



1 Ms Suedeem Kelly, Commissioner  
2 Federal Energy Regulatory Commission

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4 Mr. Joseph Kelliher, Commissioner  
5 Federal Energy Regulatory Commission

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## 1 PROCEEDINGS

2 (9:37 a.m.)

3 MR. WOOD: Good morning, speaking from over  
4 here. I'll stand up for a minute just to  
5 convene. I'm Pat Wood, chairman of the Federal  
6 Energy Regulatory Commission, and I'd like to  
7 call this open technical conference of the  
8 commission to order.

9 It is our -- with our new members,  
10 this is our first road trip and I am so proud of  
11 the Texan that it's in my home state that we're  
12 having our first road trip with our newly  
13 constituted FERC and for such a good event, too.  
14 We are very pleased and proud to be here to  
15 discuss the issues that are facing this  
16 important region of the country, the issues  
17 around the development of the Southwest Power  
18 Pool, which we have recently, you know, on their  
19 petition to the Federal Energy Regulatory  
20 Commission deemed to be refill transmission  
21 organization, only the nation's third of that  
22 nature subject to the satisfaction of a few  
23 conditions, and we're going to talk about those  
24 today but also talk about some of the broader  
25 market issues.

1                   I would like to say we've got with  
2                   that order, that regional transmissions  
3                   organization designation order, it is pending  
4                   rehearing of our commission, but because today  
5                   is a publicly noticed conference that has been  
6                   posted in accordance with our law and there's  
7                   being a transcript made of today's meeting, if  
8                   there are issues that come up there, I want to  
9                   just say, parties, please don't feel like you  
10                  are subject to the usual constraints of the  
11                  commission because it is open, and a full  
12                  commission is here, and a record is being kept.  
13                  So I just want to in that unusual environment  
14                  invite -- if you've got any issues that come up,  
15                  please feel free. It's a great time to talk  
16                  about them and can help us in discussions on  
17                  issues related to market participants. The  
18                  concerns that states may have as well, we want  
19                  to talk through all of those and try to see if  
20                  we can work some issues out here. If not, at  
21                  least have a better understanding of things that  
22                  we can all be thinking about to make sure that  
23                  the real positive direction of the Southwest  
24                  Power Pool continues apace under its capable  
25                  leadership.

1                   I want to just say as one who has  
2                   been, I guess, a friend and participant in the  
3                   SPP for, oh, gosh, almost ten years now, I want  
4                   to congratulate Nick, you and the staff  
5                   leadership of the SPP as well as the independent  
6                   and membership board and the broader membership  
7                   community--a lot of them are here today--for the  
8                   work that you-all have done, not just in the  
9                   RTO filing but over the eight years, I guess,  
10                  since the OATT filed here at the FERC to really  
11                  try to integrate on a regional basis the  
12                  electric power grid all over the country, and I  
13                  think we certainly want to build on that success  
14                  and talk about some of the issues that are laid  
15                  before us today in the panel; but, again, the  
16                  common goals of the region are to bring reliable  
17                  supplies of power at just and reasonable rates  
18                  to customers, and that's what we're about at our  
19                  commission. I know that's what our fellow  
20                  commissioners here at the states are all about,  
21                  and it's what the market participants are all  
22                  about. So we want to -- we want to build on  
23                  that common goal that we all have and see if we  
24                  can make things more efficient, streamline  
25                  costs, and make sure that planning and

1 investment gets done in a practical and  
2 pragmatic manner.

3 We are real confident about the  
4 incremental growth plan that SPP has done over  
5 the past several years and looks to be doing in  
6 the coming years. We've talked about that a  
7 little bit in our order, but I know Nick is  
8 going to probably want to talk about some of  
9 that today as well, and we look forward to  
10 talking about those issues as well as any  
11 concerns that may be raised about some of the  
12 statements that the commission made with regard  
13 to those that I understand may not be quite as  
14 clear as we had hoped they had been.

15 At the bottom line this RTO promises  
16 to increase reliability. A big part of that is  
17 long-term planning on a region-wide basis for  
18 grid upgrades for reliability and even upgrades  
19 needed for acquiring lower-cost power on an  
20 economic basis as well as the reliability that  
21 we need for short-term reliability and dispatch  
22 operations, coordinated operations.

23 RTO also promises to increase  
24 efficiency across the region by giving access to  
25 the balancing market and perhaps in future

1 broader markets but certainly at the onset an  
2 energy spot market that has voluntary  
3 participation.

4 And, finally, and this is an issue  
5 certainly that is at the goal of our statutory  
6 mandate, is to increase the fairness of the  
7 operation of the grid to make sure that there's  
8 objective, expert, independent administration of  
9 the -- what is really a common asset for the  
10 people of this region, which is the important  
11 transmission and power grid.

12 I just want to close by saying we, on  
13 behalf of my colleagues, are here to hear what  
14 we can do to help expedite that effort to find  
15 out what -- what coordination we can do with our  
16 colleagues at the state level to make sure that  
17 your efforts as retail regulators are successful  
18 and to also support the business opportunities  
19 of many in this region to deliver high quality,  
20 good cost power to the customer. So my  
21 colleagues want to add anything?

22 MS. BROWNELL: Thrilled to be in the  
23 kingdom of Texas.

24 MR. WOOD: It's wonderful. We had ordered  
25 up some beautiful weather because Norm was

1        sending me e-mails over the past several days  
2        that she was at MISO in Indianapolis giving me a  
3        snow report, and I said Dallas will be 78  
4        degrees on Friday so come on down with your swim  
5        suit, so we're here and we're glad, and I would  
6        like to at this point -- let me get my little  
7        schedule here.

8                Actually, I was going lay out quickly  
9        for the day because we have in this format -- I  
10       just want to say of all these we've had, this is  
11       probably -- at least it looks to be the most  
12       promising physical format that we've got, and I  
13       want to say that what we're doing here is a  
14       brief meeting that runs until 1:30. We'll take  
15       a quick break in the middle just for people to  
16       stand up, but feel free to -- you need to use  
17       the facilities, they're right down the hall.  
18       Step in and out of the meeting. It's relatively  
19       informal and that includes members on the --  
20       around the dias here as well. Feel free to just  
21       walk in and out. If you miss something, we've  
22       got a transcript here, so you can get every word  
23       nailed down.

24                The first panel will be, as we start  
25        all of our conferences of this nature, with an

1 update from the head of the organization, which  
2 in this case is Nick Brown, president and CEO of  
3 the Southwest Power Pool, and he'll be joined by  
4 Stacy Duckett and Bruce Rew from the SPP as well  
5 to present just the broad overview of what's  
6 going on. I know it's been a busy week, so I'll  
7 get you right into that.

8 Right after then, we'll do a hour  
9 stakeholders issues, which are be other people  
10 here panel across from us, a group of people  
11 across from pretty much one from each the main  
12 sectors of the membership group to discuss  
13 issues that are of interest to them, and there's  
14 no real prequalification there about what the  
15 issues are, a short break, and then we'll  
16 conclude the afternoon with discussions with our  
17 state colleagues about any federal/state issues,  
18 the Regional State Committee, any of the  
19 jurisdictional issues that I know were raised  
20 during the pendency of this proceeding, and then  
21 conclude with a broad discussion of everybody,  
22 including folks in the audience, of any  
23 suggested next steps. We need that as a vague  
24 one at the end, quite frankly, to see where the  
25 discussion goes during the day. We might use

1 that last half hour just as needs be, but it  
2 will probably be more of an open forum, open mic  
3 miscellaneous issues time frame.

4 So with no further ado, we'll turn it  
5 over to Nick and let you take it from there.

6 MR. BROWN: Thank you, Chairman Wood and  
7 commissioners. It's awfully hard for me to put  
8 into words how exciting it is for us to be here  
9 today. Many in the room certainly know how --  
10 how long this trek has been for Southwest Power  
11 Pool, but I think it bears noting because there  
12 are many others in the room who may not be so  
13 familiar with the long deliberative process, the  
14 involvement of many of our diverse members and  
15 stakeholders and states and on and on and on.

16 We began this trek actually long  
17 before 1999, but officially submitted a request  
18 for RTO recognition in December of '99. We  
19 really somewhat jumped the gun in that the  
20 commission had just two weeks before our filing  
21 issued Order 2000. It was kind of a transition  
22 between Order 888 and 2000, but, nevertheless,  
23 we forged ahead with that filing, and then May,  
24 the commission denied that application as  
25 somewhat premature because of the just very

1 recent issuance of Order 2000. It was denied  
2 without prejudice, and we were encouraged to  
3 continue our development work.

4 In October of that same year, we did  
5 submit another application that in March of '01,  
6 we were -- the order was not denied, but we were  
7 encouraged to seek a broader footprint and  
8 specifically were pointed toward Entergy. We  
9 successfully in very short order negotiated an  
10 agreement for Entergy to participate in our  
11 footprint, but in July of '01, that particular  
12 application was denied, and we were requested to  
13 enter into the southeast mediation and also  
14 consider a merger with the Midwest ISO, which we  
15 did both of those, obviously went through and  
16 18-month merger process with Midwest ISO, and  
17 clearly we gave it everything we had from a  
18 staff perspective. I think our board was very  
19 committed to that on the front end. Clearly  
20 organizational solutions to seams issues are one  
21 that can work. In this particular case, we were  
22 unable to deal with a lot of the political  
23 realities, and that merger attempt was  
24 unsuccessful.

25 Our board of directors very quickly

1 entered into a strategic planning process,  
2 Richard Spring, chair of our strategic planning  
3 committee, is here today and will speak about  
4 that effort and others as well, as well as his  
5 own individual company perspectives.

6 But in October of last year, we,  
7 again, submitted an application, and I'll tell  
8 you in February, in fact, February 10th, I  
9 probably would have given Howard Dean a run for  
10 his money in expression of enthusiasm when we  
11 read that order. We were very, very pleased  
12 with that.

13 We'll let Stacy go through aspects of  
14 that order and issues of compliance, but this  
15 has been a very big week for us. On Tuesday our  
16 board met. It did vote to bring our  
17 organization into compliance with those  
18 conditions. And then yesterday, we hosted a  
19 participant funding symposium with at least an  
20 equal number of people, many of the same folks  
21 in this room participating, and I was -- I was  
22 very pleased with that effort, quite frankly.  
23 That needs to be the focus of this organization,  
24 not what we call ourselves. The issues that we  
25 discussed yesterday face us regardless of RTO

1 recognition or not. They are immediate. They  
2 are the most important thing that we need to be  
3 spending our time on.

4 Transmission must be improved. We're  
5 a highly interconnected industry, highly  
6 interdependent industry. What one market  
7 participant does has a huge impact on everyone  
8 else. In several speaking opportunities over  
9 the last couple of weeks, we've given some, I  
10 think, very eye-opening examples of how  
11 interconnected and how interdependent we are as  
12 an industry.

13 The biggest question facing me the  
14 last week or so has been, well, gee, you've seen  
15 these requests for rehearing. Is Southwest  
16 Power Pool going submit a response to those  
17 requests for rehearing? I'm here to tell you  
18 today that we will not submit a written  
19 response. Rather, we'll just kind of use this  
20 forum today to discuss some of those issues. It  
21 will be entered into the docket proceedings and  
22 I think will adequately cover any response that  
23 SPP would make to those. Of those 12, 11 were  
24 asking for more guidance, clarification from the  
25 commission, one was very, very supportive, and

1       thank you for that.

2                   I will comment that as I look at those  
3 requests for clarification and rehearing,  
4 several things struck me. One, the parties  
5 themselves were very representative of Southwest  
6 Power Pool's diverse membership, stakeholder  
7 group, and state opinions. All of those parties  
8 were at the table when we developed our RTO  
9 application and have certainly been at the table  
10 since and were at the table in our board  
11 deliberations and strategic planning committee  
12 deliberations leading up to the board meeting  
13 this week.

14                   I will also characterize the comments  
15 as almost being counteropposing. We had some  
16 argue one side of an issue, others argue the  
17 other side of that same issue. From that  
18 perspective, I see no reason for Southwest Power  
19 Pool to continue to jump into the middle of that  
20 debate in written proceedings.

21                   The other reason why we see no reason  
22 to submit written response is that none of those  
23 requests attacked SPP processes, procedures, or  
24 anything else. Often in dockets, we see a need  
25 to set the record straight in situations where

1 we believe there have been some inaccurate  
2 positions taken, and I can't characterize any of  
3 the positions taken as inaccurate in any way  
4 regarding Southwest Power Pool operation or its  
5 plans.

6 The biggest issue in my mind that was  
7 raised is the jurisdictional divide between  
8 federal and state authorities. Our counsel  
9 tells us and has put -- put his opinion in  
10 writing--and we have gotten it verified by many  
11 other attorneys, everyone that I've been able to  
12 get my hands around--that there's nothing in  
13 Southwest Power Pool's recognition as an RTO and  
14 becoming a FERC jurisdictional entity that  
15 changes the jurisdictional authority boundaries.

16 That being the case, I argue  
17 vehemently that Southwest Power Pool RTO docket  
18 can't solve those issues, nor should it be used  
19 to try to solve those issues. We have many,  
20 many important initiatives at hand, and we just  
21 don't need to be slowed down in those important  
22 processes to try to resolve issues that -- that  
23 we as an organization can't resolve.

24 The board voted overwhelmingly Tuesday  
25 to bring us into compliance. Our board is 21

1 persons, representative of our stakeholders and  
2 independent directors. The vote was 18 for and  
3 two opposed and one abstention, which I think it  
4 speaks very well for the collaborative process  
5 that we used in assessing the order and the  
6 conditions in the order and reaching a great  
7 deal of consensus in moving this organization  
8 toward compliance.

9 Bottom line, we needed a conclusive  
10 order. We must have that conclusive order. I  
11 for one would love to put the issue of what SPP  
12 calls itself to rest and get back at the  
13 business of resolving transmission issues and  
14 dealing with the operational aspects of running  
15 our business.

16 With that, I will turn it over to  
17 Stacy to very briefly walk everyone through the  
18 conditions in the order and our response to  
19 those.

20 MS. DUCKETT: Good morning, I don't  
21 think -- good morning to everybody. I will just  
22 take a few moments to walk through the order and  
23 the conditions that were presented to us and  
24 where we stand on those in preparing for our  
25 compliance filing.

1           Just quickly, as Nick said, we did  
2           make our filing in October and received our  
3           order on February 10 for being granted  
4           conditional recognition as an RTO. The  
5           conditions are listed on the slide there, but  
6           these are the conditions that we have to meet in  
7           order to be fully recognized as an RTO, and I'll  
8           just briefly tell you -- tell everyone where we  
9           are on those issues, primarily as a result of  
10          our board of directors meeting on Tuesday.

11          SPP currently has a board comprised of  
12          stakeholders and nonstakeholders. We considered  
13          it independent through the diverse  
14          representation on the board; however, the order  
15          that we received requires SPP to implement a  
16          fully nonstakeholder board, which we will do.  
17          In addition, we were directed in the order to  
18          expand the sectors in both the members committee  
19          and the corporate governance committee, and we  
20          will pursue that as well.

21          The board on Tuesday considered  
22          revisions to the bylaws and membership agreement  
23          that are necessary to implement this. They  
24          approved those changes. There are changes in  
25          the bylaws that require membership approval

1 before they can go ahead. Those are  
2 specifically the provisions related to the  
3 makeup of the board of directors being fully  
4 independent. Those will be considered by the  
5 membership at a special meeting of members  
6 called on April 27th. So we will go through  
7 that process and then be ready to state our  
8 compliance with that requirement.

9 SPP will expand upon the information  
10 provided in the RTO filing to clarify that it is  
11 the sole transmission provider as currently  
12 reflected in our tariff. There's some debate as  
13 to what's included in nonrate terms and  
14 conditions of the tariff; however, regulatory  
15 counsel, as Nick stated, has provided  
16 information in this regard including proposed  
17 modifications to our tariff. Those  
18 modifications are now working their way through  
19 the SPP stakeholder process and with a goal of  
20 presenting the changes to the board of directors  
21 at its April 27 meeting for consideration to be  
22 included in that filing.

23 We also will expand upon the  
24 information provided in the filing regarding  
25 sufficient transmission authority. We will

1 clarify that SPP does have clear and sufficient  
2 authority to exercise the requisite control in  
3 the footprint as scheduled for the placement of  
4 bundled retail load under the OATT will be  
5 provided as well in the compliance filing.  
6 There are some that are of the opinion that we  
7 have to have -- that they must have state  
8 approval to do this, and some of the filings  
9 that Nick will raise or did raise bring that  
10 issue, the filings for clarification raise that  
11 issue, and I think we'll discuss that at some  
12 point today.

13 In addition, the order requires that  
14 SPP have an independent market monitor in place  
15 as we -- as we go down this path, and although  
16 the independent market monitor would initially  
17 have a role limited to monitoring the  
18 administration of transmission service to market  
19 analysis, the anticipation from the commission  
20 is that this independent market monitor would  
21 provide a much expanded role in the  
22 establishment and monitoring of the imbalance  
23 market and cost/benefit studies for the  
24 subsequent markets.

25 SPP organizational groups have issued

1 a request for proposal for an independent market  
2 monitor recognizing the need to involve that  
3 monitor in design of procedures and systems  
4 implemented in phase one of our markets project.  
5 Several vendors have indicated interest to date,  
6 and an independent market monitor task force has  
7 been formed that reports directly to the board.  
8 It's comprised of both independent and  
9 stakeholder directors, and they will be working  
10 through their process to be able to make  
11 recommendation to the board at its April 27  
12 meeting for selection of that independent market  
13 monitor.

14 The order also requires a more  
15 independent role for SPP and transmission system  
16 planning as covered in Attachment O of our  
17 tariff. The Regional Tariff Working Group of  
18 SPP is developing the requisite revisions to  
19 Attachment O for inclusion in the compliance  
20 filing.

21 The final recommendations from the  
22 group will undergo operations policy committee  
23 review in April, and that is a full  
24 representation committee of SPP. And,  
25 subsequently, that committee would then forward

1 the recommendation to the board of directors at  
2 its April 27 meeting.

3 At this time, it seems more of an  
4 issue of clarification of current business  
5 practices and consistent language between the  
6 membership agreement and tariff rather than a  
7 true change of control or our current processes.

8 The -- there was also a requirement,  
9 the final condition was regarding our work with  
10 MISO in a seams agreement between SPP and MISO.  
11 We have executed a memorandum of understanding  
12 with MISO in February to address seams issues.  
13 This MOU is consistent with the pro forma seams  
14 agreement submitted with the application. This  
15 now will be submitted with the compliance  
16 filing.

17 We are currently in the process of  
18 finalizing a joint operating agreement with MISO  
19 that will soon go out for stakeholder review in  
20 both organizations. We're hoping to have this  
21 through the stakeholder process and ready for  
22 consideration at the end of April by our board  
23 of directors to then be included in our  
24 compliance filing.

25 In addition, we have and continue to

1 work with other neighbors on seams agreements  
2 and plan to submit a status report regarding  
3 those discussions with our compliance filing.

4 Now, there were three what we've  
5 characterized as post RTO requirements included  
6 in the order and just a brief update on those.  
7 The commission accepted SPP's commitment for  
8 phased implementation of its energy imbalance  
9 market. SPP has been working on this  
10 implementation for some time but suspended work  
11 on that in October pending the outcome of the  
12 RTO filing.

13 An updated project schedule will be  
14 provided with the compliance filing. Congestion  
15 management plans will be developed following a  
16 cost/benefit analysis that will be conducted  
17 pursuant to discussion with state regulatory  
18 agencies.

19 SPP was also directed to participate  
20 in a joint and common market with MISO and PJM.  
21 We conferred with representatives from MISO and  
22 PJM in our participation in the project. Given  
23 the numerous seams issues facing those two  
24 organizations, that initiative -- specific  
25 initiative has actually been rolled into their

1 joint operating agreement. And we are already  
2 working on that with MISO and will continue to  
3 pursue any other revisions or additions that we  
4 need to to get us back involved in that project,  
5 but it has been broadened.

6 And, lastly, regarding transmission  
7 cost allocation, a plan for upgrades is under  
8 development and a schedule of activities for the  
9 organizational groups has been developed showing  
10 completion by the end of this year, and Bruce  
11 will talk a little bit more about that. A  
12 current status report at the time of the filing  
13 will be included with the filing to let the  
14 commission know where we stand on that.

15 On Tuesday we did have our board of  
16 directors meeting where we -- as Nick said, we  
17 received the approval to make a compliance  
18 filing in the order, and a summary of the  
19 recommendations that were presented to the board  
20 by the strategic planning committee is included  
21 here.

22 The bylaws revisions accommodate the  
23 governance changes required in the order and  
24 this includes transition to an independent board  
25 of directors, an expansion of the sectors for

1 the members committee and corporate governance  
2 committee. All of this was approved for  
3 implementation effective May 1. It was also  
4 approved that work begin to seat the corporate  
5 governance committee so that it can propose  
6 slates for election of the various committees  
7 that must be established.

8 In addition, a special meeting of  
9 members will be called for April 27 for  
10 consideration of the change to the board  
11 structure which must be approved by them. All  
12 elections made on April 27 would be effective  
13 May 1.

14 The board also approved the release of  
15 budgeted funds in pursuit of financing to resume  
16 the market implementation project as relates to  
17 the energy imbalance market and the independent  
18 market monitor. The appropriate working groups  
19 will now work through the necessary tariff  
20 revisions required to comply with the order.  
21 Regional transmission planning initiatives were  
22 started in the fall of 2003, and, as I said,  
23 Bruce Rew will provide us additional information  
24 regarding that effort, and discussions are  
25 underway to determine what needs to be done for

1 various regulatory bodies related to  
2 cost/benefit analysis so that we can maximize  
3 efficiencies across the footprint.

4 And with that, that's where we are on  
5 complying with the order, and I will let Bruce  
6 take over.

7 MR. REW: Good morning, Chairman Wood,  
8 commissioners. My name is Bruce Rew. I'm  
9 director of engineering for Southwest Power  
10 Pool. I'll give you a brief update on SPP's  
11 current transmission planning and expansion  
12 activities. I'd like to talk about yesterday's  
13 participant funding symposium that we had. I'll  
14 discuss SPP's planning process that is currently  
15 underway, briefly review generation  
16 interconnections and some transmission expansion  
17 activities that we have in process.

18 Yesterday, Southwest Power Pool hosted  
19 a participant funding symposium. We had over  
20 130 registrants. It was a very diverse group of  
21 participants. And we discussed the development  
22 of a participant funding methodology for SPP.  
23 We received feedback on different cost  
24 allocation methods for transmission expansion,  
25 all the way from 100 percent participant funded

1 to 100 percent rolled in, and the group gave us  
2 clear direction to develop something in the  
3 middle. So SPP staff is taking that feedback  
4 and we're in the process of developing a  
5 proposal. Our current schedule has us  
6 developing that over the next couple of months.  
7 And then we will come back together in June to  
8 review the proposal and get some additional  
9 feedback on that to allow us to get board  
10 approval in October and to prepare for  
11 completion and filing by the end of this year.

12 For transmission planning in Southwest  
13 Power Pool, as Stacy mentioned, it was -- began  
14 last fall in November. We held a transmission  
15 planning summit. We had over 100 participants.  
16 Again, it was a well-attended and diverse group,  
17 and at that time, we reviewed the proposed  
18 schedule for transmission planning, received  
19 feedback from the participants there who made a  
20 few modifications to our planning process, and  
21 we began implementation of this two-year  
22 planning process. Initially, it's going to  
23 focus on the reliability concerns, and then  
24 we'll turn our attention to market-motivated  
25 economic impacts, and our current planning

1 process schedule has us completing that in  
2 September of 2005.

3 The plan includes transmission  
4 assessment of existing and planned facilities  
5 within the region. It allows for coordination  
6 with existing RTOs and neighboring entities.  
7 We'll also review any new technologies and  
8 opportunities for efficiency in the existing  
9 grid, give us opportunity to potentially expand  
10 facilities rather than build new facilities.

11 Some of the keys to the planning  
12 process, certainly an open process with input  
13 from all stakeholders. SPP will evaluate that  
14 stakeholder input through its organizational  
15 groups during the planning process. At the end  
16 of that, SPP will decide what projects are to be  
17 included with prioritization and ultimate board  
18 approval.

19 I'd like to talk about transmission  
20 service processing. We made significant  
21 reductions in the transmission queue during the  
22 past year but still are seeing transmission  
23 expansion needs that prohibit most long-term  
24 requests. To address that, we're developing an  
25 aggregate study process to allow for grouping of

1 requests, and that would provide an opportunity  
2 to share in the cost of the upgrades. That has  
3 been approved by a Regional Tariff Working  
4 Group. It will go through final approval next  
5 month. We feel like this will be a good process  
6 to allow for expansion of the system at SPP.

7 On generation interconnections, we  
8 have made our compliance filing or 2003. The  
9 significant thing in that order is the allowance  
10 of clustering of generation interconnection  
11 requests. SPP does plan on implementing that  
12 process in the near future, hopefully as early  
13 as the end of this year.

14 And I want to close with a couple of  
15 transmission expansion initiatives that SPP has  
16 underway. First, the RTWG has developed the  
17 procedure to provide for prepayment of  
18 short-term service for use in expanding the  
19 system, and they're still working on the details  
20 of that, have not approved it yet. But what  
21 this -- this would address is the problem of  
22 expanding the system for short-term customers.  
23 The short-term customers do not -- are not able  
24 to expand the system because of the lead time  
25 required for facilities. This would provide

1       them an opportunity to make a prepayment prior  
2       to requesting short-term service. SPP would  
3       work with its transmission owners in using that  
4       prepayment to fund upgrades in the system prior  
5       to those short-term requests being made, and  
6       that's based on previously known transmission  
7       limitations for short-term service and  
8       recommendations from the customers. So we're  
9       still working on that, and we're pretty excited  
10      about that process.

11               Second is SPP is working on  
12      identifying operating constraints that have  
13      reliability impacts. These are the TLRs that  
14      have occurred in SPP evaluating which flow gates  
15      are the primary cause of that in determining  
16      what we can do to relieve those constraints.

17               Third I'd like to mention that we are  
18      working with stakeholders in a transmission  
19      constraint area of SPP in the western Kansas and  
20      Oklahoma/Texas panhandle area. Several  
21      customers approached SPP stating that  
22      individually they cannot afford to upgrade the  
23      system but that there would be a potential for a  
24      group of them to share in the cost and to expand  
25      the study -- to expand the system. So SPP

1        facilitated a meeting last month in Wichita. We  
2        had over 60 participants attend that, and what  
3        came out of that is SPP is performing an  
4        engineering study to determine what upgrades can  
5        be made to provide benefit to a significant  
6        number of customers to potentially allow for  
7        cost sharing in that area.

8                    So that is the current overview of the  
9        transmission planning and expansion activities  
10       for SPP. Thank you.

11                   MR. WOOD: Let me just start on that last  
12       one. I had just some questions, Bruce. When  
13       you've got a process to set up to talk about how  
14       costs of new transmission get dealt with, which  
15       was one of the meetings yesterday and the series  
16       that you showed there. When that -- say that's  
17       done by the end of the year like you've proposed  
18       there. Do you all have discrete, specific  
19       projects based on what you walked through there  
20       that are kind of ready to go that go to the  
21       state commissions for siting approval, if  
22       necessary? Where are we kind of in that phase  
23       as far as getting hardware in the air?

24                   MR. REW: Okay. The subregional study that  
25       I mentioned that's focussing on the Kansas and

1 panhandle area, that's what our objective there  
2 is to come up discrete upgrades that we would be  
3 ready to approach the commission report of  
4 expansion.

5 MR. WOOD: Where does the process kind of  
6 set up? I saw just the general layout there,  
7 but for the rest of the region, I know there's  
8 TRLs and issues on the eastern side as well.  
9 What's the process by which those get identified  
10 through the SPP independent planning process and  
11 then get, I guess, kind of priced out?

12 MR. REW: Okay. The SPP staff has  
13 presented to various groups such as the Regional  
14 Tariff Working Group transmission limitations  
15 that are some of the primary causes for refusal  
16 of transmission service, and we're working on  
17 different proposals that would expand the  
18 system, and, you know, such as one of those is  
19 this short-term prepayment service which will  
20 allow us funds to upgrade the system.

21 MR. WOOD: What's been stakeholder response  
22 to that project? That was kind of intriguing I  
23 think. We all perked up when we heard it.  
24 What's been -- I mean, I'm sure we'll hear from  
25 it later today, but just from your perspective

1 of running the process, what has been the  
2 reaction to that?

3 MR. REW: I think it's been received very  
4 favorably. It is a voluntary basis for the  
5 transmission customer, so they don't see any  
6 reason why not to have that in place. From the  
7 transmission owners, they see it as a way to get  
8 the funding in place to upgrade the system as  
9 well as we would be looking at the improvement  
10 in transmission service revenue because of  
11 increased transmission service.

12 MR. WOOD: And you distinguished that on  
13 short-term service. Is long term kind of on its  
14 own track, or is it really just short term that  
15 is the focus?

16 MR. REW: Well, the long-term service will  
17 be addressed through the aggregate transmission  
18 service process that was recently approved to  
19 the RTWG where those upgrades could be allocated  
20 among multiple customers to reduce overall  
21 individual costs.

22 MR. WOOD: The clustering?

23 MR. REW: Yeah, the clustering.

24 MR. WOOD: Yeah. Short term is what,  
25 Bruce? Is that less than -- term of service for

1 less than what period?

2 MR. REW: Less than one year.

3 MR. WOOD: Less than one year.

4 MR. BROWN: I think it's important to add  
5 that this aggregate study process is -- it's  
6 new. It's really a -- in my opinion a very  
7 needed modification to our tariff provisions and  
8 something that will have to be filed with you  
9 for consideration, and I just want to highlight  
10 that right now that we're trying to think  
11 outside the box to resolve some of these  
12 difficult issues. We're trying to do a better  
13 job at looking at the system as an integrated  
14 system as opposed to taking these projects on a  
15 first-come/first serve, one-at-a-time,  
16 straw-that-broke-the-camel's-back type  
17 situation.

18 And -- but bottom line, it is  
19 definitely a change in the current pro forma  
20 structure of reviewing requests for transmission  
21 service, but we believe it is just absolutely  
22 necessary to get outside the box right now, and  
23 in doing this through an independent entity, we  
24 believe we can address all of the issues that  
25 lead to the previous process of the first

1       come/first serve and taking priority of service  
2       and so on, but it will require commission  
3       action, so we will do our best to keep you  
4       informed. We will schedule with you prefiling  
5       conferences so that we can do everything we can  
6       to explain our stakeholder thinking up to the  
7       point that we submit the filing.

8               MR. WOOD: Again, I think as you-all go  
9       through the year working through the cost  
10      recovery part of the equation and the  
11      stakeholders stay, as I know they will, very  
12      involved in that process, I do think that will  
13      probably make it a lot easier to get all these  
14      things pulled together because once you know how  
15      the money deal is going to work, then the  
16      utilities are happy to build, the customers are  
17      excited about having more options than they had  
18      yesterday to do either short or long-term deals  
19      in the market, and things just seem to work;  
20      but, again, we're here to help, and we'll look  
21      forward to kind of staying engaged on that  
22      multitrack issue on planning because I do know  
23      not just in SPP, but across the country that is  
24      clearly kind of the foundation for all this is a  
25      good infrastructure and one that as, Nick, I

1 think you just pointed out, it's not only the  
2 organization that's different but probably the  
3 uses of the grid will be different as people try  
4 to access broader capabilities of different  
5 types of generation.

6 MR. BROWN: Yes.

7 MR. WOOD: It will just need to be probably  
8 a different grid than we had 20 years ago.

9 MR. BROWN: Well, very much is. I shared  
10 with the group yesterday and also at the Energy  
11 Bar Association meeting last week a random  
12 sampling of flows that our system operators have  
13 to deal with, and I was amazed.

14 Well, 20 plus years ago when I began  
15 in the industry, we -- in the planning section,  
16 I took great comfort in the fact that the models  
17 that I used actually matched everyday operation.  
18 I mean, we developed seasonal models, and I  
19 could in my office downtown simulate that which  
20 I could then go to our coordination center in  
21 another building and look at the actual line  
22 flows and say, hey, this is neat. This works.

23 That's not the case anymore. We can't  
24 depend on seasonal models. I can take random  
25 samplings of the conditions within the critical

1 interfaces in Southwest Power Pool, and they  
2 change hour by hour, day by day. We can track  
3 cold fronts moving across a season because of  
4 wholesale market activity. We can track changes  
5 in spot gas prices and attribute that to changes  
6 in flows, and these are significant changes in  
7 flows. We're talking about a thousand megawatt  
8 difference in a flow across a north/south  
9 interface from south to north to north to south.  
10 I mean, we just -- I mean, seasonal modeling is  
11 just not an issue anymore. We're talking about  
12 models that are updated within an hour in order  
13 to deal with these types of wholesale responses  
14 to economic changes.

15 I also asked our coordinators the hour  
16 that I went down there to pull up a list of all  
17 the transactions pending approval for the next  
18 hour. They gave me an example of one just  
19 scrolling through the myriad of transactions  
20 that came in, and please keep in mind, we  
21 process about a thousand of these transactions a  
22 day. We pulled one, and it was from ERCOT to  
23 the New York ISO. It was for one hour. It was  
24 only for 150 megawatts. Okay. It utilized  
25 transmission service from six transmission

1 providers, ERCOT, Southwest Power Pool, AMREN,  
2 AEP, PJM, and the New York ISO. Okay. One hour  
3 transaction, 150 megawatts. It was a Cargill  
4 operator. I wish I could remember his name. I  
5 think it was Rod Lloyd, but he certainly found  
6 economies. Somebody in New York determined that  
7 it was better to serve their end-use load by  
8 purchasing energy for one hour from ERCOT than  
9 it was to generate it themselves.

10 Now, that is one transaction. That  
11 one transaction impacted 639, I believe--I don't  
12 have my numbers in front of me--flow gates in  
13 the eastern interconnection. It impacted 37  
14 transmission providers. Half of those impacts  
15 were in a positive direction, in other words,  
16 flows increased on those, which means the other  
17 half they decreased. That was one of thousands  
18 of transactions that SPP processes. Okay?  
19 There's 37 transmission providers in the eastern  
20 interconnection.

21 So I hope that gives everybody at  
22 least a glimpse of the activity that the system  
23 absolutely is being used in a manner in which it  
24 was never, never contemplated for. It just --  
25 it wasn't contemplated when it was built to

1 handle that kind of business. But it's handling  
2 it today, and, quite frankly, I think it's  
3 handling it very well.

4 The question was asked of me, okay,  
5 well, gee, with all this stuff going on, how do  
6 you manage that? How do you deal with all of  
7 that? And we deal with overflows when the  
8 system is being used in a manner different from  
9 that that we analyzed when we afforded  
10 transmission service and we implement TLP, and  
11 it's very effective, but it's also very crude.  
12 It assumes that the value of all of those  
13 thousands of transactions occurring are of equal  
14 magnitude and we curtail them. Regardless of  
15 whether the spread in savings in a given  
16 transaction was one dollar or \$5 or a hundred  
17 dollars, we treat them as if they were all of  
18 equal magnitude, and we curtail them. And it  
19 works to the extent that all of the energy that  
20 is being transferred is scheduled pursuant to  
21 NERC guidelines and SPP guidelines and so on.  
22 We can track all that, and we can keep the  
23 system reliable, but needs to be a better way.

24 I've used the phrase before we need to  
25 move past the rotary telephone. It worked, but

1       you know, push-button is a lot more effective  
2       and faster and better and affords more  
3       opportunities, and that's where we need to head,  
4       and we in our collaborative process will  
5       evaluate many forms of market-based congestion  
6       management and due cost/benefit analysis and  
7       working with the states in that regard.

8                 I hope soon we'll be presenting a new  
9       form of market-based congestion management for  
10      your consideration, but, again, we've got a lot  
11      of homework to do, and I'll give you my opinion.  
12      The cost/benefit analysis will be so much  
13      enhanced by implementation of the imbalance  
14      market. Rather than just simulating the impacts  
15      of some form of market-based congestion  
16      management, we'll have real data to deal with.  
17      Once that imbalance market is implemented we'll  
18      have real data to be able to analyze what we  
19      could have done differently, how we could have  
20      managed that congestion more effectively, and  
21      there are lots of ways that can be done. A lot  
22      of ways.

23                MR. WOOD: Nick, what's the, I guess,  
24      revised schedule on the imbalance market? I  
25      know it was -- we have a three phase or two or

1 three-phase issue --

2 MR. BROWN: Yes, sir.

3 MR. WOOD: -- in the filing.

4 MR. BROWN: As Stacy stated, we're kind of  
5 behind schedule in that, but the board did free  
6 up funds Tuesday for us to kick that initiative  
7 back in gear. The updated schedule that we will  
8 file with our compliance submittal will show a  
9 timetable of 11 months, beginning this month.

10 Now, I will clarify that that's the  
11 best estimate. I think quite frankly we've got  
12 a real good track record of sticking to  
13 schedules that we say we'll stick to, but I also  
14 will say that we're not going to implement those  
15 types of markets during a holiday season into  
16 the year, and we're not going to do it here in  
17 the summer. Right now, it looks like we can  
18 implement the third phase of that in the spring  
19 of '05. That's the goal.

20 But I will also point out that, you  
21 know, while staff can be ready and our systems  
22 can be ready, you know, it's not a market unless  
23 the market participants are ready, and we will  
24 implement when it's time. When they're ready to  
25 implement, when they feel confident in the

1 processes, then we will implement.

2           You did mention the phased  
3 implementation approach there, and that's  
4 important to us. There are three steps to  
5 the -- to get to the final implementation and be  
6 settling the imbalance market based on pricing.  
7 That is to gain confidence in the system. That  
8 is to get folks up to speed to develop the  
9 confidence in the system and the comfort with  
10 going live at the third phase, but we feel good  
11 about it. It's very workable plan, and, quite  
12 frankly, from a systems perspective, we've been  
13 working on this since 2001, and we're very, very  
14 close to implementing then.

15           MS. BODE: Nick, a lot of the things that  
16 you were talking about and that your staff was  
17 listing are -- as areas that you're moving  
18 forward on are things that I think the states  
19 and particularly the RSC, when we can get it up  
20 and running, will play a role in. How -- can  
21 you outline for us how you -- how you anticipate  
22 those -- those working groups merging together,  
23 or have you thought that through at all because  
24 some of those things I think are clearly issues  
25 that we will want to have a say-so in.

1           MR. BROWN: Yes. And we need for you to  
2 have a combined say-so in those. Many of the  
3 folks in the room now that our task force,  
4 working group, committees, board, all of our  
5 organizational group meetings are open. Any and  
6 everybody can participate. In fact, we go so  
7 far on our board as to allow our retail  
8 jurisdictional entities to name a representative  
9 to our board, and that has worked very, very  
10 well. We do have very active involvement of  
11 many of the states in our working groups and  
12 task forces and have had for maybe years, but  
13 that's been individual participation. It's not  
14 been collective participation, and I'm very  
15 excited about having the collective  
16 participation through the Regional State  
17 Committee, and I'm strongly encouraged and I'm  
18 very glad on some of the news that we received  
19 the other day on movement forward in that  
20 regard, and I know there's whole section on the  
21 agenda on that so I won't pursue it; but, yes,  
22 we need the collective input from the states on  
23 those initiatives, very much so.

24           MR. WOOD: While we've got leadership of  
25 SPP here, anybody from the states or the other

1 members of the next panel want to ask any  
2 questions that may be appropriate to what they  
3 brought up now? That would be a good time.  
4 Folks, if there's anything else y'all want to  
5 add?

6 MR. BROWN: Not at all, but thanks. We,  
7 again, are very excited about the opportunity to  
8 be having this meeting today.

9 MR. WOOD: Ditto.

10 MR. BROWN: It's been a long road. We're  
11 looking forward to, again, closure on what we  
12 call ourselves so that we can spend more time on  
13 the real critical issues of doing our job. The  
14 next panel is extremely representative of our  
15 membership. In fact, I think five are directors  
16 on our board today, and, again, that represents  
17 the diversity of input into our processes, and  
18 we're excited. Thank you very much, and --

19 MR. WOOD: Thank you, Bruce.

20 MR. BROWN: -- we look forward to continue  
21 the dialogue.

22 MR. WOOD: Me too, and we'll probably rope  
23 you folks in and out during the rest of the day,  
24 so don't wander too far. Thank y'all again for  
25 your leadership. I'd like to also say, Nick, I

1 kind of like your -- unlike your counterparts in  
2 the rest of the country, your hour of this has  
3 actually not been utilized in toto, so we'll  
4 give that to the next panel. You can lord that  
5 over your colleagues next time you run into  
6 them, that not too windy down here in Texas.

7 MS. BROWNELL: I won't go that far.

8 MR. WOOD: Got your 78-degree weather. All  
9 right.

10 Our stakeholder panel, a lot of old  
11 friends and few new ones. I'd like to introduce  
12 them briefly and let them -- we're just not  
13 going to be too structured other than let's just  
14 start from Trudy and go on down and just share  
15 any thoughts, again, pretty unstructured  
16 development. If we could kind of keep it to the  
17 five to seven-minute time frame. That way we  
18 can have some back and forth at the end.

19 Trudy Harper is president of Tenaska  
20 Power Services Company.

21 Bob O'Neil is from Miller Balis. He's  
22 represented, for as long as I've been in the  
23 public business, the Golden Spread Cooperative  
24 Group in the western part of the SPP.

25 Representative Tom Sloan from the

1 Kansas legislature, long time involved -- since  
2 I've been on the FERC, been involved and  
3 interested in a number of issues related to  
4 wholesale power markets and real good advocate  
5 for them as well.

6 Harry Dawson is general manager of  
7 Oklahoma Municipal Power Authority right in the  
8 heart of the region.

9 Ricky Bittle, right next door in  
10 Arkansas, is head of the -- let me see, vice  
11 president of planning, rates, and dispatch of  
12 the Arkansas Electric Cooperative Corporation.  
13 We just know him as Ricky. He's been at FERC a  
14 lot helping us, really speaking for wholesale  
15 customers in general as we grapple with these  
16 issues across the neighbor.

17 Similarly, John Butts, from the East  
18 Texas Electric Co-op who I knew on my last job.  
19 It was the FERC 211 Order, which is a Federal  
20 1992 Energy Policy Act authority that the  
21 commission got to open up the transmission grid  
22 on a case-specific basis. The ETEC had filed a  
23 complaint that really got the Texas legislature  
24 motivated to open you the Texas grid to  
25 wholesale competition so ETEC order was waiting

1 on my desk when I got to the PUC, and here we  
2 are nine years later talking about open access  
3 still, but John's been there both ends of the  
4 spectrum and --

5 MR. BUTTS: I'll comment on that.

6 MR. WOOD: Okay. James Stanton is director  
7 of market design at Calpine, one of the large,  
8 independent power producers across the region.  
9 Glad to have you hear.

10 And last but not least, Richard Spring  
11 is vice president transmission services for  
12 KCP&L, one of the transmission owners of the  
13 SPP, so we will start with Trudy.

14 MS. HARPER: Commissioners, welcome to  
15 Texas. Welcome specifically to Dallas, my  
16 hometown. I'm Trudy Harper, president of  
17 Tenaska Power Services. Tenaska is a large IPP  
18 with about 2,000 megawatts -- a little over  
19 2,000 megawatts of generation interconnected to  
20 the SPP system, and our power marketing  
21 affiliate is the one the largest and most active  
22 independent power marketers, independent of  
23 utilities, but I mean, independent power  
24 marketers on the SPP system. We've been  
25 involved in this market since it opened as a

1 regional tariff and have been very active here  
2 throughout. I sit on the board of SPP  
3 representing power marketers and IPPs.

4 Tenaska has had an opportunity over  
5 the history of SPP's regional tariff to stress  
6 SPP's ability to administer that tariff in an  
7 awful lot of ways. I made a list of them just  
8 to kind of think through a few, and, Nick,  
9 you'll enjoy hearing this, I think. We've done  
10 interconnections. We've done multiyear service  
11 requests, expansion requests, discounting,  
12 market redispatch, queue processing, rollover  
13 rates, and, commissioners, I think those are  
14 only the ones we've had to come to talk to you  
15 about. There have been others.

16 It hasn't been easy on either of us,  
17 but the truth is I think we're -- sitting here  
18 today in 2004, both of us are stronger than  
19 ever, so we must have been doing something right  
20 along the way, and that feels good.

21 I wanted to just tell you that I  
22 really believe after everything we've been  
23 through that SPP is a very solid transmission  
24 tariff operator, and I don't think anybody does  
25 it better than SPP, so I'm delighted that you

1 have approved the RTO order, and I'm excited  
2 about what that means for the region.

3 I would encourage you, I would urge  
4 you to act incrementally now as we try to decide  
5 how to implement the aspects of your order, and  
6 Stacy went over those in detail.

7 I speak specifically about  
8 incrementally, and Pat mentioned that we've been  
9 incremental in the past, and I appreciate that.  
10 I say that as opposed to doing some big rollout  
11 of a system or of a -- of a big, grand scheme  
12 where we roll this big thing out; we've spent  
13 millions of dollars; and we find out we screwed  
14 it up. That's my biggest fear. I want us to go  
15 incrementally. I want us to do it. I want us  
16 to do it fast. But I want to make sure we don't  
17 spend too much money. I want to make sure that  
18 the market has a chance to respond along the way  
19 about what's working and what's not working.

20 And then I want to use that same  
21 incremental approach to urge you to move quickly  
22 to fix some of the things that I think have been  
23 inequitable for a long time in SPP and in other  
24 transmission tariffs, for instance, the  
25 inequitable pricing between control areas and

1 noncontrol areas in energy imbalance markets.

2 Rolling out the big energy imbalance  
3 market as SPP has proposed takes us to a very  
4 solid conclusion in that, but I think there are  
5 a number of incremental steps we could do to  
6 solve some of those inequities before we ever  
7 get to the point of actually having the  
8 imbalance market rolled out.

9 Nick -- it was interesting that Nick  
10 noted that the models that we all used to run  
11 quarterly or annually don't match the models we  
12 run today hourly, and even those models don't  
13 match realtime in some cases because the control  
14 areas are not scheduling their imbalances into  
15 the market, and so that causes some of the  
16 discrepancy in ATC in real time.

17 We're excited about what you've done  
18 for us here. We look forward to building on a  
19 system that's already working. I am looking  
20 forward to your questions, and I'm going to look  
21 forward to the debate after.

22 MR. O'NEIL: Thank you. My name is Bob  
23 O'Neil, and I represent Golden Spread. I'd like  
24 to spend a couple of minutes and just describe  
25 who Golden Spread is and who they're not.

1 Golden Spread is a generation and transmission  
2 cooperative that's headquartered in Amarillo,  
3 Texas. It was incorporated in 1984 by 11  
4 distribution cooperatives in the panhandle of  
5 Texas and the panhandle of Oklahoma.

6 Since that time in 1987 it became FERC  
7 jurisdictional as one of the first FERC  
8 jurisdictional cooperatives and, most recently,  
9 has just took on five new members, four of which  
10 operate exclusively in ERCOT. So now we have a  
11 service territory that basically extends from  
12 the most southern portion of Kansas to the  
13 southern portion of Texas, an area about 500  
14 miles long, about 1100 miles of load -- excuse  
15 me, 1100 megawatts of load.

16 Now, unlike other participants in the  
17 market, Golden Spread does not and cannot choose  
18 to enter the market, choose to leave the market  
19 because it's focus is on serving its members.  
20 The members in turn, of course, are owned by  
21 retail consumers, the distribution co-ops are,  
22 and they have businesses, they have enterprises,  
23 they have communities, and what they want is to  
24 have reliable and economic power because if they  
25 can't get reliable and economic power, the

1 ripple effects could be significant. You could  
2 find that commercial and industrial activities  
3 could cease to exist. You could have a  
4 significant adverse effect on the local economy.

5 Now, as we move into a competitive  
6 market, and remembering the old adage where you  
7 stand depends upon where you sit, Golden Spread  
8 has looked around is very, very concerned  
9 because the particular geographic area where it  
10 operates, which is the very westernmost portion  
11 of the Southwest Power Pool, is transmission  
12 constrained. So, consequently, the question is,  
13 number 1, what are the viable opportunities to  
14 obtain power supply; and, number 2, what are the  
15 regulatory or the economic treatment that will  
16 be given to folks who look to obtain power.

17 Now, as Bruce mentioned in his  
18 presentation, that long-term requests for  
19 transmission of the Southwest Power Pool  
20 basically are denied. They're denied because  
21 there was inadequate transmission. It's  
22 basically fully subscribed or just structurally  
23 inadequate. Golden Spread picked up the  
24 delivery points of two member systems in the AEP  
25 service area of the SPP, and it's only about

1 nine megawatts, nine to 12 megawatts, and when  
2 they requested long-term network service to  
3 serve these loads were told that it wasn't  
4 possible to provide the long-term service  
5 because there were transmission upgrades that  
6 had to be made.

7 So it seems strange because what  
8 happens is these particular loads are already  
9 served off the Southwest and Public Service  
10 Company system. Basically the way the power  
11 flows is that it is generated in the AEP area,  
12 control area, and then it's sort of displaced  
13 through the SPS control area and flows to these  
14 loads, sort of a back feed. And Golden Spread  
15 was going to serve these loads with generation  
16 from the SPS control area. It seemed to be  
17 that, you know, it should be a no-brainer.

18 Well, come to find out when the base  
19 case change case models were run that there was  
20 a transmission problem on the system of Western  
21 Farmers Electric Cooperative in Oklahoma, and  
22 that might require upgrades. Well, we've dodged  
23 that bullet for a year. We've got a one year  
24 service. But as we looked into it and said,  
25 well, you know, why did this happen and learned

1 a little bit more about how the modeling is  
2 done, it appears that, as a practical matter,  
3 with the base case change case scenario,  
4 existing users of the system effectively acquire  
5 a vested right to the continued flow in the  
6 system, which meant that, effectively, in this  
7 case, transmission owner--happened to be Western  
8 Farmers in this case, could have been someone  
9 else--could claim an entitlement to have their  
10 system upgraded if a customer failed to continue  
11 to purchase from the specific supplier. So what  
12 happens when the customer effectively has its  
13 service terminated by its existing supplier and  
14 has no choice but to go out into the  
15 marketplace, and you either want to put in  
16 generation or buy from another resource and we  
17 have this modeling done.

18 I think that the folks from the SPP  
19 are here and they can correct me, but if I  
20 understand the way the system works, if you had  
21 a customer, let's say in load area A, that had  
22 been buying from the supplier in area C and that  
23 supplier terminated service and so the customer  
24 says, well, I want to put generation right next  
25 to my load. I've got a hundred megawatt load.

1 I want to put the generation right next to my  
2 load. I believe that the way the base case  
3 change case modeling works, that new resource or  
4 that load would be modeled, but it would be  
5 compared with the change case -- I mean, the  
6 base case that would go -- the new recourse  
7 would go into the change case and generation  
8 might ramp down somewhere else in the area. And  
9 you might find that even by putting a generation  
10 right next to the load, you're going to have to  
11 pay upgrade costs.

12 Well, that creates a tremendous  
13 competitive advantage. In essence the process,  
14 by vesting an entitlement in someone else, you  
15 continue to buy from some party gives these  
16 people the ability to command an extra price.  
17 If I'm correct about the way the modeling works,  
18 there's something fundamentally wrong with that.

19 Second, when you start talking about  
20 allocation of upgrade costs, do you specifically  
21 allocate them, or do you roll them in? Now,  
22 historically we've rolled them in. Well, a lot  
23 of the interests in the specific allocation of  
24 the participant funding is to avoid a perceived  
25 subsidization, if you will, to avoid unfairness

1 on other customers.

2 Well, I think there are two things  
3 that I would certainly encourage the policy  
4 makers to keep in mind, both at the state level  
5 and the FERC, is that if you have a transmission  
6 owner who was selling at fixed rates, in other  
7 words, it's not a formula rate that goes up and  
8 down based on investment and what have you, it's  
9 a fixed rate, and you could have a situation  
10 where there's additional depreciation reserves  
11 that are taken every year, and as regulators you  
12 know that and additional deferred tax reserves  
13 which serve to reduce the rate base, and you may  
14 have additional billing units which increase the  
15 revenue, and if that transmission owner is freed  
16 of the requirement to make any system upgrades,  
17 it's just going to have a declining rate base  
18 and it's going to have an increasing return.  
19 It's going to have an incentive not to upgrade  
20 because by not upgrading, its return just  
21 increases.

22 Well, if you turn around and say,  
23 well, we're going to specifically allocate the  
24 costs to, let's say, a generator who comes in  
25 and if we have a competitive market, you also



1 process, and I certainly don't pretend to  
2 understand all the nuances. Certainly Golden  
3 Spread is extremely concerned about the  
4 implications of moving into a market or moving  
5 into an environment if it hasn't really been  
6 thought out, if it is not understood or if there  
7 are processes on the surface that seem to be,  
8 quote, fair but when you drill down deep inside  
9 you realize that they really have the effect of  
10 almost enhancing the market power of certain  
11 established players and putting particularly new  
12 market entrants or perhaps some of the small  
13 players in the market that at a fundamentally  
14 competitive disadvantage.

15 I hope that as we go through this  
16 process that Nick and his team will start  
17 looking at these issues closely. I'm sure that  
18 they have looked at them, but it is new. It is  
19 new stuff. There are tough issues, and although  
20 the SPP process is a very open process, you have  
21 to recognize that you do have participants who  
22 truly have very vested interests, and it can be  
23 difficult in a context like that to necessarily  
24 achieve the consensus that really will be a just  
25 and reasonable consensus, which again gets us

1 back to the folks in this room that we're  
2 looking at, both the state and the federal  
3 regulators.

4 Now, Golden Spread did file comments  
5 in the SPP docket, and we have filed an  
6 application for rehearing, and we have expressed  
7 concern about a number of issues, including, for  
8 example, the planning and expansion processes  
9 and not having the SPP as an RTO with their hand  
10 truly on the throttle, where the planning is  
11 still done at the control area level, and the  
12 control areas, as a practical matter, oftentimes  
13 are vertically integrated utilities, who,  
14 although you may have a separation of functions,  
15 nevertheless operate in competition with the  
16 folks who are embedded in the control area.

17 We really think that if you're going  
18 to have an effective transition to a competitive  
19 market, it is essential that the RTO have the  
20 teeth, have the ability to make things happen.

21 Second, we're concerned about the fact  
22 that people can withdraw. As it is, we have a  
23 one-year commitment for transmission -- network  
24 transmission service, "we" Golden Spread, for  
25 this particular load in the AEP service area,

1 control area, and both AEP and SBS have both  
2 issued notices of intent to withdrawal.

3 Now, I don't know to what extent if  
4 you're going try to go financing and a bank  
5 says, well, wait a minute; you don't have a  
6 transmission commission; you want to borrow, you  
7 know, \$20 million to build a power plant; you  
8 don't have commitment to serve that load. And  
9 we say, well, don't worry. They have to apply  
10 to the FERC for leave to withdraw. Banks might  
11 be nervous about that. The question is what is  
12 the public interest in not having a real firm  
13 commitment to honor, you know, long-term supply  
14 obligations.

15 We're concerned about the state  
16 committees and only because in the course of my  
17 career, I have heard folks on state commissions  
18 express the view that their responsibility  
19 really goes to the people they regulate and the  
20 customers of the people they regulate. But what  
21 about -- what about those other customers who  
22 live in your state, you know, citizens who  
23 depend upon the economy to work and depend upon  
24 the system to work, and they may find themselves  
25 depending upon you.

1                   If we're going go forward with these  
2           Regional State Committees, I would certainly  
3           urge you to, you know, bring into the tent, to  
4           be conscious of the needs of others who just may  
5           buy from cooperatives and municipalities and may  
6           not be subject to direct regulation, but clearly  
7           you're going need your -- your concerns.

8                   And, finally on, the infrastructure  
9           and congestion issues, it concerns us that we  
10          might go forward and implement a market without  
11          an understanding as to what the results are  
12          going to be or likely to be, and this gets back  
13          to doing some enhanced modeling.

14                  Tuesday of this week the U.S. Court of  
15          Appeals of the District of Columbia Circuit  
16          remanded to the FERC the case in which the New  
17          York ISO had, for want of a better term, a  
18          market flaw where the -- the market clearing  
19          price was set at 4,300 -- excuse me, set at  
20          \$4,587 a megawatt hour, and the New York ISO  
21          sought to roll that back to about 300 bucks  
22          based upon a provision in their tariff and the  
23          DC Circuit reversed -- the commission affirmed,  
24          the DC Circuit reversed, so that's going to be  
25          back to be dealt with. But if you have a 250

1 megawatt resource you lose during a forced  
2 outage under some sort of bust in the market  
3 that would permit that type of charge to take  
4 effect, it could be devastating.

5           So I would echo to a certain extent  
6 Trudy's comments that it is important to get  
7 their; it's important to get their promptly; but  
8 it's also important to get there right. I  
9 remember one time being in a office with another  
10 lawyer and this person was on the phone with an  
11 opposing -- not opposing, a business colleague,  
12 and she said: I absolutely must have your  
13 answer by Friday, I must; but I will wait longer  
14 for a favorable one.

15           So, again, I thank you for the time.  
16 These are challenging times, and I urge Nick and  
17 his staff to rise to the challenge, and I look  
18 forward to the rest of the conference.

19           MR. SLOAN: Mr. Chairman, commissioners,  
20 I'm Tom Sloan. I'm -- if the things I say are  
21 profound, then they're my comments; if they're  
22 not, they're my colleagues in the Kansas  
23 legislature. As most of you in the room know,  
24 legislators do not have to have substantive  
25 expertise or knowledge to speak authoritatively

1 on any subject, and with that, I shall proceed.

2 We share some of the concerns,  
3 particularly those expressed by Bob, about the  
4 RSC membership. We, too, recognize that Public  
5 Utility commission does not recognize -- or does  
6 not regulate, rather, all of the sectors within  
7 our state, but we also believe that having the  
8 PUC as the sole member, if you will, of an RSC  
9 does not bode well for the political process  
10 within each of our states, at least not within  
11 Kansas, that a larger stakeholder group  
12 involving consumers, regulators, generators, you  
13 know, maybe even elected officials, may bring  
14 more consensus to the delegation, to the process  
15 across the region, and certainly will make it  
16 easier, we believe, in terms of gaining the  
17 political support necessarily -- not necessarily  
18 in our state to effect change, and I say that in  
19 Kansas legislature has a multiyear record of  
20 trying to institute policies that allow our  
21 utilities, be they IOUs, munies, or  
22 cooperatives, to take advantage of the direction  
23 that the FERC and SPP is moving in trying to  
24 benefit consumers through a competitive  
25 marketplace.

1                   We also have some concerns about the  
2 fact that Kansas is a major seam state within  
3 the SPP between eastern and western grids,  
4 between Public Power Nebraska and the SPP, and  
5 then with MISO states. And that as we  
6 understand the process, Kansas is one of the few  
7 states on the seams whose utilities and counties  
8 are all within one reliability district local  
9 system. We're all in the SPP reliability  
10 system. So we don't have a formal  
11 representation dealing with Colorado, dealing  
12 with the MISO, dealing with the other entities.  
13 And we feel that that puts us at somewhat of a  
14 disadvantage vis-a-vis some of the other states,  
15 Arkansas, Louisiana, where their members and  
16 their PUCs will be on two state committees  
17 trying to resolve seam issues.

18                   We also have some concerns that  
19 neither the FERC nor the SPP is adequately  
20 taking into account former President Clinton's  
21 executive order requiring federal installation  
22 institutions to use both energy conservation and  
23 renewable energy. Remember that President Bush  
24 did not repeal that executive order. It  
25 requires federal institutions to have two and a

1 half percent renewables by next year, five  
2 percent by 2010, and the Federal Energy Bill  
3 that stalled in Congress required seven and a  
4 half percent by 2015. Whether you like that or  
5 not, there are certain states, particularly in  
6 the SPP and western MISO footprint, that have  
7 the capacity to generate significant amounts of  
8 renewable energy. We don't necessarily believe  
9 that the mechanism is in place for to us move it  
10 to those states that need it and will not be  
11 able to generate it themselves.

12 My final comment is one on more of a  
13 time lines issue, and we recognize that each of  
14 these issues that I will raise are unique and,  
15 therefore, take a unique response from the FERC  
16 and from the SPP, but we're concerned about how  
17 long a state can stay out of the RSC process in  
18 terms of formal membership, and that ties in  
19 with our concern about the membership of the RSC  
20 to begin with. We also have concerns about how  
21 long the FERC will allow negotiations to  
22 continue on a variety of other fronts, seams  
23 being one of them.

24 That all being said, the Kansas  
25 legislators, whom I'm representing today,

1 believe that the SPP is on the right path in  
2 terms of regionalization, certainly the FERC is  
3 in terms of establishing a competitive  
4 marketplace. We simply want to make sure that  
5 our stakeholders have a chance to participate  
6 equally and to benefit equally.

7 MR. DAWSON: Thank you. My name is Harry  
8 Dawson. I represent the Oklahoma Municipal  
9 Power Authority, an agency of the State of  
10 Oklahoma, and I again thank you for the  
11 opportunity to visit today.

12 Our mission basically is to generate  
13 and transmit for -- power supply for 35 cities  
14 in Oklahoma and three partial requirements  
15 customers in Kansas. We're a member -- full  
16 member of the Southwest Power Pool. We're both  
17 a load-serving entity and a  
18 transmission-dependent entity, utility that  
19 serves load of about of 600 megawatts in  
20 Oklahoma and about a hundred megawatts in  
21 Kansas.

22 We rely on the transmission system of  
23 others completely for all of our power supply  
24 requirements. We operate in five control areas,  
25 Commissioner Brownell, one of them being the

1 kingdom of Texas, we have a power plant in the  
2 kingdom of Texas, and six transmission systems,  
3 so we have to span a lot of deals. Lucky for  
4 us, all of them are in the Southwest Power Pool  
5 although the -- as the edges retreat to the  
6 west, we become ever increasingly concerned  
7 about our ability to do that.

8 I have three areas I want to talk  
9 about this morning. I'm going to limit myself  
10 to those three because the list is long, and the  
11 time is short. The three things -- three things  
12 that concern us is the all load under the  
13 nonrate terms and conditions of that tariff. We  
14 applaud you for that order. We think that was  
15 an excellent deal. Second is participant  
16 funding and credits and how all that gets sorted  
17 out, and then lastly the control of the SPP  
18 budget.

19 With regard to all load under the  
20 tariff, we are very happy with the orders that  
21 came out, but we have a problem, and that is  
22 that we seem to think some of the transmission  
23 owners basically think that using their Open  
24 Access Transmission Tariff may be compliance,  
25 and they may not need any amendments at all to

1 the Southwest Power Pool. So what we're really  
2 doing is encouraging you when you see the  
3 compliance filing, to make sure that those areas  
4 are covered adequately.

5 As far as we know, no transmission  
6 owner has ever been denied service in its own  
7 control area, but it routinely happens to us  
8 because the planning process is different. The  
9 control areas plan for their own loads, and then  
10 we get treated as incremental load on top of  
11 that, and we routinely get denied transmission  
12 access, as Bob has alluded to earlier.

13 We also think the continuation of the  
14 control areas and all the benefits they have  
15 really hinders competition. It's noncomparable  
16 tariff treatment. We find that as long as that  
17 exists, our comparable services are largely  
18 illusory to us. Because we operate across  
19 four control areas, five if you count ERCOT,  
20 we're constantly caught in imbalance. We've  
21 intervened at the present time over the  
22 generation interconnection because now it looks  
23 like there might be a possibility of charging us  
24 for Ancillary Service Schedule Number 4 twice.

25 (Interruption by the reporter.)

1           MR. DAWSON: I'm trying to make up for  
2 Bob's time. My partner over here has got me on  
3 a stopwatch.

4           Basically, we think that is  
5 noncomparable treatment. We're very worried  
6 about that. We would like to see a requirement  
7 that the Southwest Power Pool virtually  
8 eliminate control areas by requiring them to  
9 comply with all the nonrate terms and  
10 conditions, including Ancillary Service Schedule  
11 4 or some modifications to Ancillary Service  
12 Schedule 4 that would allow us what we consider  
13 reasonable prices until the imbalance market is  
14 up and running.

15           We recognize that non -- compliance  
16 with nonrate terms and conditions is not always  
17 popular with state commissions, but we also say  
18 that you're if going to have a competitive  
19 wholesale market, you have to have everybody  
20 playing by the same rules.

21           So, again, our summary would be we  
22 would like to see all loads subject to the  
23 scheduling imbalance and all other terms of  
24 service under the tariff just as we think the  
25 order says right now; otherwise, that's an

1       illusionary situation for us.

2                   The second is the participant funding.  
3       We're very troubled by the existing Southwest  
4       Power Pool rules on that. We feel that through  
5       no fault of the transmission-dependent  
6       utilities, we've been paying rolled-in rates for  
7       decades, but the TOs don't plan for our loads.  
8       That's particularly evident to the north of us  
9       in Kansas and Oklahoma, at least one of the  
10      major service area we serve in, they do plan for  
11      our loads, and they have made transmission  
12      service available to us. But up in Kansas we  
13      find consistent problems with failure to plan  
14      for the network customers' needs and the  
15      inability to serve them.

16                  Transmission upgrades benefit all  
17      parties, but it seems like under our current  
18      policies using but for, whoever the last  
19      transmitter on that makes the request gets to  
20      bear all the costs. I'll probably skip over  
21      that because Bob's hit it pretty in much detail,  
22      but we have the same concerns.

23                  We think participant funding in its  
24      pure form where the participant pays for  
25      everything is a very anticompetitive. It's a

1 vertical market power issue in the dominant  
2 control area, and we really want to see the  
3 highly rolled in participant funding mechanism  
4 at the end of the day.

5 The and pricing we have in Southwest  
6 Power Pool is the worst of all worlds. We would  
7 rather have pancake rates because they're  
8 generally cheaper. Under the and pricing scheme  
9 exporting load across control area boundaries,  
10 we get to pay the sink zone and whatever the  
11 incremental costs of the transmission are. And,  
12 like I said, that's generally more expensive  
13 than must paying the two transmission rates.

14 The final thing on that is  
15 end-of-the-line reliability issues. Municipal  
16 customers tend to be the end of the line. They  
17 don't tend to be looped into the system, and we  
18 have reliability problems, while our primary  
19 competitors tend to loop serve theirs and then  
20 roll those into our transmission rates.

21 What are alternative approaches?  
22 Obviously, aggressive planning by the  
23 independent RTO is the best one. We think  
24 system upgrades should be rolled into rates.  
25 Load-serving entities should be allowed to build

1 system improvements and get credits. Why grant  
2 incentive rates of return when you have people  
3 that are willing to invest at decremental rates  
4 just because they want the right to earn into  
5 the transmission system?

6 Finally, we like the transmission only  
7 company such as the American Transmission  
8 Company up in Wisconsin. All users are entitled  
9 to a load ratio share of the buy-in to the  
10 system. It leads to better planning, and we  
11 think it's competitively neutral.

12 Last comment, Southwest Power Pool  
13 expenditures. Many RTOs we think their spending  
14 has run wild. The Southwest Power Pool prides  
15 itself in getting things done on time and at or  
16 under their budget. Nick alluded to that  
17 earlier, and I agree with him. I think we've  
18 done an excellent job under the stakeholder  
19 board we have. We're about to switch to  
20 independent board. We would like FERC to  
21 clarify in these requests for rehearing that the  
22 annual -- that the budget requirement for review  
23 by the FERC is an annual one and not just a  
24 one-time budget requirement.

25 On balance, we feel that the FERC

1 order was good, and I thank you about it and  
2 will be happy to answer questions when  
3 appropriate. Ricky?

4 MR. BITTLE: Thank you, Mr. Chairman and  
5 commissioners. I too think that the Southwest  
6 Power Pool has done an excellent job in moving  
7 forward in trying to reach the RTO status.

8 For us the main value of an RTO is  
9 going to be the fact that we are able to serve  
10 the end consumers at a much lower cost in the  
11 long term, and I think that everyone has that  
12 view. It's just a matter in some cases we view  
13 it from a little different perspective. I know  
14 the commission tends to view it from a wholesale  
15 perspective. The state commissioners tend to  
16 view it from the state perspective, and, of  
17 course, being a consumer-owned organization, we  
18 tend to look at our specific consumers, and so  
19 we all have in mind getting to a place where all  
20 of the consumers are actually served at the  
21 least cost, and I think that that's a unique  
22 position to be in, and I think the Southwest  
23 Power Pool as an organization has shown over the  
24 years a very strong propensity to work together,  
25 and I think that's one of its strengths, and I

1 think that's one of the reasons it's moving  
2 forward.

3 And I think that as we look at this,  
4 one of the main things that AECC wants to get  
5 out of it is a regional planning perspective  
6 where there is actual construction of  
7 transmission.

8 Now, this is going to take amount of  
9 work together because when you start working  
10 with the regional nature of it, you -- you're --  
11 you're really into the different states, and  
12 that's one the reasons I think that the RSC has  
13 a strong role in this because planning of and  
14 construction is going to involve actual siting  
15 in each of the states, and so it's important  
16 that that entity work.

17 Now, there is -- there are some legal  
18 questions that have been raised about whether  
19 and to what -- what the level of work together  
20 there can be as far as the FERC and the  
21 individual states, and that's not my area of  
22 expertise, and I won't even pretend that it is,  
23 but I recognize that there -- that those  
24 questions are there, but their working together  
25 is really one of those things that's going to be

1 important.

2 Now, in Arkansas we are unique in that  
3 the cooperatives in Arkansas are regulated, both  
4 at the distribution cooperative level and at the  
5 G&T level, and then the contracts that we use  
6 are -- for transmission service are FERC  
7 regulated, so we get involved in all of those  
8 areas, and so working together there is going to  
9 be extremely important.

10 Now, the question has been raised  
11 several times about whether the RSC will look  
12 out for those that are not actually regulated by  
13 the entity sitting on there. I think in  
14 Arkansas, I can say positively that that won't  
15 occur. My discussions with the commissioners in  
16 Arkansas lead me to believe that they are  
17 concerned about every consumer in Arkansas  
18 regardless of whether they are actually  
19 regulated by the state or not.

20 And so I think that from Arkansas'  
21 perspective, we can make a lot of this work and  
22 work well, and so I'm looking forward to really  
23 getting the RSC up and working, but to the  
24 extent that that -- there is not cooperation on  
25 getting transmission sited and actually

1       constructed, we've got a problem because if we  
2       layer on top of a transmission system that  
3       basically is fully subscribed, a market that, in  
4       effect, prices areas of weak transmission at a  
5       higher price, then Arkansas will have some  
6       areas, especially the area served by the  
7       cooperatives, that are going to be in --  
8       experiencing some large cost increases, and that  
9       really does concern me.

10               The -- this whole concept about how we  
11       get transmission built is going to be a very  
12       interesting debate. We started it by looking at  
13       the participant funding in several of the areas.  
14       We have been looking at what the transmission  
15       rate is going to be, how formula rates are going  
16       to be involved, how we're going to do planning,  
17       and it all comes back down to how is this going  
18       to be priced, and we've started that particular  
19       discussion.

20               I like the way the discussion started  
21       yesterday. We kind of left out some of the  
22       extremes, and we're starting to move towards  
23       some of the middle, and I think that discussion  
24       will go well, and once we get to an idea of how  
25       things can be paid for, I think we think get

1       some things constructed, and I think that is  
2       going to be an extremely important issue.

3               As far as all load under the tariff is  
4       concerned, that's another area that I think that  
5       is going to have to be looked at. Now, there's  
6       some real questions about just what does it mean  
7       that all load is under the tariff for all  
8       nonrate terms and conditions. And a lot of  
9       people think they may know what that is, but I'm  
10      not sure I do. And so that's one of the real  
11      questions. To the extent that you're  
12      controlling the nonrate terms and conditions,  
13      does that also turn around and say that that  
14      dictates what the price is going to be? And  
15      that's one of those questions that's just going  
16      to have to be grappled with.

17             But AEP's request for rehearing keyed  
18      up another issue that I think is very timely,  
19      and it's one that I think you will need to look  
20      at, and they teed it up very, very well. And  
21      that's if you've got a grandfathered contract,  
22      which AECC does, and you tell AEP that they have  
23      to take network service to serve our load, do  
24      you trap some costs between them and us? And if  
25      so, what happens?

1                   In effect, we have a contract that is  
2                   in place, and you -- if they have to take that  
3                   kind of service and then that trap -- that cost  
4                   is trapped, then there will be a lot of pressure  
5                   to terminate that contract, which in this case  
6                   it's not an extremely long period of time  
7                   because we're almost to the end of the contract,  
8                   but it does serve to raise the issue that there  
9                   can be some trapped costs under that kind of  
10                  scenario.

11                  And it's one of those things that I  
12                  know we disagree with, and so I'll just tell you  
13                  up front that I think that staying with a hybrid  
14                  board in the Southwest Power Pool's case would  
15                  have been the better decision, but I know that I  
16                  don't get to vote, and so we have moved forward  
17                  with that particular issue, but the reason I  
18                  think that is one of the reasons we have been  
19                  cost competitive in developing the systems we  
20                  have is because the stakeholders had a very  
21                  strong vote in the way things have been done,  
22                  and I think you can see that we've moved forward  
23                  over time, but we have done it in a way that  
24                  minimized the cost because we didn't throw money  
25                  at anything, because we knew who was going to

1 pay for them.

2 But I do thank you for the rulings and  
3 the order that you put out. I think it's a good  
4 ruling, and I think you can see that the  
5 Southwest Power Pool is supporting what you have  
6 done.

7 Thank you very much.

8 MR. BUTTS: Good morning. My name is,  
9 pardon me, John Butts. I'm the manager of East  
10 Texas Electric Cooperative in Nacogdoches,  
11 Texas, and I thought we had real problems until  
12 I heard Harry. Ours are minute compared to his.  
13 Seriously.

14 We're made up of three generation and  
15 transmission members, Northeast Texas Electric  
16 Co-op, Texla Electric Co-op, and Sam Rayburn  
17 G&T. East Texas and two of these members Texla  
18 and NTEC are dues-paying members of the  
19 Southwest Power Pool. The third member, SRG&T,  
20 is interconnected with Entergy, and that, as you  
21 know, poses another problem, the seams issue.  
22 Together we serve about 300,000 consumers and  
23 over a thousand megawatts of load and have  
24 approximately a thousand miles of transmission.  
25 And I want to begin by saying that East Texas

1 Cooperative supports Southwest Power Pool, and  
2 we support the commission in trying to form an  
3 RTO for us.

4 However, there are three areas I think  
5 I'd like to address today that we're concerned  
6 about. We're concerned about wholesale  
7 competition in the Southwest Power Pool or lack  
8 thereof. The dominant investor owned that we  
9 deal with, in fact, absolutely deal with, AEP  
10 continues to possess and exercise market power  
11 to our demise. In fact, the competitive  
12 wholesale market has declined in Southwest Power  
13 Pool in our opinion over the past several years.  
14 There are fewer independent generators in the  
15 region, and the generation and transmission that  
16 we access are in the hands of large utilities.

17 The other thing that concerns us,  
18 there's been virtually no transmission  
19 investment in the Southwest Power Pool in over a  
20 decade. Load continues to grow, people are  
21 coming to our region, and we seriously think we  
22 have a problem. We're seeing fewer, not more,  
23 competitive options in this region. We urge  
24 FERC to do two things. Look at the market power  
25 issues, and if you find market power, do

1 something about it. And we've been told if  
2 there's a need for a complaint to come to FERC  
3 and file it, and we will.

4 Second issue. We're extremely  
5 concerned about small transmission owners being  
6 denied access to the transmission owner's club.  
7 We have seen and know about facilities, the 34.5  
8 KV being a part of the tariff, and some of our  
9 transmission facilities are looped 138, and we  
10 don't qualify, and we don't understand that. We  
11 feel like that's unfair and should be corrected.

12 Mr. Chairman, you were a part of  
13 something that I knew about several years ago,  
14 and it's an outfit called ERCOT, and we doubted  
15 it and were skeptic. You know, amazing thing is  
16 it works, and somebody should try to mimic what  
17 goes on in ERCOT from a transmission  
18 perspective. We rolled in all the costs, most  
19 of the IOUs didn't like it, but they do now, and  
20 the costs have gone up a little bit, but I  
21 guarantee you, if there's a transmission need,  
22 it's justified, it's rolled in, and everybody  
23 pays their pro rata cost. And I can't  
24 compliment you now, but I can compliment you  
25 what you did when you were chairman of the Texas

1 commission. That's all.

2 MS. BROWNELL: He's trying.

3 MR. BUTTS: Third, and I think it's been  
4 voiced. We're concerned about the ability to  
5 withdraw. I think if you're obligated for  
6 something and you can get away from it and not  
7 fulfill your obligation, we're in trouble, and,  
8 again, somebody mentioned before that how can a  
9 banker loan money where the ability to not pay  
10 is there? So I think you should take that under  
11 advice.

12 To conclude, sir and ladies, we  
13 support FERC, what you're trying to do. We  
14 support the Southwest Power Pool with caveats I  
15 mentioned. We think there's a limited viable  
16 wholesale market out there, inclusive policy on  
17 transmission, and until all facilities are  
18 considered, including cooperative and municipal,  
19 expansive role of an RTO will not be met. Thank  
20 you very much.

21 MR. STANTON: I'm Jim Stanton with Calpine  
22 Corporation. I'd like to express our  
23 appreciation to the commission for scheduling  
24 this meeting. I think it's a great thing and  
25 especially doing it the day after the Market

1 Participant Funding Symposium from SPP, which  
2 saved us all a travel day.

3 Calpine by the end of this year will  
4 have 23,000 megawatts operating in 23 states,  
5 Canada, and the United Kingdom, so we have a  
6 vital interest in merchant power. I know I  
7 speak for us and probably my fellow IPPs that  
8 we're delighted to bring our clean and efficient  
9 generation to the marketplace as envisioned by  
10 the SPP RTO. To a large extent, we are the  
11 engines of competition which will enable a large  
12 degree of the cost savings envisioned in an RTO  
13 structure, and we are looking very much forward  
14 to participating in that.

15 I have a couple of clarifications I'd  
16 like to bring before this body today, basically  
17 terminology issues. I've heard concern and read  
18 concern over the idea of transference of control  
19 over to an RTO, and that has been described and  
20 I think unfortunately kind of interchangeably  
21 between operational and functional control.  
22 Now, my background as a system operator tells me  
23 those are two distinct and different things. I  
24 believe an RTO is to assume functional control  
25 over the interconnected grid which is the

1 coordination of injections and withdrawals and  
2 the management of congestion, and that's pretty  
3 much what they do.

4 To me, operational control means  
5 putting in phase shifters, capacitor banks,  
6 dealing with auto transformers, switching for  
7 line maintenance and so forth, and that is by no  
8 means to go away from the transmission owners'  
9 responsibility. So I think it's kind of  
10 unfortunate, and I've seen it even in a lot of  
11 commission orders that we refer to operational  
12 control that an RTO is to have, and I think  
13 that's wrong. I think it's functional control,  
14 and I think that confusion has caused some maybe  
15 unfounded concern of some parties about what the  
16 actual role of the RTO is.

17 The second issue I'd like to touch on  
18 is in various stakeholder forums and raised  
19 concerns that may have some bearing on the  
20 market development is the notion that in the  
21 Southwest Power Pool, there's an overbuilt  
22 situation for generation, which I tend to  
23 discount. If there's been a determination made  
24 that a sufficient level of capacity exists to  
25 support a viability wholesale market, then I

1 haven't seen it. We don't have one yet, so we  
2 don't know if we have a sufficient level of  
3 capacity to support those markets.

4           And I would compare it to maybe  
5 another energy provider being gas stations, and  
6 I wonder how many gas stations there are here in  
7 the Dallas/Fort Worth area, and I would say  
8 there are probably more than are absolutely  
9 necessary, but those entities compete with each  
10 other on price and level of service to their  
11 customers, and that's how they survive, and  
12 that's how they bring benefit to their -- to the  
13 customers that come to do business with them.

14           So I think it's premature to say that  
15 there's any kind of overbuilt situation until we  
16 see that we have the level of competition that  
17 customers demand in an energy market.

18           And, you know, just as a final  
19 comparison, I don't know how many of you have  
20 ever lived in a town that has one gas station,  
21 but I have, and the price of gas tends not to be  
22 all that attractive. So when we get to that  
23 point, and it will be down the road a ways when  
24 the markets get up and running, if we do come to  
25 a realization that there's an overcapacity

1 situation, then we're going to have to take a  
2 look at is it because of an overbuilt situation  
3 or an oversustained situation. Thank you.

4 MR. SPRING: Good morning. I want to thank  
5 you for the opportunity to address this very  
6 distinguished group of people. I'm Richard  
7 Spring. I'm vice president of transmission  
8 services for Kansas City Power & Light which is  
9 a transmission owning member of the Southwest  
10 Power Pool. Just to work off of Representative  
11 Sloan's comment, KCPL is a vertically  
12 integrated, investor-owned utility that serves a  
13 half a million customers in the very northeast  
14 corner of the SPP footprint, so we understand  
15 very well the issue of seams.

16 Nick had made mention earlier of my  
17 personal involvement and my company's  
18 involvement in the development of the Southwest  
19 Power Pool, and I have been involved with trying  
20 to garner RTO recognition for the Southwest  
21 Power Pool since 1999 in several different  
22 manners. Currently I chair the strategic  
23 planning committee, which was formed a little  
24 over a year ago to try and figure out which  
25 direction we needed to move the Southwest Power

1 Pool in, and I'm very pleased to say that there  
2 are seven of the 10 members of that committee in  
3 attendance today.

4 Unlike Harry, I have six topics that I  
5 would like to address, not in any specific order  
6 of priority. In working all of the aspects of  
7 our strategic plan, I'm very pleased to say that  
8 the majority of the issues brought forward to  
9 the board of directors of the Southwest Power  
10 Pool from the strategic planning committee are  
11 in progress in some fashion. Those are if --  
12 those of you who remember, our original intent  
13 of the strategic plan was to become Order 2000  
14 compliant regardless of the status that that  
15 would garner us. We wanted to do some  
16 aggregated planning because of some of the  
17 issues of transmission expansion that we've  
18 heard earlier today. We wanted to figure out  
19 how to fund those transmission expansions in a  
20 fair way, and yesterday was a start in that  
21 direction. And one of the fundamentals of the  
22 strategic plan was we want to see evolution of  
23 our current processes in a incremental fashion  
24 rather than some revolutionary process.

25 I'm going to be sprinkling my comments

1 with several different things, my personal  
2 involvement with the Southwest Power Pool and  
3 that is as transmission owner. The issues I  
4 would like to bring forward are the issues that  
5 I think have already been brought up in one way  
6 or another, but one is the state regulatory  
7 approvals that many of the members face,  
8 probably some commentary on the governance  
9 structure, the Regional State Committee  
10 formation and the role of that committee, issues  
11 surrounding grandfathered agreements,  
12 outstanding legal and regulatory cases that are  
13 outside of this particular docket, and, of  
14 course, the time line and timing of transforming  
15 the Southwest Power Pool into an RTO.

16 On the issue of state regulatory  
17 approvals, many members of the Southwest Power  
18 Pool require approval from their state  
19 commissions to participate in an RTO. This  
20 includes not only being a member of the  
21 Southwest Power Pool RTO but placing the bundled  
22 load under the tariff and transferring  
23 operational control of our facilities.  
24 Recognition of this critical -- is very critical  
25 to the successful transformation of the

1 Southwest Power Pool, and deference needs to be  
2 provided to us, those that need to get their  
3 approval to get those approvals. Without the  
4 necessary state regulatory approvals, these  
5 members that I'm representing will be in  
6 violation of their respective commission's  
7 requirements which is a very uncomfortable  
8 position to be in. An alternate proposal to the  
9 time line and schedules was discussed at length  
10 at last Tuesday's SPP board of directors meeting  
11 that put the required state regulatory approvals  
12 on the critical path of transforming into an  
13 RTO.

14 This would have taken care of many of  
15 the concerns of those members, but it didn't  
16 give the push to transformation to an RTO as  
17 evidenced by the board vote.

18 We had talked earlier about some SPP  
19 members giving notice of withdrawal. This  
20 balancing act between requiring state regulatory  
21 approval and getting the RTO up and running is  
22 the reason that we as Kansas City Power & Light  
23 submitted our notice of withdrawal with no real  
24 intent to effect that notice of withdrawal, but  
25 should we be required to withdrawal, we at least

1 had those in motion.

2           Next I'd like to address the Regional  
3 State Committee formation and role. Having a  
4 Regional State Committee is fundamental and is  
5 critical to the successful transformation of the  
6 Southwest Power Pool into a regional  
7 transmission organization. Not only is it  
8 important today initially in our transformation,  
9 but into the future as we develop into new  
10 markets and we see the landscape of our industry  
11 change. It is our opinion that the Regional  
12 State Committee should be an advisory body,  
13 consulting on issues of resource adequacy,  
14 transmission expansion, and market development.

15           We did get some information, and Nick  
16 had mentioned it earlier, that we're looking to  
17 have some positive movement forward by April  
18 27th on the organization of an SPP RSC, but I  
19 must say as I look at the Midwest ISO,  
20 organization of MISO states, even though you  
21 have a charter, it takes a long time to develop  
22 that organization to be operationally  
23 functioning.

24           With that, one of the fundamentals of  
25 the Southwest Power Pool is that it will be

1 member driven, and I hope it's member driven  
2 with the support of the Regional State  
3 Committee. Can we make this type of alliance,  
4 it will lend to the SPP's future success moving  
5 forward.

6 To the issue of grandfathered  
7 agreements, as mentioned earlier, there is a  
8 potential to transmission owners of nonrecovery  
9 of incremental costs associated with obtaining  
10 services from the RTO to fulfill contractual  
11 obligations of these grandfathered agreements,  
12 and I think should these agreements need to be  
13 phased out, there must be protection of bundled  
14 retail customer rights to current and future  
15 transmission capacity requirements. So  
16 mechanisms need to be debated and put into place  
17 to incorporate those concerns.

18 I don't have a very extensive list,  
19 but on externalities to the Southwest Power Pool  
20 outside of the specific orders, we all know  
21 there are many cases currently in the court and  
22 before regulatory bodies to resolve many of the  
23 issues that we have stated today and that other  
24 entities in the marketplace are facing. The  
25 uncertainties of outcomes in these cases could

1       cause the Southwest Power Pool and its  
2       membership to take steps backwards, which is not  
3       healthy nor prudent use of our time or money,  
4       and so we are keeping a close eye on that and  
5       hopefully maintaining the flexibility to be able  
6       to respond to whatever comes out of those cases,  
7       but there is concern of what those would be in  
8       moving forward.

9                 Just kind of a commentary on the  
10       governance. The original strategic plan put  
11       before the board of directors of the Southwest  
12       Power Pool had in it the current hybrid  
13       structure. It was unanimously voted in. After  
14       doing that, we had several discussions with  
15       several interested parties and we realized at  
16       that point that that would not be acceptable to  
17       a number of people, and we made modifications to  
18       the bylaws for the independent structure.

19                One of the challenges that we had and  
20       that was a desire of all seven independent board  
21       members was to continue on with the membership  
22       interaction that they had seen in our committees  
23       and on our board of directors, so we  
24       contemplated something that was new, something  
25       called the members committee. This concept was

1           unanimously approved by the board of directors,  
2           and I guess my comment is we were already making  
3           modifications before we've had the opportunity  
4           to put it into effect and test it out.

5                        As Stacy presented earlier, the board  
6           of directors did vote to move ahead with several  
7           critical action items to satisfy the February  
8           10th order. One of those is moving to an  
9           independent board of directors, and in talking  
10          to one of the other stakeholder board members,  
11          after that vote, he said, you know, Richard, we  
12          just voted ourselves off the island.

13                       In summarizing, we're in the process  
14          in my mind of overhauling an airplane in flight,  
15          and this requires us all to proceed prudently,  
16          understanding and respecting all constituent  
17          circumstances and positions, and by doing so, I  
18          think we can successfully land after the storm.  
19          Thank you.

20                       MR. WOOD: Thank you all. That was real  
21          helpful. I'm going to keep some questions kind  
22          of focused and brief because I know we all have  
23          a lot and just to give time frame here looks  
24          like about 15 minutes. We have a 15-minute  
25          break built in, but I think we'll just go as we

1 need here.

2 Trudy, a quick question, on the  
3 control area issues in the interim between now  
4 and when the imbalance market 11-month schedule  
5 plus or minus would be implemented, what -- kind  
6 of flesh that out. What are you talking about?

7 MS. HARPER: I thought you would never ask.

8 MR. WOOD: You were terse. You were -- you  
9 win the award.

10 MS. HARPER: Thank you for the opportunity  
11 to expand a little bit on that. There are a  
12 number of ways to handle that. Obviously, the  
13 best and I think most efficient way ultimately  
14 is to do the energy imbalance market as you have  
15 proposed and as SPP is proposing to implement;  
16 but in the meantime, there are existing tariffs  
17 in place today. Each control area utility  
18 that's regulated, and most of these have an OATT  
19 equivalent on file today with you, either the  
20 regulated or even the unregulated, and each of  
21 those have what's called a generation schedule  
22 imbalance tariff in place today that applies to  
23 noncontrol area market participants that is  
24 punitive, and I think appropriately so, for  
25 imbalances that those of us that are noncontrol

1 areas create on the system.

2 That punitive imbalance rate prevents  
3 us from abusing the market that exists just  
4 because of the nature of electricity. In other  
5 words, there's a natural market in electricity  
6 because everything is going to flow. Something  
7 is either going to get a heat up or it's going  
8 to trip, but, ultimately, everything is going to  
9 flow, and everything is go to settle to some  
10 state of normalcy at some point, and because of  
11 that, if I wanted to abuse the system by  
12 scheduling power off of -- off of Kansas City  
13 Power & Light's system to somebody else and I  
14 didn't buy that power from them, I can't do  
15 that, and if I submit a schedule like that, I  
16 pay a punitive tariff imbalance fee for that.

17 On the other hand, Kansas City Power &  
18 Light can, however, flow to its neighbors in an  
19 imbalance situation -- into its control area  
20 neighbors in an imbalance situation, and the way  
21 that's treated is not as an imbalance, but as  
22 what they term inadvertent energy under the NERC  
23 policies, and inadvertent energy is not paid for  
24 at all in dollars. It's paid back in kind by  
25 the control area.

1                   So in other words, a utility who leans  
2                   on his neighbors and takes power from the grid,  
3                   for instance, for a short period of time can  
4                   then -- they balance all of this out at the end  
5                   of some period and later then have the  
6                   opportunity to pay that back when it's  
7                   convenient to them and at their own system  
8                   average cost. It's not punitive. If anything,  
9                   I think it's actually the opposite of that. And  
10                  it's caused some serious problems in the past.  
11                  I don't believe it's causing those kind of  
12                  problems today as the markets are fairly level  
13                  economically across the regions, but the  
14                  differences and the inequity in my mind is in  
15                  the imbalance of I pay a punitive price for that  
16                  because I'm not a control area, and those who  
17                  are control areas do not pay the punitive price.

18                  It has led some generators to form  
19                  control areas just for the purpose of avoiding  
20                  imbalance fees. And that's a very significant  
21                  investment, and at the end of the day, it sort  
22                  of dilutes the idea of what a control area was  
23                  really there to do. And so I'd like to see us  
24                  at a minimum force the market to -- and this is  
25                  across the entire U.S. It's not just Southwest

1 Power Pool. I'd like to see all imbalances  
2 settled under the imbalance tariffs that are in  
3 place and not just the noncontrol area  
4 imbalances being settled that way, meaning  
5 inadvertent energy should be settled as  
6 imbalance.

7 MR. WOOD: How is that issue being dealt  
8 with here in ERCOT?

9 MS. HARPER: In ERCOT, we're one control  
10 area now, so we actually kind of -- we solved  
11 the problem. That was another sort of  
12 sledgehammer to fix the fly if you will, that we  
13 solved the problem by creating one control area,  
14 and now everything is settled at balancing  
15 energy prices. So in ERCOT --

16 MR. WOOD: Was that a problem when there  
17 were ten areas?

18 MS. HARPER: It was a problem when there  
19 were ten. And any time you have one control  
20 area, you lose that problem, and any time you  
21 have a balancing energy market, you don't have  
22 the problem. It's when you don't have a  
23 balancing energy market to handle imbalances and  
24 you are -- SPP is an example. MISO is an  
25 example. Everywhere there's not currently a

1 realtime balancing energy market has this  
2 problem today.

3 MR. WOOD: But you can -- you can -- you  
4 can have multiple control areas and not face  
5 this problem if you have the balancing energy  
6 market.

7 MS. HARPER: That's correct. That's  
8 correct.

9 MR. WOOD: So when you get to the end of  
10 this 11-month time frame here, this is not an  
11 issue?

12 MS. HARPER: I think that's going to be  
13 correct. I mean, that's certainly the  
14 objective, and I would say -- the only reason I  
15 hesitate is we'll kind of see how it works when  
16 we get there, but that is the objective. And I  
17 think that, academically, that's absolutely  
18 true. My fear is that we take more than 11  
19 months or that we try to solve the problem in a  
20 very sophisticated way which is a good thing,  
21 but in the mean time we could have just been  
22 settling at the economic inequity in a very  
23 short run period.

24 MR. WOOD: The withdrawal rights issue has  
25 come up a number of places, and I think the

1       commission actually in the order expressed kind  
2       of an understanding of how it's being used here,  
3       and I don't know that we kind of came out very  
4       strongly about it because I think of our  
5       understanding of how it works, but it does seem  
6       to have shown up in a number of the petitions  
7       for rehearing or clarification, so I just  
8       wonder. I know we've got probably different  
9       representative views on this panel, so it might  
10      be a good time for us to kind of recrystallize  
11      that debate, but if any two -- a pair of you  
12      want to kind of jump off there and kind of  
13      recrystallize that for us, it would sure help  
14      because it's been one that showed up quite a  
15      bit, and, Nick, I was going to ask you that  
16      earlier today, but I wanted to get it out here  
17      from the other folks, but it would be helpful  
18      to --

19           MR. BROWN: I would like to add just a bit  
20      of clarification to that issue. Southwest Power  
21      Pool does have the most liberal withdrawal  
22      provisions of any regional organization out  
23      there. Quite frankly, our goal has always been  
24      to manage the organization in such a fashion  
25      that people want to maintain their membership.

1       Because of the uncertainty in the industry and  
2       choices and changes in direction and on and on  
3       and on, several of our members historically have  
4       submitted notices of withdrawal to us and then  
5       rescinded those prior to their becoming  
6       effective. That's happened for at least five  
7       years with one of our members, and several other  
8       members have kind of jumped on saying, well,  
9       gee, that's a good way to keep the options open.  
10      It's a good way to recognize the tension between  
11      some of the federal/state jurisdictional issues,  
12      and to the extent that maybe a state were not to  
13      allow us to continue, at least we're not locked  
14      in or a longer period of time.

15               Let me clarify something in our  
16      current membership agreement. When those  
17      transmission owners, if they were to withdraw,  
18      not when, but if they were to withdraw, they are  
19      obligated for SPP cost obligations, so when we  
20      go to market for financing, we have not had an  
21      issue with that. When we went through private  
22      placement of significant debt, the strength of  
23      our membership agreement enabled us to achieve  
24      an A3 Moody's rating. Okay? So from a  
25      financial perspective, that group of investors

1 is not concerned about that because of the  
2 obligation to pay to the extent that they  
3 withdraw.

4 Another clarification that's very  
5 important in the membership agreement is that  
6 service that SPP affords must be provided  
7 regardless of whether someone withdraws or not.  
8 We have sold on many occasions more than ten  
9 years of service. Quite frankly, I would argue  
10 we've sold service in perpetuity based on the  
11 rollover rights. So a transmission customer who  
12 has purchased service from Southwest Power Pool  
13 based on our current footprint is assured that  
14 service going forward even if that transmission  
15 owner withdraws, based on our current membership  
16 agreement that's on file and accepted by you.  
17 So I just want to be sure and provide that  
18 clarification.

19 Now, again, I understand the concern  
20 about solidity of footprint and so on, but quite  
21 frankly, we would have that uncertainty whether  
22 it was a two-year commitment, a three-year  
23 commitment, a five-year commitment. People can  
24 always turn in a notice of withdrawal, and at  
25 some point in time, we would have to have to

1 deal with that.

2 I somewhat -- even though it's -- it's  
3 tenuous for me, I somewhat like our liberal  
4 withdrawal provisions. It creates a natural  
5 tension and forces us to ensure that we're  
6 providing service that our members want and that  
7 we're competitive and better than our neighbors  
8 at doing what we do.

9 MS. KELLY: Nick, you explained how SPP is  
10 held harmless, if you will by, by withdrawals.  
11 Is SPP -- does SPP suffer any detriments from  
12 withdrawals, and if so where are they?

13 MR. BROWN: Oh, we would definitely suffer  
14 detriments. I'm not sure I would characterize  
15 it as held harmless. The financial institutions  
16 are held harmless. They will be made whole.  
17 Our debt instruments require that, so while the  
18 financial community isn't concerned about it and  
19 the transmission customers shouldn't be  
20 concerned about the continuation of service that  
21 SPP has sold, the organization certainly needs  
22 to be concerned about it.

23 I mean, we have a very good contiguous  
24 footprint. Our geographic representation makes  
25 a lot of sense. Our size makes a lot of sense.

1 Southwest Power Pool's existed for 65 years in  
2 very much the same footprint we are today  
3 with -- with a few exceptions. Erosion of  
4 footprint is very detrimental to the SPP  
5 organization, but it's -- it shouldn't be a risk  
6 to our financial investors, nor should it be a  
7 concern to transmission customers to whom we  
8 have sold service because of obligations in the  
9 membership agreement, but SPP, Inc., as a whole,  
10 I'll be quite honest with you. We can't afford  
11 much erosion of footprint and continue to be  
12 effective.

13 MS. KELLY: The current process that you  
14 have for running the organization, proposed  
15 process, does that not provide the individual  
16 members appropriate protection of their  
17 interests such that they need the right to  
18 withdraw to protect their interest?

19 MR. BROWN: Actually, I think they would be  
20 better at answering -- wonderful question, but  
21 you're asking about whether it provides them  
22 protection, and I mean, I certainly have  
23 opinions on that, but I think they are better  
24 adept at answering that.

25 MS. KELLY: Okay.

1           MR. BROWN: I'm not trying to avoid it, and  
2 I will come back if you don't get a response  
3 that you like.

4           MR. SPRING: I think I understand the  
5 question, at least from a transmission owner  
6 standpoint that is regulated in several  
7 different states, and you know, as Nick had  
8 stated previously, yes, it is, I think, a good  
9 business practice to have a regulatory out  
10 clause somewhere in our membership agreement,  
11 but as he stated, we have made additions other  
12 places in our membership agreement to where, you  
13 know, the market in and of itself will be made  
14 and kept whole from the services that we would  
15 be providing. So -- and with the dynamics that  
16 we've seen in the last several years of, you  
17 know, how markets are developing, where people  
18 feel they ought to be participating from both an  
19 economic and a regulatory standpoint, having  
20 a -- having be a out such as we have is a good  
21 addition and I think also helps to bring people  
22 into the organization. Rather than being  
23 concerned about people using it to leave the  
24 organization, it's one that people coming in  
25 say, well, gee, I do have the opportunity should

1 the business and industry climate change that I  
2 can change with that. So I think it's more a  
3 positive selling point than it is a negative.

4 MR. DAWSON: I guess I'm elected to give  
5 the TDU view. Number 1, a little bit of  
6 disagreement with Nick. I think an A3 is not a  
7 very good credit rating, and I think it does  
8 hurt us. I would expect us to carry a much  
9 stronger credit rating than that.

10 Number 2, I think it gives inordinate  
11 leverage to the TOs when it comes time to work  
12 these things out because they can always  
13 threaten to withdraw, and I think that has at  
14 least something to do with these filings.

15 Third, as we understand most of the  
16 granting of RTO status up until now, they have  
17 been five-year withdrawals, and we don't  
18 understand quite why we got one year. We get  
19 some comfort from the FERC has to approve it,  
20 but there are also parties that are not  
21 jurisdictional that have this one-year deal and  
22 they can withdraw, notably, for example, the  
23 Southwest Power Administration, which to me just  
24 blows my mind because they are a federal agency,  
25 yet they have the ability to withdraw from

1 something that's being sponsored from the  
2 federal area, so those would be TDU view of it.

3 MR. WOOD: You know, the big picture here,  
4 and I'm thinking back how to over the last few  
5 years I've been on the commission, the RTO  
6 policies has evolved, and a wise person who is  
7 sitting right here once said we don't  
8 necessarily need a Cadillac-sized RTO for each  
9 region, but -- and we actually agreed in our  
10 white paper this last year and in the order for  
11 this RTO, we said that supersize doesn't work  
12 for everybody and doesn't have to, but right  
13 size does, but I think the region does need to  
14 decide, and one of the reasons we came down here  
15 today and timed it as we did was really to,  
16 quite frankly, get you folks on the record to  
17 say is this RTO plan good for you in the region  
18 or not so that we don't go through the drill  
19 that is going on kind of straight north of here.  
20 People are deciding if they're in or out. I  
21 mean, the time is going to come to -- there's a  
22 lot of money that's got to be invested, although  
23 not a huge amount, because you're prudent and  
24 tightfisted, which is a good trait, but there  
25 are some, you know, customer benefits that are

1 sitting there on tree waiting to be plucked, and  
2 from our perspective as federal regulators, and  
3 I think our colleagues in the state feel the  
4 same way, we need to know what's the game we're  
5 playing with.

6 So the withdraw right issue, you know,  
7 while legal what it is, I think kind of is at  
8 its core a question about people in this game to  
9 play; can we make this the game plan at least  
10 for the next several years being the way that  
11 SPP is going to move forward on the track it's  
12 been going forward, or is there just going to  
13 be just that lingering, gnawing pit in the  
14 stomach that somebody big can pull out or  
15 somebody on the side is going to create a new  
16 seam.

17 So I guess I'd like to just ask the  
18 folks on the panel and then ask the folks in the  
19 audience that represent transmission owning  
20 companies who -- I know, Richard, you're the  
21 spokesman for that sector today, but if they're  
22 in the audience if they could basically answer  
23 the core question, is the plan good for you in  
24 the region, and can you commit to making it work  
25 or not, and if not, let's talk about that.

1           MR. SPRING:  If I may, having close  
2           interactions with all of the membership in the  
3           Southwest Power Pool, I think I can say this.  I  
4           don't think there is one member -- current  
5           member that will not be, you know, right beside  
6           the staff in trying to make this transformation  
7           to an RTO happen.  From a TO perspective, you  
8           know, the benefits of having a contiguous  
9           footprint is good for us.  And as far as I know,  
10          there is no one that is looking to exercise  
11          their rights to withdraw any time soon, and they  
12          have all committed themselves, not only from  
13          their organizational standpoint but from their  
14          personal commitments to the organization to make  
15          sure that we can see this order through to a  
16          successful fruition.

17          MR. WOOD:  Let's run down the panel.  From  
18          you're company's perspective, is this RTO plan  
19          from Southwest Power Pool good for you and for  
20          the region?  Can you support where they're  
21          going?

22          MR. STANTON:  Yeah, I mean from the  
23          independent power -- or IPP perspective, there  
24          are some timing issues that, you know, we think  
25          would be more optimal to have like the realtime

1 and day-ahead balancing market start at the same  
2 time, but at the same time, we appreciate the  
3 evolutionary approach that SPP has, and while  
4 that may not be the absolute best situation for  
5 us as independent power producers, we're more  
6 than happy to be on board and see it go forward.  
7 We would hope that the footprint of SPP will,  
8 you know, continue as it is, and I think it's a  
9 good size. It's not, like you said, a  
10 supersize, but I think it's a right size, and we  
11 see some real opportunities to bring some  
12 consumer benefits with the current footprint.  
13 So we hope it continues, and we don't plan on  
14 withdrawing.

15 MR. WOOD: Mr. Butts, is this RTO plan from  
16 the Southwest Power Pool good for the region,  
17 for you all?

18 MR. BUTTS: Yes, we think it is, but to be  
19 quite candid, we are one of the ones that served  
20 notice we withdraw, and we did that because AEP  
21 did that. We are absolutely interconnected with  
22 them, and we felt like what they do we needed to  
23 do, and we support the concept, and we had no  
24 intention of withdrawing, but we felt like to  
25 protect our interests, particularly the hundred

1       percent interconnection we have with AEP, that  
2       what they did, we needed to do as a protection  
3       type thing, but overall we support it.

4             MR. WOOD: Mr. Bittle?

5             MR. BITTLE: Well, we're in basically the  
6       same kind of position that John is as far as our  
7       interconnection with AEP, and even though AEP  
8       gave notice, we did not. Now, that may have  
9       been a mistake on my part, but I don't believe  
10      AEP is going anywhere, and so I didn't see any  
11      reason to do it. And, quite frankly, I think  
12      that this organization works well because it is  
13      a consensus-driven organization. If you force  
14      individuals to stay where they don't want to be,  
15      it just creates additional problems, and it  
16      makes it much more difficult to make the process  
17      work, and we need a process that works.

18            MR. WOOD: Mr. Dawson, is this Southwest  
19      Power Pool RTO plan good for you-all and the  
20      region? Do you support it?

21            MR. DAWSON: On balance we support it.

22            MR. WOOD: Different position, but I'll ask  
23      you anyway, Mr. Sloan.

24            MR. SLOAN: Not surprisingly we have a  
25      different perspective on it. We have a couple

1 of utilities that are not full SPP members, one  
2 of whom especially has talked with us about they  
3 might like to be, but there's a significant  
4 financial penalty for them to change from one  
5 RTO region to another. So from that standpoint,  
6 we would like to make sure that whatever you're  
7 looking at would allow a permanent selection on  
8 a nonpunative basis.

9 MR. WOOD: Mr. O'Neil?

10 MR. O'NEIL: We were one of the parties who  
11 filed comments expressing concern about the  
12 withdrawal provision, but we were not opposed to  
13 the efforts of the SPP to form an RTO. I think  
14 that the promise of the RTOs is where the future  
15 is at. The question is can you get there, and  
16 we're concerned about things that might  
17 undermine the ability to get there.

18 As far as a footprint of the SPP, I  
19 don't share the comments of some of the folks  
20 who think that it's adequate. I would hope it  
21 would get larger. I saw an interesting order of  
22 the Arkansas commission the other day that  
23 suggested that maybe Entergy should rejoin the  
24 organization it help found. But certainly we --  
25 Golden Spread supports the SPP. It supports the

1 effort, and we just have to work through some  
2 problems to really get these markets  
3 competitive, and we think that stability in the  
4 SPP would assist that. I'll talk with Nick  
5 afterwards about how they can assure that they  
6 can continue to provide service if the people do  
7 pull out, but that would be wonderful if that's  
8 the case, but still the best thing is to have  
9 the people and to have them committed, and have  
10 them work together to plan this whole area to  
11 meet the needs the area.

12 MS. HARPER: I can't believe you're going  
13 let me have the last word.

14 MR. WOOD: I'm going the TOs in the  
15 audience after you.

16 MS. HARPER: Well, then I get to tell you  
17 the story about the woman whom gets the last  
18 word in every argument and what the man says  
19 next is the start of a new argument.

20 Anyway, I'm all for SPP. I think this  
21 will make a lot of sense. I will say something  
22 that I don't think anybody has said yet, and  
23 maybe I shouldn't be the one saying it, but the  
24 thing I have heard about withdrawal is that  
25 folks who are having to contemplate it are

1       contemplating it because of the uncertainty of  
2       their state commissions, and I think that that  
3       scares those of us who don't have that  
4       uncertainty in that we were making financial  
5       commitments. And Nick is right. The membership  
6       agreement should keep us whole financially, but  
7       even operating costs of developing a new market  
8       are going to be substantial, and those of us who  
9       are members of SPP and who are not in this risk  
10      position of having a regulatory risk between  
11      their state and their federal commissioners  
12      are -- are concerned, I guess, about the  
13      uncertainty of the membership, and I don't think  
14      it's a -- I don't think it's a commitment issue.  
15      I think it's an issue of making sure that their  
16      state commissions -- and I would encourage the  
17      state commissions to weigh in as encouragingly  
18      as you can, and may of you have, but obviously  
19      that's one of the concerns, I think.

20                So, fundamentally, we're very for it.  
21      It's very good for us. At the footprint it is  
22      in, we're -- we're delighted. If Entergy will  
23      join we're even more delighted, but if somebody  
24      substantial pulls out, we're going to be very  
25      concerned, and I think right now the reason they

1 would pull out is not because they're not  
2 interested in doing is it but if their state  
3 commissions can't support it. So that's --

4 MR. WOOD: We'll bring that up in the next  
5 panel. In the audience I know we've got some  
6 TOs, and I see Mr. Hudson already, so I'll let  
7 him lead off the pack but... Come on up and you  
8 can grab the mic down here on either end. Oh  
9 there's one.

10 MR. HUDSON: Good morning. I'm David  
11 Hudson. I'm director of regulatory  
12 administration with Xcel Energy. Xcel Energy,  
13 in particular the Southwestern Public Service  
14 Company system, which is a member of the SPP,  
15 supports the SPP RTO. We did file a request for  
16 rehearing clarification last week, but in it we  
17 made it real clear that we have made the  
18 internal decision that we are going to be --  
19 continue pursuing participation in the RTO.

20 I think the whole issue of the  
21 termination has been somewhat overblown. As  
22 Nick explained, many members have been giving  
23 these notices over years, and it's mainly to  
24 preserve their rights. If you recall back  
25 during the Xcel Energy merger SPP actually -- I

1 mean, SPS actually presented that it was going  
2 to go to the MISO. At that time MISO was the  
3 only ISO. We were supportive of wholesale  
4 competition and regional transmission  
5 development, and so we're sort of darned if you  
6 do, darned if you don't situation where we've  
7 been preserving our rights. If we see other  
8 people leave the SPP, we didn't want to be stuck  
9 with significant liabilities of being the only  
10 person, so we felt like it was prudent for us to  
11 be giving these notices even though we haven't  
12 gone anywhere in the last five years. So with  
13 that, I conclude.

14 MR. DESSELLE: Good morning,  
15 Commissioner Wood and commissioners. Thank you.  
16 Michael Desselle from American Electric Power,  
17 and I can absolutely say we support SPP in their  
18 efforts. As you know, we have a merger  
19 obligation, and we've been attempting to fulfill  
20 that in a number of jurisdictions, as you're  
21 aware, and here in the Southwest Power Pool.  
22 I'm a member of the strategic planning committee  
23 and wholeheartedly support the direction and the  
24 filing they made. We have provided notice. We  
25 did that notice, as many of us have eloquently

1 articulated to preserve our options, that we  
2 have concerns about fulfilling our state  
3 obligations as well as fulfilling or obligation  
4 at FERC and so that's why we provided that  
5 notice. We support what SPP is doing as an RTO,  
6 and we do plan to be in it.

7 MR. WARREN: Mr. Chair and commissioners,  
8 thank you for this opportunity. My name is Bary  
9 Warren, spell Bary with one R, with the Empire  
10 District Electric Company out of Joplin,  
11 Missouri. We're unique in that we are -- have  
12 four jurisdictions, state jurisdictions that we  
13 operate within, and we did provide notice of our  
14 intent to withdraw. As a founding member of the  
15 Southwest Power Pool, we really did not take  
16 that lightly in making this notice. Under the  
17 situation of increased uncertainty with respect  
18 to our four states as well as significant  
19 transmission costs that could face our companies  
20 as a net importer of power, those could be so  
21 significant that we could be in a situation  
22 where we could incur significant costs of the  
23 transmission upgrades as a remaining member of  
24 the pool, but we do support the Southwest Power  
25 Pool. We feel that the timing associated with

1 moving forward may need to allow additional time  
2 to include the states in the process. However,  
3 we understand all the issues of all the members,  
4 and, again, we support the Southwest Power Pool  
5 and appreciate the opportunity.

6 MR. PERKINS: Good morning. I'm Mel  
7 Perkins with Oklahoma Gas & Electric Company.  
8 We serve customers in the states of Oklahoma and  
9 Arkansas. We have been of part of the Southwest  
10 Power Pool and supported the efforts since '97  
11 and our current -- currently have our  
12 transmission under the regional tariff. We do  
13 support the Southwest Power Pool, and we plan to  
14 continue our membership in the Southwest Power  
15 Pool.

16 MR. SHERWOOD: Good morning. My name is  
17 Jim Sherwood. I'm with the culprit Southwestern  
18 Power Administration. We over the past few  
19 years have issued with a withdrawal notice with  
20 SPP. As you know, Southwestern Power is a power  
21 marketing administration with the U.S.  
22 Government, and the main reason for issuing that  
23 notice is the fact that -- government  
24 requirements for the most part.

25 We have the trouble committing the

1 government resources for an extended period of  
2 time without certain requirements being met, so  
3 that's the primary focus. It also provides us  
4 the opportunity if certain things changed, it  
5 would create problems for us that -- that's just  
6 beside -- the primary focus is the government  
7 requirement, so to that extent, that's the main  
8 reason why --

9 MR. WOOD: What's that government  
10 requirement again?

11 MR. SHERWOOD: If we were to commit the  
12 entire transmission system to the Southwest  
13 Power Pool, what we have now is a transmission  
14 system that was built -- designed and built to  
15 make federal power deliveries from the Corps of  
16 Engineers dams, so from that -- to that extent,  
17 that's all we were required to do. So the  
18 transmission system, to the extent that it's not  
19 being used by the federal deliveries, is  
20 available for nonfederal deliveries, if you  
21 will. So to that extent, the transmission  
22 system is being used by the Southwest Power  
23 Pool.

24 MR. WOOD: And so the requirement to  
25 withdraw is tied -- how is it tied to that?

1           MR. SHERWOOD: Well, we don't want to  
2           commit or can't really commit the transmission  
3           system for an extended period of time, more than  
4           one year is what we've been advised, to -- to  
5           such an organization like the Southwest Power  
6           Pool, or any other organization for that matter,  
7           unless we have that arrangement where we can get  
8           out within a year or exit within a year, and to  
9           meet the government requirements of -- if we  
10          were to issue the transmission system carte  
11          blanche to an organization, we would have to  
12          have special operating conditions to meet our  
13          federal mandates as required by law for us to  
14          do.

15          MR. BITTLE: All expenditures from the  
16          Southwest Power Administration are actually  
17          approved by Congress. To the extent that their  
18          expenditures go up over a year, they have to be  
19          able to coordinate that, and that's one of the  
20          areas. The other they have -- I think it's the  
21          Eagleton Act?

22          MR. SHERWOOD: Eagleton Act.

23          MR. BITTLE: The Eagleton Act is one that  
24          requires them to be able to deliver to all of  
25          their customers at a common cost, and so there

1       are some that are slightly at odds to where we  
2       want to go. I don't think they're  
3       insurmountable, but that's my opinion, but there  
4       is a very vigorous debate going on among the SPA  
5       customers as to whether SPA should remain a  
6       member of the Southwest Power Pool.

7               MR. WOOD: And you're -- and the Southwest  
8       Power Administration is like Bonneville and MOPA  
9       under the DOE, correct?

10              MR. SHERWOOD: Correct.

11              MR. WOOD: Okay.

12              MR. SHERWOOD: Headquartered in Tulsa.

13              MR. WOOD: Thank you.

14              MR. WOOLBRIGHT: Good day,  
15       commissioners. Thank you for holding this  
16       hearing. Thank you for having -- giving us the  
17       opportunity to appear before you. I'm Shane  
18       Woolbright. I'm executive director for the  
19       municipal electric systems of Oklahoma. I'm  
20       also appearing here today on behalf the Grand  
21       River Dam Authority, an agency of the State of  
22       Oklahoma. We market 1500 megawatts of power to  
23       over half a million people in Oklahoma, plus  
24       deliver 300 megawatts of power to municipal  
25       power systems in Kansas, Missouri, and Arkansas,

1 the bulk of this delivered over the Southwest  
2 Power Administration transmission grants, so  
3 we'll be watching closely how SPA works in this  
4 particular area, and it may be difficult --  
5 there could be difficulties in their being in  
6 one transmission area without and our being  
7 within the Southwest Power Pool, the pool which  
8 we -- and the order we support significantly.

9           There are a couple of issues that we  
10 do want to continuous comment on. As Mr. Brown  
11 said, hourly, daily schedules impact many folks.  
12 If one schedule can impact 37 different  
13 utilities, how can you design a participant  
14 funding method for transmission for the  
15 participants and do so fairly?

16           We see now new small increments added  
17 to one transmission system that needs over  
18 another, and the cost of funding those kinds of  
19 additions is insurmountable.

20           That being the case, we need  
21 methodologies to address this particular  
22 problem. We also need to address the problem of  
23 blockages on the system and we need methods to  
24 do this. We do not believe that incentive  
25 funding for transmission is absolutely

1           necessary. There are public agencies willing to  
2           step forward to do this and do it on a very  
3           reasonable basis at lower cost perhaps, and we  
4           would very much believe that following your  
5           ERCOT, Mr. Chairman, we need a methodology for  
6           all utilities to be able to participate.

7                         GRDA is as an owner of a transmission  
8           system, may be a transmission owner, but we face  
9           the same kinds of difficulties as TDUs. Thank  
10          you very much.

11                        MR. HENRY: Good morning. My name is  
12          Doug Henry with Westar Energy. We serve about  
13          650,000 customers in the eastern half of the  
14          state of Kansas. In direct response to your  
15          questions, we believe that the SPP is headed  
16          down the right track. The RTO structure that  
17          you have recently approved with the conditions  
18          is just fine with us. We do believe it's good  
19          for the region. We believe it's good for the  
20          nation.

21                        Westar was one of the first utilities  
22          to place its load underneath the tariff back in  
23          2001. I hope that's a indication of our  
24          commitment to SPP. That commitment has not  
25          wavered. That commitment has not dropped in the

1       ensuing years. We look forward to continuing to  
2       work with our folks to make SPP RTO best one in  
3       the country. Thank you very much.

4               MR. CHRISTIANO: Mr. Chairman, my name is  
5       Dave Christiano, City Utilities in Springfield,  
6       Missouri. We are the largest municipal member  
7       in SPP and are pretty staunch supporters of the  
8       RTO process which has been going on for a long  
9       time. We have a little different concerns than  
10      some. We are unique, like every other member of  
11      SPP. It's really true. We are a transmission  
12      owner although, albeit a very small one. We  
13      have all our facilities under the SPP tariff,  
14      and we derive revenue from that. We also take  
15      service -- network service like Westar, we have  
16      also taken it since 2001 for our load, so our  
17      load is subject to terms and conditions already.

18             We are not a control area, and we are  
19      in Southwestern Public Administration --  
20      Southwest Power Administration's control area,  
21      which poses a bit of a dilemma because they, as  
22      Mr. Sherwood mentioned, have given a potential  
23      notice to withdraw, so that kind of leaves us in  
24      a little bit of limbo.

25             Ricky also mentioned, and I would

1 echo, that we were -- we were quite comfortable  
2 with the hybrid board as it exists today. I  
3 would also tell you, however, though, that I'm  
4 chairman of the SPP nominating committee, and I  
5 can't imagine a finer set of independent board  
6 members than we currently have, and perhaps some  
7 of them are here today and might speak up.  
8 Mr. Eckelberger I know is a Dallas resident.  
9 And I'm quite confident that they will do as  
10 good a job as any independent board will do, and  
11 we're very supportive of the RTO effort, and we  
12 applaud the order.

13 MR. HUSLIG: Good afternoon,  
14 Mr. Chairman and fellow commissioners. My name  
15 is Carl Huslig. I'm the manager of transmission  
16 services for Aquila, Incorporated. We have  
17 transmission services for Missouri Public  
18 Service System which is kind of the outskirts of  
19 Kansas City, Saint Joe Light & Power, and then  
20 we also have a transmission system in Kansas.  
21 And when Representative Sloan was talking about  
22 the one entity in Kansas, that's us. We're kind  
23 of a redheaded stepchild. We get our security  
24 coordination from MISO, my regional transmission  
25 service from Map Schedule F, and my -- I'm in

1 the SDP reliability counsel.

2 I'd like to get this narrowed down to  
3 one group that I can narrow my number of  
4 meetings I have to attend. And the reason that  
5 Representatives Sloan brought that up is we  
6 joined MISO, signed a MISO TO agreement in  
7 December of 2001. We thought -- through a  
8 merger application when we thought that that was  
9 going to be the RTO of choice. There wasn't  
10 going to be an SPP one, it had been denied, and  
11 we figured through the SPP MISO merger all of  
12 our neighbors would be in the same RTO. So we  
13 signed the MISO TO agreement. It's a five-year  
14 commitment. And since then the footprint's  
15 changed. Without AMREN in the MISO footprint,  
16 we're not electrically connected to MISO, yet we  
17 still have this five-year commitment. So  
18 Missouri commission staff still has -- came to  
19 an agreement, stipulation, and I know that's in  
20 front of you in another docket, but we would  
21 just like to get a solid footprint so that we  
22 can make an adequate choice. We have Map or,  
23 you know, MISO west and the north of us. We  
24 have SPP to the west and south of us, and of  
25 course we have MISO so the east, so I would

1 encourage you to just kind of get a solid  
2 footprint.

3 MR. WOOD: And this is just for the West  
4 Planes Energy part or for all three?

5 MR. HUSLIG: Actually both, Kansas and  
6 Missouri. We're not connected -- Kansas is even  
7 a bigger issue than Missouri. We need AMREN to  
8 get Missouri connected and our Kansas system is  
9 still not connected to MISO even once we get our  
10 Missouri systems in.

11 MR. WOOD: But the election was for -- on  
12 behalf of all three equivalent companies?

13 MR. HUSLIG: Yes, and we do have FERC  
14 approval and Kansas Corporation Commission  
15 approval to join or relinquish control to MISO.  
16 What we did not have is we had a pending  
17 application in front of Missouri when the  
18 Alliance RTO fell apart in latter part of 2001.  
19 So we withdrew our application because really  
20 didn't make sense for us to be in MISO without  
21 electrical connectivity. With that, thanks for  
22 the opportunity.

23 MR. BROWN: Chairman Wood, I just add my  
24 concluding remarks in all that. Nothing could  
25 help solidify our footprint better than a

1 conclusive RTO order as soon as possible.

2 MS. BROWNELL: I have a bunch of questions  
3 on market power and planning, but I think our  
4 transcriber needs a break, and we want to leave  
5 our colleagues at the state commission ample  
6 opportunity to comment, so I'm just going to  
7 comment on a couple of aspects of the withdrawal  
8 mechanism.

9 Nick, you were right that your  
10 financial instruments are protected in the short  
11 term, but the reality is nobody has ever  
12 exercised the right to withdraw, and I suspect  
13 that would have a huge impact with the credit  
14 rating agency, so I think that needs to be  
15 considered, but more importantly, the  
16 uncertainty that is created by the lack of a  
17 solid footprint and lack of commitment has  
18 unbelievable hidden costs as you develop your  
19 systems, and we've seen that, certainly in MISO.  
20 We've actually seen it in the development of all  
21 the ISOs and RTOs, so you need to consider that  
22 as you're consider bringing certainty to what  
23 this footprint is going to look like because  
24 we've been looking at these costs, and, frankly,  
25 the single greatest driver of technology cost

1       overrun is uncertainty in people changing their  
2       plans.

3               MR. WOOD:  Nick, to just wrap on your  
4       point, you're talking about us responding when  
5       the May 1 filing comes --

6               MR. BROWN:  Yes, sir.

7               MR. WOOD:  -- or thereabouts.  We will  
8       commit to doing that as quick as we can.  Have  
9       to do a comment period, but I think we can do  
10      that quick.  Joe, Suedeen, before we do a quick  
11      break here?

12              MS. KELLY:  I think that one thing that I  
13      heard that is of interest to me to be elaborated  
14      on further if we have time here is the trap cost  
15      issue and what you-all think is the best  
16      solution to that problem, or if you don't have  
17      the solution at hand, what you think would be  
18      the best process to engage in to reach a  
19      solution.

20              MR. WOOD:  All right.  We'll break for  
21      about five minutes.

22              (Recess held.)

23              MR. WOOD:  Our last formal panel today is a  
24      discussion with the state commissioners and  
25      representatives of the states about any of the

1 state issues, particularly the Regional State  
2 Committee which was brought up in the filing  
3 itself and in our discussions on the filing. We  
4 have two panels here from the states. Sorry --

5 We actually have a lot of good active  
6 state participation down here which I will just  
7 say personally having been a state regulator  
8 down in this region, I appreciate the  
9 camaraderie this group has already had and hope  
10 we can continue it here in this forum.

11 I know that -- I think that maybe the  
12 best thing to do is just start and go around,  
13 and I know Denise Bode from Oklahoma, chairman,  
14 why don't you kick it off?

15 MS. BODE: Thank you very much. With  
16 regard to the Regional State Committee and  
17 the -- basically the state participation in this  
18 region, is that we've been up and running as a  
19 cooperating organization, although unofficial,  
20 for several years now in terms of having  
21 conference calls. We have a conference call or  
22 have had at least over the past period of time I  
23 think since this really got to be a serious  
24 proposal almost every Wednesday. Our staffs  
25 know each other very, very well. We have

1 working groups that have already been working on  
2 things over -- over a period of time on bylaws,  
3 on incorporation. In fact our friends at  
4 Arkansas and then working with Kelly Leaf on our  
5 staff have worked together on a lot of language  
6 in terms of putting the framework around this.  
7 In terms of all the cost issues and other  
8 issues, they have been, you know, visiting about  
9 some of those issues with the SPP for some time.

10 So I guess the good news is that I  
11 think unlike perhaps some of the other RTO,  
12 slash, you know, regional applications that have  
13 come before you, I think we have had an  
14 organized working group, maybe not formally, but  
15 informally, that has been acting and providing  
16 advice to not only Nick and his staff but also  
17 to the steering committees who have been putting  
18 together the -- the respective recommendations  
19 to the former SPP board, and so I wanted to  
20 share that with you, particularly with Suedeen  
21 and Joe because you may not have heard from us  
22 on a regular basis, but we've talked to your  
23 general counsel's office as a group on a number  
24 of -- number of occasions, and so I think we're  
25 real excited about the opportunity to work as a

1 team to try to get transmission up and running  
2 in our part of the country, and I think all of  
3 us feels very strongly about having a vested  
4 interest in -- particularly, I think, and I'll  
5 speak for myself only, but particularly because  
6 we do come from the producing regions of the  
7 country and having this kind of lean, mean  
8 organization at SPP, you know, representing us  
9 who are building new transmission, growing  
10 transmission, want it to be in our part of the  
11 world so that we can attract new business and  
12 grow our economy, and I think we have -- we have  
13 a real level of excitement, and we understand  
14 the importance to future development in our own  
15 states.

16 In Oklahoma, for example, I think we  
17 were very interested in how SPP bylaws were  
18 structured, not just on the Regional State  
19 Committee, but on the independence of the board,  
20 and, in fact, the previous time that SPP filed,  
21 we did express a tremendous amount of concern  
22 the first time around about not having an  
23 independent board, and so we were very pleased  
24 as the evolution over the last year came about  
25 so that we would have that kind of independence

1       so all the players in the marketplace could feel  
2       like they had an equal opportunity or equal  
3       access, and we felt like that was critically  
4       important, real excited about, you know, you-all  
5       supporting that concept in particular.

6                I think there's a variety of other  
7       issues that I won't go into since we've got a  
8       limited amount of time, but very, very excited  
9       about -- very much excited about what -- the  
10      order that came out supporting the working with  
11      the states, the language that was included in  
12      the order on the RSC in particular, and I'm very  
13      hopeful that we can get an RSC up and running,  
14      formalized up and running. I think, you know,  
15      in an informal basis, it has been for some time,  
16      and I think we will -- we will be -- we will  
17      leap forward in terms of the group providing  
18      input on these critical issues that Nick and his  
19      staff have outlined in very short order, so I  
20      think our folks have already been talking about  
21      it.

22               We are very supportive at our  
23      commission, speaking on behalf of the Oklahoma  
24      commission, very supportive of our -- at our  
25      commission of the companies operating in

1 Oklahoma joining an RTO. For us it is critical.  
2 I think you-all have a case that's before you  
3 which I -- I won't go into any detail on, but it  
4 is the perfect example of whatever costs are  
5 being incurred in order to address transmission  
6 issues, those kinds of things need to be  
7 addressed on a regional basis because everybody  
8 in the region or at least many people in the  
9 region will -- will be benefiting from those  
10 kinds of upgrades that will be done to the  
11 transmission system, new opportunities.

12 We must have a regional solution, must  
13 be working on the cost issues on a regional  
14 basis. We can't afford to have one company  
15 trying to pay for everything, its rate payers  
16 having to be asked to pay for everything all by  
17 themselves. So I'm trying to do it as  
18 nonspecific as possible, but this is just  
19 fundamental to us, and we see this as the future  
20 of the -- the future of transmission and future  
21 of our economy in Oklahoma because energy is our  
22 number-one industry, and attracting, you know,  
23 more companies to come in and do business in our  
24 state because we have abundant affordable energy  
25 is going to be crucial to our growth in the

1 future, and I think it's something that we can  
2 really market, particularly in this high-tech  
3 age of needing 24/7 reliable energy, so  
4 that's -- those are really the -- anything else?

5 MS. DAVIDSON: No.

6 MS. BODE: I think those are our comments,  
7 and thank you for doing this so much, and  
8 welcome to our two new commissioners. We're so  
9 glad to see you on board to help the effort, and  
10 we very much look forward to working with you to  
11 really get this thing off and running.

12 MR. WOOD: Thank you very much. Mike  
13 Proctor we know well from the OMS up in MISO  
14 because Missouri is on the scene, and Mike is  
15 here on behalf of Chairman Gaw from Missouri.

16 MR. PROCTOR: Yes. Thank you, Chairman  
17 Wood and commissioners. I just wanted to  
18 express our support, and we have -- Missouri has  
19 been involved with the Southwest Power Pool for  
20 many years. I made many trips to Dallas and  
21 have participated in lots of their committees  
22 and working groups in the past that started this  
23 regional transmission pricing back in I think it  
24 was around 1996, so -- and we have been  
25 supportive of them and going forward. I think

1 the thing that I want to say is that we've also  
2 been very involved with the Midwest ISO because  
3 of AMREN's commitment to join that, and I have  
4 to mention Missouri's recent approval of the  
5 stipulation and agreement that would allow that  
6 to go forward.

7 We also have a lot of experience that  
8 we -- that we've gained in our involvement at  
9 MISO. We realize that there's going to be a  
10 seam in our state. We -- unlike Kansas, I  
11 guess, we would prefer not to have that, but it  
12 looks like it's going to be there, and we will  
13 go forward with it.

14 I wanted to make a comment about the  
15 RSCs and particularly kind of in response to  
16 some things that I heard here today. Correctly,  
17 the state commissions have a -- have laws, state  
18 laws that require them to represent in the  
19 interest of rate payers that are under their  
20 state law, but I will tell you this, if we don't  
21 represent all consumers in Missouri, we would  
22 get pulled before the state legislature, and we  
23 would have some real problems with that. In  
24 Missouri we have made an effort to do that. We  
25 have had electric round tables over the past

1 several years. We devoted one round table  
2 session, that was an all-day session, to the  
3 transmission-dependent utilities, the munies, in  
4 Missouri so that the commission could hear the  
5 issues that they were facing as  
6 transmission-dependent utilities.

7 We support strong competitive markets.  
8 The transmission-dependent utilities need those  
9 strong wholesale markets, and we realize that,  
10 and we're going to be there representing that  
11 position, not just the position of  
12 investor-owned utilities. I just wanted to make  
13 that clear. We have a commitment to that.

14 Last thing I would say is the thing  
15 that I really appreciate that the Southwest  
16 Power Pool -- and I think Nick made the point  
17 this morning. We have got to go forward on  
18 transmission expansion and upgrades in this  
19 area, whether they become an RTO or not. I  
20 appreciate that as being the foundational issue  
21 and the thing that needs to go forward because  
22 that's going to help those markets to develop  
23 more than anything else that we do, and we view  
24 that as a fundamental issue.

25 We also appreciate the incremental

1 approach that Southwest Power Pool is taking,  
2 not jumping in with a big bang and trying to do  
3 everything at once, but making an evaluation, a  
4 cost/benefit analysis, if you wish, about adding  
5 incremental services. The Missouri commission,  
6 I can tell you, is totally supportive of that.

7 In the past, we have seen SPP as an  
8 organization that is -- I don't know what word  
9 to use, frugal or Scottish or whatever it is.  
10 Cheap, someone said cheap. I didn't say cheap.

11 MR. BROWN: Effective.

12 MR. PROCTOR: Effective. That has been --  
13 actually that has been something that we have  
14 noted and has been important to us. It's one of  
15 the reasons we support them. Thank you.

16 MR. WOOD: Mike, I know that the commission  
17 had raised on rehearing some issues about state  
18 approvals. Are there going to be some means to  
19 do that for the utilities that are Missouri  
20 based? Are there utilities that have facilities  
21 in Missouri that are part of SPP?

22 MR. PROCTOR: Yes.

23 MR. WOOD: Okay. Is there any problem with  
24 that just going on in parallel with SPP going  
25 forward?

1           MR. PROCTOR: Not that -- that I am aware  
2 of. I mean, what we -- what the Missouri  
3 commission is interested in is making sure that  
4 it's beneficial or not detrimental to the public  
5 interest in Missouri, and that would be their  
6 standard that they're looking at, and we expect  
7 to have both Kansas City Power & Light and  
8 Empire District Electric fairly quickly--I don't  
9 know that there's a timetable, and I haven't  
10 actually talked to them about that--to make  
11 filings at the Missouri commission.

12           As Aquila pointed out, they do already  
13 have a filing here for approval to join the  
14 Midwest ISO, and that proceeding -- the filings  
15 have been there, and that proceeding was put on  
16 delay until the AMREN decision was made. As you  
17 heard stated earlier, if AMREN is not in,  
18 they're not even electrically connected to the  
19 Midwest ISO, so that's been -- that's been kind  
20 of a staged thing, and I think we will probably  
21 start up the Aquila proceedings fairly soon.

22           MR. WOOD: Have some gentleman from the  
23 Kansas commission, and I think Don Low and Larry  
24 Holloway, Welcome.

25           MR. LOW: Yes, thank you. I am the

1       director of the utilities division for the  
2       staff. Our commissioners, unfortunately,  
3       couldn't make it here today. But Larry  
4       Holloway, who has been more involved in this  
5       than I have, I've only been back to the  
6       commission for about six months now, but Larry  
7       has been involved in this -- who is the head of  
8       our energy operation section for a number of  
9       years and been participating with the other  
10      states and various collaboratives and with SPP.

11               The commission generally does favor  
12      RSCs that RTOs are inevitable and probably  
13      generally beneficial. There are concerns, of  
14      course, about whether the RTOs will indemnify  
15      (phonetic) unnecessarily and unduly on the state  
16      rate making retail authority, but we will be  
17      cautious in what we do about that.

18               We do expect the Kansas utilities to  
19      apply for approval to join the RTO or to provide  
20      operational control of their transmission  
21      facilities to the RTO, and the commission  
22      expects as part of that to see a cost/benefit  
23      analysis to show what are the benefits of  
24      joining SPP RTO. There may be some  
25      difficulties, I assume, in that cost/benefit

1 analysis since not all the steps that could  
2 happen in terms of the market imbalance  
3 mechanisms will necessarily be known at the time  
4 that they have to provide that application, but  
5 how we'll deal with that uncertainty is -- we  
6 don't know at this point.

7 I did want to make a few comments  
8 about the RSC. As you know, Kansas commission  
9 expressed concerns about whether the RSC would  
10 be decisional making and that there would be  
11 potential state -- Kansas state laws that would  
12 prohibit Kansas commission from participating in  
13 the RSC if it were decision making. It's not  
14 clear from the order -- it doesn't appear to be  
15 a decision-making body, but it's not crystal  
16 clear from the order exactly what authority the  
17 RSC has, and the commission has filed an  
18 application for clarification in regard to that.  
19 It would be desirable if we did get some  
20 clarification.

21 MR. WOOD: Just so you know, for you  
22 all, it is our intention to move forward as  
23 quickly as possible after today's conference to  
24 try to address some of these concerns in an  
25 order on rehearing so that we can crystallize

1       what -- you know, when you think you get it done  
2       right the first time, it's why you always have a  
3       second shot at it so we can clear it up, so  
4       we'll do that soon.

5               MR. LOW: I'll turn it over of Larry now  
6       for any more specific items.

7               MR. HOLLOWAY: Actually, I kind of wanted  
8       to add to something that Chair Bode had said,  
9       and as I look around the room I see Richard  
10      House and Nick Brown here and I, and the one  
11      thing we share in common is we all met I think  
12      at a Ramada Inn somewhere close to this airport  
13      in 1994, and I think Nick had never seen a state  
14      regulator before being with the reliability  
15      council, but the concern that all of the states  
16      and SPP had at that time, at the time Richard  
17      was working for the Texas commission staff, was  
18      that we wanted to see some sort of regional  
19      tariff, and the state commissions and their  
20      staffs had all got together well before 888 and  
21      I think even before KCPL made their first  
22      market-based rate filing, open access tariff, so  
23      we do have some history of cooperation among the  
24      states, and, you know, it might not be  
25      completely evident when you see the different

1 positions we filed on the RSC, but we've worked  
2 together for almost ten years now on this issue.

3 MR. WOOD: I think one of the things from I  
4 know the discussions earlier this week at the  
5 board and all, some concerns about moving  
6 forward that we've heard a lot about today that  
7 seems like people do. I think a concern about  
8 y'all's commission in particular if there was  
9 some proceedings there that -- can that go on in  
10 parallel to the development as the board -- I  
11 mean, is that okay with how the KCC sees this  
12 process?

13 MR. HOLLOWAY: I think without a -- you  
14 know, speaking of staff.

15 MR. WOOD: All right. That's fine.

16 MR. HOLLOWAY: You know, certainly I don't  
17 see much choice but to do it in parallel at this  
18 point, you know. Looks like -- looks like that  
19 would be the thing we have to do. The one other  
20 thing I might point out is that in addition to  
21 Empire and Aquila both receiving permission from  
22 KCC to -- to join MISO at the time or turn over  
23 operational control to MISO, the commission also  
24 granted MISO permission to take that operational  
25 control, so, you know, there needs to be a

1 parallel filing with Southwest Power Pool or  
2 not, it is obviously open to interpretation but  
3 that was -- but that is our historical  
4 precedent.

5 MR. WOOD: Dear Irma from Louisiana.

6 MS. DIXON: Dear Pat, we still love you. I  
7 am extremely happy to be here and thank you for  
8 calling me and reminding me that we should be  
9 here. We've been busy.

10 My commission is pretty much guardedly  
11 optimistic about the approach in forming an RTO.  
12 However, we're much further today -- along today  
13 than we were a month ago. Actually, I was asked  
14 to come to this meeting, review, consider, and  
15 look at what may be in the best interests of the  
16 people of Louisiana. Now, considering that it  
17 is voluntary, subject to state approval, and  
18 still maintain some form of state authority,  
19 that was positive to them. Again, they're still  
20 talking about -- our concerns are still in the  
21 building of the transmission lines, and even if  
22 we deal with participant funding, we know our  
23 rates are going to rise, and I know you've heard  
24 this argument over and over, and, yeah, we're  
25 looking for something to not expose our rate

1 payers to that kind of shock. It's called rate  
2 shock down here.

3 Now, we believe that again the  
4 voluntary approach is the most appropriate one  
5 at this time, and we don't think we'll come  
6 kicking and screaming. We think we're willing  
7 to work with the other states. As a matter of  
8 fact, Mississippi, Alabama -- I mean, Arkansas,  
9 and the City of New Orleans and I had a chance  
10 to talk at our last NARUC meeting, and we are  
11 getting closer and closer, and we think we need  
12 to form something but we're not really, really  
13 sure.

14 I've gotten encouraged by a lot of the  
15 industry today and even by some of my colleagues  
16 today that may be the SPP is the thing that  
17 Entergy might want to go back to. I don't know.  
18 Again, we don't whip the company. We try to  
19 oversight and work with them. But I will bring  
20 back all the comments. I was pleased to hear a  
21 lot of the comments here today, but Rick, you  
22 got answer one question for me. The detriment  
23 in actually withdrawing, you still have the  
24 money; you still have an organization; and I  
25 didn't really -- maybe I didn't hear an answer

1 or maybe I wasn't focusing, but I'm interested  
2 in that because we like the idea that you're not  
3 trapped, that you do have that option or that  
4 out, and we think that that's a good move as  
5 well, that that should be there, but I'm just  
6 concerned if Entergy were to join and others  
7 were to withdraw, what would be the detriment on  
8 the group, on the formation of the organization?  
9 I know this is probably not questioning time,  
10 but before I leave here that's the only thing I  
11 really want to hear. Okay?

12 And with that, Mr. Chair, I plan to go  
13 back and try to lead my commission in trying to  
14 work with Sandy and Mike and the people in Texas  
15 and try to get something done so that we can  
16 make sure our region does move, so I know that's  
17 a little bit different from what you've been  
18 hearing over the months.

19 MR. WOOD: Fine.

20 MS. DIXON: Yeah, because we were kind of  
21 adamant, but we're trying to really work with  
22 you.

23 MR. WOOD: Well, please consider it a  
24 two-way street. I mean, we heard some concerns  
25 about how new transmissions get paid for, and

1 especially with Sandy and Randy this morning  
2 about some of those concerns, and we do hear  
3 you, and we want to work with the states. We're  
4 partners in this, and we've got to make it work.  
5 There are a lot of people out here that are  
6 ready to kind of move forward if --

7 MS. DIXON: Thank you.

8 MR. WOOD: -- if we resolve our issues.

9 MS. DIXON: We've been trying to embrace  
10 some of these people, but you know -- we're  
11 going try to work it. Thank you.

12 MR. WOOD: Thank you.

13 MR. WOOD: Chairman Hochstetter, Sandy?  
14 Sandy and Randy.

15 MS. HOCHSTETTER: He's going to be my  
16 check-and-balance mechanism. To make sure that  
17 I'm not overstating the case in terms of what  
18 the whole commission thinks. So thank you,  
19 Mr. Chairman and commissioners, and we  
20 appreciate the opportunity to be here today.

21 The Arkansas commission has been on  
22 record for a number of years as supportive of  
23 the concept of RTOs. I think our only concern  
24 along the way has been to make sure that the RTO  
25 is properly structured to be cost beneficial, to

1 be net beneficial for rate payers. And I think  
2 there's a number of ways that that can be  
3 achieved. I think the question is, you know,  
4 just making sure that that how something is  
5 actually structured, the parameters will  
6 accomplish that.

7 I'd like to take a minute just to  
8 decode some of the state concerns that we have  
9 expressed in some of our previous filings,  
10 particularly, you know, on the issue of a shift  
11 in jurisdictional control. It isn't the shift  
12 in jurisdiction per se that has ever been a  
13 concern to us. It is what that equates to, what  
14 that actually means in terms of native-load  
15 customer issues. You know, we want to make sure  
16 that native-load customers, which include coops  
17 and munies, have the opportunity to maintain  
18 access to the transmission system that they  
19 historically had, to not have any of their  
20 rights to transmission capacity degraded or  
21 diminished in any way. And also to make sure  
22 that the rate-based generation that is currently  
23 very low cost in our region, particularly the  
24 nuclear and the coal, has that way of being  
25 assuredly delivered to the load, to the

1 customers.

2           So I think that making -- you know, if  
3 we're going to, you know, rehear or clarify some  
4 of these issues in the order, clarifying exactly  
5 what specific mechanisms we can have as states  
6 to protect native load would be very helpful. I  
7 know that you reserve to the states the retail  
8 rate-making authority whereas there's the bright  
9 line between the rates and the nonprice terms  
10 and conditions.

11           To the extent that there is some  
12 ability for us to continue to ensure the access  
13 to the transmission system for native load,  
14 which I think falls into the nonprice terms and  
15 conditions category, it would be nice to see  
16 that clarified in the order.

17           I think a strong RSC will help a long  
18 way in that regard, particularly if the RSC is  
19 instrumental in determining when we move forward  
20 with certain things like conversion of physical  
21 rights to FTRs and the implementation of L&P in  
22 other markets because that obviously translates  
23 into customers access to transmission rights, so  
24 if we can further articulate that in a rehearing  
25 order that would be good.

1           As far as operational control is  
2 concerned, I think we heard that earlier, some  
3 kind of clarification of functional versus  
4 actual pushing the buttons, you know, hands on  
5 operational control would be helpful.

6           The joint and common market discussion  
7 in the order I think also deserves a little bit  
8 of clarification. I don't think there's many  
9 people that have a problem with coordination  
10 between markets and addressing seams issues from  
11 an operational standpoint, but I'd like to  
12 personally see some clarification that joining  
13 the PJN and MISO joint and common market does  
14 not mean standard market design, does not mean  
15 we all have to have exact same market design.

16          MR. WOOD: Okay. I know that came up in a  
17 number of comments, and I wanted to actually  
18 address that today because we did come to a  
19 meeting of the minds on what that meant, but it  
20 probably wasn't clear in the order.

21          In the joint and common market which  
22 exists in the PJM MISO plan which we said SPP  
23 should be part of, there is a -- there is a kind  
24 of view -- there is a provision in there that  
25 allows for market to nonmarket which is viewed

1 as an LMP market versus a Nampo market, the  
2 protocols that exist for that. That would be  
3 true here. If -- if the day two analysis -- or  
4 I guess it's the phase-three analysis of  
5 congestion-based market for under -- under the  
6 SPP plan, if that subject -- if the cost/benefit  
7 shows that that does not benefit the region,  
8 then consistent with the white paper, the region  
9 would not go forward with that. Until or if and  
10 when it ever changes to be a benefit, I guess it  
11 would, but if it shows that it does not then it  
12 will continue to participate with MISO and PJM  
13 with their joint and common market but with the  
14 market-to-nonmarket protocols so that those  
15 parts of the order may even look like they  
16 weren't consistent, and we'll -- I think we'll  
17 be able to clarify that, but that's where I  
18 think speaking for us we were, and I don't think  
19 we've really heard anything that would be  
20 different from that, but we'll be glad to do  
21 that in writing. I just wanted to jump in on  
22 that one because I know that was a concern.

23 MS. HOCHSTETTER: That would be very  
24 helpful. Thank you. And I think in terms of  
25 some positive comments, you know, the structure

1       that SPP has always had in terms of being lean  
2       and mean, cost effective, you know, we're very,  
3       very supportive of that. We like the  
4       collaborative stakeholder consensus building  
5       process that they use. I think that, you know,  
6       from a cost-effective standpoint that's going to  
7       be key to making sure that our rate payers do  
8       achieve net benefits for moving forward in this  
9       direction, and I think the Regional State  
10      Committee is going to be a wonderful  
11      opportunity, and we're hoping to officially move  
12      forward in a formal fashion consistent with the  
13      next board meeting for the SPP. I think every  
14      state's committed a particular person to the RSC  
15      at this point besides Louisiana, and I'm hopeful  
16      that maybe Irma can personally either be the  
17      person on our RSC or get another commissioner on  
18      her commission to do that, so I think that's it  
19      from me. Randy, do you have anything to add?

20           MR. BYNUM: No. I generally agreed with  
21      everything you said.

22           MS. HOCHSTETTER: Well, that's two out of  
23      three, so I guess that's a majority. Thank you  
24      very much.

25           MR. WOOD: Thank you both. Chairman King,

1 welcome, from the western --

2 MR. KING: Thank you.

3 MR. WOOD: -- side of --

4 MR. KING: Right, the very far west side.  
5 I'm excited to be here today. I have to say as  
6 a relatively new commissioner that I've really  
7 been impressed with the chairman. I loved your  
8 approach, and Nora Brownell has been out and had  
9 some sessions for us. We are excited with the  
10 two new members, and, of course, one of those  
11 members from New Mexico and is one of my  
12 predecessors on our public utility commission.

13 I think it's an exciting time and one  
14 for us in producing states to look at all the  
15 potential that we have. Our big, big problem,  
16 of course, is that we have tremendous potential,  
17 but we don't have the transmission that we need,  
18 and I think the regional approach is the way to  
19 go, and I think SPP, as an organization, has  
20 proven itself over the years that it can make it  
21 work and build consensus. I've been impressed  
22 with my fellow commissioners in the states, and  
23 they have been very helpful to me in bringing me  
24 up to speed, and I went back after the first  
25 informal meeting that I attended to our

1       commission and said we need to get involved with  
2       this, and I was at a meeting a day or two later,  
3       and we're an elected commission, but our  
4       governor said, you know, he's on the other side  
5       of the political aisle that I am, but he said I  
6       agree with you wholeheartedly. We've got to do  
7       more to participate on a regional basis, and, of  
8       course, he was a former energy secretary, and  
9       he's eager to see us participate and work in  
10      those areas, and we had a lot of pressure this  
11      time in our legislative session which just ended  
12      that we cooperate because we try to do  
13      everything we can, that we're not an island unto  
14      ourselves and that we have to have regional  
15      coordination.

16                Of course, I'm always thinking of  
17      Senator Domenici and Senator Bingaman back there  
18      on the energy policy from New Mexico. So we  
19      have a lot of input there, but I think we as a  
20      state commission are eager -- we've had a good  
21      cooperation and good participation with our  
22      energy retail and wholesale entities in the  
23      state, and I think we've got a good relationship  
24      there, and we think there's great potential in  
25      what you're doing here, and we are eager to

1       participate, and we're eager for the regional  
2       state committees to be formed formally, and I  
3       think we can do that well here and hopefully can  
4       be a pattern for the rest of New Mexico and the  
5       rest of the country.

6                I think this can be -- I heard some of  
7       the ones say here today this could be the model  
8       for the future, and we can learn from mistakes  
9       that have been made in all the other  
10      organizational approaches, and so I'm excited to  
11      be here at this point in time, and I appreciate  
12      the very candid comments of the stakeholders and  
13      the -- how forthright they were, and I know that  
14      we are excited about the whole process. Look  
15      forward to seeing it built.

16             MR. WOOD: Thank you, Dave. Commissioner  
17      Parsley, who I have known longer than I've known  
18      anybody in this entire room.

19             MS. PARSLEY: And I can confirm that he  
20      looks exactly the same today as he did in  
21      college.

22             MR. WOOD: Thank you, my dear.

23             MS. PARSLEY: Thank you, Pat.

24             Well, and I know that this -- these  
25      comments are probably going to shock and

1 surprise people, but Texas fully supports SPP,  
2 and, actually, I think what we would like to see  
3 is SPP get the tools it needs to be able to  
4 engage in systemwide transmission planning. I  
5 think that we've seen the benefits of systemwide  
6 transmission planning in ERCOT. From our  
7 standpoint, I think that that would be along the  
8 lines of a bright-line test as to transmission  
9 and distribution, not necessarily all rolled-in  
10 rates, but looking at that as probably the  
11 majority of how to handle some of these costs.

12 And the reason I think that's worked  
13 for us in terms of breaking down transmission  
14 and distribution in terms of -- the transmission  
15 is rolled in for everyone in the ERCOT area  
16 because it does tend to benefit everyone in the  
17 area. The distribution tends to benefit people  
18 more locally, and those are treated more  
19 zonally. So even with the rolled-in type  
20 system, we do have a difference between what's  
21 zonal and what's covered in the entire area.  
22 And so there are -- there's a lot of play, I  
23 think, in looking at the structures that we  
24 could -- that SPP could adopt. And I just would  
25 encourage everyone to look at the benefits of

1 systemwide planning as opposed to a more local,  
2 parochial sort of an approach because in terms  
3 of reliability and in terms of competition and  
4 encouraging competition to come to your state,  
5 our state, any -- people are going to have to  
6 know they're going to be able to get the power  
7 there. It's going to be reliable. We have to  
8 understand what the rates are and what the rate  
9 structure is, and I think that can make a really  
10 big difference is.

11 And although I will not go as far as  
12 Irma and admit or deny whether we whip any  
13 particular company or not, I would agree with  
14 Louisiana and Arkansas that it would be  
15 wonderful if Entergy would look at joining SPP  
16 again, and I think that's about it unless Jess  
17 has something else. He does not. So looks  
18 like, Trudy, I got the last word.

19 MS. HARPER: Good for you.

20 MR. BYNUM: Let me ask --

21 MS. DIXON: I don't think we're interested  
22 in cutting ourselves off, floating out into the  
23 Gulf, and applying for foreign aid.

24 MR. WOOD: Let me ask a question. I'm  
25 sorry to go back to business because I'm ready

1 to go play, too. But I asked the folks here  
2 just so the parties in the world know, are there  
3 state approvals that will be needed for the  
4 utilities from Louisiana, Arkansas, New Mexico,  
5 and Texas? And if yes, can that proceed in  
6 parallel with the board's action on Tuesday  
7 without providing -- without provoking a  
8 problem? Irma?

9 MS. DIXON: Yes, and I don't know.

10 MR. WOOD: Okay.

11 MS. HOCHSTETTER: They do -- all the  
12 utilities do have to come in and file permission  
13 to join or to stay in SPP as an RTO, but the  
14 test is a net public interest test, and, you  
15 know, presuming that -- and I think a lot of  
16 that work's already been done or its underway in  
17 terms of putting together that analysis. And  
18 presuming that, you know, that gets filed and we  
19 review it and agree that there's a net public  
20 interest, then we should be able to proceed very  
21 expeditiously, and I think the two things can go  
22 forward in tandem because I agree with what a  
23 lot of folks in here have said. It's become  
24 very apparent to me over discussions with many  
25 people over the last years so that we do need

1 new transmission build. It needs to be done  
2 quickly. We need a regional approach, and so,  
3 you know, we will work with everybody on a  
4 expedited basis.

5 MR. WOOD: Thank you.

6 MR. KING: Mr. Chairman, we are kind of in  
7 the same situation. We have been very excited  
8 before and have been working with Xcel and going  
9 into MISO, and we've pulled that back, and so  
10 we're in a position to where we could go forward  
11 and give approval. I don't see any problem in  
12 that regard. And we've already gone to them  
13 about us participating in the states. I think  
14 we can go in parallel without any problem.

15 MS. PARSLEY: We do have some specific  
16 statutes that deal with independent  
17 organizations, but I don't -- and we're looking  
18 at right now at what we would need to do in  
19 order to comply with those, but I don't see any  
20 problem why they couldn't go along in tandem.

21 MR. WOOD: That's helpful. I know that the  
22 SPP has a lot of good plans that we've spent a  
23 lot of time today thinking through, and y'all  
24 spent much more time than we just talked about  
25 today working with them, and there's a lot of

1 benefits that come from certainly the planning  
2 issues. I've heard that the last hour quite a  
3 bit.

4 Anything on the state side here that  
5 we need to talk about that might be useful while  
6 we're all here today? David?

7 MR. KING: I'm sure I can hear one of my  
8 commissioners telling me to be sure that the  
9 incremental approach is underlined. I think  
10 there's some misinformation. We've talked about  
11 that in some of our state meetings, and we've  
12 had some concerns from some of the coop members  
13 and some of the smaller municipal members as  
14 well, and I think those have to be reassured  
15 that this process works to be inclusive in those  
16 areas, and I need to underline that, I guess,  
17 and we would have to be able to show that that  
18 was the case in our going ahead, and I don't  
19 feel like that's a problem, but probably need to  
20 underline that and mention it.

21 MR. WOOD: Okay. That's fair. I mean, as  
22 a practical matter, Nick, your opening comments  
23 were kind of a good way of framing it. You're  
24 changing your name, but you're kind of -- you're  
25 doing what it is y'all are doing.

1           MR. BROWN: Absolutely.

2           MR. WOOD: And so the delta between the old  
3 day and the new day might be a FERC label, but  
4 as far as -- I'm trying to think if there -- did  
5 y'all have -- is there going to be any  
6 difficulty for y'all to prepare what I think the  
7 different states are going to want to look at?

8           MR. BROWN: Absolutely not. I'll look  
9 forward to the opportunity. You know, our --  
10 I'll tell you, the evolutionary approach that  
11 Southwest Power Pool has taken over its 65 years  
12 of existence has been done in such an open  
13 fashion, utilizing the decision-making  
14 authorities within a very diverse group of  
15 members, and I'm here to tell you each and every  
16 one of the incremental functions that have been  
17 added to our organization has undergone a very  
18 rigorous analysis to benefit.

19           Now, have we gone out and gotten an  
20 independent party to come in and do a study to  
21 document each and every one of those? No. But  
22 I think it should go without saying that if you  
23 can get this group of diverse panelists to agree  
24 to implement operating reserve sharing, that  
25 there's benefit to doing so. If you can get

1       this diverse group of panelists to agree to  
2       implement regional security coordination with no  
3       political pressures to do so, that it makes  
4       sense to do so.  If you can get them to agree to  
5       implement a regional tariff, again, with no  
6       state or federal regulatory pressure to do so,  
7       but certainly support, as Larry mentioned, then  
8       it made sense to do so, and even that tariff was  
9       implemented in a very evolutionary fashion.

10                If you remember, what we filed and  
11       implemented in '98 originally was just  
12       short-term firm and nonfirm, and we committed to  
13       continue to evaluate the expansion of that to  
14       include non -- excuse me, long-term firm point  
15       to point which we did nine months later and then  
16       committed to evaluate the addition of network  
17       service, which we did nine months later.

18                So, you know, one of the things that  
19       we, I guess, failed to do over time is while  
20       we've done all this stuff, we haven't just gone  
21       out and documented studies that did this or put  
22       it into words.  We need to do better at that,  
23       and this will give us the opportunity to  
24       document the benefits of this organization.

25                MS. BROWNELL:  I appreciate the

1        inclusionary approach that SPP and its members  
2        have taken over the year, but I heard a  
3        consistent theme among this diverse group of  
4        people, and that is they are very concerned  
5        about market power, something which I think we  
6        all need to spend more time on. They're very  
7        concerned about the planning process and being  
8        well represented in the planning process, and,  
9        thirdly, I think I heard concerns about  
10       congestion management and how it might impact  
11       them, and, frankly, one of the things we have  
12       seen in other parts the country is we need to be  
13       very explicit and do lots of practice and trial  
14       runs to make sure everybody knows what they're  
15       doing.

16                    And to my state colleagues, I know you  
17       all pretty well, and even though in Pennsylvania  
18       we did not have jurisdiction over the coops or  
19       the munies, we listened to them. In fact, they  
20       spent a lot of time there telling us about their  
21       needs, and I know this group, regardless of how  
22       it evolves, will be sure and address those  
23       needs, so I have confidence in that and  
24       certainly, you know, you're welcome at the FERC,  
25       but I really hope the consistent message we

1 heard today gets listened to pretty quickly  
2 because those are critical issues.

3 MS. BODE: I just wanted to mention one  
4 other thing before we left the discussion of  
5 paying attention to all our constituents that  
6 are in the state. In Oklahoma, we are a  
7 constitutional entity. You know, we were set up  
8 originally and we have separate constitutional  
9 authority. That was not statutorily conferred  
10 but was conferred as part of our constitutional  
11 rights and duties and responsibilities. We are  
12 also all three statewide elected officials, so  
13 from -- in several respects, we have to listen  
14 to, we are elected by, and we have a higher  
15 authority that tells us that regardless of  
16 whether the legislature has chosen to give us  
17 rate-making authority or reliability authority  
18 over electric coops or munies or any other  
19 entity in the state, our interest is always in  
20 making sure that Oklahoma and all the  
21 constituents of Oklahoma are moving forward and  
22 that we have a positive economic growth  
23 atmosphere.

24 I mean, and so I want to share that I  
25 think we have a very, very strong commitment to

1 every entity in Oklahoma growing, getting a  
2 fair -- getting fair treatment, and I think part  
3 of the process that we've talked about among  
4 state commissions and staff is that we want to  
5 be a part of this process, particularly on the  
6 planning issues, because we want the SPP not to  
7 move in geologic time any more. I think we want  
8 the SPP to be moving, you know, as fast as our  
9 companies and the coops and the munies and the  
10 investor-owned and the private sector are  
11 moving, and I think they haven't moved that fast  
12 in the past, you know, and I know they're  
13 willing to move that way, but they need to have  
14 help in getting there, and we're fully  
15 committed, I think, to give them that help and  
16 in moving quickly and to working and  
17 representing and protecting the interests of  
18 everybody that we represent, and I just wanted  
19 to share that for whatever comfort level it is  
20 or doesn't have with both the commission and  
21 with the stakeholders.

22 MR. WOOD: All right. I'd like to -- we've  
23 got a quarter of an hour. I'd like to open up  
24 if there's anyone in the audience that's been so  
25 patiently listening in today, if they would like

1 to chime in with a question, comment, advice.  
2 Primal screams are probably better outside the  
3 door, but if you could just introduce yourself.  
4 Duncan, you better spell yours for him.

5 MR. KINCHELOE: Thank you, Mr. Chairman.  
6 Spelling has always been necessary in my case.  
7 Duncan Kincheloe. That's K-i-n-c-h-e-l-o-e.  
8 I'm general manager of the Missouri Municipal  
9 Utility Commission, and I want to first say  
10 again, every chance I get, I commend Nick and  
11 the staff of SPP for the work they have done on  
12 this for so many years and certainly appreciate  
13 the direction that the commission is trying to  
14 move all these issues and attention is being  
15 given to them.

16 We filed together area request for  
17 rehearing clarification. I'm not going address  
18 much of that today, but I did want to address  
19 just one issue which we've just now been talking  
20 about and do it as delicately as I can, but I  
21 think I can in part because I served for a  
22 number of years on the Missouri commission, and  
23 with all due respect to the comments that my  
24 very good friend and certainly one the best  
25 brains in the business, Mike Proctor, made and

1       assurances of some the commissioners here, we  
2       have requested sort of special attention to the  
3       needs of sort of nonjurisdictional utilities and  
4       believe that is a significant issue. Whether  
5       it's addressed in the way we might ask or just  
6       treated as a matter of continuing consciousness,  
7       the fact is, and I've worked with staffs of the  
8       commissions here, too, for a number of years.  
9       As Larry was talking about going back  
10      to '94, '95 in meetings here that he and Jackie  
11      and Richard and I participated in with SPP. I  
12      know that the intentions of these folks at the  
13      staff level and certainly at the commission  
14      level in the states are to represent the  
15      entirety of the citizenry as much as possible,  
16      but that's not easy. There are competing  
17      considerations always, and there are differences  
18      in priorities and perspectives.

19               Somebody over in the stakeholders  
20      section mentioned that, you know, where you  
21      stand depends on where you sit, and I think it's  
22      not fair to expect that the state commissions  
23      can adequately express the needs and interests  
24      of all the nonjurisdictional entities within  
25      their -- within their states. In part, that's

1       our fault as those entities in that we don't  
2       always have the voice and resources to convey  
3       those interests and concerns, so it's not just a  
4       matter of the best interests and the attempts at  
5       the station commission level, but, you know, we  
6       have to confess our limitations in terms of  
7       being able to express those, and we're  
8       challenged with our limited resources to try to  
9       express them to Nick and try express them to the  
10      state commission and try to express them to you  
11      with the limited resources we often have.

12                So this is an issue -- we -- you have  
13      before yourselves in another docket, the AMREN  
14      MISO issue, and we have filed in that and will  
15      comment on that, of course, but the fact that  
16      that filing has been made based on our reactions  
17      to a stipulation approved by the Missouri  
18      commission as to the basis upon which AMREN  
19      would enter the MISO and the fact that we have  
20      felt the need to raise some issues just for  
21      clarification, at least, there I think sort of  
22      underscores the fact that there are interests of  
23      nonjurisdictional entities at the state level  
24      that we would ask you to always be especially  
25      sensitive to and have appreciated the effort --

1 the efforts made and the opportunities you've  
2 given us offline and nondocket situations to  
3 have access to you, and appreciate those  
4 concerns, but that is a real concern in my mind.

5 MR. WOOD: We take those seriously. In  
6 fact, the ones you referred to are ones we're  
7 grappling with as recently as last night, so  
8 we'll continue to take those, and you're talking  
9 about the MJM and the EUC, right?

10 MR. CHRISTIANO: Dave Christiano, City  
11 Utilities in Springfield.

12 You've heard before on Tuesday the SPP  
13 board voted to move forward to stipulate with  
14 the order. You also heard that the vote was not  
15 unanimous, and in my opinion, the reason the  
16 vote was not unanimous was because certain  
17 companies had a feeling that the state, federal  
18 order of approval was unclear and that the  
19 states weren't ready to move forward.

20 The recommendation of the strategic  
21 planning committee was modified to add a  
22 paragraph which essentially said that SPP would  
23 endeavor to assist the member companies in  
24 performing the cost/benefit studies that might  
25 be required by the commissions, and, obviously,

1       those commissions are looking out for the  
2       interests of their constituents just as the  
3       companies are looking out for their own  
4       interests.

5                 While all the states are here, if  
6       there is a way for us all to come together, and  
7       I neither know how to do a cost/benefit study  
8       for a single company in a pool nor do I know how  
9       to do one for a whole region in a pool, but if  
10      there's a way to get some synergies to do it all  
11      together with SPP assisting the states, the  
12      states coming together, I think it would be  
13      better for everyone.

14                MR. WOOD: All right. Going? Going?

15                MS. DIXON: Gone.

16                MR. WOOD: All right. Nora, anything?

17                MS. BROWNELL: No, thank you.

18                MR. WOOD: I'd like to just before we close  
19      recognize -- we've got a member of the board  
20      here. Jim Eckelberger is here. Where's Jim?

21                MR. BROWN: He's here. There's Jim. Vice  
22      chair of our board.

23                MR. WOOD: Thank you, Jim, for being here  
24      today. Look forward to continue to work with  
25      this fine organization. Nick, I want to thank

1       you for your leadership and John before you.

2       Give him our best. I know he's --

3               MR. BROWN: I will tell him.

4               MR. WOOD: -- off fishing or sunning on the  
5       beach somewhere, but -- and, yeah, we've got --  
6       we miss him, but he's -- you filled his shoes  
7       well.

8               MR. BROWN: Thanks.

9               MR. WOOD: Stacy, Bruce, thank you both for  
10       being involved. Members of the board who are on  
11       the -- this week, appreciate your leadership. I  
12       know it was an interesting week for all. Thank  
13       our panelists. Of course, always thank our  
14       state commissioner colleagues, state staff. We  
15       want to continue to be your partners and bring  
16       in benefits to the customers of our region here.  
17       And please call or, if you have to, write if  
18       there are issues that come to your mind that we  
19       can work with because we work better when we  
20       work together. All right. Let's go. Thank you  
21       all. Have a good weekend.

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