership RTO. Market participants seeking generator interconnections with Transco may use the SPP dispute resolution process.

13. *Reliability Oversight and Input.* The SPP shall be informed of, and shall be allowed to provide input into, the operational practices of the Transco so that the SPP can determine whether such practices have an adverse reliability impact anywhere in the region. The SPP may challenge operational procedures or practices of the Transco through the SPP's dispute resolution process; provided that the Transco's actions shall be binding pending the dispute resolution process.

14. *Planning and Expansion.* The Transco shall develop its own transmission plan for its region that includes both market-funded and rate-funded projects. This will be submitted to the SPP for review and inclusion in an RTO-wide plan which the SPP shall prepare. Transco may, at its option, participate in the expansion of the transmission grid through market-funded projects. The SPP shall review all rate-funded projects for reliability considerations and appropriateness and then incorporate such projects into the overall Partnership RTO expansion plan. The SPP's review of market-funded projects shall be limited to reliability considerations. SPP and Transco will develop a formula to be used to apportion responsibility among all RTO transmission owners for the funding of projects that were not included in the Transco's plan but that the SPP has determined are required for regional reliability reasons.

SPP, through its affected members, and Transco mutually agree to construct facilities to meet new requests for firm transmission service subject to the development of appropriate cost-sharing arrangements and subject to obtaining all necessary governmental and regulatory approvals. In carrying out this obligation, Transco and SPP agree to use due diligence in meeting these requests regardless of whether the request originates on the Transco system or the portion of the grid under the control of the SPP transmission operator. SPP and Transco also agree to work together to determine the financial responsibility and the sharing of costs required to construct any new facilities required to meet these requests.

15. *Multi-State Transmission Planning Agreements.* SPP and Transco agree to work together jointly to support any multi-state transmission planning compact that is developed in their region.

16. *Monitoring.* The Partnership RTO shall be responsible for all market monitoring activities required of the Partnership RTO. The monitoring function will also extend to SPP's security coordination function. In its role as market monitor, the SPP shall have the authority to collect information and issue reports to appropriate regulatory agencies, but it shall not have the authority to impose penalties. The SPP's cost of monitoring the Transco's markets shall be borne by the Transco and its customers. The SPP and Transco shall be responsible for enforcing compliance with the provisions of their respective tariffs.

17. *Liability.* The Transco shall assume liability for all acts or omission resulting from the functions performed by the Transco and shall indemnify and hold the SPP harmless for its actions in performing those functions.

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18. *Dispute Resolution.* The SPP, and its dispute resolution process, shall be utilized for addressing all disputes between the Transco and SPP concerning the arrangements set forth in this RTO Partnership Agreement provided that disputes between the SPP and Transco shall be subject to non-binding arbitration unless the parties agree otherwise. Disputes between Transco, SPP members, or other market participants shall be subject to non-binding dispute resolution procedures unless the parties agree otherwise.

19. *Coordination.* The Transco and the SPP shall cooperate and use their best efforts to develop procedures and protocols to allow the Transco to operate within the structure of the SPP.

20. *Stakeholder and State Commission Input.* The SPP's oversight shall allow input from state commissions and market participants into the Transco's operations and procedures. This may take the form of an SPP advisory committee to be established for this purpose. The Transco shall establish a liaison with such advisory committee, or comparable organization, and shall support the process allowing input from state commissions and market participants. Additionally, Transco will establish a Market Rules Committee, comprised of market participants, for the purpose of providing input and recommendations to Transco on changes to the market rules that will improve the overall efficiency and operation of the competitive generation market.

21. *Expandability of Transco.* The Transco shall be structured to reasonably accommodate other SPP members and non-members who elect to join. Any current SPP member shall have the right, upon one year's advance notice, (consistent with Section 4 of the SPP Members Agreement) to commit its assets to the Transco and to have its transmission facilities included within the Transco Tariff on terms and conditions comparable to the terms and conditions provided to the initial Transco members.

22. *Survivability.* This Agreement shall remain binding and shall be accommodated in the event that the SPP merges or combines with another regional transmission entity. In any instance where the provisions contained within this RTO Partnership Agreement, are in conflict with the SPP Bylaws or the SPP Membership Agreement, the terms and conditions of this document shall control.

23. *Withdrawal Rights.* The Transco shall have the same rights to withdraw from the SPP as other SPP members under section 4 of the SPP Membership Agreement. Such withdrawal shall be subject to FERC approval.

Upon completing his report on remaining issues, Mr. Perkins presented the following RTOWG recommendation:

The RTOWG recommends that the Board of Directors endorse this RTOWG report as indication the organizational documents, to be modified pursuant to RTOWG recommendations, meet with the Board's satisfaction for a second SPP filing seeking FERC recognition as an RTO.

Mr. Dawson motioned and Mr. McDaniel seconded that the Board of Directors approve the RTOWG recommendation. This motion passed without opposition. Mr. Perkins stated that the RTOWG was hosting a public workshop on Wednesday, July 26, 2000, to provide education on SPP's RTO proposal and seek final public input. He concluded by stating the

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RTOWG would be meeting again August 9, 2000 to finalize documents for Board consideration.

Agenda Item 5 – Future Meetings

Mr. Marschewski noted that the Board of Directors will need to meet again toward the end of August to act on final documents for SPP's RTO filing. Following discussion, Mr. Verret motioned and Mr. Dowling seconded that the Board of Directors meet on Wednesday, August 30, 2000. Mr. Brown stated the location would be in the Dallas/Ft. Worth Airport vicinity and would be scheduled to allow same-day in and out travel.

Agenda Item 6 – Adjournment

Mr. McKinney commended the RTO Working Group and its leadership for the extraordinary amount of work in such a short time. Mr. Jackson expressed his appreciation for the director orientation session held on July 6 in Little Rock. Mr. Rick Henley expressed his appreciation to Entergy for their spirit of cooperation in developing the memorandum of understanding approved by the Board of Directors. With no further business, Mr. Voigt thanked everyone for their participation and adjourned the meeting at 11:15 a.m. CDT.

Nicholas A. Brown, Corporate Secretary

**Southwest Power Pool
BOARD OF DIRECTORS MEETING
D/FW Airport Hyatt - Dallas, Texas
August 30, 2000**

- Summary of Action Items -

Approved minutes of the July 20, 2000 Board of Directors meeting as distributed.

Approved recommended actions by the RTO Working Group for a second filing seeking FERC recognition of SPP as an RTO, which included:

1. Acceptance of the RTOWG report as indication the collaborative process used in its development met with the Board of Director's satisfaction;
2. Concurrence on maintenance of SPP's existing Bylaws, including SPP's current governance structure;
3. Approval of proposed process for Section 203 filings by FERC jurisdictional transmission owning members with SPP's RTO filing;
4. Approval of a new RTO membership agreement;
5. Approval of proposed public and regulatory education process to be used in development of SPP RTO filing;
6. Approval of proposed market settlement process and budgeting items covering a six-year net present cost of \$42 million for implementation of necessary systems and additional personnel, subject to approval of a specific methodology, financial plan, and vendor recommendation by the Commercial Practices Committee;
7. Approval of market monitoring procedures and proposed personnel (3 FTEs), or the outsourcing of this responsibility if more cost-effective;
8. Acceptance of the report as indication the efforts undertaken to address SPP's scope and configuration meet with the Board of Director's satisfaction;
9. Approval of proposed hybrid principles for market-based congestions management and formation of a Market Rules Working Group, reporting to the Commercial Practices Committee, to proceed with development of market rules to implement the hybrid principles;
10. Acceptance of the report as indication the Seams Sub-Team proposed actions meet with the Board of Director's satisfaction and are to be further developed for subsequent action; and
11. Approval of proposed modifications to SPP's regional transmission service tariff with specific changes to be approved by the Regional Tariff Working Group prior to filing.

Approved a recommendation from the floor directing the Staff to recommend a formula rate methodology, including functionalization, for consideration by the Board of Directors at their regular November meeting.

Approved a recommendation from the Market Settlement Working Group and the Commercial Practices Committee to ratify the selection of Andersen Consulting to develop SPP's market settlement system, and the development of a specific contract for such.

MINUTES NO. 72

**Southwest Power Pool
BOARD OF DIRECTORS MEETING
D/FW Airport Hyatt - Dallas, Texas
August 30, 2000**

Agenda Item 1 - Administrative Items

SPP Chair Mr. Gary Voigt called the meeting to order at 11:03 a.m. and called for a round of introductions. The following Board members were in attendance or represented by proxy:

Ms. Kim Casey, Dynegy Marketing & Trade;
Mr. David Christiano, City Utilities of Springfield, MO;
Mr. Jimmy Crosslin, Oklahoma Corporation Commission;
Mr. Harry Dawson, OK Municipal Power Authority;
Mr. Gene Reeves, proxy for Mr. Michael Deihl, Southwestern Power Admin.;
Mr. Gene Argo, Midwest Energy, Inc.;
Mr. Jim Eckelberger; non-stakeholder director;
Mr. Tom Grennan, Western Resources;
Ms. Trudy Harper, Tenaska Power Services Company;
Ms. Lydia Vollmer, PECO Power Team;
Mr. Quentin Jackson; non-stakeholder director;
Mr. Stephen Parr, KS Electric Power Cooperative;
Mr. Tom McDaniel; non-stakeholder director;
Mr. Myron McKinney, Empire District Electric Company;
Mr. John Oxendine; non-stakeholder director;
Mr. J. M. Shafer, Western Farmers Electric Cooperative;
Mr. Harry Skilton non-stakeholder director;
Mr. Al Strecker, OG+E;
Mr. Larry Sur; non-stakeholder director;
Mr. Richard Verret, American Electric Power;
Mr. Gary Voigt, Chair, Arkansas Electric Cooperative Corp.; and
Mr. John Marschewski, Southwest Power Pool, Inc.

There were 61 persons in attendance representing 25 members, 10 guests and 3 regulatory agencies (Attendance List – Attachment 1). The Secretary received 1 proxy statement (Proxy – Attachment 2). Mr. Voigt referred to a full agenda (Agenda – Attachment 3) and asked for necessary modifications to draft minutes of the July 20, 2000 meeting or a motion for approval. Mr. McDaniel motioned that the minutes be approved as distributed. Mr. McKinney seconded this motion, which passed unopposed.

Agenda Item 2 – RTO Working Group Report

Mr. Voigt asked RTO Working Group Co-Chair Mr. David Christiano to update the Board of Directors on activities of this group. Mr. Christiano referred to the August 30,

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2000 report (RTOWG August 30, 2000 Report – Attachment 4) and gave a detailed verbal report on each of the main issues identified in the report and summarized the level of concurrence on each issue by all participants in the development process.

During discussion of the market settlement process, Mr. Eckelberger motioned and Mr. Dawson seconded that recommended action number 6 in the RTOWG report be modified as follows:

6. Approval of proposed market settlement process and budgeting items covering a six-year net present cost of \$42 million for implementation of necessary systems and additional personnel, subject to approval of a specific methodology, financial plan, and vendor recommendation by the Commercial Practices Committee;

This motion was subsequently withdrawn for later consideration.

Toward the conclusion of Mr. Christiano's report, Mr. Voigt allowed representatives from East Texas Electric Cooperative, Inc., Northeast Texas Cooperative, Inc. and Tex-La Electric Cooperative of Texas, Inc. (East Texas Cooperatives), to address the Board of Directors concerning an issue raised in their August 24, 2000 letter (East Texas Cooperatives Letter – Attachment 5). Following their presentation, Mr. Voigt allowed representatives of American Electric Power to verbally summarize their August 28, 2000 letter response (AEP Letter – Attachment 6). Following discussion, Ms. Vollmer motioned that the Staff be directed to recommend a formula rate methodology, including functionalization, for consideration by the Board of Directors at their regular November meeting. This motion was seconded by Mr. Dawson and was approved without opposition.

Following additional discussion on the RTOWG report, Mr. Christiano motioned and Mr. Dawson seconded that the Board of Directors take the following actions recommended by the RTOWG with regard to documents for a second SPP filing seeking FERC recognition as an RTO:

1. Acceptance of the RTOWG report as indication the collaborative process used in its development met with the Board of Director's satisfaction;
2. Concurrence on maintenance of SPP's existing Bylaws, including SPP's current governance structure;
3. Approval of proposed process for Section 203 filings by FERC jurisdictional transmission owning members with SPP's RTO filing;
4. Approval of a new RTO membership agreement;
5. Approval of proposed public and regulatory education process to be used in development of SPP RTO filing;
6. Approval of proposed market settlement process and budgeting items covering a six-year net present cost of \$42 million for implementation of necessary systems and additional personnel, subject to approval of a

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- specific methodology, financial plan, and vendor recommendation by the Commercial Practices Committee;
7. Approval of market monitoring procedures and proposed personnel (3 FTEs), or the outsourcing of this responsibility if more cost-effective;
 8. Acceptance of the report as indication the efforts undertaken to address SPP's scope and configuration meet with the Board of Director's satisfaction;
 9. Approval of proposed hybrid principles for market-based congestions management and formation of a Market Rules Working Group, reporting to the Commercial Practices Committee, to proceed with development of market rules to implement the hybrid principles;
 10. Acceptance of the report as indication the Seams Sub-Team proposed actions meet with the Board of Director's satisfaction and are to be further developed for subsequent action; and
 11. Approval of proposed modifications to SPP's regional transmission service tariff with specific changes to be approved by the Regional Tariff Working Group prior to filing.

Ms. Vollmer expressed concerns over the recommended tariff and moved that the main motion be modified by removing approval of the tariff. Ms. Casey seconded this motion, which failed with 2 votes in favor and 19 opposed. Mr. Voigt then called for the vote on the main motion, which passed with 19 votes in favor, 1 vote in opposition and 1 abstention.

Agenda Item 3 – Secretary's Report

Mr. Brown reported that SPP had received a membership agreement from Entergy that would be effective September 1. A round of applause followed this announcement. Mr. Brown then reported that Oklahoma Municipal Power Authority had requested implementation of the informal dispute resolution procedures under SPP's tariff related to SPP's application of a penalty provision in the tariff. Mr. Brown stated that he would be meeting with Mr. Dawson in the near future to continue discussing this issue. Mr. Brown then referred to a report distributed with the meeting background materials on SPP income (Member Rebate of Administrative Funds – Attachment 7) and briefly presented slides on SPP's cost recovery mechanisms (Cost Recovery Slides – Attachment 8). Mr. Brown recommended that, due to the large cost increase related to SPP's imminent RTO filing, that the Finance Working Group consider alternate financing processes as they consider SPP's 2001 administrative budget. Any recommendations for change would be presented for Board of Directors consideration at the regular November meeting. Mr. Brown introduced Mr. Ted Sobel of PaineWebber who had provided a memo describing a bond-financing alternative (PaineWebber Memo – Attachment 9).

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Commercial Practices Committee Recommendation

Mr. Voigt then called on Mr. Keith Sugg, Chair of the Market Settlement Working Group, to present a recommendation of the Market Settlement Working and Commercial Practices Committee on selection of a vendor for development of market settlement systems. Due to contractual requirements of confidentiality agreements executed with several bidding vendors, Mr. Voigt then convened the meeting in executive session. During executive session, the Board of Directors approved a recommendation from the Market Settlement Working Group and the Commercial Practices Committee (MSWG & CPC Report – Attachment 10) to ratify their selection of Andersen Consulting (supported by ESCA and Lodestar) to develop SPP's market settlement system, and the development of a specific contract, with authority to execute limited to a six-year total project net present cost of \$45 million.

Adjournment

Mr. Voigt thanked everyone for their participation and adjourned the meeting at 3:38 p.m. CDT.

Nicholas A. Brown, Corporate Secretary