Southwest Power Pool

FINANCE COMMITTEE MEETING

July 10, 2012

Little Rock, Arkansas

• Summary of Action Items •

1. Approved by consensus the report from the Finance Committee Task Force on Order 1000 detailing the financial requirements of participants in the SPP Competitive Solicitation Process for regionally funded "green field" transmission.

• Schedule of Follow-up Items •

1. Impact of depreciation schedules on property taxes and balance sheet

Southwest Power Pool

Southwest Power Pool

FINANCE COMMITTEE MEETING

July 10, 2012

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 8:15 a.m. The following members of the Finance Committee were in attendance:

Harry Skilton	SPP Director
Larry Altenbaumer	SPP Director
Sandra Bennett	Southwestern Power Company
Kelly Harrison (telephone)	Westar Energy
Tom Dunn	SPP

Others attending included:

Brian Lawson	ETEC
Scott Noble	SPP
Nick Brown	SPP
Bruce Rew	SPP
Antoine Lucas	SPP
Scott Maple	SPP
Greg Hartz	Foundation Resource Management
Mark Millsap	Foundation Resource Management
Jay White	Smith Capital Management
Linda Lockwood	U.S. Bank
Larry Lucy	U.S. Bank
Bill Bussey	Stephens Insurance
Kevin McBride	Stephens Insurance

Administrative Items

Minutes from the April 17, 2012 meeting were reviewed. Kelly Harrison motioned to approve the minutes. The motion was seconded by Sandra Bennett and approved by unanimous voice vote.

The "follow-up" items from the agenda were reviewed with the following items being removed from the list due to either being completed, no longer necessary, or now part of SPP normal reporting process:

- SPP President to review metering in SPP region and suggest opportunities for improvement
- Provide updates on Integrated Marketplace project along with Internal Audit reports on Integrated Marketplace at each regularly scheduled Finance Committee meeting
- Distribute copy of PCAOB report on BKD, LLC to Finance Committee members

May 2012 Financial Report

SPP staff reviewed SPP's May 2012 financial reports. As of May, SPP is forecasting an over-collection of approximately 2¢/MWh due primarily to lower expenditures on outside service providers and greater than budgeted NITS load.

Investment Policy Statement Review

Investment Policy Statements ("IPS") were reviewed for both the defined benefit pension plan and the post retirement healthcare plan. The Committee had significant dialogue on the structure of the plans, particularly along two main areas:

- Extent of detail prescribed for asset allocation
- Limitations on investment in non-U.S. domiciled issuers

The Committee will discuss these issues at its next meeting

Investment Manager Reviews – Defined Benefit Pension Plan
Performance Reports: Mark Millsap and Greg Hartz with Foundation Resource Management reported on the performance of the defined benefit pension plan fund assets under their management. Foundation Resource Management generated returns of -6.35% for the 2011 calendar year and 4.46% annualized since their engagement in January 2005. The firm continues to adhere to a value investment strategy as they have since engagement. There has been no turnover in the individuals directly responsible for management of the assets of the plan.

Performance Reports: Jay White with Smith Capital Management reported on the performance of the defined benefit pension plan fund assets under his management. Smith Capital Management generated returns of -2.55% for the 2011 calendar year and 1.75% annualized since their engagement in August 2006. The firm continues to manage the assets of the plan with a focus on growth oriented investments. There has been no turnover in the individuals directly responsible for management of the assets of the plan.

Investment Manager Reviews – Post-retirement Healthcare Plan
Performance Reports: Larry Lucy and Linda Lockwood with U.S. Bank Institutional Trust and Custody reported on the performance of the post-retirement healthcare plan fund assets under management. U.S. Bank generated returns of -4.53% for the 2011 calendar year and 1.93% annualized since their engagement in January 1999. The firm continues to manage the assets of the plan with using a balanced portfolio allocation model. The current investment manager has been assigned to the SPP account for less than one year.

Business Process Improvement
SPP staff advised the Committee on the year to date results for the business process improvement initiative. The company is currently tracking slightly ahead of plan due to the addition of a few newly identified initiatives.

The Committee was presented with a proposal which details the "sun setting" of BPI initiative tracking. SPP proposes to track initiatives based on policy changes for up to 2 years, staffing reductions for up to 3 years, and those requiring meaningful capital investments for up to 5 years.

Finally, SPP staff reviewed the ongoing implementation plan for BPI which is expected to be fully implemented in 2015.

FERC Order 1000 Task Force
The Committee reviewed the report of the task force outlining the financial criteria and other financial requirements to be considered in compliance with FERC Order 1000. A new topic not previously included in the report regarding the obligation an incumbent TO has to construct transmission assets in the event the selected TO fails to perform. Following significant dialogue the Committee recommended adding a requirement for the selected TO to fund a deposit equal to 2% of the bid amount with SPP upon acceptance of the notice to construct. This deposit would be forfeited if the selected TO were unable to complete the project.

2012 Insurance Stewardship Report

SPP's insurance broker, Stephens Insurance, presented a report on SPP's 2012 corporate insurance program and outlook for 2013. With SPP's change to a non-calendar year program Stephens was requested to make a follow-up report in December 2012 in advance of the 2013 renewal.

Integrated Marketplace Review

SPP staff provided a brief overview of the status of the Integrated Marketplace project focusing on the plans to return to "green" status.

Future Meetings

The next meeting of the SPP Finance Committee is scheduled for July 27, 2012 beginning at 10:00 am central time and finishing at 3:00 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 3:30 p.m.

Respectfully Submitted,

Thomas P. Dunn
Secretary

Southwest Power Pool

Southwest Power Pool, Inc.

FINANCE COMMITTEE MEETING

July 10, 2012

Embassy Suites Hotel
11301 Financial Center Parkway
Little Rock, Arkansas

• AGENDA •

8:30 a.m. – 2:45 p.m.

1. Administrative Items *(5 minutes)* .... Harry Skilton
2. May 2012 Financial Report *(15 minutes)* .... Tom Dunn
3. Investment Manager Reports – SPP Pension Plan..
    a. Investment Policy Statement Review *(10 Minutes)* .... Tom Dunn
    b. Foundation Resource Management *(45 minutes)* ....Greg Hartz & Mark Millsap
    c. Smith Capital Management *(45 minutes)* .... Jay White
4. SPP Business Process Improvement *(45 minutes)*.. Scott Noble
5. FERC Order 1000 Task Force – Financial Requirements *(45 minutes)* .... Harry Skilton
6. LUNCH *(45 minutes)* ....
7. Investment Manager Reports – Post-retirement Healthcare plan
    a. Investment Policy Statement Review *(10 minutes)* .... Tom Dunn
    b. U.S. Bank Wealth Management *(45 minutes)* .... Larry Lucy
8. 2012 Insurance Stewardship Report *(45 minutes)* .... Bill Bussey
9. Integrated Marketplace *(15 minutes)*.. Bruce Rew
10. Written Reports:
    a. Business Process Improvement
11. Future Meeting.. All
12. Adjourn .... Harry Skilton

Southwest Power Pool

FINANCE COMMITTEE MEETING

April 17, 2012

Dallas, Texas

• Summary of Action Items •

1. Approved final terms and pricing for issuance of $100 million in term notes
2. Approved 2011 financial statement audit report
3. Approved 2012 funding for SPP pension plan and post-retirement healthcare plan
4. Confirmed continued use of term debt to fund SPP's capital expenditure program

• 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. Distribute copy of PCAOB report on BKD, LLC to Finance Committee members

Southwest Power Pool

Southwest Power Pool

FINANCE COMMITTEE MEETING

April 17, 2012

Dallas, Texas

• M I N U T E S •

Agenda Item 1 – Administrative Items

SPP Chair Harry Skilton called the meeting to order at 8:15 a.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:

Carol Shoemake (phone)	OG&E
Traci Bender	NPPD
Keith Conine	BKD, LLC
Bruce Rew (phone)	SPP
Dianne Branch	SPP
Steve Osborn	Osborn, Carreiro & Associates

Administrative Items

Minutes from the December 12, 2011 meeting were reviewed. Kelly Harrison motioned to approve the minutes. The motion was seconded by Carl Huslig and approved by unanimous voice vote.

Harry Skilton recognized Trudy Harper for her invaluable contributions to the Finance Committee and SPP. Trudy Harper is retiring from Tenaska at the end of April 2012 and this will be her final Finance Committee meeting.

Harry Skilton requested the addition of four discussion items to the agenda, as follows: 1) Order 1000 financial requirements, 2) Project reporting format, 3) Metrics to evaluate SPP's performance in the future, 4) Order 741 compliance regarding netting and offset process.

2012 Note Issuance

SPP staff advised the Committee on the results of the private placement auction which completed on April 16, 2012. SPP requested investors bid on the placement of $50 million in 12-year term notes (first two years interest only payments with level amortizing principal payments payable quarterly thereafter) funding in May 2012. SPP also indicated it would entertain offers to commit to a deferred funding of an additional $50 million in 12-year notes (first two years interest only payments with level amortizing principal payments payable quarterly thereafter), funding in November 2012.

Investor interest in the offering was strong with $110 million in bids to fund in May 2012 at a fixed rate of 3.00% (7yr Treasury yield of 1.38% plus a spread of 162bps at time of commitment). Additionally, $90 million in bids were received to do a deferred funding in November 2012 at a fixed rate of 3.25%. All bid would follow the terms and conditions of SPP's 2010-11 series A,B,&C notes (no financial covenants).

The Committee debated three options: i) Fund $50 million in May 2012 at 3.00% and re-approach the market later in 2012 for additional funding; ii) Fund $50 million in May 2012 at 3.25% and fund $50 million in November at 3.25%; iii) Fund $100 million in May 2012 at 3.00%.

Larry Altenbaumer motioned to approve the issuance of $50 million in May 2012 at 3.00% and $50 million in November 2012 at 3.25%. The motion was seconded by Sandra Bennett and approved by unanimous voice vote.

February 2012 Financial Report
SPP staff reviewed SPP's February 2012 financial reports. As of February, SPP is forecasting an over-collection of approximately 1¢/MWh due primarily to greater than budgeted NITS load.

2011 Financial Audit Report
SPP staff discussed SPP's 2011 financial results. Keith Conine of BKD, LLC discussed the findings of BKD's audit of SPP's 2011 financial results, focusing on passed adjustments and the management letter comments. Following these discussions, the Committee convened an executive session to meet with BKD without SPP management present.

Following the executive session, Larry Altenbaumer motioned to accept the 2011 financial audit report as presented. The motion was seconded by Carl Huslig and approved by unanimous voice vote.

Harry Skilton recommended SPP's Internal Audit staff review all expense reports for SPP's officers and Board of Directors members and report their findings to the SPP Oversight Committee. Additionally, Internal Audit currently reviews the rate setting calculation and fixed cost reimbursements of Off We Go, LLC (entity owned by SPP's CEO and CFO which owns a single engine aircraft that is used frequently in SPP business travel); these reviews should be presented directly to the Oversight Committee and not presented in any way to the CEO or CFO.

Actuary Report on Pension and Post-retirement Health Plans
Steve Osborn presented the January 1, 2012 actuary reports on both the SPP Retirement Plan and the SPP Post-retirement Healthcare Plan. The SPP Retirement Plan was fully funded on the report date as plan assets exceeded accumulated benefit obligations by nearly $3 million. 2012 contributions were recommended at nearly $3.9 million. The funded status of the plan was adversely impacted by a 25bps reduction in the discount rate an investment loss of 5% during 2011. SPP has utilized the third segment Corporate Bond Yield Curve prescribed by the U.S. Treasury Department (per the Pension Protection Act of 2006) to establish the appropriate discount rate. The Committee discussed using the "equivalent rate" (essentially the average of the first, second and third segment rate used to develop the Corporate Bond Yield Curve). This discussion was tabled and SPP staff was requested to investigate and bring a recommendation to the Committee at its July 10, 2012 meeting.

Carl Huslig motioned to approve funding for the SPP Retirement Plan of $3,892,000 during 2012 and funding for the Post-retirement Healthcare Plan of $469,000 during 2012. The motion was seconded by Kelly Harrison and approved by unanimous voice vote.

Integrated Marketplace Review
SPP staff provided a brief overview of the status of the Integrated Marketplace project focusing on the current "yellow" status of the project and activities being undertaken to bring the project back to a "green" status.

Capital Expenditure Funding Policy
SPP staff facilitated a discussion on SPP's capital expenditure funding policy and potential alternatives to the existing policy. The current policy dictates using term debt to fund 100% of capital expenditures. Alternatives reviewed included funding 100% of capital expenditures within the annual administrative fee,

utilizing leases instead of debt, funding maintenance capital expenditures within the annual administrative fee.

Following significant discussions on each identified alternative and reviewing the pros and cons of each identified alternative Sandra Bennett made a motion to leave the capital expenditure funding policy unchanged. The motion was seconded by Larry Altenbaumer and approve by unanimous voice vote.

SPP Rate Structure
SPP staff facilitated a discussion on the SPP Administrative Fee Rate Structure. The discussion was positioned to obtain the input of the Committee in advance of the Strategic Planning Committee retreat which would largely focus on SPP's rate structure. The current structure collects SPP's net revenue requirement (annual expenses and debt service net of SPP's other revenues) from customers based on transmission service purchased using a single rate. Other alternative rate structures discussed included i) using depreciation in the rates instead of principal payments on debt; ii) extend the true-up period beyond the next calendar year; iii) implement transaction fees for TCR auctions and virtual bids/offers; iv) fully unbundle the rate to charge customers based on service purchased; v) change billing units to include both transmission service purchased as well as generation.

Following the discussion, consensus was reached to suggest the Strategic Planning Committee evaluate i) changing the annual membership fee to recover specific costs of services provided to all members (i.e. reliability coordination, reserve sharing, etc.); ii) require customers of SPP's markets to also be members of SPP.

Finance Committee Scope Document Review
The Finance Committee Scope was reviewed in light of proposed additions to and reductions of responsibilities for several of SPP's board level committees. The Finance Committee did not object to the addition of responsibility for oversight of management of the assets in SPP's Retirement Plan and SPP's Post-retirement Healthcare Plan. Additionally, the Committee did not object to moving responsibility for enterprise risk management, business continuity planning and disaster recovery programs to the Oversight Committee. The Committee members expressed strong sentiment against moving responsibility for oversight of SPP's external audit engagements (financial and controls) to the Oversight Committee. Utility members of the Finance Committee supported maintaining that level of oversight within the Finance Committee due to its more transparent structure and direct member involvement on the Committee.

Written Reports

- Business Process Improvement Tracking - SPP staff summarized the status of the BPI initiative and highlighted additional BPI projects identified since the last review
- PCAOB Review of BKD, LLC – SPP staff was asked to circulate to the Committee members copies of the PCAOB report on BKD, LLC.
- Off We Go, LLC Expense Reimbursements – reviewed in executive session with BKD, LLC.

Other Business
Volunteers were requested to participate on a Finance Committee task force charged with identifying the financial requirements expected of an entity prior to allowing an entity to participate in the Competitive Solicitation Process for transmission projects which are regionally funded. The task force will hold its first meeting on May 24, 2012 in Dallas, TX

SPP staff advised the Committee that the final compliance filing for Order 741 – Credit Reforms is due at the end of April 2012. SPP will seek approval to defer the filing until December 31, 2012 to provide adequate time for SPP and its members to gain consensus on an approach to mitigating offset and netting risk should a market participant file for bankruptcy protection. SPP staff is currently researching the legal, tax, and regulatory requirements to be satisfied if SPP were to become counterparty to all market transactions.

Future Meetings

The next meeting of the SPP Finance Committee is scheduled for June 26, 2012 beginning at 10:00 am central time and finishing at 2:30 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 2:30 p.m.

Respectfully Submitted,

Thomas P. Dunn
Secretary

Memorandum

To: SPP Officers / Directors / Managers
From: Sheri Parish / Cindy Goodwin
Date: June 26, 2012
RE: May 2012 Financials

Attached are the May 2012 monthly financial reports.

Southwest Power Pool

2012 Financial Commentary
As of May 2012
(in thousands)

Summary

	2012 FY Forecast	2012 FY Budget	Fav/(Unfav) Variance	
Revenues	$148,830	$146,415	$2,416	1.6%
Expenses	147,580	151,953	4,373	2.9%
Net Loss	$1,250	($5,539)	$6,789	122.6%

Revenue

	2012 FY Forecast	2012 FY Budget	Fav/(Unfav) Variance	
Tariff Administration Service	$92,056	$90,131	$1,925	2.1%
Fees & Assessments	26,488	26,909	(420)	(1.6%)
Contract Services & Misc Income	30,286	29,375	911	3.1%
Total Revenue	$148,830	$146,415	$2,416	1.6%

Revenue exceeds budget for Tariff Administrative Services due to 2011 NITS load exceeding 2012 budget ($1.9M).

Regional Entity revenues trail budget due to lower audit and project consulting expenditures to date ($1.6M), which is partially offset by FERC assessments exceeding budget due to adjustments for recovery of prior year under collections ($1.1M) . Lower RE expenditures are mainly associated with the BES definition and exception process and the violation caseload project.

SPP received a $1.0M settlement for a FERC penalty charged against Constellation Energy Group which resulted in Miscellaneous Income exceeding budget by approximately the same amount.

Southwest Power Pool

2012 Financial Commentary
As of May 2012
(in thousands)

Expense

	2012 FY Forecast	2012 FY Budget	Fav/(Unfav) Variance	
Salary & Benefits	$71,823	$72,222	$399	0.6%
Assessments & Fees	15,410	15,410	(0)	(0.0%)
Communications & Maintenance	13,067	13,904	837	6.0%
Outside Services	16,577	18,700	2,123	11.4%
Depreciation & Amortization	16,607	17,317	710	4.1%
Other Expenses	14,096	14,401	304	2.1%
Total Expense	$147,580	$151,953	$4,373	2.9%

Communications and Maintenance are favorable to budget due to the following:

- Manufacturer supply shortages of computer equipment have resulted in lower than expected new equipment maintenance contracts
- Favorable pricing negotiations of software maintenance and conferencing rates has resulted in lower than expected expense
- Lower than expected YTD charges for member circuits

Outside Services are favorable to budget due to the following:

- Lower than expected usage of contractors for Regional Entity audit work and RTO Engineering studies due to projects that have either been eliminated or delayed
- Reduction in consulting expenses for lower prioritized projects due to increased prioritization of all Marketplace activities for current staff
- Delay in implementation of after-hours monitoring of IT Command Center
- The favorable variances mentioned above are partially offset by unbudgeted expenditures associated with the Entergy/MISO cost analysis study

The budget assumed depreciation on the new Ops Center would begin in April. This has been pushed back to July, resulting in a favorable variance to budget in Depreciation expense.

SPP Southwest Power Pool

Southwest Power Pool
Forecast Overview
As of May 2012
CONSOLIDATED TOTAL
(in thousands)
(Unaudited)

	Actual Jan-12	Actual Feb-12	Actual Mar-12	Actual Apr-12	Actual May-12	FCST Jun-12	FCST Jul-12	FCST Aug-12	FCST Sep-12	FCST Oct-12	FCST Nov-12	FCST Dec-12	FY 2012 Forecast	FY 2012 Budget	Variance Fav/(Unfav)	FY 2011 Actuals	Variance Fav/(Unfav)
Income																	
Tariff Administration Service	$7,844	$7,340	$7,716	$7,617	$7,763	$7,550	$7,799	$7,795	$7,535	$7,779	$7,540	$7,778	$92,056	$90,131	$1,925	$71,702	$20,353
Fees & Assessments	2,519	2,123	1,964	1,903	1,960	2,130	2,390	2,390	2,390	2,240	2,240	2,240	26,488	26,909	(420)	24,123	2,366
Contract Services Revenue	2,244	2,427	2,169	2,188	2,151	2,193	2,187	2,199	1,515	1,515	1,515	1,515	23,817	23,759	58	26,549	(2,731)
Miscellaneous Income	506	530	1,350	519	280	520	483	440	550	435	392	467	6,469	5,616	853	6,566	(97)
Total Income	13,113	12,420	13,200	12,227	12,153	12,393	12,858	12,824	11,990	11,969	11,687	12,000	148,830	146,415	2,416	128,940	19,890
Expense																	
Salary	3,872	3,933	3,947	3,984	3,877	4,019	4,119	4,239	4,287	4,314	4,316	4,361	49,269	50,289	1,020	44,471	(4,798)
Benefits & Taxes	1,654	2,015	1,747	1,784	1,730	1,791	1,810	1,858	1,871	1,902	1,872	1,922	21,956	21,215	(740)	19,528	(2,428)
Continuing Education	34	15	36	68	33	45	56	57	133	49	31	42	598	717	119	515	(83)
Salary & Benefits	5,560	5,963	5,730	5,836	5,640	5,855	5,985	6,153	6,292	6,265	6,219	6,324	71,823	72,222	399	64,514	(7,308)
Employee Travel	105	154	173	193	236	268	295	286	343	296	199	160	2,709	3,002	293	1,655	(1,054)
Administrative	303	270	347	374	324	321	342	263	273	572	259	272	3,920	4,212	292	3,003	(917)
Assessments & Fees	1,284	1,284	1,284	1,284	1,284	1,284	1,284	1,284	1,284	1,284	1,284	1,284	15,410	15,410	(0)	16,639	1,229
Meetings	53	70	93	119	80	121	143	72	154	218	78	97	1,297	1,445	148	838	(460)
Communications	294	379	404	374	351	399	399	399	359	359	359	359	4,437	4,592	154	3,204	(1,234)
Leases	158	151	158	153	155	158	158	158	158	72	72	72	1,621	1,631	10	1,624	3
Maintenance	600	629	633	667	532	684	772	807	795	858	799	852	8,630	9,312	683	7,308	(1,321)
Services	935	1,404	929	1,110	1,141	1,524	1,488	1,684	1,823	1,497	1,604	1,438	16,577	18,700	2,123	15,813	(764)
Regional State Committee	41	77	53	38	21	83	23	23	23	23	23	83	509	394	(115)	311	(198)
Depreciation & Amortizatio	1,173	1,162	1,117	1,008	1,289	1,211	1,650	1,646	1,635	1,617	1,613	1,487	16,607	17,317	710	13,107	(3,500)
Total Expense	10,505	11,543	10,922	11,158	11,052	11,908	12,539	12,776	13,139	13,060	12,509	12,429	143,540	148,237	4,697	128,015	(15,525)
Other Income/(Expense)																	
Other Income / Expense	14	43	3	(2)	(83)	-	-	-	-	-	-	-	(26)	-	(26)	(3,998)	3,972
Interest Income	29	25	19	5	(24)	-	-	-	-	-	-	-	53	-	53	157	(104)
Interest Expense	(664)	(685)	(702)	(678)	(677)	(668)	(656)	(656)	(656)	(643)	(643)	(643)	(7,971)	(7,945)	(26)	(8,250)	(279)
Capitalized Interest	-	-	995	-	-	1,085	-	-	868	-	-	664	3,612	4,229	(617)	1,943	(1,669)
Swap Valuation	-	-	292	-	-	-	-	-	-	-	-	-	292	-	292	183	(109)
Net Other Income (Expense)	(621)	(617)	607	(675)	(784)	417	(656)	(656)	212	(643)	(643)	21	(4,040)	(3,716)	(324)	(9,965)	1,811
Net Income (Loss)	$1,987	$260	$2,885	$393	$317	$901	($337)	($609)	($938)	($1,735)	($1,466)	($408)	$1,250	($5,539)	$6,789	($9,040)	$10,290
2012 Headcount Actual/Fcst	518	524	527	531	528	536	547	567	576	580	581	590	590				
2012 Headcount Budget	548	561	575	579	581	585	588	588	590	590	590	590	590				
Over / (Under) Budget	(30)	(37)	(48)	(48)	(53)	(49)	(41)	(21)	(14)	(10)	(9)	-	-				

Southwest Power Pool
Actual Results Overview
For the Month Ending May 31, 2012
(in thousands)

	Current Month Compared to Forecast			YTD	YTD		YTD	YTD	
	May-12 Actual	May-12 Forecast	Variance Fav/(Unfav)	May-12 Actual	May-12 Budget	Variance Fav/(Unfav)	May-12 Current Year	May-2011 Prior Year	Variance Fav/(Unfav)
Income									
Tariff Administration Service	$7,763	$7,535	$228	$38,280	$37,555	$725	$38,280	$29,608	$8,671
Fees & Assessments	1,960	2,251	(291)	10,468	11,433	(964)	10,468	9,573	896
Contract Services Revenue	2,151	2,266	(115)	11,179	11,120	59	11,179	11,086	93
Miscellaneous Income	280	463	(183)	3,185	2,343	842	3,185	2,166	1,019
Total Income	12,153	12,515	(362)	63,112	62,450	662	63,112	52,433	10,679
Expense									
Salary	3,877	3,986	109	19,614	20,444	830	19,614	17,352	(2,262)
Benefits & Taxes	1,730	1,927	197	8,930	8,785	(145)	8,930	7,806	(1,124)
Continuing Education	33	79	46	185	294	108	185	255	69
Salary & Benefits	5,640	5,992	352	28,729	29,522	793	28,729	25,413	(3,316)
Employee Travel	236	307	71	861	1,198	338	861	672	(188)
Administrative	324	411	87	1,617	1,757	140	1,617	1,288	(330)
Assessments & Fees	1,284	1,284	(0)	6,421	6,421	0	6,421	5,883	(538)
Meetings	80	195	115	415	566	151	415	345	(69)
Communications	351	405	54	1,801	1,997	196	1,801	1,322	(479)
Leases	155	152	(3)	776	786	11	776	769	(6)
Maintenance	532	659	127	3,062	3,612	549	3,062	2,859	(203)
Services	1,141	1,340	200	5,519	8,035	2,517	5,519	4,951	(568)
Regional State Committee	21	23	2	230	115	(115)	230	58	(172)
Depreciation & Amortization	1,289	1,453	164	5,748	6,010	262	5,748	5,505	(243)
Total Expense	11,052	12,220	1,169	55,179	60,020	4,840	55,179	49,065	(6,114)
Other Income/(Expense)									
Other Income / Expense	(83)	-	(83)	(26)	-	(26)	(26)	38	(64)
Interest Income	(24)	-	(24)	53	-	53	53	82	(29)
Interest Expense	(677)	(668)	(8)	(3,406)	(1,924)	(1,482)	(3,406)	(3,147)	(259)
Capitalized Interest	-	-	-	995	-	995	995	357	(638)
Swap Valuation	-	-	-	292	-	292	292	340	(48)
Net Other Income (Expense)	(784)	(668)	(116)	(2,091)	(1,924)	(168)	(2,091)	(2,330)	(1,038)
Net Income (Loss)	$317	($374)	$691	$5,841	$507	$5,335	$5,841	$1,037	$4,804

Southwest Power Pool
Balance Sheet
As of May 31, 2012
(in thousands)

	5/31/2012	12/31/2011	Variance
ASSETS			
Current Assets			
Cash & Equivalents	$93,565	$73,763	$19,802
Restricted Cash Deposits	36,099	34,904	1,195
Accounts Receivable (net)	14,847	15,901	(1,054)
Other Current Assets	10,037	6,636	3,401
Total Current Assets	**154,547**	**131,204**	**23,343**
Total Fixed Assets	139,873	112,188	27,685
Total Other Assets	1,474	2,141	(668)
Investments	779	775	4
TOTAL ASSETS	**$296,672**	**$246,307**	**$50,365**
LIABILITIES & EQUITY			
Liabilities			
Current Liabilities			
Accounts Payable (net)	$8,510	$17,816	($9,307)
Customer Deposits	35,704	34,903	800
Current Maturities of LT Debt	11,575	11,206	369
Other Current Liabilities	33,369	25,741	7,628
Deferred Revenue	5,902	7,450	(1,548)
Total Current Liabilites	**95,059**	**97,117**	**(2,058)**
Long Term Liabilities			
US Bank Floating Senior Note - 2014	9,625	11,000	(1,375)
US Bank 5.45% Senior Notes - 2016	19,500	21,000	(1,500)
US Bank Maumelle Mortgage - 2027	3,855	3,958	(103)
Campus 4.82% Senior Notes - 2042	64,756	65,000	(243)
Integrated Marketplace 3.55% Senior Note - 2024	70,000	70,000	0
Other Long Term Liabilities	7,458	7,655	(197)
Total Long Term Liabilities	**175,194**	**178,612**	**(3,419)**
Net Income	5,841	(9,040)	14,881
Members' Equity	(29,422)	(20,382)	(9,040)
Total Members' Equity	**(23,581)**	**(29,422)**	**5,841**
TOTAL LIABILITIES & EQUITY	**$246,672**	**$246,307**	**$365**

(in thousands)

Integrated Market Place

	Capitalized Expense
Current Projections	$105,448
Approved Target	$105,640
Over/(Under)	($192)

The IM project is currently forecasted at $.19MM less than the board approved target of $105.6MM. This is an unfavorable movement of approximately $0.18 million from the April 30th report. Significant changes from the prior month include the following:

- Addition of POPS (Post Operations Pre Settlement) Validation Solution - $.99 million
- Addition of Structure SOW 5 Amendment - $.10 million
- Reduction of resources for Settlements - $.38 million
- Reduction of SME/PM Support resources - $.41 million
- Reduction for estimated Compensatory Taxes - $0.1 million

Corporate Campus Construction and Migration

	Capitalized Expense
Current Projections	$83,862
Original Budget	$88,553
Over/(Under)	($4,691)

The facility project remains on target and under budget. Significant decreases in cost estimates for data center hardware have been made. The overall project is projected to be $4.7 MM under budget.

- Final completion of the Office Building and Parking Deck was declared – with conditions – on Friday, June 15. The Certificate of Occupancy was issued by the City of Little Rock on that date.

- All structures on the campus are now under SPP control. The general contractor will continue work on the following items: 1) brick pavers at various locations throughout the campus, 2) landscaping and fencing , 3) lighted benches for the courtyard, 4) atrium handrail lighting 5) light poles for the boulevard 6) various punch list items.

- The general contractor began final cleaning of the Office Building on Monday, June 18th, with all cleaning activities scheduled to be complete by June 25th.

- The Data Center Migration is complete. All the disaster recovery functions previously supported by the Plaza West Data Center are now supported by the Chenal Data Center. SPP plans to run parallel operations in the Chenal Operations Center during July 10 - 12.

- SERC completed the review of the Chenal Operations Center on Wednesday, June 6th, with notification of their intent to recommend certification. Receipt of the certification documentation is expected by July 6th.

- Furniture deliveries and installation are nearing completion. The only remaining furniture deliveries are limited amounts of casework, seating for the break rooms, barstools, and art work.

(in thousands)

Budget Analysis of the Facilities Program
As of May 18, 2012

Budget Item	Budgets: SPP Approved	Budgets: Projection	Actual Expenditures	% of Completion: Contractor [1]	% of Completion: Actual	Estimate to Completion
Construction Project						
Land	$ 4,574	$ 4,574	$ 4,566	100.0%	100.0%	$ -
Ops/Data Center	$ 25,541	$ 24,896	$ 21,826	84.9%	79.6%	$ 3,897
Construction	$ 23,829	$ 23,184	$ 20,100	85.0%	78.3%	$ 3,859
Professional	$ 1,712	$ 1,712	$ 1,726	84.0%	96.9%	$ 38
Office Building	$ 32,081	$ 32,290	$ 27,778	73.8%	78.1%	$ 5,564
Construction	$ 29,298	$ 29,507	$ 25,582	74.0%	78.3%	$ 4,911
Professional	$ 2,783	$ 2,783	$ 2,196	72.0%	75.8%	$ 653
Totals - Construction	**$ 62,196**	**$ 61,759**	**$ 54,171**	**80.2%**	**80.3%**	**$ 9,461**
Migration Project						
Furnishings & Decommission	$ 11,550	$ 9,006	$ 8,106		90.0%	$ 900
Data Center Hardware	$ 4,969	$ 4,366	$ 3,846		88.1%	$ 520
Operations Center Hardware, AV & Desktop	$ 1,491	$ 1,080	$ 833		77.1%	$ 247
Network, Telecom & Physical Security	$ 7,500	$ 7,652	$ 7,413		96.9%	$ 238
Contingency (5%)	$ 847	$ -	$ -			$ -
Totals - Migration	**$ 26,357**	**$ 22,103**	**$ 20,197**		**91.4%**	**$ 1,906**
Total Project (Capitalized)	**$ 88,553**	**$ 83,862**	**$ 74,368**			**$ 11,367**
Decommission Plaza West Expense	$ -	$ -	$ 631 [2]			$ -

[1] Estimates of projected work activity for Construction provided by Nabholz Construction Services.
[2] This expense was originally included in the capital project budget for 2012.

PRPC Projects ***(in thousands)***

	Prior Year(s) Expense	Q1 Actual	Q2 Forecast	Q3 Forecast	Q4 Forecast	Total 2012	Future Expense	Total Project	Budget Thru 2014	Over/(Under) Budget
Integrated Marketplace (Future Markets) ***thru 2014***	$29,440	$9,161	$11,230	$17,532	$12,854	$50,778	$22,717	$102,935	$101,001	$1,934
High Availability	$2,367	-	$545	$660	$215	$1,420	-	$3,787	$5,120	(1,333)
Consolidated Balancing Authority	$1,263	$105	(106)	$353	$178	$530	$720	$2,514	$4,639	(2,125)
Future Markets Initiatives Total	**$33,071**	**$9,267**	**$11,669**	**$18,545**	**$13,247**	**$52,728**	**$23,437**	**$109,236**	**$110,760**	**(1,524)**
New Facilities Construction	$47,604	$3,217	$4,992	$5,946	-	$14,155	-	$61,759	$61,933	(174)
Facility Migration	$10,777	$2,768	$6,100	$2,459	-	$11,327	-	$22,103	$26,620	(4,516)
New Facility Initiatives Total	**$58,381**	**$5,984**	**$11,092**	**$8,405**	**-**	**$25,481**	**-**	**$83,862**	**$88,553**	**(4,691)**
EMS Upgrade	$608	$185	$130	$152	-	$467	-	$1,075	$1,265	(190)
Centralized Modeling Tool	$190	$223	$264	$154	$74	$714	$60	$964	$1,270	(306)
EMS Enhancements-Foundation	$67	$10	$36	$78	$25	$150	$250	$467	$469	(2)
PRR Implementation Foundation	$100	-	$50	-	$50	$100	$300	$500	$649	(149)
Add - Remove SPP Market Entities (BAs, MPs, etc.)	$31	$4	$14	$20	-	$38	$125	$194	$215	(21)
E-terra Vision Implementation	-	-	-	$25	-	$25	$100	$125	$193	(68)
Model Change Submission Tool	$147	$95	$123	$77	$17	$313	-	$460	$563	(103)
Ops Automation #1 OATI	-	-	-	$20	$10	$30	$150	$180	$210	(30)
Ops Automation #1 RTOSS-Settlements	-	-	$28	$28	$28	$85	-	$85	$113	(28)
Ops Automation #1 DC Ties	-	-	-	$82	-	$82	$200	$282	$364	(82)
Combined Cycle	-	-	-	-	-	-	$11,800	$11,800	$11,800	-
Replace OPS1 Outage Coordination Scheduler	$300	$33	$33	-	-	$65	-	$365	$133	$232
Operations Initiatives Total	**$1,444**	**$550**	**$679**	**$635**	**$204**	**$2,068**	**$12,985**	**$16,496**	**$17,245**	**(748)**
*ITP Data Repository ***	$30	-	-	$42	-	$42	$92	$164	$184	(20)
Project Tracking Database (TAGIT)	-	-	-	-	-	-	-	-	$150	(150)
Credit Process Stack List Analysis	-	-	-	$59	-	$59	-	$59	$295	(236)
Electromagnetic Transient Program (EMTP)	-	-	$10	$45	$5	$60	-	$60	$80	(20)
Redundant EnFuzion Node and PSSE/MUST Lock	-	-	-	-	-	-	-	-	$23	(23)
Engineering Initiatives Total	**$30**	**-**	**$10**	**$146**	**$5**	**$161**	**$92**	**$283**	**$732**	**(449)**
e-Tariff Phase II	$383	-	-	-	-	-	-	$383	$950	(567)
Regulatory Initiatives Total	**$383**	**-**	**-**	**-**	**-**	**-**	**-**	**$383**	**$950**	**(567)**
SPP Budgeting & Forecasting System	-	-	-	-	$40	$40	-	$40	$40	-
Administration Initiatives Total	**-**	**-**	**-**	**-**	**$40**	**$40**	**-**	**$40**	**$40**	**-**
Request Management System	-	-	$8	-	-	$8	$182	$190	$273	
Process Integrity Initiatives Total	**-**	**-**	**$8**	**-**	**-**	**$8**	**$182**	**$190**	**$273**	**-**
Total PRPC Managed Projects	**$93,308**	**$15,801**	**$23,457**	**$27,732**	**$13,496**	**$80,486**	**$36,696**	**$210,490**	**$218,552**	**(7,979)**

Southwest Power Pool

Non-PRPC Projects *(in thousands)*	Prior Year(s) Expense	Q1 Actual	Q2 Forecast	Q3 Forecast	Q4 Forecast	Total 2012	Future Expense	Total Project	Budget Thru 2014	Over/(Under) Budget
MOS Enhancements Foundation	$120	$2	$8	$20	$20	$50	$800	$970	$969	$1
OATI Enhancements	$196	$24	$86	$78	$39	$226	$200	$622	$537	$85
Operations Initiatives Total	**$316**	**$26**	**$93**	**$98**	**$59**	**$276**	**$1,000**	**$1,592**	**$1,506**	**$86**
*Stochastic Modeling Tool***	-	-	-	$70	$100	$170	-	$170	$170	-
Engineering Initiatives Total	**-**	**-**	**-**	**$70**	**$100**	**$170**	**-**	**$170**	**$170**	**-**
2012 IT Apps Foundation	$73	$91	$261	$418	$161	$930	$59	$1,062	$421	$641
2012 IT Data Management Foundation	$19	$9	-	-	-	$9	-	$28	$91	(63)
2012 IT Server Admin Foundation	$3,200	$881	$233	$288	$41	$1,444	$3,424	$8,068	$9,493	(1,425)
2012 IT Service Management Foundation	$263	$92	$270	$1,048	$309	$1,720	$950	$2,932	$3,191	(259)
2012 IT Environment Ops Foundation	$13	$16	-	$140	$15	$171	$120	$305	$336	(31)
2012 IT Tele/Network/Security Foundation	$326	$183	$77	$210	$270	$740	$3,001	$4,067	$4,523	(456)
CIP (Ver 4) Project	$35	$16	-	-	-	$16	-	$51	-	$51
IT Initiatives Total	**$3,929**	**$1,287**	**$841**	**$2,105**	**$796**	**$5,029**	**$7,553**	**$16,512**	**$18,055**	**(1,543)**
AREVA ETS Foundation	$250	-	-	-	$75	$75	$150	$475	$475	-
Administration Initiatives Total	**$250**	**-**	**-**	**-**	**$75**	**$75**	**$150**	**$475**	**$475**	**-**
Total PRPC Managed Projects	**$4,495**	**$1,313**	**$935**	**$2,272**	**$1,030**	**$5,550**	**$8,703**	**$18,749**	**$20,206**	**(1,457)**
TOTAL PROJECTS	**$97,803**	**$17,114**	**$24,392**	**$30,005**	**$14,526**	**$86,036**	**$45,399**	**$229,239**	**$238,758**	**(9,436)**
2012 Unbudgeted										
EDNA Software Replacement	-	$1,000	-	-	-	$1,000	-	$1,000	-	$1,000
Standardized Cost Estimate Reporting Template (SCERT)	-	-	$130	$38	-	$168	-	$168	-	$168
2012 Unbudgeted Items	**$0**	**$1,000**	**$130**	**$38**	**-**	**$1,168**	**-**	**$1,168**	**-**	**$1,168**
TOTAL PROJECTS INCLUDING UNBUDGETED	**$97,803**	**$18,114**	**$24,522**	**$30,043**	**$14,526**	**$87,204**	**$45,399**	**$230,407**	**$238,758**	**(8,268)**

* 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 2012. All other projects are carryover projects.*

SPP Southwest Power Pool

Southwest Power Pool
Headcount Analysis
As of May 31, 2012

	Current Month Actual vs. Budget			Forecast vs. Budget		
	Actual May-12	Budget May-12	Over/(Under) Budget	FY 2012 Forecast	FY 2012 Budget	Over/(Under) Budget
Administration	0	0	0	0	0	0
Officers	10	10	0	10	10	0
Accounting	10	10	0	10	10	0
Credit	3	3	0	4	4	0
Human Resources	23	24	(1)	27	25	2
Settlements	22	24	(2)	26	26	0
Total Administration	68	71	(3)	77	75	2
Inter-Regional Affairs	1	1	0	1	1	0
Project Management	14	13	1	14	13	1
Training	8	11	(3)	11	11	0
Customer Service	7	8	(1)	9	9	0
Reliability Standards	3	3	0	3	3	0
Process Management	1	2	(1)	1	2	(1)
Transmission Development	7	7	0	7	7	0
Total Process Integrity	41	45	(4)	46	46	0
SPP Compliance	11	13	(2)	13	13	0
Communications	3	3	0	3	3	0
Market Monitoring	10	14	(4)	14	14	0
Internal Audit	5	6	(1)	6	6	0
Total Compliance & Corporate Affairs	29	36	(7)	36	36	0
Total SPP Regional Entity	28	32	(4)	32	32	0
Total Information Technology	129	140	(11)	140	140	0
Total Markets	6	6	0	6	6	0
Total Operations	142	153	(11)	157	156	1
Total Engineering	47	54	(7)	54	42	12
Total Contract Services	18	21	(3)	19	34	(15)
Total Regluatory Policy & General Counsel	20	23	(3)	23	23	0
TOTAL HEADCOUNT	528	581	(53)	590	590	0

Forecast vs. Budget

Original Budget	590
IT DBA position approved out of budget	1
No backfill for Ops position promotion	(1)
Current Forecast	590

Req. #	Position	Dept #	Dept Name	Status	External Hire	
11-144	Service Desk Analyst (Part-Time)	580	IT Operations			
11-148	Outreach Coordinator	230	Compliance			
11-151	Service Desk Analyst (Part-Time)	580	IT Operations			
11-152	Engineer II	880	Real Time & Current Day Eng.			
11-154	Market Monitor	720	Market Monitoring			
11-157	Market Engineer II	720	Market Monitoring			
11-088	Sr. Engineer	450	Congestion Hedging			
12-003	Sr. IT Specialist, DBA	510	IT Applications			
12-005	IT Specialist II, Data Analyst (BI Developer)	510	IT Applications			
12-012	Sr. Market Monitor	720	Market Monitoring			
12-023	Building Maintenance Specialist	150	Human Resources			
12-024	Sr. Compliance Specialist	130	RE - Compliance			
12-025	Sr. Compliance Specialist	130	RE - Compliance			
12-027	Internal Auditor	240	Internal Audit			
12-028	Customer Service Support Specialist I	320	Customer Relations			
12-031	Sr. Market Analyst, Operations Support	840	Market Operations			
12-033	Operations Analyst II, Model Coordination	860	Operations Support			
12-034	Operations Analyst II, Model Coordination	860	Operations Support			
12-037	Attorney	330	Legal			
12-038	Paralegal III	330	Legal			
12-039	Corporate Receptionist	150	HR			
12-041	Sr. Market Analyst, RT Market Policy	840	Market Operations			
12-042	Market Analyst I, RT Market Policy	840	Market Operations			
12-043	Credit Analyst I	140	Credit			
12-046	Settlement Analyst II	160	Settlements			
12-047	Settlement Analyst II	160	Settlements			
12-048	Facilities Coordinator	150	Corporate Services			
12-049	Supervisor, Operational Planning	860	Operations Support			
12-050	Economist	450	Congestion Hedging			
12-002	HR Generalist I	150	Human Resources			
12-052	Business Analyst II	460	Economic Planning			
12-058	Instructional Designer/Trainer	340	Customer Training			
12-065	Engineer II	850	Modeling			
12-068	OIT	820	Reliability Coordination			
12-069	Sr. IT Specialist	510	IT Applications			
12-070	Sr. Engineer	440	GI Studies			
12-071	Engineer II	8110	ICT Planning			
12-072	Manager, Real-Time Markets	840	Market Operations			
12-073	Part-Time Law Clerk	180	RE Enforcement			
12-074	Instructional Designer	340	Training			
12-076	IT Specialist II	510	IT Apps-Mkt & Settlements			
12-077	Sr. IT Specialist - DBA	510	Database Administration			
12-080	IT Specialist II	510	IT Apps-Reliability			
12-081	RE General Manager	170	Regional Entity Admin			
12-082	Cust Service Spec I	320	Customer Relations			
12-083	Settlement Analyst II	160	Settlements			
12-084	Lead IT, Specialist	510	IT Applications, Reliablity			
12-085	Lead IT, Specialist	510	IT Applications, Servics			
12-086	IT Specialist II	580	IT Service Management			
12-087	Sr. Operator	830	Ops Interchange			
12-091	Shift Ops Engineer II	880	Real Time & Current Day Eng.			
12-094	Engineer II	420	Transmission Service Studies			
12-098	Paralegal	180	RE Enforcement			
12-100	Engineer II	850	Modeling & Data Integrity			
Pending	Director, Stakeholder Services	340	Training			
12-088	Engineer II	440	GI Studies			
12-089	Engineer I	8110	ICT Planning			
12-090	Settlement Analyst I	160	Settlements			

Req. #	*Position*	*Dept #*	*Dept Name*	*Status*	*External Hire*	
12-092	Engineer I	850	Modeling			
12-061	Planning Analyst II	470	Special Studies			
12-106	Sr. Engineer	900	Regulatory			
Pending	Service Desk Analyst (Part-Time)	580	IT Service Management			

2012 YTD Budgeted Positions Filled	27
2012 YTD Replacement Positions Filled	14
2012 YTD Total Hires	41
2011 Positions Filled in 2012	19
Number of Internal Hires	35
Number of External Hires	25

Remaining 2011 Positions in Blue: 11-xxx
2012 Budgeted Positions Highlighted in Grey: 12-001 thru 12-050
Replacement Positions Highlighted in Yellow: 12-051 thru 12-xxx

Status Legend	***2012***	***2011***
Inactive	4	1
Active, Not Posted	4	0
Active, Posted	47	6
Filled	41	19

Hire Legend		
Internal	27	8
External	14	11

04/30 Ending Active Headcount	531
Resignations during April	-5
May External Hires	2
05/31 Ending Active Headcount	528
2011 Open	7
2012 Open	55
2012 Year End Target	590

SOUTHWEST POWER POOL RETIREMENT PLAN

INVESTMENT POLICY STATEMENT

~~July 22, 2010~~July 10, 2012

1.01 PURPOSE OF THIS STATEMENT

The ~~Human Resources~~Finance Committee ("the Named Fiduciary") of the Southwest Power Pool, Inc. Board of Directors, on behalf of Southwest Power Pool, Inc. ("the Plan Sponsor"), hereby establishes the following policy for administering the Southwest Power Pool Retirement Plan ("the Plan") investment program. The Investment Policy Statement ("the Statement") sets forth the investment objectives and guidelines that will be applied within the investment program to insure the assets of the Plan are managed in a manner consistent with the Plan document and applicable statutory requirements. In addition, the Statement is to provide a framework for management of the assets of the Plan within levels of risk acceptable to the Named Fiduciary and the Southwest Power Pool, Inc. Board of Directors. The Statement provides the investment manager(s) with a written statement of specific quality, quantity and rate of return standards. By establishing and communicating clear investment guidelines and objectives, the Plan Sponsor can enhance the effectiveness of the Plan's investment program and thereby contribute to the overall goal of retaining and recruiting employees by delivering an attractive, low-cost retirement program.

This Statement is based on the "prudent expert rule" to ensure all fiduciaries under the Plan act with skill, care, prudence, and diligence. It is expected that decisions related to management of the Plan and its assets will follow a careful, skillful, prudent and diligent process.

1.02 AMENDMENTS TO THE STATEMENT

The Named Fiduciary reserves the right to amend this Statement at any time as deemed prudent or necessary. Should any amendment to this Statement be required due to changes in the Plan document or a change in applicable law, the Named Fiduciary shall have due time to review such changes and prepare and implement an appropriate amendment. Because of the dynamic nature of the economic environment, developments in financial theories, and advances in technology, this Statement will be examined by the Named Fiduciary from time to time on a formal or informal basis and may, as a result of such examination, be revised by the Named Fiduciary.

1.03 BACKGROUND OF THE FUND

The Plan was established by the Southwest Power Pool, Inc. Board of Directors effective January 1, 1996. The purpose of the Plan is to provide annuity payments to qualified retirees of the Plan Sponsor.

1.04 PLAN PROFILE

The Plan was established to receive assets from the Plan Sponsor. Thereafter, assets in the Plan are used to provide annuity payments to retired employees of the Plan Sponsor meeting the qualification guidelines detailed in the Plan. The Plan is regulated by the Employee Retirement Income Security Act ("ERISA"). Earnings or losses of the Plan are not subject to taxation. Distributions of benefits to retirees are taxable to the retiree/beneficiary.

1.05 PLAN FUNDING

The Named Fiduciary has established a minimum allowable funding level of the Plan equal to the Accumulated Benefit Obligation and a maximum funding level equal to the Projected Benefit Obligation. The Plan Sponsor contributes periodic funds to the Plan based on guidance provided by the Plan's actuary and decisions made by the Named Fiduciary and accepted by the Southwest Power Pool, Inc. Board of Directors. It is expected that the Plan Sponsor will continue to make periodic contributions to the Plan into the foreseeable future.

2.01 INVESTMENT OBJECTIVES

The overall objective of this Statement is to provide guidance for the investment of contributions and other Plan assets and to help maintain adequate funding for Plan liabilities. It is crucial the investment philosophy follow the guidelines of ERISA, primarily that the funds are managed solely in the interest of plan participants. The Named Fiduciary will utilize a portfolio approach when evaluating Plan return, risk, and cost.

2.02 RETURN OBJECTIVES

The primary goal is to obtain a return annualized over the preceding five calendar years equal to or exceeding the actuarially assumed rate of return (currently 7%). Long-term returns above the actuarially assumed rate may serve to reduce the periodic funding required of the Plan Sponsor.

2.03 RISK OBJECTIVES

The Plan assets will be managed with an average to above average risk profile. Currently the pension liabilities are relatively long-term in nature with minimal near term liquidity requirements, allowing for volatility above what one would expect from a portfolio with shorter term investment horizon.

Investments held by the Plan should at all times have readily available prices and sufficient trading volume so that investments can be bought and sold easily without significantly impacting the price of the investments.

2.04 COST OBJECTIVES

The Named Fiduciary will strive to maintain the costs of funding and administering the Plan at a reasonable level and consistent with market costs for engaging qualified professionals to provide asset management and administration services.

2.05 ASSET ALLOCATION

The assets of the Plan will be invested in one or more of the following asset classes:

Cash: Comprised of demand deposit accounts, savings accounts, money market accounts, debt instruments with maturities of 3 months or less

Debt Securities: U.S. Dollar denominated fixed income securities with maturities in excess of 3 months including, but not limited to, Government and Agency issues, mortgage and asset backed securities, and corporate issues, or investment in professionally managed funds investing in the previously mentioned types of securities. Although fixed income investments rated less than investment grade are permitted, the average credit quality of the aggregate fixed income allocation should be investment grade.

U.S. Equities: Common and preferred equity securities of companies domiciled in the United States or in professionally managed funds investing primarily in the previously mentioned securities

International Securities: Direct investment or investment in professionally managed funds investing in common and preferred equity securities and debt securities of companies domiciled outside of the United States. Security issues of non U.S. domiciled entities may be acquired either through U.S. exchange traded American Depository Receipts or directly through non U.S. based exchanges. In no event will the market value of International Securities holdings exceed 20% of the market value of the Plan Assets. The Named Fiduciary will review the total international security holdings of the plan annually and determine if the level of holdings is appropriate. The Named Fiduciary may direct the investment managers to increase or reduce international security holdings at any time.

Derivative Instruments: No direct investment in derivative instruments is permitted, although investment is permitted in professionally managed funds that do use derivatives. Funds making use of derivatives must specifically prohibit the use of derivatives to achieve leverage.

In aggregate, the assets of the Plan shall target the asset allocation ranges listed below:

Security Description	Lower Limit	Target	Upper Limit
Cash	0%	5%	15%
Debt Securities	15%	25%	35%
Equity Securities (growth)	30%	35%	40%
Equity Securities (value)	30%	35%	40%

The Named Fiduciary will take appropriate action should the invested assets of the Plan stray more than 10% outside of the established allocation range.

2.06 PROHIBITED INVESTMENTS

The assets of the Plan shall not be used to invest in any investment not specifically permitted by this Statement. The Named Fiduciary does not limit investments in specific entities except as noted above. Investment managers are allowed to invest in electric utilities, including members of the Named Fiduciary, should they wish without restrictions. The Named Fiduciary shall not be permitted to direct any investment manager to invest in any particular individual security nor require the investment manager to provide notice to the Named Fiduciary prior to making investments permitted by this Statement.

3.01 SELECTION OF MONEY MANAGER(S)

The Named Fiduciary shall select investment managers and, where appropriate, investment options based on the evaluation of qualitative and quantitative factors. The manager selection process will focus on the following five key aspects of an investment management firm and investment option:

1. **Organization** – evaluate the key elements of an efficient and successful investment management organization such as stable firm ownership, clear business objectives, industry reputation, and experienced and talented investment staff.

2. **Investment Philosophy and Process** – evaluate the key elements of a valid and well-defined investment approach such as unique sources of information, disciplined buy/sell decisions, systematic portfolio construction, and adequate risk controls.

3. **Resources** – evaluate the state of current and proposed resources supporting the investment process including the quality and depth of research and the adequacy of information management, compliance and trading systems.

4. **Performance –** evaluate historical returns and risks relative to passive indexes, peer groups, and other competing firms.

5. **Management Fees** – evaluate the proposed fee structure relative to the industry and other competing candidates.

These factors are chosen to insure manager/option selections are made with a prudent degree of care, and excessive risk is avoided. Notwithstanding the above, the Named Fiduciary may also include other factors that may be appropriate to a specific manager/option selection exercise.

3.02 ACKNOWLEDGEMENT OF FIDUCIARY RESPONSIBILITY

Any and all investment managers selected to invest the assets of the Plan will be required, as a condition of their selection, to acknowledge their fiduciary status and responsibility to the Plan, in writing. This requirement shall not require the investment manager of a mutual fund in which the Plan invests to acknowledge fiduciary status.

3.03 MONITORING THE INVESTMENT MANAGER

The objective of the investment manager monitoring process is to identify on a timely basis any adverse changes to the investment manager's organization or investment process by periodically evaluating a number of qualitative and quantitative factors. In addition, once adverse changes are identified, the monitoring process shall also dictate the timing and manner of response.

The Named Fiduciary shall evaluate the investment managers/options at least annually using the framework in 3.01 above, in addition to using any other factors the Named Fiduciary believes are appropriate to the inquiry. These factors are intended to insure that decisions to retain investment managers/options are made with a prudent degree of care and excessive risk is avoided.

If results from the monitoring process indicate substandard investment performance or a potentially adverse change in the investment manager's organization or investment process, the Named Fiduciary may choose one of several courses of action including assigning the investment manager/option a temporary probationary status known as the Watch List, undertaking an in-depth review, or terminating the investment manager/option.

Being placed on the Watch List is meant to convey the Named Fiduciary's increased level of concern about a particular issue or event, which if left unresolved, could endanger the future relationship. An in-depth review may be undertaken as a result of the manager/option failing to rectify the issues that led to their placement on the Watch List, or in response to a major adverse change in the investment manager's organization or investment process to the extent the Named Fiduciary seriously questions the firm's ability to manage the portfolio going forward. The purpose of the in-depth review is to determine whether terminating the manager/option is an appropriate course of action.

3.04 TERMINATION/REPLACEMENT OF INVESTMENT MANAGERS

The Named Fiduciary may eliminate or replace the investment manager/option any time the Named Fiduciary deems it in the best interests of the Plan.

FRM

FOUNDATION RESOURCE MANAGEMENT

Greg Hartz, CPA, CFA

Mark Millsap, CFA

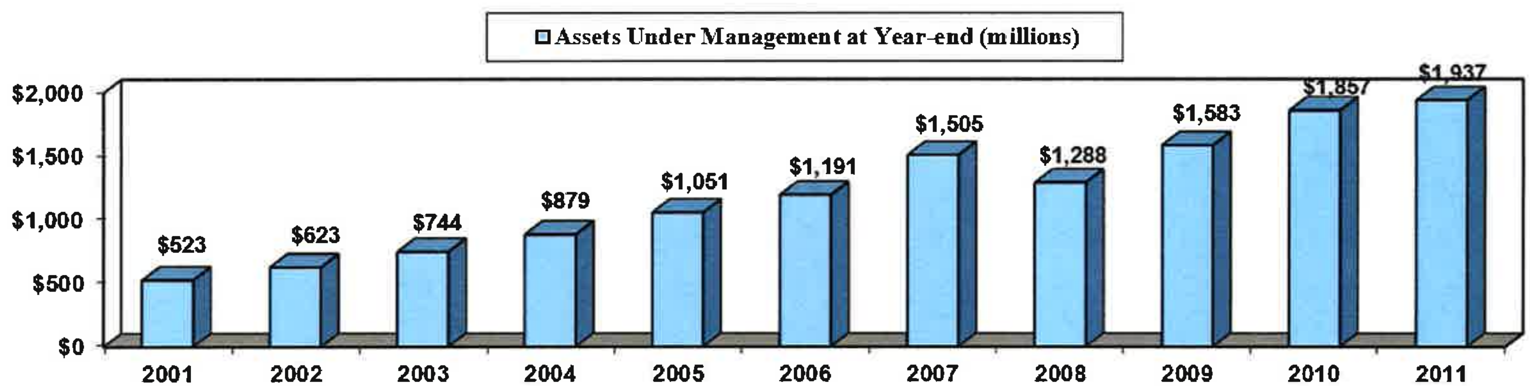
Tom Hill, CFA

Chris Fleischmann, CFA

Zach Riley, CFA, CPA

Company Profile

- Company founded in 1992
- Total combined experience of 95 years among investment staff
- Staff includes 5 Chartered Financial Analysts (CFA) and 4 Certified Public Accountants (CPA)
- Disciplined value investing approach based on independent analysis and decision making
- Equity, fixed income, and balanced management
- Serving insurance companies, charitable foundations, hospitals, retirement plans and high net worth individuals
- Assets under management are approximately $1.8 billion



FRM
FOUNDATION RESOURCE MANAGEMENT

Industry Recognition

- Named by Charles Schwab & Co., Inc. as one of the 30 "Best-Managed Firms: The Business of Serving Clients" out of 647 firms reviewed in 2007.

- Named a "Top 50 Fee-Only Registered Investment Advisor Ranked by Discretionary Assets Under Management" as of July, 2011, by **InvestmentNews**™, an industry publication.

- Included in "America's Top 100 RIAs" by **Registered Rep** magazine, July, 2009.

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Representative Clients

American Fidelity Assurance Company

Arkansas Blue Cross Blue Shield

Arkansas Children's Hospital Foundation

Blue and You Foundation

Bodenhamer Foundation

The Ernest G. Debakey Charitable Foundation

Donaghey Foundation

Gustaf W. McIlhenny Family Foundation

HMO Partners, Inc.

Kerr Foundation

Murphy Oil Corp Defined Benefit Plan

Oklahoma County Metropolitan Library Systems Pension Plan

St. Bernard's Regional Medical Center

USAble Corporation

USAble Life

Working Woman's Home Association

Note: This information is privately disclosed, and we request that it remain confidential.

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FOUNDATION RESOURCE MANAGEMENT

OUR STAFF

Investment Team

Greg Hartz is founder and co-owner of Foundation Resource Management. He is a Chartered Financial Analyst, a Certified Public Accountant and holds the designation of Personal Financial Specialist of the American Institute of Certified Public Accountants. He received a Bachelor of Science in Finance and Banking and a Master of Science in Accounting from the University of Arkansas. After two years in public accounting, Greg joined the Pillsbury Company in 1979 as a division controller and later moved into general management during his seven years with the company. Upon sale of his division by Pillsbury in 1986, he joined Merrill Lynch as a registered financial consultant. In 1987, he joined Arkansas Blue Cross Blue Shield (ABCBS) as in-house portfolio manager. Greg was employed with ABCBS until the beginning of 2002 when he left to work full-time for FRM.

Email Greg at ghartz@foundationresourcemanagement.com or call (501) 604-3190 extension 1.

Mark Millsap is co-owner of Foundation Resource Management. He is a Chartered Financial Analyst and a Chartered Investment Counselor. He earned a Bachelor of Science degree from the University of Alabama in Corporate Finance and Investment Management. Mark has spent his entire 30-year career as a value investment manager. He worked for AmSouth Bank in Birmingham, Alabama as a portfolio manager for eight years before working for Meridian Management Company of Little Rock from 1989 until October 2001. Mark served as Managing Principal of Meridian from 1993 until his departure to his current position at Foundation Resource Management. Mark has extensive experience managing stock, bond and balanced portfolios.

Email Mark at mmillsap@foundationresourcemanagement.com or call (501) 604-3190 extension 2.

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FOUNDATION RESOURCE MANAGEMENT

OUR STAFF

Investment Team

Tom Hill is Senior Portfolio Manager at Foundation Resource Management. He is a Chartered Financial Analyst and earned a Bachelor of Arts in Mathematics, magna cum laude, from Vanderbilt University and a Master of Business Administration from the Wharton School of the University of Pennsylvania. After a few years with a private manufacturing business, Tom spent 28 years with Merrill Lynch, retiring as a First Vice President-Investments and Wealth Management Advisor. Tom has extensive experience advising institutional, retirement, and private clients in the management of equity, fixed income, and balanced portfolios.

Email Tom at thill@foundationresourcemanagement.com or call (501) 604-3190 extension 111.

Chris Fleischmann is Research Analyst and Portfolio Manager for Foundation Resource Management. He is a Chartered Financial Analyst and earned a Master of Business at Tulane University and a Bachelor of Science in Finance at Arkansas State University. Chris joined Foundation Resource Management in 2008, after working as a Securities Analyst with Pope Asset Management in Memphis, Tennessee. Beginning in October of 2000, Chris worked nearly eight years at Morgan Asset Management and its affiliate, Morgan Keegan. He worked three years as an Equity Analyst at Morgan Keegan's asset adviser, which later merged with Morgan Asset Management where he managed the equity allocations of several mutual funds for almost five years. Chris began his investment career as a Junior Equity Analyst at Edward Jones Investments in 1999.

Email Chris at cfleischmann@foundationresourcemanagement.com or call (501) 604-3190 extension 101.

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OUR STAFF

Investment Team

Zach Riley is Research Analyst for Foundation Resource Management. He is a Chartered Financial Analyst and a Certified Public Accountant and received his Bachelor of Science in Finance and Investment Management and a Master of Business Administration from the University of Arkansas at Fayetteville. Prior to joining FRM, Zach served as a financial analyst at Wal-Mart Stores, Inc.

Email Zach at zriley@foundationresourcemanagement.com or call (501) 604-3190 extension 7.

Administrative Team

Abby McKelvy is Chief Financial Officer of Foundation Resource Management. She earned a Bachelor of Science degree in Accounting and Financial Management from the University of Arkansas and is a Certified Public Accountant. Prior to joining Foundation Resource Management, Abby was employed with Deloitte & Touche in Little Rock as a Senior Auditor serving clients in industries such as insurance, public employee pension and retirement plans, governmental entities and non-profit organizations. Subsequent to her public accounting experience, Abby gained experience as a controller in industry.

Email Abby at amckelvy@foundationresourcemanagement.com or call (501) 604-3190 extension 3.

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OUR STAFF

Administrative Team

Gail O'Donnell is Controller of Foundation Resource Management. She earned a Bachelor of Science degree from the University of Arkansas and is a Certified Public Accountant. Gail gained over 20 years of experience in the investment management industry beginning at First Variable Life Insurance Company and subsequently joining Meridian Management Company.

Email Gail at godonnell@foundationresourcemanagement.com or call (501) 604-3190 extension 6.

Lauren Sanders is Portfolio Accounting Manager for Foundation Resource Management. She received a Bachelor of Science in Accounting from the University of Arkansas at Fayetteville. Lauren gained 3 years of experience in the investment management industry working for Greenwood & Associates, Inc. in Fayetteville. Prior to joining Foundation Resource Management, she served as the Client Service Specialist for Charles Schwab & Co., Inc. in Little Rock.

Email Lauren at lsanders@foundationresourcemanagement.com or call (501) 604-3190 extension 5.

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OUR STAFF

Administrative Team

Becky Boyd Newberry is Insurance Accounting Manager of Foundation Resource Management. Becky holds a Bachelor of Arts degree from Arkansas State University and has 30 years experience in accounting and investment management. She has worked as an Account Executive for Merrill Lynch, trust officer at First Commercial Bank (now Regions Bank), investment specialist for Arkansas Teacher and Public Employees Retirement systems, and Internal Auditor and Accounting Supervisor for Arkansas Department of Education – Special Education.

Email Becky at bnewberry@foundationresourcemanagement.com or call (501) 604-3190 extension 4.

Trina Boyd is Insurance Accounting Specialist for Foundation Resource Management. She received a Bachelor of Business Administration in Finance from Memphis State University. She has 20 years of experience in accounting and finance. Prior to joining Foundation Resource Management, Trina served as Accounting Associate for Stephens Inc., A/P Accountant for Communication Supply Service Assoc., Office Manager for ABEA, Payroll Supervisor for the Arkansas Teacher Retirement System and Paraplanner for Financial Decisions Institute.

Email Trina at tboyd@foundationresourcemanagement.com or call (501) 604-3190 extension 8.

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A Different Investment Approach – What Makes Us Different?

	Conventional Approach	**FRM**
Risk	Volatility	Permanent loss of capital
Returns	Function of risk (direct correlation)	Function of price paid and fundamentals (indirect correlation)
Markets	Efficient - the market provides all investors with the same information so that there is no advantage in buying individual securities	Inefficient - markets are often wrong and may remain so for long periods, especially in regard to individual securities
Approach	Closet indexing	Long-term *Investing*

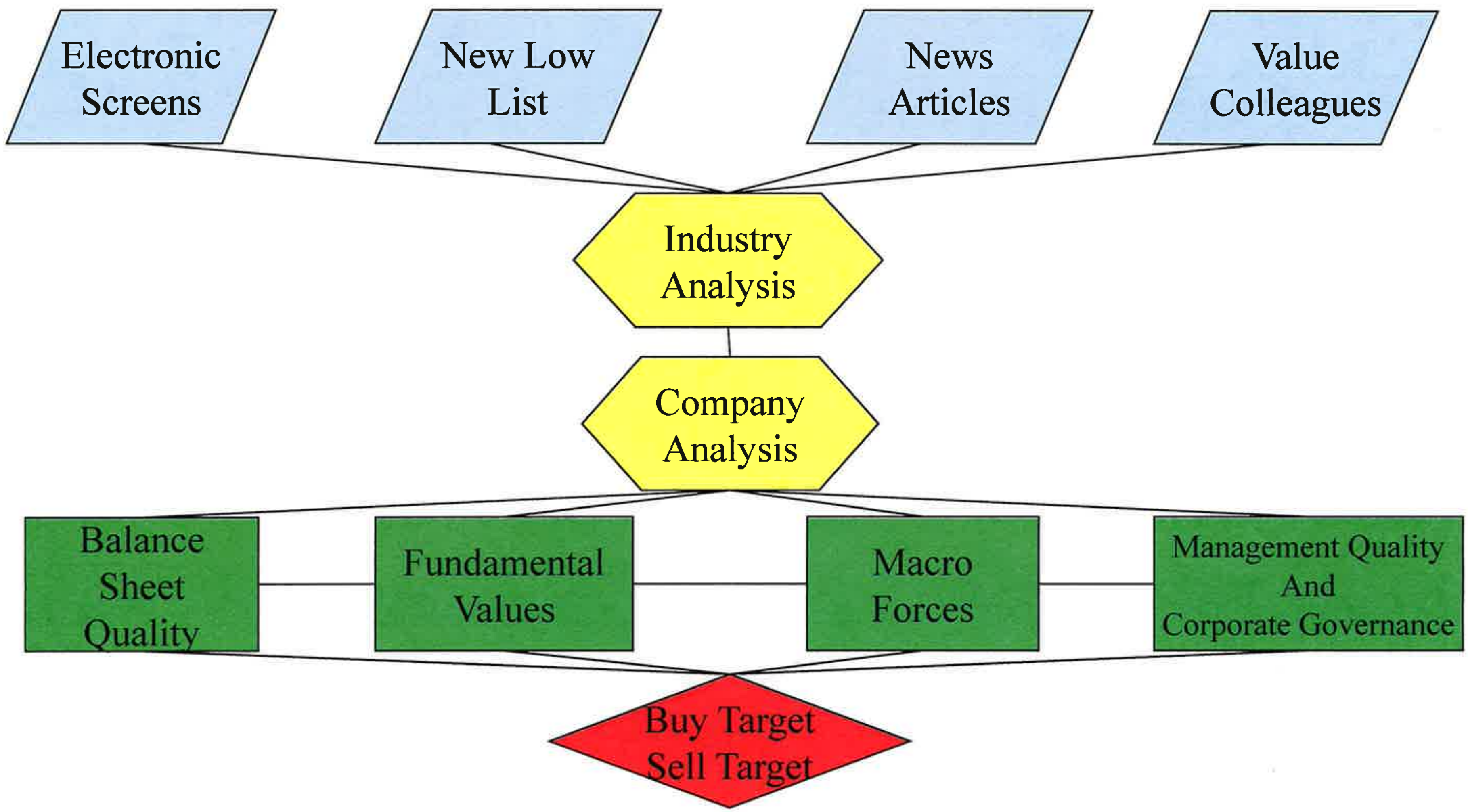
FRM
FOUNDATION RESOURCE MANAGEMENT

Equity Investment Philosophy

Our approach centers on the pursuit of intrinsic value. The price we pay for a security is critical in providing an attractive return on our clients' capital as well as protecting our clients against a permanent loss of capital. This potential for permanent loss of capital is how we define risk. Our approach requires patience and a willingness to think independently from the market. We perform our own research internally. Our goal is to pay an attractive price for a stock based either on the company's proven ability to earn or on its asset value.

FRM
FOUNDATION RESOURCE MANAGEMENT

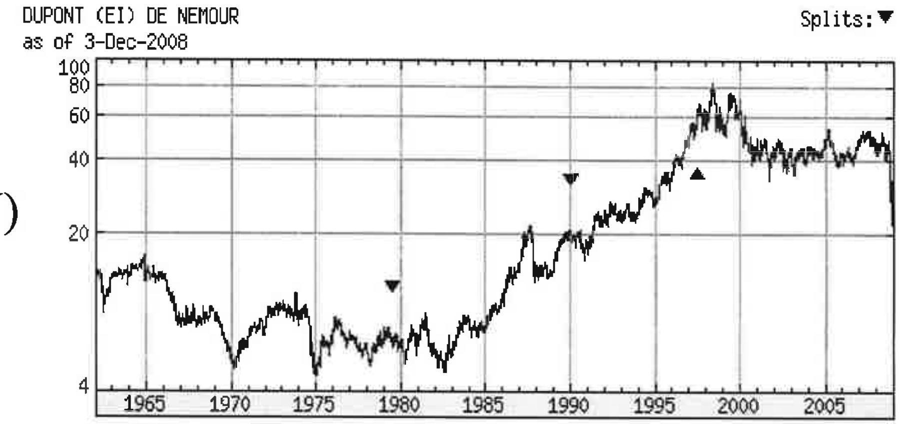
Investment Process



DuPont (DD)

Quantitative Factors

- Purchase cost=$23.50(November 2008)
- BV/Share 09/30/2008=$13.96 (Cost=168% BV)
- Avg. 5 yr. EPS=$2.50
- Avg. 5 yr. CFS=$4.04
- Avg. 10 yr. ROE=21.44%; FRM=12.76% (original purchase)
- Dividend Yield- 6.98%
- Current 10 Year Stock Price High $ 84.40
- Current 10 Year Stock Price Low $ 21.95
- Current Price (12/03/2008) $23.61
- Current Sell Target $42.75

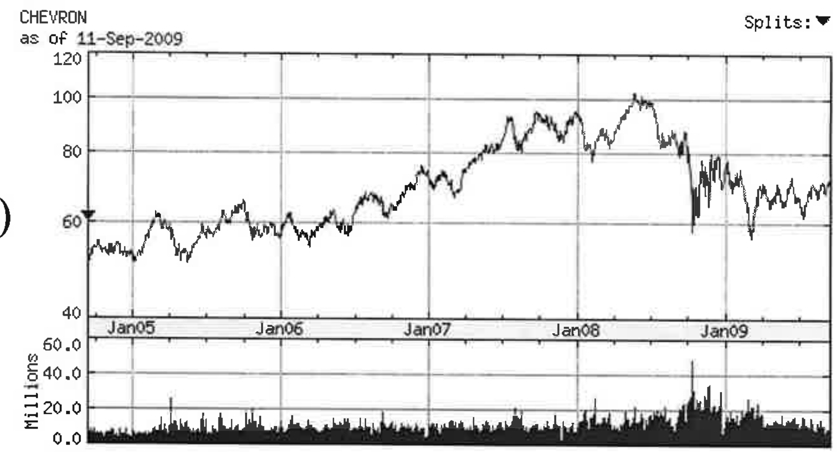


Source: Yahoo Finance

Qualitative Factors

- A global leader in science and technology in a range of disciplines, including high performance materials, electronics, safety and security, and biotechnology
- Generates substantial cash
- Two-thirds of sales outside the U.S.; 70% of assets in the U.S.
- $2.4B worth of debt due 2009 – 2010 (41% of total debt)
- Since 2000, the company's U.S. patent filings have more than doubled and the U.S. patents granted has increased more than 50% (4.75%; 3 yr avg. R&D spend as a percentage of revenue)

Chevron Corp (CVX)



Source: Yahoo Finance

Quantitative Factors

- Purchase cost=$70.50(September 2009)
- BV/Share 06/30/2009=$43.86 (Cost= 161% BV)
- Avg. 5 yr. EPS=$8.21
- Avg. 5 yr. CFS=$11.50
- Avg. 10 yr. ROE=21.05%; FRM=13.08% (original purchase)
- Dividend Yield- 3.86%
- Current 10 Year Stock Price High $ 104.60
- Current 10 Year Stock Price Low $ 30.70
- Current Price (9/14/2009) $70.50
- Current Sell Target $115.00

Qualitative Factors

- The world's 7th largest oil company based on proven reserves (11.2 billion boe; 66% oil/34% gas)
- Estimated reserve life of 12.2* years
- Has generated substantial amounts of cash and has a solid balance sheet (13.6% debt to total capital)
- High barriers to entry
- Also owns refineries and retail stations
- International presence with several large projects in the pipeline
- Long term oil supply challenge

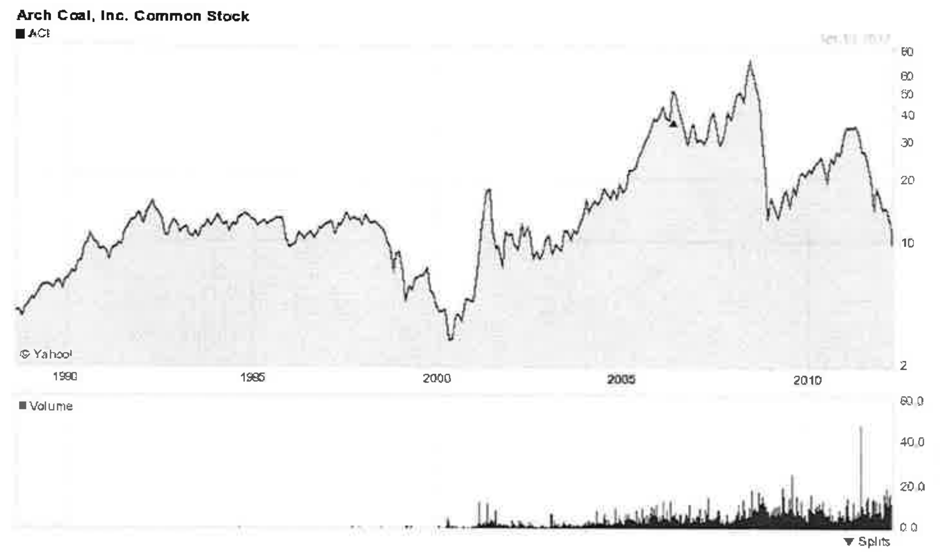
*Source: Deutsche Bank

Arch Coal Inc. (ACI)

Quantitative Factors

- Price=$10.00 (April 2012)
- BV/Share 12/31/2011=$16.87 (Cost= 59.28% BV)
- Avg. 5 yr. EPS= $1.22
- Avg. 5 yr. OCFS= $3.18
- Avg. 10 yr. ROE= 8.19% FRM= 13.82%

- Dividend Yield- 4.40%
- 10 Year Stock Price High $77.40
- 10 Year Stock Price Low $ 6.40
- Current Buy Target (4/11/12) $ 10.00
- Current Sell Target $ 24.00



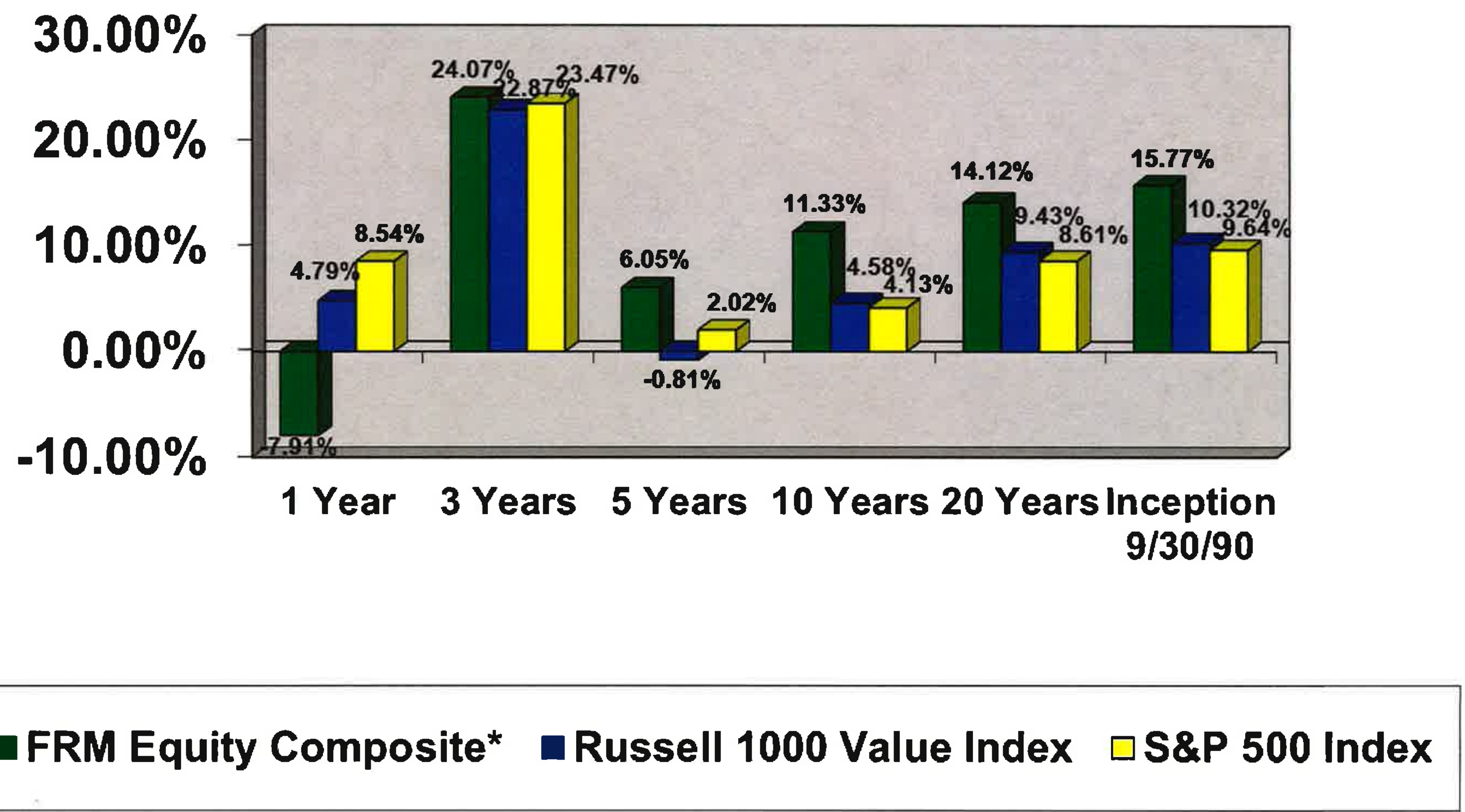
Source: Yahoo Finance

Qualitative Factors

- ACI is the US's second-largest coal producer and reserve holder and in the top five of global coal producers
- Produced 157 million tons of coal in 2011 and has 5.6 billion tons of reserves (414 million tons of met coal, 7.4% of total reserves)
- Operates mines in every major coal-supply basin including the Northern Powder River Basin, Southern Powder River Basin, Western Bituminous, Appalachia, and Illinois Basin
- In the near term, ACI is reducing thermal production and capital spending, while expanding its met portfolio
- Mild winter weather and low-priced natural gas are impacting coal use for power production
- Strength of met coal demand continues and the capacity of the export market for thermal coal continues to grow
- ACI has a good balance sheet with debt to total assets of 39.5% and 5-year average interest coverage of 2.87
- Lowest level of legacy liabilities versus peers, with two-thirds of legacy liabilities consisting of reclamation liabilities
- Expects to generate free cash flow in 2012, with a priority for debt repayment

FRM
FOUNDATION RESOURCE MANAGEMENT

Equity Investment Performance
Annualized for the periods ending 3/31/12



*Before Fees

FRM
FOUNDATION RESOURCE MANAGEMENT

		FRM PERFORMANCE %		S&P 500 INDEX %
3 Months Ended 12/31/90		12.30		8.96
1991		34.17		30.47
1992	25.67	23.68	13.38	7.62
1993		25.18		10.08
1994		13.31		1.32
1995		12.82		37.58
1996		24.85		22.96
1997	16.24	18.62	28.54	33.36
1998		-1.13		28.58
1999		28.50		21.04
2000		13.46		-9.10
2001		12.14		-11.89
2002		-9.59		-22.10
2003		42.33		28.68
2004		24.10		10.88
2005	12.28	20.67	1.52	4.91
2006		17.67		15.80
2007		31.80		5.49
2008		-35.17		-37.00
2009		45.13		26.46
2010		18.79		15.06
2011		-9.07		2.11
3 Months Ended 3/31/12		6.67		12.59
Annualized		**15.77%**		**9.64%**

Annual Standard Deviation of Return

FRM	S&P 500
17.76	18.23

The above performance was calculated using a time-weighted calculation of quarterly performance consistent with the CFA Institute's methodology for computing performance. The equity composite performance presented above is comprised of all equity portfolios managed by Greg Hartz from 9/30/90 to 12/31/01. From 1/01/02 to present, the composite performance includes all equity clients managed by Foundation Resource Management. Consistent with the Global Investment Performance Standards of the CFA Institute, Mark Millsap's portfolio performance is not included in this composite prior to his joining Foundation Resource Management. To the extent that the above figures do not represent a composite of all accounts managed solely by Foundation Resource Management from 9/30/90 to 12/31/01, this schedule does not comply with the Global Investment Performance Standards of the CFA Institute.

The above results do not reflect the reinvestment of dividends and other earnings. Additionally, the performance results presented above do reflect the deduction of brokerage commissions, but do not reflect the deduction of investment advisory fees. The client's actual return will be reduced by the advisory fees and any other expenses incurred in the management of the account. FRM's investment advisory fees are described in Part II of Registrant's Form ADV. The following is a representative example which shows the effect an investment advisory fee could have on the value of a client's portfolio:

For a $1,000,000 initial equity investment, the total investment management fees for an account that experiences a 6% annual compound return are:

One Year: $10,320

Five Years: $53,400

Foundation Resource Management, Inc.
PERFORMANCE HISTORY
GROSS OF FEES
Equity Composite

Time Period		Percent Return Per Period: Total Account	S&P500 INDEX	Russell 1000 Value INDEX
9/30/1990 to	3/31/1991	30.34	24.79	22.33
3/31/1991 to	9/30/1991	15.53	5.11	5.35
9/30/1991 to	3/31/1992	10.08	5.65	5.71
3/31/1992 to	9/30/1992	5.67	5.11	6.11
9/30/1992 to	3/31/1993	18.91	9.62	16.05
3/31/1993 to	9/30/1993	1.53	3.08	8.01
9/30/1993 to	3/31/1994	10.84	-1.56	-3.8
3/31/1994 to	9/30/1994	25.1	5.33	3.21
9/30/1994 to	3/31/1995	-7.41	9.72	7.8
3/31/1995 to	9/30/1995	10.76	18.25	18.47
9/30/1995 to	3/31/1996	11.89	11.71	12.68
3/31/1996 to	9/30/1996	-1.2	7.72	4.68
9/30/1996 to	3/31/1997	17.23	11.24	12.8
3/31/1997 to	9/30/1997	27.09	26.25	26.17
9/30/1997 to	3/31/1998	1.32	17.22	16.64
3/31/1998 to	9/30/1998	-16.94	-6.97	-11.19
9/30/1998 to	3/31/1999	7.7	27.34	18.28
3/31/1999 to	9/30/1999	16.16	0.36	0.38
9/30/1999 to	3/31/2000	7.2	17.51	5.94
3/31/2000 to	9/30/2000	4.55	-3.6	2.81
9/30/2000 to	3/31/2001	10.06	-18.75	-2.47
3/31/2001 to	9/30/2001	-3.27	-9.68	-6.6
9/30/2001 to	3/31/2002	27.37	10.99	11.77
3/31/2002 to	9/30/2002	-23.82	-28.36	-25.69
9/30/2002 to	3/31/2003	0.94	5.02	3.91

Time Period		Percent Return Per Period: Total Account	S&P500 INDEX	Russell 1000 Value INDEX
3/31/2003 to	9/30/2003	27.23	18.45	19.69
9/30/2003 to	3/31/2004	23.76	14.08	17.65
3/31/2004 to	9/30/2004	7.52	-0.18	2.44
9/30/2004 to	3/31/2005	12.66	6.88	10.48
3/31/2005 to	9/30/2005	20.59	5.02	5.62
9/30/2005 to	3/31/2006	2.86	6.38	7.27
3/31/2006 to	9/30/2006	1.04	4.14	6.85
9/30/2006 to	3/31/2007	18.44	7.38	9.34
3/31/2007 to	9/30/2007	19.23	8.44	4.67
9/30/2007 to	3/31/2008	1.83	-12.46	-14.01
3/31/2008 to	9/30/2008	-9.79	-10.87	-11.1
9/30/2008 to	3/31/2009	-35.84	-30.54	-35.22
3/31/2009 to	9/30/2009	51.58	34.02	37.99
9/30/2009 to	3/31/2010	14.01	11.75	11.28
3/31/2010 to	9/30/2010	0.74	-1.42	-2.14
9/30/2010 to	3/31/2011	18.99	17.31	17.68
3/31/2011 to	9/30/2011	-23.52	-13.78	-16.62
9/30/2011 to	3/31/2012	20.41	25.89	25.68
Date to Date				
9/30/1990 to	3/31/2012	2212.91	620.44	722.6
Annualized		15.77	9.64	10.32
Inception to Date				
9/30/1990 to	3/31/2012	2212.91	620.44	722.6
Annualized		15.77	9.64	10.32

FRM
FOUNDATION RESOURCE MANAGEMENT

Fixed Income Philosophy

Foundation Resource Management's fixed income management is structured to safeguard capital and at the same time generate current income in excess of that derived from investing in equity securities. As value investors, we demand that we be well compensated for taking any of the various risks present in fixed income securities. We attempt to leverage our research in the stock market to add value when investing in corporate bonds. Risk premiums are frequently attractive on the companies we study the most, since the bonds will tend to be out of favor in parallel with the stock of the company. We are very conservative in assuming significant interest rate risk (maturity risk) in a world of fiat currencies and inflation. Thus, we generally prefer a diversified portfolio of short and intermediate term bonds.

FRM
FOUNDATION RESOURCE MANAGEMENT

FIXED INCOME COMPOSITE PERFORMANCE

9/30/88 to 3/31/12

	FRM PERFORMANCE %	ML 1-5 YEAR CORP/GOVT %
12 Months Ended 9/30/89	9.52	9.16
3 Months Ended 12/31/89	2.76	3.05
1990	9.13	9.67
1991	9.05	13.02
1992	5.28	6.89
1993	4.20	7.13
1994	3.65	-0.55
1995	8.69	12.96
1996	5.44	4.62
1997	6.86	7.16
1998	6.89	7.68
1999	2.90	2.19
2000	8.29	8.88
2001	8.06	8.98
2002	7.34	7.91
2003	3.68	3.30
2004	1.88	1.77
2005	2.45	1.44
2006	4.83	4.24
2007	6.44	7.27
2008	3.55	4.65
2009	4.45	4.89
2010	3.70	4.17
2011	2.72	3.10
3 Months Ended 3/31/12	0.58	0.62
Annualized	**5.62%**	**6.10%**

Annual Standard Deviation of Return

FRM	ML 1-5
2.57	3.59

The above performance was calculated using a time-weighted calculation of quarterly performance consistent with the CFA Institute's methodology for computing performance. The fixed income composite performance presented above is comprised of all fixed income portfolios managed by Greg Hartz from 9/30/88 to 12/31/01. From 1/01/02 to present, the composite performance includes all fixed income clients managed by Foundation Resource Management. Consistent with the Global Investment Performance Standards of the CFA Institute, Mark Millsap's portfolio performance is not included in this composite prior to his joining Foundation Resource Management. To the extent that the above figures do not represent a composite of all accounts managed solely by Foundation Resource Management from 9/30/88 to 12/31/01, this schedule does not comply with the Global Investment Performance Standards of the CFA Institute.

The above results do not reflect the reinvestment of dividends and other earnings. Additionally, the performance results presented above do reflect the deduction of brokerage commissions, but do not reflect the deduction of investment advisory fees. The client's actual return will be reduced by the advisory fees and any other expenses incurred in the management of the account. FRM's investment advisory fees are described in Part II of Registrant's Form ADV. The following is a representative example which shows the effect an investment advisory fee could have on the value of a client's portfolio:

For a $1,000,000 initial fixed income investment, the total investment management fees for an account that experiences a 6% annual compound return are:

One Year: $3,610

Five Years: $18,690

FRM
FOUNDATION RESOURCE MANAGEMENT

Management Fees

	FRM	Average Mutual Fund Fee*	Average Actively Managed Mutual Fund Fee*	Dollar Weighted Average Mutual Fund Fee*
Equity Fees	0.92%	1.44%	0.93%	0.80%
Fixed Income Fees	0.34%	1.02%	0.66%	0.62%

*Source: Investment Company Institute and Lipper

FRM
FOUNDATION RESOURCE MANAGEMENT

Corporate Values

- Honesty and integrity are essential in all of our relationships and will never be compromised.
- We are results-oriented.
- We are team players. A confrontational style is not appropriate. We value loyalty to Foundation Resource Management and to our colleagues.
- We are hard working but not at the expense of our families.
- We always look for opportunities but emphasize downside protection and look for ways to minimize loss of capital.
- We are entrepreneurial. We encourage risk taking. We should always strive to improve from our mistakes.
- We believe in having fun at work.

Business Process Improvement 2Q12 Update for Finance Committee

July 10, 2012

Southwest Power Pool

Agenda

1. SPP Business Process Improvement (BPI) Program Objective
2. BPI Implementation Strategy Overview (Phases)
3. Phase I: BPI Budget Tracking Report and Proposed Tracking Guidelines
4. Phase II: Evolutionary Implementation of Lean Methodology
5. Phase III: SPP-wide Implementation of Lean

BPI Program Objective

Increase SPP staff proficiency and expertise in our culture drivers –

- Continuous Improvement
- Efficiency
- Collaboration

As part of our Business Mission and Strategy to:

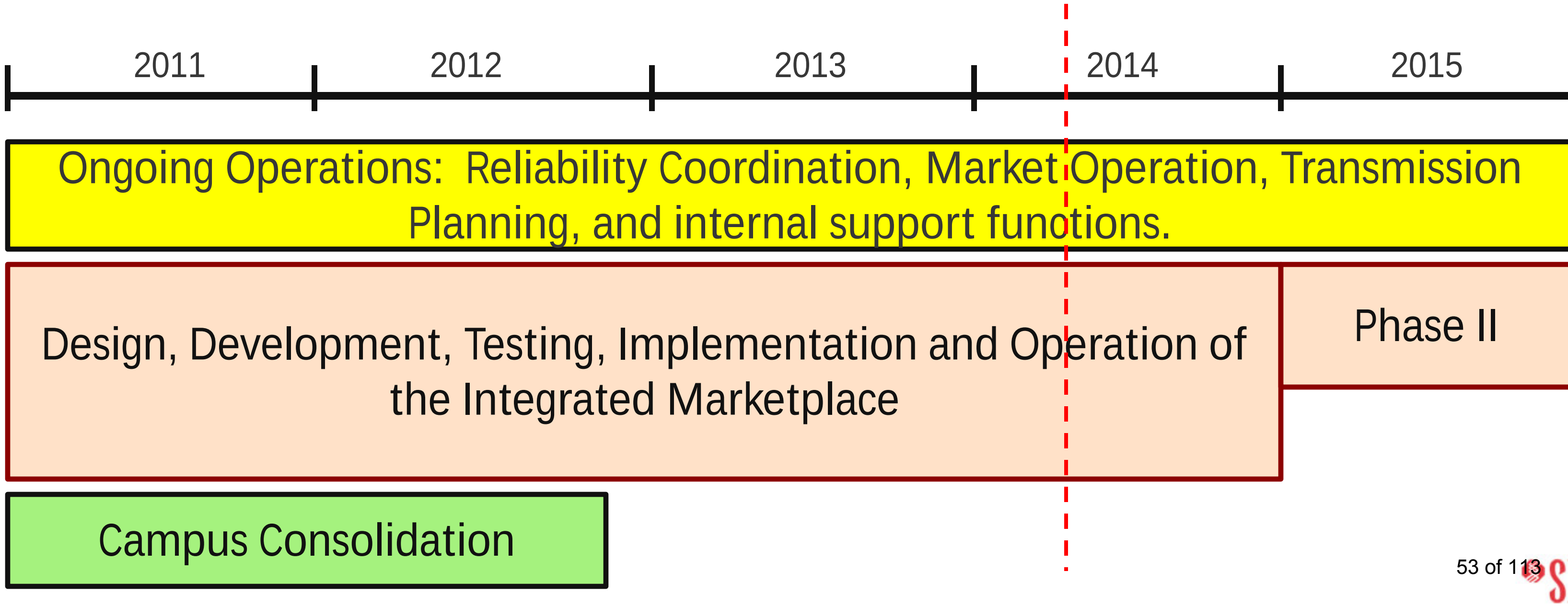
- Enhance Reliability
- Create Member Value

BPI Implementation - Evolutionary

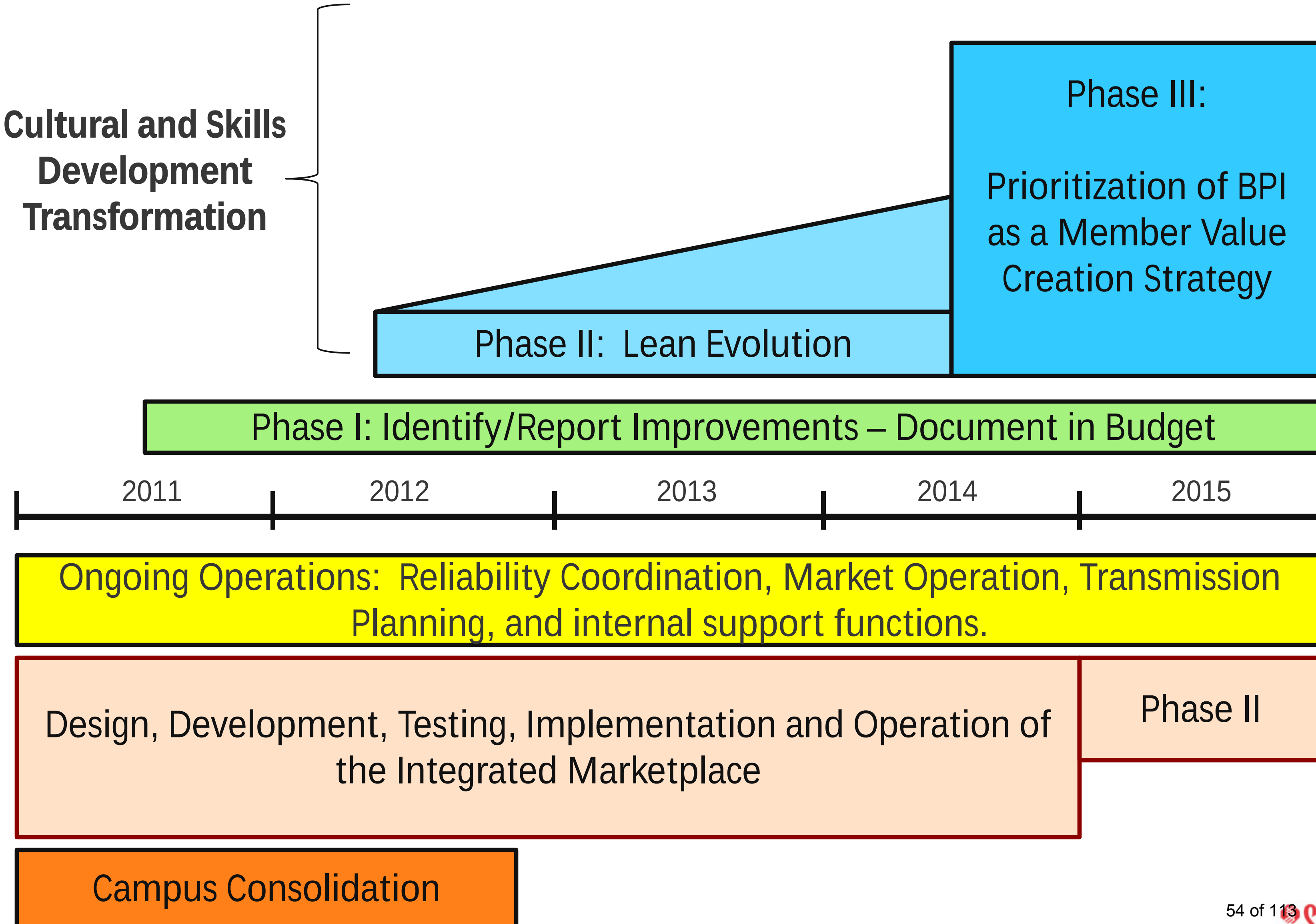
Phase	Description	Timing
I	Identify, communicate and track ongoing process improvements resulting in increased productivity, cost savings, and/or cost avoidance • Document in annual zero based budget • BPI Tracking reports to Finance Committee - Quarterly	Ongoing
II	Evolutionary development of BPI analysis, collaboration, and implementation skills using Lean Business Thinking (Pilot Projects) • Lean Workshops • 30-60-90 day implementation plans	2012 to 2013
III	SPP-wide BPI roll out	2014 à

BPI Implementation - Evolutionary

BPI Program



BPI Implementation - Evolutionary



BPI Phase I –

Identify and Track Process Improvements, Cost Reduction and Cost Avoidance Initiatives

2Q12 Improvement Tracking Summary

Category	2012	2013	2014
Identified in 2012-2014 Budget, in $000			
Operations Staffing Cost Reductions	$ 653	$ 1,633	$ 1,706
Operations Non-Staffing Cost Avoidance	$ 755	$ 843	$ 936
Capital Non-Staffing Cost Avoidance	$ 5,040	$ 4,228	$ 3,946
Total	**$ 6,448**	**$ 6,704**	**$ 6,588**
Actual/Forecast from 2Q12, in $000			
Operations Staffing Cost Reductions	$ 163	$ 1,536	$ 1,607
Operations Non-Staffing Cost Avoidance	$ 1,085	$ 1,118	$ 1,211
Capital Non-Staffing Cost Avoidance	$ 5,616	$ 5,722	$ 4,356
Total	**$ 6,864**	**$ 8,376**	**$ 7,174**
Actual/Forecast Variance to Budget, in $000	**$ 416**	**$ 1,672**	**$ 586**

Proposed BPI Benefits Tracking Guidelines

Level	Description	Tracking Period
1	Projects – Process improvement projects requiring investment in automation that will require some time to achieve a return on investment.	Tracking period matched to ROI period. Can be from 3 to 5 years. *
2	Formal process improvement projects that result in a documented elimination of a headcount requirement based upon work elimination and/or productivity improvement. **	Up to 3 years – includes development and implementation time during the year identified plus two full years
3	Policy changes, process simplification, cost reduction ideas, simple automation initiatives – that are relatively straight forward to implement having relatively low investment requirements.	Track during year identified plus the following full year.

* Large capital investment projects could be tracked for up to 5 years (e.g. Integrated Marketplace), whereas automation projects similar to the Operations Automation ($400,000 capital investment) may be tracked for 3 years. Tracking period will be identified upon project initiation and endorsed by the SPP CFO.

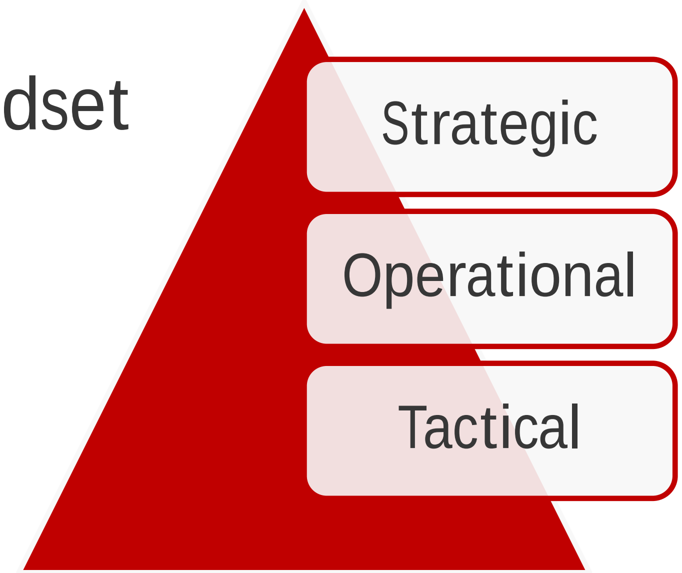
** SPP will need to develop a policy statement that provides job reassignment and/or retraining to any employees whose job is eliminated due to BPI productivity initiatives.

BPI Phase II –

Evolutionary Implementation of Lean Business Thinking Methodology

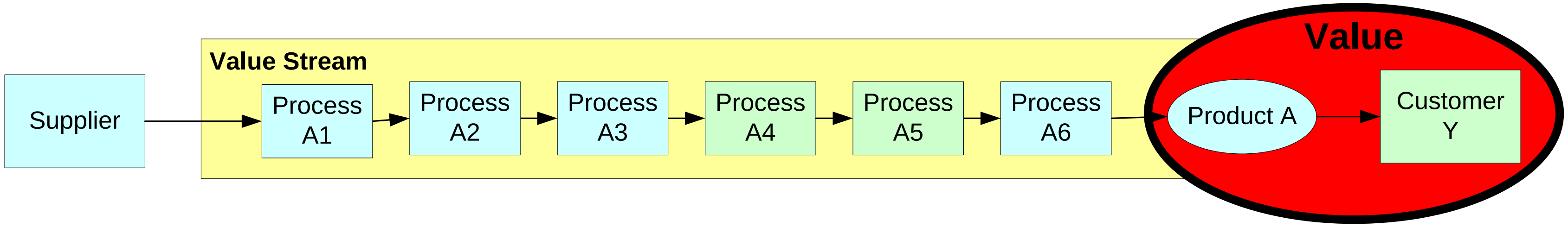
What Is Lean?

- It’s a business improvement mindset – complete with a toolkit – centered on **value creation**
  - How do we create value from <u>the member’s perspective</u>?
  - How do we streamline our processes to <u>eliminate waste</u>?
  - How do we tap into our employees to drive <u>continuous improvement</u>?



What Is a Lean Workshop?

- **What:** two-day inspection of key processes
  - Centers on business problem causing ongoing pain
  - Involves 8-12 people closest to the work
  - Casts wide net to understand upstream, downstream impact
  - Includes visual displays to create visibility into the process



  - Facilitated by objective third party using lean methodology
  - Results in manageable projects that spread the work

How Do Lean Workshops Work?

Day 1

- Introduce approach
- Begin mapping current state
- Capture issues and ideas

Day 2 (1st half)

- Finish current state
- Begin mapping desired state
- Define success metrics

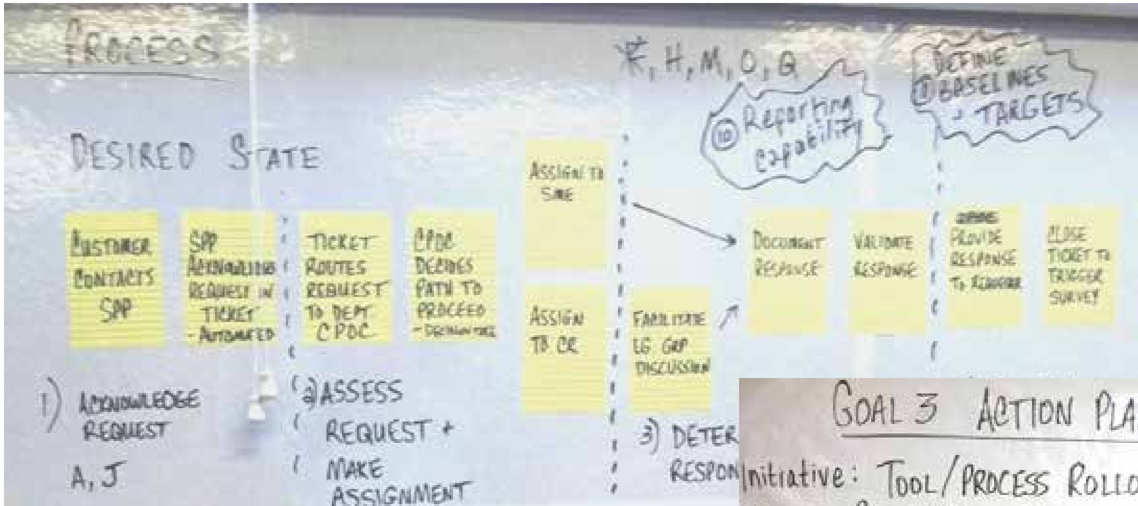
Day 2 (2nd half)

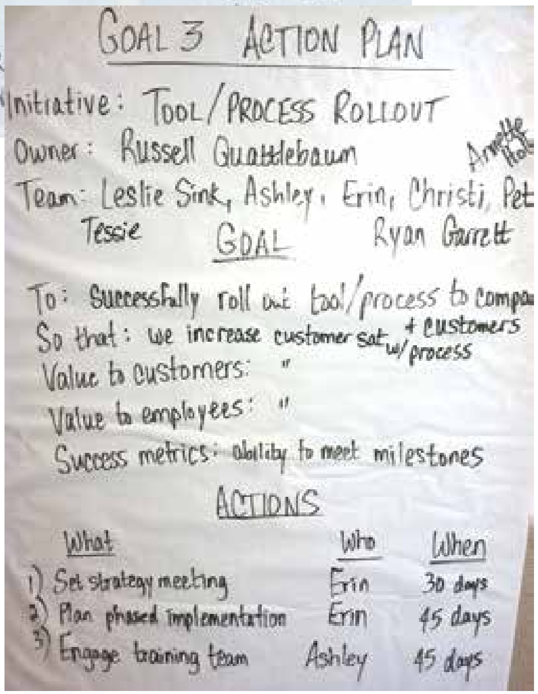
- Complete desired state
- Group ideas into goals
- Create goal statements and action plans with owners

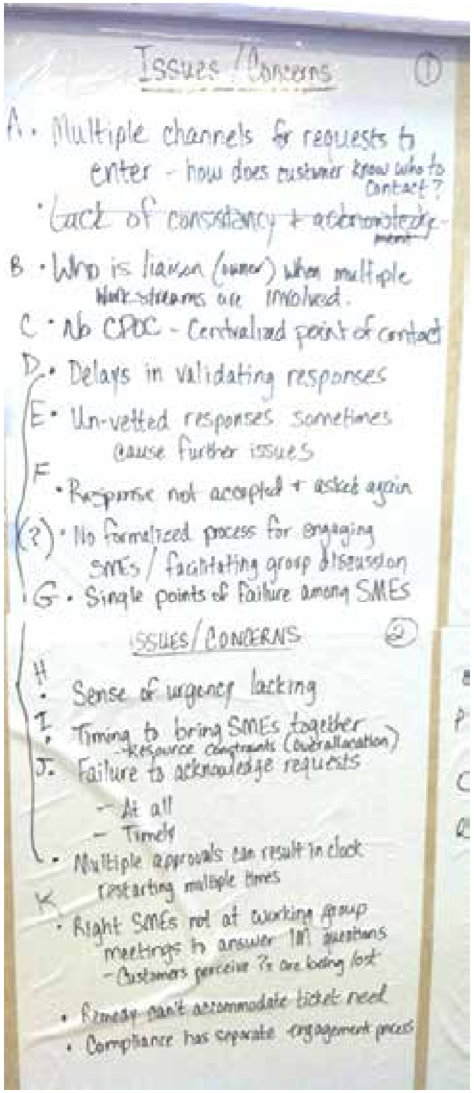
Key areas of focus:

– What are the outputs that deliver something of value?
– What activities are not adding value (waste)?
– How can we eliminate waste so value flows faster?
– How can we measure performance?

Images from SPP Lean Pilot

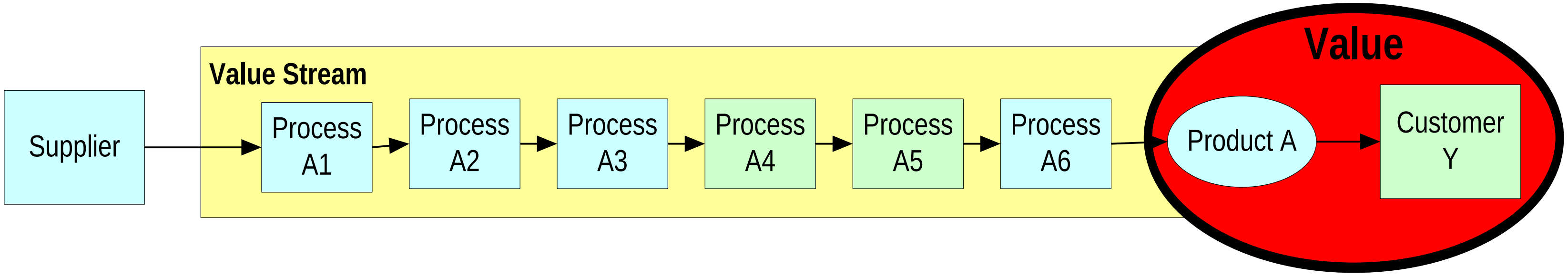






- **Above**: Desired-state value stream
- **Far right**: Issues captured from discussion
- **Near right**: Action plan with owners and dates (30/60/90)

Why Do a Lean Workshop?



- **Why:** To benefit stakeholders, empower employees and create member value

Result	Impact
Fewer problems, delays, errors	Increased member and employee engagement
More efficient operation	Increased productivity, reduced costs
Reduced internal confusion	Reduced risk and increased operational reliability

Feedback from SPP Lean Pilot

Comment	Specified Benefits
Builds consensus	• Brings together diverse group with common interest/ concern • Imparts feeling that we all understand and agree what's at stake • Fosters shared commitment that we all have to be part of solution
Creates order	• Removes subjectivity by scrutinizing process step by step • Builds up trust and belief that participants are acting in good faith
Establishes ownership	• Sets expectation that real work will result – not just talking theory • Leads to defined projects and owners with specific milestones

Lean Pilot Workshops – Status

Business Issue	Sponsor	Timing	Status	Target Benefits
Customer Engagement Processes – fragmented and inefficient	Russell Quattlebaum	In process	1) Defined and documented desired-state process 2) Currently mapping new process to automated Request Management System tool	1) Faster response times 2) Increased productivity (less churn, confusion)
ITP Process – complexity creating challenges with accuracy and timeliness of studies	Katherine Prewitt	Early August	1) Scoping session held June 28 2) Current QA efforts assessed for potential interlock 3) Workshop planned for early August	1) Increased confidence in accuracy of studies 2) Improved handoffs internally 3) Increased productivity
ICCP Request Fulfillment Process – on-boarding of customers inefficient	Reed Thornton	Late August	1) Scoping session held June 22 2) Workshop set for August 22-23	1) Improved customer on-boarding experience 2) Reduced strain on teams to meet deadlines
Engineering Working Group Process – meetings not as productive as desired	Katherine Prewitt	Late July	1) Scoping session held May 31 2) Workshop set for July 25-26	1) Increased meeting productivity (faster time to consensus) 2) Improved stakeholder satisfaction

BPI Phase III –

Lean Business Thinking as an SPP Member Value Creation Strategy

SPP Lean Business Thinking – 2014-2015

- Each SPP Business Unit will establish BPI Goals and Objectives and be responsible for attaining results
- Lean Facilitators will be embedded in Business Units (reallocation of headcount)
- Processes will be implemented to charter SPP-wide cross-functional major process improvement initiatives
- Small, centralized group will –
  - Facilitate SPP wide Lean initiatives
  - Train staff in Lean Workshops and Lean Business Thinking (evolutionary from 2012 – 2015)
  - Mentor embedded Lean Facilitators in the line organization

FERC Order 1000 – Financial Requirements

~~June 26~~July 10, 2012

SPP Finance Committee Task Force on Order 1000

Southwest Power Pool

Revision History

Date or Version Number	Author	Change Description	Comments
5/30/2012	Thomas P. Dunn	First draft	Based on May 24 meeting
6/12/2012	Thomas P. Dunn	Second draft	Based on June 6 meeting
6/27/2012	Thomas P. Dunn	Third draft	Based on June 26 meeting
6/29/2012	Thomas P. Dunn	Fourth draft	Based on OG&E call

Table of Contents

FERC Order 1000 Background

On July 21, 2011, the Federal Energy Regulatory Commission ("FERC") issued Order 1000. Per the Order, public utility transmission providers must either amend their open access transmission tariffs ("OATT") to comply with the requirements of Order 1000 or demonstrate how their existing OATT provisions already comply.

In response to Order 1000, the Southwest Power Pool, Inc. ("SPP") Board of Directors tasked SPP's Strategic Planning Committee ("SPC") with leading SPP's response to the regional policy requirements contained in Order 1000. After initial meetings of the SPC to discuss requirements of Order 1000, the SPC formed the SPC Task Force on Order 1000 ("SPCTF") to examine SPP's existing OATT to determine whether SPP's current transmission planning and cost allocation provisions comply with the Order 1000 requirements and whether additional revisions will be necessary. Further, the SPCTF was tasked with proposing how SPP should respond in its compliance filing with FERC.

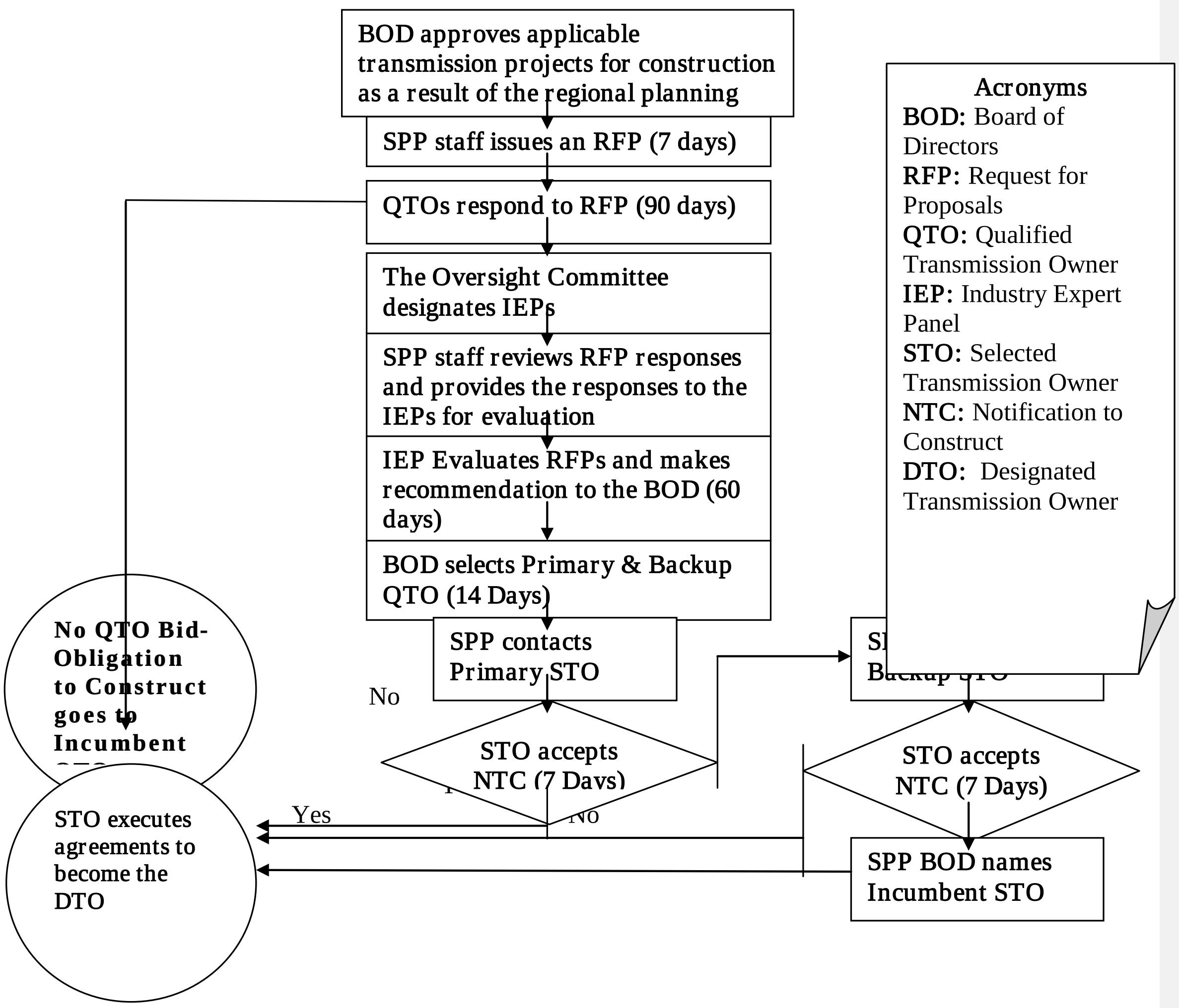
Order 1000 requires each public utility transmission provider to revise its OATT to demonstrate that the regional transmission planning process in which it participates has established appropriate qualification criteria for determining an entity's eligibility to propose a transmission project for selection in the regional transmission plan for purposes of cost allocation, whether that entity is an incumbent transmission provider or a non-incumbent transmission developer. The SPCTF unanimously recommends that SPP's compliance filing contain Transmission Owner qualification requirements that must be met **<u>before</u>** a potential Transmission Owner can participate in SPP's Competitive Solicitation Process.

Recommended Transmission Owner qualification criteria include:

1. Threshold eligibility criteria that will be developed by the SPC Task Force on Order 1000;
2. Financial criteria that will be developed by SPP's Finance Committee; and
3. Managerial criteria that will be developed by the SPC Task Force on Order 1000 demonstrating ability to site, construct, own and operate transmission projects.

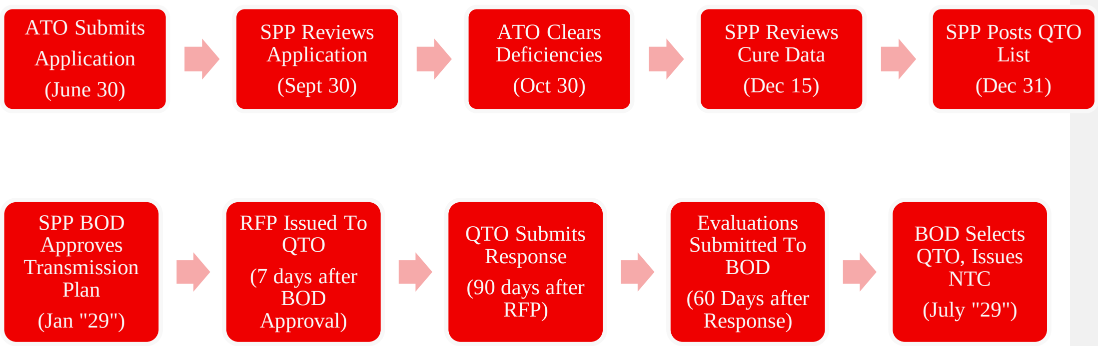
The flow chart below illustrates the Transmission Owner Selection Process recommended by the SPC Task Force on Order 1000.

TO Selection Process Flowchart (6/19/12)



Application and Process To NTC Issuance

The SPCTF's final report recommends the Applicant Transmission Owner ("ATO") submit an application to become a Qualified Transmission Owner ("QTO") prior to June 30 of the calendar year prior to the year the ATO plans to participate in SPP's Competitive Solicitation Process. SPP will then have 90 days to review the application and make a determination if the ATO meets the requirements of a QTO or if the application contains deficiencies. ATOs submitting applications with deficiencies will have 30 days to cure the deficiencies after being notified of the deficiencies. SPP will then have 45 days to determine if the deficiencies have been cured. A final list of all QTOs will be posted on December 31. Additionally, once qualified, the QTO will not be required to demonstrate its qualifications in any subsequent SPP planning process cycles or with respect to any subsequent SPP Competitive Solicitation Processes unless the QTO experiences a change in circumstances. A simplified timeline of the entire process is illustrated below.



The application submitted by the ATO for consideration to become a QTO will address three areas:

1. Threshold eligibility criteria: These criteria address basic requirements to successfully fulfill the role of a Transmission Owner in SPP (example: does ATO meet membership requirements of SPP and have the ability to execute the SPP membership agreement)
2. Financial criteria: These criteria are designed to ensure the ATO has the financial capacity to fulfill the role of a Transmission Owner in SPP (example: does ATO have access to sufficient capital to complete transmission project)
3. Managerial criteria: An Application from an ATO must include a showing that the ATO has expertise to construct, own, and operate electric transmission facilities.

The Finance Committee Task Force on Order 1000 recommends the following changes to the application process:

1. ~~If the ATO is not a member in good standing of SPP, the ATO must submit an application fee of $6,000 with its application. For members of SPP this fee is covered by their annual membership fee~~The ATO will submit an application fee with its application equal to the

amount of the SPP annual membership fee. If the ATO is a member who is current in payment of its annual membership fee, then no application fee will be required,

2. Approval is valid for a five year term. After five years the QTO must submit a full application package and be re-approved as a QTO,
3. Prior to June 30 of years 2, 3, 4, and 5 following approval as a QTO, the QTO must submit a representation letter indicating any material changes from the application and representing that the QTO continues to meet the threshold, financial, and managerial requirements to be a QTO,
4. ~~If the QTO is not a member in good standing of SPP then the QTO must also submit a $1,000 filing fee with its annual representation letter. For members of SPP this fee is covered by their annual membership fee.~~The QTO will pay an annual certification fee equal to the amount of the SPP annual membership fee. If the QTO is a member of SPP who is current in payment of its annual membership fee, then no certification fee will be required.
5. The SPP Board of Directors, in its sole discretion, retains the right to reduce the approval term to respond to unexpected consequences surrounding the application processes.

Financial Requirements

The determination of Financial Requirements is intended to ensure ATOs have the capacity to access capital to meet the project costs plus a reasonable contingency and the ATO is an entity sustainable to meet the ongoing maintenance requirements of the project. Absent establishment of basic financial capacity, the Competitive Solicitation Process runs the risk of becoming ineffective in actually meeting the objective of developing needed transmission projects because winning bidders may not be capable of performing on the project (i.e. accessing sufficient capital to fund the project).

The Finance Committee Task Force on Order 1000 identified several alternatives intended to determine the financial capacity of an ATO prior to the ATO becoming a QTO. These alternatives are detailed along with potential issues which must be addressed. For purposes of this report the alternatives will be grouped into two categories: i) pre-qualification, ii) post-qualification.

Pre-Qualification

The Pre-Qualification financial requirements specifically address the task assigned by the SPC Task Force on Order 1000 which is to identify minimum criteria to be met prior to awarding QTO status to an ATO.

Investment Grade Rating

ATOs would be required to demonstrate a senior unsecured I~~i~~nvestment G~~g~~rade R~~r~~ating or an issuer rating from a “nationally recognized statistical rating organization[1]”. Investment grade ratings for the three acceptable rating organizations are as follows:

Moody’s	S&P and Fitch
Aaa	AAA
Aa1	AA+
Aa2	AA
Aa3	AA-
A1	A+
A2	A
A3	A-
Baa1	BBB+
Baa2	BBB
Baa3	BBB-

An Investment Grade Rating (for purposes of this document) is defined as: If an ATO maintains a rating from all three of the approved NRSROs it must maintain at least two ratings in the investment grade range. Similarly, if an ATO maintains a rating from any two of the approved NRSROs it must maintain at least one of those ratings in the investment grade range.

[1] A **Nationally Recognized Statistical Rating Organization** (**NRSRO**) is a credit rating agency (CRA) that issues credit ratings that the U.S. Securities and Exchange Commission (SEC) permits other financial firms to use for certain regulatory purposes. NRSROs acceptable to SPP are Standard & Poor’s, Moody’s Investors Service, and Fitch Ratings

Guaranty

If an ATO does not have an I~~i~~nvestment G~~g~~rade R~~r~~ating issued by an approved NRSRO the ATO may utilize a Guaranty from its parent(s)/affiliated organization(s) that possesses~~es~~ an~~d~~ I~~i~~nvestment G~~g~~rade R~~r~~ating ~~from an approved NRSRO~~as defined above.

A guaranty obligates the guarantor entity to satisfy the obligations of the guarantee entity. Parental Guaranties are acceptable where the ATO is a subsidiary, joint venture, or affiliate of the parent(s). The guaranty may be cancelled at any time that the ATO establishes an Investment Grade Rating. The guaranty will be in the form consistent with Appendix D of Attachment X of the SPP Tariff ~~(see attached)~~ and will satisfy the following requirements:

1. Be duly authorized by the guarantor and signed by an officer of the guarantor
2. State a minimum effective period of five years, or provide for automatic renewal 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 ATO undertaken prior to cancellation
3. Include certification of the corporate secretary that the execution, delivery, and performance of the guaranty have been duly authorized
4. Certify that the guaranty is not in violation of other undertakings or requirements applicable to the guarantor, and enforceable against the guarantor in accordance with its terms
5. Obligate the guarantor to submit a representation letter annually as is also required of the ATO/QTO
6. Secure all obligations of the ATO/QTO under or in connection with the SPP Tariff and/or other Agreements; and
7. Be supported by adequate consideration and be otherwise binding as a matter of law
8. Include as an attachment thereto the resolution(s) of the board of directors or other governing body of the guarantor authorizing the guaranty.

Bank Reference Letter or Bonding Indication

A formal letter of reference from a commercial bank, evidence of an existing line of credit from commercial banks (or access to an existing line of credit through Inter-company agreements with a Parent or Affiliate), or bonding indication letter from an insurance or surety company either of which indicate a willingness to extend credit to the ATO in an amount of at least $~~10~~25,000,000 (for bank(s)) or willingness to provide surety bond in the amount of at least $~~10~~25,000,000 (for insurance/surety company).

Commercial bank reference letters acceptable to SPP will be the issued by 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 and total assets of at least $10 billion.

Bonding indication letters acceptable to SPP will be issued by insurance or surety companies with a minimum financial strength rating from A.M.Best of A- X[2].

Municipal / Cooperative / Not For Profit Entities

Municipalities, cooperatives and other not for profit entities may meet the pre-qualification financial requirements by providing evidence of direct rate setting authority or taxing authority. The ATO must have this authority and cannot rely on an affiliation to another entity which possesses the rate setting or taxing authority.

[2] A- rating indicates excellent or superior financial strength. X rating indicates financial size as measured by policyholders surplus of at least $500,000,000

Post-Qualification

Post-qualification financial requirements are intended to provide assurance that the QTO has the financial capacity to support the individual transmission projects for which bids are submitted. It is expected that post-qualification financial requirements would be incorporated as a critical component of the QTOs RFP response and evaluated by the IEPs.

The SPCTF has worked to craft the requirements of the RFP response. The preliminary work product details the following requirements:

- **General:** The RFP will include an overview of the purpose for the RFP including: the need for the transmission project, regulatory context and authority, confidentiality statement, and other necessary information.
- **Proposal Submission Content Requirements and Procedures:** The RFP will include a deadline for all proposal submissions. The RFP will also identify all minimum bid submission requirements. Each RFP respondent will be required to include all bid conditions in its proposal.
- **Cost and Financial Requirements:** The RFP will require each respondent to provide financial information specific to each transmission project for which it submits a proposal. This information will include, but not be limited to: demonstration of financing and itemized revenue requirement calculations.
- **Engineering:** The RFP will require each respondent to provide engineering information specific to each transmission project for which it submits a proposal. This information may include, but not be limited to engineering design of the project and technical requirements.
- **Construction:** The RFP will require each respondent to provide construction information specific to each transmission project for which it submits a proposal. This information may include, but not be limited to anticipated project timeline, demonstration of past transmission construction experience, equipment acquisition processes, description of applicable ROW / real estate acquisition process, description of routing process, description of permitting, description of construction clearance processes, and identification of responsible party for construction inspection.
- **Operations and Maintenance:** The RFP will require each respondent to provide operations and maintenance information specific to each transmission project for which it submits a proposal. This information may include, but not be limited to: demonstration of operations, statement of which entity will be operating and maintaining the transmission facility, storm / outage response plan, maintenance plan, staffing, equipment, crew training, and record of past maintenance and outage performance.
- **Information Exchange:** The RFP will include information exchange requirements such as identification of data required to be provided to the SPP in accordance with NERC reliability standards, data of design of the facilities for the Transmission Provider, and CEII requirements.
- **Safety program/Current/past statistics:** The RFP will require each respondent to provide safety information such as identification of the internal safety program, contractor safety program, and safety performance record.

- **Evaluation Procedure:** The RFP will include a description of the proposal evaluation procedure, including the statement of proposal evaluation methodology, criteria for acceptable proposals, and identification of applicable proposal evaluation fees.
- **Attachments:** The RFP will be a standard form that the respondent must fill out and may supplement with attachments demonstrating the information outlined above.

QTO ~~Pre-Selection Criteria~~Bid Submission Requirements

The SPP Finance Committee recommends using a threshold approach when evaluating the financial strength of the bidding QTO. The threshold work like a pass/fail test in that either the QTO satisfies a threshold or it doesn't. SPP has no stated preference on the desireability between the different threshold tests. The QTO needs to satisfy only one of the thresholds to demonstrate its financial strength in the bidding process.

1. Investment Grade Rating: A QTO may satisfy this threshold by demonstrating either i) its then-current Investment Grade Rating, if using a parent guaranty, ii) the then-current Investment Grade Rating of its parent. [and demonstrating for either the QTO or parent guaranty entity (ies) that for the specific project(s) being bid the total capital cost of the project(s)[3] does not exceed 30% of the total capitalization[4] of the QTO or parent guaranty entity(ies).
2. Performance Bond: A QTO may provide conclusive evidence of its ability to secure performance bond(s) from an acceptable insurance/surety company in an amount equal to the total cost of the project plus financing costs plus 30% contingency
3. Letter of Credit: A QTO may provide conclusive evidence of its ability to secure letter(s) of credit from an acceptable financial institution in an amount equal to the total cost of the project plus financing costs plus 30% contingency.
4. Incumbent Utility: A QTO may satisfy this threshold by demonstrating that it is the incumbent utility for the project by virtue of the project connecting to the incumbent utility's existing transmission assets.

~~Bid Bond: Required from all QTOs that do not have an investment grade rating by a NRSRO or do not have a Guaranty from an entity that carries an investment grade rating issued by a NRSRO.~~

~~A bid bond issued by an insurance company with a minimum A.M. Best rating of A- X. A bid bond is issued as part of a bidding process by the surety to the project owner, to guarantee that the winning bidder will undertake the contract under the terms at which they bid. A bid bond guarantees that the "oblige" will be paid the difference between the principal's tender price and the next closest tender price. This action is only triggered should the principal be awarded the contract but fails to enter into the contract, as agreed, with the oblige. The bid bond penalty is generally ten percent of the bidder's~~

[3] Total cost will equal the bid cost plus financing costs plus 30% contingency
[4] Total capitalization will equal pro forma long-term debt plus equity after accounting for the full cost of the bid project(s)

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~~tender price. Contractors prefer the use of bid bonds because they are a less expensive option and they do not tie up cash or bank credit lines during the bidding process. Owners and general contractors also use bid bonds because they establish and confirm that the bidding contractor or supplier has the support of a Surety Company and is qualified to undertake the project.~~

In addition to the threshold requirements described previously, the QTO must also provide the following information:

Evidence of Financing: The QTO or the entity providing the ~~corporate commitment letter~~Guaranty must demonstrate an ability to secure capital sufficient to fund the project plus a reasonable amount of contingency (generally 30%). The evidence may consist of: i) demonstrated history of securing financing, ii) term sheet from investors indicating desire to fund the project, iii) adequate cash, investments, or lines of credit to fund the project plus reasonable contingency~~, iv) other?~~. The QTO should discuss, in detail, how it will fund the project, the expected financing costs, etc.

- *~~Currently QTO has 7 days to accept NTC otherwise it will be offered to backup QTO~~*

Material Conditions: QTO must disclose any Credit Ratings changes, bankruptcy, dissolution, merger, or acquisition within the past five years of the QTO, parent, controlling shareholder, or entity providing ~~Corporate Commitment letter~~a Guaranty. The QTO must also prove that there are no remaining material issues from any of these aforementioned events.

Financial Plan & Business Plan: Formal plans indicating how the QTO anticipates operations of the project to progress, both during construction and post-construction.

QTO Post-Selection Criteria

Firm Capital Commitment: Upon notification of selection of the QTO to be the Designated Transmission Owner ("DTO") for the project, the DTO must provide firm commitment of capital sufficient to complete the project. Evidence can be in the form of a binding commitment letter from lenders and/or equity providers (may be a credit facility or access to a credit facility via Parent(s) and /or equity providers (provided they have an Investment Grade Rating), cash held in escrow, performance & payment/surety bond, etc., existing balance sheet liquidity or demonstrated history of ability to obtain adequate capital to support the project.

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Evidence of ~~Ability~~ Regulatory Authority to Construct and Operate Transmission: Generally provided by state regulators.

Execute SPP Membership Agreement: DTO becomes a full member of SPP and obligated to all conditions of the Membership Agreement. The SPP Membership Agreement must be executed coincident with acceptance of the NTC.

Other Questions or Open Issues (random order)

a) ~~Can SPP require QTO or DTO to demonstrate authority to construct and operate transmission within the Competitive Solicitation Process?~~
b) ~~View on allowing specialists to bid on portions of projects? Multiple specialists without single "parent" organization?~~
c) ~~Change in ownership of DTO post-selection?~~
d) ~~Do financial requirements apply to SPP members? Incumbent transmission owners?~~
e) ~~Demonstrate financial ability to maintain project?~~
f) ~~Financial gating, how would this be utilized in evaluation of responses to RFP?~~

~~Exhibit A~~

~~GUARANTY AGREEMENT~~

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~~This Guaranty Agreement (the "Guaranty") is made by ______________________ ("Guarantor"), a ______________ corporation, in favor of Southwest Power Pool, Inc. ("Creditor"), an Arkansas [non-stock] corporation.~~

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~~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~~

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~~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;~~

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~~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:~~

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~~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.~~

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~~2. Guaranty Absolute. The liability of Guarantor under this Guaranty shall be absolute and unconditional irrespective of:~~

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~~(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;~~

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~~(b) any modification, extension or waiver of any of the terms of any Agreement;~~

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~~(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;~~

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~~(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;~~

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~~(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.~~

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~~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.~~

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~~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.~~

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

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~~(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;~~

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~~(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;~~

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~~(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;~~

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~~(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~~

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~~(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.~~

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~~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.~~

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~~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.~~

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~~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.~~

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~~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:~~

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~~If to Creditor:~~

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~~**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.**~~

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~~**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.**~~

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~~**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.**~~

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~~**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.**~~

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~~**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.**~~

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~~**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.**~~

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~~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;~~

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~~(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~~

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~~(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.~~

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~~**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.**~~

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~~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.~~

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~~**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:**~~______________

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SOUTHWEST POWER POOL RETIREE HEALTHCARE FUND

INVESTMENT POLICY STATEMENT

July ~~22, 2010~~10, 2012

1.01 PURPOSE OF THIS STATEMENT

The ~~Human Resources~~Finance Committee ("the ~~HRC~~FC") of the Southwest Power Pool, Inc. Board of Directors, on behalf of Southwest Power Pool, Inc. ("the Fund Sponsor"), hereby establishes the following policy for administering the Southwest Power Pool Retiree Healthcare Fund ("the Fund") investment program. The Investment Policy Statement ("the Statement") sets forth the investment objectives and guidelines that will be applied within the investment program to insure that the assets of the Fund are managed in a manner designed to meet the objective of funding postretirement healthcare benefits for eligible retirees of Southwest Power Pool, Inc. In addition, the Statement is to provide a framework for management of the assets of the Fund within levels of risk acceptable to the ~~HRC~~ FC and the Southwest Power Pool, Inc. Board of Directors. The Statement provides the investment manager(s) with a written statement of specific quality, quantity and rate or return standards.

This Statement is based on the "prudent expert rule" to ensure all fiduciaries under the Plan act with skill, care, prudence, and diligence. It is expected that decisions related to management of the Plan and its assets will follow a careful, skillful, prudent and diligent process.

1.02 AMENDMENTS TO THE STATEMENT

The ~~HRC~~ FC reserves the right to amend this Statement at any time as deemed prudent or necessary. Should any amendment to this Statement be required due to actions of the Southwest Power Pool, Inc. Board of Directors or a change in applicable law, the ~~HRC~~ FC shall have due time to review such changes and prepare and implement an appropriate amendment. Because of the dynamic nature of the economic environment, developments in financial theories, and advances in technology, this Statement will be examined by the ~~HRC~~ FC from time to time on a formal or informal basis and may, as a result of such examination, be revised by the ~~HRC~~FC.

1.03 BACKGROUND OF THE FUND

The Fund was established by the Southwest Power Pool, Inc. Board of Directors effective January 1, 1996. The purpose of the Fund is to cover a specific portion of the costs associated with providing postretirement healthcare benefits to eligible retirees of Southwest Power Pool, Inc.

1.04 FUND PROFILE

The Fund was established to receive assets from the Fund Sponsor. Thereafter, assets in the Fund are used to offset a specific portion of the health insurance premium payments attributable to eligible retirees of Southwest Power Pool, Inc. remaining in the Southwest Power Pool, Inc. Group Health Insurance Plan following retirement. Earnings or losses of the Fund are not subject to taxation.

1.05 FUND FUNDING

The ~~HRC~~ FC has established a desired funding level of the Fund equal to the Accumulated Benefit Obligation The Fund Sponsor contributes periodic funds to the Fund based on guidance provided by the Fund's actuary and decisions made by the ~~HRC~~ FC and accepted by the Southwest Power Pool, Inc. Board of Directors. It is expected that the Fund Sponsor will continue to make periodic contributions to the Fund into the foreseeable future.

2.01 INVESTMENT OBJECTIVES

The overall objective of this Statement is to provide guidance for the investment of contributions and other Fund assets and to help maintain adequate funding for Fund liabilities. The ~~HRC~~ FC will utilize a portfolio approach when evaluating Fund return, risk, and cost.

2.02 RETURN OBJECTIVES

The primary goal is to obtain a return annualized over the preceding five calendar years equal to or exceeding the actuarially assumed rate of return (currently 7%). Long-term returns above the actuarially assumed rate may serve to reduce the periodic funding required of the Fund Sponsor.

2.03 RISK OBJECTIVES

The Fund assets will be managed with an average to above average risk profile. Currently the Fund liabilities are relatively long-term in nature with minimal near term liquidity requirements, allowing for volatility above what one would expect from a portfolio with an allocation of 70% equity and 30% fixed income.

Investments held by the Plan should at all times have readily available prices and sufficient trading volume so that investments can be bought and sold easily without significantly impacting the price of the investments.

2.04 COST OBJECTIVES

The HRC will strive to maintain the costs of funding and administering the Fund at a reasonable level and consistent with market costs for engaging qualified professionals to provide asset management and administration services.

2.05 ASSET ALLOCATION

The assets of the Fund will be invested in one or more of the following asset classes:

Cash: Comprised of demand deposit accounts, savings accounts, money market accounts, debt instruments with maturities of 3 months or less

Debt Securities: U.S. Dollar denominated fixed income securities including, but not limited to, Government and Agency issues, mortgage and asset backed securities, and corporate issues, or investment in professionally managed funds investing in the previously mentioned types of securities. Although fixed income investments rated less than investment grade are permitted, the average credit quality of the aggregate fixed income allocation should be investment grade

U.S. Equities: Common and preferred equity securities of companies domiciled in the United States or in professionally managed funds investing in the previously mentioned securities

International Securities: Direct investment or investment in professionally managed funds investing in common and preferred equity securities and debt securities of companies domiciled outside of the United States. Security issues of non U.S. domiciled entities may be acquired either through U.S. exchange traded American Depository Receipts or directly through non U.S. based exchanges. In no event will the market value of International Securities holdings exceed 20% of the market value of the Plan Assets. The ~~HRC~~ FC will review the total international security holdings of the plan annually and determine if the level of holdings is appropriate. The ~~HRC~~ FC may direct the investment managers to increase or reduce international security holdings at any time.~~.~~

Derivative Instruments: No direct investment in derivative instruments is permitted, although investment is permitted in professionally managed funds that do use derivatives. Funds making use of derivatives must specifically prohibit the use of derivatives to achieve leverage.

In aggregate, the assets of the Plan shall target the asset allocation ranges listed below:

Security Description	Lower Limit	Target	Upper Limit
Cash	0%	5%	15%
Debt Securities	15%	25%	35%
Equity Securities	60%	70%	80%

The ~~HRC~~ FC will take appropriate action should the invested assets of the Fund stray more than 10% from the desired allocation.

2.06 PROHIBITED INVESTMENTS

The assets of the Plan shall not be used to invest in any investment not specifically permitted by this Statement. The ~~HRC~~ FC does not limit investments in specific entities except as noted above. Investment managers are allowed to invest in electric utilities, including members of the ~~HRC~~FC, should they wish without restrictions. The ~~HRC~~ FC shall not be permitted to direct any investment manager to invest in any particular individual security nor require the investment manager to provide notice to the ~~HRC~~ FC prior to making investments permitted by this Statement.

3.01 SELECTION OF MONEY MANAGER(S)

The ~~HRC~~ FC shall select investment managers and, where appropriate, investment options based on the evaluation of qualitative and quantitative factors. The manager selection process will focus on the following five key aspects of an investment management firm and investment option:

1. **Organization** – evaluate the key elements of an efficient and successful investment management organization such as stable firm ownership, clear business objectives, industry reputation, and experienced and talented investment staff.

2. **Investment Philosophy and Process** – evaluate the key elements of a valid and well-defined investment approach such as unique sources of information, disciplined buy/sell decisions, systematic portfolio construction, and adequate risk controls.

3. **Resources** – evaluate the state of current and proposed resources supporting the investment process including the quality and depth of research and the adequacy of information management, compliance and trading systems.

4. **Performance –** evaluate historical returns and risks relative to passive indexes, peer groups, and other competing firms.

5. **Management Fees** – evaluate the proposed fee structure relative to the industry and other competing candidates.

These factors are chosen to insure that manager/option selections are made with a prudent degree of care, and that excessive risk is avoided. Notwithstanding the above, the ~~HRC~~ FC may also include other factors that may be appropriate to a specific manager/option selection exercise.

3.02 ACKNOWLEDGEMENT OF FIDUCIARY RESPONSIBILITY

Any and all investment managers selected to invest the assets of the Plan will be required, as a condition of their selection, to acknowledge their fiduciary status and responsibility to the Plan, in writing. This requirement shall not require the investment manager of a mutual fund in which the Plan invests to acknowledge fiduciary status

3.03 MONITORING THE INVESTMENT MANAGER

The objective of the investment manager monitoring process is to identify on a timely basis any adverse changes to the investment manager's organization or investment process by periodically evaluating a number of qualitative and quantitative factors. In addition, once adverse changes are identified, the monitoring process shall also dictate the timing and manner of response.

The ~~HRC~~ FC shall evaluate the investment managers/options at least annually using the framework in 3.01 above, in addition to using any other factors the ~~HRC~~ FC believes are appropriate to the inquiry. These factors are intended to insure that decisions to retain investment managers/options are made with a prudent degree of care and that excessive risk is avoided.

If results from the monitoring process indicate substandard investment performance or a potentially adverse change in the investment manager's organization or investment process, the ~~HRC~~ FC may choose one of several courses of action including assigning the investment manager/option a temporary probationary status known as the Watch List, undertaking an in-depth review, or terminating the investment manager/option.

Being placed on the Watch List is meant to convey the ~~HRC's~~ FC's increased level of concern about a particular issue or event, which if left unresolved, could endanger the future relationship. An in-depth review may be undertaken as a result of the manager/option failing to rectify the issues that led to their placement on the Watch List, or in response to a major adverse change in the investment manager's organization or investment process to the extent that the ~~HRC~~ FC seriously questions the firm's ability to manage the portfolio going forward. The purpose of the in-depth review is to determine whether terminating the manager/option is an appropriate course of action.

3.04 TERMINATION/REPLACEMENT OF INVESTMENT MANAGERS

The ~~HRC~~ FC may eliminate or replace the investment manager/option any time the ~~HRC~~ FC deems it in the best interests of the Fund.

SPP Business Process Improvement Status Report

2Q2012

July 10, 2012

Southwest Power Pool

A) BPI Implementation Scorecard for 2012

Status Report – Executive Summary – July 10, 2012

BPI Initiative	Status	Description
1) Track 2012 BPI Initiatives In 2012-2014 Budget	**On Target**	Report implementation progress Quarterly to the Finance Committee. Implementation benefits are measured against observable, agreed upon benchmark measurements. (See 2Q12 this report – pp. 2-5.)
2) Develop BPI Tracking Conventions and review with Finance Comm.	**On Target**	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 (business rules) and review with FC in July prior to submitting 2013-2015 budget. (See Appendix B)
3) Proactively Identify Additional BPI Initiatives to Track	**On Target - See 2Q Report**	Collaborate with SPP Business Units throughout the year to identify additional BPI or cost reduction initiatives. Add those impacting 2012 to the Tracking Report. Add longer term initiatives to BPI/CR Embedded in 2013-2015 Budget report. (See 2Q12 this report – pp. 2-5.)
4) BPI Methodology Selection & Implementation	**On Target**	Research the formal BPI methodologies available and select and/or develop the best one for SPP adoption consistent with SPP Strategy and Culture. Develop implementation plan. ***Scott Maple hired and will help facilitate SPP BPI teams leveraging the Lean Methodology for continuous improvement. Lean is the best fit for SPP business model.***
5) Implement Initial BPI Pilot Programs	**On Target**	In 2012, identify 3-5 BPI Pilot programs – form BPI teams, train the team, facilitate BPI design, manage implementation and manage to results. Over time, BPI initiatives will drive proactive SPP-wide process improvement/cost reductions. (See Appendix A)
BPI Scorecard Objectives beyond 2012		
6) Design SPP Strategic BPI Implementation - Extend Pilot to all Business Units	**2013**	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) SPP-wide BPI Implementation	**2014-2015**	SPP-wide implementation of BPI methodologies across all Departments involving all employees. Implementation of Lean includes methodology training programs and line organizations will have Lean Facilitators on staff. The BPI Department will mentor the embedded facilitators.

B) Tracking Process Improvements, Cost Reduction and Cost Avoidance Initiatives in 2012-2014 Budget

Executive Summary

From 2012-2014 Budget, in $000	2012	2013	2014
Operations Staffing Cost Reductions	$ 653	$ 1,633	$ 1,706
Operations Non-Staffing Cost Avoidance	$ 755	$ 843	$ 936
Capital Non Staffing Cost Avoidance	$ 5,040	$ 4,228	$ 3,946
Total	$ 6,448	$ 6,704	$ 6,588
Actual/Forecast from 2Q12, in $000			
Operations Staffing Cost Reductions	$ 163	$ 1,536	$ 1,607
Operations Non-Staffing Cost Avoidance	$ 1,085	$ 1,118	$ 1,211
Capital Non Staffing Cost Avoidance	$ 5,616	$ 5,722	$ 4,356
Total	$ 6,864	$ 8,376	$ 7,174
Actual/Forecast Variance, in $000			
Total -- Positive/(Negative)	$ 416	$ 1,672	$ 586

Explanation of Variances

- OATI vendor delays in delivering Operations Automation is a negative variance of $397K in 2012. Cost incurred in 2012 but positions eliminated 1-1-2013.
- Slight positive variances to budget in In-House TSA Legal, FERC 205 Legal process improvement, server virtualization and purchasing negotiations offset the staffing negative variances.
- Three new cost reductions initiatives were identified since the budget (In-sourcing Leadership training, an Oracle Unlimited License Agreement – ULA, and In-house support of Tariff revisions to avoid Legal Fees). The major impact of the ULA is a capital savings of $1.4 million in 2013 and $300K in 2014.

Process Improvements, Cost Reductions and Cost Avoidance Initiatives
Initiatives Identified in 2012 - 2014 Budget (Three year summary)

	Identified in 2012 Budget			Current Actual/Projections		
Savings expressed in $ 000's	2012	2013	2014	2012	2013	2014
Operations Staffing Cost Reductions						
Settlements Process Improvements	$ 233	$ 360	$ 395	$ 233	$ 360	$ 395
Compliance Process Improvements and Organizational Alignment	$ 277	$ 286	$ 294	$ 184	$ 190	$ 195
Operations Automation - Tariff Adm/Int	$ 143	$ 987	$ 1,017	$ (254)	$ 987	$ 1,017
Total	$ 653	$ 1,633	$ 1,706	$ 163	$ 1,537	$ 1,607
Operations -- Non-Staffing Cost Reductions						
In-House Support for Tariff Service Agreement Filings	$ 517	$ 605	$ 698	$ 577	$ 605	$ 698
FERC Section 205 Filing Process Change – Avoids Outside Legal Fees	$ 99	$ 99	$ 99	$ 121	$ 126	$ 126
SPPNet Monitoring In-house	$ 139	$ 139	$ 139	$ 139	$ 139	$ 139
In-Sourcing Leadership Training ***New!***				$ 37	$ 37	$ 37
In-House Tariff Revisions-eTariff ***New!***				$ 211	$ 211	$ 211
Total	$ 755	$ 843	$ 936	$ 1,085	$ 1,118	$ 1,211
Capital -- Non-Staffing Cost Reductions						
Server Virtualization	$ 3,981	$ 3,891	$ 3,609	$ 4,276	$ 3,998	$ 3,716
Oracle Database Licensing (Virtualization)	$ 873	$ 113	$ 113	$ 873	$ 113	$ 113
Unlimited Oracle Database Licensing ***New!***				$ 20	$ 1,387	$ 303
Desktop/Laptop Refresh Cost Reduction	$ 57	$ 57	$ 57	$ 49	$ 57	$ 57
Purchasing Bidding and Negotiations	$ 129	$ 129	$ 129	$ 398	$ 129	$ 129
Microsoft Software Usage Rationalization	$ -	$ 38	$ 38	$ -	$ 38	$ 38
Total	$ 5,040	$ 4,228	$ 3,946	$ 5,616	$ 5,722	$ 4,356
Grand Total	$ 6,448	$ 6,704	$ 6,588	$ 6,864	$ 8,376	$ 7,174
Variance to Budget Savings Identified				$ 416	$ 1,672	$ 586

SPP Business Process Improvement Tracking
Actual/Forecasted 2012 Benefits Realization vs. Savings Identified in 2012 Budget
Explanation of 2012 Variances

Process Improvement/Cost Reduction Program	From SPP Budget Projections for 2012	Current Forecast for 2012	Variance	Variance Explanation
Operations Staffing Cost Reductions				
Settlements Process Improvements	$ 232,989	$ 232,989	0	On Target -- Positions have been transferred to Integrated Marketplace support in Settlements.
Compliance Process Improvements and Organizational Alignment	$ 277,234	$ 184,039	(93,195)	Only two of the three positions to be eliminated through improvements/alignment are now feasible.
Operations Automation - Tariff Admin & Interchange Desks	$ 142,635	$ (253,990)	(396,625)	Vendor delays (OATI) - We will invest in automation in 2012 and ROI will occur in 2013 and beyond.
Total	**$ 652,858**	**$ 163,038**	**(489,820)**	
Operations Non-Staffing Cost Reductions				
In-House Support for Tariff Service Agreement Filings	$ 517,084	$ 577,130	60,046	Based on pro-forma monthly spreading of annual W&T bills and Jan-May actuals – In-sourcing ahead of plan.
FERC Section 205 Filing Process Change -- Avoids Outside Legal Fees	$ 99,000	$ 120,750	21,750	Three Transmission Owners moved to "Formula Rates" which is the category eligible for the process change - increases cost avoidance.
SPPNet Monitoring In-house	$ 139,400	$ 139,400	0	External contractor eliminated per plan with no internal cost increase - monitoring tool investment.
In-Sourcing Leadership Training ***New!***	$ -	$ 36,529	36,529	**New item** - had not been included in Budget estimates. Eliminate outside Consulting expense.
In-House Tariff Revisions-eTariff ***New!***	$ -	$ 211,421	211,421	**New item** -- In-house support of on-line Tariff revisions saves $155/hr vs. outside legal costs. Program initiated in 2010/2011, but this is the first time tracking savings.
Total	**$ 755,484**	**$ 1,085,230**	**329,746**	

Capital Non-Staffing Cost Reductions				
Server Virtualization	$ 3,981,344	$4,276,104	294,760	Initial "virtualization" volume estimate was conservative and our actual volume is more than the benchmark - higher level of cost avoidance. (Same as 1Q forecast.)
Oracle Database Lic. (Virtualization)	$ 873,000	$ 873,000	0	On plan
Unlimited Oracle Database Licensing ***New!***	$ -	$ 19,812	19,812	**New Item** -- Projected volume from Integrated Marketplace makes Unlimited Pricing more attractive than per DB. Paying 3-year fees in 2012 makes 2012 breakeven - major savings in years 2 & 3 and beyond.
Desktop/Laptop Refresh Cost Reduction	$ 56,604	$ 48,800	(7,804)	Refined Model: Cost avoidance model was based upon 650 machines for employees/training, etc. Actual savings based on 2008 vs. 2009 machine numbers (employee growth) are less than the model.
Purchasing Bidding and Negotiations	$ 128,646	$ 398,248	269,602	We are tracking actual bidding/negotiating savings. 1H12 savings was higher than estimated so full year estimate has been increased.
Total	**$ 5,039,594**	**$5,721,568**	**576,370**	
Grand Total	**$ 6,447,936**	**$6,864,232**	**416,296**	

C) Implementation of Formal SPP-wide Business Process Improvement Program

Future State Vision:

Implement an SPP-wide program where SPP employees have the skills and empowerment to improve their work processes. SPP also will have implemented management processes to identify improvement opportunities, define project scope, and charter process improvement teams (PITs) within Departments and for larger SPP-wide improvement projects. It is likely that some process improvement initiatives will have member representatives on PITs.

A small staff group (Business Process Improvement) will train, lead and facilitate pilot Business Process Improvement projects using a defined analytical methodology. Given the SPP organization's priorities through 2014, SPP will embrace an evolutionary approach to implementing this enhanced capability. By 2014-15, each major SPP Business Unit and Department will have resources on staff that have experience participating and leading process improvement projects. This is expected to be accomplished by reallocating resources over time as opposed to adding incremental headcount. The embedded Lean Facilitators will be mentored by the BPI Department.

BPI Implementation Milestones:

1Q12 Hire an experienced BPI resource to be dedicated to training, facilitating and leading the development of process improvement projects and skills at SPP.

2Q12 Review available BPI methodologies and recommend the methodology that is best suited for SPP's business model, objectives and culture.

2Q12 – 4Q12 Identify, facilitate and implement 3-5 process improvement Pilot projects and establish the benchmarks for measuring results.

2013 Expand BPI Pilot programs into all SPP Business Units.

Develop the overall management processes so that developing goals and objectives for BPI initiatives are integrated into overall SPP management systems.

2014 SPP-wide implementation of BPI – extend BPI training and involvement to all Departments within SPP. Assure that development of BPI skills are part of all SPP human resource development plans. BPI will work with line organizations to develop Lean Facilitators in their organization. SPP will have an enhanced ability to embrace continuous process improvement.

Status: 1Q12 and 2Q12 milestones have been achieved and Pilot program work is being initiated (See Appendix A).

Appendix A: Business Process Improvement Pilot Programs in process:

Business Issue	Sponsor	Timing	Status	Target Benefits
Customer Engagement Processes – fragmented and inefficient	Russell Quattlebaum	In process	1) Defined and documented desired-state process 2) Currently mapping new process to automated Request Management System tool	1) Faster response times 2) Increased productivity (less churn, confusion)
ITP Process – massive quantities of data increasing complexity of studies	Katherine Prewitt	Early August	1) Scoping session held June 28 2) Current quality assurance efforts assessed for potential interlock 3) Workshop planned for early August	1) Increased confidence in accuracy of studies 2) Improved handoffs internally 3) Increased productivity
ICCP Request Fulfillment Process – on-boarding less efficient than desired	Reed Thornton	Late August	1) Scoping session held June 22 2) Workshop planned for third week of August	1) Improved customer on-boarding experience 2) Reduced strain on teams to meet deadlines
Engineering Working Group Process – meetings not as productive as desired	Katherine Prewitt	Late July	1) Scoping session held May 31 2) Workshop scheduled for July 25-26	1) Increased meeting productivity (faster time to consensus) 2) Improved stakeholder satisfaction

Appendix B – Proposed BPI Tracking Guidelines

Business Process Improvement/Cost Reduction Initiatives
Benefits Tracking Guidelines

June, 2012

Measuring Improvements

1. **Current Process** – The Current State reflects business as usual. Metrics appropriate to each process should be developed to reflect the baseline in terms of staffing, productivity and/or costs.
2. **Improved Process** – The improved process will create a Future State of operation. The Future State staffing, productivity and/or cost should be modeled and the benefits to be realized should be estimated.
3. **Costs and Benefits** – Some initiatives will require investments in new systems, equipment and/or training in order to obtain the improvements identified. An investment analysis should be developed to identify the Cash Flow of the Investment and the resulting benefits over time. We will track the net benefits of initiatives requiring capital investment.
4. **Benefits Tracking** – The SPP Business Owner, in conjunction with the BPI Department, will develop an objective tracking of benefits actually realized vs. the Current state benchmark. Improvement results will be reported quarterly to the Finance Committee.

Benefits Measurement Scope

- **When does a "Process Improvement" become the new standard practice?**
- **How long should we track each process improvement initiative?**

Level	Description	Tracking Period
1	Projects – Process improvement projects requiring investment in automation that will require some time to achieve a return on investment.	Tracking period matched to ROI period. Can be from 3 to 5 years. *
2	Formal process improvement projects that result in a documented elimination of a headcount requirement based upon work elimination and/or productivity improvement. **	Up to 3 years – includes development and implementation time during the year identified plus two full years
3	Policy changes, process simplification, cost reduction ideas, simple automation initiatives – that are relatively straight forward to implement having relatively low investment requirements.	Track during year identified plus the following full year.

* Large capital investment projects could be tracked for up to 5 years (e.g. Integrated Marketplace), whereas automation projects similar to the Operations Automation ($400,000 capital investment) may be tracked for 3 years. Tracking period will be identified upon project initiation and endorsed by the SPP CFO.

** SPP will need to develop a policy statement that provides job reassignment and/or retraining to any employees whose job is eliminated due to BPI productivity initiatives.

Memorandum

To: **Finance Committee Members**

From: **Tom Dunn**

CC: **Cheryl Robertson**

Date: **July 3, 2012**

Re: **2011/12 Meeting Schedule**

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.

Meeting Date	Time	Meeting Location	Major Agenda Items
July 10, 2012	8:30	Little Rock, AR	Investment Manager review Insurance review BPI review
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
April 9, 2013	8:30	Dallas, TX	Financial audit review