Southwest Power Pool

FINANCE COMMITTEE MEETING

December 10, 2012

Dallas, Texas

• Summary of Action Items •

1. Approved issuance of $30MM revolving credit facility to replace $20MM facility expiring in June 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. Send report on contract services staffing to each member of the Finance Committee

Southwest Power Pool

FINANCE COMMITTEE MEETING

December 10, 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 2:00 p.m. The following members of the Finance Committee were in attendance:

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

Others attending included:

Scott Noble	SPP
Nick Brown	SPP
Carl Monroe	SPP
Stacy Duckett	SPP
Lauren Krigbaum	SPP
Bruce Cude	SPS
Jim Eckelberger	SPP Director
Phyllis Bernard	SPP Director
Kevin McBride	Stephens Insurance, LLC
Sean Barry	PWC
Andy Hicks	PWC

Administrative Items

SPP had prepared a written report describing the build-up and transition of employees supporting the contracts for service with Entergy and LG&E. Harry Skilton requested the report be delivered to each member of the Finance Committee.

Minutes from the October 11, 2012 meeting were reviewed. A request was made to document in greater detail the dialogue surrounding SPP staff levels in the 2013 budget discussion. This addition will be made and the minutes will be re-posted and will wait for approval until the next scheduled meeting of the Finance Committee.

Business Process Improvement

SPP staff led a 2 hour in-depth discussion surrounding the Company's program to obtain greater efficiency in its operations. The discussion first outlined the program's objectives and the selection of the LEAN methodology to implement.

The implementation is being accomplished in three phases:

- Phase I – Communicate and track existing process improvement and cost reduction initiatives
    - Has been ongoing since 2011.
    - Reports being provided to Finance Committee quarterly
    - Implemented tracking sunset provisions
    - Tracked nearly $12 million in capital and operating cost reductions
- Phase II – Evolutionary LEAN Implementation

- Roll-out through pilot programs to areas of SPP not intimately involved in Integrated Marketplace
- Six initiatives already in some stage of implementation
- 106 staff participated in some aspect of LEAN during 2012
- ICCP initiative case study

- Phase III – LEAN Transition
  - Beginning in 3Q'2014
  - Line organizations assume primary responsibility
  - Organizational performance metrics and incentives in place

Success of the program relies on staff being enabled with the required skills and capabilities and staff is empowered to own their work processes. LEAN must not be labeled or positioned as a "cost control" program. SPP leadership must champion and be held accountable for results.

2013 Corporate Liability Insurance Review

Kevin McBride of Stephens Insurance, LLC provided an overview of the property & casualty, professional liability and Director & Officer insurance markets. In general, the marketplace is firming which results in underwriters being able to implement premium increases across the board. Stephens indicated SPP could expect a 5% premium increase in its general and excess liability policies and a 10% increase in its D&O premiums. Stephens expects SPP's existing underwriters to all be interested in continuing to offer coverage and all of SPP's underwriters are ranked "Secure" by A.M. Best. SPP continues to work with Stephens to identify coverage available to mitigate cyber liability exposure.

2012 SSAE Audit Report

Sean Barry and Andy Hicks of PWC briefed the Committee on the results of SPP's SSAE 16 Controls Audit completed as of October 31, 2012 covering the period November 1, 2011 through October 31, 2012. The audit will be issued with an unqualified opinion and absent any noted exceptions. PWC did highlight three findings identified during the audit where SPP's mitigating controls were adequate to ensure achievement of the control objectives.

Line of Credit Renewal

SPP's $20MM revolving credit facility with Region's Bank expires June 2013. SPP's liquidity need just to support its 6 month payment reserve for its term debt issuances will approach $19 million in mid-2014. SPP staff recommends renewing the existing facility with a credit limit of $30MM with all other terms remaining essentially unchanged. Kelly Harrison motioned to approve the issuance of an unsecured $30MM revolving credit facility to replace the expiring unsecured $20MM facility with a maturity of up to three years and pricing similar to the expiring facility using a pricing grid based on SPP's issuer rating from Fitch Ratings. The motion was seconded by Larry Altenbaumer and approved by unanimous voice vote.

Future Meetings

The next meeting of the SPP Finance Committee is scheduled for February 19, 2013 beginning at 10:00 am central time and finishing at 3:30 pm central. This meeting will be held at in Dallas, TX.

There being no further business, Harry Skilton adjourned the meeting at 5:59 p.m.

Respectfully Submitted,

Thomas P. Dunn
Secretary

Southwest Power Pool

Southwest Power Pool, Inc.

FINANCE COMMITTEE MEETING

December 10, 2012

Dallas Doubletree - Galleria
Dallas, Texas

• A G E N D A •

2:00 p.m. – 6:00 p.m.

1. Administrative Items *(5 minutes)* .... Harry Skilton
2. Business Process Improvement *(90 minutes)* .... Scott Noble
3. 2013 Corporate Liability Insurance Review *(45 minutes)* .... Stephens Insurance LLC
4. 2012 SSAE Audit Report *(45 minutes)* .... PWC
5. Line of Credit Renewal *(30 minutes)* .... Tom Dunn
6. Committee Effectiveness/Strategic Issues *(30 minutes)* .... All
7. Future Meetings .... All
8. Written Reports:
    a. 2011 Benefit Plan Audit Review
    b. ICT Staffing Impact on 2013 Staff Requirements Future Meetings
    c. CPWG Activities
    d. BPI Quarterly Report
9. Adjourn .... Harry Skilton

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

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 thorough 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

Business Process Improvement

4Q12 Update for Finance Committee

December 10, 2012

SPP Southwest Power Pool

Agenda

1. SPP Business Process Improvement (BPI) Program Objectives
2. Lean Business Thinking Selection and Fit
3. BPI Implementation Strategy Overview (Phases)
4. Phase I: Benefits Tracking Update
5. Phase II: 2012 Lean Start-Up Status
6. Phase III: 2H2014 – Increased Focus on BPI
7. Keys for Success/Issues

BPI Program Objectives

Increase SPP staff proficiency and expertise in our culture drivers –

- Continuous Improvement
- Efficiency
- Collaboration

As part of our Business Mission and Strategy to:

- Create Member Value

Target Environment (Desired Future State)

Business Process Improvement principles and methodologies are integral and systematic elements of SPP collaboration processes for creating member value by improving efficiency, effectiveness, quality and member satisfaction.

SPP employees are empowered and equipped to create member value utilizing the Lean Business Thinking approach. Process improvement initiatives are planned and results are measured and achieved.

Strategic Cultural Transformation

Selection of Lean – Fit with SPP

- **Evaluated Methodologies for Best SPP Fit**
  - Total Quality Management (TQM)
  - Six Sigma
  - Lean Business Thinking
  - Business Process Reengineering (BPR)/BPM/BPI
  - CMMI
- **Lean is the best fit for SPP**
  - Best fit with SPP culture – Evolutionary, Respect (people are the process), Empowers employees doing the work, Collaboration, focus on 30-60-90 day results and then PDCA, Transparent, focused on Value Streams and elimination of waste
  - Ease of Implementation – Minimal costs to deploy, staff experience
  - Short term results, longer term cultural transformation
  - Potential to efficiently include Members on Improvement Teams

SPP 5

How Do Lean Workshops Work?

Day 1
- Introduce approach to team
- Begin mapping current state
- Capture issues and ideas

Day 2 (1st half)
- Begin mapping desired state addressing issues and ideas
- Define success metrics

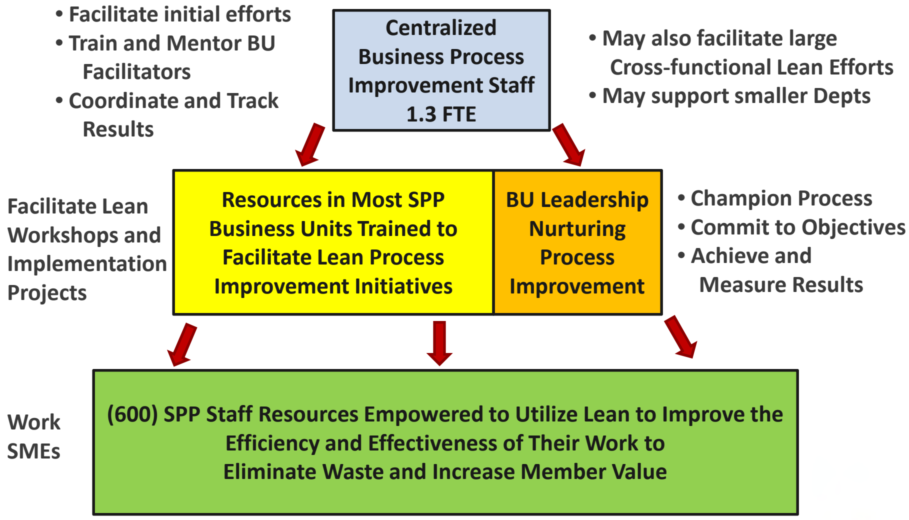
Day 2 (2nd half)
- Group ideas into goals
- Create goal statements and action plans with owners
- 30-60-90 day focus

3 to 5 Implementation Plans

Key areas of focus:
- What are the outputs that deliver something of value?
- What activities are not adding value (waste)?
- How can we eliminate waste so value flows faster?
- How can we improve quality and reduce re-work?
- How can we measure performance improvement?

SPP 6

Strategy Behind SPP's Lean Implementation



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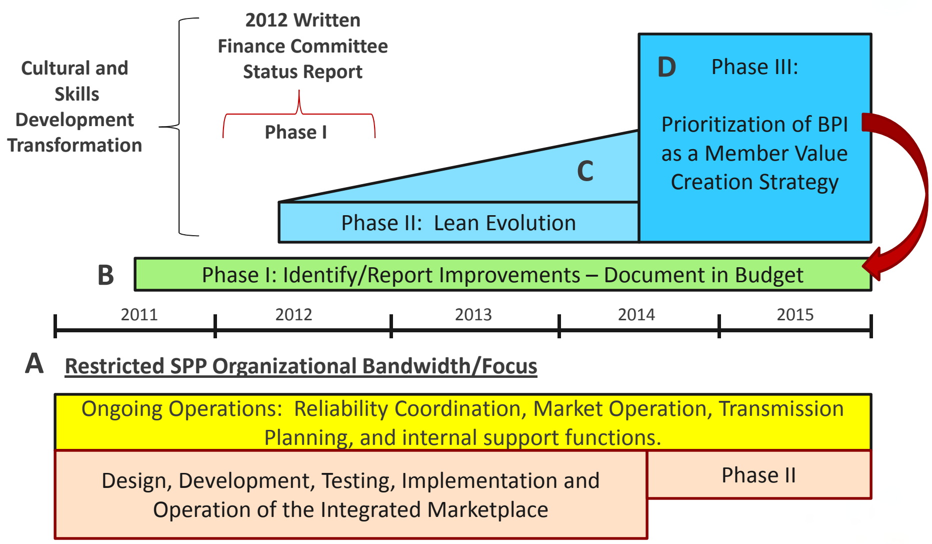
BPI/Lean Evolutionary Implementation



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PHASE I – BENEFITS TRACKING UPDATE

Phase I: Benefits Tracking

- Phase I – Communicate and Track Existing Process Improvement and Cost Reduction Initiatives
  - Year 1 (2011) –
    - Identified improvement initiatives for 2012-2014 Budget
    - Established a tracking of Cost Savings, Cost Avoidance or Productivity Savings to be reflected in the Zero Base budget
    - Tracked Improvement Value realized in 2H2011 ($3.5 million)
  - Year 2 (2012) –
    - Tracked Improvement Value realized in 2012 ($8.4 million) – see 4Q2012 Finance Committee written report for details
    - 2012 Value included addition of (4) new Initiatives during the year

Cost Reduction and Cost Avoidance Initiatives in 2012-2014 Budget

Executive Summary

From 2012-2014 Budget, in $000	2012	2013	2014
Operations Staffing Cost Reductions	$ 653	$ 1,633	$ 1,706
Operations Non-Staffing Cost Avoidance	$ 755	$ 843	$ 936
Capital Non Staffing Cost Avoidance	$ 5,040	$ 4,228	$ 3,946
Total	$ 6,448	$ 6,704	$ 6,588
Actual/Forecast thru Nov. 2012, in $000			
Operations Staffing Cost Reductions	$ 471	$ 983	$ 1,223
Operations Non-Staffing Cost Avoidance	$ 1,085	$ 1,118	$ 1,211
Capital Non Staffing Cost Avoidance	$ 6,876	$ 5,938	$ 4,924
Total	$ 8,432	$ 8,039	$ 7,358
Actual/Forecast Variance to Budget, in $000			
Total -- Positive/(Negative)	$ 1,984	$ 1,335	$ 770

Note: 2011 Cost Avoidance/Reduction tracked at $3,504 K

SPP

BPI Benefits Tracking Guidelines July, 2012 SPP Finance Committee

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

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

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

SPP

Phase I: Benefits Tracking

- Phase I – Communicate and Track Existing Process Improvement and Cost Reduction Initiatives
  - Year 1 (2011) –
    - Identified improvement initiatives for 2012-2014 Budget
    - Tracked Improvement Value realized in 2H2011 ($3.5 million)
  - Year 2 (2012) –
    - Tracked Improvement Value realized in 2012 ($8.4 million) see 4Q2012 F.C. written report
    - 2012 Value included addition of (4) new Initiatives during the year
    - Developed tracking guidelines to define when an improvement idea grows up to be the new "standard practice"
    - Identified improvement initiatives for 2013 Budget using new tracking guidelines ($1.9 million)
  - Year 3 (2013) –
    - Track budgeted initiatives and begin to add impact of Lean initiatives and other mid-year cost reduction improvements

2013 Budget

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

		2013	2014	2015
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	$11,936			
Cumulative Value of Improvement Initiatives		$13,804	$14,621	$15,155

PHASE II – LEAN IMPLEMENTATION UPDATE

Evolutionary Lean Implementation – Phase II

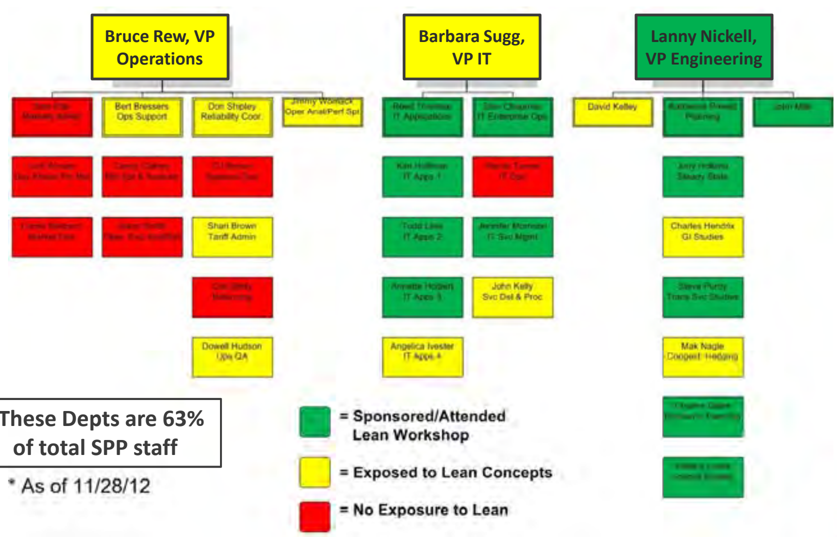
- 2012 Program Introduction – Positioning for Long Term Success
  - Begin Facilitated Lean Workshops
  - Train Workshop Teams
  - Target Multiple Areas of the Organization
  - Implement Solutions (30-60-90 days) and continuous improvement
  - Build Success Stories and Enthusiasm

2012 Lean Initiatives Progress Report

- **Introduction Phase (2012 Goal: 3-5 Initiatives)**
  - **Hired Scott Maple March, 2012**
  - **Adopted the Lean Business Thinking methodology – April, 2012**
  - **Internal communications and opportunity identification**

Lean Initiative	Workshop	Status
ICCP Stakeholder Connections (Real time data)	August	Implemented
Customer Relations Efficiency/Effectiveness	May	Phase I - just implemented
Working Group Effectiveness (Engineering Pilot)	July	Ready to implement
ITP Process Improvement	August	Action Plans in process – "quick hits" applied
IT Systems Access Process	September	Action Plan Phase
Transmission Project Tracking Process	November	Action Plan Phase

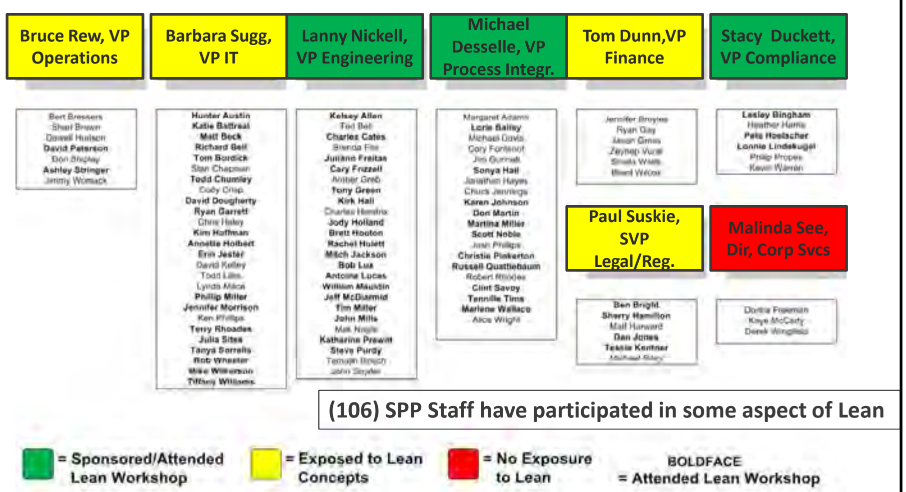
SPP Lean Penetration (Leadership)*



* These Depts are 63% of total SPP staff

* As of 11/28/12

SPP Lean Penetration (Staff Participation)*



* As of 11/28/12

ICCP Lean Workshop Team

- Executive Sponsor – Reed Thornton, IT
- Project Owner – Matt Beck, IT
- Team
  - Karen Johnson, CSR
  - Rob Wheeler, IT Comm
  - Julia Sites, IT Aps
  - David Peterson, Ops
  - Martina Miller, PMO
- Lean Facilitators
  - Scott Maple
  - Scott Noble

Lean Workshop Summary – ICCP Stakeholder Connection Process (Old)

- **ICCP is the Communications connection between SPP and members/MP's to exchange real-time data**
- **Process involves a Member and from (4)-(7) SPP Depts**
- **No one from SPP "owned" the process, managed it, and set Member expectations**
- **Process was never defined/designed as a formal process – disjointed, inefficient, re-work, frustrating to Members**
- **Some connection projects took over a year (member tasks and third party vendors are critical path)**
- **SPP total labor hours/ICCP project <u>estimated</u> at 330 - 460 (no actual time tracking)**

Outputs of ICCP Lean Workshop

ICCP Process Enhancements (New)

- Clearly defined/documented an efficient overall process
  - SPP roles, responsibilities, communications and hand-offs defined
  - Customer Relations manages Client and SPP Project coordination
  - Member kick-off meeting: overall process definition, time line, expectations of SPP and Member, and data gathering
  - Standard project plans and templates developed
  - Resources identified and trained (reduces use of higher level staff)
- Eliminated Waste (duplication of effort, re-work, handoff gaps)
- Will Enhance Quality and Member Satisfaction
- Less frustrating experience for SPP staff
- Member time savings estimated to be 20 – 40%
- Cycle time improvements of from 10 to 40%
- SPP labor savings per ICCP estimated at 42% reduction in effort

SPP 23

Process Improvement Metrics

- Old Process – Total SPP labor estimated at 395 hours/ICCP (no actual time tracking)
- New Process – estimated at 230 hours/ICCP
- New Process Productivity – estimated avoidance of 42% of SPP labor per ICCP connection
  - Avoided labor hours/ICCP = 165 hours
  - Avoided Standard labor cost equivalent/ICCP = $12,045
- Have implemented a time tracking process to identify actual time tracked to support each ICCP implementation

SPP 24

Benefits of the ICCP Lean Initiative

- ICCP Connections are "on-demand" services (variable)
- Historical volume – avg 5 per year – foundation staff support spread across four to seven SPP Departments
- Integrated Marketplace initial surge demand for ICCP connections in 2013 estimated at 15
  - Demand could be as high as 50 (assessment in progress)
  - Incremental support from Market Program, staff re-allocation, and staff augmentation

New Process Avoided Labor Hrs and Std Cost				
		Labor Avoidance		
Description	Volume	Hours	FTE	Std Cost
Typical Year	5	825	0.52	$59,896
Surge Demand				
Original Fcst	15	2,475	1.56	$179,688
Potential Demand	50	8,250	5.21	$598,958

SPP 25

2013 – 1H2014 Lean Implementation Plans (Phase II)

- Continue to identify new Lean project candidates and facilitate through implementation
- Penetrate all SPP organizational entities (subject to not interfering with Integrated Marketplace focus)
  - Operations should have their first pilot ready in January, 2013
- Develop BU Management to be effective Lean Champions/leaders
- Begin to identify "in-line" resources for part-time facilitation
- Involve, train and mentor "in-line" Lean facilitators

SPP 26

2013 – 1H2014 Lean Implementation Plans (Phase II)

- Incorporate a better Lean benefits tracking process into each project and reflect "improvements" in Quarterly Finance Committee reports
- Establish an SPP Policy for employees displaced by process improvement initiatives
  - Company will reassign and/or retrain for other needed positions
  - Displaced employees may experience temporary assignments while training and/or reassignment occurs
- Design and implement appropriate reward and recognition programs for staff participants

2H2014 Lean Implementation Plans (Phase III)

- Begin to transition more facilitation responsibilities to line organizations
- BPI Department transitions into:
  - An enablement function, Lean subject matter experts
  - A source of facilitation for large SPP-wide initiatives and for initiatives
  - Miscellaneous Lean project facilitation
- Develop expectations and accountability for Lean adoption for Business Units and/or Departments
  - Implement appropriate performance incentives for BU management

Keys for Success/Issues

- Acknowledge that "people are the process"
  - Enable people with the correct skills and capabilities
  - Empower employees to "own" improving their work processes
  - Create incentives, rewards, recognition for improvement
- Don't brand Lean Continuous Process Improvement as a budgetary "Cost Control Program"
- Business Unit Leadership must Champion Lean implementation and be held accountable for results
- Organizational maturity is needed to measure and manage a more productive workforce
  - Corporate adherence to time tracking disciplines
  - Supervisory maturity, experience and incentives

Southwest Power Pool

Southwest Power Pool, Inc.

FINANCE COMMITTEE

Recommendation from SPP Staff

December 10, 2012

Revolving Line of Credit

Organizational Roster

The following persons are members of the Finance Committee:

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

Background

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

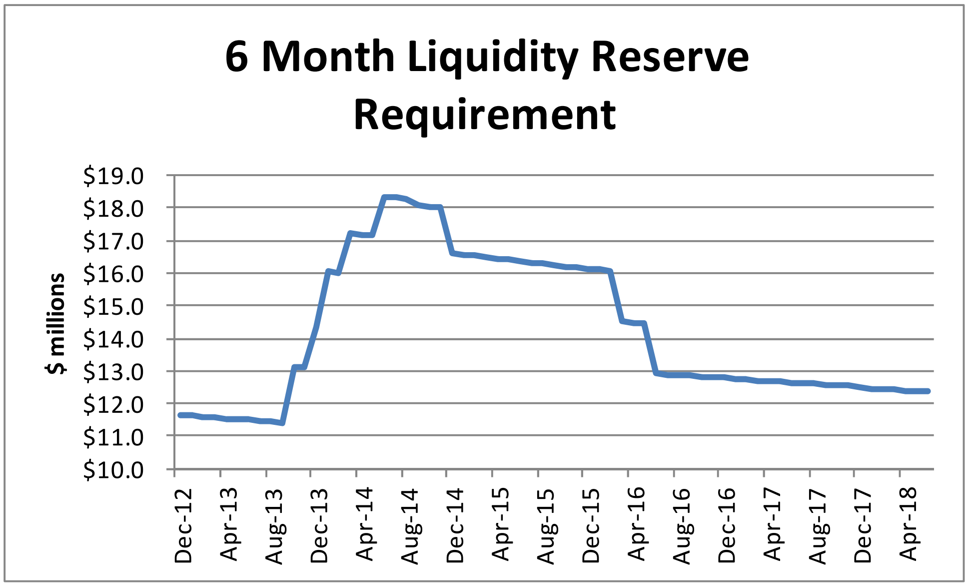
		Balances ($MM)		Funding	
Due Date	**Rate**	**Original**	**Current**	**Year**	**Primary Purpose**
2014 Sr. Notes	5.61%	$30	$12	2007	Capital projects from 2006-2008
2016 Sr. Notes	5.45%	$30	$23	2009	Capital projects from 2008-2011
2024 Sr. Notes (C)	3.55%	$70	$70	2011	Integrated Marketplace
2024 Sr. Notes (D1)	3.00%	$50	$50	2012	Integrated Marketplace
2024 Sr. Notes (D2)	3.25%	$50	$50	2012	Capital projects from 2012 - 2014
2027 Sr. Notes	6.36%	$5	$4	2007	Maumelle Ops Center
2042 Sr. Notes (A & B)	4.82%	$65	$65	2010	Corporate Campus
Totals		**$300**	**$274**		

All notes are unsecured except for the 2027 notes which are secured by a mortgage on SPP's Maumelle, AR operations facility.

SPP also has available a $20 million unsecured revolving line of credit maturing June 2013. The line is used to support a 6 month debt service reserve required by SPP's term credit agreements and to provide a temporary liquidity resource for the Company. The revolving line currently has not had any funding drawn on it since September 2010. Pricing of draws is variable based on SPP's issuer rating by Fitch Ratings. Currently any draws under the revolving facility would be priced at LIBOR + 1.50%. SPP pays a 25bp per year unused commitment fee on this facility.

Analysis

SPP's revolving line of credit matures in June 2013. An increase in the commitment under this line of credit is warranted at this time to accommodate increased demands on SPP's liquidity. Paramount is the requirement to maintain a 6 month debt service reserve. As indicated in the chart below, SPP's reserve requirement is projected to peak in 2016 and slowly revert to more normal levels in 2018 (not considering any new debt funded going forward).



SPP's operating cash flow, in simple terms, is comprised of a once a month cash inflow with outflows occurring weekly. Most of the Company's outflows are spread evenly throughout the year, including compensation and benefit expenses, travel, meetings, communication expenses, etc. Outflow variability occurs primarily in maintenance, consulting, and insurance expenditures (irregular expenditures comprise approx 25% of 2013 cash outflows). Inflows arrive in the form of Schedule 1A revenues and approximate $10MM to $12MM between 2013 – 2015.

$ Millions	2013	2014	2015
Average Inflows/Month	$ 9.5	$ 11.5	$ 12.0
Average Steady Outflows/Month	$ 7.2	$ 8.8	$ 9.4
Annual Irregular Outflows	$ 27.5	$ 32.0	$ 30.9

SPP staff recommends obtaining a $30 million revolving credit facility with a maturity of up to three years. Draws on the facility will be priced based on LIBOR with a credit spread based on SPP's current issuer rating from Fitch at the time of the draw. Unused commitment fees will be priced at current market rates (we expect to continue with 25bp level). The facility will be unsecured with reporting and financial covenants consistent with SPP's recent debt issuances.

SPP will require Board of Director approval for this financing in January 2013, and then need to seek regulatory approvals from FERC and ARPSC in February. Regulatory order on this request would be expected within 90 days of filing leaving approximately 1 month to finalize documentation of the credit facility prior to the expiration of the existing facility in June 2013.

Recommendation

Approve issuance of $30MM revolving credit facility to replace existing $20MM revolving credit facility at its maturity in June 2013. The new facility would have a maturity of up to three years from the date of issuance with grid pricing based on SPP issuer rating from Fitch Ratings. The facility will be unsecured.

Approved:

Action Requested: Approve Recommendation

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	8	0
Altenbaumer, Larry	Director	N/A	6	2
Bennett, Sandra	American Electric Power	Investor Owner	8	0
*Harper, Trudy	Tenaska Power Services Co.	Independent Power Producer	5/7	2
Harrison, Kelly	Westar Energy, Inc	Investor-Owned	7	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		8	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): **21**

MEETINGS HELD TO DATE: **Live: 4 Teleconference: 4**

AVERAGE LENGTH OF MEETINGS: **4:09**

NUMBER OF VOTES TAKEN: **15**

*MEETING COST(S): **$30,030.77**

MAJOR SCOPE OF RESPONSIBILITIES

1. **Review of annual financial statements**
2. **Oversight and engagement of independent auditors**
3. **Oversight, development, review and approval of annual budgets**
4. **Monitor cost recovery methodology**
5. **Develop policies governing capitalization, financing, and long-term contracts**

6. **Review and discuss the corporation's guidelines and policies with respect to risk assessment and management, focus on major financial risk exposures**
7. **Review management's and independent auditor's assessment of the adequacy of internal financial controls**
8. **Review actuarial reports and provide input to assumptions used**
9. **Review and report on financial status of defined benefit and post-retirement healthcare plans**
10. **Review Investment Policy Statements for defined benefit and post-retirement healthcare plans**
11. **Engage and monitor investment manger performance in managing the assets in the defined benefit and post-retirement healthcare plans**
12. **Review and evaluate performance of the Finance Committee**

<u>MAJOR ACCOMPLISHMENTS/ISSUES ADDRESSED BY THE GROUP</u>:

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**

<u>MAJOR PENDING ISSUES BEFORE THE GROUP</u>:

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.

Memorandum

To: **Finance Committee Members**

From: **Tom Dunn**

CC: **Cheryl Robertson**

Date: **December 3, 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.

Meeting Date	Time	Meeting Location	Major Agenda Items
Dec 10, 2012	2:00	Dallas, TX	SSAE-16 Audit Report Corp Ins. Outlook RLOC Renewal BPI Review
Feb 19, 2013	10:00	Dallas, TX	Pension Mgmt Reports Year-end Review
April 9, 2013	8:30	Dallas, TX	Financial Audit Review Schedule 1A Cap
July 23, 2013	8:30	Dallas, TX	BPI Review Mid Year Review Budget Process Review
Sept 24, 2013	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

Memorandum

To: SPP Finance Committee

From: Dianne Branch

CC: Tom Dunn

Date: November 30, 2012

Re: Annual Benefit Plan Audits

Background

SPP engaged Thomas & Thomas LLP to conduct audits of the following benefit plans for the year ended December 31, 2011:

- Southwest Power Pool, Inc. Retirement Plan (Retirement Plan)
- Southwest Power Pool Medical Plan (Medical Plan)
- Southwest Power Pool 401(k) Savings Plan (401(k) Plan)

An independent audit is required by the Department of Labor (DOL) for the Retirement and 401(k) Plans primarily due to the number of participants in the plan exceeding 100. These plans have been audited since 2004, the year in which the participant level exceeded the threshold. The audit requirement for the Medical Plan is driven by the fact a separate legal trust was established to maintain the assets of the plan.

Thomas & Thomas conducted their audits in the summer and issued their final reports in September and October 2012.

Types of Audits Performed

For the Retirement and 401(k) Plans, SPP requested that Thomas & Thomas perform a limited scope audit as permitted by 29 CFR 2520.103-8 of the DOL's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 (ERISA). By electing this type of audit, the auditors are not required to perform any auditing procedures with respect to the information certified by the custodians of the plan, except for comparing such information with the related information included in the financial statements. SPP, as the Plan Administrator, obtains certifications from the custodians that the information provided is complete and accurate. The limited scope audit meets the audit requirements associated with the annual tax filing for the plans (Form 5500).

Because of the significance of the information that Thomas & Thomas does not audit, they do not express an opinion on the financial statements for the Retirement and 401(k) Plans. All financial information, other than that derived from the information certified by the custodians, is audited in accordance with generally accepted auditing standards.

The Medical Plan audit mirrors a more traditional audit and therefore, an audit opinion is expressed.

Audit Results

Retirement and 401(k) Plans

As explained above, no opinion is expressed on the financial statements of the Plans due to the limited scope election. However, the form and content of the information included in the financial statements and supplemental schedule, other than that derived from the information certified by the custodians, was audited in accordance with generally accepted auditing standards and, in the opinion of Thomas & Thomas were presented in compliance with the DOL's Rules and Regulations under ERISA.

Medical Plan

In the audit report dated October 2, 2012, Thomas & Thomas issued an unqualified opinion on the Medical Plan financial statements.

There were no significant audit findings or internal control issues noted during the audit. There was the following misstatement identified by the auditors, which was deemed insignificant for purposes of adjusting the financial statements -

> Retirement Plan - $27,339 understatment of accrued investment fees given that expenses are recorded when paid by the recordkeeper.

Southwest Power Pool
401(k) Savings Plan

FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULE
As of December 31, 2011 and 2010
and for the Year Ended December 31, 2011

(With Independent Auditors' Report Thereon)

Thomas & Thomas LLP
Certified Public Accountants

Southwest Power Pool
401(k) Savings Plan

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Thomas &
Thomas LLP
Certified Public Accountants

Members American Institute Certified Public Accountants
Center for Public Company Audit Firms and PCPS

INDEPENDENT AUDITORS' REPORT

Members of the Finance Committee
Southwest Power Pool, Inc. (Plan Administrator for
the Southwest Power Pool 401(k) Savings Plan)
Little Rock, Arkansas

We were engaged to audit the financial statements of **Southwest Power Pool 401(k) Savings Plan** (the Plan) as of December 31, 2011 and 2010, and for the year ended December 31, 2011, and the supplemental schedule as of December 31, 2011, as listed in the accompanying table of contents. These financial statements and supplemental schedule are the responsibility of the Plan's management.

As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the Plan Administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note 3, which was certified by Principal Life Insurance Company and Delaware Charter Guarantee & Trust Company, the custodians of the Plan, except for comparing such information with the related information included in the financial statements and supplemental schedule. We have been informed by the Plan Administrator that the custodians hold the Plan's investment assets and execute investment transactions. The Plan Administrator has obtained certifications from the custodians as of December 31, 2011 and 2010, and for the year ended December 31, 2011, that the information provided to the Plan Administrator by the custodians is complete and accurate.

Because of the significance of the information that we did not audit, we are unable to, and do not, express an opinion on the accompanying financial statements and supplemental schedule taken as a whole. The supplemental schedule is presented for the purpose of additional analysis and is not a required part of the financial statements but is required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The form and content of the information included in the financial statements and supplemental schedule, other than that derived from the information certified by the custodians, have been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

Thomas & Thomas LLP
Certified Public Accountants

September 25, 2012
Little Rock, Arkansas

www.thomasthomasllp.com
Little Rock Office ♦ 201 E. Markham, Suite 500, Little Rock, Arkansas 72201 ♦ Telephone (501) 375-2025 ♦ FAX (501) 375-8704
Texarkana Office ♦ 2900 St. Michael Drive, Suite 302, Texarkana, Texas 75503 ♦ Telephone (903) 831-3477 ♦ FAX (903) 831-3482

Financial Statements

Southwest Power Pool
401(k) Savings Plan

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
December 31, 2011 and 2010

	2011	2010
ASSETS		
Investments, at Fair Value		
Investment contract with insurance company:		
Pooled separate accounts, at fair value	$ 28,827,324	$ 25,104,272
Guaranteed interest accounts, at fair value	842,703	692,123
Mutual funds	1,877,142	1,604,287
Total Investments	31,547,169	27,400,682
Receivables		
Notes receivable from participants	808,156	671,051
Total Receivables	808,156	671,051
TOTAL ASSETS	32,355,325	28,071,733
LIABILITIES	-	-
NET ASSETS AVAILABLE FOR BENEFITS	$ 32,355,325	$ 28,071,733

See accompanying notes to financial statements.

Southwest Power Pool
401(k) Savings Plan

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
Year Ended December 31, 2011

ADDITIONS AND INVESTMENT LOSS	
Investment Income (Loss)	
Interest and dividends:	
Guaranteed interest accounts	$ 17,128
Mutual funds	17,905
Net depreciation in investment contract with insurance company	(124,042)
Net depreciation in fair value of mutual funds	(79,734)
	(168,743)
Investment expenses	(68,091)
Net Investment Loss	(236,834)
Interest income on notes receivable from participants	37,512
Contributions	
Employee	3,486,713
Employer	1,965,225
Rollovers	411,517
Total contributions	5,863,455
Total Additions and Investment Loss	5,664,133
DEDUCTIONS	
Benefits paid directly to participants	262,022
Rollovers	1,111,790
Administrative expenses	6,729
Total Deductions	1,380,541
NET INCREASE	4,283,592
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	28,071,733
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	$ 32,355,325

See accompanying notes to financial statements.

NOTE 1: DESCRIPTION OF PLAN

The following description of the Southwest Power Pool 401(k) Savings Plan (the Plan) is provided for general information purposes only. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

(a) General

The Plan, which was established January 1, 1996, is a defined contribution plan maintained for the benefit of employees of Southwest Power Pool, Inc. (the Employer, Plan Sponsor and Plan Administrator), who have met eligibility requirements as defined in the Plan. Generally, an employee is eligible to participate in the Plan on the later of the first day of the month following the date of hire or attaining age twenty-one.

The Plan is subject to the provisions of the Employee Retirement Income Security Act (ERISA).

The Employer utilizes the services of Principal Life Insurance Company (Principal), a third-party administrator, to process investment transactions and maintain participant account balances. Principal Life Insurance Company and Delaware Charter Guarantee and Trust Company are Custodians of the Plan's assets. Also, the Employer has entered into an agreement with Smith Capital Management, Inc. to provide investment advisory services related to the Plan's investment portfolio.

Certain duties related to administration of the Plan are performed by employees of the Plan Sponsor; however, the Plan Sponsor does not charge the Plan for the estimated cost of such services. Other expenses paid by the Plan Sponsor on behalf of the Plan totaled approximately $15,000 for the year ended December 31, 2011.

(b) Contributions

Participants may contribute up to 100% of annual compensation, as defined in the Plan, not to exceed limitations imposed by the Internal Revenue Service (IRS). The Plan includes an automatic enrollment safe harbor provision, which provides that employees who have met eligibility requirements are automatically enrolled as participants in the Plan at a salary deferral rate of 3% of eligible compensation, unless the employee completes an enrollment form and elects otherwise. Each year thereafter, the salary deferral percentage will be increased by 1% until the salary deferral percentage equals 6% of eligible compensation. Employer matching contributions will total 4.75% for those participants who defer 6% of compensation, and the match fluctuates from 1% to 4.75% for each percentage of compensation contributed under 6%. Employer contributions are also subject to limitations imposed by the IRS.

(c) Participant Accounts

Each participant's account is credited with the participant's contributions, the Employer's matching contributions and allocations of Plan earnings, net of certain administrative expenses. Allocations are generally based on participant account balances, as specified in the Plan. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

NOTE 1: DESCRIPTION OF PLAN (Continued)

(d) Vesting
Participants are fully vested at all times in their own contributions and safe harbor matching contributions made by the Employer, plus earnings thereon.

(e) Investment Options
Participants may direct the investment of their contributions in one or more investment options offered under the Plan's group annuity contract with Principal, including a variety of pooled separate accounts structured for different levels of risk tolerance and time horizons and guaranteed interest accounts, or they may choose from one or more mutual fund options. Participants may change their investment options at any time.

(f) Notes Receivable from Participants
Participants may borrow from their accounts a minimum of $1,000, up to a maximum equal to the lesser of $50,000 or 50% of their vested account balance. Loan terms may range from one to five years. The loans are secured by the participant's account and bear interest at rates ranging from 5.25% to 10.25%, which are commensurate with local prevailing rates at the time funds are borrowed as determined by the Plan Administrator. Principal and interest are paid through payroll deductions.

(g) Forfeitures
Participants are fully vested in their account balance, and no amounts will be forfeited.

(h) Payment of Benefits
Upon termination of service due to death, disability or retirement, a participant (or designated beneficiary) may elect to receive an amount equal to the value accumulated in his or her account in either a lump-sum amount or in periodic installments over a period to be selected by the participant (or beneficiary) from several options under the Plan. For terminations of service due to other reasons, a participant may receive the value accumulated in his or her account as a lump-sum distribution or, if the account balance exceeds $5,000 on the date of termination, may leave the account under the Plan until the participant reaches normal retirement age or dies.

(i) Hardship Withdrawals
In case of immediate and heavy financial hardship, a participant may withdraw all or a portion of the participant's vested account balance. A withdrawal shall be deemed for purposes of an immediate and heavy financial hardship if the withdrawal is necessary for certain eligible expenses, such as medical care, the purchase of a principal residence for the participant, payment of tuition and related education fees for the next twelve months of post-secondary education, payments necessary to prevent eviction of the participant from his or her principal residence or to avoid foreclosure on said residence, payments for funeral or burial expenses or expenses to repair damage to the participant's principal residence.

If a hardship withdrawal is made, the participant's salary deferral is suspended for six months after the receipt of the hardship withdrawal.

NOTE 1: DESCRIPTION OF PLAN (Continued)

(j) Termination of the Plan
Although it has not expressed any intent to do so, the Employer has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting
The financial statements of the Plan are prepared on the accrual basis of accounting.

(b) Investment Valuation and Income Recognition
The Plan's investments are reported at fair value. See Note 5 for further discussion on the determination of fair value amounts. Purchases and sales of investments are recorded on a trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation or depreciation includes realized and unrealized gains and losses on investments bought and sold, as well as those held during the year.

<u>Pooled Separate Accounts</u>
Pooled separate accounts are investment options offered by Principal that are similar to mutual funds, except that investments in pooled separate accounts may only be made by Principal contract holders. The underlying assets that comprise the various pooled separate accounts options may include mutual funds, cash and cash equivalents, U.S. and foreign debt and equity securities, real estate and mortgages. The pooled separate accounts are not obligations of Principal, and the return on these accounts is not guaranteed.

<u>Guaranteed Interest Accounts</u>
The guaranteed interest accounts are investment options offered by Principal to contract holders that provide a guaranteed interest rate for a specified period of time. Participant accounts are credited with their contributions, and each contribution is credited with interest daily at a guaranteed rate determined by Principal on the date the contribution is received. However, if funds are withdrawn prior to their maturity, valuation adjustments may be made.

(c) Notes Receivable from Participants
Notes receivable from participants are measured at their unpaid principal balance plus any accrued but unpaid interest.

The Plan administrator considers all notes receivable from participants to be fully collectible; accordingly no allowance for loan losses has been recorded. Delinquent notes receivable from participants are reclassified and reported as distributions at the time they are determined by management to be uncollectible.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Payments of Benefits

Benefits are recorded when paid. There are no amounts allocated to withdrawing participants that have not been paid at December 31, 2011 and 2010.

(e) Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Plan Administrator to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

NOTE 3: INFORMATION PREPARED AND CERTIFIED BY PLAN CUSTODIANS

The Plan Administrator has elected the method of compliance permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA. Accordingly, as permitted under such election, all information pertaining to the Plan's interest in pooled separate accounts, guaranteed interest accounts and mutual funds and related income, information in the notes to the financial statements and information in the supplemental schedule was certified by the Plan's Custodians, Principal Life Insurance Company and Delaware Charter Guarantee and Trust Company, as of December 31, 2011 and 2010, and for the year ended December 31, 2011. This information was not subject to audit procedures except for comparing it to the related information included in the financial statements and supplemental schedule.

The following information included in the accompanying financial statements, related notes and supplemental schedule was obtained from data that has been prepared and certified to as complete and accurate by the Plan's Custodians.

	2011	2010
Investments		
Investment contract with insurance company:		
Pooled separate accounts, at fair value	$ 28,827,324	$ 25,104,272
Guaranteed interest accounts, at fair value	$ 842,703	$ 692,123
Mutual funds	$ 1,877,142	$ 1,604,287
Investment Income (Loss)		
Interest and dividends:		
Guaranteed interest accounts	$ 17,128	N/A
Mutual funds	$ 17,905	N/A
Net depreciation in investment contract with insurance company	$ (124,042)	N/A
Net depreciation in fair value of mutual funds	$ (79,734)	N/A

NOTE 4: INVESTMENTS

The following investments represent 5% or more of the Plan's net assets as of December 31:

	2011	2010
Principal Money Market Pooled Separate Account	$ 2,515,963	$ 2,222,040
Principal Bond & Mortgage Pooled Separate Account	$ 3,336,688	$ 2,872,151
Principal Government & High Quality Bond Pooled Separate Account	$ 2,414,111	$ 2,096,834
Principal Diversified International Pooled Separate Account	$ 1,852,536	$ 1,686,627
Principal Large Cap S&P 500 Index Pooled Separate Account	$ 2,102,454	$ 1,810,976
Principal Small Cap Blend Pooled Separate Account	$ 2,065,763	$ 1,743,248
Principal Mid Cap Blend Pooled Separate Account	$ 3,396,376	$ 2,610,642
Principal Mid Cap Value I Pooled Separate Account	$ 1,789,353	$ 1,725,067
Principal Large Cap Blend II Pooled Separate Account	$ 5,342,364	$ 4,483,153

During 2011, the Plan's investments (including gains and losses on investments bought and sold, as well as those held during the year) appreciated (depreciated) in value as follows:

Investment contract with insurance company:	
Pooled separate accounts	$ (126,575)
Guaranteed interest accounts	2,533
	(124,042)
Mutual funds	(79,734)
	$ (203,776)

NOTE 5: FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 820 establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

NOTE 5: FAIR VALUE MEASUREMENTS (Continued)

Level 2 Inputs to the valuation methodology include the following:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in inactive markets
- Inputs other than quoted prices that are observable for the asset or liability
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2011 and 2010:

<u>Pooled Separate Accounts</u>
The fair values of the pooled separate accounts are based on the net asset value per unit of each pooled separate account in which the Plan invests multiplied by the number of units held by the Plan at the financial reporting date. The net asset value is determined based on the market values of the underlying assets comprising the pooled separate accounts. Underlying investments in mutual funds or equity securities are measured using quoted market prices in active market for identical assets. Underlying investments in fixed income securities are measured based on the pricing data provided by outside valuation service providers who generally use the mean of bid and ask prices, but may also use alternative observable pricing inputs for certain securities. While the underlying assets that comprise the pooled separate accounts are generally valued based on quoted prices, the values of the pooled separate accounts are not publicly quoted.

The Plan has the ability to redeem all investments in the pooled separate accounts at net asset value on a daily basis. Principal may impose various hold periods for withdrawals or transfers exceeding certain percentages or amounts as defined in the investment contract.

NOTE 5: FAIR VALUE MEASUREMENTS (Continued)

Guaranteed Interest Accounts

The guaranteed interest accounts cannot be sold to a third-party; thus, the only option to exit the guaranteed interest accounts is to withdraw the funds prior to maturity. Therefore, the fair value of the guaranteed interest accounts is determined using a market approach and is the amount plan participants would receive currently if they were to withdraw or transfer funds within the Plan prior to their maturity for an event other than death, disability, termination or retirement. This fair value represents contract value adjusted to reflect current market interest rates; only to the extent such market rates exceed crediting rates.

Mutual Funds

Mutual funds are valued at the quoted net asset value of shares held by the Plan at year end.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management of the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

In January 2010, a new accounting standard was issued that clarified previously issued disclosure requirements related to fair value measurements and required certain new disclosures. Generally, this new accounting standard required additional disclosures about the amounts of and reasons for significant transfers in and out of Level 1 and Level 2 fair value measurements, clarified existing disclosure requirements regarding the level of disaggregation of the types of assets and liabilities measured at fair value, clarified existing disclosure requirements about inputs and valuation techniques used to measure fair value for both recurring and nonrecurring Level 2 and Level 3 fair value measurements and required additional disclosures about the components of changes in fair value for assets and liabilities with fair values measured using Level 3 inputs. The requirements of this standard became effective for periods beginning after December 15, 2009, except for those requirements pertaining to increased disclosures about the changes in fair value for assets and liabilities with fair values measured using Level 3 inputs, which became effective for periods beginning after December 15, 2010. The new disclosures and clarifications of existing disclosures are included in the tables that follow, to the extent applicable to the Plan.

NOTE 5: FAIR VALUE MEASUREMENTS (Continued)

The fair values of the Plan's assets measured on a recurring basis at December 31, are as follows:

	Fair Value	Level 1	Level 2	Level 3
December 31, 2011				
Pooled separate accounts:				
Large U.S. equity	$ 7,444,818	$ -	$ 7,444,818	$ -
Small/Mid U.S. equity	9,983,851	-	9,983,851	-
International equity	3,016,389	-	3,016,389	-
Short-term fixed income	2,515,963	-	2,515,963	-
Fixed income	5,866,303	-	5,866,303	-
Total pooled separate accounts	28,827,324	-	28,827,324	-
Guaranteed interest accounts	842,703	-	-	842,703
Mutual funds:				
Large U.S. equity	1,746,316	1,746,316	-	-
Short-term fixed income	130,826	130,826	-	-
Total mutual funds	1,877,142	1,877,142	-	-
	$31,547,169	$ 1,877,142	$28,827,324	$ 842,703

	Fair Value	Level 1	Level 2	Level 3
December 31, 2010				
Pooled separate accounts:				
Large U.S. equity	$ 6,294,129	$ -	$ 6,294,129	$ -
Small/Mid U.S. equity	8,669,019	-	8,669,019	-
International equity	2,950,099	-	2,950,099	-
Short-term fixed income	2,222,040	-	2,222,040	-
Fixed income	4,968,985	-	4,968,985	-
	25,104,272	-	25,104,272	-
Guaranteed interest accounts	692,123	-	-	692,123
Mutual funds:				
Large U.S. equity	1,604,287	1,604,287	-	-
	$27,400,682	$ 1,604,287	$25,104,272	$ 692,123

NOTE 5: FAIR VALUE MEASUREMENTS (Continued)

The following table sets forth a summary of changes in the fair value of the Plan's Level 3 assets for the year ended December 31, 2011.

Guaranteed interest accounts:	
Balance, beginning of year	$ 692,123
Interest credited	17,128
Unrealized gains (losses)*	2,533
Purchases	309,950
Sales	(179,031)
Balance, end of year	$ 842,703

* Unrealized gains and losses are included in "net appreciation in investment contract with insurance company" on the Statement of Changes in Net Assets Available for Benefits.

NOTE 6: TAX STATUS

Effective January 1, 1996, the Plan executed an adoption agreement for the Principal Financial Group Prototype Basic Savings Plan (the Prototype). As an adopter of the Prototype, the Plan is not subject to tax under present income tax law.

The Plan obtained its latest determination letter on December 10, 2010, in which the Internal Revenue Service informed the Plan Sponsor, that the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code. The Plan has been amended since the date of the determination letter; however the Plan Administrator believes that the Plan is currently designed and being operated in compliance with applicable requirements of the Internal Revenue Code.

Accounting standards require the Plan Sponsor to evaluate tax positions taken by the Plan and recognize a tax liability (or asset) if the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. The Plan Sponsor has analyzed the tax positions taken by the Plan and has concluded that as of December 31, 2011 and 2010, there are no uncertain positions taken or expected to be taken that would require the recognition of a liability (or asset) or disclosure in the financial statements. The Plan may be subject to audit by the Internal Revenue Service; however there are currently no audits for any tax periods in progress. The Plan Sponsor believes that as of December 31, 2011, the Plan is no longer subject to income tax examinations for years prior to 2008.

NOTE 7: RISKS AND UNCERTAINTIES

The pooled separate accounts and mutual funds in which the Plan's assets are invested are comprised of investment securities, which are exposed to various risks such as interest rate, market and credit risks. Certain pooled separate accounts may invest in foreign securities. There are certain additional risks involved when investing in foreign securities that are not present with investments in domestic securities. These risks may involve foreign currency exchange rate fluctuations, adverse political and economic developments and the possible prevention of currency exchange due to foreign governmental laws or restrictions. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participant account balances and the amounts reported in the Plan's financial statements.

NOTE 8: SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 25, 2012, the date that the financial statements were available to be issued.

Supplemental Schedule

Southwest Power Pool
401(k) Savings Plan

SCHEDULE H, LINE 4i - SCHEDULE OF ASSETS (HELD AT END OF YEAR)
December 31, 2011

Plan Name: Southwest Power Pool 401(k) Savings Plan — Plan Number: 002

Plan Sponsor: Southwest Power Pool, Inc. — EIN: 71-0748158

(a)	(b) Identity of issue, borrower, lessor, or similar party	(c) Description of investment including maturity date, rate of interest, collateral, par, or maturity value	(d) Cost	(e) Current Value
*	Principal Life Insurance Company	Principal Money Market Pooled Separate Account	$ -	$ 2,515,963
*	Principal Life Insurance Company	Principal Bond & Mortgage Pooled Separate Account	-	3,336,688
*	Principal Life Insurance Company	Principal International Small Cap Pooled Separate Account	-	1,142,322
*	Principal Life Insurance Company	Principal Government & High Quality Bond Pooled Separate Account	-	2,414,111
*	Principal Life Insurance Company	Principal Diversified International Pooled Separate Account	-	1,852,536
*	Principal Life Insurance Company	Principal Large Cap S&P 500 Index Pooled Separate Account	-	2,102,454
*	Principal Life Insurance Company	Principal Small Cap Blend Pooled Separate Account	-	2,065,763
*	Principal Life Insurance Company	Principal Mid Cap Blend Pooled Separate Account	-	3,396,376
*	Principal Life Insurance Company	Principal Small Cap Value II Pooled Separate Account	-	832,481
*	Principal Life Insurance Company	Principal Small Cap Growth II Pooled Separate Account	-	692,688
*	Principal Life Insurance Company	Principal Mid Cap Value I Pooled Separate Account	-	1,789,353
*	Principal Life Insurance Company	Principal Mid Cap Growth III Pooled Separate Account	-	960,604
*	Principal Life Insurance Company	Principal Large Cap Blend II Pooled Separate Account	-	5,342,364
*	Principal Life Insurance Company	Principal International Equity Index Pooled Separate Account	-	21,531
*	Principal Life Insurance Company	Principal Mid Cap S&P 400 Index Pooled Separate Account	-	111,291
*	Principal Life Insurance Company	Principal Small Cap S&P 600 Index Pooled Separate Account	-	135,295
*	Principal Life Insurance Company	Principal Bond Market Index Pooled Separate Account	-	115,504
	Total Pooled Separate Accounts		$ -	$ 28,827,324

(Continued)

Southwest Power Pool
401(k) Savings Plan

SCHEDULE H, LINE 4i - SCHEDULE OF ASSETS (HELD AT END OF YEAR) *(Continued)*
December 31, 2011

Plan Name: Southwest Power Pool 401(k) Savings Plan — Plan Number: 002

Plan Sponsor: Southwest Power Pool, Inc. — EIN: 71-0748158

(a)	(b) Identity of issue, borrower, lessor, or similar party	(c) Description of investment including maturity date, rate of interest, collateral, par, or maturity value	(d) Cost	(e) Current Value
*	Principal Life Insurance Company	Guaranteed Interest Accounts	$ -	$ 842,703
	MFS Investment Management	MFS Value A Fund	$ -	$ 545,922
	PIMCO Funds	PIMCO Low Duration Administrative Fund	-	130,826
	American Funds Service Company	American Funds Growth Fund of America R4 Fund	-	1,200,394
	Total Mutual Funds		$ -	$ 1,877,142
*	Participant Loans	Interest rates ranging from 5.25% - 10.25%; various maturity dates; secured by participants' vested balances	$ -	$ 808,156

* Party-in-interest

Southwest Power Pool, Inc.
Retirement Plan

FINANCIAL STATEMENTS AND
SUPPLEMENTAL SCHEDULES
As of December 31, 2011 and 2010 and
for the Year Ended December 31, 2011

(With Independent Auditors' Report Thereon)

Southwest Power Pool, Inc.
Retirement Plan

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Thomas & Thomas LLP
Certified Public Accountants

Members American Institute Certified Public Accountants
Center for Public Company Audit Firms and PCPS

INDEPENDENT AUDITORS' REPORT

Members of the Finance Committee
Southwest Power Pool, Inc. (Plan Administrator for
the Southwest Power Pool, Inc. Retirement Plan)
Little Rock, Arkansas

We were engaged to audit the financial statements of **Southwest Power Pool, Inc. Retirement Plan** (the Plan) as of December 31, 2011 and 2010, and for the year ended December 31, 2011, and the supplemental schedules as of and for the year ended December 31, 2011, as listed in the accompanying table of contents. These financial statements and supplemental schedules are the responsibility of the Plan's management.

As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the Plan Administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note 3, which was certified by U.S. Bank, N.A., the trustee of the Plan, except for comparing the information with the related information included in the financial statements and supplemental schedules. We have been informed by the Plan Administrator that the trustee holds the Plan's investment assets and executes investment transactions. The Plan Administrator has obtained a certification from the trustee as of and for the years ended December 31, 2011 and 2010, that the information provided to the Plan Administrator by the trustee is complete and accurate.

Because of the significance of the information that we did not audit, we are unable to, and do not, express an opinion on the accompanying financial statements and supplemental schedules taken as a whole. The supplemental schedules are presented for the purpose of additional analysis and are not a required part of the financial statements but are required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The form and content of the information included in the financial statements and supplemental schedules, other than that derived from the information certified by the trustee, have been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

Thomas & Thomas LLP
Certified Public Accountants

September 28, 2012
Little Rock, Arkansas

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Financial Statements

Southwest Power Pool, Inc.
Retirement Plan

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
December 31, 2011 and 2010

	2011	2010
ASSETS		
Investments, at Fair Value		
Money market mutual fund	$ 343,284	$ 267,422
Mutual funds	9,269,538	7,949,373
Common stock	5,569,954	5,658,170
Foreign company stock	3,788,787	4,034,421
Corporate debt obligations	2,625,554	2,310,105
Foreign corporate debt obligations	607,428	570,165
Government debt obligations	2,987,214	2,376,913
Foreign government debt obligations	-	299,533
Total Investments	25,191,759	23,466,102
Cash	2,538	2,580
Accrued Interest and Dividends	68,827	67,627
TOTAL ASSETS	25,263,124	23,536,309
LIABILITIES	-	-
NET ASSETS AVAILABLE FOR BENEFITS	$ 25,263,124	$ 23,536,309

See accompanying notes to financial statements.

Southwest Power Pool, Inc.
Retirement Plan

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
Year Ended December 31, 2011

ADDITIONS AND INVESTMENT INCOME (LOSS)	
Investment Income (Loss)	
Interest and dividends	$ 485,159
Net depreciation in fair value of investments	(1,597,807)
	(1,112,648)
Investment expenses	(149,810)
Net investment loss	(1,262,458)
Employer contributions	3,133,122
Total Additions and Net Investment Loss	1,870,664
DEDUCTIONS	
Benefits paid	143,849
NET INCREASE	1,726,815
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	23,536,309
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	$ 25,263,124

See accompanying notes to financial statements.

Southwest Power Pool, Inc.
Retirement Plan

STATEMENT OF ACCUMULATED PLAN BENEFITS
December 31, 2011

ACTUARIAL PRESENT VALUE OF ACCUMULATED PLAN BENEFITS	
Vested Benefits:	
Participants currently receiving payments	$ 1,739,662
Other participants	16,664,525
Nonvested benefits	3,913,054
TOTAL ACTUARIAL PRESENT VALUE OF ACCUMULATED PLAN BENEFITS	$ 22,317,241

See accompanying notes to financial statements.

Southwest Power Pool, Inc.
Retirement Plan

STATEMENT OF CHANGES IN ACCUMULATED PLAN BENEFITS
Year Ended December 31, 2011

ACTUARIAL PRESENT VALUE OF ACCUMULATED PLAN BENEFITS, BEGINNING OF YEAR	$ 18,103,956
INCREASE (DECREASE) DURING THE YEAR ATTRIBUTABLE TO:	
Benefits accumulated	3,491,026
Benefits paid	(143,849)
Change in assumptions	866,108
Net increase	4,213,285
ACTUARIAL PRESENT VALUE OF ACCUMULATED PLAN BENEFITS, END OF YEAR	$ 22,317,241

See accompanying notes to financial statements.

Southwest Power Pool, Inc.
Retirement Plan

NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 1: DESCRIPTION OF PLAN

The following description of the Southwest Power Pool, Inc. Retirement Plan (the Plan) is provided for general information purposes only. Employees should refer to the Plan agreement and related amendments for a more complete description of the Plan's provisions.

(a) General

The Plan, which was established January 1, 1996, is a defined benefit pension plan which covers substantially all employees of Southwest Power Pool, Inc. (the Employer, Plan Sponsor and Plan Administrator) who have reached the age of twenty-one.

The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

(b) Pension Benefits

The Plan provides normal retirement benefits at age sixty-five based upon the employee's final average earnings adjusted by various factors, as specified in the Plan agreement. Final average earnings are defined as the annual average of the highest sixty consecutive months' compensation earned during the last 120 months of employment with the Employer. The Plan also permits early retirement, with reduced benefits, for those employees who are ages fifty-five through sixty-four and have completed at least ten years of service. If an employee terminates employment before completing three years of service, the employee forfeits the right to receive his or her portion of accumulated benefits, unless he or she returns to work for the Employer within a specified period of time.

Employees who are eligible to retire may elect to receive normal pension benefit payments in the form of an annuity for the life of the employee with a survivor annuity for the life of the spouse to whom the employee was married on the date of retirement. Other forms of benefit payments are available, including an optional joint and survivor annuity, a life annuity on a ten year certain basis and a level income benefit.

In the event of the death of an employee who has completed three years of service and has not received any pension benefit payments, the surviving spouse is entitled to receive monthly payments for life, beginning on the first day of the month following the month in which the employee would have reached his or her sixty-fifth birthday.

(c) Plan Administration

U.S. Bank, N.A. (U.S. Bank) is the Plan trustee and custodian of the Plan's assets. Fees paid to U.S. Bank for administrative services totaled approximately $36,000 for the year ended December 31, 2011. These fees are paid directly to U.S. Bank by the Plan Sponsor and are not recorded as an expense in the Plan's financial statements. In addition, certain other expenses related to

NOTE 1: DESCRIPTION OF PLAN (Continued)

(c) Plan Administration *(Continued)*

administration of the Plan are paid directly by the Plan Sponsor and are not recorded as expenses in the Plan's financial statements. These expenses totaled approximately $17,000 for the year ended December 31, 2011. Duties related to the administration of the Plan are performed by employees of the Plan Sponsor; however, the Plan Sponsor does not charge the Plan for the estimated cost of such services.

The employer has executed agreements with Foundation Resource Management, Inc. and Smith Capital Management, Inc. to manage the Plan's investment portfolio and provide investment advisory services. Fees for these services are paid by the Plan.

NOTE 2: SUMMARY OF ACCOUNTING POLICIES

(a) Basis of Accounting

The financial statements of the Plan are prepared on the accrual basis of accounting.

(b) Investments

The Plan's investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly fashion between market participants at the measurement date. See Note 5 for further discussion of fair value measurements.

Purchases and sales of investments are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation (depreciation) includes the Plan's gains and losses on investments bought and sold, as well as those held during the year.

(c) Actuarial Present Value of Accumulated Plan Benefits

Accumulated plan benefits are those future periodic payments, including lump-sum distributions, which are attributable under the Plan's provisions to the service employees have rendered. Accumulated plan benefits include benefits expected to be paid to (a) retired or terminated employees or their spouses, (b) spouses of employees who have died and (c) present employees. The accumulated plan benefits for active employees are based on the annual average of the highest sixty consecutive month's compensation earned during the last 120 months ending on the date as of which the benefit information is presented (the valuation date). Benefits payable under all circumstances are included, to the extent they are deemed attributable to employee service rendered to the valuation date.

NOTE 2: SUMMARY OF ACCOUNTING POLICIES (Continued)

(c) Actuarial Present Value of Accumulated Plan Benefits *(Continued)*

The actuarial present value of accumulated plan benefits for December 31, 2011 and 2010, was determined by an independent actuarial firm. The actuarial present value of accumulated plan benefits is that amount which results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, withdrawal or retirement) between the valuation date and the expected date of payment. The significant actuarial assumptions used in the valuations are as follows:

	2011	**2010**
Life expectancy of participants	1994 Uninsured Pensioners Mortality Table	1994 Uninsured Pensioners Mortality Table
Normal retirement age	65	65
Early retirement age	55 with 10 years of service	55 with 10 years of service
Investment return (assumed average rate of return)	6.25%	6.50%

The foregoing actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated plan benefits.

(d) Benefits

Benefit payments are recorded when paid.

(e) Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

(f) Reclassifications

Certain reclassifications have been made to amounts previously reported in the Plan's December 31, 2010 financial statements to conform to presentation in the December 31, 2011 financial statements.

NOTE 3: INFORMATION CERTIFIED BY TRUSTEE

The following information included in the accompanying financial statements, related notes and supplemental schedules was obtained from data that has been prepared and certified to as complete and accurate by the Plan's Trustee.

	2011	2010
Investments		
Money market mutual funds	$ 343,284	$ 267,422
Mutual funds	$ 9,269,538	$ 7,949,373
Common stock	$ 5,569,954	$ 5,658,170
Foreign company stock	$ 3,788,787	$ 4,034,421
Corporate debt obligations	$ 2,625,554	$ 2,310,105
Foreign corporate debt obligations	$ 607,428	$ 570,165
Government debt obligations	$ 2,987,214	$ 2,376,913
Foreign government debt obligations	$ -	$ 299,533
Cash	$ 2,538	$ 2,580
Accrued Interest and Dividends	$ 68,827	$ 67,627
Investment Income (Loss)		
Interest and dividends	$ 485,159	N/A
Net depreciation in fair value of investments	$ (1,597,807)	N/A

NOTE 4: INVESTMENTS

During 2011, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) depreciated in value, as follows:

Mutual funds	$ (230,468)
Common stock	(511,369)
Foreign company stock	(805,371)
Corporate debt obligations	(19,983)
Foreign corporate debt obligations	(13,402)
Government debt obligations	(5,680)
Foreign government debt obligations	(11,534)
	$ (1,597,807)

NOTE 4: INVESTMENTS (Continued)

The following investments represent 5% or more of the Plan's net assets as of December 31:

	2011	2010
US Treasury Bill 01/20/11	N/A	$ 1,999,960
American Growth Fund of America 5	$ 1,776,988	$ 2,522,192
Columbia Marsico Growth Fund Class Z	$ 1,794,620	$ 2,549,821
US Treasury Bill 02/2/12	$ 1,499,985	N/A

NOTE 5: FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 820 establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 Inputs to the valuation methodology include the following:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in inactive markets
- Inputs other than quoted prices that are observable for the asset or liability
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

NOTE 5: FAIR VALUE MEASUREMENTS (Continued)

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2011 and 2010:

The fair values of mutual funds are determined based on the quoted net asset values of shares held by the Plan at year end.

The fair values of common stock are determined based on closing prices reported on the active market in which the individual securities are traded.

The fair values of foreign company stock are determined based on an evaluation of various market factors.

The fair values of domestic corporate debt obligations and foreign corporate debt obligations are determined based on yields currently available on comparable securities of issuers with similar credit ratings and other various market and industry inputs.

The fair values of government debt obligations and foreign government debt obligations are determined based on various market and industry inputs.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management of the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair values of the Plan's assets measured on a recurring basis at December 31, are as follows:

	Fair Value	Level 1	Level 2	Level 3
December 31, 2011				
Money market mutual fund	$ 343,284	$ 343,284	$ -	$ -
Mutual funds:				
Advantage equity funds	1,776,988	1,776,988		
Small cap equity funds	922,248	922,248	-	-
Mid cap equity funds	1,867,443	1,867,443	-	-
Large cap equity funds	4,138,325	4,138,325	-	-
International equity funds	564,534	564,534	-	-
Total mutual funds	9,269,538	9,269,538	-	-

(Continued)

NOTE 5: FAIR VALUE MEASUREMENTS (Continued)

	Fair Value	Level 1	Level 2	Level 3
December 31, 2011 *(Continued)*				
Common stock:				
Consumer discretionary	$ 350,307	$ 350,307	$ -	$ -
Energy	1,481,327	1,481,327	-	-
Financials	807,313	807,313	-	-
Healthcare	1,366,597	1,366,597	-	-
Industrials	502,187	502,187	-	-
Information technology	25,807	25,807	-	-
Materials	1,036,416	1,036,416	-	-
Total common stock	5,569,954	5,569,954	-	-
Foreign company stock:				
Energy	879,160	-	879,160	-
Financials	810,656	-	810,656	-
Healthcare	367,449	-	367,449	-
Industrials	253,846	-	253,846	-
Information technology	446,984	-	446,984	-
Materials	1,030,692	-	1,030,692	-
Total foreign company stock	3,788,787	-	3,788,787	-
Corporate debt obligations:				
Credit rating A+ to A-	561,817	-	561,817	-
Credit rating BB+ to BB-	248,250	-	248,250	-
Credit rating BBB+ to BBB-	1,387,291	-	1,387,291	-
Not rated	428,196	-	428,196	-
Total corporate debt obligations	2,625,554	-	2,625,554	-
Foreign corporate debt obligations:				
Credit rating BB+	71,863	-	71,863	-
Credit rating BBB-	378,990	-	378,990	-
Not rated	156,575	-	156,575	-
Total foreign corporate debt obligations	607,428	-	607,428	-
Government debt obligations:				
U.S. government securities	2,749,759	-	2,749,759	-
Municipal securities	237,455	-	237,455	-
Total government debt obligations	2,987,214	-	2,987,214	-
	$ 25,191,759	$ 15,182,776	$ 10,008,983	$ -

NOTE 5: FAIR VALUE MEASUREMENTS (Continued)

	Fair Value	Level 1	Level 2	Level 3
December 31, 2010				
Money market mutual fund	$ 267,422	$ 267,422	$ -	$ -
Mutual funds:				
Advantage equity funds	2,522,191	2,522,191	-	-
Mid cap equity funds	2,342,259	2,342,259	-	-
Large cap equity funds	2,549,821	2,549,821	-	-
International equity funds	535,102	535,102	-	-
Total mutual funds	7,949,373	7,949,373	-	-
Common stock:				
Consumer discretionary	224,371	224,371	-	-
Energy	1,360,323	1,360,323	-	-
Financials	963,064	963,064	-	-
Healthcare	1,107,666	1,107,666	-	-
Industrials	455,094	455,094	-	-
Information technology	47,855	47,855	-	-
Materials	1,499,797	1,499,797	-	-
Total common stock	5,658,170	5,658,170	-	-
Foreign company stock:				
Energy	682,263	-	682,263	-
Financials	769,973	-	769,973	-
Healthcare	408,433	-	408,433	-
Industrials	234,405	-	234,405	-
Information technology	423,450	-	423,450	-
Materials	1,515,897	-	1,515,897	-
Total foreign company stock	4,034,421	-	4,034,421	-
Corporate debt obligations:				
Credit rating A to A-	431,488	-	431,488	-
Credit rating BBB+ to BBB-	1,608,040	-	1,608,040	-
Credit Rating BB	140,938	-	140,938	-
Not rated	129,639	-	129,639	-
Total corporate debt obligations	2,310,105	-	2,310,105	-
Foreign corporate debt obligations:				
Credit rating A-	160,046	-	160,046	-
Credit rating BBB to BBB-	410,119	-	410,119	-
Total foreign corporate debt obligations	570,165	-	570,165	-

(Continued)

NOTE 5: FAIR VALUE MEASUREMENTS (Continued)

	Fair Value	Level 1	Level 2	Level 3
December 31, 2010 ***(Continued)***				
Government debt obligations:				
U.S. government securities	$ 1,999,960	$ -	$ 1,999,960	$ -
Municipal securities	376,953	-	376,953	-
Total government debt obligations	2,376,913	-	2,376,913	-
Foreign government debt obligations	299,533	-	299,533	-
	$ 23,466,102	$ 13,874,965	$ 9,591,137	$ -

NOTE 6: FUNDING POLICY

The Employer's funding policy is to make annual contributions to the Plan in amounts that are estimated by the actuary using the "frozen initial liability method." Employees make no contributions to the Plan. The Plan is subject to the minimum funding requirements of ERISA. The minimum contribution required for the year ended December 31, 2011 was $2,230,398; however, the Plan Sponsor chose to contribute $3,133,122.

NOTE 7: PLAN TERMINATION

Although it has not expressed any intention to do so, the Employer has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions set forth in ERISA. In the event the Employer chooses to terminate the Plan, the rights of employees participating in the Plan to benefits accrued as of the date of termination become nonforfeitable to the extent funded as of the date of termination and to the extent required under the Internal Revenue Code. The assets of the Plan will be allocated to provide pension benefits to the extent that such benefits are not already being provided through insurance or annuity contracts. Prior to any such termination, the Plan will be formally amended to provide specifically for the allocation of assets of the Plan. Any Plan assets remaining after satisfaction of all liabilities will be returned to the Employer.

Certain benefits under the Plan are insured by the Pension Benefit Guaranty Corporation (PBGC) if the Plan terminates. Generally, the PBGC guarantees most vested normal age retirement benefits, early retirement benefits and survivor benefits. However, PBGC does not guarantee all types of benefits under the Plan, and the amount of benefit protection is subject to certain limitations. Vested benefits under the Plan are guaranteed at the level in effect on the date of the Plan's termination. However, there is a statutory ceiling, which is adjusted periodically, on the amount of an individual's monthly benefit that the PBGC guarantees. For plans terminating in 2011, employees who retire at age 65 can receive up to $4,500 a month ($54,000 a year). The guarantee is lower for those who retire early or when there is a benefit for a survivor. The guarantee is increased for those who retire after age 65.

NOTE 7: PLAN TERMINATION (Continued)

Whether all eligible employees receive their benefits should the Plan terminate at some future time will depend on the sufficiency, at that time, of the Plan's net assets, the financial condition of the Plan Sponsor and the level of benefits guaranteed by the PBGC.

NOTE 8: TAX STATUS

The Internal Revenue Service has determined and informed the Employer in a letter dated August 20, 2009, that the Plan and related trust are designed in accordance with applicable sections of the Internal Revenue Code.

Accounting standards require the Plan Sponsor to evaluate tax positions taken by the Plan and recognize a tax liability (or asset) if the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. The Plan Sponsor has analyzed the tax positions taken by the Plan and has concluded that as of December 31, 2011 and 2010, there are no uncertain positions taken or expected to be taken that would require the recognition of a liability (or asset) or disclosure in the financial statements. The Plan may be subject to audit by the Internal Revenue Service; however there are currently no audits for any tax periods in progress. The Plan Sponsor believes that as of December 31, 2011, the Plan is no longer subject to income tax examinations for years prior to 2008.

NOTE 9: RISKS AND UNCERTAINTIES

The Plan's investments are exposed to various risks such as interest rate, market and credit risks. There are certain additional risks involved when investing in foreign securities that are not present with investments in domestic securities. These risks may involve foreign currency exchange rate fluctuations, adverse political and economic developments and the possible prevention of currency exchange due to foreign governmental laws or restrictions. In addition, the liquidity of foreign securities may be more limited than that of domestic securities. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the Statements of Net Assets Available for Benefits.

Plan contributions are made and the actuarial present value of accumulated plan benefits is calculated based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in these estimates and assumptions, it is at least reasonably possible that changes in these estimates and assumptions in the near term could occur and might be material to the Plan's financial statements.

NOTE 10: SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 28, 2012, the date the financial statements were available to be issued.

Supplemental Schedules

Southwest Power Pool, Inc.
Retirement Plan

SCHEDULE H, LINE 4i – SCHEDULE OF ASSETS (HELD AT END OF YEAR)
December 31, 2011

Plan Name: Southwest Power Pool, Inc. Retirement Plan — Plan Number: 001

Plan Sponsor: Southwest Power Pool, Inc. — EIN: 71-0748158

(a)	(b) Identity of issue, borrower, lessor, or similar party	(c) Description of investment including maturity date, rate of interest, collateral, par, or maturity value	(d) Cost	(e) Current Value
	Federated Treasury Obligation Fund Issue #68	Money market mutual fund	$ 343,284	$ 343,284
	Total Money Market Mutual Fund		$ 343,284	$ 343,284
	Artisan International Fund	14,290 units, mutual funds	$ 354,799	$ 283,379
	Columbia Acorn Fund Class Z	33,831 units, mutual funds	942,118	932,374
	Columbia Marsico Growth Fund Class Z	88,015 units, mutual funds	1,657,468	1,794,620
	American Europacific Growth	8,012 units, mutual funds	333,509	281,155
	American Growth Fund of America 5	61,959 units, mutual funds	1,837,882	1,776,988
	Harbor Capital Appreciation Institutional Class	31,541 units, mutual funds	1,196,344	1,163,882
	The Jensen Portfolio Income Class I	44,488 units, mutual funds	1,226,944	1,179,823
	Rainier Small/Mid Cap Equity	28,595 units, mutual funds	979,804	935,069
	Wasatch Small Cap Growth Fund	24,392 units, mutual funds	983,667	922,248
	Total Mutual Funds		$ 9,512,535	$ 9,269,538
	Alcoa Inc.	9,300 shares, common stock	$ 173,775	$ 80,445
	Berkshire Hathaway Inc.	4,000 shares, common stock	288,279	305,200
	Chevron Corporation	2,100 shares, common stock	148,710	223,440
	ConocoPhillips	10,008 shares, common stock	512,749	729,283
	Devon Energy Corporation	2,200 shares, common stock	178,016	136,400
	Dow Chemical Co.	11,800 shares, common stock	253,767	339,368
	Exelis Inc.	11,000 shares, common stock	100,657	99,550
	Ford Motor Company	4,400 shares, common stock	57,772	47,344
	Forestar Group Inc.	14,700 shares, common stock	296,106	222,411
	Gannett Inc.	9,200 shares, common stock	104,748	123,004
	Goodyear Tire & Rubber Co.	12,700 shares, common stock	195,959	179,959
	Leucadia National Corp.	12,300 shares, common stock	305,593	279,702
	Eli Lilly & Co.	7,500 shares, common stock	284,475	311,700
	MEMC Electronic Materials Inc.	6,550 shares, common stock	73,287	25,807
	Merck & Co.	11,450 shares, common stock	358,876	431,665
	Newmont Mining Corp.	10,275 shares, common stock	449,065	616,603
	Overseas Shipholding Group Inc.	22,000 shares, common stock	595,780	240,460
	Permian Basin Royalty Trust	5,200 shares, common stock	103,996	105,924
	Pfizer Inc.	28,800 shares, common stock	608,706	623,232
	Raytheon Company	2,400 shares, common stock	90,624	116,112
	Tecumseh Products Co.	9,801 shares, common stock	185,054	46,065
	Valero Energy Corp.	13,600 shares, common stock	259,123	286,280
	Total Common Stock		$ 5,625,117	$ 5,569,954

(Continued)

Southwest Power Pool, Inc.
Retirement Plan

SCHEDULE H, LINE 4i – SCHEDULE OF ASSETS (HELD AT END OF YEAR) *(Continued)*
December 31, 2011

Plan Name: Southwest Power Pool, Inc. Retirement Plan — Plan Number: 001

Plan Sponsor: Southwest Power Pool, Inc. — EIN: 71-0748158

(a)	(b) Identity of issue, borrower, lessor, or similar party	(c) Description of investment including maturity date, rate of interest, collateral, par, or maturity value	(d) Cost	(e) Current Value
	Fibrek Inc.	17,380 shares, common stock	$ 65,807	$ 17,239
	Seagate Technology	22,200 shares, common stock	172,653	364,080
	Tsakos Energy Navigation Ltd.	8,720 shares, common stock	81,794	41,682
	Transocean Ltd.	5,400 shares, common stock	304,385	207,306
	General Maritime Corporation	25,100 shares, common stock	90,520	364
	Barrick Gold Corp.	2,000 shares, common stock	91,781	90,500
	Canadian Pacific Railway Ltd.	3,000 shares, common stock	94,467	203,010
	Cenovus Energy Inc.	6,450 shares, common stock	156,509	214,140
	Encana Corp.	6,450 shares, common stock	166,190	119,519
	Farifax Financial Holdings Ltd.	1,880 shares, common stock	261,116	810,656
	Inmet Mining Corporation	4,400 shares, common stock	213,165	282,656
	Phillips Electronics	6,900 shares, common stock	122,317	144,555
	Mfc Industrial Ltd.	7,200 shares, common stock	55,717	50,472
	Nokia Corp.	17,200 shares, common stock	143,404	82,904
	Precision Drilling Trust	28,900 shares, common stock	181,048	296,514
	Sanofi Aventis ADR	6,100 shares, common stock	160,347	222,894
	Teck Resources Ltd.	16,000 shares, common stock	414,987	563,040
	Thompson Creek Metals Co. Inc.	11,100 shares, common stock	115,209	77,256
	Total Foreign Company Stock		$ 2,891,416	$ 3,788,787
	Alcoa Inc.	$100,000 note, 6%, July 15, 2013 maturity	$ 87,271	$ 106,389
	Amgen Inc.	$100,000 note, 2.3%, June 15, 2016 maturity	99,800	100,683
	Bj Services	$100,000 note, 6%, June 1, 2018 maturity	93,230	119,798
	Bunge Ltd Fin Corp.	$200,000 note, 5.1%, July 15, 2015 maturity	215,500	209,334
	Bunge Na Fin	$100,000 note, 5.9%, April 1, 2017 maturity	83,050	109,204
	CSX Corp.	$100,000 note, 6.3%, March 15, 2012 maturity	99,250	100,997
	Cargill Inc.	$130,000 note, 5.6%, September 15, 2012 maturity	137,501	133,930
	Cargill Inc. Mountain	$100,000 note, 5.2%, January 22, 2013 maturity	97,135	104,421
	Chesapeake Energy	$125,000 note, 9.5%, February 15, 2015 maturity	141,563	143,125
	Chevron Phillips	$100,000 note, 7%, June 15, 2014 maturity	99,165	111,597
	Dow Chem Co.	$100,000 note, 6.85%, August 15, 2013 maturity	91,250	108,027
	Eog Resources Inc.	$100,000 note, 2.5%, February 1, 2016 maturity	98,426	102,985
	Federal Express Corp.	$98,534.11 note, 7.11%, January 2, 2014 maturity	94,593	103,953
	Freeport McMoran	$200,000 note, 8.375%, April 1, 2017 maturity	218,616	212,500
	JB Hunt Trasport	$100,000 note, 3.375%, September 15, 2015 maturity	100,248	101,342
	Leucadia National	$100,000 note, 8.125%, September 15, 2015 maturity	110,750	105,125
	Monongahela Power	$200,000 note, 7.95%, December 15, 2013 maturity	236,142	223,630
	Murphy Oil Corp.	$85,000 note, 6.375%, May 1, 2012 maturity	80,624	86,321
	Valero Energy Corp	$200,000 note, 4.75%, April 1, 2014 maturity	213,958	212,818
	Wm Wrigley Jr. Co.	$125,000 note, 4.65%. July 15, 2015 maturity	107,438	129,375
	Total Corporate Debt Obligations		$ 2,505,510	$ 2,625,554

(Continued)

Southwest Power Pool, Inc.
Retirement Plan

SCHEDULE H, LINE 4i – SCHEDULE OF ASSETS (HELD AT END OF YEAR) *(Continued)*
December 31, 2011

Plan Name: Southwest Power Pool, Inc. Retirement Plan — Plan Number: 001

Plan Sponsor: Southwest Power Pool, Inc. — EIN: 71-0748158

(a)	(b) Identity of issue, borrower, lessor, or similar party	(c) Description of investment including maturity date, rate of interest, collateral, par, or maturity value	(d) Cost	(e) Current Value
	Arcelormittal	$65,000 note, 9%, February 15, 2015 maturity	$ 71,988	$ 71,863
	Phillips Electron	$150,000 note, 4.625%, March 11, 2013 maturity	158,796	156,575
	Transocean Inc.	$170,000 note, 5.25%, March 15, 2013 maturity	175,666	174,760
	Transocean Inc.	$200,000 note, 4.95%, November 15, 2015 maturity	207,250	204,230
	Total Foreign Corporate Debt Obligations		$ 613,700	$ 607,428
	State of Maine	$105,000 general obligation bonds, 5.50%, June 1, 2012 maturity	$ 106,478	$ 107,323
	State of Michigan	$125,000 general obligation bonds, 4.160%, May 1, 2013 maturity	126,464	130,133
	US Treasury	$1,500,000 note, February 2, 2012 maturity	1,499,393	1,499,985
	US Treasury	$1,000,000 note, May 31, 2012 maturity	999,774	999,830
	US Treasury	$250,000 note, June 14, 2012 maturity	249,943	249,943
	Total Government Debt Obligations		$ 2,982,052	$ 2,987,214
	Cash	Cash	$ 2,538	$ 2,538
	Total Cash		$ 2,538	$ 2,538

Southwest Power Pool, Inc.
Retirement Plan

SCHEDULE H, LINE 4j – SCHEDULE OF REPORTABLE TRANSACTIONS
Year Ended December 31, 2011

Plan Name: Southwest Power Pool, Inc. Retirement Plan — Plan Number: 001

Plan Sponsor: Southwest Power Pool, Inc. — EIN: 71-0748158

(a) Identity of party involved	(b) Description of Assets (include interest rate and maturity in case of a loan)	(c) Purchase Price	(d) Selling Price	(e) Lease Rental	(f) Expense Incurred with Transaction	(g) Cost of Asset	(h) Current Value of Asset on Transaction Date	(i) Net Gain or (Loss)
Federated Funds	Federated Treasury Obligation Fund	$ 5,243,498	$ -	$ -	$ -	$ 5,243,498	$ 5,243,498	$ -
Federated Funds	Federated Treasury Obligation Fund	$ -	$ 4,900,212	$ -	$ -	$ 4,900,212	$ 4,900,212	$ -
First American Funds	First American Prime Obligation Fund Class I	$ 4,801,391	$ -	$ -	$ -	$ 4,801,391	$ 4,801,391	$ -
First American Funds	First American Prime Obligation Fund Class I	$ -	$ 5,068,813	$ -	$ -	$ 5,068,813	$ 5,068,813	$ -
Harbor Funds	Harbor Capital Appreciation Fund	$ 1,196,344	$ -	$ -	$ -	$ 1,196,344	$ 1,196,344	$ -
Jensen Fund	The Jensen Portfolio Income Class I	$ 1,226,944	$ -	$ -	$ -	$ 1,226,944	$ 1,226,944	$ -
US Treasury	US Treasury Bill, January 1, 2011 maturity	$ -	$ 1,998,129	$ -	$ -	$ 1,998,129	$ 1,998,129	$ -
US Treasury	US Treasury Bill, August 4, 2011 maturity	$ 1,998,368	$ -	$ -	$ -	$ 1,998,368	$ 1,998,368	$ -
US Treasury	US Treasury Bill, August 4, 2011 maturity	$ -	$ 1,998,368	$ -	$ -	$ 1,998,368	$ 1,998,368	$ -
US Treasury	US Treasury Bill, February 2, 2012 maturity	$ 1,499,393	$ -	$ -	$ -	$ 1,499,393	$ 1,499,393	$ -

Southwest Power Pool
Medical Plan

FINANCIAL STATEMENTS
As of December 31, 2011 and 2010
for the Year Ended December 31, 2011

(With Independent Auditors' Report Thereon)

Thomas & Thomas LLP

Certified Public Accountants

Southwest Power Pool
Medical Plan

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INDEPENDENT AUDITORS' REPORT

Members of the Finance Committee
Southwest Power Pool, Inc. (Plan Administrator for
the Southwest Power Pool Medical Plan)
Little Rock, Arkansas

We have audited the accompanying statements of net assets available for benefits and benefit obligations of **Southwest Power Pool Medical Plan** (the Plan) as of December 31, 2011 and 2010, and the related statement of changes in net assets available for benefits and benefit obligations for the year ended December 31 2011. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. Accordingly, we express no such opinion. An audits also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of **Southwest Power Pool Medical Plan** as of December 31, 2011 and 2010, and the changes in its financial status for the year ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. Schedule H, Line 4i – Schedule of Assets Held (At Year End) is presented for the purpose of additional analysis and is not a required part of the financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. Such information is the responsibility of the Plan's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Thomas & Thomas LLP
Certified Public Accountants

October 2, 2012
Little Rock, Arkansas

Financial Statements

Southwest Power Pool
Medical Plan

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS AND BENEFIT OBLIGATIONS
December 31, 2011 and 2010

	2011	2010
ASSETS		
Cash	$ 51,557	$ 43,925
Money market mutual fund	10,112	-
Refunds and stop loss receivables	19,278	-
Total Assets	80,947	43,925
LIABILITIES	-	-
NET ASSETS AVAILABLE FOR BENEFITS	80,947	43,925
BENEFIT OBLIGATIONS		
Claims payable and claims incurred but not reported	338,364	149,055
EXCESS OF BENEFIT OBLIGATIONS OVER NET ASSETS AVAILABLE FOR BENEFITS	$ (257,417)	$ (105,130)

See accompanying notes to financial statements.

Southwest Power Pool
Medical Plan

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
AND BENEFIT OBLIGATIONS
Year Ended December 31, 2011

NET INCREASE IN NET ASSETS AVAILABLE FOR BENEFITS	
Additions	
Contributions:	
Employer contributions	$ 2,736,286
Employee contributions	782,207
Total Additions	3,518,493
Deductions	
Medical claims paid	2,830,744
Insurance premiums	431,396
Administrative and other expenses	219,331
Total Deductions	3,481,471
Net Increase in Net Assets Available for Benefits	37,022
NET INCREASE IN BENEFIT OBLIGATIONS	
Increase during the year attributable to:	
Claims payable and claims incurred but not reported	189,309
Net Increase in Excess of Benefit Obligations over Net Assets Available for Benefits	152,287
EXCESS OF BENEFIT OBLIGATIONS OVER NET ASSETS AVAILABLE FOR BENEFITS	
Beginning of Year	105,130
End of Year	$ 257,417

See accompanying notes to financial statements.

Southwest Power Pool
Medical Plan

NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 1: DESCRIPTION OF PLAN

The following brief description of the Southwest Power Pool Medical Plan (the Plan) provides only general information. Participants should refer to the Plan agreement for a complete description of the Plan's provisions.

(a) General

The Plan is a defined benefit health and welfare plan covering substantially all full-time employees of Southwest Power Pool, Inc. (the Employer, Plan Sponsor and Plan Administrator) who have met eligibility requirements as defined in the Plan. The Plan provides health benefits, including hospital, surgical, major medical and prescription drug benefits to full-time employees and certain terminated employees of the Plan Sponsor and their covered dependents, subject to eligibility requirements specified in the Plan agreement.

Prior to January 1, 2010, health benefits for eligible employees and their covered dependents were provided under a fully-insured group insurance arrangement with UnitedHealthCare Insurance Company (UHC). Under that contract, the Plan had no obligation for covered benefits and was only obligated to pay premiums. Effective January 1, 2010, the Plan Sponsor elected to modify the insurance arrangement to apportion risk between the Plan and UHC. The cost of health benefits is shared between the Employer and employees, up to certain limits, as described in Notes 1(b) and 1(c) below.

A trust was created under the Plan to segregate from the assets of the Plan Sponsor employee salary deferrals withheld to cover a portion of the cost of claims and other Plan expenses. The trustee is U.S. Bank National Association. The Plan and the related trust are subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended.

As permitted by the Plan agreement, the Plan Administrator has executed a contract with a third-party administrator to provide certain administrative services, including underwriting enrollment applications, maintaining current Plan census data, billing, processing claims for payment, filing stop loss policy claims and providing the Plan Sponsor with any other information deemed necessary. UHC served as the third-party administrator to the Plan during 2011 and 2010. Although health claims are processed by the third-party administrator, the responsibility for payment of claims is retained by the Plan Sponsor.

(b) Benefits

The Plan is responsible for all eligible medical and prescription drug claims up to $75,000 for each eligible participant. Specific claims in excess of $75,000 are covered under an excess loss insurance policy with UHC. In addition, the Plan is responsible for claims in the aggregate up to a variable amount calculated in accordance with the terms of the excess loss insurance policy. Aggregate claims in excess of the calculated amount are covered by UHC, subject to a maximum annual benefit of $1,000,000. Claims paid during the year ended December 31, 2011, are net of stop loss policy reimbursements totaling $185,878.

Southwest Power Pool
Medical Plan

NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 1: DESCRIPTION OF PLAN (Continued)

(c) Contributions
The cost of funding the Plan is shared between the Employer and employees participating in the Plan. Employer and employee contribution rates are determined based on insurance premiums, administrative fees and anticipated cost of claims.

(d) Plan Expenses
The Employer contributes to the Plan amounts necessary to cover administrative service fees and insurance premiums, which are both paid to UHC.

The Employer has executed an agreement with Stephens Insurance Services Inc. for consulting and administrative services related to the Plan. Fees for these services are paid directly by the Employer and are not recorded as expenses in the Plan's financial statements. These expenses totaled $30,000 for the year ended December 31, 2011.

Certain duties related to administration of the Plan are performed by personnel of the Employer; however, the Employer does not charge the Plan for the estimated cost of such services. Other expenses paid by the Employer on behalf of the Plan totaled approximately $15,000 for the year ended December 31, 2011.

(e) Plan Termination
Although it has not expressed any intention to do so, the Employer has the right under the Plan to modify benefits provided under the Plan, to discontinue its contributions at any time and to terminate the Plan subject to the provisions set forth in ERISA.

In the event of termination of the Plan, assets held in the trust established under the Plan must be used to satisfy liabilities of the Plan, which may include payment of claims, insurance premiums and administrative expenses. Any remaining assets must be used to provide benefits to participants and may not revert to the Employer.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting
The financial statements of the Plan have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

(b) Cash
Cash consists of a demand deposit account maintained at a financial institution for the payment of Plan benefits. This account was established pursuant to the terms of the Administrative Services Agreement with UHC and is subject to minimum balance requirements equal to six days of expected claims activity. The minimum balance requirement is calculated by UHC and is subject to change.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Cash *(Continued)*

The cash balance may fall below or increase above the minimum balance requirement at various times throughout the year; however, the account must be replenished to the minimum balance requirement as directed by UHC. At December 31, 2011 and 2010, the minimum balance requirement was $68,000 and $61,000, respectively.

(c) Money Market Mutual Fund

The Plan's money market mutual fund is reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly fashion between market participants at the measurement date. The fair value of the money market mutual fund is determined based on the published net asset value of the fund and the number of shares held by the Plan at the financial reporting date.

The fair value measurement accounting standards establish a framework for measuring fair value and require certain disclosures about the determination of fair value amounts. The Plan's money market mutual fund is valued on a recurring basis using "level 1" pricing inputs, which are unadjusted quoted prices for identical assets or liabilities in active markets. The Plan does not invest in any assets measured using "level 2" or "level 3" pricing inputs.

This investment represents 12% of net assets available for benefits at December 31, 2011.

(d) Benefit Obligations

The Plan's benefit obligations include unpaid claims incurred and reported prior to year end, as well as an estimate of claims incurred prior to year end, but not reported as of year end. Management's estimate of claims incurred but not reported is based on an analysis of historical claims experience and actual claims paid subsequent to year end.

The Plan provides that, to be considered for payment, claims must be incurred within the Plan year and reported not later than twelve months after year end.

(e) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Plan Administrator to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

NOTE 3: INCOME TAX STATUS

The trust established under the Plan to hold the Plan's assets has not received an exemption letter from the Internal Revenue Service stating that the trust is tax exempt under Section 501(c)(9) of the Internal Revenue Code (IRC) as a Voluntary Employee Beneficiary Association, and is, therefore, a taxable trust.

NOTE 3: INCOME TAX STATUS (Continued)

As an employee welfare benefit plan, the Plan and trust are required to operate in conformity with the IRC and ERISA. The Plan Administrator believes the Plan and trust are operating in conformity with the IRC and ERISA.

Accounting standards require the Plan Administrator to evaluate tax positions taken by the Plan and recognize a tax liability (or asset) if the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. The Plan Administrator has analyzed the tax positions taken by the Plan and has concluded that as of December 31, 2011 and 2010, there are no uncertain positions taken or expected to be taken that would require the recognition of a liability (or asset) or disclosure in the financial statements. The Plan may be subject to audit by the Internal Revenue Service (IRS); however there are currently no audits for any tax periods in progress. The 2011 and 2010 years are open for income tax examination by the IRS.

NOTE 4: RECONCILIATION OF FINANCIAL STATEMENTS TO FORM 5500

The following is a reconciliation of net assets available for benefits per the December 31, 2011 and 2010 financial statements to the respective Form 5500:

	2011	2010
Net assets available for benefits per the financial statements	$ 80,947	$ 43,925
Less claims payable and claims incurred but not reported	338,364	149,055
Net assets available for benefits per the Form 5500	$ (257,417)	$ (105,130)

The following is a reconciliation of medical claims paid per the December 31, 2011 financial statements to the Form 5500:

Medical claims paid per the financial statements	$ 2,830,744
Less: Claims payable and claims incurred but not reported at December 31, 2010	(149,055)
Add: Claims payable and claims incurred but not reported at December 31, 2011	338,364
Medical claim benefits per the Form 5500	$ 3,020,053

NOTE 5: SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 2, 2012, the date the financial statements were available to be issued.

Supplementary Information

Southwest Power Pool
Medical Plan

SCHEDULE H, LINE 4I - SCHEDULE OF ASSETS (HELD AT END OF YEAR)
December 31, 2011

Plan Name: Southwest Power Pool Medical Plan — Plan Number: 701

Plan Sponsor: Southwest Power Pool, Inc. — EIN: 71-0748158

(a)	(b) Identity of issue, borrower, lessor, or similar party	(c) Description of investment including maturity date, rate of interest, collateral, par, or maturity value	(d) Cost	(e) Current Value
	First American Prime Obligation Fund	Money market mutual fund	$ 10,112	$ 10,112

SPP Southwest Power Pool

Memorandum

To: **Tom Dunn**

From: **Scott Smith**

CC: **Phil McCraw**

Date: **11/30/2012**

Re: **Credit Practices Working Group Policy Activities**

In 2012, the Credit Practices Working Group (CPWG) approved the following two tariff/policy changes. I expect there will be more changes made in 2013, as compared to 2012, due to the Marketplace tariff clean-up efforts and additional compliance filings.

- June 7, 2012 – CPWG approved staff's recommendation to become Central Counterparty for various Integrated Marketplace transactions. Further to this action, the recommendation was approved by the Finance Committee and subsequent language was developed and approved through Regional Tariff Working Group (RTWG) and Markets and Operations Policy Committee (MOPC). The associated FERC compliance filing will be made before year end 2012.

- September 20, 2012 – CPWG approved changes to Appendix E of the credit policy. The appendix, commonly known as the Annual Risk Management Certification Form, originated from FERC Order 741's directive on minimum criteria of market participation. The changes were requested so SPP would be more consistent with the other RTO/ISO's certification form formats. The form is no longer an answer format but will be an attestation from an Officer of each market participant's risk management capabilities. RTWG has approved the language and the appendix will be included in the MOPC consent agenda.

SPP Business Process Improvement Status Report

4Q2012

Page

December 10, 2012

SPP Southwest Power Pool

A) BPI Implementation Scorecard for 2012

Status Report – Executive Summary – December 10, 2012

BPI Initiative	Status	Description
1) Track 2012 BPI Initiatives In 2012-2014 Budget	Completed	Report implementation progress Quarterly to the Finance Committee. Implementation benefits are measured against observable, previously agreed upon benchmark measurements. (See pp. 2-5.)
2) Develop BPI Tracking Conventions and review with Finance Comm.	Completed	Tracking Conventions reviewed with Finance Committee in July. (See Appendix B)
3) Proactively Identify Additional BPI Initiatives to Track	Completed	Collaborate with SPP Business Units throughout the year to identify additional BPI or cost reduction initiatives. Add those impacting 2012 to the Tracking Report. Add longer term initiatives to BPI/Cost Avoidance Embedded in 2013-2015 Budget report. Four added since 2012 Budget was submitted. (See pp. 2-5.)
4) BPI Methodology Selection & Implementation	Completed	Implementing the Lean Business Thinking approach to continuous process improvement. This methodology matches very well with SPP culture – empowering those doing the work to make improvements.
5) Implement Initial BPI Pilot Programs	Ahead of Expectations	In 2012, identify 3-5 BPI Pilot programs – form BPI teams, train the team, facilitate BPI design, manage implementation and manage to results. Over time, BPI initiatives will drive proactive SPP-wide process improvement/cost reductions. (Lean pilot project work is ahead of initial expectations).
BPI Scorecard Objectives beyond 2012		
6) Design SPP Strategic BPI Implementation - Extend Pilot to all Business Units	**2013**	To ensure long term success, each SPP line organization must “own” their BPI strategy. SPP-wide BPI Goals and Objectives must be integrated into the Goals and Objectives of the line organization. Develop a plan for program integration.
7) SPP-wide BPI Implementation	**2014-2015**	SPP-wide implementation of BPI methodologies across all Departments involving all employees. Implementation of Lean includes methodology training programs and line organizations will have Lean Facilitators on staff. The BPI Department will mentor the embedded facilitators.

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

Executive Summary

From 2012-2014 Budget, in $000	2012	2013	2014
Operations Staffing Cost Reductions	$ 653	$ 1,633	$ 1,706
Operations Non-Staffing Cost Avoidance	$ 755	$ 843	$ 936
Capital Non Staffing Cost Avoidance	$ 5,040	$ 4,228	$ 3,946
Total	$ 6,448	$ 6,704	$ 6,588
Actual/Forecast thru Nov. 2012, in $000			
Operations Staffing Cost Reductions	$ 471	$ 983	$ 1,223
Operations Non-Staffing Cost Avoidance	$ 1,085	$ 1,118	$ 1,211
Capital Non Staffing Cost Avoidance	$ 6,876	$ 5,938	$ 4,924
Total	$ 8,432	$ 8,039	$ 7,358
Actual/Forecast Variance to Budget, in $000			
Total -- Positive/(Negative)	$ 1,984	$ 1,335	$ 770

Explanation of Variances

- **OATI vendor delays in delivering Operations Automation will push implementation from mid-2012 into 1Q2013. Project cost and projected benefits delayed to 2013. In addition, a more detailed staffing analysis shows that 3.0 FTE of the original 8.0 FTE staffing decrease in 2014 will come from lower Ops Desk transaction volumes and should not be reported as Operations Automation improvement benefits (Lower volumes due to new Integrated Marketplace system automation).**

- **Slight positive variances to budget in In-House TSA Legal, FERC 205 Legal process improvement, and purchasing negotiations. As the detail server requirements for supporting the Integrated Marketplace reach implementation, our server requirements have increased materially since our budget estimate in July, 2011 for 2012. The virtualization strategy will allow us to meet the increased hardware requirements with $1.3 million less cost than with physical servers.**

- **Four new cost reductions initiatives were identified since the budget (In-sourcing Leadership training, an Oracle Unlimited License Agreement – ULA, In-house support of Tariff revisions to avoid Legal Fees, and Desktop Virtualization). The major impact of the ULA is a capital savings of $1.4 million in 2013 and $300K in 2014.**

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

Savings expressed in $ 000's	Identified in 2012 Budget			Current Actual/Projections (Actuals thru October)		
	2012	**2013**	**2014**	**2012**	**2013**	**2014**
Operations Staffing Cost Reductions						
Settlements Process Improvements	$ 233	$ 360	$ 395	$ 287	$ 456	$ 494
Compliance Process Improv/Alignment	$ 277	$ 286	$ 294	$ 184	$ 190	$ 195
Operations Automation - Tariff Adm/Int	$ 143	$ 987	$ 1,017	$ -	$ 337	$ 534
Total	$ 653	$ 1,633	$ 1,706	$ 471	$ 983	$ 1,223
Operations -- Non-Staffing Cost Reductions						
In-House Support for Tariff Service Agreement Filings	$ 517	$ 605	$ 698	$ 577	$ 605	$ 698
FERC Section 205 Filing Process Change -- Avoids Outside Legal Fees	$ 99	$ 99	$ 99	$ 121	$ 126	$ 126
SPPNet Monitoring In-house	$ 139	$ 139	$ 139	$ 139	$ 139	$ 139
In-Sourcing Leadership Training ***New!***				$ 37	$ 37	$ 37
In-House Tariff Revisions e-Tariff ***New!***				$ 211	$ 211	$ 211
Total	$ 755	$ 843	$ 936	$ 1,085	$ 1,118	$ 1,211
Capital -- Non-Staffing Cost Reductions						
Server Virtualization	$ 3,981	$ 3,891	$ 3,609	$ 5,314	$ 4,190	$ 4,284
Oracle Database Licensing (Virtualization)	$ 873	$ 113	$ 113	$ 873	$ 113	$ 113
Unlimited Oracle Database Licensing ***New!***				$ 20	$ 1,387	$ 303
Desktop/Laptop Refresh Cost Reduction	$ 57	$ 57	$ 57	$ 49	$ 57	$ 57
Desktop Virtualization ***New!***				$ 79	$ 24	
Purchasing Bidding and Negotiations	$ 129	$ 129	$ 129	$ 541	$ 129	$ 129
Microsoft Software Usage Rationalization	$ -	$ 38	$ 38	$ -	$ 38	$ 38
Total	$ 5,040	$ 4,228	$ 3,946	$ 6,876	$ 5,938	$ 4,924
Grand Total	$ 6,448	$ 6,704	$ 6,588	$ 8,432	$ 8,039	$ 7,358
Variance to Budget Savings Identified				$ 1,984	$ 1,335	$ 770

2012 Variance explanation on next page

9/14/2012

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

Process Improvement/Cost Reduction Program	From SPP Budget Projections for 2012	Current Forecast for 2012	Variance	Variance Explanation
Operations Staffing Cost Reductions				
Settlements Process Improvements	$ 232,989	$ 287,044	$ 54,055	Staff reassignment from Foundation to support of the Integrated Marketplace has been accelerated.
Compliance Process Improvments & Organizational Alignment	$ 277,234	$ 184,039	(93,195)	Only two of the three positions to be eliminated through improvements/alignment are now feasible.
Operations Automation - Tariff Admin & Interchage Desks	$ 142,635	$ -	(142,635)	Vendor delays (OATI) - Implementation slipped from July 2012 to April 2013. Costs and benefits will be realized starting in 2013.
Total	**$ 652,858**	**$ 471,083**	**($181,775)**	

Process Improvement/Cost Reduction Program	From SPP Budget Projections for 2012	Current Forecast for 2012	Variance	Variance Explanation
Operations Non-Staffing Cost Reductions				
In-House Support for Tariff Service Agreement Filings	$ 517,084	$ 577,130	$ 60,046	Most recent actual/forecast is slightly ahead of the work tranisition planned.
FERC Section 205 Filing Process Change -- Avoids Outside Legal Fees	$ 99,000	$ 120,750	21,750	Two additional Transmission Owners moved to "Formula Rates" which is the category eligilbe for the process change - increases cost avoidance.
SPPNet Monitoring In-house	$ 139,400	$ 139,400	0	Monitoring tool investment allows external contractor to be eliminated with no internal cost increase.
In-Sourcing Leadership Trng ***New!***	$ -	$ 36,529	36,529	**New item** - had not been included in Budget estimates. Eliminate outside consulting.
In-House Tariff Revisions e-Tariff *New!*	$ -	$ 211,421	211,421	**New item** - In-house support of on-line Tariff revision saves $155 per hour vs. outside Legal costs.
Total	**$ 755,484**	**$1,085,230**	**$ 329,746**	

Process Improvement/Cost Reduction Program	From SPP Budget Projections for 2012	Current Forecast for 2012	Variance	Variance Explanation
Capital Non-Staffing Cost Reductions				
Server Virtualization	$ 3,981,344	$5,314,272	$1,332,928	Initial "virtualization" volume estimate was conservative and our actual volume is more than the benchmark driven by Integrated Marketplace detail requirements- higher level of cost avoidance.
Oracle Database Lic. (Virtualization)	$ 873,000	$ 873,000	0	On plan
Unlimited Oracle Database Licensing ***New!***	$ -	$ 19,812	19,812	**New Item** -- Projected volume from Integrated Marketplace makes Unlimited Pricing more attractive than "per DB". Paying 3-year fees in 2012 makes 2012 breakeven - major savings in years 2 & 3 and beyond.
Desktop/Laptop Refresh Cost Reduction	$ 56,604	$ 48,800	(7,804)	Refined Model: Cost avoidance model was based upon 650 machines for employees/training, etc. Actual savings based on 2008 vs. 2009 machine numbers (employee growth) are less than the model.
Desktop Virtualization ***New!***	$ -	$ 78,696	78,696	New item -- Extending virtual concept to desktops - allows lower hardware and S/W licensing cost - longer replacement cycle and lower maintenance costs.
Purchasing Bidding and Negotiations	$ 128,646	$ 540,906	412,260	The current improvements forecast based upon actuals through August and a forecast through the end of the year.
Total	**$ 5,039,594**	**$6,875,486**	**$1,835,892**	
Grand Total	**$ 6,447,936**	**$8,431,799**	**$1,983,863**	

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

Future State Vision:

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

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

BPI Implementation Milestones:

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

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

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

2013 **Expand BPI Pilot programs into all SPP Business Units.**

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

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

Status: All 2012 milestones have been achieved and Pilot program work is being initiated (See December 10, 2012 Finance Committee Business Process Improvement presentation).