



**Southwest Power Pool  
FINANCE COMMITTEE MEETING**

**October 15, 2013**

**SPP Offices**

**Little Rock, Arkansas**

**• Summary of Action Items •**

1. Approved 2014 administrative and assessment fee rate.
2. Approved 2014 long-term financing plan.
3. Approved SPP internal signature authority schedule.

**• 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.
3. Presentation at a future meeting which will cover the exposure calculations and credit underwriting practices of the Credit Policy.
4. Distribute rate unbundling presentations discussed by the Strategic Planning Committee at their 2012 planning retreat. Plan to refresh the unbundling dialogue at the April 2014 Finance Committee meeting.

**Southwest Power Pool  
FINANCE COMMITTEE MEETING**

**October 15, 2013**

**Little Rock, Arkansas**

**• M I N U T E S •**

**Administrative Items**

SPP Chair Harry Skilton called the meeting to order at 8:45 a.m. The following members of the Finance Committee were in attendance:

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

Others attending included:

Traci Bender	NPPD
Carol Shoemake (phone)	OG&E
Bruce Cude	SPS
Laura Kapustka	Lincoln Electric
Michael Desselle	SPP
Jim Eckelberger	SPP Director
Lauren Krigbaum	SPP

Minutes from September 13, 2013 and September 24, 2013 meetings were reviewed. Kelly Harrison motioned to approve the minutes. The motion was seconded by Larry Altenbaumer and approved by unanimous voice vote.

SPP staff advised the Committee that the SPP Human Resources Committee had met and approved changes to SPP's pension plan document which included the ability of the Board to establish an "Administrative Committee" to perform administrative fiduciary functions on behalf of the plan and to clearly identify the SPP Finance Committee being charged with performing investment management fiduciary functions on behalf of the plan.

**SSAE 16 Interim Audit Report**

Lauren Krigbaum, Director of Internal Audit at SPP, reported the findings from phase I of the 2013 SSAE 16 audit of SPP's control environment. The auditors identified three instances which may result in a qualification or exception in the final report. SPP is continuing to work with the external auditors to determine the severity and ultimate resolution of the items identified.

SPP staff will report to the Committee at its December 2013 meeting on the final findings of the audit, and management's response and actions to address noted exceptions and/or qualifications in the final audit report.

**2014 Financing**

SPP staff outlined the capital expenditure program detailed in the 2014 budget which encompasses expected capital expenditure spending for the 2014-16 period. Total capital expenditures for the period are forecast to be \$61.9 million before inclusion of capitalized financing costs. The majority of the expenditures are anticipated to occur in 2014 (\$37.1 million) and 2015 (\$19.2 million). The Committee

reviewed the value of SPP's non-real estate fixed assets comparing those values to the outstanding principal balance of the existing term debt to determine if asset and liability matching was reasonably consist now and following issuance of new term debt. Finally, the Committee also reviewed several options for structuring the new debt issuance and the impact that structure would have on SPP's administrative fee into the future. A key aspect of the review was to borrow more than needed to fund the 3-year capital expenditure program and use the excess proceeds to essentially retire current maturities and maintain a lower administrative fee.

Kelly Harrison made a motion to fund \$70 million in new term debt with a 12-year amortization. The first two years of the term would be interest only, then converting to an amortization resulting in full payout at maturity. The SPP Board of Directors would authorize the SPP Finance Committee to approve final terms and conditions. The motion was seconded by Sandra Bennett and approved by unanimous voice vote.

### **2014 Administrative and Assessment Fee**

SPP staff presented a recommendation to establish an administrative fee of \$0.409/MWh effective January 1, 2014 consistent with a net revenue requirement for 2014 of \$142.3 million detailed in the budget approved by the Committee at its September 24 meeting and expected 2014 billing determinants of 348 TWh.

Based on the earlier discussion on term debt issuance and use of proceeds to retire a portion of SPP's current maturities in 2014, the net revenue requirement for 2014 was adjusted downward to \$132.3 million which, when divided by the expected billing determinants of 348 TWh results in an administrative fee of \$0.383/MWh.

Sandra Bennett made a motion to use \$10 million in proceeds from the term debt financing to retire current maturities in 2014 and set the administrative and assessment fee at \$0.383/MWh. The motion was seconded by Mike Wise and approved by unanimous voice vote.

### **SPP Internal Signature Authorities**

The Committee reviewed SPP's schedule of internal signature authorities and requested the following changes be made:

- 1) Dual signing for budgeted expenditures in excess of \$500,000 is only authorized when the SPP President is out of the office on extended vacation or illness.
  - a. When the dual signature authority is used, the SPP CFO and VP over the department incurring the expenditure must sign, except.
  - b. When the expenditure occurs in the Engineering, IT, or Operations departments the dual signature authority requires both the SPP CFO and SPP COO as well as the VP over the department incurring the expenditure.
- 2) Unbudgeted expenditures in excess of \$1,000,000 require the approval of the SPP Finance Committee prior to committing to the expenditure.

Sandra Bennett mad a motion to approve the schedule of internal signature authorities, as amended. The motion was seconded by Kelly Harrison and approved by unanimous voice vote.

### **Pension Plan Investment Management**

The Committee discussed the proposals received for investment management of SPP's pension plan assets. Following a high level discussion of each of the candidates the Committee requested two candidates return and meet with the Committee at its December 2013 meeting.

### **Future Meetings**

The next meeting of the SPP Finance Committee is scheduled for December 9, 2013 beginning at 2:00 pm central time and finishing at 6:00 pm central. This meeting will be held in Little Rock, AR.

Finance Committee  
October 15, 2013

The meeting originally schedule for April 3, 2014 was moved to April 1, 2014 starting at 8:00am and finishing at 3:00pm. This meeting will be held in Dallas, TX.

There being no further business, Harry Skilton adjourned the meeting at 12:30 p.m.

Respectfully Submitted,

Thomas P. Dunn  
Secretary

**Southwest Power Pool, Inc.**  
**FINANCE COMMITTEE MEETING**  
**October 15, 2013**  
**SPP Offices**  
**Little Rock, AR**

**• A G E N D A •**

8:30 a.m. – 12:30 p.m.

1. Administrative Items (*10 minutes*)..... Harry Skilton
  - a. Minutes
  - b. Follow-up Items
2. 2014 Budget **\*\*ACTION\*\*** ..... Tom Dunn
  - a. Capital Expenditure Financing
  - b. Administrative Fee
3. SSAE 16 Interim Audit Report ..... Lauren Krigbaum
4. Investment Management of SPP Pension Plan ..... Tom Dunn
5. SPP Internal Signature Authorities **\*\*ACTION\*\*** ..... Tom Dunn
6. Adjourn ..... Harry Skilton

**Southwest Power Pool**  
**FINANCE COMMITTEE MEETING**  
**September 24, 2013**  
**DFW Hyatt Regency Hotel**  
**Dallas, Texas**

**• Summary of Action Items •**

1. Approved 2014 SPP operating and capital budgets

**• 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.
3. Presentation at a future meeting which will cover the exposure calculations and credit underwriting practices of the Credit Policy.
4. SPP 2014 Budget: Prioritize “post-go-live” projects and show incremental impact on admin fee
5. Present schedule of internal signature authorities for approval by Committee
6. Request HRC review cost sharing between employer and employee for healthcare benefits and look at additional structures for providing health insurance such as high deductible programs
7. Distribute rate unbundling presentations discussed by the Strategic Planning Committee at their 2012 planning retreat. Plan to refresh the unbundling dialogue at the April 2014 Finance Committee meeting
8. Review impacts of smoothing year-to-year variations in load.

**Southwest Power Pool  
FINANCE COMMITTEE MEETING**

**September 24, 2013**

**Dallas, Texas**

**• M I N U T E S •**

**Administrative Items**

SPP Chair Harry Skilton called the meeting to order at 8:30 a.m. The following members of the Finance Committee were in attendance:

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

Others attending included:

Dianne Branch (phone)	SPP
Zeynep Vural (phone)	SPP
Sheri Dunn (phone)	SPP
Phyllis Bernard	SPP Board of Directors
Traci Bender	NPPD
Bary Warren	Empire District
Kelly Walters (phone)	Empire District
Carol Shoemake	OG&E
Bruce Cude	SPS
Jason Fortik	Lincoln Electric
Brandy Wreath	Oklahoma Corp. Comm.
Jim Jacoby	AEP
Nick Brown	SPP
Carl Monroe	SPP
Michael Desselle	SPP

Minutes from July 11-12, 2013 meetings were reviewed. Kelly Harrison motioned to approve the minutes. The motion was seconded by Sandra Bennett and approved by unanimous voice vote.

SPP staff advised the Committee that the SPP Corporate Governance Committee had met and discussed the governance responsibility for approving SPP's schedule of internal signature authorities. The SPP Corporate Governance Committee determined that the SPP Finance Committee should have oversight and approval of those and similar authorities.

**2014 SPP Budget**

SPP staff led a detailed discussion of the SPP 2014 operating and capital budgets. The presentation followed the following main areas:

- Summary of net revenue requirement and calculation of expected transmission billing determinants
- Direct costs attributable to the provision of four main "Member Value" services
- Line by line discussion of significant expense items
- Costs by division
- Capital projects and project management processes

During the discussion there was meaningful discussion concerning the budget, specific line items, reasons for changes from prior years, etc. Several follow-up items were identified from the discussion as follows:

- 1) RATES:
  - a. Unbundling
    - i. Distribute presentation shared at 2012 SPC retreat with Finance Committee members
    - ii. Formal discussion planned for April 2014 Finance Committee meeting
  - b. Smoothing
    - i. Alternatives to using prior year average monthly peak for billing network service
- 2) HEALTHCARE COSTS:
  - a. Structure
    - i. HRC to look at cost share between employer and employee
    - ii. Offer high deductible plans with HAS
- 3) CAPITAL EXPENDITURES
  - a. Prioritize projects showing total costs for project (start to finish)
  - b. Show incremental cost for each project as well as aggregate cost based on addition of next lower priority project
- 4) AUTHORITY
  - a. Present schedule of internal signature authorities for approval
  - b. Formalize threshold for unbudgeted items and cost overruns

Larry Altenbaumer motioned to approve the 2014 operating and capital budgets. The motion was seconded by Kelly Harrison and approved by unanimous voice vote

#### **Future Meetings**

The next meeting of the SPP Finance Committee is scheduled for October 15, 2013 beginning at 8:30 am central time and finishing at 12:30 pm central. This meeting will be held in Little Rock, AR.

The meeting originally schedule for April 3, 2014 was moved to April 1, 2014 starting at 8:00am and finishing at 3:00pm. This meeting will be held in Dallas, TX

There being no further business, Harry Skilton adjourned the meeting at 3:00 p.m.

Respectfully Submitted,

Thomas P. Dunn  
Secretary



**Southwest Power Pool, Inc.**  
**FINANCE COMMITTEE**  
**Recommendation to the Board of Directors**  
**October 29, 2013**

**2014 Financing**

**Organizational Roster**

The following persons are members of the Finance Committee:

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

**Background**

SPP's term debt structure as of the end of September 2013 was as follows:

Due Date	Rate	Balances (\$MM)		Funding Year	Lender	Primary Purpose
		Original	Current			
2014 Sr. Notes	5.61%	\$30	\$7	2007	Bank	Capital projects from 2006-2008
2016 Sr. Notes	5.45%	\$30	\$17	2009	Bank	Capital projects from 2008-2011
2024 Sr. Notes ( C )	3.55%	\$70	\$70	2011	Insurance	Integrated Marketplace
2024 Sr. Notes ( D1 )	3.00%	\$50	\$50	2012	Insurance	Integrated Marketplace
2024 Sr. Notes ( D2 )	3.25%	\$50	\$50	2012	Insurance	Capital projects from 2012 - 2014
2027 Sr. Notes	6.36%	\$5	\$4	2007	Bank	Maumelle Ops Center
2042 Sr. Notes (A & B)	4.82%	\$65	\$64	2010	Insurance	Corporate Campus
<b>Totals</b>		<b>\$300</b>	<b>\$262</b>			

All notes are unsecured except for the 2027 Sr. Notes, which are secured by a mortgage on SPP's Maumelle, AR operations facility. SPP also has a \$30 million unsecured revolving line of credit maturing in June 2016. The revolving line currently has \$0 advanced. Pricing of draws against the line of credit are variable based on SPP's credit rating by Fitch Ratings. Currently any draws under the revolving facility would be priced at LIBOR + 1.25%.

SPP's 2014-16 capital expenditure program identifies expenditures of \$61.9 million which require funding. In an effort to minimize the expected increase in 2014 schedule 1A administrative fee expense, SPP's Finance Committee discussed funding an additional \$10 million in term debt to offset increased term debt maturities in 2014.

**Analysis**

Since 2007, SPP has implemented an aggressive capital expenditure program intended to ensure competitive service offerings to its customers and is able to do so in a highly reliable and secure manner. Two significant projects, the Integrated Marketplace and the SPP campus, have resulted in the majority of the \$264 million spent between 2008-13.

The Integrated Marketplace project is scheduled to be completed and implemented by March 1, 2014. There are several follow-on projects related to the Integrated Marketplace which were either deferred from the initial implementation, added to

enhance the functionality of the initial implementation, or required by regulatory authorities. These projects are referred to as “Post-Go-Live” projects.

Ten projects are classified as Integrated Marketplace Post Go-Live projects. Market to Market, Long Term Congestion Rights (LTCR), and Regulation Compensation projects were mandated by FERC. The Enhanced Combined Cycle project was requested by members and is expected to be authorized by the Markets and Operations Policy Committee (MOPC) in October 2013. Another anticipated FERC-mandated project is GFA Carve Out. Updated estimates for Post Go-Live project costs were developed utilizing information available during the 2014 project budgeting cycle.

The project cost estimates are rough order of magnitude (ROM), which in general indicates actual costs could vary by +/- 50%. With the primary focus remaining on implementation of the Integrated Marketplace project, SPP did not request vendor-impact estimates for the Post Go-Live projects; however, Alstom (one of the key vendors) was requested to prepare a high-level feasibility assessment for each of the Post Go-Live projects. Based on the vendor’s assessments, SPP believes the software development portion of the capital ROM project estimates is reasonable. Consulting costs for subject-matter experts (SME), the other significant component of the capital costs, were estimated based on current contract rates, and therefore the overall ROM capital cost project estimates are also believed to be reasonable.

As reflected in the chart below, a 50% capital cost contingency (approximately \$2.2 million) was added to the ROM estimate for the Enhanced Combined Cycle project. Although the Long Term Congestion Rights (LTCR) estimate does not include a contingency line item, it does include costs for system changes which will likely be required to both the transmission planning (\$2.0 million) and the credit management (\$0.5 million) systems as a result of implementing this project. Because of the limited information available, SPP’s internal Project Review and Prioritization Committee (PRPC) restricted the authorized budget dollars that could initially be spent to amounts needed for planning activities, specifically planning activities for the purpose of gathering the requirements, defining the scope, and refining the cost estimate. Once the planning activities are completed or the planning threshold is reached (whichever comes first), the PRPC requires the projects to be re-submitted for authorization to move forward, at which point the revised scope and estimates will be re-evaluated.

Issues which could materially affect the ROM estimates include the following: 1) the level of complexity of Market to Market and Enhanced Combine Cycle projects, 2) the number of system development changes and the number and complexity of required Integrated Marketplace Phase I enhancements that will require SPP resources and therefore increase the need for SME consultant support, and 3) significant changes in the assumptions and data used to develop the ROM estimate.

Currently known major risks include: 1) scheduling ability to meet the FERC mandated one-year post go-live implementation date, and 2) the size, complexity, and desired implementation date for the Enhanced Combined Cycle project.

Project Summary	Post-Go-Live Cost Estimates		
	Revised Estimate	Contingency Other	Total
	<b>Market Post Go-Live Projects</b>		
Market to Market	\$7.0	\$0.0	\$7.0
Long-Term Congestion Rights (LTCRs)	1.8	2.5 <sup>(1)</sup>	4.3
Enhanced Combined Cycle	2.4	2.2 <sup>(2)</sup>	4.6
Regulation Compensation	3.2	0.0	3.2
AFC Granularity Changes for TSRs	1.4	0.0	1.4
IT Environments Buildout for Marketplace	0.6	0.0	0.6
Grandfather Agreement Carve Out (GFA)	0.3	0.0	0.3
Pseudo Tie In/Out	0.2	0.0	0.2
Marketplace Date for MPs Post Go-Live	0.1	0.0	0.1
Sunset Clause for Load Submittal for Legacy Based Systems	0.2	0.0	0.2
<b>Total Market Post Go-Live Projects</b>	<b>\$16.9</b>	<b>\$4.8</b>	<b>\$21.7</b>
(1) Additional contingency for changes to the transmission planning and the Credit Management System			
(2) Approximate 50% capital contingency for Enhanced Combined Cycle			

In addition to the Post-Go-Live projects, other capital projects include several on-going projects which are dominated by the planned upgrade of the transmission settlement system and implementation of the training and testing simulated environment; and SPP's needs to maintain and refresh its system hardware (approx. \$7.8 million/year). A summary of the identified capital expenditures is provided below, as well as a breakdown of the impact to the administrative fee of each over the life of the asset:

Project Description	Total Current Project Budget	Asset Life (Years)	Annual Admin Fee Impact	Aggregate Admin Fee Impact *
<b>Integrated Marketplace Go-Live (Includes CBA)</b>	<b>\$115.2</b>	10	<b>\$0.0331</b>	
<b>Marketplace Post Go-Live</b>				
Market-to-Market	7.0	10	\$0.0020	\$0.0020
Long-Term TCRs (LTTCRs)	4.3	10	\$0.0012	\$0.0033
Regulation Compensation (FERC Order 755)	3.2	10	\$0.0009	\$0.0042
Grandfather Agreement Carve Out (GFA)	0.3	10	\$0.0001	\$0.0042
Assets Pseudo-Tying Out of SPP BA	0.2	10	\$0.0000	\$0.0043
IT Environments Buildout for IM	0.6	10	\$0.0002	\$0.0045
Enhanced Combined Cycle	4.6	10	\$0.0013	\$0.0058
AFC Granularity Changes for TSRs	1.4	10	\$0.0004	\$0.0062
Sunset Clause for Load Submittal for Legacy BAs	0.2	10	\$0.0000	\$0.0062
Marketplace Data for MPs Post Go-Live	0.1	10	\$0.0000	\$0.0062
<b>Total Marketplace Post Go-Live Projects</b>	<b>\$21.7</b>		<b>\$0.0062</b>	
<b>Carry Over Projects</b>				
Transmission Settlements Upgrade ETSE3.0	3.8	3	\$0.0036	\$0.0098
OPS DTS Upgrade to TTSE	4.4	3	\$0.0042	\$0.0042
Netezza Upgrade	3.0	3	\$0.0029	\$0.0029
Other	4.6	3	\$0.0044	\$0.0143
<b>Total Carry Over Projects</b>	<b>\$15.8</b>		<b>\$0.0214</b>	
<b>2014 New Projects</b>	<b>\$0.7</b>	3	<b>\$0.0007</b>	\$0.0149
<b>IT / Ops Foundation</b>	<b>\$23.5</b>	3	<b>\$0.0225</b>	\$0.0375
<b>Total Capital Project Budget</b>	<b>\$176.9</b>		<b>\$0.0839</b>	

\* Aggregate rate impact excludes Integrated Marketplace Go-Live

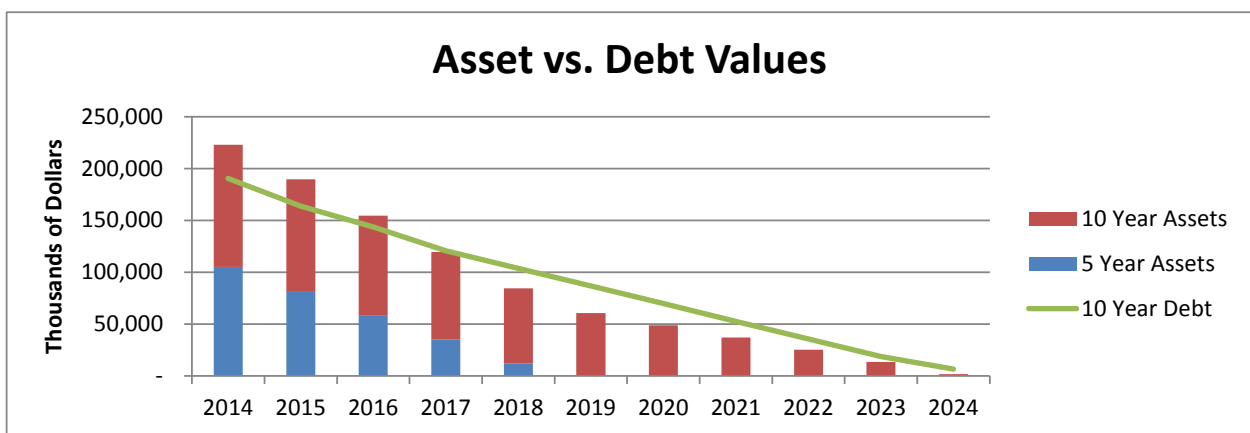
#### 2014 - 2016 Capital Expenditures by Year (\$ millions)

	2014	2015	2016	Total
Integrated Marketplace Go-Live	5.8	-	-	5.8
Integrated Marketplace Post-Go-Live	17.5	2.5	-	20.0
Carry Over Projects	2.2	9.4	0.2	11.8
New Projects	0.6	0.2	-	0.7
<b>Total Non-Foundation Projects</b>	<b>26.0</b>	<b>12.1</b>	<b>0.2</b>	<b>38.3</b>
Foundation	11.1	7.0	5.4	23.5
<b>Total Capital Budget</b>	<b>37.1</b>	<b>19.2</b>	<b>5.6</b>	<b>61.8</b>

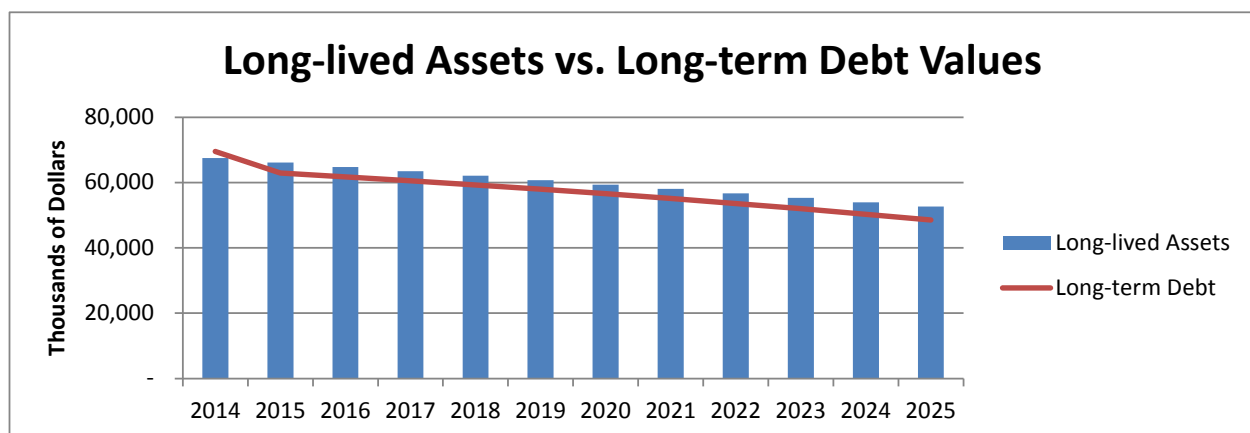
The debt on SPP's books has funded the acquisition of assets utilized by SPP to carry out its functions. These assets consist primarily of highly-customized software applications, real estate, computer equipment, and furniture & fixtures. SPP depreciates these assets on straight-line depreciation schedules ranging from three years (for computer equipment and software) to twenty years (for real estate structures). The real useful life of these assets rarely corresponds directly with the depreciation schedule. The table below attempts to contrast the depreciation schedule with the real expected useful life of the assets.

<u>Asset</u>	<u>Depreciation Schedule</u>	<u>Expected Useful Life</u>
Buildings	20 years	40 years
Market Software	3 years	10 years
Furniture & Fixtures	5 years	10 years
Equipment	3 years	4 years
Software	3 years	5 years

SPP has summarized the cost basis of the assets as either five-year assets, ten-year assets, or long-term assets and then compared these categories to the outstanding balance of long-term debt on SPP's books. The analysis assumes a start date of January 1, 2014. The first chart compares SPP's assets with lives of ten years or less with outstanding debt with maturities of ten years or less.



The next chart compares SPP's long-lived assets (real estate holdings) with outstanding debt with maturities of more than ten years (primarily thirty-year notes).



SPP forecasts a need to borrow an additional \$60 million in long-term debt to fund identified capital expenditures for the 2014 – 2016 period. The assets acquired are expected to have a weighted average useful life of 6.5 years.

<u>Asset</u>	<u>Cost Basis</u>	<u>Useful Life</u>
Equipment	\$ 15.8	4
Software	\$ 23.7	5
Post Go-Live	\$ 21.7	10
<b>Weighted Average Useful Life</b>		<b>6.5</b>

SPP has a number of alternatives for financing, below are the most likely:

- a) Fund \$60 million @ 3%, 7-year note, 1 year interest only, 6 year principal payments of \$10/year
- b) Fund \$60 million @ 4%, 11-year note, 1 year interest only, 10 year principal payments of \$6/year
- c) Fund \$70 million @4%, 11-year note, 1 year interest only, 10 year principal payments of \$7/year

Option C will use the additional \$10 million in funding to retire a like amount of existing debt in 2014 without including that debt retirement in the 2014 schedule 1A recoveries. The three funding alternatives are expected to have the following incremental impact on SPP's administrative fee rate assuming a flat load of 350 million MWh for simplicity.

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Option A	\$ 0.005	\$ 0.034	\$ 0.033	\$ 0.032	\$ 0.031	\$ 0.030	\$ 0.029	\$ -	\$ -	\$ -	\$ -
Option B	\$ 0.007	\$ 0.024	\$ 0.023	\$ 0.023	\$ 0.022	\$ 0.021	\$ 0.021	\$ 0.020	\$ 0.019	\$ 0.019	\$ 0.018
Option C	\$ (0.021)	\$ 0.028	\$ 0.027	\$ 0.026	\$ 0.026	\$ 0.025	\$ 0.024	\$ 0.023	\$ 0.022	\$ 0.022	\$ 0.021

SPP began discussions with potential lenders in July to determine interest from the commercial banks for a traditional bank financed deal as well as with the private placement investors.

#### **Recommendation**

Approve the recommendation of the SPP Finance Committee to issue up to \$60 million in debt securities to fund SPP's capital expenditure program through 2016. Said approval was subject to the following conditions:

1. Authorize issuance of up to \$60 million in secured and unsecured notes with maturities of up to 12 years;
2. Authorize appropriate regulatory filings for the issuance of up to \$60 million in secured and unsecured notes with maturities of up to 12 years to be issued within 24 months of receiving regulatory approval;
3. Authorize SPP Finance Committee to oversee negotiation, final approval of terms and conditions, and authorization to execute up to \$60 million in secured and unsecured notes with maturities of up to 12 years;
4. Authorize the SPP President and CFO to jointly execute notes and agreements for the issuance of up to \$60 million in secured and unsecured notes with maturities of up to 12 years, upon final authorization of the SPP Finance Committee.

**Approved:** Finance Committee

**Action Requested:** Approve Recommendation

**Southwest Power Pool, Inc.**  
**FINANCE COMMITTEE**  
**Recommendation to the Board of Directors**  
**October 29, 2013**

**2014 Administrative and Assessment Fee Rate**

**Organizational Roster**

The following persons are members of the Finance Committee:

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

**Background**

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

**Analysis**

The 2014 SPP operating budget indicates a net revenue requirement (“NRR”) for the year of \$142.3 million and estimated billing determinants of 348,179,835 MWh. The rate is determined by dividing the NRR by the estimated billing determinants which results in a rate of 40.9¢/MWh. NRR is derived by adjusting SPP’s gross cash outflows (exclusive of capital expenditures) by all non administrative fee revenue forecast to be earned in the year. The billing determinants are calculated by analyzing the current year to date transmission usage and estimating usage through the remainder of the year.

Billing determinants are estimated based on the billing criteria detailed in the SPP tariff. Presently, network integration transmission service is charged the SPP schedule 1A administrative fee based on the average 12 monthly peaks from the previous year; point-to-point transmission service is charged the SPP schedule 1A administrative fee based on the reserved transmission capacity. Through August 2013, SPP has realized year-over-year decline in average monthly peaks of 3.12% which will result in approximately 3% reduction in billing units available in 2014 against which the schedule 1A administrative fee is charged.

2012 NITS (12 CP in MW)	2013 Growth Rate	Est 2013 NITS	Hrs/Year	Est MWh	
36,296.45	-3.12%	35,164.00	8,760	308,036,647	
				<u>39,761,640</u>	Est Point-to-Point
				<u><u>347,798,287</u></u>	

The SPP tariff presently defines the billing determinants for network integration transmission service as the prior year peak. This definition leaves SPP open to potential meaningful variances in load from one year to the next; which can result in greater volatility in the schedule 1A administrative fee rate. SPP reviewed the impact if the network integration transmission service billing determinants were based on a simple three year average of monthly system peaks. The analysis indicated the volatility of the billing determinants could be reduced, though the magnitude of the smoothing was rather minor due to the average

volatility of the peaks being +/- 3%. The total amounts paid by network integration transmission customers didn't change meaningfully (see attached summary analysis).

Another topic reviewed was deferring recovery of \$10 million in current maturities from the 2014 schedule 1A administrative fee by funding that amount with a like amount of new term debt. SPP has the borrowing capacity to obtain an additional \$10 million in term debt at favorable interest rates and terms. Following this path will lower the recommended administrative fee for 2014 to \$0.381/MWh from \$0.409/MWh while increasing future administrative fee rates by \$0.004/MWh. This will clearly reduce the burden on SPP's customers due to the reduction in peak load SPP experienced in 2013. However, there is not a clear indication that the reduced peaks of 2013 are temporary and 2014 peaks will grow.

**Recommendation**

The Finance Committee recommends the SPP Board of Directors establish an assessment rate and tariff administrative fee (schedule 1-A) of 40.9¢/MWh beginning on January 1, 2014.

**Approved:** Finance Committee

**Action Requested:** Approve Recommendation

	AVERAGE MONTHLY PEAKS				3 YEAR AVERAGE MONTHLY PEAKS	
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2010-12</u>	<u>2011-13</u>
AEP	7,983	8,312	8,170	7,906	8,155	8,147
Empire	940	965	899	901	935	934
GRDA	707	744	746	727	732	731
KCPL	2,765	2,787	2,747	2,663	2,766	2,764
Lincoln	571	593	587	570	584	583
Midwest	257	289	288	276	278	278
Mo Public Service	1,499	1,524	1,494	1,459	1,505	1,504
NPPD	2,437	2,596	2,550	2,521	2,528	2,525
OG&E	5,025	5,269	5,267	5,064	5,187	5,182
OPPD	1,808	1,865	1,843	1,783	1,839	1,837
Sunflower	346	369	370	375	362	361
Springfield	549	516	553	528	539	539
SPS	4,488	4,895	4,755	4,641	4,712	4,708
Western Farmers	1,098	1,155	1,171	1,181	1,141	1,140
Mid Kansas	511	529	528	514	522	522
Westar	4,137	4,231	4,174	3,994	4,181	4,177

FINANCIAL COMPARISON CURRENT VS AVG METHOD

	2013		2014	
	<u>Actual</u>	<u>Average</u>	<u>2014</u>	<u>AVG</u>
AEP	\$ 24.2	\$ 24.2	\$ 28.1	\$ 28.6
Empire	\$ 2.7	\$ 2.8	\$ 3.2	\$ 3.3
GRDA	\$ 2.2	\$ 2.2	\$ 2.6	\$ 2.6
KCPL	\$ 8.1	\$ 8.2	\$ 9.5	\$ 9.7
Lincoln	\$ 1.7	\$ 1.7	\$ 2.0	\$ 2.1
Midwest	\$ 0.9	\$ 0.8	\$ 1.0	\$ 1.0
Mo Public Service	\$ 4.4	\$ 4.5	\$ 5.2	\$ 5.3
NPPD	\$ 7.5	\$ 7.5	\$ 9.0	\$ 8.9
OG&E	\$ 15.6	\$ 15.4	\$ 18.0	\$ 18.2
OPPD	\$ 5.4	\$ 5.5	\$ 6.3	\$ 6.5
Sunflower	\$ 1.1	\$ 1.1	\$ 1.3	\$ 1.3
Springfield	\$ 1.6	\$ 1.6	\$ 1.9	\$ 1.9
SPS	\$ 14.1	\$ 14.0	\$ 16.5	\$ 16.6
Western Farmers	\$ 3.5	\$ 3.4	\$ 4.2	\$ 4.0
Mid Kansas	\$ 1.6	\$ 1.6	\$ 1.8	\$ 1.8
Westar	\$ 12.3	\$ 12.4	\$ 14.2	\$ 14.7



**Southwest Power Pool, Inc.**  
**FINANCE COMMITTEE**  
**Recommendation from SPP Staff**  
**October 15, 2013**

**SPP Internal Signature Authorities**

**Organizational Roster**

The following persons are members of the Finance Committee:

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

**Background**

SPP utilizes internal signature authority limits to manage and control spending within the company.

**Analysis**

SPP is implementing an annual practice of seeking Finance Committee approval of the internal signature authorities. SPP is recommending changes to the existing approval limits for budgeted and unbudgeted authorities as outlined on the attached. The intent of the changes is to move more of the routine approvals away from the SPP CEO and COO.

SPP has reviewed the approval levels of local firms as well as peers in the RTO community and believes SPP's levels remain conservative.

**Recommendation**

Approve the internal signature authority levels as presented.

**Approved:** Finance Committee

**Action Requested:** Approve Recommendation

## BUDGETED EXPENDITURES

### Single Signing Authority Limits

TIER Level	Position	Proposed Signing Limit	Previous Limit	
A	Supervisor, Meeting Planner	\$5K	same	
B	Manager	\$10K	same	
C	Director	\$100K	\$50K	(Note A) ↓
D	Vice President, COO	\$500K	\$250K	
E	President	\$1M	\$500K	

### Dual Signing Authority Limits

Multi	COO/CFO + VP *	\$1M	NEW	(Note B)
Multi	VP* + President	Within Budget Limits	same	

\*Must include VP that oversees the department incurring the expenditure.  
For VP Information Technology, VP Engineering, and VP Operations, secondary approval must be the COO.

### Notes

(Note A) Raising the authorities of the Director and VP level employees to facilitate greater external focus for the President and COO while also recognizing the larger responsibility and empowerment the Director and VP level employees have on the day-to-day management of the company

(Note B) Provides a means to execute budgeted purchases with some combination of the executive team in the event the President is not available.

### Additional Data

The following data was obtained from the Workplace Management Requisition System and illustrates the volume and materiality of **budgeted** requisitions processed from 10/5/2012 thru 10/4/2013 for selected dollar ranges.

Amount Range	# of Requisitions	Total Amount
\$50 - \$100K	80	\$5,776,355
\$250 - \$500K	23	\$7,672,549
\$500K - \$1M	6	\$4,336,426
\$1M+	1	\$4,392,945

## UNBUDGETED EXPENDITURES

### Single Signing Authority Limits

TIER Level	Position	Proposed Signing Limit	Previous Limit	
A	Supervisor	\$0	same	
B	Manager	\$0	same	
C	Director	\$10K	same	
D	Vice President, COO	\$100K	same	
E	President	\$500K	250K	(Note A)

### Dual Signing Authority Limits

Multi	President+COO+CFO	\$500K +	NEW	(Note B)
Multi	Finance Committee	\$2M + *	NEW	(Note C)

\* Unbudgeted expenditures greater than \$2M will be reported at the next regularly scheduled meeting.

### Notes

(Note A) Given the size, nature, and frequency of our purchases, President needs the latitude to authorize purchases of this size.

(Note B) While not anticipated on a frequent basis, it is conceivable that an unbudgeted expenditure in excess of \$500k would need to be made and a pertinent combination of the executive group should be authorized to do so. Currently, the President & CFO can approve items between \$250k and \$1M. While the amount has been raised, so has the number of required approvals needed to authorize the unbudgeted transaction.

(Note C) Reporting mechanism needs to be established to ensure significant, unbudgeted purchases are communicated to the Finance Committee.

### Additional Data

The following data was obtained from the Workplace Management Requisition System and illustrates the volume and materiality of **unbudgeted** requisitions processed from 10/5/2012 thru 10/4/2013 for selected dollar ranges.

Amount Range	# of Requisitions	Total Amount
\$50 - \$100K	13	\$969,465
\$250 - \$500K	9	\$3,501,480
\$500K - \$1M	3	\$2,197,560
\$1M+	1	\$1,061,223