Southwest Power Pool

FINANCE COMMITTEE MEETING

April 1, 2014

DFW Hyatt Regency
Dallas, TX

• Summary of Action Items •

1. Accepted 2013 financial statement audit report
2. Approved 2014 funding of pension plan ($3,660,000) and post-retirement healthcare plan ($410,000)
3. Approved execution of floating to fixed interest rate swap at current market rates

• 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. Develop schedule of items that require Committee approval, items that require Committee monitoring, and items that require Committee input.
3. Review of ARR exposures after July 2014.
4. Review SPP's status when a market participant declares bankruptcy.
5. Review any other alternatives to netting ARRs which can mitigate the short window of ARR exposure.
6. Review of credit metrics in September 2014.
7. Investigate potential to increase the exposure calculation for transmission service beyond 50 days.
8. Develop chart illustrating projected member equity levels as depreciation becomes less than scheduled debt payments in the future.
9. Present Treasury Management policy to Committee for review
10. Share justification report on unbudgeted contractor engagement in 1Q'14
11. Provide IT Org chart in traditional format

Southwest Power Pool

FINANCE COMMITTEE MEETING

April 1, 2014

DFW Hyatt Regency Hotel

Dallas, TX

• 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:

Jason Fortik	Lincoln Electric
Traci Bender	NPPD
Rejji Hayes	ITC
Nick Brown	SPP
Dianne Branch	SPP
Barbara Sugg	SPP
Carson Hampson	SPP
Barrett Breeding	BKD, LLC
Steve Osborn	Osborn, Carreiro & Associates, Inc.

Minutes from March 7, 2014 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 provided the Committee with a brief summary of operation of SPP's Integrated Marketplace, highlighting the difficult weather conditions experienced in the SPP region on during the first few days of March and the volume of settlements occurring on a weekly basis.

Harry Skilton acknowledged the SPP staff members Scott Smith and Scott Noble for their presentations on SPP credit processes and SPP business process improvement, respectively. Both presentations at the March 2014 meeting were very well done and informative.

2013 Financial Audit

SPP staff provided a thorough review of the 2013 financial statements with variance analysis versus 2012 and versus 2013 budget. The Committee requested SPP provide additional information on the current deficit equity position and projection on when the deficit will reverse. Additionally, the Committee requested SPP present its Treasury Management policy at the next meeting for review. Barrett Breeding of BKD, LLC discussed the findings of BKD's audit of SPP's 2013 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, Sandra Bennett motioned to accept the 2013 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, 2014 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 $6.4 million. 2014 contributions were recommended at $3.66 million. The funded status of the plan was positively impacted by an 18% return on plan assets during 2013. The Post-retirement Healthcare Plan was fully funded on the report date as plan assets exceeded accumulated benefit obligations by over $1.6 million. 2014 contributions were recommended at $0.41 million.

Sandra Bennett motioned to approve 2014 funding for the SPP Retirement Plan of $3,660,000. The motion was seconded by Mike Wise and approved by unanimous voice vote.

Kelly Harrison motioned to approve 2014 funding for the SPP Post-retirement Healthcare Plan of $441,000. The motion was seconded by Sandra Bennett and approved by unanimous voice vote.

Floating Rate Swap

SPP staff presented an overview of the current options available to SPP to hedge floating interest rate risk on the recently issued $33 million floating rate notes. Options presented included replacing floating rate note with a fixed rate note, not hedging the floating rate interest, executing a floating to fixed rate swap, or purchasing a cap option on the floating rate note.

Following discussion which focused on the desirability of known costs, Kelly Harrison motioned to proceed with executing a floating to fixed rate swap. The motion was seconded by Coleen Wells and approve by unanimous voice vote.

SPP Information Technology

Barbara Sugg, VP of IT and Carson Hampson, Manager of IT Sourcing; provided a thorough presentation on SPP's information technology operations. Focus areas included: i) budgeting, ii) sourcing strategy for hardware, software, and maintenance, iii) vendor engagements, iv) organization of the department, and v) strategy for the future.

Future Meetings

The next meeting of the Finance Committee will be July 10, 2014 beginning at 8:00 am in at the DFW-Hyatt Regency hotel in Dallas, TX. Agenda topics include review of the business process improvement efforts, investment manager meetings, and preview of 2015 budget process.

There being no further business, Harry Skilton adjourned the meeting at 2:40 p.m.

Respectfully Submitted,

Thomas P. Dunn
Secretary

Southwest Power Pool, Inc.
FINANCE COMMITTEE MEETING
April 1, 2014
DFW – Hyatt Regency Hotel
Dallas, TX

• A G E N D A •

8:30 a.m. – 3:00 p.m.

1. Administrative Items *(5 minutes)* .... Harry Skilton
   Minutes
2. 2013 Financial Audit (*1 hour*) ****ACTION**** .... Dianne Branch / BKD
   Review SPP's 2013 financial statements and audit report, discussion of variance to budget,
3. 2014 Benefit Plan Funding (1/2 hour) ****ACTION**** .... Tom Dunn / Steve Osborn
   Review of benefit plan status and 2014 funding recommendations
4. Floating Rate Swap (*1.0 hours*) ****ACTION**** .... Tom Dunn
   Review of structure and current pricing
5. SPP Information Technology (*2 hours*) .... Barbara Sugg / Carson Hampson
   Detailed presentation on SPP's IT operations, policies, strategies
6. Written Reports
   February 2014 Financials
   Process Improvement and Cost Avoidance Initiatives for 2014
7. Adjourn .... Harry Skilton

Southwest Power Pool

FINANCE COMMITTEE MEETING

March 7, 2014

Plantation Country Club
Ponte Vedra Beach, FL

• Summary of Action Items •

• 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. Presentation from IT on hardware and software acquisition and management strategy at the April 2014 meeting.
3. Develop schedule of items that require Committee approval, items that require Committee monitoring, and items that require Committee input.
4. Review of ARR exposures after July 2014.
5. Review SPP's status when a market participant declares bankruptcy.
6. Review any other alternatives to netting ARRs which can mitigate the short window of ARR exposure.
7. Review of credit metrics in September 2014.
8. Investigate potential to increase the exposure calculation for transmission service beyond 50 days.

Southwest Power Pool

FINANCE COMMITTEE MEETING

March 7, 2014

Plantation Country Club

Ponte Vedra Beach, FL

• 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 (phone)	AEP
Coleen Wells (phone)	Kansas Electric Power Coop
Tom Dunn	SPP

Others attending included:

Laura Kapustka	Lincoln Electric
Bret Leopold	ITC Great Plains
Rejji Hayes	ITC
Rob Janssen	Kelson Energy
Jason Fortik	Lincoln Electric
Nick Brown	SPP
Scott Smith	SPP
Scott Noble	SPP
Michael Desselle (phone)	SPP

Minutes from December 20, 2013 and January 10, 2014 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 reviewed two errors in the approved December 9, 2013 minutes related to the bank financing in 2014, as follows:

a) Reference to quarterly interest payments on the bank floating rate note was changed to monthly
b) Reference to 2013 maturity date on the bank floating rate note was changed to 2023

SPP staff provided the Committee with a brief summary of the initial operating days of SPP's Integrated Marketplace, highlighting the difficult weather conditions experienced in the SPP region on March 2 and 3 which contributed to higher prices than expected. Settlement of the March 1 operating day was complete with only two metering issues which needed to be addressed.

SPP Credit Process

Scott Smith, director of treasury and risk management for SPP, presented an in-depth review of SPP's credit processes. The presentation included discussion of credit's role in customer registration, underwriting and establishing credit limits, measuring exposure and monitoring against credit limits, and default procedures. The Committee requested SPP address the following:

- Potential exposure days used to calculate transmission service exposure; currently limited by FERC to 50 days even though it requires a minimum of 60 days to terminate reservation
- Present credit metrics to Committee later in 2014, specifically illustrating the impact of the Integrated Marketplace.
- Provide links to SPP's Learning Management System which contains training on credit processes related to Integrated Marketplace (https://spp.csod.com)

SPP Strategic Plan Brainstorm

The Committee provided the following thoughts to assist the SPP Strategic Planning Committee in its work on updating the SPP Strategic Plan

a) SPP must capture tangible data on the benefits of transmission expansion;
b) SPP must be more proactive in documenting real benefits achieved from both transmission and the Integrated Marketplace and broadcast those benefits to the region;
c) SPP should consider the impact of “net metering” on load and transmission;
d) SPP should consider being more active in generation resource planning;
e) SPP should consider the impact of membership expansion on corporate governance, particularly SPP committee and working group membership;
f) SPP should focus on employee engagement and opportunities for employees to transfer to SPP members.

SPP Business Process Improvement

Scott Noble, director of SPP’s technical director of business process improvement, presented and in-depth assessment of SPP’s business process improvement status. The presentation highlighted SPP’s vision for improvement, basics of the approached used by SPP, review of completed initiatives, future plans and benchmarks, and a summary of challenges and risks. The Committee requested SPP place additional emphasis on quantifying the achievements of the initiatives, either in financial terms, improved quality, increased capacity, etc.

Future Meetings

The next meeting of the Finance Committee will be April 1, 2014 beginning at 8:30 am in at the DFW-Hyatt Regency hotel in Dallas, TX. Agenda topics include review of the 2013 financial audit, 2014 benefit plan funding, and overview of SPP’s IT operations.

There being no further business, Harry Skilton adjourned the meeting at 2:40 p.m.

Respectfully Submitted,

Thomas P. Dunn
Secretary

Southwest Power Pool, Inc.

FINANCE COMMITTEE

Report to the Board of Directors

April 29, 2014

2013 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 July 11, 2013 meeting approved the engagement of BKD, LLC to perform an audit of SPP's 2013 financial results.

Analysis

BKD, LLC has completed and published its audit of SPP's 2013 financial results. The Finance Committee, at its April 1, 2014 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 2013 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, 2013 and 2012

BKD LLP
CPAs & Advisors

Southwest Power Pool, Inc.
December 31, 2013 and 2012

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, 2013 and 2012, 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, 2013 and 2012, 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
____

Southwest Power Pool, Inc.

Balance Sheets

(In Thousands)

December 31, 2013 and 2012

Assets

	2013	2012
Current Assets		
Cash and cash equivalents	$ 34,874	$ 95,693
Restricted cash deposits	76,713	43,743
Accounts receivable	24,134	17,923
Prepaid expenses and other	6,967	5,412
Total current assets	142,688	162,771
Property and Equipment, at Cost		
Land	4,812	4,812
Building	66,225	67,378
Furniture and fixtures	10,026	9,891
Equipment and machinery	29,364	35,343
Leasehold improvements	-	588
Software	106,003	81,344
Software in development	106,895	76,539
	323,325	275,895
Less accumulated depreciation and amortization	119,065	102,143
	204,260	173,752
Other Assets, Net	4,463	2,997
	$ 351,411	$ 339,520

See Notes to Financial Statements

Liabilities and Members' Deficit

		2013		2012
Current Liabilities				
Accounts payable	$	15,953	$	9,831
Customer deposits		76,713		43,913
Current maturities of long-term debt (*Note 3*)		22,998		12,700
Accrued expenses		29,039		28,741
Deferred revenue		5,919		6,286
Total current liabilities		150,622		101,471
Long-term Debt *(Note 3)*		235,260		258,258
Other Long-term Liabilities		6,425		10,519
Members' Deficit		(40,896)		(30,728)
	$	351,411	$	339,520

Southwest Power Pool, Inc.

Statements of Operations

(In Thousands)

Years Ended December 31, 2013 and 2012

	2013	2012
Operating Income		
Tariff fees and member assessments	$ 137,811	$ 118,808
Other member services	4,926	29,111
	142,737	147,919
Operating Expenses		
Salaries and benefits	79,661	72,262
Employee travel	1,868	2,245
Administrative	3,967	3,720
Regulatory assessment	14,699	14,977
Meetings	930	983
Communications system	3,666	4,020
Leases	432	1,690
Maintenance	11,300	8,288
Consulting services	16,077	15,160
Depreciation and amortization	19,398	16,590
	151,998	139,935
Operating (Loss) Income	(9,261)	7,984
Other Income (Expense)		
Interest income	223	149
Interest expense	(7,763)	(6,398)
Change in fair market value of interest rate swaps	923	674
Other expense	258	(214)
	(6,359)	(5,789)
(Loss) Income Before Change in Funded Status of Employee Benefit Plans	(15,620)	2,195
Change in Funded Status of Employee Benefit Plans	5,452	(3,501)
Net Loss	$ (10,168)	$ (1,306)

Southwest Power Pool, Inc.
Statements of Members' Deficit
(In Thousands)
Years Ended December 31, 2013 and 2012

	2013	2012
Balance, Beginning of Year	$ (30,728)	$ (29,422)
Net loss	(10,168)	(1,306)
Balance, End of Year	$ (40,896)	$ (30,728)

Southwest Power Pool, Inc.
Statements of Cash Flows
(In Thousands)
Years Ended December 31, 2013 and 2012

		2013		2012
Operating Activities				
Net loss	$	(10,168)	$	(1,306)
Items not requiring cash				
Depreciation and amortization		19,398		16,590
Change in funded status of employee benefit plans		(5,452)		3,501
Loss on disposal of fixed assets		2		264
Change in fair market value of interest rate swaps		(923)		(674)
Changes in assets and liabilities				
Accounts receivable		(6,211)		(2,023)
Prepaid expenses and other		(1,555)		1,224
Other assets		(674)		(180)
Accounts payable		6,122		(7,985)
Accrued expenses		(70)		1,836
Other long-term liabilities		1,230		229
Net cash provided by operating activities		1,699		11,476
Investing Activities				
Acquisition of property and equipment		(49,818)		(78,340)
Net cash used in investing activities		(49,818)		(78,340)
Financing Activities				
Repayments of long-term debt		(12,700)		(11,206)
Issuance of long-term debt		-		100,000
Net cash (used in) provided by financing activities		(12,700)		88,794
(Decrease) Increase in Cash and Cash Equivalents		(60,819)		21,930
Cash and Cash Equivalents, Beginning of Year		95,693		73,763
Cash and Cash Equivalents, End of Year	$	34,874	$	95,693
Supplemental Cash Flow Information				
Interest paid (net of interest capitalized of $2,777 and $2,723 in 2013 and 2012, respectively)	$	7,932	$	6,261

Southwest Power Pool, Inc.

Notes to Financial Statements

December 31, 2013 and 2012

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, 2013 and 2012, 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.

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 2010.

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
Building improvements	Shorter of useful life or remaining life of building
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 $2,777 and $2,723 in 2013 and 2012, respectively.

The Company capitalizes development costs, including interest, for internal use software costs. These costs are included in software in development. 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.

No asset impairment was recognized during the years ended December 31, 2013 and 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 2013 and 2012, all members paid a $6 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. The Company also provides engineering study services for long-term transmission service and generation interconnection studies.

Withdrawing Members

Members wishing to withdraw their membership from the Company must provide 24 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 2013 and 2012, the Company maintained cash balances, including transaction accounts and short-term investment accounts that are not insured by the Federal Deposit Insurance Corporation. The Company's transaction accounts exceeded federal insurance limits by $9,758 at December 31, 2013. The Company's investment accounts 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.

Note 2: Line of Credit (In Thousands)

The Company has a $30,000 revolving line of credit expiring in 2016. At December 31, 2013 and 2012, 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, 2013.

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

Long-term Debt

	2013	2012
Variable Rate Term Note due 2027 (A)	$ 3,752	$ 3,958
Variable Rate Term Note due 2014 (B)	5,500	11,000
5.45% Senior Notes due 2016 (C)	15,000	21,000
4.82% Series 2010-A Senior Notes due 2042 (D)	29,541	30,000
4.82% Series 2010-B Senior Notes due 2042 (E)	34,465	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	50,000
3.25% Series 2012-D-2 Senior Notes due 2024 (H)	50,000	50,000
	258,258	270,958
Less current maturities	22,998	12,700
	$ 235,260	$ 258,258

(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 commenced 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 commenced 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, 2013, are:

2014	$ 22,998
2015	24,299
2016	21,353
2017	18,410
2018	18,469
Thereafter	152,729
	$ 258,258

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, 2013.

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 $3,723 and $3,927 at December 31, 2013 and 2012, 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 $5,500 and $11,000 at December 31, 2013 and 2012, 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.

	2013	2012
Fair value of interest rate swap agreements	$ 934	$ 1,857
Balance sheet location of fair value amounts	Other Long-term Liabilities	Other Long-term Liabilities
Gain recognized in statement of operations	$ 923	$ 674
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 certain office equipment which expire at various times through 2015. The lease for office space expired in early 2013. The Company incurred lease expense related to these operating leases of $432 and $1,690 in 2013 and 2012, respectively.

Future minimum lease payments at December 31, 2013, were:

2014	$ 139
2015	69
	$ 208

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 $4,200 to the plan in 2014.

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 $550 to the plan in 2014.

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	
	2013	**2012**	**2013**	**2012**
Benefit obligation	$ 44,090	$ 38,014	$ 7,995	$ 7,353
Fair value of plan assets	41,157	31,295	9,657	7,963
Funded status	$ (2,933)	$ (6,719)	$ 1,662	$ 610

Amounts recognized in the balance sheets:

	Pension Benefits		Postretirement Health Care Benefits	
	2013	**2012**	**2013**	**2012**
Noncurrent assets	$ -	$ -	$ 1,662	$ 610
Noncurrent liabilities	(2,933)	(6,719)	-	-
	$ (2,933)	$ (6,719)	$ 1,662	$ 610

Amounts recognized in members' equity not yet recognized as components of net periodic benefit cost as of December 31, 2013, consist of:

	Pension Benefits	Postretirement Health Care Benefits
Net (gain)/loss	$ 5,401	$ (1,664)
Prior service credit	(21)	-
Transition obligation	115	31
	$ 5,495	$ (1,633)

The accumulated benefit obligation for the defined benefit pension plan was $34,673 and $29,577 at December 31, 2013 and 2012, respectively.

Other significant balances and costs are:

	Pension Benefits		Postretirement Health Care Benefits	
	2013	**2012**	**2013**	**2012**
Employer contributions	$ 4,010	$ 3,892	$ 540	$ 469
Benefits paid	256	177	35	26
Benefit costs	4,625	3,643	542	469

The following amounts have been recognized in the statements of operations for the year ended December 31, 2013:

	Pension Benefits	Postretirement Health Care Benefits
Amounts arising during the period		
Net gain	$ 4,031	$ 1,049
Amounts recognized as components of net periodic benefit cost of the period		
Net loss	352	-
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 $58, $1 and $16, respectively. The estimated net gain, prior service cost, and net obligation 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 are $37, $0, and $4, respectively.

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

	Pension Benefits		Postretirement Health Care Benefits	
	2013	**2012**	**2013**	**2012**
Discount rate benefit obligation	5.5%	5.5%	5.5%	5.5%
Expected return on plan assets	7.0%	7.0%	7.0%	7.0%
Rate of compensation increase	4.0%	4.0%	-	-

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 2013 and 2012. The rate was assumed to decrease gradually to 5% by the year 2019 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
2014	$ 452	$ 78
2015	612	128
2016	712	159
2017	841	197
2018	1,045	249
2019–2023	8,380	1,801

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, 2013 and 2012, plan assets by category are as follows:

	Pension Plan Assets		Postretirement Health Care Plan Assets	
	2013	2012	2013	2012
Fixed income securities	17%	14%	24%	29%
Equity securities	76	72	72	65
Cash and equivalents	7	14	4	6
	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, 2013 and 2012, the Company does not hold any plan assets valued using Level 3 inputs.

The fair values of the Company's pension plan assets at December 31, 2013, 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	874	874	-	-
Mutual funds				
Foreign large blend	996	996	-	-
Mid cap value	1,741	1,741	-	-
Mid cap growth	6,699	6,699	-	-
Small cap growth	1,780	1,780	-	-
Large growth	6,172	6,172	-	-
Common stock				
Industrial materials	1,602	1,602	-	-
Consumer goods	1,217	1,217	-	-
Financial Services	474	474	-	-
Energy	2,707	2,707	-	-
Healthcare services	2,297	2,297	-	-
Hardware	728	728	-	-
Business services	211	211	-	-
Foreign company stock				
Industrial materials	878	-	878	-
Hardware	628	-	628	-
Business services	124	-	124	-
Energy	2,822	-	2,822	-
Financial services	327	-	327	-
Corporate debt obligations	5,298	-	5,298	-
Foreign corporate debt obligations	930	-	930	-
Government securities	2,000	-	2,000	-
Foreign government securities	647	-	647	-
Total	$ 41,157	$ 27,503	$ 13,654	$ -

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 value of the Company's other postretirement benefit plan assets at December 31, 2013, by asset category are as follows:

		Fair Value Measurements		
Asset Category	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	$ 6	$ 6	$ -	$ -
Money market mutual funds	382	382	-	-
Mutual funds				
Equities				
Foreign large blend	472	472	-	-
Foreign large growth	436	436	-	-
Large cap blend	658	658	-	-
Mid cap value	373	373	-	-
Mid cap growth	433	433	-	-
Small cap value	412	412	-	-
Real estate	498	498	-	-
Emerging markets	368	368		
Commodities	333	333	-	-
Fixed income				
Bond funds	1,961	1,961		
Inflation protected	323	323	-	-
Common stock			-	-
Industrial materials	351	351	-	-
Consumer goods and services	781	781	-	-
Financial services	467	467	-	-
Energy	261	261	-	-
Healthcare services	384	384	-	-
Hardware	52	52	-	-
Business services	277	277	-	-
Software	80	80	-	-
Telecommunications	108	108	-	-
Media	109	109	-	-
Utilities	94	94	-	-
Foreign company stock				
Business services	38	-	38	-
Total	$ 9,657	$ 9,619	$ 38	$ -

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

		Fair Value Measurements		
Asset Category	**Total**	**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	$ -

Southwest Power Pool, Inc.
Notes to Financial Statements
December 31, 2013 and 2012

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 $2,334 and $2,157 for 2013 and 2012, 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 $1,305 and $968 are recorded in other long-term liabilities at December 31, 2013 and 2012, 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 $1,253 and $975 are recorded in other long-term liabilities for the 457(f) plan participants at December 31, 2013 and 2012, 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 $17,571 and $9,587 as of December 31, 2013 and 2012, respectively. The Company recognized revenues of $128,486 and $110,707, including assessments and tariff administrative fees, from members for the years ended December 31, 2013 and 2012, 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 2013 and 2012, the Company incurred $226 and $455, respectively, in expenses attributable to RSC operations. Management of the Company expects such expenditures for 2014 to be approximately $328.

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, 2013 and 2012, the Company billed transmission customers $1,290,757 and $1,118,542, respectively. For the years ended December 31, 2013 and 2012, the Company remitted to transmission owners $1,171,133 and $1,016,886, respectively. At December 31, 2013 and 2012, the Company was due to collect from customers and remit to owners transmission service charges of $101,106 and $85,613, 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.

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, 2013 and 2012, the fair value measurement of the interest rate swaps as recognized in the accompanying balance sheets was a liability of $934 and $1,857, 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, 2013 and 2012, the fair value measurement of the cash equivalents as recognized in the accompanying balance sheets was $13,856 and $13,413, 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, 2013 and 2012.

	2013		2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	$ 34,874	$ 34,874	$ 95,693	$ 95,693
Restricted cash deposits	$ 76,713	$ 76,713	$ 43,743	$ 43,743
Financial liabilities				
Customer deposits	$ 76,713	$ 76,713	$ 43,913	$ 43,913
Long-term debt	$ 258,258	$ 264,200	$ 270,958	$ 274,518
Swap agreements	$ 934	$ 934	$ 1,857	$ 1,857

Note 10: Subsequent Events (in Thousands)

On March 10, 2014, the Company obtained a $33,000 senior unsecured term note facility. This facility will initially be undrawn but will allow the Company to obtain advances as needed during a two year draw period, after which it will convert into an amortizing term loan with escalating principal payments through 2023. Interest will be payable monthly at a floating rate.

Additionally, on March 21, 2014, the Company issued $37,000 in funding related to the 2014 Series E Senior Note due December 30, 2025. This note bears a 3.80% fixed rate interest with quarterly interest payments commencing on June 30, 2014 and principal payments commencing on March 30, 2024. This note is unsecured.

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, 2013, we wish to communicate the following to you:

AUDIT SCOPE AND RESULTS

<u>Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America</u>

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.

<u>Qualitative Aspects of Significant Accounting Policies and Practices</u>

<u>Significant Accounting Policies</u>

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
- Fair value
- Interest rate swaps

Financial Statement Disclosures

The following areas involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- Pension and other postretirement benefit plans
- Fair value

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 which, 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)

This communication is intended solely for the information and use of management, the Finance Committee and Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

_____________ __, ____

Southwest Power Pool, Inc.

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.

QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Current Assets	142,688,000	0	142,688,000	0.00%
Non-Current Assets	208,723,000	0	208,723,000	0.00%
Current Liabilities	(150,622,000)	0	(150,622,000)	0.00%
Non-Current Liabilities	(241,685,000)	0	(241,685,000)	0.00%
Current Ratio	0.947		0.947	0.00%
Total Assets	351,411,000	0	351,411,000	0.00%
Members' Deficit	40,896,000	0	40,896,000	0.00%
Operating Income	(142,737,000)	132,275	(142,604,725)	-0.09%
Net Loss	10,168,000	0	10,168,000	0.00%
Net Loss Prior Year	1,306,000	132,275	1,438,275	10.13%

DRAFT

Client: Southwest Power Pool, Inc.
Period Ending: December 31, 2013

SCHEDULE OF UNCORRECTED MISSTATEMENTS (ADJUSTMENTS PASSED)

Description	Location or Business Unit	Financial Statement Line Item	Factual (F), Judgmental (J), or Projected (P)	Assets		Liabilities		(X)	Operating Income	Net Loss	Members' Deficit	Net Effect on Following Year	
				Current DR (CR)	*Non-Current* DR (CR)	*Current* DR (CR)	*Non-Current* DR (CR)	Non Tax	DR (CR)	DR (CR)	*(Beg. of year)* DR (CR)	*Net Loss Prior Year* DR (CR)	*Members' Deficit* DR (CR)
Prior Year													
To record underaccrual of FERC asset and associated revenues in the CY(2012).			F	0	0	0	0		132,275	0	(132,275)	0	0
Current Year													
None				0	0	0	0		0	0	0	0	0
				0	0	0	0		0	0	0	0	0
				0	0	0	0		0	0	0	0	0
		Taxable passed adjustments							132,275	0	(132,275)	0	0
		Times (1 - effective tax rate of 00%)							100%	100%	100%		
		Taxable passed adjustments net of tax impact				0			132,275	0	(132,275)		
		Nontaxable passed adjustments		0	0	0	0		0	0	0		
		Total passed adjustments, net of tax impact (if any)		0	0	0	0		132,275	0	(132,275)		

Impact on Net Loss Prior Year	**132,275**
Impact on Members' Deficit	**0**

BKD, LLP
Certified Public Accountants
P.O. Box 3667
Little Rock, AR 72203-3667

We are providing this letter in connection with your audits of Southwest Power Pool, Inc. (the Company) financial statements as of and for the years ended December 31, 2013 and 2012. We confirm that we are responsible for the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, operations and compliance, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following:

1. We have fulfilled our responsibilities, as set out in the terms of our engagement letter dated November 19, 2013, for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.

2. We acknowledge our responsibility for 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.

3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

4. We have provided you with:

   (a) Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters.

   (b) Additional information that you have requested from us for the purpose of the audit.

   (c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

   (d) All minutes of members, directors, and finance committee meetings held through the date of this letter.

   (e) All significant contracts.

5. All transactions have been recorded in the accounting records and are reflected in the financial statements.

6. We have informed you of all current risks of a material amount that are not adequately prevented or detected by Company procedures with respect to:

   (a) Misappropriation of assets.

   (b) Misrepresented or misstated assets, liabilities or net assets.

7. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

8. We have no knowledge of any known or suspected:

   (a) Fraudulent financial reporting or misappropriation of assets involving management or employees who have significant roles in internal control.

   (b) Fraudulent financial reporting or misappropriation of assets involving others that could have a material effect on the financial statements.

9. We have no knowledge of any allegations of fraud or suspected fraud affecting the Company received in communications from employees, customers, regulators, suppliers or others.

10. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America. We understand that the term related party refers to an affiliate; management, and members of their immediate families, subsidiaries accounted for by the equity method; and any other party with which the Company may deal if the Company can significantly influence, or be influenced by, the management or operating policies of the other. The term affiliate refers to a party that directly or indirectly controls, or is controlled by, or is under common control with, the Company.

11. Except as reflected in the financial statements, there are no:

    (a) Plans or intentions that may materially affect carrying values or classifications of assets and liabilities.

    (b) Material transactions omitted or improperly recorded in the financial records.

    (c) Material gain/loss contingencies requiring accrual or disclosure, including those arising from environmental remediation obligations, or matters related to regulation of our operations by agencies such as the Federal Energy Regulatory Commission.

    (d) Events occurring subsequent to the balance sheet date through the date of this letter requiring adjustment or disclosure in the financial statements.

    (e) Agreements to purchase assets previously sold.

    (g) Restrictions on cash balances or compensating balance agreements.

    (h) Guarantees, whether written or oral, under which the Company is contingently liable.

12. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.

13. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America. The Company is engaged in various legal and regulatory proceedings at both the federal and state level. The resolution of these matters is not expected to have a material adverse impact on the Company's financial position, cash flows, or results of operations.

14. Adequate provisions and allowances have been accrued for any material losses from:

    (a) Uncollectible receivables.

    (b) Purchase commitments in excess of normal requirements or above prevailing market prices.

15. Except as disclosed in the financial statements, the Company has:

    (a) Satisfactory title to all recorded assets, and they are not subject to any liens, pledges or other encumbrances.

    (b) Complied with all aspects of contractual and grant agreements, for which noncompliance would materially affect the financial statements.

16. The financial statements disclose all significant estimates and material concentrations known to us. Significant estimates are estimates at the balance sheet date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events <u>could</u> occur which would significantly disrupt normal finances within the next year. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

17. The fair values of financial and nonfinancial assets and liabilities, if any, recognized in the financial statements or disclosed in the notes thereto are reasonable estimates based on the methods and assumptions used. The methods and significant assumptions used result in measurements of fair value appropriate for financial statement recognition and disclosure purposes and have been applied consistently from period to period, taking into account any changes in circumstances. The significant assumptions appropriately reflect market participant assumptions.

18. We have not been designated as a potentially responsible party (PRP or equivalent status) by the Environmental Protection Agency (EPA) or other cognizant regulatory agency with authority to enforce environmental laws and regulations.

19. We are an organization exempt from income tax under Section 501(c) of the Internal Revenue Code and a similar provision of state law and, except as disclosed in the financial statements, there are no activities that would jeopardize our tax-exempt status or subject us to income tax on unrelated business income or excise tax on prohibited transactions and events.

20. Costs capitalized in association with software development, including capitalized interest, are fully recoverable over the anticipated life of the asset.

21. We are in compliance with all debt covenants relating to outstanding debt issued, and/or lines of credit in place, as of December 31, 2013.

22. The 18% performance compensation accrued at December 31, 2013 is the amount that was approved by the Board of Directors in executive session on January 28, 2014

Nick Brown, Chief Executive Officer

Tom Dunn, Chief Financial Officer

Dianne Branch, Controller

Southwest Power Pool, Inc.

FINANCE COMMITTEE

Recommendation to the Board of Directors

April 29, 2014

2014 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, 2014.

Analysis

SPP Defined Benefit Retirement Plan

The report identifies 2014 accounting expense for this plan as well as minimum and maximum contributions for the plan. The Actuary determined 2014's minimum contribution level to be $3.40 and maximum suggested level to be $3.66. SPP's 2014 budget anticipated contributions to the defined benefit pension plan of $4.20.

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

	2010	2011	2012	2013	2014
Maximum Contribution (tax deductible)	$7.27	$9.21	$16.88	$25.59	32.11
Minimum Contribution	0	2.23	1.33	2.33	3.40
Actuary Suggested Contribution	3.17	3.13	3.89	4.01	3.66
Actual Contribution	3.12	3.13	3.89	4.01	
Projected Benefit Obligation (PBO)	$23.86	$28.92	38.01	44.09	
Accumulated Benefit Obligation (ABO)	18.10	22.32	29.58	34.67	
Fair Value of Plan Assets	23.54	25.26	31.30	41.16	
Discount Rate[1]	6.75%	6.50%	6.25%	5.50%	5.50%
Plan Assets vs. PBO	-$0.32	-$3.66	-$6.71	-$2.93	
Plan Assets vs. ABO	5.76	2.95	1.72	6.49	
Total Participants	517	583	643	672	
Benefits Paid	$0.13	$0.14	$0.18	$0.26	

[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, 2013

The fund had total assets of $41.16 versus an Accumulated Benefit Obligation of $34.67, Projected Benefit Obligation of $44.09 and termination value of approximately $38.00. The Actuary estimates participants active on January 1, 2013 will accrue $3.4 in benefits during fiscal year 2014. Finally, the value of the early retirement feature of the Defined Benefit Retirement Plan is estimated to be $5.00.

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, 2014 SPP had 133 active employees covered by this plan and 7 retirees.

The Actuary estimated 2014 net periodic post retirement benefit cost to be $0.41. 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 2014 budget allocates $0.55 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.

	2010	**2011**	**2012**	**2013**	**2014**
Actual Contribution	$0.63	$0.51	$0.45	0.54	
Pension Cost	0.63	0.51	0.45	0.54	0.41
Accumulated Benefit Obligation (ABO)	$4.64	$5.30	$5.95	$7.35	8.00
Fair Value of Plan Assets	5.23	6.44	6.75	7.96	9.66
Funded Status vs. ABO	$0.59	$1.14	$0.80	$0.61	$1.66
Plan Participants – Active	158	149	146	133	
Plan Participants – Retired	2	4	5	7	

Recommendation

Approve 2014 funding of the SPP Post-retirement Benefits Plan at $0.41.

Approve 2014 funding of the SPP Retirement plan at $3.66.

Approved: Finance Committee April 1, 2014

Action Requested: Approve Recommendation

SOUTHWEST POWER POOL
RETIREMENT PLAN

ACTUARIAL VALUATION
AS OF JANUARY 1, 2014

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 14, 2014

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, 2014.

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

	1/01/2012	1/01/2013	1/01/2014
Individuals included	583	643	672
Total Salary	$ 43,465,292	$ 47,968,748	$ 49,768,723
Net Plan Assets	$ 25,263,122	$ 31,295,784	$ 41,157,249

Contribution Levels	2012	2013	2014
Maximum tax deductible under Pension Protection Act '06	$ 16,877,212	$ 26,593,540	$ 32,109,973
"Old" Maximum/Suggested	3,891,701	4,009,487	3,657,939
Minimum required	1,331,358	2,332,645	3,399,071
Pension "expense" under accounting rules	$ 3,642,651	$ 4,624,575	$ 4,198,833

Current Status of the Plan

The contribution for the 2014 Plan Year must be between $ 3,399,071 and $ 32,109,973. At least the minimum must be paid by September 15, 2015.

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 decreased since last year:

	Suggested Contribution	Pension Expense
(1) 2013 Amount	$ 4,010,000	$ 4,624,000
(2) Change due to:		
(a) 2013 Investment Gain	- 398,000	- 487,000
(b) More participants	+ 26,000	+ 32,000
(c) Other	+ 20,000	+ 30,000
(3) 2014 Amount	$ 3,658,000	$ 4,199,000

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, 2014, I estimate that the total liability would be about $38 million (using a 5.00% discount rate). This compares to assets of about $41 million. However, be aware of three items:

(1) During the 2014 year, employees will accrue additional benefits worth about $3.4 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 35 people). It does not apply when an employee terminates before age 55. The current value of this subsidy is about $5 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 2014 would be $3,658,000 (the "suggested" amount).

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 2014. 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 2014 Net Periodic Pension Cost is $4,198,833.

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.

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

EXHIBITS:

APPENDICES:

Exhibit 1

Executive Summary

		1/1/2012	1/1/2013	1/1/2014
1.	Individuals included in report			
	a. Active	514	562	566
	b. Inactive	69	81	106
	c. Covered Payroll	$ 43,465,292	$ 47,968,748	$ 49,768,723
2.	Normal Cost Amount	$ 3,141,507	$ 3,541,141	$ 3,647,939
	Normal Cost Rate	7.23%	7.38%	7.33%
3.	Assets	$ 25,263,122	$ 31,295,784	$ 41,157,249
	Investment Return for year	- 5.0%	8.5%	18.4%
4.	Funding Levels			
	Maximum under Pension Protection Act	$ 16,887,212	$ 26,593,540	$ 32,109,973
	Suggested	$ 3,891,701	$ 4,009,487	$ 3,657,939
	Minimum	$ 1,331,358	$ 2,332,645	$ 3,399,071
5.	Accounting Information (for use in auditor's report)			
	a. Present Value of Vested Benefits	$ 18,404,187	$ 25,513,501	$ 29,974,536
	b. Present Value of Non-Vested Benefits	3,913,054	4,063,111	4,698,056
	c. Present Value of Accumulated Benefits	$ 22,317,241	$ 29,576,612	$ 34,672,592
	d. Pension Cost per SFAS No. 87	$ 3,642,651	$ 4,624,575	$ 4,198,833
6.	Top-Heavy Ratio	21.8%	19.1%	18.2%

Exhibit 2

Summary of Financial Information

	Plan Year Ending December 31,		
	2011	2012	2013
A. INCOME			
1. Contributions			
Employee	$ 0	$ 0	$ 0
Employer	3,133,122	3,892,000	4,010,000
Other	0	0	0
2. Investment Income			
a. Interest and Dividends	485,128	590,152	696,636
b. Realized Gains	473,888	443,878	1,417,708
c. Unrealized Appreciation	- 2,071,695	1,447,840	4,185,932
d. Investment Expenses	- 149,722	- 163,798	- 192,520
e. Subtotal	- 1,262,401	2,318,071	6,107,756
TOTAL	$ 1,870,721	$ 6,210,072	$ 10,117,756
B. EXPENSES			
1. Administrative	$ 55	$ 246	$ 0
2. Monthly Benefits	143,850	177,164	256,291
3. Lump Sum Benefits	0	0	0
TOTAL	$ 143,905	$ 177,410	$ 256,291

Exhibit 2 - Continued

	12/31/2011	12/31/2012	12/31/2013
C. ASSETS (Market Basis)			
1. Short Term			
Cash	$ 2,538	$ 4,712	$ 5,005
Money Market Funds	343,284	657,741	874,530
2. U.S. Treasury Bills	2,749,758	3,699,083	1,999,670
3. Fixed Income Assets			
Government	237,455	126,485	0
Corporate	3,232,982	4,253,927	6,806,391
4. Common Stock	9,358,740	10,507,308	13,988,246
5. Mutual Funds			
Fixed Income	0	0	0
Equity	9,269,538	11,971,230	17,388,240
5. Other			
Contribution Receivable	0	0	0
Benefits payable	0	0	0
Accrued Interest	68,827	75,298	95,167
Other	0	0	0
TOTAL	$ 25,263,122	$ 31,295,784	$ 41,157,249
D. Net Investment Return:	- 5.0%	8.5%	18.4%

Exhibit 2 - Continued

E. INFORMATION FOR PBGC FORM 1 SCHEDULE A	1/1/2012	1/1/2013	1/1/2014
1. Interest Assumption	2.07% 4.45% 5.24%	1.00% 3.57% 4.77%	1.25% 4.57% 5.60%
2. Present Value of Vested Benefits	$ 23,983,760	$ 32,649,658	$ 32,840,296
3. Adjusted Market Value of Assets	25,263,122	31,295,784	41,157,249
4. Unfunded Vested Benefits	$ 0	$ 1,353,874	$ 0
5. Rounded to next higher $1,000	0	1,354,000	0
6. 0.9% of (5)	$ 0.00	$ 12,186.00	$ 0.00

Exhibit 3

Accounting Information

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

Statement of Accumulated Plan Benefits

	1/01/2013	1/01/2014
Investment Return Assumption	5.50%	5.50%
Actuarial present value of accumulated plan benefits		
Vested Benefits		
Participants currently receiving benefits	$ 2,398,581	$ 3,667,485
Other Participants	23,114,920	26,307,051
	$ 25,513,501	$ 29,974,536
Non-Vested Benefits	4,063,111	4,698,056
Total actuarial present value of accumulated plan benefits	$ 29,576,612	$ 34,672,592

Statement of Changes in Accumulated Plan Benefits

Actuarial present value of accumulated plan benefits at beginning of year	$ 22,317,241	$ 29,576,612
Increase (Decrease) attributable to:		
Plan Amendment	0	0
Benefits Accumulated*	4,013,848	5,352,271
Benefits Paid	- 177,164	- 256,291
Change in Assumptions	3,422,687	0
Actuarial present value of accumulated plan benefits at end of year	$ 29,576,612	$ 34,672,592

* Includes effect of interest and actuarial gains and losses.

Exhibit 3 - Continued

SFAS No. 87 Pension Cost for 2014

A. Reconciliation of Funded Status		1/01/2014		Projected 12/31/2014
1. Actuarial present value of accumulated benefit obligations				
a. Vested portion	$	(29,974,536)	$	(34,599,656)
b. Non-Vested portion		(4,698,056)		(5,422,974)
2. Accumulated Benefit Obligation	$	(34,672,592)	$	(40,022,630)
3. Effect of estimated future pay growth		(9,417,628)		(10,870,783)
4. Projected Benefit Obligation	$	(44,090,220)	$	(50,893,413)
5. Plan assets at fair value		41,157,249		47,637,175
6. Funded status: (4)+(5)	$	(2,932,971)	$	(3,256,238)
7. Unrecognized net (gain) or loss		5,401,080		5,342,724
8. Unrecognized prior service cost		(20,906)		(21,650)
9. Unrecognized net obligation		115,273		98,807
10. Accum. Comp. Other Income		5,495,447		5,419,881
11. Total: (6) + (10)	$	2,562,476	$	2,163,643

B. Determination of Pension Cost		2014
1. Service Cost	$	4,464,352
2. Interest Cost (on A(4) and B(1))		2,661,625
3. Expected return on assets		(3,002,710)
4. Amortization of		
a. Unrecognized net (gain) or loss		58,356
b. Unrecognized prior service cost		744
c. Unrecognized net obligation		16,466
5. Net Periodic Pension Cost	$	4,198,833

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 12/31/14 assumes a 2014 contribution of $3,800,000 and net periodic pension cost of $4,198,833.

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	12	0	0	0	0	0	0	**12**
	Salary	598,096	0	0	0	0	0	0	**598,096**
25-29	Count	47	14	0	0	0	0	0	**61**
	Salary	2,878,542	1,046,596	0	0	0	0	0	**3,925,138**
30-34	Count	42	36	2	0	0	0	0	**80**
	Salary	2,752,987	2,940,686	205,424	0	0	0	0	**5,899,097**
35-39	Count	45	36	11	0	0	0	0	**92**
	Salary	3,260,627	3,202,404	1,025,494	0	0	0	0	**7,488,525**
40-44	Count	35	32	5	1	0	0	0	**73**
	Salary	3,066,991	2,819,501	508,246	102,220	0	0	0	**6,496,958**
45-49	Count	51	36	5	1	4	0	0	**97**
	Salary	4,474,623	3,299,542	596,630	109,540	789,100	0	0	**9,269,435**
50-54	Count	27	26	4	3	1	2	3	**66**
	Salary	2,319,215	2,481,103	517,800	335,007	240,000	284,300	336,845	**6,514,270**
55-59	Count	15	15	6	3	0	2	5	**46**
	Salary	1,141,455	1,719,242	715,614	213,915	0	254,980	1,151,475	**5,196,681**
60-64	Count	9	12	4	1	2	0	2	**30**
	Salary	812,480	1,127,008	585,587	249,167	279,695	0	206,020	**3,259,957**
65 & Over	Count	1	1	4	1	0	0	2	**9**
	Salary	167,500	104,715	420,486	182,875	0	0	244,990	**1,120,566**
Unknown Age	Count	0	0	0	0	0	0	0	**0**
	Salary	0	0	0	0	0	0	0	**0**
Total	Count	**284**	**208**	**41**	**10**	**7**	**4**	**12**	**566**
	Salary	**21,472,516**	**18,740,797**	**4,575,281**	**1,192,724**	**1,308,795**	**539,280**	**1,939,330**	**49,768,723**

Exhibit 4 - Continued

Participant Data as of January 1, 2014

	Active	Retired	Terminated Vested	Total
Number of Participants at 1/1/2013	562	11	70	643
New during year	+ 35	0	0	+ 35
Rehired	0	0	0	0
Terminated Vested	- 22	0	+ 22	0
Terminated nonvested	- 10	0	0	- 10
Cashed out	0	0	0	0
Retired	- 2	+ 6	- 4	0
Died	0	0	0	0
Other	0	+ 1	0	+ 1
Number of Participants at 12/31/2013	563	18	88	669
New Entrants on 1/1/2014	+ 3	0	0	+ 3
Number of Participants 1/1/2014*	566	18	88	672

*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. (a) Benefit Service is all Service after age 21. (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:

a) 2% for those who were age 45 with 5 years of service by December 31, 2006;
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

		2013	2014
A.	Maximum tax deductible contribution (IRC 404(o)(2))		
1.	Funding Target	$ 29,579,114	$ 37,269,362
2.	Target Normal Cost	3,166,265	4,457,689
3.	Cushion Amount		
	a) 50% of Funding Target	14,789,557	18,634,681
	b) Amount Funding Target increases due to pay growth	10,354,388	12,905,490
4.	Actuarial value of plan assets	31,295,784	41,157,249
5.	Funding Target IF plan were "At Risk"	34,629,469	42,343,703
6.	Maximum = (1)+(2)+(3)-(4), but not less than (5)+(2)-(4)	$ 26,593,540	$ 32,109,973
B.	Suggested contribution		
1.	Normal Cost for current group	$ 3,541,141	$ 3,647,939
2.	Partial years cost for 22/3 expected new people	70,000	10,000
3.	Amortization of Unfunded Actuarial Accrued Liability	384,875	0
4.	Interest	13,471	0
5.	Suggested contribution	$ 4,009,487	$ 3,657,939
C.	Minimum required contribution (IRC 430)		
1.	Target Normal Cost	$ 2,332,645	$ 3,399,071
2.	Shortfall amortization charges (App E)	0	0
3.	Waiver amortization charges (App E)	0	0
4.	Subtotal (1)+(2)+(3)	$ 2,332,645	$ 3,399,071
5.	Excess of actuarial value of asset (less credit balances) over Funding Target	0	0
6.	Minimum (beginning of year) = (4), or if (5) is greater than 0, then (1)-(5), but not less than $0.	$ 2,332,645	$ 3,399,071

Appendix B

Costs and Liabilities

		1/1/2013		1/1/2014
1. Present Value of Future Benefits				
A. Active Lives	$	68,907,294	$	73,067,145
B. Inactive Lives		4,556,577		5,836,103
C. Total Present Value	$	73,463,871	$	78,903,248
2. Actuarial Accrued Liability	$	33,515,182	$	38,726,395
3. Assets		31,295,784		41,157,249
4. Unfunded Actuarial Accrued Liability (2 - 3)	$	2,219,398	$	- 2,430,854
5. Entry Age Normal Cost	$	3,541,141	$	3,647,939
6. Total Covered Salary		47,968,748		49,768,723
7. Normal Cost Rate (5 / 6)		.073822		.073298

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

	2012	2013
(1) Unfunded Actuarial Accrued Liability beginning of year	$ 3,674,269	$ 2,219,398
(2) Normal Cost for year	3,141,507	3,541,141
(3) Contributions for year	3,892,000	4,010,000
(4) Interest on (1), (2), and (3)	230,932	138,948
(5) Other adjustments	0	0
(6) Expected Unfunded Actuarial Accrued Liability at end of year: (1)+(2)-(3)+(4)+(5)	$ 3,154,708	$ 1,889,487
(7) Gain/loss during year	- 935,310	- 4,230,341
(8) Effect of changes in assumptions	0	0
(9) Unfunded Actuarial Accrued Liability at end of year	$ 2,219,398	$ - 2,430,854
(10) Amortization period	7	6
(11) Amortization of Unfunded Actuarial Accrued Liability	$ 384,875	$ 0

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

			2013	2014
A.	Segment Rates		4.94/6.15/6.76	4.43/5.62/6.22
	Equivalent rate		6.51%	5.98%
B.	Asset Information			
	1.	Market Value of assets on valuation date	$ 31,295,784	$ 41,157,249
	2.	Actuarial Value of assets on valuation date	31,295,784	41,157,249
	3.	Carryover balance on valuation date	1,681,931	1,991,574
	4.	Pre-funding balance on valuation date	9,307,093	12,688,134
	5.	Security pledges & annuity purchases on non HCE's within last two years	0	0
C.	Funding Target (IRC 430(d)(1))		$ 22,780,124	$ 29,472,999
D.	Target Normal Cost		$ 2,332,645	$ 3,399,071
E.	"At Risk" calculations (IRC 430 (i))			
	1.	Present value of accrued benefits under alternate assumptions	$ 27,580,522	$ 34,435,713
	2.	Loads		
		a) $700 times number of participants	450,100	470,400
		b) 4% of (1)	1,103,221	1,377,429
	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)	27,580,522	34,435,713
	5.	Target normal cost under alternate assumptions	2,640,207	3,813,207
	6.	4% load	105,608	152,528
	7.	Target normal cost (5, +6 if 3=yes, and not less than D)	2,640,207	3,813,207

Appendix D - Continued

			2013	2014
F.	Various percentages			
	1.	Funding Target Attainment Percentage for Year		
		a. B(2) divided by C	137.38%	139.64%
		b. B(2)-B(3)-B(4), divided by C	89.14%	89.83%
		c. If a is greater than 100% then a, else b.	137.38%	139.64%
	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)]	137.38%	139.64%
	3.	At Risk Funding Target Attainment Percentage for Year B(2)-B(3)-B(4), divided by E(1)	73.62%	76.88%
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 F1(c) > 80%, then "NO")	NO	NO

Appendix E

Amortization of Shortfalls

Item	Initial Amount	Date Added To Costs	1/1/2014 Outstanding Balance	Amortization Period	Amortization Amount
2) 2014 Shortfall	$ 0	1/1/2014	$ 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 2014:

1.	Plan Assets	41,157,249
2.	Prefunding Balances used to reduce contributions for the plan year	0
3.	Net Assets	41,157,249
4.	Funding Target from Appendix D	29,472,999
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 2013:		CARRYOVER BALANCE	PRE-FUNDING BALANCE	TOTAL
1)	Minimum required contribution for 2013			$ 2,332,645
2)	Balances used to offset minimum	$ 0	$ 0	0
3)	Additional cash requirement (1) – (2)			2,332,645
4)	Contributions discounted to 1/1/13			3,898,324
5)	Excess contributions (4) – (3)			$ 1,565,679

Carryover and Pre-funding Balances:		CARRYOVER BALANCE	PRE-FUNDING BALANCE	TOTAL
1)	Balance at 1/1/2013	$ 1,681,931	$ 9,307,093	$ 10,989,024
2)	Portion used to offset 2013 funding requirement	0	0	0
3)	Amount Remaining	1,681,931	9,307,093	10,989,024
4)	Interest at 18.41%	309,643	1,713,436	2,023,079
5)	Subtotal	1,991,574	11,020,529	13,012,103
6)	Prior year's excess contributions		1,565,679	1,565,679
7)	Interest on (6) at 6.51%		101,926	101,926
8)	Subtotal (6) + (7)		1,667,605	1,667,605
9)	Portion of (8) to be added to prefunding balance		1,667,605	1,667,605
10)	Voluntary reduction	0	0	0
11)	Balance at 1/1/2014 (5) + (9) + (10)	$ 1,991,574	$ 12,688,134	$ 14,679,708

Appendix G

Top-Heavy Test for 2014 Plan Year

Determination Date: 12/31/13
Valuation Date: 1/01/14

Present Value of Accrued Benefits at 7% Interest - Actives

1)	Key Employees (16)	$	3,488,455
2)	Non-key Employees		14,526,674
3)	Total	$	18,015,129

Present Value of Accrued Benefits at 7% Interest – Inactives

1)	Key Employees (0)	$	0
2)	Non-key Employees		1,114,257
3)	Total	$	1,114,257

Benefit Payments Since 1/1/2012

1)	Key Employees (0)	$	0
2)	Non-key Employees (1)		35,059
3)	Total	$	35,059

Totals

1)	Key Employees	$	3,488,455
2)	Non-key Employees		15,675,990
3)	Total	$	19,164,445

Top-Heavy Ratio = Key / Total 18.2%

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 2014.

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 2014.

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:

	Min	Max
1st segment (1-5 years)	4.43%	1.25%
2nd segment (5-20 years)	5.62%	4.06%
3rd segment (20+ years)	6.22%	5.08%

The equivalent rate is 5.98%.

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

Appendix H (continued)

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 24, 2014

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 2014 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. The 2014 net periodic postretirement benefit cost using a 5.50% discount rate is $405,750.

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

Sincerely,

Steve Osborn

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 24, 2014

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

RE: Retiree Medical Coverage

Dear Mr. Dunn:

I have calculated the 2014 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 2014 net periodic post-retirement benefit cost will be $405,750. 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, 2014 by $1,803,262, and the 2014 net periodic postretirement benefit cost by $311,130.

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 2013 AND 2014

A. Reconcilliation of Funded Status		1/1/13		1/1/14		Projected 12/31/14
1. Actuarial present value of accumulated post-retirement benefit obligations						
a. Retirees	$	(633,399)	$	(837,002)	$	--
b. Fully eligible active employees		(1,203,057)		(1,256,737)		--
c. Other active employees		(5,516,607)		(5,901,647)		--
d. Subtotal	$	(7,353,063)	$	(7,995,386)		(9,042,937)
2. Plan assets at fair value		7,963,051		9,656,860		10,672,061
3. Funded Status: (1)+(2)	$	609,988	$	1,661,474	$	1,629,124
4. Unrecognized net (gain) or loss		(615,202)		(1,664,370)		(1,627,597)
5. Unrecognized prior service cost		0		0		0
6. Unrecognized net obligation or (net asset)		35,394		30,971		26,548
7. Subtotal (4) + (5) + (6)		(579,808)		(1,633,399)		(1,601,049)
10. Total: (3) + (7)	$	30,180	$	28,075	$	28,075

Projected at 12/31/14 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 12/31/12	$	609,988	$	(579,808)	$	30,180
2.	Change in discount rate		0		0		0
3.	Net periodic post-retirement benefit cost for 2013		(537,682)		(4,423)		(542,105)
4.	Cash contribution in 2013		540,000		0		540,000
5.	Deferred investment gain for 2013		613,675		(613,675)		0
6.	Other gain		435,493		(435,493)		0
7.	Balance 12/31/13	$	1,661,474	$	(1,633,399)	$	28,075

Note: The above does not include any tax effects.

SFAS No. 158 Implementation

C. Disclosure of SFAS 106 Benefit Cost		2012	2013
1.	Service Cost	$ 555,344	672,460
2.	Interest Cost	406,587	440,652
3.	Actual Return on Assets	(770,849)	(1,189,105)
4.	Net amortization and deferral		
a.	Deferral <a>	280,810	613,675
b.	Net loss recognition	(7,099)	0
c.	Prior service cost amort.	0	0
d.	Transition (asset) amort.	4,423	4,423
e.	Subtotal	278,134	618,098
5.	Net Periodic Postretirement Benefit Cost	$ 469,216	542,105
<a>	Actual Return on asets	770,849	1,189,105
	Expected return on assets	490,039	575,430
	Deferral	280,810	613,675

D. Determination of SFAS 106 Cost for next year		2013	2014
1.	Service Cost	$ 672,460	$ 652,085
2.	Interest Cost (on A(4) and D(1))	440,652	473,466
3.	Expected return on assets	(575,430)	(687,451)
4.	Amortization of		
a.	Unrecognized net (gain) or loss	0	(36,773)
b.	Unrecognized prior service cost	0	0
c.	Unrecognized net obligation or (net asset)	4,423	4,423
5.	Net Periodic Postretirement Benefit Cost	$ 542,105	$ 405,750

EXHIBIT 2

PARTICIPANT DATA

A. The following participant data was used:

	January 1 2013	January 1 2014
Number of Active Employees	142	133
Number of Retirees Covered	5	7

B. Projected premium payment

	January 1 2013	January 1 2014
1st year	$ 68,000	$ 78,000
2nd year	116,000	128,000
3rd year	143,000	159,000
4th year	172,000	197,000
5th year	207,000	249,000
6th through 10th year	1,611,000	1,801,000

EXHIBIT 3

ACTUARIAL ASSUMPTIONS

DISCOUNT RATE:	A discount rate of 5.50% was used for the 2014 Benefit Cost and the December 31, 2013 disclosures. A rate of 5.50% was used for the 2013 Benefit Cost and the December 31, 2012 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 2014:

	Total	Paid by Employee
Single, with Medicare	$ 389.92	$ 77.98
Family, with Medicare	869.48	173.90
Single, no Medicare	389.92	77.98
Family, no Medicare	1,214.65	175.88

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

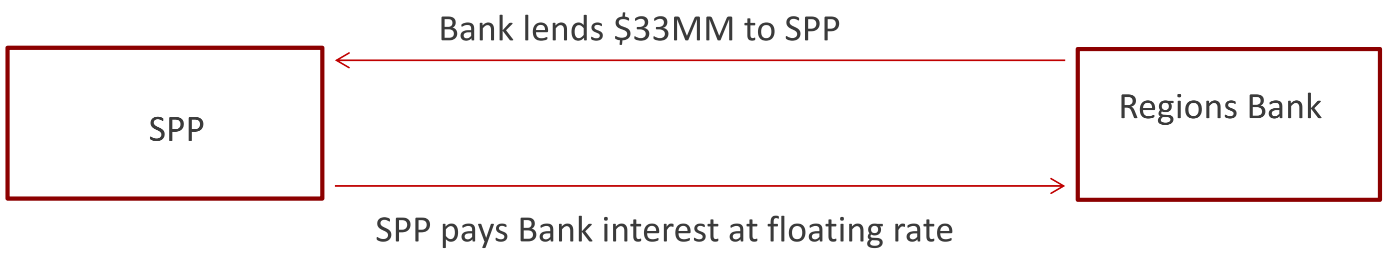
Interest Rate Swap

April 1, 2014

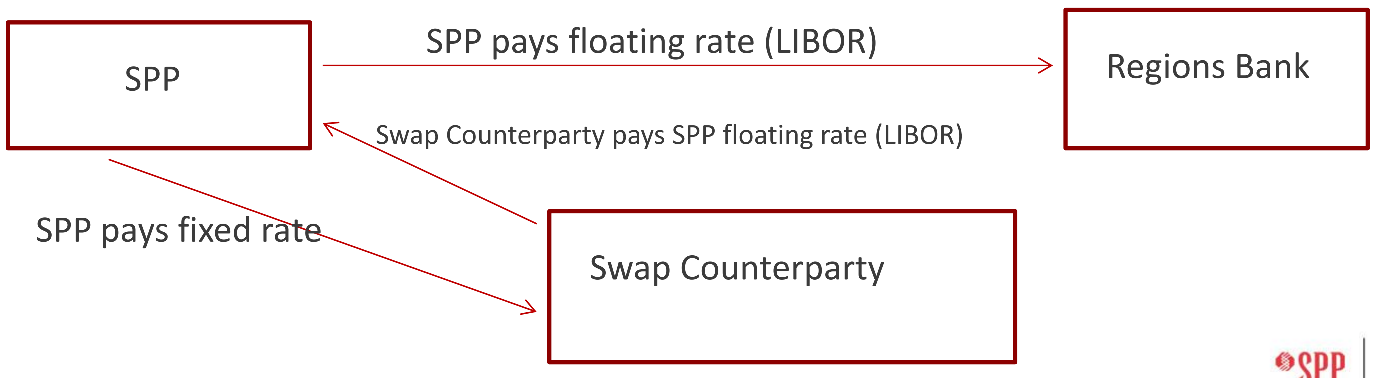
Southwest Power Pool

Helping our members work together to keep the lights on... today and in the future

Swap Benefits To SPP

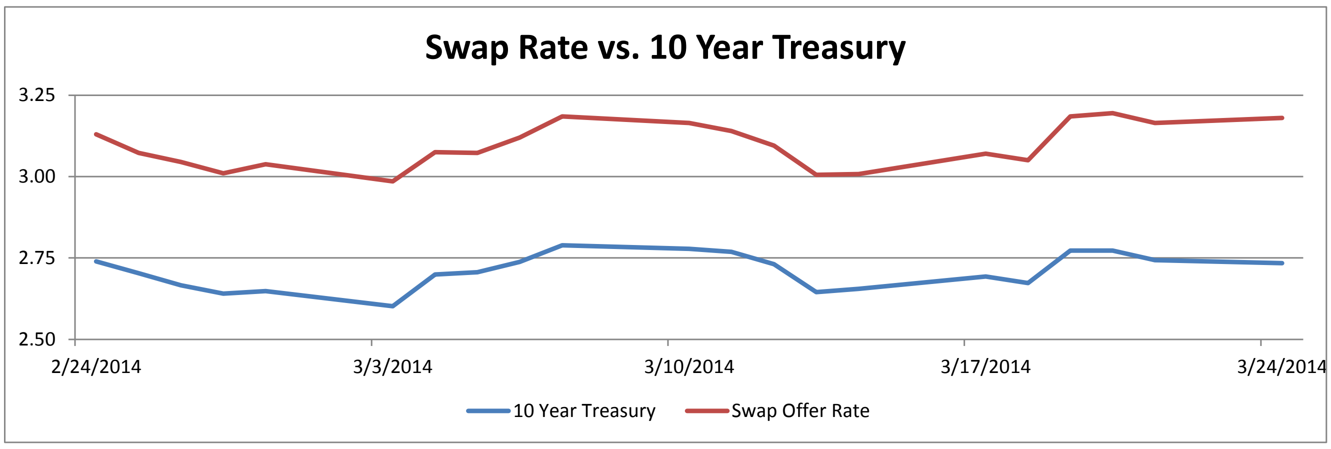


- SPP is exposed to increases in interest rates while the loan is outstanding
- Swap transfers the interest rate exposure to third party
- SPP now has interest rate certainty.



What Impacts Swap Pricing

Generally, pricing is influenced by the term of the swap, volatility of the floating rate, and market rate for similar term U.S. Treasuries



Scenario Review

Base Case: $33MM term note at 3.85%

Case 1: $33MM term note with rate floating at 30-day LIBOR

Case 2: Case 1 plus LIBOR to fixed swap

Case 3: Case 1 plus LIBOR ⬆ 100bps/year 2016-2021

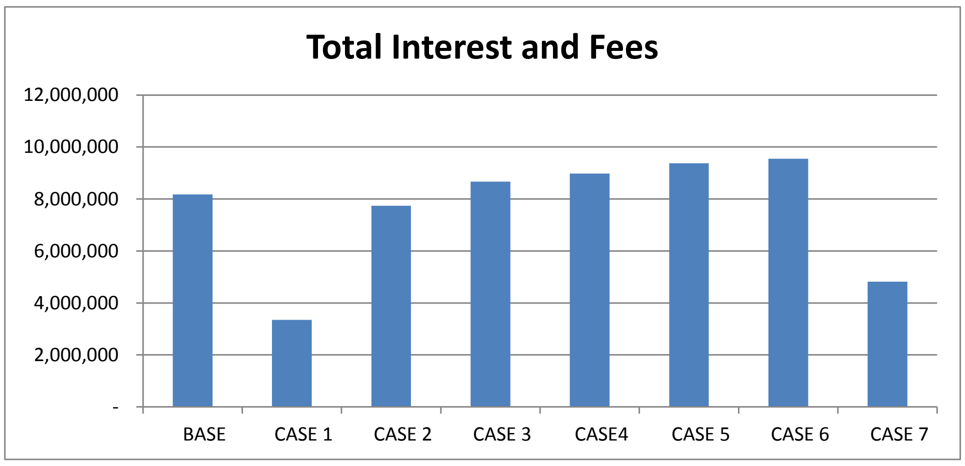
Case 4: Case 3 plus LIBOR cap of 3.5%

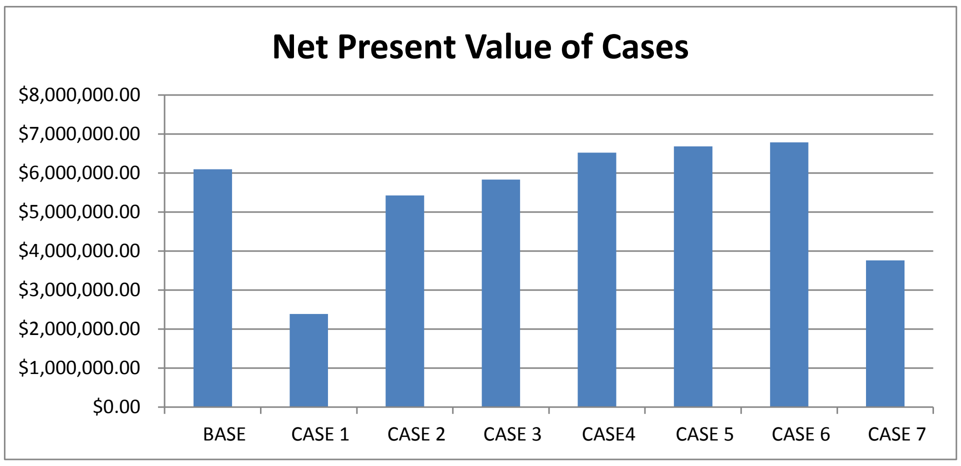
Case 5: Case 3 plus LIBOR cap of 4.5%

Case 6: Case 3 plus escalating cap

Case 7: Case 1 plus LIBOR cap of 3.5%

Scenario Review





Historical 30-day LIBOR Rates

SPP Information Technology

Barbara Sugg
bsugg@spp.org
Carson Hampson
champson@spp.org

SPP Southwest Power Pool

Helping our members work together to keep the lights on… today and in the future

Agenda

- IT Environment
- IT Budget
- Sourcing
  - Hardware
  - Software
  - Maintenance
- Vendor Practices
- Organization
- Strategy

Current IT Environment

Chenal

Primary **Production**

Data

Maumelle

Primary **Backup/Recovery**

Servers (Physical & Virtual)	> 1800
Physical Workstations	> 700
Monitors	> 1200
Virtual Desktop Images (VDI's)	> 500
Data Storage	> 1400 TBs
Offsite Data	> 400 TBs

SPP

Notable Facts:

IT Vendors:	**145**
IT Business Partners / Dealers:	**16**
IT Purchase Orders / Requisitions – 2013	**404 (914)**
IT Line Items Executed – 2013	**1156**

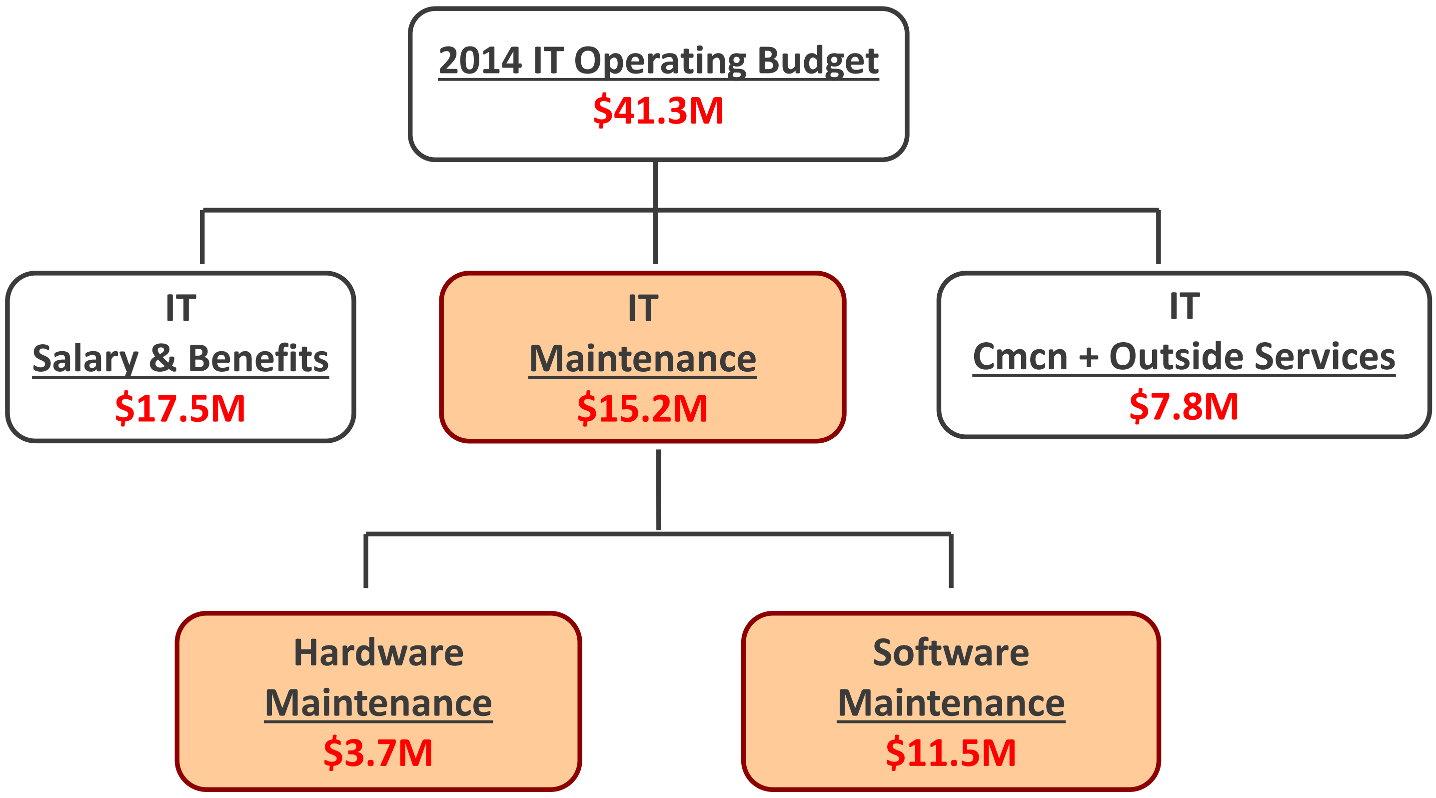
ALSTOM OATI EMC² JUNIPER NETWORKS ORACLE

Microsoft hp bmcsoftware redhat

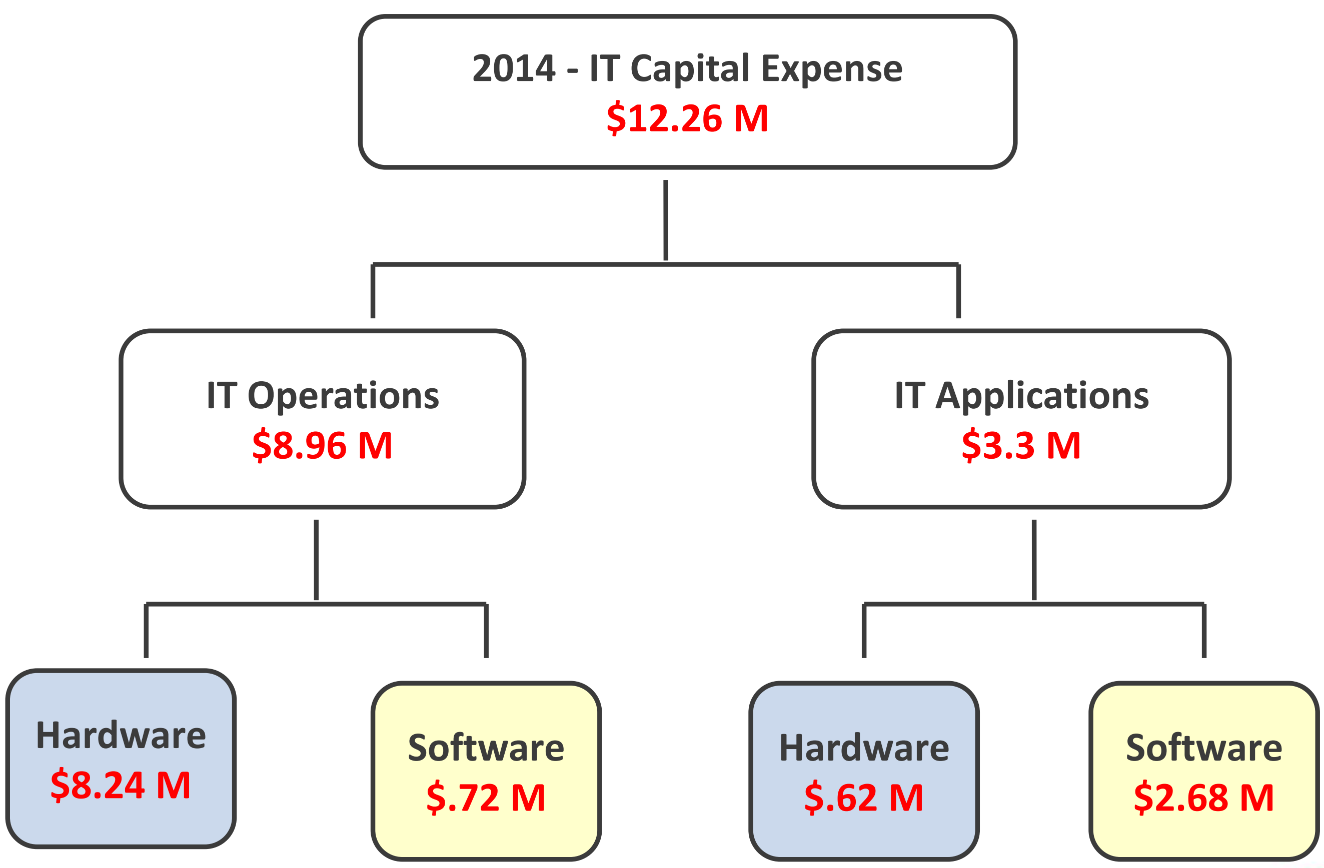
fishnet SECURITY COLUMN Technologies vm vmware softchoice

IBM CDW PINNACLE cisco

2014 IT Budget – Operating Expense



2014 IT Budget – Capital Expense



Hardware - Lifecycle

- Lifecycle replacement strategy:
  - Laptops — 4 years
  - Servers — 5 years
  - Monitors — 'til death do us part
  - Storage & Network — Varies; typically 4-5 years

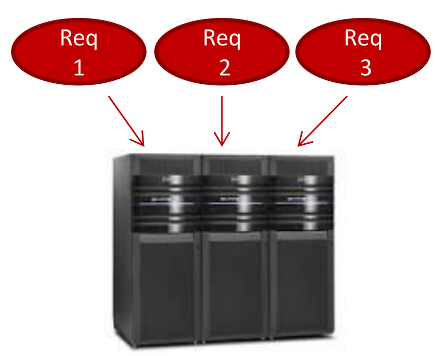
- Typically Longer than Industry Averages

- Influenced by:
  - Total Cost of Ownership (TCO)
  - HW/SW Compatibility
  - Vendor Support
  - Performance Requirements

Hardware – Practices / Strategy

- Architecture Standardization
  - Maximize hardware investment
  - Minimize costs (support, space, maintenance)
  - *Example: One storage architecture that satisfies multiple workload behaviors, vs. a unique platform per workload/requirement*

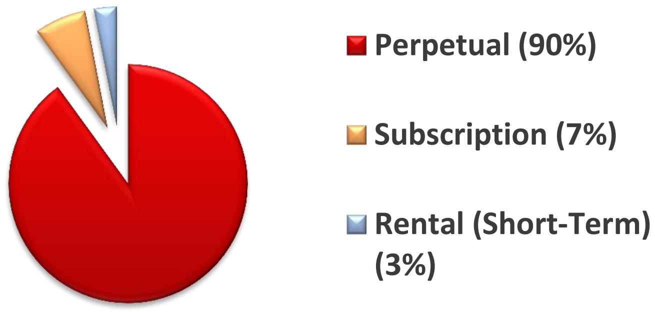
- Try Before You Buy!
  - Proof-of-Concepts (POC's)
  - Vendor lab environments
  - Loaner equipment for transitions



- Leverage Strategic Vendors / Relationships
  - Minimize compatibility issues
  - Software coexistence
  - Ownership of problems

Software – Practices / Strategy

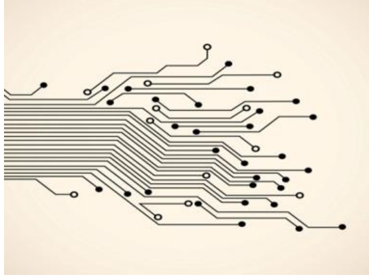
- Three general software classifications
  - Operating System Software - Windows, Linux
  - Middleware - Oracle, SQL Server, BMC, etc
  - Applications – EMS, Markets, Settlements, etc
- Perpetual and Subscription licenses
  - Perpetual license - owned, with annual maintenance fee
  - Subscription license – rental inclusive of annual maintenance
  - SPP current portfolio :



SPP 9

Software – Practices / Strategy

- Estimated lifespan and upgradeability influence SPP's software licensing decision
- Annual maintenance/support cost for perpetual licenses ranges from 17% - 22% of initial purchase price.
  - Year-over-year price increases
  - Range from 3% to 15% annually
- Reviewing remaining subscription licenses for useful life, breakeven analysis, and potential conversion to perpetual model



SPP 10

Maintenance – Practices

- Contract Life
  - HW – Standard Warranty (1 year – typical)
  - Multi-Year Options for HW/SW
  - SPP has been mixed on contract term
  - Annual price increases 3% to 15%
- Service Level
  - Evaluate & Decide based on SPP's needs
    - Critical vs Non-Critical
    - Internal vs Outward-Facing
    - Production vs Non-Prod Environment

Maintenance – Strategy

- Align contracts with estimated "useful life"
- Benefit when purchasing with the HW/SW
- Multi-Year versus Year-to-Year
  - Upfront Discount
  - Price Protection
- Multi-Year - Productivity Benefits

- OBJECTIVE: Never acquire maintenance "a la carte"!

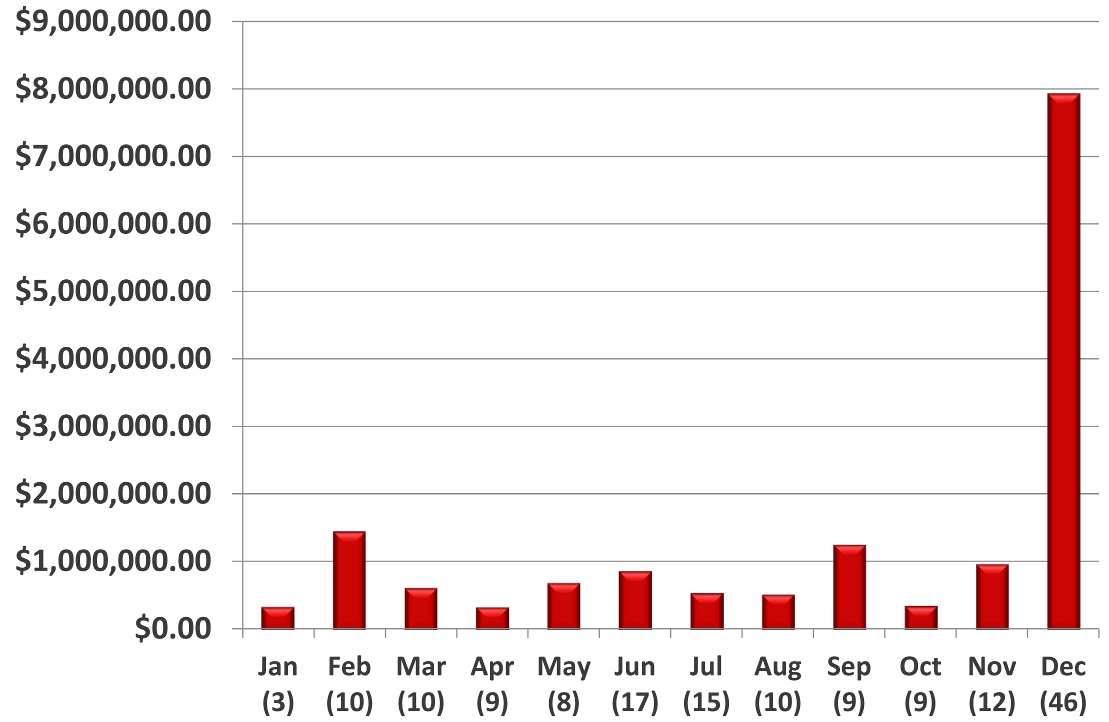
Acquisition Process / Strategy

- Justifications required, even if budgeted
- Continuous examination of original needs
- Formal RFP's for large acquisitions
- Competitive bid process for commodities and routine replacement products (SPP Purchasing Dept)
- Volume Purchase Agreements (VPA's)
- Fewer strategic versus more niche/specialized vendors

Acquisition Process / Strategy

- *TIMING, TIMING, TIMING!*
- Combine NEW HW purchases with "peripheral items"
- Alignment of maintenance renewals
  - Improve productivity
  - Balance workload
  - Negotiating Power

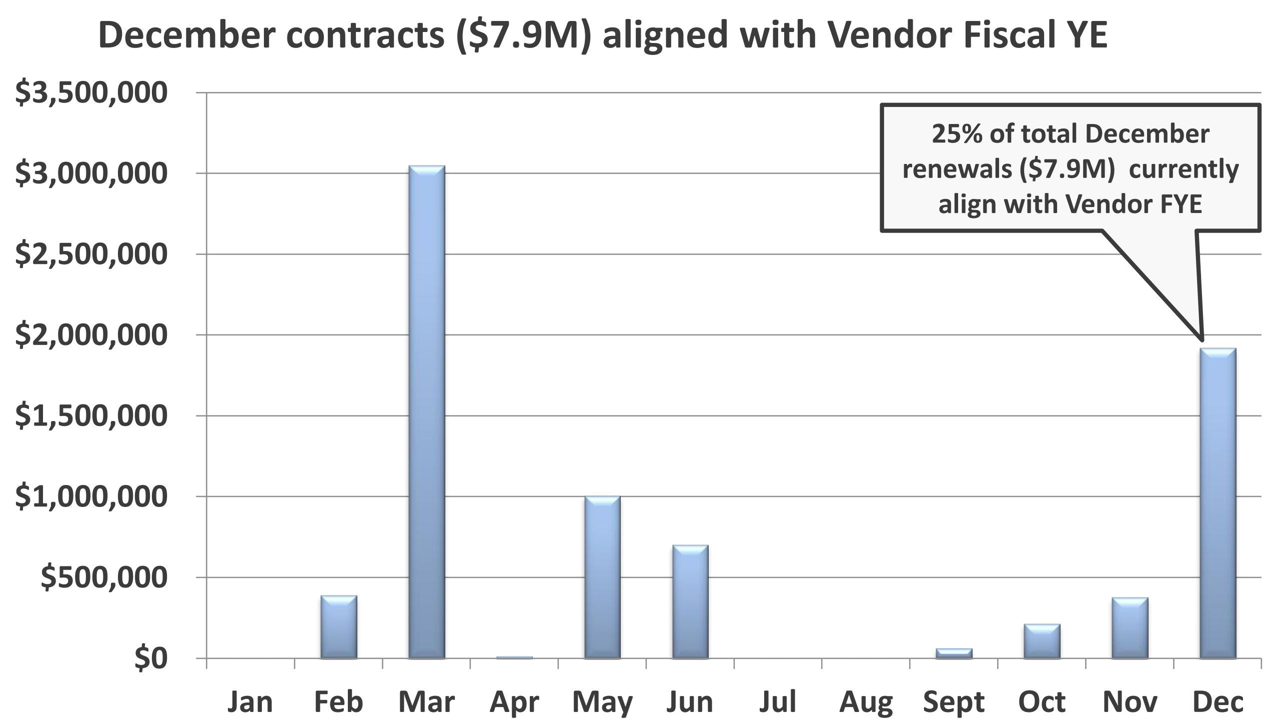
IT Maintenance – By Month



- *December: Creates peak workload / **overload** on SPP IT, Purchasing, Legal and Management/Officer approval resources*
- *Also creates **risk** of coverage lapse for spillover agreements into the subsequent year*

SPP 15

Example: IT Maintenance – Realigned



- **Roughly $6M are executed with vendors containing a "Non-December" fiscal year-end.**
- **All SPP contracts have a similar "opportunity" for re-alignment with the Vendor's Fiscal Year End.**
- **Offset of renewals just "outside" of Vendor Year End provides pull-ahead negotiating leverage**

SPP 16

LEAN Initiative – Vendor Management Team

CURRENTLY UNDERWAY!

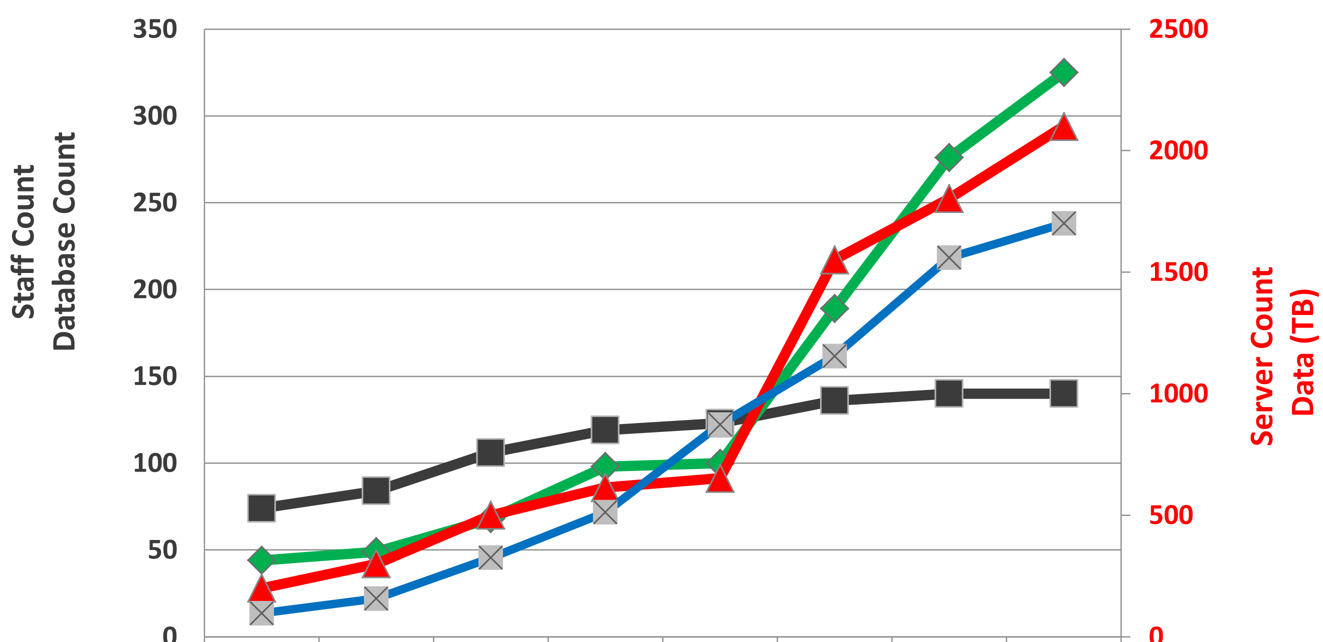
Problems to be solved:

- Inefficient current process
- Lost productivity
- Frustrated business owners
- Potential financial exposure

Goals:

- Manage / Redistribute Vendor workload throughout year
- Improve Vendor Contract process / flow across SPP

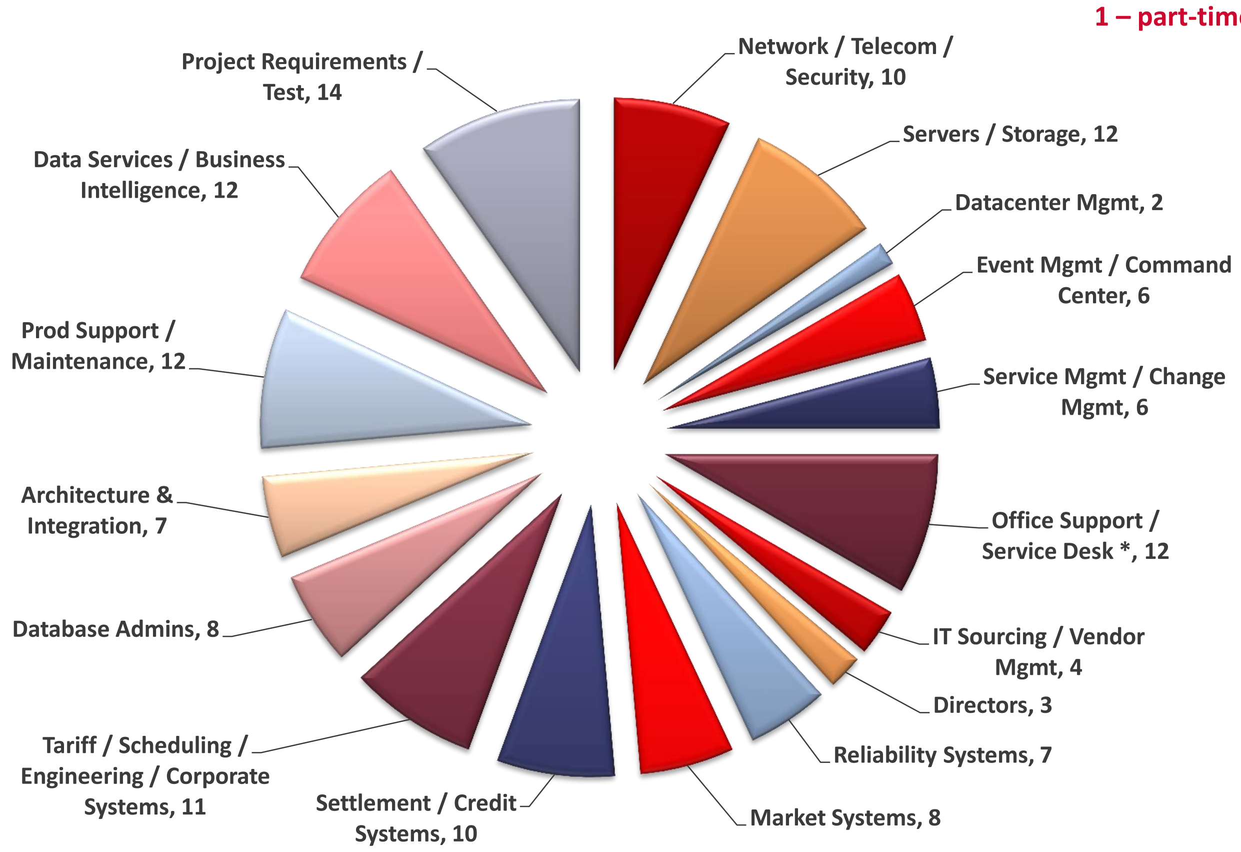
IT Department Growth vs System Growth



	2007	2008	2009	2010	2011	2012	2013	2014
Full-Time Staff	74	84	106	119	123	136	140	140
Databases	44	49	68	98	100	189	276	325
Servers	200	300	500	614	652	1551	1803	2100
Data (TB)	97	157	325	512	873	1155	1560	1700

IT Teams @ SPP

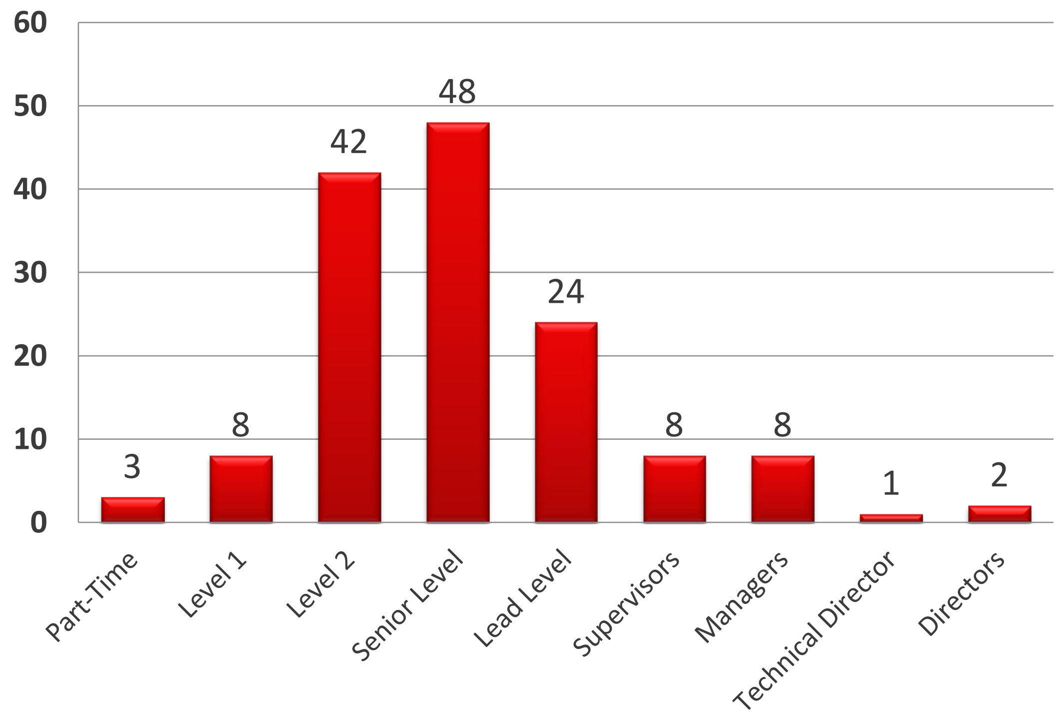
IT Vacancies – 4/1/14
2 – full-time
1 – part-time



#'s = Team Size

SPP 19

IT Employee Distribution by Job Level



SPP 20

Facts & Figures – IT Employees

Years of SPP Service	
IT Department	5.48
IT Staff Only	5.16
IT Management	7.34
SPP (ALL)	6.50

2013 Turnover	#	%
IT - resignations	6	4.1%
SPP (ALL)	34	5.8%
Transfers from IT	4	2.8%

Gender	IT #	IT %	IT Mgmt %	SPP %	Nationwide %
Female	34	24%	32%	28%	18%
Male	109	76%	68%	72%	82%

SPP

Annual Review of Staffing Requirements

IT Applications Reliability (Matt Beck)

SCOPE:
- **Reliability systems**
  - EMS – **Very Highly Complex**
  - ICCP – **Very Highly Critical**
  - Centralized Modeling (CMT/MCST) – **Highly Integrated**
- **Forecasting Systems**
  - Imbedded EMS LF – **High Monetary implications**
  - Nostradamus - **High Monetary implications**
  - PRT (NELF) - **High Monetary implications**
- **Outage Systems**
  - RTOSDX
  - CROW and its components
- **Visualization System**
  - Pi – **Highly Critical into real-time eyes on the system**
  - Imbedded EMS e-terraVISION
- **In-House Components and Interfaces**
  - Custom Load Components for Forecasting
  - Custom Outage Components for Outage
  - Interfaces for CMT
  - Interfaces for Reliability Systems **– Highly Cri[illegible]ati[illegible] point**
- **Training Systems**
  - DTS for external training simulatio[illegible]
  - Integrated EMS for interna[illegible]training [illegible]rses

RESPONSIBILITIES:
- Ensure EMS, ICCP and PI me[illegible]va[illegible]ility requirements (tier 0)
- After Hours on-call support for a[illegible]a[illegible]e
- Support project work for all areas listed ab[illegible]
- Architect, Assist with and code soluti[illegible]meet availability and functional requirements
- Provide SME support for all applications and solutions listed above
- Analyze new technological impacts to applications
- Maintain a supporting role to Production Support for PROD, QA environments
- Build all systems and applications during application upgrades and hardware refreshes

COMPLIANCE :
- CIP standards: EMS and ICCP are CCAs

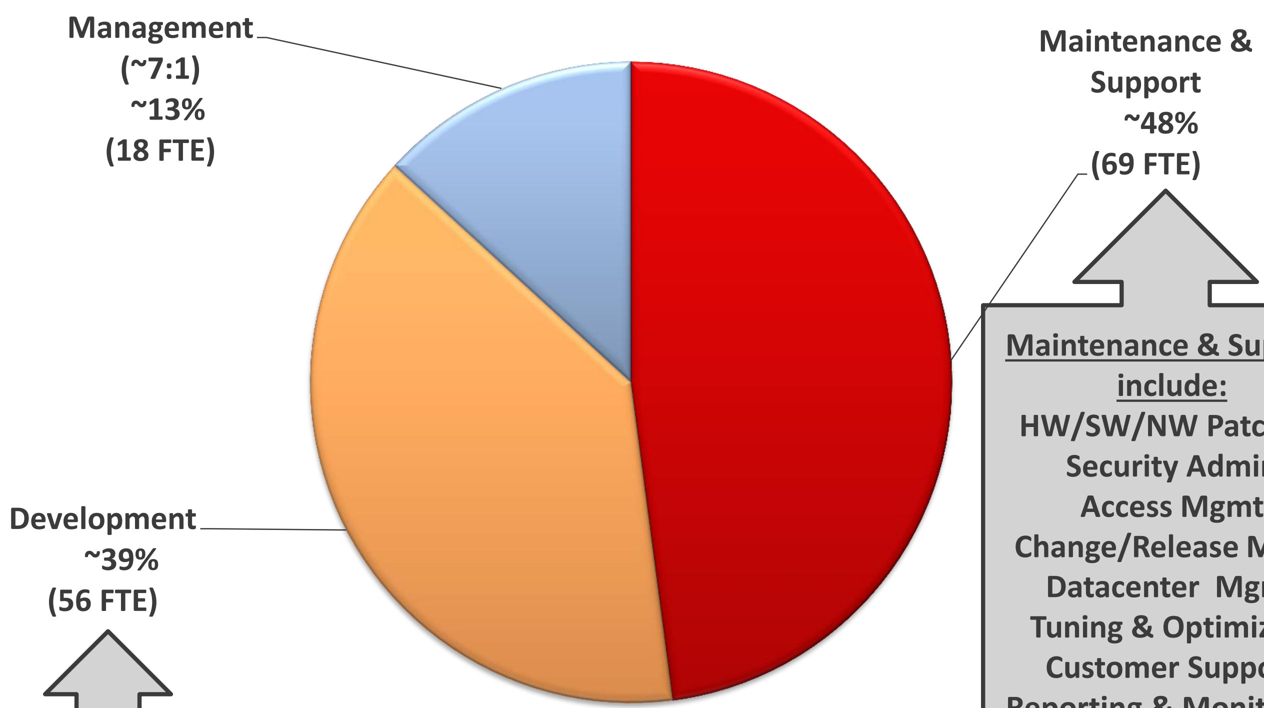
ACCOUNTABILITY:
- Customer satisfaction, application issues addressed within SLAs, vendor application maintenance kept up to date, projects delivered on schedule/budget/quality
- Meet CBA high ava[illegible]ty requirements

Staffing Require[illegible]s:
- Due to the critical[illegible]pplications covered in the Reliability area, the num[illegible]f supporte[illegible]plicati[illegible], the need for Reliability SME and the am[illegible] of time it [illegible]ecome proficient the following [illegible]esti[illegible]are made [illegible]upport the project area for Reliability:
  - 1 [illegible]ad [illegible]rammer/Analyst
  - 3 - [illegible]Programmer/Analyst
  - 3 - Le[illegible]el II Programmer/Analyst

Team	Application/System	Complexity	Stability Issues	Availability Requirement	Workload	Number Environments	Number Servers	Staffing
Reliability	Energy Management System	VH	L	VH	H	VH	H	1-LD, 3-Sr, 3-L2
	ICCP	H	L	VH	M	H	M	
	PI Application Tool	M	L	M	L	M	L	
	Centralized Modeling Tool	H	M	H	L	M	M	
	Outage Management System							
	All of the interface components	N/A	N/A	N/A	N/A	N/A	N/A	
	The CROW application	N/A	N/A	N/A	N/A	N/A	N/A	
	Forecasting Systems							
	RTOSDX							
	InHouse Custom components							

SPP

The 3 Primary IT Food Groups



Development includes:
Requirements, Design, Build, Test, and Deploy

Maintenance & Support include:
HW/SW/NW Patching
Security Admin
Access Mgmt
Change/Release Mgmt
Datacenter Mgmt
Tuning & Optimizing
Customer Support
Reporting & Monitoring
Service Desk
Office Support
Etc

SPP 23

The Future of IT at SPP

- Vision of IT
  - Respected Partner with Business
  - Enable the Business with Technology
  - Responsive / Responsible / Accountable / Compliant
- Strategic Areas
  - Technology Roadmap / Internal / Vendor / Cloud
  - Continuous Improvement / Efficiencies
  - Cyber-Security – Prevent / Respond / Restore
  - Big Data / Accessibility / Analysis
  - Talent Development / Retention

SPP 24

Wrap-Up

25

Memorandum

To: SPP Officers / Directors / Managers
From: Sheri Dunn / Cindy Goodwin
Date: March 26, 2014
RE: February 2014 Financial Package

Attached are the February 2014 monthly financial reports. All 2013 data remains unaudited at this time.

2014 Financial Commentary
February 28, 2014
(in thousands)

Summary

	2014 FY Forecast	2014 FY Budget	Fav/(Unfav) Variance	
Revenues	$165,772	$163,166	$2,606	1.6%
Expenses	199,377	200,692	1,315	0.7%
Net Income/(Loss)	($33,605)	($37,526)	$3,921	10.4%

Revenue

	2014 FY Forecast	2014 FY Budget	Fav/(Unfav) Variance	
Tariff Administration Service	$135,699	$132,600	$3,099	2.3%
FERC Fees & Assessments	14,454	14,500	(46)	(0.3%)
NERC ERO Regional Entity Rev	11,349	11,824	(475)	(4.0%)
Miscellaneous Income	3,363	3,350	13	0.4%
Contract Services Revenue	453	453	(0)	(0.0%)
Annual Non-Load Dues	456	440	16	3.6%
Total Revenue	$165,772	$163,166	$2,606	1.6%

Revenues are currently slightly favorable primarily due to offsetting variances in Tariff Administrative Services ($3,099 favorable) and NERC ERO Regional Entity ($475 unfavorable).

In preparation of the 2014 Tariff Administration Service revenues, SPP estimated network service billing determinants utilizing January - August 2013 actual results, which were running 3% below 2012 actuals, and applied that same reduction to for the remaining September - December 2013 estimates. The SPP region realized a significant reversal of the trend for the September -December 2013 period, which results in network service billing determinants ending almost even with 2012 actual results.

	2012 Actual	2014 Budget	2013 Actual
Network Service (GWh)	325,356	307,106	318,980
Point-to-Point	36,000	41,094	37,170

SPP expects to collect approximately $3,614 more than budgeted for Schedule 1A administrative fees during 2014.

NERC ERO Regional Entity revenue is based on Regional Entity (RE) budgeted expenditures and anticipated pass-thru expenses for SPP resources outside the RE. SPP staff time as well as travel and outside services trail budget to date, contributing to the unfavorable revenue variance. The budget assumed the RE would be fully staffed at the beginning of the year; however, five positions still remain vacant.

Expense

	2014 FY Forecast	2014 FY Budget	Fav/(Unfav) Variance	
Salary & Benefits	$81,677	$82,247	$570	0.7%
Assessments & Fees	15,600	15,300	(300)	(2.0%)
Communications	3,954	3,916	(39)	(1.0%)
Maintenance	15,657	15,866	209	1.3%
Outside Services (Including RSC)	14,125	14,640	515	3.5%
Administrative & Leases	4,729	4,858	129	2.7%
Travel & Meetings	3,008	3,112	103	3.3%
Depreciation & Amortization	49,779	49,718	(61)	(0.1%)
Other Expenses	10,848	11,035	187	1.7%
Total Expense	$199,377	$200,692	$1,315	0.7%

With the exception of Salary & Benefits and Maintenance, forecasted expenses equal the original 2014 Budget.

Salaries & Benefits are projected to be favorable to budget by $570, which is the result of higher than anticipated vacancy rates. The budget assumed a vacancy rate of 2%. The vacancy was 5% as of February, and although it is expected to trend down throughout the year, the overall average still exceeds the budgeted 2%. The budget assumed headcount would be 597 beginning in January; however, 15 positions became vacant after the budget was finalized, which resulted in beginning headcount of 569. As of February, 28 positions remain open.

Outside Services expenses trail budget across most departments, mostly due to timing and will likely be adjusted in the upcoming forecasts to better align with the budget.

Southwest Power Pool
Monthly Overview
February 28, 2014
(in thousands)

	Actual Jan-14	Actual Feb-14	Fcst Mar-14	Fcst Apr-14	Fcst May-14	Fcst Jun-14	Fcst Jul-14	Fcst Aug-14	Fcst Sep-14	Fcst Oct-14	Fcst Nov-14	Fcst Dec-14	FY 2014 Forecast	FY 2014 Budget	Variance Fav/(Unfav)	FY 2013 Actual *	Variance Fav/(Unfav)
Income																	
Tariff Administrative Service	$11,613	$10,265	$11,675	$10,925	$11,675	$10,925	$11,675	$11,675	$10,925	$11,675	$10,925	$11,746	$135,699	$132,600	$3,099	$112,624	$23,075
Fees & Assessments	2,483	2,122	2,085	2,085	1,985	2,185	2,485	2,285	2,185	2,085	2,085	2,185	26,258	26,764	(505)	25,188	1,070
Contract Services Revenue	36	36	38	38	38	38	38	38	38	38	38	38	453	453	()	425	28
Miscellaneous Income	380	191	279	279	279	279	279	279	279	279	279	279	3,363	3,350	13	4,502	(1,139)
Total Income	14,512	12,615	14,077	13,327	13,977	13,427	14,477	14,277	13,427	14,077	13,327	14,248	165,772	163,166	2,606	142,738	23,034
Expense																	
Salary & Benefits	6,489	6,737	6,635	6,905	6,831	6,789	6,831	6,845	6,857	6,951	6,902	6,906	81,677	82,247	570	79,660	(2,016)
Employee Travel	106	135	166	223	179	197	164	175	228	210	150	158	2,091	2,192	101	1,868	(223)
Administrative	188	344	556	280	311	571	281	307	279	838	319	278	4,552	4,675	123	3,967	(585)
Assessments & Fees	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	15,600	15,300	(300)	14,699	(901)
Meetings	91	72	77	120	85	40	94	57	65	86	78	51	917	919	2	930	13
Communications	374	318	326	326	326	326	326	326	326	326	326	326	3,954	3,916	(39)	3,665	(290)
Leases	13	12	15	15	15	15	15	15	15	15	15	15	177	183	6	432	255
Maintenance	1,013	1,012	1,360	1,383	1,356	1,376	1,370	1,361	1,357	1,357	1,357	1,355	15,657	15,866	209	11,301	(4,356)
Services	837	1,261	1,203	1,301	1,156	1,189	1,200	1,161	1,165	1,202	1,050	1,091	13,818	14,313	494	15,870	2,051
Regional State Committee	11	15	23	23	23	23	73	23	23	23	23	23	307	328	21	207	(100)
Depreciation & Amortization	1,750	1,736	1,749	4,953	4,891	4,953	4,949	4,963	4,972	4,951	4,949	4,962	49,779	49,718	(61)	19,398	(30,381)
Total Expense	12,171	12,942	13,410	16,829	16,475	16,780	16,606	16,533	16,588	17,258	16,470	16,466	188,529	189,657	1,128	151,995	(34,483)
Other Income/(Expense)																	
Gain or Loss on Sale of Fixed Asset	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	57	(57)
Other Income/Expense	(41)	58	-	-	-	-	-	-	-	-	-	-	17	-	17	5,651	(5,634)
Interest Income	2	2	-	-	-	-	-	-	-	-	-	-	5	-	5	223	(218)
Interest Expense	(837)	(886)	(1,064)	(1,047)	(1,049)	(1,047)	(1,028)	(1,028)	(1,026)	(1,007)	(1,005)	(1,007)	(12,029)	(12,195)	166	(10,540)	1,489
Capitalized Interest	-	-	946	-	-	50	-	-	71	-	-	92	1,160	1,160	-	2,777	1,617
Change in Valuation of Swap	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	923	923
Net Other Income (Expense)	(875)	(826)	(118)	(1,047)	(1,049)	(997)	(1,028)	(1,028)	(955)	(1,007)	(1,005)	(914)	(10,848)	(11,035)	187	(910)	(1,880)
Net Income (Loss)	$1,465	($1,153)	$549	($4,549)	($3,546)	($4,349)	($3,156)	($3,284)	($4,115)	($4,188)	($4,148)	($3,132)	($33,605)	($37,526)	$3,921	($10,168)	($23,437)
2014 Headcount Forecast	569	570	572	575	581	588	591	595	596	598	598	598	598				
2014 Headcount Budget	597	598	598	598	598	598	598	598	598	598	598	598	598				
Over / (Under) Budget	(28)	(28)	(26)	(23)	(17)	(10)	(7)	(3)	(2)	-	-	-	-				
NRR Over / (Under) Recovery	$3,193	$501	$1,867	$604	$1,594	($2,930)	$1,593	$1,629	($2,680)	$963	$950	($2,960)	$4,322	$0	$4,322	$4,549	($227)

** Unaudited data for 2013*

SPP Southwest Power Pool

Southwest Power Pool
Actual Results Overview
February 28, 2014
Preliminary and Unaudited
(in thousands)

	Current Month Compared to Forecast			YTD Actual Compared to YTD Budget			YTD 2014 Compared to YTD 2013		
	Feb-2014 Actual	Feb-2014 Forecast	Variance Fav/(Unfav)	Feb-2014 Actual	Feb-2014 Budget	Variance Fav/(Unfav)	Feb-2014 Current Year	Feb-2013 Prior Year	Variance Fav/(Unfav)
Income									
Tariff Administrative Service	$10,265	$10,300	($35)	$21,878	$21,350	$528	$21,878	$18,342	$3,536
Fees & Assessments	2,122	2,185	(63)	4,605	5,111	(505)	4,605	4,870	(265)
Contract Services Revenue	36	36	()	72	72	()	72	91	(19)
Miscellaneous Income	191	279	(88)	571	558	13	571	532	39
Total Income	12,615	12,801	(186)	27,126	27,091	35	27,126	23,836	3,290
Expense									
Salary & Benefits	$6,737	$6,637	($100)	$13,226	$13,267	$41	$13,226	$12,743	($483)
Employee Travel	135	182	47	241	342	101	241	298	57
Administrative	344	331	(13)	532	655	123	532	513	(18)
Assessments & Fees	1,300	1,275	(25)	2,600	2,550	(50)	2,600	2,724	124
Meetings	72	46	(26)	163	166	2	163	55	(109)
Communications	318	326	9	691	653	(39)	691	602	(89)
Leases	12	15	3	25	30	6	25	146	121
Maintenance	1,012	1,107	96	2,025	2,234	209	2,025	1,769	(256)
Services	1,261	1,206	(55)	2,098	2,593	494	2,098	2,275	177
Regional State Committee	15	23	9	26	46	21	26	37	11
Depreciation & Amortization	1,736	1,728	(8)	3,486	3,425	(61)	3,486	2,879	(607)
Total Expense	12,942	12,877	(64)	25,113	25,962	849	25,113	24,040	(1,073)
Other Income/(Expense)									
Gain or Loss on Sale of Fixed Asset	-	-	-	-	-	-	-	-	-
Other Income/Expense	58	-	58	17	-	17	17	41	(24)
Interest Income	2	-	2	5	-	5	5	57	(52)
Interest Expense	(886)	(1,058)	171	(1,723)	(1,889)	166	(1,723)	(1,758)	35
Capitalized Interest	-	-	-	-	-	-	-	-	-
Change in Valuation of Swap	-	-	-	-	-	-	-	-	-
Net Other Income (Expense)	(826)	(1,058)	232	(1,701)	(1,889)	187	(1,701)	(1,660)	(41)
Net Income (Loss)	($1,153)	($1,134)	($19)	$312	($759)	$1,071	$312	($1,864)	$2,176
Headcount	570	570	-	570	598	(28)	570	565	5

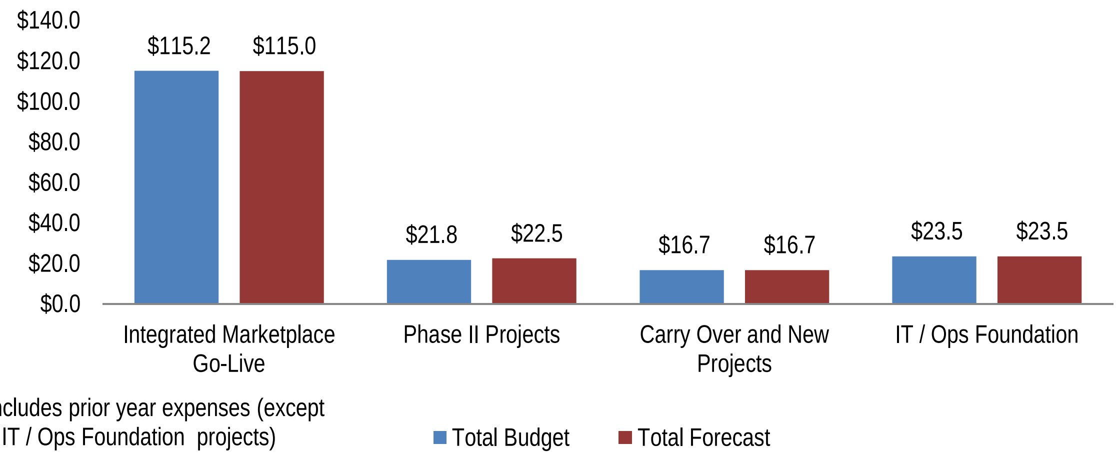
Southwest Power Pool
Balance Sheet
February 28, 2014
(in thousands)

	2/28/2014	Unaudited 12/31/2013	Net Change
ASSETS			
Current Assets			
Cash & Equivalents	$33,330	$34,874	($1,544)
Restricted Cash Deposits	86,773	76,713	10,060
Accounts Receivable (net)	18,297	24,134	(5,838)
Other Current Assets	12,561	6,966	5,595
Total Current Assets	$150,961	$142,688	$8,273
Total Fixed Assets	204,078	204,260	(182)
Total Other Assets	2,603	3,158	(555)
Investments	1,351	1,305	46
TOTAL ASSETS	$358,991	$351,411	$7,580
LIABILITIES & EQUITY			
Liabilities			
Current Liabilities			
Accounts Payable (net)	$8,887	$15,954	(7,067)
Customer Deposits	87,936	76,714	11,222
Current Maturities of LT Debt	22,998	22,998	-
Other Current Liabilities	34,360	29,038	5,323
Deferred Revenue	4,585	5,919	(1,334)
Total Current Liabilites	158,766	150,622	8,144
Long Term Liabilities			
US Bank 5.45% Senior Notes - 2016	9,000	9,000	-
US Bank Maumelle Mortgage - 2027	3,495	3,547	(51)
Campus 4.82% Senior Notes - 2042	62,963	62,964	(1)
Integrated Marketplace 3.55% Senior Note - 2024	64,750	64,750	-
Senior Notes - 2024	95,000	95,000	-
Other Long Term Liabilities	5,600	6,426	(826)
Total Long Term Liabilities	240,808	241,687	(878)
Net Income	312	(10,168)	10,480
Members' Equity	(40,896)	(30,728)	(10,168)
Total Members' Equity	(40,584)	(40,896)	312
TOTAL LIABILITIES & EQUITY	$358,991	$351,411	$7,580

Capital Project Dashboard

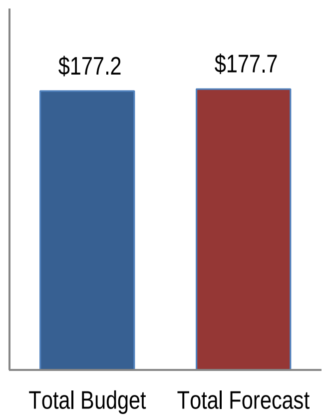
(in millions)

2014-2016 Total Project Budget vs. Forecast *

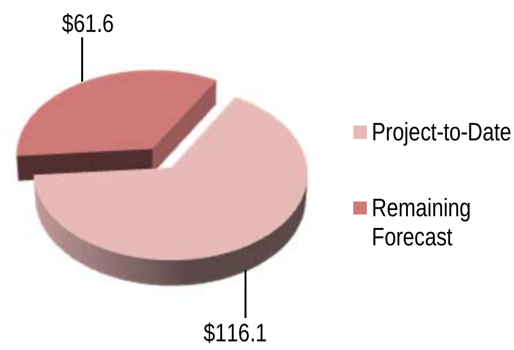


* Includes prior year expenses (except for IT / Ops Foundation projects)

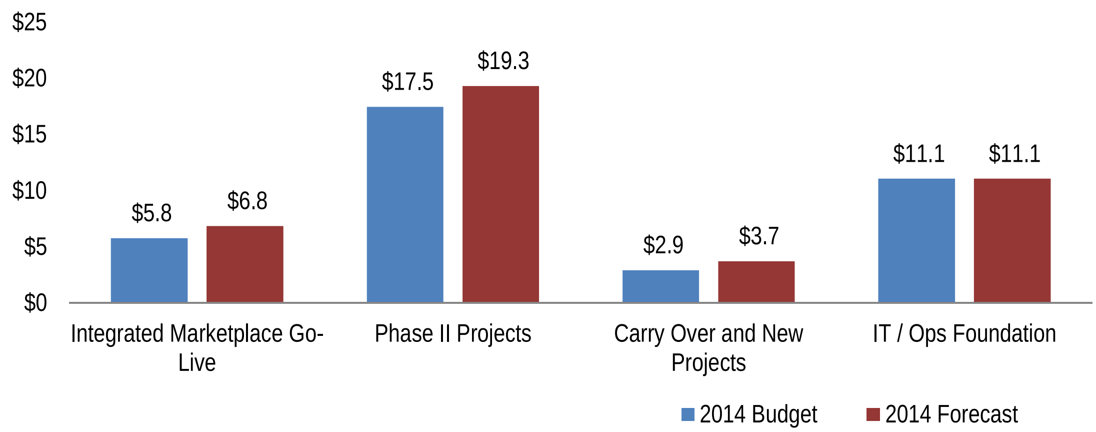
Total Project Budget vs. Forecast



Project-to-Date vs. Remaining Forecast



Calendar Year 2014 Budget vs. Forecast



Complete Project List
Total Project-to-Date and Remaining Forecast Compared to Budget
As of February 28, 2014
(in thousands)

Capital Project	Total Budget	Project-to-Date Actual	Remaining Forecast	Total Forecast	Over/(Under) Budget
Integrated Marketplace Go-Live	$115,173	$111,928	$3,108	$115,035	($138)
Phase II					
Market to Market	7,033	259	6,841	7,100	67
Regulation Compensation	3,211	152	3,202	3,354	142
Long-Term Congestion Rights (LTCRs)	4,322	107	4,424	4,531	209
Enhanced Combined Cycle	4,599	197	4,910	5,107	508
Pseudo Tie In/Out	169	10	161	171	1
AFC Granularity Changes for TSRs	1,363	-	1,363	1,363	-
Sunset Clause for Load Submittal for Legacy Bas	156	-	156	156	-
Marketplace Date for MPs Post Go-Live	50	-	50	50	-
IT Environments Buildout for Marketplace	608	32	601	633	25
Grandfather Agreement Carve Out (GFA Carve Out)	259	-	-	-	(259)
Phase I Deferred (Included in Phase II Budget)	-	9	-	9	9
Unallocated Program Costs (TBD)	-	29	-	29	29
Phase II	$21,771	$794	$21,707	$22,501	$731
Carry Over and New Projects					
OPS DTS Upgrade to TTSE (2015)	4,400	-	4,400	4,400	-
Transmission Settlements Upgrade ETSE3.0 (2015)	3,775	-	3,775	3,775	-
Netezza Upgrade	3,038	2,161	877	3,038	(0)
EMS Upgrade	1,696	-	1,696	1,696	0
EMS Readiness	728	853	20	873	145
Data Center Migration	720	264	450	714	(6)
Aurea ESB Replacement	706	-	706	706	-
Project Server Upgrade	300	-	300	300	-
Miscellanous Facilities	318	-	318	318	1
Alstom ETS Foundation	225	-	225	225	-
QA ICCP Buildout	180	-	180	180	-
TAGIT Database Enhancement	150	-	150	150	-
Cost Allocation SQL Database	50	-	50	50	-
Engineering App Store	25	-	25	25	-
FERC Order 1000 Regional RFP	165	-	165	165	-
EIS Sunset	150	-	-	-	(150)
Rate Impact Automation (2015)	75	-	75	75	-
2013 Carryforward - Centralized Modeling Tool	-	7	-	7	7
2013 Carryforward - Credit Stacking	-	2	-	2	2
Carry Over and New Projects	$16,700	$3,286	$13,412	$16,698	($2)
IT / Ops Foundation *					
IT Systems Foundation	8,154	27	8,127	8,154	(0)
IT Network Telecom	7,596	-	7,596	7,596	-
IT Applications Foundation	2,799	-	2,799	2,799	-
IT Ops Foundation	1,074	2	1,073	1,075	0
Operations Foundation	3,889	51	3,838	3,889	0
IT / Ops Foundation	$23,513	$80	$23,433	$23,513	$0
Total Capitalized Project Expense	$177,156	$116,088	$61,659	$177,747	$591

* Foundation projects are reforecast during each budget cycle and do not include any carry-over funds. Project-to-Date reflects only 2014 year-to-date actual results for both IT and Ops foundation projects.

Southwest Power Pool
Headcount Analysis
February 28, 2014

	Current Month Actual vs. Budget		
	Actual Feb-14	Budget Feb-14	Over/(Under) Budget
Administration	0	0	0
Officers	10	10	0
Accounting	10	10	0
Credit	4	4	0
Settlements	25	25	0
Administration	49	49	0
Corporate Services	30	29	1
Inter-Regional Affairs	4	4	0
Project Management	13	13	0
Training	11	13	(2)
Customer Service	10	9	1
Process Management	3	2	1
Internal Audit	6	6	0
Process Integrity	47	47	0
SPP Compliance	11	13	(2)
Communications	3	3	0
Market Monitoring	13	14	(1)
Compliance & Market Monitoring	27	30	(3)
SPP Regional Entity	26	31	(5)
Information Technology	138	144	(6)
Markets	6	6	0
Operations	152	157	(5)
Engineering Planning	40	41	(1)
Engineering Other	31	38	(7)
Regulatory Policy & General Counsel	24	26	(2)
TOTAL HEADCOUNT	570	598	(28)

Unbudgeted Purchases
>$100K
2014 Year to Date

Purchase Order #	Capital Project Description	Vendor	Scope of Work/Resource	Additional Information	Line Item Total	Purchase Order Total	Unbudgeted
PO2014-1160	2014 Market Post Go-Live	Glarus Group	Post Go Live Projects / Gary Rosenwald	SME for system integration, development, testing, etc. Manage delivery of all Alstom software related deliverables	551,000	551,000	551,000
PO2014-1119	2014 Carry Over Projects	Power Systems Consultants	EMS Upgrade	Budgeted	197,000		
PO2014-1119	2014 Carry Over Projects		QA ICCP Buildout	Budgeted	47,500		
PO2014-1119	2014 IT Foundation		EMS Marketplace Readiness	Budgeted	28,000		
PO2014-1119	2014 IT Foundation		EMS/ICCP Staff Training, Documentation (Staff Augmentation)	Unbudgeted	101,140	373,640	101,140
PO2014-1087	2014 Integrated Marketplace	Structure Group	Phase I Extension / Manish Lakhami	POPs Development, Integration, Testing	120,300	120,300	120,300
PO2014-1088	2014 Integrated Marketplace	Utilicast	Phase I Extension / Jeff Fruit	Assist with MP inquiries, review cutover plans, provide ongoing markets & settlements analysis, and post go live support.	108,920	108,920	108,920
PO2014-1043	2014 Integrated Marketplace	Glarus Group	Phase I Extension / Gary Rosenwald	SME for system integration, development, testing, etc. Manage delivery of all Alstom software related deliverables	109,000	109,000	109,000
				TOTALS		1,262,860	990,360

Southwest Power Pool
2013 Actual vs. Budget
($ Millions)

	Dec YTD Act	Dec YTD Bud	YTD Over / (Under) Bud	Variance
Operating Income				
Tariff administrative service	$112.6	$113.8	$(1.2)	(1.0%)
FERC Fees assessment	15.1	16.3	(1.2)	(7.6%)
NERC ERO Regional Entity revenue	9.7	11.5	(1.8)	(15.9%)
Other income	5.4	5.4	(0.0)	(0.6%)
	142.7	147.0	(4.3)	
Operating Expenses				
Salaries and benefits	79.7	77.4	2.3	3.0%
Employee travel	1.9	2.6	(0.7)	(28.6%)
Administrative	4.0	5.0	(1.0)	(20.9%)
Regulatory assessment	14.7	16.3	(1.6)	(10.0%)
Meetings	0.9	1.6	(0.7)	(41.4%)
Communications	3.7	4.4	(0.8)	(17.2%)
Leases	0.4	0.4	0.0	11.7%
Maintenance	11.3	10.5	0.8	7.9%
Consulting services	16.1	16.3	(0.3)	(1.7%)
Depreciation and amortization	19.4	20.3	(0.9)	(4.4%)
	152.0	154.8	(2.9)	
Operating Income (Loss)	(9.3)	(7.8)	(1.4)	
Other Income (Expense)				
Interest income	0.2	-	0.2	
Interest expense	(7.8)	(7.8)	0.0	(0.2%)
Change in fair market value of interest rate swaps	0.9	-	0.9	
Other expense	0.3	0.2	0.1	28.1%
Change in Funded Status of Employee Benefit Pla	5.5	-	5.5	
	(.9)	(7.6)	6.7	
Net Loss	(10.2)	(15.4)	5.2	

Summary of 2013 Actual Results as Compared to Budget

The Tariff Administration Service budget assumed minimal growth in load over the July 2011 – August 2012 time period. Actual results reflected a slight decrease in network and point-to-point service (1%), resulting in revenues below budget by $1.2.

The FERC Fees Assessment budget assumed a 3% increase for Schedule 12 revenues over the prior twelve-month period. Subsequent to completion of the budget, the 2013 Schedule 12 rate was set at $0.064 which represented an 11% decrease from the 2012 rate of $0.072. The full-year impact was a $1.2 shortfall compared to the budget.

NERC ERO Regional Entity revenues are based on expenses incurred by the Regional Entity, including internal staff time and pass-thru consulting for audits and projects. The budget assumed the department would remain fully staffed; however, 3-5 vacancies remained throughout the year, contributing to the shortfall in recoverable expense. Actual salary & benefits were $3.7, 16% below the budget of $4.4. As a result of the vacancies, the department experienced fewer travel expenses and training costs ($0.2). Consulting costs associated with delayed/eliminated projects and audit responsibilities trailed budget by $0.6.

Salary & Benefits were unfavorable to budget primarily due to the approved incentive compensation payout percentage (18.18%) exceeding the budgeted percentage (15%), creating a $1.5 variance to budget. The budget assumed a vacancy rate of 6% based on historical vacancy levels; however the actual vacancy rate was closer to 4% and caused salaries to exceed budget by $0.5. Employee training trailed budget due to time constraints on resources involved with the Integrated Marketplace implementation ($0.3).

A main driver of the variance in Travel and Meetings expenses is associated with Integrated Marketplace outreach meetings, which were either cancelled or administered online per customer demand. Expenses related to the Entergy Regional State Committee (ERSC) were inadvertently left in the budget and account for $0.2 of the variance. Travel expenditures, by department, were generally 30% below budgeted amounts.

The Administrative variance is largely driven by utility expenses, which were budgeted based on guidance from outside experts prior to occupying the facility. Actual utilities expenses were $0.6, which is 62% less than the $1.5 budget.

Assessments & Fees expense is accrued throughout the year and adjusted once the FERC invoice is received mid-year. The invoice was less than the estimated accrual, thus resulting in a favorable variance of $1.6.

Depreciation trailed budget $0.9 due to timing of capital purchases and completed projects placed into service.

Other Income / Expense includes interest income/expense, capitalized interest, changes in interest rate swap valuations, and changes in funded status of benefit plans. Year-end valuations performed by the actuary resulted in an adjustment of $5.5 representing a reduction in the difference between the projected pension benefit obligation and the value of the pension assets.

Southwest Power Pool

Process Improvement and Cost Avoidance Initiatives for 2014

1Q2014 Tracking Report for the Finance Committee

March 25, 2014

(Note: Tracking of all Lean Initiative Benefit Estimates and Performance metrics to be included in 2Q2014 Report)

Productivity and Cost Avoidance Initiatives – Tracking 2014-2016 Actual/Forecast

Cost Reduction Category	2014	2015	2016
Operations Staffing Cost Reductions			
· Operation Automation and Desk Consolidation – Tariff Admin and Interchange Desks note #1	$ 514	$ 534	standard practice
· Process Improvements and Increased note #2 Efficiency (12) FTE in Zero-Base analysis	$ 1,430	standard practice	standard practice
· ***New!* Lean A3 Project** – Contracting Efficiency Net IQ DRA and Quantum Tape note #3	$ 0	**$ 5**	**$ 5**
Total Operations Staffing Cost Reductions	$ 1,944	$ 539	**$ 5**
Capital Non-Staffing Cost Reductions			
· Year 3 of Oracle Unlimited Database Licensing Agreement note 4	$ 1,802	standard practice	standard practice
Operations Non-Staffing Cost Reductions			
· Enhanced approach to SPP on-site Medical Clinic vs. baseline	$ 214	standard practice	standard practice
· ABRA upgrade eliminates Meloria contract support costs	$ 40	standard practice	standard practice
· Switched coffee service vendor for Corporate Campus	$ 60	standard practice	standard practice
· Meeting expense reduction strategy to leverage new Corporate Campus	$ 175	standard practice	standard practice
· ***New!* Lean A3 Project** – Contracting Strategy Cost Avoidance note 5			
– NetIQ DRA Maintenance Contract	$ 4	$ 3	$ 2
– Quantum Tape Drive Maintenance	$ 22	$ 24	$ 19
– BMC Products – Maintenance/Support	$ 99	$ 48	$ 53
	$ 125	$ 75	$ 74
Total Operations Non-Staffing Cost Reductions	**$ 614**	**$ 75**	**$ 74**
Grand Total Cost Reductions ($ 000)	**$ 4,360**	**$ 614**	**$ 79**

Notes:

1 – This is the consolidation of two desks in Operations. 2014 is the 2nd year of three years of tracking the capacity creation from the consolidation project.

2 – In the 2014-2016 Budget, a total of (12) FTE that had been budgeted for 2014 (in the 2013-2015 Budget) were eliminated. See the budget document for a detail explanation of these zero-based eliminations.

3 – ***New!* Incremental to initial Budget document.** A Lean A3 Analysis was performed (BPI and Carson Hampson) to identify process and procedure for improving contracting effectiveness (aligning contract expiration with vendor fiscal years and signing multi-year and/or bundled deals where feasible). Contracts in this category represent multi-year contracts. Labor savings are from developing one three year contract instead of developing three separate one-year contracts (labor savings realized in 2015 and 2016).

4 – 2014 represents the third year of cost avoidance associated with the Unlimited Oracle Database Agreement.

5 – ***New!* Incremental to initial Budget document.** Annual savings associated with signing multi-year deals and deals bundling products and services.

Tracking of Productivity and Cost Avoidance Actuals/Forecast to Budget

Cost Reduction Category	2014 Budget	2014 Actual/ Forecast	Variance	Variance Explanation
Operations Staffing Cost Reductions				
· Operation Automation and Desk Consolidation	$ 514	$ 514		On target
· Reduction of (12) FTE in 2014 vs. Prior Year Budget	$ 1,430	$ 1,430		On target
· ***New!* Lean A3 Project** – Contracting Efficiency	$ 0	$ 0		New initiative – impacts 2015 and 2016 productivity
Total Operations Staffing Cost Reductions	**$ 1,944**	**$ 1,944**	**$ 0**	
Capital Non-Staffing Cost Reductions				
· Year 3 of Oracle Unlimited Database Licensing Agreement	**$ 1,802**	**$ 1,802**	**$ 0**	On target – will update actuals for 2014 in 2Q report
Operations Non-Staffing				
· Eliminate on-site medical services	$ 214	$ 214		Per budget plan
· Eliminates Meloria software contract	$ 40	$ 40		Per budget plan
· Beverage service cost reductions	$ 60	$ 60		On target
· Meeting expense reduction strategy	$ 175	$ 175		On target – 2Q update based on 2014 actuals
· ***New!* Lean A3 Project -** Contracting Strategy Cost Avoidance – NetIQ DRA Maintenance Contract – Quantum Tape Drive Maintenance – BMC Products – Maintenance/Support	NA	 $ 4 $ 22 $ 99 $ 125		Newly identified Lean A3 initiative – Carson Hampson (IT Sourcing)
Total Operations Non-Staffing Cost Reductions	**$ 489**	**$ 614**	**$ 125**	
Grand Total Cost Reductions ($ 000)	**$ 4,235**	**$ 4,360**	**$ 125**	Favorable to Budget Amount

Memorandum

To: **Finance Committee Members**

From: **Tom Dunn**

CC: **Cheryl Robertson**

Date: **March 26, 2014**

Re: **2014 Meeting Schedule**

Detailed below is a schedule for face-to-face meetings of the Finance Committee for 2014 along with suggested agenda items to be covered at the meetings.

Meeting Date	Time	Meeting Location	Major Agenda Items
Jan 10, 2014	1:30	Teleconference	ARR collateral requirements
Mar 7, 2014	8:30	Jacksonville, FL	In-depth credit processes, LEAN and Process improvement
April 1, 2014	8:30	Dallas, TX	Financial Audit Review IT Management
July 10, 2014	8:30	Dallas, TX	BPI Review Mid Year Review Budget Process Review
Sept 11, 2014	3:00	Teleconference	2015 Budget Preview
Sept 23, 2014	8:30	Dallas, TX	2015 Budget Review Internal Audit Report Auditor Engagements
Oct 13, 2014	10:30	Dallas, TX	2015 Budget
Dec 8, 2014	2:00	Little Rock, AR	SSAE-16 Audit Report Corp Ins Review