



**Southwest Power Pool  
FINANCE COMMITTEE MEETING**

**December 6, 2010**

**Little Rock, Arkansas**

**• Summary of Action Items •**

1. Approved minutes from October 14, 2010 meeting
2. Approved engagement of BKD to audit SPP's 2010 financial results

**• Schedule of Follow up Items •**

1. SPP President to review metering in SPP region and suggest opportunities for improvement
2. Incorporate increased effectiveness/cost savings as a line item in SPP's budgets and financial reports.
3. Impact of depreciation schedules on property taxes and balance sheet.

## FINANCE COMMITTEE MEETING

December 6, 2010

Little Rock, Arkansas

### • M I N U T E S •

#### **Call to Order**

Larry Altenbaumer called the meeting to order at 2:00 pm. The following members were in attendance:

Mr. Harry Skilton	Director
Mr. Larry Altenbaumer	Director
Mr. Kelly Harrison	Westar Energy
Ms. Sandra Bennett	American Electric Power
Ms. Trudy Harper	Tenaska
Mr. Tom Dunn	Southwest Power Pool

Southwest Power Pool staff participating: Nick Brown, Michael Desselle, Lauren Krigbaum, Tom Fritsche, Philip Bruich, and Scott Noble

Others in attendance: Carol Shoemake – OG&E, David Hudson - SPS, Terri Wendlandt – Westar, Jayne Clarke – Sunflower, Bill Olson – Xcel Energy, Sean Berry – PWC, Tim Cherry – PWC, Keith Conine - BKD

#### **Minutes**

The minutes from the October 14, 2010 meeting were reviewed and approved by consent.

#### **SAS 70 Audit Report**

Representatives from PWC presented their audit of SPP's controls with an unqualified opinion on the design of controls and the operating effectiveness of the controls. During the audit PWC encountered two situations noted as exceptions in the report which were either mitigated with other controls or extremely isolated and, therefore, did not result in a qualification. This report marks the first time SPP has received an unqualified opinion. PWC indicated three areas where SPP should focus attention in the future:

- New requirements under Statement on Standards for Attestation Engagements 16 (SSAE16)
- Enhancements and additions to SPP's services
- Relocation of SPP's operations to a single campus

The Committee next discussed the engagement of PWC to perform controls audits for the next three years, as approved earlier in 2010. PWC has agreed to maintain pricing for the engagement at levels consistent with the current level through 2013 with the assumption that there isn't a material change in scope of the engagement and PWC is able to depend on work from SPP's Internal Audit department.

#### **2010 Financial Audit**

A representative of BKD, LLC provided a pre-audit report to the Committee highlighting potential risk areas they will focus on during the audit of SPP's 2010 financial results:

- Revenue recognition
- Debt issuances and covenant compliance
- Procurement processes
- Management override of control

BKD indicated it intended to review the audits on fixed assets and bidding/purchasing performed by SPP's Internal Audit group to determine if BKD may be able to rely on this work to reduce some of the substantive testing in those areas.

The Committee convened a brief executive session to meet with the auditor without management's presence.

Upon exiting the executive session, Larry Altenbaumer motioned to engage BKD to perform an audit of SPP's 2010 financial results. The motion was seconded by Sandra Bennett and approved by unanimously.

### **Cost Effectiveness Action Plan**

SPP staff presented a report detailing SPP's efforts towards improvement of effectiveness and efficiency. The report highlighted the following areas:

- Business process improvement objectives
  - Empower, equip and incent creation of member value
  - Current services @ lower cost; new services @ current costs; and eliminate services with low value
  - Measure baseline productivity, target improvement opportunities, and track results
- Implementation Strategy
  - Identify and communicate clear vision
  - Evolve to target environment over period of years
  - Develop processes to quantify, size and prioritize improvement initiatives
  - Track realization of benefits
  - Incorporate expected benefits into budget process
- Issues and recommendations
  - Integrate planning processes
  - Prioritize development resources
  - Track benefits
  - Measure performance
  - Enhance accountability
  - Train staff on business process improvements methodology
- Implementation Timeline – work started in 4Q'10 and results fully realized in 2013/2014

During discussion Committee members identified that SPP's strategic planning process did not incorporate resources required to achieve the strategic plan objectives. SPP should create a loop in the strategic planning process whereby the Strategic Planning Committee receives information detailing expected resource requirements to meet strategic objectives prior to final approval of the strategic plan. SPP was also asked to address performance measurement issues earlier in the action plan.

### **Credit Practices Working Group Report**

The chair and vice chair of the Credit Practices Working Group presented a report on the activities of the working group. Recent focus has been towards evaluation of the FERC Order 741 and satisfying compliance with Order 741 by the June 30, 2011 deadline. Key aspects requiring changes by SPP to become compliant include:

- Establishment of minimum criteria for market participation. SPP is working jointly with other ISO/RTO peers to draft uniform standards across all markets
- Clarify when a Material Adverse Change can be invoked.
- Establish method to address market obligation offsets, particularly in bankruptcy situations. SPP is leaning towards a process establishing credit requirements by using gross market obligations and investigating the consequences of doing so.

The next meeting of the Credit Practices Working Group is scheduled for December 16, 2010.

### **Settlement User Group Report**

SPP staff and the chair of the Settlement User Group presented a report describing changes to Settlement duties caused by implementation of SPP's Integrated Marketplace. The Settlement User Group is working to implement several enhancements versus other regional markets which are intended to create greater value between the customers and SPP. Paramount among these initiatives are:

- 5 minute settlement granularity – reduces price volatility and make whole payment requirements
- Data store – one location for all settlement data which is accessible by market participants
- Training – formal training implemented in early 2010 covered protocol development, "mini-market" simulation for settlement calculation

### **Construction Cost Estimates – New Facility**

SPP staff reported that the sub-contractor bid process for construction of SPP's new facilities was nearing completion and SPP expected the guaranteed maximum price contract for construction to be at or below \$52,611,097 (versus a budget of \$53,127,200) and the total project cost to be within the approved budget of \$62,195,890.

Kelly Harrison motioned to approve execution of a guaranteed maximum price contract for construction at or below \$53,127,200. The motion was seconded by Larry Altenbaumer and approved unanimously.

### **2011 Insurance Renewal**

SPP staff reported on changes to SPP's corporate liability insurance programs which responded to requests of the Finance Committee made earlier in 2010. SPP proposes increasing the coverage limits on its general liability program to \$2 million; increasing the self insured retention level on its excess liability program to \$2 million; replacing \$20 million in Side A DIC limits on its D&O program with \$30 million in Side AB limits; and increasing its fiduciary liability limits to \$5 million (from \$3 million). The Committee members did not voice any concerns with these changes.

### **Future Meetings**

The next scheduled meeting of the SPP Finance Committee will be held on April 5, 2011 from 8:30 am to 3:00 pm in Dallas, TX. The primary topics for this meeting will be review of SPP's 2010 financial audit and 2011 funding levels for SPP benefit plans.

Additionally, the SPP Finance Committee meeting scheduled for July 8, 2011 has been rescheduled to June 15, 2011 and will also be held in Dallas, TX

### **Adjourn**

There being no further business, Harry Skilton adjourned the meeting at 6:00 pm.

Respectfully Submitted,

Thomas P. Dunn  
Secretary



**Southwest Power Pool, Inc.**  
**FINANCE COMMITTEE MEETING**  
**December 6, 2010**  
**Little Rock, Arkansas**

**• A G E N D A •**

2:00 pm – 6:00 pm

1. Old Business – Approval of minutes..... Harry Skilton
2. New Business – 2009-10 SAS70 Audit .....PWC
3. New Business 2010-11 SSAE16 Engagement and Fee .....Michael Desselle
4. New Business – 2010 Financial Audit Engagement.....BKD
5. Ongoing Business – Cost Effectiveness Action Plan ..... Scott Noble / Michael Desselle
6. Ongoing Business – Credit Practices Working Group Report..... Terri Wendlandt / Tom Fritsche
7. Ongoing Business – Settlement User Group Report.....Bill Olson / Philip Bruich
8. Old Business – Construction Cost Estimates - New Facilities ..... Tom Dunn
9. Old Business – 2011 Insurance Renewal ..... Tom Dunn
10. Future Meetings ..... All



**Southwest Power Pool**  
**FINANCE COMMITTEE MEETING**  
**October 14, 2010**

**Kansas City, Missouri**

**• Summary of Action Items •**

1. Approved minutes from September 29, 2010 meeting
2. Approved 2011 operating and capital budgets
3. Approved 2011 assessment and administrative fee of 21¢/MWh.

**• Schedule of Follow up Items •**

1. SPP President to review metering in SPP region and suggest opportunities for improvement
2. Incorporate increased effectiveness/cost savings as a line item in SPP's budgets and financial reports.
3. Structure of Directors & Officers insurance program (more limits), liability insurance levels (higher retainage).
4. Impact of depreciation schedules on property taxes and balance sheet.
5. Report strategy and action plan to improve cost effectiveness of SPP's operations

## FINANCE COMMITTEE MEETING

October 14, 2010

Kansas City, Missouri

### • M I N U T E S •

#### Call to Order

Harry Skilton called the meeting to order at 1:00 pm. The following members were in attendance:

Mr. Harry Skilton	Director
Mr. Larry Altenbaumer	Director
Mr. Kelly Harrison	Westar Energy
Mr. Gary Voigt	Arkansas Electric Cooperative
Ms. Sandra Bennett	American Electric Power
Ms. Trudy Harper	Tenaska
Mr. Tom Dunn	Southwest Power Pool

Southwest Power Pool staff participating: Nick Brown, Carl Monroe, Michael Desselle, and Scott Smith

Others in attendance: Carol Shoemake – OG&E, Phyllis Bernard – SPP BOD, Jim Eckelberger – SPP BOD, Josh Martin – SPP BOD, David Reid – OPPD, Barry Warren – Empire, and Bruce Cude – SPS.

#### Minutes

The minutes from the September 29, 2010 meeting were reviewed. Larry Altenbaumer motioned to approve the minutes. The motion was seconded by Gary Voigt and approved by unanimous voice vote.

#### New Facilities Project

SPP staff presented an update on the progress of the Company's New Facilities project. Several members of the Committee requested future updates contain greater granularity on the expenses to date of the project and estimated spend to completion as well as a more detailed timeline for the project.

#### 2011 Operating and Capital Budgets

SPP staff reported it had undertaken a review of the budget detail presented to the Committee at its September 29<sup>th</sup> meeting, focusing on:

1. Staffing scheduled to be added prior to the end of 2010 and incremental staffing proposed for 2011
2. Methodology to more accurately estimate/forecast billing determinants, and
3. Forecast of excess cash on hand at end of 2010.

SPP staff reported it had no changes to the previously proposed budget for expenses or capital expenditures. The forecast for billing determinants was increased to 343,000,000 MWh based on a review of system peaks through August 2010, and no change to the previously proposed administrative fee of 21¢/MWh.

The Committee requested SPP staff report at the December 6<sup>th</sup> meeting a detailed action plan to improve cost effectiveness which includes specific actions and timelines for implementation and completion.

Larry Altenbaumer motioned to approve the 2011 operating and capital budgets as presented. The motion was seconded by Gary Voigt and approved with one no vote (Westar).

### **2011 Assessment and Administrative Fee**

SPP staff updated the Committee on the September 30, 2010 meeting of the Regional Tariff Working Group where changes to Schedule 1-A of the tariff were proposed which would result in an increase to the rate cap to 35¢/MWh and allow greater flexibility in the rate setting and true up periods. The Regional Tariff Working Group voted to approve the tariff language changing the rate cap to 35¢/MWh. The Regional Tariff Working Group was not able to approve the language which would have created greater flexibility in the rate setting process, deferring action on this aspect until a future meeting where the language could be fully considered.

As part of the 2011 budget, staff recommended an assessment and administrative fee rate of 21¢/MWh to fund SPP's 2011 operations. SPP staff explained an increase in the rate cap in the tariff would not be required for 2011. Gary Voigt motioned to approve an assessment and administrative fee of 21¢/MWh effective January 1, 2011. The motion was seconded by Kelly Harrison and approved by unanimous voice vote.

The Committee discussed the timing of a filing of tariff language to change the tariff rate cap to 35¢/MWh and agreed, absent a requirement to do so immediately, it made strategic sense to hold off on that filing until the Regional Tariff Working Group was able to draft language providing for greater flexibility in the rate setting process. The Committee would recommend to the Board removing the rate cap filing from the October 2010 Board consent agenda.

### **2010 Borrowing Resolution**

SPP staff reported to the Committee the specific terms negotiated with lenders for the funding of \$135 million in term financings. Larry Altenbaumer motioned to approve the terms negotiated by staff. The motion was seconded by Gary Voigt and approved by unanimous voice vote.

### **Future Meetings**

The next scheduled meeting of the SPP Finance Committee will be held on December 6, 2010 from 2:00 pm to 6:00 pm in Little Rock, AR. The primary topic for this meeting will be review/approval of SPP's 2010 SAS 70 audit.

### **Adjourn**

There being no further business, Harry Skilton adjourned the meeting at 2:45 pm.

Respectfully Submitted,

Thomas P. Dunn  
Secretary





**Southwest Power Pool, Inc.**  
**FINANCE COMMITTEE**  
**October 27, 2009**  
**2010 Financial Audit Engagement**

**Organizational Roster**

The following persons are members of the Finance Committee:

Harry Skilton	SPP Director
Larry Altenbaumer	SPP Director
Gary Voigt	Arkansas Electric Coops
Trudy Harper	Tenaska
Kelly Harrison	Westar
Sandra Bennett	AEP

**Background**

SPP annually engages a Certified Public Accounting firm to audit its financial statements and accounting controls. This audit report serves to document to members, customers, and other interested parties that the accounting practices and financial reporting of SPP comply with generally accepted accounting principles in the United States of America.

**Analysis**

SPP has engaged BKD, LLC since 2005 to audit SPP's financial statements and accounting practices for the purpose of expressing an opinion on the financial statements. BKD, LLC estimates fees to perform an audit of SPP's 2010 financial statements and accounting practices will total \$65,000. BKD, LLC will begin work on the audit in mid-December, 2010 and will issue its final report to the SPP Finance Committee at its April 5, 2011 meeting.

<u>Audit Year</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010 (expected)</u>
Fees	\$52,500	\$57,500	\$65,815	\$60,500	\$65,500
Admin	<u>1,275</u>	<u>1,366</u>	<u>1,585</u>	<u>2,223</u>	<u>1,965</u>
<b>TOTAL</b>	<b>\$53,775</b>	<b>\$58,866</b>	<b>\$67,400</b>	<b>\$62,723</b>	<b>\$67,465</b>

BKD, LLC is the 10<sup>th</sup> largest CPA and advisory firm in the United States. Formed in 1923, BKD, LLC now employs over 2,000 people generating annual revenues of over \$400 million through office locations across a 12 state service territory. BKD, LLC is a member of the American Institute of Certified Public Accountants and the Private Companies Firm Practice Center and is also registered with the Public Company Accounting Oversight Board<sup>1</sup>

**Recommendation**

Engage BKD to perform an audit of SPP's 2010 financial statements and results.

**Approved:** Finance Committee

**Action Requested:** Approve Recommendation

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<sup>1</sup> Required to serve as the independent auditor of public companies (BKD audits approximately 90 SEC registered entities).

November 15, 2010

Mr. Tom Dunn, Vice President and  
Chief Financial Officer  
Southwest Power Pool, Inc.  
415 North McKinley, Suite 140  
Little Rock, Arkansas 72205-3025

We are pleased to confirm the arrangements of our engagement and the nature of the services we will provide to Southwest Power Pool, Inc.

#### **ENGAGEMENT OBJECTIVES**

We will audit the balance sheet of Southwest Power Pool, Inc. as of December 31, 2010, and the related statements of operations, members' equity and cash flows for the year then ended in accordance with auditing standards generally accepted in the United States of America.

The objective of our audit is the expression of an opinion on the conformity of your financial statements, in all material respects, with accounting principles generally accepted in the United States of America.

We will also audit the balance sheet and the statements of income, retained earnings and cash flows of Southwest Power Pool, Inc. as of and for the year ended December 31, 2010, which are to be included in Form 1 to be filed with the Federal Energy Regulatory Commission. Our engagement will also include attendance at two finance committee meetings.

#### **OUR RESPONSIBILITIES**

Auditing standards generally accepted in the United States of America require that we plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Accordingly, a material misstatement may remain undetected. Our audit is designed to detect misstatements that, in our judgment, could have a material effect on the financial statements taken as a whole. Consequently, our audit will not necessarily detect errors or fraud resulting in an immaterial misstatement of the financial statements.

Mr. Tom Dunn, Vice President and  
Chief Financial Officer  
Southwest Power Pool, Inc.  
November 15, 2010  
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An audit also includes obtaining an understanding of the entity and its environment, including internal controls, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures to be performed. An audit is not designed to provide assurance on internal control or to identify material weaknesses or significant deficiencies. However, we will inform you of any such matters that come to our attention. Because of the limits of internal control, errors, fraud, illegal acts or instances of noncompliance may occur and not be detected. Also, in the future, procedures could become inadequate because of changes in conditions or deterioration in design or operation. Two or more people may also circumvent controls or management may override the system. We are available to perform additional procedures with regard to fraud detection and prevention at your request, subject to completion of our normal engagement acceptance procedures. The actual terms and fees of such an engagement would be documented in a separate letter to be signed by you and BKD.

Keith Conine is responsible for supervising the engagement and authorizing the signing of the report or reports.

If, for any reason, we are unable to complete our audit or are unable to form or have not formed an opinion, we may decline to express an opinion or decline to issue a report as a result of this engagement. If we discover conditions that may prohibit us from issuing a standard report, we will notify you as well. In such circumstances, further arrangements may be necessary to continue our engagement.

### **YOUR RESPONSIBILITIES**

To facilitate our audit, management is responsible for making all financial records and related information available to us. At the conclusion of our engagement, management will provide to us a letter acknowledging certain responsibilities outlined in this engagement letter and confirming:

- The availability of this information
- Certain representations made during the audit for all periods presented
- The effects of any uncorrected misstatements, if any, resulting from errors or fraud aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole

Mr. Tom Dunn, Vice President and  
Chief Financial Officer  
Southwest Power Pool, Inc.  
November 15, 2010  
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Management is responsible for fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America (or other comprehensive basis of accounting), for adjusting the financial statements to correct material misstatements and for identifying and ensuring compliance with the laws and regulations applicable to your activities. Management is also responsible for establishing and maintaining effective internal control over financial reporting and setting the proper tone; creating and maintaining a culture of honesty and high ethical standards; and establishing appropriate controls to prevent, deter and detect fraud and illegal acts.

### **OTHER SERVICES**

We may perform other services for you not covered by this engagement letter. You agree to assume full responsibility for the substantive outcomes of those services, including any findings that may result. You also acknowledge that those services are adequate for your purposes and that you will establish and monitor the performance of those services to ensure that they meet management's objectives. Any and all decisions involving management functions related to those services will be made by you, and you accept full responsibility for such decisions. We understand that you will designate a management-level individual to be responsible and accountable for overseeing the performance of those services, and that you will have determined this individual is qualified to conduct such oversight.

### **ENGAGEMENT FEES**

Our fees will be \$65,500. In addition, you will be billed travel costs, if any, and an administrative fee of 3% to cover items such as copies, postage and other delivery charges; supplies; technology-related costs such as computer processing, software licensing, research and library databases; and similar expense items. These fees also include the incremental time and effort to perform your audit because of the Risk Assessment Suite.

Our pricing for this engagement and our fee structure is based upon the expectation that our invoices will be paid promptly. We will issue progress billings during the course of our engagement and payment of our invoices is due upon receipt. Interest will be charged on any unpaid balance after 30 days at the rate of 10% per annum.

Mr. Tom Dunn, Vice President and  
Chief Financial Officer  
Southwest Power Pool, Inc.  
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Our engagement fee does not include any time for post-engagement consultation with your personnel or third parties, consent letters and related procedures for the use of our reports in offering documents, inquiries from regulators or testimony or deposition regarding any subpoena. Charges for such services will be billed separately.

Our fees may also increase if our duties or responsibilities are increased by rulemaking of any regulatory body or any additional new accounting or auditing standards. We will consult with you in the event any other regulations or standards are issued that may impact our fees.

If our invoices for this or any other engagement you may have with BKD are not paid within 30 days, we may suspend or terminate our services for this or any other engagement. In the event our work is suspended or terminated as a result of nonpayment, you agree we will not be responsible for any consequences to you.

#### **OTHER ENGAGEMENT MATTERS AND LIMITATIONS**

Our workpapers and documentation retained in any form of media for this engagement are the property of BKD. We can be compelled to provide information under legal process. In addition, we may be requested by regulatory or enforcement bodies to make certain workpapers available to them pursuant to authority granted by law or regulation. You agree that we have no legal responsibility to you in the event we provide such documents or information.

You agree to indemnify and hold harmless BKD and its personnel from any claims, liabilities, costs and expenses relating to our services under this agreement attributable to false or incomplete representations by management, except to the extent determined to have resulted from the intentional or deliberate misconduct of BKD personnel.

You agree that any dispute regarding this engagement will, prior to resorting to litigation, be submitted to mediation upon written request by either party. Both parties agree to try in good faith to settle the dispute in mediation. The American Arbitration Association will administer any such mediation in accordance with its Commercial Mediation Rules. The results of the mediation proceeding shall be binding only if each of us agrees to be bound. We will share any costs of mediation proceedings equally.

Mr. Tom Dunn, Vice President and  
Chief Financial Officer  
Southwest Power Pool, Inc.  
November 15, 2010  
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Either of us may terminate these services at any time. Both of us must agree, in writing, to any future modifications or extensions. If services are terminated, you agree to pay us for time expended to date. In addition, you will be billed travel costs, if any, and an administrative fee of 3% to cover items such as copies, postage and other delivery charges; supplies; technology-related costs such as computer processing, software licensing, research and library databases; and similar expense items.

If any provision of this agreement is declared invalid or unenforceable, no other provision of this agreement is affected and all other provisions remain in full force and effect.

This engagement letter represents the entire agreement regarding the services described herein and supersedes all prior negotiations, proposals, representations or agreements, written or oral, regarding these services. It shall be binding on heirs, successors and assigns of you and BKD.

We may from time to time utilize third-party service providers, *e.g.*, domestic software processors or legal counsel, or disclose confidential information about you to third-party service providers in serving your account. We remain committed to maintaining the confidentiality and security of your information. Accordingly, we maintain internal policies, procedures and safeguards to protect the confidentiality of your information. In addition, we will secure confidentiality agreements with all service providers to maintain the confidentiality of your information. In the event we are unable to secure an appropriate confidentiality agreement, you will be asked to provide your consent prior to the sharing of your confidential information with the third-party service provider.

We will, at our discretion or upon your request, deliver financial or other confidential information to you electronically via email or other mechanism. You recognize and accept the risk involved, particularly in email delivery as the Internet is not necessarily a secure medium of communication as messages can be intercepted and read by those determined to do so.

You agree you will not modify these documents for internal use or for distribution to third parties. You also understand that we may on occasion send you documents marked as draft and understand that those are for your review purpose only, should not be distributed in any way and should be destroyed as soon as possible.

Mr. Tom Dunn, Vice President and  
Chief Financial Officer  
Southwest Power Pool, Inc.  
November 15, 2010  
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If you intend to include these financial statements and our report in an offering document at some future date, you agree to seek our permission to do so at that time. You agree to provide reasonable notice to allow sufficient time for us to perform certain additional procedures. Any time you intend to publish or otherwise reproduce these financial statements and our report and make reference to our firm name in any manner in connection therewith, you agree to provide us with printers' proofs or masters for our review and approval before printing or other reproduction. You will also provide us with a copy of the final reproduced material for our approval before it is distributed. Our fees for such services are in addition to those discussed elsewhere in this letter.

You agree to notify us if you desire to place these financial statements or our report thereon on an electronic site. You recognize that we have no responsibility as auditors to review information contained in electronic sites.

Any time you intend to reference our firm name in any manner in any published materials, including on an electronic site, you agree to provide us with draft materials for our review and approval before publishing or posting such information.

BKD is a registered limited liability partnership under Missouri law. Under applicable professional standards, partners of BKD, LLP have the same responsibilities as do partners in a general accounting and consulting partnership with respect to conformance by themselves and other professionals in BKD with their professional and ethical obligations. However, unlike the partners in a general partnership, the partners in a registered limited liability partnership do not have individual civil liability, directly or indirectly, including by way of indemnification, contribution, assessment or otherwise, for any debts, obligations or liabilities of or chargeable to the registered limited liability partnership or each other, whether arising in tort, contract or otherwise.

If the above arrangements are acceptable to you, please sign the enclosed copy of this letter and return it to us.

**BKD, LLP**

Mr. Tom Dunn, Vice President and  
Chief Financial Officer  
Southwest Power Pool, Inc.  
November 15, 2010  
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The services and arrangements described in this letter are in accordance with our understanding and are acceptable to us.

**SOUTHWEST POWER POOL, INC.**

By: \_\_\_\_\_  
(Name and Title)

Date: \_\_\_\_\_

hl:kc:bst

Enclosure

DRAFT - 11/23/2010



***SAS 70 Audit Results  
Presentation to the  
Southwest Power Pool  
Finance Committee***

Sean Barry  
Tim Cherry

December 6, 2010

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# ***Agenda***

**SAS 70 Audit Results & Observations**

**Path Forward and Final Thoughts**

**Background – Scope of SAS 70 (for reference)**

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# ***SAS 70 Audit Results***

## **Summary of Findings**

### Status and Scope:

- All testing complete and report issued last Wednesday.
- Control environment is stable since we met last summer.
- As of the end of last year, SPP had assumed control over all aspects of the settlement system, and Siebel and Portal applications ; certain functions supporting these IT systems were previously supported by third-party providers.

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# ***SAS 70 Audit Results***

## **Summary of Findings**

Final Results:

- **Opinion is unqualified.**
- Exceptions were identified related to two control objectives.
  - One control activity has an exception condition; however, compensating controls mitigated the exception.
  - One exception was determined to be an isolated incident.
- SPP management agrees with our findings.

## **Year-To-Year Comparison**

<b>Report Qualification Type</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Design of Controls	0	1	0	0	0
Operating Effectiveness	6	6	2	2	0

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## ***SAS 70 Audit Results***

### **Findings – Schedule Data Transfer**

Energy Market Schedule Data (Control Objective 15): Controls are in place to provide reasonable assurance that schedule data has been transferred to the energy market settlement system accurately and completely.

- Opinion ***not*** qualified.
- Key Issue:
  - No evidence was provided for the comparison of interchange schedules for one day.
  - Exception condition was determined to be a single isolated occurrence.

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# ***SAS 70 Audit Results***

## **Findings – Physical Security**

Logical and Physical Security (Control Objective 19): Controls provide reasonable assurance that the process of maintaining physical and logical security minimizes the risk of unauthorized access to, use of, modification of, damage to or loss of IT facilities or information.

- Opinion ***not*** qualified.
- Key Issue:
  - Management approval was not obtained prior to granting physical access for one person to one coordination center.
  - Several control activities serve as compensating controls which operated effectively during the audit period resulting in the control objective not being qualified.

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## ***SAS 70 Observations***

Control execution has increasingly become part of everyday business processes – while this is a positive attribute, perseverance on training new personnel about business processes is imperative.

Monitoring controls are key to maturing control environment – with SSAE 16 requiring management’s assertion over the effectiveness of its controls, monitoring the controlled environment is more important than ever.

Future market enhancements may stress the organization – careful consideration should be given to proper resource requirements so that current controlled processes are not adversely affected, and new processes are well defined and vetted in advance of implementation.

Future relocation of personnel necessitates the need for a well developed plan – retention of data/information aligned with company policy will protect against unnecessary lost.

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## ***Path Forward and Final Thoughts***

### **SSAE 16**

New guidance issued and effective for this 2011 audit cycle – Statement on Standards for Attestation Engagements 16 (SSAE 16).

The next audit period has already begun – started on November 1, 2010.

SSAE 16 impact on SPP is not expected to be significant but does require additional effort.



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# ***Path Forward and Final Thoughts***

## **Differences/Similarities Between SSAE 16 & SAS 70**

### **Differences**

- Management of SPP to provide a written assertion on the fair presentation, suitability of design, and operating effectiveness (based on SPP assessment).
- Opinion will change – will be modified but generally cover same scope.
- Suitability of design of controls will be covered for the entire period.

### **Similarities**

- Scope of controls is focused on controls that would be relevant to a market participant's internal control over financial reporting.
- Description of controls under SAS 70 will be the basis for the description under SSAE 16.
- Restricted use of report (SPP management, market participants, and their auditors).

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## ***Path Forward and Final Thoughts***

### **Impact of Key SSAE 16 Requirements on SPP**

**Assertion** – Management is responsible for preparing an assertion that states controls are fairly presented, suitably designed and operating effectively to achieve the specified control objectives.

**Description of Systems** - Management is responsible for preparing its description of the service organization's system.

**Identify Risks** - Management should identify the risks that threaten the achievement of the control objectives stated in management's description of the system.

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## ***Path Forward and Final Thoughts***

SSAE16 is not expected to add complexity to the 2011 engagement – careful planning will minimize any impact.

SPP internal audit will need to balance the demands of supporting SPP SSAE 16 readiness while maintaining independence when providing personnel resources to help PwC perform testing next year.

Southwest Power Pool management and staff have been forthcoming with control issues and concerns to PwC.

Management and staff have been very cooperative during the execution of the SAS 70 Audit.

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## ***Background – Scope of SAS 70 (for reference)***

### **Scope of Processes Covered by SAS 70 Audit**

SPP management provided PwC 21 control objectives to be evaluated for design and operating effectiveness during the period of November 1, 2009 - October 31, 2010.

Scope of objectives is generally the same as last year's SAS 70; however:

- Two control objectives were combined into one control objective covering both logical and physical security.
- One control objective was removed due to out-sourcing of an application.
- Certain control activities were moved from one control objective to another and the remaining control objective was removed.

Scope comprises 21 control objectives:

- 18 control objectives cover transmission and energy market business processes.
- 3 control objectives cover general computer controls.

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## ***Background – Scope of SAS 70 (for reference)***

### **Transmission Market Processes Include:**

- Service Request Processing
- OASIS Service Requests
- Charges & Revenue Distribution
- Transmission Service Rates
- Billing Adjustments

### **Transmission & Energy Market Common Processes Include:**

- Settlement Statement Processing
- Invoicing
- Cash Clearing

### **Energy Market Processes Include:**

- System Access
- Loss Election Selection
- Asset Registration
- MOS & Settlement System Inputs
- Meter Data Receipt
- Settlement System Processing

### **Information Technology (IT) Processes Include:**

- Computer Operations
- Configuration & Change Management
- Logical & Physical Security

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## ***Background – Scope of SAS 70 (for reference)***

SAS 70 Audit testing was conducted during April and October 2010 for controls operating during the period November 1, 2009 – October 31, 2010.

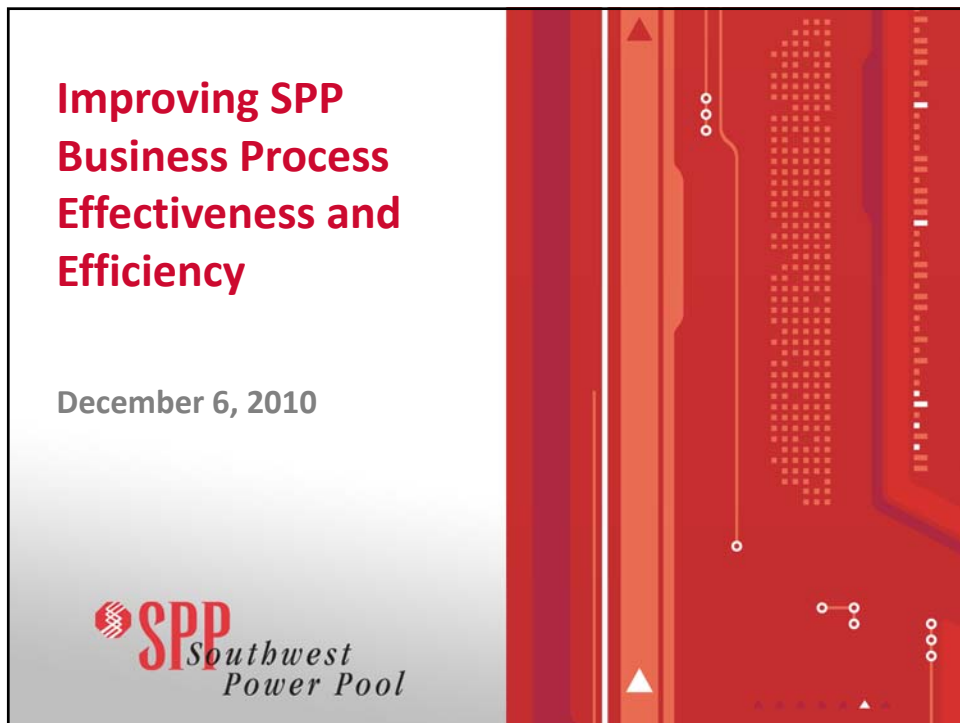
Audit conducted pursuant to AICPA Statement on Auditing Standards No. 70, as amended and comprised various tests of controls comprising inspection, inquiry, observation and reperformance.

SAS 70 Audit report was issued by PwC on December 1, 2010 for the use by the following (distribution is limited to those users):

- SPP Board of Directors and management,
- SPP's customers, and
- Independent auditors of SPP's customers.

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## Agenda

1. Business Process Improvement (BPI) Objectives
2. Implementation Strategy
3. BPI Issues and Recommendations
4. Implementation Time Line
5. Tracking BPI Initiatives in 2011

## BPI Strategic Objectives

1. Business Process Improvement principles are an integral and systematic part of SPP processes for creating member value and improving efficiency and effectiveness.
  - Planning (Strategic, Business Unit and Budgeting)
  - Resource Allocation Prioritization
  - Performance Measurement and Appraisal
2. BPI awareness and skills are demonstrated elements of the SPP culture.
3. BPI initiatives are planned -- results are measured and achieved.

**SPP's Target Environment for BPI**

## Business Process Improvement Objectives

- Empower, equip and incent SPP team members to create member value using BPI principles in a systemic way
- Identify and implement initiatives that will:
  - Provide current level of member value at a lower net cost
  - Provide incremental member value with existing resources
  - Eliminate services having marginal or limited value
  - Reduce risk and/or improve measured service quality/satisfaction
- Create measurement processes to:
  - Measure baseline productivity metrics
  - Target improvement opportunities
  - Track implemented improvement initiatives and goal attainment

## SPP BPI Implementation Strategy

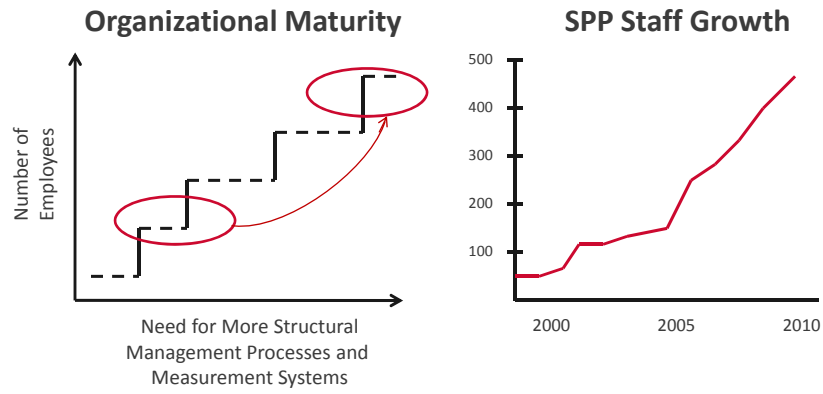
### Longer Term Objectives

1. Identify a clear vision of the ideal BPI Target Environment – methodology, support systems, education & sponsorship.
2. Pursue implementation of the BPI Target Environment over time.

### Near Term Actions – 2010 and 2011

3. Implement processes to identify, quantify, size and prioritize improvement initiatives systematically.
4. Opportunistically track BPI initiative benefits realization – Start Jan. 2011.
5. Develop visibility into the SPP BPI initiative portfolio to incorporate planned benefits into budgeting for 2012-2014.

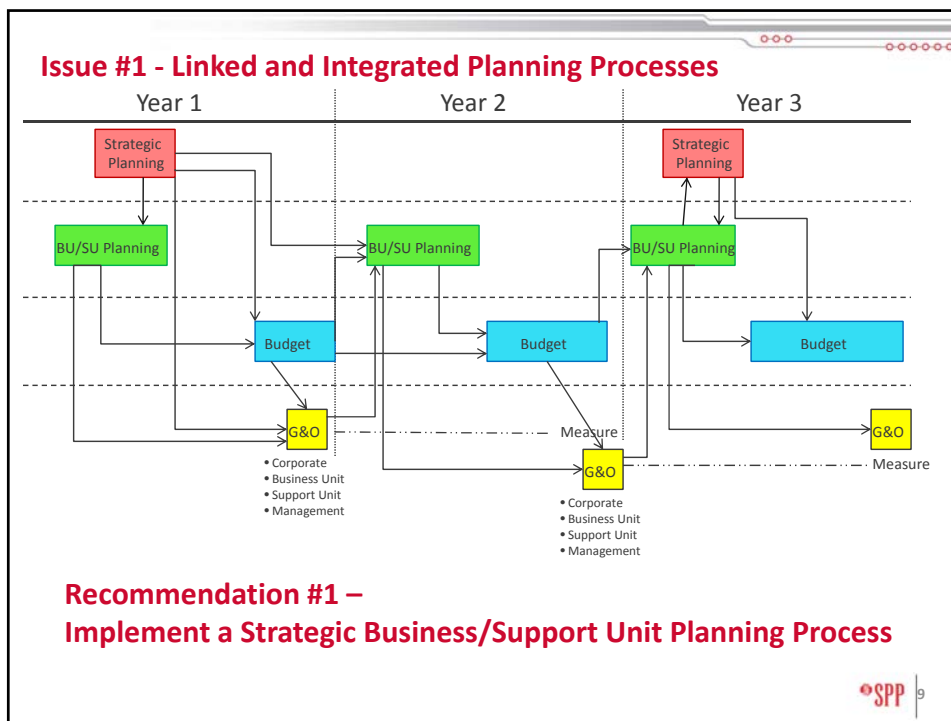
## SPP Situational Assessment



## ISSUES AND RECOMMENDATIONS

Organizational Effectiveness Management Processes

Business Process Improvement Methodology/Processes



## Recommendation #1

- Implement a Strategic Business Unit/Support Unit planning process
  - Design standardized approach, process and planning deliverables – 4Q10
  - Kickoff process in Jan. 2011
  - Facilitate planning - completed in 1Q11
  - Identified strategic initiatives will drive budgeting for 2012 - 2014
- } Desselle/  
Noble
- } Officers

## Issue #2 – Prioritization of Development Resources

- Current request/prioritization process needs enhancement
  - More focus on potential quantified benefits
  - More rigorous project scoping and costing is needed before ranking
  - Better alignment of ranking criteria with current Strategic Plan and Business Unit strategies
  - Focus on benefits realization measurement approach on the front end
- Project request process needs more granular resource estimates to better plan implementation

## Recommendation #2 -- Resource Allocation Process Improvement

- The PRPC process is being improved – Jan. 2011 Implementation
  - More focus on business justification and IRR
  - Better alignment with Strategic and Business Unit plans
  - Better initial estimates of project scope, cost and resources required – before project approval
  - Higher priority support given to projects improving productivity or reducing operating costs
  - Provides better visibility for resource planning
- Improve the project pipeline resource utilization and forecasting methodology – Jan. 2011

Desselle/  
Noble

Carnes/  
Thornton

## Issue #3 – Limited Benefits Tracking

### Recommendation #3 – Begin Tracking Project Benefits

- For all new 2011 Projects, benefits tracking will be “in scope” for Project Management
  - Initial project request defines expected benefits
  - Designing/developing an objective benefits tracking methodology will be a defined project task
  - Implementation planning will include benefits tracking
  - Business owner will be responsible for:
    - Achieving expected benefits
    - Providing benefits realization reporting
- Where feasible, current projects (and initiatives) being implemented in 2011 will include benefits tracking

Project  
Managers/  
Business  
Owners/  
Noble

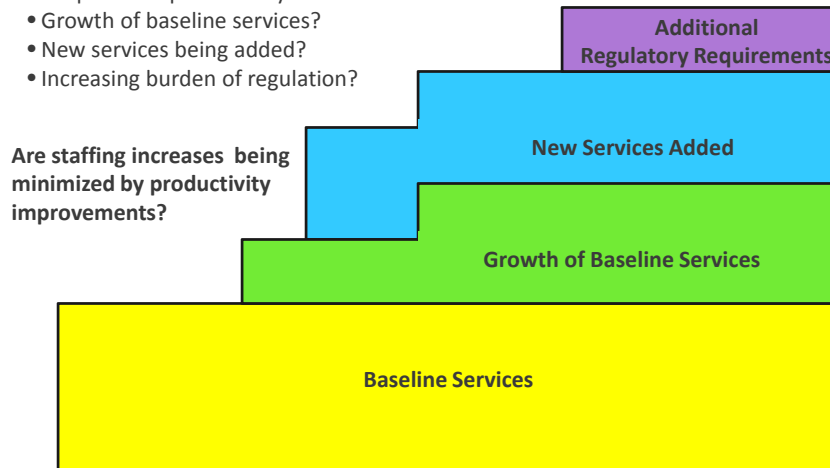
## Issue #4 – Limited Performance Measurement

- Performance, productivity and work measurement processes and systems are generally lacking
- Process improvement measurement is problematic without baseline metrics
- Better measurement systems would help identify potential BPI opportunities
- Forecasting future workload volume (FTEs) is difficult without a baseline
  - Baseline repetitive activities
  - Growth in base requirements (new members, MP, etc.)
  - One time activities (adding new members, MP, etc.)
  - New development initiatives

## Measuring Baseline Work and Productivity

Are SPP's FTEs increasing due to:

- Drop in base productivity?
- Growth of baseline services?
- New services being added?
- Increasing burden of regulation?



#### **Recommendation #4 – Performance Measurement Assessment**

- **Conduct an assessment of performance measurement needs/requirements across SPP departments (task force with cross functional representatives)**
  - Current measurement systems in place
  - Tracking work volume drivers by department, by function
  - Productivity tracking
  - Metrics to be used in resource planning/budgeting
  - Tracking project oriented time
- **Identify alternative performance measurement solutions**
- **Recommend a strategy for implementing performance management tracking as appropriate**
- **Timeframe (assessment): Apr - July, 2011**

#### **Issue #5 – Limited Accountability for Strategic Plan Results Recommendation #5 – Implement Accountability Processes**

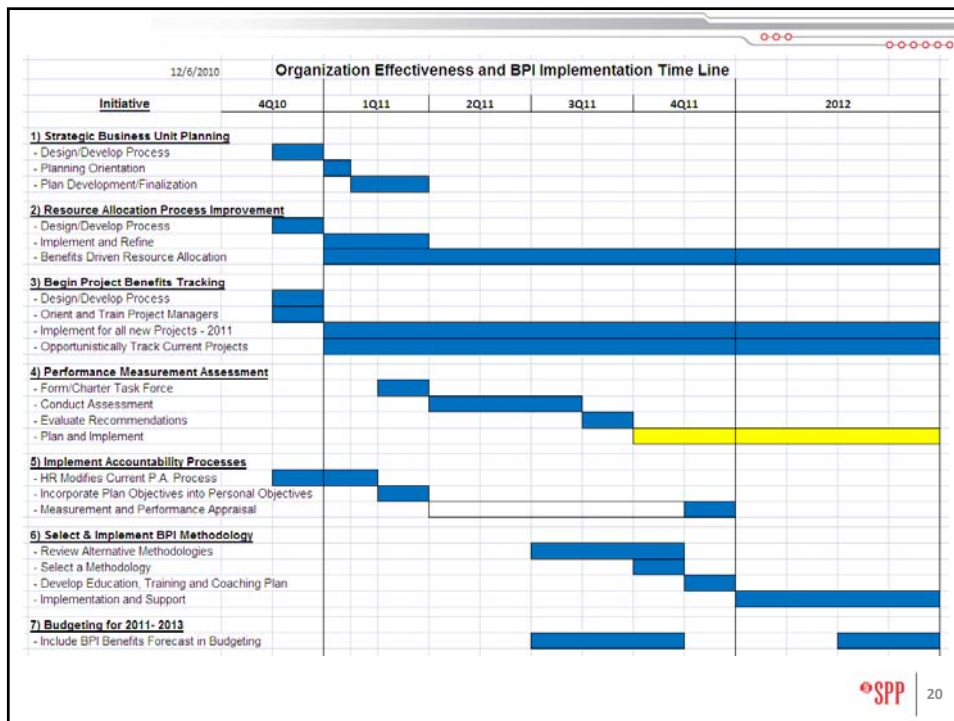
- **Utilize Strategic Business Unit Planning as a driver for management objective development**
- **Work with Human Resources to incorporate attainment of Business Plan Objectives into performance appraisal processes (Officers, Directors, Managers)**
- **Include objectives for business process improvement identification/implementation in performance appraisals**
- **Implement for 2011 performance appraisal**



**Issue #6 – No Formal BPI Methodology/Training**

**Recommendation #6 – Adopt/Implement a BPI Methodology**

- **Conduct a review of BPI methodology alternatives and adopt or customize a solution for SPP (Six Sigma, TQM, Reengineering, etc.)**
- **Develop a plan for delivering appropriate skills education and training**
- **Conduct an initial wave of skills training**
- **Provide for follow-up facilitation and coaching**
- **Develop incentives, rewards, and recognition programs to reinforce successes**
- **Target dates:**
  - Review, selection, planning – by 4Q11
  - Implementation in 2012



## Tracking BPI Initiatives in 2011 (Preliminary List)

### Currently Defined Projects and Initiatives

- Operations Performance Support Restructuring
- Engineering Study Billing Process Improvement
- PRPC – Data API Projects
- PRPC – Engineering Transmission Project Tracking
- PRPC – Enterprise Records Management
- PRPC – Data Warehouse Implementation
- PRPC – Automation of Offer Caps
- IT Service Desk Process Improvement
- (3) Operations Initiatives
- Automation of Operations Reservation Processing and Scheduling

### New Initiatives Developed/Defined in 2011 and beyond

- Benefits Tracking for Strategic Business Planning initiatives and new PRPC Project Requests

## Linking BPI Initiatives to Future Budgets

- Quarterly reporting of the BPI Portfolio given to Finance Committee
  - Includes a forecast of benefits to be realized
  - Provides tracking of actual vs. planned
- Future Budget requests will be rationalized with Benefits Realization forecasts
- Work and productivity measurement systems will provide more clarity into budget/headcount drivers

## Status Update from the Credit Practices Working Group to the Finance Committee December 6, 2010

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- The Credit Practices Working Group (CPWG) was convened for a meeting on November 18, 2010.
- This meeting was focused on two primary areas of interest:
  - FERC Order 741 (Credit Reforms in Organized Wholesale Electric Markets) issued on 10/21/10 and
  - Status of the Credit efforts related to the Integrated Marketplace
- The group discussed Order 741 and reviewed SPP staff's initial assessment of the steps needed to ensure compliance by the June 30, 2011 deadline. The following summarizes that analysis:
  1. Shorten the settlement period for the market to no more than seven days.  
SPP status – The current market settlement period is already seven days. No action is necessary.
  2. Reduce the allocation of unsecured credit to no more than \$50 million per market participant and no more than \$100 million per corporate family.  
SPP status – The current maximum unsecured limit is \$25 million for all affiliated entities. No action is necessary.
  3. Eliminate unsecured credit in all Financial Transmission Rights markets.  
SPP status – While SPP does not currently have an FTR market, the CPWG has already indicated no unsecured credit would be accepted for Transmission Congestion Rights (SPP's FTR product). No action is necessary.
  4. Establish minimum criteria for market participation.  
SPP status – Changes to the SPP Credit Policy are required. SPP is working with other ISO/RTO credit groups in drafting language to be used by all groups.
  5. Clarify circumstances in which a material adverse change (MAC) may be invoked.  
SPP status – The current Credit Policy (section 3.2.7) contains MAC language, but a better connection to Defaults and Remedies (section 8) will be required. SPP staff will be working with legal counsel to draft this language.
  6. Establish a two day grace period for curing collateral deficiencies.  
SPP status – A three day cure period is granted in the current Credit Policy, so a tariff change will need be required. This may also be a convenient time to change the cure period for transmission service to two days.
  7. Choose a method to address the issue of market obligation offsets. The order offers the following choices:
    - Establish a central counterparty (i.e. SPP becomes the legal counterparty)
    - Require market participants to provide a security interest in their receivables.
    - Propose another alternative that provides the same protection as the two above methods.
    - Establish credit requirements for market participants based on their gross obligations.SPP status – The CPWG is currently studying the above options, but initially it appears that the last option may be preferable. There has been an outside legal opinion obtained by SPP that indicates there are other tariff changes that could be made to address the offsetting issue. Both of these avenues will be explored in more detail.
- An update was given regarding the Integrated Marketplace. The SPP credit staff has worked with the IM program team to complete the development of business process documentation and high level systems interactions. These inputs were a part of the required submissions to the vendor that will provide pricing estimates for production of the market systems. Currently all required credit work related to the IM has been completed or is on schedule. In addition, the CPWG discussed the need to remain connected to the Market and Settlements working groups as the IM continues to develop.
- The group indicated an interest in seeing presentations from clearinghouse providers (e.g. Nodal Exchange, NYSE – NYMEX, etc.) to determine the value of pursuing this approach to managing the new markets.
- The group also agreed to set a date for an overview presentation of the SPP Credit Market as it exists today.



## Settlements in the Integrated Marketplace

December 6, 2010

Philip Bruich, SPP  
Bill Olson, Xcel Energy



The slide features a white background on the left side with the title 'Settlements in the Integrated Marketplace' in red, the date 'December 6, 2010' in gray, and the speakers' names 'Philip Bruich, SPP' and 'Bill Olson, Xcel Energy' in gray. The SPP logo is at the bottom left. The right side of the slide is a decorative graphic with a red and orange color scheme, featuring vertical lines, a grid of small white dots, and various geometric shapes like triangles and circles, resembling a circuit board or data visualization.

## Charge Types

- With implementation of the Integrated Marketplace, SPP will settle over 50 charge types, a ten fold increase over the existing EIS Market.
- The DA market will settle 90-95% of the \$ volume with the remainder in the RTBM and TCR markets.
- All 3 categories will be settled at one time for a given operating day. This is consistent with treatment in other RTO markets.
- The main distinction with the Integrated Marketplace is the Unit Commitment by the RTO rather than MP.

## Settlement Cycle

- The Settlement Cycle will remain the same as the EIS market.
  - Initial at 7 days after the operating day.
  - Final at 40 days after the Initial.
  - Resettlements are ad hoc based on disputes.
- This timeline is the most aggressive of all the RTOs and meets the credit reform guidelines for organized electric markets recently established by FERC.

## 5 minute Settlement

- 5 minute settlement granularity already exists in EIS market but is aggregated at the hourly level.
- The most significant benefit for Integrated Marketplace is not subjecting the generator to adverse impacts of price volatility.
- Also avoids costly, time-consuming disputes experienced in other markets such as make whole payments. Embraced by shadow settlement vendors.
- Other RTOs have 'add on' settlement processes that already calculate at 5 minute level but reside in black-box applications separate from settlement system.

## Data Store

- MPs currently download pre-formatted settlement statements from SPP portal for each day.
- A data store approach will be implemented for Integrated Marketplace to allow MPs to pull any or all billing determinants from SPP at any time.
- Provides complete access to all billing determinants allowing MP vendor applications full shadow settlement capability.
- Also provides the ability for the MP to estimate their current market position prior to settlement date based upon best available data at the time.

## Training Market Participants

- Formal training program implemented in early 2010 covered individual modules tailored toward MWG approach to market protocol development.
  - Monthly Settlement User Group conference calls.
  - Two face-to-face training sessions at regional sites.
  - Fall Settlement User Conference.
- Initial round of training will complete in mid 2011. Next round of training to occur in 2012 and 2013 for market trials and customer readiness initiative.
- Mini-market model spreadsheet developed for live simulation of settlement calculations.

## Stakeholder concerns from other RTOs

- Stronger emphasis needed for training and customer readiness.
  - SPP early protocol development with exact formulas provides well documented calculations far in advance of market trials phase. Unprecedented in other markets.
- Enhanced flexibility needed for MP changes to financial schedules and metering data to mitigate dispute activity.
- Complete access needed to all billing determinants.
- Get on the same page with early collaboration among RTO, MPs and Shadow Vendors prior to market trials.

## Questions?

[pbruich@spp.org](mailto:pbruich@spp.org)

[bill.olson@xcelenergy.com](mailto:bill.olson@xcelenergy.com)





## Executive Summary

**Program Name:** New Facilities Program  
**Program Number:** PG20090005  
**Date:** 29 Nov 2010

### Current Status: Schedule and Activity

#### General Information and Site

1. A substantial portion of the excavation, drainage and utility work has been completed on the site.
2. The negotiation of a guaranteed maximum price contract with Nabholz Construction Services continues, based upon the complete, approved set of construction drawings. Nabholz is procuring a few remaining final bids.

#### Data/Operations Center

1. All but two drilled piers are now cast and basement level perimeter grade beams are excavated with reinforcing steel in place. Construction of the upper and lower buildings pads is underway and near sub-grade.
2. We remain on-track for a 15 Sep 2011 completion date.

#### Office Building

1. We remain on-track for a 28 Feb 2012 completion date for the Office Building.

#### Migration Projects

1. The initial framework for the migration effort, including project sub-team structure and initial resource requirements, is complete. We are in the final stages of identifying key resources for project sub-teams.
2. The process for selection of furniture, recommended by WER earlier this month and supported by business owners for the Construction and Migration efforts, is underway. WER presented four initial bids to SPP on Tuesday, 9 Nov and two vendors were selected for further evaluation. The proposals were pared based upon a number of factors including but not limited to cost, quality, and past experience with local vendors. Both of the remaining vendors have been asked to prepare a mock-up of their proposed solutions.
3. The Migration Project Team will complete a revised estimate for completion once planning is underway. We do not anticipate the migration being completed before 30 Apr 2012, subject to the planning described above.

### Budget and Schedule Tracking Reports

Budget and schedule tracking information is provided in the following two charts.

#### Budget Analysis of the Facilities Construction Project As of November 23, 2010

Budget Item	Budgets		Actual Expenditures	% of Completion		Realized Budget Variance	Estimate to Completion
	SPP Approved	Project <sup>1</sup>		Contractor <sup>2</sup>	Actual		
Land	\$ 4,573,800	\$ 4,573,800	\$ 4,565,936	100.0%	100.0%	\$ (7,864)	\$ -
Ops/Data Center	\$ 25,541,000	\$ 24,860,883	\$ 1,840,491	8.5%	7.4%	\$ -	\$ 23,020,392
Construction	\$ 23,829,000	\$ 23,148,883	\$ 605,686	4.0%	2.6%	\$ -	\$ 22,543,197
Professional Fees	\$ 1,712,000	\$ 1,712,000	\$ 1,234,805	70.0%	72.1%	\$ -	\$ 477,195
Office Building	\$ 32,081,090	\$ 32,245,104	\$ 2,342,443	8.4%	7.3%	\$ -	\$ 29,902,661
Construction	\$ 29,298,200	\$ 29,462,214	\$ 770,873	4.0%	2.6%	\$ -	\$ 28,691,341
Professional Fees	\$ 2,782,890	\$ 2,782,890	\$ 1,571,570	55.0%	56.5%	\$ -	\$ 1,211,320
<b>Totals</b>	<b>\$ 62,195,890</b>	<b>\$ 61,679,787</b>	<b>\$ 8,748,871</b>	<b>15.3%</b>	<b>14.2%</b>	<b>\$ (7,864)</b>	<b>\$ 52,923,053</b>

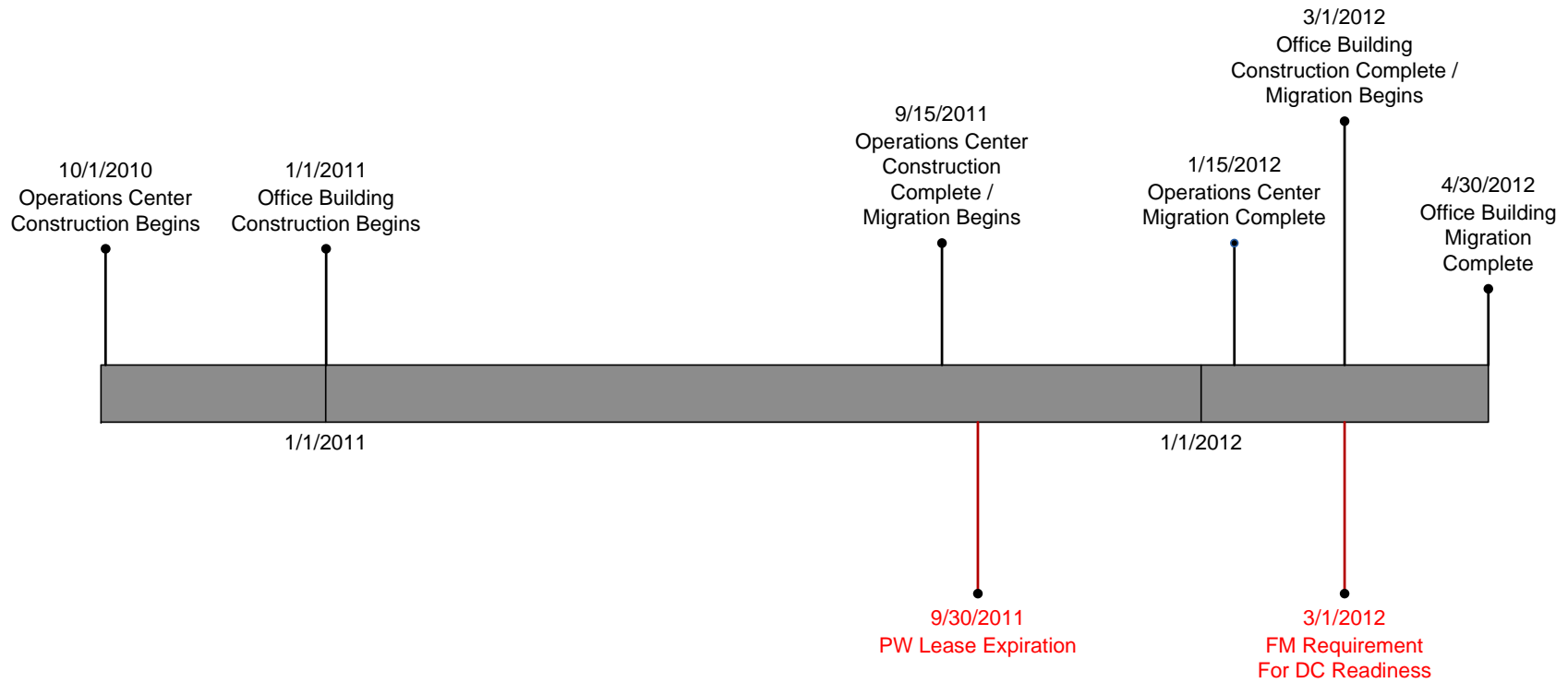
<sup>1</sup> Estimated costs are subject to FC approval of the final construction budget.

<sup>2</sup> Estimates of projected work activity provided by Nabholz Construction Services.

# NEW FACILITIES PROGRAM

## Program Schedule Tracking

*High-Level Schedule Milestones as of November 29, 2010*





**Southwest Power Pool, Inc.**  
**SPP STAFF**  
**Report to the Finance Committee**  
**December 6, 2010**

**Organizational Roster**

The following persons are members of the Finance Committee:

Harry Skilton	Director
Larry Altenbaumer	Director
Trudy Harper	Tenaska
Sandra Bennett	AEP
Gary Voigt	Arkansas Electric
Kelly Harrison	Westar

**Activity Update**

Annually, SPP reviews its corporate liability insurance programs and secures renewals for the coming calendar year. The SPP Finance Committee, at its July 2010 meeting, requested SPP contemplate two options in its renewal discussions for 2011:

- Increased retention on the excess liability program
- Increased limits on the Directors & Officers liability program

What follows is a summary of individual components of the corporate liability insurance program and renewal for 2011, including expected premiums.

Primary Package: This represents SPP's base layer of insurance coverage which provides protection for general liability ("slip and fall" coverage), auto liability, property, and worker's compensation. This coverage has been priced with both \$1MM and \$2MM limits. SPP anticipates renewal at the \$2MM limit as the increase in premium is within reason and provides for full coverage into the higher layer policies.

Excess Liability: The primary excess layer (\$35MM) is underwritten by Associated Electric & Gas Insurance Services Limited ("AEGIS"), above that SPP carries an additional \$40MM limit underwritten by Energy Insurance Mutual ("EIM"). SPP met with AEGIS in early October 2010 to discuss SPP, our risk profile, and renewal issues. The most significant change on the renewal policy will be the addition of a \$70MM aggregate limit. The EIM layer follows the AEGIS form which ensures no gap in coverage. In response to the implementation of the \$70MM aggregate limit by AEGIS, SPP has requested the EIM coverage drop down upon extinguishment of the AEGIS limits. EIM agreed to this change for an increased premium of \$13,000. SPP also priced the AEGIS policy with attachment points of \$1MM and \$2MM. AEGIS agreed to a \$122,000 reduction in premium if the attachment point were raised to \$2MM. Beyond \$2MM AEGIS did not offer any additional premium savings as the policy is at their minimum premium.

Directors & Officers: The Directors & Officers ("D&O") policies are generally composed of three distinct types of coverages known as "A-side", "B-side", and "C-side" which can be described simply as follows:

- A-side – Coverage for insured individuals for claims not indemnified by the corporation



- B-side – Coverage for the corporation to fund its indemnification of insured individuals
- C-side – Coverage for the corporation for claims against the corporation

SPP’s expiring D&O program contains \$30MM in “ABC” coverage and an additional \$20MM in excess “A” coverage. Numerous options on structuring the program were reviewed and are displayed in the attached. SPP’s expectation to date is to renew as follows:

- \$30MM in “ABC” coverage as exists today
- \$30MM in “AB” coverage to replace existing \$20MM in “A” coverage

This proposed structure accomplishes several desires of SPP: 1) retains the \$30MM in base coverage SPP has carried for several years; 2) provides an additional \$30MM in coverage for indemnified and non-indemnified claims for insured individuals; 3) switching to the “AB” form allows SPP to increase coverage for non-corporate claims by \$10MM while reducing premiums by \$16,800.

Fiduciary: This coverage insures directors, officers, employees, trustees, employee benefit plans, and SPP against alleged violations of ERISA or similar laws; or errors and omissions in the administration of SPP’s health and welfare plans; or any other matter against an insured solely because of their status as a fiduciary of an employee benefit plan. SPP has benchmark its fiduciary limits against those of other companies on the basis of number of employees, annual revenues, and total assets.

<u>Limits (millions)</u>	<u>Employees (200 – 500)</u>	<u>Revenues (\$100MM - \$250MM)</u>	<u>Assets (\$100MM - \$200MM)</u>
< \$1	53%	40%	27%
\$1 - \$2	10%	4%	7%
\$2 - \$5	28%	36%	53%
\$5 - \$10	6%	12%	7%
\$10 +	3%	8%	6%

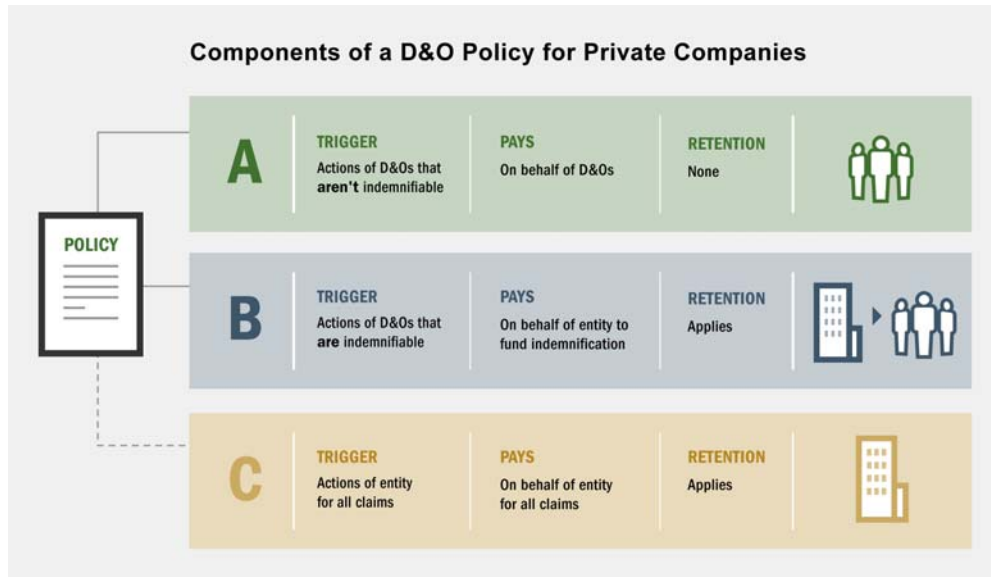
SPP carried \$3MM in Fiduciary limits in 2010, however, we expect to increase the limit to \$5MM effective 2011, resulting in a \$1,900 premium increase.

**Summary**

SPP’s expected renewal program results in slightly higher coverage levels for several aspects of the program with the only reduction noted being the \$1MM increase in the attachment point for corporate errors & omissions. Premiums, however, fall by approximately \$100,000 compared to premiums paid for the 2010 program.

## MANAGEMENT LIABILITY AND OPTIONS

The majority of private company D&O policies contain three insuring agreements. The first coverage is found in the Individual Insuring Agreement and is often referred to as “I.A.” or “A-Side” coverage. This provision provides insurance for the individual directors and officers for covered losses when the company is unable to indemnify them. A company may be unable to indemnify their directors and officers for a variety of reasons. The most common reason is financial insolvency; however, public policy may also prohibit a company from indemnifying their directors and officers. A-side coverage applies as “first dollar” coverage (e.g. \$0 retention).



The second coverage is granted by the Corporate reimbursement Insuring Agreement also referred to as the “I. B.” or “B-Side” coverage. This coverage pays on behalf of the company for amounts it is obligated to pay as indemnification to its directors and officers pursuant to the company’s charter, by-laws or contractual arrangements.

Due to insured-favorable case law, which was handed down in several securities lawsuits during 1995, a third coverage has now become standard to the D&O policy. Commonly known as “entity coverage,” “I. C” or “C-Side” coverage, this provision provides coverage for the direct exposure of the corporate entity. The vast majority of D&O policies written specifically for private companies include full entity coverage; meaning, the insured entity is covered for all claims which are not otherwise excluded. A few private company forms take the approach of only providing entity coverage for securities and employment claims.

### MANAGEMENT LIABILITY OPTIONS

Coverage	Company	Expiring	Renewal	Option #1	Option #2	Option #3
<b>Directors &amp; Officers/ Employment Practices Liability</b>	<i>TOTAL D&amp;O LIMITS</i>	<i>\$50MM</i>	<i>\$50MM</i>	<i>\$60MM</i>	<i>\$60MM</i>	<i>\$60MM</i>
Primary (\$5mm)	Chubb	\$9,618	\$15,000	\$15,000	\$15,000	\$15,000
	Chartis					
1st Excess (\$5 x \$5)	Travelers	\$11,900	\$11,900	\$11,900	\$11,900	\$11,900
2nd Excess (\$10 x \$10)	RSUI	\$19,895	\$19,895	\$19,895	\$19,895	\$19,895
3rd Excess (\$10 x \$20)	ACE	\$14,900	\$14,900	\$14,900	\$14,900	\$14,900
<b>A/B Only Excess (\$10 x \$30)</b>	Chartis			\$11,200	\$11,200	\$11,200
1st Excess (\$10 x \$40)	Arch			\$11,000	\$11,000	\$11,000
2nd Excess (\$10 x \$50)	Liberty			\$9,800		
<b>A-Side DIC (\$10mm)</b>	Arch	\$25,000	\$21,000			
1st Excess DIC (\$10 x \$10)	Liberty	\$22,410	\$18,000		\$18,000	\$18,000
<b>TOTAL</b>		<b>\$103,723</b>	<b>\$100,695</b>	<b>\$93,695</b>	<b>\$101,895</b>	<b>\$101,895</b>
\$ change vs. expiring			(\$3,028)	(\$10,028)	(\$1,828)	(\$1,828)
\$ change vs. renewal as expiring				(\$7,000)	\$1,200	\$1,200
<b>Fiduciary</b>						
\$3 million	Travelers	\$5,700	\$5,500			
\$5 million	Travelers			\$7,400	\$7,400	\$7,400
\$5 mm x/s \$5 mm	Chartis			\$3,552	\$3,552	X
<b>TOTAL</b>		<b>\$5,700</b>	<b>\$5,500</b>	<b>\$10,952</b>	<b>\$10,952</b>	<b>\$7,400</b>
\$ change vs. expiring			(\$200)	\$5,252	\$5,252	\$1,700
\$ change vs. renewal as expiring				\$5,452	\$10,952	\$1,900
<b>TOTAL PROGRAM COST</b>		<b>\$109,423</b>	<b>\$106,195</b>	<b>\$104,647</b>	<b>\$112,847</b>	<b>\$109,295</b>

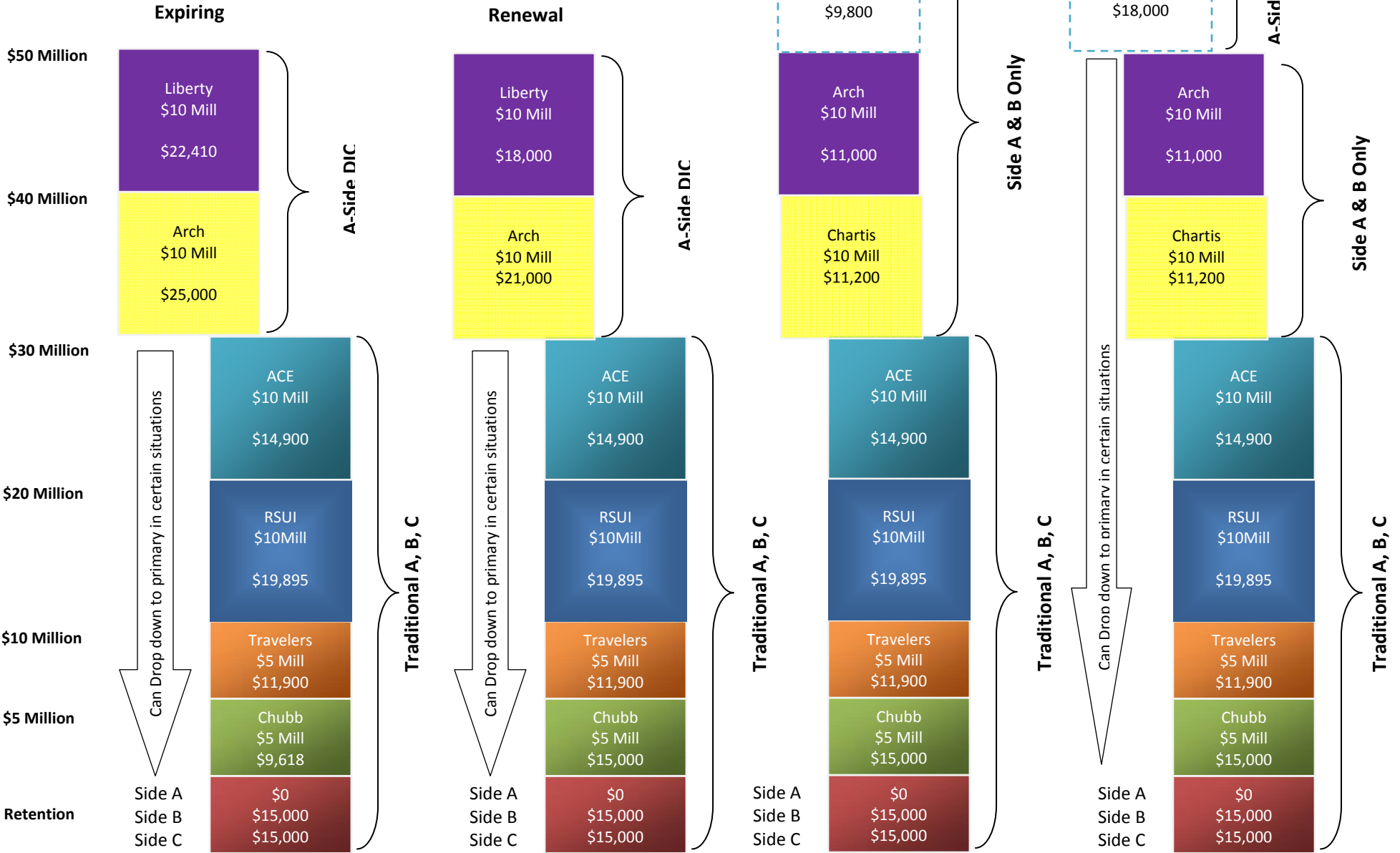
**Option 1** - Add 3 \$10 million layers excess of \$30 million covering indemnified and non-indemnified D&O loss only. No Corporate Liability or Employment Practices Liability, but recognizes depletion for those claims. Do not renew 2 A-Side DIC Layers. Increase Fiduciary Liability limits from \$3 million to \$10 million.

**Option 2** - Add 2 \$10 million layers excess of \$30 million covering indemnified and non-indemnified D&O loss only. No Corporate Liability or Employment Practices Liability, but recognize depletion for those claims. Renew \$10 million A-Side DIC Layer only. Increase Fiduciary Liability limits from \$3 million to \$10 million.

**Option 3** - As in **Option 2** except do not purchase \$5 million excess of \$5Million Fiduciary Coverage

\$60 Million

**MANAGEMENT LIABILITY DIAGRAMS**



Premium

\$103,723

\$100,695

\$93,695

\$101,895



# Memorandum

To: **Finance Committee Members**  
From: **Tom Dunn**  
CC: **Stacy Duckett, Cheryl Robertson**  
Date: **November 29, 2010**  
Re: **2011 Meeting Schedule**

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Detailed below is a schedule for face-to-face meetings of the Finance Committee for 2008/09 along with suggested agenda items to be covered at the meetings.

<u>Meeting Date</u>	<u>Time</u>	<u>Meeting Location</u>	<u>Major Agenda Items</u>
April 5, 2011	8:30	Dallas, TX	Financial audit review
July 8, 2011	8:30	Dallas, TX	Admin Fee Estimate SAS 70 Mid-year review Insurance review
Sept 29, 2011	8:30	Dallas, TX	2012 budget review Internal Audit report Auditor engagements
Oct 14, 2011	8:30	Dallas, TX	2012 budget review
Dec 12, 2011	2:00	Little Rock, AR	SAS70 audit