



Southwest Power Pool
FINANCE COMMITTEE MEETING
October 11, 2012
Dallas, Texas

• Summary of Action Items •

1. Approved minutes from September 13 and September 24, 2012 meetings
2. Approved SPP 2013 operating and capital budgets
3. Approved SPP administrative and assessment fee of 31.5¢/MWh effective January 1, 2013

• Schedule of Follow-up Items •

1. Impact of depreciation schedules on property taxes and balance sheet
2. Establish a scorecard for presentation to MOPC, SPC, and BOD indicating costs associated with member required projects/services
3. Ensure Business Process Improvement is first agenda item at December 2013 Finance Committee meeting
4. Expand Organization Self-Evaluation to address each Organization Scope Document responsibility for the Finance Committee



**Southwest Power Pool
FINANCE COMMITTEE MEETING**

October 11, 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 9:30 a.m. The following members of the Finance Committee were in attendance:

Harry Skilton	SPP Director
Larry Altenbaumer	SPP Director
Kip Fox (proxy for Sandra Bennett)	Southwestern Power Company
Kelly Harrison	Westar Energy
Coleen Wells	Kansas Electric Power Coop
Mike Wise	Golden Spread Electric Coop
Tom Dunn	SPP

Others attending included:

Scott Smith (phone)	SPP
Matt Harward (phone)	SPP
Nick Brown	SPP
Carl Monroe	SPP

Administrative Items

Minutes from the September 13, and September 24, 2012 meetings were reviewed. Coleen Wells motioned to approve the minutes. The motion was seconded by Kip Fox and approved by unanimous voice vote.

2013 Budget

The discussion addressed five specific areas, as follows:

- True up: Review of over/under recovery for each fiscal year from 2004 through 2011 based on audit results. Tariff requires true-up of admin fee annually. SPP will employ this more formal process in future years to ensure true-ups are effective.
- Staff levels: Review of staffing process used by SPP to fill new and/or open positions. Discussed feasibility to not add incremental 2013 positions versus risks to Integrated Marketplace project. Determined 2013 was not appropriate year to restrict resources due to risks to the schedule for IM.
- Capital Expenditures: Reviewed capital expenditures, specifically focusing on projects and the genesis of the project requirements.
- 2017 Rates: Generally, the transmission rates for the SPP region will increase in 2017 as the many transmission projects are placed into service and subject to recovery. SPP should work to ensure its administrative fee rate is as low as possible at that time to reduce the rate impact to the retail and commercial customers in the region
- Administrative Fee Strategy: SPP must ensure its business process improvement initiatives are effective to realize the cost efficiencies without sacrificing service quality.

Three motions were discussed as part of the budget request:

1. Authorize SPP to transfer \$4.966 million from capital account to its operating account to true-up accounting for capitalized interest. Motion was presented by Kelly Harrison, seconded by Larry Altenbaumer and approved by unanimous voice vote

2. Recommend the SPP Board of Directors approve the 2013 SPP operating and capital budgets as submitted provided that should the Stochastic Planning process not proceed through SPP's stakeholder groups the budget for stochastic planning shall be removed from the 2013 budget. Additionally, SPP staff is directed to focus additional efforts on its business process improvement initiatives to accelerate recognition of cost efficiencies and shall report to the Committee the results of these enhanced efforts. Motion was presented by Larry Altenbaumer, seconded by Kelly Harrison and approved by unanimous voice vote.
3. Recommend the SPP Board of Directors establish an assessment rate and tariff administrative fee (schedule 1-A) of 31.5¢/MWh beginning on January 1, 2013.

2012 Finance Committee Effectiveness Review

The Committee reviewed the first draft of the effectiveness review and requested it be expanded to include each item the Committee exercises oversight to ensure all responsibilities are being addressed.

Order 741 Compliance

The Committee reviewed the final draft tariff language required to implement SPP as the central counterparty to Integrated Marketplace transactions. Staff was directed to ensure all documents through the settlements process were consistently designed with SPP as central counterparty to ensure no loopholes exist.

Credit Reporting Metrics

SPP staff reviewed the most recent quarter past due statistics as well as the allocation of secured and unsecured credit to customers.

Other Items

Harry Skilton advised the Committee on a few audit related items:

- Harry had a discussion with PWC regarding the 2012 SSAE 16 audit. To date, no exception or qualification items have been identified. PWC will attend the December Finance Committee meeting to provide a full report
- Harry attended the September meeting of the SPP Oversight Committee which included discussion of Finance Committee requests to i) audit each expense report submitted by SPP officers and independent directors and ii) publish the review of Off We Go, LLC transactions without providing a draft report to Off We Go, LLC representatives. The Oversight Committee determined performing audits of a sample of officer and independent director expense reports would be adequate to satisfy oversight responsibilities. The Oversight Committee also determined it appropriate to provide draft reports of Off We Go, LLC reviews to its principals prior to publishing but will identify any changes suggested by Off We Go, LLC representatives in the final report.

Future Meetings

The next meeting of the SPP Finance Committee is scheduled for December 10, 2012 beginning at 2:00 am central time and finishing at 6:00 pm central. This meeting will be held at in Dallas, TX.

There being no further business, Harry Skilton adjourned the meeting at 1:30 p.m.

Respectfully Submitted,

Thomas P. Dunn
Secretary



Southwest Power Pool, Inc.
FINANCE COMMITTEE MEETING

October 11, 2012

DFW Hyatt Regency
Dallas, Texas

• A G E N D A •

9:30 a.m. – 3:00 p.m.

- 1. Administrative Items (5 minutes) Harry Skilton
- 2. 2013 Budget (120 minutes) Tom Dunn
- 3. LUNCH (30 minutes)
- 4. 2012 Finance Committee Effectiveness Review (30 minutes) All
- 5. Order 741 Compliance (30 minutes) Tom Dunn
- 6. Credit Reporting Metrics (30 minutes) Scott Smith
- 7. Future Meetings (15 minutes) All
- 8. Adjourn Harry Skilton

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

Subject: SPP Finance Committee meeting this Thursday

From: ssbennett@aep.com [<mailto:ssbennett@aep.com>]

Sent: Thursday, October 11, 2012 12:26 AM

To: Tom Dunn

Cc: Fox, Kip

Subject: Re: SPP Finance Committee meeting this Thursday

Tom, this note gives my proxy for the meeting to Kip Fox. My apologies, I'm still in Little Rock.

Thanks.

Sandra Bennett
VP Regulatory & Finance
SWEPCO
318-674-3730



**Southwest Power Pool
FINANCE COMMITTEE MEETING
September 13, 2012
Dallas, Texas**

• Summary of Action Items •

• Schedule of Follow-up Items •

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



Southwest Power Pool
FINANCE COMMITTEE MEETING
September 13, 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 3:00 p.m. The following members of the Finance Committee were in attendance:

Harry Skilton	SPP Director
Larry Altenbaumer	SPP Director
Sandra Bennett (phone)	Southwestern Power Company
Kelly Harrison	Westar Energy
Mike Wise	Golden Spread Electric Coop
Coleen Wells (phone)	Kansas Electric Power Coop
Tom Dunn	SPP

Others attending included:

Julian Brix	SPP Director
Traci Bender (phone)	NPPD
Nick Brown	SPP
Lanny Nickell	SPP

Executive Session

The Committee met in executive session

There being no further business, Harry Skilton adjourned the meeting at 5:00 p.m.

Respectfully Submitted,

Thomas P. Dunn
Secretary



Southwest Power Pool
FINANCE COMMITTEE MEETING
September 24, 2012
Dallas, Texas

• Summary of Action Items •

1. Approved minutes from July 27, 2012 meeting
2. Approved engagement of BKD, LLC to perform 2012 financial audit

• Schedule of Follow-up Items •

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



Southwest Power Pool
FINANCE COMMITTEE MEETING
September 24, 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 10:00 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	Westar Energy
Coleen Wells	Kansas Electric Power Coop
Mike Wise	Golden Spread Electric Coop
Tom Dunn	SPP

Others attending included:

Traci Bender	NPPD
Carol Shoemaker	OG&E
Curry Aldridge	Tenaska
Bruce Cude	SPS
Scott Smith (phone)	SPP
Nick Brown	SPP
Carl Monroe	SPP
Lanny Nickell	SPP
Larry Middleton	Stephens, Inc.

Administrative Items

Minutes from the July 27, 2012 meeting were reviewed. Kelly Harrison motioned to approve the minutes. The motion was seconded by Larry Altenbaumer and approved by unanimous voice vote.

2012 Financial Audit Engagement

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

Defined Benefit Pension Plan Fund Management

Larry Middleton of Stephens, Inc. led a discussion on pension fund management. Mr. Middleton had been provided high level data on SPP's pension assets and Investment Policy Statement. The discussion centered on a few observations, as follows:

- Utilize a funding target objective for the plan as opposed to a return target objective. This concept correlates well with the purpose of the plan which is to pay benefits
- Beef up the Investment Policy Statement to include greater detail on asset allocation.
- Broaden the asset allocation beyond the simple strategy currently employed. This will provide the plan with greater diversification and lower the correlation of investment returns from individual classes

- Consider implementing a hybrid investment model utilizing a strong “core portfolio” with numerous “satellite” investment options
- Consider alternative investment classes (private equity, real estate, et al)

Mr. Middleton discussed the services he normally provides on a consultative engagement with pension funds. These services include development of comprehensive Investment Policy Statement, development and implementation of investment strategy, selection of investment managers, allocation of investment assets, monitoring and reporting on plan investment performance. Stephens, Inc. does selectively agree to be an ERISA fiduciary on pension engagements.

Future Meetings

The next meeting of the SPP Finance Committee is scheduled for October 11, 2012 beginning at 9:30 am central time and finishing at 3:00 pm central. This meeting will be held at the DFW Hyatt Regency in Dallas, TX.

Executive Session

The Committee convened an executive session.

There being no further business, Harry Skilton adjourned the meeting at 3:30 p.m.

Respectfully Submitted,

Thomas P. Dunn
Secretary



Southwest Power Pool, Inc.

FINANCE COMMITTEE

Recommendation to the Board of Directors

October 30, 2012

2013 Budget

Organizational Roster

The following persons are members of the Finance Committee:

Harry Skilton	Director
Larry Altenbaumer	Director
Coleen Wells	Kansas Electric Power Coop
Mike Wise	Golden Spread Electric Coop
Sandra Bennett	American Electric Power
Kelly Harrison	Westar Energy

Background

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

Analysis

The Finance Committee met on September 13, 2012, September 24, 2012 and October 11, 2012 to review SPP’s proposed budget for 2013. SPP’s management proposed a 2013 budget to include expenditures as follows:

	<u>\$000</u>
Operating Expense (incl. dep. & am.)	\$162,626
Debt Repayment	\$12,700
FERC Assessments	\$16,340
Capital Expenditures	\$35,818

SPP management utilized a “zero-based” budget approach to prepare the 2013 budget.

The most significant cost drivers for 2013 are the ramp up of resources to build, test, and ultimately operate the services described in the Integrated Marketplace project; the expected increase in occupancy related expenditures associated with the opening of SPP’s corporate campus; and the elimination of revenue associated with the LG&E contract. SPP expects to add 23 incremental staff positions during 2013 bringing total staff to over 600. SPP expects increased costs in the areas of meeting facilitation, travel, maintenance, and consulting to support the Integrated Marketplace project efforts.

Recommendation

The Finance Committee recommends the SPP Board of Directors approve the 2013 SPP operating and capital budgets as submitted.

Approved: Finance Committee

Action Requested: Approve Recommendation



Southwest Power Pool, Inc.
FINANCE COMMITTEE
Recommendation to the Board of Directors
October 30, 2012

2013 Administrative and Assessment Fee Rate

Organizational Roster

The following persons are members of the Finance Committee:

Harry Skilton	Director
Larry Altenbaumer	Director
Coleen Wells	Kansas Electric Power Coop
Mike Wise	Golden Spread Electric Coop
Sandra Bennett	American Electric Power
Kelly Harrison	Westar Energy

Background

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

Analysis

The 2013 SPP operating budget indicates a net revenue requirement ("NRR") for the year of \$121.8 million and estimated billing determinants of 360,915,000 MWh. The rate is determined by dividing the NRR by the estimated billing determinants which results in a rate of 33.8¢/MWh. NRR is derived by adjusting SPP's gross cash outflows (exclusive of capital expenditures) by all non administrative fee revenue forecast to be earned in the year. The billing determinants are calculated by analyzing the current year to date transmission usage and estimating usage through the remainder of the year.

SPP's cash forecast indicates a rate of 31.5¢/MWh is sufficient to fully fund SPP's operations during the 2013 year; and increase to 37.0¢/MWh in 2014 and 37.5¢/MWh in 2015. Funding requirements in 2013 and beyond are based on numerous assumptions, should real time experience differ meaningfully from these assumptions, SPP's ability to operate at its current forecasted administrative fee may be jeopardized.

Recommendation

The Finance Committee recommends the SPP Board of Directors establish an assessment rate and tariff administrative fee (schedule 1-A) of 31.5¢/MWh beginning on January 1, 2013.

Approved: Finance Committee

Action Requested: Approve Recommendation



2013 BUDGET
AS PRESENTED TO FINANCE COMMITTEE
MONDAY, SEPTEMBER 24, 2012

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Executive Summary:

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

SPP has completed and documented SPP's operating and capital budgets for the 2013 fiscal year with forecasts for 2014 and 2015. Total 2013 expenses, excluding depreciation, are \$142.3M and represent \$7.7M growth over the 2012 budget. Growth in operating expenses as compared to 2012 budget results primarily from staffing (\$5.1M) and interest on borrowings for capital expenditures (\$4.1M). The 2013 net revenue requirement (NRR), a component for setting the administrative fee rate, is \$121.8M. These expense increases, combined with decreasing revenues associated with ICT and ITO contracts (\$25.5M), result in a \$34.8M increase in the NRR over 2012 budget.

The capital budget includes projects totaling \$73.5M for 2013-2015, with \$36.0M expected to be incurred in 2013. Integrated Marketplace continues to dominate the capital budget (\$105.0M total project, with \$26.0M left to spend in 2013 - 2015).

In 2012, SPP established an administrative fee rate of 25.5¢/MWh with the expectation this rate would increase in 2013 to 28.0¢/MWh. The current calculated administrative fee rate for 2013 is 33.8¢/MWh. The recommended administrative fee rate for 2013 is 31.5 ¢/MWh.



2013 Budget

		% of Change	Admin Fee Impact
NRR 2013 Prior Projection	98,645		\$0.274
Reduction in ICT Revenues	18,515	80%	\$0.051
Increase in NERC and FERC Funding	(671)	(3%)	(\$0.002)
Net Changes in Revenue	17,844	77%	\$0.049
Increase in Interest Expense	3,696	16%	\$0.010
Changes in Benefit Calculations	1,697	7%	\$0.005
Property Tax Increase	782	3%	\$0.002
Communications & Maintenance	609	3%	\$0.002
Services Decrease	(1,651)	(7%)	(\$0.005)
Misc Other	192	1%	\$0.001
Net Changes in Expenses	5,325	23%	\$0.015
NRR 2013 Current Projection	121,814	100%	\$0.338

The 2013 budget assumes SPP no longer provides ICT services under contract to Entergy based on Entergy's stated desire to have another firm provide those services and based on the pending termination of the contract on December 1, 2012, with no efforts on Entergy's part to negotiate a continuation. SPP originally staffed the ICT function with 41 staff and has been able to reduce the current number of staff required to fulfill the contract to 25. Originally, the contract revenues resulted in a net benefit of 3¢/MWh to SPP customers; in its final year, SPP's customers were realizing over 4¢/MWh in net benefits on \$18M in contract revenues.

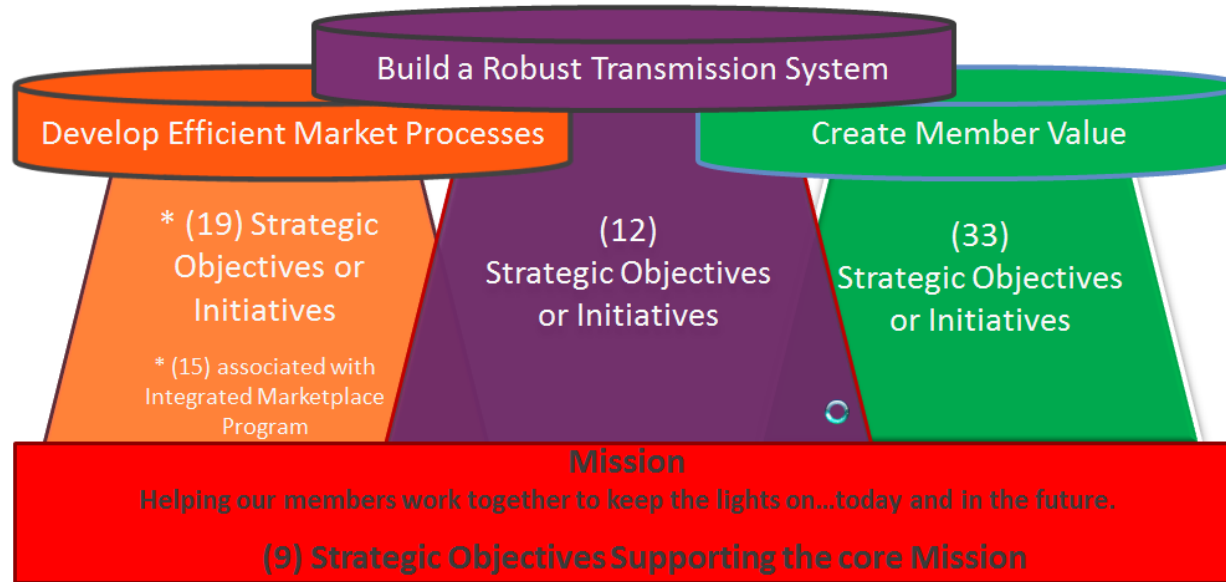


2013 Budget

2013 Budget Metrics	2013 Budget	2012 Budget	Change	2012 Forecast	Change
Gross Revenue Requirement	\$155,030	\$145,843	\$9,187	\$142,174	\$12,856
Net Revenue Requirement	\$121,814	\$89,560	\$32,254	\$86,072	\$35,742
Billing Units in MWh	360,915,000	353,453,000	7,462,000	361,011,000	(96,000)
Calculated Admin Fee/MWh	\$0.338	\$0.253	\$0.084	\$0.238	\$0.099
Capital Expenditures	\$35,818	\$82,034	(\$46,215)	\$84,574	(\$48,756)
Year Ending Headcount	603	590	13	582	21

Planning Process:

A budget is a plan that identifies the financial resources required to achieve programmatic objectives. This plan assists staff and board in managing the organization both programmatically and financially throughout the year. Staff again incorporated a zero-based budgeting approach to help identify each planned expenditure and its alignment with SPP's three foundational strategies. These strategies were formalized by the Strategic Planning Committee in May 2010, approved by the SPP Board of Directors on July 27, 2010, and are intended to leverage SPP's capabilities and operational processes. Consistent with previous years, in 2012 SPP's management completed an exercise in which all business units set actionable, dynamic goals and initiatives linked to SPP's strategic plan. These initiatives then went through a rigorous vetting process of prioritization and capacity measurement (i.e. determining adequate resource levels required to accomplish objectives without adversely impacting higher priority projects). This became the basis of zero-based budgeting justifications and these core foundational strategies are still in place today. Following is a graphical breakdown of the business unit objectives and initiatives by foundational strategy:



A full list of each business unit objectives and initiatives can be found in the Supplemental Analysis section, pages 47-51.

In order to follow the zero-based budgeting approach, each department at SPP analyzed operational tasks and the corresponding resources needed to accomplish departmental objectives in accordance with the foundational strategies. For example, the engineering group started the 2013 budgeting process by first analyzing the estimated workload required to achieve identified objectives. A thorough analysis of resource requirements (i.e. employees) was performed to identify total estimated workload for 2013. The resulting resource planning led to identification of roles that could be fulfilled by the transitioning ICT employees, therefore reducing the 2013 number of incremental headcount for Engineering to three.

Process Improvements:

The budget cycle for 2013 was launched by development of the formalized budget plan which was rolled out to all levels of management. As in years past, a budget kickoff meeting was held in May 2012 and included discussion on the concept and practical implementation of zero-based budgeting and departmental strategic initiatives.

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

A formalized list of business process improvements were identified and incorporated into the current and future years' financial projections as a result of these efforts. The improvements include both tangible cost reductions and cost-avoidance initiatives. A table of these items is on the following page. The dollar value of improvements is calculated according to the Benefits Tracking Guidelines approved by the SPP Finance Committee, according to which the improvement initiatives become standard practice generally after 1-3 years, and are no longer separately identified as "improvements" for tracking purposes. The benefits of these initiatives are long lasting, however as the new standard practice, their impact is reflected in the zero-based budget.



2013 Budget

SPP Business Process Improvement Initiatives Embedded in SPP's Zero Based Budget (000's)

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Operations Staffing Cost Reductions			
Settlements Process Improvements *	\$72	standard practice	standard practice
Ops Automation and Consolidation of Tariff Admin and Interchange Desks **	337	514	534
Total Operations Staffing Cost Reductions	\$409	\$514	\$534
Capital Non-Staffing Cost Reductions			
Unlimited 3-year Oracle Database Agreement**	\$1,386	\$303	standard practice
Microsoft Software Rationalization	39	standard practice	standard practice
Desktop Virtualization	24	standard practice	standard practice
Total Capital Non-Staffing Cost Reductions	\$1,449	\$303	-
Grand Total of Productivity, Cost Reduction and Cost Avoidance Initiatives	\$1,858	\$817	\$534
Value of Improvement Initiatives realized in 2011 and 2012***			
Prior Years Cumulative Balance		<u>\$11,425</u>	
Cumulative Value of Improvement Initiatives	\$13,283	\$14,100	\$14,634

* Four of the five FTE savings contemplated in this initiative were realized in 2012, therefore leaving one FTE saving projected for 2013.

** This project is further described below.

*** Value of 2011 and 2012 Improvements taken from 4Q2011 and 3Q2012 Business Process Improvement Tracking reports submitted to the Finance Committee.

Several meetings were conducted under the direction of the Project Review and Prioritization Committee to evaluate current and newly-proposed project initiatives against projected resource availability in 2013. This was a critical exercise given the significant commitment of existing resources to the Integrated Marketplace project. Internal resource utilization was estimated for projects requiring substantial utilization of IT, Project Management, Operations, and/or Engineering departmental subject matter experts. Because considerable effort is required for the Integrated Marketplace projects, only three new projects were added impacting the 2013 budget. Overall, seven new projects were added for 2013 – 2015 (not including the post-go-live initiatives). Refer to pages 21-22 for complete list of projects.

Business Process Improvement - Operations Automation & Consolidation

The 2013 budget includes both benefits and costs associated with the automation and restructuring initiative of the SPP Operations department. SPP has identified an opportunity to automate manual functions in the Tariff Administration and Interchange desk operations. The opportunities for productivity improvement through automation include the following:

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

This improvement initiative was originally included in the 2012-2014 budget presentation with a targeted implementation date of July 2012. Over the past year, there have been delays on the part of OATI in the development of the required automation tools. As a result of these delays, the implementation has been postponed until April 2013. At that time, the automated systems will be implemented in conjunction with the consolidation of the Tariff Administration and Interchange Desks. The implementation of the automated system will facilitate the reassignment of resources to support Integrated Marketplace requirements ((1) Supervisor, (3) Operators and (1) Business Analyst). The original initiative had contemplated eight FTE savings which was reflected in the 2012 budget

presentation; however, the baseline headcount was revised down by three FTEs during 2012, reducing the net savings expected from this initiative. Due to design of the Integrated Marketplace allowing for more automation in reservations and scheduling of market transactions, a reduction of three FTEs in the baseline headcount is expected to take place regardless of the implementation of the operations automation initiative. The total of eight employees to be released from the Tariff and Interchange desk responsibilities will be re-assigned as Consolidated Balancing Authority (CBA) operators. CBA is a component of the Integrated Marketplace and includes new operational functions such as Reliability Unit Commitment (RUC), Real-Time Balancing Market (RTBM) and Generation Dispatch.

Business Process Improvement - Unlimited Oracle Database Licensing Agreement

Thru 2010, in terms of SPP's approach to meeting database needs, SPP operated very much in a physical world. If an Oracle database was needed, a physical server and an Oracle license needed to be purchased, requiring subsequent payments for maintenance. In 2011, a new approach was initiated based on the premise that if SPP deployed Oracle databases on virtual servers instead of on separate physical servers, it would be able to "avoid" the licensing and maintenance costs for each "virtual" Oracle database. This strategy was included as part of the zero based budgeting process for the 2012-2014 budget presentation with a projected savings of over \$1.2M thru 2014. In early 2012, additional analysis was performed on the volume of Oracle databases that would be required over the next 3-5 years and compared the existing strategy in place to that of a three year contract for Unlimited Oracle licenses. The cost analysis for the period 2012-2014 revealed \$1.7M in additional savings that could be realized by employing the unlimited licensing approach.

Drivers and Assumptions:

Drivers are important factors that provide significant increases in the value of a business as viewed by its stakeholders. For SPP's 2013 budget, the following drivers have been identified for their significant effect on cost structure and income:

- + **Contract Services** – The existing ICT agreement with SPP is set to expire on December 1, 2012. As a result, the 2013 budget assumed SPP will cease to serve as the Independent Coordinator of Transmission (ICT) for Entergy for 2013 and beyond.

2013 Budget

During 2012, SPP was able to create significant efficiencies in the ICT operations. While the level of service remained intact, several employees previously dedicated to ICT operations transitioned to new roles in the Engineering and Operations departments. This was achieved due to the level of experience and efficiencies gained in administration of the ICT contract for the past several years.

The Operations Department began planning the transition of the contract service employees to perform duties associated with the Regional Transmission Organization (RTO) in 2011 in preparation for the Integrated Marketplace implementation, known internally as Ops 2014. This exercise allowed Operations management to develop a comprehensive plan to utilize the staff of 15.5 FTE ICT employees and 7 FTE ITO (Independent Transmission Organization) employees to limit incremental staffing requirements needed to implement new functions such as Reliability Unit Commitment (RUC), Consolidated Balancing Authority (CBA), Ancillary Service Market, Generation Dispatch, Transmission Congestion Rights (TCR), and Day Ahead market. Operations engineering is also adding additional modeling and analysis capabilities required to support the Integrated Marketplace/CBA (TCR modeling support, M2M support, EMS modeling and data integrity, RTO/RC support, and outage coordination) as a result of transition of 6.5 FTE from ICT Tariff Administration functions.

The Engineering Department engaged in resource planning efforts to proactively integrate the ICT staff of 13 employees into functions providing support for the Integrated Marketplace efforts and expanded RTO responsibilities. As the ICT process became more stable and efficient after its implementation period, four ICT resources became available for integration into the Congestion Hedging group. In addition, nine ICT planning resources were transitioned into planning activities within the Engineering Department's 2012 and 2013 work plan which reflects new regulatory requirements such as FERC's Order 1000, Attachment AQ, NERC modeling requirements, and several new studies and planning efforts requested by SPP membership. These new efforts include Incremental Benefits Metrics, ITP Dynamic Stability studies, business practice improvements for NTCs with conditions and NTC re-evaluation, ITPNT Load Pocket studies, ITP20 Wind Transfer Voltage studies, and incorporation of Demand Side Management effects.

- + **Integrated Marketplace** – The 2013 budget includes the continued development efforts for the Integrated Marketplace, which consists of a group of interrelated projects and tasks which have been combined into a greater program. This program has been identified as the highest priority by SPP's Membership given the expected annual net benefit of up to \$100M. SPP's Board of Directors approved a capital budget of \$105M during the April 2011 meeting. This will fund the design, development and implementation of the following market services:

2013 Budget

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

The 2013 budget also identifies capital expenditures and staffing for market related functionality or enhancements to be implemented after the initial, projected go-live date of March 2014. The major initiatives contemplated in the 2013-2015 budget projections are as follows:

- Combined Cycles
- Regulation Compensation (FERC Order 755)
- Long Term TCRs
- AFC Granularity Changes for TSRs
- Market to Market

+ **Order 1000** – FERC Order 1000 has both regional and interregional planning implications:

From the interregional perspective, the Order most notably increases information sharing and coordination between planning regions, and also calls for the development of joint planning studies between neighboring planning regions. SPP's compliance with the interregional aspects in 2013 requires the addition of 3 new engineers and consulting costs to perform the increased interregional coordinated planning and joint project cost allocation activities. The 2014 forecast calls for an additional engineer necessary to meet SPP's responsibilities under this order.

From the regional perspective, the Order requires the removal from regional tariffs, the federal right of first refusal ("ROFR") for "green field" transmission construction. Compliance with this requirement dictates SPP will need to implement an RFP ("Request for Proposal") process to select qualified transmission owners for construction of

approved transmission projects. SPP expects the RFP process will only apply to projects of 300KV and above. SPP intends to add (1) FTE related to RFP administration and (1) FTE to assist with the legal aspect of the RFP process. Other cost assumptions include RFP tracking software and consulting costs related to an Industry Expert Panel to be employed to evaluate RFP responses. SPP expects to recover the costs related to the RFP process from entities participating in the bidding process.

Administrative Fee Calculation:

SPP's projected 2013 net revenue requirement (NRR) is \$121.8M, as compared to the 2012 budget NRR of \$89.6M. The primary drivers of the increase are: 1) reduction in revenue related to the expiration of the ICT and ITO contracts (\$5.5M) and (\$17.5M); 2) increase in interest expense and principal payments for additional debt (\$5.5M); and 3) salaries and benefits for 23 incremental positions, plus merit and promotions in 2013 (\$3.1M) and increases in benefits associated with healthcare plans and pension funding (\$1.3M). Based on the projected NRR of \$121.8M and projected billing determinants of 360,915 GWh, SPP's 2013 calculated administrative cost is 33.8¢ per MWh.

SPP management recommends an administrative fee rate of 31.5¢ per MWh for 2013. Calculation of the administrative fee is outlined on the following page and includes true-ups of 2011 aggregate over-recoveries (refer to true-up calculation on page 52).

Revenue and expense items used to calculate NRR are outlined in subsequent pages. Billing determinants were forecasted by SPP's Settlements group using actual trailing 12-month billing units (July 2011 – June 2012) and assumed an insignificant amount of growth in the transmission services footprint in 2013.

Administrative Fee Calculation (con't):

<i>\$000's</i>	2013 Budget	2012 Budget	2012 Forecast	2013 Prior Year Est**
Operating Expenses	\$162,626	\$151,954	\$147,038	\$164,603
Debt Service	12,700	11,206	11,206	12,700
Depreciation and Amortization	(20,295)	(17,317)	(16,365)	(27,597)
Non-Cash SWAP Valuation Adjustment	0	0	295	0
Gross Revenue Requirement	\$155,030	\$145,843	\$142,174	\$149,706
Less: NERC Expense	(11,515)	(11,499)	(11,738)	(11,664)
Schedule 12 Expense (FERC Fee)	(16,696)	(15,410)	(14,977)	(15,876)
Contract Services Revenue	(721)	(23,758)	(24,018)	(17,484)
Other Revenues	(4,284)	(5,616)	(5,370)	(6,037)
Net Revenue Requirement	\$121,814	\$89,560	\$86,072	\$98,645
Divided by Estimated Billing Determinants/MWh*	360,915,000	353,453,000	361,011,000	359,816,000
Calculated Administrative Fee / MWh	\$0.338	\$0.253	\$0.238	\$0.274
Calculated True-Up Adjustment ***	(\$0.022)	\$0.000	\$0.000	\$0.000
Recommended Admin Fee / MWh	\$0.315	\$0.255	\$0.255	\$0.280
Current Tariff Cap on Admin Fee / MWh	\$0.350	\$0.350	\$0.350	\$0.350

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

** Refers to 2013 estimate made during 2012 budget presentation

*** See true-up detail on page 52



**SOUTHWEST POWER POOL
NET REVENUE REQUIREMENT GROWTH**

(000's)	2013 Budget	2012 Budget	2012 Forecast	Fav/(Unfav) Variance Compared to:		2012 Budget	2012 Forecast	Comments on Variances to Budget
Income								
Tariff Administration Service	\$113,799	\$90,131	\$92,058	\$23,668	26%	\$21,741	24%	Increase in Administrative Fee from \$0.255 to \$0.340
Fees & Assessments	28,211	26,909	26,715	1,302	5%	1,496	6%	Increase in NERC funding (\$0.2M) and Schedule12 revenues (\$1.2M)
Contract Services Revenue	721	23,758	24,018	(23,037)	(97%)	(23,296)	(97%)	Contract expirations in 2012: ITO (\$5.5M) and ICT (\$17.5M)
Miscellaneous Income	4,284	5,616	5,370	(1,332)	(24%)	(1,086)	(20%)	Decrease in transmission service study activity ICT (\$1.4M) and ITO (\$1.1M); offset by cost recovery associated with FERC Order 1000 (\$650K)
Total Income	147,015	146,414	148,160	602		(1,145)	(1%)	
Expense								
Salary & Benefits	77,363	72,222	72,266	(5,140)	(7%)	(5,096)	(7%)	2013 assumes 23 incremental staff and a 6% vacancy factor. Benefits increased due to incentive compensation calculation, healthcare expenses and pension funding
Employee Travel	2,614	3,002	2,586	388	13%	(28)	(1%)	
Administrative	5,015	4,212	3,922	(803)	(19%)	(1,093)	(28%)	Increase in property taxes
Assessments & Fees	16,340	15,410	14,977	(930)	(6%)	(1,363)	(9%)	Increase in projected FERC assessment
Meetings	1,586	1,445	1,146	(140)	(10%)	(439)	(38%)	Increase related to IM outreach workshops and Integrated Market clinics
Communications	4,427	4,592	4,396	165	4%	(31)	(1%)	Lower voice/data circuit and long distance costs, partially offset by increased costs for SPPnet frame costs of 5 Market participants and additional member circuit
Leases	386	1,631	1,648	1,245	76%	1,262	77%	Majority of leased office space released upon new facility completion
Maintenance	10,476	9,312	8,427	(1,164)	(12%)	(2,049)	(24%)	Increase in new facility maintenance and increased support agreements driven by Integrated Marketplace
Services	16,003	18,700	15,397	2,698	14%	(606)	(4%)	Reductions in legal and regulatory services, removal of ICT and ITO consultants, partially offset by increase in Integrated Marketplace support
Regional State Committee	344	394	527	50	13%	182	35%	Lower consulting expenses for MISO / Entergy studies
Depreciation & Amortization	20,295	17,317	16,365	(2,978)	(17%)	(3,931)	(24%)	Additional depreciation primarily related to new facility
Other Expense	7,777	3,716	5,382	(4,061)	(109%)	(2,396)	(45%)	Interest expense related to new debt obtained in 2012 for IM not included in prior year budget
Total Expense	162,626	151,954	147,038	(10,672)	(7%)	(15,588)	(11%)	
Net Income (Loss)	(\$15,611)	(\$5,541)	\$1,122	(\$10,069)	2	(\$16,733)		
Debt Repayment	\$12,700	\$11,206	\$11,206	(\$1,494)	(13%)	(\$1,494)	(13%)	
MW/h Forecast	360,915	353,453	361,011	7,462	2%	(96)	(0%)	
Net Revenue Requirement	\$121,814	\$89,560	\$86,072	(\$32,254)	(36%)	(\$35,742)	(42%)	
Calculated Admin Fee / MWh	\$0.338	\$0.253	\$0.238	(\$0.084)	(33%)	(\$0.099)	(42%)	
Recommended Admin Fee / MWh	\$0.315	\$0.255	\$0.255	(\$0.060)	(24%)	(\$0.060)	(24%)	
Capital Expense	\$35,818	\$82,034	\$84,574					
Headcount	603	590	582					



SOUTHWEST POWER POOL 2013 BUDGET COMPARED TO PRIOR YEAR PROJECTIONS

(000's)	2013 Current	2013 Prior	Fav/(Unfav) Variance		Comments on Variances
Income					
Tariff Administration Service	\$113,799	\$100,748	\$13,051	13%	Change in NRR and Admin Fee
Fees & Assessments	28,211	27,540	671	2%	NERC \$0.2M increase; FERC \$0.4M increase
Contract Services Revenue	721	17,484	(16,763)	(96%)	Removal of ICT and ITO revenues
Miscellaneous Income	4,284	6,037	(1,752)	(29%)	Removal of ICT and ITO revenues
Total Income	147,015	151,809	(4,794)	(3%)	
Expense					
Salary & Benefits	77,363	75,666	(1,697)	(2%)	Increase in healthcare, pension funding, and incentive comp calculations
Employee Travel	2,614	2,611	(3)	(0%)	
Administrative	5,015	4,233	(782)	(18%)	Property tax on book value of assets
Assessments & Fees	16,340	16,181	(160)	(1%)	
Meetings	1,586	1,474	(112)	(8%)	IM outreach workshops
Communications	4,427	4,186	(241)	(6%)	Increased costs for SPPnet frame costs of 5 Market participants and additional member circuit growth, offset by lower voice/data circuit and long distance costs
Leases	386	475	88	19%	Current estimates for 2013 leases more accurate
Maintenance	10,476	10,108	(368)	(4%)	
Services	16,003	17,654	1,651	9%	Staff augmentation reductions in IT, Regulatory, Legal and Engineering (\$3.5M), offset by increases in staff augmentation related to the Integrated Marketplace and various other initiatives
Regional State Committee	344	339	(5)	(2%)	
Depreciation & Amortization	20,295	27,597	7,302	26%	Prior year assumed depreciation during IM testing
Other Expense	7,777	4,081	(3,696)	(91%)	Interest expense associated with \$100M issuance in 2012
Total Expense	162,626	164,603	1,978	1%	
Net Income (Loss)	(\$15,611)	(\$12,794)	(\$2,817)		
Debt Repayment	\$12,700	\$12,700	\$0		
MW/h Forecast	360,915	359,816	1,099		
Net Revenue Requirement	\$121,814	\$98,645	(\$23,168)	(23%)	
Calculated Admin Fee / MWh	\$0.338	\$0.274	(\$0.063)	(23%)	
Recommended Admin Fee / MWh	\$0.315	\$0.280	(\$0.035)	(13%)	
Capital Expense	\$35,818	\$29,623	(\$6,195)		
Headcount	603	613	(10)		

Projects and Capital Expenditures:

The 2013 budget identifies \$35.8M in capital expenditures associated with 37 initiatives. Although several initiatives are related to foundation activities, over 60% of the budgeted capital expenditures are associated with development and implementation of the Integrated Marketplace (\$21.8M) and ramping up for post-go-live projects associated with the Integrated Marketplace (\$1.6M). In addition to the budgeted capital outlay for projects, \$4.9M in operating expenses and 11 incremental headcount have been budgeted in 2013 in association with these initiatives.

Following is a detail of capital expenditures and operating expenses:

CAPITAL EXPENDITURES

	Hardware	Software	Facilities	Consulting	Other	Total	Remaining Capital Fund *
2013	8,376	4,437	0	20,378	2,627	\$35,818	\$19,831
2014	4,275	9,968	0	8,311	0	\$22,554	(\$2,723)
2015	4,279	8,126	0	2,724	0	\$15,129	\$12,148 **
Total	\$16,930	\$22,531	\$0	\$31,413	\$2,627	\$73,501	\$29,255

* Beginning capital cash \$56M (see pg 36)

** Assumes \$30M loan in 2015

OPERATING EXPENSE & HEADCOUNT

	Salary & Benefits	Travel & Meetings	Consulting	Maintenance	Other	Total	Headcount
2013	\$1,318	\$180	\$1,903	\$1,351	\$115	\$4,867	11
2014	1,470	28	1,473	1,613	199	4,783	5
2015	1,851	32	1,280	1,717	120	5,000	3
Total	\$4,639	\$240	\$4,656	\$4,681	\$434	\$14,650	19

The following pages describe the Integrated Marketplace and other noteworthy projects in greater detail. A complete list of initiatives and associated capital and operating budget impacts appear at the end of this section (page 20).

Integrated Marketplace:

	Capital Expenditures by Year (\$000s) *					Total
	2007-10	2011	2012	2013	2014	
Marketplace	\$8,551	\$20,889	\$47,823	\$ 21,006	\$ 4,298	\$102,567
CBA	192	1,071	464	756	0	2,484
Total	\$8,743	\$21,961	\$48,287	\$21,762	\$4,298	\$105,052

* Does not include capitalized interest

The 2013 budget includes the continued development efforts for the Integrated Marketplace. SPP plans to implement the following large-scale initiatives by first quarter 2014:

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

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

The primary business benefits of the Integrated Marketplace program as determined from the Cost Benefit Task Force cost/benefit analysis are: 1) \$45.0M - \$100.0M per year net cost benefit to the SPP region based on various gas cost assumptions, and 2) a more efficient utilization of generation assets through centralized unit commitment.

The program will be considered complete when:

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

Integrated Marketplace Post-Go-Live Projects:

Projected Capital Expenditures by Year

<i>(000's)</i>	2013	2014	2015	Total
Combined Cycle Enhancements	\$ 450	\$2,900	\$ 450	\$3,800
Regulation Compensation (FERC Order 755)	255	3,020	510	3,785
Long-Term TCRs (LTTCRs)	429	1,081	0	1,510
AFC Granularity Changes for TSRs	0	1,363	0	1,363
Market to Market	472	944	0	1,416
Sunset Clause for Load Submittal for Legacy BAs	0	156	0	156
Assets Pseudo-Tying Out of SPP BA	0	130	0	130
Marketplace Data for MPs Post Go-Live	0	50	0	50
Total	\$1,606	\$9,644	\$ 960	\$12,210
Headcount		4	3	7

While SPP's first priority is to successfully implement the Integrated Marketplace, work will need to start in 2013 on many of the required, post implementation enhancements. A brief description of each of the significant enhancements is as follows:

Combined Cycle Enhancements

These enhancements will allow market participants to submit resource offers for each configuration of a combined cycle unit. Each configuration will be modeled in the market clearing engine as a separate resource in order to select the most economic configuration for unit commitment and dispatch. Work is expected to commence in 3rd quarter 2013 with completion anticipated in 2nd quarter 2015.

Regulation Compensation (FERC Order 755)

FERC Order 755 requires RTOs to provide a two-part payment to resources providing regulation service in the Integrated Marketplace. Tariff changes, protocol changes and software changes will be required to comply with this Order. Work is expected to commence in 4th quarter 2013 with completion anticipated in 2nd quarter 2015.

Long Term Transmission Congestion Rights (LTTCRs)

FERC Order 681 requires Load Serving Entities (LSEs) have priority in the allocation of long-term firm transmission rights. FERC expects most transmission organizations will be able to use their current allocation/auction systems to allow LSEs to nominate source-to-sink transmission rights on a longer-term basis than what is currently available. This project will consist of enhancements to the Nexant software and will establish a process which gives LSEs the ability to nominate LTTCRs for more than one year. Work is expected to commence in 4th quarter 2013 with completion anticipated in 3rd quarter 2014.

Market to Market

Market to Market coordination logic needs to be added to the Integrated Marketplace system software in order to manage congestion appropriately and efficiently between SPP and MISO. This project adds functionality to the market clearing engine to enable market to market coordination between SPP and MISO which will provide the ability for both markets to request re-dispatch of generation to solve a constraint at a lower cost, therefore reducing the overall cost of congestion. Work is expected to commence in 3rd quarter 2013 with completion anticipated in 3rd quarter 2014.

AFC Granularity Changes for TSRs

This project will change how the Available Flowgate Capability (AFC) associated with transmission service requests (TSR) will be evaluated to accommodate the SPP Balancing Authority (BA). The change will provide SPP and its members a more accurate evaluation of transmission service impacts once SPP is the BA.

Changes will most likely be necessary for many applications in Operations, IT, Transmission Planning and Settlements. Work is expected to commence in 1st quarter 2014 with completion anticipated in late 2014.

Other Projects:

Existing /Carryover Project - IT Netezza Upgrade

The Integrated Marketplace has a fundamental requirement to provide a data repository to store significantly larger quantities of data for analysis and reporting compared to the EIS Market. The data volume is expected to be about 3-6 times larger than EIS Market and is forecasted to grow at ten percent per year. The Data Warehouse solution for Integrated Marketplace must address the availability, performance and near real time data access requirement for Integrated Marketplace. The current Netezza Platform will reach end of life in 2015 and is no longer being manufactured and therefore it is recommended to upgrade with the Integrated Marketplace timelines to also include the Integrated Marketplace requirements. The project commenced in June 2012 and is expected to be completed in December 2013. Total project cost is estimated at \$3M.

Foundation – IT Systems Administration

This project is for replacement of old systems going out of warranty. New virtualized servers will be housed within an ESX Host Cluster and when required, new ESX Host(s) must also be purchased. While the main push for server replacement will be virtualization to consolidate hardware, replacement of some physical servers will still be required to replace systems which are not candidates for virtualization. Additional storage is needed at the new facility so more systems can move from the Maumelle Data Center. Total project cost is estimated at \$6.6M from 2013 through 2015.

Foundation – IT Network

Equipment being replaced under this project are those which have been in service for over 3 years, have an increased risk of failure, have reached the end of their life cycle, and/or lack feature sets conducive to achieving the availability required by the Integrated Marketplace and other high availability projects. Additionally, there are upgrades of licensing and

module/components included which will extend the life of assets already in production that simply lack port density or capacity. All of the equipment associated with this project is located in either the Maumelle Data Center or new Chenal facilities. Total project cost is estimated at \$4.3M from 2013 through 2015.

Foundation – IT Applications

The complexity of the Integrated Marketplace requires more stringent methods of software deployment, managing releases and availability and capability of tools used in development. Customized in-house developed processes and tools have proven to be unreliable for long term deployments, and industry accepted standards, methods, and models have to be used. This initiative will get SPP development processes to that level. Total project cost is estimated at \$3.8M from 2013 through 2015.

This project will cover the following IT Applications initiatives:

- Increasing the number and capabilities of the requirements/test tools used for the gathering/tracking of requirements, test cases, test results, etc.
- Increasing functionality of Informatica ETL tool
- Increasing the availability of Integrated Marketplace databases by decreasing maintenance windows and downtime
- Development of a performance testing process with tools and consultants to be used in Integrated Marketplace performance testing and beyond
- Development of release management processes
- Development of software deployment methodology and processes



**SOUTHWEST POWER POOL
2013 - 2015 BUDGET
CAPITAL COST PROJECTIONS (\$000)**

	Q1 2013	Q2 2013	Q3 2013	Q4 2013	2013 Budget	2014 Budget	2015 Budget	Prior Year(s)	TOTAL PROJECT
Existing / Carryover Projects									
IT Netezza Upgrade	\$ 1,969	\$ -	\$ 293	\$ -	\$ 2,263	\$ 177	\$ 120	\$ 479	\$ 3,038
Centralized Modeling & Model Chg Submission Tools	145	145	65	-	355	-	-	2,100	2,455
EMS Marketplace Readiness	90	90	90	90	361	-	-	353	714
New ICCP Architecture	123	63	63	63	311	-	-	355	665
Ops Automation DC Ties	200	-	-	-	200	50	-	82	332
Ops Automation OATI	25	25	25	25	100	50	-	30	180
Total Existing / Carryover	\$ 2,552	\$ 323	\$ 536	\$ 178	\$ 3,589	\$ 277	\$ 120	\$ 3,398	\$ 7,385
Integrated Marketplace / CBA									
Integrated Marketplace	\$ 5,201	\$ 5,546	\$ 4,796	\$ 5,463	\$ 21,006	\$ 4,298	\$ -	\$ 77,263	\$ 102,567
Consolidated Balancing Authority	105	615	36	-	756	-	-	1,728	2,484
Total Integrated Marketplace / CBA	\$ 5,306	\$ 6,161	\$ 4,832	\$ 5,463	\$ 21,762	\$ 4,298	\$ -	\$ 78,992	\$ 105,052
Market Post Go-Live Projects									
Combined Cycle Enhancements	\$ -	\$ -	\$ 225	\$ 225	\$ 450	\$ 2,900	\$ 450	\$ -	\$ 3,800
Regulation Compensation (FERC Order 755)	-	-	-	255	255	3,020	510	-	3,785
Long-Term TCRs (LTTCRs)	-	-	-	429	429	1,081	-	-	1,510
AFC Granularity Changes for TSRs	-	-	-	-	-	1,363	-	-	1,363
Market to Market	-	-	118	354	472	944	-	-	1,416
Sunset Clause for Load Submittal for Legacy BAs	-	-	-	-	-	156	-	-	156
Assets Pseudo-Tying Out of SPP BA	-	-	-	-	-	130	-	-	130
Marketplace Data for MPs Post Go-Live	-	-	-	-	-	50	-	-	50
Total Market Post Go-Live	\$ -	\$ -	\$ 343	\$ 1,263	\$ 1,606	\$ 9,644	\$ 960	\$ -	\$ 12,210
IT Foundation									
Systems Administration	\$ 3,278	\$ 75	\$ 75	\$ 75	\$ 3,503	\$ 1,464	\$ 1,614	\$ -	\$ 6,582
Network/Telecom	477	112	617	536	1,742	1,139	1,452	-	4,333
Applications	240	569	-	-	809	1,040	1,950	-	3,799
Service Management	264	112	112	112	600	428	360	-	1,387
Service Delivery	291	-	-	-	291	96	96	-	483
Environmental Ops	15	30	15	40	100	79	83	-	261
Total IT Foundation	\$ 4,566	\$ 898	\$ 819	\$ 763	\$ 7,045	\$ 4,246	\$ 5,555	\$ -	\$ 16,846



**SOUTHWEST POWER POOL
2013 - 2015 BUDGET
CAPITAL COST PROJECTIONS (\$000)**

	Q1 2013	Q2 2013	Q3 2013	Q4 2013	2013 Budget	2014 Budget	2015 Budget	Prior Year(s)	TOTAL PROJECT
Operations Foundation									
Marketplace MOS Enhancements	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 750	\$ 750	\$ -	\$ 1,500
Legacy Applications	50	120	75	55	300	375	325	-	1,000
Total Operations Foundation	\$ 50	\$ 120	\$ 75	\$ 55	\$ 300	\$ 1,125	\$ 1,075	\$ -	\$ 2,500
New Projects									
Upgrade ETSE 3.0 Transmission Settlements	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,500	\$ -	\$ 3,500
OPS DTS Upgrade to TTSE	-	-	-	-	-	-	2,908	-	2,908
IT EMS upgrade (2014-2015)	-	-	-	-	-	1,144	856	-	2,000
IT Data Center Migration	380	-	240	-	620	570	-	-	1,190
IT Progress ESB Replacement	-	50	-	-	50	900	-	-	950
IT Portal	174	108	108	108	498	-	-	-	498
Integration of IssueTrak with Remedy	-	-	-	-	-	150	-	-	150
Total New Projects	\$ 554	\$ 158	\$ 348	\$ 108	\$ 1,168	\$ 2,764	\$ 7,264	\$ -	\$ 11,196
Miscellaneous Capital Spend									
ETS Foundation-Alstom	\$ 50	\$ 25	\$ -	\$ -	\$ 75	\$ 75	\$ 75	\$ -	\$ 225
FERC Order 1000 Regional RFP	15	-	150	-	165	30	30	-	225
Stochastic Planning	70	-	-	-	70	80	50	-	200
Redundant EnFuzion Node and PSSE Lock Ph 2	-	23	-	-	23	-	-	-	23
ITP Data Repository	5	-	-	-	5	5	-	-	10
Update PROMOD to Server Solution	10	-	-	-	10	10	-	-	20
Total Miscellaneous Capital Spend	\$ 150	\$ 48	\$ 150	\$ -	\$ 348	\$ 200	\$ 155	\$ -	\$ 703
TOTAL CAPITAL COST PROJECTIONS	\$ 13,178	\$ 7,708	\$ 7,103	\$ 7,830	\$ 35,818	\$ 22,554	\$ 15,129	\$ 82,390	\$ 155,891

SOUTHWEST POWER POOL
COMPLETE AND ONGOING PROJECTS
2012 Budget vs. Forecast
(in thousands)



	<u>Total Project 2012 Budget</u>	<u>Total Project 2012 Forecast*</u>	<u>Over/(Under) 2012 Budget</u>
<u>2012 Foundation</u>			
IT Foundation	\$3,677	\$4,432	\$754
Ops Foundation	425	425	-
Total Foundation	<u>\$4,102</u>	<u>\$4,857</u>	<u>\$754</u>
<u>Completed in 2012</u>			
New Facilities Construction & Migration	\$88,553	\$83,589	\$(4,964)
High Availability	5,121	3,089	(2,032)
EMS Upgrade	1,266	1,126	(140)
e-Tariff Phase II	950	383	(567)
Request Management System	273	182	(91)
Ops Automation OATI	210	170	(40)
Situational Awareness Enhancements (ETV-E-terra Vision)	193	125	(68)
Replace OPS1 Outage Coordination Scheduler	133	365	233
Ops Automation #2 RTOSS-Settlements	113	-	(113)
EDNA Software Replacement **	-	1,000	1,000
Standardized Cost Estimate Reporting Template (SCERT) **	-	140	140
CIP (Ver 4) Project **	-	51	51
Total Completed in 2012	<u>\$96,811</u>	<u>\$90,220</u>	<u>\$(6,591)</u>
<u>Ongoing Projects</u>			
Integrated Marketplace (Future Markets)	\$100,999	\$102,567	\$1,568
Consolidated Balancing Authority	4,639	2,484	(2,155)
Post-Go-Live Projects	11,800	11,800	-
Cent Modeling Tool & Model Chg Submission Tool	1,833	2,454	621
Ops Automation DC TIES	364	200	(164)
Netezza Upgrade **	-	519	519
EMS Marketplace Readiness **	-	353	353
ICCP Architecture **	-	54	54
Total Ongoing Projects	<u>\$119,636</u>	<u>\$120,432</u>	<u>\$796</u>
TOTAL	<u><u>\$220,549</u></u>	<u><u>\$215,508</u></u>	<u><u>\$(5,041)</u></u>

* As of July 2012 forecast

** Unbudgeted in 2012

Valuing Work at SPP:

The 2012 end of year Staff to Management Ratio is projected to be 5:1. The planned staffing projection for the end of 2013 will increase this ratio to 5.3:1. As part of the ongoing effort to optimize SPP's overall performance, Human Resources is working on organizational alignment initiatives and development strategies to move toward a higher Staff to Management ratio.

SPP's strategy for improving this ratio includes clarifying responsibilities of management roles at all levels, from supervisor to director, and further enhancing guidelines for the professional (i.e. non-management) career track.

The management career track is centered on one's scope of responsibility regarding strategic influence, asset management, and organizational impact. While asset management includes both financial and human resources, uniform guidelines will be established regarding functional criteria for which each level of management should be accountable. Plans are also underway to develop a standard set of prerequisites in the areas of education and experience to accompany competency demonstration as a threshold for management-level roles.

For the professional career track, a model will be structured which facilitates and supports employee engagement, career development, and continuous learning. Retention and job satisfaction will be the focus of this initiative. This project will be facilitated by HR's Talent Management Team by collecting and managing data related to knowledge, skills, and abilities (KSA's) possessed by each individual employee in addition to those KSA's required for each job role. Proper use of this data will assist directors and managers in the development of succession and pipeline plans. In parallel, the data will be used to support employees in developing and pursuing individual career plans.

SOUTHWEST POWER POOL 2013 BUDGET INCREMENTAL POSITIONS

Department Name	2012 Forecast	2013 Incremental Positions			2013 Budget	2014 Budget	2015 Budget
		Foundation	Project	Total			
SPP Compliance & Communications	36	1	0	1	37	39	39
Process Integrity	46	1	1	2	48	48	48
Reg Policy & General Counsel	23	1	0	1	24	24	24
Officers & Corporate Services	37	3	0	3	40	40	40
Administration	40	0	1	1	41	42	42
SPP Regional Entity	32	0	0	0	32	32	32
Market Development & Analysis	6	0	0	0	6	6	6
Information Technology	137	6	0	6	143	147	148
Operations	155	0	3	3	158	161	164
Engineering	68	3	3	6	74	79	79
TOTAL	580	15	8	23	603	618	622
Project / Foundation							
Market	26	0	4	4	4	0	0
Post-Market	0	0	0	0	0	4	3
FERC Order 1000	0	0	4	4	4	1	0
Stochastic Planning	0	0	2	2	2	3	0
Foundation	24	13	0	13	13	7	1
Total Incremental	50	13	10	23	23	15	4

The 2013 budget includes 10 incremental positions related to various projects. Overall incremental headcount for 2013 is 23; which matches the proposed incremental for 2013 in during the 2012 budget. The net increase over the 2012 budget is only 13, as the following positions were eliminated during 2012: IT (2), Engineering (7) and Operations (2) (offset by one HR position added after the 2012 budget was submitted).

Staffing increases are related to the following:

SPP Compliance & Security: (1) Communications Specialist for additional responsibilities related to Energy Emergency Alerts (CBA function) and expanded support of member working groups, investor relations, and employee engagement in 2013; and (1) Sr. Compliance Analyst-Member Audits for increased compliance demands associated with NERC-registered Centralized Balancing Authority (CBA) requirements and (1) Market Monitor II for activities related to FERC Order 670, both in 2014

Process Integrity: (1) LMS Support and Web/CBT Developer and (1) Customer Support Specialist for Integrated Marketplace support; and (1) Customer Trainer (Regional Operations) to address demand for additional reliability-related training, NERC required training, and training on new/updated operator tools.

Regulatory Policy & Legal: (1) Attorney to lead the legal support of SPP's compliance with and implementation of FERC Order 1000 requirements, and to address legal matters associated with the implementation and operation of the Integrated Marketplace

Note: Outside legal expenses were reduced by \$1.6M from the 2012 budget.

SOUTHWEST POWER POOL 2013 BUDGET INCREMENTAL POSITIONS

Officers and Corporate Services: (1) Sr. VP, Governmental Affairs and Public Relations; (1) Talent Management Administrator; and (1) Talent Management Specialist to assist in development and delivery of ongoing professional, managerial, and leadership training as part of SPP's talent management strategy to engage and retain career employees.

Administration: (1) Business Analyst to assist with RFP process required under FERC Order 1000. (1) Sr. Staff Accountant position for 2014 for increased workload associated with Integrated Marketplace and various other reporting and analysis responsibilities

Information Technology: (1) Sr. Data Warehouse Developer to focus on development and maintenance of EADS ETL flows, processes and tool administration; (5) IT Analysts in 2013 to support various systems (CMS, POPS, EBS, Portal, TCR, Settlements, Marketplace, and CMT); and additional staff to cover additional IT growth needs in 2014 (4) and 2015 (1). Note: (2) positions were eliminated in 2012.

Operations: (1) Sr. Operator; (1) Market Analyst I; and (1) Operator III-Day Ahead Market related to IM functions. (3) Incremental positions associated with Market to Market, plus (3) positions to maintain the Dispatcher Training Simulator (DTS) and Training and Testing Simulated Environment (TTSE), which will be implemented in 2015. Note: Shift Supervisors (3) originally budgeted for 2013 were accelerated to 2012; however it is anticipated the positions will be filled with existing staff, without replacements, resulting in no incremental headcount. Operator-In-Training positions (2) were also eliminated in 2012.

Engineering: (3) Engineer positions in 2013 and (1) Engineer position in 2014 related to FERC Order 1000. Additional positions for 2013 include: (1) Manager and (1) Sr. Engineer related to Stochastic Planning and (1) Engineer I-Modeling (funded by RE). In 2014, (1) position to support Long-Term TCRs (LTTCRs) and (2) additional for Stochastic Planning. Note: (7) Engineering positions were eliminated in 2012 for various ICT functions, which will be absorbed by outside contractors in the event Entergy's contract is renewed or extended.



SOUTHWEST POWER POOL

2013 BUDGET INCREMENTAL POSITIONS COMPARED TO 2012 PROJECTIONS

<u>Department Name</u>	<u>2013 Budget</u>			<u>2012 Budget</u>			<u>Change</u>		
	<u>2012 Forecast</u>	<u>2013 Budget</u>	<u>2014 Forecast</u>	<u>2012 Budget</u>	<u>2013 Forecast</u>	<u>2014 Forecast</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
SPP Compliance & Communications	36	37	39	36	38	38	0	(1)	1
Process Integrity	46	48	48	46	48	49	0	0	(1)
Reg Policy & General Counsel	23	24	24	23	24	24	0	0	0
Officers & Corporate Services	37	40	40	36	36	36	1	4	4
Administration	40	41	42	40	41	41	0	0	1
SPP Regional Entity	32	32	32	32	34	34	0	(2)	(2)
Market Development & Analysis	6	6	6	6	6	6	0	0	0
Information Technology	137	143	147	139	145	149	(2)	(2)	(2)
Operations	155	158	161	157	158	158	(2)	0	3
Engineering	68	74	79	75	83	85	(7)	(9)	(6)
TOTAL	580	603	618	590	613	620	(10)	(10)	(2)

<u>Project / Foundation</u>									
Market	26	4	0	26	4	0	0	0	0
Post-Market	0	0	4	0	0	0	0	0	4
FERC Order 1000 Regional RFP	0	4	1	0	0	0	0	4	1
Stochastic Planning	0	2	3	0	0	0	0	2	3
Foundation	24	13	7	24	19	7	0	(6)	0
Total Incremental	50	23	15	50	23	7	0	0	8

Original 2012 Budget	590
Net Reduction in IT	-2
Net Reduction in Engineering	-7
Net Reduction in Operations	-2
Additional HR Generalist (in 2012)	1
Revised 2012 Forecast	580



SOUTHWEST POWER POOL
2013 Salary Expense Assumptions

(in \$000)

	2013 Budget	
	Expense	Staff
<u>2013 Salary</u>		
Salary as of May 15, 2012 (provided by HR)	\$47,263	545
Promotions & Non-Merit Pay Increases after May 15th	355	
May 2012 Open Positions Forecast	3,345	35
2012 Ending Balance	50,964	580
2013 Incremental Expense	1,732	23
Merit Increase (2.0%) & Promotions (0.75%)	1,363	
Estimate for Premium Pay (2.67%)	1,580	
Vacancy (6.0%)	(3,244)	
Total	\$52,395	603

	2014 Forecast	
	Expense	Staff
<u>2014 Salary</u>		
FY Salary Beginning January 31, 2014	\$53,788 *	603
2014 Incremental Expense	1,163	15
Merit Increase (2.0%) & Promotions (0.75%)	1,479	
Estimate for Premium Pay (2.67%)	1,436	
Vacancy (6%)	(3,386)	
Total	\$54,480	618

	2015 Forecast	
	Expense	Staff
<u>2015 Salary</u>		
FY Salary Beginning January 31, 2015	\$56,060 *	618
2014 Incremental Expense	308	4
Merit Increase (2.0%) & Promotions (0.75%)	1,542	
Estimate for Premium Pay (2.67%)	1,497	
Vacancy (6%)	(3,475)	
Total	\$55,931	622

* Beginning balance excludes prior year adjustments for vacancy and overtime

SOUTHWEST POWER POOL
2013 BUDGET - SUMMARY INCOME STATEMENT & COMMENTARY



	Fav/(Unfav) Variance Compared to:						
	2013 Budget	2012 Budget	2012 Forecast	2012 Budget	2012 Forecast		
	(\$000's)						
TOTAL REVENUE							
Tariff Administration Service	\$113,799	\$90,131	\$92,058	\$23,668	26%	\$21,741	24%
Fees & Assessments	28,211	26,909	26,715	1,302	5%	1,496	6%
Contract Services Revenue	721	23,758	24,018	(23,037)	(97%)	(23,296)	(97%)
Miscellaneous Income	4,284	5,616	5,370	(1,332)	(24%)	(1,086)	(20%)
Total Revenue	\$147,015	\$146,414	\$148,160	\$602	0%	(\$1,145)	(1%)
Billing Determinants in MWh	360,915	353,453	361,011	7,462	2%	(96)	0%

Total Revenue has increased over the 2012 Budget and Forecast. SPP classifies its revenue streams into 4 major categories:

- Tariff Administration Service is calculated by multiplying SPP's administrative fee by prior year coincident peak for network service and capacity for point-to-point service in MWh. The increase in Tariff Administration Service is due to the increase in SPP's administrative fee rate from 25.5¢ to 34.0¢ per MWh.
- Fees & Assessments consists of Schedule 12 fees collected to fund annual FERC assessments and NERC Regional Entity funding. Both revenue amounts are considered pass-through in which there are specific offsetting expenditures. The 2013 FERC fee is estimated at \$16.3M, and will be collected in 2013 and paid in 2014. The 2013 NERC revenue recognition amount is \$11.5M, however due to prior period funding true-ups, only \$8.5M will be collected from SPP's registered entities. The remaining revenue of \$402K is related to annual membership dues.
- Contract Services Revenue formerly consisted of revenues associated with the ICT and ITO contracts. The 2013 budget assumes the ICT contract will not be renewed after 2012. No revenues are included for the ITO contract, which expired in August 2012.
- Miscellaneous Income includes engineering studies, member training, and other various revenues. The 2013 Engineering budget includes a decrease in revenue from ITO and generation interconnection service study products due to the expiration of the ITO contract and the decreased need for outside consultants to perform study related activities. These products include the SPP aggregate study (ATSS), delivery point transfer screening (DPT) studies, long-term screening studies (LTSR), and affected system studies. The decrease in study revenue will be partially offset by the revenue expected from FERC Order 1000.

Billing determinants were forecasted by SPP's Settlements group using actual trailing 12-month billing units (July 2011 – June 2012). An insignificant amount of growth was assumed in the transmission services footprint for the 2013 budget.

SOUTHWEST POWER POOL
2013 BUDGET - SUMMARY INCOME STATEMENT & COMMENTARY



(\$000's)

Fav/(Unfav) Variance Compared to:

	2013 Budget	2012 Budget	2012 Forecast	2012 Budget		2012 Forecast	
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TOTAL SALARIES, BENEFITS, TAXES & HEADCOUNT

Salaries, Benefits & Taxes	77,363	72,222	72,226	(5,141)	(7%)	(5,137)	(7%)
Salaries	52,395	50,289	49,515	(2,106)	(4%)	(2,880)	(6%)
Incentive Compensation	7,622	6,706	7,006	(916)	(14%)	(616)	(9%)
Benefits & Taxes	17,345	15,227	15,705	(2,119)	(14%)	(1,640)	(10%)
Headcount	603	590	582	(13)	(2%)	(21)	(4%)

Employee costs are the single largest component of SPP's annual operating budget, comprising approximately 48% of SPP's annual gross revenue requirement for 2013. Incremental staffing in 2013 related to various projects and increased workloads caused salaries, benefits and taxes to exceed the 2012 Budget and Forecast. Staff increased by 23, resulting in an approximate net increase of \$2.3M. Increases in health care expenses (\$1.2M) and pension funding (\$0.4M) contribute to the unfavorable variance from 2012. A correction for calculating incentive compensation was made in 2013 (the 2012 budget was understated due to this error in calculation), which also caused an increase in benefits (\$0.8M). Merit increases budgeted at 2.0% and promotions at 0.75% contribute to the remaining increase over 2012.

Staffing detail and analysis can be found on pages 25-28.

The 2013 Budget includes a vacancy factor of 6% which is reflective of SPP's historically low turnover rate. SPP's performance compensation plan is budgeted at 15% of salaries. Cash outflows for performance compensation earned in 2013 will occur in February 2014. Funding for SPP's defined benefit retirement plan and retiree healthcare plan is \$4.0M and \$0.5M, respectively. Funding for SPP's matching contribution to the 401(k) plan is estimated at 4% of salary and incentive compensation.

SPP maintains a self-funded healthcare insurance program for employees. The self-funded healthcare program provides SPP and employees more economic benefit as compared to a traditional fully insured plan. The program is budgeted on a net basis: medical claims less employee contributions and contains a maximum claim limit as well as a claim per employee limit. Increased claims in 2012 resulted in an increase in expense estimates for 2013 of \$1.2M.

SOUTHWEST POWER POOL
2013 BUDGET - SUMMARY INCOME STATEMENT & COMMENTARY



(\$000's)	Fav/(Unfav) Variance Compared to:						
	2013 Budget	2012 Budget	2012 Forecast	2012 Budget	2012 Forecast		
TOTAL TRAVEL & MEETINGS							
Employee Travel	2,614	3,002	2,586	388	13%	(28)	(1%)
Meetings	1,586	1,445	1,146	(140)	(10%)	(440)	(38%)
Total Travel & Meetings	4,200	4,447	3,733	248	6%	(468)	(13%)

As Integrated Marketplace activities continue to progress as scheduled, travel and meetings costs are expected to increase due to internal/external training activities, market participant outreach, and completion of system development and factory acceptance testing. SPP continues to monitor travel costs to mitigate the increase in budgeted travel expenditures associated with vendor site visits, which are often located in larger cities that can be significantly more expensive to travel (ex. Seattle, San Francisco, Minneapolis, etc.).

TOTAL ADMINISTRATIVE & LEASE EXPENSE

Administrative	5,015	4,212	3,922	(803)	(19%)	(1,093)	(28%)
Leases	386	1,631	1,648	1,245	76%	1,262	77%
Total Administrative & Leases	5,401	5,843	5,570	442	8%	170	3%

Administrative expense is expected to increase in 2013 due to additional O&M costs associated with SPP's new campus. Offsetting the increases resulting from occupancy of the new campus is a significant reduction in lease expense following the expiration of SPP's lease of the Plaza West space in the third quarter of 2012. SPP's lease on the GMAC office space expires in April 2013, with no agreement reached to extend the lease. In order to continue to accommodate the testing and parallel operations phases of the Integrated Marketplace, SPP plans to relocate resources to the main corporate facility for the duration of the project.

SOUTHWEST POWER POOL
2013 BUDGET - SUMMARY INCOME STATEMENT & COMMENTARY



	Fav/(Unfav) Variance Compared to:						
	2013 Budget	2012 Budget	2012 Forecast	2012 Budget	2012 Forecast		
(\$000's)							
TOTAL COMMUNICATIONS & MAINTENANCE EXPENSE							
Communications	4,427	4,592	4,396	165	4%	(31)	(1%)
Maintenance	10,476	9,312	8,427	(1,164)	(12%)	(2,049)	(24%)
Total Comm & Maintenance	14,903	13,904	12,823	(999)	(7%)	(2,080)	(16%)

Communications expense includes all expenditures related to SPP's internal and external networks and telecommunications. These expenses are expected to decrease in 2013 mostly due to lower voice/data circuit costs associated with the elimination of Plaza West and GMAC office space, and lower long distance and wireless service expenses. This is partially offset by member circuit growth and increased SPPnet frame costs of five market participants.

Maintenance expense includes all hardware and software support, annual licensing fees and building maintenance. These expenses are expected to increase significantly in 2013 primarily due to new maintenance support agreements which will go into effect in 2013 related to the Integrated Marketplace (including TCR iHedge maintenance, Credit Management System maintenance and post-operations / pre-settlements maintenance). Other maintenance costs include various corporate facility expenses such as janitorial expense, landscape maintenance and preventative maintenance, which have also increased over the prior year.

TOTAL OUTSIDE SERVICES

Outside Services	16,003	18,700	15,397	2,698	14%	(606)	(4%)
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Outside services consist of third-party expertise to assist SPP in the deployment of its services, provide legal representation, and satisfy audit requirements. As compared to the 2012 budget, total outside services expense is expected to decrease in 2013 primarily as a result of reductions in regulatory consulting and legal support (\$1.6M) and the elimination of consultants associated with the ICT and ITO contracts (\$1.3M). Over the past two years, legal staff has been increased in an ongoing effort to reduce outside consulting needs. Other miscellaneous reductions in staff augmentation in Regional Entity, IT and Process Integrity departments also contribute to the decrease (\$0.4M). Offsetting these variances is an increase in staff augmentation related to the Integrated Marketplace project (\$0.6M).

SOUTHWEST POWER POOL
2013 BUDGET - SUMMARY INCOME STATEMENT & COMMENTARY



(\$000's)

Fav/(Unfav) Variance Compared to:

	2013 Budget	2012 Budget	2012 Forecast	2012 Budget		2012 Forecast
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TOTAL REGIONAL STATE COMMITTEE

Regional State Committee	344	394	527	50	<i>13%</i>	182	<i>35%</i>
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Total Regional State Committee (RSC) remains relatively flat to the 2012 budget. The 2012 forecast increased slightly as a result of consulting for the Brattle Study Group related to Entergy / MISO; however, this expense is not expected to continue in 2013.

TOTAL DEPRECIATION & AMORTIZATION

Depreciation & Amortization	20,295	17,317	16,365	(2,978)	<i>(17%)</i>	(3,931)	<i>(24%)</i>
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Although Depreciation and Amortization are not components of SPP's administrative fee, they are significant factors in SPP's GAAP based budget. Depreciation and Amortization expense is expected to increase in 2013 primarily due to the full year depreciation expense for the new corporate campus and related equipment purchases that were completed in July 2012, as well as hardware and software purchases for the planned capital projects.

TOTAL OTHER EXPENSE

Other Expense	7,777	3,716	5,382	(4,061)	<i>(109%)</i>	(2,396)	<i>(45%)</i>
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Other Expenses include interest expense, interest income, and other extraordinary gains or losses. Interest expense of \$3.1M has been added in 2013 for new borrowings of \$50M (2nd quarter of 2012) and \$50M (4th quarter of 2012). A portion of the interest expense incurred in 2012 and 2013, \$4.2M and \$2.7M respectively, will be capitalized in association with new facilities construction and Integrated Marketplace development. The decrease in expected capitalized interest is due to the completion of new facilities construction in 2012.

SOUTHWEST POWER POOL
2013 BUDGET - SUMMARY INCOME STATEMENT & COMMENTARY



	Fav/(Unfav) Variance Compared to:				
	2013 Budget	2012 Budget	2012 Forecast	2012 Budget	2012 Forecast
(\$000's)					
TOTAL DEBT REPAYMENT					
Debt Repayment	12,700	11,206	11,206	(1,494) (13%)	(1,494) (13%)

SPP will make \$5.5M in principal payments on the 2014 Senior Note, \$6M in principal payments on the 2016 Senior Note and \$1.0M on the 2042 Senior Notes. Additionally, SPP will make quarterly principal payments for the mortgage on the Maumelle facility.

**SOUTHWEST POWER POOL
2013 BUDGET - BALANCE SHEET**



(\$000)	<u>12/31/2012</u>	<u>12/31/2013</u>
ASSETS		
Current Assets		
Cash & Equivalents	\$81,755	\$46,023
Restricted Cash Deposits	39,050	42,550
Accounts Receivable (net)	18,495	19,370
Other Current Assets	<u>7,706</u>	<u>10,379</u>
Total Current Assets	147,006	118,322
Total Fixed Assets	183,531	201,778
Total Other Assets	1,265	1,109
Investments	<u>844</u>	<u>844</u>
TOTAL ASSETS	<u><u>332,646</u></u>	<u><u>322,053</u></u>
 LIABILITIES & EQUITY		
Liabilities		
Current Liabilities		
Accounts Payable (net)	10,433	23,207
Customer Deposits	39,050	42,550
Current Maturities of LT Debt	12,700	22,998
Other Current Liabilities	26,342	28,196
Deferred Revenue	<u>6,514</u>	<u>5,519</u>
Total Current Liabilities	<u>95,039</u>	<u>122,470</u>
Long Term Liabilities		
US Bank Floating Senior Note - 2014	5,500	0
US Bank 5.45% Senior Notes - 2016	15,000	9,000
US Bank Maumelle Mortgage - 2027	3,752	3,547
Campus 4.82% Senior Notes - 2042	64,006	62,963
Integrated Marketplace 3.55% Senior Notes - 2024	70,000	64,750
Capital Funding 3.00% - 2024	50,000	46,250
Capital Funding 3.25% - 2024	50,000	48,750
Other Long Term Liabilities	<u>7,649</u>	<u>8,234</u>
Total Long Term Liabilities	<u>265,907</u>	<u>243,494</u>
Net Income	1,122	(15,611)
Members' Equity	<u>(29,422)</u>	<u>(28,300)</u>
Total Members' Equity	<u>(28,300)</u>	<u>(43,911)</u>
TOTAL LIABILITIES & EQUITY	<u><u>\$332,646</u></u>	<u><u>\$322,053</u></u>



SOUTHWEST POWER POOL
2013 BUDGET - THREE YEAR FORECAST

	<u>2013</u> <u>Budget</u>	<u>2014</u> <u>Forecast</u>	<u>2015</u> <u>Forecast</u>
Income			
Tariff Administration Service	\$113,799	\$137,545	\$143,586
Fees & Assessments	28,211	29,143	30,002
Contract Services Revenue	721	721	721
Miscellaneous Income	4,284	4,115	4,225
Total Income	147,015	171,524	178,534
Expense			
Salary & Benefits	77,363	80,767	82,908
Employee Travel	2,614	2,401	2,375
Administrative	5,015	5,456	5,559
Assessments & Fees	16,340	17,157	18,015
Meetings	1,586	1,525	1,459
Communications	4,427	4,482	4,467
Leases	386	144	144
Maintenance	10,476	15,259	15,428
Services	16,003	15,736	14,466
Regional State Committee	344	353	361
Depreciation & Amortization	20,295	47,017	54,017
Other Expense	7,777	9,103	10,491
Total Expense	162,626	199,399	209,690
Net Income (Loss)	<u>(\$15,611)</u>	<u>(\$27,875)</u>	<u>(\$31,156)</u>
Debt Repayment	\$12,700	\$22,998	\$24,299
MW/h Forecast	360,915	371,743	382,895
Net Revenue Requirement	\$121,814	\$141,401	\$145,024
Projected Over / (Under) Recovery	(\$7,845)	(\$1,101)	\$508
Calculated Admin Fee / MWh	\$0.338	\$0.380	\$0.379
Recommended Admin Fee / MWh	\$0.315	\$0.370	\$0.375
<i>Tariff Cap on Admin Fee</i>	<i>\$0.350</i>	<i>\$0.350</i>	<i>\$0.350</i>
Capital Expense	\$35,818	\$22,554	\$15,129
Headcount	603	618	622
Fixed Charge Coverage Ratio	1.57	3.07	3.15

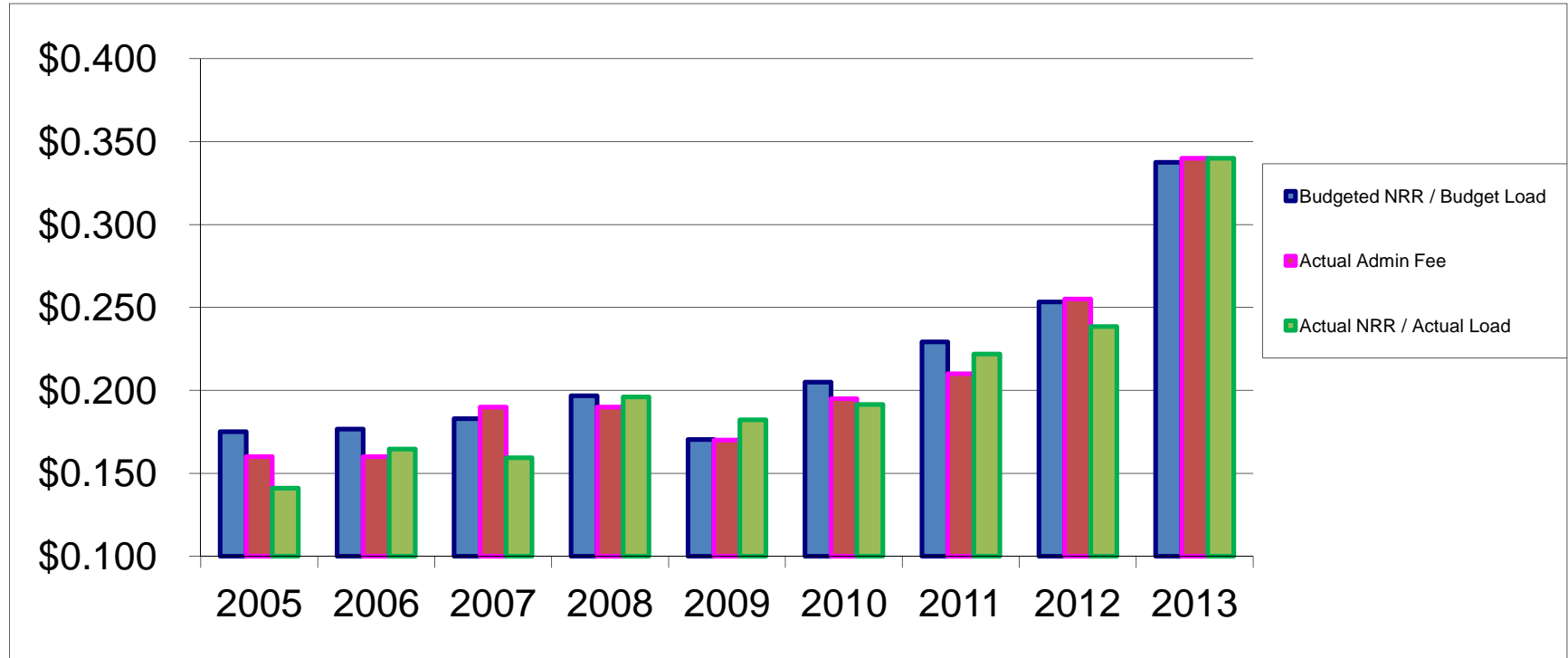


SOUTHWEST POWER POOL THREE YEAR FORECASTED CASH FLOW

(\$000)	QTR 1 2013	QTR 2 2013	QTR 3 2013	QTR 4 2013	Total 2013	2014	2015
OPERATING CASH (000)							
Beginning Cash on Hand	\$5,234	(\$7,363)	(\$6,704)	(\$4,156)	\$5,234	(\$2,611)	(\$3,711)
Income							
Tariff Administration Service	26,148	28,422	29,559	29,559	113,688	137,545	143,586
NERC Fees	2,879	2,879	2,879	2,879	11,515	12,091	12,695
Annual Dues	402	0	0	0	402	402	402
Contract Services Revenue	121	253	174	174	721	721	721
Studies and Other Income	1,040	890	815	890	3,634	4,765	4,225
Operating Income	30,589	32,444	33,426	33,501	129,961	155,524	161,629
Expense							
Salaries Expense	17,914	11,062	11,116	11,086	51,178	53,680	55,931
Employee Benefits & Taxes	6,599	6,293	5,975	6,023	24,891	26,286	26,977
Employee Travel	665	718	650	581	2,614	2,401	2,375
Administrative Expense	1,024	1,438	988	1,422	4,872	5,456	5,559
Meetings Expense	352	417	421	396	1,586	1,525	1,459
Communications Expense	1,053	1,093	1,131	1,149	4,427	4,482	4,467
Maintenance Expense	5,936	1,430	1,458	2,205	11,028	14,461	14,592
Leases Expense	218	97	36	36	386	144	144
Outside Services Expense	4,112	3,982	3,947	3,962	16,003	15,736	14,466
Regional State Committee Expense	75	98	73	98	344	353	361
Interest Income & Expense	2,067	1,986	1,906	1,818	7,777	9,103	10,491
Debt Service	3,170	3,173	3,176	3,179	12,700	22,998	24,299
Operating Expense	43,187	31,785	30,878	31,956	137,806	156,625	161,122
Ending Cash on Hand	(\$7,363)	(\$6,704)	(\$4,156)	(\$2,611)	(\$2,611)	(\$3,711)	(\$3,204)
Recommended Admin Fee MW/h	\$0.315	\$0.315	\$0.315	\$0.315	\$0.315	\$0.370	\$0.375
CAPITAL CASH (000)							
Beginning Cash on Hand	\$59,266	\$46,088	\$38,380	\$31,278	\$59,266	\$23,448	\$894
Capital Expenditures	13,178	7,708	7,103	7,830	35,818	22,554	15,129
Capital Financing	0	0	0	0	0	0	30,000
Ending Cash on Hand	\$46,088	\$38,380	\$31,278	\$23,448	\$23,448	\$894	\$15,765
TOTAL ENDING CASH (000)	\$38,725	\$31,676	\$27,122	\$20,837	\$20,837	(\$2,818)	\$12,561



SOUTHWEST POWER POOL ADMINISTRATIVE FEE HISTORY



	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Budgeted Net Revenue Required	\$ 44,391	\$ 45,688	\$ 52,819	\$ 61,462	\$ 56,478	\$ 68,358	\$ 78,638	\$ 89,560	\$ 121,814
Budgeted Load	253,489	258,556	288,649	312,496	331,360	333,458	343,000	353,453	360,915
Budgeted NRR / Budget Load	\$ 0.175	\$ 0.177	\$ 0.183	\$ 0.197	\$ 0.170	\$ 0.205	\$ 0.229	\$ 0.253	\$ 0.338
Actual Admin Fee	\$ 0.160	\$ 0.160	\$ 0.190	\$ 0.190	\$ 0.170	\$ 0.195	\$ 0.210	\$ 0.255	\$ 0.340
Actual Net Revenue Required	\$ 37,706	\$ 47,140	\$ 47,998	\$ 58,081	\$ 59,837	\$ 63,496	\$ 75,761	\$ 86,072	
Actual Load	267,239	286,446	301,098	296,135	328,175	331,610	341,440	361,011	
Actual NRR / Actual Load	\$ 0.141	\$ 0.165	\$ 0.159	\$ 0.196	\$ 0.182	\$ 0.191	\$ 0.222	\$ 0.238	
Actual Revenue Recovery from Schedule 1A & Assessments	\$ 42,758	\$ 45,831	\$ 57,209	\$ 56,164	\$ 55,325	\$ 64,277	\$ 71,702	\$ 92,058	
EIA-411 Load Growth Forecast	3.05%	-0.60%	1.80%	2.10%	2.40%	-1.00%	2.21%		
Actual Load Growth	8.82%	7.19%	5.12%	-1.65%	10.82%	1.05%	2.96%	5.73%	



SOUTHWEST POWER POOL
OUTSIDE SERVICES BY BUSINESS FUNCTION
(in thousands)

<u>DESCRIPTION OF SERVICES</u>	<u>2013 BUDGET</u>	<u>2012 BUDGET</u>	<u>Inc / (Dec)</u>	<u>Description of 2013 Expense</u>
<u>Contract Services</u>				
ICT regulatory support, reimburseable	\$ -	\$ 1,125	\$ (1,125)	ITC Contract expiration
ITO regulatory support	-	165	(165)	ITO Contract expiration
Total Contract Services	\$ -	\$ 1,290	\$ (1,290)	
<u>Legal and regulatory support</u>	\$ 3,706	\$ 5,338	\$ (1,632)	Regulatory and legal support (lower due to permanent staff added in on-going effort to reduce outside consulting needs)
<u>Administrative</u>				
Board of Directors Fees, audits, etc.	\$ 1,229	\$ 1,266	\$ (37)	Board of Directors fees (\$527); Boston Pacific (\$200); Business Process Improvement (BPI) audit of business continuity plans (\$35); financial and benefit plan audits (\$143); SSAE 16 audit (\$325)
Corporate services	1,303	1,117	185	Campus maintenance vendors (\$288); medical clinic (\$265); Human Resource programs (\$237); security (\$206); compensation survey (\$150); credit and system fees (\$123); insurance fees (\$115)
Communications and training	351	248	103	Training material development (\$100) and transition of DTS to TTSE (\$50); Human Resource training programs (\$71); various operator certification training (\$68); miscellaneous communications services (\$44)
FERC Order 1000	235	-	235	New FERC requirement in 2013
Total Administrative	\$ 3,118	\$ 2,632	\$ 487	
<u>Engineering & Operations</u>				
Engineering studies, planning	\$ 912	\$ 1,000	\$ (89)	Planning (\$467); Demand Side Management and PMU (\$300); Eastern Interconnect Planning Commission (EIPC) (\$100); various other (\$195)
Engineering studies, ITO	-	150	\$ (150)	ITO Contract expiration
Engineering studies, reimbursable	\$ 600	\$ 840	\$ (240)	GEN studies (decreased to to lower requests and more responsibilities assumed by SPP staff)
Engineering ITP, modeling, stochastic planning	324	225	99	Various planning and modeling consultants
Operations	150	-	150	IDC Reliability tool, a service formerly funded by NERC (\$150)
Total Engineering & Operations	\$ 1,985	\$ 2,215	\$ (230)	
<u>Integrated Marketplace</u>	\$ 1,516	\$ 932	\$ 584	Staff augmentation in Training (\$654), Ops Performance Support training development (\$452); MMU metrics for Marketplace (\$250) SSAE 16 readiness assessment for IM (\$250) (new to 2013)



SOUTHWEST POWER POOL
OUTSIDE SERVICES BY BUSINESS FUNCTION
(in thousands)

<u>DESCRIPTION OF SERVICES</u>	<u>2013 BUDGET</u>	<u>2012 BUDGET</u>	<u>Inc / (Dec)</u>	<u>Description of 2013 Expense</u>
<u>Information Technology</u>				
OATI Monthly service fee	\$ 1,395	\$ 1,271	\$ 124	
After hours monitoring of IT Command Center	305	360	(55)	
Operations Wind Forecasting Analysis	280	248	32	
Misc. IT services (cabling, storage, asset disposal)	135	181	(46)	
Total Information Technology	<u>\$ 2,115</u>	<u>\$ 2,060</u>	<u>\$ 55</u>	
<u>Staff augmentation</u>				
Information Technology	\$ 1,621	\$ 1,992	\$ (371)	Additional support for Keeping the Lights On projects (KTLO)
PMO, Process Mgmt, Training	-	477	(477)	PMO augmentation in 2013 relates to IM capital expense
Engineering, ITP	140	-	140	Resources to address peak activity in ITP
Market Design	300	-	300	Modifications for protocols and tariff from FERC compliance orders and training materials
Total Staff Augmentation	<u>\$ 2,061</u>	<u>\$ 2,469</u>	<u>\$ (408)</u>	
<u>Regional Entity hearings and audits</u>	<u>\$ 1,501</u>	<u>\$ 1,765</u>	<u>\$ (263)</u>	
TOTAL SPP OUTSIDE SERVICES	<u><u>\$ 16,003</u></u>	<u><u>\$ 18,700</u></u>	<u><u>\$ (2,698)</u></u>	



SOUTHWEST POWER POOL INTEREST ON LONG-TERM DEBT

	<i>Actual Interest Payments:</i>			<i>Current Budget:</i>	
	2013 Budget	Effect on Admin Fee	Interest Capitalization*	2013 Budget	Effect on Admin Fee
5.31% notes due 2014	475	0.001		475	0.001
5.45% notes due 2016	1,035	0.003		1,035	0.003
5.51% notes due 2027	217	0.001		217	0.001
4.82% construction notes due 2042	3,115	0.009		3,115	0.009
3.55% integrated markets notes due 2023	2,485	0.007	(2,485)	(0)	(0.000)
3.00% capital funding notes due 2024	1,500	0.004	(239)	1,261	0.003
3.25% capital funding notes due 2024	1,625	0.005		1,625	0.005
Total Interest	\$10,452	\$0.029	(\$2,724)	\$7,728	\$0.021

** Capitalization of interest on long-term debt associated with the development of future markets results in a reduction to the admin fee of \$0.021. This assumes the capitalized interest is not deemed to be impaired.*

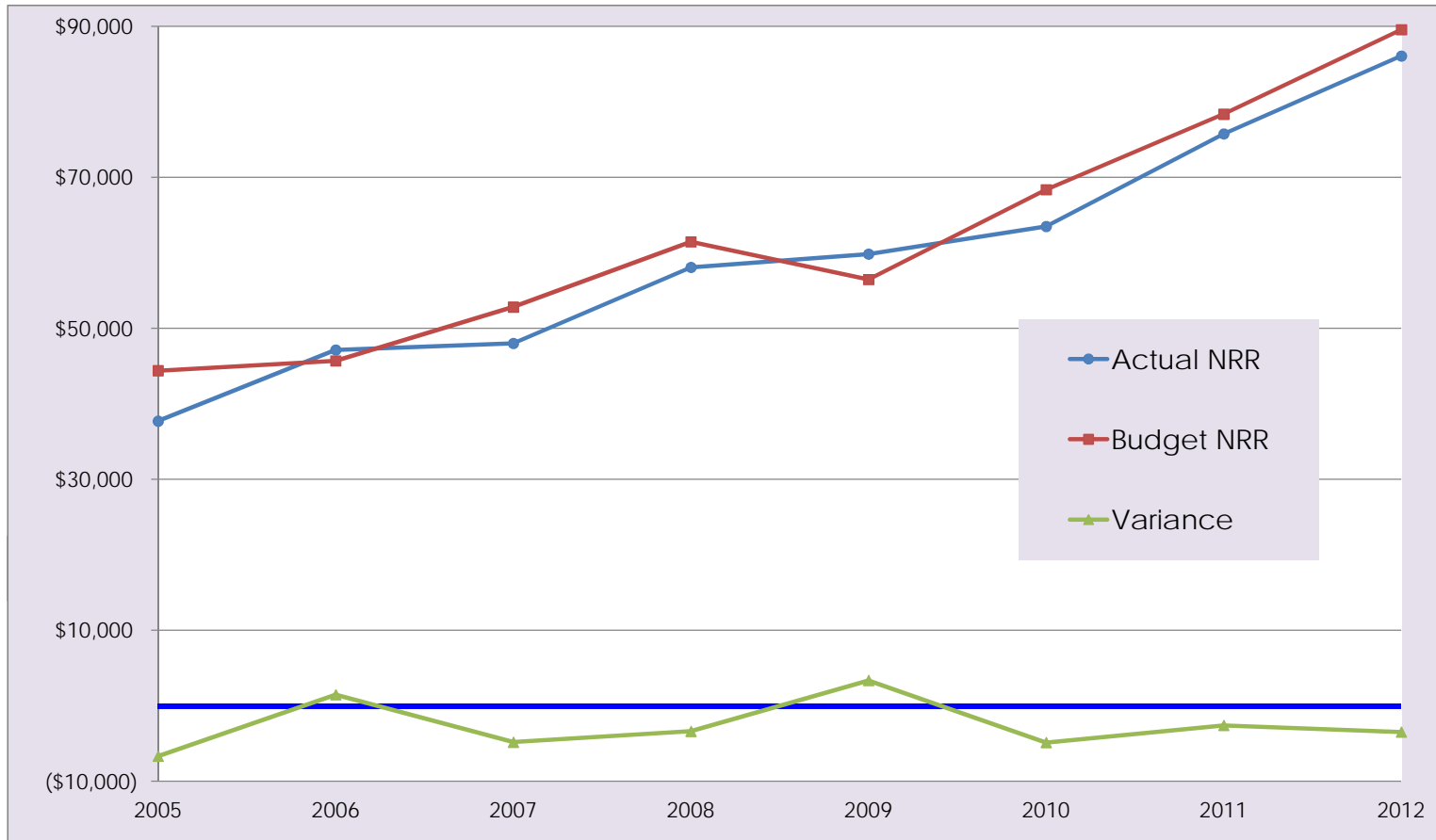
**SOUTHWEST POWER POOL
ANALYSIS OF 2012 FEES & ASSESSMENTS**



	<u>2012 Forecast</u>	<u>2012 Budget</u>	<u>Variance Fav/(Unfav)</u>	<u>Note</u>
SPP Regional Entity Revenue	\$9,722	\$11,411	(\$1,689)	Revenue for SPP RE is recognized as earned based on expense totals. In 2012, the RE expects to be favorable in comparison to their total expense budget, resulting in lower corresponding revenues.
FERC Fee Assessments (Sch.12)	16,597	15,120	1,477	FERC Fee Assessment revenue is recognized as collected. The Schedule 12 rate increased in 2012 but was not reflected in the 2012 budget due to timing issues.
Fees & Assessments Revenue	26,319	26,531	(212)	
Fees & Assessments Expense	14,977	15,410	433	FERC Fees & Assessments expense is estimated based on prior year assessment plus a growth rate. The current year run rate is adjusted once the annual bill is received in June, causing variance to budget.



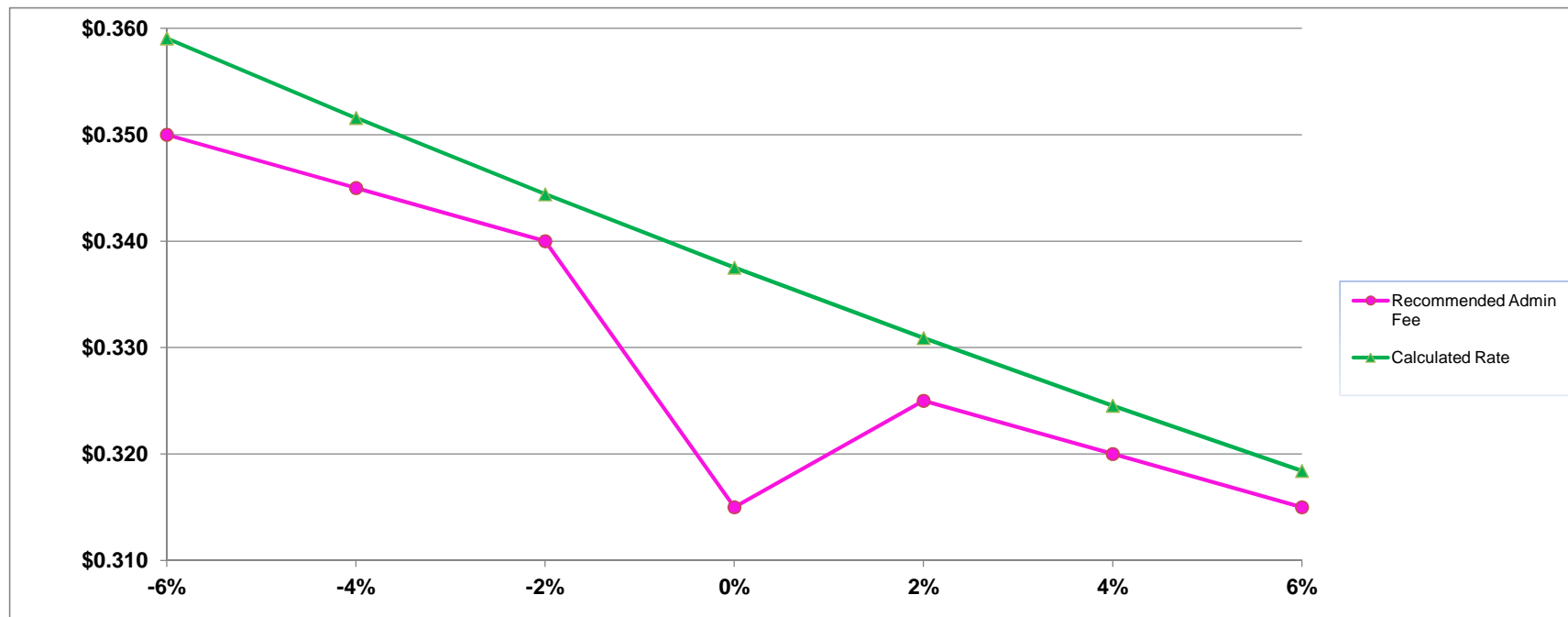
Southwest Power Pool Net Revenue Requirement: Actual vs. Budget For Years 2004 - 2012



	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Actual NRR	\$37,706	\$47,140	\$47,998	\$58,081	\$59,837	\$63,496	\$75,761	\$86,072
Budget NRR	<u>\$44,391</u>	<u>\$45,688</u>	<u>\$52,819</u>	<u>\$61,462</u>	<u>\$56,478</u>	<u>\$68,358</u>	<u>\$78,368</u>	<u>\$89,560</u>
Variance	(\$6,685)	\$1,452	(\$4,821)	(\$3,381)	\$3,359	(\$4,862)	(\$2,607)	(\$3,488)
	(15%)	3%	(9%)	(6%)	6%	(7%)	(3%)	(4%)

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

SOUTHWEST POWER POOL RATE SENSITIVITY TO LOAD VARIANCES



<u>Load Variance</u>	<u>-6%</u>	<u>-4%</u>	<u>-2%</u>	<u>0%</u>	<u>2%</u>	<u>4%</u>	<u>6%</u>
Billing Determinants	339,260	346,478	353,697	360,915	368,133	375,352	382,570
Year Ending Operating Cash	\$2,442	\$3,236	\$3,958	(\$2,611)	\$3,344	\$3,813	\$4,210
Over/(Under) Recovery at \$.315 per MWh	(\$14,947)	(\$12,673)	(\$10,400)	(\$8,126)	(\$5,852)	(\$3,578)	(\$1,304)
Recommended Admin Fee	\$0.350	\$0.345	\$0.340	\$0.315	\$0.325	\$0.320	\$0.315
Calculated Rate	\$0.359	\$0.352	\$0.344	\$0.338	\$0.331	\$0.325	\$0.318

This graph depicts the impact on SPP's admin fee due to variances in expected billing determinants. SPP has estimated its billing determinants to be 360,915 MWh for 2013. With a Net Revenue Requirement (NRR) of \$121,814, SPP recommends its administrative fee to be \$0.315 per MWh resulting in an estimated year ending operating cash balance of (\$2,611).

Assuming NRR remained the same and billing determinants were estimated at 368,133 MWh, a 2% increase, SPP would recommend an administrative fee of \$0.325, but would have approximately \$3,344 in operating cash at the end of 2013. If billing determinants were estimated at 375,352 MWh, SPP would change the administrative fee recommendation to \$0.320 and would expect to have approximately \$3,813 in operating cash at the end of 2013. The results are reversed if billing determinants are estimated at less than 360,915 MWh.



Southwest Power Pool Comparison of Prior Year Budget Estimations

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Net Revenue Required Estimations								
2008 Budget - NRR Estimations	\$61,462	\$64,503	\$71,151					
2009 Budget - NRR Estimations		\$56,478	\$68,411	\$75,079				
2010 Budget - NRR Estimations			\$68,358	\$90,106	\$94,870			
2011 Budget - NRR Estimations				\$78,637	\$86,698	\$94,643		
2012 Budget - NRR Estimations					\$89,560	\$98,645	\$113,620	
2013 Budget - NRR Estimations						\$121,814	\$141,401	\$145,024
<i>Actual NRR</i>	<i>\$58,081</i>	<i>\$59,837</i>	<i>\$63,496</i>	<i>\$75,761</i>	<i>\$86,072</i>			
Billing Unit Estimations								
2008 Budget - Billing Units Estimations	312,498	319,058	325,758					
2009 Budget - Billing Units Estimations		331,360	346,434	353,363				
2010 Budget - Billing Units Estimations			333,458	338,060	342,725			
2011 Budget - Billing Units Estimations				343,000	345,039	349,836		
2012 Budget - Billing Units Estimations					353,453	359,816	366,292	
2013 Budget - Billing Units Estimations						360,915	371,743	382,895
<i>Actual Billing Units</i>	<i>296,135</i>	<i>328,175</i>	<i>329,626</i>	<i>341,440</i>	<i>361,011</i>			
Administrative Fee Estimations								
2008 Budget - Admin Fee Estimations	\$0.190	\$0.200	\$0.200					
2009 Budget - Admin Fee Estimations		\$0.170	\$0.170	\$0.170				
2010 Budget - Admin Fee Estimations			\$0.195	\$0.270	\$0.280			
2011 Budget - Admin Fee Estimations				\$0.210	\$0.255	\$0.280		
2012 Budget - Admin Fee Estimations					\$0.255	\$0.280	\$0.300	
2013 Budget - Admin Fee Estimations						\$0.338	\$0.380	\$0.379
<i>Actual Admin Fee</i>	<i>\$0.190</i>	<i>\$0.170</i>	<i>\$0.195</i>	<i>\$0.210</i>	<i>\$0.255</i>			

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

Detailed Business Unit Strategic Objectives and Initiatives

Develop Efficient Market Processes

Org	Strategic Objective or Initiative	Timing
ALL	Support the development, testing, training, implementation and operation of the Integrated Marketplace program.	Mar. 2014
MD	Provide QA function to assure Integrated Marketplace implementation is consistent with market rule intent.	Ongoing
Lgl/ Reg	Completion of all necessary filings to achieve FERC and State approvals for the operation of the Integrated Marketplace and the Consolidated Balancing Authority and make tariff revisions for implementation.	2013 - 2014
IT	Provide Design, Integration, Testing, Trial and Deployment support for Integrated Marketplace systems.	2012-2014
IT	Complete Data Center migration in a timely manner to enable Integrated Marketplace testing to occur without delay. State of the art data center will help ensure the high availability required for Marketplace operation.	2012
IT	Support the Reliability systems evolution to support the Consolidated Balancing Authority.	2012-2014
OPS	Provide operational support of current EIS Market while supporting the testing, trials and organizational design to support future operations.	2012-2014
FIN	Provide Settlements and Credit Risk design, testing and mock trial support and the organizational design to support future operations while supporting current Settlements/Credit processes.	2012-2014
Engr	Support Integrated Marketplace through a implementation of the Transmission Congestion Rights (TCR) process.	2012/ 2013
PI	Provide Project Management support for multiple Integrated Marketplace workstreams.	2012-2014
PI	Facilitate Market Participant on-boarding and support Customer Relations inquiries in preparation for IM go-live.	2012-2014
PI	Design, develop and deliver customer training needed to prepare market participants for effectively utilizing the Integrated Marketplace.	2012-2014
COM	Support the Market Design to minimize opportunities for market manipulation and/or gaming and design, develop and implement Market Monitoring processes for the future environment.	2012-2014
COM	Provide audit advisory services for SPP departments designing operations and processes for future operations.	2012-2014
COM	Provide Communications support for the Integrated Marketplace program.	2012-2014
COM	Implement updated processes for ensuring compliance with NERC Standards (to include CBA) and FERC Compliance.	2012-2014
MD	Review MPRR's to assure that they are required and prioritized	Ongoing
MD	Provide support to Phase II enhancement of Marketplace functionality not included in Phase I scope.	2014-2015
MD	Participate in RTO Council/FERC initiatives to influence market policy/regulation supporting SPP Market effectiveness.	Ongoing
COM	Continue to monitor the EIS market and produce and Annual "State of the Market" report.	Ongoing

Build a Robust Transmission System

Org	Strategic Objective or Initiative	Timing
Engr	On-time implementation of the Authorization to Plan (ATP) and Conditional Notifications to Construct (CNTC) processes.	WG 2012 Impl 2013
Engr	Process Improvement for Aggregate Studies and Generation Interconnection studies.	Dec 2012
Engr	Completion of ITP NT for 2013	Dec 2012
Engr	Assess the potential benefits of incorporating Stochastic Modeling analysis into SPP Transmission planning processes.	Jun 2012
Engr	Enhance “Robustness” metrics to the value of ITP projects can be more quantitatively recognized.	Aug 2012
Engr	Analyze how to incorporate anticipated regulatory changes (EPA regulations and FERC Order 100) into interregional planning and cost allocation methodologies.	Draft 2012 Final 2013
Lgl/Reg	In conjunction with Engineering, support efforts to comply with multiple aspects of FERC Order 1000 – working with the RSC and SSC and other interregional partners in developing interregional planning and cost allocation. Support from a legal and regulatory filing standpoint.	Region Apr 12, Interreg Apr 13
Engr	Work with the Seams Steering Committee (SSC) to enhance our ability to understand how cooperative efforts beyond our borders can be of benefit to our stakeholders.	2012
Engr	Completion of EPA ITP10	2012
MD	Develop market design rules consistent with promoting/supporting the development of a robust transmission system.	Ongoing
PI	Increase member participation and relationship development in industry events/committees impacting the robustness of inter-regional Transmission systems.	Ongoing
Lgl/Reg	Provide the leadership to educate and facilitate processes to address issues related to Regional Cost Allocation and Recovery.	Ongoing

Create Member Value

Org	Strategic Objective or Initiative	Timing
ALL	Implement the Integrated Marketplace program on time and within budget.	Mar 2014
PI	Implement an SPP-wide Business Process Improvement (BPI) capability that empowers SPP staff improve process effectiveness, quality and efficiency (pilot projects in 2012/2013 and SPP-wide in 2014).	2012/13 & 2014
ALL	Improve support of Committees, Working Groups and Task Forces while implementing best practices for facilitation, communication and effectiveness.	2012
Engr	Develop highly skilled and cross trained staff to provide support in multiple departments within Engineering.	Sep 2012
Engr	Develop and implement Engineering Resource and Work Planning processes.	Sep 2012
OPS	Automate the RTO Tariff and Scheduling functions and prepare for the consolidation of (2) operations desks into (1).	2Q13
PI	Develop enhanced processes for planning and managing overall shared human resources (development and maintenance projects).	Req 2Q13 Impl TBD
PI	Increase member participation in the industry to better leverage SPP stakeholders to influence regulations/standards impacting them.	Ongoing
PI/FIN	Implement improved customer service processes and support technology to enhance effectiveness of stakeholder communications with SPP and increase customer satisfaction levels.	2012
PI	Design/develop needed customer training solutions and deliver effective training programs.	Ongoing
PI	Update the SPP Member Value Statement and communicate it to staff and members to increase awareness of the value of membership.	4Q12
PI	Create an ongoing program and processes to assure that SPP has a current and tested Business Continuity capability to protect member assets.	3Q/4Q12
MD	Support the Western Interconnect interest in an energy market without endangering higher priority objectives.	Aug 2012
IT	Complete the Data Center and Office Migration to the new SPP campus which will position SPP for more efficient and effective operations.	July 2012
IT	Implement an effective Enterprise Data Management solution – architecture, systems, processes and philosophies to support the internal and external needs for storage, access, retrieval and analysis of data to create increased value for members.	2014
IT	Continue to pursue multiple business process improvement and process automation initiatives to reduce cost, reduce risk and increase efficiencies in IT.	Ongoing
Lgl/Reg	Support SPP efforts to grow membership & support potential service expansion (WECC EIS market operation).	Ongoing
Lgl/Reg	Support initiatives to reduce costs and increase efficiencies through Business Process Improvement.	2012-2015

Create Member Value



Org	Strategic Objective or Initiative	Timing
FIN	Implement and Integrated Financial Planning/Reporting System	2Q13
FIN	Improve processes for procurement and receiving.	3Q13
FIN	Successful relocation of employees to new corporate campus.	Jul 2012
FIN	Continued improvement of Human Resource programs to support employee attraction, development, retention and support, including management training, career development, succession planning, and retirement planning.	Dec 2012 Ongoing
FIN	Continued process improvement, efficiency and effectiveness of Settlements processes.	2012-2013
FIN	Assure SPP compliance with credit regulatory requirements	2013
COM	Improve the user experience and value of spp.org	Nov 2012
COM	Engage with multiple elements of the SPP organization to increase the effectiveness of internal and external Communications efforts to improve effectiveness.	2012
COM	Continue to improve Market Monitoring programs and effectiveness to assure that opportunities for market manipulation and gaming are minimized.	2012-2014
COM	Provide member value by developing and maintaining a flexible Annual Audit Plan that addresses potential risk exposure for SPP.	2012-2015
COM	Assist SPP in achieving and sustaining SSAE audits without unmitigated exceptions and/or qualifications.	2012-2015
COM	Continue to proactively provide Compliance support to members by establishing a Compliance Support site, Member Evidence review processes and sharing of best practices.	2012 Ongoing
COM	Evaluate the feasibility of expanding Compliance Outreach Services to include Function Specific training, Mock Audits and Mitigation planning support.	2012-2014
COM	Working with MCG, evaluate the feasibility of expanding the SPP role to support SPP Region NERC Registration Reviews.	2012-2014
COM	Evaluate the feasibility of SPP leveraging economies of scale by becoming the Regional Compliance Department for members. This could also expand to being a “contract service” for non-members.	2013-2015

Mission: Keeping the Lights On

Org	Strategic Objective or Initiative	Timing
OPS	Enhance the Reliability Coordination function – develop and implement improved capabilities in the areas of voltage, stability, and Var reserve assessments.	1Q13
OPS	Provide Reliability Coordination, Market Operation and related operational services while supporting the Integrated Marketplace development program and designing and preparing for the implementation of the Future State Operations organization.	2012-1Q14
OPS	Continue to enhance the quality and reliability of SPP Operations by implementing an enhanced Quality Assurance function.	2012
PI	Proactively participate in industry Reliability Standards development efforts to make sure that implementation creates the maximum value for stakeholders.	Ongoing
PI	Create an ongoing program and processes to assure that SPP has a current and tested Business Continuity capability to protect member assets.	3Q/4Q12
IT	Maintain systems uptime – establishing a 24x7 Command Center to proactively monitor operations and manage issues, incidents and problems.	
IT	In conjunction with other SPP functions, will evaluate and enhance SPP’s processes and procedures for responding to and recovering from cyber events.	Ongoing
COM	Develop seasonal crisis communication readiness plans to support our effectiveness in “keeping the lights on”	Ongoing
COM	Assist SPP management in formalization/maturation of SPP risk assessment/management processes.	2012-2013



2013 Budget

Net Revenue Requirement Historical Analysis Cumulative Over 2005 - 2011

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Operating Expense	36,410	48,374	64,922	84,507	99,238	117,530	115,844	128,016
Less								
Depreciation	5,341	2,871	3,726	15,389	18,067	20,597	14,243	13,107
Impairment Loss	2,485	1,008	1,473	-	-	-	-	-
FERC Fees	-	8,226	10,384	9,112	9,525	13,104	14,101	16,639
Interest Income	306	945	1,172	1,360	648	305	56	157
Contract Services	-	182	4,684	16,170	19,032	22,705	23,251	26,549
NERC Revenue	-	708	858	3,633	4,408	5,180	6,806	8,386
Miscellaneous	5,042	3,962	2,569	3,162	4,917	6,834	6,636	6,951
Plus								
Principal Payments	5,000	5,000	5,000	10,154	12,206	8,206	9,206	13,205
Interest Expense	5,170	2,382	2,089	2,155	2,756	2,879	3,619	6,307
Other Expense	(1,338)	(148)	(5)	8	478	(53)	(79)	21
Net Revenue Requirement	\$ 32,068	\$ 37,706	\$ 47,140	\$ 47,998	\$ 58,081	\$ 59,837	\$ 63,496	\$ 75,761
Schedule 1A Revenue	<u>36,836</u>	<u>42,758</u>	<u>45,831</u>	<u>57,209</u>	<u>56,164</u>	<u>55,325</u>	<u>64,277</u>	<u>71,702</u>
Over/(Under) Collection	\$ 4,768	\$ 5,052	\$ (1,309)	\$ 9,211	\$ (1,917)	\$ (4,512)	\$ 781	\$ (4,059)
Cumulative								\$ 8,015
Admin Fee Impact								\$ 0.022

Southwest Power Pool, Inc.
Memo to Finance Committee:
Response to 2013 Budget Questions

Revised, October 11, 2012

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Southwest Power Pool, Inc.
 Memo to Finance Committee
 October 11, 2012
 Response to Finance Committee 2013 Budget Questions

Background

During the September 13, 2012 Finance Committee meeting, a number of 2013 budget-related questions and requests for additional information were made. This memo is intended to document the issues raised and provide feedback to the committee members.

1) Identify key changes from 2012 budget and 2013 projections from prior year for specific accounts

1a) Interest Expense:

(\$000)	2013 Current	2013 Prior Year	2012 Budget	2012 Forecast
Interest Expense	\$ 10,502	\$ 7,063	\$ 7,945	\$ 9,349
Capitalized Interest	(2,725)	(2,982)	(4,229)	(3,490)
Total Interest Expense	\$ 7,777	\$ 4,081	\$ 3,716	\$ 5,859

Interest expense is budgeted to be \$7.8M in 2013, an increase of \$4.1M from the 2012 budget. The increase is due mostly to the addition of \$100M capital financing received in 2012 (interest expense of \$3.1M in 2013). Capitalized interest will also decrease in 2013 by \$1.5M as a result of completion of the corporate campus construction project.



The 2012 budget indicated interest expense of \$4.1M in 2013. The increase of \$3.7M is mostly attributable to locking in \$100M in term financing at very favorable rates to fund the capital expenditure program through 2014. Capitalized interest is also lower than forecasted due to lower interest rates on the additional financing resulting in a reduction in the weighted average rate used to calculate the expected capitalized interest.

1b) Depreciation:

(\$000)	2013 Current	2013 Prior Year	2012 Budget	2012 Forecast
Depreciation Expense	\$20,295	\$27,597	\$17,317	\$16,365

The 2012 Budget assumed depreciation on furniture, fixtures, and equipment for the new corporate facilities would commence in April 2012, and depreciation on the new operations and corporate buildings would begin in June 2012. The 2012 Forecast reflects depreciation on all components of the new facilities commencing in July 2012. The 2013 Prior Year projection assumed depreciation on the Integrated Marketplace (IM) assets would start when the market trials began in 2013 and assumed the assets would depreciate over a useful life of 7 years. The 2013 Budget assumes depreciation of IM assets will begin in April 2014 in conjunction with the go-live date and assumes the assets will depreciate over a useful life of 3 years, which is in alignment with GAAP recommendations for depreciation of software and equipment and consistent with SPP's standard depreciation schedules.



Following is a breakdown of depreciation expense by asset class per the 2013 Budget:

(\$000)	<u>2013</u>	<u>2014</u>	<u>2015</u>
3 years (software and equipment)	\$15,158	\$41,969	\$49,042
5 years (furniture and fixtures)	1,864	1,775	1,702
20 years (building)	3,273	3,273	3,273
Total	\$20,295	\$47,017	\$54,017

1c) Correlation of Interest Expense and Depreciation in respect to project expense and capitalization:

Depreciation expense does not represent a cash outflow, and therefore does not have a direct impact on the calculation of the administrative fee. The acquisition of capital assets also has no direct impact on the administrative fee. The recovery of the costs of capital assets through the administrative fee takes place as follows: 1) assets subject to depreciation are capitalized on the balance sheet as they are acquired, 2) acquisition cost of the capitalized assets is funded from borrowings, and 3) principal and interest payments on the borrowings are cash outflows which are recovered in the calculation of the administrative fee. The amount of interest on debt related to an asset during its required construction or development period is also capitalized as part of the cost of the asset. Therefore capitalized interest is not part of the costs taken into account (i.e. targeted to be recovered) in the net revenue requirement calculation. The interest expense amount used in the administrative fee calculation therefore reflects total interest payments on borrowings less capitalized interest (i.e. equals interest expense on the income statement).



1d) Fluctuations in Benefits & Taxes:

Increases in benefits are largely associated with the increase in staff to 603 in 2013. Other variances are related to increases in pension funding and healthcare costs based on 2012 experience.

Salary, Benefits & Taxes Expense

(\$000)	2013 Current	2013 Prior Year	2012 Budget	2012 Forecast
Salary	52,395	53,409	50,289	49,516
Incentive compensation	7,622	6,897	6,706	7,006
Health & retiree health fund	4,161	3,229	3,150	3,663
Pension funding	4,008	3,690	3,600	3,894
SS	3,509	3,469	3,384	3,451
401K	2,397	2,069	2,018	2,308
Medicare	869	1,030	1,004	794
Dental	535	541	528	441
Life	406	411	401	290
Federal & State unemployment	167	160	195	163
Other	415	76	228	182
Benefits & Taxes	24,089	21,572	21,216	22,193
Continuing education	879	685	717	557
Total Salary, Benefits & Taxes	77,363	75,666	72,222	72,266
Headcount	603	613	590	580



Variances in Accounts by Year

(\$000)	2013 Prior Year	2012 Budget	2012 Forecast
Salary	(1,014)	2,105	2,879
Incentive compensation	724	916	616
Health & retiree health fund	932	1,011	498
Pension funding	318	408	114
SS	40	125	58
401K	328	379	89
Medicare	(161)	(135)	75
Dental	(6)	7	94
Life	(5)	5	116
Federal & State unemployment	7	(28)	4
Other	339	187	233
Benefits & Taxes	2,517	2,873	1,896
Continuing education	194	162	322
Total Salary, Benefits & Taxes	1,696	5,140	5,096

Incentive compensation: The incentive compensation program is budgeted at 15% of total salaries paid. During the creation of the 2013 budget, SPP discovered an error in the templates used to calculate incentive compensation. The calculation was not applied to the correct budgeted compensation total, thereby understating incentive compensation in the budget. The error in the template has been corrected.



Healthcare Expenses: SPP operates a partially self-funded healthcare plan whereby SPP is responsible for the majority of the healthcare costs and insurance is triggered when costs for an individual insured exceed a stated annual amount or costs for all insured exceeds an aggregate amount. SPP forecasts its healthcare expenses based on actual results plus an escalation factor. The escalation factor used is the same amount used by SPP's actuary when reviewing SPP's post-retirement healthcare benefit fund. Additionally, SPP employees fund approximately 20% of the expected costs of the plan through payroll deductions.

Year	Admin Costs	Claims	Total	Employee Contributions		SPP Funded
2010	\$ 536	\$ 2,250	\$ 2,786	\$ 814	29%	\$ 1,972
2011	\$ 651	\$ 2,868	\$ 3,518	\$ 782	22%	\$ 2,736
(6 mo) 2012	\$ 382	\$ 1,834	\$ 2,216	\$ 420	19%	\$ 1,795
2013	\$ 782	\$ 4,083	\$ 4,865	\$ 936	19%	\$ 3,929

SPP has reviewed current benchmarks for fully insured healthcare plans based on the coverage demographics for SPP's participants. This review indicates SPP continues to benefit from a self-funded healthcare plan with superior coverage at a lower cost than the average fully insured program.

<u>Survey Benchmarks</u>	<u>National</u>	<u>Regional</u>	<u>State</u>	<u>Industry</u>	<u>EE Size</u>
# of Health Plans Surveyed	8,391	2,101	131	917	1,573
Comparison Employer Cost, fully insured	\$ 5,215	\$ 4,597	\$ 4,119	\$ 5,725	\$ 5,339



Pension funding: Pension funding expense for the budget is based the on current year forecast. Actuarial analysis performed in the 1st quarter of each year.

2) Components of Other Expense Account

Other expenses include net interest expense of \$7.8M. Interest income and/or other extraordinary gains or losses is also included in this total when deemed material. In 2013, interest income is not expected to be significant nor does SPP expect to incur any extraordinary gains or losses.

3) Assumptions for Accounting of FERC Order 1000 Revenues

Revenues related to the administration of the RFP process are to be recognized when the related expenses are incurred, which is in accordance to GAAP. SPP is expected to begin incurring certain start-up costs related to the RFP process in the second half of 2013; therefore, the related revenue is reflected in the 2013 budget. The cash collection for those revenues is assumed to occur in 2014 when the RFP process actually commences.

4) Discussion of Negative Equity and Impact to Market Participants

The negative equity position is largely created by non-cash transactions that have no impact to the administrative fee and more importantly, does not provide any measure of SPP's ability to meet future obligations. The non-cash transactions that have the most significant impact on equity but have no impact on the administrative fee are 1) the differential between depreciation and debt retirement and 2) annual pension valuation adjustments required by GAAP.

In calculating the administrative fee, depreciation is backed out of the computation and debt repayment amounts are added in. As illustrated in the analysis below, during the five year period from 2007 to 2011, there was a significant negative differential (\$28.4 million) between the depreciation expense (which impacts net income and equity) and the annual debt service requirements (no impact to net income and equity). Under GAAP, we are required annually, to record any changes in the funded status of the defined benefit and post retiree health plans. The funded status represents the difference between the actuarially computed liability of



the plans and the fair value of the associated plan assets. This impacts the net income and equity but has zero cash flow impact. As the analysis below indicates, the impact during the five year period from 2007 to 2011 was approximately \$5.8 million related to these annual valuation adjustments.

Year	<u>Equity</u>	<u>Net Inc/(Dec)</u>	<u>Deprec</u>	<u>Debt Repayment</u>	(A) <u>Net Differential</u>	(B) <u>Pension Valuation Adj</u>	(A) plus (B) <u>Pension and Debt/Dep</u>
2006	12,975						
2007	8,883	(4,092)	15,389	10,154	(5,235)	(4,996)	(10,231)
2008	(7,541)	(16,424)	18,067	12,206	(5,861)	(3,912)	(9,773)
2009	(19,306)	(11,765)	20,597	8,206	(12,391)	4,969	(7,422)
2010	(20,382)	(1,076)	14,243	9,206	(5,037)	2,110	(2,927)
2011	(29,422)	<u>(9,040)</u>	<u>13,107</u>	<u>13,205</u>	<u>98</u>	<u>(3,976)</u>	<u>(3,878)</u>
TOTALS		<u>(42,397)</u>	<u>81,403</u>	<u>52,977</u>	<u>(28,426)</u>	<u>(5,805)</u>	<u>(34,231)</u>

NOTES:

In late 1st qtr 2007, SPP began depreciating a \$33.0 million asset over a three year period, which did coincide with the debt repayment.

Note on the principal repayment schedule, the 5.45% note payments did not commence until the 3rd qtr of 2011 and the 2010 Series A, B, C do not kick in until 2013 and 2014.



5) Southwest Power Pool Office Building Analysis – Post Construction

SPP’s Board of Directors and membership invested significant effort to fully justify the construction of a 150,000 square foot office building. The analysis compared the cost of ownership to the cost of leasing. The initial analysis utilized assumptions of building operating costs (utilities, maintenance, etc.) based on industry benchmarks for office buildings comparable to the size of the proposed SPP building. SPP has now completed construction, occupied the facility for two months, and competitively bid outsourcing of most operating costs. The table below compares the original analysis with the current state:

	Year 1 Initial	Year 1 Current	Variance
Debt Service	\$ 2,425	\$ 1,896	\$ (529)
Taxes	371	362	(9)
Insurance	12	32	20
Utilities	468	180	(288)
Janitorial	20	234	214
Landscape	8	80	72
Maintenance	43	253	210
Staff (4)	-	364	364
Total Expense	<u>\$ 3,347</u>	<u>\$ 3,401</u>	<u>\$ 54</u>

SPP’s project clearly benefited from lower than expected capital costs and lower utility costs due to the sustainable design features of the facility. The benchmarks have not proven to be realistic estimates for other operating costs. Potential explanations are as follows:

- Maintenance: building design includes a central energy plant supporting both the office building and a fully functioning data and operations center



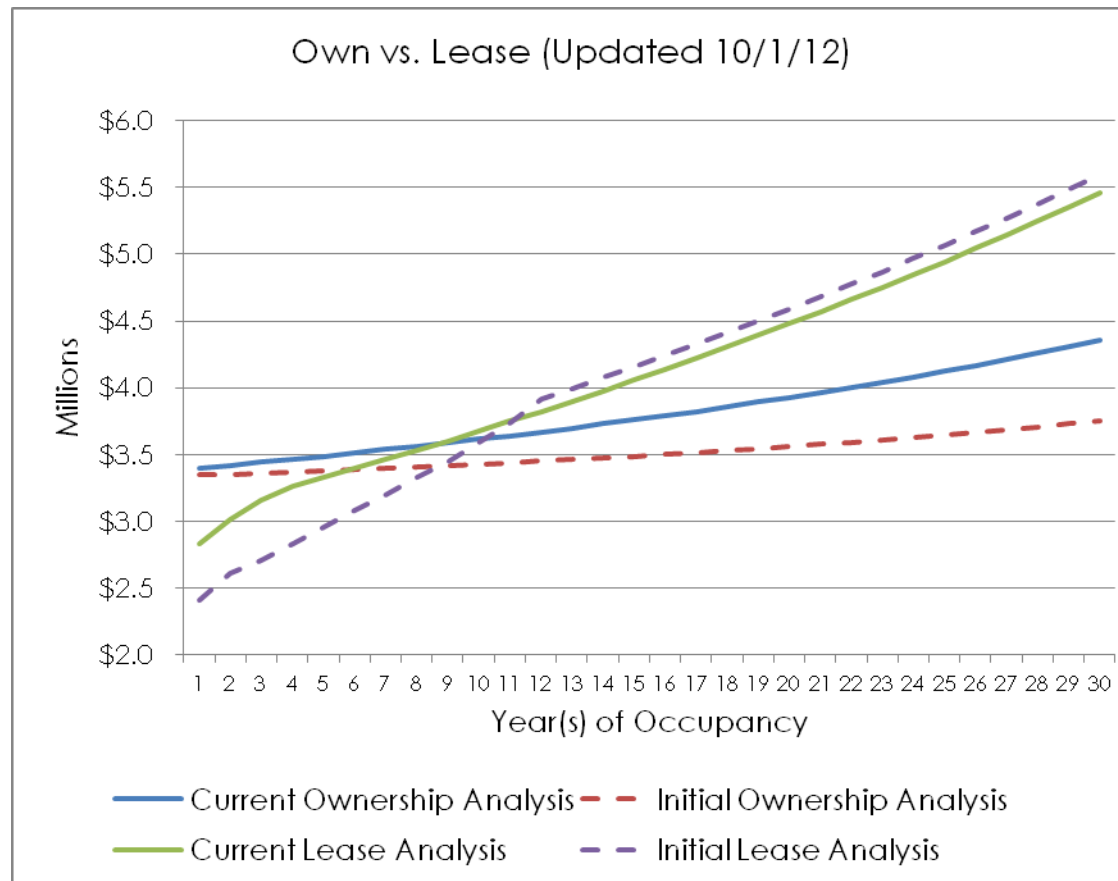
- Landscape: covers all landscaping costs for the 22 acre site
- Janitorial: supports both facilities and includes a 5 day/week day porter
- Staff: The initial analysis didn't include any on-site staff support. SPP has added a facility staff of 4 incremental positions to support the entire campus.

The initial analysis indicated annual ownership costs would be less than annual lease costs during the 9th year of occupancy. Since the initial analysis, SPP has reduced the lease rate and realized higher staffing (and thus more space under lease). The initial assumptions and revised assumptions are illustrated below:

<u>Initial Analysis</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total SPP Headcount	453	491	520	552	563	574	585	597	609
Administrative Headcount	-	-	384	407	415	423	432	441	449
Admin. Office Space Required (300 sq.ft / EE) *1000	-	-	-	-	-	-	-	-	-
	-	-	115	124	130	135	140	146	150
Lease Rate / sq.ft.	\$21.00	\$21.42	\$21.85	\$22.29	\$22.73	\$23.19	\$23.65	\$24.12	\$24.60

<u>Current Analysis</u>									
Total SPP Headcount			580	603	618	622			
Administrative Headcount			459	480	492	493			
Admin. Office Space Required (300 sq.ft / EE) *1000									
			138	144	148	150	150	150	150
Lease Rate / sq.ft.			\$20.50	\$20.91	\$21.33	\$21.75	\$22.19	\$22.63	\$23.09

Both the initial and current analysis continue to support the own versus lease decision as illustrated by the graph below:



6) Risk of virtual servers verses physical servers

The primary benefit of utilizing virtual servers is that many virtual servers can be run on the same physical machine, thus utilizing what would otherwise be unused capacity. A prime example of this is the original build-out of the Integrated Testing Environment (ITE) that SPP did prior to integration of Nebraska in 2009. The IT Department was able to build the initial environment of over 50 servers on 5 physical machines. The obvious savings is in buying fewer servers, but in addition, less physical space was required to be used in the Maumelle datacenter, less cabling and switching equipment were needed, and the servers could run on less power. It also costs less to cool the datacenter since there are fewer physical machines generating heat. Other cost savings in provisioning and automation are as follows:

- Server Virtualization improves the efficiency and availability of IT resources and applications
- Approximately 70% of a typical IT budget in a non-virtualized datacenter goes towards maintaining the existing infrastructure
- Allows multiple operating systems to operate on a single computer including Windows, Linux, etc.
- Reduces capital costs by increasing energy efficiency and requires less hardware while increasing the server to admin ratio
- Enhances business continuity through improved disaster recovery solutions and delivers high availability throughout the datacenter

There are no additional risks involved in using virtual servers compared to physical servers. Virtual machines run independently of each other and cannot communicate with each other in any way different from physical machines, even if running on the same physical server. The communication that is shared is over the same network protocols as physical machines and goes through the same firewalls. Other security risks, such as viruses or attacks from outside SPP's networks, etc. are the same for all servers (virtual or physical) and are mitigated through the use of virus scanning software or firewalls.



7) Business Process Improvements New to 2013

At each regularly scheduled meeting of the SPP Finance Committee, SPP staff submits written reports detailing the status of each BPI project, identifying new BPI projects since the budget approval, and establishing the path forward for the BPI initiative. The Finance Committee implemented tracking guidelines at its July 2012 meeting, which reduced the number of existing BPI projects to be tracked in the future. The schedule below illustrates the BPI projects reported to the SPP Finance Committee in July 2012 and the BPI projects being tracked as part of the 2013 budget.

	July 2012 Report			2013 Budget		
	2012	2013	2014	2012	2013	2014
<u>Operations Staffing Cost Reductions</u>						
Settlements Process Improvements	287	456	494	72	-	-
Compliance Process Improv/Alignment	184	190	195	-	-	-
Operations Automation	-	337	534	474	651	-
<u>Operations-Non Staffing Cost Reductions</u>						
In-House Tariff Filings	577	605	698	-	-	-
205 Filing Process Change	121	126	126	-	-	-
SPPNet Monitoring In-House	139	139	139	-	-	-
In-Sourcing Leadership Training	37	37	37	-	-	-
In-House Tariff Revisions e-Tariff	211	211	211	-	-	-
<u>Capital Non-Staffing Cost Reductions</u>						
Server Virtualization	4,276	3,998	3,716	-	-	-
Oracle Database Licensing (Virtual)	873	113	113	-	-	-
Unlimited 3-year Oracle Database	20	1,387	303	1,386	303	-
Desktop/Laptop Refresh Cost Reduction	49	57	57	-	-	-
Desktop Virtualization	79	24	-	24	-	-
Purchasing Bidding and Negotiations	541	129	129	-	-	-
Microsoft Software Rationalization	-	38	38	39	-	-



8) Calculations and Assumptions of Load Demand Forecast

Billing determinants were forecasted using actual trailing 12 month billing units (July 2011 – June 2012). The 2013 load budget assumed a 0.05% growth in the transmission network (NITS) footprint volume and a 1% increase in the point-to-point (PTP) volume, compared to 2012 actuals through June.

Year	Increase	Type	Mws	Hours	Months	Annual Mwhr
2012 Actual	0.0%	NITS	36,950	730	12	323,682,000
		PTP	4,190	730	12	36,704,400
		Total	41,140			360,386,400
2013 Projection	0.05%	NITS	36,968	730	12	323,843,841
		PTP	4,232	730	12	37,071,444
		Total	41,200			360,915,285



9) Staffing Analysis

9a) 2012 Current and Open Positions: SPP's approved 2012 budget included year-end staffing of 590 employees. Throughout the year, positions have been both added and eliminated and, as a result, the current forecast for 2012 is 580, as illustrated below.

Original budget for 2012	590
IT DBA position approved out of budget	1
Net decrease in IT *	(3)
No backfill for promotions within Operations	(2)
ICT positions eliminated in Engineering	(7)
Duplicate backfill for long-term LOA **	1
	580
Revised forecast for 2012	580

* 5 part-time Service Desk positions eliminated, replaced with 2 full-time IT Specialists positions

** Position added to backfill responsibilities of resource on long-term leave of absence

SPP's staffing level at January 1, 2012 was 514. Current headcount was 554 as of August 31st, 2012. This total includes 3 current positions which will be phased out as follows: 1) Part-time Engineer position for the ICT terminates November 2012. 2) Budget Analyst position was added to work alongside the current analyst in IT; the original Budget Analyst resigns to relocate in mid-2013. 3) A part-time position in Training will be terminated in December 2012.



SOUTHWEST POWER POOL
2012 CURRENT PROJECTED STAFFING

<u>Department Name</u>	<u>Headcount as of August 31, 2012</u>						
	<u>Jan 1st</u>	<u>Additions</u>	<u>Terminations</u>	<u>Aug 31st</u>	<u>Adjust</u>	<u>Open</u>	<u>Forecast</u>
SPP Compliance & Communications	30	4	(1)	33		3	36
Process Integrity	41	5	(2)	44	(1)	3	46
Reg Policy & General Counsel	19	4	(3)	20		3	23
Officers & Corporate Services	31	4		35		2	37
Administration	33	6	(1)	38		2	40
SPP Regional Entity	26	3	(1)	28		4	32
Market Development & Analysis	5	1		6		0	6
Information Technology	124	16	(4)	136	(1)	2	137
Operations	146	6	(4)	148		7	155
Engineering	59	9	(2)	66	(1)	3	68
TOTAL	514	58	(18)	554	(3)	29	580



Of the remaining 29 open positions, 75% are replacements for internal transfers to fill the 2012 incremental positions or replacements for resignations. Only 7 of the 50 positions added in the 2012 budget remained open as of August 31st, 2012. The number of resignations and terminations is 18 so far this year.

Active as of August 31st	554
2011 Carry over open positions	1
2012 Original remaining open positions	7
2012 New / Backfill open positions	<u>21</u>
Remaining open positions	29
IT duplicate eliminated	(1)
Part-time ICT eliminated	(1)
Part-time Training intern eliminated	<u>(1)</u>
2012 Positions Carried into 2013	580



9b) Impact of 2013 Incremental Positions:

2013 Compensation Calculation: The base for compensation for the 2013 budget began with total salaries for existing staff as of May 31st, as provided by Human Resources. Managers were requested to provide estimates for expected salary adjustments past May 31st, which was added to the 2012 base salary total. Salaries for all open positions per the May 31st organizational chart were also added, as were estimates for 2013 promotions (0.75%), merit increases (2.00%) and premium pay for overtime (2.67%). Once reviewed and approved by executives, salaries for the 23 incremental positions below were added. Note: Original incremental proposals were reduced to 23 from 30.

2013 Compensation Budget
Based on 2012 Headcount as of May 31, 2012

Current Staff	\$47,263
Expected Salary Adjustments (Jun-Dec 2012)	50
Promotions & Non-Merit Pay Inc (Jun-Dec 2012)	<u>305</u>
Total Existing for 2012	\$47,618
2012 Open per May 31st Org Chart	3,345
2013 Incremental Expense	<u>1,732</u>
Total Existing for 2012	52,695
Promotions (0.75%)	<u>395</u>
Total for Calculations	53,099
Merit Increase (2.0%)	1,062
Estimate for Premium Pay (2.67%)	1,418
Vacancy (6.0%)	<u>(3,185)</u>
Total Salaries Including Vacancy	<u><u>\$52,395</u></u>



2013 Proposed Incremental Positions: The 2013 budget proposes 23 incremental positions (listed below) for a total of 603*, as compared to 613 for 2013 from the 2012 budget cycle. The current 2014 total is 618, as compared to prior 2014 forecast of 622, which is now the target for 2015. Although ICT positions were eliminated, the necessary increase is related to new projects identified in 2012. A complete list of positions is listed below.



Job Title	Start Date	# of HC	2013 Salary	Annual Salary	Project Initiative
Communications Specialist I	Mar-13	1	\$ 41,042	\$ 49,250	
SPP Compliance & Security		1	\$ 41,042	\$ 49,250	
Talent Management Specialist	Apr-13	1	\$ 62,813	\$ 83,750	
Talent Management Administrator	Jan-13	1	\$ 74,750	\$ 74,750	
Sr VP, Government Affairs and Public Relations	Jan-13	1	\$ 250,000	\$ 250,000	
Corporate Services & Admin / Officer		3	\$ 387,563	\$ 408,500	
IT Senior Programmer Analyst (CMS)	Mar-13	1	\$ 69,792	\$ 83,750	
IT Programmer Analyst II (POPS)	Mar-13	1	\$ 56,125	\$ 67,350	
IT Programmer Analyst II (ESB & Portal)	Mar-13	1	\$ 56,125	\$ 67,350	
IT Programmer Analyst I (TCR)	Jul-13	1	\$ 25,000	\$ 50,000	
IT Programmer Analyst I (CMT)	Mar-13	1	\$ 41,667	\$ 50,000	
IT Senior Data Warehouse Developer	Jun-13	1	\$ 48,854	\$ 83,750	
IT		6	\$ 297,563	\$ 402,200	
Customer Trainer (Regional Operations)	Jan-13	1	\$ 105,000	\$ 105,000	
LMS Support and Web/CBT Developer	Jan-13	1	\$ 74,750	\$ 74,750	IM
BA II	Jan-13	1	\$ 70,000	\$ 70,000	Order 1K
Process Integrity		3	\$ 249,750	\$ 249,750	
Attorney	Mar-13	1	\$ 98,875	\$ 118,650	Order 1K / Other
Reg Policy & General Counsel		1	\$ 98,875	\$ 118,650	
Sr. Operator	Mar-13	1	\$ 87,500	\$ 105,000	IM
Market Analyst I	Mar-13	1	\$ 45,542	\$ 54,650	IM
Operator III - Day-Ahead Market	Mar-13	1	\$ 78,125	\$ 93,750	IM
Operations		3	\$ 211,167	\$ 253,400	
Engineer I	Jan-13	1	\$ 67,350	\$ 67,350	Order 1K
Engineer I, Modeling (RE Budgeted)	May-13	1	\$ 43,333	\$ 62,650	
Engineer I	Jan-13	1	\$ 67,350	\$ 67,350	Order 1K
Manager, Stochastic Planning	Jun-13	1	\$ 78,896	\$ 135,250	Stochastic Planning
Sr. Engineer, Stochastic Planning	Jun-13	1	\$ 54,688	\$ 93,750	Stochastic Planning
Interregional Coordinator	Jan-13	1	\$ 83,750	\$ 83,750	Order 1K
Engineering		6	\$ 395,367	\$ 507,750	
Summer Interns			\$ 50,400	\$ 50,400	
Total Incremental Proposals		23	\$ 1,731,725	\$ 2,039,900	



Positions related to projects are identified below:

	Prior	Current		
	2013	2013	2014	2015
	Budget	Budget	Budget	Budget
<u>Incremental Headcount</u>				
Integrated Marketplace	4	4	-	-
Long-Term TCRs (LTTCRs)	-	-	1	-
Market to Market	-	-	3	-
FERC Order 1000 Regional RFP	-	4	1	-
Stochastic Planning	4	2	3	-
OPS DTS Upgrade to TTSE	-	-	-	3
Total Related to Projects	8	10	8	3
Other Incremental	15	13	7	1
Total Incremental Headcount	23	23	15	4

Impact of 2013 Incremental Positions: The impact of incremental positions for 2013 is \$1.731M, plus an estimated 35% for benefits and taxes, for a total of \$2.338M. This takes into consideration timing of varying start dates. The full year impact going forward would be \$2.040M plus 35% for a total of \$2.754M.



9c) Calculation of Vacancy Rate:

The original 2013 budget assumed a vacancy rate of 4% calculated based on total salaries (before reductions were made to decrease incremental positions from 30 to 23). After review of the current vacancy rate for 2012, recommendations were made to increase the vacancy rate from 4% to 6%. The calculation for the vacancy rate is illustrated below:

**SOUTHWEST POWER POOL
VACANCY CALCULATION**

(in \$000)

	<u>2013 Expense</u>
<u>2013 Salary</u>	
Salary as of May 15, 2012 (provided by HR)	\$47,264
Promotions & Non-Merit Pay Increases after May 15th	355
May 2012 Open Positions Forecast	<u>3,345</u>
2012 Ending Balance	50,965
2013 Incremental Expense	<u>1,732</u>
2013 Projection	52,695
Promotions (0.75%)	395
Basis for Vacancy Calculation	<u>53,099</u>
Vacancy (6.0%)	(3,185)
Merit Increase (2.0%)	1,062
Estimate for Premium Pay (2.67%)	<u>1,418</u>
Total Salaries Including Premium Pay	<u><u>52,395</u></u>



10) Potential Increases for Other Income

SPP's revenues are derived from numerous sources:

- Tariff – Schedule 1A and Schedule 12
- NERC – recovery of costs associated with Regional Entity operations
- Contract Services – Entergy, LG&E, and OVEC in 2012 (only OVEC continues into 2013)
- Miscellaneous Income – recovery of costs to perform engineering studies

Contract Services is the only revenue source that can be increased without increasing the costs to individual members. SPP attempts to utilize the provision of services to non-members as a first step towards the entity becoming a member of SPP. SPP has been cautious of actively soliciting additional contract service opportunities, because those opportunities can potentially divert expertise away from services provided to the SPP region.

SPP is currently conferring with a small number of entities concerning either becoming members or selecting SPP as a service provider until membership becomes feasible. SPP is assisting one particular region as they contemplate establishment of a spot energy market.

The 2013 budget does not include any revenue from the ongoing efforts mentioned above.



Addendum to page 4: Fluctuations in Social Security Expense

Fluctuations in Social Security expenses are impacted by various factors.

Social Security expense was budgeted based at 62% of total salary expense, including incentive compensation accruals (based on 15% of salaries). Also considered in the calculation is a vacancy factor of 4% and 6% respectively in the 2012 and 2013 budgets. The budget assumption based on the incentive compensation accrual, spreads the Social Security expense more evenly across the months. Throughout the year, Social Security is recorded based on actual salaries paid in each month, which reflects in a spike in February associated with actual incentive compensation payouts.

Variances for the current year vs. budget can be attributed to the vacancy variance to budget, plus differences in incentive compensation payouts. For example, even though the actual vacancy factor is higher than budgeted for 2012, the Incentive Compensation payout was also higher than budget, thus resulting in increased Social Security 2012 forecast expense as compared to the 2012 budget.

In prior years, calculations for the future years' benefits and taxes were based in aggregate on the approved merit increase for the current year budget. For example, during the 2012 budget, benefits and taxes for 2013 were multiplied in total by 2.5% of the 2012 budgeted benefits and taxes total (2.5% was the 2012 approved merit increase percentage). Projections for Social Security expenses in the current 2013 budget are more precise, as they are calculated based on 6.2% of total salaries and incentive compensation. The process has been changed to more accurately calculate all benefits and taxes for the subsequent year budgeted amounts.



Changes from September 24th Finance Committee Meeting

	CHANGES FROM 09/24/2012			
	2013 Budget	2014 Forecast	2015 Forecast	
Income				
Tariff Administration Service	(\$8,913)	\$0	\$0	Revised recommended admin fee
Salary & Benefits	(\$429)	\$1,019	\$627	Recalculated vacancy and benefits/taxes
Employee Travel	-	357	357	Added originally omitted expense
Administrative	-	500	500	Added originally omitted expense
Communications	(235)	(235)	(236)	Leased space released, lower IT expenses
Leases	(325)	(162)	-	Release of leased space
Services	(221)	35	35	See below *
Depreciation & Amortization	(181)	(181)	(180)	Recalculated based on updated asset numbers
Total Expense	(\$1,391)	\$1,332	\$1,103	
Net Revenue Requirement	(\$3,719)	\$1,513	\$1,283	
Calculated Admin Fee / MWh	(\$0.010)	\$0.004	\$0.003	
* <u>Changes to Services Expense</u>				
Various items in Exec Dept	-	307	307	Added originally omitted expense
Corporate Services	100	-	-	Decommission GMAC facility
Project Management Office	-	(272)	(272)	Reduction in Staff Augmentation
Training Department	(321)			Reduction in Staff Augmentation
Total change	(221)	35	35	

SPP Organizational Group Self-Evaluation/Assessment
(August 2011 – July 2012)

GROUP NAME: Finance Committee

CHARTER/SCOPE UPDATE: Attached Charter/Scope has been reviewed: **Y/N**

MEMBER ROSTER/ATTENDANCE:

Member	Company	Sector	# Present	# Absent
Skilton, Harry (Chair)	Director	N/A	9	0
Altenbaumer, Larry	Director	N/A	7	2
Bennett, Sandra	American Electric Power	Investor Owner	9	0
*Harper, Trudy	Tenaska Power Services Co.	Independent Power Producer	5/7	2
Harrison, Kelly	Westar Energy, Inc	Investor-Owned	8	1
*Huslig, Carl	ITC Great Plains	Independent Transmission Co.	2/2	0
*Voigt, Gary	Arkansas Electric Cooperative Corporation	Cooperatives	1/3	2 (2 Proxies)
Dunn, Tom	Staff Secretary		9	0

*Only on Committee for part of the assessment period.

Please list the number of members represented in the following areas:

Trans/Owners	Trans/Users	Directors
1	1	2

Sectors							
IOU	Coop	Muni	State/Fed	IPP/Marketer	Alt Power/Public Interest	Lg Retail	Sm Retail
2							

AVERAGE OVERALL ATTENDANCE (INCLUDING NON-GROUP MEMBERS): 18

MEETINGS HELD TO DATE: Live: 5 Teleconference: 4

AVERAGE LENGTH OF MEETINGS: 4:09

NUMBER OF VOTES TAKEN: 16

***MEETING COST(S): \$29,987.92**

MAJOR ACCOMPLISHMENTS/ISSUES ADDRESSED BY THE GROUP:

- 1. Established credit policies to comply with FERC Order 741 and enhance SPP's credit capabilities in advance of implementation of Integrated Marketplace**
- 2. Affirmed capital expenditure funding policy and authorized issuance of \$100 million in term financing to fund capital expenditure program through 2014**

- 3. Completed thorough review of SPP's rate structure and compared rate structures of other RTOs, affirmed bundled rate structure for SPP region**
- 4. Established financial criteria for participation in SPP's Competitive Solicitation Process and requirements of a participant when awarded a Notice to Construct a green-field transmission project under the Process**

MAJOR PENDING ISSUES BEFORE THE GROUP:

- 1. Determine appropriate management structure and investment strategy for SPP's defined benefit pension assets**
- 2. Oversee processes to accelerate recognition of operating efficiencies to ensure SPP remains cost competitive versus other RTOs**

* Meeting costs include hotel expenses (room rental, A/V, food and beverage), estimate of teleconference expenses, and Director fees for attendance.



Tariff Revision Request (TRR) Recommendation Report

TRR Number	TRR 76	TRR Title	Compliance with Order 741's netting requirements
Cross Reference #	PRR	BRR	Other (<i>Specify</i>) _____
Sponsor			
Name	Matthew Harward		
E-mail Address	mharward@spp.org		
Company	Southwest Power Pool, Inc.		
Phone Number	(501) 614-3560		
Date	9/20/2012		
Tariff Section(s) Requiring Revision	Attachment AE ,Definitions – I Attachment AE, 3.1 Attachment AE, New Section 3.8 Attachment AE, New Section 10.6 and 10.7		
Requested Resolution	<input type="checkbox"/> Normal <input checked="" type="checkbox"/> Urgent (provided justification below for urgent request) Compliance with Order 741 filing due December 31, 2012. SPP intends to seek waiver to request TRR 76 to become effective March 2014 coincident with the Integrated Marketplace.		
Revision Description	Revise Attachment AE in the following manner: Revise Section 1.1 to include definition of Integrated Marketplace Counterparty. Revision to Attachment AE Section 3.1 to reference Transmission Provider will perform the role of Integrated Marketplace Counterparty. New Section 3.8 added to Tariff to define the Transmission Provider's role as the Integrated Marketplace Counterparty. New Section 10.6 to provide a netting requirement. New Section 10.7 to define and limit SPP's liability as counterparty to market transactions.		
Reason for Revision	For compliance with netting requirements of FERC's Order 741. Compliance filing due December 31, 2012. February 2011- Order 741, deadline for netting requirements set at September 2011 January 2012- Commission granted extension of time to all entities for compliance with netting requirements to April 30, 2012. April 30, 2012- SPP motion for extension of time to December 31, 2012 and requested waiver to defer effective date of netting		



Tariff Revision Request (TRR) Recommendation Report

	<p>requirements to coincide with implementation of Integrated Marketplace May 2012- FERC granted extension of time to December 31, 2012 but did not rule on the waiver request.</p>
<p>Stakeholder Approval Required (specify date and record outcome of vote; n/a for those stakeholders not required)</p>	<p>RTWG - 9/26/2012 MOPC Board of Directors</p>
<p>Legal Review Completed</p>	<p><input checked="" type="checkbox"/> Yes <i>(Include any comments resulting from the review)</i></p> <p><input type="checkbox"/> No</p>
<p>Market Protocol Implications or Changes</p>	<p><input type="checkbox"/> Yes <i>(Include a summary of impact and/or specific changes & PRR #)</i></p> <p><input checked="" type="checkbox"/> No</p>
<p>Business Practice Implications or Changes</p>	<p><input type="checkbox"/> Yes <i>(Include a summary of impact and/or specific changes & BPR #)</i></p> <p><input checked="" type="checkbox"/> No</p>
<p>Criteria Implications or Changes</p>	<p><input type="checkbox"/> Yes <i>(Include a summary of impact and/or specific changes)</i></p> <p><input checked="" type="checkbox"/> No</p>
<p>Other Corporate Documents Implications (i.e., SPP By-Laws, Membership Agreement, etc.)</p>	<p><input type="checkbox"/> Yes <i>(Include which corporate documents)</i></p> <p><input checked="" type="checkbox"/> No</p>



Tariff Revision Request (TRR) Recommendation Report

Credit Implications	<input type="checkbox"/> Yes (<i>Include a summary of impact and/or specific changes</i>) <input checked="" type="checkbox"/> No
Impact Analysis Required	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

Proposed Tariff Language Revisions to Attachment AE (Redlined)

1.1 Definitions I

Import Interchange Transaction

A schedule for importing Energy into the SPP Balancing Authority Area.

Import Interchange Transaction Offer

A proposal by a Market Participant to provide Energy from a source external to the SPP Balancing Authority Area at a specified External Interface and period of time.

Integrated Marketplace

The Day-Ahead Market, the Real-Time Balancing Market, the Transmission Congestion Rights Market and the Reliability Unit Commitment processes.

Integrated Marketplace Counterparty



Tariff Revision Request (TRR) Recommendation Report

The Transmission Provider, as counterparty to all Integrated Marketplace transactions (and not in any other capacity of the Transmission Provider under the Tariff) in accordance with the provisions of Section 3.8 of this Attachment AE.

Interchange Transaction

Any Energy transaction that is crossing the boundary of the SPP Balancing Authority Area and requires checkout with one or more external Balancing Authority Areas. This includes any Import Interchange Transaction, Export Interchange Transaction or Through Interchange Transaction.

Intra-Day Reliability Unit Commitment (“Intra-Day RUC”)

The process performed by the Transmission Provider following the completion of the Day-Ahead Reliability Unit Commitment process and throughout the Operating Day to assess Resource and Operating Reserve adequacy for the Operating Day, commit or de-commit Resources as necessary, and communicate commitment or de-commitment of Resources to the appropriate Market Participants as necessary.

3.0 Transmission Provider Rights and Obligations

3.1 Transmission Provider Scope of Services

The Transmission Provider shall perform the services pertaining to the Integrated Marketplace specified in this Tariff, including, but not limited to, the following.

- (1) Develop and maintain rules, practices and procedures for the Integrated Marketplace.
- (2) Operate and administer the Integrated Marketplace.

(3) Function as the Integrated Marketplace Counterparty for all Integrated Marketplace transactions in accordance with the provisions of Section 3.8 of this Attachment AE.

In addition, the Transmission Provider, in its functional entity roles as the Reliability Coordinator, Balancing Authority, Transmission Service Provider, Planning Coordinator, Reserve

Tariff Revision Request (TRR) Recommendation Report

Sharing Group Administrator, Interchange Authority and Market Operator shall act in compliance with and perform such functional entity roles as defined by NERC in the Reliability Functional Model.

3.1.1 Market Hub Establishment and Modification

The Transmission Provider must establish and maintain at least one Market Hub in accordance with the provisions of this Section. In addition, the Transmission Provider may establish additional Market Hubs. The Transmission Provider shall review the proposed establishment, modification or deletion of a Market Hub with stakeholders. The Markets and Operations Policy Committee will consider the proposed establishment, modification or deletion of a Market Hub and will provide its own recommendation regarding such action to the SPP Board of Directors for review and approval. After the start of the Integrated Marketplace, the Transmission Provider shall post any approved establishment, modification or deletion of a Market Hub at least six (6) months prior to the proposed effective date.

The Transmission Provider shall maintain and facilitate the use of a Market Hub or Market Hubs for the Day-Ahead Market and the RTBM, comprised of a set of nodes within the SPP Balancing Authority Area, which nodes shall be identified by the Transmission Provider on the Portal. The Transmission Provider shall use the following criteria to establish Market Hubs:

- (1) Each Market Hub shall contain a sufficient number of nodes to ensure that a Market Hub Locational Marginal Price ("LMP") can be calculated for that Market Hub at all times;
- (2) Each Market Hub shall contain a sufficient number of nodes to ensure that the unavailability of, or an adjacent line outage to, any one node or set of nodes would have only a minor impact on the Market Hub LMP;
- (3) Each Market Hub shall consist of nodes with a relatively high rate of service availability; and
- (4) Each Market Hub shall consist of nodes among which Transmission Service is relatively unconstrained.

3.1.2 Forecasting

(1) The Transmission Provider shall develop load forecasts for the SPP Balancing Authority Area for use in the RUC processes and RTBM. The Transmission Provider shall adjust such forecasts in order to remove average system losses prior to execution of the market applications in order for the dispatch to

Tariff Revision Request (TRR) Recommendation Report

properly reflect the treatment of marginal losses.

(2)The Transmission Provider shall develop output forecasts for wind powered Variable Energy Resources as defined in the Market Protocols for use in the RUC processes and RTBM.

3.1.3 Reserve Zone Establishment

(1)The Transmission Provider shall establish Reserve Zones on a semiannual basis to ensure the deliverability of cleared Operating Reserve throughout the SPP Balancing Authority Area.

(2)The Transmission Provider shall identify the need for Reserve Zones within the SPP Balancing Authority Area through Reserve Zone studies that identify constrained areas that may require a minimum amount of Operating Reserve procurement and/or that may be limited to a maximum amount of Operating Reserve procurement to ensure system-wide procurement of Operating Reserve is deliverable when deployed.

(3)The Transmission Provider may add or reconfigure a Reserve Zone between semiannual updates to address significant changes in system conditions that would cause adverse reliability impacts absent the Reserve Zone addition or reconfiguration.

3.1.4 Operating Reserve Requirements

The Transmission Provider shall calculate the amount of Operating Reserves required for the Operating Day, on both a system-wide and Reserve Zone basis, in order to comply with the reliability requirements specified in the SPP Criteria. The Transmission Provider shall, on a daily basis:

(1)Calculate the hourly Regulation-Up, Regulation-Down and Contingency Reserve requirements on an SPP Balancing Authority Area basis and post such results by 0700 hours Day-Ahead for use in the Day-Ahead Market, Day-Ahead RUC, Intra-Day RUC and RTBM;

(2)Calculate the total minimum and total maximum Operating Reserve requirement for Operating Reserve deployment in the up direction and for deployment of Operating Reserve in the down direction for each Reserve Zone. The Transmission Provider may, at its option, set specific Regulation-Up and/or Spinning Reserve minimum requirements for each Reserve Zone, as needed, to address reliability issues that can only be alleviated through carrying synchronized reserves. In such cases, the Transmission Provider will include these minimum Regulation-Up and/or Spinning Reserve requirements when posting the Operating Reserve requirements by 0700 Day-Ahead;

Tariff Revision Request (TRR) Recommendation Report

(3) Estimate each Market Participant's Operating Reserve obligation in each Reserve Zone and provide such information to Market Participants by 0700 hours Day-Ahead. The Transmission Provider shall calculate such estimates by multiplying the system-wide Operating Reserve requirements calculated in (1) above by the Transmission Provider's estimate of each Market Participant's load in each Reserve Zone divided by the Transmission Provider's estimate of system-wide load; and

(4) The Transmission Provider may increase Operating Reserve requirements for the Day-Ahead RUC, Intra-Day RUC and RTBM above the requirements used in the Day-Ahead Market, including changes to Reserve Zone minimums and maximums, as required to meet increases in reliability requirements caused by changes in system conditions.

3.1.5 Outage Scheduling and Reporting

The Transmission Provider is responsible for coordinating and approving the scheduling of outages on all transmission and generation facilities in the Transmission System. Procedures regarding submittal of requested transmission and generation outages and reporting of unplanned outages through the Transmission Provider's outage scheduler are described in Appendix 12 to the SPP Criteria. The Transmission Provider shall approve all requested outages to the extent that such outage requests can be accommodated reliably. To the extent that granting a requested outage would cause a reliability issue on the Transmission System, the Transmission Provider may deny the request. When the Transmission Provider denies an outage request, the Transmission Provider shall recommend an alternative timeframe within which the outage can be accommodated reliably.

3.2 Market Protocols

The Transmission Provider shall prepare, maintain and update the Market Protocols consistent with this Tariff. The Market Protocols shall be posted on the Transmission Provider's website.

3.3 Integrated Marketplace Operations

The Transmission Provider shall evaluate Offers and Bids submitted by Market Participants for use in the Day-Ahead Market and Offers submitted for use in the Day-Ahead RUC to ensure sufficient Resources are committed to meet the SPP Balancing Authority Area projected load and Operating Reserve requirements for the upcoming Operating Day. For the Intra-Day RUC, the Transmission Provider shall evaluate Offers to ensure sufficient Resources are committed to meet the SPP Balancing

Tariff Revision Request (TRR) Recommendation Report

Authority Area projected load and Operating Reserve requirements throughout the Operating Day. In performing these processes, the Transmission Provider shall commit Resources on a least cost security constrained basis and shall clear Energy and Operating Reserve in the Day-Ahead Market on the basis of security constrained economic dispatch (“SCED”) in accordance with Sections 5 and 6 of this Attachment AE.

Throughout the execution of the RTBM, the Transmission Provider shall dispatch Energy and clear Operating Reserve on Resources on the basis of SCED as described under Section 6 of this Attachment AE.

The Transmission Provider shall conduct the annual Auction Revenue Right (“ARR”) allocation, annual TCR auction, monthly TCR auction and monthly incremental ARR allocation in accordance with Section 7 of this Attachment AE.

3.4 Violation Relaxation Limit Reporting

Each year, prior to November 1, the Transmission Provider will provide analysis as well as a set of proposed Violation Relaxation Limits (“VRLs”) for review by the applicable working groups and committees as described in the Market Protocols. Each year by November 1, VRLs and their associated values shall be reviewed and approved by the SPP Board of Directors. Any changes to the VRLs or associated values must be approved by the Commission prior to their implementation. The most recent Commission approved VRLs and their associated values are listed in Addendum 1 to this Attachment AE.

3.5 Integrated Marketplace Pricing

The Transmission Provider shall calculate Day-Ahead Market and RTBM LMPs for Energy at each Settlement Location.

The Transmission Provider shall calculate the Reserve Zone Market Clearing Prices (“MCPs”) for Regulation-Up, Regulation-Down, Spinning Reserve and Supplemental Reserve for the Day-Ahead Market and RTBM.

The Transmission Provider shall calculate annual and monthly Auction Clearing Prices (“ACPs”) at each Settlement Location.

3.6 Integrated Marketplace Settlements



Tariff Revision Request (TRR) Recommendation Report

For both the Day-Ahead Market and the RTBM, the Transmission Provider shall calculate Energy and Operating Reserve settlement quantities at each Settlement Location, calculate charges and payments associated with the provision of Energy and Operating Reserve based upon the settlement quantities and the associated LMPs and MCPs for each Asset Owner and render invoices to Market Participants detailing net charges or payments associated with provision of Energy and Operating Reserve.

The Transmission Provider shall calculate charges and payments to ARR and TCR holders based upon the ARRs determined in the annual allocation and TCRs cleared in the annual and monthly TCR auctions. Such charges and payments shall be included on the Settlement Statements consistent with the timing of the Day-Ahead Market settlement and RTBM settlement.

3.7 Integrated Marketplace Participation Readiness

The Transmission Provider shall validate each Market Participant's ability to provide services for which the Market Participant has registered in the Integrated Marketplace. Such validation shall include verification that the Market Participant has met the technical and communications requirements specified in the Market Protocols and has met the credit requirements specified under Attachment X of this Tariff.

3.8 Integrated Marketplace Counterparty

3.8.1 The Integrated Marketplace Counterparty settles, collects and distributes all charges in the Integrated Marketplace; and is the contracting party, as a principal and not as an agent, with each Market Participant for that Market Participant's Integrated Marketplace agreements and transactions in the TCR Market, Day-Ahead Market, and Real-Time Balancing Market. Notwithstanding the above, the Integrated Marketplace Counterparty shall not be a contracting party as described under Section 3.8.3 of this Attachment AE.

3.8.2 The Integrated Marketplace Counterparty will serve as the counterparty to Transmission Congestion Rights ("TCRs") and Auction Revenue Rights ("ARRs") instruments held by a Market Participant. The Integrated Marketplace Counterparty shall be the contracting party with respect to the contractual rights and obligations of the holders of ARRs and TCRs.

Tariff Revision Request (TRR) Recommendation Report

3.8.3 Exclusions.

3.8.3.1 The Transmission Provider's capacity as the Integrated Marketplace Counterparty shall not include agreements and transactions for Transmission Service, Network Integrated Transmission Service, or Ancillary Services under Schedules 1 and 2 provided pursuant to Parts II, III and IV, and related rate Schedules contained in the Tariff.

3.8.3.2 To the extent Market Participants conduct bilateral transactions with other Market Participants, self-commit or self-supply power and energy to the loads they serve, such bilateral transactions, self-commitment, self-scheduled, and self-supply arrangements are not transactions with the Integrated Marketplace Counterparty.

3.8.3.3 The Integrated Marketplace Counterparty shall not be a counterparty to bilateral agreements for the transfer of ARR and TCRs between Market Participants.

10.0 Billing

The Transmission Provider shall prepare a billing statement each billing cycle in accordance with this Section of Attachment AE. Such billing statements shall be prepared for each Market Participant in accordance with the charges and payments specified in Section 8 of this Attachment AE, and showing the net amount to be paid or received by the Market Participant **in accordance with Sections 10.6 and 10.7 of this Attachment AE**. Billing statements shall provide sufficient detail, as specified in the Market Protocols, to allow verification of the billing amounts and completion of the Market Participant's internal accounting. Unresolved billing disputes shall be settled in accordance with procedures specified in Section 12 of the Tariff.

10.1 Settlement Statements

(1)The Transmission Provider shall issue a preliminary Settlement Statement for an Operating Day no later than seven (7) calendar days following the applicable Operating Day unless the seventh (7) day following the applicable Operating Day is not a business day, in which case, the preliminary Settlement Statement shall be issued on the first business day thereafter.

(2)The Transmission Provider shall issue a final Settlement Statement for an Operating Day no later than forty-seven (47) calendar days following the applicable Operating Day unless the forty-seventh (47)



Tariff Revision Request (TRR) Recommendation Report

calendar day following the applicable Operating Day is not a business day, in which case, the final Settlement Statement shall be issued on the first (1) business day thereafter.

(3)The Transmission Provider shall make corrections to the preliminary and final Settlement Statements for an Operating Day for data errors and Settlement Statement disputes that have been resolved. Settlement associated with a specific Operating Day shall be considered final at the end of the three hundred sixty-fifth (365) calendar day following the applicable Operating Day.

(4)To the extent that a Market Participant, or its designated meter agent, does not submit meter data representing that Market Participant's actual Resource output and load consumption, either on a five (5) minute basis or an hourly basis in accordance with the timelines specified in the Market Protocols, the Transmission Provider shall use estimated data for that Market Participant that is equal to that Market Participant's telemetered generation and load for the applicable intervals or State Estimator values if telemetered values are not available for the purposes of calculating the preliminary statements specified under Sections 10.1(1). To the extent a Meter Agent does not submit data representing the metering of each interconnecting tie-line between Settlement Areas, the Transmission Provider will substitute State Estimator values. In the event that actual meter data is not submitted prior to the issuance of a final Settlement Statement, the Transmission Provider shall use the best available data, which may include estimated meter data as developed by the Transmission Provider, for the purposes of calculating final Settlement Statements.

10.2 Invoices

(1)The Transmission Provider shall issue an invoice detailing all charges and payments specified in Section 8 of this Attachment AE on a weekly basis in accordance with the invoice issue dates specified in the Market Protocols.

(2)The Transmission Provider shall make payments to the Market Participant for any net credit shown on the invoice and the Market Participant shall make payment to the Transmission Provider for any net charge shown **on** the invoice, including disputed amounts. Resolution of disputed amounts shall be shown as an adjustment on future invoices.

(3)Market Participants shall make payment to the Transmission Provider that is equal to the net charge shown on the invoice by no later than 5:00 PM on the 3rd business day following the day the invoice was

Tariff Revision Request (TRR) Recommendation Report

issued.

(4)The Transmission Provider shall make payment to the Market Participant that is equal to the net credit shown on the invoice by no later than 5:00 PM on the 5th business day following the day the invoice was issued subject to the procedures specified under Section V of Attachment L.

(5)All payments to the Market Participant and all payments to the Transmission Provider shall be made by electronic funds transfer in U.S. dollars.

10.3 Invoice Disputes

In the event that a dispute arises between the Market Participant and the Transmission Provider concerning any initial, final or resettlement Settlement Statements contained within an invoice that cannot be resolved to the Market Participant's satisfaction, such disputes shall be resolved as follows:

(1)In the case of a dispute relating to an initial or final Settlement Statement, the Market Participant must notify the Transmission Provider within ninety (90) calendar days following the issue date of the applicable invoice of the items that the Market Participant wishes to dispute. In the case of resettlement statements, the Market Participant must notify the Transmission Provider within thirty (30) calendar days following the issue date of the applicable invoice of the items contained in that statement that the Market Participant wishes to dispute, which issues must relate to incremental changes in data that occurred between issuance of the final Settlement Statement and the first (1st) resettlement statement or between resettlement statements.

The notice of dispute must contain the following minimum information:

- Statement type (initial, final, resettlement 1-11, ad hoc resettlement)
- Charge type
- Estimated dispute amount in dollars
- Operating Day
- Start interval
- End interval
- Market Participant
- Asset Owner
- Settlement Location

Tariff Revision Request (TRR) Recommendation Report

- Long description
- Short description.

(2) If the Transmission Provider determines that additional information is required concerning a submitted notice of dispute, the Transmission Provider shall notify the Market Participant no later than thirty (30) days following the date the notice of dispute was submitted to the Transmission Provider. The Market Participant must then submit additional information to the Transmission Provider within thirty (30) days in order to have the notice of dispute considered valid.

(3) The Transmission Provider shall use its best efforts to notify the Market Participant of approval or denial of the submitted notice of dispute within twenty (20) business days following the close of the applicable ninety (90) day or thirty (30) day window specified under Subsection 10.3(1) or Subsection 10.3(2). If the Transmission Provider estimates that it will take longer than the twenty (20) business day window to analyze a specific billing dispute, the Transmission Provider shall notify the Market Participant and provide an estimate of the amount of time required to complete the analysis.

(4) If the Transmission Provider denies a Market Participant's notice of dispute or the Market Participant is not satisfied that it is receiving timely consideration of the dispute, the Market Participant may initiate the dispute resolution procedures specified under Section 12 of the Tariff.

10.4 Interest on Unpaid Balances

Interest on any unpaid amounts shall be calculated in accordance with the methodology specified for interest on refunds in the Commission's regulations at 18 C.F.R. § 35.19a(a)(2)(iii). Interest on delinquent amounts shall be calculated from the due date of the invoice to the date of payment.

10.5 ~~Customer-Market Participant~~ Default

~~Customer- d~~ Defaults by a Market Participant will be handled in accordance with Attachments L (Treatment of Revenues) and X (SPP Credit Policy) of the Tariff.

10.6 Further Clarification Regarding Right to Net

The Integrated Marketplace Counterparty and the Market Participant may shall discharge mutual debts and payment obligations for multiple transactions due and owing to each other on the same date through netting, in which case all amounts a party owes to the other party under Attachment AE shall be replaced by a single payment obligation and netted so that only the net amount remaining due shall be



Tariff Revision Request (TRR) Recommendation Report

paid by the owing party.

10.7 Integrated Marketplace Counterparty Limitation of Liability

The liability of the Integrated Marketplace Counterparty to settle Integrated Marketplace transactions shall be limited such that the aggregate of payments owed to a Market Participant shall not exceed the aggregate amount of payments that has been paid to or recovered by the Integrated Marketplace Counterparty, from that Market Participant (including by way of realization of financial security) in respect of that settlement period.

Proposed Market Protocol Language Revision (Redlined)

n/a

Proposed Business Practices Language Revision (Redlined)

n/a



Tariff Revision Request (TRR) Recommendation Report

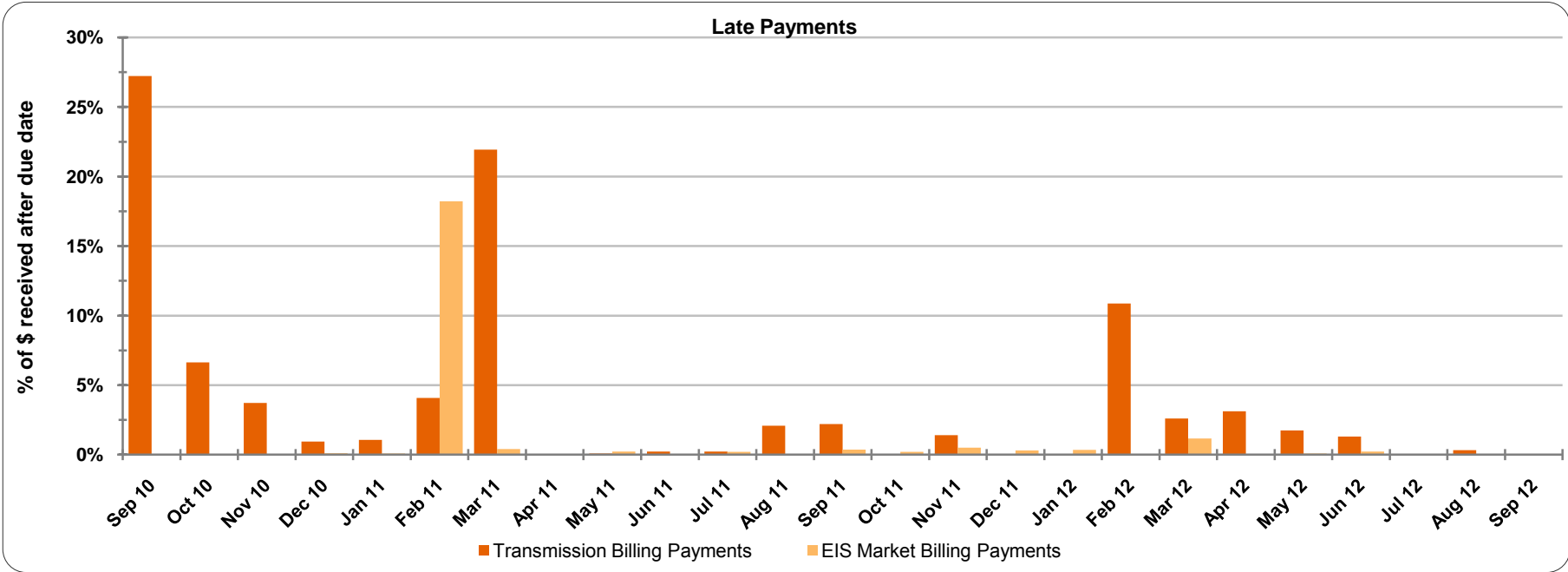
Proposed Criteria Language Revision (Redlined)

n/a

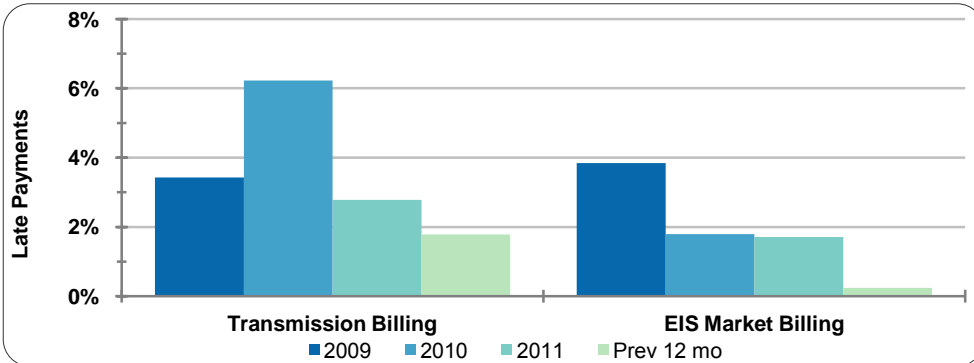
Revisions to Other Corporate Documents (Redlined)

n/a

9. Financial Settlement Index



	Jul 11	Aug 11	Sep 11	Oct 11	Nov 11	Dec 11	Jan 12	Feb 12	Mar 12	Apr 12	May 12	Jun 12	Jul 12	Aug 12	Sep 12	2009	2010	2011	Prev 12 mo
% of Transmission Payment \$ Received After the Due Date	0.2%	2.1%	2.2%	0.0%	1.4%	0.0%	0.0%	10.9%	2.6%	3.1%	1.8%	1.3%	0.0%	0.3%	0.0%	3.4%	6.2%	2.8%	1.8%
% of Market Payment \$ Received After the Due Date	0.2%	0.0%	0.4%	0.2%	0.5%	0.3%	0.3%	0.0%	1.2%	0.0%	0.1%	0.2%	0.0%	0.0%	0.0%	3.8%	1.8%	1.7%	0.2%
% of Market Payment \$ short paid	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Monthly Average																			



Note 1: Figures represent billings with a due date in month shown. For example, the September figures are related to the August 31 transmission billing, which has payments due on September 20.



Memorandum

To: **Finance Committee Members**
From: **Tom Dunn**
CC: **Cheryl Robertson**
Date: **October 9, 2012**
Re: **2012/13 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.

<u>Meeting Date</u>	<u>Time</u>	<u>Meeting Location</u>	<u>Major Agenda Items</u>
Oct 11, 2012	9:30	Dallas, TX	2013 Budget Review
Dec 10, 2012	2:00	Dallas, TX	SSAE-16 Audit Report Corp Ins. Review RLOC Renewal
Feb 19, 2013	10:00	Dallas, TX	Pension Mgmt Reports Year-end Review
April 9, 2013	8:30	Dallas, TX	Financial Audit Review
July 23, 2012	8:30	Dallas, TX	BPI Review Mid Year Review Budget Process Review
Sept 24, 2012	8:30	Dallas, TX	2014 Budget Review Internal Audit Report Auditor Engagements
Oct 10, 2013	9:30	Dallas, TX	2014 Budget Review
Dec 9, 2013	2:00	Dallas, TX	SSAE-16 Audit Report Corp Ins Review