



**Southwest Power Pool**  
**FINANCE COMMITTEE MEETING**  
**December 12, 2011**  
**Little Rock, Arkansas**

**• Summary of Action Items •**

1. Approved engagement of BKD, LLC to perform audit of SPP's 2011 financial statements
2. Approved plan to issue up to \$125 million in term notes during the next 2 years including seeking authorization from FERC and Arkansas Public Service Commission to issue the notes, and authorizing the SPP President and CFO to execute the notes upon final approval of the terms and conditions by the SPP Finance Committee

**• 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. Provide updates on Integrated Marketplace project along with Internal Audit reports on Integrated Marketplace at each regularly scheduled Finance Committee meeting.
4. Review policy of using debt financing to fund capital expenditure program. Specifically determine impacts of funding maintenance capital expenditures through Schedule 1A Administrative Charge and only using debt financing to fund significant projects.



**Southwest Power Pool**  
**FINANCE COMMITTEE MEETING**  
**December 12, 2011**  
**Little Rock, Arkansas**

• M I N U T E S •

**Agenda Item 1 – Administrative Items**

SPP Chair Harry Skilton called the meeting to order at 12:00 p.m. The following members of the Finance Committee were in attendance:

Harry Skilton	SPP Director
Larry Altenbaumer	SPP Director
Trudy Harper	Tenaska
Sandra Bennett	Southwestern Power Company
Kelly Harrison	Westar Energy
Carl Huslig	ITC Great Plains
Tom Dunn	SPP

Others attending included:

Jim Eckelberger	SPP Director
Phyllis Bernard	SPP Director
Josh Martin	SPP Director
Julian Brix	SPP Director
Carol Shoemake	OG&E
Bruce Cude	SPS
John Seck	KMEA
Traci Bender	NPPD
Sean Berry	PWC
Tim Cherry	PWC
Keith Conine	BKD, LLC
Nick Brown	SPP
Bruce Rew	SPP
Sam Ellis	SPP
Carl Monroe	SPP
Dianne Branch	SPP
Scott Smith	SPP
Lauren Krigbaum	SPP
Stacy Duckett	SPP
Carl Monroe	SPP

**Administrative Items**

Minutes from the November 14, 2011, November 9, 2011, and October 14, 2011 meetings were reviewed. Kelly Harrison motioned to approve the minutes. The motion was seconded by Sandra Bennett and approved by unanimous voice vote.

**Integrated Marketplace Review**

SPP staff presented a thorough review of the Integrated Marketplace program, emphasizing the program structure and governance, financial and risk management, and third party engagements. The Committee

members thanked the staff for the review and requested staff provide summary reviews to the Committee until the project is completed.

### **Virtual and TCR Transaction Fee**

SPP staff summarized its research into the fee schedules of other RTOs for congestion hedging and virtual energy transactions. The Committee's discussion considered numerous options ranging from only charging transaction fees once some pre-specified volume of transactions have occurred to revamping SPP's rate structure to allocate costs using a metric other than load, to elimination of SPP's withdrawal obligation. The discussion will continue at future meetings.

### **SSAE 16 Audit Report and Management Response**

Sean Berry and Tim Cherry presented the results of PWC's audit of the design and effectiveness of SPP's controls. PWC's audit report will have an unqualified opinion and will reference three exceptions identified during the audit. SPP management agreed with the audit findings and has identified several opportunities to limit the impact of the identified exceptions.

### **Internal Audit Report**

SPP staff reviewed the scope of audits completed by the Internal Audit department for the YTD period ending November 2011 and identified the 2012 audit plan. Internal Audit did not identify any serious deficiencies in their audit work during 2011.

### **2011 Financial Audit Engagement**

SPP staff presented a recommendation to engage BKD, LLC to perform an audit of SPP's 2011 financial statements, controls, and processes. The fee for the audit is estimated to be comparable to the 2010 engagement fee. Larry Altenbaumer motioned to engage BKD, LLC to perform an audit of SPP's 2011 financial statements, controls, and processes. The motion was seconded by Sandra Bennett and approved by unanimous voice vote.

Keith Conine of BKD, LLC presented the 2011 financial audit plan identifying significant focus areas for the audit and seeking input from the Committee on other areas which the Committee would like audited. The Committee convened a brief executive session to meet with the auditor without SPP management present.

### **2012 Financing**

SPP staff presented a recommendation to obtain up to \$125 million in term debt financing in 2Q'12 to fund SPP's capital expenditure program through 2014 (based on the 2012 budget and forecast). Capital expenditures through 2014 are forecast to total \$128 million; the main projects include the Integrated Marketplace and SPP's Corporate Campus. SPP's existing capital funding account balance is expected to be depleted early in 2Q'12; remaining funding requirements through 2014 are forecast at \$92 million. The specific recommendation is as follows:

1. Authorize issuance of up to \$125 million in secured and unsecured notes with maturities of up to 12 years.
2. Authorize appropriate regulatory filings for the issuance of up to \$125 million in secured and unsecured notes with maturities of up to 12 years to be issued within 24 months of receiving regulatory approval.
3. Authorize SPP Finance Committee to oversee negotiation, approval of terms and conditions, and authorize execution of up to \$125 million in secured and unsecured notes with maturities of up to 12 years.
4. Authorize the SPP President and CFO to jointly execute notes and agreements for the issuance of up to \$125 million in secured and unsecured notes with maturities of up to 12 years following final approval and authorization from the SPP Finance Committee.

Larry Altenbaumer motioned to approve the recommendation to issue up to \$125 million in term notes with maturities of up to 12 years with oversight and approval prior to execution of notes by the Finance Committee. The motion was seconded by Kelly Harrison and approved by unanimous voice vote.

**Credit Policy Review**

SPP staff presented the final Credit Policy as amended by the Regional Tariff Working Group to be filed with SPP's Integrated Marketplace tariff filing. The final Credit Policy will not be formally reviewed by the Credit Practices Working Group until December 14. The Finance Committee withheld comments until notified of satisfactory review by the Credit Practices Working Group.

**FERC Order 741 Compliance Filing Update**

SPP staff presented the Credit Policy language to be filed on December 15, 2011 in compliance with FERC Order 741. The changes largely dealt with the requirement of the RTO to perform periodic verification of a market participant's risk management capabilities. Several members of the Committee expressed discomfort with the FERC requirement in general and the compliance language to meet this requirement. The Committee requested SPP's transmittal letter offer insights into SPP's process to comply with the Order.

**Other Business**

The Committee discussed potential opportunities to fund ongoing capital expenditures (those necessary to maintain SPP's systems in their current state) through collections of the SPP schedule 1A Administrative Charge as opposed to utilizing new issuances of term debt. SPP staff was asked to model the impact of a change such as this on the Administrative Charge as well as the withdrawal obligation for members.

**Future Meetings**

The next meeting of the SPP Finance Committee is scheduled for April 17 beginning at 8:30 am central time and finishing at 3:30 pm central. This meeting will be held at the DFW-Hyatt Regency in Dallas, TX

There being no further business, Harry Skilton adjourned the meeting at 5:30 p.m.

Respectfully Submitted,

Thomas P. Dunn  
Secretary



Southwest Power Pool, Inc.  
FINANCE COMMITTEE MEETING

December 12, 2011

SPP Offices  
Plaza West Large Conference Room (1<sup>st</sup> Floor)  
Little Rock, Arkansas

• A G E N D A •

Noon – 5:30 p.m.

- 1. Administrative Items (15 minutes)..... Harry Skilton
- 2. Integrated Marketplace Review (90 minutes)..... Bruce Rew / Sam Ellis
- 3. Virtual and TCR Transaction Fee (60 minutes)..... Harry Skilton
- 4. SSAE 16 Report and Management Response (30 minutes)..... PWC/Lauren Krigbaum
- 5. Internal Audit Report (30 minutes)..... Lauren Krigbaum
- 6. 2011 Financial Audit Engagement (30 minutes) **\*\*ACTION\*\*** .....Keith Conine (BKD)
- 7. 2012 Financing (40 minutes) **\*\*ACTION\*\*** ..... Tom Dunn
- 8. Credit Policy Review (15 minutes)..... Tom Dunn
- 9. FERC Order 741 Compliance Filing Update (15 minutes)..... Tom Dunn
- 10. Written Reports:
  - a. Business Process Improvement Tracking
  - b. October 2011 Financial Reports
- 11. Future Meeting..... All
- 12. Adjourn ..... Harry Skilton

*Relationship-Based • Member-Driven • Independence Through Diversity  
Evolutionary vs. Revolutionary • Reliability & Economics Inseparable*



**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**  
**FINANCE COMMITTEE MEETING**  
**November 9, 2011**  
**Teleconference**

**• Summary of Action Items •**

**• 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. 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**  
**November 9, 2011**  
**Teleconference**

• M I N U T E S •

**Agenda Item 1 – Administrative Items**

SPP Chair Harry Skilton called the meeting to order at 1:30 p.m. The following members of the Finance Committee were in attendance:

Harry Skilton	SPP Director
Kelly Harrison	Westar
Sandra Bennett	Southwestern Power Company
Tom Dunn	SPP

The following members of the Credit Practices Working Group were in attendance:

Terri Wendlandt	Westar
Jayne Clarke	Sunflower
Gina Wilson	ITC Great Plains
Morgan Davies	Calpine

Others attending included:

Mark Holler	Tenaska
Eric Alexander	GRDA
Nathan Case	ACES Power Marketing
Robb Walt	Xcel Energy
Gerry Stephenson	KCPL
Bryan Willnerd	Lincoln Electric System
Willie Brooks	Arkansas Electric Coop
Pamela Newberry	OPPD
John Seck	Kansas Municipal Energy Agency
Vinisha Patel	The Energy Authority
Teena McCloud	
James Goforth	SPS
Rick Mueller	OPPD
Carl Monroe	SPP
Philip Bruich	SPP
Phil McCraw	SPP
Jared Barker	SPP
Richard Dillon	SPP
Bruce Rew	SPP
Debbie James	SPP
Lisa Caserta	SPP
Chuck Jennings	SPP
Scott Smith	SPP

**Credit Exposure Calculation Enhancements**

SPP staff led a discussion reviewing the recommendation of the Credit Practices Working Group on the use of Day-Ahead market data to determine potential exposure to Day-Ahead market customers. The

Finance Committee  
October 14, 2011

course of the discussion also touched on SPP's credit methodology, the operating environment in the SPP region, changes in credit administration expected once the Integrated Marketplace is implemented, potential exposure calculations for Virtual transactions and Transmission Congestion Rights ("TCR") positions.

**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 3:10 p.m.

Respectfully Submitted,

Thomas P. Dunn  
Secretary



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

**• Summary of Action Items •**

1. Approved use of OD+4 settlement data to the estimation of Day-Ahead exposure as described in Section 5.2.1 of Attachment X of the SPP Tariff

**• 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. 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**  
**November 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 2:30 p.m. The following members of the Finance Committee were in attendance:

Harry Skilton	SPP Director
Trudy Harper	Tenaska
Sandra Bennett	Southwestern Power Company
Tom Dunn	SPP

The following members of the Credit Practices Working Group were in attendance:

Jayne Clarke	Sunflower
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Others attending included:

Michael Henderson	Arkansas Electric
Carol Shoemake	OG&E
Bruce Cude	SPS
Nick Brown	SPP
Philip Bruich	SPP
Bruce Rew	SPP

**Credit Exposure Calculation Enhancements**

SPP summarized the discussion from the November 9, 2011 joint meeting of the Finance Committee and the Credit Practices Working Group. SPP staff presented new information covering settlement calibration error statistics and summary of credit exposure calculations used at RTOs for virtual, day-ahead, and congestion rights transactions.

Sandra Bennett motioned to approve the Credit Practices Working Group recommendation to use OD+4 data in the estimation of day-ahead market exposure as described in Section 5.2.1 of Attachment X to the SPP Tariff. The motion was seconded by Trudy Harper and approved by unanimous voice vote.

**Other Business**

The Committee discussed potential SPP responses in its compliance filing related to FERC's Order 741 directives as it relates to RTOs having responsibility to verify and audit a customer's risk management processes, policies, and programs.

**Future Meetings**

The next meeting of the SPP Finance Committee is scheduled for December 12, 2011 beginning at 12 noon central time and finishing at 5:30 pm central.

There being no further business, Harry Skilton adjourned the meeting at 3:40 p.m.

Finance Committee  
October 14, 2011

Respectfully Submitted,

Thomas P. Dunn  
Secretary



**Southwest Power Pool, Inc.**  
**FINANCE COMMITTEE**  
**December 12, 2011**  
**2011 Financial Audit Engagement**

**Organizational Roster**

The following persons are members of the Finance Committee:

Harry Skilton	SPP Director
Larry Altenbaumer	SPP Director
Trudy Harper	Tenaska
Kelly Harrison	Westar
Sandra Bennett	AEP

**Background**

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

**Analysis**

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

<u>Audit Year</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Fees	\$52,500	\$57,500	\$65,815	\$60,500	\$65,500	\$67,500
Admin	<u>1,275</u>	<u>1,366</u>	<u>1,585</u>	<u>2,223</u>	<u>1,965</u>	<u>2,025</u>
<b>TOTAL</b>	<b>\$53,775</b>	<b>\$58,866</b>	<b>\$67,400</b>	<b>\$62,723</b>	<b>\$67,465</b>	<b>\$71,536</b>

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

**Recommendation**

Engage BKD to perform an audit of SPP's 2011 financial statements and results.

**Approved:** Finance Committee

**Action Requested:** Approve Recommendation

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

**Southwest Power Pool, Inc.**  
**Pre-audit Report to the Finance Committee**  
**December 12, 2011**





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## Introductory Matters

*Our audit focuses on the likelihood of a material misstatement in the financial statements.*

## Planned Scope & Timing of the Audit

The purpose of this report is to summarize various matters relating to our approach for the December 31, 2011, audit of the financial statements of Southwest Power Pool, Inc.

We will conduct our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

Our audit will be made for the purpose of rendering an opinion on the following financial statements of Southwest Power Pool, Inc. as of and for the year ended December 31, 2011.

An audit of the financial statements does not relieve management, the finance committee or the board of directors of their responsibilities.

Other services we will provide include:

- ✓ An opinion on Federal Energy Regulatory Commission Form 1

The actual terms of our engagement are more fully documented in an engagement letter dated November 29, 2011.

Our audit approach emphasizes the areas of higher risk, focusing on the unique characteristics of the operating environment, the effectiveness of your internal control and your financial statement amounts and disclosures.

Based on our understanding of your entity and our assessment of your internal control, we plan our audit to achieve the appropriate level of assurance regarding material misstatements and material weaknesses in internal control over financial reporting.

We have preliminarily identified the following areas as significant risks of material misstatement due to error or fraud and propose to address these areas as described:

Risk Areas	Audit Approach
Risk of management override of controls	Review accounting estimates for bias, review of journal entries, evaluate business rationale for unusual transactions
Fixed assets and software and software in development	Review additions for propriety and existing assets for impairment
Long-term debt and interest rate swaps	Confirm debt with creditors, independently calculate the fair value of the swaps and review debt covenants for compliance

We welcome any input you may have regarding the risk areas identified above, any other significant risk areas in your opinion or other matters you believe warrant particular attention during the audit.

We may develop additional significant risks as we complete risk assessment procedures.

We propose the following timeline:

✓ **Delivery and Review of Draft Financial Statements, Auditors' Reports and Management Letter – April 2012**

Drafts of the financial statements, auditors' reports and management letter, together with our letter regarding auditor responsibilities, will be furnished to the finance committee several days prior to the finance committee meeting.

## Auditing & Accounting Matters

### ✓ **Final Reports – April 2012**

Final reports to the board of directors will be issued prior to the April 2012 scheduled meeting.

### ✓ **Ongoing Communication**

Regular communication between the finance committee and the auditors is critical to the success of the audit. Accordingly, the audit team may be available to the finance committee at any time throughout the audit, not just the prescribed times identified above. In addition, there may be instances which require communication during the audit (prior to delivery of the financial statements) such as:

- ✓ Fraud involving senior management
- ✓ Illegal acts
- ✓ Significant deficiencies and/or material weaknesses

We understand the appropriate person in the governance structure with whom to communicate is Mr. Harry Skilton.

If for any reason, any member of the finance committee would need to contact us, please call Keith Conine, at 501.372.1040.

We wish to communicate the following significant matters related to the financial statement audit to you that are, in our judgment, relevant to your responsibilities in overseeing the financial reporting process:

#### **Critical Accounting Policies and Practices**

- ✓ Revenue recognition
- ✓ Estimated useful lives of long-lived assets

#### **Critical Audit Areas**

- ✓ Long-term debt and interest rate swap
- ✓ Recoverability of software and software in development

## Consideration of Errors or Fraud

One of the most common questions we is, “How do you address fraud in a financial statement audit?” Our responsibility, as it relates to fraud, in an audit of financial statements is addressed in Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit*.

Statements on Auditing Standards Nos. 104 – 111 address how we are to assess and respond to the risks of material misstatement due to error or fraud in an audit.

Our audit approach includes such procedures as:

- ✓ **Engagement Team Brainstorming**
  - ✓ Discussions include how and where they believe the entity’s financial statements might be susceptible to material misstatement due to errors or fraud, how management could perpetrate and conceal fraudulent financial reporting and how assets of the entity could be misappropriated
  - ✓ An emphasis is placed on the importance of maintaining the proper state of mind throughout the audit regarding the potential for material misstatement due to errors or fraud
- ✓ **Inquiries of Management and Others**
  - ✓ Personnel interviewed include the finance committee chair and co-chair, the chief executive office, the chief financial officer, the controller and others
  - ✓ Inquiries are directed towards the risks of errors or fraud and whether personnel have knowledge of any fraud or suspected fraud affecting the entity
- ✓ **Reviewing Accounting Estimates for Bias**
- ✓ **Evaluating Business Rationale for Significant Unusual Transactions**
- ✓ **Incorporating an Element of Unpredictability Into the Audit Each Year**

**Questions,  
Observations or  
Suggestions from the  
Finance Committee**

We welcome any questions that the finance committee may have. As always, you may also contact Keith Conine at 501.372.1040 at any time.

Our clients deserve and to the best of our ability receive unmatched client service. Our goal is to deliver results with integrity; results that are unquestionably ethical while also practical, timely and affordable.



**Southwest Power Pool, Inc.**  
**FINANCE COMMITTEE**  
**Recommendation to the Board of Directors**  
**December 12, 2011**

**2012 Financing**

**Organizational Roster**

The following persons are members of the Finance Committee:

Harry Skilton	Director
Larry Altenbaumer	Director
Trudy Harper	Tenaska
Sandra Bennett	American Electric Power
Kelly Harrison	Westar Energy

**Background**

The Southwest Power Pool, Inc. ("SPP") capital structure currently consists of the following term notes:

**Table 1**

Due Date	Rate	Balances (\$MM)		Funding Year	Primary Purpose
		Original	Current		
2014 Sr. Notes	5.61%	\$30	\$17	2007	Capital projects from 2006-2008
2016 Sr. Notes	5.45%	\$30	\$29	2009	Capital projects from 2008-2011
2024 Sr. Notes	3.55%	\$70	\$70	2011	Integrated Marketplace Initiatives
2027 Sr. Notes	6.36%	\$5	\$4	2007	Maumelle facility construction
2042 Sr. Notes	4.82%	\$65	\$65	2010	New facility construction
<b>Totals</b>		<b>\$200</b>	<b>\$185</b>		

All notes are unsecured except for the 2027 notes which are secured by a mortgage on SPP's Maumelle, AR operations facility. SPP also has available a \$20 million unsecured revolving line of credit maturing June 2013. The revolving line currently has \$0 advanced. Pricing of draws is variable based on SPP's credit rating by Fitch Ratings. Currently any draws under the revolving facility would be priced at LIBOR + 1.50%.

The SPP Board of Directors, at its October 27, 2009 meeting, approved the issuance of up to \$150 million in debt securities to fund SPP's capital expenditure program. Further, SPP received authorization from the FERC and the AR PSC on January 15, 2010 and February 1, 2010, respectively, to issue up to \$150 million in debt securities. Regulatory authorization is valid for 24 months from the date of authorization. SPP has funded \$135 million under this authorization.

SPP's approved 2012 budget details a capital expenditure program totaling \$128 million from 2012 to 2014. A significant portion of the capital expenditure program relates to development of SPP's Integrated Marketplace (formerly Future Markets) and construction of SPP's primary operations and administration campus in Little Rock, AR.



## Analysis

SPP's 2012 budget approved by the SPP Board of Directors at its October 25, 2011 meeting included a capital expenditure program totaling \$128 million from 2012 to 2014. Below is an excerpt from the 2012 budget and also includes prior year spending for both the Integrated Marketplace and New Facility initiatives.

**Table 2**

Millions of Dollars	Capital Expense					Total
	>2011	2011	2012	2013	2014	
Integrated Marketplace Build	\$9	\$22	\$46	\$21	\$3	\$101
Consolidated Balancing Authority	\$1	\$3	\$1			\$5
<b>Marketplace Initiatives Total</b>	<b>\$10</b>	<b>\$25</b>	<b>\$47</b>	<b>\$21</b>	<b>\$3</b>	<b>\$106</b>
New Facilities Construction	\$10	\$40	\$12			\$62
Facility Migration		\$15	\$12			\$27
<b>New Facility Initiatives Total</b>	<b>\$10</b>	<b>\$54</b>	<b>\$24</b>	<b>\$0</b>	<b>\$0</b>	<b>\$89</b>
IT Foundation and Initiatives		\$8	\$7	\$5	\$3	\$23
Combined Cycle Estimate				\$3	\$9	\$12
Engineering & Other Dept Initiatives		\$2	\$3	\$1		\$5
Ops Automation & System Enhance		\$1	\$1	\$1	\$1	\$4
<b>Other Departmental Initiatives</b>	<b>\$0</b>	<b>\$11</b>	<b>\$11</b>	<b>\$9</b>	<b>\$13</b>	<b>\$43</b>
<b>Total Projects Budget</b>	<b>\$20</b>	<b>\$90</b>	<b>\$82</b>	<b>\$30</b>	<b>\$16</b>	<b>\$238</b>
<i>Capitalized Interest</i>		\$2	\$4	\$3	\$1	\$11

As noted in Table 1, the 2016 Senior Note was obtained to provide funding for general capital initiatives through approximately 2011 and the 2024 and 2042 Senior Notes were obtained to provide funding primarily for the Integrated Marketplace and Facility Construction projects. In addition, SPP budgeted to finance \$85 million over the next three years to provide adequate funding for the required three-year horizon. A reconciliation of the future capital funding requirements follows:

**Table 3**

Millions of Dollars	Capital Expense					Total
	>2011	2011	2012	2013	2014	
<b>Capital Programs</b>						
Marketplace Initiatives	*	\$25	\$46	\$21	\$3	\$95
New Facility Initiatives	\$10	\$54	\$24			\$89
Other Department Initiatives		*	\$11	\$9	\$13	\$33
Capitalized Interest		\$2	\$4	\$3	\$1	\$11
	<b>\$10</b>	<b>\$81</b>	<b>\$85</b>	<b>\$33</b>	<b>\$17</b>	<b>\$227</b>
<b>Existing Funding Sources</b>						
2024 Sr. Notes						(\$70)
2042 Sr. Notes						(\$65)
						<b>(\$135)</b>
<b>Net Capital Funding Requirement</b>						<b>\$92</b>

\* Funding provided by prior notes





SPP's standard practice is to fund capital expenditures with term debt with amortization structured consistent with the accounting useful life of the asset financed. The practice was designed to ensure customers who benefitted from the assets acquired by SPP would pay their share of the asset costs through the SPP schedule 1A administrative charge as services were purchased under the SPP regional tariff. The average useful life (weighted by cost) of assets in the 2012-2014 capital expenditure program is 7 years. Alternative funding mechanisms would include:

- Non amortizing debt – customers pay the carrying cost of the financing however the principal amount of the debt isn't scheduled to reduce and therefore, SPP's schedule 1A rate wouldn't include recovery of the principal payments. This alternative would yield short-term rate management benefits to SPP's customers but long-term would serve to defer costs to future customers and/or jeopardize SPP's future access to debt capital at attractive rates due to excessive financial leverage.
- All equity funding – SPP could assess its membership for 100% of the cost of the capital expenditure as incurred. This alternative provides long-term rate management opportunities as costs are funded immediately resulting in lower future rates. This alternative strays far from the guiding principal of recovering costs as the assets acquired are utilized in the business.
- Partial equity funding – Annual rates/assessments could fund part of the capital expenditure program (maybe up to 20%) with the remainder funded with term debt. This alternative provides modest long-term rate management opportunities accompanied by a slightly larger near-term burden on members/customers.

The private placement market continues to present itself as the ideal market for SPP to obtain term financing on favorable terms. Most transactions in the private placement arena continue to realize strong investor demand with most higher quality names (and/or repeat issuers) seeing total bids well in excess of offering amounts; and deferred funding of up to 9 months remain available to issuers on favorable economic terms. Credit spreads for issues with SPP's credit rating (NAIC-1) are currently 125bps – 180bps which, with 10 year treasuries slightly above 2%, results in coupons of less than 4%.

#### **Recommendation**

- Authorize issuance of up to \$100 million in secured and unsecured notes with maturities of up to 10 years.
- Authorize appropriate regulatory filings for the issuance of up to \$100 million in secured and unsecured notes with maturities of up to 10 years to be issued within 24 months of receiving regulatory approval.
- Authorize the SPP President and CFO to jointly execute notes and agreements for the issuance of up to \$100 million in secured and unsecured notes with maturities of up to 10 years.
- Authorize SPP Finance Committee to oversee negotiation and final approval of terms and conditions of up to \$100 million in secured and unsecured notes with maturities of up to 10 years.

**Approved:** Finance Committee

**Action Requested:** Approve Recommendation

**ATTACHMENT X**  
**SOUTHWEST POWER POOL, INC. CREDIT POLICY**

## ARTICLE ONE

### General Provisions

- 1.1 Policy Statement.** In furtherance of competition and the orderly administration of the Tariff, SPP shall administer, implement and enforce this Credit Policy. This Credit Policy is intended to encourage the maximum participation of large and small participants in all market sectors while minimizing the likelihood of losses due to default.
- 1.2 Applicability of Credit Policy and Overview.**
- 1.2.1** This Credit Policy is applicable to each Credit Customer. It applies to each Credit Customer regardless of whether SPP previously extended credit to, or established a Total Credit Limit for, the Credit Customer. .
- 1.2.2** As a condition to taking any service subject to this Credit Policy, SPP must determine that the Credit Customer satisfies SPP's credit requirements under this Credit Policy and the terms and conditions for an extension of credit. SPP's determination is a Credit Assessment. The Credit Assessment is based upon quantitative and qualitative credit scoring under the formulae and procedures set forth in this Credit Policy. This Credit Policy provides for initial and ongoing Credit Assessments. In order to facilitate continuous evaluation of credit, it requires the submission of Credit Information to SPP periodically and, additionally, upon the occurrence of certain events. Based upon the ongoing Credit Assessment, SPP is authorized, at any time, to revise a Credit Customer's Total Credit Limit and the terms and conditions for the extension of credit.
- 1.2.3** SPP shall conduct initial and ongoing Credit Assessments for each Credit Customer, based, as applicable, upon the Credit Application, Credit Information, and Credit Ratings. Credit Information includes: (a) the information contained in and submitted with the Credit Customer's duly executed Credit Application; and (b) updated and additional information the Credit Customer is required to submit from time to time under this Credit Policy. Credit Information and Credit Ratings, if any, shall be sufficient to enable SPP to determine under this Credit Policy whether to approve an extension of credit, and the amount, terms, and conditions thereof, including the extent and nature of any Guaranty or Financial Security.
- 1.2.4** Based upon its Credit Assessment, SPP will: (a) determine the Credit Customer's Total Potential Exposure; (b) determine the amount of credit the Credit Customer requires; (c) determine whether to grant, and the amount of, any Unsecured Credit Allowance; (d) evaluate any Guaranty the Credit Customer offers to provide, including a Credit Assessment for the proposed Guarantor; and (e) determine the amount of any required Financial Security. Based on these determinations, which shall include consideration of the Credit Customer's ability to fulfill SPP's requirements to obtain credit, SPP will set the Total Credit Limit for the Credit Customer.

**1.2.5** To facilitate the Credit Assessment, each Credit Customer shall submit a duly executed Credit Application in the form attached as Appendix “A,” and the Credit Information required under this Credit Policy. If SPP determines that an extension of credit to a Credit Customer must be supported by Financial Security, the Credit Customer shall, upon SPP’s request, duly execute the Credit and Security Agreement in the form attached as Appendix “B,” without variation. Any Letter of Credit shall be substantially in the form attached as Appendix “C,” and any Guaranty shall be substantially in the form attached as Appendix “D.” Any variations in the forms of Letter of Credit and Guaranty must be reasonably acceptable to SPP.

**1.2.6** This Credit Policy also sets forth separately stated Financial Security requirements for Transmission Congestion Rights.

**1.3 Components of Credit Policy.** This Credit Policy includes the following elements:

**1.3.1** Requirements for the establishment and maintenance of credit applicable to Credit Customers.

**1.3.2** The basis for establishing a Total Credit Limit for a Credit Customer in order to extend credit, but diminish the possibility of failure of payment under the Tariff and Agreements.

**1.3.3** Forms of Guaranty and Financial Security acceptable to SPP, to be provided if SPP does not approve an Unsecured Credit Allowance sufficient to cover the Credit Customer’s Total Potential Exposure or to cover Transmission Congestion Right activity.

**1.3.4** Requirements to facilitate ongoing Credit Assessments.

**1.3.5** Specification of Defaults under this Credit Policy and remedies.

**1.4 Fairness, Objectivity, and Non-Discrimination.** SPP will seek and receive information and explanation from a Credit Customer as appropriate to help ensure that the Credit Assessment is fair and thorough. SPP will base each Credit Assessment upon SPP’s evaluation of the Credit Information, Credit Ratings, and other pertinent indicators of financial strength identified under this Credit Policy. SPP shall make each Credit Assessment objectively and without undue discrimination in favor of or against any market sector. Whenever this Credit Policy permits SPP to exercise discretion in the implementation of the provisions of this Credit Policy, SPP shall exercise that discretion in a fair and impartial manner that treats all Credit Customers in a non-discriminatory manner.

**1.5 Construction and Interpretation.**

- 1.5.1** The word “including” shall be understood to mean “including without limitation.” The singular form of a word shall be understood to include the plural form, and vice versa, as appropriate to implement the applicable term or condition.
- 1.5.2** Except as otherwise stated, the words “Section” and “Article” refer to sections and articles of this Credit Policy. A Section reference includes all subsections and subparts of the Section.
- 1.5.3** All references to amounts of cash, cash deposits, and to monies paid, provided, due or otherwise, shall be construed to refer to United States dollars.
- 1.6 Disputes.** Any disputes arising under this Credit Policy will be subject to the dispute resolution procedures set forth in Section 12 of the Tariff.

## ARTICLE TWO

### Definitions

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

#### **Affiliate**

A business concern, organization, or individual is an affiliate of another business concern, organization, or individual, including a Credit Customer, that directly or indirectly: (a) has the power to control or is controlled by it; or (b) is under common control of a third party. Elements of control include interlocking management or ownership, shared facilities and equipment, and common use of employees.

#### **Affiliated Credit Customers**

Credit Customers that are Affiliates.

#### **Agreements**

The Tariff, including this Credit Policy, any and all agreements entered into by the Credit Customer under, pursuant to or in connection with the Tariff and/or this Credit Policy, and any and all other Agreements to which SPP and the Credit Customer are parties.

#### **Auction Clearing Price**

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

#### **Auction Revenue Right (ARR)**

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

#### **Bid**

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

#### **Business Day**

A day on which the Federal Reserve System is open for business.

#### **Cash Deposit**

Cash collateral provided to SPP to secure a Credit Customer's performance under the Tariff, this Credit Policy, and/or any other Agreements, and any other cash to which the Credit Customer has title or rights in the possession of SPP (cash SPP has applied to payment of an obligation under the Tariff or Agreements is not cash to which a Credit Customer has title or rights).

#### **Central Prevailing Time**

As established by national time standards, either Central Standard Time or Central Day-Light Time.

#### **Composite Credit Score or Credit Score**

This term shall have the meaning given in Section 4.2.

**Credit and Security Agreement**

A legal document, outlining certain terms pursuant to which a security interest in certain collateral is granted to SPP, in the form incorporated herein as Appendix “B”.

**Credit Application**

The completed, executed, and submitted Credit Application in the form attached as Appendix “A” hereto, together with the Credit Information required under this Credit Policy.

**Credit Assessment**

This term shall have the meaning given in Article Three.

**Credit Contact**

This term shall have the meaning given in Section 9.1.

**Credit Customer**

Any person that takes or seeks to take service under the Tariff including all Transmission Service or other services under the Tariff, including any market services.

**Credit Information**

This term shall have the meaning given in Section 1.2.3.

**Credit Ratings**

Rating assigned by a Rating Agency based on an obligor’s creditworthiness to pay financial obligations.

**Day-Ahead Market**

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

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

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

**Default or Event of Default**

Any default under Article Eight or otherwise under this Credit Policy.

**Estimated TCR Exposure (ETCRE)**

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

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

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

**ETCRE Bid**

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

**ETCRE Hold**

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

**ETCRE Offer**

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

**FERC**

The Federal Energy Regulatory Commission.

**Financial Security**

A Cash Deposit or Irrevocable Letter of Credit in amount and in forms as described in Article Seven of this Credit Policy, provided by a Credit Customer to SPP as security.

**Financial Statements**

This term shall have the meaning given in Section 3.1.1.1.

**Guarantor**

An entity that guarantees the obligation of another entity under a Guaranty.

**Guaranty**

A legal document used by an Affiliate of a Credit Customer pursuant to Article Six to guarantee the obligations of such Credit Customer for the benefit of SPP.

**Irrevocable Letter of Credit**

An irrevocable standby letter of credit, with SPP as beneficiary, substantially in the form attached as Appendix “C” to this Credit Policy and reasonably acceptable to SPP.

**Large Company Credit Customers or Large Company**

This term shall have the meaning given in Section 4.2.1.

**Locational Marginal Price**

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

**Market Exposure**

This term has the meaning given in Section 5.2.1.

**Material**

The lesser of (i) the materiality standard established by the certified public accounting firm performing the Credit Customer’s annual audit, (ii) an amount that equals or exceeds five percent (5%) of the Credit Customer’s Tangible Net Worth using the last audited financial statements, calculated in accordance with generally acceptable accounting principles; and (iii) a change, event, proceeding, or other occurrence, that results (or if adversely determined could result) in a change of five percent (5%) or more in the Credit Customer’s Tangible Net Worth compared to the Tangible Net Worth of the Credit Customer using the last audited financial statements, calculated in accordance with generally acceptable accounting principles.

**Material Adverse Change**

This term shall have the meaning given in Section 3.2.7.



**Not-For Profit Credit Customers or Not-For-Profit**

This term shall have the meaning given in Section 4.2.3.

**Offer**

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

**Operating Day**

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

**Operating Hour**

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

**Peak Market Activity Day**

The day in which a Credit Customer's calculated charges owed to SPP are the greatest, over a specified period.

**Potential Exposure Window**

The number of days of credit exposure for a Credit Customer equal to the sum of days of service that have been invoiced but not paid, days of service that have been calculated but not invoiced, days of service in the cure period, and days before service can be terminated.

**Qualitative Score**

This term has the meanings applicable under Article Four.

**Quantitative Score**

This term has the meanings applicable under Article Four.

**Rating Agency(ies)**

Any Rating Agency that is a "Nationally Recognized Statistical Rating Organizations" as defined by the US Securities Exchange Commission. Currently there are four — Dominion Bond Rating Service Ltd., Fitch, Inc., Moody's Investors Service, and the Standard & Poor's Division of the McGraw Hill Companies Inc.

**Real-Time**

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

**Real-Time Balancing Market**

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

**SEC**

The Securities and Exchange Commission.

**Settlement Location**

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

**Settlement Statement**

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

**Small Company Credit Customers or Small Company**

This term shall have the meaning given in Section 4.2.2.

**Tangible Net Worth**

This term shall have the meaning given in Section 4.3.

**TCR Final Reference Price**

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

**TCR Mean Price**

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

**TCR Portfolio Credit Requirement**

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

**TCR Stress Test Price**

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

**Total Credit Limit**

This term shall have the meaning given in Section 4.5.

**Total Potential Exposure or TPE**

SPP's estimate of the Credit Customer's current or anticipated transaction activity and resulting obligations for all services under the Tariff or otherwise, excluding Transmission Congestion Rights activity.

**Total Potential Exposure Violation**

This term shall have the meaning given in Section 5.4.1.

**Total TCR Credit Requirement**

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

**Transmission Congestion Right (TCR)**

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

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

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

**Transmission Service Potential Exposure**

This term shall have the meaning give in Section 5.2.2.

**Unsecured Credit Allowance**

This term shall have the meaning given in Section 4.3.

**Virtual Energy Bid,**

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

**Virtual Energy Offer**

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

## ARTICLE THREE

### Credit Assessment

#### 3.1 *Minimum Criteria for Market Participation and Initial Credit Assessment.*

**3.1.1 Credit Application and Credit Information.** A Credit Customer must submit a completed and duly executed Credit Application. A completed Credit Application includes submission of the Credit Application form (Appendix “A”), all information required under Section 3.1.1, and additional information that SPP may request. The Credit Customer must submit the following information with its Credit Application.

**3.1.1.1 Audited Financial Statements and Related Information.** All annual Financial Statements submitted must be audited. Financial Statements are the following.

- a. If the Credit Customer is subject to SEC reporting requirements, Financial Statements are:
  - i. Annual Reports on Form 10-K for the three fiscal years most recently ended, together with any amendments thereto;
  - ii. Quarterly Reports on Form 10-Q for each completed fiscal quarter of the then current fiscal year, together with any amendments thereto; and
  - iii. Form 8-K reports, if any, filed after the most recent Form 10-K.
- b. If the Credit Customer is not subject to SEC reporting requirements, Financial Statements are:
  - i. For each of the three fiscal years most recently ended, the Report of Independent Accountants (for each of the three fiscal years most recently ended); and audited financial statements, including balance sheet, income statement, statement of cash flow, and statement of stockholder’s equity;
  - ii. For each completed fiscal quarter of the then current fiscal year; financial statements as described in (i) above. Unaudited quarterly financial statements are acceptable.
  - iii. Notes to financial statements; and
  - iv. Management’s discussion and analysis, if any.
- c. The Credit Customer may submit Financial Statements by informing SPP, in writing, where the Financial Statements

can be retrieved through the internet. Successful retrieval by SPP will satisfy the Financial Statements submission requirements of this Section. If SPP is not satisfied with the retrieval through the Internet, it may require the Credit Customer to submit Financial Statements in hard copy form.

- d. In the event any parts of the Financial Statements required under this Section are inapplicable to the Credit Customer, SPP may specify alternate requirements. SPP may request additional Financial Statements and related information at its sole discretion.
- e. For Not-For-Profit Credit Customers, some of the above financial submittals may not be applicable, and alternate requirements may be specified by SPP.
- f. In the credit evaluation of Not-For-Profit Credit Customers, SPP may request additional information as part of the overall financial review process and will consider other relevant factors in determining financial strength and creditworthiness.

**3.1.1.2 References.** The Credit Customer must provide at least one bank reference and at least three references from entities that have significant commercial relationships with the Credit Customer.

**3.1.1.3 Loss Contingencies.** The Credit Customer must fully and accurately identify and describe each of the following, or state that there are no such matters applicable to the Credit Customer:

- a. known pending or, to the Credit Customer's knowledge, threatened, court actions, arbitration proceeding, investigations, commitments, claims, contingencies, or existing or potential liabilities that are or would be Material if determined adversely to the Credit Customer;
- b. ongoing investigations by the SEC, the FERC, or of any other governing, regulatory, or standards body that is Material or would be Material if determined adversely to the Credit Customer;
- c. prior bankruptcy declarations or petitions, voluntary or involuntary, by or against the Credit Customer, its predecessors, subsidiaries or Affiliates; and

- d. Material defalcations or fraud by or involving the Credit Customer, its predecessors, subsidiaries or Affiliates, or any of their respective assets.

**3.1.1.4 Affiliates.** The Credit Customer must identify all Affiliates that are Credit Customers.

**3.1.1.5 Total Potential Exposure Information.** The Credit Customer shall provide an estimate of its current or anticipated transaction activity for all services under the Tariff or otherwise over the succeeding twelve months, excluding Transmission Congestion Rights activity, sufficient to permit SPP to determine the Credit Customer's Total Potential Exposure.

**3.1.1.6 Attestation of Risk Management Capabilities.** *Each applying Market Participant shall submit to SPP a notarized statement signed by an authorized officer:*

- a. *Attesting that the officer has signature authority to make the statement;*
- b. *Describing its risk management capabilities and procedures, including whether the applying Market Participant is engaged in hedging;*
- c. *Identifying the employee(s) of the Market Participant who perform the activities described in (b) above, or if those activities are contracted to an external organization, identifying such organization;*
- d. *Defining the special training, skills, experience, and industry tenure of those person(s) performing the activities described in (b) above; and*
- e. *Providing any other information that may assist SPP in determining the risk management capabilities of the applying Market Participant.*

*Such attestation shall be renewed and updated for each successive year of market participation.*

*If the risk management capabilities of the applying Market Participant are deemed insufficient by SPP for the type of service that will be undertaken or if the attestation is deemed insufficient by SPP to determine the risk management capabilities of the applying Market Participant, the applying Market Participant shall be declined participation in all SPP markets.*

**3.1.1.7 Additional Information.** At any time and from time to time, SPP may request such additional information as SPP determines is necessary and appropriate for the Credit Assessment and the Credit

Customer shall timely provide such additional information. At any time, the Credit Customer may provide SPP with additional information that the Credit Customer considers relevant to the Credit Assessment.

**3.1.1.8** *Minimum Criteria for Market Participation.* Each Market Participant shall, at a minimum, possess:

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

*If the applying Market Participant, without assistance from a parent or Affiliate, is unable to meet the minimum criteria for market participation, the applying Market Participant shall be declined participation in all SPP markets.*

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

**3.1.2 Rating Agency Information.** In the initial Credit Assessment and in subsequent and ongoing assessments, SPP will consider Rating Agency reports applicable to the Credit Customer. This review will be focused on the Credit Customer's unsecured, senior long-term debt ratings. If these ratings are not available, SPP will consider issuer ratings.

**3.1.3 Power Supply Agent Disclosure Requirements.** A Not-For-Profit Credit Customer may request that its suggested Unsecured Credit Allowance calculation reflect as equity the outstanding balance of revenue bonds issued by the Not-For-

Profit Credit Customer when such revenue bonds are issued solely in support of the Not-For-Profit Credit Customer's role as power supply agent for not-for-profit electric distribution utilities. In support of such request, the Not-For-Profit Credit Customer must provide SPP with the following information:

- (a) Management representation letter stating:
  - (i) Principal amount, in dollars, of revenue bonds outstanding;
  - (ii) Prior to default and after default, debt service on the revenue bonds is payable only after operating expenses are paid;
  - (iii) Amounts payable to SPP under this Tariff are operating expenses for purposes of the revenue bonds; and
  - (iv) The trustee for the revenue bonds has a valid and binding security interest in the revenues or net revenues from the power supply contracts to secure payment of the revenue bonds and the Not-For-Profit Customer has not granted any lien thereon prior to the lien of the bond resolution.
  
- (b) Opinion of counsel stating:
  - (i) The power supply contracts are binding obligations of the Not-For-Profit Credit Customer enforceable in accordance with their terms;
  - (ii) The trustee of the revenue bonds has a valid and binding security interest in, or assignment and pledge of, the revenues or net revenues from the power supply contracts to secure payment of the revenue bonds;
  - (iii) The resolution or other document creating the security interest or pledge and providing for the priority of payment is enforceable in accordance with its terms;
  - (iv) Prior to default and after default, debt service on the revenue bonds is payable only after operating expenses are paid; and
  - (v) All amounts payable to SPP arising from transactions under this Tariff are operating expenses for purposes of the revenue bonds.
  
- (c) All Rating Agency ratings on revenue bond(s).

The opinion of counsel referenced above shall be provided to SPP together with copies of the most recent written opinions of counsel, if any, for each member of the Not-For-Profit Credit Customer that relate to the enforceability of the power supply contract(s).

**3.1.4 Guaranties.** If the Credit Customer proposes a Guaranty to establish, contribute to, or maintain an Unsecured Credit Allowance, Credit Information required under Section 3.1.1 must be submitted with respect to both the Credit Customer and the proposed Guarantor.

## **3.2. Annual and Other Ongoing Credit Assessments.**

**3.2.1 Purpose of Annual and Other Ongoing Credit Assessments.** At least once annually, SPP will review and update its Credit Assessment for each Credit



Customer. This will include a review of the Credit Customer's creditworthiness and consideration of revisions of the Credit Customer's (a) Unsecured Credit Allowance; (b) Financial Security requirements; and (c) Total Credit Limit. In its sole discretion, SPP may conduct additional reviews and updates, including reviews in response to new facts or occurrences that may bear upon the Credit Customer's creditworthiness. Unless otherwise stated, all annual information required under Section 3.2 shall be provided to SPP no later than 120 days after the end of the Credit Customer's fiscal year.

- 3.2.2 Procedures for Posting Additional Financial Security or Taking Other Corrective Measures.** *In the event a Credit Customer experiences a Material Adverse Change, SPP may invoke its right to require the Credit Customer to post additional Financial Security, cease one or more transactions, or take other measures to restore confidence in the Credit Customer's ability to transact safely. In addition, based upon the annual or other Credit Assessment, SPP may, at any time, revise any (a) Unsecured Credit Allowance; (b) Financial Security requirements; and (c) Total Credit Limit, applicable to the Credit Customer. If SPP has upwardly revised the required amount of Financial Security, the Credit Customer will have two (2) Business Days from receipt of the notice from SPP to provide the required Financial Security, in an amount and form acceptable to SPP. Failure to provide additional required Financial Security shall be a Default under this Credit Policy and a default under the Tariff.*
- 3.2.3 Rating Agency Information.** The Credit Customer will give notice to SPP of any changes to its Credit Ratings within five (5) Business Days of the announcement of the change.
- 3.2.4 Financial Statements.** On an annual basis, and except as otherwise stated with respect to quarterly reports, each Credit Customer must provide SPP with updated Financial Statements within ten (10) days after they become available, and in no event later than 120 days after the end of the Credit Customer's fiscal year. Quarterly reports must be provided quarterly, within ten (10) days after they become available. Financial Statements may be submitted in the manner provided under Section 3.1.1.1.
- 3.2.5 Power Supply Agent Disclosure Requirements.** A Not-For-Profit Credit Customer that initially qualified to have its suggested Unsecured Credit Allowance calculation reflect as equity the outstanding balance of revenue bonds issued by the Not-For-Profit Credit Customer, and is requesting to continue to have its suggested Unsecured Credit Allowance calculation reflect as equity the outstanding balance of revenue bonds issued by the Not-For-Profit Credit Customer when such revenue bonds are issued solely in support of the Not-For-Profit Credit Customer's role as power supply agent for not-for-profit electric distribution utilities, must at all times comply with the following information reporting requirements:

- (a) The Not-For-Profit Credit Customer must advise SPP of the principal amount of revenue bonds outstanding on an annual basis;
- (b) The Not-For-Profit Credit Customer must advise SPP within ten (10) days if the principal amount of the revenue bonds outstanding is reduced by more than twenty percent (20%) from the amount last certified by the Not-For-Profit Credit Customer;
- (c) The Not-For-Profit Credit Customer must advise SPP immediately if the security interest of the trustee is released or the Not-For-Profit Credit Customer grants any lien prior to the lien of the bond resolution; and
- (d) The Not-For-Profit Credit Customer must advise SPP within ten (10) days of any downgrade of any of the Not-For-Profit Credit Customer's revenue bond ratings issued by a Rating Agency.

**3.2.6 Other Credit Information.** On an annual basis, each Credit Customer must provide SPP with the information specified in Section 3.1.1.3 (Loss Contingencies), 3.1.1.4 (Affiliates), 3.1.1.6 (Additional Information).

**3.2.7 Material Adverse Changes.** Each Credit Customer must give SPP notice of any *Material Adverse Change* in its financial condition (and, as applicable, the financial condition of its Guarantor) within *two* (2) Business Days of the occurrence of the *Material Adverse Change*. If a Credit Customer or Guarantor files a Form 10-K, Form 10-Q, or Form 8-K with the SEC, notice of such filing, timely delivered to SPP in accordance herewith, will suffice on the condition that such notice states that the filing addresses a *Material Adverse Change*.

A *Material Adverse Change* in financial condition includes any Material change in operations or financial condition that a reasonable examiner of creditworthiness would deem material to decisions concerning the extension of credit, including but not limited to, any of the following (“Material Adverse Change”):

- a. A downgrade of any debt rating or issuer rating, or change in the outlook of any Credit Rating, including debt rating or issuer rating;
- b. Any placement on a credit watch with negative implication by a Rating Agency;
- c. The filing of a lawsuit or initiation of an arbitration, investigation or other proceeding (including regulatory proceeding) which if decided adversely could have a Material effect on any current or future financial results or financial condition;
- d. *The merger, acquisition or any other form of business combination involving the credit customer.*

- e. Any *adverse* changes in financial condition which, individually, or in the aggregate, are Material;
- f. Any adverse changes, events or occurrences which, individually or in the aggregate, could affect the ability of the Credit Customer to pay its debts as they become due or could have a Material adverse effect on any current or future financial results or financial condition;
- g. Discovery or disclosure of conflict of interest issues;
- h. Resignation or removal of a key officer or director;
- i. Any action requiring the filing of a Form 8-K;
- j. Any report of a quarterly or annual loss or a decline in earnings of ten (10) percent or greater compared to the prior period;
- k. Any restatement of prior financial statements; *and*
- l. *Failure of a Market Participant to continue to satisfy the minimum criteria for market participation specified in 3.1.1.8.*

**3.2.7.1 Notification of a Material Adverse Change by SPP to a Credit Customer.**

*Upon the occurrence of a Material Adverse Change and prior to SPP compelling a Credit Customer to post additional Financial Security, cease one or more transactions, or take other measures to restore confidence in the Credit Customer's ability to transact business safely as a result of any Material Adverse Change, SPP shall provide, when feasible, reasonable advance notice in writing, by fax, electronic mail, hand delivery, reputable overnight courier, or first-class mail, to the Credit Contact designated by the Credit Customer pursuant to Section 9.1 of this Credit Policy. If delivery to the Credit Contact fails, then SPP may effect delivery to any officer, executive, or manager of the Credit Customer. Such notice shall identify the reasoning behind the invocation of the Material Adverse Change clause and be signed by an authorized representative of SPP.*

**3.2.8 Affiliates.** Each Credit Customer must identify all Affiliates that are Credit Customers.

**3.2.9 Additional Information.** At any time and from time to time, SPP may request such additional information as SPP determines is necessary and appropriate for the Credit Assessment and the Credit Customer shall timely provide such additional information. At any time, the Credit Customer may provide SPP with additional information that the Credit Customer considers relevant to the Credit Assessment.

- 3.2.10 Guaranties.** If the Credit Customer relies upon a Guaranty to maintain an Unsecured Credit Allowance, Credit Information required under Section 3.2 must be submitted with respect to both the Credit Customer and the Guarantor.
- 3.2.11 Alternate Requirements.** For Not-For-Profit Credit Customers, some of the above financial submittals may not be applicable, and alternate requirements may be specified by SPP.
- 3.2.12** In the credit evaluation of Not-For-Profit Credit Customers, SPP may request additional information as part of the overall financial review process and will consider other relevant factors in determining financial strength and creditworthiness.
- 3.3 SPP Rights to Use Other Information.** Notwithstanding any provision of this Credit Policy, SPP shall have the right to utilize, in a Credit Assessment, any information of which it is aware concerning the Credit Customer.
- 3.4 Positive Material Change in Financial Condition of the Credit Customer.** If there is a positive Material *change* in the financial condition of the Credit Customer, a significant reduction in the Total Potential Exposure of the Credit Customer, or any other change that the Credit Customer believes may warrant an increase in the Credit Customer's Unsecured Credit Allowance and/or a reduction in the Financial Security required of the Credit Customer, the Credit Customer may make a written request to SPP to update the Credit Assessment and include or refer to any supporting information. SPP may request any Credit Information described in Section 3.2 *to evaluate the merit* of the Credit Customer's request. SPP anticipates that it will respond to the Credit Customer's request within a reasonable period of time, generally within ten (10) Business Days after receiving all information that is required for an ongoing review as required in this Article.

## ARTICLE FOUR

### Creditworthiness and Total Credit Limit

- 4.1 Creditworthiness Overview.** SPP will establish a Total Potential Exposure for each Credit Customer based on the Credit Customer's estimated cumulative financial obligation arising under the Tariff or otherwise to SPP, excluding Transmission Congestion Rights activity, as provided in Article 5. The Total Potential Exposure is the amount that the Credit Customer must support with credit. Transmission Congestion Rights activity must be supported with Financial Security as provided in Article 5A. The credit will consist of a combination of the Unsecured Credit Allowance and Financial Security, or either of them. SPP will determine the Credit Customer's Unsecured Credit Allowance based upon the Composite Credit Score. The Composite Credit Score, as defined herein, is a determination of financial strength and creditworthiness, based upon the Credit Assessment. Where Credit Customers are Affiliates of each other, an aggregate Unsecured Credit Allowance will be established for the Affiliates, as provided below. Financial Security is an Irrevocable Letter of Credit or other collateral in accordance with this Credit Policy. If the Credit Customer's Unsecured Credit Allowance is less than its Total Potential Exposure, the Credit Customer will be required either to establish additional credit in the amount of the difference by posting Financial Security or to decrease its Total Potential Exposure. A Credit Customer's total credit with SPP, consisting of the Unsecured Credit Allowance and any Financial Security, is the Credit Customer's Total Credit Limit. A Credit Customer may provide additional Financial Security at any time to increase or maintain its Total Credit Limit, for example, in order to increase its Total Potential Exposure or to compensate for a reduction in its Unsecured Credit Allowance.
- 4.2 Composite Credit Score.** The "Composite Credit Score" is the numerical result of SPP's scoring process based upon various quantitative and qualitative predictors of creditworthiness as set forth in this Section. The results are scaled from one (1) to six (6) with one (1) being the strongest score and six (6) being the weakest. Key factors in the scoring process include financial ratios, years in business, and Credit Ratings. SPP will apply all measures used to determine Composite Credit Scores in a consistent manner. The respective models SPP will use to determine the Composite Credit Score for Large Company Credit Customers, Small Company Credit Customers, and Not-For-Profit Credit Customers are set forth in this Section.
- 4.2.1 Large Company Credit Scoring.** The Large Company Credit Customer model will be utilized for Credit Customers with net fixed assets equal to or in excess of \$250 million ("Large Company Credit Customers" or "Large Company"). The Large Company Credit Score will be comprised of a Quantitative Score and a Qualitative Score. Each score is then weighted as shown below to build a Composite Credit Score.

<b>Large Company Analysis</b>	<b>Weight</b>
Quantitative Score	70%
Qualitative Score	30%

**4.2.1.1 Quantitative Score.** The Quantitative Score is based on the financial ratios below. These measures will be calculated for each Large-Company Credit Customer and compared with benchmarks to assign a score of one (1) to six (6) for each measure. A score of one (1) indicates that the Credit Customer has a strong financial health with regard to the measure, while a score of six (6) indicates poor financial health with regard to the measure. The following measures are used:

- a. Current Ratio—Current Assets/Current Liabilities
- b. EBIT Interest Coverage—(Interest Expense + Income Taxes + Net Income) / Interest Expense
- c. Total Debt to Total Capitalization (“TD/TC”)—(Long Term Debt + Current Portion + Other Short Term Borrowings) / (Total Debt + Preferred Equity + Common Equity)
- d. Funds from Operations (“FFO”) to Total Debt—(Cash from Operating Activities - Changes in Operating Assets and Liabilities) / (Long Term Debt + Current Portion + Other Short Term Borrowings)

The measures are then assessed as follows to calculate the total Quantitative Score:

Scale	Current	EBIT Interest	TD/TC	FFO to Total Debt
1	>1.34	>4.99	<.30	>.350
2	1.15 – 1.34	3.50 – 4.99	.30 - .39	.271 - .350
3	1.00 – 1.14	2.50 – 3.49	.40 - .49	.181 - .270
4	0.85 – 0.99	2.00 – 2.49	.50 - .59	.120 - .180
5	0.70 – 0.84	1.25 – 1.99	.60 - .69	.070 - .119
6	<0.70	<1.25	>.69	<.070

The measures are weighted as follows:

<b>Large Company Financial Ratios</b>	<b>Weight</b>
Current Ratio	10%
EBIT Interest Coverage	25%
Total Debt to Total Capitalization	25%
FFO to Total Debt	<u>40%</u>
	100%

If one or more ratios cannot be calculated due to insufficient data to calculate the ratio, the weight that would have been assigned to that ratio or ratios will be allocated equally among the remaining ratios.

**4.2.1.2 Qualitative Score.** The Qualitative Score, also on a scale of one (1) to six (6), will assess non-financial measure information about a Credit Customer's creditworthiness. A score of one (1) indicates that the Credit Customer has strong qualitative measures, while a score of six (6) indicates poor qualitative measures. The qualitative analysis will take into account a variety of information, but at a minimum will include the assessment of the following characteristics:

- Management
- Regional / Commodity Diversity
- Physical Liquidity
- Financial Liquidity
- Quality of Equity
- Volatility of Earnings
- Regulation/Rates
- Senior Unsecured Debt Rating
- SPP Payment Record
- Risk Procedures

**4.2.1.3 Composite Credit Score.** The Composite Credit Score is the weighted average of the Quantitative Score and the Qualitative Score. To illustrate, assume the following:

Large Company Qualitative Score = 4.0

Large Company Financial Measures:

	Value	Score	Weight
Current Ratio	.82	5	10%
EBIT Interest Coverage	2.08	4	25%
Total Debt to Total Capitalization	.63	5	25%
FFO to Total Debt	.17	4	40%

Large Company Quantitative Score =  
 $(5 \times 10\%) + (4 \times 25\%) + (5 \times 25\%) + (4 \times 40\%) = 4.35$

Large Company Credit Score =  $(4.35 \times 70\%) + (4 \times 30\%) = 4.25$

**4.2.2 Small Company Credit Scoring.** The Small Company model will be utilized for Credit Customers with net fixed assets less than \$250 million (“Small Company Credit Customers” or “Small Company”). The Small Company Composite Credit Score will be comprised of a Quantitative Score and a Qualitative Score. Each score is then weighted as shown below to build a Composite Credit Score.

<b>Small Company Analysis</b>	<b>Weight</b>
Quantitative Score	70%
Qualitative Score	30%

**4.2.2.1 Quantitative Score.** The Quantitative Score is based on the financial ratios below. These measures will be calculated for each Small Company Credit Customer and compared with benchmarks to assign a score of one (1) to six (6) for each measure. A score of one (1) indicates that the Credit Customer has a strong financial health with regard to the measure, while a score of six (6) indicates poor financial health with regard to the measure. The following measures are used:

- a. Current Ratio—Current Assets/Current Liabilities
- b. EBIT Interest Coverage—(Interest Expense + Income Taxes + Net Income) / Interest Expense
- c. Total Liabilities to Total Net Worth (“TL/TNW”)—(Total Liabilities) / (Total Equity-Intangibles-Treasury Stock)
- d. Funds from Operations (“FFO”) to Total Debt—(Cash from Operating Activities - Changes in Operating Assets and Liabilities) / (Long Term Debt + Current Portion + Other Short Term Borrowings)
- e. Return on Assets (“ROA”)—Net Income / Total Assets

The values are then assessed as follows to calculate the total Quantitative Score:

<b>Scale</b>	<b>Current</b>	<b>EBIT Interest</b>	<b>TL/TNW</b>	<b>FFO to Total Debt</b>	<b>ROA</b>
1	>2.50	>4.99	<0.40	>.350	>.120
2	1.75 – 2.50	3.50 – 4.99	0.40 - 0.70	.271-.350	.100 - .120
3	1.40 – 1.74	2.50 – 3.49	0.71 – 1.49	.181 - .270	.075 - .099
4	1.15 – 1.39	2.00 – 2.49	1.50 – 2.25	.120 - .18	.045 - .074
5	1.00 – 1.14	1.25 – 1.99	2.26 – 4.00	.070 - .119	.015 - .044
6	<1.00	<1.25	>4.00	<.070	<.015

The measures are weighted as follows:

<b>Small Company Financial Ratios</b>	<b>Weight</b>
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Current Ratio	25%
EBIT Interest Coverage	10%
Total Liabilities / Total Net Worth	25%
FFO to Total Debt	15%
ROA	<u>25%</u>
	100%

If one or more ratios cannot be calculated due to insufficient data to calculate the ratio, the weight that would have been assigned to that ratio or ratios will be allocated equally among the remaining ratios.

**4.2.2.2 Qualitative Score.** The Qualitative Score, also on a scale of one (1) to six (6), will assess non-financial measure information about a Credit Customer's creditworthiness. A score of one (1) indicates that the Credit Customer has strong qualitative measures, while a score of six (6) indicates poor qualitative measures. The qualitative analysis will take into account a variety of information, but at a minimum will include the assessment of the following characteristics:

- Management
- Regional / Commodity Diversity
- Physical Liquidity
- Financial Liquidity
- Quality of Equity
- Volatility of Earnings
- Regulation/Rates
- Peer Comparison using SIC codes
- Senior Unsecured Debt Rating
- SPP Payment Record

**4.2.2.3 Composite Credit Score.** The Composite Credit Score is the weighted average of the Quantitative Score and the Qualitative Score. To illustrate, assume the following:

Small Company Qualitative Score = 4

Small Company Financial Measures:

	Value	Score	Weight
Current Ratio	1.10	5	25%
EBIT Interest Coverage	1855.00	1	10%
Total Liabilities / Total Net Worth	2.47	5	25%
FFO to Total Debt	0.03	6	15%
ROA	0.02	5	25%

$$\text{Small Company Quantitative Score} = (5 \times 25\%) + (1 \times 10\%) + (5 \times 25\%) + (6 \times 15\%) + (5 \times 25\%) = 4.75$$

$$\text{Small Company Credit Score} = (4.75 \times 70\%) + (4 \times 30\%) = 4.53$$

**4.2.3 Not-For-Profit Credit Scoring.** The Not-For-Profit model will be utilized for Credit Customers who are not structured to generate profits for investors (“Not-For-Profit Credit Customers” or “Not-For-Profit”), including electric cooperatives, municipalities, and government agencies. The Not-For-Profit Composite Credit Score will be comprised of a Quantitative Score and a Qualitative Score. The lower of the Composite Credit Score calculated using two alternative weights for the Quantitative Score and the Qualitative Score as shown below shall be used in determining the allocation of the Not-For-Profit Credit Customer’s Unsecured Credit Allowance.

Not For Profit Credit Customer Analysis	Weight	
	Alternative 1	Alternative 2
Quantitative Score	40%	50%
Qualitative Score	60%	50%

**4.2.3.1 Quantitative Score.** The Quantitative Score is based on the financial ratios below. These measures will be calculated for each Not-For-Profit Credit Customer and compared with benchmarks to assign a score of one (1) to six (6) for each measure. A score of one (1) indicates that the Credit Customer has a strong financial health with regard to the measure, while a score of six (6) indicates poor financial health with regard to the measure. The following measures, or their substantive equivalents for not-for-profit entities, are used:

- a. Current Ratio (“CR”)—Current Assets / Current Liabilities
- b. Debt Service Coverage (“DSC”)—(Operating Income + Interest Expense + Depreciation + Interest Income + Cash Portion of Capital Credits - Onetime Charges)/(Interest Expense + Debt Amortization)
- c. Times Interest Earned Ratio (“TIER”)—(Interest Expense + Patronage Capital or Margins or Changes in Net Assets) / (Interest Expense)
- d. Total Debt to Total Capitalization (“TD/TC”)—(Long Term Debt + Current Portion + Other Short Term Borrowings) / (Total Debt + Preferred Equity + Common

Equity). Members' Equity could also be called Net Assets or Patronage Capital.

The values are then assessed as follows to calculate the total Quantitative Score:

Not-For-Profit Credit Customer Model Ratio Scales

Scale	CR	DSC	TIER	TD/TC
1	>1.34	>1.99	>2.00	<.50
2	1.15 – 1.34	1.50 – 1.99	1.50 – 2.00	.51 - .74
3	1.00 – 1.14	1.00 – 1.49	1.00 – 1.49	.75 - .85
4	0.85 – 0.99	0.80 – 0.99	0.80 – 0.99	.86 - .93
5	0.70 – 0.84	0.60 – 0.79	0.50 – 0.79	.94 - .99
6	<0.70	<0.60	<0.50	>.99

The measures are weighted as follows:

Not-For-Profit Credit Customer Financial Ratios	Weight
Current Ratio	15%
Debt Service Coverage	35%
Times Interest Earned Ratio	20%
Total Debt / Total Capitalization	30%
	100%

If one or more ratios cannot be calculated due to insufficient data to calculate the ratio, the weight that would have been assigned to that ratio or ratios will be allocated equally among the remaining ratios.

**4.2.3.2 Qualitative Score.** The Qualitative Score, also on a scale of one (1) to six (6), will assess non-financial measure information about a Credit Customer's creditworthiness. A score of one (1) indicates that the Credit Customer has strong qualitative measures, while a score of six (6) indicates poor qualitative measures. The qualitative analysis will take into account a variety of information, but at a minimum will include the assessment of the following characteristics:

- Regulation/Rates
- Terms of wholesale power contracts
- Customer count served
- Power supply portfolio (e.g., contracts, assets, etc)
- Management
- Ability to access short-term capital
- Senior Unsecured Debt Rating
- SPP Payment Record

**4.2.3.3 Composite Credit Score.** The Composite Credit Score is the weighted average of the Quantitative Score and the Qualitative Score. To illustrate, assume the following:  
Not-For-Profit Qualitative Score = 2

Not-For-Profit Financial Measures:

	Value	Score	Weight
Current Ratio	1.42	1	15%
Debt Service Coverage	1.17	3	35%
Times Interest Earned Ratio	0.73	5	20%
Total Debt / Total Capitalization	1.50	6	30%

Not-For-Profit Quantitative Score =  
 $(1 \times 15\%) + (3 \times 35\%) + (5 \times 20\%) + (6 \times 30\%) = 4.00$

Not-For-Profit Credit Score =  
 $(4.00 \times 40\%) + (2.0 \times 60\%) = 2.80$  using Alternative 1, or;

$(4.00 \times 50\%) + (2.0 \times 50\%) = 3.00$  using Alternative 2.

The lower Composite Credit Score resulting from utilizing the two alternatives is 2.80, so it will be the Composite Credit Score used in allocating this Not-For-Profit Credit Customer's Unsecured Credit Allowance as described in Section 4.3 below.

**4.3 Unsecured Credit Allowance.**

The Composite Credit Score is converted into an "Unsecured Credit Allowance," which is a percentage of Tangible Net Worth. (Tangible Net Worth = Total Equity – Intangibles – Treasury Stock). The Composite Credit Score is a numeric value on a scale of one (1) to six (6) with one (1) indicating stronger creditworthiness and six (6) indicating weaker creditworthiness. The conversion into an Unsecured Credit Allowance is based on the percentage values stated in Table 1.

**Table 1**

Composite Credit Score	% Tangible Net Worth Small Company Model	% Tangible Net Worth Large Company Model	% Tangible Net Worth Not For Profit Model
1.00 - 1.99	5.00%	5.00%	7.500%
2.00 - 2.99	3.00%	3.00%	4.500%
3.00 - 3.59	2.00%	2.00%	3.000%
3.60 - 4.39	0.75%	0.75%	1.125%
4.40 - 4.99	0.25%	0.25%	0.375%
5.00 - 6.00	0%	0%	0.000%

To illustrate, a Large Company Credit Customer with a Composite Credit Score of 4.36 and Tangible Net Worth of \$501,468,000 would have a suggested Unsecured Credit Allowance calculated as follows:

$$\begin{aligned}\text{Unsecured Credit Allowance} &= \text{Table 1 Percentage} \times \text{Tangible Net Worth} \\ &= 0.75\% \times \$501,468,000 \\ &= \$3,761,010\end{aligned}$$

**4.3.1 Revenue Bond Adjustment to Tangible Net Worth Value for Power Supply Agents.** For Not-For-Profit Credit Customers that issue revenue bonds solely in support of their role as power supply agent for not-for-profit electric distribution utilities and meet: (a) the disclosure requirements in: (i) Section 3.1.3 of this Credit Policy and (ii) Section 3.2.5 of this Credit Policy; and (b) have a revenue bond rating or revenue bond ratings equal to or better than Baa1 issued by Moody's Investor Services or BBB+ issued by Standard & Poor's, the calculation of the suggested Unsecured Credit Allowance shall be based on an adjusted value for Tangible Net Worth. The adjusted value for Tangible Net Worth shall include the outstanding balance of revenue bonds as of the date of the calculation.

To illustrate, if the Not-For-Profit Credit Customer met all of the disclosure requirements for power supply agents, had a Tangible Net Worth of \$2,000,000, and had \$8,000,000 principal amount of revenue bonds outstanding, the adjusted Tangible Net Worth to be used in computing the suggested Unsecured Credit Allowance would be \$10,000,000 (the sum of the adjusted Tangible Net Worth and the principal amount of revenue bonds outstanding as of the date of the calculation).

**4.3.2 Maximum and Minimum Unsecured Credit Allowances.** Notwithstanding the calculation under Section 4.3:

**4.3.2.1** No Credit Customer shall have an Unsecured Credit Allowance in excess of \$25 million; and

**4.3.2.2** On the condition that a Not-For-Profit provides all required Credit Information and executes all documents required under this Credit Policy, and subject to the Default provisions of this Credit Policy, a Not-For-Profit Credit Customer shall have a minimum Unsecured Credit Allowance in the amount of \$250 thousand.

**4.3.3 Guaranty.** In the event that the Credit Customer has a Guaranty, the Unsecured Credit Allowance will be based on the Credit Assessments of the Credit Customer and the Guarantor.

**4.3.4 Unsecured Credit Allowance for Affiliates.**

**4.3.4.1 Determination of Creditworthiness of Combined Affiliates.** If two or more Credit Customers are Affiliates, and each is granted an Unsecured Credit Allowance and a corresponding Total Credit Limit, SPP will consider the overall creditworthiness of the Affiliated Credit Customers when determining the Unsecured Credit Allowances in order not to grant more unsecured credit than the overall group of affiliated entities could support. SPP will work with Affiliated Credit Customers to allocate the total Unsecured Credit Allowance among the Affiliates while assuring that no individual Credit Customer, nor common guarantor, exceeds the Unsecured Credit Allowance appropriate for its credit strength. A \$25 million maximum Unsecured Credit Allowance shall apply to all Affiliates as though the Affiliates are a single Credit Customer.

**Example:** Credit Customers A and B each have a \$10.0 million Guaranty from their common parent, a holding company with an Unsecured Credit Allowance calculation of \$12.0 million. SPP may limit the Unsecured Credit Allowance for each Credit Customer to \$6.0 million, so the total Unsecured Credit Allowance does not exceed the corporate total of \$12.0 million.

**4.3.4.2 Guaranty.** If the Guaranty is applicable to Affiliates (i.e., more than one Credit Customer), then the Unsecured Credit Allowance of the Guarantor shall be allocated among such Affiliates and the applicable allocation shall be utilized in determining each Affiliated Credit Customer's Unsecured Credit Allowance.

**4.3.5 Continuous Right to Modify.** SPP has the right at any time to modify any Unsecured Credit Allowance and/or require additional Financial Security as may be reasonably necessary to support the Credit Customer's ability to pay for Transmission Service and any market services SPP may provide. If the modification results in a reduction or revocation of Unsecured Credit Allowance and the reduction or revocation results in the need to provide Financial Security, then the rights and duties of SPP and the Credit Customer shall be as set forth in Section 3.2.2.

**4.4 Financial Security Requirement.** If a Credit Customer (i) is denied an Unsecured Credit Allowance, or (ii) is granted an Unsecured Credit Allowance that is below its Total Potential Exposure calculated pursuant to Article 5, then the Credit Customer may submit Financial Security to cover or exceed the difference in the amount of the Unsecured Credit Allowance granted to the Credit Customer and the amount of its Total Potential Exposure. *A Credit Customer electing to satisfy the alternative criteria for market participation specified in Section 3.1.1.8(d) and whose anticipated or actual market activity exceeds One Hundred Thousand Dollars (\$100,000) in Market Exposure*

*shall provide Financial Security that is twice the amount calculated to satisfy its Financial Security Requirement pursuant to this Section 4.4.* Any Credit Customer may provide Financial Security in lieu of or in addition to the Unsecured Credit Allowance it was granted. Upon the Credit Customer's request, SPP shall provide a written explanation of how it determined the amount of required Financial Security for that Credit Customer. A Credit Customer also is required to submit Financial Security to cover or exceed its Total TCR Credit Requirement pursuant to Section 5A.8.

**4.5 Total Credit Limit.** The "Total Credit Limit" is the amount of any Unsecured Credit Allowance approved by SPP for the Credit Customer, plus the amount of any Financial Security the Credit Customer has provided to SPP. SPP shall determine the Total Credit Limit for each Credit Customer. Upon the Credit Customer's request, SPP shall provide a written explanation of how it determined the Unsecured Credit Allowance and the amount of required Financial Security for that Credit Customer. SPP will respond to the Credit Customer's request within five (5) Business Days.

## ARTICLE FOUR A

### Virtual Energy Bids and Virtual Energy Offers

#### 4A.1 Overview.

**4A.1.1** Virtual Energy Bids and Virtual Energy Offers create potential exposure of non-payment, and therefore, have a credit requirement. SPP does not require the Credit Customer to segregate, allocate, or reserve a portion of its Total Credit Limit to support its Virtual Energy Bids and Virtual Energy Offers in the Day-Ahead Market. However, SPP analyzes the Credit Customer's Virtual Energy Bids and Virtual Energy Offers to determine if the Credit Customer has credit available to support its Virtual Energy Bids and Virtual Energy Offers at the time the Bids or Offers are submitted. Only the Virtual Energy Bids and Virtual Energy Offers that the Credit Customer has credit available to support will be credit approved for the Day-Ahead Market.

**4A.1.2** In its analysis, SPP will calculate the Estimated Virtual Exposure ("EVE") based on the Credit Customer's Virtual Energy Bids and Virtual Energy Offers. Using the EVE, SPP will determine if the Credit Customer has available credit to support its Virtual Energy Bids and Virtual Energy Offers. After the close of the Day-Ahead Market for an Operating Day, the credit requirement associated with the Credit Customer's cleared Virtual Energy Bids and Virtual Energy Offers will be adjusted to reflect the actual megawatts that cleared.

**4A.1.3** The total EVE for a Credit Customer includes both (i) the calculation of EVE for Virtual Energy Bids and Virtual Energy Offers prior to the close of the Day-Ahead Market; and (ii) the EVE calculations post Day-Ahead Market clearing updated to reflect the actual cleared Virtual Energy Bids and Virtual Energy Offers.

**4A.1.4** This Article addresses the calculation of the EVE and the credit requirements associated with the submission of Virtual Energy Bids and Virtual Energy Offers in the Day-Ahead Market and the Virtual Energy Bids and Virtual Energy Offers that clear in the Day-Ahead Market.

**4A.2 Calculation of Estimated Virtual Exposure (EVE) Prior to the Close of the Day-Ahead Market for an Operating Day.** When a Virtual Energy Bid or Virtual Energy Offer is submitted, SPP will calculate the EVE using reference prices for the Virtual Energy Bid or Virtual Energy Offer and the maximum megawatts submitted. If multiple Virtual Energy Bids and Virtual Energy Offers are submitted in a single submission, the EVE will be calculated for the single submission as a whole. If a Virtual Energy Bid or Virtual Energy Offer contains multiple hours, all of the hours will be included in the EVE calculation. The EVE is calculated for the submittal of Virtual Energy Bids and Virtual Energy Offers. In the event that both a Virtual Energy Bid and Virtual Energy Offer are submitted in the same submission for the same node and same operating hour, the one with the higher dollar value will be used in the EVE calculation for that submission.



**4A.2.1** For a given Virtual Energy Bid the Virtual Energy Bid EVE is the sum of (i) the product of the Virtual Energy Bid reference price for the Settlement Location of the Virtual Energy Bid times the maximum megawatt value of the submitted Bid curve plus (ii) the virtual transaction fee. For a given Virtual Energy Offer the Virtual Energy Offer EVE is the sum of (i) the product of the Virtual Energy Offer reference price for the Settlement Location of the Virtual Energy Offer times the maximum megawatt value of the submitted Offer curve plus (ii) the virtual transaction fee.

**4A.2.1.1** If a Market Participant submits both a Virtual Energy Bid and a Virtual Energy Offer at the same location for the same hour, only the Virtual Energy Bid or Virtual Energy Offer with the greater EVE is included in the calculation of the EVE for the submission.

**4A.2.1.2** The EVE for a single submission of Virtual Energy Bids and Virtual Energy Offers is equal to the sum of the hourly Virtual Energy Bid EVEs for each Virtual Energy Bid in the submission and the sum of the hourly Virtual Energy Offer EVEs in the submission, with the adjustment described in 4A.2.1.1 if both a Virtual Energy Bid and Virtual Energy Offer are received for the same location and hour. If Credit Customer cancels a Virtual Energy Bid or Virtual Energy Offer prior to the close of the Day-Ahead Market for the Operating Day for which it is submitted, the EVE associated with the canceled portion of the submission is removed from the calculation of the EVE for the submission.

**4A.2.1.3** The Virtual Energy Bid reference price is based on the difference between the Day-Ahead Locational Marginal Prices and the Real-Time Locational Marginal Prices in the prior year, at each node. The Virtual Energy Bid reference price for a given day is the 97<sup>th</sup> percentile hourly difference from the same quarter in the previous year.

**4A.2.1.4** The Virtual Energy Offer reference price is based on the difference between the Real-Time Locational Marginal Price and the Day-Ahead Locational Marginal Price in the prior year, at each node. The Virtual Energy Offer reference price for a given day is the 97<sup>th</sup> percentile hourly difference from the same quarter in the previous year.

**4A.2.1.5** **Calculation of Virtual Energy Bid and Virtual Energy Offer Reference Prices During the Initial Year of the Integrated Marketplace.** During the initial year of the Integrated Marketplace, prior to the accumulation of complete Real-Time and Day-Ahead Locational Marginal Price data sufficient to calculate

the Virtual Energy Bid and Virtual Energy Offer references prices pursuant to sections 4A.2.1.3 and 4A.2.1.4, SPP shall use data representative of the expected Day-Ahead and Real-Time Market results based on simulations of the Day-Ahead Market or other available information.

**4A.2.1.6 Calculation of Virtual Energy Bid and Virtual Energy Offer Reference Prices for New Settlement Locations.** When a new Settlement Location is created and until actual Virtual Energy Bid and Virtual Energy Offer reference prices can be calculated pursuant to section 4A.2.1.3 and 4A.2.1.4 for that Settlement Location, SPP will use the system average virtual reference price. The system average virtual reference price for a given quarter is the mean of all of the Virtual Energy Bid and Virtual Energy Offer reference prices for that quarter.

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

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

**4A.3.2** If the EVE for a submission of Virtual Energy Bids and Virtual Energy Offers is greater than the Credit Customer's available credit, which is equal to the Credit Customer's Total Credit Limit less its Total Potential Exposure, then the submission will be rejected. Rejected Virtual Energy Bids and Virtual Energy Offers will not be included in the Day-Ahead Market and will not affect the Total Potential Exposure calculation.

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

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

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

**4A.4 Updated EVE Calculations Post Day-Ahead Market Clearing.** After clearing of the Day-Ahead Market for an Operating Day, the EVEs for credit approved Virtual Energy Bids and Virtual Energy Offers shall be updated to replace the maximum megawatts with the actual megawatts that cleared. If there are Virtual Energy Bids and Virtual Energy Offers that cleared at the same location, the megawatt amounts will be netted in the updated EVE calculation.

## ARTICLE FIVE

### Calculation of Total Potential Exposure

- 5.1 Overview.** The Total Potential Exposure is a calculated value applied to assure that the Credit Customer engages in activities within its Total Credit Limit. The Total Potential Exposure is based on the Credit Customer's estimated cumulative financial obligation under the Tariff or otherwise to SPP, excluding TCR activity. Potential Exposure to non-payment is calculated separately for each applicable category of service and then summed together to obtain the amount of Total Potential Exposure. This Article addresses the calculation and use of the value for Total Potential Exposure. As explained in Article 5A, only Financial Security may be used for credit requirements associated with TCR activity.
- 5.2 Calculation of Total Potential Exposure for a Credit Customer.** A Credit Customer's Total Potential Exposure shall be the sum of the potential exposure to non-payment for market transactions and Transmission Service transactions billed pursuant to the Tariff. Because only Financial Security may be used to satisfy the credit requirements associated with TCR activity, TCR activity is not included in the Total Potential Exposure determination, but is reflected in the determination of whether there is a Total Potential Exposure Violation.
- 5.2.1 Market Exposure ("ME").** Potential exposure to non-payment associated with market transactions in the Integrated Marketplace is calculated under the following formula:

$$ME = IMSC + CMSC + MEMERT + \text{MEMDAMEMEDA} + EVE$$

IMSC = Invoiced Market Settlement Charges (all Real-Time Balancing Market and Day-Ahead Market, including virtual transaction activity, charges or credits that have been invoiced but not yet paid).

CMSC = Calculated Market Settlement Charges (all Real-Time Balancing Market and Day-Ahead Market, including virtual transactions, daily settlement activity, including charges or credits, that has been calculated but not yet invoiced).

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

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

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

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

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

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

(b) The average of the seven (7) most recent Operating Days for which SPP has calculated either (i) updated estimated Day-Ahead Market activity results calculated four days after the Operating Day; or (ii) initial Settlement Statements for Day Ahead Market activity (or if updated estimated activity results or settlement activity occurred for a lesser period, the average updated estimated activity and settlement activity resulting during such lesser period). The initial Settlement Statements are created at the end of the 7th calendar day following the Operating Day. As initial Settlement Statements become available such statements will be used instead of the updated estimated activity results calculated four days after the Operating Day.

For the time period prior to commencement of the Day-Ahead Market for which there are no calculated initial Settlement Statements for Day-Ahead Market activity for use in the determination of the MEMEDA for a Credit Customer, SPP shall use data representative of the expected Day-Ahead Market activity for the Credit Customer based on simulations of the Day-Ahead Market or other available information.

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

EVE = Estimated Virtual Exposure, calculated pursuant to Article 4A (for all credit approved Virtual Energy Bids and Virtual Energy Offers prior to the close of the Day-Ahead Market for an Operating Day or Days that

have not yet been settled and cleared Virtual Energy Bids and Virtual Energy Offers)

**5.2.2 Transmission Service Potential Exposure (“TSPE”).** Potential exposure to non-payment associated with Transmission Service transactions is calculated under the following formula:

$$\text{TSPE} = \text{ITSC} + \text{CTSC} + \text{METE}$$

**ITSC =** Invoiced Transmission Service Charges (all transmission service charges or credits that have been invoiced but not yet been paid).

**CTSC =** Calculated Transmission Service Charges (transmission service charges or credits that have been calculated but not yet invoiced).

**METE =** Maximum Estimated Transmission Exposure (an estimate of the charges for the remainder of the Potential Exposure Window). METE will be calculated as follows:

METE will be the value of all charges based on reserved transmission capacity for each confirmed Transmission Service reservation for the period beginning on the day following the latest date included in the CTSC calculation and ending on the TSPE calculation date, plus the value of all charges for confirmed reservations for the number of days which when added to the number of days included in the ITSC and the CTSC would total 50 days. The number of days included in the ITSC is the number of days of transmission service included in an unpaid invoice. If there are no unpaid invoices, the number of days included in the ITSC would be zero. The number of days included in the CTSC are the days for which the transmission service charges or credits have been calculated, but not yet invoiced.

METE for Network Service reservations will be calculated by taking the highest monthly Network Service charge over the most recent twelve (12) month period (or, if Network Service has been taken for a shorter period, the period for which it was taken), divided by the number of days included in the month of the highest charge and multiplying the resulting amount by the number of days which when added to the number of days included in the ITSC and the CTSC would total 50 days. For this calculation, each Network Service charge is the amount of the Network Service invoice, less the amount of transmission revenue due to the invoiced Credit Customer for Network Service during the period covered by the applicable invoice

**5.2.3 Total Potential Exposure Calculation.** A Credit Customer’s Total Potential Exposure (“TPE”) shall be the sum of the potential exposure to non-payment for

market transactions, excluding TCR transactions, and Transmission Service transactions billed pursuant to the Tariff and may be calculated using the formula:

$$\text{TPE} = \text{ME} + \text{TSPE}$$

### 5.3 Total Potential Exposure Violations.

**5.3.1 Transaction Limits.** At all times, the Credit Customer shall maintain ~~(i) additional Financial Security equal to or greater than the Total TCR Credit Requirement, calculated pursuant to section 5A.8. Also at all times, the Credit Customer shall maintain~~ its Total Potential Exposure to a value equal to or less than its Total Credit Limit excluding any Financial Security required for TCR activity ~~pursuant to Article 5A; and (ii) additional Financial Security equal to or greater than the Total TCR Credit Requirement, calculated pursuant to section 5A.8.~~ A “Total Potential Exposure Violation” occurs when either or both ~~(xi)~~ a Credit Customer’s Total Potential Exposure equals or exceeds its Total Credit Limit ~~(excluding any Financial Security required for TCR activity pursuant to Article 5A);~~; or ~~(yii)~~ a Credit Customer’s Total TCR Credit Requirement exceeds the Credit Customer’s Financial Security excluded from the Total Credit Limit. SPP will regularly monitor each Credit Customer’s use of services and associated financial obligations. If a Credit Customer’s Total Potential Exposure equals or exceeds ninety percent (90%) of its Total Credit Limit, SPP shall promptly give notice to the Credit Customer (excluding any Financial Security required for TCR activity pursuant to Article 5A). Failure by SPP to give this notice shall not relieve the Credit Customer of its duties under this Section.

**5.3.2 Cure of Total Potential Exposure Violation.** A Credit Customer shall cure a Total Potential Exposure Violation by: (i) payment to SPP of invoiced amounts to reduce the Credit Customer’s Total Potential Exposure, and/or (ii) provision of Financial Security in an amount sufficient to increase the Credit Customer’s Total Credit Limit, such that after making such payments of invoiced amounts and/or providing such Financial Security, the Credit Customer’s Total Potential Exposure will not exceed its Total Credit Limit; and/or (iii) provision of Financial Security in an amount sufficient to satisfy the Total TCR Credit Requirement as provided in Article 5A. The Credit Customer shall have *two* (2) Business Days from *receipt of notice from SPP* to cure the violation. SPP, in its sole discretion, may determine to treat any amount tendered under (i) as an increase of Financial Security under (ii) and not as a payment to SPP.

**5.3.3 Failure to Cure Total Potential Exposure Violation.** A failure to cure a Total Potential Exposure Violation as required under Section 5.3.2 is a Default. In the event of such a Default, SPP has all rights under section 7 of the Tariff or section 10.5 of Attachment AE and all other rights and remedies in accordance with applicable law. Without prejudice to other remedies, a Credit Customer that fails timely to cure a Total Potential Exposure Violation shall be suspended from requesting any future services, including all Transmission Service and market

services SPP may provide, unless and until the Credit Customer's Total Potential Exposure Violation is cured.

- 5.4. Excess Financial Security.** In the event a Credit Customer has provided additional Financial Security under Section 5.3.2 to address a Total Potential Exposure Violation, and the Credit Customer's outstanding invoiced amounts subsequently return to levels preceding that violation such that the total amount of Financial Security exceeds the amount required under this Credit Policy, the Credit Customer may request return of the excess Financial Security and SPP shall comply with the request within two (2) Business Days; provided, that if SPP determines to review the Credit Assessment for the Credit Customer due to the violation, it shall not be required to respond to the request, including return of any excess Financial Security, until two (2) Business Days after completing the new Credit Assessment.



## ARTICLE FIVE A

### Transmission Congestion Rights (TCRs)

#### 5A.1 Overview.

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

**5A.1.2** To establish the credit requirement associated with TCRs, SPP analyzes: (i) the TCRs the Credit Customer holds; (ii) the Credit Customer's Bids and Offers for TCRs in the TCR Auctions; (iii) TCR payments or charges for which settlement has been calculated but not yet invoiced; and (iv) TCR payments or charges for which an invoice has been issued but payment has not occurred.

- (a) SPP calculates the potential exposure associated with the full portfolio of TCRs that are held by the Credit Customer.
- (b) SPP evaluates individually each TCR Bid in the TCR Auctions to ensure that the Credit Customer has sufficient Financial Security to cover the credit requirements to purchase and hold the TCR. Only the TCR Bids for which the Credit Customer has sufficient Financial Security will be credit approved for consideration in the TCR Auction.
- (c) SPP evaluates individually each TCR Offer in the TCR Auctions to ensure that the Credit Customer has sufficient Financial Security to cover any credit requirements associated with the Offer and the credit requirements for the retained TCR portfolio that would result if the TCR Offer clears in the TCR Auction. Only the TCR Offers for which the Credit Customer has sufficient Financial Security will be credit approved for consideration in the TCR Auction.
- (d) Additionally, SPP analyzes the credit requirements associated with TCRs that are the subject of a proposed bilateral transfer prior to providing approval of such transfers. SPP approval of a bilateral transfer for TCRs is required for such bilateral transfers to be completed.

**5A.1.3** As part of the determination of the credit requirement associated with TCRs, SPP calculates the Estimated TCR Exposure (ETCRE), which is an estimate of the potential value of the TCR over the life of the TCR. It will be calculated for all TCRs the Credit Customer holds, the Credit Customer's TCR Bids and TCR Offers, proposed TCR bilateral transfers, and TCRs acquired through ARR self-~~schedules-conversion~~. SPP will determine the credit requirement associated with TCRs and whether the Credit Customer has available Financial Security to support its TCR activity. After the close of a TCR Auction and on an ongoing basis, SPP will update the Credit Customer's Total TCR Credit Requirement associated with TCRs to reflect the actual TCRs the Credit Customer holds and TCR Auction results, including the costs to acquire or sell TCRs in a TCR Auction.

**5A.1.4** This Article addresses the calculation of the Total TCR Credit Requirement associated with TCRs, including the ETCRE calculations for the TCRs the Credit Customer holds and the Credit Customer's Bids and Offers for TCRs in the TCR Auctions and the acquisition and disposal costs of the TCR in the TCR Auctions; as well as the TCR payments or charges for which settlement has been calculated but not yet invoiced; and the TCR payments or charges for which an invoice has been issued but payment has not occurred. This Article also addresses the determination whether a Credit Customer has sufficient Financial Security available for the Credit Customer's proposed TCR Auction activity or proposed bilateral transfers of TCRs.

**5A.2 Calculation of Estimated TCR Exposure (ETCRE) for TCRs that a Credit Customer Holds (ETCRE Hold).** SPP will calculate the ETCRE Hold, which is an estimate of the potential value (positive or negative) of the TCR contract for the term of the TCR, for TCRs that a Credit Customer holds. A negative ETCRE Hold means SPP estimates that the potential value of the TCR will result in a payment to the Credit Customer. A positive ETCRE Hold means SPP estimates that the potential value of the TCR will result in a payment by the Credit Customer. The ETCRE Hold calculation is determined for each TCR on an individual basis. ETCRE Hold is the product of the TCR Final Reference Price times the TCR megawatts times the complete duration of the TCR. SPP will calculate the TCR Final Reference Price for each TCR based on the difference of historical Day-Ahead Market Marginal Congestion Cost (MCC) between the TCR source and TCR sink.

**5A.2.1 TCR Final Reference Price.** For a given source and sink combination and with respect to time (season or month) and class (on-peak and off-peak), the TCR Final Reference Price has two components: (i) a TCR Mean Price; and (ii) a TCR Stress Test Price. The Final Reference Price is the TCR Mean Price plus the TCR Stress Test Price.

**5A.2.1.1** Both the TCR Mean Price and TCR Stress Test Price are determined using the Day-Ahead Market Marginal Congestion Component (MCC) prices from the prior two years. Each year of the prior two year period will be weighted, with the more recent year receiving a 75% weighting and the more distant year receiving a 25% weighting. The MCC prices used in the calculations for a TCR match the definition of the TCR with respect to time (season or month) and class (on-peak and off-peak). The MCC prices used in the calculation must be complete for each hour of the time (season or month) to be considered in the calculation. If the MCC prices for each hour of a time (season or month) are not complete, then that entire time (season or month) is not included in the prior two year period for a given TCR.

**5A.2.1.1.1** A TCR Final Reference Price determination is used in the calculations for ETCRE Hold, ETCRE Bid, and ETCRE Offer calculations. For each such calculation, the prior two year period used in the calculation is measured from the time of the calculation. ETCRE Hold calculations will be updated to reflect updated prior two year periods for a given TCR as MCC prices are completed for a season or month that previously was not included in the prior two year period.

**5A.2.1.2** The TCR Mean Price is the sum of 75% of the mean of the hourly Day-Ahead Market MCC difference between the source and sink combination for the more recent year in the prior two year period plus 25% of the mean of the hourly Day-Ahead Market MCC difference between the source and sink combination for the more distant year in the prior two year period.

**5A.2.1.3** The TCR Stress Test Price calculation differs for TCRs with positive and negative Mean Prices. For a TCR with a negative TCR Mean Price, the TCR Stress Test Price is the 75<sup>th</sup> percentile of the opposite flow value (i.e. if the source and sink were reversed) in the prior two year period. For a TCR with a positive TCR Mean Price, the TCR Stress Test Price is the 90<sup>th</sup> percentile of the opposite flow value (i.e. if the source and sink were reversed) in the prior two year period. The TCR Stress Test Price is included only if it has a positive value, otherwise, zero will be included in the calculation.

**5A.2.2 Calculation of TCR Final Reference Price during the Initial Two-Years of the Integrated Marketplace.** Prior to the accumulation of complete MCC data sufficient to calculate the TCR Final Reference Price pursuant to Section 5A.2.1,

to calculate both the Mean Price and Stress Test Price, to the extent complete MCC price data for the applicable prior two year period is not available, SPP will use the applicable historical energy imbalance service price differences.

**5A.2.3 Calculation of TCR Final Reference Price for New Settlement Locations.**

When a new Settlement Location is created, SPP will use the system average Day-Ahead Market MCC to calculate the TCR Mean Price and TCR Stress Test Price for the new Settlement Location. The system average Day-Ahead Market MCC for each defined TCR is the mean of the hourly Day-Ahead Market MCC for all Settlement Locations for which a Day-Ahead Market MCC exists for each hour in the prior two year period for a defined TCR.

**5A.3 TCR Portfolio Credit Requirement.** The Financial Security required for a Credit Customer's TCR portfolio is the TCR Portfolio Credit Requirement and is one component of the Total TCR Credit Requirement. The TCR Portfolio Credit Requirement is the sum of (i) the sum of the ETCRE Hold values for each TCR in the Credit Customer's TCR portfolio; (ii) the portion of the cost to acquire each TCR in a TCR Auction that has not yet been settled; and (iii) the disposal cost for TCR Offers that clear a TCR Auction that has not yet been settled.

**5A.3.1** The sum of the ETCRE Hold values for each TCR in the Credit Customer's TCR portfolio used in the calculation of the TCR Portfolio Credit Requirement is equal to the net sum of the ETCRE Hold values for each TCR in the Credit Customer's TCR portfolio, with individual positive and negative ETCRE Hold values netted, for the month in the future with the largest net sum of ETCRE Hold values of the Credit Customer's TCR portfolio. For a TCR with a term longer than a month, the ETCRE Hold for each month of the TCR is equal to the total ETCRE Hold for the TCR divided by the number of months of the term of the TCR. SPP calculates the ETCRE Hold for each day for which at least one TCR in the portfolio is valid.

**5A.3.2** The portion of the acquisition cost to acquire each TCR in a TCR Auction that has not yet been settled includes the amounts that the Credit Customer is required to pay for TCRs it acquires in a TCR Auction, that have not yet been settled, and does not include amounts that may be owed to a Credit Customer to acquire a TCR. For TCRs acquired through self-scheduled ARR, the acquisition cost is zero. For TCRs acquired through a bilateral transfer the acquisition cost is zero for the buyer because the acquisition cost remains the responsibility of the participant who originally acquired the TCR in a TCR Auction.

**5A.3.3** The portion of the disposal cost for each TCR Offer that clears a TCR Auction that has not yet been settled is the portion of a Credit Customer's loss associated with the difference between the Offer price and the original Auction Clearing Price for the TCR that is the subject of the TCR Offer. For TCRs acquired pursuant to a bilateral transfer that are the subject of a TCR Offer, zero will be used for the Auction Clearing Price for this calculation.

**5A.3.4** Only positive TCR Portfolio Credit Requirements are included in the Total TCR Credit Requirement. If the TCR Portfolio Credit Requirement is a negative value it does not add to the Financial Security requirement for TCRs and zero will be used for the TCR Portfolio Credit Requirement in the calculation of the Total TCR Credit Requirement.

**5A.4 Calculation of ETCRE Bid.** SPP evaluates the Bids for TCRs to ensure that the Credit Customer has sufficient Financial Security to cover any Financial Security requirements to purchase and hold the TCR. The ETCRE Bid calculates the Financial Security requirements for each Bid. When a TCR Bid is submitted, SPP will calculate the ETCRE Bid for the Bid, which is the maximum sum of (i) the ETCRE Segment and (ii) the TCR Segment Cost, for the segments in the Bid. SPP calculates the ETCRE Segment for each megawatt point on the submitted Bid curve, and the TCR Segment Cost for each megawatt point on the submitted Bid curve. For each segment, SPP calculates the sum of (i) the ETCRE Segment and (ii) the TCR Segment Cost.

**5A.4.1 ETCRE Segment.** In evaluating TCR Bids, SPP calculates the ETCRE Segment for each megawatt point on the submitted Bid curve. The ETCRE Segment can be positive or negative. It is the potential value of holding the TCR in the Bid. It is calculated in the same manner as the ETCRE Hold, using the Final Reference Price, and the TCR Bid megawatts and duration.

**5A.4.2 TCR Segment Cost.** In evaluating TCR Bids, SPP estimates the TCR acquisition cost by calculating the TCR Segment Cost for each megawatt point on the submitted Bid curve by multiplying the Bid price for that megawatt point times the megawatts and hours for that point on the submitted Bid curve. The TCR Segment Cost is the potential cost for the Credit Customer to acquire any megawatt point on the submitted Bid segment. For TCRs with negative acquisition costs, e.g., if the Bid curve has a negative Bid price, the TCR Segment Cost will be zero. For TCR Bids resulting from an ARR self-conversion, the TCR Segment Cost also will be zero.

**5A.4.3** If multiple TCR Bids and Offers are included in a single submission, the Credit Customer must have sufficient Financial Security to cover all of the Bids and Offers in the submission. The Financial Security requirement for a single submission is the sum of the positive ETCRE Bid and ETCRE Offer for the Bids and Offers in the submission without any netting of the individual ETCRE Bid or ETCRE Offer for the TCR Bids and Offers that are included in the submission.

**5A.5 Calculation of ETCRE Offer.** SPP evaluates the Offers for TCRs to ensure that the Credit Customer has sufficient Financial Security to cover any Financial Security requirements resulting if the TCR is no longer held and potential losses resulting from the sale. The ETCRE Offer calculates the Financial Security requirement for each Offer. When a TCR Offer is submitted, SPP will calculate the ETCRE Offer for the Offer which is the maximum sum of (i) the ETCRE Offer Segment; and (ii) the TCR Offer Segment Cost, for the segments in the Offer. SPP calculates the ETCRE Offer Segment for each

megawatt point on the submitted Offer curve. For each segment, SPP calculates the sum of (i) the ETCRE Offer Segment, and (ii) the TCR Offer Segment Cost.

**5A.5.1 ETCRE Offer Segment.** In evaluating TCR Offers, SPP calculates the ETCRE Offer Segment for each megawatt point on the submitted Offer curve. It is the potential value of disposing of an existing TCR in the Offer. It is calculated in the same manner as the ETCRE Hold, using the Final Reference Price, and the TCR Offer megawatts and duration. If the calculated ETCRE Offer Segment is negative, SPP sets the ETCRE Offer to zero.

**5A.5.2 TCR Offer Segment Cost.** In evaluating TCR Offers, SPP estimates the TCR disposal cost by calculating the TCR Offer Segment Cost for each megawatt point on the submitted Offer curve by multiplying the difference between the original Auction Clearing Price for the TCR from the TCR Auction in which the TCR originally was acquired and the Offer price for that megawatt point times the megawatts and hours for that point on the submitted Offer curve. The TCR Offer Segment Cost is the potential cost for the Credit Customer to dispose of any megawatt point on the submitted Offer segment. If the TCR was originally acquired from an ARR self-schedule or pursuant to a bilateral transfer, zero is used for the original Auction Clearing Price. If the calculated ETCRE Offer Segment Cost is negative SPP sets the ETCRE Offer to zero.

**5A.5.3** If multiple TCR Bids and Offers are included in a single submission, the Credit Customer must have sufficient Financial Security to cover all of the Bids and Offers in the submission. The Financial Security requirement for a single submission is the sum of the positive ETCRE Bid and ETCRE Offer for the Bids and Offers in the submission without any netting of the individual ETCRE Bid or ETCRE Offer for the TCR Bids and Offers that are included in the submission.

## **5A.6 Determination of Credit Approved TCR Bids and Offers and Rejection of TCR Bids and Offers which are Credit Disapproved.**

**5A.6.1** If the sum of the ETCRE Bid and ETCRE Offer for all TCRs included in a single submission of Bids and Offers for a TCR Auction, calculated pursuant to sections 5A.4 and 5A.5, without netting, is less than the Credit Customer's available amount of Financial Security, then the submission is credit approved for inclusion in the TCR Auction.

**5A.6.2** If the sum of the ETCRE Bid and ETCRE Offer for all TCRs included in a single submission of Bids and Offers for a TCR Auction, calculated pursuant to sections 5A.4 and 5A.5, without netting, is greater than the Credit Customer's available Financial Security, then the entire submission is credit disapproved and the Bids and Offers will not be included in the TCR Auction.

**5A.7 Updated ETCRE Calculation Post TCR Auction.** After the clearing of a TCR Auction, the TCR Portfolio Credit Requirement will be updated to reflect the TCRs

awarded in the TCR Auction, including the acquisition cost for TCR Bids that cleared the TCR Auction and the disposal cost for TCR Offers that cleared the TCR Auction. For TCR Bids, the TCR acquisition cost is calculated as the product of the Auction Clearing Price times the awarded megawatts times the duration of a given TCR. For TCR Offers, the TCR disposal cost is calculated as the product of the dollar per megawatt profit or loss times the megawatts sold times the duration of the TCRs sold. The ETCRE Hold portion of the TCR Portfolio Credit Requirement will be updated to reflect the actual TCRs in the portfolio.

**5A.8 Total TCR Credit Requirement.** The total Financial Security requirement associated with the Credit Customer's holding of TCRs and participating in the TCR Auctions is the Total TCR Credit Requirement. The Total TCR Credit Requirement for a Credit Customer is the sum of (i) the TCR Portfolio Credit Requirement for the Credit Customer's TCR portfolio, reflecting all of the TCRs held by the Credit Customer, calculated pursuant to section 5A.3; (ii) the Financial Security required for the Credit Customer's participation in a TCR Auction, determined by the credit approved ETCRE Bid, calculated pursuant to section 5A.4, and ETCRE Offer, calculated pursuant to section 5A.5, for a TCR Auction that has not yet occurred; (iii) all TCR charges or credits that have been invoiced but not yet paid; and (iv) TCR charges or credits that have been calculated but not yet invoiced.

Total TCR Credit Requirement =  
TCR Portfolio Credit Requirement + ETCRE Bid + ETCRE Offer + (ITCRC + CTCRC)

Where,

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

ETCRE Bid is the sum of the ETCRE Bid amounts for the Credit Customer's credit approved Bids for an auction that has not yet occurred, as calculated pursuant to section 5A.4, without netting ETCRE Bid or ETCRE Offers in a submission.

ETCRE Offer is the sum of the ETCRE Offer amounts for the Credit Customer's credit approved Offers for an auction that has not yet occurred, as calculated pursuant to section 5A.5, without netting ETCRE Bid or ETCRE Offers in a submission.

ITCRC is the Invoiced TCR Charges (all TCR charges or credits that have been invoiced but not yet paid). If the sum of ITCRC and CTCRC for a Credit Customer is negative, then zero will be included for the sum of ITCRC and CTCRC in the calculation of the Total TCR Credit Requirement.

CTCRC is the Calculated TCR Charges (TCR charges or credits that have been calculated but not yet invoiced). If the sum of ITCRC and CTCRC for a Credit Customer is negative, then zero will be included for the sum of ITCRC and CTCRC in the calculation of the Total TCR Credit Requirement.

**5A.8.1** If a Credit Customer's available Financial Security is less than its Total TCR Credit Requirement, then the Credit Customer shall be required to provide additional Financial Security within two (2) Business Days from receipt of notice of such violation. Failure to provide such Financial Security is a Default under this Credit Policy.

**5A.9 Transfer of TCRs.** If a Credit Customer proposes to sell or acquire TCRs through a bilateral transfer with another Credit Customer, SPP will evaluate the effect of the proposed transfer on the Total TCR Credit Requirement of each party to the proposed bilateral transfer and determine if both the buyer and the seller have sufficient Financial Security for the bilateral transfer to occur. SPP approval of such bilateral transfers, based on whether both the buyer and seller have provided sufficient Financial Security to support the transfer, is required prior to such transfers.

**5A.9.1** For the seller in a bilateral transfer, SPP calculates the impact of the proposed transfer on the TCR Portfolio Credit Requirement that would result from the removal of the TCRs that are the subject of the proposed bilateral transfer from the TCR portfolio of the Credit Customer that is the seller in the bilateral transfer.

**5A.9.2** For the buyer in a bilateral transfer, SPP calculates the impact of the proposed transfer on the TCR Portfolio Credit Requirement that would result from the addition of the TCRs that are the subject of the proposed bilateral transfer from the TCR portfolio of the Credit Customer that is the buyer in the bilateral transfer.

**5A.9.3** If multiple TCRs are included in a single proposed bilateral transfer, both parties to the bilateral transfer must have sufficient Financial Security for the transfer of all of the TCRs in the proposed transfer.

**5A.9.4** SPP, in its sole discretion, may approve bilateral transfers if a Credit Customer does not have sufficient Financial Security to support the transfer, but the transfer would result in a reduction in Total TCR Credit Requirement for that Credit Customer.

**5A.9.5** The bilateral TCR transfer price is not included in SPP's evaluation of a bilateral transfer of TCRs. After an approved bilateral transfer of TCRs is completed, each Credit Customer's Total TCR Credit Requirement is updated.

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



## ARTICLE SIX

### Guarantees

- 6.1 Guaranty.** A Guaranty approved by SPP transfers to the Credit Customer a portion of the Guarantor's creditworthiness and thereby increases the Credit Customer's Total Credit Limit. Unlike a bank guaranty or Irrevocable Letter of Credit, a Guaranty is not Financial Security. A Guaranty that is backed by Financial Security will have the same impact upon the Total Credit Limit as Financial Security. A Guaranty that is not backed by Financial Security is unsecured and will be considered unsecured credit in the determination of the Unsecured Credit Allowance.
- 6.2 Approval Process.** SPP will determine whether to approve a Guaranty based upon the creditworthiness of the proposed Guarantor as though it were a Credit Customer under this Credit Policy. All Credit Information required under this Credit Policy with respect to a Credit Customer must be submitted initially for the proposed Guarantor and regularly thereafter. SPP will evaluate the Credit Information and determine any Unsecured Credit Allowance and the Total Credit Limit for the Credit Customer beneficiary of the proposed Guaranty. SPP shall have the right to revise the Unsecured Credit Allowance and Total Credit Limit from time to time based upon continued assessment of the Credit Information of the Guarantor.
- 6.3 Requirements for Guaranty.** A Credit Customer can utilize a Guaranty if all of the following conditions are satisfied:
- 6.3.1 Guarantor's Satisfaction of Financial Standards under this Credit Policy.** A Guarantor is subject to the same financial review procedures as a Credit Customer. A Guarantor will be eligible to provide a Guaranty to the extent, if any, of the Guarantor's creditworthiness under this Credit Policy.
- 6.3.2 The Form and Substance of the Guaranty Acceptable to SPP.** Appendix "D" of this Credit Policy is a form of Guaranty. The Guaranty must:
- 6.3.2.1** Be duly authorized by the Guarantor and signed by an officer of the Guarantor
- 6.3.2.2** State an effective period, or provide for automatic renewal or other basis for periodicity subject to cancellation on no less than sixty (60) days notice and provided that in all events the Guaranty is effective for all obligations of the Credit Customer undertaken prior to cancellation.
- 6.3.2.3** Include certification of the corporate secretary that the execution, delivery, and performance of the Guaranty have been duly authorized;

- 6.3.2.4 Certify that the Corporate Guaranty is not in violation of other undertakings or requirements applicable to the Guarantor, and enforceable against the Guarantor in accordance with its terms;
- 6.3.2.5 Obligate the Guarantor to submit Credit Information on an ongoing basis as required under this Credit Policy;
- 6.3.2.6 Incorporate default provisions, including default provisions referred to in Section 6.3.4;
- 6.3.2.7 Secure, in combination with other forms of financial security, all obligations of the Credit Customer under or in connection with this Tariff and/or other Agreements; and
- 6.3.2.8 Be supported by adequate consideration and be otherwise binding as a matter of law.
- 6.3.2.9 Include as an attachment thereto the resolution(s) of the board of directors or other governing body of the Guarantor authorizing the Corporate Guaranty.

**6.3.3** Reserved for Future Use

**6.3.4 Default.** Any breach of the Guaranty by the Guarantor or the requirements of the Guarantor under this Credit Policy shall be deemed a Default of this Credit Policy and a default under the Tariff by the Guarantor and the Affiliates whose obligations are supported by the Guaranty. The following also shall be a Default of this Credit Policy and a default under the Tariff: (i) the Guaranty expires or terminates (other than in accordance with its terms or upon the written consent of SPP); (ii) the Guarantor disaffirms, disclaims, repudiates, rejects or challenges the validity of all or any part of the Guaranty; or (iii) the Guaranty or any material provision of the Guaranty ceases to be in full force and effect (other than in accordance with its terms or upon the written consent of SPP).

**6.4 Guaranty for Affiliates.** A single Guaranty may support the Total Credit Limits of Affiliates. With respect to such a Guaranty, the sum value of the Unsecured Credit Allowance of all such Affiliates and the Guarantor shall not exceed the lesser of:

- (i) the approved Unsecured Credit Allowance for the Guarantor based on SPP's financial review of Guarantor; or
- (ii) \$25 million.

If a Guaranty is utilized to establish an Unsecured Credit Allowance for a Credit Customer, the value of the Guaranty shall be no greater than the lesser of:

- (i) The credit limit imposed in the Guaranty; or

- (ii) The portion of the Unsecured Credit Allowance calculated for the Guarantor that is allocated to such Credit Customer in SPP's sole discretion; provided that the Unsecured Credit Allowance calculated for the Guarantor may not exceed \$25 million; or
- (iii) \$25 million.

**6.5 Guarantees for Not for Profit Credit Customers.** SPP shall allow other guarantees for Not for Profit Credit Customers so long as any guarantees for such customer satisfy the requirements of Section 6.3. The form in Attachment D shall be used (subject to modifications to reflect the not for profit nature of the customer and the structure of the guarantee). An example of a permissible guarantee would be individual cities guaranteeing the payments by a municipal energy entity.

**6.6 Costs.** The Credit Customer shall bear all costs of obtaining and maintaining the Guaranty.

**6.7 Withdrawal.** A Credit Customer or the Guarantor may request the withdrawal of the Guaranty by written request to SPP. A Guaranty may be withdrawn and/or terminated only upon SPP's written approval. SPP will not approve withdrawal or termination of a Guaranty unless and until:

- (i) alternate Financial Security acceptable to SPP has been provided; or
- (ii) all financial obligations of a Credit Customer under the Agreements have been irrevocably satisfied in full, all Service Agreements have been terminated, and the Credit Customer is no longer a Credit Customer.

## ARTICLE SEVEN

### Financial Security

**7.1 Acceptable Forms of Financial Security.** Financial Security may be a Cash Deposit or Irrevocable Letter of Credit. These forms of Financial Security may be submitted separately or in combination to equal the full amount of any required or provided Financial Security. In addition, SPP requires the execution of a Credit and Security Agreement (with respect to Cash Deposit and/or Irrevocable Letter of Credit).

**7.1.2 Cash Deposits.** A Cash Deposit will be Financial Security in accordance with this Section.

**7.1.2.1 Deposit and Related Agreements.** The initial Cash Deposit must be accompanied by execution and delivery of a Credit and Security Agreement in the form attached to this Credit Policy as Appendix "B." Under the Credit and Security Agreement, the Credit Customer shall grant to SPP a first priority security interest in and to any and all Cash Deposits, cash collateral, and deposit accounts held or controlled by SPP then existing or thereafter opened, and any and all proceeds of such collateral, including, without limitation, the cash and interest deposited therein. This security interest secures the prompt payment when due of any and all obligations of the Credit Customer under or in connection with the Tariff, and/or any and all other Agreements. SPP may amend the Credit and Security Agreement from time to time, either for general applicability or on an individual basis. The Credit Customer will accept such amendment and, upon request, execute an amendatory document.

**7.1.2.2 Segregated Account.** The Cash Deposit will be placed in a segregated, interest bearing account in SPP's name and held within the sole control of SPP solely to secure the payment of the Credit Customer's obligations to SPP and subject to the terms and conditions of the Credit and Security Agreement. All interest earned will accrue to the benefit of the Credit Customer, will be added to the segregated account, and will be deemed additional Cash Deposit; provided, that all such accrued and unpaid interest that has not been applied to satisfy the Credit Customer's obligations will be released and paid to the Credit Customer quarterly, and further provided, that SPP shall not be obligated to pay any interest to the Credit Customer or release any amount from the segregated account during any uncured Default. Interest will be calculated per section 7.3 of the Tariff.

**7.1.2.3 Use of Cash Deposit.** In the event a Credit Customer fails to make a payment timely to SPP, SPP may apply the Cash Deposit as necessary to satisfy the deficit. In such event, within three (3) Business Days, the Credit Customer must replenish the Cash Deposit in an amount equal to SPP's draw or in such other amount as SPP may require under this Credit Policy and failure to replenish shall be a Default under this Credit Policy. SPP's application of the Cash Deposit hereunder shall not cure the Default due to the Credit Customer's failure to make timely payment until and unless the Cash Deposit is timely replenished or other Financial Security is provided under Section 7.1.2.4.

**7.1.2.4 Replacement of Cash Deposit.** A Credit Customer may replace any part of a Cash Deposit with other Financial Security acceptable to SPP under this Credit Policy.

**7.1.3 Irrevocable Letter of Credit.** An Irrevocable Letter of Credit will be Financial Security in accordance with this Section.

**7.1.3.1 Form, Requirements, and Related Agreement.** Appendix "C" of this Credit Policy is an acceptable form of an Irrevocable Letter of Credit. SPP may amend the form of Irrevocable Letter of Credit from time to time, either for general applicability or on a case-by-case basis, and the Credit Customer will accept such amendment and, upon request, execute an amendatory document. SPP may accept an Irrevocable Letter of Credit, in its sole discretion, in revised form. Upon the Credit Customer's request, SPP shall provide a written explanation of why SPP did not accept that Credit Customer's proposed variation to the form of Irrevocable Letter of Credit set forth in Appendix "C" of this Credit Policy. The Credit Customer must execute the Credit and Security Agreement with respect to the Irrevocable Letter of Credit. Under the Credit and Security Agreement, the Credit Customer grants SPP a first priority security interest in and to any and all proceeds of any and all Irrevocable Letters of Credit then existing or thereafter issued with SPP as Beneficiary and the Credit Customer as Account Party under the Irrevocable Letter of Credit, including, without limitation, the cash issued upon a draw thereon. This security interest secures the prompt payment when due of any and all obligations of the Credit Customer to SPP, provided that the grant of a security interest shall not diminish SPP's rights to apply draws on the Irrevocable Letter of Credit to pay any and all amounts due. SPP may amend the Credit and Security Agreement from time to time, either for general applicability or on an individual basis. The Credit Customer will accept such amendment and, upon request, execute an amendatory document.

- 7.1.3.2 Ratings of Issuing Financial Institution.** At the time of issuance and at all times the Irrevocable Letter of Credit is outstanding, the issuer must be a financial institution organized under the laws of the United States or any state of the United States or the District of Columbia or a branch or agency of a foreign commercial bank located in the United States, with a minimum corporate debt rating of an “A-” by S&P, “A3” by Moody’s, “A-” by Fitch or an equivalent short-term debt rating by any of these agencies. SPP may accept an Irrevocable Letter of Credit from a financial institution that does not meet the debt rating requirements, provided that the Irrevocable Letter of Credit has a confirmation of third-party support (as governed by the Uniform Customs and Practice for Documentary Credits – International Chamber of Commerce Publication No. 500, Effective January 1, 1994 “UCP500” as stated in Article 9 Section B), in a form acceptable to SPP, from a financial institution that does meet or exceed the debt rating requirements stated in this Section. If after the Irrevocable Letter of Credit has been issued, the rating for the corporate debt of the financial institution is less than “A-” by S&P, “A3” by Moody’s or “A-” by Fitch, SPP may give the Credit Customer notice to submit substitute Financial Security no later than three (3) Business Days after the notice.
- 7.1.3.3 Costs.** The applicable Credit Customer shall bear all costs of providing and maintaining the Irrevocable Letter of Credit.
- 7.1.3.4 Substitution of Irrevocable Letter of Credit.** The Credit Customer may replace an Irrevocable Letter of Credit with a substitute Irrevocable Letter of Credit in form and amount acceptable to SPP. SPP will return the initial Irrevocable Letter of Credit upon receipt of an effective and acceptable substitute.
- 7.1.3.5 Term and Renewal.** The Irrevocable Letter of Credit must automatically renew unless the issuing financial institution provides a notice to SPP at least ninety (90) days prior to its expiration date stating its decision not to renew the Irrevocable Letter of Credit. If the Irrevocable Letter of Credit is not renewed, at least ninety (90) days prior to its stated expiration date (a “Non-Renewal Event”), the Credit Customer must submit substitute Financial Security acceptable to SPP, in SPP’s sole discretion, no later than eighty-seven (87) days prior to the stated expiration date.
- 7.1.3.6 Use of Irrevocable Letter of Credit.** In the event a Credit Customer fails to make any timely payment to SPP, SPP may draw upon the Irrevocable Letter of Credit as necessary to satisfy any

and all amounts due from the Credit Customer pursuant to the Agreements. In such event, within three (3) Business Days, the Credit Customer must replenish the Irrevocable Letter of Credit or provide SPP with other Financial Security in an amount equal to the draw or in such other amount as SPP may require under this Credit Policy, and failure to satisfy this requirement shall be a Default under this Credit Policy. In the event of such failure to make timely payment, and in addition to any other remedies available to SPP, SPP may draw down the entire Irrevocable Letter of Credit and hold the proceeds in an unsegregated account and apply such proceeds to amounts owed by the Credit Customer to SPP pursuant to the Agreements. The foregoing sentence notwithstanding, upon the Credit Customer's written notice of request, SPP will treat as a Cash Deposit the proceeds of a draw over and above amounts currently due and unpaid and transfer same to a segregated account in accordance with such treatment, provided that the Credit Customer has executed a Credit and Security Agreement.

**7.2 Financial Security Defaults.** In addition to the breaches with respect to Financial Security identified in Section 7.1.2.3 (failure to replenish Cash Deposit) and 7.1.3.6 (failure to replenish Irrevocable Letter of Credit), any failure by an issuer of an Irrevocable Letter of Credit, or any breach of a Credit and Security Agreement shall be a Default under this Credit Policy and a default under the Tariff. A Default under this Credit Policy and a default under the Tariff shall also occur if: (i) the Financial Security expires or terminates (other than in accordance with its terms or upon the written consent of SPP); (ii) the person issuing the Financial Security disaffirms, disclaims, repudiates or rejects or challenges the validity of all or any part of the Financial Security; or (iii) the Financial Security or any material provision of the Financial Security ceases to be in full force and effect (other than in accordance with its terms or upon the written consent of SPP).

## **ARTICLE EIGHT**

### **Default and Remedies**

- 8.1 Default.** Any of the following shall constitute an “Event of Default” under this Credit Policy by a Credit Customer:
- 8.1.1** Failure to post any required Financial Security required under this Credit Policy in the time period specified;
  - 8.1.2** Reserved for Future Use;
  - 8.1.3** Failure to pay in full any amount payable under the Tariff, unless cured in accordance with Section 8.3 of this Credit Policy;
  - 8.1.4** A Credit Customer’s involvement in financial difficulties as evidenced by: (i) its commencement of a voluntary case under Title 11 of the United States Code as from time to time in effect, or by its authorizing, by appropriate proceedings of its board of directors, general partners or other governing body, the commencement of such a voluntary case; (ii) its filing an answer or other pleading admitting or failing to deny the material allegations of a petition filed against it commencing an involuntary case under said Title 11, or seeking, consenting to or acquiescing in the relief therein provided, or by its failing to controvert timely the material allegations of any such petition; (iii) the entry of an order for relief in any involuntary case commenced under said Title 11; (iv) its seeking relief as a debtor under any applicable law, other than said Title 11, of any jurisdiction relating to the liquidation or reorganization of debtors or to modification or alteration of the rights of creditors, or by its consenting to or acquiescing in such relief; (v) the entry of an order by a court of competent jurisdiction (a) finding it to be bankrupt or insolvent, (b) ordering or approving its liquidation, reorganization or any modification or alteration of the rights of its creditors, or (c) assuming custody of, or appointing a receiver or other custodian for all or a substantial part of its property, and such entry or order shall not be vacated or stayed within ninety (90) days; (vi) the filing of a petition under Title 11 which shall not be vacated within ninety (90) days; or (vii) its making an assignment for the benefit of, or entering into a composition with, its creditors, or appointing or consenting to the appointment of a receiver or other custodian for all or a substantial part of its property.
  - 8.1.5** Commission of any other Default specified under this Credit Policy, including Defaults specified in Sections 3.2.2, 5.3.3, 6.3.4, 7.1.2.3., 7.1.3.6, and 7.2.
  - 8.1.6** Except with respect to an event described in Sections 8.1.1 through 8.1.5, the failure to provide any of the Credit Information required under this Credit Policy in the time periods specified, and the failure to observe or perform any of the material terms or conditions or provisions set forth in this Agreement, and such



failure is not cured within three (3) Business Days after notice thereof from SPP. If such failure is a failure to provide any of the Credit Information required under this Credit Policy in the time periods specified, and the failure cannot reasonably be cured within such period, and if the Credit Customer has commenced and is diligently pursuing such cure and provides SPP with adequate assurance of due performance to protect SPP against loss arising from the failure to perform, the Credit Customer may request in writing stating the reasons for the delay and obtain an additional five (5) Business Days if the Credit Customer is a Large Company or a Small Company and ten (10) Business Days if the Credit Customer is a Not-For-Profit after the written notice of Default, as shall be necessary for the Credit Customer to cure the failure with all due diligence.

**8.2 Notice of Financial Difficulties.** Immediately upon the occurrence of an Event of Default as set forth in Section 8.1.4, the Credit Customer shall provide notice to SPP and a copy of any pleadings, orders, petitions, agreements or other document initiating or filed in connection with such Event of Default.

**8.3 Remedies for Default.** Upon the first occurrence of a customer default as described in Section 7.4 of the Tariff or an Event of Default (*except as defined in Section 8.1.4 of this Credit Policy*) within a twelve month period, SPP will take no action to suspend any Unsecured Credit Allowance as long as the default is remedied within the specified cure period. Should the first occurrence not be remedied within the specified cure period SPP will suspend any Unsecured Credit Allowance for ninety (90) calendar days. Upon the second customer default or Event of Default within a twelve (12) month period, SPP will suspend any Unsecured Credit Allowance for ninety (90) calendar days. The suspension will occur even if one or both occurrences were remedied within the specified cure period. SPP may, except to the extent such remedy is limited in this Credit Policy, exercise any rights or remedies it may have at law or in equity, including but not limited to bringing suit or otherwise initiating proceedings for monetary damages, injunctive relief, specific performance, and relief available under the Federal Power Act. If the Event of Default has not been cured by the Credit Customer within *two (2) Business Days* or as otherwise outlined under Section 8.1.6 after the Credit Customer's receipt of notice thereof, or, in the case of failure to pay in full amounts payable under Section 7 of the Tariff, within *two (2) Business Days* after the Transmission Customer's receipt of notice thereof, except as may be precluded under applicable law, SPP may terminate all of the Credit Customer's rights under this Credit Policy. Such termination shall not affect any liability of the Credit Customer incurred before and existing as of such termination. In addition, and without prejudice to any other remedies, SPP reserves all rights to terminate service in accordance with the Tariff and applicable law.

*Upon the first occurrence of an Event of Default as defined in Section 8.1.4 of this Credit Policy, SPP will immediately suspend the Credit Customer's Unsecured Credit Allowance and may, at SPP's sole discretion, terminate all of the Credit Customer's rights under this Credit Policy and/or terminate service in accordance with the Tariff and applicable law. Any such termination shall not affect any liability that the Credit Customer incurred prior to and as of such termination. Upon the first occurrence of an Event of Default as defined in Section 8.1.4 of this Credit Policy, SPP also may order the Credit Customer to post additional collateral, cease one or more market transactions, or*

*take other measures to protect SPP and other Market Participants from the Credit Customer's Default.*

## ARTICLE NINE

### Notice

- 9.1 Designation of Credit Contact.** Each Credit Customer shall in writing designate a management level official as the person responsible for the Credit Customer's credit-related matters under this Credit Policy ("Credit Contact"), which designation may be changed from time to time in writing, together with contact information including fax, e-mail, and courier delivery address. SPP will seek to effect delivery of notices under the Credit Policy to the Credit Contact in the first instance; however, if delivery to the Credit Contact fails, then SPP may effect delivery to any officer, executive, or manager of the Credit Customer.
- 9.2 Notices to SPP.** Any notice or request made by SPP shall be given in writing, by fax, email, hand delivery, reputable overnight courier, or first-class mail, to the Credit Customer's Credit Contact. Notice to SPP shall be addressed to:

Southwest Power Pool  
Financial Coordinator  
415 N. McKinley, Suite 140  
Little Rock, AR 72205

Appendix "A"

Credit Application Form  
CREDIT APPLICATION

GENERAL CREDIT INFORMATION FORM  
Customer Information

Customer Name: \_\_\_\_\_

Street Address: \_\_\_\_\_

City: \_\_\_\_\_ State: \_\_\_\_\_ Zip Code: \_\_\_\_\_

Contact Person: \_\_\_\_\_ Phone: \_\_\_\_\_ E-mail: \_\_\_\_\_

NERC Acronym: \_\_\_\_\_ SIC Code: \_\_\_\_\_ Dun & Bradstreet no.: \_\_\_\_\_

Attach Financial Statements as described in Section 3.1.1.1 of the SPP Credit Policy or give web address where they may be obtained: \_\_\_\_\_

Credit Customers anticipated peak monthly transmission activity:

\$

Credit Customers anticipated peak weekly market activity:

\$

Bank Reference

Bank Name: \_\_\_\_\_ Account No(s): \_\_\_\_\_

Street Address: \_\_\_\_\_

City: \_\_\_\_\_ State: \_\_\_\_\_ Zip Code: \_\_\_\_\_

Contact Person: \_\_\_\_\_ Phone: \_\_\_\_\_ E-mail: \_\_\_\_\_

SIGNIFICANT COMMERCIAL REFERENCES

1. Company Name: \_\_\_\_\_

Contact: \_\_\_\_\_ Phone: \_\_\_\_\_ E-mail: \_\_\_\_\_

Contract Date: \_\_\_\_\_ Contract Amount: \_\_\_\_\_

**2. Company Name:**

\_\_\_\_\_

**Contact:** \_\_\_\_\_ **Phone:** \_\_\_\_\_ **E-mail:** \_\_\_\_\_

**Contract Date:** \_\_\_\_\_ **Contract Amount:** \_\_\_\_\_

**3. Company Name:**

\_\_\_\_\_

**Contact:** \_\_\_\_\_ **Phone:** \_\_\_\_\_ **E-mail:** \_\_\_\_\_

**Contract Date:** \_\_\_\_\_ **Contract Amount:** \_\_\_\_\_

**Identify or describe any loss contingencies that require disclosure under Section 3.1.1.3 of the SPP Credit Policy. Attach documents as necessary:** \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**Identify all Affiliates that are Credit Customers. Give NERC Acronym, SIC Code, and Dun and Bradstreet number for each:** \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**Credit Support**

*Intended form(s) of credit support if know at this time:*

- a) Cash (See Section 7.1.2 and Appendix B) \_\_\_\_\_
- b) Irrevocable Letter of Credit (See Section 7.1.3 and Appendices B and C) \_\_\_\_\_
- c) Guaranty (See Section 3.1.3, Article Six, and Appendix D) \_\_\_\_\_

Not-For-Profit Companies, as defined in Section 4.2.3, should also answer the Additional Not-For-Profit Questions to help SPP have a better understanding of your organization. If your organization will not be considered a Not-For-Profit company it is not necessary that you answer the additional questions.

Authorized Signature: \_\_\_\_\_ Date: \_\_\_\_\_

Print Name: \_\_\_\_\_

Title: \_\_\_\_\_

### **Additional Not-For-Profit Questions**

**Additional sheets may be added to fully answer the following questions.**

- 1. Does your company have the ability to set its own rates? If yes, please attach any documentation that will show that ability.**
  
- 2. What are the terms and expiration dates of your company's wholesale power contracts?**
  
- 3. How many customers do you serve directly? When considering your five largest customers that you directly serve, what percentage of your load do they represent?**
  
- 4. Please describe your power supply portfolio and how it is used to meet your load. What percent of your load is secured by asset ownership or purchase power contracts? Are these assets or contracts long-term in nature? What are the expiration dates of your contracts? What is the fuel mix of your power supply portfolio? Do you engage in risk management activities? If so, please provide a brief summary of such activities.**
  
- 5. How long has the present management team been in place? Please discuss their experience with the present firm and any previous experience.**
  
- 6. Discuss your ability to access lines of credit from financial institutions.**
  
- 7. Please discuss any other factors you want to have considered by SPP when assessing creditworthiness. If there are items concerning your financials that need explanation, please provide the explanation here.** If your company receives capital credits, please provide the associated cash portion of such capital credits, as well as the information needed to compute such an amount from your most recent audited financials.

## Appendix “B” Credit and Security Agreement

This Credit and Security Agreement is effective as of the \_\_\_\_ day of \_\_\_\_\_, 20\_\_, by and between \_\_\_\_\_ (“Company”) and Southwest Power Pool, Inc. (“SPP”).

### Recitals

WHEREAS, SPP offers certain services, including certain transmission services, market services and other services as set out in the \_\_\_\_\_ Tariff of SPP, as may be amended and supplemented from time to time and together with all replacements and substitutes thereto (collectively, the “Tariff”);

WHEREAS, SPP maintains a Credit Policy (which is Attachment X to the Tariff, as the same may be amended from time to time) in order to determine, on a case by case basis, the level of unsecured credit available to each customer who takes services under the Tariff and the form and amount of financial assurance to be required by each customer, if any;

WHEREAS, in the event Company provides financial assurance to SPP in the form of cash collateral or a letter of credit, SPP requires Company, in accordance with the terms of its Credit Policy as filed and accepted by FERC, to execute this Credit and Security Agreement in order to assure the strength of SPP’s security interest in such cash collateral or letter of credit;

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by each of the parties hereto, Company and SPP hereby agree as follows:

(1) The “Liabilities” as used in this Credit and Security Agreement means all of the financial obligations of the Company under the Tariff and/or any and all agreements entered into, under, pursuant to, or in connection with the Tariff (including, without limitation, the SPP Credit Policy) and any and all other agreements to which SPP and the Company are parties (collectively, the “Agreements”).



(2) As security for the payment and performance of the Liabilities, SPP shall have, and the Company hereby grants to SPP, a continuing security interest in the following collateral (as indicated below) (the "Collateral"): all of the Company's right, title, and interest in any and all cash, cash collateral, cash deposits and deposit accounts of the Company held or controlled by SPP, including accounts designated "for the benefit of" Company, that either (i) are or contain proceeds from any draw upon any Letters of Credit naming SPP as beneficiary to the extent that SPP determines in its sole discretion to treat such payments as cash collateral, and without prejudice to SPP's right to treat draws as payments to SPP of any and all amounts due to SPP from the Company, or (ii) are or contain cash submitted by the Company as collateral or security, however created or evidenced, whether now existing or hereafter owned, acquired, created, used or arising, including all products and proceeds of the foregoing, any and all renewals, extensions, replacements, modifications, additions, and substitutions of the foregoing and all rights, remedies, claims and demands under or in connection with each of the foregoing.

(3) All Collateral held or controlled by SPP after the date of this Credit and Security Agreement shall be free of any lien, security interest or encumbrance, except for liens, security interests or encumbrances in favor of SPP, and the Company agrees not to grant any security interest or permit any lien or encumbrance to arise in any of the Collateral except for security interests, liens and encumbrances in favor of SPP without the prior written consent of SPP.

(4) The Company agrees to do such reasonable acts and things and deliver or cause to be delivered such other documents as SPP may reasonably deem necessary to establish and maintain a valid perfected security interest in the Collateral (free of all other liens and claims except those of SPP) to secure the payment and performance of the Liabilities and to defend title to the Collateral against any person claiming any interest therein adverse to SPP. The Company authorizes SPP to file a financing statement or statements on its behalf in those public offices deemed advisable or necessary by SPP to protect the security interest of the Company herein granted. If permitted by law, the Company agrees that a carbon, photographic or other reproduction of this Credit and Security Agreement or of a financing statement may be filed as a financing statement.

(5) Subject to the Tariff, upon the occurrence of any Default and at any time thereafter, SPP shall have all rights and remedies available at law or in equity including, without limitation, the rights and remedies of a secured party under the Arkansas Uniform Commercial Code, as in effect from time to time, including, without limitation, the right to retain and/or take possession of the Collateral. SPP may in its discretion transfer any property constituting Collateral into its own name or that of its nominee and receive the income thereon and hold the same as security for the Liabilities or apply it on amounts due on Liabilities.

(6) Until such time as SPP exercises its remedies upon a Default, all income, earnings and profits with respect to the Collateral shall be reported for state and federal income tax purposes as attributable to the Company and not SPP. Company hereby instructs SPP (and any other person authorized to report taxable income distributions) to issue, or cause to be issued, IRS Form 1099 indicating the Company as the recipient of such income, earnings and profits.

(7) Whenever possible each provision of this Credit and Security Agreement shall be interpreted in such a manner as to be effective and valid under applicable law, but if any provision of this Credit and Security Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition without invalidating the remainder of such provision or the remaining provisions of this Credit and Security Agreement. The Company recognizes that SPP has relied on this Credit and Security Agreement in extending credit to the Company and agrees that such reliance by SPP shall be sufficient consideration for this Credit and Security Agreement.

(8) The Company maintains any and all rights under Section 206 of the Federal Power Act it may have with regard to this Credit and Security Agreement or its implementation.

This Credit and Security Agreement shall be construed and enforced in accordance with, and governed by, the laws of the State of Arkansas (without giving effect to the principles of conflicts of laws thereof).

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Company Name

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Authorized Signature

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Print Name

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Title

**SOUTHWEST POWER POOL, INC.**

By:

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Authorized Signature

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Print Name

---

Title

**Appendix “C” Form of Irrevocable Standby Letter of Credit**

**Irrevocable Standby Letter of Credit No. \_\_\_\_\_**

**Issued: [Date]**

**Expires at our counter (unless evergreen): [Date]**

Ladies and Gentlemen:

We do hereby issue this Irrevocable Non-Transferable Standby Letter of Credit No. \_\_\_\_\_ by order of, for the account of and on behalf of \_\_\_\_\_ (“Account Party”) and in favor of Southwest Power Pool (“Beneficiary” or “SPP”) (“Letter of Credit”).

This Letter of Credit is irrevocable and is issued, presentable and payable and we guaranty to the drawers, endorsers and bona fide holders of this Letter of Credit that drafts under and in compliance with the terms of this Letter of Credit will be honored on presentation and surrender of certain documents pursuant to the terms of this Letter of Credit.

This Letter of Credit is available in one or more drafts and may be drawn hereunder for the account of \_\_\_\_\_ up to an aggregate amount not exceeding \$ \_\_\_\_\_ .00 (United States Dollars \_\_\_\_\_ and 00/100).

This Letter of Credit is drawn against by presentation to us at our office located at the following address:

\_\_\_\_\_  
\_\_\_\_\_

of a drawing certificate: (i) Signed by an officer or authorized agent of the Beneficiary; (ii) dated the date of presentation; and (iii) containing one (1) of the following statements:

1. “The undersigned hereby certifies to \_\_\_\_\_ (“Issuer”), with reference to its Irrevocable Non-Transferable Standby Letter of Credit No. \_\_\_\_\_, dated \_\_\_\_\_, issued on behalf of \_\_\_\_\_ (“Account Party”) and in favor of Southwest Power Pool, Inc. (“Beneficiary”) that said Account Party has failed to make a payment in accordance with the terms and provisions of one or more of the following, as applicable: SPP’s Tariff, as may be amended and supplemented from time to time, together with all replacements and substitutes (the “Tariff”), any and all agreements

entered into by Account Party under, pursuant to, or in connection with the Tariff and any and all agreements to which Account Party and SPP are parties, as such agreements may be amended and supplemented from time to time, whether now or hereafter executed, and any replacements or substitutions thereof, (collectively, the “Agreements”). The Beneficiary hereby draws upon the Letter of Credit in an amount equal to \$ \_\_\_\_\_ (United States Dollars \_\_\_\_\_ and 00/100”); or

2. “As of the close of business on \_\_\_\_\_, 20\_\_ (fill in date which is less than eighty-seven (87) days before the expiration date of the Letter of Credit), Account Party has failed to renew, replace or amend the Letter of Credit in a manner acceptable to Beneficiary”; or
3. “As of the close of business on \_\_\_\_\_, 20\_\_ (fill in date which is more than three (3) Business Days after the Beneficiary has requested that Account Party replace the Letter of Credit because the Issuer’s corporate debt is rated less than “A-” by S&P, “A3” by Moody’s, “A-” by Duff & Phelps, or “A-” by Fitch), Account Party has failed to replace the Letter of Credit in a manner acceptable to Beneficiary.”

Beneficiary shall have the right, in the event of a draw pursuant to subparagraph (2) or (3) of the immediately preceding paragraph, to draw down the entire face value of the Letter of Credit.

If presentation of any drawing certificate is made on a business day and such presentations made on or before 10:00 a.m. \_\_\_\_\_ Time, (“Issuer”) shall satisfy such drawing request on the same business day. If the drawing certificate is received after 10:00 a.m. \_\_\_\_\_ Time, (“Issuer”) will satisfy such drawing request on the next business day.

It is a condition of this Letter of Credit that it will be automatically extended without amendment for one year from the expiration date hereof, or any future expiration date, unless 90 days prior to any expiration date we notify you by registered mail that we elect not to consider this Letter of Credit renewed for any such period.

This Letter of Credit may be terminated upon Beneficiary’s receipt of full payment from the Account Party and Issuer’s receipt of a written release from the Beneficiary releasing the Issuer from its obligations under this Letter of Credit.

Disbursements under the Letter of Credit shall be in accordance with the following terms and conditions:

1. The amount, which may be drawn by the Beneficiary under this Letter of Credit, shall be automatically reduced by the amount of any drawings hereunder.
2. All commissions and charges will be borne by the Account Party.
3. This Letter of Credit may not be transferred or assigned by the Issuer.
4. This Letter of Credit is irrevocable.
5. This Letter of Credit may not be amended, changed or modified without the express written consent of the Beneficiary and the Issuer.
6. No Beneficiary shall be deemed to have waived any rights under this Letter of Credit, unless a Beneficiary or an authorized agent of a Beneficiary shall have signed a written waiver. No such waiver, unless expressly so stated therein, shall be effective as to any transaction that occurs subsequent to the date of the waiver, nor as to any continuance of a breach after the waiver.
7. This Letter of Credit shall be governed by the International Standby Practices Publication No. 590 of the International Chamber of Commerce, including any amendments, modifications or revisions thereof (the "ISP"), except to the extent that terms hereof are inconsistent with the provisions of the ISP, in which case the terms of the Letter of Credit shall govern. This Letter of Credit shall be governed by the internal laws of the state of Arkansas to the extent that the terms of the ISP are not applicable; provided that, in the event of any conflict between the ISP and such Arkansas laws, the ISP shall control.

\_\_\_\_\_  
[Authorized Signature]

\_\_\_\_\_  
[Date]

Name: \_\_\_\_\_

Title: \_\_\_\_\_

## Appendix “D” Guaranty Forms

### GUARANTY AGREEMENT

This Guaranty Agreement (the “Guaranty”) is made by \_\_\_\_\_ (“Guarantor”), a \_\_\_\_\_ corporation, in favor of Southwest Power Pool, Inc. (“Creditor”), an Arkansas [non-stock] corporation.

WHEREAS, one or more direct or indirect subsidiaries of the Guarantor (each referred to individually as “Debtor” and collectively as “Debtors”) and the Creditor are parties to [DESCRIBE AGREEMENT(S)] (collectively “Agreements”);

WHEREAS, Guarantor is the direct or indirect parent of the Debtor, will receive substantial and direct benefits from the extensions of credit contemplated by the Agreements and has agreed to enter into this Guaranty to provide assurance for the performance of Debtor’s obligations in connection with the Agreements and to induce the Creditor to enter into the Agreements; and

WHEREAS, the execution and delivery of this Guaranty is a condition to Creditor’s further performance of its obligations under the terms of the Agreements;

NOW, THEREFORE, in consideration of the promises and other good and valuable consideration, the adequacy, receipt and sufficiency of which are hereby acknowledged, Guarantor hereby agrees as follows:

1. **Guaranty.** Guarantor hereby unconditionally and absolutely guarantees the punctual payment as and when due of Debtor’s payment obligations arising under any Agreement, as such Agreement may be amended or modified from time to time, together with any interest thereon (collectively, the “Guaranteed Obligations”). Guarantor’s obligations and liability under this Guaranty shall be limited to payment obligations only and Guarantor shall have no obligation otherwise to perform under any Agreement, including, without limitation, to sell, deliver, purchase, receive, or transmit any electrical energy product or service.
2. **Guaranty Absolute.** The liability of Guarantor under this Guaranty shall be absolute and unconditional irrespective of:
  - (a) any lack of validity or enforceability of or defect or deficiency in any Agreement or any other documents executed in connection with any Agreement;
  - (b) any modification, extension or waiver of any of the terms of any Agreement;
  - (c) any change in the time, manner, terms or place of payment of or in any other term of, all or any of the Guaranteed Obligations, or any other amendment or waiver of or any consent to departure from any Agreement or any other agreement or instrument executed in connection therewith;

- (d) any sale, exchange, release or non-perfection of any property standing as security for the liabilities hereby guaranteed, or any liabilities incurred directly or indirectly hereunder or any setoff against any of said liabilities, or any release or amendment or waiver of or consent to departure from this Guaranty or any other guaranty, for all or any of the Guaranteed Obligations;
- (e) except as to applicable statutes of limitation, failure, omission, delay, waiver or refusal by Creditor to exercise, in whole or in part, any right or remedy held by Creditor with respect to any Agreement or any transaction under any Agreement;
- (f) any change in the existence, structure or ownership of Guarantor or any Debtor, or any insolvency, bankruptcy, reorganization or other similar proceeding affecting any Debtor or its assets; or
- (g) any other circumstance that might otherwise constitute a defense available to, or a discharge of, any Debtor or any other individual, partnership, joint venture, corporation, association, trust or other enterprise that is a party to any Agreement, or any other agreement or instrument (including any guarantor) in respect of the Guaranteed Obligations, other than payment in full of the Guaranteed Obligations.

The obligations of the Guarantor hereunder are several from any Debtor or any other person, and are primary obligations concerning which the Guarantor is the principal obligor. There are no conditions precedent to the enforcement of this Guaranty, except as expressly contained herein. It shall not be necessary for Creditor, in order to enforce payment by Guarantor under this Guaranty, to show any proof of any Debtor's default, to exhaust its remedies against any Debtor, any other guarantor, or any other person liable for the payment or performance of the Guaranteed Obligations. Creditor shall not be required to mitigate damages or take any other action to reduce, collect, or enforce the Guaranteed Obligations.

This Guaranty shall continue to be effective or be reinstated, as the case may be, if at any time any payment of any of the Guaranteed Obligations are annulled, set aside, invalidated, declared to be fraudulent or preferential, rescinded or must otherwise be returned, refunded or repaid by Creditor upon the insolvency, bankruptcy, dissolution, liquidation or reorganization of Debtor or any other guarantor, or upon or as a result of the appointment of a receiver, intervenor or conservator of, or trustee or similar officer for, Debtor or any other guarantor or any substantial part of its property or otherwise, all as though such payment or payments had not been made.

3. **Waiver.** This is a guaranty of payment and not of collection. Guarantor hereby waives:

- (a) notice of acceptance of this Guaranty, of the creation or existence of any of the Guaranteed Obligations and of any action by Creditor in reliance hereon or in connection herewith;



- (b) notice of the entry into any Agreement between any Debtor and the Creditor and of any amendments, supplements or modifications thereto; or any waiver of consent under any Agreement, including waivers of the payment and performance of the obligations thereunder;
  - (c) notice of any increase, reduction or rearrangement of any Debtor's obligations under any Agreement or any extension of time for the payment of any sums due and payable to the Creditor under any Agreement;
  - (d) except as expressly set forth herein, presentment, demand for payment, notice of dishonor or nonpayment, protest and notice of protest or any other notice of any other kind with respect to the Guaranteed Obligations; and
  - (e) any requirement that suit be brought against, or any other action by Creditor be taken against, or any notice of default or other notice be given to, or any demand be made on, Debtor or any other person, or that any other action be taken or not taken as a condition to Guarantor's liability for the Guaranteed Obligations under this Guaranty or as a condition to the enforcement of this Guaranty against Guarantor.
4. **Expenses.** Notwithstanding and in addition to the limit on Guarantor's liability hereunder set forth in Section 1, Guarantor agrees to pay on demand any and all costs, including reasonable legal fees and expenses, and other expenses incurred by Creditor in enforcing Guarantor's payment obligations under this Guaranty; provided that the Guarantor shall not be liable for any expenses of Creditor if no payment under this Guaranty is due.
5. **Subrogation.** Guarantor shall be subrogated to all rights of Creditor against the Debtors in respect of any amounts paid by Guarantor pursuant to this Guaranty, provided that Guarantor waives any rights it may acquire by way of subrogation under this Guaranty, by any payment made hereunder or otherwise (including, without limitation, any statutory rights of subrogation under Section 509 of the Bankruptcy Code, 11 U.S.C. § 509, or otherwise), reimbursement, exoneration, contribution, indemnification, or any right to participate in any claim or remedy of the Creditor against any Debtor or any collateral which the Creditor now has or acquires, until all of the Guaranteed Obligations shall have been irrevocably paid to Creditor in full. If any amount shall be paid to the Guarantor on account of such subrogation rights at any time when all the Guaranteed Obligations shall not have been paid in full, such amount shall be held in trust for the benefit of Creditor and shall forthwith be paid to Creditor to be applied to the Guaranteed Obligations. If (a) the Guarantor shall perform and shall make payment to Creditor of all or any part of the Guaranteed Obligations and (b) all the Guaranteed Obligations shall have been paid in full, Creditor shall, at the Guarantor's request, execute and deliver to the Guarantor appropriate documents necessary to evidence the transfer by subrogation to the Guarantor of any interest in the Guaranteed Obligations resulting from such payment by Guarantor.

6. **Setoff.** The Creditor is hereby authorized at any time, to the fullest extent permitted by law, to set off and apply any deposits (general or special, time or demand, provisional or final) and other indebtedness owing by the Creditor to or for the account of Guarantor against any and all of the obligations of Guarantor under this Guaranty, irrespective of whether or not the Creditor shall have made any demand under this Guaranty or such Agreement and although such obligations may be contingent and unmatured. The Creditor agrees promptly to notify Guarantor after any such set-off and application made by the Creditor provided that the failure to give such notice shall not affect the validity of such set-off and application.

7. **Notices.** All demands, notices and other communications provided for hereunder shall, unless otherwise specifically provided herein, (a) be in writing addressed to the party receiving the notice at the address set forth below or at such other address as may be designated by written notice, from time to time, to the other party, and (b) be effective upon delivery, when mailed by U.S. mail, registered or certified, return receipt requested, postage prepaid, by express courier with traceable receipt, by facsimile, or personally delivered. Notices shall be sent to the following addresses:

If to Creditor:  
Southwest Power Pool, Inc.  
415 N. McKinley, #140  
Little Rock, AR 72205  
Attention: Financial Coordinator

If to Guarantor:  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

8. **Demand and Payment.** Any demand by Creditor for payment hereunder shall be in writing, signed by a duly authorized officer of Creditor and delivered to the Guarantor pursuant to Section 6 hereof, and shall (a) reference this Guaranty, (b) specifically identify the Debtor, the Guaranteed Obligations to be paid and the amount of such Guaranteed Obligations, and (c) set forth payment instructions. There are no other requirements of notice, presentment or demand. Guarantor shall pay, or cause to be paid, such Guaranteed Obligations within three (3) business days of receipt of such demand.

9. **No Waiver; Remedies.** Except as to applicable statutes of limitation, no failure on the part of Creditor to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right hereunder preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

10. **Term; Termination.** This Guaranty shall continue in full force and effect for the term of the Agreement. Notwithstanding the foregoing, this Guaranty may be terminated at any time by the Guarantor by providing at least sixty (60) days' prior written notice to Creditor; provided, however, upon termination hereof, Guarantor agrees that the obligations and liabilities hereunder shall continue in full force and effect with respect to any obligations incurred prior to the termination date, and any fees and costs of enforcement in connection herewith.
11. **Assignment; Successors and Assigns.** Creditor may, upon notice to Guarantor, assign its rights hereunder without the consent of Guarantor. Guarantor may assign its rights hereunder with the prior written consent of Creditor, which consent shall not be unreasonably withheld. Subject to the foregoing, this Guaranty shall be binding upon and inure to the benefit of the parties hereto and their respective successors, permitted assigns, and legal representatives.
12. **Amendments, Etc.** A written amendment executed by the Guarantor only may (a) increase the guaranty limit specified in Section 1 and/or (b) extend the termination date of this Guaranty. No other amendment of this Guaranty shall be effective unless in writing and signed by Guarantor and Creditor. No waiver of any provision of this Guaranty nor consent to any departure by Guarantor therefrom shall in any event be effective unless such waiver shall be in writing and signed by Creditor. Any such waiver shall be effective only in the specific instance and for the specific purpose for which it was given.
13. **Captions.** The captions in this Guaranty have been inserted for convenience only and shall be given no substantive meaning or significance whatsoever in construing the terms and provisions of this Guaranty.
14. **Representation and Warranties.**

The Guarantor represents and warrants as follows:

- (a) the Guarantor is duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation and has full corporate power to execute, deliver and perform this Guaranty. This representation is evidenced by a copy of the resolution(s) of the board of directors or other governing body of the Guarantor authorizing this Guaranty, which is attached to and made a part of this Agreement;
- (b) the execution, delivery and performance of this Guaranty have been and remain duly authorized by all necessary corporate action and do not contravene the Guarantor's constitutional documents or any contractual restriction binding on the Guarantor or its assets;
- (c) this Guaranty is not in violation of other undertakings or requirements applicable to Guarantor, and is enforceable against the Guarantor in accordance with these terms;

- (d) this Guaranty constitutes the legal, valid and binding obligation of the Guarantor enforceable against Guarantor in accordance with its terms, subject, as to enforcement, to bankruptcy, insolvency, reorganization and other laws of general applicability relating to or affecting Creditor's rights and to general equity principles; and
- (e) the audited financial statements of Guarantor for the most recent fiscal year and the unaudited financial statements of Guarantor for the most recent quarter (the "Financial Statements"), heretofore delivered to Creditor or filed with the United States Securities Exchange Commission by Guarantor present fairly the financial condition and results of operations of Guarantor and its consolidated subsidiaries as of the dates and for the period specified therein in conformity with United States generally accepted accounting principles, and, except as otherwise expressly stated therein, consistently applied. Except as expressly stated to Creditor in writing, there has been no *Material Adverse Change* in the financial condition of Guarantor and its consolidated subsidiaries since the dates of the Financial Statements.

15. **Limitation by Law.** All rights, remedies and powers provided in this Guaranty may be exercised only to the extent that the exercise thereof does not violate any applicable provision of law, and all the provisions of this Guaranty are intended to be subject to all applicable mandatory provisions of law that may be controlling and to be limited to the extent necessary so that they will not render this Guaranty invalid, unenforceable, in whole or in part, or not entitled to be recorded, registered or filed under the provisions of any applicable law.

16. **GOVERNING LAW; SUBMISSION TO EXCLUSIVE JURISDICTION. THIS GUARANTY SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF ARKANSAS AND ANY APPLICABLE FEDERAL LAW. TO THE EXTENT PERMITTED BY APPLICABLE LAW, THE PARTIES HERETO HEREBY SUBMIT TO THE EXCLUSIVE JURISDICTION OF ANY ARKANSAS STATE COURT SITTING IN PULASKI COUNTY, ARKANSAS, OR THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF ARKANSAS, FOR THE PURPOSES OF ALL LEGAL PROCEEDINGS ARISING OUT OF OR RELATING TO THIS GUARANTY OR THE TRANSACTIONS CONTEMPLATED HEREBY. THE PARTIES HEREBY WAIVE ANY OBJECTION TO VENUE IN PULASKI COUNTY, ARKANSAS, AND ANY OBJECTION TO ANY ACTION OR PROCEEDING ON THE BASIS OF FORUM NON CONVENIENS.**

IN WITNESS WHEREOF, Guarantor has caused this Guaranty to be duly executed and delivered by its duly authorized officer effective as of this \_\_\_ day of \_\_\_\_\_, \_\_\_\_\_ ("Effective Date").

**[GUARANTOR]**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_



**Southwest Power Pool, Inc.**  
**Recommendation from the Credit Practices Working Group**  
**November 30, 2011**  
**FERC Order 741 Compliance Filing Credit Policy Revisions**

**Organizational Roster**

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

Terri Wendlandt, Westar	Jayne Clarke, Sunflower
Jacqueline Humphrey, Golden Spread	Gina Wilson, ITC Holdings
Vanisha Patel, TEA (Representing Springfield)	Mark Holler, Tenaska
Bill Thompson, AEP	James Goforth, Southwestern Public Service

The following stakeholders participated in group discussions:

Carol Shoemake, OGE	Pat Mosier, Arkansas Public Service Commission
John Seck, KMEA	Mack Booker, OMPA
Eric Alexander, GRDA	Robb Walt, SPS
Gerry Stephenson, KCPL	Pamela Newberry OPPD
Tory Lauterbach, CWT	Scott Smith, SPP
Matt Binett, Wright and Talisman	Phil McCraw, SPP
Nathan Case, ACES	

**Background**

On September 15 FERC conditionally Accepted SPP's Order 741 compliance filing, subject to SPP submitting a compliance filing by December 14 pertaining to SPP's minimum criteria for market participation. In its order FERC directed SPP to:

1. Develop a standard risk management verification form.
2. Add a cure period for management verification deficiencies.
3. Develop a procedure to verify that market participants are implementing their risk management policies, practices, and procedures. The periodic verification procedure could be conducted on a random basis or directed at certain market participants based on identified risk. The Commission made similar findings on other RTO/ISO compliance filings and directed the adoption of similar verification procedures by the other RTOs and ISOs.

**Analysis**

SPP staff has worked with its outside Council to develop the standard risk management verification form as directed. The Annual Risk Management Certification Form is attached and will be Appendix E to Attachment X (Credit Policy).

A two day period has been set to cure a notice from SPP that the Risk Management Certification Form is insufficient. This language has been added to the bottom of Section 3.1.1.6.



SPP Staff has worked with the other RTOs and ISOs to develop a standard verification procedure that could be implemented across all the RTOs and ISOs. The Risk Management Verification Process is described in a new Section 3.1.1.9 of Attachment X.

**Recommendation**

The Credit Practices Working Group recommends the approval of the approval of Credit Policy changes to add the Annual Risk Management Certification Form as Appendix E, the verification procedure for risk management policies as Section 3.1.1.9, and the addition of a 2 day cure period for the Risk Management Certification Form.

**Approved:** Credit Practices Working Group

November 30, 2011

**Action Requested:** Approve Recommendation



**SPP MINIMUM PARTICIPATION CRITERIA – ANNUAL RISK MANAGEMENT CERTIFICATION FORM**

I, \_\_\_\_\_, a duly authorized officer of \_\_\_\_\_ (“Market Participant”), understanding that Southwest Power Pool, Inc. (“SPP”) is relying on this certification as evidence supporting SPP’s determination that Market Participant meets the risk management minimum participation requirements as set forth in Section 3.1.1.6 of Attachment X to SPP’s Open Access Transmission Tariff (“Tariff”), hereby certify that I have full authority to certify and represent on behalf of Market Participant and further certify and represent as follows:

Risk Management. Market Participant maintains current written risk management policies and procedures that address those risks that could materially affect Market Participant ability to pay its SPP invoices when due, including, but not limited to credit risks, liquidity risks and market risks. Additionally, the Market Participant provides the following information as required by Section 3.1.1.6 of Attachment X (attach additional pages as necessary):

- a. Description of the Market Participant’s risk management capabilities and procedures, including whether the Market Participant is engaged in hedging.

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- b. Identification of the employee(s) of the Market Participant who perform the activities described in (a) above, or if those activities are contracted to an external organization, identification of such organization.

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- c. Description of the special training, skills, experience, and industry tenure of those person(s) performing the activities described in (a) above.

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\_\_\_\_\_

d. Any other information that may assist SPP in determining the risk management capabilities of the applying Market Participant.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

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

\_\_\_\_\_

(Signature)

Print Name: \_\_\_\_\_

Title: \_\_\_\_\_

Subscribed and sworn before me \_\_\_\_\_, a notary public of the State of \_\_\_\_\_, in and for the County of \_\_\_\_\_, this \_\_ day of \_\_\_\_\_, 20\_\_\_\_.

\_\_\_\_\_

(Notary Public Signature)

My commission expires: \_\_\_\_\_ / \_\_\_\_\_ / \_\_\_\_\_

## ARTICLE THREE

### Credit Assessment

#### 3.1 Minimum Criteria for Market Participation and Initial Credit Assessment.

**3.1.1 Credit Application and Credit Information.** A Credit Customer must submit a completed and duly executed Credit Application. A completed Credit Application includes submission of the Credit Application form (Appendix "A"), all information required under Section 3.1.1, and additional information that SPP may request. The Credit Customer must submit the following information with its Credit Application.

**3.1.1.1 Audited Financial Statements and Related Information.** All annual Financial Statements submitted must be audited. Financial Statements are the following.

- a. If the Credit Customer is subject to SEC reporting requirements, Financial Statements are:
  - i. Annual Reports on Form 10-K for the three fiscal years most recently ended, together with any amendments thereto;
  - ii. Quarterly Reports on Form 10-Q for each completed fiscal quarter of the then current fiscal year, together with any amendments thereto; and
  - iii. Form 8-K reports, if any, filed after the most recent Form 10-K.
- b. If the Credit Customer is not subject to SEC reporting requirements, Financial Statements are:
  - i. For each of the three fiscal years most recently ended, the Report of Independent Accountants (for each of the three fiscal years most recently ended); and audited financial statements, including balance sheet, income statement, statement of cash flow, and statement of stockholder's equity;
  - ii. For each completed fiscal quarter of the then current fiscal year; financial statements as described in (i) above. Unaudited quarterly financial statements are acceptable.

- iii. Notes to financial statements; and
  - iv. Management's discussion and analysis, if any.
- c. The Credit Customer may submit Financial Statements by informing SPP, in writing, where the Financial Statements can be retrieved through the Internet. Successful retrieval by SPP will satisfy the Financial Statements submission requirements of this Section. If SPP is not satisfied with the retrieval through the Internet, it may require the Credit Customer to submit Financial Statements in hard copy form.
- d. In the event any parts of the Financial Statements required under this Section are inapplicable to the Credit Customer, SPP may specify alternate requirements. SPP may request additional Financial Statements and related information at its sole discretion.
- e. For Not-For-Profit Credit Customers, some of the above financial submittals may not be applicable, and alternate requirements may be specified by SPP.
- f. In the credit evaluation of Not-For-Profit Credit Customers, SPP may request additional information as part of the overall financial review process and will consider other relevant factors in determining financial strength and creditworthiness.

**3.1.1.2 References.** The Credit Customer must provide at least one bank reference and at least three references from entities that have significant commercial relationships with the Credit Customer.

**3.1.1.3 Loss Contingencies.** The Credit Customer must fully and accurately identify and describe each of the following, or state that there are no such matters applicable to the Credit Customer:

- a. known pending or, to the Credit Customer's knowledge, threatened, court actions, arbitration proceeding, investigations, commitments, claims, contingencies, or existing or potential liabilities that are or would be Material if determined adversely to the Credit Customer;
- b. ongoing investigations by the SEC, the FERC, or of any other governing, regulatory, or standards body that is

Material or would be Material if determined adversely to the Credit Customer;

- c. prior bankruptcy declarations or petitions, voluntary or involuntary, by or against the Credit Customer, its predecessors, subsidiaries or Affiliates; and
- d. Material defalcations or fraud by or involving the Credit Customer, its predecessors, subsidiaries or Affiliates, or any of their respective assets.

**3.1.1.4 Affiliates.** The Credit Customer must identify all Affiliates that are Credit Customers.

**3.1.1.5 Total Potential Exposure Information.** The Credit Customer shall provide an estimate of its current or anticipated transaction activity for all services under the Tariff or otherwise over the succeeding twelve months, sufficient to permit SPP to determine the Credit Customer's Total Potential Exposure.

**3.1.1.6 Attestation of Risk Management Capabilities.** Each applying Market Participant shall submit to SPP a notarized statement signed by an authorized officer in the form attached as "Appendix E" to this Attachment X:

- a. Attesting that the officer has signature authority to make the statement;
- b. Describing its risk management capabilities and procedures, including whether the applying Market Participant is engaged in hedging;
- c. Identifying the employee(s) of the Market Participant who perform the activities described in (b) above, or if those activities are contracted to an external organization, identifying such organization;
- d. Defining the special training, skills, experience, and industry tenure of those person(s) performing the activities described in (b) above; and
- e. Providing any other information that may assist SPP in determining the risk management capabilities of the applying Market Participant.

Such attestation shall be renewed and updated for each successive year of market participation and shall be submitted to SPP no later than April 30 of each year.

If the risk management capabilities of the applying Market Participant are deemed insufficient by SPP for the type of service that will be undertaken or if the attestation is deemed insufficient by SPP to determine the risk management capabilities of the applying Market Participant, the applying Market Participant shall be declined participation in all SPP markets. A Market Participant will have two (2) business days from receipt of notice from SPP that its attestation was deemed insufficient to cure any deficiency identified by SPP prior to being declined participation in SPP markets.

**3.1.1.7 Additional Information.** At any time and from time to time, SPP may request such additional information as SPP determines is necessary and appropriate for the Credit Assessment and the Credit Customer shall timely provide such additional information. At any time, the Credit Customer may provide SPP with additional information that the Credit Customer considers relevant to the Credit Assessment.

**3.1.1.8 Minimum Criteria for Market Participation.** Each Market Participant shall, at a minimum, possess:

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

If the applying Market Participant, without assistance from a parent or Affiliate, is unable to meet the minimum criteria for

market participation, the applying Market Participant shall be declined participation in all SPP markets.

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

### **3.1.1.9 Risk Management Verification Process**

Through a periodic compliance verification process, SPP shall review and verify Market Participants' risk management policies, practices, and procedures pertaining to the Market Participants' activities in the SPP markets. Such review shall include verification that:

1. The risk management framework is documented in a risk policy addressing market, credit and liquidity risks;
2. The Market Participant maintains an organizational structure with clearly defined roles and responsibilities that clearly segregates trading and risk management functions;
3. There is clarity of authority specifying the types of transactions into which traders are allowed to enter;
4. The Market Participant has requirements that traders have adequate training or expertise relative to their authority in the systems and SPP markets in which they transact;
5. As appropriate, risk limits are in place to control risk exposures;
6. Reporting is in place to ensure that risks and exceptions are adequately communicated throughout the organization;
7. Processes are in place for qualified independent review of trading activities; and
8. As appropriate, there is periodic valuation or mark-to-market of risk positions.

SPP may select Market Participants for review on a random basis and/or based on identified risk factors such as, but not limited to, the SPP markets in which the Market Participant is transacting, the magnitude of the Market Participant's transactions, or the volume of the Market Participant's open positions. Those Market Participants notified by SPP that they have been selected for review shall, upon fourteen (14) calendar days notice, provide a copy of their current governing risk control policies, procedures, and controls applicable to their SPP market activities and shall also provide such further information or documentation pertaining to the Market Participants' activities in the SPP markets as SPP may

reasonably request. Market Participants selected for risk management verification through a random process and satisfactorily verified by SPP shall be excluded from such verification process based on a random selection for the subsequent two years. SPP shall annually randomly select for review no more than twenty percent (20%) of the Market Participants.

Each selected Market Participant's continued eligibility to participate in the SPP markets is conditioned upon SPP notifying the Market Participant of successful completion of SPP's verification, provided, however, that if SPP notifies the Market Participant in writing that it could not successfully complete the verification process, SPP shall allow such Market Participant fourteen (14) calendar days to provide sufficient evidence for verification prior to declaring the Market Participant as ineligible to continue to participate in SPP's markets, which declaration shall be in writing with an explanation of why SPP could not complete the verification. If, prior to the expiration of such fourteen (14) calendar days, the Market Participant demonstrates to SPP that it has filed with the Federal Energy Regulatory Commission an appeal of SPP's risk management verification determination, then the Market Participant shall retain its transaction rights, pending the Commission's determination on the Market Participant's appeal. SPP may retain outside expertise to perform the review and verification function described in this section. SPP and any third party it may retain will treat as confidential the documentation provided by a Market Participant under this section, consistent with the applicable provisions of the Tariff.

**3.1.2 Rating Agency Information.** In the initial Credit Assessment and in subsequent and ongoing assessments, SPP will consider Rating Agency reports applicable to the Credit Customer. This review will be focused on the Credit Customer's unsecured, senior long-term debt ratings. If these ratings are not available, SPP will consider issuer ratings.

**3.1.3 Power Supply Agent Disclosure Requirements.** A Not-For-Profit Credit Customer may request that its suggested Unsecured Credit Allowance calculation reflect as equity the outstanding balance of revenue bonds issued by the Not-For-Profit Credit Customer when such revenue bonds are issued solely in support of the Not-For-Profit Credit Customer's role as power supply agent for not-for-profit electric distribution utilities. In support of such request, the Not-For-Profit Credit Customer must provide SPP with the following information:

- (a) Management representation letter stating:
  - (i) Principal amount, in dollars, of revenue bonds outstanding;
  - (ii) Prior to default and after default, debt service on the revenue bonds is payable only after operating expenses are paid;
  - (iii) Amounts payable to SPP under this Tariff are operating expenses for purposes of the revenue bonds; and
  - (iv) The trustee for the revenue bonds has a valid and binding security interest in the revenues or net revenues from the power supply contracts to secure payment of the revenue bonds and the Not-For-Profit Customer has not granted any lien thereon prior to the lien of the bond resolution.
  
- (b) Opinion of counsel stating:
  - (i) The power supply contracts are binding obligations of the Not-For-Profit Credit Customer enforceable in accordance with their terms;
  - (ii) The trustee of the revenue bonds has a valid and binding security interest in, or assignment and pledge of, the revenues or net revenues from the power supply contracts to secure payment of the revenue bonds;
  - (iii) The resolution or other document creating the security interest or pledge and providing for the priority of payment is enforceable in accordance with its terms;
  - (iv) Prior to default and after default, debt service on the revenue bonds is payable only after operating expenses are paid; and
  - (v) Amounts payable to SPP for transmission and energy services under this Tariff are operating expenses for purposes of the revenue bonds.
  
- (c) All Rating Agency ratings on revenue bond(s).

The opinion of counsel referenced above shall be provided to SPP together with copies of the most recent written opinions of counsel, if any, for each member of the Not-For-Profit Credit Customer that relate to the enforceability of the power supply contract(s).

**3.1.4 Guaranties.** If the Credit Customer proposes a Guaranty to establish, contribute to, or maintain an Unsecured Credit Allowance, Credit Information required under Section 3.1.1 must be submitted with respect to both the Credit Customer and the proposed Guarantor.





# Quarterly Status Report: Improving SPP Business Process Effectiveness and Efficiency

December 5, 2011

Business Process Improvement



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## **SPP Business Process Improvement (BPI) Strategy -- Background**

At the December 6, 2010 Finance Committee meeting, Scott Noble (Manager, Business Process Improvement) presented a PowerPoint presentation titled, “Improving SPP Business Process Effectiveness and Efficiency” to the Finance Committee. The purpose of the presentation was to lay out a vision of SPP’s overall Business Process Improvement (BPI) Objectives and a multi-year Implementation Strategy for helping SPP become a more efficient and a more effective organization. The BPI Plan contained seven recommendations and a preliminary time line for their implementation.

**Longer Term Objectives** – The long term Business Process Improvement (BPI) strategy is based upon SPP embracing a culture of process improvement that is supported by management processes, support systems, and the adoption of a process improvement analytical framework. The strategic organizational transformation envisioned is a multi-year program that will combine the following elements: 1) Definition of a specific methodology, 2) Design and integration of BPI management processes into SPP management processes, 3) Development of an education and training approach for SPP Executive and Management Staff and for employees, 4) Pilot implementation programs, and 5) Ongoing coaching, reinforcement and tracking support programs.

**Near Term Action Items (2011)** – The BPI Implementation strategy realizes that there are significant opportunities for process improvement that should be addressed on an opportunistic basis while the longer term systemic cultural and educational transformation is being developed and implemented.

## **SPP Business Process Improvement (BPI) Implementation Strategy**

The following slide from the December 6 presentation outlined the SPP Business Process Improvement Objectives:

# **SPP BPI Implementation Strategy**

## **Longer Term Objectives**

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

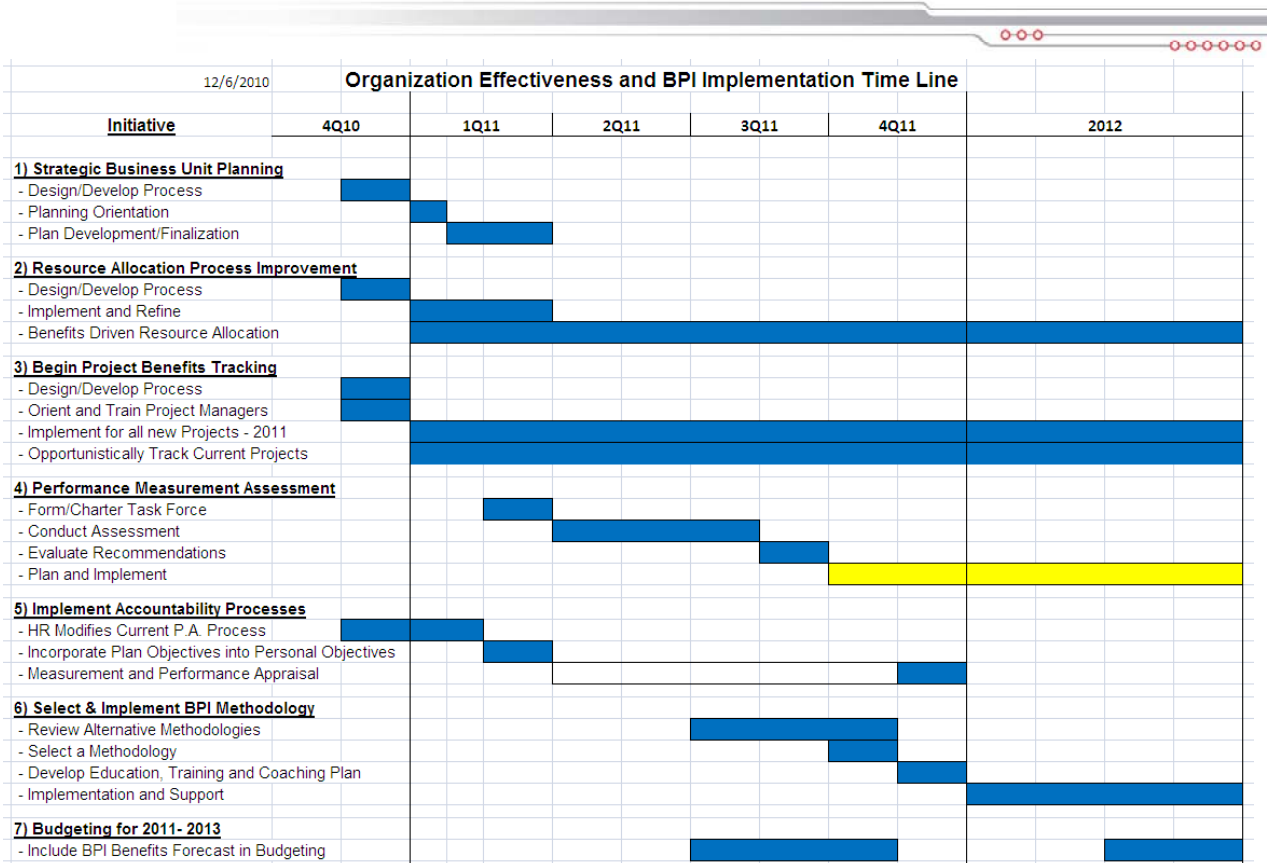
## **Near Term Actions – 2010 and 2011**

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

**BPI Implementation Plan Recommendations (from December 6, 2010 Plan)**

- 1. Implement a Business Unit Strategic Business Planning Process – 1Q11**
- 2. Implement an Improved Development Project Resource Allocation Process – 1Q11**
- 3. Track Benefits Realized from Development and BPI Projects – 1Q11**
- 4. Conduct a Performance Measurement Assessment – 3Q11**
- 5. Implement Improved Performance Accountability Processes – 1Q/2Q11**
- 6. Research, Select, Develop, Implement and Support a Structured BPI Approach**
  - a. Research, Selection and Design – 3Q/4Q11**
  - b. Pilot Program – 1Q12**
  - c. Implementation and Ongoing Support – 2012**
- 7. Budgeting for Business Process Improvement (2012-2014 Budget) – 3Q/4Q11**

This implementation plan was graphically depicted in the December 6, 2011 presentation as follows:



**BPI Implementation Plan Status Report**

**Executive Summary – December 5, 2011**

BPI Initiative	Status	Description
1) Business Unit Strategic Planning	<b>Completed</b>	SPP Business Units developed Strategic Plans to support the SPP Corporate Plan (Mission, Strategy, Objectives and Initiatives with Accountabilities and Resources Required). These plans provide prioritization and insight to be used in 2012-2014 budgeting. Plans completed 4-15-2011.
2) Improved Resource Prioritization Process	<b>Completed</b>	A comprehensive Pre-Ranking assessment of: a) total project scope and costs, b) projected project benefits, and c) a calculation of Internal Rate of Return (IRR), was implemented on March 1, 2011. This process provided insights used to prioritize Project Budgeting for 2012-2014 budget. The by-product of this process was a realistic assessment of “project bandwidth” or capacity.
3) Benefits Tracking	<b>Completed</b>	A list of initial projects or initiatives resulting in improved productivity, effectiveness or cost reductions in 2011 was developed along with benchmarking and measurement methodology. Results are being tracked and reported quarterly.
4) Performance Measurement Assessment	<b>Deferred Broad Scope Initiative</b> <b>Replace with Tactical Tracking Efforts</b>	The scope of this task is much larger than initially envisioned. SPP does not have “work measurement” or tracking mechanisms in place nor does the organization have the bandwidth to seriously evaluate the pros and cons for better work measurement processes. Near term, BPI will benchmark and measure improvement with best available tools.
5) Implement Accountability Processes	<b>Completed</b>	The newly implemented SPP Performance Appraisal process will identify performance objectives for employees, consistent with Business Unit Strategic Plans.
6) BPI Methodology Selection & Implementation	<b>Deferred to 2012</b>	Research, Selection and Design originally scheduled to begin in 3Q11 with pilot implementation scheduled for 2012. Based on organizational priorities, this effort has been deferred to 2012.
7) Budgeting Projected Benefits in 2012-2014 Budget	<b>Completed</b>	SPP Business Units identified “process improvement or cost reduction initiatives” included in their 2012 – 2014 zero based budget. The budget will reflect expected actual expense levels. Improvement programs will be identified and tracked “off budget”. This was completed with the budget submission. Attainment of these targets will be tracked and reported quarterly.

**Status Legend**



**On Target** – Progress on this initiative is as planned.



**Caution** – Some elements are behind schedule – additional focus can get initiative back on track.



**In Jeopardy** – This initiative is behind schedule. Corrective actions needed.

## **Appendix A -- Implementation Plan – Supplemental Information**

### **1. Implement a Business Unit Strategic Business Planning Process – 1Q11**

Prior to the implementation of the Business Unit (BU) Strategic Planning process, SPP had a corporate level Strategic Plan. No real process existed to “connect the dots” for breaking broad strategic priorities into more granular implementation plans. A Business Unit generally reflects an SPP Organization that is lead by one of the SPP Officers. The BU Strategic Plans identify a BU Mission Statement (how that BU supports the corporate strategic plan), SMART Business Objectives over the next three years (Specific, Measureable, Accountable, Reasonable and Time-Bound), and Strategic Initiatives with an estimate of the costs and benefits of contemplated new initiatives.

The BU Strategic Planning process provides the following value to SPP:

- Involves the SPP staff strategically in developing plans to support the overall SPP Strategic Plan.
- Focuses SPP staff on “where they are going” beyond tactical operations.
- Provides a delegation of responsibility and accountability for the implementation of initiatives important to the corporation. (This organizational accountability provides a framework for individual employee performance objectives and measurement through the new Performance Review process.)
- Helps align SPP organizations on common initiatives where collaboration of effort is required for success.
- Provides a level of business focus and a prioritization framework for use in resource allocation and prioritization decisions (PRPC Committee).
- Provides a prioritization framework to guide subsequent budgeting priorities.
- Provides a mechanism to communicate to staff the overall plan for their Business Unit and how their work fits into the broader SPP picture and direction.

Eight Business Units have completed their Strategic Plans in support of the SPP Strategic Plan.

- Operations
- Engineering
- Information Technology
- Regulatory and Legal
- Compliance Organization (Market Monitoring, Compliance Group, Internal Audit, and Communications)
- Market Development
- Finance
- Process Integrity

The Business Process Improvement Department developed the process, created instructions and a template for creating the Plans, facilitated a kickoff and preliminary review session, and provided assistance to the Business Units as needed. We will continually improve the BU Strategic Planning process and will update plans on an annual basis.

This initiative has been completed for 2011 and has helped drive 2012-2014 budgeting.

## 2. Implement an Improved Development Project Resource Allocation Process – 1Q11

Prior to this process improvement initiative, requests for development project resources were submitted to the Project Request and Prioritization Committee (PRPC) for review and prioritization. Requests were prioritized based on a high level description of the project and whether external capital expenditures had been budgeted for each project. Specific information required to make the best possible resource allocation decisions was not available (e.g. the high level scope of the project had not been defined, the number and type of internal resources required to support the project were not defined, and there was no real quantification of the business benefits to be realized by the project.) Given the lack of specificity of information available, it was not possible to answer the following key questions: 1) What is the expected total cost of this project? 2) What are the qualitative and quantitative benefits to be realized from this project? 3) Do we have the resources on staff to support all of the approved projects?

On March 1, we implemented an improved Pre-Ranking analysis process. The PMO and IT will conduct a high level assessment of scope, resources required and total project cost. BPI will work with the Business Owners to identify the benefits associated with the requested project and will calculate an Internal Rate of Return (IRR) and use this in the prioritization process. We used this process for conducting a review of Projects to be included in the 2012-2014 budget.

The benefits to SPP from this improved business process include the following:

- Provides the granularity of information required to make better resource allocation decisions.
- By inspecting closely the expected business benefits of projects, marginal projects do not get brought forward for approval.
- The more granular scoping and resources required estimates will help with planning and budgeting the number of SPP project related resources required over the budgeting horizon. (A Strategic Initiative for enhancing our “resource capacity and tracking” capability has been included in the Process Integrity BU Strategic Plan.)
- The benefits assessment process will identify projects having the potential to create member value. These projected benefits will be used for budgeting “BPI Benefits”. Furthermore, these projects will be flagged and the benchmarking metrics for measuring productivity improvement, cost avoidance or cost reduction will be developed as part of the implementation project. This process will feed into the BPI Benefits Realized tracking and reporting.

The new and improved process has been implemented. We used this review process for analyzing requested projects for inclusion in the 2012-2014 Budget. We will continue to refine and build upon this new process.

### **3. Track Benefits Realized from Development and BPI Projects – 1Q11**

The initial plan was to begin to develop a specific “benefits tracking” report in the first Quarter. Work on this effort took a back seat to BPI Initiatives #1 and #2(above) and other BPI priorities. It is expected that the work product (deliverables) from BPI Initiative #2 (above) will help minimize the work required for Benefits Tracking over time.

The initial tracking report was developed in the summer of 2011 and included in the budget submission for 2012-2014.

### **4. Conduct a Performance Measurement Assessment – 3Q11**

Measuring performance and productivity improvement is very difficult for an organization to accomplish without the proper baseline or benchmark performance metrics identified for the various work groups in the organization. This study is intended to be an initial assessment of the performance measurement metrics and the measurement systems that are in place today to support performance improvement. There are three parts of this initiative: 1) Conduct the assessment of where we are today, 2) Develop alternatives and recommendations for what is needed to support performance measurement, and 3) Develop an implementation plan for implementation (schedule to be determined based on the recommendations).

The initial plan was to begin this Assessment in 3Q11. Based on the level of forecasted activity associated with the Integrated Marketplace, the Building Migration and other BPI projects, SPP has prioritized these efforts. SPP does not have the bandwidth at this time to initiate the Assessment envisioned in this Action Item.

Our interim strategy is to develop performance measurement tracking methodologies as part of each BPI project until a broader performance measurement initiative can be prioritized and justified.

### **5. Implement Improved Performance Accountability Processes – 1Q/2Q11**

This was a very small, focused, but important initiative. It is important to have the organization’s Business Planning processes and priorities linked to its Performance Measurement systems. The specific objective was to make sure that both the new Performance Appraisal process and the BU Strategic Planning process were in alignment and supportive of each other. These two process designs are aligned (which was the initial objective). It will be important to follow up and incorporate as much of the specific Business Objective focus into Manager and above Performance Objective plans. Scott Noble will continue to coordinate with Brian Smith in Human Resources to achieve maximum alignment. The new SPP Performance Appraisal process has been implemented.



## **6. Research, Select, Develop, Implement and Support a Structured BPI Approach**

- a. Research, Selection and Design – 3Q/4Q11**
- b. Pilot Program – 1Q12**
- c. Implementation and Ongoing Support – 2012**

For SPP to truly embrace Business Process Improvement, a significant organizational transformation is required. A structured Business Process Improvement methodology needs to be adopted and the employees of the organization need to be trained and coached in the implementation of this methodology. Furthermore, SPP management process and systems must be adapted to creating and empowering either Enterprise-wide or Business Unit specific “Process Improvement Teams”. Structured Business Process improvement programs that have been implemented by other organizations include: Total Quality Improvement (TQI), Total Quality Measurement (TQM), Business Process Reengineering (BPR), Six Sigma and various forms of Performance Measurement Processes.

Each of these programs, when approached from an Enterprise-wide, program perspective take business process improvement from an abstract concept to a way of empowering the employee base to rethink and redesign how work gets done in the organization. It is important for cross-functional teams to be able to come together with a common approach to work redesign and value creation. Furthermore, it is important to:

- Identify (or customize) the BPI program that fits the organization’s culture,
- Provide education and training programs to give employees the skills and context to use those skills,
- Provide the management processes required to charter and empower Process Improvement Teams that have the time and resources required to be successful, and
- Provide the coaching, support and results tracking that will maximize results.

The time line for successfully implementing an overall structured and integrated approach for Business Process Improvement has the following time line

- Phase 1: Establish a set of objectives and criteria for selection of a BPI structured methodology for SPP. Review the available structured BPI programs available on the market today. Develop an assessment of the strengths and weaknesses of each of them as they relate to SPP these program objectives and SPP culture. Work with the Human Resources training department to determine an education and training plan for the selected approach. Complete this by the end of 2011. (\*\*\*) Revised date now June, 2012)
- Phase 2: Build or buy the BPI methodology and training required to support the implementation process. Develop an initial pilot program and conduct the initial training. Design and implement the appropriate management processes required to integrate BPI into the SPP management structure. Phase 2 will be completed by the end of 2012.
- Phase 3: Train SPP employees and implement Process Improvement Teams. Provide coaching, reinforcement and facilitation services to assure program adoption and success. Incorporate benefits results tracking (see BPI Initiative #3 above) into all Process Improvement Team charters. Based on SPP-wide priorities, the roll out of this organizational transformation should occur in 2013 and 2014.

## 7. Budgeting for Business Process Improvement (2012-2014 Budget) – 3Q/4Q11

This initiative will leverage work done on BPI Initiatives #1, 2 and 3 above. SPP Business Units will identify “process improvement initiatives” to include in their submitted 2012 – 2014 zero-based budget documentation. The budget will reflect expected actual expenses. The cost reduction, productivity improvement and/or cost avoidance (benefits) from the business process improvement programs will be quantified and reported “off budget”. BPI will develop a quarterly report that will track actually realized improvement benefits compared to the forecasted benefits.

### Appendix B – Acronym Definitions

**BPI** – Business Process Improvement

**BPR** – Business Process Reengineering

**BU** – Business Unit (generally an SPP functional organization headed by an Officer)

**IRR** – Internal Rate of Return (calculation to measure relative Return on Investment rate for competing projects)

**P.A. Process** – Used on chart, page 3 – Performance Appraisal Process

**PRPC** – Project Review and Prioritization Committee

**SMART Objectives** – Business Objectives stated that are **S**pecific, **M**easurable, **A**chievable (or **A**ccountable or **A**ttainable), **R**ealistic, and **T**ime-Bound

**SPP** – Southwest Power Pool

**TQI** – Total Quality Improvement

**TQM** – Total Quality Management

## BPI Implementation Scorecard for 2012

### Executive Summary – December 5, 2011

BPI Initiative	Status	Description
1) Track 2012 BPI Initiatives In 2012-2014 Budget	<b>Quarterly Reports</b>	Report implementation progress Quarterly to the Finance Committee. Implementation benefits are measured against observable, agreed upon benchmark measurements.
2) Develop BPI Tracking Conventions and review with Finance Comm.	<b>For Review at April 2012 Finance Committee Meeting</b>	Prior to submitting documentation of BPI initiatives included in the 2012-2014 budget, “tracking conventions” were discussed with members of the Finance Committee. Develop recommendations for tracking/measuring methodology and review with FC prior to submitting 2013-2015 budget.
3) Proactively Identify Additional BPI Initiatives to Track	<b>Continuous (will be added to Quarterly reports)</b>	Collaborate with SPP Business Units throughout the year to identify additional BPI initiatives. Add those impacting 2012 to the Tracking Report. Add longer term initiatives to BPI Embedded in 2013-2015 Budget report.
4) BPI Methodology Selection & Implementation	<b>Selection: Apr. 2012 Training Strategy: June 2012 Pilot Training: 3Q/4Q12</b>	Research the various formal BPI methodologies available and select and/or develop the best one for SPP adoption. Develop a plan for training staff for Pilot programs and eventually for developing BPI skills for all staff. Evaluate and adjust after pilot programs.
5) Implement Initial BPI Pilot Programs	<b>Identify 3 – 5 BPI Pilot Programs For 2012</b>	Identify several BPI Pilot programs – form BPI teams, train the team, facilitate BPI design, manage implementation and manage to results.
BPI Scorecard Objectives beyond 2012		
6) Design SPP Strategic BPI Implementation MBO Integration	<b>2013</b>	To ensure long term success, each SPP line organization must “own” their BPI strategy. SPP-wide BPI Goals and Objectives must be integrated into the Goals and Objectives of the line organization. Develop a plan for program integration.
7) Evolutionary BPI Implementation As SPP Priorities Warrant	<b>2013/2014</b>	SPP-wide implementation of BPI methodologies across all Departments involving all employees.

#### Status Legend



**On Target** – Progress on this initiative is as planned.



**Caution** – Some elements are behind schedule – additional focus can get initiative back on track.



**In Jeopardy** – This initiative is behind schedule. Corrective actions needed.

5-Dec-11

**SPP Business Process Improvement Tracking  
2011 Implementations**

<b>Process Improvement/Cost Reduction Program</b>	<b>Aug 2011 Forecast</b>	<b>Actuals thru Oct. Fcst for Nov. and Dec.</b>	<b>Variance</b>	<b>Variance Explanation</b>
<b><u>Operations Staffing Cost Reductions</u></b>				
Settlements Process Improvements	\$ 83,649	\$ 83,649	\$ -	Settlements Analysts transitioned to Integrated Marketplace team as forecasted
Compliance Process Improvements and Organizational Alignment	\$ 16,622	\$ -	\$ (16,622)	Staff transfer to Facilities has been delayed until 2012 - rest of 2012 plan is on target
<b>Total</b>	<b>\$ 100,271</b>	<b>\$ 83,649</b>	<b>\$ (16,622)</b>	
<b><u>Operations Non-Staffing Cost Reductions</u></b>				
In-House Support for Tariff Service Agreement Filings	\$ 367,226	\$ 400,350	\$ 33,124	In-sourcing going well and Filings and Issues volume down slightly from benchmark volumes.
FERC Section 205 Filing Process Change	\$ 25,000	\$ 25,000	\$ -	FERC expected to make favorable ruling by Dec. 15 which will eliminate December legal bills as expected
SPPNet Monitoring In-house	\$ 139,000	\$ 139,000	\$ -	External contractor eliminated per plan
<b>Total</b>	<b>\$ 531,226</b>	<b>\$ 564,350</b>	<b>\$ 33,124</b>	
<b><u>Capital Non-Staffing Cost Reductions</u></b>				
Server Virtualization	\$ 2,238,000	\$ 2,584,360	\$ 346,360	Initial "virtualization" volume estimate was conservative and our actual volume is more than the benchmark.
Oracle Database Licensing (Virtualization)	\$ 115,000	\$ 115,000	\$ -	On plan
Purchasing Bidding and Negotiations	\$ 519,000	\$ 683,559	\$ 164,559	We are tracking actual bidding/negotiating savings for the year - have not "forecasted" savings in this category
<b>Total</b>	<b>\$ 2,872,000</b>	<b>\$ 3,382,919</b>	<b>\$ 510,919</b>	
<b>Grand Total</b>	<b>\$ 3,503,497</b>	<b>\$ 4,030,918</b>	<b>\$ 527,421</b>	



# Memorandum

To: SPP Officers / Directors / Managers  
From: Sheri Parish / Cindy Goodwin  
Date: November 17, 2011  
RE: October 2011 Financials

Attached are your October 2011 monthly financial reports.

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

<b>Summary</b>				
	2011 FY Forecast	2011 FY Budget	Fav/(Unfav) Variance	
Revenues	\$128,489	\$129,399	(\$909)	(0.7%)
Expenses	132,720	138,654	5,934	4.3%
Net Loss	<u>(\$4,231)</u>	<u>(\$9,255)</u>	<u>\$5,024</u>	54.3%

<b>Revenue</b>				
	2011 FY Forecast	2011 FY Budget	Fav/(Unfav) Variance	
Tariff Administration Service	\$71,496	\$72,030	(\$534)	(0.7%)
Fees & Assessments	24,372	24,264	107	0.4%
Contract Services & Misc Income	32,622	33,105	(483)	(1.5%)
Total Revenue	<u>\$128,489</u>	<u>\$129,399</u>	<u>(\$909)</u>	(0.7%)

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

Fees & Assessments revenues are slightly favorable to budget. This includes 1) higher than anticipated FERC Fee collections and membership dues (\$1.6M), and 2) Regional Entity revenues which trail budget (\$1.5M) due to lower than anticipated activity.

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

<b>Expense</b>				
	2011 FY Forecast	2011 FY Budget	Fav/(Unfav) Variance	
Salary & Benefits	\$63,926	\$65,168	\$1,242	1.9%
Assessments & Fees	16,639	14,119	(2,520)	(17.8%)
Communications & Maintenance	10,550	11,331	781	6.9%
Outside Services	14,660	17,500	2,840	16.2%
Depreciation & Amortization	13,475	15,853	2,378	15.0%
Other Expenses	13,470	14,683	1,213	8.3%
Total Expense	<u>\$132,720</u>	<u>\$138,654</u>	<u>\$5,934</u>	4.3%

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

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

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

The depreciation budget was based on anticipated 2011 capital expenditures for numerous purchases, some of which have occurred later than budgeted, resulting in a favorable variance to budget. Additionally, projects assumed to be completed and depreciating in 2011 were delayed in being placed into service.

The other expenses variance is primarily due to interest income, which is not budgeted, and capitalized interest, which is under budget due to lower capitalized project expense in 2011.



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

	Actual Jan-11	Actual Feb-11	Actual Mar-11	Actual Apr-11	Actual May-11	Actual Jun-11	Actual Jul-11	Actual Aug-11	Actual Sep-11	Actual Oct-11	Fcst Nov-11	Fcst Dec-11	FY 2011 Forecast	FY 2011 Budget	Variance Fav/(Unfav)	FY 2010 Actuals	Variance Fav/(Unfav)
<b>Income</b>																	
Tariff Administration Service	\$6,139	\$5,450	\$6,033	\$5,871	\$6,115	\$5,938	\$6,096	\$6,093	\$5,840	\$6,138	\$5,834	\$5,949	\$71,496	\$72,030	(\$534)	\$64,277	\$7,219
Fees & Assessments	2,460	1,863	1,729	1,755	1,766	2,065	2,254	2,606	2,227	1,636	1,930	2,080	24,372	24,264	107	22,285	2,086
Contract Services Revenue	2,325	1,991	2,285	2,232	2,252	2,164	2,142	2,046	2,289	2,245	2,334	2,342	26,647	28,031	(1,384)	23,252	3,395
Miscellaneous Income	370	482	390	610	313	454	777	905	540	302	441	391	5,975	5,074	901	6,275	(300)
<b>Total Income</b>	<b>11,294</b>	<b>9,786</b>	<b>10,437</b>	<b>10,469</b>	<b>10,446</b>	<b>10,621</b>	<b>11,269</b>	<b>11,650</b>	<b>10,896</b>	<b>10,321</b>	<b>10,539</b>	<b>10,761</b>	<b>128,489</b>	<b>129,399</b>	<b>(909)</b>	<b>116,089</b>	<b>12,400</b>
<b>Expense</b>																	
Salary	3,394	3,423	3,511	3,523	3,501	3,678	3,691	3,597	4,397	3,967	3,725	3,864	44,271	44,966	694	37,981	(6,291)
Benefits & Taxes	1,449	1,804	1,451	1,642	1,460	1,736	1,555	1,543	1,706	1,527	1,543	1,726	19,141	19,471	330	18,432	(709)
Continuing Education	56	35	94	37	32	29	69	41	25	32	21	41	513	731	218	483	(30)
Salary & Benefits	4,900	5,261	5,056	5,202	4,993	5,444	5,315	5,182	6,128	5,525	5,289	5,630	63,926	65,168	1,242	56,896	(7,030)
Employee Travel	96	121	119	166	170	172	138	132	169	162	170	114	1,731	1,896	165	1,424	(308)
Administrative	234	165	464	159	264	302	140	187	400	243	194	209	2,962	3,468	506	2,899	(63)
Assessments & Fees	1,177	1,177	1,177	1,177	1,177	2,406	1,392	1,392	1,392	1,392	1,392	1,392	16,639	14,119	(2,520)	14,101	(2,538)
Meetings	73	59	31	104	78	60	68	42	35	114	53	81	799	1,051	252	775	(24)
Communications	278	261	229	289	264	239	262	261	283	277	372	357	3,372	3,408	36	3,079	(293)
Leases	152	152	157	154	155	154	158	148	157	157	159	159	1,861	1,876	15	1,707	(154)
Maintenance	565	575	584	516	620	507	626	712	568	626	640	640	7,178	7,922	744	6,354	(825)
Services	984	1,028	1,088	896	954	1,159	1,420	1,667	1,272	1,544	1,359	1,289	14,660	17,500	2,840	14,188	(472)
Regional State Committee	8	12	9	16	13	11	10	19	25	54	19	20	215	266	51	178	(37)
Depreciation & Amortization	1,098	1,080	1,135	1,073	1,119	1,095	1,102	1,075	1,090	1,053	1,240	1,315	13,475	15,853	2,378	14,244	769
<b>Total Expense</b>	<b>9,564</b>	<b>9,892</b>	<b>10,048</b>	<b>9,753</b>	<b>9,806</b>	<b>11,548</b>	<b>10,632</b>	<b>10,817</b>	<b>11,519</b>	<b>11,147</b>	<b>10,886</b>	<b>11,205</b>	<b>126,818</b>	<b>132,528</b>	<b>5,710</b>	<b>115,844</b>	<b>(10,974)</b>
<b>Other Income/(Expense)</b>																	
Other Income / Expense	4	12	20	22	(20)	(15)	(6)	(59)	(67)	73	-	-	(37)	-	(37)	2,189	(2,226)
Interest Income	15	17	8	26	16	7	9	(1)	(11)	56	-	-	141	-	141	56	85
Interest Expense	(525)	(586)	(517)	(724)	(797)	(742)	(733)	(740)	(729)	(705)	(694)	(694)	(8,185)	(9,814)	1,630	(3,964)	4,221
Capitalized Interest	-	-	357	-	-	313	-	-	1,201	-	-	345	2,216	3,689	(1,473)	345	(1,870)
Swap Valuation	-	-	340	-	-	(40)	-	-	(337)	-	-	-	(37)	-	(37)	53	90
<b>Net Other Income (Expense)</b>	<b>(505)</b>	<b>(556)</b>	<b>208</b>	<b>(675)</b>	<b>(801)</b>	<b>(477)</b>	<b>(730)</b>	<b>(801)</b>	<b>56</b>	<b>(576)</b>	<b>(694)</b>	<b>(349)</b>	<b>(5,902)</b>	<b>(6,126)</b>	<b>224</b>	<b>(1,320)</b>	<b>300</b>
<b>Net Income (Loss)</b>	<b>\$1,224</b>	<b>(\$663)</b>	<b>\$597</b>	<b>\$41</b>	<b>(\$161)</b>	<b>(\$1,404)</b>	<b>(\$93)</b>	<b>\$33</b>	<b>(\$567)</b>	<b>(\$1,402)</b>	<b>(\$1,042)</b>	<b>(\$793)</b>	<b>(\$4,231)</b>	<b>(\$9,255)</b>	<b>\$5,024</b>	<b>(\$1,076)</b>	<b>(\$3,155)</b>
2011 Headcount Actual/Fcst	461	469	477	478	480	495	500	501	512	511	518	540	540				
2011 Headcount Budget	495	508	518	522	525	534	536	536	538	539	539	541	541				
<b>Over / (Under) Budget</b>	<b>(34)</b>	<b>(39)</b>	<b>(41)</b>	<b>(44)</b>	<b>(45)</b>	<b>(39)</b>	<b>(36)</b>	<b>(35)</b>	<b>(26)</b>	<b>(28)</b>	<b>(21)</b>	<b>(1)</b>	<b>(1)</b>				

Projected Fixed Charge Ratio													
Trailing 4 Quarters													
	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13
Actual	3.47	3.53	3.10	2.91	2.18	2.40	3.07	3.38	4.15	4.60	5.17	5.92	6.93
Adjusted	3.48	3.49	3.13	3.02	2.19	2.44	3.11	3.38	4.15	4.60	5.17	5.92	6.93
Covenant	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00



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

	Current Month Compared to Forecast			YTD			YTD		
	Oct-11	Oct-11	Variance	Oct-11	Oct-11	Variance	Oct-11	Oct-2010	Variance
	Actual	Forecast	Fav/(Unfav)	Actual	Budget	Fav/(Unfav)	Current Year	Prior Year	Fav/(Unfav)
<b>Income</b>									
Tariff Administration Service	\$6,138	\$6,009	\$129	\$59,713	\$60,025	(\$312)	\$59,713	\$53,559	\$6,154
Fees & Assessments	1,636	2,080	(444)	20,362	20,278	84	20,362	19,003	1,358
Contract Services Revenue	2,245	2,336	(91)	21,971	23,355	(1,384)	21,971	18,991	2,980
Miscellaneous Income	302	371	(69)	5,143	4,240	903	5,143	4,218	925
<b>Total Income</b>	<b>10,321</b>	<b>10,796</b>	<b>(475)</b>	<b>107,189</b>	<b>107,898</b>	<b>(709)</b>	<b>107,189</b>	<b>95,771</b>	<b>11,418</b>
<b>Expense</b>									
Salary	3,967	3,701	(265)	36,682	37,375	693	36,682	31,341	(5,341)
Benefits & Taxes	1,527	1,559	32	15,873	16,182	309	15,873	14,318	(1,555)
Continuing Education	32	50	19	451	634	183	451	374	(77)
Salary & Benefits	5,525	5,311	(214)	53,006	54,191	1,186	53,006	46,033	(6,973)
Employee Travel	162	208	46	1,446	1,603	156	1,446	1,240	(206)
Administrative	243	233	(10)	2,560	2,993	433	2,560	2,500	(59)
Assessments & Fees	1,392	1,392	-	13,856	11,766	(2,090)	13,856	11,746	(2,110)
Meetings	114	171	57	665	933	267	665	660	(5)
Communications	277	272	(5)	2,643	2,771	127	2,643	2,560	(83)
Leases	157	159	1	1,544	1,559	15	1,544	1,398	(146)
Maintenance	626	714	88	5,899	6,542	643	5,899	5,083	(815)
Services	1,544	1,419	(125)	12,013	14,983	2,970	12,013	11,672	(340)
Regional State Committee	54	19	(34)	176	227	51	176	152	(23)
Depreciation & Amortization	1,053	1,165	112	10,920	12,469	1,550	10,920	12,027	1,107
<b>Total Expense</b>	<b>11,147</b>	<b>11,064</b>	<b>(84)</b>	<b>104,726</b>	<b>110,036</b>	<b>5,309</b>	<b>104,726</b>	<b>95,072</b>	<b>(9,654)</b>
<b>Other Income/(Expense)</b>									
Other Income / Expense	73	-	73	(37)	-	(37)	(37)	42	(78)
Interest Income	56	-	56	141	-	141	141	22	119
Interest Expense	(705)	(694)	(10)	(6,796)	(8,064)	1,268	(6,796)	(2,914)	(3,882)
Capitalized Interest	-	-	-	1,871	2,854	(983)	1,871	155	(1,715)
Swap Valuation	-	-	-	(37)	-	(37)	(37)	(669)	632
<b>Net Other Income (Expense)</b>	<b>(576)</b>	<b>(694)</b>	<b>119</b>	<b>(4,858)</b>	<b>(5,210)</b>	<b>352</b>	<b>(4,858)</b>	<b>(3,364)</b>	<b>(4,925)</b>
<b>Net Income (Loss)</b>	<b>(\$1,402)</b>	<b>(\$962)</b>	<b>(\$440)</b>	<b>(\$2,396)</b>	<b>(\$7,348)</b>	<b>\$4,952</b>	<b>(\$2,396)</b>	<b>(\$2,665)</b>	<b>\$269</b>





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

	(\$000)	<u>10/31/2011</u>	<u>12/31/2010</u>	<u>Variance</u>
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash & Equivalents		\$84,251	\$81,041	\$3,210
Restricted Cash Deposits		34,266	25,668	8,598
Accounts Receivable (net)		14,205	18,509	(4,304)
Other Current Assets		<u>7,424</u>	<u>3,351</u>	<u>4,073</u>
<b>Total Current Assets</b>		<b>140,145</b>	<b>128,569</b>	<b>11,576</b>
Total Fixed Assets		98,811	46,000	52,811
Total Other Assets		1,794	2,541	(747)
Investments		<u>713</u>	<u>652</u>	<u>61</u>
<b>TOTAL ASSETS</b>		<b><u>\$241,463</u></b>	<b><u>\$177,761</u></b>	<b><u>\$63,702</u></b>
<b>LIABILITIES &amp; EQUITY</b>				
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Accounts Payable (net)		\$9,928	\$10,348	(\$420)
Customer Deposits		35,903	25,668	10,235
Current Maturities of LT Debt		11,206	13,206	(2,000)
Other Current Liabilities		21,813	26,449	(4,636)
Deferred Revenue		<u>7,215</u>	<u>6,174</u>	<u>1,041</u>
<b>Total Current Liabilities</b>		<b>86,065</b>	<b>81,844</b>	<b>4,221</b>
<b>Long Term Liabilities</b>				
US Bank Floating Senior Note - 2014		12,250	16,000	(3,750)
US Bank 5.45% Senior Notes - 2016		22,500	27,000	(4,500)
US Bank Maumelle Mortgage - 2027		4,009	4,163	(154)
Campus 4.82% Senior Notes - 2042		65,000	65,000	(0)
Integrated Marketplace 3.55% Senior Note - 2024		70,000		70,000
Other Long Term Liabilities		<u>4,418</u>	<u>4,136</u>	<u>282</u>
<b>Total Long Term Liabilities</b>		<b>178,176</b>	<b>116,299</b>	<b>61,877</b>
Net Income		(2,396)	(1,076)	(1,320)
Members' Equity		<u>(20,382)</u>	<u>(19,306)</u>	<u>(1,076)</u>
<b>Total Members' Equity</b>		<b>(22,778)</b>	<b>(20,382)</b>	<b>(2,396)</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>		<b><u>\$241,463</u></b>	<b><u>\$177,761</u></b>	<b><u>\$63,702</u></b>

SOUTHWEST POWER POOL  
2011 FORECAST  
PROJECT OVERVIEW, DESCRIPTIONS ANALYSIS



	Owner	Prior Year(s) Expense	Q1 Actual	Q2 Actual	Q3 Actual	Q4 Forecast	Total 2011	Future Expense	Total Project	Budget Thru 2014*	Over/(Under) Budget
<b>PRPC Projects (in thousands)</b>											
Integrated Market Place (Future Markets)-budget thru 2011	Debbie James	\$8,551	\$2,365	\$3,061	\$8,446	\$5,886	\$19,759	\$73,725	\$102,035	\$101,000	\$1,035
High Availability	Barbara Sugg	\$1,222	\$1,097	-	\$48	\$1,853	\$2,998	\$900	\$5,120	\$4,165	\$955
Consolidated Balancing Authority	L.Nickell/S.Brown	\$192	\$0	\$37	\$257	\$738	\$1,033	\$2,312	\$3,537	\$4,640	(1,103)
<b>Future Markets Initiatives Total</b>		<b>\$9,965</b>	<b>\$3,463</b>	<b>\$3,098</b>	<b>\$8,751</b>	<b>\$8,477</b>	<b>\$23,790</b>	<b>\$76,937</b>	<b>\$110,692</b>	<b>\$109,805</b>	<b>\$887</b>
New Facilities Construction	Tom Dunn	\$10,287	\$4,330	\$9,356	\$12,813	\$13,031	\$39,530	\$12,116	\$61,933	\$61,861	\$72
Decommission Plaza West & Chenal Offices	Malinda See	-	-	-	\$982	\$5,193	\$6,175	\$20,235	\$26,411	\$26,603	(192)
<b>New Facility Initiatives Total</b>		<b>\$10,287</b>	<b>\$4,330</b>	<b>\$9,356</b>	<b>\$17,481</b>	<b>\$23,299</b>	<b>\$54,466</b>	<b>\$33,397</b>	<b>\$98,150</b>	<b>\$88,464</b>	<b>\$9,686</b>
EMS Upgrade	R.Thornton/B.Bressers	-	\$5	\$39	\$220	\$371	\$635	\$577	\$1,213	\$572	\$641
Centralized Modeling Tool	Casey Cathey	-	-	-	\$20	\$232	\$253	\$1,017	\$1,270	\$1,270	-
EMS Enhancements-Foundation	Kevin Bates	-	\$16	\$2	-	\$52	\$69	\$400	\$469	\$350	\$119
PRR176 Demand Response in the EIS Market	Casey Cathey	-	-	-	-	-	-	-	-	\$1,420	(1,420)
Improved Intermittent Resource Integr-Real-Time Ops **	JSmith/Bnewlin/CJBrown	-	\$62	(62)	-	-	\$0	-	\$0	\$225	(225)
Implement Mandatory Compliance Standards	Sam Ellis	-	-	-	-	-	-	-	-	\$900	(900)
PRR 211	CJ Brown	-	-	-	-	-	-	-	-	\$300	(300)
PRR Implementation Foundation	CJ Brown	-	\$43	\$23	\$33	\$149	\$249	\$400	\$649	\$300	\$349
Add - Remove SPP Market Entities (BAs, MPs, etc.)	Eddie Watson	-	\$16	\$4	\$11	\$9	\$40	\$175	\$215	\$150	\$65
E-terra Vision Implementation	Kevin Bates	-	-	-	-	\$43	\$43	\$150	\$193	\$35	\$158
Model Change Submission Tool	C.Cathey/E.Watson	-	-	-	\$9	\$98	\$107	\$456	\$563	\$50	\$513
Replace OPS1 Outage Coordination Scheduler	Jason Smith	-	\$98	-	\$147	-	\$244	-	\$244	\$450	(206)
<b>Operations Initiatives Total</b>		<b>-</b>	<b>\$239</b>	<b>\$6</b>	<b>\$440</b>	<b>\$954</b>	<b>\$1,640</b>	<b>\$3,175</b>	<b>\$4,815</b>	<b>\$6,022</b>	<b>(1,206)</b>
<i>ITP Data Repository **</i>	<i>Keith Tynes</i>	-	-	-	-	\$30	\$30	\$184	\$214	\$234	(20)
STEP Project Tracking Database Implementation	Tony Green	-	-	-	-	\$50	\$50	\$100	\$150	\$50	\$100
Credit Process Stack List Analysis	John Mills	-	-	-	-	-	-	\$295	\$295	\$400	(105)
Load Forecasting Tool **	John Mills	-	-	-	-	-	-	-	-	\$350	(350)
Stochastic Modeling Tool**	John Mills	-	-	-	-	-	-	\$170	\$170	\$1,034	(864)
<b>Engineering Initiatives Total</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$80</b>	<b>\$80</b>	<b>\$749</b>	<b>\$829</b>	<b>\$2,068</b>	<b>(1,239)</b>
e-Tariff Phase II	Heather Starnes	-	\$40	\$81	\$61	\$558	\$740	\$210	\$950	\$629	\$321
<b>Regulatory Initiatives Total</b>		<b>-</b>	<b>\$40</b>	<b>\$81</b>	<b>\$61</b>	<b>\$558</b>	<b>\$740</b>	<b>\$210</b>	<b>\$950</b>	<b>\$629</b>	<b>\$321</b>
SPP Budgeting & Forecasting System	Scott Smith	-	-	-	-	-	-	-	-	\$40	(40)
Portal API Transmission Settlements	Philip Bruich	-	-	-	-	-	-	-	-	\$50	(50)
Settlements Data API	Philip Bruich	-	-	-	-	-	-	-	-	\$25	(25)
TLR Settlements Automation	Philip Bruich	-	-	-	-	-	-	-	-	\$50	(50)
SLIP Tool Enhancement	Philip Bruich	-	-	-	-	-	-	\$40	\$40	\$215	(175)
<b>Administration Initiatives Total</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$40</b>	<b>\$40</b>	<b>\$380</b>	<b>(340)</b>
External Facing Service Desk	RJ Robertson	-	-	-	-	-	-	-	-	\$588	(588)
Dispatcher Training Simulator Enhancement	Jim Gunnell	-	-	-	-	-	-	-	-	\$590	(590)
<b>Process Integrity Initiatives Total</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$1,178</b>	<b>(1,178)</b>
<b>Total PRPC Managed Projects</b>		<b>\$20,253</b>	<b>\$8,072</b>	<b>\$12,541</b>	<b>\$26,733</b>	<b>\$33,368</b>	<b>\$80,715</b>	<b>\$114,508</b>	<b>\$215,476</b>	<b>\$208,545</b>	<b>\$6,931</b>

SOUTHWEST POWER POOL  
2011 FORECAST  
PROJECT OVERVIEW, DESCRIPTIONS ANALYSIS



Owner	Prior Year(s) Expense	Q1 Actual	Q2 Actual	Q3 Actual	Q4 Forecast	Total 2011	Future Expense	Total Project	Budget Thru 2014*	Over/(Under) Budget
<b>Non-PRPC Projects (in thousands)</b>										
PER-005 Job Task Analysis and Assessment	-	-	-	-	-	-	-	-	-	-
MOS Enhancements Foundation	-	\$55	\$39	\$26	-	\$120	\$850	\$970	\$970	-
OATI Enhancements	-	\$90	\$38	\$8	\$126	\$262	\$275	\$537	\$537	-
Improve Utilization of SPP Transmission System	-	-	-	-	-	-	-	-	-	-
Interregional Situational Awareness Phase 2	-	-	-	-	-	-	-	-	-	-
<b>Operations Initiatives Total</b>	-	<b>\$145</b>	<b>\$78</b>	<b>\$34</b>	<b>\$126</b>	<b>\$383</b>	<b>\$1,125</b>	<b>\$1,508</b>	<b>\$1,508</b>	-
ITP10 Benefit and Robustness Determination	-	-	-	-	-	-	-	-	-	-
ITP Resource Integration and Stochastic Tool	-	-	-	-	-	-	\$170	\$170	\$170	-
<b>Engineering Initiatives Total</b>	-	-	-	-	-	-	<b>\$170</b>	<b>\$170</b>	<b>\$170</b>	-
2011 IT Apps Foundation	-	\$10	\$4	-	\$54	\$68	\$331	\$399	\$399	-
2011 IT Data Management Foundation	-	-	-	-	\$76	\$76	-	\$76	\$76	-
2011 IT Server Admin Foundation	-	\$554	\$4,098	\$182	\$147	\$4,981	\$4,654	\$9,635	\$9,635	-
2011 IT Service Management Foundation	-	\$11	\$51	\$114	\$203	\$378	\$2,169	\$2,547	\$2,547	-
2011 IT Environment Ops Foundation	-	(30)	\$36	\$7	\$14	\$27	\$305	\$332	\$332	-
2011 IT Tele/Network/Security Foundation	-	\$227	\$85	\$1	\$313	\$626	\$3,772	\$4,398	\$4,398	-
CIP (Ver 4) Project	-	-	-	-	-	-	-	-	-	-
<b>IT Initiatives Total</b>	-	<b>\$772</b>	<b>\$4,273</b>	<b>\$304</b>	<b>\$807</b>	<b>\$6,156</b>	<b>\$11,231</b>	<b>\$17,387</b>	<b>\$17,387</b>	-
IA GP/Rockton License	-	-	-	-	-	-	-	-	-	-
<b>Process Integrity Initiatives Total</b>	-	-	-	-	-	-	-	-	-	-
AREVA ETS Foundation	-	\$50	\$113	\$88	-	\$250	\$225	\$475	\$475	-
<b>Administration Initiatives Total</b>	-	<b>\$50</b>	<b>\$113</b>	<b>\$88</b>	-	<b>\$250</b>	<b>\$225</b>	<b>\$475</b>	<b>\$475</b>	-
<b>2010 Carry Over Items (and 2012 New Projects)</b>										
2010 Unbudgeted Furniture & Fixtures	-	\$24	-	-	-	\$24	-	\$24	\$24	-
2010 Unbudgeted Hardware/Software	-	\$1	\$3	-	-	\$4	-	\$4	\$4	-
2010 Unbudgeted Leasehold Improvements	-	\$25	-	-	-	\$25	-	\$25	\$25	-
2012 New Projects / Adjustments	-	(112)	(3)	-	-	(115)	\$12,692	\$12,577	\$12,577	-
<b>2010 Carry Over Items (and 2012 New Projects)</b>	<b>(0)</b>	<b>(62)</b>	<b>\$0</b>	-	-	<b>(62)</b>	<b>\$12,692</b>	<b>\$12,630</b>	<b>\$12,630</b>	-
<b>Total Non-PRPC Managed Projects</b>	<b>(0)</b>	<b>\$905</b>	<b>\$4,464</b>	<b>\$425</b>	<b>\$933</b>	<b>\$6,727</b>	<b>\$25,443</b>	<b>\$32,169</b>	<b>\$32,169</b>	-
<b>TOTAL PROJECTS</b>	<b>\$20,252</b>	<b>\$8,977</b>	<b>\$17,005</b>	<b>\$27,158</b>	<b>\$34,301</b>	<b>\$87,441</b>	<b>\$139,951</b>	<b>\$247,645</b>	<b>\$240,714</b>	<b>\$6,931</b>

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

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



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

	<b>Current Month Actual vs. Budget</b>			<b>Forecast vs. Budget</b>		
	<b>Actual</b>	<b>Budget</b>	<b>Over/(Under)</b>	<b>FY 2011</b>	<b>FY 2011</b>	<b>Over/(Under)</b>
	<b>Oct-11</b>	<b>Oct-11</b>	<b>Budget</b>	<b>Forecast</b>	<b>Budget</b>	<b>Budget</b>
Total Administration	63	67	(4)	67	67	0
Total Process Integrity	38	39	(1)	40	39	1
Total Compliance & Corporate Affairs	32	34	(2)	34	34	0
Total SPP Regional Entity	26	29	(3)	29	29	0
Total Information Technology	126	132	(6)	131	132	(1)
Total Markets	5	5	0	5	5	0
Total Operations	119	124	(5)	126	126	0
Total Engineering	45	46	(1)	45	46	(1)
Total Contract Services	38	43	(5)	43	43	0
Total Reglulatory Policy & General Counsel	19	20	(1)	20	20	0
<b>TOTAL HEADCOUNT</b>	<b>511</b>	<b>539</b>	<b>(28)</b>	<b>540</b>	<b>541</b>	<b>(1)</b>

\* IT position eliminated (no backfill after transfer to Market Dev)  
 Engineer position eliminated (no backfill after resignation)  
 Accounting Clerk position eliminated (no backfill after resignation)  
 Engineering Business Analyst Position Eliminated in 2011  
 Two Operations Supervisor positions added in 2011 (accelerated staffing budgeted from 2012)  
 HR Payroll Clerk added out-of-budget for 2011

# 2011 Job Tracker

Req. #	Position	Dept #	Dept Name	Status	External Hire
10-005	Lead Compliance Eng	130	R.E. Compliance	↑	✓
10-040	Sr. Market Engineer (Senior Analyst FTR)	720	Market Monitoring	↑	✓
10-101	Engineer II	420	Transmission Service Studies	↑	✓
10-102	Sr. Planning Analyst	410	Steady State Planning	↑	✓
10-105	Sr. Operations Analyst	800	Ops Analyst & Performance Su	↑	✗
10-106	Supervisor, Transmission Services	890	Transmission Services	↑	✗
10-107	Operator II	890	Transmission Services	↑	✗
10-108	Operations Analyst II	885	Tariff Admin & AFC Supp	↑	✗
10-112	Sr. Market Analyst	720	Market Monitoring	↑	✓
10-114	Operator Trainer, Performance Support Spec	800	Ops Analyst & Performance Sp	↑	✗
10-119	Lead Engineer	8200	Engineering Admin	↑	✓
10-122	Engineer II	8110	IR Planning & Procurement	↑	✓
10-123	Supervisor, IT Apps	510	IT Applications	↑	✗
10-124	Business Analyst II	8110	IR Planning & Procurement	↑	✓
10-125	Planning Analyst I	465	Special Studies Support	↑	✓
10-126	Lead IT Specialist	580	IT Operations	↑	✗
10-127	Sr. IT Specialist	580	IT Operations	↑	✓
10-130	Director, Compliance	230	SPP Compliance	↑	✗
10-131	Operations Trainer	340	Training	↑	✗
10-132	Supervisor, IT Apps	510	IT Applications	↑	✓
10-133	Lead Compliance Engineer	230	SPP Compliance	↑	✗
11-001	Training & Education Compliance Engineer	170	R.E. Administration	↑	✗
11-002	Administrative Assistant I	170	R.E. Administration	↑	✓
11-003	Lead Compliance Engineer	130	R.E. Compliance	↑	✓
11-004	Lead Compliance Engineer	130	R.E. Compliance	↑	✗
11-005	Enforcement Attorney	180	R.E. Enforcement	↘	
11-006	Facilities/Corporate Services Manager	150	Human Resources	↑	✓
11-007	Manager, Market Settlements	160	Settlements	↑	✗
11-008	Settlement Analyst I	160	Settlements	↑	✓
11-009	Sr. Market Analyst	720	Market Monitoring	↑	✓
11-010	Engineer II, Forecast	895	Market Support & Analysis	↑	✗
11-011	Engineer II, Reliability Unit Commitment	895	Market Support & Analysis	↑	✗
11-012	Sr. Engineer, Market Support & Analysis	895	Market Support & Analysis	↑	✗
11-013	Engineer I, Reliability Unit Commitment	895	Market Support & Analysis	↑	✓
11-014	Engineer II, Congestion Hedging	450	Congestion Hedging	↑	✗
11-015	Lead Engineer, Congestion Hedging	450	Congestion Hedging	↑	✗
11-016	Planning Analyst III	8000	Contract Services	↑	✗
11-017	Project Analyst II	560	Project Management	↑	✗
11-018	Project Analyst II	560	Project Management	↑	✓
11-019	Lead IT Specialist	510	IT Applications	↑	✗
11-020	Sr. Vendor Manager	510	IT Applications	↑	✗
11-021	Service Desk Analyst (Part-Time)	580	Service Management	↑	✓
11-022	Service Desk Analyst (Part-Time)	580	Service Management	↑	✓
11-023	Service Desk Analyst (Part-Time)	580	Service Management	↑	✓
11-024	Service Desk Analyst (Part-Time)	580	Service Management	↑	✓
11-025	Service Desk Analyst (Part-Time)	580	Service Management	↑	✓
11-026	Service Desk Analyst (Part-Time)	580	Service Management	↑	✓
11-027	Service Desk Analyst (Part-Time)	580	Service Management	↑	✓
11-028	Service Desk Analyst (Part-Time)	580	Service Management	↑	✓
11-029	Operations Analyst III	840	Markets Administration	↑	✓

# 2011 Job Tracker

Req. #	Position	Dept #	Dept Name	Status	External Hire
11-030	Sr. Systems Events Analyst	230	SPP Compliance	↑	×
11-031	Instructional Designer/Trainer	340	Training	↑	✓
11-032	Customer Trainer (On-Boarding)	340	Training	↗	
11-033	Writer/Communications Specialist	310	Communications	↑	✓
11-034	Market Operator III, EIS Market	840	Markets Administration	↑	×
11-035	Sr. Engineer, Reliab Compliance Supp & Anal	870	Operations Eng. Anal & Spt	↑	×
11-036	Sr. Engineer, Tariff Compliance Supp & Anal	885	Tariff Admin & AFC Supp	↑	×
11-037	Supervisor, Reliability Coordination - South	8142	RC South	↑	×
11-038	Sr. Business Analyst	450	Congestion Hedging	↑	×
11-039	Settlement Analyst II	160	Settlements	↑	✓
11-040	Customer Relations Representative II	320	Customer Service	↑	×
11-041	IT Specialist II	510	IT Applications	↑	✓
11-042	Sr. Data Analyst	580	Data Management	↑	✓
11-043	Regulatory Policy Analyst I	900	Regulatory	↑	×
11-044	Sr. Settlement Analyst	160	Settlements	↑	×
11-045	Sr. Settlement Analyst	160	Settlements	↑	✓
11-046	Settlement Analyst II	160	Settlements	↑	✓
11-047	IT Specialist I	510	IT Applications	↑	✓
11-048	Sr. IT Specialist	510	IT Applications	↑	✓
11-049	IT Specialist I	510	IT Applications	↑	✓
11-050	IT Specialist II, Environmentals	580	Networking	↑	✓
11-051	Market Analyst II	720	Market Monitoring	↑	✓
11-052	Engineer I, RealTime Shift Support	880	Real Time & Current Day Eng.	↑	✓
11-053	Engineer I, RealTime Shift Support	880	Real Time & Current Day Eng.	↑	✓
11-054	Regulatory Policy Supervisor	900	Regulatory	↑	×
11-055	Customer Relations Representative II	320	Customer Service	↗	
11-056	IT Specialist I	580	Networking	↑	×
11-057	Engineer II, Outage Coordinator	870	Operations Eng. Anal & Supp	↑	×
11-058	Engineer I, Operations Forensics	895	Market Support & Analysis	↑	✓
11-059	IT Specialist II	575	Service Management	↗	
11-060	Supervisor, EIS Market	840	Modeling & Data Integrity	↑	×
11-061	Engineer I, RUC DAM Modeling & Data Integrity	850	Modeling & Data Integrity	↑	×
11-062	EIT	400	Transmission Development	↑	✓
11-063	EIT	400	Transmission Development	↑	✓
11-064	Operator III, Tariff Administration	810	Tariff Administration	↑	×
11-065	Lead Compliance Engineer - CIP	130	R.E Compliance	↑	✓
11-066	Sr. Engineer	410	Steady State Planning	↑	✓
11-067	Business Analyst I - <i>Eliminated</i>	460	Special Studies Support		
11-068	Sr. Market Engineer or Sr. Market Analyst	710	Market Design	↑	×
11-069	Supervisor, Market Settlements	160	Settlements	↑	✓
11-070	OIT	810	Tariff Administration	↑	✓
11-071	Sr. IT Specialist	580	Server Administration	↑	✓
11-072	Engineer I	880	Real Time & Current Day Eng.	↑	×
11-073	Business Analyst II	510	IT Applications	↑	✓
11-074	Engineer I	895	Mkt. Support/Analysis	↑	✓
11-075	IT Spec II - Vendor Management	510	IT Applications	↑	✓
11-076	Sr. Operator/Operator III	890	Transmission Services	↑	×
11-077	Operator III	8142	Reliability Coordination	↑	✓
11-078	Sr. Operator	8142	Reliability Coordination	↑	✓
11-079	Operator I	830	Interchange	↑	×



# 2011 Job Tracker

Req. #	Position	Dept #	Dept Name	Status	External Hire
11-080	Operator I	830	Interchange	↑	×
11-081	Operator II	810	Tarriff Administration	↑	×
11-082	Planning Analyst II	460	Economic Planning	↑	×
11-083	Sr. VP, Regulatory	110	Regulatory Policy	↑	✓
11-084	Sr. Business Analyst	510	IT Applications	↑	×
11-085	Sr. Market Operator	840	Market Operations	↑	✓
11-086	Settlement Analyst	160	Settlements	↑	✓
11-087	Lead IT Specialist	510	IT Applications	↑	✓
11-088	Sr. Engineer	450	Congestion Hedging	↗	
11-089	OIT-Pending Requisition	810	Tarriff Administration	↑	✓
11-090	Settlement Analyst	160	Settlements	↑	✓
11-091	Operator III	890	Transmission Services	↑	×
11-092	Operator I	830	Interchange	↑	×
11-093	Operator III	840	Market Operations	↑	×
11-094	IT Specialist II	510	IT Applications	↑	✓
11-095	Lead IT Specialist	510	IT Applications	↑	×
11-096	Engineer I	420	Trans Service Studies	↑	✓
11-097	Engineer in Training	400	Transmission Development	↑	✓
11-098	Engineer in Training	400	Transmission Development	↑	✓
11-099	Summer Intern - not included in Active Headcount	150	Human Resources		
11-100	Summer Intern - not included in Active Headcount	150	Human Resources		
11-101	Summer Intern - not included in Active Headcount	150	Human Resources		
11-102	Summer Intern - not included in Active Headcount	150	Human Resources		
11-103	Summer Intern - not included in Active Headcount	150	Human Resources		
11-104	Summer Intern - not included in Active Headcount	150	Human Resources		
11-105	Summer Intern - not included in Active Headcount	150	Human Resources		
11-106	Manager, Communications	310	Communications	↑	✓
11-107	IT Specialist I	580	IT Enterprise Operations	↑	×
11-108	Ops Analyst II	800	Ops Analyst & Performance Sp	↑	✓
11-109	Engineer I	885	Tariff Admin & AFC Supp	↑	×
11-110	Operator I	830	Interchange	↑	×
11-111	OIT	810	Tariff Administration	↑	✓
11-112	OIT	810	Tariff Administration	↑	✓
11-113	OIT	810	Tariff Administration	↗	
11-114	Ops Analyst II	800	Ops Analyst & Performance Sp	↑	✓
11-115	Sr. IT Specialist	510	IT Applications	↑	×
11-116	Business Analyst II	510	IT Applications	↑	✓
11-117	Sr. IT Specialist	510	IT Applications	↑	×
11-118	Operations Analyst II	870	Operations Eng. Anal & Supp		
11-119	Principal (Chief Architect of IT)	500	Information Technology	↑	✓
11-120	Sr. Operator	8142	Reliability Coordination	↑	×
11-121	Settlement Analyst	160	Settlements	↗	
11-122	Operations Trainer	800	Ops Analyst & Performance Sp	↗	
11-123	Operator III	8130	ICT Tariff Admin	↑	×
11-124	Manager, Steady State Planning	410	Engineering Planning	↑	×
11-125	Engineer I	430	Engineering Modeling	↗	
11-126	OIT	810	Tariff Administration	↗	
11-127	Lead Operator	840	Market Operations	↑	×

# 2011 Job Tracker

Req. #	Position	Dept #	Dept Name	Status	External Hire
11-128	Sr. Operator	8130	ICT Tariff Admin	↑	×
11-129	Compliance Analyst II	230	Compliance	↘	
11-130	Facilities Coordinator	150	Human Resources	↗	
11-131	Business Analyst II	510	IT Applications	↗	
11-132	IT Specialist II	510	IT Applications	↗	
11-133	Market Operator III	840	Market Operations	↗	
11-134	Operator II	8130	ICT Tariff Admin	↗	
11-135	Director, Treasury & Risk Management	140	Credit	↗	
11-136	Payroll Clerk	150	Human Resources	↗	
11-137	Regulatory Analyst III	900	Regulatory	↗	
11-138	Sr. Engineer	895	Market Support & Analysis	↗	
11-139	PT Law Clerk	180	RE Enforcement	↗	
11-140	PT Law Clerk	180	RE Enforcement	↗	
11-141	EIT	400	Transmission Development		
11-142	EIT	400	Transmission Development		
11-143	IT Specialist I	580	IT Operations	↑	×
11-144	Service Desk Analyst (Part-Time)	580	IT Operations	↘	
11-145	IT Specialist II	510	IT Applications	↑	×
11-146	IT Specialist I	510	IT Applications	↘	
Pending #	Market Engineer II	720	Market Monitoring	↓	
Pending #	Engineer Associate	470	Special Studies Support	↓	
Pending #	Pending- Engineer II	870	Operations Eng. Anal & Supp	↓	
Pending #	Lead Engineer, Economic Planning	460	Economic Planning	↓	
Pending #	Pending- Sr. Operations Analyst	840	Market Operations	↓	
<b>12-001</b>	<b>Supervisor, Operations Applications Support</b>	<b>840</b>	<b>Market Operations</b>	<b>↑</b>	<b>×</b>
<b>12-002</b>	<b>Supervisor, Market Forensics Analysis</b>	<b>895</b>	<b>Market Support &amp; Analysis</b>	<b>↑</b>	<b>×</b>
<b>2011 Budgeted Incremental Positions Filled</b>		<b>57</b>	<b>Status Legend</b>		
<b>2010 Positions Filled in 2011</b>		<b>21</b>	2011 Inactive	↓	5
<b>YTD Replacement Hires (includes 2 moved up from 2012)</b>		<b>56</b>	2011 Active, Not Posted	↘	1
<b>YTD Total Hires</b>		<b>134</b>	2011 Active, Posted	↗	23
<b>Number of External Hires Total *</b>		<b>71</b>	Filled (not including 2010 req)	↑	113
* All others include internal and external hires					
<b>09/30 Ending Headcount</b>		<b>512</b>	<b>Hire Legend</b>		
October New Hires		1	2011 Internal	×	53
October Resignations		-2	2011 External	✓	60
<b>10/31 Ending Headcount</b>		<b>511</b>			
2010 Open (in blue at top)		0			
2011 Open (5 inactive / 24 active)		29			
<b>Total Targeted Headcount</b>		<b>540</b>			

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

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

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





# Memorandum

To: **Finance Committee Members**  
From: **Tom Dunn**  
CC: **Cheryl Robertson**  
Date: **December 6, 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	noon	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