



**Southwest Power Pool**  
**FINANCE COMMITTEE MEETING**  
**September 28, 2011**  
**DFW – Hyatt Regency Hotel**

**• Summary of Action Items •**

1. Approved minutes of September 20, 2011 meeting
2. Approved amendments to Credit Policy

**• 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. Prepare a comparison of RTO credit exposure calculations to those proposed by SPP's CPWG



**Southwest Power Pool**  
**FINANCE COMMITTEE MEETING**  
**September 28, 2011**  
**DFW – Hyatt Regency**

• 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
Michael Henderson (proxy for Gary Voigt)	Arkansas Electric Cooperative
Trudy Harper	Tenaska
Tom Dunn	SPP

Others attending included:

Carol Shoemake	Oklahoma Gas & Electric
Traci Bender	Nebraska Public Power District
Terri Wendlandt (telephone)	Westar
Jayne Clark (telephone)	Sunflower Electric Coop
Nick Brown	SPP
Scott Noble	SPP
Carl Monroe	SPP
Scott Smith (telephone)	SPP
Phil McCraw (telephone)	SPP
Brian Holmes (telephone)	Structure Group

**Administrative Items**

The minutes from the September 20, 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 reviewed a memo from SPP staff addressing questions raised regarding the budget and plan to furnish and move into SPP's corporate campus.

**SPP Rate Structure**

SPP staff presented its initial research regarding the feasibility of offering customers under the SPP tariff the opportunity to use a levelized rate under Schedule 1A. The Committee discussed several of identified issues to be addressed prior to implementing this strategy, primarily focusing on the costs required to amend settlement software applications and the volume of SPP customers believed to be interested in this strategy. The Committee determined the chair will update the SPP Board of Directors at their October 25, 2011 meeting of this strategy and gauge the interest of SPP members in pursuing this further.

### **Credit Practices Working Group**

Terri Wendlandt, chair of the Credit Practices Working Group (“CPWG”), led a discussion covering the work efforts of the CPWG in determining how credit exposure would be calculated for products in the Integrated Marketplace and the amendments to SPP’s Credit Policy necessary to document the exposure calculations. Additionally, Ms. Wendlandt also discussed credit issues remaining to be resolved by the CPWG such as: additional collateral/credit requirements for TCRs, geographic diversity tests, counter-flow back-dated portfolios, and compliance with the netting provisions of FERC Order 741.

The Committee noted the tremendous volume of work completed by the CPWG and thanked them for their efforts. The Committee offered several additional options the CPWG may wish to consider during their future deliberations:

1. Margin call processes
2. Use pre-settlement data for determining exposure
3. Block any participation in Integrated Marketplace if participant is currently in a cure period
4. Implement a “death penalty” for any participant that fails a margin call; “death penalty” may eliminate participant from any future participation in SPP’s markets
5. Use of price caps

Ms. Wendlandt advised that the Credit Policy language approved by the CPWG represented a solid basis for the required amendments but that certain aspects of the language may be subject to changes in the future as the CPWG continued their work. The Committee stressed the importance of having SPP staff and CPWG members to continue to actively follow the flow of the Credit Policy as it is presented to the RTWG and MOPC. Kelly Harrison motioned to approve the amended Credit Policy language. The motion was seconded by Trudy Harper and approved by unanimous voice vote.

Ms. Wendlandt next advised the Committee of a change recommended to Section 3.1.1.8 of the Credit Policy which will allow guarantors to meet a participant’s minimum participation capitalization requirement. Larry Altenbaumer motioned to approve the recommended change to Section 3.1.1.8. The motion was seconded by Sandra Bennett and approved by unanimous voice vote.

### **Business Process Improvement Report**

SPP staff drafted a report titled “Tracking SPP Business Process Improvements” which documents a methodology and presents preliminary findings of business process improvements. These improvements have been incorporated into SPP’s 2012 Budget. The Committee acknowledge the efforts expended to achieve the results documented in the report and encouraged SPP staff to continue to develop and expand the initiative. SPP staff indicated it will focus on establishment of a “pilot group” to drive additional business process improvements. This pilot group will consist of departments not tightly involved in the Integrated Marketplace program.

### **2012 Budget**

SPP staff presented a brief overview of the 2012 budget development process and report. Committee members raised the following questions for further discussion:

1. Projected load: What process is used to forecast load for the 2012 budget year and beyond? Is the abnormally hot summer of 2011 biasing load projections for 2013 and 2014 higher than appropriate?
2. FERC Assessments: What is driving the continuous increase in FERC assessments? Can SPP load serving entities help to curb this growth?
3. Headcount: How was the 4% vacancy factor determined? Discuss need for new positions not associated with Integrated Marketplace.
4. Please detail the operating costs associated with the new facilities.

5. Consulting expense: Provide greater detail regarding consulting expenditures, particularly those new or increased in 2012. Are there studies SPP performs which are specific to an individual entity(ies) where the costs are socialized?
6. Integrated Marketplace: How does SPP manage change orders? Is scope being reduced? Any expected increase in costs associated with known MPRRs? Review capitalization policy related to this project (travel, training).

**Future Meetings**

The next meeting of the SPP Finance Committee is scheduled for October 14, 2011 via teleconference beginning at 9 am central time and finishing at 11 am central.

There being no further business, Harry Skilton adjourned the meeting at 3:25 pm.

Respectfully Submitted,

Thomas P. Dunn  
Secretary



Southwest Power Pool, Inc.  
FINANCE COMMITTEE MEETING

September 28, 2011

DFW – Hyatt Regency – Matthews Room  
Dallas, Texas

• A G E N D A •

8:30 a.m. – 3:00 p.m.

- 1. Administrative Items (15 minutes)..... Harry Skilton
- 2. SPP Credit Practices Working Group (120 minutes)..... Tom Dunn / Terri Wendlant
  - a. Review exposure calculation methodology
  - b. **Approve changes to Credit Policy related to Integrated Marketplace \*\*ACTION\*\***
  - c. Order 741 Compliance update
- 3. SPP 2012 Budget Review (120 minutes)..... Tom Dunn
  - a. Review Process / Assumption
  - b. Capital Expenditure Review
  - c. **Approval of Budget \*\*ACTION\*\***
  - d. **Approval of 2012 Assessment and Administrative Fee rate \*\*ACTION\*\***
- 4. SPP Rate Structure ..... Tom Dunn
- 5. Future Meetings..... All
- 6. Written Reports
  - a. August 2011 Financial Report
- 7. Adjourn ..... Harry Skilton

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Evolutionary vs. Revolutionary • Reliability & Economics Inseparable*

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**Subject:** Finance Committee

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**From:** Gary Voigt [<mailto:g.voigt@aecc.com>]  
**Sent:** Thursday, September 22, 2011 3:22 PM  
**To:** Skilton, Harry; Nick Brown; Tom Dunn  
**Subject:** Finance Committee

Gentlemen:

I will be unable to attend the meeting on September 28th. Michael Henderson, our CFO will be representing AECC.

Thanks

GV

**Gary Voigt**  
**Arkansas Electric Cooperative**  
**1 Cooperative Way**  
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**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**  
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• M I N U T E S •

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Harry Skilton	SPP Director
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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 50<sup>th</sup> to 60<sup>th</sup> 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 7<sup>th</sup> and 3<sup>rd</sup> floors, disconnection and removal of chillers from the building roof, removal of raised floor and ceiling on 7<sup>th</sup> floor and restoration to original state, removal of raised floor from 1<sup>st</sup> floor and restoration to original state, removal of window tint from 1<sup>st</sup> floor, re-install janitor sink on 7<sup>th</sup> floor, remove UPS from 7<sup>th</sup> 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



## 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 90<sup>th</sup> percentile based price
  - Positively valued TCRs are less likely to result in liabilities, i.e a 75<sup>th</sup> 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<sub>t</sub> is:

Stress Test Price<sub>t</sub> =

75% \* [90<sup>th</sup> Percentile<sub>h ∈ Y-1</sub> (Source MCC<sub>h</sub> – Sink MCC<sub>h</sub>)] +

25% \* [90<sup>th</sup> Percentile<sub>h ∈ Y-2</sub> (Source MCC<sub>h</sub> – Sink MCC<sub>h</sub>)]

where:

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

## 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<sub>t</sub> is:

Final Reference Price<sub>t</sub> = Mean Price<sub>t</sub> – Stress Test Price<sub>t</sub>

- The 75<sup>th</sup> or 90<sup>th</sup> 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 25<sup>th</sup> and 10<sup>th</sup> 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 90<sup>th</sup> 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 97<sup>th</sup> percentile hourly differential for that node.
- The formula to calculate RPs will be:  
97<sup>th</sup> Percentile  $_{h \in Q, Y-1}$  (Day-Ahead  $LMP_{nh}$  – Real-Time  $LMP_{nh}$ ) for Node<sub>n</sub>, Year<sub>Y</sub>, Quarter<sub>Q</sub>, Day<sub>d</sub> and Hour<sub>h</sub>

## 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 97<sup>th</sup> 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).



Southwest Power Pool, Inc.  
**CREDIT PRACTICES WORKING GROUP**  
Recommendation to the Finance Committee  
September 28, 2011

**Credit Policy and Tariff Changes Regarding TCR, Day-Ahead Market, and Virtual Markets**

**Organizational Roster**

The following individuals are members of the Credit Practices Working Group:

Terri Wendlandt — Chair	Westar
Jayne Clarke — Vice Chair	Sunflower
Morgan Davies	Calpine
Gina Wildon	ITC Holdings
Jennifer Maina	Cargill
Phil McCraw	Southwest Power Pool

**Background**

On July 6, 2011 and September 14, 2011 the Credit Practices Working Group reviewed and approved revisions to the Credit Policy and Tariff for the Integrated Market regarding credit implications for TCR, Day-Ahead Market, and Virtual Markets. Attached documents indicate these revisions.

**Conclusion**

The CPWG agreed upon the attached changes to the SPP Credit Policy. The recommendations were unanimously approved.

**Recommendation**

Approve recommendations as submitted.

<b>Approved:</b>	Credit Practices Working Group:	
	Virtual Markets	July 6, 2011
	TCRs and Day-Ahead Markets	September 14, 2011

**Action Requested:** Approve Recommendation

## ARTICLE TWO

### Definitions

**2.1 Definitions.** The following definitions apply in this Credit Policy. Capitalized terms used herein and not defined herein shall be given the meaning assigned to them under the Tariff.

**Auction Revenue Right (ARR)**

This term shall have the meaning given in Attachment AE of the Tariff.

**Day-Ahead Market**

This term shall have the meaning given in Attachment AE of the Tariff.

**Day-Ahead Market Marginal Congestion Component (MCC)**

This term shall have the meaning given in Section 8.3.1.2 of Attachment AE of the Tariff.

**Estimated Virtual Exposure (“EVE”)**

This term shall have the meaning given in Section 4A.2.

**Final Reference Price**

This term shall have the meaning given in Section 5A.2.1.

**Operating Day**

This term shall have the meaning given in Attachment AE of the Tariff.

**Operating Hour**

This term shall have the meaning given in Attachment AE of the Tariff.

**Real-Time Balancing Market**

This term shall have the meaning given in Attachment AE of the Tariff.

**TCR Bid ENS**

This term shall have the meaning given in Section 5A.4.

**TCR Estimated-Not-Settled (TCR ENS)**

This term shall have the meaning given in Section 5A.1.3.

**TCR Hold ENS**

This term shall have the meaning given in Section 5A.2

**TCR Mean Price**

This term shall have the meaning given in Section 5A.2.1.

**TCR Offer ENS**

This term shall have the meaning given in Section 5A5

**TCR Portfolio Credit Requirement**

This term shall have the meaning given in Section 5A.3.

**TCR Stress Test Price**

This term shall have the meaning given in Section 5A.2.1.

**Total TCR Credit Requirement**

Total TCR Credit Requirement is the amount of Financial Security a Credit Customer must provide in order to support the TCR positions that it holds and/or for which it is submitting bids and offers.

**Transmission Congestion Right (TCR)**

This term shall have the meaning given in Attachment AE of the Tariff.

**Transmission Congestion Right Auction (TCR Auction)**

This term shall have the meaning given in Attachment AE of the Tariff.

**Virtual Potential Exposure (VPE)**

This term shall have the meaning given in Section 5.2.3.

**ARTICLE FOUR A****Virtual Energy Bids and Virtual Energy Offers**

**4A.1 Overview.** Virtual Energy Bids and Virtual Energy Offers create potential exposure of non-payment, and therefore, have a credit requirement. SPP does not require the Credit Customer to segregate, allocate, or reserve a portion of its Total Credit Limit to support its Virtual Energy Bids and Virtual Energy Offers in the Day-Ahead Market. However, SPP analyzes the Credit Customer's Virtual Energy Bids and Virtual Energy Offers to determine if the Credit Customer has credit available to support its Virtual Energy Bids and Virtual Energy Offers at the time the bids or offers are submitted. Only the Virtual Energy Bids and Virtual Energy Offers that the Credit Customer has credit available to support will be credit approved for the Day-Ahead Market. In its analysis, SPP will calculate the Estimated Virtual Exposure ("EVE") based on the Credit Customer's Virtual Energy Bids and Virtual Energy Offers. Using the EVE, SPP will determine if the Credit Customer has available credit to support its Virtual Energy Bids and Virtual Energy Offers. After the close of the Day-Ahead Market for an Operating Day, the credit requirement associated with the Credit Customer's cleared Virtual Energy Bids and Virtual Energy Offers will be adjusted to reflect the actual megawatts that cleared. This Article addresses the calculation of the EVE and the credit requirements associated with the submission of Virtual Energy Bids and Virtual Energy Offers in the Day-Ahead Market and the Virtual Energy Bids and Virtual Energy Offers that clear in the Day-Ahead Market.

**4A.2 Calculation of Estimated Virtual Exposure (EVE) Prior to the Close of the Day-Ahead Market for an Operating Day.** When a Virtual Energy Bid or Virtual Energy Offer is submitted, SPP will calculate the EVE using reference prices for the Virtual

Energy Bid or Virtual Energy Offer and the maximum megawatts submitted. If multiple Virtual Energy Bids and Virtual Energy Offers are submitted in a batch, the EVE will be calculated for the batch as a whole. If a Virtual Energy Bid or Virtual Energy Offer contains multiple hours, all of the hours will be included in the EVE calculation. The EVE is calculated for the submittal or batch of Virtual Energy Bids and Virtual Energy Offers. In the event that both a Virtual Energy Bid and Virtual Energy Offer are submitted in the same batch or submission for the same node, the one with the higher dollar value will be used in the EVE calculation for that batch or submission

**4A.2.1** The EVE for a single submission or batch is equal to the sum of the hourly EVEs for each Virtual Energy Bid or Offer in the submission or batch.

**4A.2.2** The hourly EVEs are calculated pursuant to the following formulas:

Virtual Energy Bid EVE =  
 Maximum(Virtual Energy Bid MW) \* Virtual Energy Bid RP at Node  $n$  for Hour  $h$

Virtual Energy Offer EVE =  
 Maximum(Virtual Energy Offer MW) \* Virtual Energy Offer RP at Node  $n$  for Hour  $h$

Where

RP = Reference Price is based on the Day-Ahead to Real-Time price differential in the same quarter in the previous year, at each node, with separate RPs used for Virtual Energy Bids and Virtual Energy Offers. The RP for a given day is based on the 97th percentile hourly differential for the node. The formulas for the RPs are:

Virtual Energy Bid RP  $_{jd} = 97^{\text{th}}$  Percentile  $_{h \in Q_{Y-1}}$  (Day-Ahead LMP  $_{nh} - \text{Real-Time LMP}_{nh}$ ) for Node  $n$ , Year  $Y$ , Quarter  $Q$ , Operating Day  $d$  and Operating Hour  $h$

Virtual Energy Offer RP  $_{jd} = 97^{\text{th}}$  Percentile  $_{h \in Q_{Y-1}}$  (Real-Time LMP  $_{nh} - \text{Day-Ahead LMP}_{nh}$ ) for Node  $n$ , Year  $Y$ , Quarter  $Q$ , Operating Day  $d$  and Operating Hour  $h$

### **4A.3 Determination of Credit Approved Virtual Energy Bids and Virtual Energy Offers.**

**4A.3.1** If the EVE for a submission or batch of Virtual Energy Bids and Virtual Energy Offers is less than the Credit Customer's available credit, which is equal to the Credit Customer's Total Credit Limit less its Total Potential Exposure, then the submission or batch is credit approved. Credit approved Virtual Energy Bids and Virtual Energy Offers, unless withdrawn will be included in the Day-Ahead Market.

**4A.3.2** If the EVE for a submission or batch of Virtual Energy Bids and Virtual Energy Offers is greater than the Credit Customer's available credit, which is equal to the Credit Customer's Total Credit Limit less its Total Potential Exposure, then the



submission or batch will be rejected. Rejected Virtual Energy Bids and Virtual Energy Offers will not be included in the Day-Ahead Market and will not affect the Total Potential Exposure calculation.

**4A.3.3** Modifications to Virtual Energy Bids and Virtual Energy Offers prior to the close of the Day-Ahead Market for the Operating Day for which they were submitted will be evaluated using the same procedures. Modifications are evaluated based on their net credit impact. The EVE for the modified Virtual Energy Bids and Virtual Energy Offers submission or batch will be revised to incorporate the modifications to the submission or batch.

**4A.3.3** The EVE for credit approved Virtual Energy Bids and Virtual Energy Offers submissions and batches that have not yet settled or cleared in the Day-Ahead Market is included in the Total Potential Exposure calculation as set forth in Article 5. Therefore, the determination of whether a Virtual Energy Bid and Virtual Energy Offer submission or batch is credit approved will take into account the credit requirements for previously determined credit approved Virtual Energy Bids and Virtual Energy Offers.

**4A.3.4** If a Credit Customer cancels a credit approved Virtual Energy Bid or Virtual Energy Offer submission or batch prior to the close of the Day-Ahead Market for the Operating Day for which it is submitted, that Virtual Energy Bid or Virtual Energy Offer will no longer have a credit requirement associated with it and its EVE will be zero.

**4A.4 Updated EVE Calculations Post Day-Ahead Market Settlement.** After the settlement of the Day-Ahead Market for an Operating Day, the EVEs for credit approved Virtual Energy Bids and Virtual Energy Offers shall be updated to replace the maximum megawatts with the actual megawatts that cleared. The Reference Prices used in the EVE calculations remain unchanged. If there are Virtual Energy Bids and Virtual Energy Offers that cleared at the same location, those amounts will be netted in the updated EVE calculation.

**4A.4.1** The updated EVEs will be calculated pursuant to the following formulas:

Updated Virtual Energy Bid EVE =  
Actual(Virtual Energy Bid MW) \* Virtual Energy Bid RP at Node  $n$  for Hour  $h$

Updated Virtual Energy Offer EVE =  
Actual(Virtual Energy Offer MW) \* Virtual Energy Offer RP at Node  $n$  for Hour  $h$

where RP has the same meaning as in section 4A.2.2.

**4A.4.2** The total updated EVE for an Operating Day for a Credit Customer will be the sum of the updated Virtual Energy Bid EVEs and updated Virtual Energy Offer EVEs for that Operating Day.

**5.2.1 Market Exposure (“ME”).** Potential exposure to non-payment associated with market transactions that involve physical delivery of energy is calculated under the following formula:

$$ME = IMSC + CMSC + MEMERT + MEMEDA$$

IMSC = Invoiced Market Settlement Charges (all Real-Time Balancing Market charges or credits that have been invoiced but not yet paid).

CMSC = Calculated Market Settlement Charges (all daily settlement activity, including charges or credits, that has been calculated but not yet invoiced).

MEMERT = Maximum Estimated Market Exposure for Real-Time Balancing Market activity shall be the greater of:

(a) The average of the last three hundred sixty five (365) days of daily Real-Time Balancing Market settlement activity (or if settlement activity occurred for a lesser period, the average settlement activity during such lesser period), or

(b) The average of the last seven (7) days of daily Real-Time Balancing Market settlement activity (or if settlement activity occurred for a lesser period, the average settlement activity during such lesser period).

Once the greater value is determined that value is multiplied by the number of days remaining in the Potential Exposure Window. Inasmuch as the Potential Exposure Window refers to “days before service can be terminated,” the time period for purposes of calculating the MEME does not include additional time for service termination.

MEMEDA = Maximum Estimated Market Exposure for Day-Ahead Market activity shall be the greater of:

(a) The average of the last three hundred sixty five (365) days of most recently calculated Settlement Statements for Day-Ahead Market activity (or if settlement activity occurred for a lesser period, the average settlement activity during such lesser period), or

(b) The average of the seven (7) most recently calculated initial settlement statements for Day-Ahead Market activity (or if settlement activity occurred for a lesser period, the average settlement activity during such lesser period). The initial settlement statements are created at the end of the 7th calendar day following the Operating Day.

Once the greater value is determined that value is multiplied by the number of days remaining in the Potential Exposure Window. Inasmuch as the Potential Exposure Window refers to “days before service can be terminated,” the time period for purposes of calculating the MEMEDA does not include additional time for service termination.

**5.2.3 Virtual Potential Exposure (“VPE”).** Potential exposure to non-payment for virtual transactions is pursuant to the following formula:

$$\text{VPE} = \text{VSC} + \text{CVSC} + \text{EVE}.$$

Where:

IVSC = Invoiced Virtual Settlement Charges (all virtual transaction charges or credits that have been invoiced but not yet paid).

CVSC = Calculated Virtual Settlement Charges (all virtual transaction daily settlement activity, including charges or credits, that has been calculated but not yet invoiced)

EVE = Estimated Virtual Exposure, calculated pursuant to Article 4A (for all credit approved Virtual Energy Bids and Virtual Energy Offers prior to the close of the Day-Ahead Market for an Operating Day or Days that have not yet been settled and cleared Virtual Energy Bids and Virtual Energy Offers)

## ARTICLE FIVE A

### Transmission Congestion Rights (TCRs)

#### 5A.1 Overview.

**5A.1.1** Transmission Congestion Rights create potential exposure of non-payment, and therefore, have a credit requirement. SPP will establish a Total TCR Credit Requirement for each Credit Customer holding TCRs or with TCR Auction activity. A Credit Customer may satisfy its TCR Credit Requirement by providing Financial Security. Unsecured Credit is not available to support a Credit Customer’s holding TCRs or activity in TCR Auctions.

**5A.1.2** To establish the Total TCR Credit Requirement, SPP analyzes: (i) the TCRs the Credit Customer holds; and (ii) the Credit Customer's bids and offers for TCRs in the TCR Auctions. SPP will evaluate individually each TCR bid in the TCR Auctions to ensure that the Credit Customer has sufficient Financial Security to cover the credit requirements to purchase and hold the TCR. Only the TCR bids for which the Credit Customer has sufficient Financial Security will be credit approved for the TCR Auction. SPP will evaluate individually each TCR offer in the TCR Auctions to ensure that the Credit Customer has sufficient Financial Security to cover any credit requirements associated with the offer and the credit requirements that would result to its TCR portfolio resulting from the TCR offer. Only the TCR offers for which the Credit Customer has sufficient Financial Security will be credit approved for the TCR Auction. SPP evaluates the potential exposure of the Credit Customer's full TCR portfolio in determining the Total TCR Credit Requirement. SPP also evaluates changes to TCR portfolios resulting from proposed bilateral transfers to determine whether there is sufficient Financial Security to approve the transactions,

**5A.1.3** In its analysis and determination of the Total TCR Credit Requirement, SPP will calculate the TCR Estimated Not Settled (ENS), which is an estimate of the potential value of the TCR over the life of the TCR. It will be calculated for the TCRs the Credit Customer holds, the Credit Customer's TCR bids and offers, bilateral transfers, and TCRs acquired through ARR self-scheduling or nominations. The TCR Bid ENS also includes the cost to acquire TCRs in a TCR Auction. Using the TCR Hold ENS, the TCR Bid ENS, and the TCR Offer ENS, SPP will determine the Total TCR Credit Requirement and whether the Credit Customer has available Financial Security to support its TCR activity. After the close of a TCR Auction and on an ongoing basis, the Credit Customer's Total TCR Credit Requirement will be adjusted to reflect the actual TCRs awarded and the costs to acquire the TCRs.

**5A.1.4** This Article addresses the calculation of the TCR Credit Requirement and the TCR ENS calculations. This Article also addresses the determination whether sufficient Financial Security is available for the Credit Customer's TCR Auction activity.

**5A.2 Calculation of TCR Estimated Not Settled (ENS) for TCRs that a Credit Customer Holds (TCR Hold ENS).** SPP will calculate the TCR Hold ENS for TCRs that a Credit Customer holds, which is an estimate of the potential value (positive or negative) of the TCR contract over its life. SPP will calculate the TCR Hold ENS using reference prices based on a historical source and sink differential for the TCR.

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

**5A.2.1 Final Reference Price.** The Final Reference Price has two components: (i) a TCR Mean Price which is a two year weighted average of historical value; and (ii) a TCR Stress Test Price which is a weighted percentile value based on an estimate of the value of the TCR and reflects the value of the TCR under adverse market price congestion in an historical reference period, with the percentile either 75% for TCRs with a positive TCR Mean Price, or 90% for TCRs with a negative TCR Mean Price. Day-Ahead Market Marginal Congestion Component (MCC) prices from the past two years are used to determine both the TCR Mean Price and the TCR Stress Test Price and will match the definition of the TCR with respect to time (season and month) and class (on-peak and off-peak). The TCR Stress Test Price is included only if it is has a positive value, otherwise, zero will be included in the calculation.

$$\text{TCR Final Reference Price}_t = \text{TCR Mean Price}_t - \text{Maximum}[0, \text{TCR Stress Test Price}_t]$$

Where

$$\text{TCR Mean Price}_t = 75\% * [\text{Mean}_{h \in Y-1} (\text{Sink MCC}_h - \text{Source MCC}_h)] + 25\% * [\text{Mean}_{h \in Y-2} (\text{Sink MCC}_h - \text{Source MCC}_h)]$$

If TCR Mean Price<sub>t</sub> > 0

$$\text{TCR Stress Test Price}_t = 75\% * [75^{\text{th}} \text{ Percentile}_{h \in Y-1} (\text{Source MCC}_h - \text{Sink MCC}_h)] + 25\% * [75^{\text{th}} \text{ Percentile}_{h \in Y-2} (\text{Source MCC}_h - \text{Sink MCC}_h)]$$

If TCR Mean Price<sub>t</sub> ≤ 0

$$\text{TCR Stress Test Price}_t = 75\% * [90^{\text{th}} \text{ Percentile}_{h \in H Y-1} (\text{Source MCC}_h - \text{Sink MCC}_h)] + 25\% * [90^{\text{th}} \text{ Percentile}_{h \in H Y-2} (\text{Source MCC}_h - \text{Sink MCC}_h)]$$

Where,

h = an hour for which TCR<sub>t</sub> is defined

Y-1 and Y-2 = the same hours in the previous two years (on-peak/off-peak, months/seasons) as TCR<sub>t</sub>

Source and Sink = nodes for TCR<sub>t</sub>,

MCC = the Day-Ahead Market Marginal Congestion Component. The MCC data is from the prior two years and will match the definition of the TCR with respect to time (season and monthly) and class (on-peak and off-peak).

**5A.3 TCR Portfolio Financial Security Requirements.** The TCR Hold ENS calculation is determined for each TCR on an individual basis. The Financial Security required for this component of TCRs that a Credit Customer holds is calculated based on the portfolio of TCRs held. The Financial Security required will reflect netting of requirements for individual TCRs.

TCR Portfolio ENS = Sum of TCR Hold ENS for all TCRs in the portfolio.

When the TCR Portfolio ENS is a positive value no Financial Security is required for this component. When the TCR Portfolio ENS is a negative value, that is the estimate of exposure and is the amount of Financial Security required. That amount of Financial Security required is the TCR Portfolio Credit Requirement.

**5A.4 Calculation of TCR Bid ENS.** When a TCR bid is submitted, SPP will calculate the TCR Bid ENS using reference prices for the TCR Bid and the maximum potential cost to acquire the TCR. SPP evaluates the bids for TCRs to ensure that the Credit Customer has sufficient Financial Security to cover any Financial Security requirements to purchase the TCR as well as Financial Security requirements associated with holding the TCR. If multiple TCR bids and offers are submitted in a batch, the TCR Bid ENS and TCR Offer ENS will be calculated for the batch as a whole. Each TCR will be evaluated independently and there is no netting in the evaluation of the batch of TCR bids and offers.

$$\text{TCR Bid ENS}_t = \text{Min}[0, \text{Min}_{s \in t} (\text{Segment Cost}_s + \text{Segment Hold}_s)]$$

Where:

$$\text{Segment Cost}_s = \text{Min} [0, (-1 * \text{MW} * \text{Bid Price}_s * \text{TCR Hours}_t)]$$

$$\text{Segment Hold}_s = (\text{TCR Final Reference Price}_t) * \text{TCR MW}_s * \text{TCR Hours}_t$$

s = the bid/offer segment of the TCR<sub>t</sub>.

TCR Final Reference Price<sub>t</sub> is calculated as described in section 5A.2.1.

**5A.4.1** The credit exposure is determined for each section and the largest amount is the amount included in the calculation of TCR Bid ENS. The maximum potential cost to acquire a TCR is determined by evaluating the cost for each potential clearing point on the submitted bid curve. The amount of the TCR Bid ENS is the amount of Financial Security required to support the bid.

**5A.4.2** The TCR Bid ENS for a single submission or batch is equal to the sum of the TCR Bid ENS calculations for each TCR included in the submission or batch, without any netting of requirements.

**5A.5 Calculation of TCR Offer ENS.** When a TCR offer is submitted in a monthly TCR Auction, SPP will calculate the TCR Offer ENS which includes (i) the maximum possible increase in the Credit Customer’s TCR ENS if the TCR is sold; and (ii) potential losses associated with differences between the offer price and the Credit Customer’s acquisition price for the TCR offered. SPP evaluates the offers for TCRs to ensure that the Credit Customer has sufficient Financial Security to cover any Financial Security requirements resulting if the TCR is no longer held and losses resulting from the offer price compared to the acquisition price for the TCR offer. If multiple TCR bids and offers are submitted in a batch, the TCR Bid ENS and TCR Offer ENS will be calculated for the batch as a whole. Each TCR will be evaluated independently and there is no netting in the evaluation of the batch of TCR bids and offers.

$$\text{TCR Offer ENS}_t = \text{Offer Loss}_t + \text{Asset Loss}_t$$

Where,

$$\text{Offer Loss}_t = \text{Min} [0, \text{AC}_t - \text{Offer Price}_t] * \text{TCR Offer MW}_t * \text{TCR Offer Hours}_t$$

$$\text{Asset Loss}_t =$$

$$\text{Min} [0, -1 * \text{Max}(\text{TCR Offer MW}_t) * \text{Final Reference Price}_t * \text{TCR Offer Hours}_t]$$

$\text{AC}_t$  = Acquisition Cost for the TCR being offered

Financial Reference Price is calculated as described in section 5A.2.1.

**5A.5.1** The maximum potential increase associated with a TCR offer is determined by evaluating each potential clearing point. The amount of the TCR Offer ENS is the amount of Financial Security required to support the offer.

**5A.5.2** The TCR Offer ENS for a single submission or batch is equal to the sum of the TCR Offer ENS calculations for each TCR included in the submission or batch, without any netting of requirements.

**5A.6 Determination of Credit Approved TCR Bids and Offers and Rejection of TCR Bids and Offers.**

**5A.6.1** If the sum of the TCR Bid ENS and TCR Offer ENS for a submission or batch of TCR bids and offers, calculated pursuant to sections 5A.4.2 and 5A.5.2, without netting, is less than the Credit Customer’s available amount of Financial Security, then the submission or batch is credit approved and may be submitted in the TCR Auction.

**5A.6.2** If the sum of the TCR Bid ENS and TCR Offer ENS for a submission or batch of TCR bids and offers, calculated pursuant to sections 5A.4.2 and 5A.5.2, without netting, is greater than the Credit Customer’s available Financial Security, then

the entire submission or batch is credit disapproved and will not be included in the TCR Auction.

**5A.7 Updated ENS Calculation Post TCR Auction.** After the settlement of a TCR Auction, (i) the TCR Bid ENS shall be updated to reflect only bids pending; (ii) the TCR Offer ENS shall be updated to reflect only offers pending; and (iii) the TCR Hold ENS shall be updated to reflect TCRs awarded and sold in the TCR Auction, the actual clearing price of the awarded and sold TCRs, and any other changes to the TCRs held by the Credit Customer.

**5A.8 Total TCR Credit Requirement.** The TCR Credit Requirement includes the credit requirements for both held TCRs and amounts required to participate in an auction and potential changes to the TCR portfolio TCRs transferred through bilateral transactions, and TCRs acquired through ARR allocation.

Total TCR Credit Requirements =  
TCR Portfolio Credit Requirement + TCR Bid ENS + TCR Offer ENS

Where,  
TCR Portfolio Credit Requirement is calculated pursuant to section 5A.3.

TCR Bid ENS is the sum of the credit approved TCR Bid ENS for an auction that has not yet occurred as calculated pursuant to section 5A.4.2.

TCR Offer ENS is the sum of the credit approved TCR Offer ENS for an auction that has not yet occurred as calculated pursuant to section 5A.5.2.

If a Credit Customer's Financial Security is less than the Total TCR Credit Requirement, then the Credit Customer shall be required to provide additional Financial Security within two (2) Business Days from receipt of notice of such violation. Failure to provide such Financial Security is a Default under this Credit Policy.

**5A.9 Transfer of TCRs.** If a Credit Customer proposes to sell or acquire TCRs through a bilateral transfer with another Market Participant, SPP will evaluate the effect of the proposed transfer on the Total TCR Credit Requirement and determine if the Credit Customer has sufficient Financial Security for the transfer to occur. SPP approval of such transfers, based on whether both the buyer and seller have provided sufficient Financial Security to support the transfer, is required prior to such transfers. SPP, in its sole discretion, may, approve transfers if a Credit Customer does not have sufficient Financial Security to support the transfer, but the transfer would result in a lower Total TCR Credit Requirement for that Credit Customer. The bilateral TCR transfer price is not included in SPP's evaluation of a bilateral transfer of TCRs. After an approved bilateral transfer of TCRs is completed, the Credit Customer's TCR Hold ENS and Total TCR Credit Requirement will be updated.



**5A.10 Return of TCR Financial Security.** A Credit Customer may request that SPP return any Financial Security no longer required to hold TCRs or participate in TCR Auctions if it is not needed to support other market services. SPP may limit the frequency of such requested Financial Security returns, provided that Financial Security returns will be made by SPP at least once per month, if requested by a Credit Customer.



**Southwest Power Pool, Inc.**  
**CREDIT PRACTICES WORKING GROUP**  
**Recommendation to the Finance Committee**  
**September 28, 2011**

**Minimum Capitalization Requirements**

**Organizational Roster**

The following individuals are members of the Credit Practices Working Group:

Terri Wendlandt — Chair	Westar
Jayne Clarke — Vice Chair	Sunflower
Morgan Davies	Calpine
Gina Wildon	ITC Holdings
Jennifer Maina	Cargill
Phil McCraw	Southwest Power Pool

**Background**

On September 14, 2011 the Credit Practices Working Group reviewed and approved minimum capitalization requirements to comply with FERC Order 741.

**Conclusion**

The CPWG agreed upon the attached revisions to the SPP Credit Policy. The recommendation was unanimously approved.

**Recommendation**

Approve recommendations as submitted.

**Approved:**                      Credit Practices Working Group                      September 14, 2011

**Action Requested:**      Approve Recommendation



## Tariff Revision Request (TRR)

<b>TRR Number</b>	052	<b>TRR Title</b>	Guarantors to Meet Minimum Capitalization Requirement
<b>Cross Reference #</b>	PRR	BRR	Other ( <i>Specify</i> ) _ _____
<b>Sponsor</b>			
<b>Name</b>	CPWG Chair--Terri Wendlandt		
<b>E-mail Address</b>	Terri.Wendlandt@westarenergy.com		
<b>Company</b>	Westar		
<b>Phone Number</b>	785-575-1648		
<b>Date</b>	9/7/11		
<b>Tariff Section(s) Requiring Revision</b>	Section No. <b>Attachment X, Section 3.1.1.8 (Language currently pending before FERC in Docket No. ER11-3967)</b> Title Guarantors To Meet Minimum Capitalization Requirement Tariff Version (effective date)		
<b>Requested Resolution</b>	<input checked="" type="checkbox"/> Normal <input type="checkbox"/> Urgent (provided justification below for urgent request)		
<b>Revision Description</b>	This change will allow guarantors who are approved per Article 6 of Attachment X to also meet the minimum participation capitalization requirement in Section 3.1.1.8.		
<b>Reason for Revision</b>	Current language does not allow a Market Participant utilizing a guaranty to receive an unsecured credit allowance to also utilize the guarantor's balance sheet to meet the minimum participation capitalization requirement in this section. The CPWG believes this is a significant oversight.		
<b>Stakeholder Approval Required (specify date and record outcome of vote; n/a for those stakeholders not required)</b>	MWG (n/a) BPWG (n/a) TWG (n/a) ORWG (n/a) Other (specify) (n/a) RTWG MOPC Board of Directors		
<b>Legal Review Completed</b>	<input checked="" type="checkbox"/> Yes ( <i>Include any comments resulting from the review</i> )  <input type="checkbox"/> No		

## Tariff Revision Request (TRR)

<b>Market Protocol Implications or Changes</b>	<input type="checkbox"/> Yes ( <i>Include a summary of impact and/or specific changes &amp; PRR #</i> )  <input checked="" type="checkbox"/> No
<b>Business Practice Implications or Changes</b>	<input type="checkbox"/> Yes ( <i>Include a summary of impact and/or specific changes &amp; BPR #</i> )  <input checked="" type="checkbox"/> No
<b>Criteria Implications or Changes</b>	<input type="checkbox"/> Yes ( <i>Include a summary of impact and/or specific changes</i> )  <input checked="" type="checkbox"/> No
<b>Other Corporate Documents Implications (i.e., SPP By-Laws, Membership Agreement, etc.)</b>	<input type="checkbox"/> Yes ( <i>Include which corporate documents</i> ) <input checked="" type="checkbox"/> No
<b>Credit Implications</b>	<input checked="" type="checkbox"/> Yes ( <i>Include a summary of impact and/or specific changes</i> )  Not significant. Review of balance sheet of guarantor to make sure compliant with section.  <input type="checkbox"/> No
<b>Impact Analysis Required</b>	<input type="checkbox"/> Yes  <input checked="" type="checkbox"/> No

## Tariff Revision Request (TRR)

### Proposed Tariff Language Revisions (Redlined)

- 3.1.1.8** *Minimum Criteria for Market Participation.* Each Market Participant shall, at a minimum, possess:
- a. *A Tangible Net Worth of One Million Dollars (\$1,000,000) as shown in the most recent fiscal year end audited financial statements as described in Section 3.1.1.1; or*
  - b. *Ten Million Dollars (\$10,000,000) in assets as shown in the most recent fiscal year end audited financial statement as described in Section 3.1.1.1; or*
  - c. *A Credit Rating of, or equivalent to, BBB-; or*
  - d. *In the event a Market Participant cannot meet at least one of the alternatives specified in (a) through (c) above, the Market Participant shall, at a minimum, deposit with SPP Two Hundred Thousand Dollars (\$200,000) in Financial Security to be segregated and unavailable to secure any market or transmission activity. Pursuant to election of this alternative, if the anticipated activity at time of application or actual market activity as determined in Article Five, of the Market Participant exceeds One Hundred Thousand Dollars (\$100,000) in Market Exposure, the Market Participant shall provide SPP twice the amount of Financial Security that would otherwise be required of the Market Participant pursuant to Section 4.4.*

*An applying Market Participant who submits an unlimited Guaranty approved by SPP as described in Article Six of this Attachment also may use the audited financials or Credit Rating of the Guarantor to meet the criteria in (a), (b), or (c) above.*

*If the applying Market Participant is unable to meet the minimum criteria for market participation, the applying Market Participant shall be declined participation in all SPP markets.*

*Failure at any time of a Market Participant to continue to satisfy these minimum criteria for market participation shall be deemed a Material Adverse Change pursuant to Section 3.2.7.*



# Tracking SPP Business Process Improvements

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**YTD 2011**  
**Embedded in 2012-2014 Budget**

September 14, 2011

Business Process Improvement



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**Executive Summary****SPP Business Process Improvement Initiatives  
Embedded in SPP's Zero Based Budget**

<b><u>Staffing Process Improvement Strategies</u></b>	<b><u>2011</u></b>	<b><u>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>
In-house Legal Support for Tariff Service Agreement Filings	\$ 367,226	\$ 517,084	\$ 604,670	\$ 697,577
FERC Section 205 Tariff Filing Process Change	\$ 24,750	\$ 99,000	\$ 99,000	\$ 99,000
Settlements Process Improvements	\$ 83,649	\$ 232,989	\$ 359,968	\$ 395,485
Compliance Process Improvement and Organizational Alignment	\$ 16,622	\$ 277,234	\$ 285,551	\$ 294,118
SPPNet Monitoring -- In-house	\$ 139,400	\$ 139,400	\$ 139,400	\$ 139,400
Operations Automation-Tariff Admin & Interchange Desks		\$ 142,635	\$ 986,908	\$1,016,515
<b>Cost Avoidance (Staffing Related)</b>	<b>\$ 631,647</b>	<b>\$ 1,408,342</b>	<b>\$2,475,497</b>	<b>\$2,642,095</b>
<b><u>Cost Avoidance Processes/Strategies</u></b>				
Server Virtualization Program	\$2,238,304	\$3,981,344	\$3,891,512	\$3,609,512
Oracle Database Licensing (Virtualization)	\$ 115,000	\$ 873,000	\$ 113,000	\$ 113,000
Microsoft Software Licensing Rationalization			\$ 38,411	\$ 38,411
Purchasing Bidding and Negotiations Processes	\$ 519,071	\$ 128,646	\$ 128,646	\$ 128,646
Desktop/Laptop Refresh Cost Reduction		\$ 56,604	\$ 56,604	\$ 56,604
<b>Cost Avoidance - Process/Strategy Related</b>	<b>\$2,872,375</b>	<b>\$ 5,039,594</b>	<b>\$ 4,228,173</b>	<b>\$ 3,946,173</b>
<b>Grand Total SPP Process Improvement Savings</b>	<b>\$3,504,022</b>	<b>\$ 6,447,936</b>	<b>\$ 6,703,670</b>	<b>\$ 6,588,268</b>



## In-House Legal Support for Tariff Service Agreements

### Premise:

As part of the process of administering SPP's Tariff, all members place their transmission facilities under the SPP Tariff. SPP must develop and file a Tariff Service Agreement for each member with FERC. Historically, this legal work was done by Wright & Talisman (outside Legal Counsel). As the SPP Legal function has matured at SPP, a cost reduction strategy has been developed to do more of the TSA legal work "in-house" and avoid the high outside legal counsel hourly rates. This work level is projected to remain at or above the baseline volumes from 4Q2009. Over time, the strategy is to bring the basic Filing and Issues work in-house (50+ % in 2011 to up to 92% by 2014). In addition, the Contested category will be in-sourced and will start with 10% of the work in 2012 growing to 50% in 2014. W&T will continue to be used for peak loading and for issues where local knowledge/presence is required.

### Benefits Tracking

SPP will track the total costs paid to W&T for TSA legal work (Filings, Issues and Contested) and compare it to the baseline costs shown below (4Q2009 hours billed). The difference between the actual total bill and the projected "Baseline Bill" less the SPP internal staff costs will be the net "in-sourcing" cost avoidance savings.

### SPP In-House Costs

		2011		2012		2013		2014	
<b>Base Salary (MP)</b>				<b>1.025</b>		<b>1.03</b>		<b>1.03</b>	
Attorney	Grade 12	\$	118,650	\$	121,616	\$	125,265	\$	129,023
Paralegal	Grade 7	\$	67,350	\$	69,034	\$	71,105	\$	73,238
<b>Salary and Benefits</b>									
Attorney	Grade 12	\$	160,178	\$	164,182	\$	169,107	\$	174,181
Paralegal	Grade 7	\$	90,923	\$	93,196	\$	95,991	\$	98,871
<b>Effective Cost/Hour</b>									
Attorney	Grade 12	\$	100	\$	103	\$	106	\$	109
Paralegal	Grade 7	\$	57	\$	58	\$	60	\$	62

**Baseline External Legal Cost for W&T****Wright and Talisman Legal Billings for Transmission Service Agreements**

	<b>Filings</b>	<b>Issues</b>	<b>Contested</b>	<b>Total</b>
<b>4Q09 Baseline</b>	\$ 162,584	\$ 20,433	\$ 54,940	\$ 237,957
		1.025	1.03	1.03
Billing Rate (Paralegal & Attny) *	\$ 324	\$ 332	\$ 342	\$ 352
* Blended Billing Rate = \$324/hr				
Attorney Hourly Rate	\$ 360	\$ 369	\$ 380	\$ 391

**4Q09 Baseline**

Hours in 4Q09	502	62	161	675
Hours/month	167	21	54	225
<b>Hours/year</b>	<b>2007</b>	<b>246</b>	<b>642</b>	<b>2702</b>

**Annualized Baseline External Legal Spend with W&T for TSA Work**

Filings and Issues	\$ 732,068
Contested	\$ 219,760
<b>Total</b>	<b>\$ 951,828</b>

**Plan for Migrating TSA Legal Work "In-house" away from W&T by year**

	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>Filings &amp; Issues Hours (F&amp;I)</b>	2253	2253	2253	2253
% in-house	65%	85%	90%	95%
In-sourcing Hours	1,465	1,915	2,028	2,141
In-sourcing TSA Rate	\$ 73.27	\$ 71.56	\$ 71.42	\$ 71.21
<b>SPP F&amp;I In-sourced cost</b>	\$ 107,322	\$ 137,055	\$ 144,837	\$ 152,432
<b>Contested Hours</b>	678	678	678	678
% in-house	0%	10%	30%	50%
In-sourcing Hours	0	68	203	339
In-sourcing Contested Rate	\$ 100.11	\$ 102.61	\$ 105.69	\$ 108.86
<b>SPP In-sourced cost (Contested)</b>	\$ -	\$ 6,957	\$ 21,498	\$ 36,905
<b>SPP Total Planned In-Sourced Cost</b>	<b>\$ 107,322</b>	<b>\$ 144,012</b>	<b>\$ 166,334</b>	<b>\$ 189,336</b>
In-sourced Hours	<b>1,465</b>	<b>1,983</b>	<b>2,231</b>	<b>2,480</b>
% Insourced	54%	73%	83%	92%

W&T Blended Rate/hr (F&I)	\$ 324	\$ 332	\$ 342	\$ 352
W&T Atty Rate/hr (Contested)	\$ 360	\$ 369	\$ 380	\$ 391
<b>W&amp;T Pro-forma Cost for Hours In-sourced to SPP</b>	<b>\$ 474,548</b>	<b>\$ 661,096</b>	<b>\$ 771,005</b>	<b>\$ 886,914</b>
<b>SPP Net Savings</b>	<b>\$ 367,226</b>	<b>\$ 517,084</b>	<b>\$ 604,670</b>	<b>\$ 697,577</b>

## FERC Section 205 Tariff Filing Process Change

SPP will be making a filing at FERC in the next couple of months for FERC’s approval of the process change. If FERC accepts this change SPP will save approximately \$99,000 per year on legal fees paid to Wright & Talisman. The amounts are associated with Wright & Talisman's account # 01125 "TO Formula Rate Updates". This is the annualized rate for these expenditure (which will become unnecessary) from 11/2009 to 6/2011.

- SPP is required to update its Tariff for changes in each Transmission Owner’s (“TO”) annual transmission revenue requirement ("ATTR") and the associated rates. SPP currently makes a Section 205 filing with FERC to update a TO's ATTR in the SPP Tariff and change any affected rates. Preparation of the filing letter is currently done by Wright & Talisman and SPP staff prepares the work papers and tariff pages and makes the filing
- This change would allow SPP to automatically update its Tariff revenues and rates to match the FERC approved ATTR of each Transmission Owner or transmission owning entity.
- For TOs with formula rates:
  1. No Section 205 filings required if TO has formula rate protocols
  2. No potential delays implementing results of annual updates
  3. Changes in SPP rates take effect the same time as changes to ATRR
- For TOs with stated rates:
  1. SPP would still be required to file a companion filing whenever the TO filed an rate case
  2. SPP would be required to file a Section 205 filing to modify its Tariff if a TO when from a stated rate to a formula rate.
  3. All details of the ATRR calculation will be posted on OASIS and the SPP web site

### Savings:

Based on historical records, SPP has paid Wright and Talisman \$99,000 each year to support this process. The process change will eliminate the need to make Section 205 filings if the TO has rate formula protocols. It is expected that FERC will approve this process effective October 1, 2011.

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
<b>Savings</b>	\$ 24,750	\$ 99,000	\$ 99,000	\$ 99,000

## Settlements Process Improvements

### Background:

For the last year, Settlements has implemented a job rotation process for the Transmission and EIS Market Analysts. This job rotation, in conjunction with a proactive group Process Improvement focus has led to a number of process improvements for the traditional Settlement Analyst positions. This combined with some automation, has permitted the baseline work to be done with fewer FTE, starting in 2011 and projected through 2013. As resources are partially or fully freed up from the current Settlement Analyst positions, they are being redeployed to begin supporting the design, development, training and member readiness support required for the Integrated Marketplace program.

The implementation of new settlement systems for EIS and Transmission in 2009 and 2010 provided the opportunity to pursue greater automation of validation efforts. As an example, the network service billing tasks for the previous Transmission system typically required (2) staff dedicated to the effort 7-10 days of the month. Automation of validation tools using the structure of the new system reduced this responsibility to one hour of one staff for the month. The cross training and job rotation practice also provided the opportunity for one or more staff to assist with other responsibilities on occasions when another staff became overloaded at a particular time. Previously, without the benefit of cross training, these staff would not have possessed the knowledge to assist during peak times of fellow staff and may have been idle for a period of time waiting on that staff to complete the dependent assignment. The job rotation has also provided an atmosphere of collaborative expertise and teamwork to resolve problems more quickly and develop more efficient improvements for existing processes.

### Position Elimination Savings:

		<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
<b>Base Salary (MP)</b>			1.025	1.03	1.03
Settlement Analyst Gr 7	\$	7,350	\$ 69,034	\$ 71,105	\$ 73,238
<b>Salary and Benefits</b>					
Settlement Analyst Gr 7	\$	90,923	\$ 93,196	\$ 95,991	\$ 98,871
<b>FTE Reductions</b>		<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Transmission Analyst		0.5	1.0	1.0	1.0
EIS Analyst		0.42	1.0	1.0	1.0
EIS Analyst			0.5	1.0	1.0
Transmission Analyst				0.75	1.0
<b>Total FTE Savings</b>		<b>0.92</b>	<b>2.50</b>	<b>3.75</b>	<b>4.00</b>
<b>Reduction Dates</b>		<b>July, 2011</b>	<b>July, 2012</b>	<b>Apr. 2013</b>	
		<b>Aug, 2011</b>			

**Settlements Analyst Salary and Benefits Cost Avoidance Summary**

Transmission Analyst	\$ 45,461	\$ 93,196	\$ 95,991	\$ 98,871
EIS Analyst	\$ 38,187	\$ 93,196	\$ 95,991	\$ 98,871
EIS Analyst		\$ 46,598	\$ 95,991	\$ 98,871
Transmission Analyst			\$ 71,994	\$ 98,871
Total Cost Avoidance	<b>\$ 83,649</b>	<b>\$ 232,989</b>	<b>\$ 359,968</b>	<b>\$ 395,485</b>

## Compliance Process Improvement and Organizational Alignment

Compliance will be eliminating a total of three FTE compared to the baseline of last year's 2012-2013 Budget (this includes one current staff position and the elimination of two additional positions approved for 2012 in last year's budget) based on several internal improvements. These staff reductions (cost avoidance) are a result of internal efficiencies gained by personnel realignment, improved staff accountability, targeted functional areas and associated tasks, and increased process development. The actions taken are further described below:

- **Personnel realignment:** One of the glaring issues noted when moving to the Compliance Department was the lack of declared staff roles, leading to confusion and duplication of effort. By creating specific job roles and assigning personnel to each of these roles, more direction was provided to staff.
- **Staff accountability:** As a by-product of the personnel realignment, an increase in staff accountability was gained. By identifying personnel responsible for specific tasks, and by developing measures for task completion, an increase in accountability was achieved, resulting in improved staff output and efficiency.
- **Target functional areas:** Another significant change involved the development of a Subject-Matter Expert Matrix that was used to identify department experts at both the functional and topical levels. This further enhanced accountability, provided staff depth by defining primary and alternate SMEs, promoted cross-training, and created an increased atmosphere of inter-dependence and teamwork. This has resulted in a significant increase in productivity across the department.
- **Process Development:** Another key improvement was the development of formalized process documents for each of the primary tasks within the department. The targeted functional areas identified responsible personnel, linked them to specific tasks, and supported this process creation effort. Functional SMEs were tasked with capturing specific activities through approved process development templates, and topical SMEs were responsible for linking processes within each topical grouping. Department staff were then responsible for reviewing each process, providing feedback to the process owner, and helping to finalize the entire set of documents.

These four improvements have resulted in a better use of existing employees through improved structure and staff organization. We have a better idea of our current needs, our capability to fulfill those needs, and our outlook for the next few years. Based on this outlook, the two additional staff were deemed unnecessary and potentially counter-productive.

Total Compliance Department headcount approved for 2012 in last year's 2011-2013 Budget totaled 15 FTE. The current budget being submitted for 2012 – 2014 has a total headcount of 12, a reduction of 3. The cost avoidance impact of these reductions are detailed below.

8/2/2011

**Compliance Positions Eliminated by Process Improvement Initiatives**

	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Projected Annual Increases		<b>1.025</b>	<b>1.03</b>	<b>1.03</b>
<b>Base Salary</b>				
Sr. Compliance Analyst (Gr 9)*	\$ 83,750	\$ 85,844	\$ 88,419	\$ 91,072
Compliance Analyst II (Gr 7)*	\$ 67,350	\$ 69,034	\$ 71,105	\$ 73,238
Compliance Analyst I (Gr 4)	\$ 49,250	\$ 50,481	\$ 51,996	\$ 53,556
<b>Salary and Benefits Costs</b>				
Sr. Compliance Analyst (Gr 9)*	\$ 113,063	\$ 115,889	\$ 119,366	\$ 122,947
Compliance Analyst II (Gr 7)*	\$ 90,923	\$ 93,196	\$ 95,991	\$ 98,871
Compliance Analyst I (Gr 4)	\$ 66,488	\$ 68,150	\$ 70,194	\$ 72,300
<b>Projected Savings</b>				
Compliance Analyst I (Gr 4)**	\$ 16,622	\$ 68,150	\$ 70,194	\$ 72,300
Sr. Compliance Analyst (Gr 9)*		\$ 115,889	\$ 119,366	\$ 122,947
Compliance Analyst II (Gr 7)*		\$ 93,196	\$ 95,991	\$ 98,871
<b>Total Projected Savings</b>	<b>\$ 16,622</b>	<b>\$ 277,234</b>	<b>\$ 285,551</b>	<b>\$ 294,118</b>

\* Positions approved for addition in 2012 from 2011 Budget -- now eliminated

\*\* Current position in Compliance to be moved to a new Facilities Coordinator

Position budgeted for new building support. Compliance position will not be re-filled.

The position move is planned for Oct. 1, 2011.



## **SPPNet Monitoring – In-house**

### **Background:**

SPPNet is the Communications Network that SPP uses for data exchange with SPP Members. The member network must be monitored for operation 24 hours a day, seven days a week. Any operational issues must be promptly identified and appropriate parties must be notified to address any operational issues. In addition, reports of network availability must be developed and issued.

Prior to 2010, SPP paid a third party (DALCO) to do this monitoring for SPP. In April of 2010, with the help of monitoring software, SPP brought this monitoring function in-house and combined the monitoring activities with other ongoing monitoring activities. The cost of the in-house monitoring software (investment) was \$17,000.

SPP paid DALCO \$139,400 per year to provide the SPPNet monitoring. The software investment was recovered in the first 6 weeks of operation. Since mid-2010, SPP has been avoiding the external monitoring costs of **\$139,400** per year and will not need to be part of the SPP Operating budget in the 2012, 2013 or 2014 budget years.

## Operations Automation – Tariff Administration & Interchange Desks

August 17, 2011

### Premise:

SPP has identified an opportunity to automate manual functions in the Tariff Administration and Interchange desk operations. The opportunities for productivity improvement through automation include the following:

- Enhance the interchange schedule validation process which will minimize the failures of transmission/market schedules that require manual intervention by operators.
- Automate the Transmission Service Administration processes will be automated.
- Automate the interchange schedule verification and error research, correction and documentation processes between Interchange Scheduling and Settlements (RTOSS and COS).
- Automate HVDC Tie processing – replaces the outdated and ineffective Excel spreadsheet with a more efficient system.

### Investment Required:

Most of the automation required will be changes to the OASIS system and will be performed by OATI. It is estimated that the external vendor costs and the fully burdened cost of SPP resources for this project are as follows:

Vendor Contract Costs	\$ 253,990
SPP Fully burdened man hour costs	<u>\$ 155,567</u>
Total	<b>\$ 409,557</b>

### Benefits of the Operations Automation Process:

The qualitative benefits of this automation are significant as we are automating manual, error-prone processes. This is a major improvement from an SSAE16 control and NERC compliance perspective. In addition, when the automated process is implemented, there will be fewer Operations staff (FTE) required to support these manual processes.

<b>Staff Required</b>	<b>Baseline Operations</b>	<b>Automated Processes</b>	<b>Savings</b>
Supervisors	2	1	1
Operators	12	6	6
Day Operator	1	1	0
Operations Analysts	<u>3</u>	<u>2</u>	<u>1</u>
Total	18	10	8

By using standard costing for these positions (midpoint of the average salary grade of the positions to be eliminated) and adding a benefits load and projected annual salary range increases, the following cost savings from this automation project can be estimated. The cost assumptions are: (1) Supervisor (Grade 12) has a standard midpoint salary of \$118,600. The (6) Operators are a blend of Operator II (Grade 8) and Operator III (Grade 10) – average salary per Operator in 2011 = \$82,613 for direct salary. The Operations Analyst/Support position (Grade 8) has an average midpoint salary of \$74,800.

### Timing

The assumption is that the Project Work will be able to be scheduled with OATI and internal SPP resources such that the automation can be implemented by July 1, 2012. This will allow half a year’s worth of cost avoidance in 2012 and the full benefit in 2013 and 2014 for Operators and the Operations Analyst. The savings of the Supervisor position is tied to the Ops restructuring around Shifts, not Desks and will occur in January, 2013.

**Operations Automation Project Cost Savings**

		2011	2012	2013	2014
<b>Positions Eliminated</b>	<b>FTE</b>				
Supervisor - midpoint salary	1	\$118,600	\$122,158	\$125,823	\$129,597
Salary and Benefits		\$160,110	\$164,913	\$169,861	\$174,957
Cost Per Operator-mp Range	6	\$82,613	\$85,091	\$87,644	\$90,273
(6) Operators - salary		\$495,678	\$510,548	\$525,865	\$541,641
Salary and Benefits for (6)		\$669,165	\$689,240	\$709,917	\$731,215
(1) Operation Analyst Support	1	\$74,800	\$77,044	\$79,355	\$81,736
Salary and Benefits		\$100,980	\$104,009	\$107,130	\$110,344
Total	8	\$930,255	\$958,163	\$986,908	\$1,016,515

**Implementation Date = July 1, 2012 for Operators and Ops Analysts and Jan. 1, 2013 for Supervisor**

Projected Cost Savings Included in Budget	\$396,625	\$968,908	\$1,016,515
Less Vendor Costs for Automation	<u>(\$253,990)</u>		
<b>Net Savings Realized</b>	<b>\$142,635</b>	<b>\$968,908</b>	<b>\$1,016,515</b>
<b>Headcount Reduction from 7-1-2012</b>	<b>7</b>	<b>8</b>	<b>8</b>

**Project Internal Rate of Return**

Based on the Vendor Costs and the cost of SPP resources to be allocated to support these three Operations Automation projects and the Supervisor reduction, the Internal Rate of Return (IRR) for the SPP investment is a return of 155% per year. In addition to being a very good investment, this project will free up experienced resources to support the very important Integrated Marketplace Program.

## Server Virtualization Program

### Background:

The technology now exists to create “virtual servers” instead of deploying a new physical server to support new software applications. Depending on the operating characteristics of the business application, typically from 10 – 25 virtual servers may be operated on a single server (ESX Host). SPP’s experience is that a single ESX Host can support an average of (15) virtual servers. SPP has adopted this strategy and when it is time to replace current servers or when deploying new servers, the applications are evaluated as candidates for virtualization. The total number of virtual servers deployed and forecasted to be deployed at SPP are as shown below:

Year	Servers Deployed	Cumulative Deployment	Comments
2008	60	60	
2009	140	200	
2010	200	400	
2011	120	520	98 deployed through mid-August
2012	200	720	Forecasted demand to support new operations center and initial Integrated Marketplace infrastructure
2013	90	810	Completion of Integrated Marketplace build out
2014	?	810	

### Cost Avoidance:

The Server Virtualization strategy helps SPP avoid several costs that would have incurred under the old physical server only business process. The categories of cost avoidance are highlighted below:

1) **Server Acquisition Cost** – When a server is virtualized, it can reside on an existing server assuming that the VMWare virtualization software has been deployed. Based on numbers from purchasing, the average server cost over the last few years has been approximately \$11,000. Since on average, SPP can get (15) virtual servers on a single ESX host, SPP avoids the cost of (14) servers for every (15) virtual servers deployed. The average ESX Host server costs approximately \$24,000. This effectively reduces the cost/virtual server to \$1,600 compared to the \$11,000 per physical server.

2) **Operating System Software** – When a physical server is deployed, it must have operating system software. The cost for Windows software is \$4,000 per year and the cost for Linux is \$1,267 per year. We have approximately a 50/50 mix of Windows and Linux applications so the average annual SPP cost per server for operating software is \$2,634. The ESX host must have a copy of both Windows and Linux and an allocated cost for the VMWare virtualization software. The total software cost per ESX host is \$7,482. The average operating system cost for each of the (15) virtual servers running on the ESX host is therefore \$499 per year.

3) **Server Replacement Costs** – SPP has moved to a 4 year server replacement schedule. So not only is there an initial cost avoided by deploying a virtual server instead of a physical server, the virtual server does not have to be replaced.

4) **Environmental, Energy, Floor Space and Maintenance** – There are savings associated with not having to allocate data center floor space and provide environmental controls, energy and maintenance for those servers that have not been acquired. At this time, we have not attempted to quantify these savings.

The analysis of SPP’s Baseline costs (no virtualization program) compared to the experienced and projected costs with the adoption and continued implementation of virtualization and the resulting avoided costs are shown below:

8/17/2011

**SPP Server Virtualization Program Savings Summary**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
<b>Virtual Servers Added</b>	60	140	200	120	200	90	?
					see notes		
<b><u>Modeled Baseline Physical Server Costs</u></b>							
Hardware	\$ 660,000	\$ 1,540,000	\$ 2,200,000	\$ 1,320,000	\$ 2,200,000	\$ 990,000	
Operating System Software	\$ 158,040	\$ 526,800	\$ 1,053,600	\$ 1,369,680	\$ 1,896,480	\$ 2,133,540	\$ 2,133,540
Hardware Replacement Costs					\$ 660,000	\$ 1,540,000	\$ 2,200,000
<b>Total Baseline Costs</b>	<b>\$ 818,040</b>	<b>\$ 2,066,800</b>	<b>\$ 3,253,600</b>	<b>\$ 2,689,680</b>	<b>\$ 4,756,480</b>	<b>\$ 4,663,540</b>	<b>\$ 4,333,540</b>
<b><u>Modeled Virtualization Costs</u></b>							
Hardware	\$ 96,000	\$ 224,000	\$ 320,000	\$ 192,000	\$ 320,000	\$ 144,000	?
Operating System Software	\$ 29,928	\$ 99,760	\$ 199,520	\$ 259,326	\$ 359,136	\$ 404,028	\$ 404,028
Replacement Costs					\$ 96,000	\$ 224,000	\$ 320,000
<b>Total Virtualized Costs</b>	<b>\$ 125,928</b>	<b>\$ 323,760</b>	<b>\$ 519,520</b>	<b>\$ 451,376</b>	<b>\$ 775,136</b>	<b>\$ 772,028</b>	<b>\$ 724,028</b>
<b>Modeled Virtualization Savings</b>	<b>\$ 692,112</b>	<b>\$ 1,743,040</b>	<b>\$ 2,734,080</b>	<b>\$ 2,238,304</b>	<b>\$ 3,981,344</b>	<b>\$ 3,891,512</b>	<b>\$ 3,609,512</b>

**Cost Assumptions**

Hardware Costs/server	\$ 24,000	Average ESX Host Server - to support multiple virtual servers
Hardware Costs/server	\$ 11,000	Average standard server cost
Avg Operating System Cost	\$ 2,634	Average annual Windows/Linux software cost (50/50 split) per physical server
Virtual System Software Cost	\$ 7,482	Virtual system cost - each server has Windows/Linux and VMWare

**Notes:**

Based on averages, each Physical Server Host will be able to support an average of (15) virtual servers

Demand for virtual servers to be added in 2012 and 2013 is driven by Integrated Marketplace estimates (not yet finalized)

### Oracle Database Licensing (Virtualization Savings)

**Background:**

When multiple Oracle Databases are deployed on virtual servers instead of on individual separate physical servers, Oracle Licensing and maintenance costs are reduced. The number of “virtual” Oracle databases deployed or planned to be deployed at SPP are as shown below:

Year	Oracle Databases Deployed	Cumulative Deployment	Comments
2011	3	3	
2012-2014	22	25	Forecasted Oracle Databases needed to support the Integrated Marketplace that can be virtualized

**Cost Avoidance:**

In 2011, SPP has deployed (3) Oracle databases on virtual servers. Due to Oracle pricing that is driven by machine licensing, SPP will avoid \$115,000 of initial Oracle licensing fees. In addition, the annual maintenance of these (3) virtual Oracle databases will be \$23,000 less than if the three were deployed on separate database servers.

Similar to the 2011 scenario above, the current plan is that (22) Oracle databases will be required to support the Integrated Marketplace that will be able to be deployed on virtual servers. The avoided cost (compared to the single server per database approach) in initial Oracle licensing fees will be \$850,000. The annual maintenance that will be avoided will total \$90,000.

8/17/2011

**Oracle Database Licensing and Maintenance Software Cost Savings**

Category	2011	2012	2013	2014
Oracle Database Software Licenses - Deployed in 2011	\$ 115,000			
Maintenance on DB Deployed in 2011		\$ 23,000	\$ 23,000	\$ 23,000
Oracle Database Software Licenses - Deployed for Integrated Marketplace		\$850,000		
Maintenance on IM Databases			\$ 90,000	\$ 90,000
<b>Grand Total Cost Avoidance</b>	<b>\$ 115,000</b>	<b>\$873,000</b>	<b>\$ 113,000</b>	<b>\$ 113,000</b>

## Microsoft Software Licensing Usage Rationalization

### Background:

In 2011, with the help of monitoring software, SPP has been able to review the level of usage of licensed software from Microsoft. The opportunity to reduce the total cost of Enterprise licenses is twofold:

- 1) Eliminate purchasing licenses for software that is either not being used or being used very infrequently.
- 2) Move users, where feasible, from “premium” version licenses to “standard” version licenses.

Examples of this rationalization are described as follows. Licenses for Microsoft Project Standard and Pro levels have been moved to a lower cost web accessible “user” license. The number of Visio Professional licenses has been reduced by 169 copies. Visual Studio development software Ultimate licenses (\$2,089/yr) have been replaced with lower cost “Premium” or “Pro” licenses (avg cost = \$798 each).

### Cost Savings:

The way the Microsoft license agreement works is that you monitor license usage each year and pay Microsoft the following year for that usage. Therefore, the Enterprise software license fees payable to Microsoft will be on the maximum usage during 2011 before the software rationalization was initiated. The lower licensing usage reflecting the software rationalization effort will go into effect in 2012 and will result in the 2013 payment to Microsoft being lower than the 2012 payment.

#### Base Enterprise SW paid in 2012 for 2011 usage

Enterprise Agreement Add On Options	QTY	L&SA Cost	SA Renewal Cost	2011
Exchange Svr Ent SA	6	\$ -	\$ 828.24	\$ 4,969.44
Exchange Svr Std SA	3	\$ -	\$ 144.72	\$ 434.16
Forefront TMG Std Proc SA (formerly ISA)	2	\$ -	\$ 267.96	\$ 535.92
Lync Svr Std SA	1	\$ -	\$ 144.72	\$ 144.72
Project Std SA	34	\$ -	\$ 127.20	\$ 4,324.80
Project Pro SA	78	\$ -	\$ 212.04	\$ 16,539.12
Project Svr SA	4	\$ -	\$ 1,007.16	\$ 4,028.64
Project Svr CAL User SA	55	\$ -	\$ 32.88	\$ 1,808.40
Sharepoint Svr SA	6	\$ -	\$ 1,007.16	\$ 6,042.96
SQL CAL User SA	610	\$ -	\$ 33.48	\$ 20,422.80
SQL Svr Ent SA	20	\$ -	\$ 1,756.56	\$ 35,131.20
SQL Svr Std SA	1	\$ -	\$ 183.48	\$ 183.48
Visio Pro SA	169	\$ -	\$ 108.84	\$ 18,393.96
Vstudio Pro w/MSDN SA	2	\$ -	\$ 382.08	\$ 764.16
Vstudio Premium w/MSDN SA (in lieu of Ultimate)	0	\$ -	\$ 957.48	\$ -
Vstudio Ultimate w/MSDN SA	17	\$ -	\$ 2,088.72	\$ 35,508.24
Windows Remote Desktop Svcs CAL Device SA	10	\$ -	\$ 17.28	\$ 172.80
<b>Add On Options Total</b>				<b>\$149,404.80</b>

The rationalized level of software licensing forecasted for 2012 (payable in 2013) is displayed in the table below:

<b>Proposed Enterprise SW (MS) paid in 2013 for 2012 usage</b>				
<b>Enterprise Agreement Add On Options</b>	<b>QTY</b>	<b>L&amp;SA Cost</b>	<b>SA Renewal Cost</b>	<b>2012</b>
Exchange Svr Ent SA	6		\$ 828.24	\$ 4,969.44
Exchange Svr Std SA	3		\$ 144.72	\$ 434.16
Forefront TMG Std Proc SA (formerly ISA)	2		\$ 267.96	\$ 535.92
Lync Svr Std SA	1		\$ 144.72	\$ 144.72
Project Std SA	0		\$ 127.20	\$ -
Project Pro SA	35		\$ 212.04	\$ 7,421.40
Project Svr SA	4		\$ 1,007.16	\$ 4,028.64
Project Svr CAL User SA	281		\$ 32.88	\$ 9,239.28
Sharepoint Svr SA	6		\$ 1,007.16	\$ 6,042.96
SQL CAL User SA	652		\$ 33.48	\$21,828.96
SQL Svr Ent SA	20		\$ 1,756.56	\$35,131.20
SQL Svr Std SA	1		\$ 183.48	\$ 183.48
Visio Pro SA	0		\$ 108.84	\$ -
Vstudio Pro w/MSDN SA	5		\$ 382.08	\$ 1,910.40
Vstudio Premium w/MSDN SA (in lieu of Ultimate)	13		\$ 957.48	\$12,447.24
Vstudio Ultimate w/MSDN SA	2		\$ 2,088.72	\$ 4,177.44
Vstudio TFS CAL User L/SA	8	\$184.84	\$ 79.20	\$ 1,478.72
Vstudio Team Explorer Everywhere L/SA	7	\$121.00	\$ 56.28	\$ 847.00
Windows Remote Desktop Svcs CAL Device SA	10		\$ 17.28	\$ 172.80
			<b>Add On Options Total</b>	\$110,993.76
			<b>Software Rationalization Value</b>	<b>\$ 38,411.04</b>

**Savings of \$38,411.04 to be realized in 2013 and 2014.**



## Purchasing Bidding and Negotiations Processes

### Background:

In 2010, SPP implemented more formalized purchasing processes that required obtaining competitive bids for all purchases greater than \$5,000. The competitive bidding process, by its very nature, has improved the cost effectiveness of asset acquisition. In addition to these inherent savings, purchasing will get involved in the bid selection and contract negotiation. This proactive involvement helps SPP avoid costs compared to a more passive procurement model.

### Source of Purchasing Savings:

So far, in 2011, Purchasing has been involved in directly negotiating four specific larger contracts and (21) RFQ's where cost savings have been realized.

**Progress Enterprise Software Bus** – This enterprise software was required as part of SPP's High Availability technology project. The initial competitive bid from Progress was for \$950,768 and 22% maintenance or \$209,169 per year. After the negotiations process, the final contract was for \$700,000 and 18% per year. The cost avoidance in the initial acquisition in 2011 totaled \$250,768. The annual maintenance cost avoidance embedded in the 2012-2014 budget is \$83,169 per year.

**Electronic File Transfer Software** – Competitive bids for EFT software was issued early in 2011. The original best bid came in at \$80,000. After negotiations, the final price was \$55,000 for a total cost avoidance of \$25,000.

**Tripp-lite Server Cabinets** -- SPP issued bids for (5) server cabinets. Purchasing negotiated a final deal with the vendor of choice which resulted in a total cost that was lower than the traditional sources by \$12,752.

**LMS Licenses – Cornerstone** – SPP has an existing contract with Cornerstone to provide the Learning Management System software used by SPP's training department. This software is available to SPP employees and to members accessing SPP training offerings. With the planned implementation of the Integrated Marketplace, license requirements are projected to grow by approximately 20%. SPP's purchasing department approached Cornerstone and negotiated a lower unit price for the commitment to a larger volume of licenses. This lower unit cost will lower the LMS licensing cost by \$45,477 in 2012, 2013 and 2014.

**RFQ Process** -- Finally, Purchasing tracks the competitive bids from the RFQ (formal Request for Quotation) process. As mentioned earlier, by formalizing this process, average bid prices from all bidders has declined compared to the pre-RFQ process. In addition, purchasing tracks the savings associated with selecting the final bidder compared to the highest cost bid. The (21) RFQ's have generated a total price reduction savings of \$44,290 in 2011.

**Tax Rebates** – Another source of savings that SPP has initiated with a more formal approach to purchasing and asset acquisition is the discovery of tax rebates available from the State of Arkansas. Arkansas rebates the sales tax associated with the purchase of hardware and software by Arkansas companies. Purchasing must file for these rebates on a quarterly basis. Through the 3<sup>rd</sup> quarter

filing, sales tax rebates have totaled \$103,092. SPP will be able to make an additional filing in October which will further increase the rebate savings total for the year.

A summary of the total costs avoided through the processes implemented by the SPP Purchasing Department are displayed below.

<b>Description:</b>	<b><u>2011</u></b>	<b><u>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>
<b>Progress Enterprise Software Bus</b>				
Initial Software Acquisition Savings	\$ 250,768			
Annual Maintenance Savings	\$ 83,169	\$ 83,169	\$ 83,169	\$ 83,169
Electronic File Transfer Software	\$ 25,000			
Tripp-lite Server Cabinets	\$ 12,752			
Cornerstone LMS Licenses		\$ 45,477	\$ 45,477	\$ 45,477
Arkansas Sales Tax Rebates for Hardware/Software Purchases	\$ 103,092			
Savings Associated with (21) RFQ's in 2011	\$ 44,290			
<b>Total</b>	<b>\$ 519,071</b>	<b>\$ 128,646</b>	<b>\$ 128,646</b>	<b>\$ 128,646</b>

## Desktop/Laptop Refresh Cycle Extension

### Improvement Process Description

Historically, SPP has replaced Desktop and Laptop PC's after (3) years as that is when the warranty's expire. In many cases, a large percentage of this equipment will operate without any trouble for a longer period of time than that. SPP has implemented a new process whereby the refresh cycle is extended to a standard of (4) years. If an individual machine has demonstrated reliability issues in the first three years, the "problem" machine will be replaced at the expiration of the warranty period. SPP currently has an inventory of 650 Desktops and Laptops when all employee machines and shared usage machines such as training, operations centers, development machines, etc. are counted. The average cost of a Desktop/Laptop is \$1,100. (It is estimated that less than 5% of machines will need to be replaced after (3) years.)

<b>Base Case -- (3) year replacement</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Machines to be replaced per year (650/3)	217	217	217
Replacement Cost/machine	\$1,100	\$1,100	\$1,100
Replacement Cost per Year	\$ 238,333	\$ 238,333	\$ 238,333

### New Process for Refreshment of PC's

Machines to be replaced per year (650*95%/4)	154	154	154
Problem machine replacement (650*5%/3)	11	11	11
Replacement Cost/machine	\$1,100	\$1,100	\$1,100
Replacement Cost per Year	\$ 181,729	\$181,729	\$ 181,729

<b>Projected Annual Savings</b>	<b>\$ 56,604</b>	<b>\$ 56,604</b>	<b>\$ 56,604</b>
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# Business Process Improvement Impact Embedded in 2012 – 2014 Budget

September 21, 2011



## Agenda

1. SPP Vision for Business Process Improvement (BPI)
2. Finance Committee Perceptions/Expectations
3. BPI Evolutionary Implementation Strategy
4. Report – BPI Embedded in 2012 – 2014 Budget
5. Summary/Open Items

## SPP's Vision for Business Process Improvement (BPI)

- A. SPP team members are empowered, equipped and incented to use proven BPI methodology to identify and implement improvements.
- B. Business Process Improvement principles are an integral and systematic part of SPP processes for:
  - 1) creating member value
  - 2) improving efficiency and effectiveness
  - 3) reducing costs
  - 4) minimizing risks
  - 5) improving quality and customer service levels
  - 6) eliminating marginally valuable services

**Multi-Year, Cultural Transformation**

## Finance Committee Perceptions/Expectations

- Perceptions
- Expectations
  - Would like to see BPI initiatives included in the 2012 – 2014 budget.
  - Expectations – Expect robust implementation of the BPI Vision.
  - Appear to be supportive of an Evolutionary implementation strategy.

## BPI Evolutionary Implementation Strategy

- Prioritize focus on SPP top two “Improvement Initiatives”
  - Integrated Marketplace (member value)
  - Campus Consolidation (cost reduction/productivity)
- Document and track BPI initiatives included in 2012-2014 Budget – quarterly reports to Finance Committee
- Evolutionary BPI Implementation
  - Select an SPP appropriate BPI methodology and training plans
  - Identify Pilot programs and teams, facilitate, evaluate, adjust
- Design long term BPI program – integrate with SPP Management objectives and processes
- Roll out broad BPI program as corporate priorities allow

## Report for Finance Committee

### Tracking SPP Business Process Improvements

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YTD 2011

Initiatives Embedded in 2012 – 2014 Zero Based Budget

## Documented BPI Impact

- (11) Initiatives Identified
  - Initiative description
  - Baseline performance/costing defined
  - Benefits quantified
  - Benefits tracking methodology outlined

## BPI Cost Avoidance Initiatives Embedded in Zero Based Budget

2011	2012	2013	2014
\$3,504,022	\$6,447,936	\$6,703,670	\$6,588,268

Note: "Avoided Costs" includes a combination of Operating and Capital Budget costs.

## Staffing Process Improvement Strategies

Staffing Process Improvement Initiatives	2013 Impact
In-house legal support for Tariff Service Agreement filings	\$ 604,670
Settlements Process Improvements	\$ 359,958
Compliance Process Impr. and Organizational Alignment	\$ 285,551
SPPNet Monitoring moved in-house	\$ 139,400
Operations Automation –Tariff Admin & Interchange Desks	\$ 986,908
<b>Total</b>	<b>\$ 2,376,497</b>

## Staffing Process Improvement Strategies

Cost Avoidance Process Improvement Initiatives	2013 Impact
FERC Section 205 Tariff Filing Process Change	\$ 99,000
Server Virtualization Program	\$ 3,891,512
Oracle Database Licensing Virtualization	\$ 113,000
Microsoft Software Licensing Rationalization	\$ 38,411
Purchasing Negotiations/Contracting Processes	\$ 128,646
Desktop/Laptop Refresh Cycle Cost Reduction	\$ 56,604
<b>Total</b>	<b>\$ 4,327,173</b>



## Summary/Open Items

- 1) Finance Committee leadership appears to be:
  - a) Happy with where we are
  - b) Supportive of BPI vision and evolutionary implementation
  - c) Will expect to see increased results over time
- 2) Collaborative discussions under way with Finance Committee on SPP's BPI program
  - a) Scope of ongoing measurement reporting (idea impact period)
  - b) When does an initiative cease to be an "improvement" and become part of "standard practice"?
  - c) How do we set BPI Objectives and Incentives that are appropriate?

## Memorandum

**To:** SPP Finance Committee  
**From:** Barbara Sugg  
**CC:** Tom Dunn  
**Date:** September 22, 2011  
**Re:** Corporate Campus Migration Project

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Thank you for your questions during the conference call on Tuesday, September 20, 2011. As a follow-up, this document recaps the specific areas that we discussed regarding the move to our new Corporate Campus.

We consulted with our architecture firm (WER) and confirmed that SPP's cost to furnish the new office space is well within the range of costs they are accustomed to seeing. In fact, SPP's choice of furnishings (cubicles, office furniture, conference tables, and chairs) results in a cost that is at the 55<sup>th</sup> percentile as compared to other similar projects previously designed by this firm. The desks that were chosen for the Coordination Center are the least expensive of all submitted bids, and are substantially less expensive than both ERCOT and CAISO, both of which recently constructed new Coordination Centers.

As we discussed, SPP has elected to not move existing office furniture to the new campus, with few exceptions for items such as file cabinets. A number of factors were considered in making this decision with the primary drivers including the following:

- Existing furniture has been fully depreciated, and in some cases, is as old as 20+ years
- Continuous business operations can be maintained with furniture being replaced as opposed to disassembling and moving
- Existing cubicles are of varying sizes, colors, materials, and manufacturers, which creates substantial challenges in laying out a floor plan that maximizes the usable floor space and achieves the lighting and air conditioning requirements

Please note that SPP staff will not be replacing employee computers during this move.

The budget summary presented during the meeting indicated a total of \$1,550,000 of consulting dollars related to employee relocation, decommissioning existing office and datacenter space, and disposal of SPP assets. This dollar amount includes the following:

- \$350K – consulting for furniture and office/cubicle design, selection, and planning
- \$100K – consulting contract with a subject matter expert in office moves
- \$200K – consulting for all other furnishings, not related to specific office furniture
- \$200K – actual moving services
- \$500K – services related to decommissioning existing office space (includes responsibilities such as removal of raised floors, cubicles, cabling, rooftop chillers, etc)
- \$200K – disposal of non-usable SPP assets (i.e. furniture, cubicles, etc)

As a result of direction provided by the Finance Committee, SPP will also reduce the contingency funds from \$1,321,000 to \$1,093,000. This results in a total requested budget of \$26.6M, which matches the amount submitted during the 2011 budget process.



**Southwest Power Pool, Inc.**  
**FINANCE COMMITTEE**  
**Recommendation to the Board of Directors**  
**October 25, 2011**

**2012 Budget**

**Organizational Roster**

The following persons are members of the Finance Committee:

Harry Skilton	Director
Larry Altenbaumer	Director
Gary Voigt	Arkansas Electric Cooperatives Corp.
Trudy Harper	Tenaska
Sandra Bennett	American Electric Power
Kelly Harrison	Westar Energy

**Background**

Section 6.5 of the SPP Bylaws identifies establishment of annual and long-term budgets as a primary duty of the Finance Committee.

**Analysis**

The Finance Committee met on September 28, 2011 to review SPP's proposed budget for 2012. SPP's management proposed a 2012 budget to include expenditures as follows:

	<u>\$000</u>
Operating Expense (incl. dep. & am.)	\$151,954
Debt Repayment	\$11,206
FERC Assessments	\$15,410
Capital Expenditures	\$82,034

The net result of the management proposed budget is a run-rate for expenditures of 25.3¢/MWh vs. 22.5¢/MWh forecast for 2011 and 25.1¢/MWh previously projected for 2012. SPP management utilized a "zero-based" budget approach to prepare the 2012 budget.

The most significant cost driver for 2012 is the continue ramp up of resources to design, build, test, and ultimately operate the services described in the Integrated Marketplace project. SPP has identified 26 additional staff resources required to satisfy the project efforts in 2012. These positions are primarily focused on Operations functions. Additionally, SPP expects increased costs in the areas of meeting facilitation, travel, maintenance, and consulting to support the Integrated Marketplace project efforts.

**Recommendation**

The Finance Committee recommends the SPP Board of Directors approve the 2011 SPP operating and capital budgets as submitted.

**Approved:** Finance Committee

**Action Requested:** Approve Recommendation



**Southwest Power Pool, Inc.**  
**FINANCE COMMITTEE**  
**Recommendation to the Board of Directors**  
**October 25, 2011**

**2012 Administrative and Assessment Fee Rate**

**Organizational Roster**

The following persons are members of the Finance Committee:

Harry Skilton	Director
Larry Altenbaumer	Director
Gary Voigt	Arkansas Electric Cooperatives Corp.
Trudy Harper	Tenaska
Sandra Bennett	American Electric Power
Kelly Harrison	Westar Energy

**Background**

Section 8.4 of the SPP Bylaws requires SPP to annually develop an assessment rate based on budgeted expenditures for the upcoming fiscal year and estimated billing determinants for that year.

**Analysis**

The 2012 SPP operating budget indicates a net revenue requirement ("NRR") for the year of \$89.6 million and estimated billing determinants of 353,453,000 MWh. The rate is determined by dividing the NRR by the estimated billing determinants which results in a rate of 25.3¢/MWh. NRR is derived by adjusting SPP's gross cash outflows (exclusive of capital expenditures) by all non administrative fee revenue forecast to be earned in the year. The billing determinants are calculated by adjusting the current year's run rate by the growth factor published in the most recent EIA-411 report.

SPP's cash forecast indicates a rate of 25.5¢/MWh is sufficient to fully fund SPP's operations during the 2012 year; and increase to 26.0¢/MWh in 2013 and 28.0¢/MWh in 2014. Funding requirements in 2012 and beyond are based on numerous assumptions, should real time experience differ meaningfully from these assumptions, SPP's ability to operate at our current forecasted administrative fee may be jeopardized.

**Recommendation**

The Finance Committee recommends the SPP Board of Directors establish an assessment rate and tariff administrative fee (schedule 1-A) of 25.5¢/MWh beginning on January 1, 2012.

**Approved:** Finance Committee

**Action Requested:** Approve Recommendation



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.

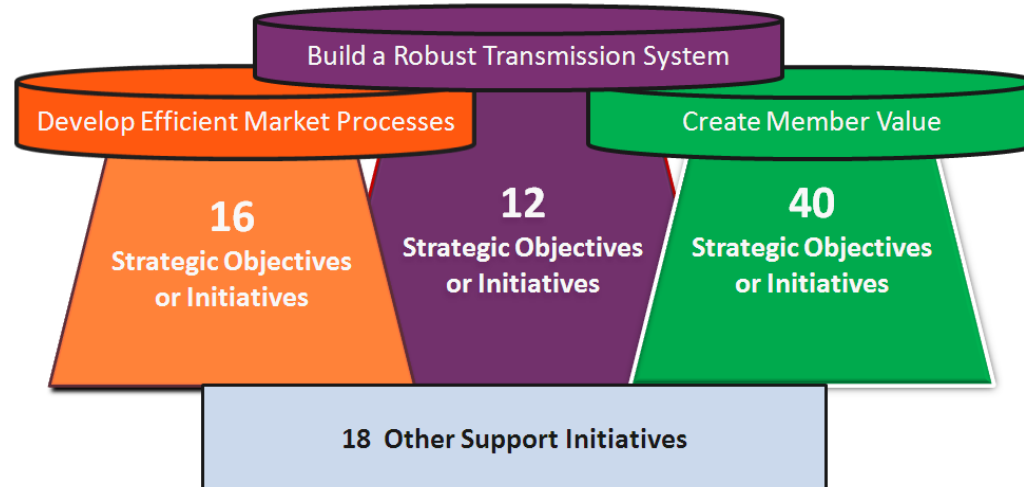
The capital budget includes projects totaling \$128 million for 2012-2014, with \$82 million expected to be incurred in 2012. Of the total capital projects through 2014, two projects dominate the capital outlays: Integrated Marketplace (\$106MM total project with \$74MM spend in 2012-2014), and construction 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	2011 Forecast	Change
Gross Revenue Requirement	\$145,843	\$136,007	\$9,835	\$133,055	\$12,788
Net Revenue Requirement	\$89,560	\$78,638	\$10,922	\$76,664	\$12,896
Billing Units in MWh	353,453	343,000	10,453	339,993	13,460
Calculated Admin Fee/MWh	\$0.253	\$0.229	\$0.024	\$0.225	\$0.028
Capital Expenditures	\$82,034	\$91,872	(\$9,838)	\$90,090	(\$8,056)
Year Ending Headcount	590	541	49	540	50

## 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>
<b>Operations Staffing Cost Reductions</b>				
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
<b>Total Operations Staffing Cost Reductions</b>	<b>\$100</b>	<b>\$653</b>	<b>\$1,632</b>	<b>\$1,706</b>
<b>Operations Non-Staffing Cost Reductions</b>				
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
<b>Total Operations Non-Staffing Cost Reductions</b>	<b>\$531</b>	<b>\$755</b>	<b>\$843</b>	<b>\$936</b>
<b>Capital Non-Staffing Cost Reductions</b>				
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
<b>Total Capital Non-Staffing Cost Reductions</b>	<b>\$2,872</b>	<b>\$5,040</b>	<b>\$4,228</b>	<b>\$3,946</b>
<b>Grand Total SPP Process Improvement Cost Reductions</b>	<b>\$3,504</b>	<b>\$6,448</b>	<b>\$6,704</b>	<b>\$6,588</b>

*\* 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

## 2012 Budget

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	2011 Forecast	2012 Prior Year Est**
Gross Revenue Requirement	\$145,843	\$136,007	\$133,055	\$147,076
Less: NERC Reimbursement	(11,411)	(10,145)	(7,154)	(10,287)
Schedule 12 Revenue (FERC Fee)	(15,120)	(14,119)	(16,639)	(14,825)
Contract Services Revenue	(23,758)	(28,031)	(27,076)	(29,674)
Other Revenues	(5,994)	(5,074)	(5,522)	(5,591)
Net Revenue Requirement	\$89,560	\$78,638	\$76,664	\$86,699
Divided by Estimated Billing Determinants/MWh*	353,453	343,000	339,993	345,039
Calculated Administrative Fee / MWh	\$0.253	\$0.229	\$0.225	\$0.251
Recommended Admin Fee / MWh	\$0.255	\$0.210	\$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			
<b>Income</b>								
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
<b>Total Income</b>	<b>146,414</b>	<b>129,399</b>	<b>127,781</b>	<b>17,014</b>		<b>18,632</b>		
<b>Expense</b>								
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
<b>Total Expense</b>	<b>151,954</b>	<b>138,654</b>	<b>135,969</b>	<b>(13,300)</b>	(10%)	<b>(15,984)</b>	(12%)	
<b>Net Income (Loss)</b>	<b>(\$5,540)</b>	<b>(\$9,255)</b>	<b>(\$8,188)</b>	<b>\$3,715</b>	(40%)	<b>\$2,648</b>	(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
<b>Income</b>					
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%	
<b>Total Income</b>	<b>146,414</b>	<b>148,363</b>	<b>(1,949)</b>	<b>(1%)</b>	
<b>Expense</b>					
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
<b>Total Expense</b>	<b>151,954</b>	<b>152,697</b>	<b>743</b>	<b>0%</b>	
<b>Net Income (Loss)</b>	<b>(\$5,540)</b>	<b>(\$4,334)</b>	<b>(\$1,206)</b>	<b>(28%)</b>	

### 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).



### 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
<b>Total</b>	<b>\$8,743</b>	<b>\$22,800</b>	<b>\$49,817</b>	<b>\$21,027</b>	<b>\$3,252</b>	<b>\$105,639</b>

\* 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



## 2012 Budget

### 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	
<b>PRPC Projects (in thousands)</b>						
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
<b>Future Markets Initiatives Total</b>	<b>\$9,965</b>	<b>\$25,798</b>	<b>\$50,717</b>	<b>\$21,027</b>	<b>\$3,252</b>	<b>\$110,760</b>
New Facilities Construction	\$10,287	\$39,530	\$12,116	-	-	\$61,933
Facility Migration	-	\$14,935	\$11,685	-	-	\$26,620
<b>New Facility Initiatives Total</b>	<b>\$10,287</b>	<b>\$54,464</b>	<b>\$23,801</b>	-	-	<b>\$88,553</b>
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
<b>Operations Initiatives Total</b>	-	<b>\$1,582</b>	<b>\$2,678</b>	<b>\$3,585</b>	<b>\$9,400</b>	<b>\$17,244</b>
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
<b>Engineering Initiatives Total</b>	-	<b>\$50</b>	<b>\$590</b>	<b>\$92</b>	-	<b>\$732</b>
e-Tariff Phase II	-	\$740	\$70	\$70	\$70	\$950
<b>Regulatory Initiatives Total</b>	-	<b>\$740</b>	<b>\$70</b>	<b>\$70</b>	<b>\$70</b>	<b>\$950</b>
SPP Budgeting & Forecasting System	-	-	\$40	-	-	\$40
<b>Administration Initiatives Total</b>	-	-	<b>\$40</b>	-	-	<b>\$40</b>
Request Management System	-	-	\$91	\$91	\$91	\$273
<b>Process Integrity Initiatives Total</b>	-	-	<b>\$91</b>	<b>\$91</b>	<b>\$91</b>	<b>\$273</b>
<b>Total PRPC Managed Projects</b>	<b>\$20,253</b>	<b>\$82,634</b>	<b>\$77,986</b>	<b>\$24,865</b>	<b>\$12,813</b>	<b>\$218,552</b>
<b>Non-PRPC Projects (in thousands)</b>						
MOS Enhancements Foundation	-	\$119	\$50	\$50	\$750	\$969
OATI Enhancements	-	\$262	\$75	\$50	\$150	\$537
<b>Operations Initiatives Total</b>	-	<b>\$381</b>	<b>\$125</b>	<b>\$100</b>	<b>\$900</b>	<b>\$1,506</b>
Stochastic Modeling Tool	-	-	\$170	-	-	\$170
<b>Engineering Initiatives Total</b>	-	-	<b>\$170</b>	-	-	<b>\$170</b>
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
<b>IT Initiatives Total</b>	-	<b>\$6,825</b>	<b>\$3,677</b>	<b>\$4,582</b>	<b>\$2,971</b>	<b>\$18,055</b>
ETS Foundation - Alstom (formerly AREVA)	-	\$250	\$75	\$75	\$75	\$475
<b>Administration Initiatives Total</b>	-	<b>\$250</b>	<b>\$75</b>	<b>\$75</b>	<b>\$75</b>	<b>\$475</b>
<b>Total Non-PRPC Managed Projects</b>	-	<b>\$7,456</b>	<b>\$4,047</b>	<b>\$4,757</b>	<b>\$3,946</b>	<b>\$20,206</b>
<b>TOTAL PROJECTS</b>	<b>\$20,253</b>	<b>\$90,090</b>	<b>\$82,034</b>	<b>\$29,623</b>	<b>\$16,759</b>	<b>\$238,758</b>

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

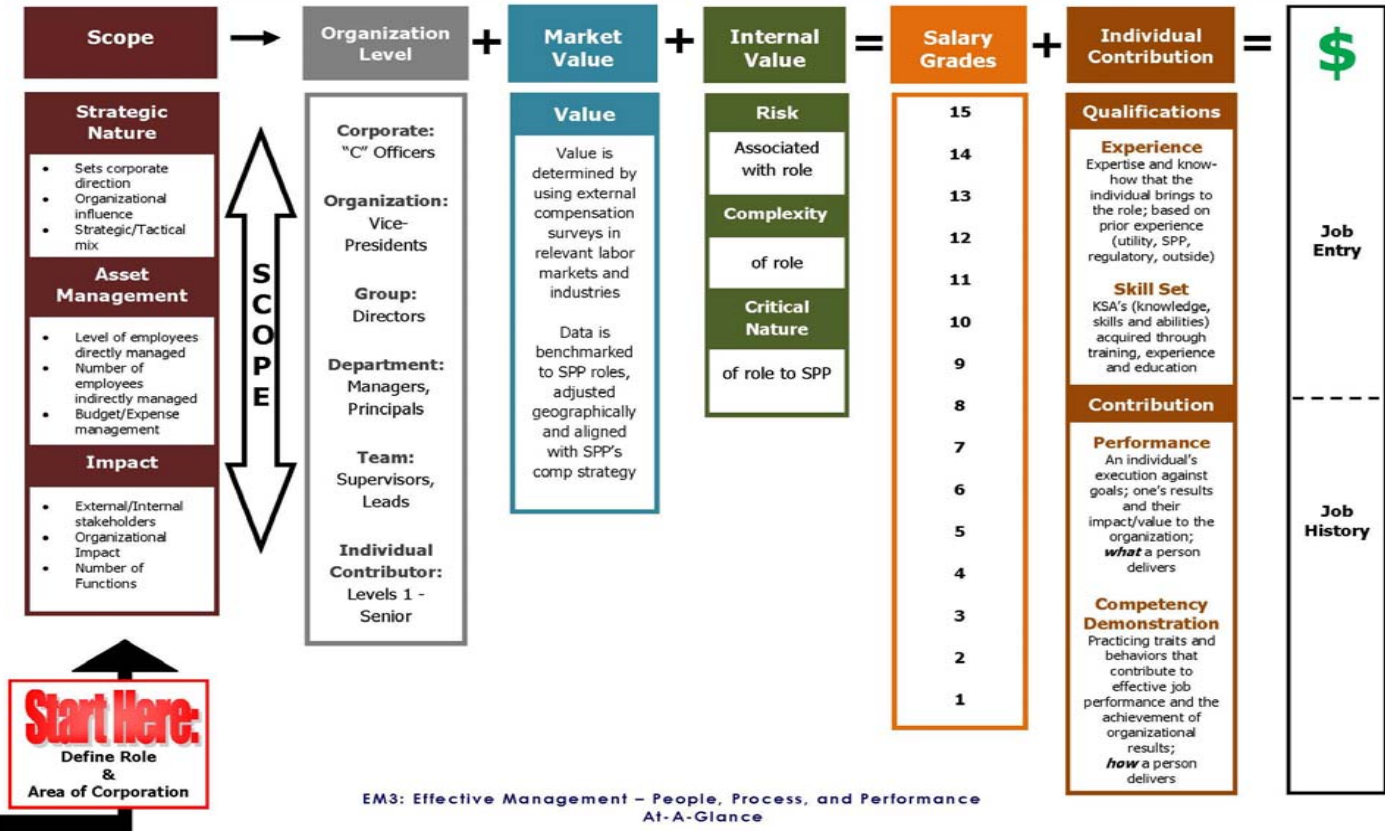
### Valuing Work at SPP:

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:

## Methodology for Valuing Work at SPP



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
<b>TOTAL</b>	<b>540</b>	<b>24</b>	<b>26</b>	<b>50</b>	<b>590</b>	<b>613</b>	<b>620</b>
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
<b>TOTAL</b>	<b>540</b>	<b>590</b>	<b>613</b>	<b>541</b>	<b>598</b>	<b>621</b>	<b>(1)</b>	<b>(8)</b>	<b>(8)</b>
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

	2013 Forecast	
	Expense	Staff
<u>2013 Salary</u>		
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

	2014 Forecast	
	Expense	Staff
<u>2014 Salary</u>		
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)						
<b>TOTAL REVENUE</b>							
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%
<b>Total Revenue</b>	<b>146,414</b>	<b>129,399</b>	<b>127,781</b>	<b>17,014</b>	<b>13%</b>	<b>18,632</b>	<b>15%</b>
<b>Billing Determinates</b>	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
<b>TOTAL SALARIES, BENEFITS, TAXES &amp; HEADCOUNT</b>					
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)							
<b>TOTAL TRAVEL &amp; MEETINGS</b>							
Employee Travel	3,002	1,896	1,787	(1,106)	-58%	(1,216)	-68%
Meetings	1,445	1,051	931	(394)	-37%	(515)	-55%
<b>Total Travel &amp; Meetings</b>	<b>4,447</b>	<b>2,947</b>	<b>2,718</b>	<b>(1,500)</b>	<b>-51%</b>	<b>(1,731)</b>	<b>-64%</b>

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%
<b>Total Administrative &amp; Leases</b>	<b>5,843</b>	<b>5,344</b>	<b>5,017</b>	<b>(499)</b>	<b>-9%</b>	<b>(825)</b>	<b>-16%</b>

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		
<b>TOTAL COMMUNICATIONS &amp; MAINTENANCE EXPENSE</b>							
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%
<b>Total Comm &amp; Maintenance</b>	<b>13,904</b>	<b>11,331</b>	<b>10,556</b>	<b>(2,573)</b>	<b>-23%</b>	<b>(3,348)</b>	<b>-32%</b>

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**

<b>Outside Services</b>	<b>18,700</b>	<b>17,500</b>	<b>14,374</b>	<b>(1,200)</b>	<b>-7%</b>	<b>(4,326)</b>	<b>-30%</b>
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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**

<b>Regional State Committee</b>	<b>394</b>	<b>266</b>	<b>181</b>	<b>(129)</b>	<b>-48%</b>	<b>(213)</b>	<b>-117%</b>
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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
<b>TOTAL DEPRECIATION &amp; AMORTIZATION</b>					
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>
<b>ASSETS</b>			
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>
<b>TOTAL ASSETS</b>		<u><u>240,730</u></u>	<u><u>273,698</u></u>
 <b>LIABILITIES &amp; EQUITY</b>			
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>
<b>TOTAL LIABILITIES &amp; EQUITY</b>		<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>
<b>Income</b>			
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
<b>Total Income</b>	<b>146,414</b>	<b>147,098</b>	<b>159,043</b>
<b>Expense</b>			
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
<b>Total Expense</b>	<b>151,954</b>	<b>164,603</b>	<b>170,744</b>
<b>Net Income (Loss)</b>	<b>(\$5,540)</b>	<b>(\$17,505)</b>	<b>(\$11,702)</b>
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

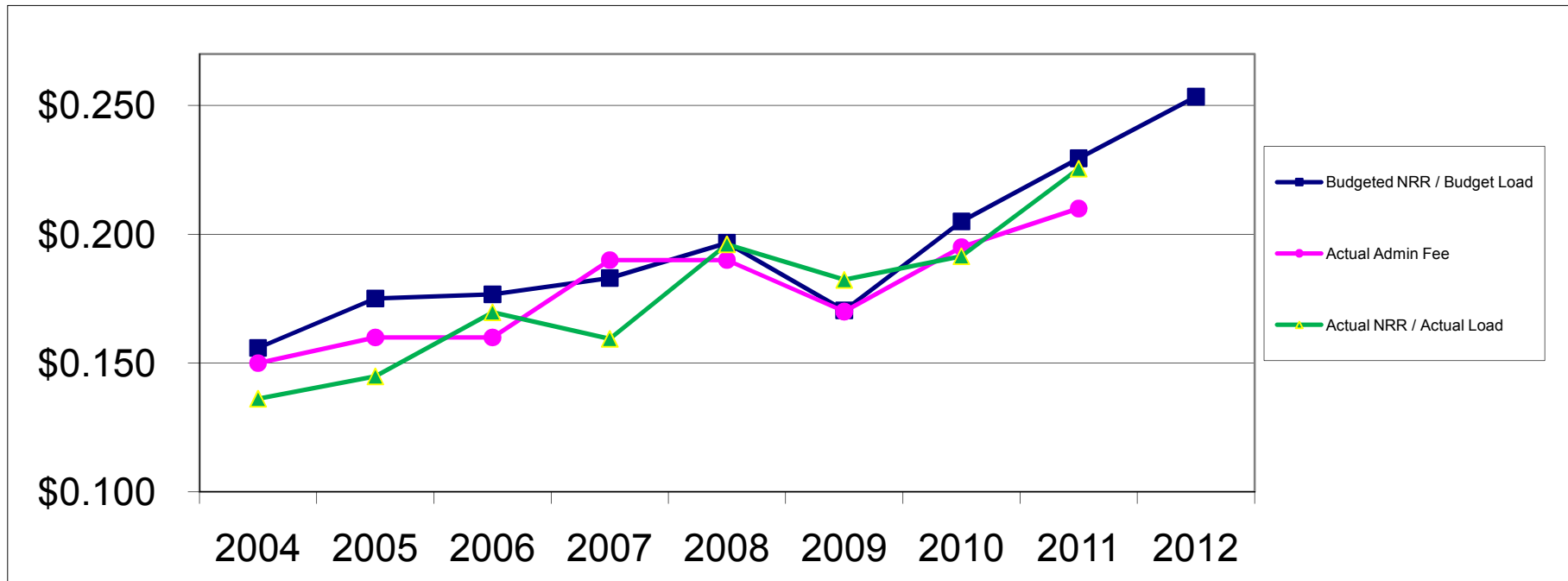


## SOUTHWEST POWER POOL THREE YEAR FORECASTED CASH FLOW

(\$000)	QTR 1 2012	QTR 2 2012	QTR 3 2012	QTR 4 2012	2013	2014
<b>OPERATING CASH (000)</b>						
Beginning Cash on Hand	\$4,376	(\$3,089)	(\$14)	\$2,987	\$6,294	\$5,079
<b>Income</b>						
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
<b>Operating Income</b>	<b>31,846</b>	<b>33,298</b>	<b>33,616</b>	<b>32,156</b>	<b>131,539</b>	<b>143,290</b>
<b>Expense</b>						
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
<b>Operating Expense</b>	<b>39,311</b>	<b>30,222</b>	<b>30,615</b>	<b>28,849</b>	<b>132,754</b>	<b>142,881</b>
<b>NET INCOME (LOSS)</b>	<b>(7,465)</b>	<b>3,075</b>	<b>3,001</b>	<b>3,307</b>	<b>(1,215)</b>	<b>409</b>
<b>Ending Cash on Hand</b>	<b>(\$3,089)</b>	<b>(\$14)</b>	<b>\$2,987</b>	<b>\$6,294</b>	<b>\$5,079</b>	<b>\$5,488</b>
Recommended Admin Fee MW/h	\$0.255	\$0.255	\$0.255	\$0.255	\$0.260	\$0.280
<b>CAPITAL CASH (000)</b>						
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
<b>Ending Cash on Hand</b>	<b>\$19,200</b>	<b>\$36,022</b>	<b>\$16,674</b>	<b>\$3,725</b>	<b>\$4,102</b>	<b>\$7,344</b>
<b>TOTAL CASH (000)</b>	<b>\$16,110</b>	<b>\$36,008</b>	<b>\$19,661</b>	<b>\$10,020</b>	<b>\$9,182</b>	<b>\$12,831</b>



## 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
<b>TOTAL TRAVEL</b>	<b>\$ 3,002</b>	<b>\$ 1,896</b>	<b>\$ 1,106</b>	



**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
<b>Integrated Marketplace incremental staff augmentation</b>	<b>4,654</b>	<b>1,803</b>	<b>2,851</b>
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
<b>Other incremental staff augmentation</b>	<b>1,576</b>	<b>285</b>	<b>1,291</b>
ITO Regulatory support (non-reimbursable) and outside legal	315	900	(586)
ICT Regulatory support (reimbursable)	1,125	2,460	(1,335)
<b>Decreased ITO / ICT reimbursable and legal expense</b>	<b>1,440</b>	<b>3,360</b>	<b>(1,920)</b>
Legal support - federal regulatory issues	4,502	5,954	(1,452)
Corporate legal services	836	96	741
<b>Decreased corporate legal consulting</b>	<b>5,338</b>	<b>6,050</b>	<b>(711)</b>
Regional Entity consulting for hearings and audits	1,765	1,340	425
<b>Regional Entity increase for hearings and audits</b>	<b>1,765</b>	<b>1,340</b>	<b>425</b>
Facility security and support	488	194	294
<b>Facility security and support</b>	<b>488</b>	<b>194</b>	<b>294</b>
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
<b>Total Other</b>	<b>3,440</b>	<b>4,467</b>	<b>(1,027)</b>
<b>TOTAL SPP OUTSIDE SERVICES</b>	<b>\$ 18,700</b>	<b>\$ 17,500</b>	<b>\$ 1,200</b>



## SOUTHWEST POWER POOL INTEREST ON LONG-TERM DEBT

	<i>Actual Interest Payments:</i>			<i>Current Budget:</i>	
	<b>2012 Budget</b>	<b>Effect on Admin Fee</b>	<b>Interest Capitalization*</b>	<b>2012 Budget</b>	<b>Effect on Admin Fee</b>
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)
<b>Total Interest</b>	<b>\$7,945</b>	<b>\$0.022</b>	<b>(\$4,229)</b>	<b>\$3,716</b>	<b>\$0.011</b>

*\* 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**

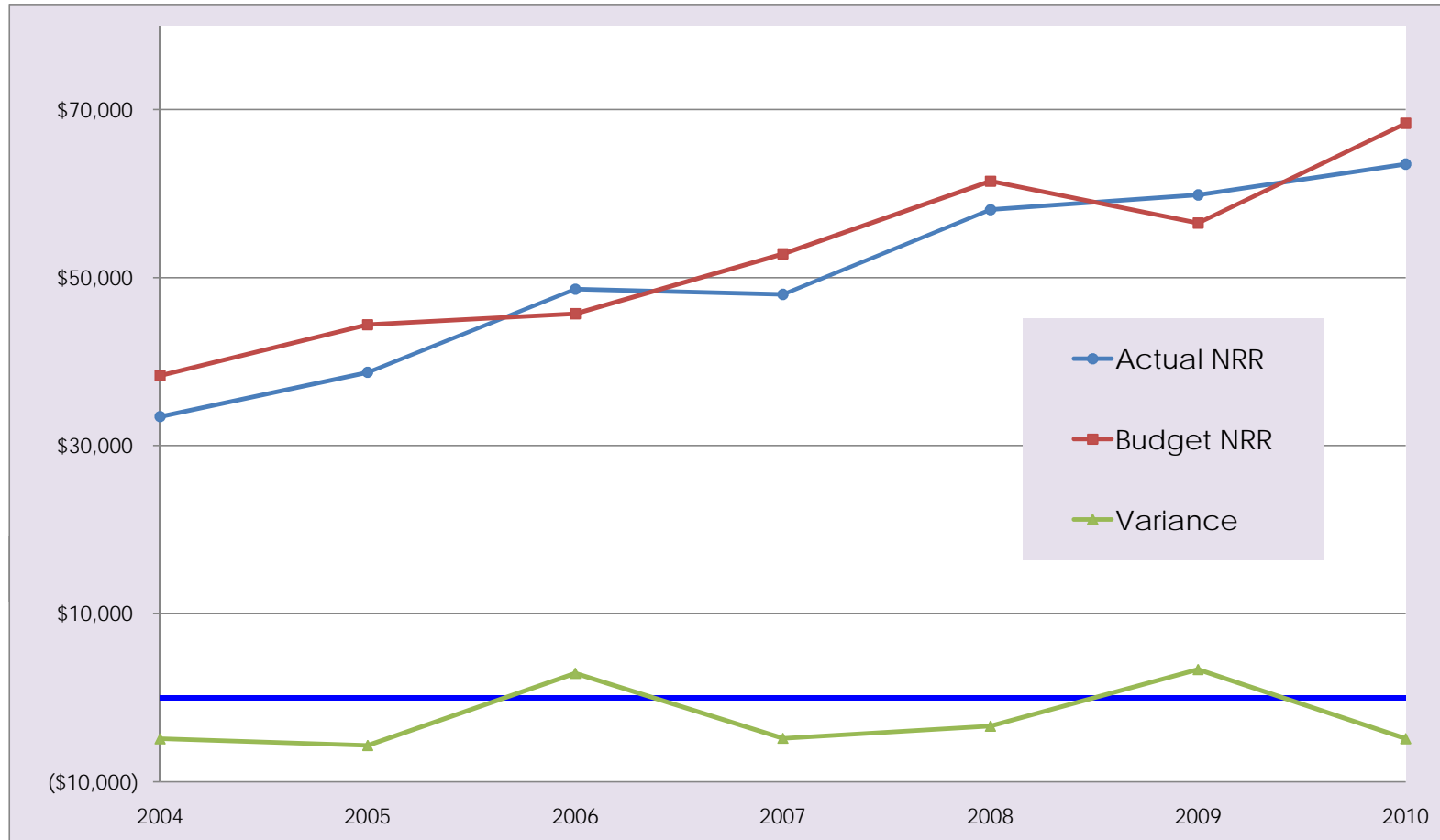


	<u>2011 Forecast</u>	<u>2011 Budget</u>	<u>Variance Fav/(Unfav)</u>	<u>Note</u>
SPP Regional Entity Revenue	\$8,451	\$9,797	(\$1,346)	Revenue for SPP RE is recognized as earned based on expense totals. In 2011, the RE expects to be favorable in comparison to their total expense budget.
FERC Fee Assessments (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.
<b>Fees &amp; Assessments Revenue</b>	<b>23,792</b>	<b>24,264</b>	<b>(472)</b>	
<b>Fees &amp; Assessments Expense</b>	<b>16,639</b>	<b>14,119</b>	<b>(2,520)</b>	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.





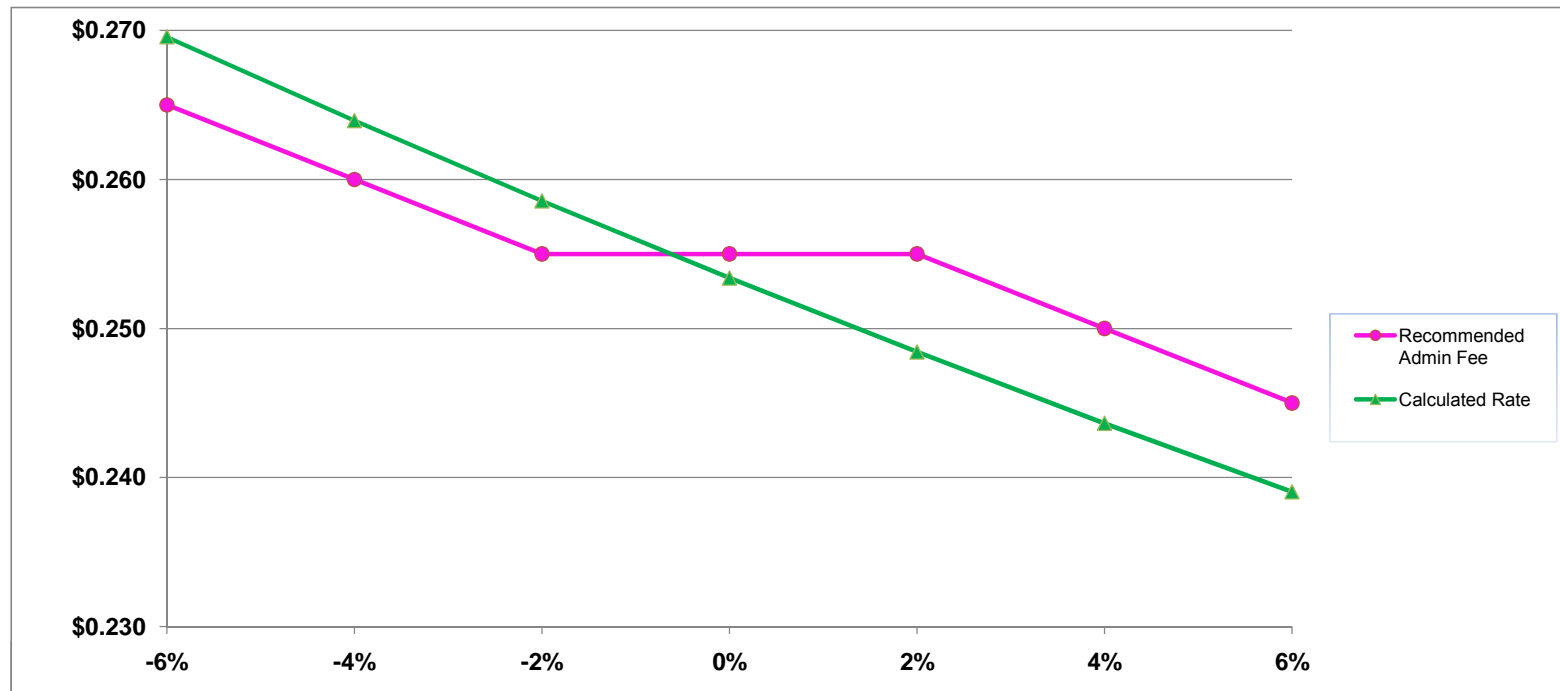
### Southwest Power Pool Net Revenue Requirement: Actual vs. Budget For Years 2004 - 2010



	<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.

## SOUTHWEST POWER POOL RATE SENSITIVITY TO LOAD VARIANCES



Load Variance	-6%	-4%	-2%	0%	2%	4%	6%
<b>Billing Determinants</b>	332,246	339,315	346,384	353,453	360,522	367,591	374,660
<b>Year Ending Operating Cash</b>	\$4,209	\$4,386	\$4,492	\$6,294	\$8,097	\$8,062	\$7,956
<b>Recommended Admin Fee</b>	\$0.265	\$0.260	\$0.255	\$0.255	\$0.255	\$0.250	\$0.245
<b>Calculated Rate</b>	\$0.270	\$0.264	\$0.259	\$0.253	\$0.248	\$0.244	\$0.239

This graph depicts the impact on SPP's admin fee due to variances in expected billing determinants. SPP has estimated its billing determinants to be 353,453 MWh for 2012. With a Net Revenue Requirement (NRR) of \$89,560, SPP recommends its admin fee to be \$0.255 per MWh resulting in an estimated year ending operating cash balance of 6,294.

Assuming NRR remained the same and billing determinants were estimated at 360,522 MWh, a 2% increase, SPP would still recommend an admin fee of \$0.255, but would have approximately \$8,097 in operating cash at the end of 2012. If billing determinants were estimated at 367,591 MWh, SPP would change the administrative fee recommendation to \$0.250 and would expect to have approximately \$8,062 in operating cash at the end of 2012. The results are reversed if billing determinants are estimated at less than 353,453 MWh.



## Southwest Power Pool Comparison of Prior Year Budget Estimations

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
<b>2008 Budget</b>							
NRR Estimations	\$61,462	\$64,503	\$71,151				
<i>Actual NRR</i>	<i>\$58,081</i>						
Billing Units Estimations	312,498	319,058	325,758				
<i>Actual Billing Estimations</i>	<i>296,135</i>						
<b>2009 Budget</b>							
NRR Estimations		\$56,478	\$68,411	\$75,079			
<i>Actual NRR</i>		<i>\$59,837</i>					
Billing Units Estimations		331,360	346,434	353,363			
<i>Actual Billing Estimations</i>		<i>328,175</i>					
<b>2010 Budget</b>							
NRR Estimations			\$68,358	\$90,106	\$94,870		
<i>Actual NRR</i>			<i>\$63,497</i>				
Billing Units Estimations			333,458	338,060	342,725		
<i>Actual Billing Estimations</i>			<i>331,610</i>				
<b>2011 Budget</b>							
NRR Estimations				\$78,368	\$86,698	\$94,643	
Billing Units Estimations				343,000	345,039	349,836	
<b>2012 Budget</b>							
NRR Estimations					\$89,560	\$98,645	\$113,620
Billing Units Estimations					353,453	369,374	382,747

This table attempts to quantify the year-to-year changes in SPP's three year projections made during each budget cycle as required by the membership agreement. Accuracy of these projections can be significantly influenced by both internal and external pressures such as board and committee directives, incremental membership, environmental factors, etc.



## Southwest Power Pool Admin Fee Sensitivity to Entergy Scenarios

	2012 Budget	2013 Forecast	2014 Forecast
<b>Current Budget Scenario: Entergy as ICT thru 2014</b>			
Net Revenue Requirement	\$89,560	\$98,645	\$113,620
MW/h Forecast	353,453	369,374	382,747
Calculated Admin Fee / MWh	\$0.253	\$0.267	\$0.297
<b>Recommended Admin Fee / MWh</b>	<b>\$0.255</b>	<b>\$0.260</b>	<b>\$0.280</b>
<b>Scenario #1: Entergy contract not renewed past 2013 *</b>			
Net Revenue Requirement	\$89,560	\$98,645	\$132,544
MW/h Forecast	353,453	369,374	382,747
Calculated Admin Fee / MWh	\$0.253	\$0.267	\$0.346
<b>Recommended Admin Fee / MWh</b>	<b>\$0.255</b>	<b>\$0.260</b>	<b>\$0.340</b>
<i>* Increase in NRR of \$18,924 in 2014</i>			
<b>Scenario #2: Entergy becomes member in 2014 **</b>			
Net Revenue Requirement	\$89,560	\$98,645	\$132,544
MW/h Forecast	353,453	369,374	598,645
Calculated Admin Fee / MWh	\$0.253	\$0.267	\$0.221
<b>Recommended Admin Fee / MWh</b>	<b>\$0.255</b>	<b>\$0.260</b>	<b>\$0.220</b>
<i>** Increase in NRR of \$18,924 in 2014 AND Increase in billable load of 215,898 MWh in 2014</i>			

**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			

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

**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

## Memorandum – DRAFT - 20110911

**To:** The SPP Finance Committee  
**From:** Tom Dunn  
**CC:**  
**Date:** **DATE**  
**Re:** Alternative Levelized Charge for Tariff Administration Service

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### Introduction

SPP Staff has investigated the possibility of adding a multi-year levelized alternative pricing mechanism, available to customers upon their election, for the recovery of SPP's Tariff Administration Service costs. Specifically, certain customers taking Network Integration Transmission Service under the SPP Tariff believe that a multi-year, fixed administrative fee option will help them administer the retail service rates under which they recover the Tariff Administration Service costs they pay to SPP. SPP has examined the question and have determined that this levelized alternative pricing mechanism for Tariff Schedule 1-A charges is feasible and can be administered, though there are a few hurdles to cover to successfully implement.

The remainder of this memo will set out specific recommendations about the nature of this service and the conditions and limitations under which it may be offered. Additionally, it will set out other program features considered, but not recommended and the rationale for that conclusion.

### Program Features Recommended

The recommended features of the program include:

- The administrative fee rate, used to develop the monthly charge for participating customers, will be based on budgeted total Tariff Administration cost for the ensuing three calendar years divided by the total estimated Tariff Administration billing determinants for the same three-year period.
- This resulting estimated administrative fee rate will be used for billing participating customers for this three calendar year period.
- Participating customers must enter the program at the beginning of a specified three-year period and continue participation for the entire three-year period.
- Customer participation will be memorialized by execution of a Form of Service Agreement for this service.



- Any over or under collection resulting from the estimate will be settled with each participating customer, in cash, shortly after receipt of the third year's audited financial statements.
- At the end of the first participation period, a participating customer must establish its election to continue participation in the program for the next three-year period or will, by default, return to the standard Administrative Charge billing program.
- Participation will be offered once every three years.
- Allocated actual cost and actual cost recovery will be accounted for separately for each program period and will be settled separately.
- SPP would retain the option to make a mid-period adjustment, up or down, to reflect the unit cost impact of some extraordinary event.

### **Eligibility and Customer Requirements**

To be eligible to participate, the customer must meet the following requirements:

- The customer must be taking Network Integration Transmission Service under the Tariff.
- The customer must be willing to agree to a primary term of service under its Network Service Agreement with SPP that extends not less than six months beyond the end of the program period in which they desire to participate.

### **Rationale for Program Features and Customer Requirements**

The three-year program period was selected as a reasonable accommodation of customer need and fits well with SPP's formal budgeting process. A fixed administrative fee rate for a three-year period should provide customers with the certainty about future charges that they need. The life of a set of retail rates is often approximately three years.

The term requirements for service under the participating customer's Network Service Agreement is designed to assure SPP that the customer will continue taking service under the Service Agreement through the participation period and subsequent cash settlement.

Requiring execution of a formal Form of Service Agreement for participation in this program is reasonable and provides the customer and SPP contractual certainty about its election. This requirement is similar to the requirement that a customer execute a formal Form of Service Agreement (Tariff Attachment N) to effect its election to financially settle energy losses associated with energy schedules run pursuant to "through" and "out" transmission service reservations.

Over or under collection settlement in cash eliminates the need to track settlement over the future billing determinants of participating customers. This feature allows a customer to elect to renew participation at the end of the initial participation period, or return to the standard administrative fee billing process without the need for any special handling by SPP to track recovery or



remittance of differences. A review of recent historic periods has shown that it is typical for SPP's actual Tariff Administration Costs to be less than forecast; resulting in the likelihood that settling with a participating customer will result in a cash payment from SPP to the customer. [also mitigates default opportunities if we cash settle immediately at the end of the period, ensures no cost shifting to future customers, etc.

### **Tariff Changes Required**

In order to be able to offer this service under the Tariff, SPP will need to obtain Commission acceptance of certain Tariff changes. Tariff Schedule 1-A, Tariff Administration Service, will need to be modified to reflect the existence and terms of the program. A new Tariff attachment, that will be the Form of Service Agreement for this new Tariff Administration Service alternative, will need to be developed.

DRAFT

### **Program Features Considered But Not Recommended**

- 1) Offer new three year term to customers each year. Eliminated because it increases the complexity of the program, increased software coding costs, may adversely impact cash flow and forecasting ability of SPP, etc.**

In order to provide customers as much flexibility as possible to control the phasing of their participation, consideration was given to the use of three three-year program periods where the start of the second period would be one year after the start of the first and the start of the third period would be one year after the start of the second. Upon further consideration, it was concluded that the incremental benefits are likely to outweigh the incremental cost associated with the addition of this feature. In addition to the administrative burden, cash flow forecasting would be made more difficult.

- 2) Longer term fixed rate. Eliminated because it exceeds SPP's current scope of forecast, introduces greater risk from inaccuracies of forecasts, larger true-up issues, etc.**

Consideration was also given to use of a longer term over which a fixed rate would be billed. This concept was not included in the proposal since the risk of larger true-ups would result from the greater inaccuracy expected to be associated with an extended forecasting period. Currently, SPP's estimate of future operations includes a budget for the upcoming calendar year and forecasts for two additional years.

- 3) Allow customers to opt out of three year commitment. Eliminated due to increased complexity, might encourage "gaming" of SPP rates, etc.**

Allowing customers an opportunity to opt out of their three-year commitment, once made, was considered and rejected. Although this would permit greater flexibility, it would increase the complexity of program administration and might encourage gaming in the form of customers moving between a multi-year average rate and an annual rate that includes the impact of true-up of collections during the prior year.

- 4) Allow long-term PtP service to participate. Eliminated due to ???**

Substantial consideration has been given to the importance of providing this administrative cost recovery option to Point-To-Point customers as well as Network Customers. SPP has concluded that limitation of the program to Network Customers is reasonable. The identified issue to be

addressed is the customer's management of the collection of Tariff Administration Service costs in retail rates, and the ability to synchronize that recovery with the cost they incur for this service from SPP. The program is properly available only to Network Customers since, those known to have this need are Network Customers. Excluding Long-Term Point-To-Point service customers from eligibility reasonably limits the number of customers requiring special accounting treatment. A single customer is likely to have more than one Long-Term Point-To-Point reservation and may not want to commit all these reservations to either the one-year or three-year program. Permitting election by reservation would further complicate administration of the contracting associated with the program. Resale of Long-Term Point-To-Point reservations is fairly common as well. Should resale occur within a three-year period, and the customer had elected the levelized option, settling with the previous customer, within the period, would prove burdensome. Furthermore, the primary term-of-service extension requirements of the program may otherwise interfere with the Long-Term Point-To-Point service customer's strategy for exercising its renewal rights.

#### **Potential Issues**

- 1) Implementation will require resources and incur extra costs with no identifiable benefit to SPP corp.

Other than existing staff resources, SPP will incur expense from software developers and legal counsel to implement this process. The extent of these costs is not known at this time, a good estimate would be \$500,000 - \$1,000,000.

- 2) Implementation now will distract from focus on implementation of Integrated Marketplace. SPP has eliminated/deferred projects not related to Integrated Marketplace until completion of project.

Staff in the following departments will be required to work on this project to provide the best chance of a successful implementation: Settlements, Regulatory, IT, Accounting, Project Management, and Internal Audit. Each of these groups are currently engaged in development and implementation of SPP's Integrated Marketplace. The addition of this project, which will ultimately benefit some members, will detract resources from Integrated Marketplace, which will benefit the entire SPP region.

- 3) Historical inaccuracies of SPP forecasts compared to actual results may significantly impact SPP's ability to fully fund its operations or result in SPP holding significant amounts of excess cash; neither of which would be rectified until the end of the three year term.

SPP has prepared an analysis looking at three three-year periods to determine the likely impact of this program on SPP's cash flow. The analysis indicated SPP would likely end up issuing true-up payments to program participants that may exceed \$10,000,000.

Conversely, while historical results didn't evidence meaningful under-recovery, future results may do just that; requiring SPP to maintain greater liquidity resources.

- 4) Uncertainty regarding volume of NITS load that will desire to participate in the program. Low number of participants would drive us to question the value of the program and associated expenditures. High volume of participants can exasperate Issue #3 above.
- 5) Are there other issues?

# Memorandum

**To:** Finance Committee Members  
**From:** Tom Dunn  
**CC:** Cheryl Robertson  
**Date:** September 21, 2011  
**Re:** 2011/12 Meeting Schedule

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Detailed below is a schedule for face-to-face meetings of the Finance Committee for 2011/12 along with suggested agenda items to be covered at the meetings.

<u>Meeting Date</u>	<u>Time</u>	<u>Meeting Location</u>	<u>Major Agenda Items</u>
Sept 28, 2011	8:30	Dallas, TX	2012 budget review Internal Audit report Auditor engagements
Oct 14, 2011	9:30	Dallas, TX	2012 budget review
Dec 12, 2011	2:00	Little Rock, AR	SSAE-16 audit
April 9, 2012	8:30	Dallas, TX	Financial audit review
July 10, 2012	8:30	Dallas, TX	SSAE-16 Mid-year review Insurance review Bus. Continuity Plan Disaster Recovery
Sept 27, 2012	8:30	Dallas, TX	2013 budget review Internal Audit report Auditor engagements
Oct 11, 2012	9:30	Dallas, TX	2013 budget review
Dec 10, 2012	2:00	Dallas, TX	SSAE-15 audit



# Memorandum

To: SPP Officers / Directors / Managers  
From: Sheri Parish / Cindy Goodwin  
Date: September 21, 2011  
RE: August 2011 Financials

Attached are your August 2011 monthly financial reports.

- 1). **Financial Commentary:** Forecast to Budget Variances
- 2). **Financial Forecast Overview:** Full Year Forecast by Month vs. Budget vs. Prior Year
- 3). **Income Statement Actual Results Overview:** Current Month Actual vs. Forecast, YTD Actual vs Budget, YTD Actual vs. Prior Year
- 4). **Balance Sheet:** Current Month vs. Ending Prior Year
- 5). **Capital Projects Summary:** Project to Date and Current Year/Future Projections Compared to Budget
- 6). **Headcount Analysis:** Current Month - Actual vs. Budget and Full Year - Forecast vs. Budget
- 7). **Job Tracker:** List of Current Open Positions as Tracked by Human Resources

**2011 Financial Commentary**  
**As of August 2011**  
*(in thousands)*

<b>Summary</b>				
	2011 FY Forecast	2011 FY Budget	Fav/(Unfav) Variance	
Revenues	\$128,652	\$129,399	(\$747)	(0.6%)
Expenses	135,829	138,654	2,825	2.0%
Net Loss	<u>(\$7,177)</u>	<u>(\$9,255)</u>	<u>\$2,078</u>	22.5%

<b>Revenue</b>				
	2011 FY Forecast	2011 FY Budget	Fav/(Unfav) Variance	
Tariff Administration Service	\$71,403	\$72,030	(\$627)	(0.9%)
Fees & Assessments	24,368	24,264	104	0.4%
Contract Services & Misc Income	32,880	33,105	(224)	(0.7%)
Total Revenue	<u>\$128,652</u>	<u>\$129,399</u>	<u>(\$747)</u>	(0.6%)

Tariff Administration Service revenues are unfavorable to budget primarily due to lower than anticipated network load (approximately 1.0% below budgeted level). Point to point administrative service revenues are exceeding budget due to significantly colder weather in the region during the Winter season and partially offsets the network service administrative variance.

Fees & Assessments revenues are approximately equal to budget. This includes 1) higher than anticipated FERC Fee collections and non-load dues (\$1.5M), and 2) RE revenues which trail budget (\$1.4M) due to lower than anticipated activity.

Contract Services revenues are unfavorable to budget due to lower than anticipated need for pass-thru regulatory legal and consulting support in both the ICT and ITO.

<b>Expense</b>				
	2011 FY Forecast	2011 FY Budget	Fav/(Unfav) Variance	
Salary & Benefits	\$63,979	\$65,168	\$1,189	(1.8%)
Assessments & Fees	16,639	14,119	(2,520)	(17.8%)
Communications & Maintenance	10,654	11,331	677	6.0%
Outside Services	14,694	17,500	2,806	16.0%
Depreciation & Amortization	15,985	15,853	(132)	(0.8%)
Other Expenses	13,878	14,683	805	5.5%
Total Expense	<u>\$135,829</u>	<u>\$138,654</u>	<u>\$2,825</u>	2.0%

The true-up in June for 2010 accrued FERC assessment fees (payable in 2011) and the reforecasting of the 2011 fees results in an unfavorable variance in Assessments & Fees for 2011.

Communications and maintenance is favorable to budget due to a decision to pursue an equipment purchase in lieu of renewing maintenance on older existing equipment.

The outside services variance is primarily due to the lowering of the Regulatory department's forecast to reflect the current anticipated spend for outside regulatory support. Additionally, year-to-date regulatory legal support for the ICT and ITO has been lower than anticipated. Revenue for this pass-thru expense is lower as well (as noted above).

The other expenses variance is primarily due to interest rate swap valuation adjustments which are not assumed in the budget due to their potential variability.





**Southwest Power Pool**  
**Forecast Overview**  
**As of August 2011**  
**CONSOLIDATED TOTAL**  
*(in thousands)*

	Actual Jan-11	Actual Feb-11	Actual Mar-11	Actual Apr-11	Actual May-11	Actual Jun-11	Actual Jul-11	Actual Aug-11	Fcst Sep-11	Fcst Oct-11	Fcst Nov-11	Fcst Dec-11	FY 2011 Forecast	FY 2011 Budget	Variance Fav/(Unfav)	FY 2010 Actuals	Variance Fav/(Unfav)
<b>Income</b>																	
Tariff Administration Service	\$6,139	\$5,450	\$6,033	\$5,871	\$6,115	\$5,938	\$6,096	\$6,093	\$5,877	\$6,009	\$5,834	\$5,949	\$71,403	\$72,030	(\$627)	\$64,277	\$7,126
Fees & Assessments	2,460	1,863	1,729	1,755	1,766	2,065	2,255	2,606	1,980	1,980	1,930	1,980	24,368	24,264	104	22,285	2,083
Contract Services Revenue	2,325	1,991	2,285	2,232	2,252	2,164	2,142	2,046	2,342	2,336	2,334	2,342	26,791	28,031	(1,240)	23,252	3,539
Miscellaneous Income	370	482	390	610	313	454	777	905	582	372	442	392	6,089	5,074	1,015	6,275	(186)
<b>Total Income</b>	<b>11,294</b>	<b>9,786</b>	<b>10,437</b>	<b>10,469</b>	<b>10,446</b>	<b>10,621</b>	<b>11,269</b>	<b>11,650</b>	<b>10,781</b>	<b>10,697</b>	<b>10,540</b>	<b>10,662</b>	<b>128,652</b>	<b>129,399</b>	<b>(747)</b>	<b>116,089</b>	<b>12,563</b>
<b>Expense</b>																	
Salary	3,394	3,423	3,511	3,523	3,501	3,678	3,691	3,597	3,809	3,892	3,905	3,928	43,853	44,966	1,113	37,981	(5,872)
Benefits & Taxes	1,449	1,804	1,451	1,642	1,460	1,736	1,555	1,543	1,748	1,699	1,658	1,817	19,561	19,471	(90)	18,432	(1,129)
Continuing Education	56	35	94	37	33	29	69	41	55	46	30	41	566	731	165	483	(83)
Salary & Benefits	4,900	5,261	5,056	5,202	4,993	5,444	5,315	5,182	5,612	5,637	5,593	5,786	63,979	65,168	1,189	56,896	(7,084)
Employee Travel	96	121	119	165	170	172	131	132	174	202	164	110	1,757	1,896	140	1,424	(333)
Administrative	234	165	464	159	264	302	140	187	192	462	217	233	3,020	3,468	447	2,899	(122)
Assessments & Fees	1,177	1,177	1,177	1,177	1,177	2,406	1,392	1,392	1,392	1,392	1,392	1,392	16,639	14,119	(2,520)	14,101	(2,538)
Meetings	73	59	31	104	78	60	76	51	93	171	53	80	929	1,051	122	775	(154)
Communications	278	261	229	289	264	239	262	261	262	362	332	332	3,371	3,408	37	3,079	(292)
Leases	152	152	157	154	155	154	159	148	156	159	159	159	1,862	1,876	14	1,707	(155)
Maintenance	565	575	584	516	620	507	626	712	642	646	645	645	7,282	7,922	640	6,354	(929)
Services	984	1,028	1,088	896	954	1,159	1,420	1,659	1,542	1,378	1,350	1,236	14,694	17,500	2,806	14,188	(506)
Regional State Committee	8	12	9	16	13	11	10	19	20	19	19	20	176	266	90	178	3
Depreciation & Amortization	1,098	1,080	1,135	1,073	1,119	1,095	1,102	1,075	1,801	1,821	1,795	1,791	15,985	15,853	(132)	14,244	(1,741)
<b>Total Expense</b>	<b>9,564</b>	<b>9,892</b>	<b>10,048</b>	<b>9,752</b>	<b>9,806</b>	<b>11,548</b>	<b>10,631</b>	<b>10,817</b>	<b>11,886</b>	<b>12,248</b>	<b>11,718</b>	<b>11,783</b>	<b>129,694</b>	<b>132,528</b>	<b>2,834</b>	<b>115,844</b>	<b>(13,850)</b>
<b>Other Income/(Expense)</b>																	
Other Income / Expense	4	12	20	22	(20)	(15)	(6)	(59)	-	-	-	-	(42)	-	(42)	2,189	(2,231)
Interest Income	15	17	8	26	16	7	9	(1)	-	-	-	-	96	-	96	56	40
Interest Expense	(525)	(586)	(517)	(724)	(797)	(742)	(733)	(740)	(707)	(694)	(694)	(694)	(8,152)	(9,814)	1,662	(3,964)	4,188
Capitalized Interest	-	-	357	-	-	313	-	-	828	-	-	165	1,663	3,689	(2,026)	345	(1,318)
Swap Valuation	-	-	340	-	-	(40)	-	-	-	-	-	-	300	-	300	53	(247)
<b>Net Other Income (Expense)</b>	<b>(505)</b>	<b>(556)</b>	<b>208</b>	<b>(675)</b>	<b>(801)</b>	<b>(477)</b>	<b>(730)</b>	<b>(801)</b>	<b>122</b>	<b>(694)</b>	<b>(694)</b>	<b>(530)</b>	<b>(6,135)</b>	<b>(6,126)</b>	<b>(9)</b>	<b>(1,320)</b>	<b>432</b>
<b>Net Income (Loss)</b>	<b>\$1,224</b>	<b>(\$663)</b>	<b>\$597</b>	<b>\$42</b>	<b>(\$161)</b>	<b>(\$1,404)</b>	<b>(\$93)</b>	<b>\$32</b>	<b>(\$983)</b>	<b>(\$2,245)</b>	<b>(\$1,872)</b>	<b>(\$1,650)</b>	<b>(\$7,177)</b>	<b>(\$9,255)</b>	<b>\$2,078</b>	<b>(\$1,076)</b>	<b>(\$6,101)</b>
2011 Headcount Actual/Fcst	461	469	476	477	478	493	502	501	523	535	537	540	540				
2011 Headcount Budget	495	508	518	522	525	534	536	536	538	539	539	541	541				
<b>Over / (Under) Budget</b>	<b>(34)</b>	<b>(39)</b>	<b>(42)</b>	<b>(45)</b>	<b>(47)</b>	<b>(41)</b>	<b>(34)</b>	<b>(35)</b>	<b>(15)</b>	<b>(4)</b>	<b>(2)</b>	<b>(1)</b>	<b>(1)</b>				

Projected Fixed Charge Ratio													
Trailing 4 Quarters													
	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13
Actual	3.47	3.53	3.10	2.86	2.05	2.22	2.80	3.13	3.98	4.42	4.97	5.68	6.66
Adjusted	3.48	3.49	3.13	2.92	2.02	2.23	2.80	3.13	3.98	4.42	4.97	5.68	6.66
Covenant	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00



**Southwest Power Pool**  
**Actual Results Overview**  
**For the Month Ending August 31, 2011**  
*(in thousands)*

	Current Month Compared to Forecast			YTD			YTD		
	Aug-11 Actual	Aug-11 Forecast	Variance Fav/(Unfav)	Aug-11 Actual	Aug-11 Budget	Variance Fav/(Unfav)	Aug-11 Current Year	Aug-2010 Prior Year	Variance Fav/(Unfav)
<b>Income</b>									
Tariff Administration Service	\$6,093	\$6,080	\$13	\$47,734	\$48,020	(\$286)	\$47,734	\$43,408	\$4,326
Fees & Assessments	2,606	2,030	576	16,498	16,292	206	16,498	14,751	1,747
Contract Services Revenue	2,046	2,332	(285)	17,438	18,677	(1,240)	17,438	14,708	2,730
Miscellaneous Income	905	337	568	4,301	3,286	1,015	4,301	3,417	885
<b>Total Income</b>	<b>11,650</b>	<b>10,779</b>	<b>871</b>	<b>85,972</b>	<b>86,275</b>	<b>(303)</b>	<b>85,972</b>	<b>76,284</b>	<b>9,688</b>
<b>Expense</b>									
Salary	3,597	3,720	123	28,319	29,750	1,432	28,319	24,854	(3,464)
Benefits & Taxes	1,543	1,611	67	12,640	12,882	242	12,640	11,573	(1,066)
Continuing Education	41	60	19	394	516	123	394	306	(88)
Salary & Benefits	5,182	5,391	209	41,352	43,149	1,797	41,352	36,733	(4,619)
Employee Travel	132	159	27	1,107	1,250	143	1,107	946	(161)
Administrative	187	292	105	1,916	2,308	392	1,916	1,798	(119)
Assessments & Fees	1,392	1,392	-	11,072	9,413	(1,659)	11,072	9,390	(1,682)
Meetings	51	58	7	532	686	154	532	505	(27)
Communications	261	262	1	2,083	2,133	49	2,083	2,063	(20)
Leases	148	156	8	1,230	1,244	14	1,230	1,103	(127)
Maintenance	712	577	(135)	4,705	5,146	441	4,705	3,894	(810)
Services	1,659	1,325	(333)	9,188	12,231	3,042	9,188	9,416	228
Regional State Committee	19	19	1	97	188	90	97	131	33
Depreciation & Amortization	1,075	1,211	136	8,777	9,049	272	8,777	9,833	1,056
<b>Total Expense</b>	<b>10,817</b>	<b>10,842</b>	<b>25</b>	<b>82,060</b>	<b>86,797</b>	<b>4,736</b>	<b>82,060</b>	<b>75,813</b>	<b>(6,247)</b>
<b>Other Income/(Expense)</b>									
Other Income / Expense	(59)	-	(59)	(42)	-	(42)	(42)	(21)	(21)
Interest Income	(1)	-	(1)	96	-	96	96	18	79
Interest Expense	(740)	(707)	(33)	(5,362)	(6,300)	938	(5,362)	(2,425)	(2,937)
Capitalized Interest	-	-	-	670	2,070	(1,400)	670	122	(548)
Swap Valuation	-	-	-	300	-	300	300	(452)	753
<b>Net Other Income (Expense)</b>	<b>(801)</b>	<b>(707)</b>	<b>(93)</b>	<b>(4,338)</b>	<b>(4,230)</b>	<b>(108)</b>	<b>(4,338)</b>	<b>(2,759)</b>	<b>(2,675)</b>
<b>Net Income (Loss)</b>	<b>\$32</b>	<b>(\$770)</b>	<b>\$802</b>	<b>(\$426)</b>	<b>#####</b>	<b>\$4,325</b>	<b>(\$426)</b>	<b>(\$2,288)</b>	<b>\$1,862</b>



**Southwest Power Pool**  
**Balance Sheet**  
**As of August 31, 2011**  
*(in thousands)*

	(\$000)	<u>8/31/2011</u>	<u>12/31/2010</u>	<u>Variance</u>
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash & Equivalents		\$99,451	\$81,041	\$18,410
Restricted Cash Deposits		31,189	25,668	5,521
Accounts Receivable (net)		12,640	18,509	(5,869)
Other Current Assets		<u>8,022</u>	<u>3,351</u>	<u>4,671</u>
<b>Total Current Assets</b>		<b>151,302</b>	<b>128,569</b>	<b>22,733</b>
Total Fixed Assets		82,999	46,000	36,999
Total Other Assets		1,807	2,541	(734)
Investments		<u>694</u>	<u>652</u>	<u>42</u>
<b>TOTAL ASSETS</b>		<b><u>\$236,802</u></b>	<b><u>\$177,761</u></b>	<b><u>\$59,041</u></b>
<b>LIABILITIES &amp; EQUITY</b>				
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Accounts Payable (net)		\$8,049	\$10,348	(\$2,299)
Customer Deposits		31,352	25,668	5,684
Current Maturities of LT Debt		11,206	13,206	(2,000)
Other Current Liabilities		19,598	26,449	(6,851)
Deferred Revenue		<u>6,872</u>	<u>6,174</u>	<u>698</u>
<b>Total Current Liabilities</b>		<b>77,077</b>	<b>81,844</b>	<b>(4,767)</b>
<b>Long Term Liabilities</b>				
US Bank Floating Senior Note - 2014		13,500	16,000	(2,500)
US Bank 5.45% Senior Notes - 2016		24,000	27,000	(3,000)
US Bank Maumelle Mortgage - 2027		4,009	4,163	(154)
Campus 4.82% Senior Notes - 2042		65,000	65,000	(0)
Integrated Marketplace 3.55% Senior Note - 2024		70,000		70,000
Other Long Term Liabilities		<u>4,025</u>	<u>4,136</u>	<u>(111)</u>
<b>Total Long Term Liabilities</b>		<b>180,533</b>	<b>116,299</b>	<b>64,234</b>
Net Income		(426)	(1,076)	650
Members' Equity		<u>(20,382)</u>	<u>(19,306)</u>	<u>(1,076)</u>
<b>Total Members' Equity</b>		<b>(20,808)</b>	<b>(20,382)</b>	<b>(426)</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>		<b><u>\$236,802</u></b>	<b><u>\$177,761</u></b>	<b><u>\$59,041</u></b>

SOUTHWEST POWER POOL  
2011 FORECAST  
PROJECT OVERVIEW, DESCRIPTIONS ANALYSIS



	Owner	Prior Year(s) Expense	Q1 Actual	Q2 Actual	Q3 Forecast	Q4 Forecast	Total 2011	Future Expense	Total Project	Budget Thru 2014*	Over/(Under) Budget
<b>PRPC Projects (in thousands)</b>											
Integrated Market Place (Future Markets)-budget thru 2011	Debbie James	\$8,551	\$2,365	\$3,061	\$8,808	\$7,532	\$21,767	\$70,682	\$101,000	\$86,136	\$14,864
High Availability	Barbara Sugg	\$1,222	\$1,097	-	\$347	\$1,554	\$2,998	\$900	\$5,120	\$4,165	\$955
Consolidated Balancing Authority	L.Nickell/S.Brown	\$192	\$0	\$37	\$407	\$589	\$1,033	\$3,414	\$4,639	\$4,615	\$24
<b>Future Markets Initiatives Total</b>		<b>\$9,965</b>	<b>\$3,463</b>	<b>\$3,098</b>	<b>\$9,562</b>	<b>\$9,674</b>	<b>\$25,798</b>	<b>\$74,996</b>	<b>\$110,760</b>	<b>\$94,916</b>	<b>\$15,844</b>
New Facilities Construction	Tom Dunn	\$10,287	\$4,330	\$9,356	\$12,075	\$13,769	\$39,530	\$12,116	\$61,933	\$61,861	\$72
Decommission Plaza West & Chenal Offices	Malinda See	-	-	-	\$12,211	\$2,724	\$14,935	\$11,685	\$26,620	\$26,603	\$17
<b>New Facility Initiatives Total</b>		<b>\$10,287</b>	<b>\$4,330</b>	<b>\$9,356</b>	<b>\$24,286</b>	<b>\$16,493</b>	<b>\$54,465</b>	<b>\$23,801</b>	<b>\$88,554</b>	<b>\$88,464</b>	<b>\$90</b>
EMS Upgrade	R.Thornton/B.Bressers	-	\$5	\$39	\$251	\$393	\$688	\$577	\$1,266	\$572	\$694
Centralized Modeling Tool	Casey Cathey	-	-	-	\$58	\$195	\$253	\$1,017	\$1,270	\$1,270	-
EMS Enhancements-Foundation	Kevin Bates	-	\$16	\$2	-	\$52	\$69	\$400	\$469	\$350	\$119
PRR176 Demand Response in the EIS Market	Casey Cathey	-	-	-	-	-	-	-	-	\$1,420	(1,420)
Improved Intermittent Resource Integr-Real-Time Ops **	JSmith/Bnewlin/CJBrown	-	\$62	(62)	-	-	\$0	-	\$0	\$225	(225)
Implement Mandatory Compliance Standards	Sam Ellis	-	-	-	-	-	-	-	-	\$900	(900)
PRR 211	CJ Brown	-	-	-	-	-	-	-	-	\$300	(300)
PRR Implementation Foundation	CJ Brown	-	\$43	\$23	\$182	-	\$249	\$400	\$649	\$300	\$349
Add - Remove SPP Market Entities (BAs, MPs, etc.)	Eddie Watson	-	\$16	\$4	\$20	-	\$40	\$175	\$215	\$150	\$65
E-terra Vision Implementation	Kevin Bates	-	-	-	\$43	-	\$43	\$150	\$193	\$35	\$158
Model Change Submission Tool	C.Cathey/E.Watson	-	-	-	\$13	\$94	\$107	\$456	\$563	\$50	\$513
Replace OPS1 Outage Coordination Scheduler	Jason Smith	-	\$133	-	-	-	\$133	-	\$133	\$450	(318)
<b>Operations Initiatives Total</b>		<b>-</b>	<b>\$274</b>	<b>\$6</b>	<b>\$568</b>	<b>\$733</b>	<b>\$1,582</b>	<b>\$3,175</b>	<b>\$4,758</b>	<b>\$6,022</b>	<b>(1,264)</b>
<i>ITP Data Repository **</i>	<i>Keith Tynes</i>	-	-	-	-	-	-	\$184	\$184	\$234	(50)
STEP Project Tracking Database Implementation	Tony Green	-	-	-	\$50	-	\$50	\$100	\$150	\$50	\$100
Credit Process Stack List Analysis	John Mills	-	-	-	-	-	-	\$295	\$295	\$400	(105)
Load Forecasting Tool **	John Mills	-	-	-	-	-	-	-	-	\$350	(350)
Stochastic Modeling Tool**	John Mills	-	-	-	-	-	-	\$170	\$170	\$1,034	(864)
<b>Engineering Initiatives Total</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>\$50</b>	<b>-</b>	<b>\$50</b>	<b>\$749</b>	<b>\$799</b>	<b>\$2,068</b>	<b>(1,269)</b>
e-Tariff Phase II	Heather Starnes	-	\$40	\$81	\$201	\$419	\$740	\$210	\$950	\$629	\$321
<b>Regulatory Initiatives Total</b>		<b>-</b>	<b>\$40</b>	<b>\$81</b>	<b>\$201</b>	<b>\$419</b>	<b>\$740</b>	<b>\$210</b>	<b>\$950</b>	<b>\$629</b>	<b>\$321</b>
SPP Budgeting & Forecasting System	Scott Smith	-	-	-	-	-	-	-	-	\$40	(40)
Portal API Transmission Settlements	Phillip Bruich	-	-	-	-	-	-	-	-	\$50	(50)
Settlements Data API	Phillip Bruich	-	-	-	-	-	-	-	-	\$25	(25)
TLR Settlements Automation	Phillip Bruich	-	-	-	-	-	-	-	-	\$50	(50)
SLIP Tool Enhancement	Phillip Bruich	-	-	-	-	-	-	\$40	\$40	\$215	(175)
<b>Administration Initiatives Total</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$40</b>	<b>\$40</b>	<b>\$380</b>	<b>(340)</b>
External Facing Service Desk	RJ Robertson	-	-	-	-	-	-	-	-	\$588	(588)
Dispatcher Training Simulator Enhancement	Jim Gunnell	-	-	-	-	-	-	-	-	\$590	(590)
<b>Process Integrity Initiatives Total</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$1,178</b>	<b>(1,178)</b>
<b>Total PRPC Managed Projects</b>		<b>\$20,253</b>	<b>\$8,107</b>	<b>\$12,541</b>	<b>\$34,667</b>	<b>\$27,320</b>	<b>\$82,635</b>	<b>\$102,972</b>	<b>\$205,860</b>	<b>\$193,657</b>	<b>\$12,203</b>
<b>Non-PRPC Projects (in thousands)</b>											
PER-005 Job Task Analysis and Assessment	Carl Stelly (Sam Ellis)	-	-	-	-	-	-	-	-	-	-
MOS Enhancements Foundation	CJ Brown	-	\$55	\$39	\$25	-	\$119	\$850	\$969	\$969	-
OATI Enhancements	Casey Cathey	-	\$90	\$38	\$8	\$126	\$262	\$275	\$537	\$537	-

SOUTHWEST POWER POOL  
2011 FORECAST  
PROJECT OVERVIEW, DESCRIPTIONS ANALYSIS



	Owner	Prior Year(s) Expense	Q1 Actual	Q2 Actual	Q3 Forecast	Q4 Forecast	Total 2011	Future Expense	Total Project	Budget Thru 2014*	Over/(Under) Budget	
Improve Utilization of SPP Transmission System	L. Nickell/B. Bressers	-	-	-	-	-	-	-	-	-	-	
Interregional Situational Awareness Phase 2	Jason Smith	-	-	-	-	-	-	-	-	-	-	
<b>Operations Initiatives Total</b>		-	\$145	\$78	\$33	\$126	\$381	\$1,125	\$1,506	\$1,506	-	
ITP10 Benefit and Robustness Determination	Keith Tynes	-	-	-	-	-	-	-	-	-	-	
ITP Resource Integration and Stochastic Tool	Keith Tynes	-	-	-	-	-	-	\$170	\$170	\$170	-	
<b>Engineering Initiatives Total</b>		-	-	-	-	-	-	\$170	\$170	\$170	-	
2011 IT Apps Foundation	Annette Holbert	-	\$10	\$4	-	\$77	\$90	\$331	\$421	\$421	-	
2011 IT Data Management Foundation	Bobby Reynolds	-	-	-	-	\$91	\$91	-	\$91	\$91	-	
2011 IT Server Admin Foundation	Tom Burdick	-	\$554	\$4,098	\$89	\$98	\$4,839	\$4,654	\$9,493	\$9,493	-	
2011 IT Service Management Foundation	John Kelly	-	\$11	\$51	\$541	\$419	\$1,022	\$2,169	\$3,191	\$3,191	-	
2011 IT Environment Ops Foundation	Larry Buster	-	(\$30)	\$36	\$2	\$22	\$31	\$305	\$336	\$336	-	
2011 IT Tele/Network/Security Foundation	Mike Wilkerson	-	\$227	\$85	\$349	\$90	\$751	\$3,772	\$4,523	\$4,523	-	
CIP (Ver 4) Project	Phillip Propes	-	-	-	-	-	-	-	-	-	-	
<b>IT Initiatives Total</b>		-	\$772	\$4,273	\$981	\$797	\$6,824	\$11,231	\$18,055	\$18,055	-	
IA GP/Rockton License	Lauren Krigbaum	-	-	-	-	-	-	-	-	-	-	
<b>Process Integrity Initiatives Total</b>		-	-	-	-	-	-	-	-	-	-	
AREVA ETS Foundation	Philip Bruich	-	\$50	\$113	\$88	-	\$250	\$225	\$475	\$475	-	
<b>Administration Initiatives Total</b>		-	\$50	\$113	\$88	-	\$250	\$225	\$475	\$475	-	
<b>2010 Carry Over Items (and 2012 New Projects)</b>												
2010 Unbudgeted Furniture & Fixtures		-	\$24	-	-	-	\$24	-	\$24	\$24	-	
2010 Unbudgeted Hardware/Software		-	\$1	\$3	-	-	\$4	-	\$4	\$4	-	
2010 Unbudgeted Leasehold Improvements		-	\$25	-	-	-	\$25	-	\$25	\$25	-	
2012 New Projects / Adjustments		-	\$65	(\$3)	-	-	\$62	\$12,692	\$12,754	\$12,754	-	
<b>2010 Carry Over Items (and 2012 New Projects)</b>		(0)	\$115	\$0	-	-	\$115	\$12,692	\$12,807	\$12,807	-	
<b>Total Non-PRPC Managed Projects</b>		(0)	\$1,082	\$4,464	\$1,101	\$923	\$7,570	\$25,443	\$33,013	\$33,013	-	
<b>TOTAL PROJECTS</b>			\$20,252	\$9,189	\$17,005	\$35,768	\$28,243	\$90,206	\$128,414	\$238,873	\$226,669	\$12,203

\* New Facility costs include IT refresh expense which will coincide with the building move (\$1.5 data center hardware/\$1.9 Telecom/Network/Security - total \$3.4).

\*\* Highlighted projects are new to 2011. All other projects are carryover projects.



**Southwest Power Pool  
Headcount Analysis  
As of August 31, 2011**

	<b>Current Month Actual vs. Budget</b>			<b>Forecast vs. Budget</b>		
	<b>Actual August</b>	<b>Budget August</b>	<b>Over/(Under) Budget</b>	<b>FY 2011 Forecast</b>	<b>FY 2011 Budget</b>	<b>Over/(Under) Budget</b>
Administration	0	0	0	0	0	0
Officers	10	10	0	10	10	0
Accounting	10	11	(1)	10	11	(1)
Credit	3	3	0	3	3	0
Human Resources	21	21	0	21	21	0
Settlements	20	22	(2)	22	22	0
<b>Total Administration</b>	<b>64</b>	<b>67</b>	<b>(3)</b>	<b>66</b>	<b>67</b>	<b>(1)</b>
Inter-Regional Affairs	1	1	0	1	1	0
Project Management	12	12	0	12	12	0
Training	8	9	(1)	9	9	0
Customer Service	6	7	(1)	7	7	0
Reliability Standards	3	2	1	3	2	1
Process Management	1	1	0	1	1	0
Transmission Development	7	7	0	7	7	0
<b>Total Process Integrity</b>	<b>38</b>	<b>39</b>	<b>(1)</b>	<b>40</b>	<b>39</b>	<b>1</b>
SPP Compliance	11	13	(2)	13	13	0
Communications	2	3	(1)	3	3	0
Market Monitoring	12	13	(1)	13	13	0
Internal Audit	5	5	0	5	5	0
<b>Total Compliance &amp; Corporate Affairs</b>	<b>30</b>	<b>34</b>	<b>(4)</b>	<b>34</b>	<b>34</b>	<b>0</b>
<b>Total SPP Regional Entity</b>	<b>26</b>	<b>29</b>	<b>(3)</b>	<b>29</b>	<b>29</b>	<b>0</b>
<b>Total Information Technology</b>	<b>117</b>	<b>131</b>	<b>(14)</b>	<b>131</b>	<b>132</b>	<b>(1)</b>
<b>Total Markets</b>	<b>5</b>	<b>5</b>	<b>0</b>	<b>5</b>	<b>5</b>	<b>0</b>
<b>Total Operations</b>	<b>119</b>	<b>122</b>	<b>(3)</b>	<b>126</b>	<b>126</b>	<b>0</b>
<b>Total Engineering</b>	<b>42</b>	<b>46</b>	<b>(4)</b>	<b>46</b>	<b>46</b>	<b>0</b>
<b>Total Contract Services</b>	<b>41</b>	<b>43</b>	<b>(2)</b>	<b>43</b>	<b>43</b>	<b>0</b>
<b>Total Reglulatory Policy &amp; General Counsel</b>	<b>19</b>	<b>20</b>	<b>(1)</b>	<b>20</b>	<b>20</b>	<b>0</b>
<b>TOTAL HEADCOUNT</b>	<b>501</b>	<b>536</b>	<b>(35)</b>	<b>540</b>	<b>541</b>	<b>(1)</b>

\* IT position eliminated (no backfill after transfer to Market Dev)  
 Engineer position eliminated (no backfill after resignation)  
 Accounting Clerk position eliminated (no backfill after resignation)  
 Two Operations Supervisor positions added to 2011 (accelerated staffing budgeted in 2012)

# 2011 Job Tracker

Req. #	Position	Dept #	Dept Name	Status	External Hire
10-005	Lead Compliance Eng	130	R.E. Compliance	↑	✓
10-040	Sr. Market Engineer (Senior Analyst FTR)	720	Market Monitoring	↑	✓
10-101	Engineer II	420	Transmission Service Studies	↑	✓
10-102	Sr. Planning Analyst	410	Steady State Planning	↑	✓
10-105	Sr. Operations Analyst	800	Ops Analyst & Performance Su	↑	✗
10-106	Supervisor, Transmission Services	890	Transmission Services	↑	✗
10-107	Operator II	890	Transmission Services	↑	✗
10-108	Operations Analyst II	885	Tariff Admin & AFC Supp	↑	✗
10-112	Sr. Market Analyst	720	Market Monitoring	↑	✓
10-114	Operator Trainer, Performance Support Spec	800	Ops Analyst & Performance Sp	↑	✗
10-119	Lead Engineer	8200	Engineering Admin	↑	✓
10-122	Engineer II	8110	IR Planning & Procurement	↑	✓
10-123	Supervisor, IT Apps	510	IT Applications	↑	✗
10-124	Business Analyst II	8110	IR Planning & Procurement	↑	✓
10-125	Regulatory Analyst I	420	Transmission Service Studies	↑	
10-126	Lead IT Specialist	580	IT Operations	↑	✗
10-127	Sr. IT Specialist	580	IT Operations	↑	✓
10-130	Director, Compliance	230	SPP Compliance	↑	✗
10-131	Operations Trainer	340	Training	↑	
10-132	Supervisor, IT Apps	510	IT Applications	↑	✓
10-133	Lead Compliance Engineer	230	SPP Compliance	↑	
11-001	Training & Education Compliance Engineer	170	R.E. Administration	↑	✗
11-002	Administrative Assistant I	170	R.E. Administration	↑	✓
11-003	Lead Compliance Engineer	130	R.E. Compliance	↑	✓
11-004	Lead Compliance Engineer	170	R.E. Administration	↑	
11-005	Enforcement Attorney	180	R.E. Enforcement	↑	
11-006	Facilities/Corporate Services Manager	150	Human Resources	↑	✓
11-007	Manager, Market Settlements	160	Settlements	↑	✗
11-008	Settlement Analyst I	160	Settlements	↑	✓
11-009	Sr. Market Analyst	720	Market Monitoring	↑	✓
11-010	Engineer II, Forecast	895	Market Support & Analysis	↑	✗
11-011	Engineer II, Reliability Unit Commitment	895	Market Support & Analysis	↑	✗
11-012	Sr. Engineer, Market Support & Analysis	895	Market Support & Analysis	↑	✗
11-013	Engineer I, Reliability Unit Commitment	895	Market Support & Analysis	↑	✓
11-014	Engineer II, Congestion Hedging	450	Congestion Hedging	↑	✗
11-015	Lead Engineer, Congestion Hedging	450	Congestion Hedging	↑	✗
11-016	Planning Analyst III	8000	Contract Services	↑	✗
11-017	Project Analyst II	560	Project Management	↑	✗
11-018	Project Analyst II	560	Project Management	↑	✓
11-019	Lead IT Specialist	510	IT Applications	↑	✗
11-020	Sr. Vendor Manager	510	IT Applications	↑	✗
11-021	Service Desk Analyst (Part-Time)	580	Service Management	↑	✓
11-022	Service Desk Analyst (Part-Time)	580	Service Management	↑	✓
11-022	Service Desk Analyst (Part-Time)	580	Service Management	↑	✓
11-024	Service Desk Analyst (Part-Time)	580	Service Management	↑	✓
11-025	Service Desk Analyst (Part-Time)	580	Service Management	↑	
11-026	Service Desk Analyst (Part-Time)	580	Service Management	↑	
11-027	Service Desk Analyst (Part-Time)	580	Service Management	↑	
11-028	Service Desk Analyst (Part-Time)	580	Service Management	↑	
11-029	Operations Analyst III	840	Markets Administration	↑	✓

## 2011 Job Tracker

Req. #	Position	Dept #	Dept Name	Status	External Hire
11-030	Sr. Systems Events Analyst	230	SPP Compliance		
11-031	Instructional Designer/Trainer	340	Training	↑	✓
11-032	Market Trainer and Performance Support	340	Training	↗	
11-033	Writer/Communications Specialist	310	Communications	↑	✓
11-034	Market Operator III, EIS Market	840	Markets Administration	↑	✗
11-035	Sr. Engineer, Reliab Compliance Supp & Anal	870	Operations Eng. Anal & Spt	↑	✗
11-036	Sr. Engineer, Tariff Compliance Supp & Anal	885	Tariff Admin & AFC Supp	↑	✗
11-037	Supervisor, Reliability Coordination - South	8142	RC South	↑	✗
11-038	Sr. Business Analyst	450	Congestion Hedging	↑	✗
11-039	Settlement Analyst II	160	Settlements	↑	✓
11-040	Customer Relations Representative II	320	Customer Service	↑	✗
11-041	IT Specialist II	510	IT Applications	↗	
11-042	Sr. Data Analyst	580	Data Management	↑	✓
11-043	Regulatory Policy Analyst I	900	Regulatory	↑	✗
11-044	Sr. Settlement Analyst	160	Settlements	↑	✗
11-045	Sr. Settlement Analyst	160	Settlements	↑	✓
11-046	Settlement Analyst II	160	Settlements	↑	✓
11-047	IT Specialist I	510	IT Applications	↗	
11-048	Sr. IT Specialist	510	IT Applications	↗	
11-049	IT Specialist I	510	IT Applications	↑	✓
11-050	IT Specialist II, Environmental	580	Networking	↑	✓
11-051	Market Analyst II	720	Market Monitoring	↑	✓
11-052	Engineer I, RealTime Shift Support	880	Real Time & Current Day Eng.	↑	✓
11-053	Engineer I, RealTime Shift Support	880	Real Time & Current Day Eng.	↑	✓
11-054	Regulatory Policy Supervisor	900	Regulatory	↑	✗
11-055	Customer Relations Representative II	320	Customer Service	↗	
11-056	IT Specialist I	580	Networking	↑	✗
11-057	Engineer II, Outage Coordinator	870	Operations Eng. Anal & Supp	↗	
11-058	Engineer I, Operations Forensics	895	Market Support & Analysis	↑	✓
11-059	IT Specialist II	575	Service Management	↗	
11-060	Supervisor, EIS Market	840	Modeling & Data Integrity	↑	✗
11-061	Engineer I, RUC DAM Modeling & Data Integrity	850	Modeling & Data Integrity	↑	✗
11-062	EIT	400	Transmission Development	↑	✓
11-063	EIT	400	Transmission Development	↑	✓
11-064	Operator III, Tariff Administration	810	Tariff Administration	↑	✗
11-065	Lead Compliance Engineer - CIP	130	R.E Compliance	↑	✓
11-066	Sr. Engineer	410	Steady State Planning	↑	✓
11-067	Planning Analyst I	420	Trans Service Studies	↗	
11-068	Sr. Market Engineer or Sr. Market Analyst	710	Market Design	↑	✗
11-069	Supervisor, Market Settlements	160	Settlements	↑	✓
11-070	OIT	810	Tariff Administration	↑	✓
11-071	Sr. IT Specialist	580	Server Administration	↑	✓
11-072	Engineer I	880	Real Time & Current Day Eng.	↑	✗
11-073	Business Analyst II	510	IT Applications	↑	✓
11-074	Engineer I	895	Mkt. Support/Analysis	↑	✓
11-075	IT Spec II - Vendor Management	510	IT Applications	↑	✓
11-076	Sr. Operator/Operator III	890	Transmission Services	↑	✗
11-077	Operator III	8142	Reliability Coordination	↑	✓
11-078	Sr. Operator	8142	Reliability Coordination	↑	✓
11-079	Operator I	830	Interchange	↑	✗



# 2011 Job Tracker

Req. #	Position	Dept #	Dept Name	Status	External Hire
11-080	Operator I	830	Interchange	↑	✗
11-081	Operator II	810	Tarriff Administration	↑	✗
11-082	Planning Analyst II	460	Economic Planning	↗	✗
11-083	Sr. VP, Regulatory	110	Regulatory Policy	↑	✓
11-084	Sr. Business Analyst	510	IT Applications	↑	✗
11-085	Sr. Market Operator	840	Market Operations	↑	✓
11-086	Settlement Analyst	160	Settlements	↗	
11-087	Lead IT Specialist	510	IT Applications	↑	✓
11-088	Engineer II	8120	IR Planning & Procurement	↘	
11-089	OIT-Pending Requisition	810	Tarriff Administration	↑	✓
11-090	Settlement Analyst	160	Settlements	↑	✓
11-091	Operator III	890	Transmission Services	↑	✗
11-092	Operator I	830	Interchange	↑	✗
11-093	Operator III	840	Market Operations	↑	✗
11-094	IT Specialist II	510	IT Applications	↗	
11-095	Lead IT Specialist	510	IT Applications	↑	✗
11-096	Engineer I	420	Trans Servce Studies	↑	✓
11-097	Engineer in Training	400	Transmission Development	↑	✓
11-098	Engineer in Training	400	Transmission Development	↑	✓
11-099	Summer Intern - not included in Active Headcou	150	Human Resources		
11-100	Summer Intern - not included in Active Headcou	150	Human Resources		
11-101	Summer Intern - not included in Active Headcou	150	Human Resources		
11-102	Summer Intern - not included in Active Headcou	150	Human Resources		
11-103	Summer Intern - not included in Active Headcou	150	Human Resources		
11-104	Summer Intern - not included in Active Headcou	150	Human Resources		
11-105	Summer Intern - not included in Active Headcou	150	Human Resources		
11-106	Manager, Communications	310	Communications	↗	
11-107	IT Specialist I	580	IT Enterprise Operations	↗	
11-108	Ops Analyst II	800	Ops Analyst & Performance Sp	↑	✓
11-109	Engineer I	885	Tariff Admin & AFC Supp	↑	✗
11-110	Operator I	830	Interchange	↑	✗
11-111	OIT	810	Tariff Administration	↑	✓
11-112	OIT	810	Tariff Administration	↓	
11-113	OIT	810	Tariff Administration	↓	
11-114	Ops Analyst II	800	Ops Analyst & Performance Sp	↑	✓
11-115	Sr. IT Specialist	510	IT Applications	↗	
11-116	Business Analyst II	510	IT Applications	↗	
11-117	Sr. IT Specialist	510	IT Applications	↗	
11-118	Operations Analyst II	870	Operations Eng. Anal & Supp		
11-119	Chief Architect of IT	500	Information Technology	↗	
11-120	Sr. Operator	8142	Reliability Coordination	↑	✗
11-121	Settlement Analyst	160	Settlements	↗	
11-122	Operations Trainer	800	Ops Analyst & Performance Sp	↗	
11-123	Operator III	8130	ICT Tariff Admin	↑	✗
11-124	Manager, Steady State Planning	410	Engineering Planning	↗	
11-125	Engineer I	430	Engineering Modeling	↗	
11-126	OIT	810	Tariff Administration	↗	
11-127	Lead Operator	840	Market Operations		

# 2011 Job Tracker

Req. #	Position	Dept #	Dept Name	Status	External Hire
11-128	Sr. Operator	8130	ICT Tariff Admin		
11-129	Compliance Analyst II	230	Compliance		
Pending #	PT Law Clerk	180	RE Enforcement	↓	
Pending #	Market Engineer II	720	Market Monitoring	↓	
Pending #	Regulatory Analyst	900	Regulatory	↓	
Pending #	Supervisor, Operations Applications Support	840	Market Operations	↓	
Pending #	Supervisor, Market Forensics Analysis	895	Market Support & Anlysis	↓	
<b>2011 Budgeted Incremental Positions Filled</b>		<b>47</b>	<b>Status Legend</b>		
<b>2010 Positions Filled in 2011</b>		<b>18</b>	2011 Inactive	↓	7
<b>YTD Replacement Hires</b>		<b>39</b>	2011 Active, Not Posted	↘	3
<b>YTD Total Hires</b>		<b>104</b>	2011 Active, Posted	↗	26
<b>Number of External Hires Total *</b>		<b>57</b>	Filled (not including 2010 req)	↑	86
* All others include internal and external hires					
<b>07/31 Ending Headcount</b>		<b>502</b>	<b>Hire Legend</b>		
August New Hires		3	2011 Internal	✗	40
August Resignations		-4	2011 External	✓	47
<b>08/31 Ending Headcount</b>		<b>501</b>			
2010 Open (in blue at top)		3			
2011 Open (7 inactive / 29 active)		36			
<b>Total Targeted Headcount</b>		<b>540</b>			

2011 Budgeted Incremental Req's sequence 11-001 thru 11-061

Replacement Headcount Highlighted in Yellow (Req 11-062 to 11-xxx)

Remaining 2010 Open Positions Highlighted in Blue (Req 10-xxx)