



Southwest Power Pool
FINANCE COMMITTEE MEETING
September 20, 2011
Teleconference

• Summary of Action Items •

1. Approved minutes of June 15, 2011 meeting
2. Approved New Facility Migration Plan and Budget

• Schedule of Follow-up Items •

1. SPP President to review metering in SPP region and suggest opportunities for improvement
2. Impact of depreciation schedules on property taxes and balance sheet.
3. Related to the 2012 SPP Budget:
 - a. Send Business Process Improvement report to the Committee members for review prior to the September 28, 2011 meeting
 - b. Prepare additional dialogue on SPP's capital expenditure program
 - c. Ensure each comparison chart compares the 2012 budget to both the 2011 budget and to the 2011 forecast
 - d. Review the load forecast and provide additional details on how it was determined
 - e. Prepare a schedule illustrating the expected impact of Entergy continuing with the ICT contract (this is the base case), Entergy becoming a full member of SPP, and Entergy terminating the ICT contract and not becoming a full member of SPP.
 - f. Prepare a schedule comparing SPP's budgets and actual from 2008 through 2012.
4. Prepare a comparison of RTO credit exposure calculations to those proposed by SPP's CPWG



Southwest Power Pool
FINANCE COMMITTEE MEETING
September 20, 2011
Teleconference

• M I N U T E S •

Agenda Item 1 – Administrative Items

SPP Chair Harry Skilton called the meeting to order at 8:35 a.m. The following members were in attendance:

Harry Skilton	SPP Director
Larry Altenbaumer	SPP Director
Kelly Harrison	Westar
Sandra Bennett	Southwestern Power Company
Gary Voigt	Arkansas Electric Cooperative
Tom Dunn	SPP

Others attending included:

Carol Shoemake	Oklahoma Gas & Electric
David Reid	Omaha Public Power District
Tracy Bender	Nebraska Public Power District
Julian Brix	SPP Director
Tom Fritsche	SPP
Nick Brown	SPP
Barbara Sugg	SPP
Stan Chapman	SPP
Laurie Taylor	SPP
Malinda See	SPP
Scott Smith	SPP

The minutes from the 15, 2011 meeting were reviewed. Kelly Harrison motioned to approve the minutes. The motion was seconded by Sandra Bennett and approved via unanimous voice vote.

The Committee asked staff to address several specific follow-up items:

Q: How will the cost effectiveness initiative be presented in the budget?

A: The budget will be presented net of cost effectiveness initiatives. Cost effectiveness results will be reported to the Finance Committee quarterly. The decision to budget net was to maintain a straightforward budget presentation and ensure that the budget which is utilized in SPP's rate making was as concise as possible.

Q: Has SPP made the compliance filings required for FERC Order 741?

A: Filing to comply with the June 30, 2011 deadline was made on time. FERC recently extended the compliance filing deadline for the filing due September 30, 2011, extending it to January 2012.

Q: When will the Committee discuss the structure of SPP's rates?

A: September 28, 2011 meeting

Q: When will SPP file with FERC to change the cap on Schedule 1A?

A: mid October 2011

Q: Has SPP made any changes to Section 19.6 control documentation?

A: Staff present at the meeting were not aware of any changes to Section 19.6 but would confirm. **** Confirmation – No changes to process at this time; plan to finalize and implement changes effective November 1, 2011. Changes designed to add greater clarity to process for granting and retiring user access.**

Q: Has SPP identified the impact implementation of the Integrated Marketplace will have on SPP's internal controls?

A: No, SPP has established a work stream within the project tasked with this issue. It is too early to report on any issues.

Agenda Item 2 – New Facility Migration Plan and Budget

SPP staff presented its migration plan and budget for the new facility. The migration plan was explained as everything SPP must do to prepare the facilities for occupancy and operation and then actually relocate to the facilities. The Committee was advised of the management structure of the New Facility program and the Migration project as well as the process followed to develop the plan and budget. The Committee questioned numerous aspects of the plan:

Are the purchases competitively bid? The majority are, some purchases related to computing hardware are sole sourced to match SPP's existing technology.

How does SPP compare in pricing for furnishings versus others? Most furnishings are priced at the 50th to 60th percentile. Some furnishings (operations consoles) are less a commodity and carry a higher price tag.

Explain the identified costs for decommissioning Plaza West? The identified decommissioning costs include disconnection and removal of diesel generator located in building parking lot, disconnection and removal of air conditioning units installed on 7th and 3rd floors, disconnection and removal of chillers from the building roof, removal of raised floor and ceiling on 7th floor and restoration to original state, removal of raised floor from 1st floor and restoration to original state, removal of window tint from 1st floor, re-install janitor sink on 7th floor, remove UPS from 7th floor, removal of badge readers from building lobby areas and repair walls, remove fiber and cabling that extends from floor to floor in building chases, remove AT&T and other vendors demark locations from SPP leased space and relocate to basement, and remove all data cabling. Other costs will be incurred to remove and dispose of any SPP assets not moved to the new location. These assets include office furniture and cubicle systems and miscellaneous office items such as whiteboards, tables, etc.

How was contingency determined? Contingency of 5% was simply an estimate. The project is currently approximately 50% bid. Contingency will cover variations from budget for the remainder of the project as well as other potential costs which were not identified in the planning process.

Why is SPP not using its existing furnishings? Several reasons were identified including a) the age of SPP's existing furnishing, for example Nick Brown stated his office furnishings are over 23 years old; b) cubicles owned by SPP do not correlate with the design of the new building due to the high walls of the existing cubes, the new facility is designed with "up lighting" and makes extensive use of natural lighting; c) using existing furnishings would necessitate an extended move period to the new facility; d) existing furnishings have been acquired over several years and do not match, SPP's new facility has an open floor plan which would highlight the differences in existing furnishings.

Larry Altenbaumer motioned to approve the budget at \$26,603,000 (the amount previously budgeted in the 2011-2013 SPP budget). The motion was seconded by Kelly Harrison and approved via unanimous voice vote.

Agenda Item 3 – 2012 SPP Budget Review

The Committee members were asked to perform a preliminary review of the budget materials and identify areas where additional information was desired. The following additional items/discussion were requested:

5. Send Business Process Improvement report to the Committee members for review prior to the September 28, 2011 meeting
6. Prepare additional dialogue on SPP's capital expenditure program
7. Ensure each comparison chart compares the 2012 budget to both the 2011 budget and to the 2011 forecast
8. Review the load forecast and provide additional details on how it was determined
9. Prepare a schedule illustrating the expected impact of Entergy continuing with the ICT contract (this is the base case), Entergy becoming a full member of SPP, and Entergy terminating the ICT contract and not becoming a full member of SPP.
10. Prepare a schedule comparing SPP's budgets and actual from 2008 through 2012.

Agenda Item 4 – Credit Practices Working Group

SPP staff presented an overview of the CPWG's approved approach to determining credit exposure in the TCR and Virtual markets. The Committee requested SPP provide a brief summary comparing the approved approach to those used in other RTO markets.

Agenda Item 9 – Future Meetings

The next meeting of the SPP Finance Committee is scheduled for September 28, 2011 in Dallas, TX. Significant agenda items will include review of the 2012 budget, review of changes to the SPP Credit Policy to address Integrated Marketplace credit issues, and continued discussion on SPP's rate structure.

There being no further business, Harry Skilton adjourned the meeting at 10:40 pm.

Respectfully Submitted,

Thomas P. Dunn
Secretary



**Southwest Power Pool, Inc.
FINANCE COMMITTEE MEETING**

September 20, 2011

Teleconference

866-221-3208

Passcode: 113358

• A G E N D A •

8:30 a.m. – 10:30 a.m.

1. Administrative Items (*5 minutes*)..... Harry Skilton
2. **New Facility Migration Plan and Budget (30 minutes) **ACTION****Barbara Sugg
3. SPP 2012 Budget Review (*60 minutes*)..... Tom Dunn
4. SPP Credit Practices Working Group (25 minutes)..... Tom Fritsche
5. Future Meeting..... All
6. Adjourn Harry Skilton



Southwest Power Pool
FINANCE COMMITTEE MEETING
June 15, 2011
Marriott Las Colinas – Dallas, TX

• Summary of Action Items •

1. Approved minutes of April 5, 2011 meeting
2. Approved amendment to Credit Practices Working Group scope document
3. Approved change in cap on Schedule 1A to 35¢/MWh to be filed immediately without change to rate setting process
4. Approved 2011 funding of SPP Retirement Plan of \$3,132,000

• 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.



Southwest Power Pool
FINANCE COMMITTEE MEETING
June 15, 2011
Marriott Las Colinas – Dallas, TX

• M I N U T E S •

Agenda Item 1 – Administrative Items

SPP Chair Harry Skilton called the meeting to order at 8:30 a.m. The following members were in attendance or represented by proxy:

Harry Skilton	SPP Director
Larry Altenbaumer	SPP Director
Kelly Harrison	Westar
Kip Fox (proxy for Sandra Bennett)	Southwestern Power Company
Gary Voigt	Arkansas Electric Cooperative
Tom Dunn	SPP

Others attending included:

Carol Shoemake	phone	Oklahoma Gas & Electric
Terri Wendlandt	phone	Westar
Jayne Clarke	phone	Sunflower
Julian Brix	in person	SPP Director
Phyllis Bernard	in person	SPP Director
Bruce Cude	in person	Southwest Public Service
Tom Fritsche	phone	SPP
Nick Brown	in person	SPP
Michael Desselle	in person	SPP
Carl Monroe	in person	SPP
Stacy Duckett	in person	SPP
Lauren Krigbaum	in person	SPP
Sean Berry	phone	Price Waterhouse Coopers
Debra Henehan	phone	Price Waterhouse Coopers

The minutes from the April 5, 2011 meeting were reviewed. Kelly Harrison motioned to approve the minutes. The motion was seconded by Kip Fox and approved via unanimous voice vote.

Agenda Item 2 – Credit Practices Working Group Report

Terri Wendlandt and Jayne Clarke, chair and vice chair of the Credit Practices Working Group (“CPWG”), reported on the group’s recent activities. To date, the group has been focused on completing the compliance filings required of FERC Order 741. One filing will be made June 30 and a second filing dealing solely with netting and offsets will be made on September 30.

The CPWG is now meeting weekly and is focused on addressing the previously noted compliance filing as well as determining the calculations needed to measure credit exposures once SPP implements its Integrated Marketplace. The CPWG plans to report timelines and preliminary approaches to these issues at the September 28, 2011 meeting of the Finance Committee.

The Finance Committee directed the CPWG to consider the following when developing credit approaches for the Integrated Marketplace:

- Provide support in determining credit capability of entities engaged in SPP market activities (including Auction capability, virtual capability, TCR capability).
- Recommend clear formulation for on-going credit requirements for market participants (margins in TCR's, virtuals).
- Recommend clear credit mitigation tools (TCR balancing accounts, VAR testing, worst case scenario testing,...)
- Working with SPP staff, develop tools for future value assessment of TCR's, DAM, RTM, Virtuals,.....

The CPWG presented a recommendation to amend their organizational scope document to increase the membership of the group from 6 to 10. Larry Altenbaumer motioned to approve the recommended changes to the scope document. The motion was seconded by Gary Voigt and approved by unanimous voice vote.

Agenda Item 3 – SPP Business Continuity and Disaster Recovery Program

SPP staff presented information on SPP's Business Continuity and Disaster Recovery program. In terms of maturity of the program, SPP meets the "defined" level.

Agenda Item 4 – SPP Rates

SPP staff presented a written recommendation detailing outlining efforts to date to allow greater flexibility in SPP's rate making process. SPP staff and the Regional Tariff Working Group had completed work on tariff language which would allow SPP greater discretion in setting its rates to provide the membership and customers with a rate which exhibits greater predictability. Staff's recommendation was to not adopt this language due to concerns associated with utilizing forecasts which have proven accurate in the rate making process. The Committee discussed a suggestion to allow customers to choose a rate set annually or a three year level rate. SPP staff committed to investigating this structure.

Kelly Harrison motioned to approve the recommendation to proceed with changing the rate cap on Schedule 1A to 35¢/MWh and filing with FERC immediately. The motion was seconded by Gary Voigt and approved by unanimous voice vote.

Agenda Item 5 – SPP Rate Structure

SPP staff presented three different potential rate structures along with initial pros and cons of each structure. The Committee debated the rate structures and eventually focused on a structure which left Schedule 1A bundled but added transaction fees for trades in virtual energy and TCR trades. SPP staff was directed to perform further analysis on this structure and report the results at the September 28, 2011 meeting of the Finance Committee.

Agenda Item 6 – SSAE 16 Audit Report

Sean Berry and Debra Henehan of PWC reported the findings from phase I of the 2011 SSAE 16 audit of SPP's control environment. The auditors identified two instances which may result in a qualification or exception in the final report. SPP staff agreed with the findings and detailed actions taken to mitigate future exceptions on the noted controls. SPP staff was directed to inform the Finance Committee of any changes to Section 19.6 of SPP's control documentation.

Agenda Item 7 – 2011 Pension Funding

SPP staff presented a recommendation to fund SPP's Retirement Plan in accordance with the recommendation of the Plan's actuary.

Larry Altenbaumer motioned to approve the recommendation to fund the SPP Retirement Plan in 2011 with \$3,132,000. The motion was seconded by Gary Voigt and approved by unanimous voice vote.

Agenda Item 8 – 2011 Insurance Stewardship Report

SPP staff presented a report on SPP's 2011 corporate insurance program and outlook for 2012. SPP staff was directed to provide the Committee with historical claims and premium experience at its September 28, 2011 meeting.

Agenda Item 9 – Future Meetings

The next meeting of the SPP Finance Committee is scheduled for September 28, 2011 in Dallas, TX. Significant agenda items will include review of the 2012 budget and continued discussion on SPP's rate structure.

Other Items

SPP staff reviewed the organization structure and strategy for successful development and implementation of the Integrated Marketplace. The Committee requested SPP staff consider the implications on SPP's controls upon implementation of the Integrated Marketplace and add a workstream to provide focus to the effort.

Agenda Item 8 – Written Reports

The Committee reviewed written reports covering: 1) Financial covenants in SPP's credit agreements; 2) Process improvement activities; 3) Management response to 2010 financial audit; 4) Management assessment of capability of current accounting platform; 5) New facility project; 6) April 2011 financial reports

There being no further business, Harry Skilton adjourned the meeting at 3:00 pm.

Respectfully Submitted,

Thomas P. Dunn
Secretary



Southwest Power Pool, Inc.

SOUTHWEST POWER POOL STAFF

Recommendation to the Finance Committee

September 20, 2011

Corporate Campus Migration Budget Approval

Background

Southwest Power Pool currently operates from three locations in Little Rock: Maumelle, Plaza West and Chenal. Based on Board of Directors authorization, construction of a new SPP corporate campus began in 2010, to house all SPP employees on a single site, utilizing the Maumelle facility as the backup site for operations. The new corporate campus will consist of a 30,000 SF operations/data center building ("OD building") scheduled to be completed in September 2011 and a 150,000 SF administrative office ("AO building") scheduled to be completed in April 2012. Both buildings were designed to meet SPP's workspace requirements for the next 10 years.

Once the migration into the new OD building is completed, SPP will be required to decommission its Plaza West data center and abandon the use of this facility as its backup coordination center. Planning for the migration into the new OD building is currently underway, and certain funds associated with migration have been expended (see below for details). SPP's 2011 budget identified \$26.6 million in expenditures to complete the migration to the new corporate campus. This recommendation updates the 2011 budget and documents the scope and expected spend to complete.

Upon completion of this project, SPP staff will be completely moved out of the Plaza West and Chenal offices. The new corporate campus buildings will be furnished with offices and cubicles based on a programming plan developed by Witsel, Evans and Rasco ("WER") from requirements information provided by SPP. Excluding executive offices, space for 540 employees will be initially furnished, consisting of 388 cubicles, 85 offices and 12 desks for real-time operations. The new OD building will replace Plaza West as SPP's disaster recovery (DR) site, both in terms of the coordination center and the data center and will be ready for the installation of Integrated Marketplace systems. Note, completion of this project will not result in the OD building data center being functionally prepared to serve as SPP's primary production data center. Subsequent projects will include building out additional systems and environments within the datacenter (i.e. Production, QA, etc) to enable full production capabilities for all SPP systems, as well as active/active components for real-time systems, between Maumelle and the new campus.

Analysis

The migration project was formed to ensure that the goals of the new facility for SPP officers and operations were met. These goals included moving the operations DR site out of Plaza West prior to the expiration of the Plaza West lease, building a facility that would be necessary for the Integrated Marketplace implementation, eliminating leased office space to reduce costs, providing office space for the growth for the Integrated Marketplace personnel, combine all SPP employees into one facility to increase effectiveness, and provide for meeting space to reduce rental meeting space. In order to drive these goals, the migration project organization includes a Core Program Team, consisting of SPP Officers and Directors, and individual Sub-Project teams consisting of SPP Directors, Managers, and various technical subject matter experts. SPP has assigned a full-time Project Manager overseeing the entire migration plan, and ensuring that tasks are identified, resources are assigned, and status updates are provided. Bi-weekly executive status reports are issued to the officer team. The sub-project teams were formed for the following areas: Datacenter Migration; Operations Migration; Network Migration; Security Migration; A/V Migration; Office Migration.

The 2012 budget process included a full review and updated estimate of all costs associated with the build out and migration to the new corporate campus. Consultants were used to assist in the planning and estimating and, for the most immediate needs, RFP's have been issued and contracts awarded. Network and security cabling is currently underway in the OD building, and computer hardware racks are being installed in the OD building data center. Once the construction of the OD building is complete, the migration team will begin building out the network infrastructure, followed closely by the data center and coordination center build outs. A full project plan, with all project dependencies and critical path tasks identified, is in the final stages of preparation, and is being managed by the SPP Project Management Office. SPP's Internal Audit department will be used to provide oversight of the project and its associated expenditures.

Two primary factors are driving the current migration plan into the new OD building: (1) SPP needs to remove its dependency on Plaza West as a backup site prior to the expiration of its current lease (September 2012), and (2) SPP needs to have data center capabilities for building out the initial Integrated Marketplace environment by March 2012. To ensure a successful outcome, risk mitigation measures have been put in place. These measures include: managing the scope of the data center migration to include only existing architecture already proven and in place at Maumelle or Plaza West; oversight of the project, including financials, by SPP's Internal Audit and Accounting departments; bi-Weekly project reviews by the Core Program Team, with weekly project meetings of the sub-project teams; experienced outside subject matter experts have been added to the teams to assist with design, planning and execution.

Budgeted Costs for this Project

A summary of the reviewed and re-estimated budget for this project is below :

Component	Hardware	Software	Furniture	Consulting	Total	Orig. CapEx Budget	Difference
						2011 - 2013	Fav/(Unfav)
New Campus Furnishings & Decommission							
Office & Datacenter Furniture & Appliances	\$ -	\$ -	\$ 8,435	\$ -	\$ 8,435		
General Office Supplies	\$ -	\$ -	\$ 1,565	\$ -	\$ 1,565		
Decomm Office, Move & Disposal of Assets	\$ -	\$ -	\$ -	\$ 1,550	\$ 1,550		
Total Furnishings & Decommission	\$ -	\$ -	\$ 10,000	\$ 1,550	\$ 11,550	\$ 10,350	\$ (1,200)
Hardware, Software, Security, A/V, Network							
Data Center Hardware	\$ 4,002	\$ 367	\$ -	\$ 600	\$ 4,969	\$ 6,690	\$ 1,721
Operations Hardware, A/V & Desktop	\$ 1,466	\$ -	\$ 25	\$ -	\$ 1,491	\$ 791	\$ (700)
Network, Telecom & Physical Security	\$ 7,152	\$ 100	\$ -	\$ 248	\$ 7,500	\$ 8,772	\$ 1,272
Total HW, SW, Sec, A/V, Network	\$ 12,620	\$ 467	\$ 25	\$ 848	\$ 13,960	\$ 16,253	\$ 2,293
Total Migration	\$ 12,620	\$ 467	\$ 10,025	\$ 2,398	\$ 25,510	\$ 26,603	\$ 1,093
Estimated Contingency - 5%					\$ 1,321	\$ -	\$ (1,321)
Total Migration Budget					\$ 26,830	\$ 26,603	\$ (227)

Migration project dollars already committed to spend as of September 1, 2011 include the following:

Product / Service	Amount (\$000)
EMC Storage Equipment	1,799
TME RFP Services for NW Cabling, Security, and A/V	158
Network Infrastructure at Chenal (Juniper)	2,471
Aperture Vista Data Center Mgmt System	95
Tipping Point Intrusion Detection System	343
Mock Cubicles - LaHarpe Furniture Store	15
Diesel for New Facility Generators	6
Structured Cabling for New Facility	2,289
Integrated Security System for New Facility	410
Lisa Turpin Migration Consulting Services	100
Total	\$7,686

Recommendation

Approve the expenditure of the budgeted funds for the Migration Phase of the Facility Management project which includes furnishing both buildings currently under construction on the new SPP corporate campus; relocating all SPP personnel to the new campus; completing the build out of the new coordination center and data center to remove disaster recovery dependencies on Plaza West; decommissioning the space in Plaza West; and establishing datacenter capabilities for the Integrated Marketplace program. Total requested capital expenditures budgeted for this project is **\$26,830,418**.

Action Requested: Approve Recommendation



Helping our members work together
to keep the lights on... today
and in the future

FACILITIES PROGRAM: Migration Project Overview

September 20, 2011

Finance Committee

Barbara Sugg

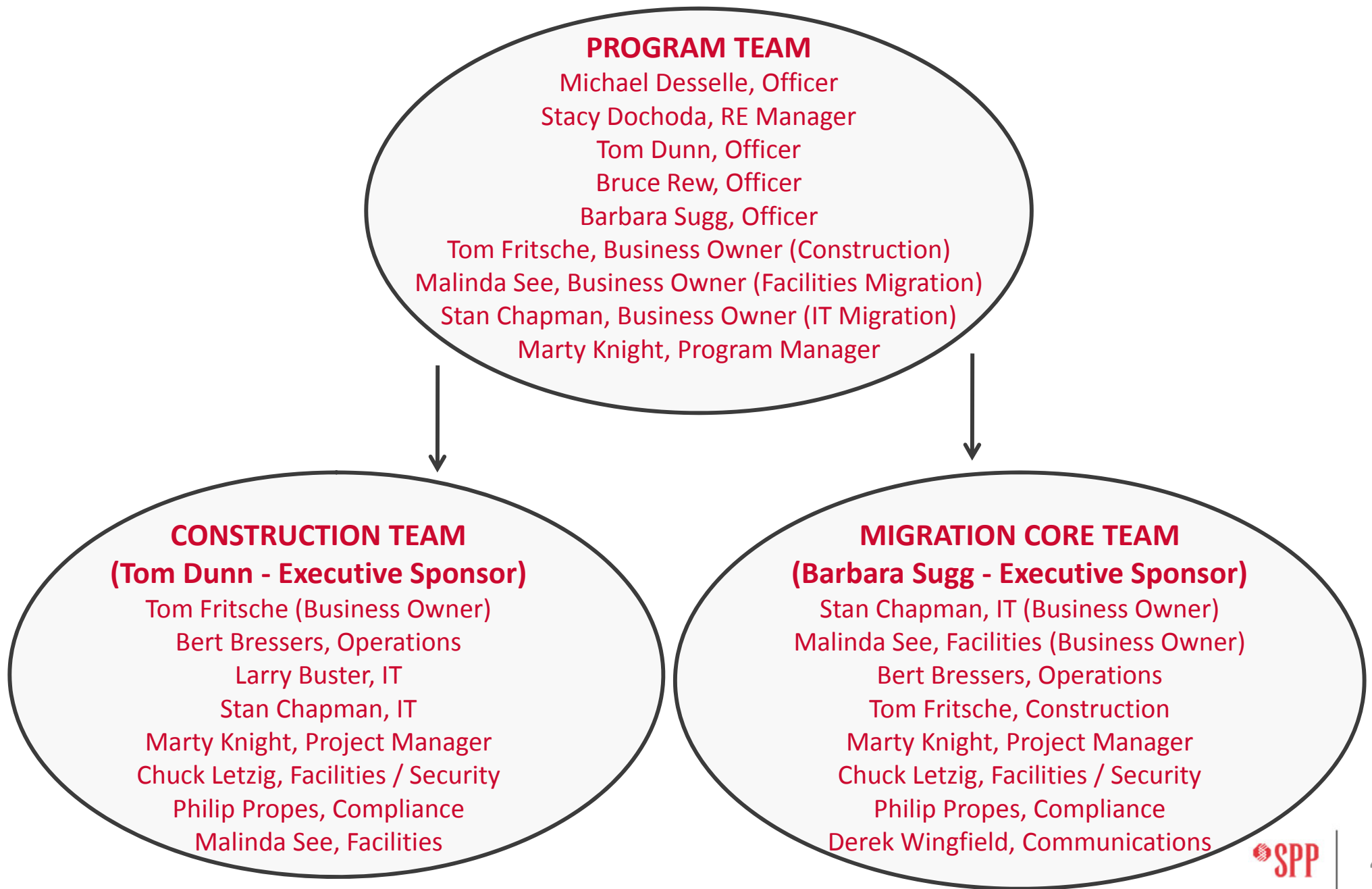
bsugg@spp.org · 501.614.3245



Migration Project Goals

- **Eliminate SPP's dependencies on leased office space**
 - **Disaster Recovery Data Center and Coordination Center at Plaza West**
 - **Administrative Office Space at Plaza West and Chenal**
- **Have a Data Center capable of hosting Integrated Marketplace systems and environments**
- **Move all SPP employees to a centralized corporate campus**
- **Mitigate risk by implementing existing architecture and technologies**

PROGRAM STRUCTURE



CONSTRUCTION PROJECT

CONSTRUCTION PROJECT TEAM

Bert Bressers, Operations

Larry Buster, IT

Stan Chapman, IT

Tom Fritsche, Business Owner

Marty Knight, Project Manager

Chuck Letzig, Facilities

Philip Propes, Security

Malinda See, Facilities

TEAM ROLES AND RESPONSIBILITIES

- Ensure clarity and validation during the requirements-gathering process
- Evaluate issues from respective areas and escalate to Program Core Team when appropriate
- Validate design prior to construction
- Monitor progress during construction against defined requirements
- Manage construction issues as assigned by the Business Owner and/or Program Manager

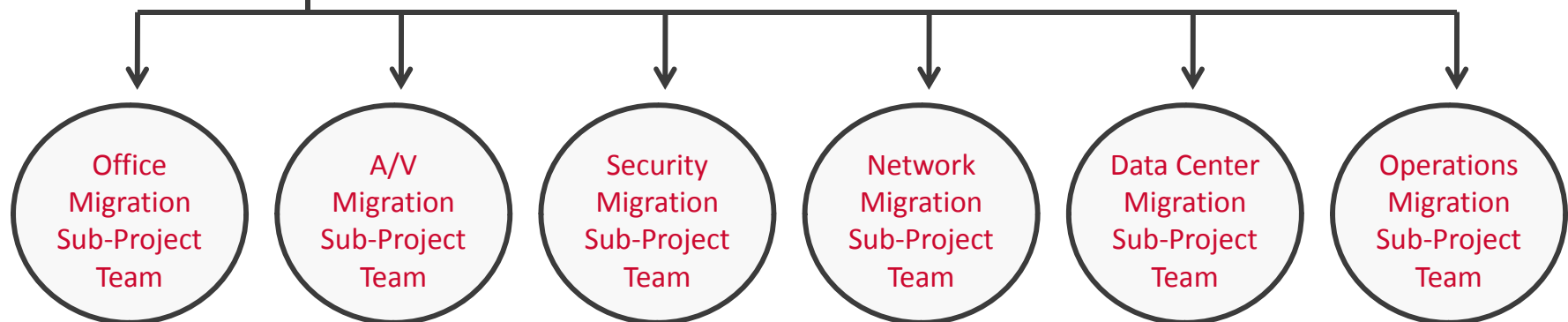
MIGRATION PROJECT

MIGRATION PROJECT CORE TEAM

Stan Chapman, Business Owner + IT
Malinda See, Business Owner + Facilities
Bert Bressers, Operations
Tom Fritsche, Construction
Marty Knight, Project Manager
Chuck Letzig, Facilities / Security
Philip Propes, Compliance
Derek Wingfield, Communications

TEAM ROLES AND RESPONSIBILITIES

- Migration Core Team provides strategic direction to individual sub-project teams and roll-up reporting
- Sub-teams establish comprehensive project plans (Requirements, budget, schedule and scope)
- Sub-teams execute all aspects of migration
- Contract resources utilized when appropriate
- Manage and escalate issues to Program Team



MIGRATION SCHEDULE

MILESTONES

Operations Center Readiness for Migration Activities:	1 AUG 2011
Operations Center Construction Complete:	15 SEP 2011
Network Infrastructure Build-out Begins	1 OCT 2011
ATT Circuit (Network) Installation Complete:	1 NOV 2011
Physical Server Build-out Begins	1 NOV 2011
Data Center Readiness for Integrated Marketplace:	1 MAR 2012
Office Building Construction Complete :	30 APR 2012
Operations Center SERC Certification:	4 MAY 2012
Staff Migration Complete:	21 JULY 2012 **
Decommissioning of Plaza West Complete:	30 SEP 2012

*** This date is currently being reviewed with the Program Team, and is subject to change.*

MIGRATION BUDGET DEVELOPMENT

- **Each sub-project team developed their section of the overall budget**
 - Line item detailed lists of required equipment, software, furniture, etc.
 - Initial pricing from vendors
 - Must use existing architecture wherever possible
- **Consulted with:**
 - Internal SPP business groups
 - Construction contractors and suppliers
 - Potential vendors of various equipment
 - External subject matter experts
 - SPP subject matter experts

MIGRATION BUDGET DEVELOPMENT

- **Utilize existing SPP purchasing processes and procedures**
 - SPP Purchasing Department (Jason Gross)
 - Issue RFP's, where appropriate and with TME/WER where applicable
 - Competitive bids
 - Sole sourcing only when appropriate (driven by business requirements or ongoing support requirements)
- **Executive Sponsor (Sugg) and Migration Business Owners (See and Chapman) will have final approval on the timing of purchases and the vendors selected**
- **Track actual expenditures at the line item detail level**
- **Report actuals to budget comparison at a consolidated level (see next slide)**

MIGRATION SCHEDULE

BUDGET SUMMARY

Component	Hardware	Software	Furniture	Consulting	Total	Orig. CapEx Budget 2011 - 2013	Difference Fav/(Unfav)
New Campus Furnishings & Decommission							
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Estimated Contingency - 5%					\$ 1,321	\$ -	\$ (1,321)
Total Migration Budget					\$ 26,830	\$ 26,603	\$ (227)

Actual Spend Project-to-Date (as of 9/1/11): \$3.01M
 Committed to Spend Project-to-Date: \$7.69M
 (Primarily EMC Storage, Cabling, Security, and Network Infrastructure Spend)

DATA CENTER MIGRATION PLAN

- **Initially, new data center will replace Plaza West data center as the backup data center**
- **Most of the equipment in Plaza West data center will *not* be moved**
 - **Have delayed purchases that would have refreshed Plaza West technology**
 - **Cannot be without a backup data center so we will be creating a “third” data center in the new facility for critical, Tier 1 applications**
 - **Will not be introducing new technology into the new data center other than where newer versions of existing platforms are available and make good business and technology sense for SPP**
 - **Will not be re-architecting systems or networks in the new facility unless clear, proven technology advances exist or where we have an opportunity to improve our current design**
- **New data center will house Integrated Marketplace technology platform**
- **Once the new data center is established as the backup location, planning and analysis will commence regarding how to best utilize the Maumelle and new data centers as primary/secondary, primary/primary (active/active), etc.**

SPP INTERNAL AUDIT – PROJECT OVERSIGHT

- Ensure adequate processes and procedures are in place and functioning properly
- Ensure internal controls are adequately designed and operating effectively
- Ensure all Accounts Payable invoices incurred as a result of the Facility Migration Project were approved and paid accurately and timely
- Ensure project spending is on schedule and within the established budget
- Ensure the project remains on the established schedule

SUB-PROJECTS – CURRENT STATUS

- **Network, Security, A/V Migrations**
 - Network and Security work currently underway with Advanced Cabling as the primary vendor
 - Advanced Cabling contract includes work for both buildings
 - A/V work has been contracted with Curtis Stout
 - Curtis Stout contract includes work for both buildings
 - Operations Center work to be completed on or before mid-November 2011
 - Dates for work in Office Building currently under review

SUB-PROJECTS – CURRENT STATUS

- **Data Center Migration**
 - Primary goal is to remove dependency on Plaza West datacenter for Disaster Recovery, as well as readiness for Integrated Marketplace system build out
 - In final stage of determining dates associated with the build out of each group of systems (i.e. Reliability Systems, Scheduling Systems, etc.)
 - Physical move versus build-out decisions being made for each set of servers
 - Storage and data migration plan developed
 - Plan for infrastructure tier nearing completion
 - Actual build-out starts November, 2011

SUB-PROJECTS – CURRENT STATUS

- **Office Migration**

- Contract signed with Lisa Turpin – Independent Contractor
- Evaluating initial plan for furnishing the Office Building prior to completion of construction by Nabholz
- Developing a more detailed plan for employee moves, equipment moves, and construction of all office furnishings (i.e. walls, cubicles, furniture, concessions, break areas, etc)
- Anticipating a single move of all employees over a weekend
- Finalizing RFP for office equipment (i.e. printers / copiers)
- Developing a decommissioning plan for all facilities, with primary focus on PW in advance of current lease expiration

SUB-PROJECTS – CURRENT STATUS

- **Operations Migration**
 - Operations Desks have been selected and layout of the Coordination Center is being finalized
 - IT equipment is being finalized with review by Alstom in order to ensure requirements are met for existing systems as well as Integrated Marketplace functionality
 - Next steps involve coordination with the Datacenter Migration team to identify test, validation, and certification milestones for Operations functionality and readiness and update overall master project plan

MIGRATION PROJECT – NEXT STEPS

- Update master and sub-project plans with detailed tasks and resource assignments
- Attain budget approval
- Finalize migration project plan – highlighting inter-project dependencies
- Finalize schedule for Office Building moves
- Finalize Plaza West decommissioning plans (contingent on PW owner's offer)
- Communicate, Communicate, Communicate!



2012 BUDGET
AS PRESENTED TO THE FINANCE COMMITTEE
TUESDAY, SEPTEMBER 28, 2011

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2012 Budget

Executive Summary:

Southwest Power Pool (SPP) is a member-driven service provider that creates stakeholder value through: 1) membership collaboration, 2) resource pooling, 3) unbiased region-wide optimization, and 4) provision of leveraged, centralized services. These services, directed and funded by SPP's diverse membership, are expected to produce regional benefits of over one billion dollars per year upon completion of the Integrated Marketplace.

SPP has completed and documented SPP's operating and capital budgets for the 2012 fiscal year with forecasts for 2013 and 2014. Total expenses, excluding depreciation, are \$135MM, which is consistent with estimations made during last year's budget and represents a 10% increase over the 2011 budget. Growth in operating expenses, as compared to 2011 budget results primarily from staffing (11%), regulatory assessments (9%), and maintenance (18%); all largely driven by current development and future operation of the Integrated Marketplace. The 2012 net revenue requirement, a component for setting the administrative fee rate, is \$90MM, a 14% increase over 2011 budget.

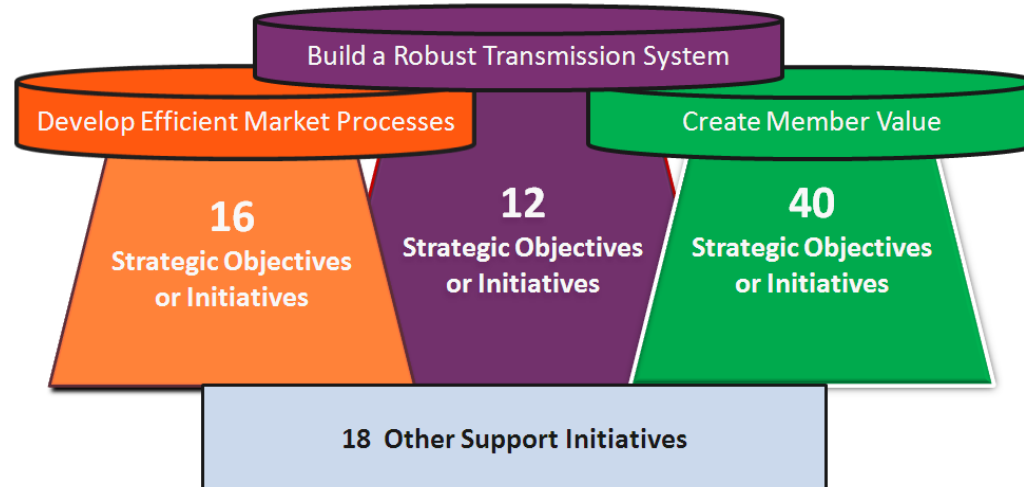
The capital budget includes projects totaling \$128 million for 2012-2014, with \$82 million expected to be incurred in 2012. Of the total capital projects through 2014, two projects dominate the capital outlays: Integrated Marketplace (\$106MM total project with \$74MM spend in 2012-2014), and construction of SPP's campus (\$89MM total project with \$24MM spend in 2012).

In 2011, SPP established an administrative fee rate of 21.0¢/MWh with the expectation that this rate would increase in 2012 to 25.5¢/MWh. The current calculated administrative fee rate for 2012 is 25.3¢/MWh. The recommended administrative fee rate for 2012 is 25.5 ¢/MWh. Growth in the administrative fee results from SPP's funding requirements growing at a rate in excess of the rate of growth in billing units.

2012 Budget Metrics	2012 Budget	2011 Budget	Change
Gross Revenue Requirement	\$145,843	\$136,007	\$9,835
Net Revenue Requirement	\$89,560	\$78,638	\$10,922
Billing Units in MWh	353,453	343,000	10,453
Calculated Admin Fee/MWh	\$0.253	\$0.229	\$0.024
Capital Expenditures	\$82,034	\$91,872	(\$9,838)
Year Ending Headcount	590	541	49

Planning Process:

A budget is a plan that identifies the financial resources required to achieve programmatic objectives. Once constructed, this plan assists staff and board in managing the organization both programmatically and financially throughout the year. Staff again incorporated a zero-based budgeting approach to help identify each planned expenditure and its alignment with SPP's three foundational strategies. These strategies were formalized during the Strategic Planning Committee's May 2010 retreat, approved by the SPP Board of Directors on July 27, 2010, and are intended to leverage SPP's capabilities and operational processes. During the first and second quarters of 2011, SPP's management completed an exercise in which all business unit objectives and initiatives were identified and individually linked to SPP's strategic plan. These initiatives then went through a rigorous vetting process of prioritization and capacity measurement (i.e. determining adequate resource levels required to accomplish objectives without adversely impacting higher priority projects). This became the basis of zero-based budgeting justifications. Following is a graphical breakdown of the business unit objectives and initiatives by foundational strategy:



A full list of each business unit objectives and initiatives can be found in the Supplemental Analysis section, pages 37-39.

Process Improvements:

Following this successful exercise, the formalized budget plan was developed and rolled out to all levels of management. As in years past, a budget kickoff meeting was held in late May and included discussion on the concept and practical implementation of zero-based budgeting and departmental strategic initiatives.

During the following two months, staffing levels and all other operating expenditures were justified, beginning at the supervisory/manager level. Each budgetary line item was discussed among SPP managers and directors, identifying the need for the expense, the appropriate cost, and the expected benefit. These justification discussions served as a foundation for each of SPP's business functions. SPP directors justified their operational functions and associated budgets with their executive officers. Once all costs were discussed and approved at the officer level, all functional budgets were consolidated for an organizational view.

A formalized list of business process improvements were identified and incorporated into the current and future years' financial projections as a result of these efforts. The improvements include both tangible cost reductions and cost-avoidance initiatives. A table of these items is as follows:

Process Improvement Cost Reductions & Avoidance

<i>(000's)</i>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Operations Staffing Cost Reductions				
Settlements Process Improvements	\$84	\$233	\$360	\$395
Compliance Process Improvement and Organizational Alignment	17	277	286	294
Operations Automation-Tariff Admin & Interchange Desks *		143	987	1,017
Total Operations Staffing Cost Reductions	\$100	\$653	\$1,632	\$1,706
Operations Non-Staffing Cost Reductions				
In-house Support for Tariff Service Agreement Filings	\$367	\$517	\$605	\$698
FERC Section 205 Tariff Filing Process Change	25	99	99	99
SPPNet Monitoring In-house	139	139	139	139
Total Operations Non-Staffing Cost Reductions	\$531	\$755	\$843	\$936
Capital Non-Staffing Cost Reductions				
Server Virtualization Program	\$2,238	\$3,981	\$3,892	\$3,610
Oracle Database Licensing (Virtualization Savings)	115	873	113	113
Microsoft Software Licensing Rationalization			38	38
Purchasing Bidding and Negotiations Processes	519	129	129	129
Desktop/Laptop Refresh Cost Reduction		57	57	57
Total Capital Non-Staffing Cost Reductions	\$2,872	\$5,040	\$4,228	\$3,946
Grand Total SPP Process Improvement Cost Reductions	\$3,504	\$6,448	\$6,704	\$6,588

** This project is further described below*

Several meetings were conducted under the direction of the Project Review and Prioritization Committee to evaluate how current and newly-proposed project initiatives aligned with the strategic goals. Projects not aligned with the strategic plan were either deferred to subsequent years or omitted from consideration for the 2012 budget. Internal resource utilization was estimated for projects requiring substantial utilization of IT, Project Management, Operations, and/or Engineering departmental subject matter experts. Because considerable effort is required for the new facility and Integrated Marketplace projects, only four new projects were added to the 2012 budget.

Drivers and Assumptions:

Drivers are important factors that provide significant increases in the value of a business as viewed by its stakeholders. For SPP's 2012 budget, the following drivers have been identified for their significant effect on cost structure and income:

+ **Integrated Marketplace** – The 2012 budget includes the continued development efforts for the Integrated Marketplace, which consists of a group of interrelated projects and tasks that have been combined into a greater program. This program has been identified as the highest priority by SPP's Membership given the expected annual net benefit of up to \$100MM. SPP's Board of Directors approved a capital budget of \$105MM during its April 2011 meeting. This amount will fund:

- Day-Ahead Market
- Transmission Congestion Rights
- Reliability Unit Commitment
- Real-Time Balancing Market
- Operating Reserve Market
- Consolidated Balancing Authority

SPP's budget also includes appropriate staffing, maintenance and other operational costs related to the three critical phases of the project: 1) requirements development, 2) system testing, and 3) market training and external educational outreach. The timing and proper completion of these three activities are considered critical pathways to the successful launch of the Integrated Marketplace given the aggressive

timeframe and budget considerations. Any significant delays to the program schedule could lead to cost overruns, resulting in a reduction to the expected benefit.

Given the magnitude of the Integrated Marketplace project and its obvious impact on staffing levels, SPP has embraced a certain philosophy that is focused on meeting peak staffing demands while minimizing long term staffing costs. During the first and second quarters of 2011, SPP management completed an exercise in which resource levels were assessed for both the development and post implementation phases of the project. As a result of this exercise, resource needs increased rather sharply during the development phase and then declined upon full production, creating a "bubble" of resource needs over the next few years. It is SPP's philosophy not to hire permanent staff for the "bubble" but to hire only enough to satisfy requirements once the system is in production. In concert with that philosophy, SPP will shift duties of current staff to perform as much of the "bubble" work as possible to bring them up to speed with the system requirements and functionality. As a result, some amount of third party staff augmentation will be needed to backfill work for existing staff.

+ **Contract Services** – The 2012 budget assumes SPP will continue to serve as the Independent Coordinator of Transmission (ICT) for Entergy Services through at least 2014. Currently, SPP is aggressively seeking to expand its successful relationship with Entergy in the form of full RTO membership. The existing ICT agreement is set to expire during fourth quarter 2012. All staffing and infrastructure, already intact, is expected to remain consistent if either the ICT agreement is extended or Entergy joins SPP as a transmission owning member. SPP has high confidence the ICT arrangement will be extended and assumes so for budget purposes.

Conversely, the 2012 budget does not assume SPP will continue to act as the Independent Transmission Organization (ITO) on behalf of Louisville Gas and Electric/Kentucky Utilities Co (LG&E/KU). The existing ITO agreement is set to expire at the end of third quarter 2012. LG&E/KU has recently filed with the FERC its plans to transition the provider of ITO services to a firm other than SPP. Staffing associated with this function is expected to migrate into previously approved and open Consolidated Balancing Authority positions.

- + **Operations Center and Office Building Construction** – The 2012 budget includes the continued construction and migration of both the Operations Center and General Office Building. Currently, the construction project is on time and on budget. Capital budget estimates for both construction and migration are \$62MM and \$27MM, respectively. In addition, a facilities manager was hired during second quarter 2011 and has estimated utilities, maintenance and other operating expenses for both facilities to be \$1.5MM in 2012. The construction project is also considered a critical pathway to the successful launch of the Integrated Marketplace given that all primary hardware and software will reside in the new data center.

- + **Operations Automation and Restructuring Initiative** – The 2012 budget includes both benefits and costs associated with the automation and restructuring initiative of the SPP Operations department. The Operations department strategic plan anticipates continuous improvement of work processes to ensure efficiency and effectiveness. This involves identifying process improvements and restructuring of operations staff that will enable SPP to reduce the need for incremental positions for a successful implementation of the Integrated Marketplace and the Consolidated Balancing Authority.

The scope of process improvements and automation includes:

- Software enhancements for interchange schedule validation to minimize the failures of transmission/market schedules that require manual intervention by operators
- Automation of the transmission service administration processes
- Creation of an automated data base and issue tracking tool for schedule mismatches between scheduling and settlement systems (RTOSS and COS)
- Automation of HVDC Tie processing with a more efficient system.

SPP expects these activities to significantly increase efficiency and regulatory compliance. The project plan calls for complete implementation by July 1, 2012. SPP has identified eight current positions that can be eliminated, allowing those individuals to transition into previously approved Integrated Marketplace positions over the next 18 months. This represents an annualized savings of approximately \$1MM.

Administrative Fee Calculation:

ALL DOLLAR AMOUNTS ARE IN THOUSANDS (000'S) EXCEPT FOR RATES

SPP's projected 2012 net revenue requirement (NRR) is \$89,560, as compared to the 2011 budget NRR of \$78,638. The primary drivers of the increase are: 1) expected additional salaries and benefits for Integrated Marketplace development and foundational requirements (\$7,055) and 2) a reduction in contract services revenue primarily due to expiration of the ITO contract (\$4,273). Based on the projected NRR of \$89,560 and projected billing determinants of 353,453 MWh, SPP's 2012 calculated administrative cost is 25.3¢ per MWh. SPP management recommends an administrative fee rate of 25.5¢ per MWh for 2012. Calculation of the administrative fee is as follows:

Revenue and expense items used to calculate NRR are outlined in subsequent pages. Billing determinants were forecasted by SPP's Settlements group using actual trailing 12-month billing units (July 2010 – June 2011) plus a growth estimate of 4%.

	2012 Budget	2011 Budget	2012 Prior Year Est**
Gross Revenue Requirement	\$145,843	\$136,007	\$147,076
Less: NERC Reimbursement	(11,411)	(10,145)	(10,287)
Schedule 12 Revenue (FERC Fee)	(15,120)	(14,119)	(14,825)
Contract Services Revenue	(23,758)	(28,031)	(29,674)
Other Revenues	(5,994)	(5,074)	(5,591)
Net Revenue Requirement	\$89,560	\$78,638	\$86,699
Divided by Estimated Billing Determinants/MWh*	353,453	343,000	345,039
Calculated Administrative Fee / MWh	\$0.253	\$0.229	\$0.251
Recommended Admin Fee / MWh	\$0.255	\$0.210	\$0.255

*Defined as coincident peak for network service and capacity for point to point service in MWh

**Refers to 2012 estimate made during 2011 budget presentation



SOUTHWEST POWER POOL NET REVENUE REQUIREMENT GROWTH

(000's)	Fav/(Unfav) Variance Compared to:						Variance Explanations	
	2012 Budget	2011 Budget	2011 Forecast	2011 Budget	2011 Forecast			
Income								
Tariff Administration Service	\$90,131	\$72,030	\$71,391	\$18,101	25%	\$18,740	26%	Increase in Administrative Fee from \$0.21 to \$0.255
Fees & Assessments	26,909	24,264	23,793	2,644	11%	3,116	13%	Increase in both Sched.12 and NERC funding
Contract Services Revenue	23,758	28,031	27,076	(4,273)	(15%)	(3,318)	(12%)	Decrease due to ITO contract expiration in 2012
Miscellaneous Income	5,616	5,074	5,522	542	11%	95	2%	Increase in transmission service study activity
Total Income	146,414	129,399	127,781	17,014		18,632		
Expense								
Salary & Benefits	72,222	65,168	64,321	(7,055)	(11%)	(7,901)	(12%)	2012 assumes 50 incremental staff and a 4% vacancy factor
Employee Travel	3,002	1,896	1,787	(1,106)	(58%)	(1,216)	(68%)	Increase driven by market development and RE activities
Administrative	4,212	3,468	3,147	(744)	(21%)	(1,065)	(34%)	Increase in new facility maintenance
Assessments & Fees	15,410	14,119	16,639	(1,291)	(9%)	1,229	7%	Increase in projected FERC assessment, forecast includes prior year true-up
Meetings	1,445	1,051	931	(394)	(37%)	(515)	(55%)	Increase in market related communications and funded ERSC meetings
Communications	4,592	3,409	3,412	(1,183)	(35%)	(1,179)	(35%)	New facility circuit charges
Leases	1,631	1,876	1,870	245	13%	239	13%	Leased office space released upon new facility completion
Maintenance	9,312	7,922	7,144	(1,390)	(18%)	(2,169)	(30%)	Facility maintenance, EMC renewals, Oracle and Microsoft licensing true ups
Services	18,700	17,500	14,374	(1,200)	(7%)	(4,326)	(30%)	Staff augmentation, RE audit consultants, new facility maintenance
Regional State Committee	394	266	181	(129)	(48%)	(213)	(117%)	Expense for additional consultant for various analysis work
Depreciation & Amortization	17,317	15,853	16,121	(1,464)	(9%)	(1,196)	(7%)	Additional depreciation primarily related to new facility
Other Expense	3,716	6,126	6,042	2,410	39%	2,326	38%	Decrease due to add'l interest expense capitalized on IM and new facility
Total Expense	151,954	138,654	135,969	(13,300)	(10%)	(15,984)	(12%)	
Net Income (Loss)	(\$5,540)	(\$9,255)	(\$8,188)	\$3,715	(40%)	\$2,648	(32%)	
Debt Repayment	\$11,206	\$13,206	\$13,206	\$2,000		\$2,000		
MW/h Forecast	353,453	343,000	339,993	10,453		13,460		
Net Revenue Requirement	\$89,560	\$78,638	\$76,664	(\$10,922)	(14%)	(\$12,896)	(17%)	
Calculated Admin Fee / MWh	\$0.253	\$0.229	\$0.225	(\$0.024)	(11%)	(\$0.028)	(12%)	
Recommended Admin Fee / MWh	\$0.255	\$0.210	\$0.210	(\$0.045)	(21%)	(\$0.045)	(21%)	
Capital Expense	\$82,034	\$91,872	\$90,090					
Headcount	590	541	540					



(\$000)

**SOUTHWEST POWER POOL
2012 BUDGET COMPARED TO PRIOR YEAR PROJECTIONS**

	2012 Current	2012 Prior	Fav/(Unfav) Variance	Comments on variances
Income				
Tariff Administration Service	\$90,131	\$87,985	\$ 2,146 2%	
Fees & Assessments	26,909	25,477	1,431 6%	
Contract Services Revenue	23,758	29,674	(5,916) (20%)	ITO contract expiration and lowered ICT pass thru expense
Miscellaneous Income	5,616	5,226	390 7%	
Total Income	146,414	148,363	(1,949) (1%)	
Expense				
Salary	50,289	50,143	(146) (0%)	Primarily Ops Automation headcount reduction
Benefits & Taxes	21,216	21,333	117 1%	
Continuing Education	717	781	64 8%	
Salary & Benefits	72,222	72,257	35 0%	
Employee Travel	3,002	2,401	(601) (25%)	Integrated Marketplace travel increase
Administrative	4,212	3,733	(479) (13%)	New campus utility costs
Assessments & Fees	15,410	14,825	(585) (4%)	
Meetings	1,445	1,093	(352) (32%)	Integrated Marketplace training and outreach meetings
Communications	4,592	4,601	9 0%	
Leases	1,631	1,060	(571) (54%)	Extension of Chenal facility lease
Maintenance	9,312	8,654	(658) (8%)	
Services	18,700	19,455	755 4%	
Regional State Committee	394	324	(70) (22%)	Add'l consultant for various analysis work
Depreciation & Amortization	17,317	16,827	(490) (3%)	
Other Expense	3,716	7,466	3,750 50%	Decrease due to add'l interest expense capitalized on IM and new facility
Total Expense	151,954	152,697	743 0%	
Net Income (Loss)	(\$5,540)	(\$4,334)	(\$1,206) (28%)	

Projects and Capital Expenditures:

The 2012 budget identifies \$82MM in capital expenditures associated with 30 initiatives. Although several initiatives are related to foundation activities, 90% of the budgeted capital expenditures are associated with completion and migration of the new facility (\$24MM) and development and implementation of the Integrated Marketplace (\$50MM). In addition to the budgeted capital outlay for projects, \$6MM in operating expenses and 26 incremental headcount have been budgeted in 2012 in association with these initiatives.

Following is a detail of capital expenditures and operating expenses:

	CAPITAL EXPENDITURES						Total
	Hardware	Software	Facilities	Furniture	Consulting	Other	
2011	\$5,987	\$12,240	\$53,439	\$1,025	\$15,601	\$1,798	\$90,090
2012	\$9,371	\$27,031	\$14,801	\$9,000	\$21,810	\$20	\$82,034
2013	\$4,204	\$7,260	\$0	\$0	\$18,158	\$0	\$29,623
2014	\$2,967	\$6,537	\$0	\$0	\$7,255	\$0	\$16,759
Total	\$22,528	\$53,069	\$68,240	\$10,025	\$62,825	\$1,818	\$218,505

	OPERATING EXPENSE & HEADCOUNT						Headcount
	Salary & Benefits *	Travel & Meetings	Consulting	Maint	Other	Total	
2012	\$2,160	\$493	\$1,555	\$1,423	\$120	\$5,751	26
2013	\$314	\$153	\$1,567	\$1,490	\$115	\$3,638	4
2014	\$0	\$5	\$224	\$900	\$0	\$1,129	0
Total	\$2,474	\$651	\$3,346	\$3,813	\$235	\$10,518	30

* 2012 Salary & Benefits reflects costs as resources are hired, not full year compensation

The following pages describe the Integrated Marketplace and Corporate Campus projects in greater detail. A complete list of initiatives and associated capital and operating budget impacts appear at the end of this section (page 15).



2012 Budget

Integrated Marketplace:

(000's)	Projected Capital Expenditures by Year*					Total
	2007-10	2011	2012	2013	2014	
Marketplace	\$8,551	\$21,767	\$46,403	\$21,027	\$3,252	\$101,000
CBA	192	1,033	3,414	0	0	4,639
Total	\$8,743	\$22,800	\$49,817	\$21,027	\$3,252	\$105,639

* Does not include capitalized interest

The 2012 budget includes the continued development efforts for the Integrated Marketplace. SPP plans to implement the following large-scale initiatives by first quarter 2014:

1. Integrated Marketplace Development
 - Day-Ahead (DA) Market for Energy and Operating Reserve
 - Transmission Congestion Rights (TCR) Mechanism
 - Real-Time Balancing Market (RTBM) for Energy and Operating Reserve
2. Consolidated Balancing Authority

The primary business drivers of the Integrated Marketplace program are to: 1) take further advantage of the diversity of generating unit resource assets, 2) optimize utilization of the transmission system within SPP, and 3) minimize overall costs to consumers.

The primary business benefits of the Integrated Marketplace program as determined from the Cost Benefit Task Force cost/benefit analysis are: 1) \$45MM - \$100MM per year net cost benefit to the SPP region based on various gas cost assumptions, and 2) a more efficient utilization of generation assets through centralized unit commitment.

The program will be considered complete when:

1. SPP has assumed the role of balancing authority from members
2. SPP has implemented and completed a monthly settlement for each of the following markets-related initiatives: DA Markets, RTBM, Operating Reserves, and TCR Markets

Corporate Campus Construction and Migration:

(000's)	Projected Capital Expenditures by Year*			
	2010	2011	2012	Total
New Facilities Construction	\$10,287	\$39,530	\$12,116	\$61,933
Facility Migration		14,935	11,685	26,620
Total	\$10,287	\$54,465	\$23,801	\$88,553

* Does not include capitalized interest

SPP's new facility project encompasses the construction of an office building and data/operations center to house SPP's corporate operations on a single campus. Construction consists of the following:

- 150,000 square foot office building to house SPP's employees
- 30,000 square foot data/operations center housing SPP's 24x7 critical operations and primary data center
- Central energy plant providing utilities to all structures on the campus
- 600 space parking deck

There are two distinct phases of the overall facility project – the actual construction and the migration.

Facility Construction

The budget assumes approximately \$12MM in capital spending in 2012 to complete the construction of the new Corporate Center. Construction of the data/operations center and parking deck is expected to be completed by 3Q'11. The current schedule projects the completion of the administrative facility construction in late 2Q'12.

Facility Migration

The Facility Migration budget includes all costs associated with furnishing the new corporate campus (hardware, software, telecommunications and security equipment, furniture, etc.), as well as all costs related to the decommissioning of assets from currently leased space. A more detailed description of the purchases is presented below in the project phases in which the purchases will be made:

2012 Budget

Data Center Hardware - This is the initial effort to populate the new data center with servers and storage. SPP will need to acquire hardware for the new data center during the transition period from Plaza West to the new site. This will allow the Plaza West data center to remain a viable disaster recovery site. This equipment will include fiber storage, network attached storage devices, backup storage, and servers.

Operations Center Hardware - The following equipment will be required to equip the new primary operations facility: console computers, large format monitors, LCD monitors, fax machines, printers, projectors, keyboard/video/mouse switches and transmitter receivers, and hardware solution for remote control of PC's from operator workstations.

Telecommunications, Networking, and Security Equipment - Items included in this project are the core telecommunication, network, security and cabling components that provide the foundation for SPP's voice and data communications. The security equipment will meet CIP compliance requirements, while also ensuring an adequate level of security for the campus.

Furnishing/ Decommissioning - This project includes all furnishings for the new corporate general office space and the data/operations center (cubicles, office furniture, meeting room and break room furniture, and appliances). Decommissioning includes removal of all SPP-owned assets from leased space and the disposal of any assets that are not relocated to the new campus (generators, appliances, furniture, raised floor systems, cubicles, accessories, equipment, wiring, AC units, etc).

**SOUTHWEST POWER POOL
2012 PROPOSALS
PROJECT TO DATE THROUGH 2014**



	FORECAST Capital Expense					Total Project
	Prior Year(s) Cap Ex	2011	2012	2013	2014	
PRPC Projects (in thousands)						
Integrated Market Place (Future Markets)	\$8,551	\$21,767	\$46,403	\$21,027	\$3,252	\$101,000
High Availability	\$1,222	\$2,998	\$900	-	-	\$5,121
Consolidated Balancing Authority	\$192	\$1,033	\$3,414	-	-	\$4,639
Future Markets Initiatives Total	\$9,965	\$25,798	\$50,717	\$21,027	\$3,252	\$110,760
New Facilities Construction	\$10,287	\$39,530	\$12,116	-	-	\$61,933
Facility Migration	-	\$14,935	\$11,685	-	-	\$26,620
New Facility Initiatives Total	\$10,287	\$54,464	\$23,801	-	-	\$88,553
EMS Upgrade	-	\$688	\$577	-	-	\$1,266
Centralized Modeling Tool	-	\$253	\$957	\$60	-	\$1,270
EMS Enhancements-Foundation	-	\$69	\$150	\$100	\$150	\$469
Improved Intermittent Resource Integr-Real-Time Ops **	-	\$0	-	-	-	\$0
PRR Implementation Foundation	-	\$249	\$100	\$50	\$250	\$649
Add - Remove SPP Market Entities (BAs, MPs, etc.)	-	\$40	\$50	\$25	\$100	\$215
Situational Awareness Enhancements (ETV-E-terra Vision)	-	\$43	\$50	\$50	\$50	\$193
Model Change Submission Tool	-	\$107	\$456	-	-	\$563
Ops Automation #1 OATI	-	-	\$60	\$100	\$50	\$210
Ops Automation #2 RTOSS-Settlements	-	-	\$113	-	-	\$113
Ops Automation #3 DC TIES	-	-	\$164	\$200	-	\$364
Combined Cycle	-	-	-	\$3,000	\$8,800	\$11,800
Replace OPS1 Outage Coordination Scheduler - <i>Complete</i>	-	\$133	-	-	-	\$133
Operations Initiatives Total	-	\$1,582	\$2,678	\$3,585	\$9,400	\$17,244
ITP Data Repository	-	-	\$92	\$92	-	\$184
Project Tracking Database (TAGIT)	-	\$50	\$100	-	-	\$150
Credit Process Stack List Analysis	-	-	\$295	-	-	\$295
EMPT-2012	-	-	\$80	-	-	\$80
Redundant EnFuzion Node and PSSE/MUST Lock	-	-	\$23	-	-	\$23
Engineering Initiatives Total	-	\$50	\$590	\$92	-	\$732
e-Tariff Phase II	-	\$740	\$70	\$70	\$70	\$950
Regulatory Initiatives Total	-	\$740	\$70	\$70	\$70	\$950
SPP Budgeting & Forecasting System	-	-	\$40	-	-	\$40
Administration Initiatives Total	-	-	\$40	-	-	\$40
Request Management System	-	-	\$91	\$91	\$91	\$273
Process Integrity Initiatives Total	-	-	\$91	\$91	\$91	\$273
Total PRPC Managed Projects	\$20,253	\$82,634	\$77,986	\$24,865	\$12,813	\$218,552
Non-PRPC Projects (in thousands)						
MOS Enhancements Foundation	-	\$119	\$50	\$50	\$750	\$969
OATI Enhancements	-	\$262	\$75	\$50	\$150	\$537
Operations Initiatives Total	-	\$381	\$125	\$100	\$900	\$1,506
Stochastic Modeling Tool	-	-	\$170	-	-	\$170
Engineering Initiatives Total	-	-	\$170	-	-	\$170
IT Apps Foundation	-	\$90	\$272	\$59	-	\$421
IT Data Management Foundation - <i>Complete</i>	-	\$91	-	-	-	\$91
IT Server Admin Foundation	-	\$4,839	\$1,230	\$1,760	\$1,664	\$9,493
IT Service Management Foundation	-	\$1,022	\$1,219	\$578	\$372	\$3,191
IT Environment Ops Foundation	-	\$31	\$185	\$60	\$60	\$336
IT Tele/Network/Security Foundation	-	\$751	\$771	\$2,126	\$875	\$4,523
IT Initiatives Total	-	\$6,825	\$3,677	\$4,582	\$2,971	\$18,055
ETS Foundation - Alstom (formerly AREVA)	-	\$250	\$75	\$75	\$75	\$475
Administration Initiatives Total	-	\$250	\$75	\$75	\$75	\$475
Total Non-PRPC Managed Projects	-	\$7,456	\$4,047	\$4,757	\$3,946	\$20,206
TOTAL PROJECTS	\$20,253	\$90,090	\$82,034	\$29,623	\$16,759	\$238,758

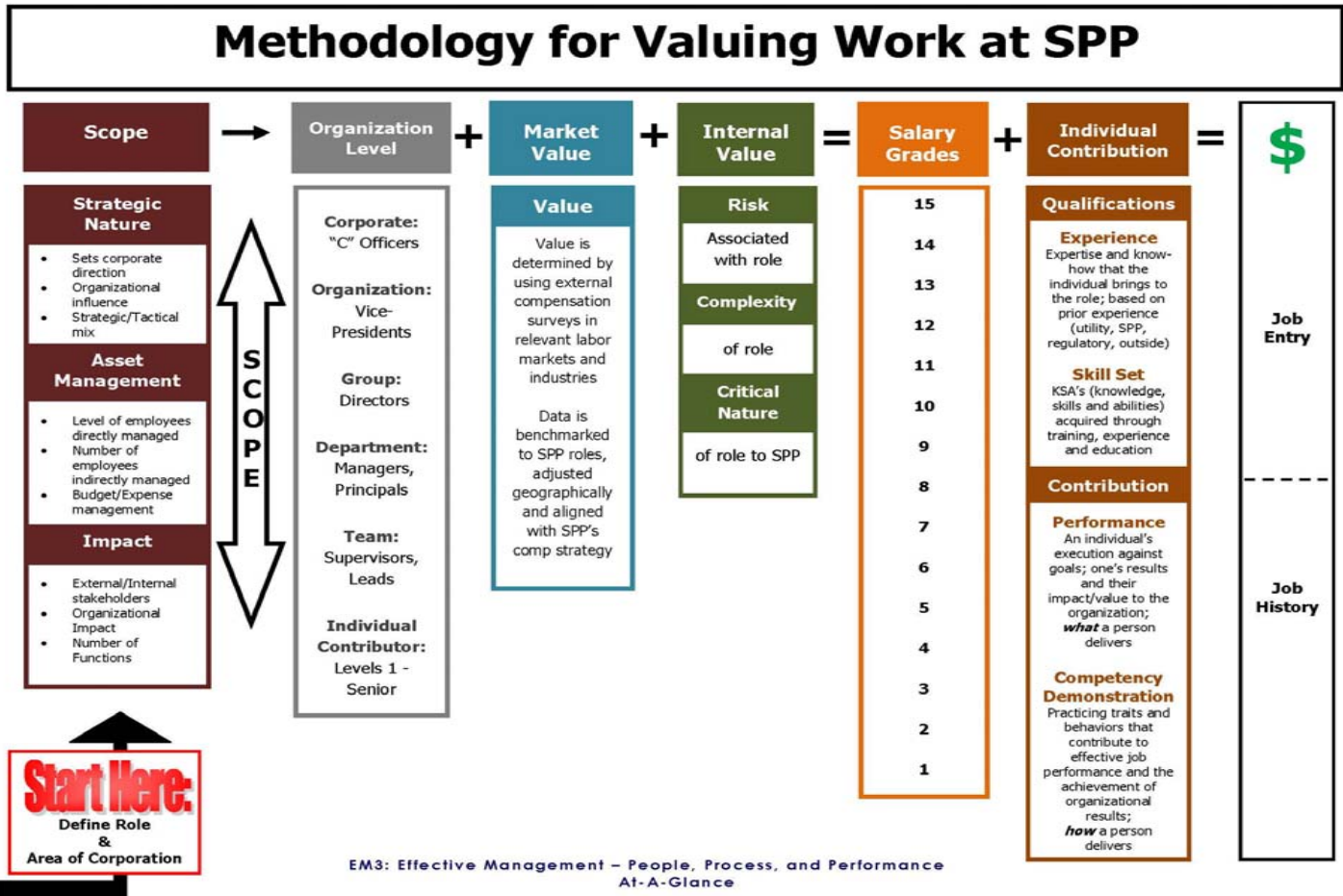
* Highlighted projects are new to 2012. All other projects are carryover projects.

Valuing Work at SPP:

Personnel expenses represent the largest single expenditure items in SPP's operating budget, totaling over 48% of total operating expenses in the 2012 budget. SPP management places significant focus on actively managing staff resources including HR policies to ensure existing and future staff have a strong correlation with SPP's values, management training designed to ensure all supervisory staff are equipped to exercise supervisory responsibilities, and executive oversight to help guide staffing requisitions and promotion approvals.

SPP's HR department has defined and formalized the philosophy of how work is valued at SPP. The concept of valuing work is important from both the Company and employee perspective. A defined philosophy provides guidelines from which decisions are made regarding job placement, classification, compensation, and performance management. These guidelines help ensure processes are applied fairly and consistently across the Company. From the employee perspective, these guidelines ensure expectations are clearly defined and provide a roadmap for growth opportunities.

A formal philosophy for valuing work is the foundation for clarifying expectations. Expectations become clear through accurate job descriptions, setting goals and objectives, and measuring results through performance reviews. Opportunities become more visible as employees are able to match their current skill set with the required skill set of other roles. Employees can utilize gap analysis techniques to identify areas to strengthen that will elevate their ability to take on other job roles. A visual presentation of the philosophy is illustrated below:



Position scope is a significant driver impacting budget. The scope of an employee’s responsibilities determines the employee’s job level within the corporate structure. Scope is a combination of the strategic nature of a job role, the type and volume of asset management assigned to the job, and the impact the job has internal and external to the Company. Assessing scope is a continuous process as a result of the evolution of SPP’s suite of services, both in terms of services offered and complexity and risk associated with the services. SPP budgets 0.75% of salaries to provide a pool of compensation available to address and recognize increases in scope during the fiscal year. SPP has also placed emphasis on analyzing and tracking the span of control for supervisory level employees. SPP generally targets an employee to supervisor ratio of 7 to1 recognizing work areas with lower complexity and higher standardization of tasks may have a much higher ratio and work areas with high complexity and lower standardization may have a lower ratio. SPP currently has a ratio of 7.2:1 as of the end of August 2011 (exclusive of Director titles and above) and projects a ratio of 7.3:1 at year end 2012.

Employee to Management Ratios

	Staff/Manager + Supervisor	Staff/All Management*
Ratio as of 8/31/11	7.1 : 1	4.7 : 1
Ratio as of 12/31/11	7.2 : 1	4.9 : 1
Ratio as of 12/31/12	7.3 : 1	5.1 : 1

* Includes Officers, Directors

A significant aspect of compensation, and a major budget factor, is the suite of benefits available to employees. SPP’s structure of welfare and retirement benefits has been designed to complement SPP’s core values, and particularly sync with SPP’s relationship based strategy. Healthcare premiums are shared 80/20 between SPP and employees. However, SPP also has provided resources in the past to educate employees on wellness initiatives and opportunities to more actively manage individual health. The 2012 budget includes funding to establish an on-site nurse function to more proactively manage health costs and also facilitate early and immediate

diagnosis of employee health issues. Finally, the on-site nurse will also be charged with driving a more comprehensive wellness program.

SPP sponsors two retirement plans for all employees which help ensure the focus of employees is on today's work activity without worrying about what will occur during retirement. The defined contribution retirement plan allows employees to take ownership of a portion of their retirement nest egg inclusive of a matching contribution by SPP. The defined benefit retirement plan, with a benefit largely based on years of service, ensures employees with lengthy tenures at SPP have a healthy source of retirement income and encourages employees to value long-term relationships. 2012 funding for retirement programs total 11% of salaries and 3.7% of total operating expenses.

SOUTHWEST POWER POOL 2012 BUDGET INCREMENTAL POSITIONS



Department Name	2011 Forecast	2012 Incremental Positions			2012 Budget	2013 Budget	2014 Budget
		Foundation	Market	Total			
SPP Compliance & Communications	34	1	1	2	36	38	38
Process Integrity	40	3	3	6	46	48	49
Reg Policy & General Counsel	20	3	0	3	23	24	24
SPP Regional Entity *	29	3	0	3	32	34	34
Administration	66	4	5	9	75	76	76
Market Development & Analysis	5	1	0	1	6	6	6
Information Technology *	131	6	3	9	140	146	150
Operations	144	0	12	12	156	158	158
Engineering	71	3	2	5	76	83	85
TOTAL	540	24	26	50	590	613	620
Market Related					26	4	0
Non-Market Related					24	18	7
Total Incremental					50	23	7

* RE includes 4 part-time Law Clerk positions; IT includes 8 part-time Service Desk positions

The 2012 budget includes 26 incremental positions related to the Integrated Marketplace (IM) project. Overall incremental additions for IM are 74 (for 2010-2013).

Other staffing increases are related to the following:

SPP Compliance & Security: (1) Internal Auditor position to allow increased workload distribution evenly across the IA group and enable IA to assist the Compliance group during "on-site"/documentation reviews. Additionally, (1) Market Analyst position in the Market Monitoring group and (1) Communications Specialist for 2013

Process Integrity: (1) Project Manager to assist with new project work; (1) Business Analyst in Business Process Improvement to support the department of one; (1) Training Supervisor to assume responsibilities of recently promoted Director. Additionally, Trainer positions are planned for 2013 (1) and 2014 (1)

Regulatory Policy & Legal: Three additional positions proposed to reduce reliance on outside counsel: (1) Principal Regulatory Policy Analyst (1) Attorney (1) Paralegal; plus (1) additional Regulatory Analyst for 2013

SPP Regional Entity: (2) Compliance Engineer/Specialists and (1) Enforcement Attorney; plus (1) Compliance Engineer/Specialists and (1) Enforcement Attorney in 2013

Market Development & Analysis: (1) Market Design Analyst/Engineer to manage PRR process

Administration: HR - (3) positions related to managing the new facility (Building Maintenance Specialist, Facilities Coordinator and Corporate Receptionist). Additionally, (1) HR Generalist position is needed to accommodate needs of growing staff Accounting - (1) Staff Accountant position for 2013

Operations: All 2012 incremental headcount is related to IM. For 2013, two incremental positions are associated with IM, plus (1) Functional Analyst for Systems Operations and (3) Shift Supervisors are incremental, with an offsetting reduction of Operator-In-Training positions (4) for a net increase of (2)

Engineering: (2) Engineer positions related to transmission planning and RTO modeling, plus (1) Planning Analyst related to seams activities. In 2013, (2) ITO positions will be eliminated through transition into open positions, (9) additional Engineering positions are anticipated, plus (2) in 2014; Contract Services staff remains constant, as ICT contract is assumed to continue through 2014

Information Technology: (4) Lead/Supervisor positions in IT to increase level of direct management supervision to ensure project deliverables and (2) IT Specialist positions to work on increased workload associated with Documentum and the IT Support Desk. Additionally, (6) IT Specialists in 2013 and (4) in 2014 to cover additional IT growth needs

SOUTHWEST POWER POOL

2012 BUDGET INCREMENTAL POSITIONS COMPARED TO 2011 PROJECTIONS

<u>Department Name</u>	<u>2012 Budget</u>			<u>2011 Budget</u>			<u>Change</u>		
	<u>2011 Forecast</u>	<u>2012 Budget</u>	<u>2013 Forecast</u>	<u>2011 Budget</u>	<u>2012 Forecast</u>	<u>2013 Forecast</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
SPP Compliance & Communications	34	36	38	34	37	37	0	(1)	1
Process Integrity	40	46	48	40	43	50	0	3	(2)
Reg Policy & General Counsel	20	23	24	20	23	23	0	0	1
SPP Regional Entity *	29	32	34	29	29	29	0	3	5
Administration	66	75	76	67	72	74	(1)	3	2
Market Development & Analysis	5	6	6	5	5	5	0	1	1
Information Technology *	131	140	146	131	141	147	0	(1)	(1)
Operations	144	156	158	144	171	179	0	(15)	(21)
Engineering	71	76	83	71	77	77	0	(1)	6
TOTAL	540	590	613	541	598	621	(1)	(8)	(8)
Market Related	32	26	4	29	32	11	3	(6)	(7)
Non-Market Related	29	24	19	33	26	14	(4)	(2)	5
Total Incremental	60	50	23	61	58	24	(1)	(8)	(2)

* RE includes 4 part-time Law Clerk positions; IT includes 8 part-time Service Desk positions



SOUTHWEST POWER POOL 2012 Salary Expense Assumptions

	2012 Budget	
	Expense	Staff
<u>2012 Salary</u>		
Salary as of May 15, 2011 (provided by HR)	\$43,099	494 *
Promotions & Non-Merit Pay Increases after May 15th	462	
May 2011 Open Positions Forecast	3,129	46
2011 Ending Balance	46,690	540
2012 Incremental Expense	3,271	50
Merit Increase (2.5%) & Promotions (0.75%)	2,361	
Vacancy (4%)	(2,032)	
Total	\$50,289	590
<u>2013 Salary</u>		
2013 Forecast		
	Expense	Staff
FY Salary Beginning January 31, 2013	\$51,003	590
2013 Incremental Expense	1,920	23
Merit Increase (2.5%) & Promotions (0.75%)	2,704	
Vacancy (4%)	(2,218)	
Total	\$53,409	613
<u>2014 Salary</u>		
2014 Forecast		
	Expense	Staff
FY Salary Beginning January 31, 2014	\$53,409	613
2014 Incremental Expense	581	7
Merit Increase (2.5%) & Promotions (0.75%)	3,749	
Vacancy (4%)	(2,274)	
Total	\$55,464	620

* Current projected active headcount is 514, with 26 open positions (as of September 30, 2013)

SOUTHWEST POWER POOL
2012 BUDGET - SUMMARY INCOME STATEMENT & COMMENTARY



	Fav/(Unfav) Variance Compared to:						
	2012 Budget	2011 Budget	2011 Forecast	2011 Budget	2011 Forecast		
	(\$000's)						
TOTAL REVENUE							
Tariff Administration Service	\$90,131	\$72,030	\$71,391	\$18,101	25%	\$18,740	26%
Fees & Assessments	26,909	24,264	23,793	2,644	11%	3,116	13%
Contract Services Revenue	23,758	28,031	27,076	(4,273)	-15%	(3,318)	-12%
Miscellaneous Income	5,616	5,074	5,522	542	11%	95	2%
Total Revenue	146,414	129,399	127,781	17,014	13%	18,632	15%
Billing Determinates	353,453	343,000	339,993	10,453	3%	13,460	4%

Total Revenue has increased over the 2011 Budget and Forecast. SPP classifies its revenue streams into 4 major categories:

- Tariff Administration Service is calculated by multiplying SPP's administrative fee by prior year coincident peak for network service and capacity for point-to-point service in MWh. The increase in Tariff Administration Service is due to the increase in SPP's administrative fee rate from 21.0¢ to 25.5¢ per MWh.
- Fees & Assessments consists of Schedule 12 fees collected to fund annual FERC assessments and NERC Regional Entity funding. Both revenue amounts are considered pass-through in which there are specific offsetting expenditures. The 2012 FERC fee is estimated at \$15,120, and will be collected in 2012 and paid in 2013. The 2012 NERC revenue recognition amount is \$11,411, however due to prior period funding true-ups, only \$9,852 will be collected from SPP's registered entities. This difference has been incorporated in SPP's budgetary cash needs for determination of the administrative fee. The remaining revenue of \$378 is related to annual membership dues.
- Contract Services Revenue consists of revenues associated with the ICT and ITO contracts. The 2012 budget consists of 12 months of contractual revenue and add-on services for the ICT contract and 8 months for the ITO contract. It is assumed the ITO contract will expire in September and will not be renewed. If the ICT does not renew; SPP will see a reduction in revenue of approximately \$1,500 in 2012 and \$18,000 on an annual basis.
- Miscellaneous Income includes engineering studies, member training, and other various revenues. The 2012 Engineering budget includes an increase in revenue from all transmission service study products. These products include the SPP aggregate study (ATSS), delivery point transfer screening (DPT) studies, long-term screening studies (LTSR), and affected system studies. The budgeted expenses will facilitate the production of these products and the other services associated with the provision of long-term transmission service to SPP customers.

Billing determinants were forecasted by SPP's Settlements group using actual trailing 12-month billing units (July 2010 – June 2011) plus a growth calculation of 4%. The growth percentage was determined by comparing mid-year to date results for 2011 and 2010 data and applying that rate to the second half of 2011.

SOUTHWEST POWER POOL
2012 BUDGET - SUMMARY INCOME STATEMENT & COMMENTARY



(\$000's)	Fav/(Unfav) Variance Compared to:				
	2012 Budget	2011 Budget	2011 Forecast	2011 Budget	2011 Forecast
TOTAL SALARIES, BENEFITS, TAXES & HEADCOUNT					
Salary & Benefits	72,222	65,168	64,321	(7,055) -11%	(7,901) -12%
Headcount	590	541	540	(49) -9%	(50) -9%

Employee costs are the single largest component of SPP's annual operating budget comprising approximately 48% of SPP's annual gross revenue requirement for 2012. Primarily due to the development, implementation, and ongoing support of the Integrated Marketplace salaries, benefits and taxes have increased over the 2011 Budget and Forecast.

The increase is related to 49 incremental positions, as compared to the 2011 budget, with 26 of these related to growth associated with Integrated Marketplace. Staffing detail and analysis can be found on pages 20-22.

The 2012 Budget includes a vacancy factor of 4% which is reflective of SPP's historically low turnover rate, improved accuracy in staffing and weak regional economic climate. SPP's performance compensation plan is budgeted at 15% of salaries. Cash outflows for performance compensation earned in 2012 would occur in February 2013. Funding for SPP's defined benefit retirement plan and retiree healthcare plan in 2012 is \$3.6MM & \$0.4MM, respectively. Funding for SPP's matching contribution to the 401(k) plan is estimated at 4% of salary.

SPP implemented a self-funded health care insurance program in 2010. The self-funded healthcare program resulted in economic benefits compared to a traditional fully insured plan. The program is budgeted on a net basis: medical claims less employee contributions and contains a maximum claim limit as well as a claim per employee limit.

SOUTHWEST POWER POOL
2012 BUDGET - SUMMARY INCOME STATEMENT & COMMENTARY



	Fav/(Unfav) Variance Compared to:						
	2012 Budget	2011 Budget	2011 Forecast	2011 Budget	2011 Forecast		
(\$000's)							
TOTAL TRAVEL & MEETINGS							
Employee Travel	3,002	1,896	1,787	(1,106)	-58%	(1,216)	-68%
Meetings	1,445	1,051	931	(394)	-37%	(515)	-55%
Total Travel & Meetings	4,447	2,947	2,718	(1,500)	-51%	(1,731)	-64%

Travel and Meetings costs are expected to rise significantly as Integrated Marketplace activities progress. SPP has identified two business-critical areas which are driving these costs: 1) system development and factory acceptance, and 2) internal/external training and market participant outreach. SPP has implemented additional oversight of travel costs to mitigate the large increase in budgeted travel expenditures associated with vendor site visits; which are often located in larger cities that can be significantly more expensive to travel (ex. Seattle, San Francisco, Minneapolis, etc.) See the travel report on page 32.

TOTAL ADMINISTRATIVE & LEASE EXPENSE

Administrative	4,212	3,468	3,147	(744)	-21%	(1,065)	-34%
Leases	1,631	1,876	1,870	245	13%	239	13%
Total Administrative & Leases	5,843	5,344	5,017	(499)	-9%	(825)	-16%

Administrative expense is expected to increase in 2012 due to additional utility costs related to the new campus. The various utility expenses are scheduled to begin during late 2011 and early 2012, as they are transferred from the general contractor to SPP. Conversely, lease expense will decrease slightly due to the expected expiration of the Plaza West lease (September 2012).

SOUTHWEST POWER POOL
2012 BUDGET - SUMMARY INCOME STATEMENT & COMMENTARY



(\$000's)	Fav/(Unfav) Variance Compared to:				
	2012 Budget	2011 Budget	2011 Forecast	2011 Budget	2011 Forecast
TOTAL COMMUNICATIONS & MAINTENANCE EXPENSE					
Communications	4,592	3,409	3,412	(1,183) -35%	(1,179) -35%
Maintenance	9,312	7,922	7,144	(1,390) -18%	(2,169) -30%
Total Comm & Maintenance	13,904	11,331	10,556	(2,573) -23%	(3,348) -32%

Communications expense includes all expenditures related to SPP's internal and external networks and telecommunications. These expenses are expected to increase in 2012 due to the additional circuits located in the new facility. A reduction in cost is expected once the Plaza West location has been decommissioned as the back-up facility and those circuits are removed. The increase in maintenance expense is primarily due to additional costs for the new facility, such as: 1) UPS, Generator & CRAC maintenance, 2) miscellaneous maintenance not covered by such contracts and 3) electrical needs for equipment installs.

TOTAL OUTSIDE SERVICES

Outside Services	18,700	17,500	14,374	(1,200) -7%	(4,326) -30%
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Outside services consist of third-party expertise to assist SPP in the deployment of its services, provide legal representation, and satisfy audit requirements. Total Outside Services expense is expected to increase due to: 1) staff augmentation to allow current staff to participate in Integrated Marketplace development, 2) consulting used for Regional Entity audit activities, and 3) additional costs associated with maintaining the new facility. These cost increases are expected to be offset by a reduction in ICT consultants and efficiencies from bringing work in-house in both Engineering and Legal/Regulatory.

TOTAL REGIONAL STATE COMMITTEE

Regional State Committee	394	266	181	(129) -48%	(213) -117%
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Total Regional State Committee (RSC) expense has increased as compared to 2011 Budget and Forecast. Consulting expense for 2012 has been increased slightly to cover an additional consultant for various analysis work.

SOUTHWEST POWER POOL
2012 BUDGET - SUMMARY INCOME STATEMENT & COMMENTARY



(\$000's)	Fav/(Unfav) Variance Compared to:				
	2012 Budget	2011 Budget	2011 Forecast	2011 Budget	2011 Forecast
TOTAL DEPRECIATION & AMORTIZATION					
Depreciation & Amortization	17,317	15,853	16,121	(1,464) -9%	(1,196) -7%

Although Depreciation and Amortization are not components of SPP's administrative fee, they are significant factors in SPP's GAAP based budget. Depreciation and Amortization expense is expected to increase in 2012 primarily due building completion and the purchasing of equipment related to the new facility.

TOTAL OTHER EXPENSE

Other Expense	3,716	6,126	6,042	2,410 39%	2,326 38%
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Other Expenses include interest expense, interest income, and other extraordinary gains or losses. Interest expense has been added for loans of \$65MM taken out in the last quarter of 2010 and \$70MM in the first quarter of 2011. A portion of the interest expense incurred in 2010 and 2011 is assumed to be capitalized in association with new facilities construction and Integrated Marketplace development (\$2.1MM).

TOTAL DEBT REPAYMENT

Debt Repayment	11,206	13,206	13,206	2,000 15%	2,000 15%
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SPP will make \$5MM in principal payments on the 2014 Senior Note and \$6MM in principal payments on the 2016 Senior Note. Additionally, SPP will make quarterly principal payments for the mortgage on the Maumelle facility.

**SOUTHWEST POWER POOL
2012 BUDGET - BALANCE SHEET**



	(\$000)	<u>12/31/2011</u>	<u>12/31/2012</u>
ASSETS			
Current Assets			
Cash & Equivalents		\$76,506	\$39,833
Restricted Cash Deposits		32,990	35,089
Accounts Receivable (net)		16,664	18,330
Other Current Assets		4,202	4,759
Total Current Assets		<u>130,362</u>	<u>98,011</u>
Total Fixed Assets		106,393	171,088
Total Other Assets		3,303	3,994
Investments		<u>672</u>	<u>605</u>
TOTAL ASSETS		<u><u>240,730</u></u>	<u><u>273,698</u></u>
 LIABILITIES & EQUITY			
Liabilities			
Current Liabilities			
Accounts Payable (net)		13,409	16,723
Customer Deposits		32,990	35,089
Current Maturities of LT Debt		11,206	12,700
Other Current Liabilities		30,063	40,230
Deferred Revenue		<u>7,461</u>	<u>6,713</u>
Total Current Liabilities		<u>95,129</u>	<u>111,455</u>
Long Term Liabilities			
US Bank Floating Senior Note - 2014		11,000	5,500
US Bank 5.45% Senior Notes - 2016		21,000	15,000
US Bank Maumelle Mortgage - 2027		3,958	3,753
Campus 4.82% Senior Notes - 2042		65,000	64,006
Integrated Marketplace 3.55% Senior Notes - 2024		70,000	70,000
Additional Financing			35,000
Other Long Term Liabilities		<u>4,282</u>	<u>4,163</u>
Total Long Term Liabilities		<u>175,240</u>	<u>197,422</u>
Net Income		(9,257)	(5,540)
Members' Equity		<u>(20,382)</u>	<u>(29,639)</u>
Total Members' Equity		<u>(29,639)</u>	<u>(35,179)</u>
TOTAL LIABILITIES & EQUITY		<u><u>\$240,730</u></u>	<u><u>\$273,698</u></u>



**SOUTHWEST POWER POOL
2012 BUDGET - THREE YEAR FORECAST**

(\$000)	<u>2012 Budget</u>	<u>2013 Forecast</u>	<u>2014 Forecast</u>
Income			
Tariff Administration Service	\$90,131	\$96,037	\$107,169
Fees & Assessments	26,909	27,540	28,333
Contract Services Revenue	23,758	17,484	17,484
Miscellaneous Income	5,616	6,037	6,056
Total Income	146,414	147,098	159,043
Expense			
Salary	50,289	53,409	55,464
Benefits & Taxes	21,216	21,572	22,303
Continuing Education	717	685	639
Salary & Benefits	72,222	75,666	78,406
Employee Travel	3,002	2,611	2,638
Administrative	4,212	4,233	4,378
Assessments & Fees	15,410	16,181	16,990
Meetings	1,445	1,474	1,557
Communications	4,592	4,186	4,096
Leases	1,631	475	286
Maintenance	9,312	10,108	15,426
Services	18,700	17,654	16,283
Regional State Committee	394	339	356
Depreciation & Amortization	17,317	27,597	24,999
Other Expense	3,716	4,081	5,331
Total Expense	151,954	164,603	170,744
Net Income (Loss)	<u>(\$5,540)</u>	<u>(\$17,505)</u>	<u>(\$11,702)</u>
Debt Repayment	11,206	12,700	19,748
MW/h Forecast	353,453	369,374	382,747
Net Revenue Requirement	89,560	98,645	113,620
Calculated Admin Fee / MWh	\$0.253	\$0.267	\$0.297
Recommended Admin Fee / MWh	\$0.255	\$0.260	\$0.280
Capital Expense	82,034	29,623	16,759
Headcount	590	598	621
Fixed Charge Coverage Ratio	3.20	3.22	3.37

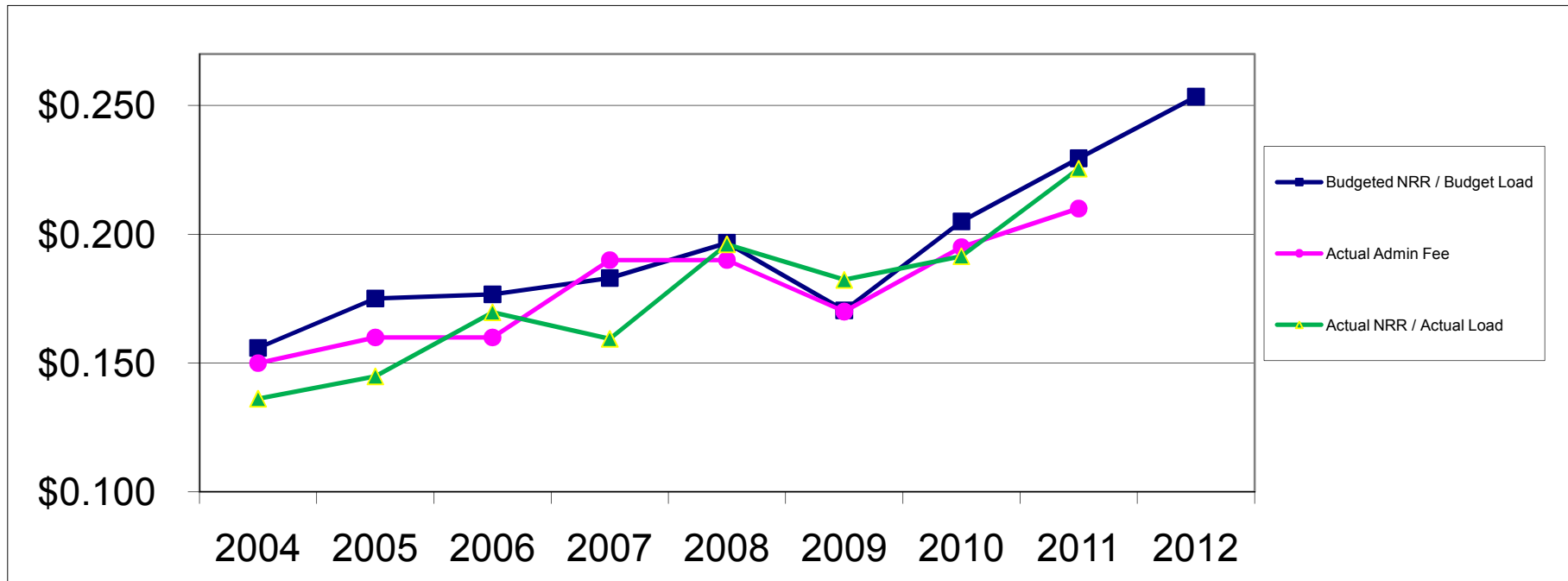


SOUTHWEST POWER POOL THREE YEAR FORECASTED CASH FLOW

(\$000)	QTR 1 2012	QTR 2 2012	QTR 3 2012	QTR 4 2012	2013	2014
OPERATING CASH (000)						
Beginning Cash on Hand	\$4,376	(\$3,089)	(\$14)	\$2,987	\$6,294	\$5,079
Income						
Tariff Administration Service	20,730	22,533	23,434	23,434	96,037	107,169
NERC Fees	2,853	2,853	2,853	2,853	11,981	12,580
Contract Services Revenue	6,734	6,579	5,901	4,545	17,484	17,484
Studies and Other Income	1,529	1,334	1,429	1,325	6,037	6,056
Operating Income	31,846	33,298	33,616	32,156	131,539	143,290
Expense						
Salaries Expense	17,742	10,691	10,918	10,938	53,409	55,464
Employee Benefits & Taxes	5,464	5,437	5,546	5,487	22,257	22,942
Travel Expense	654	797	867	684	2,611	2,638
Administrative Expense	1,153	985	936	1,138	4,233	4,378
Meetings Expense	308	383	365	389	1,474	1,557
Communications Expense	1,198	1,198	1,148	1,048	4,186	4,096
Maintenance Expense	4,077	1,505	1,769	526	9,337	9,803
Leases Expense	459	485	473	215	475	286
Outside Services Expense	4,798	4,857	4,727	4,318	17,654	16,283
Regional State Committee Expense	70	128	68	128	339	356
Interest Income & Expense	587	955	997	1,177	4,081	5,331
Debt Service	2,801	2,801	2,801	2,801	12,700	19,748
Operating Expense	39,311	30,222	30,615	28,849	132,754	142,881
NET INCOME (LOSS)	(7,465)	3,075	3,001	3,307	(1,215)	409
Ending Cash on Hand	(\$3,089)	(\$14)	\$2,987	\$6,294	\$5,079	\$5,488
Recommended Admin Fee MW/h	\$0.255	\$0.255	\$0.255	\$0.255	\$0.260	\$0.280
CAPITAL CASH (000)						
Beginning Cash on Hand	\$50,759	\$19,200	\$36,022	\$16,674	\$3,725	\$4,102
Capital Expenditures	31,559	18,178	19,348	12,949	29,623	16,759
Capital Financing	0	35,000	0	0	30,000	20,000
Ending Cash on Hand	\$19,200	\$36,022	\$16,674	\$3,725	\$4,102	\$7,344
TOTAL CASH (000)	\$16,110	\$36,008	\$19,661	\$10,020	\$9,182	\$12,831



SOUTHWEST POWER POOL ADMINISTRATIVE FEE HISTORY



	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Budgeted Net Revenue Required	\$ 38,322	\$ 44,391	\$ 45,688	\$ 52,819	\$ 61,462	\$ 56,478	\$ 68,358	\$ 78,368	\$ 89,560
Budgeted Load	245,776	253,489	258,556	288,649	312,496	331,360	333,458	343,000	353,453
Budgeted NRR / Budget Load	\$ 0.156	\$ 0.175	\$ 0.177	\$ 0.183	\$ 0.197	\$ 0.170	\$ 0.205	\$ 0.229	\$ 0.253
Actual Admin Fee	\$ 0.150	\$ 0.160	\$ 0.160	\$ 0.190	\$ 0.190	\$ 0.170	\$ 0.195	\$ 0.210	\$ 0.255
Actual Net Revenue Required	\$ 33,443	\$ 38,714	\$ 48,613	\$ 47,998	\$ 58,081	\$ 59,837	\$ 63,497	\$ 76,664	
Actual Load	245,571	267,239	286,446	301,098	296,135	328,175	331,610	339,993	
Actual NRR / Actual Load	\$ 0.136	\$ 0.145	\$ 0.170	\$ 0.159	\$ 0.196	\$ 0.182	\$ 0.191	\$ 0.225	
EIA-411 Load Growth Forecast	-0.37%	3.05%	-0.60%	1.80%	2.10%	2.40%	-1.00%	2.21%	
Actual Load Growth	-1.60%	8.82%	7.19%	5.12%	-1.65%	10.82%	1.05%	2.53%	



SOUTHWEST POWER POOL
TRAVEL EXPENSE BUDGET COMPARISON
(in thousands)

<u>Department</u>	<u>2012 BUDGET</u>	<u>2011 BUDGET</u>	<u>2012 Budget Over/(Under) 2011 Budget</u>	<u>Commentary on Primary Variances</u>
SPP Compliance & Communications	130	91	39	New on-site member compliance reviews for SPP Compliance group; educational conference (Energy Intermarket Surveillance Group) in Market Monitoring
Process Integrity	317	160	157	Additional travel for Order 1000 compliance plans in Transmission Development; increased travel for additional staff and CWG travel
Reg Policy & General Counsel	215	114	101	Increased travel for additional legal and regulatory filings for Integrated Marketplace and other state/federal proceedings
SPP Regional Entity	590	374	215	Expanded scope of CIP related activities; increased travel for expanding event analysis; increased participation in NERC, RE and SPP working groups
Administration	367	360	7	
Market Development & Analysis	122	96	26	Increase due to Integrated Marketplace factory acceptance testing (FAT)
Information Technology	283	107	177	Travel associated with Integrated Marketplace vendor site visits (Alstom, Nexant and OATI)
Operations	616	270	346	Travel associated with Integrated Marketplace vendor site visits (Alstom, Nexant and OATI)
Engineering & Contract Services	363	324	39	Travel associated with Integrated Marketplace
TOTAL TRAVEL	\$ 3,002	\$ 1,896	\$ 1,106	



**SOUTHWEST POWER POOL
OUTSIDE SERVICES BY BUSINESS FUNCTION**

(in thousands)

<u>DESCRIPTION OF SERVICES</u>	<u>2012 BUDGET</u>	<u>2011 BUDGET</u>	<u>Increase/ (Decrease)</u>
IT Project consulting services	\$ 3,804	\$ 1,573	\$ 2,230
Training systems support	647	230	417
Integrated market training	204	-	204
Integrated Marketplace incremental staff augmentation	4,654	1,803	2,851
Process improvement consulting	372	-	372
Engineering support and automation	352	-	352
Engineering planning projects	552	281	271
ITP consulting	125	-	125
Stochastic consultant	100	-	100
PMO support	75	4	71
Other incremental staff augmentation	1,576	285	1,291
ITO Regulatory support (non-reimbursable) and outside legal	315	900	(586)
ICT Regulatory support (reimbursable)	1,125	2,460	(1,335)
Decreased ITO / ICT reimbursable and legal expense	1,440	3,360	(1,920)
Legal support - federal regulatory issues	4,502	5,954	(1,452)
Corporate legal services	836	96	741
Decreased corporate legal consulting	5,338	6,050	(711)
Regional Entity consulting for hearings and audits	1,765	1,340	425
Regional Entity increase for hearings and audits	1,765	1,340	425
Facility security and support	488	194	294
Facility security and support	488	194	294
Reimbursable Engineering studies	840	1,470	(630)
Operations project consulting	-	186	(186)
Board of Directors fees	586	420	167
Operations Wind Forecasting Analysis	248	400	(152)
Transmission studies	75	200	(125)
Market monitoring - State of Market Report and Market Power study	460	575	(115)
Financial audits, SSAE 16 audit and consulting support	463	494	(31)
Various company conferences and events	259	292	(33)
Consulting support for HR hiring, training, systems	354	331	22
Communications services	46	36	10
Credit exposure management system	42	42	-
ERSC consulting (reimbursable)	21	21	-
Miscellaneous Other	46	-	46
Total Other	3,440	4,467	(1,027)
TOTAL SPP OUTSIDE SERVICES	\$ 18,700	\$ 17,500	\$ 1,200



SOUTHWEST POWER POOL INTEREST ON LONG-TERM DEBT

	<i>Actual Interest Payments:</i>			<i>Current Budget:</i>	
	2012 Budget	Effect on Admin Fee	Interest Capitalization*	2012 Budget	Effect on Admin Fee
5.31% notes due 2014	750	0.002		750	0.002
5.45% notes due 2016	1,349	0.004		1,349	0.004
5.51% notes due 2027	228	0.001		228	0.001
4.82% construction notes due 2042	3,133	0.009	(1,739)	1,394	0.004
3.55% integrated markets notes due 2023	2,485	0.007	(2,490)	(5)	(0.000)
Total Interest	\$7,945	\$0.022	(\$4,229)	\$3,716	\$0.011

* Capitalization of interest on long-term debt associated with market development and new facility construction results in a reduction to the admin fee of \$0.011. This assumes the capitalized interest is not deemed to be impaired.

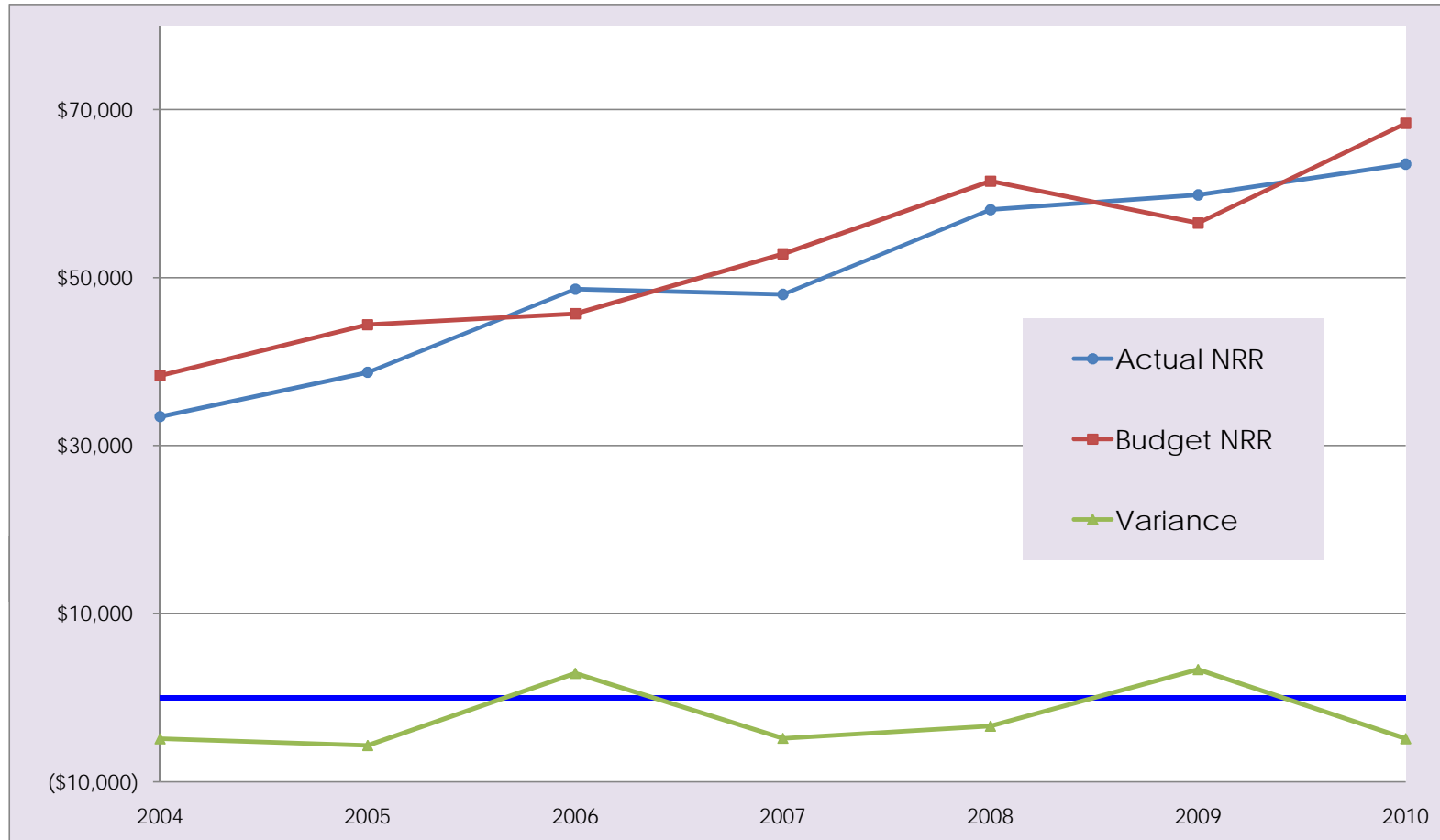
**SOUTHWEST POWER POOL
ANALYSIS OF 2011 FEES & ASSESSMENTS**



	<u>2011 Forecast</u>	<u>2011 Budget</u>	<u>Variance Fav/(Unfav)</u>	<u>Note</u>
SPP Regional Entity Revenue	\$8,451	\$9,797	(\$1,346)	Revenue for SPP RE is recognized as earned based on expense totals. In 2011, the RE expects to be favorable in comparison to their total expense budget.
FERC Fee Assessments (Sch.12)	15,341	14,467	874	FERC Fee Assessment revenue is recognized as collected. The Schedule 12 rate increased in 2011 but was not reflected in the 2011 budget due to timing issues.
Fees & Assessments Revenue	23,792	24,264	(472)	
Fees & Assessments Expense	16,639	14,119	(2,520)	FERC Fee Assessment expense is estimated based on prior year assessment plus growth rate. The current year run rate is adjusted once the annual bill is received in June, causing variance to budget.



Southwest Power Pool
Net Revenue Requirement: Actual vs. Budget
For Years 2004 - 2010



	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Actual NRR	\$33,443	\$38,714	\$48,613	\$47,998	\$58,081	\$59,837	\$63,497
Budget NRR	<u>\$38,322</u>	<u>\$44,391</u>	<u>\$45,688</u>	<u>\$52,819</u>	<u>\$61,462</u>	<u>\$56,478</u>	<u>\$68,358</u>
Variance	(\$4,879)	(\$5,677)	\$2,925	(\$4,821)	(\$3,381)	\$3,359	(\$4,861)

The graph and table above highlight the range of variance between SPP's actual and budgeted Net Revenue Requirement (NRR) by year. As SPP's NRR has increased over the years, the variances between actual and budget remained relatively small.

The following few pages specifically identify each business unit's strategic initiatives:

Build a Robust Transmission System (12)

<u>Business Unit</u>	<u>Strategic Objective or Initiative</u>	<u>Timing</u>
Engineering	Implementation of Project Tracking Database	3Q11
Engineering	Complete Integrated Transmission Planning (ITP) 10	4Q11
Engineering	Ongoing ITP Planning Cycle	2012 - 2014
Engineering	Implementation of Load Forecasting Tool	4Q11
Engineering	Stochastic Modeling Prototype and Plan	1Q12
Engineering	Incorporate VER, DR, SG & ER in Modeling	1Q12 & ongoing
Engineering	Improve Communications with Stakeholders	1Q12 & ongoing
Communications	Help Engineering with Communications Strategy	1Q12 & ongoing
Regulatory	Education of Regulators/Legislators and Study Unintended Consequences	2011 - 2013
Regulatory	Inter-Regional Optimization	2012 & ongoing
Process Integrity	Develop and Coordinate SPP Public Policy Process	2Q11 & ongoing
Market Monitor	Support Building of a Robust Transmission System	ongoing

Develop Efficient Market Processes (16)

<u>Business Unit</u>	<u>Strategic Objective or Initiative</u>	<u>Timing</u>
Market Design	Implementation of Integrated Marketplace	2011 – 2014
Market Design	Support Regulatory Approval Process (Education/Comm)	2011 – 2012
Market Design	Manage Minimal Changes to EIS	2011 – 2013
Regulatory/Legal	Provide Regulatory Support for Integrated Marketplace	2011 – 1Q14
Information Tech	Provide Design, Integration, Testing, Trial and Deployment support for Integrated Marketplace	2011 – 2014
Operations	Provide Operational Support for Integrated Marketplace	2011 – 2014
Finance	Provide Support for Integrated Marketplace (Settlements, Credit Risk)	2011 – 2014
Process Integrity	Provide Project Mgmt Support for Integrated Marketplace Projects	2011 – 1Q14
Process Integrity	Facilitate Member Readiness Training for Integrated Marketplace	2011 – 1Q14
Information Tech	Support Reliability Systems Evolution to Support CBA/IM	2011 – 1Q14
Market Monitor	Provide Market Monitoring for Integrated Marketplace	2011 - 2014
Market Monitor	Provide Annual "State of the Market" Reporting	ongoing
Internal Audit	Provide Audit Advisory Services for Integrated Marketplace Operation	2011 – 1Q14
Communications	Provide Communications Support for the Integrated Marketplace	2011 – 1Q14
Engineering	Develop Congestion Hedging Process	2012
Engineering	Incorporate Integrated Marketplace functioning in SPP Planning Models	2012 & ongoing

Create Member Value (40)

<u>Business Unit</u>	<u>Strategic Objective or Initiative</u>	<u>Timing</u>	<u>Business Unit</u>	<u>Strategic Objective or Initiative</u>	<u>Timing</u>
Compliance	Compliance Support for Members	ongoing	Finance	Relocation to New Campus and Operations Center	2011 – 2Q12
Internal Audit	Assisting Members with Documentation Reviews	ongoing	Operations	Enhanced Organizational Efficiency and Effectiveness	2011 - 2012
Eng/IT	(3) Improved Member Information, Information Request and Management Processes	2012	Engineering	Improve the Efficiency and Effectiveness of the Gen. Int. Study Process	4Q11, 2012
Finance	(2) Settlements Process Improvements and Improved Staff Utilization	2011	Engineering	Improve the Efficiency and Effectiveness of the Aggregate Study Process	4Q11, 2012
Regulatory/Legal	Regulatory Process Improvement and Value Add	2011 & ongoing	Process Integrity	Develop Processes for Benefits Measurement and Reporting	2011 & ongoing
Operations	Improve Reliability Management	2Q11 & ongoing	Process Integrity	Support Pre-Ranking Project Cost/Benefit & ROI Analyses for all Projects	2011 & ongoing
Operations	Develop a Culture of Learning	2Q11 & ongoing	Process Integrity	Develop Capability for Project Resource Demand-Capacity Forecasting	3Q11 – 1Q13
Operations	Improved Customer Focus and Relationship Building	2Q11 & ongoing	Process Integrity	Select/Develop SPP Business Process Improvement Methodology & Implementation	4Q11/2012 & ongoing
Finance	Select and Implement an Integrated Financial Planning/Reporting System	2Q10 - 2012	Regulatory/Legal	SPP Membership Maintenance and Expansion Support	ongoing
Finance	Accounts Payable Automation	4Q11	Information Technology	(13) Strategic Initiatives to Transform SPP Technology Infrastructure into more flexible, dynamic, automated systems to provide more value to SPP staff and stakeholders -- Initiatives include Component Mobility, Application Integration, effective enterprise-wide Portal and Data Warehouse strategy, Data Store, IT Service Desk, SLA Management, Evergreen IT Roadmap, Dynamic & Self-service provisioning, Model-based monitoring, Process Automation and Evolution of data center virtualization.	2011 - 2013
Finance	Enhancement of SPP Staff Expense Reimbursement Process	2011			
Internal Audit	Scheduled Audits and Reviews	ongoing			
Internal Audit	Assist with External Audits (Cost Reduction)	ongoing			
Market Monitoring	Improve monitoring efficiency/effectiveness	2011			
Market Monitoring	Implement Market Participant Assistance Program	2012			

Other Support Initiatives (18)

<u>Business Unit</u>	<u>Strategic Objective or Initiative</u>	<u>Timing</u>
Engineering	Staffing Quality Strategy	3Q11 & ongoing
Engineering	Provide Support for Contract Services	ongoing
Engineering	Career Development Strategy	3Q11 & ongoing
Information Tech	Data Center Migration – Plaza West to New Location	2Q12
Information Tech	Data Center Migration – Maumelle to New Location	2Q13
Information Tech	Office Migration – Plaza West to New Location	2Q12
Information Tech	Facilitate Policy Development & Support Information Lifecycle Management	2012
Information Tech	Web and Application Security Design	2012
Operations	Human Resources Strategy	4Q11
Operations	Maintain a Culture of Compliance	ongoing
Finance	Settlements Customer Satisfaction Improvement	3Q11
Finance	Decommission Plaza West	3Q12
Process Integrity	Provide Industry Leadership for Standards Development, Transmission Policy and Inter-Regional Affairs	3Q11 & ongoing
Process Integrity	Project Management – Facility Construction and Building Migration	2Q12
Market Monitoring	Improve Monitoring of Seams and Operations	2011
Communications	(2) Support Internal and External Communications	ongoing
Compliance	Lead the Risk Management Team	ongoing



Transmission Congestion Rights (TCRs)

TCR Credit Exposure Calculations – Overview

- The critical consideration for determining TCR credit risk is the exposure related to the holding an awarded TCR.
 - TCR Hold Estimated Not Settled (ENS) exposure is an estimate of the potential value (positive or negative) of the TCR contract over its life.
 - The driver for this valuation will be a Final Reference Price based on a historical Sink/Source differential.
- Once the TCR Hold ENS formula is determined, it can be used in ENS valuation of TCR Bids/Offers in Annual and Monthly Auctions.

TCR Credit Exposure Calculations – Overview

- The suggested approach to determine the Final Reference Price is a two tiered calculation.
 - **Mean Price:** a weighted average of what a given TCR might have been worth in an historical reference period
 - **Stress Test Price:** a weighted percentile value based on what a given TCR might have been worth under adverse market price congestion differentials in a historical reference period
- The Stress Test Price is an asymmetrical adjustment based on the Mean Price.
 - Negatively valued TCRs create greater risk and require a more conservative approach, i.e. a 90th percentile based price
 - Positively valued TCRs are less likely to result in liabilities, i.e a 75th percentile based price

TCR Credit Exposure Calculations – Data

- Day-Ahead Market Marginal Congestion Component (MCC) prices from the past two years are used to determine both the Mean Price and the Stress Test Price.
- The MCC data used will match the definition of the TCR with respect to time (Seasonal and Monthly) and Class (On-Peak and Off-Peak) and will be weighted as follows:
 - The most recent Year (Year – 1): 75%
 - The second most recent Year (Year – 2): 25%

TCR Credit Exposure Calculations – Mean Price

- The Mean Price is a weighted average of what a given TCR might have been worth in a historical reference period.
- The Mean Price for TCR_t is:

Mean Price $_t =$

$75\% * [\text{Mean}_{h \in Y-1} (\text{Sink MCC}_h - \text{Source MCC}_h)] +$

$25\% * [\text{Mean}_{h \in Y-2} (\text{Sink MCC}_h - \text{Source MCC}_h)]$

where:

- h is an hour for which TCR_t is defined
- $Y-1$ and $Y-2$ are the same hours in the previous two years (On-Peak/Off-Peak, Months/Seasons) as TCR_t
- Source and Sink are nodes for TCR_t

TCR Credit Exposure Calculations – Stress Test Price

- The Stress Test Price is a weighted percentile value under adverse conditions in a historical reference period.
- The Stress Test Price for a positively valued TCR_t is:

Stress Test Price $_t =$

$75\% * [75^{\text{th}} \text{ Percentile}_{h \in Y-1} (\text{Source MCC}_h - \text{Sink MCC}_h)] +$

$25\% * [75^{\text{th}} \text{ Percentile}_{h \in Y-2} (\text{Source MCC}_h - \text{Sink MCC}_h)]$

where:

- h is an hour for which TCR_t is defined
- $Y-1$ and $Y-2$ are the same hours in the previous two years (On-Peak/Off-Peak, Months/Seasons) as TCR_t
- Source and Sink are nodes for TCR_t

TCR Credit Exposure Calculations – Stress Test Price

- The Stress Test Price is a weighted percentile value under adverse conditions in a historical reference period.
- The Stress Test Price for a negatively valued TCR_t is:

Stress Test Price_t =

$$75\% * [90^{\text{th}} \text{ Percentile}_{h \in Y-1} (\text{Source MCC}_h - \text{Sink MCC}_h)] +$$

$$25\% * [90^{\text{th}} \text{ Percentile}_{h \in Y-2} (\text{Source MCC}_h - \text{Sink MCC}_h)]$$

where:

- h is an hour for which TCR_t is defined
- Y-1 and Y-2 are the same hours in the previous two years (On-Peak/Off-Peak, Months/Seasons) as TCR_t
- Source and Sink are nodes for TCR_t

TCR Credit Exposure Calculations – Final Reference Price

- The Final Reference Price is the economic basis for the collateral requirements for a given TCR.
- The Final Reference Price for TCR_t is:

$$\text{Final Reference Price}_t = \text{Mean Price}_t - \text{Stress Test Price}_t$$

- The 75th or 90th percentile of MCC Source minus MCC Sink (the reverse of the TCR) is subtracted from the Mean Price
- This yields the same results as adding the 25th and 10th percentiles of MCC Sink minus MCC Source

TCR Credit Exposure Calculations – Hold ENS Formula

- The Final Reference Price is multiplied by the MW quantity and the number of hours for which the TCR is valid to determine a contract value for exposure purposes.

$$\text{TCR Hold ENS}_t = \text{Final Reference Price}_t * \text{MW}_t * \text{Hours}_t$$

Example – Mean and Stress Test Price Calculations

- Contract Specifics
 - TCR for 25 MW and 250 Hours
- Calculation of Mean Price
 - $75\% * (\$4.00 - \$8.00) + 25\% * (\$2.00 - \$4.00)$
 - $\$-3.00 + \$-.50 = \underline{\$-3.50}$
- Since the Mean Price is negative, the Stress Test Price is based on the 90th percentile.
 - $75\% * (\$2.00 - \$1.00) + 25\% * (\$3.00 - \$2.00)$
 - $\$.75 + \$.25 = \underline{\$1.00}$

Example – TCR Valuation

- The last steps are to calculate the Final Reference Price and determine the amount of credit required to secure this transaction.
- Calculation of Final Reference Price
 - $\$-3.50$ (mean price) - $\$1.00$ (stress test price) = $\$-4.50$
- Determination of Exposure and Required Credit
 - Final Reference Price * TCR MW * TCR Hours Remaining
 - $\$-4.50 * 25 \text{ MWs} * 250 \text{ hours} = \text{\$-28,125}$
- Since total exposure is negative, collateral of $\$28,125$ would be required.

Portfolio Valuation and Collateral Requirements

- Though each TCR is valued individually, collateral requirements are based on an MP's TCR portfolio.
- The following table recaps the results for a hypothetical portfolio of TCRs.

Example	Mean Price	Stress Test Price	Final Price	TCR MW	TCR Hours Remaining	TCR Hold ENS
#1	\$ 3.75	\$ 2.00	\$ 1.75	50	500	\$ 43,750
#2	\$ (3.50)	\$ 1.00	\$ (4.50)	25	250	\$ (28,125)
#3	\$ 4.50	\$ 5.25	\$ (0.75)	100	200	\$ (15,000)
Total Portfolio						<u>\$ 625</u>

- Since the portfolio is valued at $\$625$, no collateral is required for this portfolio.
- TCR Hold ENS cannot be netted outside the portfolio.

Virtual Market

Virtuals – Credit Exposure Calculations

- Each bid/offer is assessed based on the maximum potential award, i.e. the highest MW submitted.
- Calculations will be made using Reference Prices (RP).
 - The RP is based on the Day Ahead to Real Time price differential in an historical period.
 - Separate RPs will be used for bids and offers at each node.
 - The RP will be based on the 97th percentile hourly differential for that node.
- The formula to calculate RPs will be:
97th Percentile $_{h \in Q, Y-1}$ (Day-Ahead LMP_{nh} – Real-Time LMP_{nh}) for Node_n, Year_Y, Quarter_Q, Day_d and Hour_h

Virtuals – Credit Exposure Calculations

- The Estimated Virtual Exposure (EVE) for a bid would be calculated as follows:
 - Bid EVE = $\text{Max}(\text{Bid MW}) * \text{Bid Reference Price at Node}_n \text{ for Hour}_h$
- The EVE for an offer would be calculated as follows:
 - Offer EVE = $\text{Max}(\text{Offer MW}) * \text{Offer Reference Price at Node}_n \text{ for Hour}_h$
- Hourly EVEs for each bid/offer are calculated separately and then summed to determine the EVE for the bids/offers in a single submission.

Virtuals – Example Calculations

- Reference Price Calculation
 - Calculated separately for bids and offers at each location
 - Based on the 97th percentile differential between Day-Ahead and Real-Time LMP for that location in the same quarter in the previous year
- Assumptions
 - Total Unsecured Credit = \$200
 - Bid1 is received at 8 am at Node A for Hours 13 & 14 for:
 - 5 MW for \$20 or
 - 12 MW for \$10

Virtuals – Example Calculations

- Assumptions (continued)
 - Offer2 is received at 9 a.m. at Node B for Hour 13 for:
 - 4 MW for \$50 or
 - 10 MW for \$60
 - Bid1 Reference Price at Node A = \$6
 - Offer2 Reference Price at Node B = \$9

Virtuals – Example Calculations

- Calculations for Bid1 received at 8 a.m.
 - Hour 13 EVE = 12 MW * \$6 = \$72
 - Hour 14 EVE = 12 MW * \$6 = \$72
 - Bid1 EVE = $\sum_{\text{Bid, Hour}} \text{Bid1 EVE} = \$72 + \$72 = \144
- Bid1 is approved because the Total Available Credit of \$200 is greater \$144, leaving available credit of \$54.
- Calculations for Offer2 received at 9 a.m.
 - Hour 13 EVE = 10 MW * \$9 = \$90
 - Offer2 EVE = $\sum_{\text{Hour}} \text{Offer2 EVE} = \90
- Offer 2 will be rejected (available credit < \$90).