**Southwest Power Pool**

**FINANCE COMMITTEE MEETING**

**April 9, 2013**

**Dallas, Texas**

**• Summary of Action Items •**

1. Approved 2012 financial audit report
2. Approved 2013 funding for pension plan ($4,010,000) and post-retirement healthcare plan ($540,000)
3. Approved increase in budget for Integrated Marketplace project to $115 million

**• Schedule of Follow-up Items •**

1. Establish a scorecard for presentation to MOPC, SPC, and BOD indicating costs associated with member required projects/services.
2. Review assumptions for pension and post-retirement healthcare actuarial calculations (discount rate, investment return, compensation growth rate) at either September or December meetings.

**Southwest Power Pool**

**FINANCE COMMITTEE MEETING**

**April 9, 2013**

**Dallas, Texas**

**• M I N U T E S •**

## Agenda Item 1 – Administrative Items

SPP Chair Harry Skilton called the meeting to order at 8:31 a.m. The following members of the Finance Committee were in attendance:

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

Others attending included:

| | |
|---|---|
| Nick Brown | SPP |
| Bruce Cude | SPS |
| Gina Wilson | ITC |
| Keith Conine | BKD, LLC |
| Steve Osborn | Osborn, Carreiro |
| Bruce Rew | SPP |
| Dianne Branch | SPP |
| Scott Smith (phone) | SPP |

## Administrative Items

Minutes from October 11, 2012 and February 19, 2013 meetings were reviewed. Larry Altenbaumer motioned to approve the minutes. The motion was seconded by Kelly Harrison and approved by unanimous voice vote.

SPP staff provided brief updates on the follow-up items referenced in the minutes.

## 2012 Financial Audit Report

SPP staff discussed SPP's 2012 financial results. Keith Conine of BKD, LLC discussed the findings of BKD's audit of SPP's 2012 financial results, focusing on passed adjustments and the management letter comments. Following these discussions, the Committee convened an executive session to meet with BKD without SPP management present.

Following the executive session, Larry Altenbaumer motioned to accept the 2012 financial audit report as presented. The motion was seconded by Kelly Harrison and approved by unanimous voice vote.

## Actuary Report on Pension and Post-retirement Health Plans

Steve Osborn presented the January 1, 2013 actuary reports on both the SPP Retirement Plan and the SPP Post-retirement Healthcare Plan. The SPP Retirement Plan was fully funded on the report date as plan assets exceeded accumulated benefit obligations by over $1.7 million. 2012 contributions were recommended at $4.01 million. The funded status of the plan was adversely impacted by a 75bps reduction in the discount rate versus 2011. SPP staff was asked to compile statistics on discount rates, investment return assumptions and compensation growth rates.

Larry Altenbaumer motioned to approve 2013 funding for the SPP Retirement Plan of $4,010,000 and funding for the Post-retirement Healthcare Plan of $540,000. The motion was seconded by Kelly Harrison and approved by unanimous voice vote.

**Integrated Marketplace Report**

SPP staff provided a detailed review of the project's status, focusing a request to increase the budget for the project to $115 million (from $105 million). Two main factors driving the increase are i) design changes implemented after the initial budget (POPS, updated system platforms, etc.) and ii) delay in delivery of the main market software. The Committee discussed potential remedies or actions available to SPP against the market software vendor to help offset the financial impacts that vendor's delay is having on the project.

Larry Altenbaumer motioned to approve the increase in the project budget to $115 million. The motion was seconded by Sandra Bennett and approved by unanimous voice vote.

**RSC Education Presentation**

Harry Skilton will deliver a presentation to the SPP RSC in late April 2013 focused on the SPP budget and budget development process. The Committee members were asked to provide input into areas they felt would help the RSC members better understand SPP. Several suggestions were provided which centered on what SPP is doing to control expenses and what benefits does the region receive from SPP's operations.

**Aircraft Acquisition**

SPP staff reviewed an analysis of the benefits and costs associated with a company owned aircraft. The analysis demonstrated clear cost efficiencies to be gained with use of a small airplane to facilitate travel of SPP staff. Despite the benefits, all were cautious of the extravagant perception surrounding private aircraft use. Action on this item was deferred to the next scheduled meeting of the Finance Committee.

**Pension Plan Investment Management**

SPP staff discussed the responses to its RFP for pension fund investment management. The respondents generally seemed capable of providing the desired service to the plan, though with different levels of expense. None of the respondents were able to provide historical evidence of successful discretionary management performance. This topic will be discussed in greater depth at the next Finance Committee meeting.

**Written Reports**

Several questions were raised regarding SPP's action following a transmission customer payment default. The Committee expressed their opinion that the response to a default should not be to file with FERC to seek termination of the service but to instead pursue payment through the term of the transmission service agreement.

**Future Meetings**

The next meeting of the SPP Finance Committee is scheduled for July 23, 2013 beginning at 8:30 am central time and finishing at 3:30 pm central. This meeting will be held in Dallas, TX.

There being no further business, Harry Skilton adjourned the meeting at 2:05 p.m.

Respectfully Submitted,

Thomas P. Dunn
Secretary

**Southwest Power Pool, Inc.**

**FINANCE COMMITTEE MEETING**

**April 9, 2013**

**DFW-Hyatt Regency**
**Dallas, Texas**

**• A G E N D A •**

8:30 a.m. – 3:00 p.m.

1. Administrative Items *(25 minutes)* ........................................ Harry Skilton
2. 2012 Financial Audit *(60 minutes)* ****ACTION**** ........................................ BKD, LLC
3. 2013 Actuary Report and Benefit Plan Funding *(30 minutes)* ****ACTION**** ........................ Steve Osborn
4. Integrated Marketplace Report *(45 minutes)* ****ACTION**** ........................................ Bruce Rew
5. Strategic Discussion *(60 minutes)* ........................................ All
   a. RSC Education Presentation
6. Aircraft Analysis *(60 minutes)* ****ACTION**** ........................................ Tom Dunn
7. Pension Plan Investment Management *(60 minutes)* ........................................ Tom Dunn
   a. RFP Response Review
8. Future Meetings ........................................ All
9. Written Reports:
   a. February 2013 Financial Reports
   b. CPWG Activities
   c. Transmission Customer Default
   d. BPI Report
10. Adjourn ........................................ Harry Skilton

*Relationship-Based • Member-Driven • Independence Through Diversity*

*Evolutionary vs. Revolutionary • Reliability & Economics Inseparable*

**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. Discussed the transition of staff currently assigned to work on the ICT and ITO contracts to other functions within SPP. Requested SPP staff provide a report at each upcoming Finance Committee meeting which discusses changes in required staff levels or changes in staffing assignments to support new functions or reductions in existing functions.
- 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. Motion was presented by Kip Fox, seconded by Mike Wise and approved by unanimous voice vote.

**2012 Finance Committee Effectiveness Review**
The Committee reviewed the first draft of the effectiveness review and requested it be expanded to include each item the Committee exercises oversight to ensure all responsibilities are being addressed.

**Order 741 Compliance**
The Committee reviewed the final draft tariff language required to implement SPP as the central counterparty to Integrated Marketplace transactions. Staff was directed to ensure all documents through the settlements process were consistently designed with SPP as central counterparty to ensure no loopholes exist.

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

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

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

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

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

Respectfully Submitted,

Thomas P. Dunn
Secretary

**Southwest Power Pool**

**FINANCE COMMITTEE MEETING**

**February 19, 2013**

**Dallas, Texas**

**• Summary of Action Items •**

1. Approved rates, terms and conditions for renewal and increase of revolving line of credit.
2. Approved directive to SPP staff to prepare and release a Request for Proposal for discretionary investment management of SPP's defined benefit pension plan assets within the structure of a 3(38) ERISA fiduciary and advising on creation and modification of an Investment Policy Statement for the defined benefit pension plan assets.

**• 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

**Southwest Power Pool**

**FINANCE COMMITTEE MEETING**

**February 19, 2013**

**Dallas, Texas**

**• M I N U T E S •**

## Agenda Item 1 – Administrative Items

SPP Chair Harry Skilton called the meeting to order at 10:00 a.m. The following members of the Finance Committee were in attendance:

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

Others attending included:

| | |
|---|---|
| Nick Brown | SPP |
| Bruce Cude (telephone) | SPS |
| Craig Westbrook | Overbey, Strigel, Boyd & Westbrook |
| Larry Middleton | Stephens Capital Management |
| Debbie Prater (telephone) | Oklahoma Corporation Commission |

## Administrative Items

Minutes from the December 10, 2012 meeting were reviewed. Kelly Harrison motioned to approve the minutes. The motion was seconded by Coleen Wells and approved by unanimous voice vote.

## Pension Fund Management

Craig Westbrook discussed fiduciary roles utilized in the oversight and administration of an ERISA qualified plan and the responsibilities and liabilities associated with performing as a fiduciary. Considerable attention was focused on the differences between an investment manager fiduciary under section 3(38) of ERISA versus an investment advisor fiduciary under 3(21) of ERISA.

Larry Middleton discussed a proposed investment management approach which utilized a core holding consisting of Exchange Traded Funds with satellite holdings using active investment management. This approach demonstrated the ability of the fund to obtain slightly higher long-term returns with lower volatility in returns. Using this approach, SPP would engage a firm like Stephens to serve as a 3(21) fiduciary who would make recommendations on the core ETF investments and on the investment managers charged with actively managing in the satellite investments. The Committee would retain decision authority on the recommendations. Stephens would also facilitate meetings with the investment managers, periodic reporting, and construction and modification of the investment policy statement.

Following discussion of the process used by SPP's members, Mike Wise made a motion to issue a RFP for a 3(38) ERISA fiduciary to oversee management of the entire pension fund investment process. The motion was seconded by Sandra Bennett and approved by unanimous voice vote. Staff was asked to complete the RFP process prior to the April 9, 2013 meeting of the Finance Committee.

## 2013 Corporate Liability Insurance Review

SPP staff provided a brief analysis of why SPP only utilizes insurance underwriters ranked "Secure" by A.M. Best.

**Line of Credit Renewal**

SPP presented quotes from two banking institutions to provide SPP with a $30MM revolving credit facility. Following review of the terms, a motion was made by Larry Altenbaumer to select Bank A as recommended by SPP staff due to the lower cost of financing expected based on SPP's cash forecast. The motion was seconded by Kelly Harrison and approved by unanimous voice vote.

**Committee Effectiveness Review**

Harry Skilton led a discussion of the results of SPP's Committee Effectiveness exercise published during 4Q'2012. The Finance Committee has delivered consistent improvement in effectiveness and was noted as being tied for the most effective group in the 2012 results. An area for continued improvement was to identify items subject to a vote prior to the meeting (perhaps in the agenda or at the immediately prior meeting). Harry also noted that the Credit Practices Working Group scored reasonably high for group effectiveness and he would send a note to CPWG chair Terri Wendlandt recognizing the good work performed by the CPWG in 2012.

**Written Reports**

SPP staff addressed questions regarding SPP's unaudited 2012 financial results. A question regarding a prior year revenue recognition adjustment of $573,000 was left unanswered during the meeting. Following are the details:

SPP performs engineering studies for utility customers. Given that these studies can take up to 12-36 months to complete, SPP recognizes revenues as the studies are being performed so that revenues are recorded in the appropriate year. Several studies were completed in 2011 and 2012, at which time revenue was recognized for the entire study without adjusting for revenue previously recognized (as the studies were being performed, prior to 2012). The adjustment for prior year revenue recognition cleared out the double counting of revenue associated with these studies.

**Strategic Discussion**

Beginning immediately, each meeting of the Finance Committee will allocate time to discuss strategic issues the Committee may need to address. The items discussed were as follows:

FERC Order 1000 – Status of SPP's preparations. SPP is waiting on a FERC order on SPP's compliance filing. SPP is building process to meet intraregional transmission project competitive bidding process. SPP is not incurring incremental cost to prepare the process. Incremental costs, when incurred, will be tracked for recovery from bidding entities (if allowed by FERC).

Member Withdrawal Obligations – Corporate Governance Committee is evaluating the obligations associated with regionally allocated transmission expansion costs. SPP must be careful to identify these costs separately from SPP, Inc. withdrawal obligations associated with SPP, Inc.'s long-term corporate obligations.

Transaction Fees for Virtual Bids – SPP's Integrated Marketplace systems are built to accommodate charging fees to virtual bidders. The Finance Committee agrees that the setting of the fee level (or recommending the fee level to the SPP Board) is more appropriately within the oversight of the Market Working Group.

BPI Metrics – SPP's members, regulators, etc. continue to struggle to know whether or not SPP is performing above expectations, as expected, or below expectations when looking at the costs for SPP's services versus the value of SPP's services. SPP currently submits a detailed metrics report to FERC along with each of the other FERC jurisdictional RTOs. More comparison between RTOs was indicated as a starting point to help determine how to assess the performance of SPP.

Aircraft Acquisition – SPP staff distributed a preliminary analysis looking at the acquisition of an aircraft to facilitate corporate travel needs. The analysis indicates potential cost savings due to increased efficiency in travel. The discussion identified safety and perceptions on aircraft as additional areas which must be addressed prior to a formal recommendation.

**Future Meetings**

The next meeting of the SPP Finance Committee is scheduled for April 9, 2013 beginning at 8:30 am central time and finishing at 3:30 pm central. This meeting will be held in Dallas, TX.

There being no further business, Harry Skilton adjourned the meeting at 2:00 p.m.

Respectfully Submitted,

Thomas P. Dunn
Secretary

Southwest Power Pool

**Southwest Power Pool, Inc.**

**FINANCE COMMITTEE**

**Report to the Board of Directors**

**April 30, 2013**

## 2012 Financial Audit Acceptance

**Organizational Roster**

The following persons are members of the Finance Committee:

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

**Background**

SPP annually engages a Certified Public Accounting firm to audit its financial statements and accounting controls. The SPP Finance Committee at its September 24, 2012 meeting approved the engagement of BKD, LLC to perform an audit of SPP's 2012 financial results.

**Analysis**

BKD, LLC has completed and published its audit of SPP's 2012 financial results. The Finance Committee, at its April 9, 2013 meeting met with representatives of BKD, LLC and discussed their findings, specifically focusing on: 1) adequacy of SPP's accounting policies and procedures, 2) adequacy of internal control procedures and the extent tested, and 3) any areas of weakness or concern that SPP should address going forward.

**Recommendation**

The Finance Committee recommends the SPP Board of Directors accept in its entirety the 2012 audit report and findings of BKD, LLC.

**Approved:** Finance Committee

**Action Requested:** Approve Recommendation

# Southwest Power Pool, Inc.

Independent Auditor's Report and Financial Statements

December 31, 2012 and 2011



BKD LLP
CPAs & Advisors

# Southwest Power Pool, Inc.
## December 31, 2012 and 2011

## Contents

# Independent Auditor's Report

Board of Directors
Southwest Power Pool, Inc.
Little Rock, Arkansas

We have audited the accompanying financial statements of Southwest Power Pool, Inc., which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of operations, changes in members' deficit and cash flows for the years then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southwest Power Pool, Inc. as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Little Rock, Arkansas
April XX, 2013

# Southwest Power Pool, Inc.

## Balance Sheets

## (In Thousands)

## December 31, 2012 and 2011



## Assets

| | 2012 | 2011 |
|---|---|---|
| **Current Assets** | | |
| Cash and cash equivalents | $ 95,693 | $ 73,763 |
| Restricted cash deposits | 43,743 | 34,903 |
| Accounts receivable | 17,923 | 15,901 |
| Prepaid expenses and other | 5,412 | 6,636 |
| Total current assets | 162,771 | 131,203 |
| **Property and Equipment, at Cost** | | |
| Land | 4,812 | 4,812 |
| Building | 67,378 | 5,965 |
| Furniture and fixtures | 9,891 | 4,613 |
| Equipment and machinery | 35,343 | 31,846 |
| Leasehold improvements | 588 | 1,309 |
| Software | 81,344 | 74,646 |
| Software in development | 76,539 | 34,351 |
| Construction in progress | - | 46,779 |
| | 275,895 | 204,321 |
| Less accumulated depreciation and amortization | 102,143 | 92,133 |
| | 173,752 | 112,188 |
| **Other Assets, Net** | 2,997 | 2,915 |
| | $ 339,520 | $ 246,306 |

*See Notes to Financial Statements*

## Liabilities and Members' Deficit

| | | 2012 | | 2011 |
|---|---|---|---|---|
| **Current Liabilities** | | | | |
| Accounts payable | $ | 9,831 | $ | 17,816 |
| Customer deposits | | 43,913 | | 34,903 |
| Current maturities of long-term debt (*Note 4*) | | 12,700 | | 11,206 |
| Accrued expenses | | 28,741 | | 25,741 |
| Deferred revenue | | 6,286 | | 7,450 |
| Total current liabilities | | 101,471 | | 97,116 |
| **Long-term Debt** *(Note 3)* | | 258,258 | | 170,958 |
| **Other Long-term Liabilities** | | 10,519 | | 7,654 |
| **Members' Deficit** | | (30,728) | | (29,422) |
| | $ | 339,520 | $ | 246,306 |

# Southwest Power Pool, Inc.
## Statements of Operations
## (In Thousands)
## Years Ended December 31, 2012 and 2011

| | 2012 | 2011 |
|---|---|---|
| **Operating Income** | | |
| Tariff fees and member assessments | $ 118,808 | $ 95,825 |
| Other member services | 29,111 | 33,115 |
| | 147,919 | 128,940 |
| **Operating Expenses** | | |
| Salaries and benefits | 72,262 | 64,514 |
| Employee travel | 2,245 | 1,655 |
| Administrative | 3,720 | 3,003 |
| Regulatory assessment | 14,977 | 16,639 |
| Meetings | 983 | 838 |
| Communications system | 4,020 | 3,204 |
| Leases | 1,690 | 1,624 |
| Maintenance | 8,288 | 7,308 |
| Consulting services | 15,160 | 16,124 |
| Depreciation and amortization | 16,590 | 13,107 |
| | 139,935 | 128,016 |
| **Operating Income** | 7,984 | 924 |
| **Other Income (Expense)** | | |
| Interest income | 149 | 157 |
| Interest expense | (6,398) | (6,307) |
| Change in fair market value of interest rate swaps | 674 | 183 |
| Other expense | (214) | (21) |
| | (5,789) | (5,988) |
| **Income/(Loss) Before Change in Funded Status of Employee Benefit Plans** | 2,195 | (5,064) |
| **Change in Funded Status of Employee Benefit Plans** | (3,501) | (3,976) |
| **Net Loss** | $ (1,306) | $ (9,040) |

# Southwest Power Pool, Inc.
## Statements of Members' Deficit
## (In Thousands)
## Years Ended December 31, 2012 and 2011

| | 2012 | 2011 |
|---|---|---|
| **Balance, Beginning of Year** | $ (29,422) | $ (20,382) |
| Net loss | (1,306) | (9,040) |
| **Balance, End of Year** | $ (30,728) | $ (29,422) |

# Southwest Power Pool, Inc.
## Statements of Cash Flows
## (In Thousands)
## Years Ended December 31, 2012 and 2011



| | 2012 | 2011 |
|---|---|---|
| **Operating Activities** | | |
| Net loss | $ (1,306) | $ (9,040) |
| Items not requiring cash | | |
| Depreciation and amortization | 16,590 | 13,107 |
| Impairment loss | - | 152 |
| Change in funded status of employee benefit plans | 3,501 | 3,976 |
| Loss on disposal of fixed assets | 264 | - |
| Change in fair market value of interest rate swaps | (674) | (183) |
| Changes in assets and liabilities | | |
| Accounts receivable | (2,023) | 2,608 |
| Prepaid expenses and other | 1,224 | (3,285) |
| Other assets | (180) | (121) |
| Accounts payable | (7,985) | 7,468 |
| Accrued expenses | 1,836 | 569 |
| Other long-term liabilities | 229 | 67 |
| Net cash provided by operating activities | 11,476 | 15,318 |
| **Investing Activities** | | |
| Acquisition of property and equipment | (78,340) | (79,391) |
| Net cash used in investing activities | (78,340) | (79,391) |
| **Financing Activities** | | |
| Repayments of long-term debt | (11,206) | (13,205) |
| Issuance of long-term debt | 100,000 | 70,000 |
| Net cash provided by financing activities | 88,794 | 56,795 |
| **Increase (Decrease) in Cash and Cash Equivalents** | 21,930 | (7,278) |
| **Cash and Cash Equivalents, Beginning of Year** | 73,763 | 81,041 |
| **Cash and Cash Equivalents, End of Year** | $ 95,693 | $ 73,763 |
| **Supplemental Cash Flow Information** | | |
| Interest paid (net of interest capitalized of $2,723 and $1,943 in 2012 and 2011, respectively) | $ 6,261 | $ 6,498 |

*See Notes to Financial Statements*

## Note 1: Nature of Operations and Summary of Significant Accounting Policies

### *Nature of Operations*

Southwest Power Pool, Inc. (the Company) is a not-for-profit entity formed in 1941 and incorporated in 1994. The Company is a Federal Energy Regulatory Commission (FERC)-approved regional transmission organization (RTO) serving more than six million ultimate customers across all or parts of nine states. The Company's membership consists of investor-owned utilities, municipal systems, generation and transmission cooperatives, state authorities, independent power producers, contract participants, power marketers and independent transmission companies.

Major services provided by the Company to its members and customers include tariff administration, electric reliability coordination, regional transmission scheduling, energy imbalance service (EIS) market operations and regional transmission expansion planning.

The Company also serves as the Regional Entity (RE) for its region. The primary responsibility of the RE is the enforcement of North American Electric Reliability Corporation (NERC)-approved reliability standards for users, owners and operators of the bulk power system within the region.

### *Use of 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### *Cash and Cash Equivalents and Deposits (in Thousands)*

The Company considers all highly liquid interest-earning investments with stated maturities and coupon rate reset dates of no more than three months to be cash equivalents. At December 31, 2012 and 2011, the Company's cash and cash equivalents, including restricted deposits, are invested primarily in money market funds, mutual funds and repurchase agreements. These investments are typically revalued to the market each day and, in the case of repurchase agreements, are collateralized by U.S. government and federal agency securities. The Company's cash and cash equivalents consist primarily of funds accumulated for general operating purposes. Restricted cash deposits consist primarily of customer security deposits, amounts deposited for engineering studies and funds held in escrow for disputed invoices.

Pursuant to legislation enacted in 2010, FDIC fully insured all noninterest-bearing transaction accounts beginning December 31, 2010, through December 31, 2012, at all FDIC-insured institutions. This legislation expired on December 31, 2012. Beginning January 1, 2013, noninterest-bearing transaction accounts are subject to the $250,000 limit on FDIC insurance per covered institution. At December 31, 2012, the Company's cash accounts did not exceed federally insured limits.

### *Income Taxes*

The Company is exempt from income taxes under Section 501c(6) of the Internal Revenue Code and a similar provision of state law. However, the Company is subject to federal income tax on any unrelated business taxable income.

The Company files tax returns in the U.S. federal jurisdiction. With a few exceptions, the Company is no longer subject to U.S. federal examinations by tax authorities for years before 2009.

### *Accounts Receivable*

Accounts receivable are stated at the amount billed to members, customers and others plus any accrued and unpaid interest. The Company provides an allowance for doubtful accounts, when necessary, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Accounts that are unpaid after the due date bear interest at a rate set by FERC. Interest continues to accrue until the account is paid or deemed uncollectible.

### *Property and Equipment (in Thousands)*

Property and equipment are recorded at cost and depreciated on a straight-line basis over the estimated useful life of each asset. The estimated useful lives are as follows:

| | |
|---|---|
| Building | 20 years |
| Furniture and fixtures | 5 years |
| Vehicles | 5 years |
| Equipment and machinery | 3 years |
| Software | 3 years |
| Leasehold improvements | Shorter of useful life or lease term |

The Company capitalizes interest cost incurred on funds used to construct property, plant and equipment. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. Interest cost capitalized was $2,723 and $1,943 in 2012 and 2011, respectively.

The Company capitalizes development costs, including interest, for internal use software costs. These costs are included in software in development. Except as noted below, management of the Company is of the opinion that all costs capitalized in association with the software in development are fully recoverable over the anticipated life of the asset.

### *Long-lived Asset Impairment (in Thousands)*

The Company evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds it fair value.

In 2011, management of the Company determined the system development completed in prior years for the Centralized Balancing Authority (CBA) was obsolete technology and therefore had no fair value. An impairment loss of $152 was recognized for the year ended December 31, 2011. The loss is included in consulting services in the accompanying Statement of Operations. No asset impairment was recognized during the year ended December 31, 2012.



### *Revenue Recognition*

Revenues, consisting of member assessments, tariff administrative fees, contract services and miscellaneous revenues are recognized when earned, and expenses are recognized when incurred.

### *Customer Deposits*

Customers may be required to make deposits with the Company prior to the performance of transmission services and engineering studies. These amounts are typically held for the duration of the service and applied to the customer's final invoice. An offsetting liability equal to the deposit balance is recorded in current liabilities. Funds held in escrow related to disputed invoices are also recorded as a customer deposit under current liabilities.

### *Tariff Fees and Member Assessments (in Thousands)*

An administrative charge is applied to all transmission service under the Company's tariff to cover the expenses related to the administration of the tariff. The charge is calculated in accordance with the terms of the Company's Open Access Transmission Tariff. The administrative rate used for the calculation is established by the board of directors.

Members are assessed monthly based on their prior year average 12-month peak demand multiplied by the total hours in a month and by the monthly assessment rate as established by the board. A member's monthly assessment is offset dollar for dollar for qualifying tariff administrative fees collected from a member in any given assessment period.

The Company collects a membership fee from each member annually. The amount of the membership fee is established by the board of directors of the Company. For 2012 and 2011, all members paid a $6,000 membership fee.

The Company also bills transmission customers and transmission owners a charge under Schedule 12 on all energy delivered under point-to-point transmission service and network integration transmission service. This provides a mechanism for recovering from transmission customers and transmission owners the annual charges the Company pays to FERC. The rate is developed by FERC in the prior calendar year and applied to energy transmitted in the second prior calendar year.

### *Deferred Revenue*

Revenues for contract services received in advance are recognized over the periods to which the revenues relate.

### *Other Member Services*

The Company provides reliability, tariff administration and scheduling for non-members on a contract basis.

### *Withdrawing Members*

Members wishing to withdraw their membership from the Company must provide 12 months written notice and are responsible for their portion of the Company's existing obligations as defined in the bylaws, which include unpaid membership fees, any assessments imposed prior to the effective withdrawal date, any costs or expenses imposed upon the Company as a direct consequence of the member's withdrawal, and the member's share of long-term obligations and related interest.

### *Concentration of Credit Risk*

The Company is exposed to credit risk primarily through accounts receivable and uninsured cash balances. During 2012 and 2011, the Company maintained cash balances that are not insured by the Federal Deposit Insurance Corporation. However, these cash balances were primarily invested in highly liquid short-term investments such as money market funds, mutual funds and repurchase agreements. The Company also requires the financial institutions holding its cash balances to be rated A or better by nationally recognized rating agencies.

Because the Company considers all accounts receivable to be highly probable of collection, an allowance for doubtful accounts is currently not maintained. The Company requires its customers to meet certain minimum standards of financial condition and creditworthiness to receive unsecured credit from the Company. If these standards cannot be met by a counterparty, the Company requires the posting of defined financial security instruments to cover potential liabilities.

# Southwest Power Pool, Inc.
## Notes to Financial Statements
## December 31, 2012 and 2011

## Note 2: Line of Credit (In Thousands)

The Company has a $20,000 revolving line of credit expiring in 2013. At December 31, 2012 and 2011, no amounts were borrowed against this line. The agreement has a variable interest rate equal to the London Interbank Offered Rate (LIBOR) plus a credit margin. The Company's line of credit requires compliance with certain financial and non-financial covenants as well as periodic reporting requirements. The Company was in compliance with the covenant and reporting requirements throughout and at December 31, 2012.



## Note 3: Long-term Debt and Interest Rate Swaps (in Thousands)

### *Long-term Debt*

| | 2012 | 2011 |
|---|---|---|
| Variable Rate Term Note due 2027 (A) | $ 3,958 | $ 4,164 |
| Variable Rate Term Note due 2014 (B) | 11,000 | 16,000 |
| 5.45% Senior Notes due 2016 (C) | 21,000 | 27,000 |
| 4.82% Series 2010-A Senior Notes due 2042 (D) | 30,000 | 30,000 |
| 4.82% Series 2010-B Senior Notes due 2042 (E) | 35,000 | 35,000 |
| 3.55% Series 2010-C Senior Notes due 2024 (F) | 70,000 | 70,000 |
| 3.00% Series 2012-D-1 Senior Notes due 2024 (G) | 50,000 | - |
| 3.25% Series 2012-D-2 Senior Notes due 2024 (H) | 50,000 | - |
| | 270,958 | 182,164 |
| Less current maturities | 12,700 | 11,206 |
| | $ 258,258 | $ 170,958 |

(A) Due February 1, 2027; principal and interest are payable quarterly based on a 25-year amortization. Payments commenced on May 1, 2007. The interest rate adjusts monthly based on the London Interbank Offered Rate (LIBOR) plus 0.85%. The note is secured by a first mortgage on the Company's operation facility.

(B) Due December 25, 2014; interest is payable monthly and principal is payable quarterly based on a seven-year amortization. Payments commenced on March 25, 2008. The interest rate adjusts monthly based on the London Interbank Offered Rate (LIBOR) plus 0.30%. The note is unsecured.

(C) Due July 23, 2016; principal and interest are payable quarterly based on a seven-year amortization. Payments commenced on September 30, 2011. The interest rate is fixed at 5.45%. The note is unsecured.

(D) Due December 30, 2042; principal and interest are payable quarterly based on a 32-year amortization. Principal payments commence on March 30, 2013. The interest rate is fixed at 4.82%. The note is unsecured.

(E) Due December 30, 2042; principal and interest are payable quarterly based on a 32-year amortization. Principal payments commence on March 30, 2013. The interest rate is fixed at 4.82%. The note is unsecured.

(F) Due March 30, 2024; principal and interest are payable quarterly based on 13-year amortization. Principal payments commence on June 30, 2014. The interest rate is fixed at 3.55%. The note is unsecured.

(G) Due March 30, 2024; principal and interest are payable quarterly based on 10-year amortization. Principal payments commence on June 30, 2014. The interest rate is fixed at 3.00%. The note is unsecured.

(H) Due September 30, 2024; principal and interest are payable quarterly based on 10-year amortization. Principal payments commence on December 30, 2014. The interest rate is fixed at 3.25%. The note is unsecured.

Aggregate annual maturities of long term debt at December 31, 2012, are:

| | | |
|---|---|---|
| 2013 | $ | 12,700 |
| 2014 | | 22,998 |
| 2015 | | 24,299 |
| 2016 | | 21,353 |
| 2017 | | 18,409 |
| Thereafter | | 171,199 |
| | $ | 270,958 |

Certain of the Company's term notes require compliance with financial and non-financial covenants, as well as periodic reporting requirements. The Company was in compliance with the covenant and reporting requirements throughout and at December 31, 2012.

### *Variable-to-Fixed Interest Rate Swap*

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the Company entered into an interest rate swap agreement on September 15, 2006 with U.S. Bank National Association. The agreement provides for the Company to receive interest from the counterparty at LIBOR and to pay interest to the counterparty at a fixed rate of 5.51% on notional amounts of $3,927 and $4,131 at December 31, 2012 and 2011, respectively. Under the agreement, the Company pays or receives the net interest amount quarterly, with the quarterly settlements included in interest expense. The swap was established to hedge interest rate risk on its floating rate debt obligation (Loan A).

The Company entered into another interest rate swap agreement on August 23, 2007, with U.S. Bank National Association. The agreement provides for the Company to receive interest from the counterparty at LIBOR and to pay interest to the counterparty at a fixed rate of 5.31% on notional amounts of $11,000 and $16,000 at December 31, 2012 and 2011, respectively. Under the agreement, the Company pays or receives the net interest amount monthly, with the monthly settlements included in interest expense. The swap was established to hedge interest rate risk on its floating rate debt obligation (Loan B).

The table below presents certain information regarding the Company's interest rate swap agreements.



| | 2012 | 2011 |
|---|---|---|
| Fair value of interest rate swap agreements | $ 1,857 | $ 2,531 |
| Balance sheet location of fair value amounts | Other Long-term Liabilities | Other Long-term Liabilities |
| Gain recognized in statement of operations | $ 674 | $ 183 |
| Location of gain recognized in statement of operations | Change in Fair Market Value of Interest Rate Swaps | Change in Fair Market Value of Interest Rate Swaps |

## Note 4: Operating Leases (In Thousands)

The Company has noncancellable operating leases for office space and certain office equipment, which expire at various times through 2014. The Company incurred lease expense related to these operating leases of $1,690 and $1,624 in 2012 and 2011, respectively.

Future minimum lease payments at December 31, 2012, were:

| | |
|---|---|
| 2013 | $ 368 |
| 2014 | 59 |
| | $ 427 |

## Note 5: Employee Benefit Plans (in Thousands)

### *Pension and Other Postretirement Benefit Plans*

The Company has a noncontributory defined benefit pension plan covering all employees meeting eligibility requirements. The Company's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Company may determine to be appropriate from time to time. The Company expects to contribute approximately $ 4,000 to the plan in 2013.

The Company has a noncontributory defined benefit postretirement health care plan covering eligible retirees, including those retiring between the ages of 55–65 and hired prior to January 1, 1996. Employees hired after June 1, 2006, are not eligible to participate in the defined postretirement health care plan. The Company's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Company may determine to be appropriate from time to time. The Company expects to contribute approximately $542 to the plan in 2013.

The Company uses a December 31 measurement date for the plans. Information about the plans' funded status is as follows:

| | Pension Benefits | | Postretirement Health Care Benefits | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Benefit obligation | $ 38,014 | $ 28,921 | $ 7,353 | $ 5,950 |
| Fair value of plan assets | 31,295 | 25,263 | 7,963 | 6,751 |
| Funded status | $ (6,719) | $ (3,658) | $ 610 | $ 801 |



Amounts recognized in the balance sheets:

| | Pension Benefits | | Postretirement Health Care Benefits | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Noncurrent assets | $ - | $ - | $ 610 | $ 801 |
| Noncurrent liabilities | (6,719) | (3,658) | - | - |
| | $ (6,719) | $ (3,658) | $ 610 | $ 801 |

Amounts recognized in members' equity not yet recognized as components of net periodic benefit cost as of December 31, 2012, consist of:

| | Pension Benefits | Postretirement Health Care Benefits |
|---|---|---|
| Net (gain)/loss | $ 9,784 | $ (615) |
| Prior service credit | (20) | - |
| Transition obligation | 132 | 35 |
| | $ 9,896 | $ (580) |

The accumulated benefit obligation for the defined benefit pension plan was $29,577 and $22,317 at December 31, 2012 and 2011, respectively.

Other significant balances and costs are:

| | Pension Benefits 2012 | Pension Benefits 2011 | Postretirement Health Care Benefits 2012 | Postretirement Health Care Benefits 2011 |
|---|---|---|---|---|
| Employer contributions | $ 3,892 | $ 3,133 | $ 469 | $ 445 |
| Benefits paid | 177 | 144 | 26 | 20 |
| Benefit costs | 3,643 | 2,830 | 469 | 445 |

The following amounts have been recognized in the statements of operations for the year ended December 31, 2012:

| | Pension Benefits | Postretirement Health Care Benefits |
|---|---|---|
| Amounts arising during the period | | |
| Net gain | $ 823 | $ 820 |
| Amounts recognized as components of net periodic benefit cost of the period | | |
| Net (gain) or loss | 210 | (7) |
| Net prior service credit | 1 | - |
| Net transition obligation | 16 | 4 |

The estimated net loss, prior service cost and transition obligation for the defined benefit pension plan that will be amortized from members' equity into net period benefit cost over the next fiscal year are $352, $1 and $16, respectively. There is no prior service credit for the defined benefit postretirement health care plan that will be amortized from members' equity into net periodic benefit cost over the next fiscal year.

Weighted-average assumptions used to determine benefit obligations and costs:

| | Pension Benefits 2012 | Pension Benefits 2011 | Postretirement Health Care Benefits 2012 | Postretirement Health Care Benefits 2011 |
|---|---|---|---|---|
| Discount rate benefit obligation | 5.5% | 6.25% | 5.5% | 6.25% |
| Expected return on plan assets | 7.0% | 7.0% | 7.0% | 7.0% |
| Rate of compensation increase | 4.0% | 4.25% | - | - |

The Company has estimated the long-term rate of return on plan assets based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information.

For measurement purposes, a 10% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2012 and 2011. The rate was assumed to decrease gradually to 5% by the year 2018 and remain at that level thereafter.

On December 8, 2003, the *Medicare Prescription Drug, Improvement and Modernization Act of 2003* (the Act) was signed into law. The Act introduces a prescription drug benefit under Medicare Part D, as well as a federal subsidy to sponsors of retiree health care benefit plans that provide benefits at least actuarially equivalent to Medicare Part D. The Company has not determined whether its plan provides benefits that are actuarially equivalent to Medicare Part D.

Financial Accounting Standards Board Staff Position 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*, subsequently incorporated into FASB Accounting Standards Codification (ASC) 715-60, requires federal subsidies, if any, attributable to past service to be accounted for as an actuarial gain and federal subsidies, if any, attributable to current service to be accounted for as a reduction of net periodic benefit cost. The measures of projected benefit obligation and periodic benefit costs do not reflect any amounts associated with the subsidy because the Company has been unable to conclude whether the benefits provided by the plan are actuarially equivalent to Medicare Part D. The effect of adopting the provisions of ASC 715-60, if and when the Company makes such a determination, is not expected to be material.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of December 31:

| | Pension Benefits | Postretirement Health Care Benefits |
|---|---|---|
| 2013 | $ 308 | $ 68 |
| 2014 | 474 | 116 |
| 2015 | 590 | 143 |
| 2016 | 691 | 172 |
| 2017 | 818 | 207 |
| 2018–2022 | 7,053 | 1,611 |

The Company's investment strategy is based on an expectation that equity securities will outperform fixed income securities over the long-term. Accordingly, the composition of the Company's plan assets is broadly characterized as a 70/30 allocation between equity and fixed income securities. The strategy utilizes indexed and actively managed mutual fund instruments as well as direct investment in individual equity and fixed income securities. Investments in the plans must adhere to the Investment Policy Statement developed by the Company. The Investment Policy Statement limits investments in foreign securities to 20% of the total fair value of plan assets. The Investment Policy Statement is reviewed annually. At December 31, 2012 and 2011, plan assets by category are as follows:

| | Pension Plan Assets | | Postretirement Health Care Plan Assets | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Fixed income securities | 14% | 14% | 29% | 30% |
| Equity securities | 72 | 74 | 65 | 67 |
| Cash and equivalents | 14 | 12 | 6 | 3 |
| | 100% | 100% | 100% | 100% |

### *Pension and Other Postretirement Plan Assets*

Following is a description of the valuation methodologies used for the pension and postretirement plan assets measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of the assets pursuant to the valuation hierarchy.

Where quoted market prices are available in an active market, plan assets are classified within Level 1 of the valuation hierarchy. Level 1 plan assets include cash, money market accounts, mutual funds and common stock. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of plan assets with similar characteristics or discounted cash flows. Level 2 plan assets include foreign company stock, corporate debt obligations, foreign corporate debt obligations, government securities and foreign government securities. In certain cases where Level 1 or Level 2 inputs are not available, plan assets are classified within Level 3 of the hierarchy. At December 31, 2012 and 2011, the Company does not hold any plan assets valued using Level 3 inputs.

# Southwest Power Pool, Inc.
## Notes to Financial Statements
## December 31, 2012 and 2011

The fair values of the Company's pension plan assets at December 31, 2012, by asset category are as follows:

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| Asset Category | Total Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Cash | $ 5 | $ 5 | $ - | $ - |
| Money market mutual funds | 657 | 657 | - | - |
| Mutual funds | | | | |
| Foreign large blend | 734 | 734 | - | - |
| Mid cap value | 1,189 | 1,189 | - | - |
| Mid cap growth | 4,734 | 4,734 | - | - |
| Small cap growth | 1,215 | 1,215 | - | - |
| Large growth | 4,099 | 4,099 | - | - |
| Common stock | | | | |
| Industrial materials | 1,300 | 1,300 | - | - |
| Consumer goods | 978 | 978 | - | - |
| Financial Services | 550 | 550 | - | - |
| Energy | 1,941 | 1,941 | - | - |
| Healthcare services | 1,566 | 1,566 | - | - |
| Hardware | 21 | 21 | - | - |
| Business services | 293 | 293 | - | - |
| Foreign company stock | | | | |
| Industrial materials | 666 | - | 666 | - |
| Hardware | 834 | - | 834 | - |
| Business services | 133 | - | 133 | - |
| Energy | 1,956 | - | 1,956 | - |
| Financial services | 289 | - | 289 | - |
| Corporate debt obligations | 2,729 | - | 2,729 | - |
| Foreign corporate debt obligations | 1,134 | - | 1,134 | - |
| Government securities | 3,826 | - | 3,826 | - |
| Foreign government securities | 446 | - | 446 | - |
| Total | $ 31,295 | $ 19,282 | $ 12,013 | $ - |

The fair values of the Company's pension plan assets at December 31, 2011, by asset category are as follows:

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| **Asset Category** | **Total Fair Value** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| Cash | $ 3 | $ 3 | $ - | $ - |
| Money market mutual funds | 343 | 343 | - | - |
| Mutual funds | | | | |
| Foreign large blend | 565 | 565 | - | - |
| Mid cap value | 1,180 | 1,180 | - | - |
| Mid cap growth | 3,031 | 3,031 | - | - |
| Small cap growth | 922 | 922 | - | - |
| Large growth | 3,572 | 3,572 | - | - |
| Common stock | | | | |
| Industrial materials | 1,368 | 1,368 | - | - |
| Consumer goods | 670 | 670 | - | - |
| Energy | 1,375 | 1,375 | - | - |
| Healthcare services | 1,677 | 1,677 | - | - |
| Hardware | 25 | 25 | - | - |
| Business services | 464 | 464 | - | - |
| Foreign company stock | | | | |
| Industrial materials | 1,087 | - | 1,087 | - |
| Hardware | 508 | - | 508 | - |
| Business services | 204 | - | 204 | - |
| Energy | 879 | - | 879 | - |
| Financial services | 811 | - | 811 | - |
| Telecommunications | 83 | - | 83 | - |
| Healthcare services | 223 | - | 223 | - |
| Corporate debt obligations | 2,668 | - | 2,668 | - |
| Foreign corporate debt obligations | 616 | - | 616 | - |
| Government securities | 2,989 | - | 2,989 | - |
| Total | $ 25,263 | $ 15,195 | $ 10,068 | $ - |

# Southwest Power Pool, Inc.
## Notes to Financial Statements
## December 31, 2012 and 2011

The fair value of the Company's other postretirement benefit plan assets at December 31, 2012, by asset category are as follows:

| Asset Category | Total | Fair Value Measurements: Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Cash | $ 3 | $ 3 | $ - | $ - |
| Money market mutual funds | 455 | 455 | - | - |
| Mutual funds | | | | |
| Equities | | | | |
| Foreign large blend | 392 | 392 | - | - |
| Foreign large growth | 390 | 390 | - | - |
| Mid cap growth | 615 | 615 | - | - |
| Small cap value | 312 | 312 | - | - |
| Real estate | 367 | 367 | - | - |
| Emerging markets | 214 | 214 | - | |
| Commodities | 292 | 292 | - | - |
| Fixed income | | | | - |
| Bond funds | 2,028 | 2,028 | - | |
| Inflation protected | 292 | 292 | - | - |
| Common stock | | | | - |
| Industrial materials | 301 | 301 | - | - |
| Consumer goods and services | 631 | 631 | - | - |
| Financial services | 314 | 314 | - | - |
| Energy | 223 | 223 | - | - |
| Healthcare services | 316 | 316 | - | - |
| Hardware | 41 | 41 | - | - |
| Business services | 194 | 194 | - | - |
| Software | 77 | 77 | - | - |
| Telecommunications | 92 | 92 | - | - |
| Media | 71 | 71 | - | - |
| Utilities | 93 | 93 | - | - |
| Foreign company stock | | | | |
| Business services | 135 | - | 135 | - |
| Financial services | 64 | - | 64 | - |
| Energy | 51 | - | 51 | - |
| Total | $ 7,963 | $ 7,713 | $ 250 | $ - |

The fair value of the Company's other postretirement benefit plan assets at December 31, 2011, by asset category are as follows:

| Asset Category | Total | Fair Value Measurements: Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Cash | $ 8 | $ 8 | $ - | $ - |
| Money market mutual funds | 190 | 190 | - | - |
| Mutual funds | | | | |
| Equities | | | | |
| Foreign large blend | 249 | 249 | - | - |
| Foreign large growth | 248 | 248 | - | - |
| Mid cap value | 154 | 154 | - | - |
| Mid cap growth | 356 | 356 | - | - |
| Small cap value | 140 | 140 | - | - |
| Small blend | 149 | 149 | - | - |
| Real estate | 327 | 327 | - | - |
| Emerging markets | 203 | 203 | - | - |
| Commodities | 298 | 298 | - | - |
| Fixed income | | | | |
| Bond funds | 1,735 | 1,735 | - | - |
| Inflation protected | 280 | 280 | - | - |
| Common stock | | | | |
| Industrial materials | 293 | 293 | - | - |
| Consumer goods and services | 553 | 553 | - | - |
| Financial services | 180 | 180 | - | - |
| Energy | 222 | 222 | - | - |
| Healthcare services | 321 | 321 | - | - |
| Hardware | 125 | 125 | - | - |
| Business services | 235 | 235 | - | - |
| Software | 60 | 60 | - | - |
| Telecommunications | 84 | 84 | - | - |
| Media | 59 | 59 | - | - |
| Utilities | 107 | 107 | - | - |
| Foreign company stock | | | | |
| Business services | 69 | - | 69 | - |
| Financial services | 56 | - | 56 | - |
| Energy | 50 | - | 50 | - |
| Total | $ 6,751 | $ 6,576 | $ 175 | $ - |

### *Defined Contribution Plans*

The Company has a 401(k) defined contribution plan covering substantially all employees. The Company contributes funds to the plan on behalf of plan participants equal to 75% of the participants' elective deferrals up to 6% of deferred compensation. Contributions to the plan were $2,157 and $1,966 for 2012 and 2011, respectively.

The Company has a 457(b) non-qualified tax-deferred compensation plan. This plan is an unfunded plan maintained for the purpose of providing deferred compensation for a select group of management or highly-compensated employees and, therefore, is intended to be exempt from the participation, vesting, funding and fiduciary requirements of Title I of ERISA. Accumulated contributions and earnings of $968 and $775 are recorded in other long-term liabilities at December 31, 2012 and 2011, respectively. The Company also offers a 457(f) non-qualified tax-deferred compensation plan to a select group of executive management. The 457(f) plan is intended to be exempt from the participation, vesting, funding and fiduciary requirements of Title I of ERISA and serves to further supplement benefits lost due to IRS limits on compensation and benefits. Accrued benefits of $975 and $691 are recorded in other long-term liabilities for the 457(f) plan participants at December 31, 2012 and 2011, respectively.

## Note 6: Related Party Transactions (in Thousands)

General disbursements of the Company are apportioned to members based on the formula described in the bylaws of the Company (see *Note 1*). The Company's receivables from members totaled $9,587 and $8,984 as of December 31, 2012 and 2011, respectively. The Company recognized revenues of $110,707 and $88,257, including assessments and tariff administrative fees, from members for the years ended December 31, 2012 and 2011, respectively.

The Southwest Power Pool Regional State Committee (RSC) was incorporated on April 7, 2004, in the State of Arkansas. The RSC is comprised of commissioners from public service commissions or equivalent, having regulatory authority over Company members. FERC, in its February 20, 2004, order regarding the Company's RTO application, stated, "the RSC should have primary responsibility for determining regional proposals and the transition process for funding of regional transmission enhancements, rate structure for a regional access charge and allocation of transmission rights." The RSC prepares budgets annually for the expected costs of its operations. This budget is submitted to the Company's board of directors for approval. The Company includes in its annual budget funds sufficient to cover 100% of the operating costs of the RSC. During 2012 and 2011, the Company incurred $455 and $311, respectively, in expenses attributable to RSC operations. Management of the Company expects such expenditures for 2013 to be approximately $344.

## Note 7: Open Access Transmission and EIS Market Operations (In Thousands)

The Company provides short- and long-term firm and non-firm point-to-point transmission services and network integration transmission service across 15 providers in nine states. The Company is responsible for the billing of the transmission customers for the respective services and the remittance of the subsequent collections to the transmission owner on a monthly basis. Billings for these transmission services are not included in the statements of operations. The Company receives a fee for facilitating the transmission process, which is recorded as tariff fees in the Company's statements of operations. For the years ended December 31, 2012 and 2011, the Company billed transmission customers $ 1,118,542 and $944,613, respectively. For the years ended December 31, 2012 and 2011, the Company remitted to transmission owners $1,016,886 and $864,380, respectively. At December 31, 2012 and 2011, the Company was due to collect from customers and remit to owners transmission service charges of $85,613 and $71,590, respectively.

The Company's EIS market is a wholesale market that operates under a tariff approved by FERC and is consistent with the mandate of the FERC Order No. 2000, which requires RTOs to provide real-time energy imbalance services and market monitoring functions. Weekly settlements of market participants' energy transactions are not reflected in the Company's statements of operations since they do not represent revenues or expenses of the Company, as the Company merely acts as an intermediary in the settlement process. In this role, the Company receives and disburses funds to/from market participants on a weekly basis.



## Note 8: Commitments and Contingencies (in Thousands)

### *Litigation and Regulatory Matters*

In 2011, a suit was filed against the Company claiming a violation of the Arkansas Minimum Wage Act for overtime hours. While the Company believes it has meritorious defenses against the suit, the ultimate resolution of the matter could result in a loss to the Company. An estimate of loss cannot be made at this time.

The Company is engaged in various regulatory proceedings at both the federal and state levels. The Company is also subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such proceedings, claims and lawsuits will not have a material adverse effect on the financial position, results of operations and cash flows of the Company.

### *Integrated Marketplace Contracts*

The company entered into long term contracts totaling $73,986 with numerous vendors for the development of various components of systems that will comprise the Integrated Marketplace. The remaining commitment on these contracts at December 31, 2012, was approximately $28,060.

## Note 9: Disclosures About Fair Value of Financial Instruments (in Thousands)

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

**Level 1** Quoted prices in active markets for identical assets or liabilities

**Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

**Level 3** Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

### *Interest Rate Swap Agreements*

The fair value is estimated using forward-looking interest rate curves and discounted cash flows that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy. At December 31, 2012 and 2011, the fair value measurement of the interest rate swaps as recognized in the accompanying balance sheets was a liability of $1,857 and $2,531, respectively.



### *Cash Equivalents*

The fair value of money market mutual funds included in cash equivalents are estimated using quoted prices in active markets for identical assets or liabilities. At December 31, 2012 and 2011, the fair value measurement of the cash equivalents as recognized in the accompanying balance sheets was $13,413 and $12,636, respectively.

The Company has no assets or liabilities measured and recognized in the accompanying balance sheets on a nonrecurring basis.

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying balance sheets at amounts other than fair value.

### *Restricted Cash Deposits*

For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

### *Customer Deposits*

The carrying amount is a reasonable estimate of fair value.

### *Long-term Debt*

Fair value is estimated based on the borrowing rates currently available to the Company for bank loans with similar terms and maturities.

The following table presents estimated fair values of the Company's financial instruments at December 31, 2012 and 2011.

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | **Carrying Amount** | **Fair Value** | **Carrying Amount** | **Fair Value** |
| Financial assets | | | | |
| Cash and cash equivalents | $ 95,693 | $ 95,693 | $ 73,763 | $ 73,763 |
| Restricted cash deposits | $ 43,743 | $ 43,743 | $ 34,903 | $ 34,903 |
| Financial liabilities | | | | |
| Customer deposits | $ 43,913 | $ 43,913 | $ 34,903 | $ 34,903 |
| Long-term debt | $ 270,958 | $ 274,518 | $ 182,164 | $ 171,540 |
| Swap agreements | $ 1,857 | $ 1,857 | $ 2,531 | $ 2,531 |

## Note 10: Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

Finance Committee and Board of Directors
Southwest Power Pool, Inc.
Little Rock, Arkansas

As part of our audit of the financial statements of Southwest Power Pool, Inc. (the Company) as of and for the year ended December 31, 2012, we wish to communicate the following to you:

## AUDIT SCOPE AND RESULTS

### Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America

An audit performed in accordance with auditing standards generally accepted in the United States of America is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the financial statements does not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

### Qualitative Aspects of Significant Accounting Policies and Practices

*Significant Accounting Policies*

The Company's significant accounting policies are described in Note 1 of the audited financial statements.

*Alternative Accounting Treatments*

We had discussions with management regarding alternative accounting treatments within accounting principles generally accepted in the United States of America for policies and practices for material items, including recognition, measurement and disclosure considerations related to the accounting for specific transactions as well as general accounting policies, as follows:

- No matters are reportable

*Management Judgments and Accounting Estimates*

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

- Pension and postretirement health benefits liabilities
- Recoverability of property and equipment

*Financial Statement Disclosures*

The following area involves a particularly sensitive financial statement disclosure for which we are prepared to discuss the issues involved and related judgments made in formulating this disclosure:

- Pension and other postretirement benefit plans



**Audit Adjustments**

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments that, in its judgment, are required to prevent the financial statements from being materially misstated. Some adjustments proposed were not recorded because their aggregate effect is not currently material; however, they involve areas in which adjustments in the future could be material, individually or in the aggregate.

- Attached is a summary of uncorrected misstatements we aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole.

**Disagreements with Management**

- No matters are reportable.

**Significant Issues Discussed with Management**

*Prior to Retention*

- No matters are reportable.

*During the Audit Process*

- No matters are reportable.

**Other Material Written Communications**

Listed below are other material written communications between management and us related to the audit:

- Management representation letter (attached)

## OTHER MATTERS

We observed the following matter and offer this comment and suggestion with respect to a matter that came to our attention during the course of the audit of the financial statements. Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and, therefore, may not bring to light all weaknesses in policies and procedures that may exist. However, this matter is offered as a constructive suggestion for the consideration of management as part of the ongoing process of modifying and improving financial and administrative practices and procedures. We can discuss this matter further at your convenience and may provide implementation assistance for changes or improvements if you require.

In 2008, the Company performed an analysis to determine the appropriate discount rate to use in determining the funding targets for the retirement plan. The Company chose the third segment rate as prescribed by the U.S. Treasury Department, which reflects the twenty-four month average of investment grade corporate bonds. One of the most important factors in that decision was the average age of the participants in the retirement plan. We recommend the Company consider updating that analysis to determine if the third segment rate is still the most appropriate discount to be used in determining the funding of the retirement plan.

This communication is intended solely for the information and use of the finance committee, the board of directors and management, and is not intended to be and should not be used by anyone other than these specified parties.

April xx, 2013

**Southwest Power Pool**
**ATTACHMENT**

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" reflects the effects on the financial statements if the uncorrected misstatements identified were corrected.

DRAFT

## QUANTITATIVE ANALYSIS

| | Before Misstatements | Misstatements | Subsequent to Misstatements | % Change |
|---|---|---|---|---|
| Current Assets | 162,770,968 | 802,117 | 163,573,085 | 0.49% |
| Non-Current Assets | 176,748,721 | | 176,748,721 | |
| Current Liabilities | (101,470,571) | (669,842) | (102,140,413) | 0.66% |
| Non-Current Liabilities | (268,777,486) | | (268,777,486) | |
| Current Ratio | 1.604 | | 1.601 | -0.19% |

| | | | | |
|---|---|---|---|---|
| Total Assets | 339,519,689 | 802,117 | 340,321,806 | 0.24% |
| Members' Deficit | 30,728,368 | (132,275) | 30,596,093 | -0.43% |

| | | | | |
|---|---|---|---|---|
| Revenues & Income | (148,067,774) | 73,277 | (147,994,497) | -0.05% |
| Costs & Expenses | 149,373,667 | | 149,373,667 | |
| Net Loss | 1,305,893 | 73,277 | 1,379,170 | 5.61% |

**Client: Southwest Power Pool** **DRAFT** **SCHEDULE OF UNCORRECTED MISSTATEMENTS (ADJUSTMENTS PASSED)**

**Period Ending: December 31, 2012**

| Description | Factual (F), Judgmental (J), or Projected (P) | Assets: *Current* DR (CR) | Assets: *Non-Current* DR (CR) | Liabilities: *Current* DR (CR) | Liabilities: *Non-Current* DR (CR) | (X) Non Tax | Revenues & Income DR (CR) | Costs & Expenses DR (CR) | Members' Deficit *(Beg. of year)* DR (CR) | Net Effect on Following Year: *Net Loss* DR (CR) | Net Effect on Following Year: *Members' Deficit* DR (CR) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Prior year** | | | | | | | | | | | |
| Underaccrual of FERC asset and associated revenues in the CY | F | | | | | X | 205,552 | | (205,552) | | |
| **Current Year** | | | | | | | | | | | |
| Under accrual of accounts payable. | F | 669,842 | | (669,842) | | X | | | | | |
| To record underaccrual of FERC asset and associated revenues in the current year. | F | 132,275 | | | | | (132,275) | | | 132,275 | (132,275) |
| | | | | | | | | | | | |
| Taxable passed adjustments | | | | | | | (132,275) | | | 132,275 | (132,275) |
| Times (1 - estimated tax rate of 00%) | | | | | | | 100% | 100% | 100% | | |
| Taxable passed adjustments net of tax impact | | | | | | | (132,275) | | | | |
| Nontaxable passed adjustments | | 802,117 | | (669,842) | | | 205,552 | | (205,552) | | |
| **Total passed adjustments, net of tax impact (if any)** | | 802,117 | | (669,842) | | | 73,277 | | (205,552) | | |

| | |
|---|---|
| **Impact on Net Loss** | **73,277** |
| **Impact on Members' Deficit** | **(132,275)** |

BKD
AWP335
11-2012

**Southwest Power Pool**
**ATTACHMENT**

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" reflects the effects on the financial statements if the uncorrected misstatements identified were corrected.

DRAFT

## QUANTITATIVE ANALYSIS

| | Before Misstatements | Misstatements | Subsequent to Misstatements | % Change |
|---|---|---|---|---|
| Current Assets | 162,770,968 | 802,117 | 163,573,085 | 0.49% |
| Non-Current Assets | 176,748,721 | | 176,748,721 | |
| Current Liabilities | (101,470,571) | (669,842) | (102,140,413) | 0.66% |
| Non-Current Liabilities | (268,777,486) | | (268,777,486) | |
| Current Ratio | 1.604 | | 1.601 | -0.19% |
| | | | | |
| Total Assets | 339,519,689 | 802,117 | 340,321,806 | 0.24% |
| Members' Deficit | 30,728,368 | (132,275) | 30,596,093 | -0.43% |
| | | | | |
| Revenues & Income | (148,067,774) | 73,277 | (147,994,497) | -0.05% |
| Costs & Expenses | 149,373,667 | | 149,373,667 | |
| Net Loss | 1,305,893 | 73,277 | 1,379,170 | 5.61% |

BKD
AWP335
11-2012

**Client: Southwest Power Pool** **DRAFT** **SCHEDULE OF UNCORRECTED MISSTATEMENTS (ADJUSTMENTS PASSED)**

**Period Ending: December 31, 2012**

| Description | Factual (F), Judgmental (J), or Projected (P) | Assets Current DR (CR) | Assets Non-Current DR (CR) | Liabilities Current DR (CR) | Liabilities Non-Current DR (CR) | (X) Non Tax | Revenues & Income DR (CR) | Costs & Expenses DR (CR) | Members' Deficit (Beg. of year) DR (CR) | Net Effect on Following Year Net Loss DR (CR) | Net Effect on Following Year Members' Deficit DR (CR) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Prior year** | | | | | | | | | | | |
| Underaccrual of FERC asset and associated revenues in the CY | F | | | | | X | 205,552 | | (205,552) | | |
| **Current Year** | | | | | | | | | | | |
| Under accrual of accounts payable. | F | 669,842 | | (669,842) | | X | | | | | |
| To record underaccrual of FERC asset and associated revenues in the current year. | F | 132,275 | | | | | (132,275) | | | 132,275 | (132,275) |
| | | | | | | | | | | | |
| Taxable passed adjustments | | | | | | | (132,275) | | | 132,275 | (132,275) |
| Times (1 - estimated tax rate of 00%) | | | | | | | 100% | 100% | 100% | | |
| Taxable passed adjustments net of tax impact | | | | | | | (132,275) | | | | |
| Nontaxable passed adjustments | | 802,117 | | (669,842) | | | 205,552 | | (205,552) | | |
| **Total passed adjustments, net of tax impact (if any)** | | 802,117 | | (669,842) | | | 73,277 | | (205,552) | | |

| | |
|---|---|
| **Impact on Net Loss** | **73,277** |
| **Impact on Members' Deficit** | **(132,275)** |

**Southwest Power Pool, Inc.**

**FINANCE COMMITTEE**

**Recommendation to the Board of Directors**

**April 30, 2013**

# 2013 Defined Benefit Pension Plan and Retiree Healthcare Plan Funding

**(all $ amounts expressed in millions)**

### Organizational Roster

The following persons are members of the Finance Committee:

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

### Background

The SPP Finance Committee is charged with reviewing reports from the plan's actuary, establishing funding policies, and recommending annual funding levels for the plans to the SPP Board of Directors. SPP engaged Osborn, Carreiro & Associates ("the Actuary") to prepare actuarial valuation reports of the SPP Defined Benefit Retirement Plan and SPP Post-retirement Benefits Plan as of January 1, 2013.

## Analysis

<u>SPP Defined Benefit Retirement Plan</u>

The report identifies 2013 accounting expense for this plan as well as minimum and maximum contributions for the plan. The Actuary determined 2013's minimum contribution level to be $2.33 and maximum suggested level to be $4.01. SPP's 2013 budget anticipated contributions to the defined benefit pension plan of $4.01.

The schedule below illustrates the historical funding of the SPP Defined Benefit Retirement Plan:

| | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| Maximum Contribution (tax deductible) | $13.10 | $7.27 | $9.21 | $16.88 | $25.59 |
| Minimum Contribution | 0 | 0 | 2.23 | 1.33 | 2.33 |
| Actuary Suggested Contribution | 3.12 | 3.17 | 3.13 | 3.89 | 4.01 |
| Actual Contribution | 3.00 | 3.12 | 3.13 | 3.89 | |
| Projected Benefit Obligation (PBO) | $20.06 | $23.86 | $28.92 | 38.01 | |
| Accumulated Benefit Obligation (ABO) | 15.21 | 18.10 | 22.32 | 29.58 | |
| Fair Value of Plan Assets | 17.82 | 23.54 | 25.26 | 31.30 | |
| Discount Rate[1] | 6.50% | 6.75% | 6.50% | 6.25% | 5.50% |
| Funded Status vs. PBO | -$2.24 | -$0.32 | -$3.66 | -$6.71 | |
| Funded Status vs. ABO | 2.61 | 5.76 | 2.95 | 1.72 | |
| Total Participants | 468 | 517 | 583 | 643 | |

[1] Based on the Corporate Bond Yield Curve prescribed by the U.S. Treasury Department and reflect the twenty four month average of investment grade corporate bonds with maturities of greater than 15 years all as defined in Section 102, Title I of the Pension Protection Act of 2006.

SPP Defined Benefit Retirement Plan Fund Status as of December 31, 2010

The fund had total assets of $31.30 versus an Accumulated Benefit Obligation of $29.58, Projected Benefit Obligation of $38.01 and termination value of approximately $30.00. The Actuary estimates participants active on January 1, 2013 will accrue $2.6 in benefits during fiscal year 2013; including participants added during 2013, benefits accrued during 2013 are expected to total $2.84. Finally, the value of the early retirement feature of the Defined Benefit Retirement Plan is estimated to be $3.00.

SPP Post-retirement Benefits Plan

In 1995, the Board of Directors approved retiree medical coverage for all SPP employees who retire at their Normal Retirement Date as defined in the SPP Defined Benefit Retirement Plan. The Board also awarded benefits under this plan to those employees of record on January 1, 1996 who retire between the ages of 55 - 65. The SPP Board acted in 2006 to limit benefits from this plan to only those employees hired prior to June 1, 2006. As of January 1, 2013 SPP had 142 active employees covered by this plan and 5 retirees.

The Actuary estimated 2013 net periodic post retirement benefit cost to be $0.54. This computation is based on a 5.50% discount rate, and a 7% investment return on plan assets, and retirement at age 65. The health care cost trend was assumed to increase 10% next year, 9% the year after and so on down to 5% and remain there thereafter. SPP's 2013 budget allocates $0.47 in funding for post retirement benefits. SPP has used the net periodic post-retirement benefit cost as a proxy for determining the amount of contribution to the plan annually.

| | **2009** | **2010** | **2011** | **2012** | **2013** |
|---|---|---|---|---|---|
| Actual Contribution | $0.59 | $0.63 | $0.51 | $0.45 | |
| Pension Cost | 0.59 | 0.63 | 0.51 | 0.45 | 0.54 |
| Accumulated Benefit Obligation (ABO) | $4.36 | $4.64 | $5.30 | $5.95 | $7.35 |
| Fair Value of Plan Assets | 3.63 | 5.23 | 6.44 | 6.75 | 7.96 |
| Funded Status vs. ABO | -$0.73 | $0.59 | $1.14 | $0.80 | $0.61 |
| Plan Participants – Active | 164 | 158 | 149 | 146 | 142 |
| Plan Participants – Retired | 2 | 2 | 4 | 5 | 5 |

**Recommendation**

Approve 2013 funding of the SPP Post-retirement Benefits Plan at $0.54.

Approve 2013 funding of the SPP Retirement plan at $4.01.

**Approved:** Finance Committee

**Action Requested:** Approve Recommendation

# SOUTHWEST POWER POOL
# RETIREMENT PLAN

# ACTUARIAL VALUATION
# AS OF JANUARY 1, 2013

**Osborn, Carreiro & Associates, Inc.**

ACTUARIES · CONSULTANTS · ANALYSTS

One Union National Plaza, Suite 1690
124 West Capitol Avenue
Little Rock, Arkansas 72201
(501) 376-8043
FAX (501) 376-7847

March 19, 2013

Mr. Thomas P. Dunn
Vice President
Southwest Power Pool
201 Worthen Drive
Little Rock, AR 72223

Dear Mr. Dunn:

This report presents the results of our actuarial valuation of the assets and liabilities of the Southwest Power Pool, Inc. Retirement Plan as of January 1, 2013.

A brief summary of the more important figures developed in this valuation, with comparable results from prior reports, follows:

| | 1/01/2011 | 1/01/2012 | 1/01/2013 |
|---|---|---|---|
| Individuals included | 517 | 583 | 643 |
| Total Salary | $ 37,913,643 | $ 43,465,292 | $ 47,968,748 |
| Net Plan Assets | $ 23,536,306 | $ 25,263,122 | $ 31,295,784 |
| Contribution Levels | 2011 | 2012 | 2013 |
| Maximum tax deductible under Pension Protection Act '06 | $ 9,214,042 | $ 16,877,212 | $ 26,593,540 |
| "Old" Maximum/Suggested | 3,131,525 | 3,891,701 | 4,009,487 |
| Minimum required | 2,230,398 | 1,331,358 | 2,332,645 |
| Pension "expense" under accounting rules | $ 2,830,437 | $ 3,642,651 | $ 4,624,575 |

Mr. Thomas P. Dunn – p 2
March 19, 2013

Current Status of the Plan

The contribution for the 2013 Plan Year must be between $ 2,332,645 and $ 26,593,540. At least the minimum must be paid by September 15, 2014.

The minimum contribution has gone up primarily due to a decrease in the discount rates prescribed for its calculation.

The "suggested contribution" and the pension expense have both increased since last year:

| | Suggested Contribution | Pension Expense |
|---|---|---|
| (1) 2012 Amount | $ 3,892,000 | $ 3,642,000 |
| (2) Change due to: | | |
| (a) 2012 Investment Gain | - 75,000 | - 54,000 |
| (b) More participants | + 236,000 | + 271,000 |
| (c) Decrease in discount rate | N/A | + 797,000 |
| (d) Other | - 43,000 | - 32,000 |
| (3) 2013 Amount | $ 4,010,000 | $ 4,624,000 |

Some Considerations for Determining Contribution Levels

It is often helpful to review the status of a retirement plan in terms of how much money would be required if the plan were terminated. If your plan were terminated on January 1, 2013, I estimate that the total liability would be about $30 million (using a 5.00% discount rate). This compares to assets of about $31 million. However, be aware of three items:

(1) During the 2013 year, employees will accrue additional benefits worth about $2.6 million.

(2) These numbers DO NOT include the value of the subsidized early retirement feature. This subsidy applies when an active employee retires after age 55 (provided the employee was age 45 and had 5 years of service by December 31, 2006 – current 38 people). It does not apply when an employee terminates before age 55. The current value of this subsidy is about $3 million.

(3) The discount rate of 5.00% changes over time with the markets. If the rate goes down, the termination liability will go up.

For the past three years, you decided to contribute the "Old" Maximum (i.e., before the Pension Protection Act of 2006), plus the cost for anticipated new hires. Following that same methodology, the contribution for 2013 would be $4,010,000 (the "suggested" amount).

Other Changes

The 2012 minimum required contribution has been restated from the amount shown in our report dated April 4, 2012. In June 2012, the "MAP-21" law was enacted which changed the discount rates to be used for minimum contribution calculations for 2012 and later.

Top-Heavy Status

Appendix E contains a "top-heavy" test. In 1982, Congress passed a law containing the top-heavy rules. Basically, a plan under which the "key employees" benefit the most is considered top-heavy. A top-heavy plan must accelerate its vesting and provide certain minimum retirement benefits. The Plan is not currently top-heavy.

Pension Cost for Accounting Purposes

Exhibit 3 contains a calculation of "pension cost", as defined by Statement of Financial Accounting Standards No. 87 ("SFAS 87"), for 2013. Pension cost is the cost of the plan as recorded in the sponsor's GAAP (Generally Accepted Accounting Principles) financial statements. This accounting pension cost will almost always differ from the actual cash contribution to the plan under this accounting guideline. Let me emphasize that SFAS 87 only dictates the cost shown in the sponsor's GAAP financial statements. Sound actuarial projections should be used to determine the actual cash contribution requirements.

The 2013 Net Periodic Pension Cost is $4,624,575.

The cash funding requirement is different from the pension cost for basically three different reasons:

1. Different assumptions: SFAS 87 prescribes certain guidelines for the assumptions used in that calculation.

2. Different actuarial cost method: The SFAS 87 calculation uses the Projected Unit Credit method, while the recommended contribution is based on another method.

**Osborn, Carreiro & Associates, Inc.**
ACTUARIES • CONSULTANTS • ANALYSTS

3. Different amortization techniques: The SFAS 87 calculation generally uses straight-line amortization. The funding calculation uses a principal and interest amortization as required by ERISA.

Report Format

The report is been broken into five "Exhibits" and eight "Appendices". The Appendices contain certain technical information that we feel is necessary to meet professional actuarial standards. However, the information in these Appendices may not be particularly useful to you. We've endeavored to put the important information into the five Exhibits.

This report is based on the participant and financial data supplied by the plan sponsor. We did not audit this data, although we did review it for reasonableness and consistency. We have relied on the data provided to us. If any of the data provided to us is incorrect or incomplete, he results of our calculations could be materially different. The purpose of this report is to help the plan sponsor evaluate the plan status and funding requirements for an on-going plan, and to present certain actuarial items required for disclosure purposes. This report is not intended for any other purpose or for use by persons who are not familiar with such matters.

If you have any questions or comments about this report or about your plan, please let me know.

Sincerely,

Steve Osborn

Steve Osborn, F.S.A., M.A.A.A.
Enrolled Actuary 3095

# TABLE OF CONTENTS

# Exhibit 1

## Executive Summary

| | | 1/1/2011 | 1/1/2012 | 1/1/2013 |
|---|---|---|---|---|
| 1. | Individuals included in report | | | |
| | a. Active | 456 | 514 | 562 |
| | b. Inactive | 61 | 69 | 81 |
| | c. Covered Payroll | $ 37,913,643 | $ 43,465,292 | $ 47,968,748 |
| 2. | Normal Cost Amount | $ 2,726,090 | $ 3,141,507 | $ 3,541,141 |
| | Normal Cost Rate | 7.19% | 7.23% | 7.38% |
| 3. | Assets | $ 23,536,306 | $ 25,263,122 | $ 31,295,784 |
| | Investment Return for year | 14.1% | - 5.0% | 8.5% |
| 4. | Funding Levels | | | |
| | Maximum under Pension Protection Act | $ 9,214,042 | $ 16,887,212 | $ 26,593,540 |
| | Suggested | $ 3,131,525 | $ 3,891,701 | $ 4,009,487 |
| | Minimum | $ 2,230,398 | $ 1,331,358 | $ 2,332,645 |
| 5. | Accounting Information (for use in auditor's report) | | | |
| | a. Present Value of Vested Benefits | $ 14,821,930 | $ 18,404,187 | $ 25,513,501 |
| | b. Present Value of Non-Vested Benefits | 3,282,026 | 3,913,054 | 4,063,111 |
| | c. Present Value of Accumulated Benefits | $ 18,103,956 | $ 22,317,241 | $ 29,576,612 |
| | d. Pension Cost per SFAS No. 87 | $ 2,830,437 | $ 3,642,651 | $ 4,624,575 |
| 6. | Top-Heavy Ratio | 18.6% | 21.8% | 19.1% |

# Exhibit 2

## Summary of Financial Information

| | Plan Year Ending December 31, | | |
|---|---|---|---|
| | 2010 | 2011 | 2012 |
| A. INCOME | | | |
| 1. Contributions | | | |
| Employee | $ 0 | $ 0 | $ 0 |
| Employer | 3,121,927 | 3,133,122 | 3,892,000 |
| Other | 0 | 0 | 0 |
| 2. Investment Income | | | |
| a. Interest and Dividends | 407,414 | 485,128 | 590,152 |
| b. Realized Gains | 88,683 | 473,888 | 443,878 |
| c. Unrealized Appreciation | 2,347,414 | - 2,071,695 | 1,447,840 |
| d. Investment Expenses | - 121,806 | - 149,722 | - 163,798 |
| e. Subtotal | 2,721,705 | - 1,262,401 | 2,318,071 |
| TOTAL | $ 5,843,632 | $ 1,870,721 | $ 6,210,072 |
| B. EXPENSES | | | |
| 1. Administrative | $ 0 | $ 55 | $ 246 |
| 2. Monthly Benefits | 129,625 | 143,850 | 177,164 |
| 3. Lump Sum Benefits | 0 | 0 | 0 |
| TOTAL | $ 129,625 | $ 143,905 | $ 177,410 |

**Exhibit 2 - Continued**

| | | 12/31/2010 | 12/31/2011 | 12/31/2012 |
|---|---|---|---|---|
| C. ASSETS (Market Basis) | | | | |
| 1. Short Term | | | | |
| | Cash | $ 2,580 | $ 2,538 | $ 4,712 |
| | Money Market Funds | 267,422 | 343,284 | 657,741 |
| 2. U.S. Treasury Bills | | 1,999,960 | 2,749,758 | 3,699,083 |
| 3. Fixed Income Assets | | | | |
| | Government | 376,952 | 237,455 | 126,485 |
| | Corporate | 3,179,801 | 3,232,982 | 4,253,927 |
| 4. Common Stock | | 9,692,591 | 9,358,740 | 10,507,308 |
| 5. Mutual Funds | | | | |
| | Fixed Income | 0 | 0 | 0 |
| | Equity | 7,949,373 | 9,269,538 | 11,971,230 |
| 5. Other | | | | |
| | Contribution Receivable | 0 | 0 | 0 |
| | Benefits payable | 0 | 0 | 0 |
| | Accrued Interest | 67,627 | 68,827 | 75,298 |
| | Other | 0 | 0 | 0 |
| | TOTAL | $ 23,536,306 | $ 25,263,122 | $ 31,295,784 |
| D. Net Investment Return: | | 14.1% | - 5.0% | 8.5% |

**Exhibit 2 - Continued**

| | | 1/1/2011 | | 1/1/2012 | | 1/1/2013 |
|---|---|---|---|---|---|---|
| E. INFORMATION FOR PBGC FORM 1 SCHEDULE A | | | | | | |
| 1. Interest Assumption | | 1.98%<br>5.23%<br>6.52% | | 2.07%<br>4.45%<br>5.24% | | 1.00%<br>3.57%<br>4.77% |
| 2. Present Value of Vested Benefits | $ | 16,688,347 | $ | 23,983,760 | $ | 32,649,658 |
| 3. Adjusted Market Value of Assets | | 23,536,306 | | 25,263,122 | | 31,295,784 |
| 4. Unfunded Vested Benefits | $ | 0 | $ | 0 | $ | 1,353,874 |
| 5. Rounded to next higher $1,000 | | 0 | | 0 | | 1,354,000 |
| 6. 0.9% of (5) | $ | 0.00 | $ | 0.00 | $ | 12,186.00 |

# Exhibit 3

## Accounting Information

This Exhibit is included to provide information according to SFAS No. 35 disclosure requirements.

### Statement of Accumulated Plan Benefits

| | 1/01/2012 | 1/01/2013 |
|---|---|---|
| Investment Return Assumption | 6.25% | 5.50% |
| Actuarial present value of accumulated plan benefits | | |
| Vested Benefits | | |
| Participants currently receiving benefits | $ 1,739,662 | $ 2,398,581 |
| Other Participants | 16,664,525 | 23,114,920 |
| | $ 18,404,187 | $ 25,513,501 |
| Non-Vested Benefits | 3,913,054 | 4,063,111 |
| Total actuarial present value of accumulated plan benefits | $ 22,317,241 | $ 29,576,612 |

### Statement of Changes in Accumulated Plan Benefits

| | | |
|---|---|---|
| Actuarial present value of accumulated plan benefits at beginning of year | $ 18,103,956 | $ 22,317,241 |
| Increase (Decrease) attributable to: | | |
| Plan Amendment | 0 | 0 |
| Benefits Accumulated* | 3,491,027 | 4,013,848 |
| Benefits Paid | - 143,850 | - 177,164 |
| Change in Assumptions | 866,108 | 3,422,687 |
| Actuarial present value of accumulated plan benefits at end of year | $ 22,317,241 | $ 29,576,612 |

* Includes effect of interest and actuarial gains and losses.

**Exhibit 3 - Continued**

## SFAS No. 87 Pension Cost for 2013

| A. Reconciliation of Funded Status | 1/01/2013 | Projected 12/31/2013 |
|---|---|---|
| 1. Actuarial present value of accumulated benefit obligations | | |
| a. Vested portion | $ (25,513,501) | $ (29,793,386) |
| b. Non-Vested portion | (4,063,111) | (4,744,697) |
| 2. Accumulated Benefit Obligation | $ (29,576,612) | $ (34,538,083) |
| 3. Effect of estimated future pay growth | (8,437,770) | (9,853,205) |
| 4. Projected Benefit Obligation | $ (38,014,382) | $ (44,391,288) |
| 5. Plan assets at fair value | 31,295,784 | 37,417,245 |
| 6. Funded status: (4)+(5) | $ (6,718,598) | $ (6,974,043) |
| 7. Unrecognized net (gain) or loss | 9,784,072 | 9,432,152 |
| 8. Unrecognized prior service cost | (20,162) | (20,906) |
| 9. Unrecognized net obligation | 131,739 | 115,273 |
| 10. Accum. Comp. Other Income | 9,895,649 | 9,526,519 |
| 11. Total: (6) + (10) | $ 3,177,051 | $ 2,552,476 |

| B. Determination of Pension Cost | 2013 |
|---|---|
| 1. Service Cost | $ 4,259,566 |
| 2. Interest Cost (on A(4) and B(1)) | 2,319,508 |
| 3. Expected return on assets | (2,323,629) |
| 4. Amortization of | |
| a. Unrecognized net (gain) or loss | 351,920 |
| b. Unrecognized prior service cost | 744 |
| c. Unrecognized net obligation | 16,466 |
| 5. Net Periodic Pension Cost | $ 4,624,575 |

C. The assumptions are the same as those shown in Appendix E.

D. Unrecognized net obligation of $411,661 added 1/1/96, is amortized on a straight line basis over 25 years. Prior Service of $708,682 added 1/1/98 is amortized over 25 years. Prior service of $(469,257) added 1/1/07 is amortized over 17 years. 10% corridor used for unrecognized net (gain) or loss. Projected 12/31/13 assumes a 2013 contribution of $4,000,000 and net periodic pension cost of $4,624,575.

# Exhibit 4

## Employee Profile

Employee data needed for the valuation was obtained from the records furnished by the administrator. The following table shows a detailed breakdown of the present participants by the number of participants and current salary rate.

## Actives

*Years of Service*

| *Age* | | 0-4.9 | 5-9.9 | 10-14.9 | 15-19.9 | 20-24.9 | 25-29.9 | 30 and Over | Total |
|---|---|---|---|---|---|---|---|---|---|
| Under 25 | Count | 13 | 0 | 0 | 0 | 0 | 0 | 0 | 13 |
| | Salary | 642,904 | 0 | 0 | 0 | 0 | 0 | 0 | 642,904 |
| 25-29 | Count | 53 | 11 | 0 | 0 | 0 | 0 | 0 | 64 |
| | Salary | 3,242,542 | 801,287 | 0 | 0 | 0 | 0 | 0 | 4,043,829 |
| 30-34 | Count | 53 | 31 | 2 | 0 | 0 | 0 | 0 | 86 |
| | Salary | 3,588,420 | 2,591,450 | 135,596 | 0 | 0 | 0 | 0 | 6,315,466 |
| 35-39 | Count | 51 | 24 | 12 | 0 | 0 | 0 | 0 | 87 |
| | Salary | 3,521,328 | 2,060,433 | 1,042,538 | 0 | 0 | 0 | 0 | 6,624,299 |
| 40-44 | Count | 45 | 27 | 4 | 1 | 2 | 0 | 0 | 79 |
| | Salary | 3,754,263 | 2,479,618 | 379,340 | 107,200 | 371,600 | 0 | 0 | 7,092,021 |
| 45-49 | Count | 60 | 28 | 6 | 1 | 2 | 0 | 0 | 97 |
| | Salary | 5,104,226 | 2,497,342 | 776,840 | 167,300 | 465,000 | 0 | 0 | 9,010,708 |
| 50-54 | Count | 23 | 17 | 5 | 4 | 1 | 2 | 5 | 57 |
| | Salary | 1,918,059 | 1,700,530 | 554,888 | 396,118 | 123,000 | 260,912 | 864,429 | 5,817,936 |
| 55-59 | Count | 20 | 12 | 4 | 1 | 1 | 2 | 2 | 42 |
| | Salary | 1,648,486 | 1,360,765 | 403,697 | 84,800 | 118,800 | 466,480 | 228,900 | 4,311,928 |
| 60-64 | Count | 9 | 11 | 3 | 0 | 2 | 0 | 2 | 27 |
| | Salary | 788,222 | 1,089,345 | 513,782 | 0 | 274,497 | 0 | 210,455 | 2,876,301 |
| 65 & Over | Count | 1 | 3 | 3 | 1 | 0 | 0 | 2 | 10 |
| | Salary | 164,000 | 403,917 | 260,864 | 179,375 | 0 | 0 | 225,200 | 1,233,356 |
| Unknown Age | Count | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | Salary | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | Count | 328 | 164 | 39 | 8 | 8 | 4 | 11 | 562 |
| | Salary | 24,372,450 | 14,984,687 | 4,067,545 | 934,793 | 1,352,897 | 727,392 | 1,528,984 | 47,968,748 |

**Exhibit 4 - Continued**

## Participant Data as of January 1, 2013

| | Active | Retired | Terminated Vested | Total |
|---|---|---|---|---|
| Number of Participants at 1/1/2012 | 514 | 8 | 61 | 583 |
| New during year | + 66 | 0 | 0 | + 66 |
| Rehired | + 1 | 0 | - 1 | 0 |
| Terminated Vested | - 12 | 0 | + 12 | 0 |
| Terminated nonvested | - 6 | 0 | 0 | - 6 |
| Cashed out | 0 | 0 | 0 | 0 |
| Retired | - 1 | + 3 | - 2 | 0 |
| Died | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 |
| Number of Participants at 12/31/2012 | 562 | 11 | 70 | 643 |
| New Entrants on 1/1/2013 | + 0 | 0 | 0 | 0 |
| Number of Participants 1/1/2013* | 562 | 11 | 70 | 643 |

*Does not include 0 employees who failed to meet the age or service requirements for participation.

# Exhibit 5

## Principle Provisions of the Plan

| | |
|---|---|
| EFFECTIVE DATE: | January 1, 1996, adopted May 15, 1996. Restatement effective January 1, 1997, adopted December 19, 2001. Restatement effective January 1, 2008. |
| PARTICIPATION: | Employees at January 1, 1996, who were in the Entergy Corporation Retirement Plan for Non-Bargaining Employees are eligible on January 1, 1996. Any other employee is eligible to participate on the first day of the month after date of hire, or attainment of age 21, whichever is later. |
| PLAN YEAR: | January 1 to December 31. |
| COMPENSATION: | Base pay during the calendar year. |
| FINAL AVERAGE MONTHLY EARNINGS: | Average of the Participant's Compensation over the sixty consecutive completed calendar months, out of the last 120, that produces the highest average. |
| SERVICE: | A period of employment with Southwest Power Pool, Inc. For those Participants who were previously employed by a member company of Southwest Power Pool immediately prior to their being hired by Southwest Power Pool, such previous employment is also Service.<br>(a) Benefit Service is all Service after age 21.<br>(b) Vesting Service is all Service after age 18. |
| ACCRUED BENEFIT: | Benefit based on Final Average Monthly Earnings and Benefit Service to date. |

**Exhibit 5 - Continued**

| | |
|---|---|
| NORMAL RETIREMENT: | |
| Eligibility: | The first of the month on or after age 65. |
| Benefit: | 1.5% of Final Average Monthly Earnings, times Benefit Service not in excess of 40 years. This benefit is offset by the amount due at age 65 from any Southwest Power Pool member company defined benefit plan for which Service is granted under this plan. However, the net benefit cannot be less than the benefit based on Southwest Power Pool service only. |
| Form: | Life Annuity. |
| EARLY RETIREMENT: | |
| Eligibility: | Age 55 with 10 years of Service. |
| Benefit: | Accrued Benefit (unreduced for any prior plan benefits), reduced by a percentage for each year that the Early Retirement Date precedes the Normal Retirement Date, and then reduced for any member company defined benefit plan benefits payable at the Early Retirement Date. The percentage reduction is:<br>a) 2% for those who were age 45 with 5 years of service by December 31, 2006;<br>b) 6% for all others, except that the percentage is 2% for that part of the benefit accrued to December 31, 2006. |
| DEATH: | |
| Eligibility: | Death prior to the commencement of benefits. |
| Benefit: | The Pre-Retirement Joint and 50% Survivors Annuity |
| VESTING: | |
| Eligibility: | The vesting schedule is as follows: |

| Service | Vested Percentage |
|---|---|
| Under 3 years | 0% |
| 3 years or more | 100% |

| | |
|---|---|
| Benefit: | Accrued Benefit times the Vested Percentage, payable at Normal Retirement Age. Reduced amounts are payable if eligible for Early Retirement. |

# Appendix A

## Calculation of Contributions

| | | 2012 | 2013 |
|---|---|---|---|
| A. | Maximum tax deductible contribution (IRC 404(o)(2)) | | |
| | 1. Funding Target | $ 21,893,289 | $ 29,579,114 |
| | 2. Target Normal Cost | 2,611,168 | 3,166,265 |
| | 3. Cushion Amount | | |
| | a) 50% of Funding Target | 10,946,645 | 14,789,557 |
| | b) Amount Funding Target increases due to pay growth | 6,699,232 | 10,354,388 |
| | 4. Actuarial value of plan assets | 25,263,122 | 31,295,784 |
| | 5. Funding Target IF plan were "At Risk" | 26,780,209 | 34,629,469 |
| | 6. Maximum = (1)+(2)+(3)-(4), but not less than (5)+(2)-(4) | $ 16,887,212 | $ 26,593,540 |
| B. | Suggested contribution | | |
| | 1. Normal Cost for current group | $ 3,141,507 | $ 3,541,141 |
| | 2. Partial years cost for 50/22 expected new people | 155,000 | 70,000 |
| | 3. Amortization of Unfunded Actuarial Accrued Liability | 575,067 | 384,875 |
| | 4. Interest | 20,127 | 13,471 |
| | 5. Suggested contribution | $ 3,891,701 | $ 4,009,487 |
| C. | Minimum required contribution (IRC 430) | | |
| | 1. Target Normal Cost | $ 1,922,348 | $ 2,332,645 |
| | 2. Shortfall amortization charges (App E) | 0 | 0 |
| | 3. Waiver amortization charges (App E) | 0 | 0 |
| | 4. Subtotal (1)+(2)+(3) | $ 1,922,348 | $ 2,332,645 |
| | 5. Excess of actuarial value of asset (less credit balances ) over Funding Target | 590,990 | 0 |
| | 6. Minimum (beginning of year) = (4), or if (5) is greater than 0, then (1)-(5), but not less than $0. | $ 1,331,358 | $ 2,332,645 |

# Appendix B

## Costs and Liabilities

| | | 1/1/2012 | | 1/1/2013 |
|---|---|---|---|---|
| 1. Present Value of Future Benefits | | | | |
| A. Active Lives | $ | 61,223,608 | $ | 68,907,294 |
| B. Inactive Lives | | 3,944,970 | | 4,556,577 |
| C. Total Present Value | $ | 65,168,578 | $ | 73,463,871 |
| 2. Actuarial Accrued Liability | $ | 28,937,391 | $ | 33,515,182 |
| 3. Assets | | 25,263,122 | | 31,295,784 |
| 4. Unfunded Actuarial Accrued Liability (2 - 3) | $ | 3,674,269 | $ | 2,219,398 |
| 5. Entry Age Normal Cost | $ | 3,141,507 | $ | 3,541,141 |
| 6. Total Covered Salary | | 43,465,292 | | 47,968,748 |
| 7. Normal Cost Rate (5 / 6) | | .072276 | | .073822 |

Note: The "liabilities" shown on this page are not liabilities in the usual sense. These numbers are simply mathematical values derived in determining the maximum and minimum funding levels for the plan.

# Appendix C

## Development of Unfunded Actuarial Accrued Liability

| | | 2011 | | 2012 |
|---|---|---|---|---|
| (1) Unfunded Actuarial Accrued Liability beginning of year | $ | 999,789 | $ | 3,674,269 |
| (2) Normal Cost for year | | 2,726,090 | | 3,141,507 |
| (3) Contributions for year | | 3,133,122 | | 3,892,000 |
| (4) Interest on (1), (2), and (3) | | 55,739 | | 230,932 |
| (5) Other adjustments | | 0 | | 0 |
| (6) Expected Unfunded Actuarial Accrued Liability at end of year: (1)+(2)-(3)+(4)+(5) | $ | 648,496 | $ | 3,154,708 |
| (7) Gain/loss during year | | 3,025,773 | | - 935,310 |
| (8) Effect of changes in assumptions | | 0 | | 0 |
| (9) Unfunded Actuarial Accrued Liability at end of year | $ | 3,674,269 | $ | 2,219,398 |
| (10) Amortization period | | 8 | | 7 |
| (11) Amortization of Unfunded Actuarial Accrued Liability | $ | 575,067 | $ | 384,875 |

Note: The "liabilities" shown on this page are not liabilities in the usual sense. These numbers are simply mathematical values derived in determining the maximum and minimum funding levels for the plan.

# Appendix D

## IRC 430 Calculations

| | | | 2012 | | 2013 |
|---|---|---|---|---|---|
| A. | Segment Rates | | 5.54/6.85/7.52 | | 4.94/6.15/6.76 |
| | Equivalent rate | | 7.22% | | 6.51% |
| B. | Asset Information | | | | |
| | 1. Market Value of assets on valuation date | $ | 25,263,122 | $ | 31,295,784 |
| | 2. Actuarial Value of assets on valuation date | | 25,263,122 | | 31,295,784 |
| | 3. Carryover balance on valuation date | | 1,549,453 | | 1,681,931 |
| | 4. Pre-funding balance on valuation date | | 6,173,630 | | 9,307,093 |
| | 5. Security pledges & annuity purchases on non HCE's within last two years | | 0 | | 0 |
| C. | Funding Target (IRC 430(d)(1)) | $ | 16,949,049 | $ | 22,780,124 |
| D. | Target Normal Cost | $ | 1,922,348 | $ | 2,332,645 |
| E. | "At Risk" calculations (IRC 430 (i)) | | | | |
| | 1. Present value of accrued benefits under alternate assumptions | $ | 21,473,609 | $ | 27,580,522 |
| | 2. Loads | | | | |
| | a) $700 times number of participants | | 408,100 | | 450,100 |
| | b) 4% of (1) | | 858,944 | | 1,103,221 |
| | 3. Was plan "at risk" in 2 of last 4 years? | | NO | | NO |
| | 4. Funding target (1, +2 is 3=yes, and not less than C) | | 21,473,609 | | 27,580,522 |
| | 5. Target normal cost under alternate assumptions | | 2,275,798 | | 2,640,207 |
| | 6. 4% load | | 91,032 | | 105,608 |
| | 7. Target normal cost (5, +6 if 3=yes, and not less than D) | | 2,275,798 | | 2,640,207 |

## Appendix D - Continued

| | | 2012 | 2013 |
|---|---|---|---|
| F. | Various percentages | | |
| | 1. Funding Target Attainment Percentage for Year | | |
| | a. B(2) divided by C | 149.05% | 137.38% |
| | b. B(2)-B(3)-B(4), divided by C | 103.48% | 89.14% |
| | c. If a is greater than 100% then a, else b. | 149.05% | 137.38% |
| | 2. Adjusted Funding Target Attainment Percentage for Year B(2)-B(3)-B(4)+B(5), divided by C+B(5) [if 1(a) is greater than 100%, then 1(a)] | 149.05% | 137.38% |
| | 3. At Risk Funding Target Attainment Percentage for Year B(2)-B(3)-B(4), divided by E(1) | 81.68% | 73.62% |
| G. | "At Risk" test for next year | | |
| | 1. Minimum required Funding Target Attainment Percentage | 80% | 80% |
| | 2. Minimum required At Risk Funding Target Attainment Percentage | 70% | 70% |
| | 3. Does Plan have more than 500 participants? | YES | YES |
| | 4. Is plan "At Risk" for the next year? (If 1(c) > 80%, then "NO") | NO | NO |

# Appendix E

## Amortization of Shortfalls

| Item | Initial Amount | Date Added To Costs | 1/1/2013 Outstanding Balance | Amortization Period | Amortization Amount |
|---|---|---|---|---|---|
| 2) 2013 Shortfall | $ 0 | 1/1/2013 | $ 0 | 7 | $ 0 |

Shortfall amortization base for this year

| | | | |
|---|---|---|---|
| 1. | Funding Shortfall | | |
| | a) Funding Target from Appendix D | $ | ** |
| | b) Actuarial value of assets less carryover and prefunding balances | | ** |
| | c) Funding shortfall = (a)-(b), not less than $0 | $ | ** |
| 2. | Present value of remaining shortfall amortization installments | | 0 |
| 3. | Shortfall amortization base = (1)-(2), or $0 if (1)(b) is greater than Funding Target from Appendix D | | 0 |

**Exemption from establishing a base for 2013:

| | | |
|---|---|---|
| 1. | Plan Assets | 31,295,784 |
| 2. | Prefunding Balances used to reduce contributions for the plan year | 0 |
| 3. | Net Assets | 31,295,784 |
| 4. | Funding Target from Appendix D | 22,780,124 |
| 5. | Is plan exempt from establishing a shortfall base? If (3)>(4), then YES otherwise NO. | YES |

# Appendix F

## Contributions and Funding Balances

| Contributions for 2012: | CARRYOVER BALANCE | PRE-FUNDING BALANCE | TOTAL |
|---|---|---|---|
| 1) Minimum required contribution for 2012 | | | $ 1,331,358 |
| 2) Balances used to offset minimum | $ 0 | $ 0 | 0 |
| 3) Additional cash requirement (1) – (2) | | | 1,331,358 |
| 4) Contributions discounted to 1/1/12 | | | 3,761,518 |
| 5) Excess contributions (4) – (3) | | | $ 2,430,160 |

| Carryover and Pre-funding Balances: | CARRYOVER BALANCE | PRE-FUNDING BALANCE | TOTAL |
|---|---|---|---|
| 1) Balance at 1/1/2012 | $ 1,549,453 | $ 6,173,630 | $ 7,723,083 |
| 2) Portion used to offset 2012 funding requirement | 0 | 0 | 0 |
| 3) Amount Remaining | 1,549,453 | 6,173,630 | 7,723,083 |
| 4) Interest at 8.55% | 132,478 | 527,845 | 660,323 |
| 5) Subtotal | 1,681,931 | 6,701,475 | 8,383,406 |
| 6) Prior year's excess contributions | | 2,430,160 | 2,430,160 |
| 7) Interest on (6) at 7.22% | | 175,458 | 175,458 |
| 8) Subtotal (6) + (7) | | 2,605,618 | 2,605,618 |
| 9) Portion of (8) to be added to prefunding balance | | 2,605,618 | 2,605,618 |
| 10) Voluntary reduction | 0 | 0 | 0 |
| 11) Balance at 1/1/2013 (5) + (9) + (10) | $ 1,681,931 | $ 9,307,093 | $ 10,989,024 |

# Appendix G

## Top-Heavy Test for 2013 Plan Year

Determination Date: 12/31/12
Valuation Date: 1/01/13

Present Value of Accrued Benefits at 7% Interest - Actives

| | | | |
|---|---|---|---|
| 1) | Key Employees (16) | $ | 2,984,778 |
| 2) | Non-key Employees | | 12,691,507 |
| 3) | Total | $ | 15,676,285 |

Present Value of Accrued Benefits at 7% Interest – Inactives

| | | | |
|---|---|---|---|
| 1) | Key Employees (1) | $ | 49,540 |
| 2) | Non-key Employees | | 189,341 |
| 3) | Total | $ | 238,881 |

Benefit Payments Since 1/1/2012

| | | | |
|---|---|---|---|
| 1) | Key Employees (0) | $ | 0 |
| 2) | Non-key Employees (1) | | 6,794 |
| 3) | Total | $ | 6,794 |

Totals

| | | | |
|---|---|---|---|
| 1) | Key Employees | $ | 3,034,318 |
| 2) | Non-key Employees | | 12,887,642 |
| 3) | Total | $ | 15,921,960 |

Top-Heavy Ratio = Key / Total 19.1%

Note: These results should be combined with top-heavy test for 401(k) plan to determine whether the combined plans are top-heavy. If neither plan is top-heavy, the combined plans will not be top-heavy.

# Appendix H

## Actuarial Cost Methods and Assumptions

COST METHOD:

The "frozen initial liability method" has been used in your plan.

PRE-RETIREMENT MORTALITY:

Deaths have been projected on the basis of the 1994 Uninsured Pensioners Mortality Table ("1994 UP"). Mortality rates at a few sample ages are:

| AGE | MORTALITY RATE PER 1,000 |
|---|---|
| 25 | .711 |
| 30 | .862 |
| 35 | .915 |
| 40 | 1.153 |
| 45 | 1.697 |
| 50 | 2.773 |
| 55 | 4.758 |
| 60 | 8.576 |

For the Minimum and Maximum Contributions, we used the IRS annuitant and non-annuitant tables for 2013.

POST-RETIREMENT MORTALITY:

The 1994 Uninsured Pensioners Mortality Table was used. The life expectancy according to this table is as follows:

| Age | Males | Females |
|---|---|---|
| 55 | 25.49 years | 29.53 years |
| 65 | 17.26 years | 20.69 years |

For the Minimum and Maximum Contributions, we used the IRS annuitant and non-annuitant tables for 2013.

ASSUMED INVESTMENT RETURN:

7.00% annually before retirement, and 7.00% after retirement. For purposes of the accounting calculation in Exhibit 3, a discount rate of 5.50% and a long-range return on assets of 7.00% were used.

For purposes of calculating the Minimum and Maximum Contributions, the following segment rates were used:

| rates were used: | Min | Max |
|---|---|---|
| 1st segment (1-5 years) | 4.94% | 1.62% |
| 2nd segment (5-20 years) | 6.15% | 4.40% |
| 3rd segment (20+ years) | 6.76% | 5.45% |

The equivalent rate is 6.51%.

SALARY GROWTH: Salaries were assumed to increase 4.00% per year, (4.50% for the suggested contribution).

DISABILITIES: None assumed.

VOLUNTARY TERMINATIONS: For the suggested contribution, rates under the T-1 table in the Actuary's Handbook, minus mortality rates per the GA-51 table, but not less than 1%. Assumed termination rates at a few sample ages are:

| Age | Termination Rate per 1,000 |
|---|---|
| 25 | 49.1 |
| 30 | 36.6 |
| 35 | 22.9 |
| 40 | 10.4 |
| 45 | 10.0 |
| 50 | 10.0 |
| 55 | 10.0 |
| 60 | 10.0 |

EXPECTED RETIREMENT PATTERN: For the suggested contribution, we have assumed the following rates of retirement:

| Age | Retirement Rate |
|---|---|
| 55 – 61 | .10 |
| 62 | .25 |
| 63 | .15 |
| 64 | .15 |
| 65 | 1.00 |

ADMINISTRATIVE EXPENSES: These were assumed to be paid by the Sponsor.

ASSET VALUATION: Market Value

CONSIDERATION OF FUTURE MORTALITY IMPROVEMENTS:

The minimum and maximum contribution requirements are determined using mortality assumptions specified by the Internal Revenue Service. These assumptions do include anticipated mortality improvements up to the valuation date but not beyond.

Future mortality improvements were not considered in developing the suggested contribution or the financial statement items in Exhibit 3. A change in the life expectancy table would normally have the greatest impact on current retirees. This plan has few retirees and a relatively low average age. Thus, the liabilities are significantly more volatile with regards to the other assumptions (i.e., investment return, salary growth, retirement age and turnover) than mortality. In addition, the Society of Actuaries is currently doing one of the most extensive reviews of actual mortality in its history. It is expected that this study will result in a more current "base" mortality table and revised projection assumptions and methods. It is likely that these new tables would be a better basis for such mortality projections for this plan than those currently available.

**Osborn, Carreiro & Associates, Inc.**

ACTUARIES · CONSULTANTS · ANALYSTS

One Union National Plaza, Suite 1690
124 West Capitol Avenue
Little Rock, Arkansas 72201
(501) 376-8043
FAX (501) 376-7847

February 25, 2013

Mr. Tom Dunn
Southwest Power Pool
201 Worthen Drive
Little Rock, AR 72223-4936

RE: Retiree Medical Coverage - SFAS No. 106

Dear Tom:

Attached is my report on the 2013 net periodic postretirement benefit cost per Statement of Financial Accounting Standards Nos. 106, for the retiree medical coverage.

The attached report assumes a 5.50% discount rate. At the April 4, 2008 meeting of the Finance Committee, it was decided that the discount rate for these calculations should be based on the IRS 24-month average "third segment" rate for the prior September and October. That rate was 5.72% for September 2012, and 5.67% for October 2012. Accordingly, a discount rate of 5.50% was used for the 12/31/2012 disclosure items. The 2013 net periodic postretirement benefit cost using a 5.50% discount rate is $542,105.

The change from a 6.25% discount rate to a 5.50% discount rate increased the pension liability and accumulated other comprehensive income at December 31, 2012, by $1,007,418, and the net periodic post-retirement benefit cost for 2013 by $155,496.

Please let me know if you have any questions or comments.

Sincerely,

Steve Osborn, F.S.A., M.A.A.A.
Actuary

Attachment

**Osborn, Carreiro & Associates, Inc.**

ACTUARIES · CONSULTANTS · ANALYSTS

One Union National Plaza, Suite 1690
124 West Capitol Avenue
Little Rock, Arkansas 72201
(501) 376-8043
FAX (501) 376-7847

February 25, 2013

Mr. Thomas P. Dunn
Southwest Power Pool
201 Worthen Drive
Little Rock, AR 72223-4936

RE: Retirement Plan

Dear Mr. Dunn:

I have calculated the 2013 net periodic postretirement benefit cost per Statement of Financial Accounting Standards No. 106 and No. 158.

The results are shown on the attached sheets. The 2013 net periodic post-retirement benefit cost will be $542,105. All employees hired before June 1, 2006 are entitled to postretirement medical coverage upon reaching normal retirement age and 10 years of vested service with Southwest Power Pool, while those employees hired before January 1, 1996 are eligible for postretirement medical coverage upon reaching age 55 and accruing 10 years of vested service with Southwest Power Pool.

The calculations incorporate various actuarial assumptions. In particular, I assumed a 5.50% discount rate and a 7.0% investment return on plan assets. The health care cost trend rate was assumed to increase 10% next year, 9% the following year, and so on, decreasing to an ultimate 5% assumption in five years.

The health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, increasing the health care cost trend rate by one percentage point each year would increase the accumulated post-retirement benefit obligation as of January 1, 2013 by $1,702,363, and the 2013 net periodic postretirement benefit cost by $289,340.

Please let me know if you have any questions or comments.

Sincerely,

Steve Osborn

Steve Osborn, F.S.A., M.A.A.A.
Actuary

Attachments

## EXHIBIT 1

## SFAS NO. 106 COST FOR 2012 AND 2013

| A. Reconcilliation of Funded Status | | 1/1/12 | | 1/1/13 | | Projected 12/31/13 |
|---|---|---|---|---|---|---|
| 1. Actuarial present value of accumulated post-retirement benefit obligations | | | | | | |
| a. Retirees | $ | ( 713,575) | $ | ( 633,399) | $ | -- |
| b. Fully eligible active employees | | ( 718,105) | | (1,203,057) | | -- |
| c. Other active employees | | (4,518,366) | | (5,516,607) | | -- |
| d. Subtotal | $ | (5,950,046) | $ | (7,353,063) | | (8,438,820) |
| 2. Plan assets at fair value | | 6,750,553 | | 7,963,051 | | 9,053,231 |
| 3. Funded Status: (1)+(2) | $ | 800,507 | $ | 609,988 | $ | 614,411 |
| 4. Unrecognized net (gain) or loss | | ( 809,932) | | ( 615,202) | | ( 615,202) |
| 5. Unrecognized prior service cost | | 0 | | 0 | | 0 |
| 6. Unrecognized net obligation or (net asset) | | 39,817 | | 35,394 | | 30,971 |
| 7. Subtotal (4) + (5) + (6) | | ( 770,115) | | ( 579,808) | | ( 584,231) |
| 10. Total: (3) + (7) | $ | 30,392 | $ | 30,180 | $ | 30,180 |

Projected at 12/31/13 assumes a contribution equal to the NPPBC

# SOUTHWEST POWER POOL
# RETIREMENT PLAN

## SFAS No. 158 Items

| | | Post-Retirement Medical Asset on Balance Sheet | Accumulated Other Comp. Income (loss) Post-Retirement Medical Part | Total |
|---|---|---|---|---|
| B. | Reconcilliation | | | |
| 1. | Balance 12/31/11 | $ 800,507 | $ ( 770,115) | $ 30,392 |
| 2. | Change in discount rate | (1,007,418) | 1,007,418 | 0 |
| 3. | Net periodic post-retirement benefit cost for 2012 | ( 471,892) | 2,676 | ( 469,216) |
| 4. | Cash contribution in 2012 | 469,004 | 0 | 469,004 |
| 5. | Deferred investment gain for 2012 | 280,810 | ( 280,810) | 0 |
| 6. | Other gain | 538,977 | ( 538,977) | 0 |
| 7. | Balance 12/31/12 | $ 609,988 | $ ( 579,808) | $ 30,180 |

Note: The above does not include any tax effects.

## SFAS No. 158 Implementation

| C. Disclosure of SFAS 106 Benefit Cost | | 2011 | 2012 |
|---|---|---|---|
| 1. Service Cost | $ | 553,735 | 555,344 |
| 2. Interest Cost | | 380,336 | 406,587 |
| 3. Actual Return on Assets | | 114,590 | ( 770,849) |
| 4. Net amortization and deferral | | | |
| a. Deferral <a> | | ( 582,890) | 280,810 |
| b. Net loss recognition | | ( 25,635) | ( 7,099) |
| c. Prior service cost amort. | | 0 | 0 |
| d. Transition (asset) amort. | | 4,423 | 4,423 |
| e. Subtotal | | ( 604,102) | 278,134 |
| 5. Net Periodic Postretirement Benefit Cost | $ | 444,559 | 469,216 |

| | | |
|---|---|---|
| <a> Actual Return on asets | ( 114,590) | 770,849 |
| Expected return on assets | 468,300 | 490,039 |
| Deferral | ( 582,890) | 280,810 |

| D. Determination of SFAS 106 Cost for next year | | 2012 | | 2013 |
|---|---|---|---|---|
| 1. Service Cost | $ | 555,344 | $ | 672,460 |
| 2. Interest Cost (on A(4) and B(1)) | | 406,587 | | 440,652 |
| 3. Expected return on assets | | ( 490,039) | | ( 575,430) |
| 4. Amortization of | | | | |
| a. Unrecognized net (gain) or loss | | ( 7,099) | | 0 |
| b. Unrecognized prior service cost | | 0 | | 0 |
| c. Unrecognized net obligation or (net asset) | | 4,423 | | 4,423 |
| 5. Net Periodic Postretirement Benefit Cost | $ | 469,216 | $ | 542,105 |

## EXHIBIT 2

## PARTICIPANT DATA

A. The following participant data was used:

| | January 1 2012 | January 1 2013 |
|---|---|---|
| Number of Active Employees | 146 | 142 |
| Number of Retirees Covered | 5 | 5 |

B. Projected premium payment

| | | |
|---|---|---|
| 1st year | $ 58,000 | $ 68,000 |
| 2nd year | 87,000 | 116,000 |
| 3rd year | 104,000 | 143,000 |
| 4th year | 119,000 | 172,000 |
| 5th year | 134,000 | 207,000 |
| 6th through 10th year | 1,457,000 | 1,611,000 |

## EXHIBIT 3

## ACTUARIAL ASSUMPTIONS

DISCOUNT RATE: A discount rate of 5.50% was used for the 2013 Benefit Cost and the December 31, 2012 disclosures. A rate of 6.25% was used for the 2012 Benefit Cost and the December 31, 2011 disclosures. The expected return on assets was assumed to be 7.00%.

HEALTH CARE COST TREND RATE: "Medical inflation" was assumed to be 10.0% for the next year, 9.0% in the second year, 8.0% in the third year, 7.0% in the fourth year, 6.0% in the fifth year, and 5.0%/year thereafter.

BASE CLAIM COSTS: The following monthly base claim costs were assumed for 2013:

| | Total | Paid by Employee |
|---|---|---|
| Single, with Medicare | $ 382.07 | $ 85.96 |
| Family, with Medicare | 852.07 | 191.71 |
| Single, no Medicare | 382.07 | 85.96 |
| Family, no Medicare | 1,190.31 | 267.81 |

SELECTION OF COVERAGE: We assumed that 100% of eligible retirees would select the coverage.

DATA USED: We received a census listing from the company. The data is summarized in Exhibit 2.

PRE-RETIREMENT MORTALITY: Deaths have been projected on the basis of the 1994 Uninsured Pensioners Mortality Table ("1994 UP"). Mortality rates at a few sample ages are:

| AGE | MORTALITY RATE PER 1,000 |
|---|---|
| 25 | .711 |
| 30 | .862 |
| 35 | .915 |
| 40 | 1.153 |
| 45 | 1.697 |
| 50 | 2.773 |
| 55 | 4.758 |
| 60 | 8.576 |

Exhibit 3 (continued)

POST-RETIREMENT MORTALITY: The 1994 Uninsured Pensioners Mortality Table was used. The life expectancy according to this table is as follows:

| AGE | MALES | FEMALES |
|---|---|---|
| 55 | 25.49 years | 29.53 years |
| 65 | 17.26 years | 20.69 years |

DISABILITIES: None assumed.

VOLUNTARY TERMINATIONS: Rates under the T-1 table in The Actuary's Handbook, minus mortality rates per the Ga51 table, but not less than 1%. Assumed termination rates at a few sample ages are:

| AGE | TERMINATION RATE PER 1,000 |
|---|---|
| 25 | 49.1 |
| 30 | 36.6 |
| 35 | 22.9 |
| 40 | 10.4 |
| 45 | 10.0 |
| 50 | 10.0 |
| 55 | 10.0 |
| 60 | 10.0 |

EXPECTED RETIREMENT PATTERN: We have assumed the following rates of retirement:

| AGE | RETIREMENT RATE |
|---|---|
| 55 – 61 | .10 |
| 62 | .25 |
| 63 | .15 |
| 64 | .15 |
| 65 | 1.00 |

**Southwest Power Pool, Inc.**

**INTEGRATED MARKETPLACE PROGRAM**

**Recommendation to the Board of Directors**

**April 30, 2013**

## Budget Modification

**Background**

In April 2011, the Board of Directors and Members Committee authorized SPP to commence the build and implementation of the Integrated Marketplace and the Consolidated Balancing Authority, with a budget of $105.6 million. This amount was $9.4 million less than the original project estimate reflecting reductions in scope, hardware and software licenses, and removal of non-capital expenditures. The overall market design was documented based on SPP's understanding of general benefits and costs, while specific market rules (protocols, and tariff rates, terms and conditions) were still under development by SPP organizational groups. Given the uncertainty in final software design parameters and in an effort to avoid an unknown premium associated with a fixed-price contract, SPP entered into a time and materials agreement, thereby owning the majority of risk for the final details of market design. This was deemed prudent because SPP's overall market design was then substantially similar to other regional markets already in operation and was expected to require little customization. FERC conditionally accepted the Integrated Marketplace tariff language in October 2012, subject to certain modifications, and issued a final order in March 2013.

**Development Status**

In late 2012, market system component and functionality delays became apparent due to a variety of reasons described in the table below. These delays caused increases in cost projections resulting primarily from the cumulative impact on development and testing of downstream systems. To minimize overall schedule impacts a plan was developed to accept partially functional releases of the market system so as to start some system and integration testing, fix any problems identified, and start market trials with base system functionality; additional features would be added to the market system through a series of software releases delivered to support final functionality throughout market trials.

Excluding the market system, all major software functions have been delivered and initial testing either completed or substantially completed. Some of these systems require software fixes still under development with fine-tuning and performance enhancements pending. Integration of the various software systems is in progress. Market system testing is in progress and early results support the start of structured market trials in June as scheduled. The remaining software scoped for the market system includes applications needed for parallel operations, which start in November. These are study applications and post assessment tools needed by staff that will be provided in monthly releases through September; these are not Market Participant impacting. In May the Go-Live Team will make the final decision to proceed with the start of structured market trials on June 3.

| System | Development Status |
|---|---|
| Market | Completed installation of the first major release. Testing and performance verification in progress. Expecting release patches on the first Friday of each month for remaining functions and applications needed for post parallel operations, and release patches through September. |
| Consolidated Balancing Authority | System installed; monitoring execution of software in integration. |
| Settlements | System installed; final testing, system fine-tuning and performance enhancements in progress. |
| Registration | System installed; testing completed with exception of full integration. |
| Credit & Risk Management | System installed; testing on the initial system is completed. Integration testing phase and testing of patches in progress. |
| EMS | EMS system upgrade installed; preparing for integration testing. |
| Integration Services | Completed two of three integration waves. Focusing on the final integration wave of systems integration. |
| TCR | System installed; completing final integration testing. |

**Analysis**

Direct Market Design Impacts

Program management identified program savings of $3.4 million during the development effort while maintaining expected functionality and schedule. These favorable budget variances came from better than expected time and material estimates, software vendors delivering for less than the original budget, and reductions in the need for certain consultants.

There have also been unfavorable budget variances. A significant increase occurred for the Post Operations Pre-Settlement system because the initial scope was underestimated. Other increases resulted from software licenses as systems and databases expanded beyond original projections. Overall the Integrated Marketplace was initially intended to be based on off-the-shelf designs from other markets. However, final system design was modified in several program areas because it made good business sense to make the change, and/or because previously used designs, operating systems or hardware were no longer available. Taken individually none of these improvements were significant changes, but they have impacted the ability to rapidly develop market system software. Specifically:

- IT architecture is using an enhanced Oracle database configuration, virtual machine technology, a new market user interface, and new vendor system components, each representing current technologies and improvements over previous market installations.

- The EIS market has functionality that SPP required to be maintained that is specific to SPP in usability, and current business practices.

- Final stakeholder-determined design elements required to go live include jointly-owned generating unit modeling, specialized support for demand response, market monitoring unit functionality, separation of regulation up and down, wind generation management, data integration for reserve sharing, and constraint activation management, all advancements as compared to previous market installations.

- Improvements in engineering precision in market design were made for generation ramp curves, zonal requirements, constraint parallel flow monitoring and more robust loss calculations.

The net variance resulting from design impacts is an increase of $3.2 million.

Delay Impacts

Market system delivery was scheduled for November 2012; it occurred March 2013. Market system delays have impacted project costs in several ways. First, the primary system vendor extended the development time and continues to retain staff to complete system delivery. In addition, SPP's initial program plan assumed testing and integration efforts would begin to ramp down as market trials commenced, allowing resources to be reallocated to market trials and documentation. Under the revised plan, the duration of testing and integration efforts has increased to support a multiple software release strategy and give market participants ample time to test their systems prior to go-live. SPP now projects the need to extend other consultants working to support testing in multiple areas since the market system is the core engine feeding information to all other systems. Additional support is now required to complete preparations for structured market trials and development of operational documentation in the compressed timeframe.

The net variance resulting from the market system delay is an increase of $6.2 million.

| Category | Capital Project Cost |
|---|---|
| Variance due to design impacts | $3.2 million |
| Variance due to market system delay | $6.2 million |

**Recommendation**

SPP staff recommends a modification of the Integrated Marketplace capital budget to a total of $115 million, representing a 9% increase.

**Finance Committee:** Approved April 9, 2013

**Action Requested:** Approve Recommendation

**Southwest Power Pool, Inc.**

**FINANCE COMMITTEE**

**Report to the Board of Directors**

**April 30, 2013**

# Aircraft Acquisition

**Organizational Roster**

The following persons are members of the Finance Committee:

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

**Background**

SPP's Board of Directors, in 2007, approved an initiative for SPP to acquire an aircraft to facilitate staff's travel throughout the SPP footprint. SPP ultimately didn't act on this approval due to the inability to insure the aircraft with limits to comply with the attachment point on SPP's corporate excess liability policy.

SPP has re-analyzed the utility of a corporate aircraft in conjunction with renewed corporate focus on member engagement.

**Analysis**

The following "SPP Aircraft Acquisition Preliminary Analysis" document discussed the business premises, assumptions, intangible benefits, and alternatives of a corporate aircraft acquisition. The data from this analysis indicates cost savings (compared to a commercial travel baseline) if SPP owned and used a 6 seat single engine turbo propeller aircraft or a 6 seat single engine piston propeller aircraft which is pressurized and possesses capability of safe flight in most weather situations.

**Recommendation**

The Finance Committee recommends the SPP Board of Directors approve the acquisition of a Piper Meridian turbo prop aircraft and that the Board of Directors authorizes the Finance Committee to oversee the final details of the acquisition included the specific aircraft, policies governing uses, maintenance, pilot requirements, insurance, etc.

**Approved:** Finance Committee

**Action Requested:** Approve Recommendation

# SPP Aircraft Acquisition Preliminary Analysis

Jan. 17, 2013

**Business Premise:**

- An objective of SPP in the coming years is to more proactively reinforce Executive relationships with our Members and to communicate the value of SPP membership to target audiences
  - Our Members
  - Prospective Members
  - Governmental Officials (State Commissions/Legislatures, Federal Regulators)
- Several members of our of our target audience are located in places that do not have frequent and inexpensive commercial air service alternatives.
- Access to a company owned aircraft that could transport up to five or more passengers would help facilitate the achievement of this objective while maximizing the productivity of senior SPP Executives/Board Members involved in relationship development and Value Communication.
- Additionally, using this aircraft to transport SPP staff to various Committee meetings, Working Group meetings and Task Force meetings could help improve the financial effectiveness of this business strategy.
- SPP would leverage its low cost of capital and purchase an appropriate aircraft.

**Analysis Assumptions:**

- A full-time pilot would fly the plane, arrange for scheduled aircraft maintenance and administer the business rules for flight booking and coordination.
- The analysis uses estimated costs for aircraft acquisition and an estimated residual value of the aircraft after 10 years. Estimated residual values based on input from aircraft dealers and research of similar aircraft value erosion over a (7) to (10) year period. Annual cost of invested capital and estimated annual value loss are included in the Fixed Costs.
- Available industry aircraft operating and maintenance cost information and published aircraft performance characteristics were used for the comparative analysis.
- Baseline costs were estimated for meeting the above Communication/Relationship development objective utilizing commercial air.
- The costs of (12) alternative solutions were developed

| Aircraft Name/Model | New | Used | Aircraft Type |
|---|---|---|---|
| Piper Mirage | X | X | Single Piston Engine |
| Piper Meridian | X | X | Single Turboprop Engine |
| Cessna 421C | | X | Twin Piston Engines |
| Socata TBM | 850 | 700C | Single Turboprop Engine |
| Pilatus PC-12 | | X | Single Turboprop Engine |
| King Air C90B | | X | Twin Engine Turboprop |
| King Air C90GT | X | X | Twin Engine Turboprop |
| King Air B200 | | X | Twin Engine Turboprop |

**Assumptions (con't)**

- The potential annual passenger load volume by meeting location to support the communication and relationship objective and provide multiple passenger transportation to meetings developed. The analysis assumes that this aircraft would make 152 trips, carry 620 passengers and fly for 578 hours per year (based on Piper Mirage speed).
- In recognition of the increased travel flexibility and efficiency, expense savings on hotel nights and meals were estimated and netted against the cost of the SPP Air operation.
- The total annual costs of each aircraft type was developed based on the passenger load, annual fixed costs and variable costs per hour less the hotel/meal offset. This produced a hard dollar comparison of each aircraft alternative versus the commercial air alternative.
- In addition, one of the primary benefits of this aircraft support strategy is to improve the efficiency and effectiveness of our Executives, Board Members and staff as they are traveling. The decrease in travel time associated with the schedule flexibility of having your own aircraft is estimated to conservatively save 2,000 staff hours (heavily weighted to SPP executives and senior staff) at an annual value of $183,000 for the Piper Mirage speed alternative.
- The net annual costs of each aircraft alternative including the soft dollar staff productivity savings was compared to the Commercial air baseline.

| Aircraft Alternative | Annual Cost (Hard $ Savings Only) | Annual Cost (Hard and Soft $ Savings) | Cost Variance vs. Commercial Option (Hard & Soft Savings) | Avg Estimated Flight times from | | |
|---|---|---|---|---|---|---|
| | | | | (Hours) LIT-BIS | (Hours) LIT–OMA | (Hours) LIT-MCI |
| Commercial Baseline | $ 232,500 | $ 232,500 | --- | | | |
| Piper Mirage - Used | $ 306,515 | $ 123,105 | ( $109,395 ) | 4.38 | 2.32 | 1.61 |
| Piper Mirage - New | $ 343,765 | $ 160,355 | ( $72,145 ) | 4.38 | 2.32 | 1.61 |
| Piper Meridian - Used | $ 413,459 | $ 199,442 | ( $ 33,058 ) | 3.67 | 1.95 | 1.35 |
| Piper Meridian - New | $ 455,459 | $ 241,442 | $ 8,942 | 3.67 | 1.95 | 1.35 |
| Cessna 421C - Used | $ 450,601 | $ 263,220 | $ 30,720 | 4.29 | 2.27 | 1.58 |
| Socata TBM 700C - Used | $ 510,569 | $ 278,257 | $ 45,757 | 3.25 | 1.72 | 1.19 |
| Socata TBM 850 - New | $ 601,569 | $ 369,007 | $ 136,507 | 3.25 | 1.72 | 1.19 |
| Chartered Aircraft | $ 645,202 | $ 453,086 | $ 220,586 | | | |
| Pilatus PC-12 - Used | $ 682,683 | $ 451,497 | $ 218,997 | 3.28 | 1.74 | 1.20 |
| King Air C90B - Used | $ 689,569 | $ 497,453 | $ 264,953 | 4.18 | 2.21 | 1.54 |
| King Air C90GT - Used | $ 710,074 | $ 481,783 | $ 249,283 | 3.34 | 1.77 | 1.23 |
| King Air C90GT - New | $ 830,574 | $ 602,283 | $ 369,783 | 3.34 | 1.77 | 1.23 |
| King Air B200 | $ 783,529 | $ 541,839 | $309,339 | 3.03 | 1.61 | 1.12 |

**Intangible Considerations:**

- Business travel takes a toll on those individuals that must travel frequently. Heavy travel means time away from family and other community related activities. Heavy travel also means significant time away from on-site management and leadership responsibilities.
- Traveling by commercial airlines introduces a certain amount of inflexibility due to limited service schedules for traveling to SPP's target audience – several destinations requiring long layovers and essentially a full day trip to get to/from Little Rock to the target audience. Productivity improvement associated with private aircraft travel has been estimated and included as a "soft dollar benefit" in the economic analysis.
- Flying on private aircraft will minimize the frequency of travel disruptions, delays and cancellations that can prevent business meetings from happening or happening as planned by both parties.
- Having increased flexibility associated with flying private aircraft also enables SPP to better leverage the available time of Officers, Board Members and Senior Staff and increases the number of communication/relationship development calls that SPP is able to make in a year.
- Intangible benefits summary of more flexible travel options:
    - Increased quality of life and better employee engagement of senior SPP staff, Officers and Board members
    - Fewer travel disruptions, delays and cancelations
    - Less time away from the office and more staff "face time"
    - Increased ability/flexibility to execute the plan to better communicate SPP value to target audiences and to proactively develop member relationships

**Other Decision Making Considerations (trade-offs)**

- **Speed of Aircraft – impacts productivity and quality of life**
- **Total Cost – Fixed Costs and Variable Costs**
- **Comfort – Space, appointments, lavatory, total take-off weight (baggage and people)**
- **Safety – Safety record of aircraft**

- **King Airs, TBMs and Pilatus are speedier than the Piper Mirage/Meridian and Twin Cessna.**
- **Twin Engine aircraft have higher variable costs as two engines use more fuel than single and there are more engines to maintain.**
- **New planes have higher fixed costs because they are more expensive to buy.**
- **The King Airs and Pilatus have provisions for very small lavatories on board. Cessna has a seat configuration that will accommodate a lavatory in the main cabin.**
- **There is no discernible difference in the safety records between single and twin engine aircraft.**
- **The TBMs and Cessna have the least roomy cabins. All others are similar.**

# Airplane Alternatives Evaluated

Piper Mirage or

Piper Meridian

Cessna 421C

Socata TBM

700C or 850

King Air C90B

Or C90GT

King Air B200

# ROUTE MAP

Bismark
Chicago
Columbus
Omaha
Lincoln
Denver
Topeka
Kansas City
Jefferson City
Wichita
Springfield
To Washington D.C.
Santa Fe
Tulsa
Oklahoma City
Amarillo
Anadarko
Little Rock
Dallas
Longview
Jackson
To Orlando
N
Austin
0 40 80 160 240 320 Miles
Created April 2013
Lafayette
New Orleans
Copyright 2013 by Southwest Power Pool, Inc. All rights reserved.

**1/17/2013** **Analysis of SPP Aircraft Acquisition Alternatives**

| Cost Savings | Piper Mirage | Piper Meridian | Cessna 421C | Socata TBM 850 new 700 C2 used | Pilatus PC-12 | King Air C90B | King Air C90GT | King Air B200 |
|---|---|---|---|---|---|---|---|---|
| **Aircraft Type** | **Single Piston** | **Single Turbo** | **Twin Piston** | **Single Turbo** | **Single Turbo** | **Twin Turbo** | **Twin Turbo** | **Twin Turbo** |
| **New** | | | | | | | | |
| Acquisition Cost (est) | **$ 1,200,000** | $ 2,000,000 | NA | $ 3,300,000 | $ 4,582,000 | NA | $ 3,000,000 | NA |
| Residual Cost - 10 yr (est) | **$ 780,000** | $ 1,500,000 | NA | $ 2,475,000 | $ 2,978,300 | NA | $ 1,800,000 | NA |
| **Used** | | | | | | | | |
| Acquisition Cost (est) | **$ 850,000** | **$ 1,200,000** | **$ 525,000** | **$ 1,650,000** | **$ 2,300,000** | **$ 1,650,000** | **$ 1,900,000** | **$ 3,000,000** |
| Residual Cost - 10 yr (est) | **$ 680,000** | **$ 840,000** | **$ 341,250** | **$ 1,155,000** | **$ 1,150,000** | **$ 1,320,000** | **$ 1,520,000** | **$ 2,400,000** |
| Maximum Passengers (1 pilot in # shown) | 6 | 6 | 7 | 6 | 7 | " 6 - 7 | 7 | " 7 - 9 |
| Lavatory Possible | No | No | Possible-Public | No | Lavatory | Lavatory | Lavatory | Lavatory |
| Trips | 152 | 152 | 152 | 152 | 152 | 152 | 152 | 152 |
| Annual Hours | 578 | 485 | 566 | 429 | 432 | 551 | 441 | 400 |
| Total Passengers Carried | 620 | 620 | 620 | 620 | 620 | 620 | 620 | 620 |
| Top Speed (kts) | 223 | | 220 | 300 | 280 | 246 | 290 | 300 |
| Cruise Speed (kts) | 217 | 238 | 213 | 265 | 263 | 223 | 250 | 278 |
| Avg Trip Speed (kts) | 187 | 223 | 191 | 252 | 250 | 196 | 245 | 270 |
| * 200-300 nm trip | | | | | | | | |
| Range 9NM0 | 1000 | 1000 | 1100 | 1565 | 1795 | 1207 | 1124 | 1974 |
| Cabin Height | 4' 10" | 4' 10" | 4' 3" | 4' 0" | 5' 0" | 4' 10" | 4' 10" | 4' 10" |
| Cabin Width | 4' 6" | 4' 6" | 4' 7" | 3' 11" | 4' 10" | 4' 6" | 4' 6" | 4' 9" |
| Service Ceiling | 25,000 ft | 30,000 ft | 30,000 ft | 30,000 ft | 30,000 ft | 30,000 ft | 35,000 ft | 35,000 ft |
| **Variable Costs** | | | | | | | | |
| Fuel Type | 100LL | Jet A | 100LL | Jet A | Jet A | Jet A | Jet A | Jet A |
| Fuel and Oil costs/hr | $ 180 | $ 281 | $ 322 | 416 | $ 456 | 515 | $ 602 | 767 |
| Maintenance Costs/hr | $ 116 | $ 215 | $ 262 | 282 | $ 392 | 374 | $ 515 | 443 |
| Total Variable/hr | $ 296 | $ 496 | $ 584 | $ 698 | $ 848 | $ 889 | $ 1,117 | $ 1,210 |
| **Total Variable Cost per Year** | $ 171,088 | $ 240,256 | $ 330,483 | $ 299,381 | $ 366,628 | $ 490,247 | $ 492,784 | $ 484,385 |

**Note: Estimated Commercial Airlines Cost for the above 620 person trips is estimated to cost approximately $230,000.**

| 1/17/2013 | Piper Mirage | Piper Meridian | Cessna 421C | Socata TBM 850 new 700 C2 used | Pilatus PC-12 | King Air C90B | King Air C90GT | King Air B200 |
|---|---|---|---|---|---|---|---|---|
| Fixed Costs- New | $ 214,250 | $ 258,044 | NA | $ 344,779 | $ 484,137 | NA | $ 380,632 | NA |
| Fixed Costs- Used | $ 177,000 | $ 216,044 | $ 161,691 | $ 254,029 | $ 358,897 | $ 241,529 | $ 260,132 | $ 341,985 |
| **Cost Offsets** | | | | | | | | |
| **Reduction in Meals/Lodging Costs** | **$ (41,573)** | **$ (42,842)** | **$ (41,573)** | **$ (42,842)** | **$ (42,842)** | **$ (42,207)** | **$ (42,842)** | **$ (42,842)** |
| Standard Trips | $ (28,881) | $ (28,881) | $ (28,881) | $ (28,881) | $ (28,881) | $ (28,881) | $ (28,881) | $ (28,881) |
| Difficult trips | $ (12,692) | $ (13,961) | $ (12,692) | $ (13,961) | $ (13,961) | $ (13,327) | $ (13,961) | $ (13,961) |
| **Hard Dollar Cost Analysis** | | | | | | | | |
| **Net Annualized Cost-Hard Dollars** | | | | | | | | |
| New (Fixed+Var-Meals/Lodging) | $ 343,765 | $ 455,459 | NA | $ 601,319 | $ 807,923 | NA | $ 830,574 | NA |
| Used (Fixed+Var-Meals/Lodging) | $ 306,515 | $ 413,459 | $ 450,601 | $ 510,569 | $ 682,683 | $ 689,569 | $ 710,074 | $ 783,529 |
| **Soft Dollar Savings** | **$ (183,411)** | **$ (214,016)** | **$ (187,381)** | **$ (232,311)** | **$ (231,186)** | **$ (192,116)** | **$ (228,292)** | **$ (241,690)** |
| Productivity Offset vs. Commercial | $ (183,411) | $ (183,411) | $ (183,411) | $ (183,411) | $ (183,411) | $ (183,411) | $ (183,411) | $ (183,411) |
| Productivity Adder - Plane Airspeed | | $ (30,605) | $ (3,970) | $ (48,901) | $ (47,775) | $ (8,705) | $ (44,881) | $ (58,280) |
| **Net Annualized Cost (w/soft $ impact)** | | | | | | | | |
| New | $ 160,355 | $ 241,442 | NA | $ 369,007 | $ 576,737 | NA | $ 602,283 | NA |
| Used | $ 123,105 | $ 199,442 | $ 263,220 | $ 278,257 | $ 451,497 | $ 497,453 | $ 481,783 | $ 541,839 |
| **Variance of Net Cost to Commercial** | | | | | | | | |
| New | $ (72,145) | $ 8,942 | NA | $ 136,507 | $ 344,237 | NA | $ 369,783 | NA |
| Used | $ (109,395) | $ (33,058) | $ 30,720 | $ 45,757 | $ 218,997 | $ 264,953 | $ 249,283 | $ 309,339 |
| **Representative Flight Times(1-way)** | | | | | | | | |
| LIT-Kansas City | 1.61 | 1.35 | 1.58 | 1.19 | 1.20 | 1.54 | 1.23 | 1.12 |
| LIT-Denver | 3.58 | 3.00 | 3.51 | 2.66 | 2.68 | 3.42 | 2.73 | 2.48 |
| LIT-New Orleans | 1.63 | 1.37 | 1.60 | 1.21 | 1.22 | 1.56 | 1.24 | 1.13 |
| LIT-Omaha | 2.32 | 1.95 | 2.27 | 1.72 | 1.74 | 2.21 | 1.77 | 1.61 |
| LIT-Bismark | 4.38 | 3.67 | 4.29 | 3.25 | 3.28 | 4.18 | 3.34 | 3.03 |
| LIT-Wash DC | 4.40 | 3.69 | 4.31 | 3.27 | 3.29 | 4.20 | 3.36 | 3.05 |

**Note: Estimated Commercial Airlines Cost for the above 620 person trips is estimated to cost approximately $230,000.**

| 1/17/2013 | Piper Mirage | Piper Meridian | Cessna 421C | Socata TBM 850 new 700 C2 used | Pilatus PC-12 | King Air C90B | King Air C90GT | King Air B200 |
|---|---|---|---|---|---|---|---|---|
| **Fixed Cost Summary** | | | | | | | | |
| Amortization of costs-used (see below) | $ 46,750 | $ 78,000 | $ 36,750 | $ 107,250 | $ 195,500 | $ 90,750 | $ 104,500 | $ 165,000 |
| Pilot salary/benefits-Mkt Rate | $ 87,750 | $ 87,750 | $ 87,750 | $ 87,750 | $ 87,750 | $ 87,750 | $ 87,750 | $ 87,750 |
| Insurance | $ 19,000 | $ 19,000 | $ 19,000 | $ 19,000 | $ 19,000 | $ 19,000 | $ 19,000 | $ 19,000 |
| Insurance adder | | $ 3,500 | $ (3,250) | $ 8,000 | $ 14,500 | $ 8,000 | $ 10,500 | $ 21,500 |
| Property Taxes | $ 8,000 | $ 8,000 | $ 8,000 | $ 8,000 | $ 8,000 | $ 8,000 | $ 8,000 | $ 8,000 |
| Property Tax Adder | | $ 3,294 | $ (3,059) | $ 7,529 | $ 13,647 | $ 7,529 | $ 9,882 | $ 20,235 |
| Hanger Rent | $ 7,000 | $ 7,000 | $ 7,000 | $ 7,000 | $ 7,000 | $ 7,000 | $ 7,000 | $ 7,000 |
| Hanger Rent Adder | | $ 1,000 | $ 1,000 | $ 1,000 | $ 5,000 | $ 5,000 | $ 5,000 | $ 5,000 |
| Pilot Training Costs | $ 3,000 | $ 3,000 | $ 3,000 | $ 3,000 | $ 3,000 | $ 3,000 | $ 3,000 | $ 3,000 |
| Annual Inspections | $ 4,000 | $ 4,000 | $ 4,000 | $ 4,000 | $ 4,000 | $ 4,000 | $ 4,000 | $ 4,000 |
| Miscellaneous (charts, weather svc) | $ 1,500 | $ 1,500 | $ 1,500 | $ 1,500 | $ 1,500 | $ 1,500 | $ 1,500 | $ 1,500 |
| Total Fixed Costs- used option | $ 177,000 | $ 216,044 | $ 161,691 | $ 254,029 | $ 358,897 | $ 241,529 | $ 260,132 | $ 341,985 |
| Total Fixed Costs - New Option | $ 214,250 | $ 258,044 | NA | $ 344,779 | $ 484,137 | NA | $ 380,632 | NA |

Note: Amortization is based on an estimated purchase price, an estimated residual value at the end of 10 years. It includes the cost of capital, (SPP cost of capital is 3.5%), and it includes an estimate of the annual average decline of the asset value each year.

| **Used** | Piper Mirage | Piper Meridian | Cessna 421C | Socata TBM | Pilatus PC-12 | King Air C90B | King Air C90GT | King Air B200 |
|---|---|---|---|---|---|---|---|---|
| Estimated annual interest costs | $ 29,750 | $ 42,000 | $ 18,375 | $ 57,750 | $ 80,500 | $ 57,750 | $ 66,500 | $ 105,000 |
| Estimated value decrease | $ 17,000 | $ 36,000 | $ 18,375 | $ 49,500 | $ 115,000 | $ 33,000 | $ 38,000 | $ 60,000 |
| Total Cost Amortization | $ 46,750 | $ 78,000 | $ 36,750 | $ 107,250 | $ 195,500 | $ 90,750 | $ 104,500 | $ 165,000 |

| **New** | Piper Mirage | Piper Meridian | Cessna 421C | Socata TBM | Pilatus PC-12 | King Air C90B | King Air C90GT | King Air B200 |
|---|---|---|---|---|---|---|---|---|
| Estimated annual interest costs | $ 42,000 | $ 70,000 | | $ 115,500 | $ 160,370 | | $ 105,000 | |
| Estimated value decrease | $ 42,000 | $ 50,000 | | $ 82,500 | $ 160,370 | | $ 120,000 | |
| Total Cost Amortization | $ 84,000 | $ 120,000 | | $ 198,000 | $ 320,740 | | $ 225,000 | |

**Note: Estimated Commercial Airlines Cost for the above 620 person trips is estimated to cost approximately $230,000.**

# Memorandum

**To:** **Finance Committee Members**

**From:** **Tom Dunn**

**CC:** **Cheryl Robertson**

**Date:** **April 2, 2013**

**Re:** **2013 Meeting Schedule**

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Detailed below is a schedule for face-to-face meetings of the Finance Committee for 2011/12 along with suggested agenda items to be covered at the meetings.

| Meeting Date | Time | Meeting Location | Major Agenda Items |
|---|---|---|---|
| Feb 19, 2013 | 10:00 | Dallas, TX | Pension Mgmt Reports<br>Strategic Discussion<br>Insurance Placement Update<br>IM Transaction Fees<br>BPI Metrics |
| April 9, 2013 | 8:30 | Dallas, TX | Financial Audit Review |
| July 23, 2013 | 8:30 | Dallas, TX | BPI Review<br>Mid Year Review<br>Budget Process Review |
| Sept 24, 2013 | 8:30 | Dallas, TX | 2014 Budget Review<br>Internal Audit Report<br>Auditor Engagements |
| Oct 10, 2013 | 9:30 | Dallas, TX | 2014 Budget Review |
| Dec 9, 2013 | 2:00 | Dallas, TX | SSAE-16 Audit Report<br>Corp Ins Review |

# Memorandum

To: SPP Officers / Directors / Managers
From: Sheri Dunn / Cindy Goodwin
Date: March 26, 2013
RE: February 2013 Financials

Attached are the February 2013 monthly financial reports. Please note, 2012 numbers remain unaudited as of this distribution.

# 2013 Financial Commentary
February 28, 2013
*(in thousands)*

## Summary

| | 2013 FY Forecast | 2013 FY Budget | Fav/(Unfav) Variance | |
|---|---|---|---|---|
| Revenues | $145,725 | $147,015 | ($1,290) | (0.9%) |
| Expenses | 159,826 | 162,626 | 2,800 | 1.7% |
| Net Income/(Loss) | ($14,101) | ($15,611) | $1,510 | 9.7% |

## Revenue

| | 2013 FY Forecast | 2013 FY Budget | Fav/(Unfav) Variance | |
|---|---|---|---|---|
| Tariff Administration Service | $113,443 | $113,799 | ($356) | (0.3%) |
| Fees & Assessments * | 28,129 | 28,211 | (82) | (0.3%) |
| Contract Services Revenue | 372 | 721 | (349) | (48.4%) |
| Miscellaneous Income | 3,781 | 4,284 | (503) | (11.7%) |
| Total Revenue | $145,725 | $147,015 | ($1,290) | (0.9%) |
| * Breakdown of Fees & Assessments: | | | | |
| Annual Non-Load Dues | $420 | $402 | $18 | 4.5% |
| NERC ERO Regional Entity Rev | 11,141 | 11,515 | (374) | (3.2%) |
| FERC Fees & Assessments | 16,568 | 16,294 | 274 | 1.7% |
| Total Fees & Assessments | $28,129 | $28,211 | ($82) | |

Tariff Administration Service revenue remains on target with the original budget, with a minimal 0.3% variance.

NERC ERO Regional Entity revenue is based on billable expenses incurred by the Regional Entity (RE), which trail budget YTD ($274K).

FERC Schedule 12 revenues are billed a month in arrears and based on network transmission. The budget is based on assumed growth of 3% over FERC fee revenues from Aug-2011 thru Jul-2012. At this time, the favorable variance is due to higher than expected transmission YTD, as a result of extreme cold weather in the winter months.

Contract Services Revenue budget included contract revenues for OVEC ($376K) and Entergy Regional Service Committee (ERSC) revenues ($345K). Removal of the ERSC revenues from the forecast created an unfavorable variance in revenues; however, ERSC expenses were also removed from the forecast ($280K). The net ERSC revenue/expense variance is $65K unfavorable for the year. OVEC revenues remain on target.

Miscellaneous Income primarily consists of revenues associated with billable resource time related to various studies and other non-recurring income items. The budget assumed costs of the Order 1000 program would be recovered by SPP; however, the revenue has been removed from the forecast pending further notification from FERC ($650K). Some expenses associated with Order 1000 (compensation, services and travel) were also removed from the forecast ($522K), for a net unfavorable revenue/expense variance of $128K. Unbudgeted reimbursements for ICT transition services slightly offset the revenue variance by $120K.

*(in thousands)*

## Expense

| | 2013 FY Forecast | 2013 FY Budget | Fav/(Unfav) Variance | |
|---|---|---|---|---|
| Salary & Benefits | $77,808 | $77,363 | ($445) | (0.6%) |
| Assessments & Fees | 16,344 | 16,340 | (4) | (0.0%) |
| Communications & Maintenance | 14,506 | 14,903 | 397 | 2.7% |
| Outside Services | 15,370 | 16,003 | 633 | 4.0% |
| Administrative | 4,486 | 5,015 | 529 | 10.5% |
| Travel & Meetings | 3,542 | 4,200 | 658 | 15.7% |
| Depreciation & Amortization | 19,402 | 20,295 | 893 | 4.4% |
| Other Expenses | 8,368 | 8,507 | 139 | 1.6% |
| Total Expense | $159,826 | $162,626 | $2,800 | 1.7% |

Salaries & Benefits are projected to be unfavorable to budget by $445K. The budget assumed a vacancy rate of 6% (based on historical vacancy levels); however, the anticipated vacancy rate is closer to 3% in the forecast.

Communications & Maintenance variance is currently projected at under 3%. Communications expense contributes to most of the variance ($324K). Voice Circuits / SPPnet frame were budgeted in 2013 based on estimated growth in Market Participants, which has shown no increase in first quarter. The monthly expenses have been adjusted through June based on trailing 3 month actual numbers. This results in reductions for Voice Data Circuits ($141K) and SPPnet Frame ($102K).

The Outside Services forecast has been reduced in the following areas:

Legal - Consulting for state docket work for Entergy and miscellaneous other litigation contingency ($288K )
Administration - Order 1000 start-up costs, pending further notification from FERC ($235K
Corporate Services - On-site medical clinic delay, equipment set-up contingency which should be reduced or moved to the balance sheeet ($214K)
Regional Entity - 10% reduction reflecting cost containment efforts ($140K)

Outside consulting expense added in the Project Management department offsets this favorable variances ($275K). The budget assumed 100% of the Project Manager (PM) contractors would be dedicated to the Integrated Marketplace project, and all contract services expense would be capitalized. Although some of the contractor work is associated with the Integrated Marketplace, the remaining work will be expensed as staff augmentation.

The favorable Administrative expense variance is mainly attributed to utilities and office expenses, which are anticipated to be considerably less than assumed in the budget. The majority of the difference is in office expenses ($381K). This variance may potentially be offset when the Integrated Markets team (80+ resources) temporarily relocates to the Maumelle facility until March 2014. The utilities expenses were loaded evenly across all months in the budget, and therefore the favorable variance will also potentially decrease as utility costs rise during the summer months. Future forecasts will be adjusted as trends of these expenditures become clearer.

As mentioned above, expenses related to the ERSC were inadvertently left in the budget and therefore contribute to $257K of the favorable variance in Travel & Meetings expenses. Delays and timing of meetings within the various working groups cause additional $300K favorable variance in meetings expense. Corporate Services is analyzing scheduled meeting expense projections and will provide updates to upcoming forecasts. The remaining variance is attributable to travel expenditures trailing budget across most departments, with none exceeding 10% at this time.

Depreciation trails budget year-to-date partially due to timing of capital purchases and completed projects being placed into service.

Other Expenses are composed of Regional State Committee (RSC) expenses; interest income / expense / capitalization; miscellaneous income / expense; and various other valuation adjustments. Due to their unpredictability, most items are not considered in the budget, including Interest Income, Other Income/Expense (457b adjustment) and valuation adjustments. These items are generally favorable in comparison to the budget. Capitalized Interest is impacted by the timing and amount of capital expenditures on significant projects and remains unchanged at this time.

Southwest Power Pool
Monthly Forecast Overview
February 28, 2013
*(in thousands)*
*(2012 Unaudited)*

| | Actual Jan-13 | Actual Feb-13 | Fcst Mar-13 | Fcst Apr-13 | Fcst May-13 | Fcst Jun-13 | Fcst Jul-13 | Fcst Aug-13 | Fcst Sep-13 | Fcst Oct-13 | Fcst Nov-13 | Fcst Dec-13 | FY 2013 Forecast | FY 2013 Budget | Variance Fav/(Unfav) | FY 2012 Actual | Variance Fav/(Unfav) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Income | | | | | | | | | | | | | | | | | |
| Tariff Administration Service | $9,657 | $8,685 | $9,492 | $9,483 | $9,548 | $9,283 | $9,764 | $9,792 | $9,347 | $9,549 | $9,293 | $9,550 | $113,443 | $113,799 | ($356) | $92,230 | $21,213 |
| Fees & Assessments | 2,578 | 2,292 | 2,239 | 2,215 | 2,191 | 2,357 | 2,547 | 2,668 | 2,593 | 2,245 | 2,100 | 2,104 | 28,129 | 28,211 | (82) | 26,578 | 1,551 |
| Contract Services Revenue | 31 | 31 | 31 | 31 | 31 | 31 | 31 | 31 | 31 | 31 | 31 | 31 | 372 | 721 | (349) | 22,686 | (22,314) |
| Miscellaneous Income | 207 | 354 | 297 | 322 | 297 | 397 | 297 | 297 | 322 | 297 | 297 | 397 | 3,781 | 4,284 | (503) | 6,425 | (2,644) |
| Total Income | 12,473 | 11,362 | 12,059 | 12,051 | 12,067 | 12,068 | 12,639 | 12,788 | 12,293 | 12,122 | 11,721 | 12,082 | 145,725 | 147,015 | (1,290) | 147,919 | (2,194) |
| Expense | | | | | | | | | | | | | | | | | |
| Salary & Benefits | 6,286 | 6,457 | 6,551 | 6,327 | 6,478 | 6,613 | 6,476 | 6,437 | 6,510 | 6,530 | 6,558 | 6,585 | 77,808 | 77,363 | (445) | 72,262 | (5,546) |
| Employee Travel | 122 | 177 | 248 | 273 | 230 | 225 | 217 | 201 | 233 | 253 | 174 | 158 | 2,511 | 2,614 | 103 | 2,246 | (265) |
| Administrative | 338 | 175 | 249 | 672 | 267 | 526 | 380 | 270 | 241 | 868 | 243 | 257 | 4,486 | 5,015 | 529 | 3,722 | (764) |
| Assessments & Fees | 1,362 | 1,362 | 1,362 | 1,362 | 1,362 | 1,362 | 1,362 | 1,362 | 1,362 | 1,362 | 1,362 | 1,362 | 16,344 | 16,340 | (4) | 14,977 | (1,367) |
| Meetings | 36 | 19 | 116 | 128 | 101 | 84 | 94 | 71 | 146 | 114 | 65 | 57 | 1,031 | 1,586 | 555 | 982 | (49) |
| Communications | 275 | 327 | 320 | 320 | 313 | 313 | 366 | 366 | 375 | 375 | 375 | 378 | 4,103 | 4,427 | 324 | 4,020 | (83) |
| Leases | 73 | 73 | 73 | 73 | 12 | 12 | 12 | 12 | 12 | 12 | 12 | 12 | 388 | 386 | (2) | 1,690 | 1,302 |
| Maintenance | 894 | 874 | 847 | 859 | 854 | 831 | 877 | 869 | 854 | 883 | 873 | 888 | 10,403 | 10,476 | 73 | 8,287 | (2,116) |
| Services | 914 | 1,361 | 1,265 | 1,430 | 1,338 | 1,360 | 1,276 | 1,424 | 1,223 | 1,240 | 1,170 | 1,369 | 15,370 | 16,003 | 633 | 14,705 | (665) |
| Regional State Committee | 9 | 28 | 29 | 22 | 22 | 29 | 47 | 22 | 29 | 22 | 22 | 54 | 335 | 344 | 9 | 455 | 120 |
| Depreciation & Amortization | 1,327 | 1,552 | 1,596 | 1,617 | 1,649 | 1,653 | 1,652 | 1,656 | 1,670 | 1,686 | 1,684 | 1,660 | 19,402 | 20,295 | 893 | 16,590 | (2,812) |
| Total Expense | 11,636 | 12,405 | 12,656 | 13,083 | 12,626 | 13,008 | 12,759 | 12,690 | 12,655 | 13,345 | 12,538 | 12,780 | 152,181 | 154,849 | 2,668 | 139,936 | (12,245) |
| Other Income/(Expense) | | | | | | | | | | | | | | | | | |
| Other Income / Expense | 40 | 2 | - | - | - | - | - | - | - | - | - | - | 42 | - | 42 | (3,715) | 3,757 |
| Interest Income | 39 | 18 | - | - | - | - | - | - | - | - | - | - | 57 | - | 57 | 150 | (93) |
| Interest Expense | (867) | (891) | (907) | (877) | (880) | (889) | (866) | (866) | (875) | (851) | (849) | (864) | (10,482) | (10,501) | 19 | (9,121) | 1,361 |
| Capitalized Interest | - | - | 826 | - | - | 734 | - | - | 613 | - | - | 565 | 2,738 | 2,724 | 14 | 2,723 | (15) |
| Swap Valuation | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 674 | 674 |
| Net Other Income (Expense) | (788) | (871) | (81) | (877) | (880) | (155) | (866) | (866) | (262) | (851) | (849) | (299) | (7,645) | (7,777) | 132 | (9,289) | 5,684 |
| Net Income (Loss) | $49 | ($1,914) | ($678) | ($1,909) | ($1,439) | ($1,095) | ($986) | ($768) | ($624) | ($2,074) | ($1,666) | ($997) | ($14,101) | ($15,611) | $1,510 | ($1,305) | ($12,796) |
| 2013 Headcount Actual/Fcst | 565 | 565 | 565 | 565 | 575 | 581 | 585 | 590 | 594 | 595 | 596 | 598 | 598 * | | | | |
| 2013 Headcount Budget | 589 | 589 | 598 | 599 | 600 | 603 | 603 | 603 | 603 | 603 | 603 | 603 | 603 | | | | |
| Over / (Under) Budget | (24) | (24) | (33) | (34) | (25) | (22) | (18) | (13) | (9) | (8) | (7) | (5) | (5) | | | | |
| NRR Over / (Under) Recovery | $1,204 | ($426) | ($2,118) | ($185) | $290 | ($2,599) | $441 | $491 | ($2,350) | ($311) | $189 | ($2,247) | ($7,623) | ($7,970) | $347 | $5,549 | ($13,172) |

* Five positions have been eliminated from the original budget (detail on Headcount Analysis).

Southwest Power Pool
Actual Results Overview
For the Month Ending February 28, 2013
*(in thousands)*
*(2012 Unaudited)*

| | Current Month Compared to Forecast | | | YTD Actual Compared to YTD Budget | | | YTD 2013 Compared to YTD 2012 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Feb-13 Actual | Feb-13 Forecast | Variance Fav/(Unfav) | Feb-13 Actual | Feb-13 Budget | Variance Fav/(Unfav) | Feb-13 Current Year | Feb-2012 Prior Year | Variance Fav/(Unfav) |
| **Income** | | | | | | | | | |
| Tariff Administration Service | $8,685 | $9,483 | ($798) | $18,342 | $18,966 | ($624) | $18,342 | $15,184 | $3,158 |
| Fees & Assessments | 2,292 | 2,317 | (25) | 4,870 | 4,957 | (87) | 4,870 | 4,642 | 228 |
| Contract Services Revenue | 31 | 31 | - | 62 | 89 | (27) | 62 | 4,671 | (4,609) |
| Miscellaneous Income | 354 | 442 | (88) | 561 | 877 | (316) | 561 | 1,036 | (475) |
| Total Income | 11,362 | 12,273 | (911) | 23,835 | 24,889 | (1,054) | 23,835 | 25,533 | (1,698) |
| **Expense** | | | | | | | | | |
| Salary | 4,365 | 4,355 | (10) | 8,708 | 8,595 | (113) | 8,708 | 7,805 | (903) |
| Benefits & Taxes | 2,048 | 2,023 | (25) | 3,930 | 3,897 | (33) | 3,930 | 3,669 | (261) |
| Continuing Education | 44 | 76 | 32 | 105 | 167 | 62 | 105 | 49 | (56) |
| Salary & Benefits | 6,457 | 6,454 | (3) | 12,743 | 12,659 | (84) | 12,743 | 11,523 | (1,220) |
| Employee Travel | 177 | 234 | 57 | 299 | 399 | 100 | 299 | 259 | (40) |
| Administrative | 175 | 303 | 128 | 513 | 800 | 287 | 513 | 574 | 61 |
| Assessments & Fees | 1,362 | 1,362 | - | 2,724 | 2,724 | - | 2,724 | 2,568 | (156) |
| Meetings | 19 | 100 | 81 | 55 | 207 | 152 | 55 | 123 | 68 |
| Communications | 327 | 354 | 27 | 602 | 693 | 91 | 602 | 673 | 71 |
| Leases | 73 | 133 | 60 | 146 | 146 | - | 146 | 309 | 163 |
| Maintenance | 874 | 754 | (120) | 1,768 | 1,651 | (117) | 1,768 | 1,229 | (539) |
| Services | 1,361 | 1,417 | 56 | 2,275 | 2,755 | 480 | 2,275 | 2,339 | 64 |
| Regional State Committee | 28 | 22 | (6) | 37 | 46 | 9 | 37 | 118 | 81 |
| Depreciation & Amortization | 1,552 | 1,647 | 95 | 2,879 | 3,273 | 394 | 2,879 | 2,335 | (544) |
| Total Expense | 12,405 | 12,780 | 375 | 24,041 | 25,353 | 1,312 | 24,041 | 22,050 | (1,991) |
| **Other Income/(Expense)** | | | | | | | | | |
| Other Income / Expense | 2 | (1) | 3 | 42 | - | 42 | 42 | 57 | (15) |
| Interest Income | 18 | - | 18 | 57 | - | 57 | 57 | 54 | 3 |
| Interest Expense | (891) | (885) | (6) | (1,758) | (1,779) | 21 | (1,758) | (1,349) | (409) |
| Capitalized Interest | - | - | - | - | - | - | - | - | - |
| Swap Valuation | - | - | - | - | - | - | - | - | - |
| Net Other Income (Expense) | (871) | (886) | 15 | (1,659) | (1,779) | 120 | (1,659) | (1,238) | (421) |
| Net Income (Loss) | ($1,914) | ($1,393) | ($521) | ($1,865) | ($2,243) | $378 | ($1,865) | $2,245 | ($4,110) |
| Headcount | 565 | 565 | - | 565 | 589 | (24) | 565 | 524 | 41 |

Southwest Power Pool
Balance Sheet
February 28, 2013
*(in thousands)*
*(2012 Unaudited)*

| | 2/28/2013 | 12/31/2012 | Variance |
|---|---|---|---|
| ASSETS | | | |
| Current Assets | | | |
| Cash & Equivalents | $84,570 | $95,693 | ($11,123) |
| Restricted Cash Deposits | 44,492 | 43,743 | 749 |
| Accounts Receivable (net) | 13,218 | 17,923 | (4,705) |
| Other Current Assets | 9,817 | 5,412 | 4,405 |
| Total Current Assets | 152,097 | 162,771 | (10,674) |
| Total Fixed Assets | 182,003 | 173,752 | 8,251 |
| Total Other Assets | 1,636 | 2,029 | (393) |
| Investments | 1,043 | 968 | 75 |
| TOTAL ASSETS | $336,779 | $339,520 | ($2,741) |
| LIABILITIES & EQUITY | | | |
| Liabilities | | | |
| Current Liabilities | | | |
| Accounts Payable (net) | $10,988 | $9,831 | $1,157 |
| Customer Deposits | 45,548 | 43,913 | 1,635 |
| Current Maturities of LT Debt | 12,700 | 12,700 | 0 |
| Other Current Liabilities | 26,237 | 28,741 | (2,504) |
| Deferred Revenue | 5,051 | 6,286 | (1,235) |
| Total Current Liabilites | 100,524 | 101,471 | (947) |
| Long Term Liabilities | | | |
| US Bank Floating Senior Note - 2014 | 5,500 | 5,500 | 0 |
| US Bank 5.45% Senior Notes - 2016 | 15,000 | 15,000 | 0 |
| US Bank Maumelle Mortgage - 2027 | 3,701 | 3,752 | (51) |
| Campus 4.82% Senior Notes - 2042 | 64,006 | 64,006 | 0 |
| Integrated Marketplace 3.55% Senior Note - 2024 | 70,000 | 70,000 | 0 |
| Senior Notes - 2024 | 100,000 | 100,000 | 0 |
| Other Long Term Liabilities | 10,641 | 10,519 | 122 |
| Total Long Term Liabilities | 268,848 | 268,777 | 71 |
| Net Income | (1,865) | (1,306) | (559) |
| Members' Equity | (30,728) | (29,422) | (1,306) |
| Total Members' Equity | (32,593) | (30,728) | (1,865) |
| TOTAL LIABILITIES & EQUITY | $336,779 | $339,520 | ($2,741) |

SOUTHWEST POWER POOL
2013 - 2015 FORECAST
CAPITAL COST PROJECTIONS

| PRPC Number | Project | 2013 Budget | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 | 2013 Forecast | TOTAL PROJECT FORECAST | TOTAL PROJECT BUDGET | Over/(Under) Budget |
|---|---|---|---|---|---|---|---|---|---|---|
| Existing / Carryover Projects | | | | | | | | | | |
| PR20130018 | IT Netezza Upgrade | $ 2,263 | $ 1,599 | $ - | $ 663 | $ - | $ 2,262 | $ 3,078 | $ 3,038 | $ 40 |
| PR20090011/PR20100023 | Centralized Modeling (CMT & MCST) | 355 | 286 | 97 | 88 | 104 | 575 | 2,586 | 2,455 | 132 |
| PR20130001 | EMS Marketplace Readiness | 361 | 80 | 82 | 82 | 109 | 353 | 706 | 714 | (8) |
| PR20120013 | New ICCP Architecture | 311 | 66 | 71 | 71 | 71 | 278 | 632 | 665 | (33) |
| PR20110031 | Ops Automation DC Ties | 200 | 82 | 0 | 0 | - | 83 | 112 | 332 | (220) |
| PR20110014 | Ops Automation OATI | 100 | 25 | - | - | - | 25 | 40 | 180 | (140) |
| * Unbudgeted in 2013 | High Availability | - | 153 | - | - | - | 153 | 153 | - | 153 |
| * Unbudgeted in 2013 | Credit Stacking Tool | - | 90 | - | - | - | 90 | 90 | - | 90 |
| * Unbudgeted in 2013 | EMS Upgrade | - | 7 | - | - | - | 7 | 7 | - | 7 |
| * Unbudgeted in 2013 | Facility | - | 60 | - | - | - | 60 | 60 | - | 60 |
| | Total Existing / Carryover | $ 3,590 | $ 2,448 | $ 249 | $ 903 | $ 284 | $ 3,884 | $ 7,464 | $ 7,385 | $ 79 |

The Netezza Upgrade and EMS Marketplace Readiness projects are expected to exceed budget by less than 5%.

The Centralized Modeling Tool / Model Change Submission Tool project began in mid-2011. The project scope has evolved as the Integrated Marketplace development has been underway. The current estimate includes post go-live support and puts the project at $305K over the original estimates.

New ICCP Architecture hardware/software purchase planned for 2013 was purchased in 2012 at a lower cost, causing a slight favorable variance in the overall budget.

Both of the Ops Automation project costs are expected to be less than budget for various reasons. For the OATI project, a number of items were removed from the scope after the project was budgeted, and several other items were already part of OATI functionality, requiring only configuration and testing efforts. The scope changes were related to items in which the savings in manual effort did not justify the cost of automation. For the DC Ties project, much of the requirement development and testing, originally assumed to be performed by outside consultants, was performed by SPP staff.

The PRPC has closed out the High Availability project. Additional costs possibly should have been applied to IT foundation. Additional research is required and adjustments will be made in subsequent months if necessary.

Miscellaneous Facility expenses from 2012 were recorded in January, including final payments due for interior walls, copy room cabinetry and audio/visual equipment.

* The unbudgeted items were included in the 2012 budget, but were assumed to have been complete by the end of the year and not reflected in the 2013-2015 budget. They are still active as of February 2013.

# SOUTHWEST POWER POOL
# 2013 - 2015 FORECAST
# CAPITAL COST PROJECTIONS

| PRPC Number | Project | 2013 Budget | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 | 2013 Forecast | TOTAL PROJECT FORECAST | TOTAL PROJECT BUDGET | Over/(Under) Budget |
|---|---|---|---|---|---|---|---|---|---|---|
| 2013 New Projects | | | | | | | | | | |
| PR20130002 | IT Data Center Migration | $ 620 | $ - | $ 380 | $ 240 | $ - | $ 620 | $ 1,190 | $ 1,190 | $ - |
| PR20140004 | IT Progress ESB Replacement | 50 | - | - | 50 | - | 50 | 950 | 950 | - |
| PR20130017 | IT Portal | 498 | - | 30 | 145 | 83 | 258 | 258 | 498 | (240) |
| PR20150001 | ETSE 3.0 Transmission Settlements (2015) | - | - | - | - | - | - | 3,500 | 3,500 | - |
| PR20130004 | OPS DTS Upgrade to TTSE (2015) | - | - | - | - | - | - | 2,908 | 2,908 | - |
| PR20140001 | IT EMS upgrade (2014-2015) | - | - | - | - | - | - | 2,000 | 2,000 | - |
| PR20140002 | Integration of IssueTrak with Remedy (2014) | - | - | - | - | - | - | 150 | 150 | - |
| | Total New Projects | $ 1,168 | $ - | $ 410 | $ 435 | $ 83 | $ 928 | $ 10,956 | $ 11,196 | $ (240) |

The IT Portal project forecast was reduced by $240K. Although all consulting was budgeted as capital expense, part of the expected work does not qualify as capitalized expense (i.e. documenting guidelines, training employees and defining processes).

All other new projects are still on target to begin in the 2nd quarter beyond 2013.

| PRPC Number | Project | 2013 Budget | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 | 2013 Forecast | TOTAL PROJECT FORECAST | TOTAL PROJECT BUDGET | Over/(Under) Budget |
|---|---|---|---|---|---|---|---|---|---|---|
| Integrated Marketplace / CBA | | | | | | | | | | |
| Various | Integrated Marketplace | $ 21,006 | $ 10,167 | $ 9,061 | $ 5,513 | $ 5,095 | $ 29,836 | $ 104,840 | $ 103,115 | $ 1,725 |
| PR20070038 | Consolidated Balancing Authority | 756 | 306 | 80 | 65 | 97 | 548 | 2,447 | 2,484 | (38) |
| | Total Integrated Marketplace / CBA | $ 21,762 | $ 10,473 | $ 9,141 | $ 5,578 | $ 5,192 | $ 30,383 | $ 107,287 | $ 105,600 | $ 1,687 |

The Marketplace Leadership Team (MLT) meets regularly to analyze Integrated Marketplace (IM) project activity and provide feedback on costs estimates for the forecast. The IM project is currently forecasted at $1.7 million more than the board approved target of $105.6 million. This is an unfavorable movement of approximately $506K from the Jan 31st report. Significant changes from the prior month include the following additional expenses:

- $271K Utilicast consultant redirected from Operations to Testing Support
- $108K Additional IM HW/SW requirements (Centrify Licenses and PCI Settlement Servers)
- $ 56K Structure Task Order #14 for Credit Management System
- $ 47K Miscellaneous adjustments for multiple vendors
- $ 24K Nexant SOW #8 for I-Hedge Enhancements

SOUTHWEST POWER POOL
2013 - 2015 FORECAST
CAPITAL COST PROJECTIONS

| PRPC Number | Project | 2013 Budget | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 | 2013 Forecast | TOTAL PROJECT FORECAST | TOTAL PROJECT BUDGET | Over/(Under) Budget |
|---|---|---|---|---|---|---|---|---|---|---|
| **Market Post Go-Live Projects** | | | | | | | | | | |
| PR20130013 | Combined Cycle Enhancements | $ 450 | $ - | $ - | $ 225 | $ 225 | $ 450 | $ 3,800 | $ 3,800 | $ - |
| PR20130015 | Regulation Compensation (FERC Order 755) | 255 | - | - | - | 255 | 255 | 3,785 | 3,785 | - |
| PR20130016 | Long-Term TCRs (LTTCRs) | 429 | - | - | - | 429 | 429 | 1,510 | 1,510 | - |
| PR20130012 | Market to Market | 472 | - | - | 118 | 354 | 472 | 1,416 | 1,416 | - |
| PR20130011 | AFC Granularity Changes for TSRs (2014) | - | - | - | - | - | - | 1,363 | 1,363 | - |
| PR20130010 | Sunset Clause for Load Submittal Legacy BAs (201 | - | - | - | - | - | - | 156 | 156 | - |
| PR20130014 | Assets Pseudo-Tying Out of SPP BA (2014) | - | - | - | - | - | - | 130 | 130 | - |
| PR20130003 | Marketplace Data for MPs Post Go-Live (2014) | - | - | - | - | - | - | 50 | 50 | - |
| | Total Market Post Go-Live | $ 1,606 | $ - | $ - | $ 343 | $ 1,263 | $ 1,606 | $ 12,210 | $ 12,210 | $ - |

Market Post Go-Live projects are currently under review, and forecast updates will be provided in the March Financial Package.

| PRPC Number | Project | 2013 Budget | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 | 2013 Forecast | TOTAL PROJECT FORECAST | TOTAL PROJECT BUDGET | Over/(Under) Budget |
|---|---|---|---|---|---|---|---|---|---|---|
| **IT Foundation** | | | | | | | | | | |
| NON2013-0001 | Systems Administration Foundation | $ 3,503 | $ 1,500 | $ 98 | $ 848 | $ 1,058 | $ 3,504 | $ 6,582 | $ 6,582 | $ 0 |
| NON2013-0002 | Network/Telecom Foundation | 1,742 | (15) | 547 | 791 | 535 | 1,858 | 4,449 | 4,333 | 116 |
| NON2013-0003 | Applications Foundation | 809 | 77 | 482 | 191 | - | 749 | 3,739 | 3,799 | (60) |
| NON2013-0004 | Service Management Foundation | 600 | 365 | 266 | 287 | 223 | 1,140 | 1,928 | 1,387 | 541 |
| NON2013-0005 | Service Delivery Foundation | 291 | 22 | 269 | - | - | 291 | 483 | 483 | 0 |
| NON2013-0006 | Environmental Ops Foundation | 100 | - | - | - | 225 | 225 | 386 | 261 | 125 |
| | Total IT Foundation | $ 7,045 | $ 1,948 | $ 1,661 | $ 2,117 | $ 2,041 | $ 7,768 | $ 17,568 | $ 16,846 | $ 723 |

The Network / Telecom foundation project is expected to be $116K over budget due additional expense for more efficient Juniper equipment ,which was not available in 2012.

The Service Mgmt Foundation project is expected to be over budget due to the following additions which were not included in the original budget (1) Remedy Upgrade Project ($400K) and (2) Service Delivery expenses budgeted (but not spent) in 2012 ($128K). These additions are associated with $103K for Event Management upgrade and $25K for Tripwire licenses.

The Environmental Operations Foundation project is over budget due to the addition of Maumelle HVAC ($125K).

SOUTHWEST POWER POOL
2013 - 2015 FORECAST
CAPITAL COST PROJECTIONS

| PRPC Number | Project | 2013 Budget | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 | 2013 Forecast | TOTAL PROJECT FORECAST | TOTAL PROJECT BUDGET | Over/(Under) Budget |
|---|---|---|---|---|---|---|---|---|---|---|
| Operations Foundation | | | | | | | | | | |
| N/A | Marketplace MOS Enhancements (2014-2015) | $ - | $ - | $ - | $ - | $ - | $ - | $ 1,500 | $ 1,500 | $ - |
| N/A | Legacy Applications | 300 | 80 | 55 | 85 | 30 | 250 | 950 | 1,000 | (50) |
| | Total Operations Foundation | $ 300 | $ 80 | $ 55 | $ 85 | $ 30 | $ 250 | $ 2,450 | $ 2,500 | $ (50) |

The Legacy Applications forecast for EIS-MOS Enhancements has been removed for 2013 ($50K). The budget included a reserve for critical unforseen issues, which none are expected at this time. Operations Foundation projects are forecasted to come within 7% of the original budget.

| PRPC Number | Project | 2013 Budget | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 | 2013 Forecast | TOTAL PROJECT FORECAST | TOTAL PROJECT BUDGET | Over/(Under) Budget |
|---|---|---|---|---|---|---|---|---|---|---|
| Miscellaneous Capital Spend | | | | | | | | | | |
| N/A | ETS Foundation-Alstom | $ 75 | $ - | $ - | $ - | $ - | $ - | $ 150 | $ 225 | $ (75) |
| PR20130019 | FERC Order 1000 Regional RFP | 165 | - | - | 77 | 88 | 165 | 225 | 225 | - |
| PR20130006 | Stochastic Planning | 70 | - | - | - | - | - | - | 200 | (200) |
| N/A | Redundant EnFuzion Node and PSSE Lock Ph 2 | 23 | - | 23 | - | - | 23 | 23 | 23 | - |
| PR20130007 | ITP Data Repository | 5 | - | 5 | - | - | 5 | 10 | 10 | - |
| PR20130008 | Update PROMOD to Server Solution | 10 | - | 10 | - | - | 10 | 20 | 20 | - |
| | Total Miscellaneous Capital Spend | $ 348 | $ - | $ 38 | $ 77 | $ 88 | $ 203 | $ 428 | $ 703 | $ (275) |

There are no PRRs necessitating changes to the EIS market at this time; therefore, the ETS Foundation project forecast for 2013 has been removed.

Expenses for the Stochastic Planning project have been removed given this project is on hold.

In the upcoming weeks, FERC is expected to make a ruling on Order 1000 Regional RFP. The current capital project remains consistent with the budget; however, adjustments will be made in upcoming forecasts after the FERC ruling.

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| TOTAL CAPITAL COST PROJECTIONS | $ 35,818 | $ 14,949 | $11,555 | $ 9,538 | $ 8,980 | $ 45,022 | $ 158,363 | $ 155,891 | $ 1,924 |

Southwest Power Pool
Headcount Analysis
February 28, 2013

| | Current Month Actual vs. Budget | | | Full Year Forecast vs. Budget | | |
|---|---|---|---|---|---|---|
| | Actual Feb-13 | Budget Feb-13 | Over/(Under) Budget | FY 2013 Forecast | FY 2013 Budget | Over/(Under) Budget |
| Administration | 0 | 0 | 0 | 0 | 0 | 0 |
| Officers | 11 | 11 | 0 | 11 | 11 | 0 |
| Accounting | 10 | 11 | (1) | 10 | 11 | (1) |
| Credit | 4 | 4 | 0 | 4 | 4 | 0 |
| Settlements | 25 | 26 | (1) | 26 | 26 | 0 |
| Administration | 50 | 52 | (2) | 51 | 52 | (1) |
| Corporate Services | 27 | 28 | (1) | 29 | 29 | 0 |
| Government Affairs & Public Relations | 4 | 3 | 1 | 4 | 4 | 0 |
| Inter-Regional Affairs | 3 | 4 | (1) | 4 | 4 | 0 |
| Project Management | 13 | 13 | 0 | 13 | 13 | 0 |
| Training | 12 | 13 | (1) | 13 | 13 | 0 |
| Customer Service | 9 | 9 | 0 | 9 | 9 | 0 |
| Process Management | 1 | 2 | (1) | 2 | 2 | 0 |
| Internal Audit | 6 | 6 | 0 | 6 | 6 | 0 |
| Process Integrity | 44 | 47 | (3) | 47 | 47 | 0 |
| SPP Compliance | 13 | 13 | 0 | 13 | 13 | 0 |
| Market Monitoring | 14 | 14 | 0 | 14 | 14 | 0 |
| Compliance & Market Monitoring | 27 | 27 | 0 | 27 | 27 | 0 |
| SPP Regional Entity | 28 | 32 | (4) | 31 | 32 | (1) |
| Information Technology | 136 | 138 | (2) | 143 | 143 | 0 |
| Markets | 6 | 6 | 0 | 6 | 6 | 0 |
| Operations | 151 | 155 | (4) | 158 | 158 | 0 |
| Engineering Planning | 36 | 42 | (6) | 41 | 44 | (3) |
| Engineering Other | 33 | 36 | (3) | 37 | 37 | 0 |
| Regulatory Policy & General Counsel | 23 | 23 | 0 | 24 | 24 | 0 |
| TOTAL HEADCOUNT | 565 | 589 | (24) | 598 | 603 | (5) |

Forecast vs. Budget

| | |
|---|---|
| Original 2013 End-of-Year Budget | 603 |
| Removed Order 1000 Business Analyst | (1) |
| Eliminated backfill for Dec 2012 resignation (RE part-time clerk) | (1) |
| Removed Stochastic Planning positions | (2) |
| Eliminated duplicate Engineering position | (1) |
| Revised 2013 End-of-Year Forecast | 598 |
| | |
| Revised 2013 End-of-Year Forecast | 598 |
| Stochastic Planning positions remain on Org Chart | 2 |
| IT Budget Analyst Position remains on Org Chart until mid-2013 | 1 |
| Curent Organizational Chart Total | 601 |

| Req. # | Position | Dept # | Dept Name | Status | |
|---|---|---|---|---|---|
| 12-024 | Sr. Compliance Specialist | 130 | RE - Compliance | ↑ | ✓ |
| 12-088 | Engineer II | 440 | GI Studies | ↑ | ✓ |
| 12-104 | Manager | 900 | Regulatory | ↑ | ✓ |
| 12-105 | Regulatory Analyst III | 900 | Regulatory | ↑ | ✓ |
| 12-114 | Complance Analyst II | 230 | Compliance | ↑ | ✗ |
| 12-126 | Sr. Business Analyst | 510 | IT Apps-Data Mgmt | ↑ | ✓ |
| 12-129 | Engineer II | 460 | Economic Planning | ↑ | ✓ |
| 12-134 | Supervisor, Reliability Coordination | 820 | Systems Operations | ↑ | ✗ |
| 12-136 | Market Design Analyst I/Engineer I | 720 | Market Design | ↑ | ✗ |
| 12-080 | IT Specialist II | 510 | IT Apps-Reliability | ↗ | |
| 12-100 | Engineer II | 850 | Modeling & Data Integrity | ↗ | |
| 12-130 | Sr. Engineer | 410 | Steady State Planning | ↗ | |
| 12-131 | Operator | 820 | Systems Operations | ↗ | |
| 12-132 | Operator | 820 | Systems Operations | ↗ | |
| 12-133 | Project Manager | 560 | Project Management | ↗ | |
| 12-025 | Sr. Compliance Specialist | 130 | RE - Compliance | ↓ | |
| 12-071 | Engineer II | 410 | Steady State Planning | ↓ | |
| 12-116 | Executive Director | 130 | Regional Entity | ↓ | |
| 12-122 | Service Desk Analyst (Part-Time) | 580 | IT Service Desk | ↓ | |
| 12-125 | Manager of Finance & Process Improvement | 170 | Regional Entity | ↓ | |
| 12-135 | Engineer II | 420 | Engineer II | ↓ | |
| 12-137 | Engineer II | 430 | Modeling | ↓ | |
| 13-001 | Sr. VP, Govermental Affairs | 110 | Officers | ↑ | ✓ |
| 13-002 | LMS Support and Web/CBT Developer ***(filled 2012)*** | 340 | Customer Training | ↑ | ✗ |
| 13-003 | Talent Management Specialist | 150 | Human Resources | ↑ | ✗ |
| 13-017 | IT Senior Programmer Analyst (CMS) | 510 | IT Apps/Settlements | ↑ | ✓ |
| 13-004 | Customer Trainer | 340 | Customer Training | ↗ | |
| 13-006 | Engineer I, Order 1000 | 410 | Steady State Planning | ↗ | |
| 13-007 | Engineer I, Order 1000 | 460 | Economic Planning | ↗ | |
| 13-009 | IT Programmer Analyst II (POPS) | 510 | Markets, Requirements, Test | ↗ | |
| 13-010 | IT Programmer Analyst II (ESB & Portal) | 510 | IT Apps Arch Settlements Supp | ↗ | |
| 13-011 | IT Programmer Analyst I (CMT) | 510 | Relaibility Tariff/Scheduling | ↗ | |
| 13-012 | Attorney | 330 | Legal | ↗ | |
| 13-014 | Market Analyst I, IM | 840 | Markets Administration | ↗ | |
| 13-016 | Operator III - Day-Ahead Market, IM | 840 | Markets Administration | ↗ | |
| 13-018 | Talent Management Administrator | 150 | Human Resources | ↗ | |
| 13-019 | Engineer I | 430 | Modeling | ↗ | |
| 13-021 | Sr. Data Warehouse Developer | 530 | Data Management | ↗ | |
| 13-023 | Programmer Analyst I (TCR) | 510 | Relaibility Tariff/Scheduling | ↗ | |
| 13-005 | Business Analyst II ***(removed from forecast)*** | 120 | Purchasing | ↓ | |
| 13-008 | Interregional Coordinator, Order 1000 | 8200 | Interregional Coordination | ↓ | |
| 13-013 | Sr. Tariff Administrator, IM | 820 | Systems Operations | ↓ | |
| 13-020 | Manager, Stochastic Planning ***(on hold)*** | 8000 | Engineering Planning | ↓ | |
| 13-022 | Sr. Engineer, Stochastic Planning ***(on hold)*** | 8000 | Engineering Planning | ↓ | |
| 13-015 | Communications Specialist I ***(replaced with 13-024)*** | 310 | Communications | | |
| 13-024 | Sr. Legislative Analyst | 310 | Government Affairs | ↑ | ✓ |
| 13-025 | Human Resouce Generalist I | 150 | Human Resources | ↗ | |
| 13-027 | Engineer II, Reliablity Standards | 200 | Interregional Affairs | ↗ | |

| Req. # | Position | Dept # | Dept Name | Status | |
|---|---|---|---|---|---|
| 13-028 | Network/Telecom Administrator | 580 | IT Enterprise Operations | | |
| 13-026 | Settlement Analyst | 160 | Transmission Settlements | | |
| 13-029 | Sr. Planning Anaylst | 470 | Engineering Spec Studies / Resource Planning | | |
| 13-030 | Sr. Data Anaylst | 580 | IT Enterprise Operations | | |
| 13-031 | Sr. Operator | 820 | Systems Operations | | |

*Remaining 2012 Positions in Blue: 12-xxx*
*2013 Budgeted Positions Highlighted in Grey: 13-001 thru 13-023*
*Replacement Positions Highlighted in Yellow: 13-024 thru 13-xxx*

| | |
|---|---|
| *2013 YTD Budgeted Positions Filled* | 4 |
| *2013 YTD Replacement Positions Filled* | 1 |
| *2013 YTD Total Hires* | 5 |
| *2012 Positions Filled in 2013* | 9 |
| *Total Positions Filled* | 14 |

| ***Status Legend*** | ***2013*** | ***2012*** | ***Total*** |
|---|---|---|---|
| Inactive | 9 | 7 | 16 |
| Active, Not Posted | 0 | 0 | 0 |
| Active, Posted | 16 | 6 | 22 |
| Filled | 5 | 9 | 14 |
| ***Hire Legend*** | | | |
| Internal | 2 | 3 | 5 |
| External | 3 | 6 | 9 |
| Total | 5 | 9 | 14 |

| | |
|---|---|
| **12/31 Ending Active Headcount** | 559 |
| Resignations during December | -1 |
| January External Hires | 7 |
| **01/31 Ending Active Headcount** | 565 |
| Resignations during January | -2 |
| February External Hires | 2 |
| **02/28 Ending Active Headcount** | 565 |
| 2012 Open | 13 |
| 2013 Open | 25 |
| 2013 Positions eliminated | -5 |
| **2013 Year End Forecast** | 598 |

# Memorandum

**To:** **Tom Dunn**

**From:** **Scott Smith**

**CC:** **Phil McCraw**

**Date:** **03/29/2013**

**Re:** **Credit Practices Working Group First Quarter 2013 Activities**

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During first quarter 2013, the Credit Practices Working Group (CPWG) addressed the following issues. Some of these issues may result in tariff language additions or revisions.

- Collateral Hold – Continuing to address the issue of holding collateral upon the voluntarily exit of a market participant, a sub-group (Collateral Hold Drafting Team) was created to determine specific language needs. The group has met to discuss and has assigned deliverables to present at the next meeting.

- Integrated Marketplace Credit Portal – Staff presented a mockup of the credit limit information that will be on the credit section of the Marketplace portal. Examples of exposure calculations and TCR reference prices were displayed.

- TCR Credit Educational Presentation – At the request of the CPWG, staff presented a high level overview of TCRs and their credit impacts. This was in anticipation of a deeper dive into TCRs at the April CPWG meeting. Members submitted questions they would like to see answered during that presentation.

SPP Southwest Power Pool

# Memorandum

**To:** Tom Dunn
**From:** Scott Smith
**CC:** Phil McCraw
**Date:** 04/02/2013
**Re:** AES Shady Point Default

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## Overview

On February 26, 2013, SPP filed with FERC to terminate a Point-To-Point Transmission Service Agreement between SPP and AES Shady Point, LLC ("AES") pursuant to Section 7.4 of the SPP Tariff with an effective date of February 25, 2013. This filing was triggered by a non-payment for their January transmission service due to SPP on February 20, 2013. As of today, SPP is awaiting FERC's determination.

## Background

AES is the owner/operator of a coal-fired electric generation facility located within the State of Oklahoma and provides electric capacity and energy to OG&E pursuant to a power sales agreement. While negotiating a renewal of its agreement with OG&E in 2006, AES requested firm PTP transmission service from AES to AEP West beginning January 2008 for one year. SPP determined no Network Upgrades were required and granted AES 271 MW of service to commence on January 8, 2008. However, AES and OG&E renewed their power sales agreement; and, as a result, AES no longer needed the transmission service to AEP West.

Under Section 17.7 of the Tariff, a Transmission Customer may obtain up to five one-year extensions for the commencement of service by paying an annual reservation fee equal to one-month's charge for firm transmission service for each year and must request the extension no later than 90 days before the Service Commencement Date. The following extension fees were paid by AES:

| Year | Payment |
|---|---|
| 2007 | $295,479.43 |
| 2008 | $418,742.96 |
| 2009 | $413,944.37 |
| 2010 | $451,139.12 |
| 2011 | $425,640.73 |

Under the 2011 extension, AES's Service Commencement Date was extended to January 8, 2013. AES and SPP executed the AES PTP Agreement with an effective date of January 8, 2013. The 2011 extension was AES's fifth and final extension under Section 17.7, therefore PTP transmission service for AES commenced under the AES PTP Agreement on January 8, 2013.

## Collection Activities

SPP issued the first invoice for January transmission service in the amount of $555,942.72 on February 5, 2013. This invoice represented service from the commencement date, January 8, 2013, through the end of the operating month, January 31, 2013. SPP was holding $836,636 in cash collateral to secure service under the Tariff.

As the AES exposure calculation continued to increase, SPP notified AES of an exposure violation on February 7, 2013 which required payment of $76,280 for satisfaction. On February 11, 2013, SPP and AES had a conference call to discuss the issue. The call included AES principals and SPP legal, credit and settlements staff. During the call, a regulatory legal representative for AES notified SPP they did not intend to pay any additional funds to SPP. AES's rationale was that they were not utilizing the service and no revenue was being generated. SPP advised AES that default procedures in the Tariff would be followed.

On February 15, 2013, SPP notified AES, per the Tariff, that their service to SPP's OASIS site had been terminated. AES did not pay the January transmission invoice by the due date of February 20, 2013 and SPP sent a final cure notice on February 21, 2013. SPP liquidated a portion of AES's existing security deposit to satisfy the invoice payment. Following liquidation of collateral to satisfy the February 20, 2013 payment, SPP held $279,693 in cash collateral from AES Shady Point.

Pursuant to section 7.4 of the Tariff, on February 26, 2013, SPP filed with FERC to terminate service as described above. The applicable section of 7.4 reads:

> 7.4 Customer Default:
>
> In the event the Transmission Customer fails, for any reason other than a billing dispute as described below, to make payment to the Transmission Provider on or before the due date as described above, and such failure of payment is not corrected within two (2) business days of receipt by the Transmission Customer of a written notice to cure such failure sent by the Transmission Provider, via any normal means of business communication, a default by the Transmission Customer shall be deemed to exist. Upon the occurrence of such a default, the Transmission Provider may initiate a proceeding with the Commission to terminate service but shall not terminate service until the Commission so approves any such request.

On March 5, 2013, SPP issued to AES the invoice for February service in the amount of $713,219.15 which went unpaid as of the due date of March 20, 2013. SPP liquidated the remaining security deposit to satisfy a portion of the outstanding invoice and short-paid the transmission owners in the amount of $433,526. SPP intends to send AES an invoice for the March operating month while awaiting FERCs response.

## Ongoing Activities

Since there were no protests related to SPP's termination of service filing, SPP expects FERC to grant termination effective February 25, 2013. During discussions, AES has given indication they would pay for service through that date if FERC does, in fact, approve. Other possible outcomes of the FERC response will be addressed upon receipt.

# Tracking SPP Business Process Improvements

## Embedded in 2013-2015 Budget

April 9, 2013

Business Process Improvement

Southwest Power Pool

**SPP Business Process Improvement Initiatives Embedded in SPP's Zero Based Budget 2013-2015**

9-Apr-13

| | Budget 2013 | Actual/Fcst 2013 | Variance | Explanation |
|---|---|---|---|---|
| **Operations Staffing Cost Reductions** | | | | |
| **Settletments Process Improvement** | $71,994 | $ 95,992 | $23,998 | The headcount to be freed up from foundation process work on Apr. 1 was transferred to support Marketplace Devel/Testing (3) months early. |
| **Operations Automation** | $337,442 | $ 157,987 | ($179,455) | OATI was late by 3 mo. In delivering automation software. Operations does not want to risk automation implementation and Desk consolidation just prior to peak loading - Implementation delay- 6 mo. |
| **Total** | **$409,436** | **$253,979** | **($155,457)** | |
| **Capial Non-staffing Cost Avoidance** | | | | |
| Unlimited Oracle licensing agreement (ULA) for 3 years | $ 1,386,000 | $ 5,674,842 | $4,288,842 | Have deployed 240 DB "Cores" vs. forecasted 135. The Integrated Marketplace systems are more intense in DB usage than was conservatively estimated when the decsion to go unlimited licensing was made. The Settlements Staging, Settlement Results, and the Credit Calculation engine are much more complex and explain 90 of the 105 DB variance. The decision to sign the ULA agreement will avoid significant cost vs. the prior standard licensing business practice. |
| Microsoft software rationalization | $ 38,411 | $ 38,411 | $0 | Plans on target. |
| Desktop Virtualization | $ 24,232 | $ 55,962 | $31,730 | The initial plan for "virtual desktop" deployment has worked exceptionally well. After evaluating the initial installations, it was decided that more Desktops could be replaced with "virtual desktops" at an initial cost that is $437.20 less per machine. Maintenance, support and software over a ten year period will also be less and has not been included in this cost avoidance calculation. |
| **Total** | **$ 1,448,643** | **$ 5,769,215** | **$ 4,320,572** | |
| **Grand Total of Productivity, Cost Reduction, and Cost Avoidance Initiatives** | **$1,858,079** | **$6,023,194** | **$4,165,115** | |

**SPP Business Process Improvement Initiatives Embedded in SPP's Zero Based Budget 2013-2015** 9-Apr-13

| | 2013 | | | 2014 | | | 2014 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Budget** | **Actual/Fcst** | **Variance** | **Budget** | **Actual/Fcst** | **Variance** | **Budget** | **Actual/Fcst** | **Variance** |
| **Operations Staffing Cost Reductions** | | | | | | | | | |
| **Settletments Process Improvement** | $71,994 | $ 95,992 | $23,998 | standard practice per policy | | | standard practice per policy | | |
| **Operations Automation** | $337,442 | $ 157,987 | ($179,455) | $514,389 | $ 514,389 | $0 | $533,915 | $ 533,915 | $0 |
| **Total** | **$409,436** | **$253,979** | **($155,457)** | **$514,389** | **$514,389** | **$0** | **$533,915** | **$533,915** | **$0** |
| **Capial Non-staffing Cost Avoidance** | | | | | | | | | |
| Unlimited Oracle licensing agreement (ULA) for 3 years | $ 1,386,000 | $ 5,674,842 | $4,288,842 | $ 303,000 | $ 303,000 | $0 | standard practice per policy | | |
| Microsoft software rationalization | $ 38,411 | $ 38,411 | $0 | standard practice per policy | | | standard practice per policy | | |
| Desktop Virtualization | $ 24,232 | $ 55,962 | $31,730 | standard practice per policy | | | standard practice per policy | | |
| **Total** | **$ 1,448,643** | **$ 5,769,215** | **$ 4,320,572** | **$ 303,000** | **$ 303,000** | **$ -** | **$ -** | **$ -** | **$ -** |
| **Grand Total of Productivity, Cost Reduction, and Cost Avoidance Initiatives** | **$1,858,079** | **$6,023,194** | **$4,165,115** | **$817,389** | **$817,389** | **$0** | **$533,915** | **$533,915** | **$0** |

Note: New process improvement initiatives developed throughout 2013 will be added into this tracking report

Per Finance Committee Policy, process improvement initiatives are tracked for 1-3 years but then become SPP standard practice and are no longer tracked as "improvments".

SPP Southwest Power Pool

# Memorandum

**To:** SPP Finance Committee

**From:** Tom Dunn

**CC:** Dianne Branch

**Date:** April 9, 2013

**Re:** Impact of Depreciation Schedules

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This memo will outline the high level impacts SPP's fixed asset depreciation schedules have on SPP's balance sheet and expenses.

**Current Status**

SPP utilizes a straight-line depreciation methodology based on the accounting useful life of the assets. The useful life schedule for assets is as follows:

| Asset | Years |
|---|---|
| Buildings | 20 |
| Furniture and Fixtures | 5 |
| Equipment and Machinery | 3 |
| Software | 3 |

SPP's base financial model illustrates the meaningful impacts of the current depreciation policy. Significant impacts include:

- Increasing large Member's Deficit balance due to depreciation of assets occurring quicker than scheduled debt retirement
- Significant net losses posted in the 2013-16 fiscal years
- Positive net income posted thereafter

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|
| Gross Fixed Assets | $ 275.9 | $ 311.7 | $ 334.3 | $ 349.4 | $ 359.4 | $ 369.4 | $ 379.4 |
| Less: Accumulated Depreciatio | (102.1) | (122.4) | (169.5) | (223.5) | (277.5) | (287.7) | (297.9) |
| Net Fixed Assets | 173.8 | 189.3 | 164.8 | 125.9 | 81.9 | 81.7 | 81.5 |
| Assessed Value (80% of FA x .2) | 27.8 | 30.3 | 26.4 | 20.1 | 13.1 | 13.1 | 13.0 |
| Property Tax (6.72% of Assessed | 1.9 | 2.0 | 1.8 | 1.4 | 0.9 | 0.9 | 0.9 |
| Member's Equity | (30.7) | (46.1) | (73.8) | (102.4) | (128.7) | (111.0) | (89.8) |

**Potential Change to Depreciation Policy**

SPP is investing over $100MM in its Integrated Marketplace which is comprised largely of highly customized software which is anticipated to serve SPP for over 10 years. It is allowable to change the depreciation schedule for that asset from the 3 years dictated under the current policy to one of 10 years. This change would allow the depreciation to more closely approximate the real useful life of the asset.

Extending the depreciation schedule for the Integrated Marketplace asset would be expected to have the following impacts on SPP:

- Significantly lower Member Deficit (though still a deficit)
- Break-even to positive net income starting in 2015

- Higher reported asset levels
- Higher property tax payments (approx. $2.6M more through 2018)

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|
| Gross Fixed Assets | $ 275.9 | $ 311.7 | $ 334.3 | $ 349.4 | $ 359.4 | $ 369.4 | $ 379.4 |
| Less: Accumulated Depreciatio | (102.1) | (122.4) | (154.3) | (180.0) | (204.6) | (227.6) | (249.7) |
| Net Fixed Assets | 173.8 | 189.3 | 180.0 | 169.4 | 154.8 | 141.8 | 129.7 |
| Assessed Value (80% of FA x .2) | 27.8 | 30.3 | 28.8 | 27.1 | 24.8 | 22.7 | 20.7 |
| Property Tax (6.72% of Assessed | 1.9 | 2.0 | 1.9 | 1.8 | 1.7 | 1.5 | 1.4 |
| Member's Equity | (30.7) | (46.1) | (58.6) | (58.9) | (55.8) | (50.9) | (41.6) |
| Additional Property Tax Paid | - | - | 0.2 | 0.5 | 0.8 | 0.6 | 0.5 |

**Discussion Points**

SPP's deficit equity position could adversely impact SPP's access to debt capital. Lenders currently acknowledge that SPP's creditworthiness is not based on its balance sheet but instead is based on the certainty of recovery under the regional tariff and the commitment members have to SPP should they terminate their membership. This acknowledgement can change should lenders significantly tighten their credit requirements or should the rating agencies take a different view of SPP's ongoing financial prospects.

SPP can present a stronger balance sheet by extending the depreciation of certain assets, but that comes with a real cash cost. The assessed value of SPP's property is based largely on the book value of the asset, therefore, as illustrated above, extending the depreciation schedule results in higher property tax payments for SPP. However, the stronger balance sheet does not guarantee SPP the same access to debt capital at attractive rates that it currently enjoys.