



**Southwest Power Pool**  
**FINANCE COMMITTEE MEETING**  
**October 14, 2011**  
**Teleconference**

**• Summary of Action Items •**

1. Approved minutes of September 28, 2011 meeting
2. Approved 2012 operating and capital budgets
3. Approved 2012 administrative fee of 25.5¢/MWh

**• 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
4. CPWG review of day-ahead market exposure calculations using OD+1, OD+4, and/or OD+4 and OD+1 data
5. Perform full review of Integrated Marketplace project at December 12, 2011 meeting including:
  - a. Basis for \$105MM capex budget
  - b. Comparison with most recent cost/benefit study results
  - c. Structure of major contracts executed to complete project



**Southwest Power Pool**  
**FINANCE COMMITTEE MEETING**  
**October 14, 2011**  
**Teleconference**

• M I N U T E S •

**Agenda Item 1 – Administrative Items**

SPP Chair Harry Skilton called the meeting to order at 8:00 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
Kip Fox	AEP
Gina Wilson	ITC-Great Plains
Nick Brown	SPP
Scott Smith	SPP
Debbie James	SPP
Philip Bruich	SPP

**Administrative Items**

The minutes from the September 28, 2011 meeting were reviewed. Kelly Harrison motioned to approve the minutes. The motion was seconded by Larry Altenbaumer and approved via unanimous voice vote.

The Committee recognized the contributions of Gary Voigt who has served on the Committee since 2004 and is now retiring from the Committee.

**SPP 2012 Operating and Capital Budgets**

SPP staff the 2012 operating and capital budgets for review. Staff focused its discussion on addressing concerns raised during the September 28 meeting (load forecasts, FERC assessments, vacancy allowance in personnel budgets, operating expenses associated with new campus, engagements of consultants and other service providers, and Integrated Marketplace scope and processes). The Chair requested SPP staff present a detailed review of the Integrated Marketplace project at the December meeting of the Committee. This review should address the following specific items:

1. Basis for the budget of \$105MM. What is included in this budget? What is excluded?
2. Compare current expected capital and operating costs with those utilized in the most recent cost/benefit analysis.
3. Review engagement of significant vendors to complete the project.

The Committee also reviewed the forecasts for 2013 and 2014 which are included as part of the 2012 operating and capital budgets. The Committee directed SPP staff to revise the forecast rate for 2013 to 28.0¢/MWh based on the uncertainty surrounding the 2013 load forecast.

Sandra Bennett motioned to approve the 2012 operating and capital budgets. The motion was seconded by Larry Altenbaumer and approved via unanimous voice vote.

**2012 Assessment and Administrative Fee Rate**

SPP staff presented its recommended 2012 Assessment and Administrative Fee rate of 25.5¢/MWh based on the assumptions documented in the 2012 operating and capital budgets.

Sandra Bennett motioned to approve the 2012 Assessment and Administrative Fee rate of 25.5¢/MWh. The motion was seconded by Kelly Harrison and approved via unanimous voice vote.

**Credit Practices Working Group**

SPP staff provided a summary of the near term work the Credit Practices Working Group (“CPWG”) will be addressing; i) FERC Order 741 Compliance, ii) Timeliness of Day-Ahead data in exposure calculations iii) Collateral requirements, iv) Back-loaded TCR portfolio collateral requirements. The Committee directed the CPWG to consider at least three options when addressing the timeliness of Day-Ahead data in exposure calculations

1. Use of unsettled data obtained one day following the operating day
2. Use of unsettled data obtained four days following the operating day
3. Use of unsettled data obtained four days following the operating day and using unsettled data obtained one day following the operating day as an advisory source of information

**Future Meetings**

The next meeting of the SPP Finance Committee is scheduled for December 12, 2011 beginning at 2pm central time and finishing at 6pm central. There was a suggestion to expand the meeting time to start at 10am and end at 6pm to allow ample time to review all changes to the Credit Policy which will be submitted as part of the Integrated Marketplace filing in February 2012.

There being no further business, Harry Skilton adjourned the meeting at 10:25 am.

Respectfully Submitted,

Thomas P. Dunn  
Secretary



Southwest Power Pool, Inc.  
FINANCE COMMITTEE MEETING

October 14, 2011

Teleconference

Dial: 866-221-3208

Code: 113358

• A G E N D A •

8:00 a.m. – 10:00 a.m.

- 1. Administrative Items (5 minutes) ..... Harry Skilton
- 2. SPP 2012 Budget Review (50 minutes) ..... Tom Dunn
  - a. **Approval of Budget \*\*ACTION\*\***
  - b. **Approval of 2012 Assessment and Administrative Fee rate \*\*ACTION\*\***
- 3. Summary of CPWG Future Work ..... Tom Dunn
- 4. Future Meeting ..... All
- 5. Adjourn ..... Harry Skilton

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**Subject:** SPP Finance Committee Meeting Proxy

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**From:** Gary Voigt [<mailto:g.voigt@aecc.com>]  
**Sent:** Wednesday, October 19, 2011 8:54 AM  
**To:** Cheryl Robertson  
**Cc:** Michael Henderson  
**Subject:** FW: SPP Finance Committee Meeting Proxy

Cheryl:

Michael Henderson has my proxy for the SPP Finance Committee teleconference on October 14.

GVoigt



**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**  
**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 and October 14, 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 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 2012 SPP operating and capital budgets as submitted.

**Approved:** Finance Committee

**Action Requested:** Approve Recommendation





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

SECTION	PAGE
1 INTRODUCTION AND OVERVIEW	
A. Executive Summary	1
B. Planning Process	2
C. Process Improvements	3-4
D. Drivers and Assumptions	5-7
E. Administrative Fee Calculation	8
F. Net Revenue Requirement Growth	9
G. Prior Year Budget Comparison	10
2 SPP PROJECT DESCRIPTION AND ANALYSIS	
A. Project Overview	11
B. Integrated Marketplace Overview	12
C. New Facility Overview	13-14
D. 2011 Incremental Activity List	15
3 VALUING WORK AND STAFFING ANALYSIS	
A. Valuing Work at SPP	16-19
B. Incremental Staff Analysis	20-21
C. Salary Assumptions	22
4 2012 BUDGET DETAIL AND COMMENTARY	
A. Income Statement Commentary	23-27
B. Summary Balance Sheet	28
C. Three Year Income Statement Forecast	29
D. Three Year Cash Flow Forecast	30
5 SUPPLEMENTAL ANALYSIS	
A. Administrative Fee History	31
B. Travel Expense Analysis	32
C. Outside Services by Business Function	33
D. Interest Expense Detail	34
E. Analysis of 2011 Fees & Assessments	35
F. Net Revenue Requirement Variance History	36
G. Load Variance Sensitivity	37
H. Prior Year Forecast Comparison	38
I. Contract Services Sensitivity	39
J. Business Unit Strategic Initiatives	40-42



## 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.

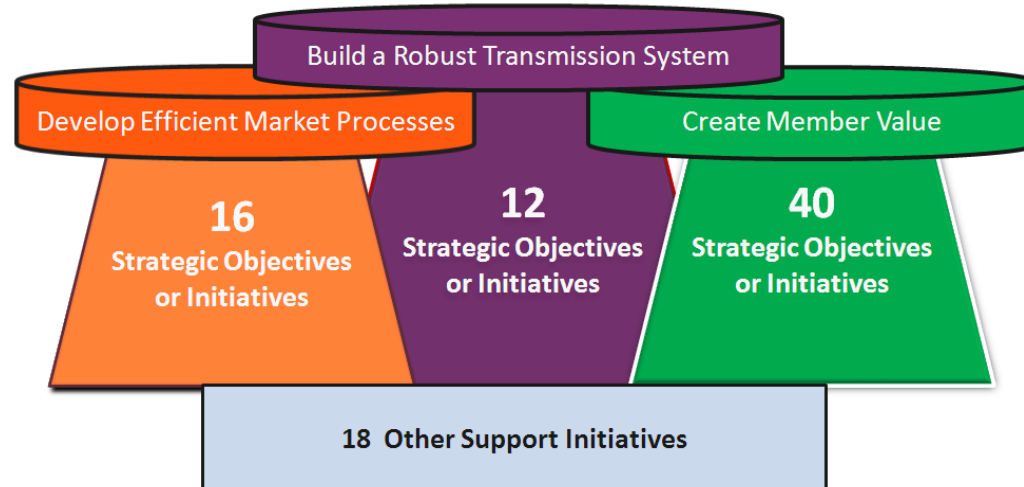
The capital budget includes projects totaling \$128 million for 2012-2014, with \$82 million expected to be incurred in 2012. Of the total capital projects through 2014, two projects dominate the capital outlays: Integrated Marketplace (\$106MM total project with \$74MM spend in 2012-2014), and construction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

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) (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    0%</b>	
<b>Net Income (Loss)</b>	<b>(\$5,540)</b>	<b>(\$4,334)</b>	<b>(\$1,206) (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



### 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
<b>Total</b>	<b>\$10,287</b>	<b>\$54,465</b>	<b>\$23,801</b>	<b>\$88,553</b>

\* 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>

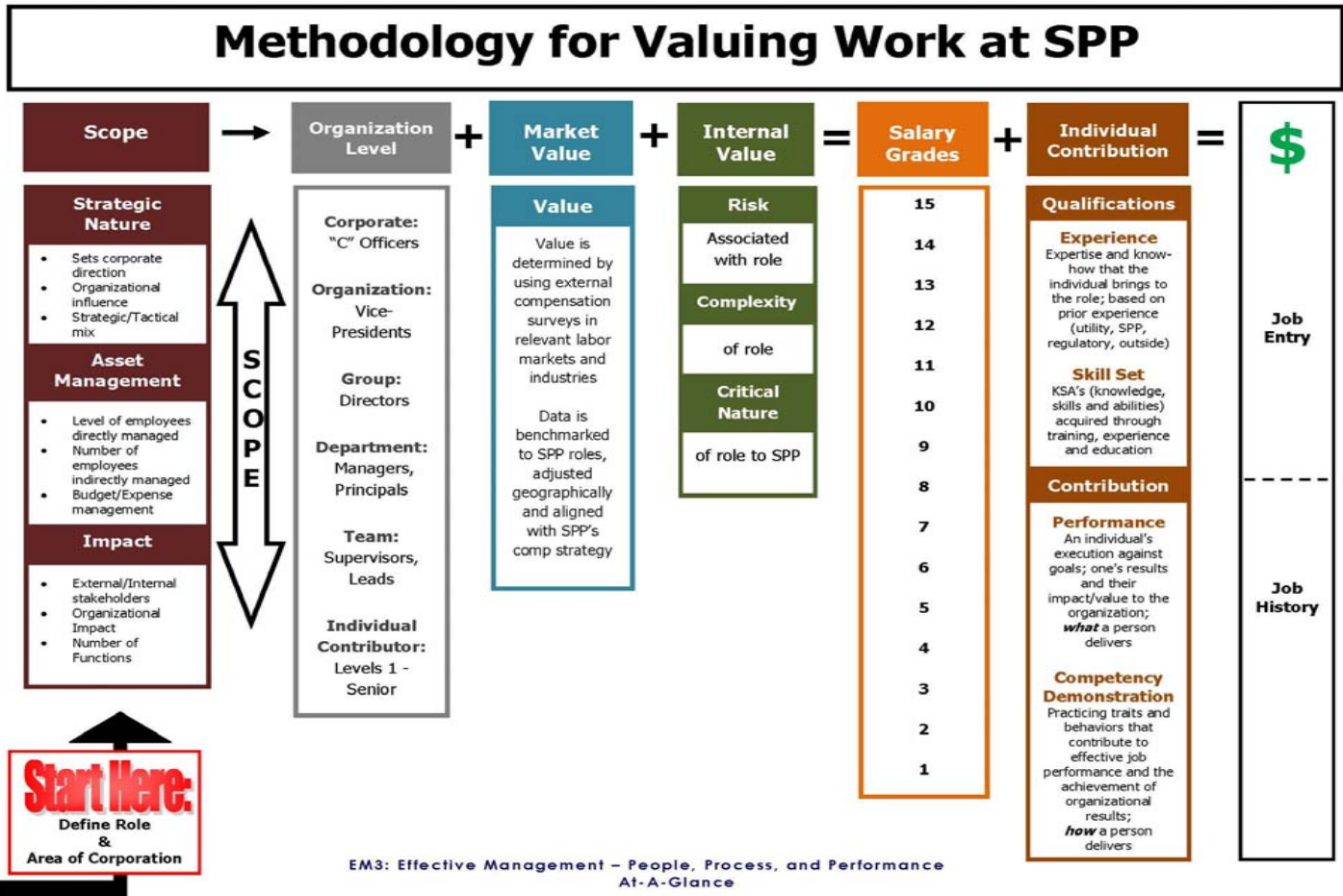
\* Highlighted projects are new to 2012. All other projects are carryover projects.

### 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:



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
<u>2013 Salary</u>		
2013 Forecast		
	Expense	Staff
FY Salary Beginning January 31, 2013	\$51,003	590
2013 Incremental Expense	1,920	23
Merit Increase (2.5%) & Promotions (0.75%)	2,704	
Vacancy (4%)	(2,218)	
Total	\$53,409	613
<u>2014 Salary</u>		
2014 Forecast		
	Expense	Staff
FY Salary Beginning January 31, 2014	\$53,409	613
2014 Incremental Expense	581	7
Merit Increase (2.5%) & Promotions (0.75%)	3,749	
Vacancy (4%)	(2,274)	
Total	\$55,464	620

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

**SOUTHWEST POWER POOL**  
**2012 BUDGET - SUMMARY INCOME STATEMENT & COMMENTARY**



			Fav/(Unfav) Variance Compared to:			
	2012 Budget	2011 Budget	2011 Forecast	2011 Budget	2011 Forecast	
(\$000's)						
<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 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) -23%</b>	<b>(3,348) -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) -7%</b>	<b>(4,326) -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) -48%</b>	<b>(213) -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><u>(\$5,540)</u></b>	<b><u>(\$17,505)</u></b>	<b><u>(\$11,702)</u></b>
Debt Repayment	11,206	12,700	19,748
MW/h Forecast	353,453	359,816	366,292
Net Revenue Requirement	89,560	98,645	113,620
Calculated Admin Fee / MWh	\$0.253	\$0.274	\$0.310
Recommended Admin Fee / MWh	\$0.255	\$0.270	\$0.300
Capital Expense	82,034	29,623	16,759
Headcount	590	598	621
Fixed Charge Coverage Ratio	3.20	3.22	3.37

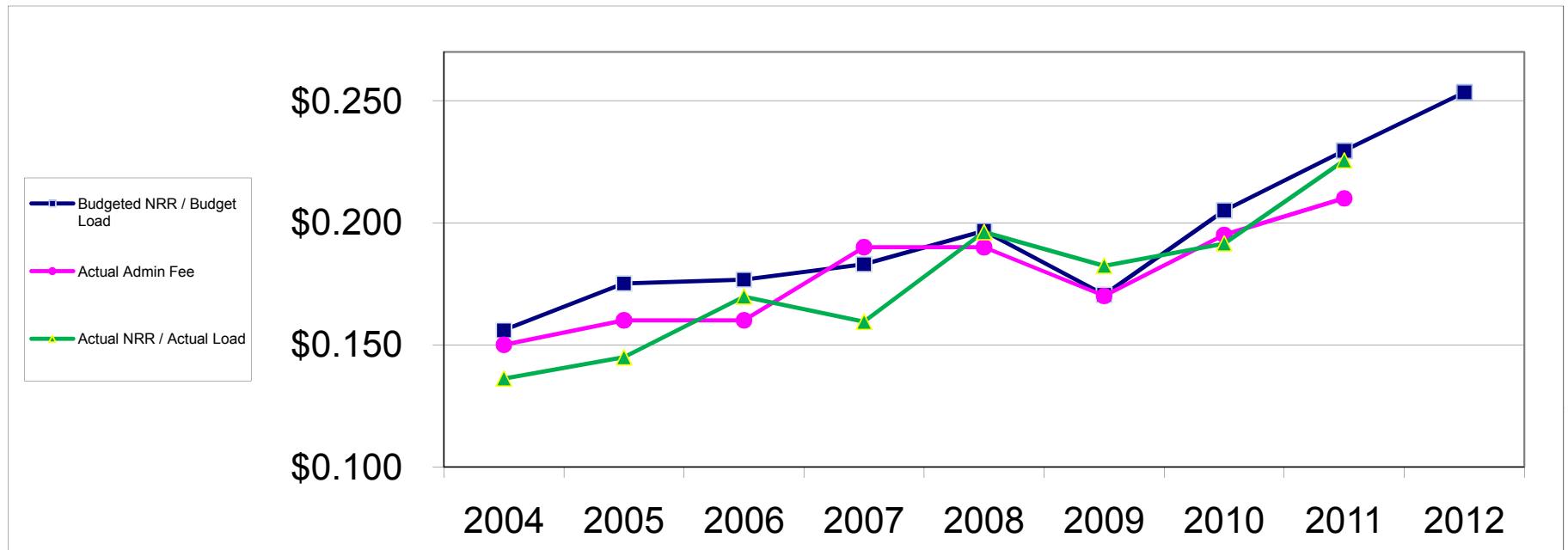


## SOUTHWEST POWER POOL THREE YEAR FORECASTED CASH FLOW

(\$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	\$6,192
<b>Income</b>						
Tariff Administration Service	20,730	22,533	23,434	23,434	97,150	109,888
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>132,652</b>	<b>146,008</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>(102)</b>	<b>3,127</b>
Ending Cash on Hand	(\$3,089)	(\$14)	\$2,987	\$6,294	\$6,192	\$9,319
Recommended Admin Fee MW/h	\$0.255	\$0.255	\$0.255	\$0.255	\$0.270	\$0.300
<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>\$10,295</b>	<b>\$16,663</b>



## SOUTHWEST POWER POOL ADMINISTRATIVE FEE HISTORY (In \$000 Except for Admin Fee)



	<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	\$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 Admin Fee	\$0.156	\$0.175	\$0.177	\$0.183	\$0.197	\$0.170	\$0.205	\$0.229	\$0.253
Admin Fee (¢ per MWh)	\$0.150	\$0.160	\$0.160	\$0.190	\$0.190	\$0.170	\$0.195	\$0.210	\$0.255
Actual Net Revenue	\$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 Admin Cost	\$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>

**TOTAL SPP OUTSIDE SERVICES**

**\$ 18,700    \$ 17,500    \$ 1,200** <sup>41 of 55</sup>



## 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.*

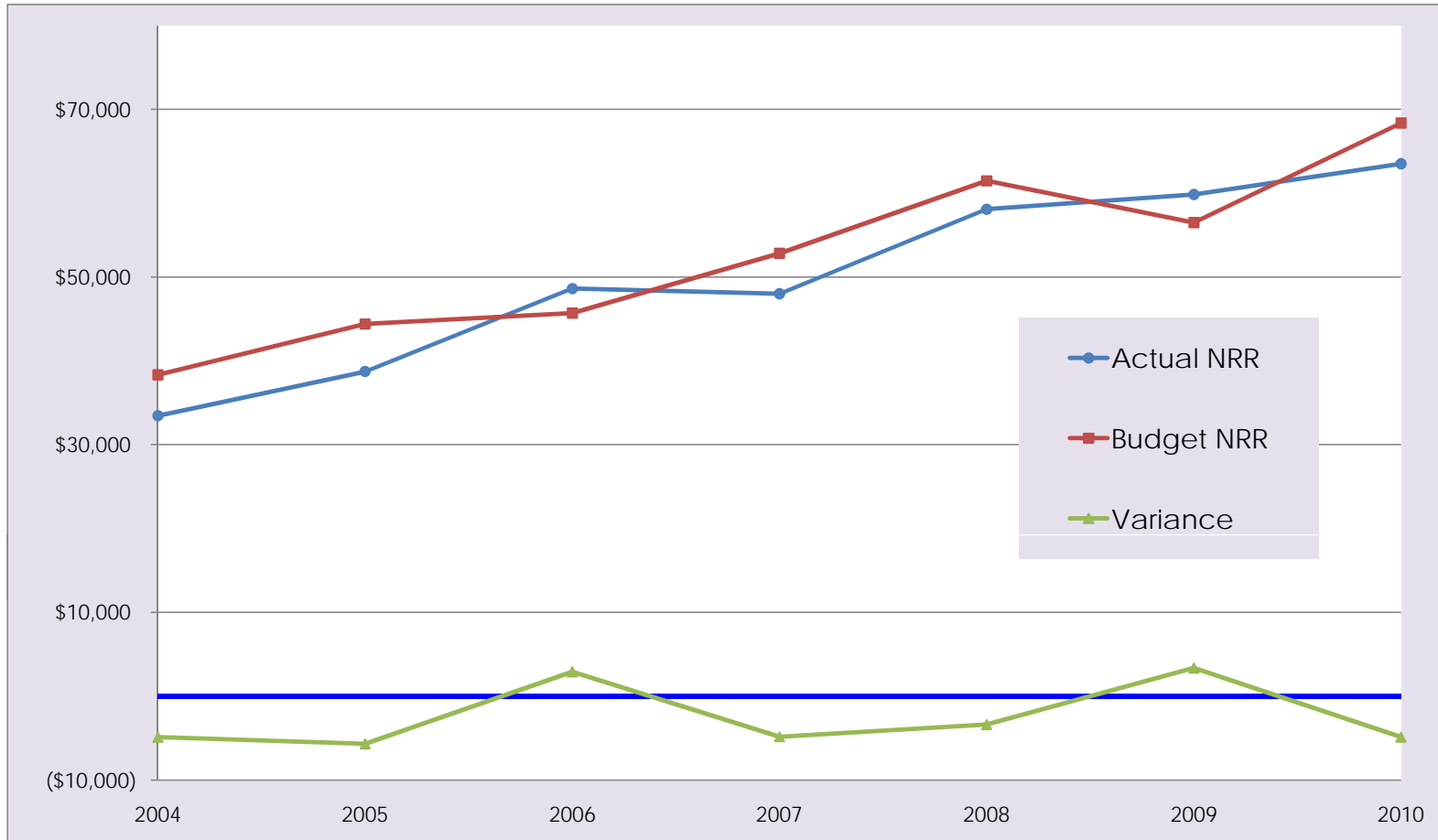
**SOUTHWEST POWER POOL  
ANALYSIS OF 2011 FEES & ASSESSMENTS**



	<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**

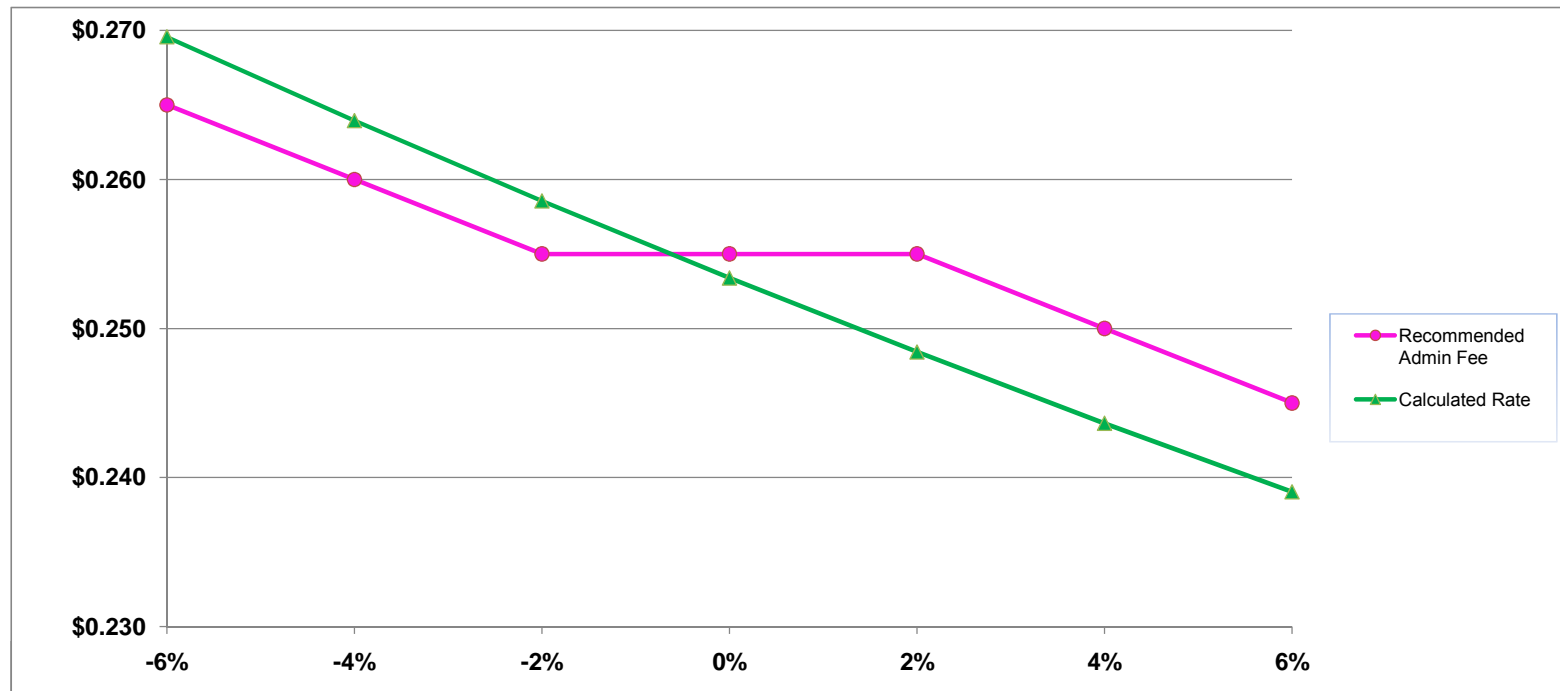


	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Actual NRR	\$33,443	\$38,714	\$48,613	\$47,998	\$58,081	\$59,837	\$63,497
Budget NRR	<u>\$38,322</u>	<u>\$44,391</u>	<u>\$45,688</u>	<u>\$52,819</u>	<u>\$61,462</u>	<u>\$56,478</u>	<u>\$68,358</u>
Variance	(\$4,879)	(\$5,677)	\$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>Net Revenue Required Estimations</b>							
2008 Budget - NRR Estimations	\$61,462	\$64,503	\$71,151				
2009 Budget - NRR Estimations		\$56,478	\$68,411	\$75,079			
2010 Budget - NRR Estimations			\$68,358	\$90,106	\$94,870		
2011 Budget - NRR Estimations				\$78,368	\$86,698	\$94,643	
2012 Budget - NRR Estimations					\$89,560	\$98,645	\$113,620
<i>Actual NRR</i>	<i>\$58,081</i>	<i>\$59,837</i>	<i>\$63,497</i>	<i>\$76,664</i>			
<b>Billing Unit Estimations</b>							
2008 Budget - Billing Units Estimations	312,498	319,058	325,758				
2009 Budget - Billing Units Estimations		331,360	346,434	353,363			
2010 Budget - Billing Units Estimations			333,458	338,060	342,725		
2011 Budget - Billing Units Estimations				343,000	345,039	349,836	
2012 Budget - Billing Units Estimations					353,453	359,816	366,292
<i>Actual Billing Units</i>	<i>296,135</i>	<i>328,175</i>	<i>331,610</i>	<i>339,993</i>			
<b>Administrative Fee Estimations</b>							
2008 Budget - Admin Fee Estimations	\$0.190	\$0.200	\$0.200				
2009 Budget - Admin Fee Estimations		\$0.170	\$0.170	\$0.170			
2010 Budget - Admin Fee Estimations			\$0.195	\$0.270	\$0.280		
2011 Budget - Admin Fee Estimations				\$0.210	\$0.255	\$0.280	
2012 Budget - Admin Fee Estimations					\$0.255	\$0.270	\$0.300
<i>Actual Admin Fee</i>	<i>\$0.190</i>	<i>\$0.170</i>	<i>\$0.195</i>	<i>\$0.210</i>			

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	359,816	366,292
Calculated Admin Fee / MWh	\$0.253	\$0.274	\$0.310
<b>Recommended Admin Fee / MWh</b>	<b>\$0.255</b>	<b>\$0.270</b>	<b>\$0.300</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	359,816	366,292
Calculated Admin Fee / MWh	\$0.253	\$0.274	\$0.362
<b>Recommended Admin Fee / MWh</b>	<b>\$0.255</b>	<b>\$0.270</b>	<b>\$0.360</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	359,816	582,190
Calculated Admin Fee / MWh	\$0.253	\$0.274	\$0.228
<b>Recommended Admin Fee / MWh</b>	<b>\$0.255</b>	<b>\$0.270</b>	<b>\$0.230</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



**Southwest Power Pool, Inc.**

**Memo to Finance Committee**

**October 12, 2011**

**Response to Finance Committee Budget Questions**

**Background**

During the September 28, 2011 Finance Committee meeting, a number of 2012 budget related questions were raised. This memo will attempt to document those questions accurately and answer them as well.

**Questions:**

- 1. 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?**

Answer: SPP's administrative fee is applied to both Point-To-Point and Network Integration Transmission Service load under SPP's Tariff. The load amounts used are the 12-month average of zonal coincident peak demands multiplied by number of all hours in the applicable month. On a monthly basis, SPP collects coincident peak data from its transmission owning members. For budgeting purposes, data collected in 2011 will be used in the calculation of the 2012 trailing 12-month average. SPP will forecast for uncollected data (the budget is generally completed in August of the preceding year) by applying prior year growth amounts to the collected data. The result of these calculations is an estimated 2012 budgeted load of 353,453 GWh. This exercise should give SPP a reasonable estimate of billing determinant for the 2012 budgeted year.

For the 2013 & 2014 estimates, SPP has revised its originally distributed forecast to include a growth rate of 1.8% based on the previous three year growth average. Staff feels the use of a three year average should smooth out the effects of an abnormally hot summer in 2011. The following table will show the effect of the changes on the calculated administrative fee rate.

(\$000)	Original Estimates		Revised Estimates	
	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>
NRR	\$98,645	\$113,620	\$98,645	\$113,620
Billing Determinants in GWh	369,374	382,747	359,816	366,292
Calculated Rate	\$0.267	\$0.297	\$0.274	\$0.310

- 2. FERC Assessments: What is driving the continuous increase in FERC assessments? Can SPP load serving entities help to curb this growth?**

Answer: SPP is assessed on behalf of its load serving members on an annual basis by FERC. This assessment is used to fund FERC operations for the preceding year. There are two primary factors in determining SPP's portion of the assessment as compared to other ISO/RTO's and load serving entities. Those factors are: 1) Company Sales (load), and 2) FERC operating costs. Although SPP's load has increased over the last few years primarily due to the acquisition of the Nebraska region, the primary assessment driver has been FERC operating costs. FERC has added a considerable amount of staff over the last few years which in turn will increase their need for operational funding. The following table depicts SPP's portion of actual FERC fees as a percentage of SPP operating expenses:



(\$000)	SPP Operating Expenses	Actual FERC Assessment <sup>1</sup>	%
2010	\$115,844	\$14,676	13%
2009	\$117,530	\$12,806	11%
2008	\$99,238	\$10,546	11%
2007	\$84,507	\$9,137	11%
2006	\$64,922	\$8,688	13%

<sup>1</sup> Represents actual FERC assessment for the corresponding calendar year. Will differ from actual expense recognized on financial statements.

Paul Suskie, SPP’s Senior Vice President, Regulatory Policy and General Counsel, has informed SPP staff that this issue will be addressed at an ISO/RTO Council meeting on Friday, October 14, 2011. The ISO/RTO Council has an open docket filed with FERC do address the assessment issue and will be discussing their plan of action to solicit a favorable FERC response.

**3. Headcount: How was the 4% vacancy factor determined? Discuss need for new positions not associated with Integrated Marketplace.**

Answer: As of July 2011, SPP had a staffing vacancy rate of approximately 5% consisting of the following issues:

(\$000)	Amount	%
Late Filling	\$668	2.6%
Backfills	\$400	1.5%
Terminations	\$40	0.2%
Regional Entity	\$205	0.8%
	\$1,313	5.1%

“Late Filling” represents incremental positions in 2011 which were filled slower than expected in the 2011 budget; the percentage of vacancy dollars associated with Late Filling will decrease through the end of the year as the incremental positions in the 2011 budget have been largely filled. “Backfills” represents vacancy associated with an existing SPP employee vacating their current position to fill another open position within SPP. “Terminations” represent vacancy associated with positions open due to an existing SPP employee leaving their employment with SPP. Finally, “Regional Entity” represents any vacancy in staffing within the Regional Entity; this vacancy is separate from other vacancies due to being funded directly from NERC and not from the SPP administrative fee.

SPP staff will address questions and discuss non-Integrated Market staffing additions during the October 14, 2011 Finance Committee meeting.

**4. Please detail the operating costs associated with the new facilities.**

Answer: The following two tables are budget estimates were received from SPP’s building architects for maintenance and utilities expense:





Table 1: New Facility Maintenance

<u>Facility Maintenance</u>	<u>Basis for Cost</u>	<u>Amount (\$000)</u>
Pest Control	\$450/mth for both buildings	\$5.4
Window Washing	3 exterior and 1 interior washing per year	\$7.0
Janitorial Costs	150,000 sf Office Building nightly cleaning and 4 hours/day maid service @ \$12k/mth 17,770 sf Ops Center nightly cleaning @ \$1.4/mo	\$144.0
Waste Management	Rental and trash removal for two standard dumpsters with twice weekly pickup	\$10.2
Landscape and Irrigation Maint	Mowing, edging, treating, tree trimming, leaf removal and parking lot pickup	\$72.0
Snow Removal	Up to \$10k per incident for all drives, exposed parking spaces, and walkways	<u>\$10.0</u>
Total		\$265.7

Table 2: New Facility Utilities

	<u>Utility Expense Estimations</u>				
	<u>Electricity</u>	<u>Natural Gas</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Office Building	\$380	\$5	\$35	\$71	\$491
Operations Building	<u>\$720</u>	<u>N/A</u>	<u>\$4</u>	<u>\$9</u>	<u>\$733</u>
Total	\$1,100	\$5	\$39	\$80	\$1,224

	<u>Utility Expense Billing Metrics</u>		
	<u>Electricity (kWh)</u>	<u>Natural Gas (Therm)</u>	<u>Water (Gallon)</u>
Office Building	4,550,000	5,000	17,100,000
Operations Building	<u>11,000,000</u>	<u>N/A</u>	<u>2,100,000</u>
Total	15,550,000	5,000	19,200,000

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?**

Answer: The following table gives further business driver information for the 2012 budgeted consulting line items in which there were large increases or no previous year activity. As well, SPP staff will address any questions at the October 14, 2011 meeting. In addition, SPP has not budgeted for any entity-specific studies which the costs are not recovered by that entity.



<u>Description of Services</u>	<u>2012 Budget</u>	<u>2011 Budget</u>	<u>Incr</u>	<u>Primary Business Driver</u>
IT Project consulting services	\$3,804	\$1,573	\$2,230	Non-market project support such as PRR's or Regulatory driven system changes
Regional Entity consulting for hearings and audits	\$1,765	\$1,340	\$425	Additional audit backlog
Training systems support	\$647	\$230	\$417	Market related internal & external training (not capitalized)
Engineering support and automation	\$352	\$0	\$352	System and model enhancements to improve staff efficiency and accuracy
Facility security and support	\$488	\$194	\$294	Additional facilities
Engineering planning projects	\$552	\$281	\$271	Additional steady state planning requirements
PMO support	\$272	\$4	\$268	Support for non-market projects
Integrated market training	\$204	\$0	\$204	Internal market related readiness training for operations groups
Process improvement consulting	\$175	\$0	\$175	Development of Business Process Improvement training curriculum and development
Board of Directors fees	\$586	\$420	\$167	Additional meeting requirements
ITP consulting	\$125	\$0	\$125	Integrated Transmission Planning benefits & robustness
Stochastic consultant	\$100	\$0	\$100	Planning and tool assessment for stochastic modeling

**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).**

Answer: Fixed price contracts have a formal change order process that document authorization and financial impacts of changes as they are approved. Any such changes are reflected in the financial projections. Scope reviews and quarterly assessment are performed with Alstom for market systems changes under the variable-cost portion of work. Furthermore, if there are substantial changes we are notified immediately. We would document any significant increase in scope but, so far, scope has been decreasing on a net basis since design has started.

We have reduced scope in certain areas by looking at software components built for other RTOs adapting our processes to use them. In other areas scope has increased, particularly with regards to adapting legacy systems to Marketplace. On a net basis, scope has trended downward.

With approved MPRRs we do not expect any significant cost increases, though staff and the Market Working Group have not yet assessed the impact of a proposal to convert all system interfaces to Central Standard Time.

SPP Accounting will continue to review the capitalization policy, but has determined the budget is consistent with its practices.



**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 27.0¢/MWh in 2013 and 30.0¢/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

# Memorandum

**To:** Finance Committee  
**From:** Tom Dunn  
**CC:** Credit Practices Working Group  
**Date:** DATE  
**Re:** Additional CPWG Work for Integrated Marketplace

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Below is a summarized listing of items still under review by the CPWG. Alongside each item is an estimation of the impact to the previously approved Credit Policy, credit systems, and expected completion date.

## **FERC Order 741 – Minimum Participation Criteria**

Description: SPP's compliance filing submitted to FERC on June 30, 2011 was approved with additional direction in the following areas: a) develop and file a standard Attestation form for use by market participants, b) adopt a two-day cure period to allow market participants who do not satisfy SPP's minimum participation criteria to come into compliance, and c) develop a procedure to verify that market participants are actually implementing their risk management policies and programs.

Impact: The requirement to develop procedures to verify a market participant's risk management policies and programs was required of each RTO. The RTO's are jointly working to develop a standard procedure which will be consistently applied across all markets. This consistency will benefit those numerous market participants who are active in multiple markets. Impact to systems will be minimal.

Completion: Compliance filing is due December 14, 2011

## **FERC Order 741 – Netting**

Description: FERC required each RTO market to develop a solution which allows the RTO to be a party of standing in a bankruptcy situation. FERC phrased the compliance as either; a) establish a counterparty to the market (either RTO or third party), b) determine exposure based on gross obligations, c) hold a security interest in A/R of market participant's transaction in the market, or d) something else.

Impact: Will require significant changes to Tariff regardless of solution. Impact to systems will be minimal.

Completion: FERC has provided additional time to submit the compliance filing. SPP's filing will state the company is evaluating the appropriate alternatives for implementation prior to the go-live date of the Integrated Marketplace.

## **Day-Ahead Data in Exposure Calculation**



Description: Finance Committee requested CPWG consider utilizing data the day after closing of the day-ahead market in the calculation of exposure.

Impact: SPP staff is close to finalizing its research on this issue. The impact from a system standpoint appears to be minimal as the settlement system is already configured to run the calculation and the interface between the settlement system and credit system exists. Impact to Credit Policy also appears to be minimal as it would only entail an update to the description of how exposure for day-ahead activity is going to be calculated

Completion: CPWG should be completed on October 19, 2011.

### **Additional Collateral Requirements**

Description: Determine if additional collateral is required from market participants.

Impact: Minor changes to Tariff to define required collateral levels. No impact to systems as credit system is already designed to accept changes to collateral requirements.

Completion: CPWG should be completed prior to December 5, 2011

### **Back-Loaded TCR Portfolio Collateral Requirements**

Description: Market Participant obtains a portfolio of diverse TCRs, some with positive flows and others with counter-flows; if the portfolio is front loaded with positive flows should the RTO hold collateral based on the expected maximum counter-flow value in the back end of the portfolio.

Impact: Minor impact to Tariff to fully define how collateral levels are determined. No impact to systems as credit system is already designed to accommodate different collateral determinations

Completion: CPWG will take final vote on structure on October 19, 2011.



# Memorandum

**To:** Finance Committee Members

**From:** Tom Dunn

**CC:** Cheryl Robertson

**Date:** October 12, 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>
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