



**Southwest Power Pool  
FINANCE COMMITTEE MEETING**

**July 10, 2014**

**DFW Hyatt Regency  
Dallas, TX**

**• 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. 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. Create comparison of level of financial disclosures contained in RTO annual reports
9. SPP staff visit with HRC regarding EPL limits

**Southwest Power Pool**  
**FINANCE COMMITTEE MEETING**  
**July 10, 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 8:00 a.m. The following members of the Finance Committee were in attendance:

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

Others attending included:

Laura Kapustka	Lincoln Electric
Rejji Hayes	ITC
Steve Pittenger	OG&E
Lauren Krigbaum	SPP
Larry Middleton	Stephens Capital Management
Larry Lucy	U.S. Bank

Minutes from April 1, 2014 meeting were reviewed. Kelly Harrison motioned to approve the minutes. The motion was seconded by Sandra Bennett and approved by unanimous voice vote.

The Committee reviewed the gap period controls review report prepared by SPP's Internal Audit staff. The report reviewed the effectiveness of SPP's controls for the period November 1, 2013 through February 28, 2014. The review by Internal Audit did not uncover any issues.

The Committee reviewed a document prepared by FERC which outlined numerous potential steps RTOs could implement to enhance the transparency of the RTO budget process. The Committee reached general consensus that SPP's current budget processes met the spirit of the suggestions outlined by FERC with the exception of documenting the budget processes within the SPP regional transmission tariff. The Committee did not see any benefits to including budget processes in the regional transmission tariff.

The Committee reviewed the financial statement disclosures included in SPP's 2013 Annual Report. The review was intended to identify whether or not the disclosures were sufficiently robust for the users of the document. SPP staff was tasked with reviewing the annual report disclosures of other RTOs and prepare a comparison for the Committee.

The Committee reviewed a summary draft of SPP's 2014 Strategic Plan; focusing primarily on the strategic initiatives which listed the Finance Committee as a responsible stakeholder.

SPP staff presented the Southwest Power Pool, Inc. Treasury Investment Policy as requested by the Committee at its April 1, 2014 meeting.

SPP staff presented a memo illustrating forecasted Member's Equity levels through 2023, as requested by the Committee at its April 1, 2014 meeting.

### **Investment Manager Reports**

Stephens Capital Management – Assumed responsibility for management of the assets in the SPP Retirement Plan during 1Q'14. Current portfolio allocation is 74% equity/26% fixed income and complies with the Investment Policy Statement limits. The manager did not foresee any near term changes in the general allocation of the portfolio. Portfolio return is 4.1% for the since manager assumed control (approx. 4 month return), which, when annualized, would exceed the target return of 7% for the portfolio. Two mutual fund holdings are likely to be liquidated in the near future and reinvested in options expected to outperform the existing holdings. The Committee requested more information in future reports covering the following issues:

- Average credit quality of fixed income portfolio
- Calculate the duration of the fixed income portfolio
- Compare benchmark returns versus portfolio returns accounting for volatility
- Highlight any manager concentrations (for mutual fund holdings) and industry concentrations
- Compare portfolio performance versus passive portfolio options

U.S. Bank – Long tenured manager of the SPP Post-retirement Healthcare Fund. Current portfolio allocation 71% equities/29% fixed income and other which is within Investment Policy Statement limits. The five year annualized rate of return for the portfolio is 11.67% net of fees (through 6/30/2014) which exceed the target return of 7%. The portfolio performance trails a 70%/30% passive portfolio of S&P500/Barclays Intermediate Gov't/Corporate by 2.77% annualized per year. No significant changes in the portfolio were implemented in the past 12 months and none are expected in the near future. The Committee requested more information in future reports covering the following issues:

- Clarify annual changes in the portfolio balance segregating increases due to sponsor contributions, realized gains/(loses), unrealized gains/(loses), etc.
- Compare benchmark returns versus portfolio returns accounting for volatility

Investment Policy Statement Review – The Committee reviewed the investment policy statements for both the SPP Retirement Plan and the SPP Post-retirement Healthcare Plan. Several modifications to the documents were suggested. These modifications will be compiled in red-line format and presented to the Committee for approval in September 2014. SPP staff will also compile any modifications suggested by the respective investment managers and present those to the Committee in September 2014. Additionally, the Committee suggested a handful of more substantial changes, as follows:

- Formalize limits on percent of fixed income portfolio that can be invested in below investment grade securities
- Consider limiting the portfolio to long holdings only
- Consider implications of ethic/moral investment limitations (i.e. tobacco, gambling, etc.)
- Ensure Exchange Traded Funds are permitted

### **D&O Insurance Policy Structure and Limits**

SPP staff presented an overview of the Company's existing D&O insurance program identifying: i) What risks are covered, ii) Who is covered, iii) What are the limits of the policy, and iv) Additional indemnification provision. The presentation ended with a recommendation to move the employment practices coverage into a stand-alone policy with a loss limit approximating a worst case scenario.

Staff requested the Committee members review the materials along with their insurance experts and provide input at the September 2014 meeting.

### **2015 Budget Outlook**

SPP staff presented an outlook on the 2015-17 budget which included i) a review of 2014 forecast, ii) review of 2015-16 forecast contained in the 2014 budget, iii) impact of load changes and under-

recoveries in 2013 and 2014 on forecast 2015-16 administrative fees, iv) review of SPP project pipeline including newly proposed 2015 projects and schedule of projects completed in 2014.

Most of the Committee members expressed discomfort with the administrative fee rate forecast for 2015 of 44.5¢/MWh compared with the 2014 rate of 38.1¢/MWh. 70% of the increase for 2015 was disclosed in the 2014 budget and results primarily from increased interest expense and principal retirement; the remaining 30% results primarily from under-recovery in 2013 and forecast under-recovery in 2014. Many Committee members expressed displeasure in SPP forecasting under-recovery in 2014 and expect management to implement actions to cut costs to budget levels in 2014, specifically the Committee members requested management define actions it will undertake to return 2014's forecast costs to budgeted levels.

Staff further disclosed a forecast illustrating the impact on SPP's administrative fee in 2016 following the addition of the Integrated System to SPP's membership. Specifically, the administrative fee is forecast to decline in 2016 to 36.5¢/MWh versus a forecast of 44.5¢/MWh in 2015. The reduction in rate primarily results from the addition of the load from the Integrated System paying the administrative fee. Committee members urged SPP to develop options which would eliminate the spike in the administrative fee level forecast for 2015.

#### **Mid-year BPI Report**

SPP staff presented three reports to the Committee:

- Program Status and Metrics: Report summarized the BPI implementation objectives, timelines, metrics, observations, and accomplishments and challenges
- LEAN Program Value Assessment: Report provided a detailed review of the 19 LEAN initiatives undertaken and/or completed since 2012
- 2Q2014 Cost Avoidance Tracking Report: Summary of avoided costs included in 2014 budget process versus 2014 actual.

SPP staff discussed some of the hurdles experienced in achieving greater success in the LEAN initiatives, with the primary hurdle being a lack of dedicated resources. Committee members shared thoughts on how their firms addressed resource constraints when implementing similar efficiency programs. Certain Committee members shared their disappointment that the LEAN initiatives were not resulting in tracked cost avoidance as indicated in the 2Q2014 Cost Avoidance Tracking Report.

#### **Future Meetings**

The next meeting of the Finance Committee will be a teleconference meeting on September 11, 2014 beginning at 3:00 pm with the sole item being Committee members and other providing initial feedback to SPP staff on the 2015 budget. The next face to face meeting is scheduled for September 23, 2014. This meeting is currently schedule to be held in Dallas, TX but the Committee had preliminary discussions to move this meeting to Little Rock, AR so Committee members can participate in the face-to-face meeting of the Credit Practices Working Group as well as attend the Settlements User Group meetings.

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

Respectfully Submitted,

Thomas P. Dunn  
Secretary



**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 •**

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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 approved 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

# EIS/Transmission Service “Gap” Period Review

July 10, 2014

Lauren Krigbaum  
lkrigbaum@spp.org · 501.614.3568





# Summary of Findings

- 20 control objectives with 95 control activities tested
  - Four month gap period
  - Seven control activities did not have a population to test
  - Control activity/process changes:
    - One Change Management control activity changed (Change Approval Board [CAB] approval for changes to Change Management approval structure no longer required)
    - One process supporting a Change Management control activity changed (composition of the CAB changed)
- No issues/exceptions identified
  - Supporting documentation was current and sufficient to substantiate the control activities were properly and thoroughly applied.

# Prior Year Audits

Issue Type	2006	2007	2008	2009	2010	2011	2012	2013
Design of Control Qualification	0	1	0	0	0	0	0	0
Operating Effectiveness Qualification	6	6	2	2	0	0	0	0
Non-Qualifying Mitigated “Exceptions”	0	0	0	1	2	6	0	1
Non-Qualifying “Finding”	0	0	0	0	0	0	3	0

## Keys to SPP’s Performance Improvement:

- Large number of process improvements
- Focused on “key” controls (removing non-key controls)
- Controls training developed and delivered annually
- Control environment and control activities “embraced” by majority of SPP staff
- Annual risk assessments and continuous (practice) reviews
- Increased level of management review for certain control activities

Below is the list of changes to improve the transparency of the RTO/ISO budget processes. Staff would greatly appreciate follow-up from you, perhaps in 3-6 months, to let us know if you have decided to implement any changes to the budget process along these lines. Thank you for your consideration of these changes and the productive discussion that we had during the call.

I. Changes that could be implemented without a stakeholder process:

(1) Post, in a centralized location on each RTO/ISO website, budget proposals, budget supporting information, scheduled budget meetings, stakeholder questions, comments and requests for additional information on the proposed budget, and the RTO's/ISO's responses to stakeholder questions, comments and requests for additional information; and

(2) Provide periodic updates regarding the RTO's/ISO's year-to-date spending, through postings in a centralized location on each RTO/ISO website.

II. Changes that would generally require a stakeholder process to implement:

(1) Include a description of the RTO/ISO budget processes in the RTO's/ISO's tariff;

(2) With respect to the description of the RTO/ISO budget processes, include tariff language specifying that: (1) stakeholders may submit comments, questions, and requests for additional information regarding the proposed budgets and budget supporting information prior to the board of directors taking up the proposed budget for consideration; and (2) the RTO/ISO will respond to stakeholder comments, questions, and requests for additional information, subject to confidentiality provisions as appropriate;

(3) With respect to the budget supporting information, each RTO/ISO could develop its own list of budget supporting information, which it will provide to stakeholders in postings on the RTO/ISO website, and it would include that list in its tariff;

(4) Specify in its tariff that the RTO/ISO will provide the initial draft of the budget proposal to all stakeholders at least 60 days before the final budget is approved by the RTO/ISO board of directors;

(5) Specify in its tariff that the RTO/ISO will submit both its capital and administrative budgets for stakeholder review at the same time;

(6) Submit the RTO/ISO proposed budget to the Commission in an annual informational filing after the budget is approved by the board but prior to becoming effective; and

(7) Specify in its tariff that the RTO/ISO will provide periodic updates on its website regarding its year-to-date spending.

# FINANCIALS

## BALANCE SHEET

	<u>2013</u>	<u>2012</u>
<b>Assets</b>		
Cash	\$ 34,874	\$ 95,693
Other Current Assets	107,814	67,078
Fixed Assets	204,260	173,752
Other Assets	4,463	2,997
Total Assets	<u>\$ 351,411</u>	<u>\$ 339,520</u>
<b>Liabilities &amp; Members' Equity</b>		
Customer Deposits	\$ 76,713	\$ 43,913
Other Current Liabilities	73,909	57,558
Long-Term Debt	235,260	258,258
Other Long-Term Liabilities	6,425	10,519
Members' Equity	(40,896)	(30,728)
Total Liabilities & Equity	<u>\$ 351,411</u>	<u>\$ 339,520</u>

## STATEMENT OF INCOME

	<u>2013</u>	<u>2012</u>
Total Revenue	\$ 142,737	\$ 147,919
Salary and Benefits	79,661	72,262
Other Expenses	73,244	76,963
Net Loss	<u>\$ (10,168)</u>	<u>\$ (1,306)</u>

\* All figures in thousands

For detailed financial records, visit [SPP.org](http://SPP.org) > Newsroom for the Southwest Power Pool, Inc. Accountants' Report and Financial Statements December 31, 2013 and 2012.

Fitch Ratings affirmed its "A" rating for SPP's Senior Unsecured Debt and its "A+" rating for Senior Secured Debt in July 2013. These ratings indicate our current long-term debt is investment grade with a low risk of default. Fitch based its ratings on the predictability and sustainability of our cash flows, relatively low business risk, our members' creditworthiness, and a supportive federal regulatory environment.

# Four Foundational Strategies



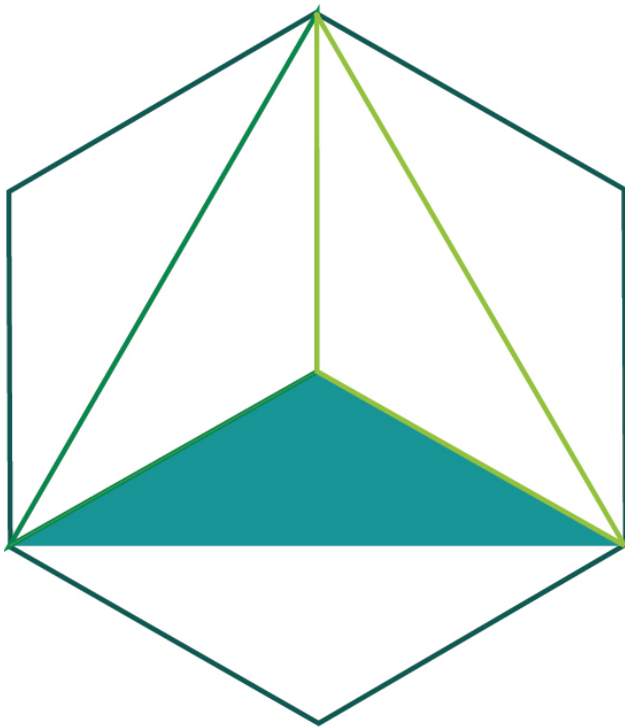
# Reliability Assurance Strategy



## Initiatives

- Capacity Margin Refinement (A)
- Regional Resource Need and Value Assessment (B)
- Reliability Assessments of Environmental Rules (A)
- Integration of Variable Energy Resources (C)
- Relay Mis-operations Improvement (B)
- Event Analysis (RE), Ongoing
- Grid Resiliency
  - Cyber and Physical Security (B)

# Economical Optimized Transmission System Strategy



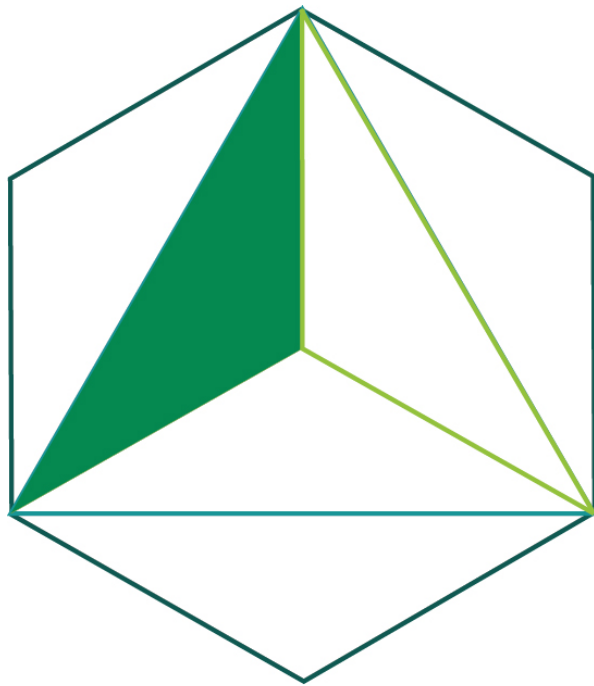
MAINTAIN AN OPTIMIZED,  
ECONOMICAL TRANSMISSION SYSTEM

## Initiatives

- Integrated Transmission Planning Check and Adjust (B) – On-going
- Cost Controls on Competitive Transmission (A)
- Flexibility to Address Policy Initiatives (B) - On-going
- Value Pricing (B)
  - Import/Export Strategy
  - Cost Allocation
- Member Equity (A)



# Interdependent Systems Strategy

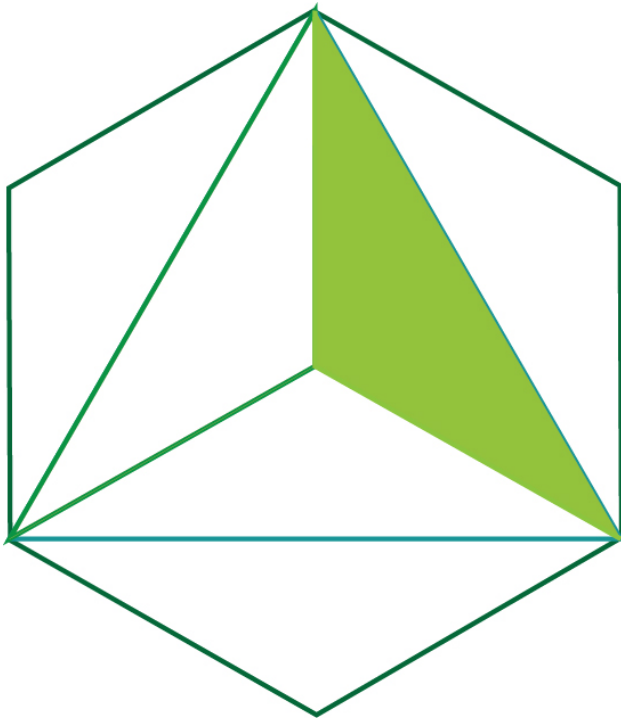


OPTIMIZE  
INTERDEPENDENT  
SYSTEMS

## Initiatives

- Transmission (Seams) (A)
- Optimize Markets Seams (A)
- Optimize Natural Gas Pipeline System Seams (A)
- Data Seams (C)

# Member Value & Affordability Strategy



ENHANCE MEMBER  
VALUE AND AFFORDABILITY

## Initiatives

- Communication Strategy (A)
- **Member Equity (A)**
- PMO Best Practices (B)
- Enhanced Market Analytics (B)
- Membership Expansion **Process (A)**
- Communication/Education (C)

# Strategic Initiative Accountability



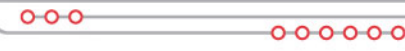
	Initiative	Accountable Parties	
		Internal	Stakeholder
Reliability Assurance	Capacity Margin Refinement	Planning/Engineering	RSC{CAWG} MOPC{ORWG, ESWG, MWG, TWG, GWG} SPC
	Regional Resource Need and Value Assessment	Planning/Engineering Regulatory	MOPC{ORWG, TWG, MWG, GWG} RSC{CAWG}
	Reliability Assessment of Environmental Rules	Planning/Engineering	MOPC{ORWG, ESWG, MWG, TWG, GWG} RSC{CAWG}
	Integration of Variable Energy Resources (VERs)	Planning/Engineering Operations	MOPC{TWG, ESWG, ORWG, GWG} SPC RSC
	Grid Resiliency	Operations Regulatory Compliance Process Integrity IT	MOPC{CIPWG, RCWG, TWG, SPCWG, SSC, IPSAC}
	Relay Mis-Operations	Operations SPP RE	MOPC{SPCWG, EAWG}
	Event Analysis	SPP RE RTO Compliance	MOPC

# Strategic Initiative Accountability



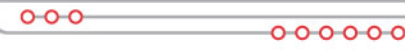
Optimized Economical Transmission System	Integrated Transmission Planning Check and Adjust	Planning/Engineering	MOPC{TWG, ESWG, PCWG, BPWG, RTWG, ORWG, CIPWG, SSC} RSC{CAWG} FC
	Cost Controls on Competitive Transmission	Planning/Engineering	MOPC{PCWG}
	Flexibility to Address Policy Initiatives	Planning/Engineering	MOPC{TWG}
	Value Pricing <ul style="list-style-type: none"> <li>• Import/Export</li> <li>• Cost Allocation</li> </ul>	Planning/Engineering Regulatory Market Design	MOPC{RTWG, SSC, RARTF, MWG} RSC{CAWG} SPC Board
	Member Equity	Planning/Engineering Regulatory	MOPC{RTWG, RARTF} RSC{CAWG}
	Export Pricing Concepts	Planning/Engineering Regulatory	MOPC{MWG, RTWG, TWG, ESWG} SPC RSC{CAWG}

# Strategic Initiative Accountability



Optimize Interdependent Systems	Transmission (Seams)	Planning/Engineering Operations Regulatory Interregional Relations	MOPC {TWG,RTWG, ESWG, SSC}
	Optimize Market Seams	Operations Regulatory Market Design Interregional Relations	MOPC{ORWG, SSC, MWG, ESWG} RSC{CAWG}
	Optimize Natural Gas Pipeline System Seams	Planning/Engineering Operations Market Design Regulatory	MOPC {ORWG, RTWG, ESWG, GECTF, GWG, MWG}
	Optimize Data Seams	Operations Market Design Interregional Coordination Planning	MOPC

# Strategic Initiative Accountability



Enhance Member Value & Affordability	Communication Strategy on Value/Affordability	Corp Communication Regulatory Process Integrity	MOPC SPC Task Force** RSC{CAWG}
	Member Equity	Planning/Engineering Regulatory	MOPC{RARTF} Special Committee**
	PMO Best Practices and Rigor	Process Integrity Accounting	MOPC{MWG, CWG} FC
	Enhanced Market Analytics	Market Monitoring Market Design Operations Forensics	MOPC{MWG}
	Membership Expansion	SPP Senior Staff	Board CGC SPC Ad-hoc MOPC MOPC{BPWG, RTWG} RSC
	Communication/Education	SPP Senior Staff	SPC

# *SOUTHWEST POWER POOL RETIREMENT PLAN*

## **INVESTMENT POLICY STATEMENT**

**July 10, 2012**

### **1.01 PURPOSE OF THIS STATEMENT**

The Finance Committee (“the Named Fiduciary”) of the Southwest Power Pool, Inc. Board of Directors, on behalf of Southwest Power Pool, Inc. (“the Plan Sponsor”), hereby establishes the following policy for administering the Southwest Power Pool Retirement Plan (“the Plan”) investment program. The Investment Policy Statement (“the Statement”) sets forth the investment objectives and guidelines that will be applied within the investment program to insure the assets of the Plan are managed in a manner consistent with the Plan document and applicable statutory requirements. In addition, the Statement is to provide a framework for management of the assets of the Plan within levels of risk acceptable to the Named Fiduciary and the Southwest Power Pool, Inc. Board of Directors. The Statement provides the investment manager(s) with a written statement of specific quality, quantity and rate of return standards. By establishing and communicating clear investment guidelines and objectives, the Plan Sponsor can enhance the effectiveness of the Plan’s investment program and thereby contribute to the overall goal of retaining and recruiting employees by delivering an attractive, low-cost retirement program.

This Statement is based on the “prudent expert rule” to ensure all fiduciaries under the Plan act with skill, care, prudence, and diligence. It is expected that decisions related to management of the Plan and its assets will follow a careful, skillful, prudent and diligent process.

### **1.02 AMENDMENTS TO THE STATEMENT**

The Named Fiduciary reserves the right to amend this Statement at any time as deemed prudent or necessary. Should any amendment to this Statement be required due to changes in the Plan document or a change in applicable law, the Named Fiduciary shall have due time to review such changes and prepare and implement an appropriate amendment. Because of the dynamic nature of the economic environment, developments in financial theories, and advances in technology, this Statement will be examined by the Named Fiduciary from time to time on a formal or informal basis and may, as a result of such examination, be revised by the Named Fiduciary.

### **1.03 BACKGROUND OF THE FUND**

The Plan was established by the Southwest Power Pool, Inc. Board of Directors effective January 1, 1996. The purpose of the Plan is to provide annuity payments to qualified retirees of the Plan Sponsor.

### **1.04 PLAN PROFILE**

The Plan was established to receive assets from the Plan Sponsor. Thereafter, assets in the Plan are used to provide annuity payments to retired employees of the Plan Sponsor meeting the qualification guidelines detailed in the Plan. The Plan is regulated by the Employee Retirement Income Security Act ("ERISA"). Earnings or losses of the Plan are not subject to taxation. Distributions of benefits to retirees are taxable to the retiree/beneficiary.

## **1.05 PLAN FUNDING**

The Named Fiduciary has established a minimum allowable funding level of the Plan equal to the Accumulated Benefit Obligation and a maximum funding level equal to the Projected Benefit Obligation. The Plan Sponsor contributes periodic funds to the Plan based on guidance provided by the Plan's actuary and decisions made by the Named Fiduciary and accepted by the Southwest Power Pool, Inc. Board of Directors. It is expected that the Plan Sponsor will continue to make periodic contributions to the Plan into the foreseeable future.

## **2.01 INVESTMENT OBJECTIVES**

The overall objective of this Statement is to provide guidance for the investment of contributions and other Plan assets and to help maintain adequate funding for Plan liabilities. It is crucial the investment philosophy follow the guidelines of ERISA, primarily that the funds are managed solely in the interest of plan participants. The Named Fiduciary will utilize a portfolio approach when evaluating Plan return, risk, and cost.

## **2.02 RETURN OBJECTIVES**

The primary goal is to obtain a return annualized over the preceding five calendar years equal to or exceeding the actuarially assumed rate of return (currently 7%). Long-term returns above the actuarially assumed rate may serve to reduce the periodic funding required of the Plan Sponsor.

## **2.03 RISK OBJECTIVES**

The Plan assets will be managed with an average to above average risk profile. Currently the pension liabilities are relatively long-term in nature with minimal near term liquidity requirements, allowing for volatility above what one would expect from a portfolio with shorter term investment horizon.

Investments held by the Plan should at all times have readily available prices and sufficient trading volume so that investments can be bought and sold easily without significantly impacting the price of the investments.

## **2.04 COST OBJECTIVES**

The Named Fiduciary will strive to maintain the costs of funding and administering the Plan at a reasonable level and consistent with market costs for engaging qualified professionals to provide asset management and administration services.



## 2.05 ASSET ALLOCATION

The assets of the Plan will be invested in one or more of the following asset classes:

**Cash:** Comprised of demand deposit accounts, savings accounts, money market accounts, debt instruments with maturities of 3 months or less

**Debt Securities:** U.S. Dollar denominated fixed income securities with maturities in excess of 3 months including, but not limited to, Government and Agency issues, mortgage and asset backed securities, and corporate issues, or investment in professionally managed funds investing in the previously mentioned types of securities. Although fixed income investments rated less than investment grade are permitted, the average credit quality of the aggregate fixed income allocation should be investment grade.

**U.S. Equities:** Common and preferred equity securities of companies domiciled in the United States or in professionally managed funds investing primarily in the previously mentioned securities

**International Securities:** Direct investment or investment in professionally managed funds investing in common and preferred equity securities and debt securities of companies domiciled outside of the United States. Security issues of non U.S. domiciled entities may be acquired either through U.S. exchange traded American Depository Receipts or directly through non U.S. based exchanges. In no event will the market value of International Securities holdings exceed 20% of the market value of the Plan Assets. The Named Fiduciary will review the total international security holdings of the plan annually and determine if the level of holdings is appropriate. The Named Fiduciary may direct the investment managers to increase or reduce international security holdings at any time.

**Derivative Instruments:** No direct investment in derivative instruments is permitted, although investment is permitted in professionally managed funds that do use derivatives. Funds making use of derivatives must specifically prohibit the use of derivatives to achieve leverage.

In aggregate, the assets of the Plan shall target the asset allocation ranges listed below:

<b><u>Security Description</u></b>	<b><u>Lower Limit</u></b>	<b><u>Target</u></b>	<b><u>Upper Limit</u></b>
Cash	0%	5%	15%
Debt Securities	15%	25%	35%
Equity Securities (growth)	30%	35%	40%
Equity Securities (value)	30%	35%	40%

The Named Fiduciary will take appropriate action should the invested assets of the Plan stray more than 10% outside of the established allocation range.

## 2.06 PROHIBITED INVESTMENTS

The assets of the Plan shall not be used to invest in any investment not specifically permitted by this Statement. The Named Fiduciary does not limit investments in specific entities except as noted above. Investment managers are allowed to invest in electric utilities, including members of the Named Fiduciary, should they wish without restrictions. The Named Fiduciary shall not be permitted to direct any investment manager to invest in any particular individual security nor require the investment manager to provide notice to the Named Fiduciary prior to making investments permitted by this Statement.

### **3.01 SELECTION OF MONEY MANAGER(S)**

The Named Fiduciary shall select investment managers and, where appropriate, investment options based on the evaluation of qualitative and quantitative factors. The manager selection process will focus on the following five key aspects of an investment management firm and investment option:

1. **Organization** – evaluate the key elements of an efficient and successful investment management organization such as stable firm ownership, clear business objectives, industry reputation, and experienced and talented investment staff.
2. **Investment Philosophy and Process** – evaluate the key elements of a valid and well-defined investment approach such as unique sources of information, disciplined buy/sell decisions, systematic portfolio construction, and adequate risk controls.
3. **Resources** – evaluate the state of current and proposed resources supporting the investment process including the quality and depth of research and the adequacy of information management, compliance and trading systems.
4. **Performance** – evaluate historical returns and risks relative to passive indexes, peer groups, and other competing firms.
5. **Management Fees** – evaluate the proposed fee structure relative to the industry and other competing candidates.

These factors are chosen to insure manager/option selections are made with a prudent degree of care, and excessive risk is avoided. Notwithstanding the above, the Named Fiduciary may also include other factors that may be appropriate to a specific manager/option selection exercise.

### **3.02 ACKNOWLEDGEMENT OF FIDUCIARY RESPONSIBILITY**

Any and all investment managers selected to invest the assets of the Plan will be required, as a condition of their selection, to acknowledge their fiduciary status and responsibility to the Plan, in writing. This requirement shall not require the investment manager of a mutual fund in which the Plan invests to acknowledge fiduciary status.

### **3.03 MONITORING THE INVESTMENT MANAGER**

The objective of the investment manager monitoring process is to identify on a timely basis any adverse changes to the investment manager's organization or investment process by periodically evaluating a number of qualitative and quantitative factors. In addition, once adverse changes are identified, the monitoring process shall also dictate the timing and manner of response.

The Named Fiduciary shall evaluate the investment managers/options at least annually using the framework in 3.01 above, in addition to using any other factors the Named Fiduciary believes are appropriate to the inquiry. These factors are intended to insure that decisions to retain investment managers/options are made with a prudent degree of care and excessive risk is avoided.

If results from the monitoring process indicate substandard investment performance or a potentially adverse change in the investment manager's organization or investment process, the Named Fiduciary may choose one of several courses of action including assigning the investment manager/option a temporary probationary status known as the Watch List, undertaking an in-depth review, or terminating the investment manager/option.

Being placed on the Watch List is meant to convey the Named Fiduciary's increased level of concern about a particular issue or event, which if left unresolved, could endanger the future relationship. An in-depth review may be undertaken as a result of the manager/option failing to rectify the issues that led to their placement on the Watch List, or in response to a major adverse change in the investment manager's organization or investment process to the extent the Named Fiduciary seriously questions the firm's ability to manage the portfolio going forward. The purpose of the in-depth review is to determine whether terminating the manager/option is an appropriate course of action.

### **3.04 TERMINATION/REPLACEMENT OF INVESTMENT MANAGERS**

The Named Fiduciary may eliminate or replace the investment manager/option any time the Named Fiduciary deems it in the best interests of the Plan.

# *SOUTHWEST POWER POOL RETIREE HEALTHCARE FUND*

## **INVESTMENT POLICY STATEMENT**

**July 10, 2012**

### **1.01 PURPOSE OF THIS STATEMENT**

The Finance Committee (“the FC”) of the Southwest Power Pool, Inc. Board of Directors, on behalf of Southwest Power Pool, Inc. (“the Fund Sponsor”), hereby establishes the following policy for administering the Southwest Power Pool Retiree Healthcare Fund (“the Fund”) investment program. The Investment Policy Statement (“the Statement”) sets forth the investment objectives and guidelines that will be applied within the investment program to insure that the assets of the Fund are managed in a manner designed to meet the objective of funding postretirement healthcare benefits for eligible retirees of Southwest Power Pool, Inc. In addition, the Statement is to provide a framework for management of the assets of the Fund within levels of risk acceptable to the FC and the Southwest Power Pool, Inc. Board of Directors. The Statement provides the investment manager(s) with a written statement of specific quality, quantity and rate or return standards.

This Statement is based on the “prudent expert rule” to ensure all fiduciaries under the Plan act with skill, care, prudence, and diligence. It is expected that decisions related to management of the Plan and its assets will follow a careful, skillful, prudent and diligent process.

### **1.02 AMENDMENTS TO THE STATEMENT**

The FC reserves the right to amend this Statement at any time as deemed prudent or necessary. Should any amendment to this Statement be required due to actions of the Southwest Power Pool, Inc. Board of Directors or a change in applicable law, the FC shall have due time to review such changes and prepare and implement an appropriate amendment. Because of the dynamic nature of the economic environment, developments in financial theories, and advances in technology, this Statement will be examined by the FC from time to time on a formal or informal basis and may, as a result of such examination, be revised by the FC.

### **1.03 BACKGROUND OF THE FUND**

The Fund was established by the Southwest Power Pool, Inc. Board of Directors effective January 1, 1996. The purpose of the Fund is to cover a specific portion of the costs associated with providing postretirement healthcare benefits to eligible retirees of Southwest Power Pool, Inc.

### **1.04 FUND PROFILE**

The Fund was established to receive assets from the Fund Sponsor. Thereafter, assets in the Fund are used to offset a specific portion of the health insurance premium payments attributable to eligible retirees of Southwest Power Pool, Inc. remaining in the Southwest Power Pool, Inc. Group Health Insurance Plan following retirement. Earnings or losses of the Fund are not subject to taxation.

## **1.05 FUND FUNDING**

The FC has established a desired funding level of the Fund equal to the Accumulated Benefit Obligation. The Fund Sponsor contributes periodic funds to the Fund based on guidance provided by the Fund's actuary and decisions made by the FC and accepted by the Southwest Power Pool, Inc. Board of Directors. It is expected that the Fund Sponsor will continue to make periodic contributions to the Fund into the foreseeable future.

## **2.01 INVESTMENT OBJECTIVES**

The overall objective of this Statement is to provide guidance for the investment of contributions and other Fund assets and to help maintain adequate funding for Fund liabilities. The FC will utilize a portfolio approach when evaluating Fund return, risk, and cost.

## **2.02 RETURN OBJECTIVES**

The primary goal is to obtain a return annualized over the preceding five calendar years equal to or exceeding the actuarially assumed rate of return (currently 7%). Long-term returns above the actuarially assumed rate may serve to reduce the periodic funding required of the Fund Sponsor.

## **2.03 RISK OBJECTIVES**

The Fund assets will be managed with an average to above average risk profile. Currently the Fund liabilities are relatively long-term in nature with minimal near term liquidity requirements, allowing for volatility above what one would expect from a portfolio with an allocation of 70% equity and 30% fixed income.

Investments held by the Plan should at all times have readily available prices and sufficient trading volume so that investments can be bought and sold easily without significantly impacting the price of the investments.

## **2.04 COST OBJECTIVES**

The HRC will strive to maintain the costs of funding and administering the Fund at a reasonable level and consistent with market costs for engaging qualified professionals to provide asset management and administration services.

## **2.05 ASSET ALLOCATION**

The assets of the Fund will be invested in one or more of the following asset classes:

**Cash:** Comprised of demand deposit accounts, savings accounts, money market accounts, debt instruments with maturities of 3 months or less

**Debt Securities:** U.S. Dollar denominated fixed income securities including, but not limited to, Government and Agency issues, mortgage and asset backed securities, and corporate issues, or investment in professionally managed funds investing in the previously mentioned types of securities. Although fixed income investments rated less than investment grade are permitted, the average credit quality of the aggregate fixed income allocation should be investment grade

**U.S. Equities:** Common and preferred equity securities of companies domiciled in the United States or in professionally managed funds investing in the previously mentioned securities

**International Securities:** Direct investment or investment in professionally managed funds investing in common and preferred equity securities and debt securities of companies domiciled outside of the United States. Security issues of non U.S. domiciled entities may be acquired either through U.S. exchange traded American Depository Receipts or directly through non U.S. based exchanges. In no event will the market value of International Securities holdings exceed 20% of the market value of the Plan Assets. The FC will review the total international security holdings of the plan annually and determine if the level of holdings is appropriate. The FC may direct the investment managers to increase or reduce international security holdings at any time.

**Derivative Instruments:** No direct investment in derivative instruments is permitted, although investment is permitted in professionally managed funds that do use derivatives. Funds making use of derivatives must specifically prohibit the use of derivatives to achieve leverage.

In aggregate, the assets of the Plan shall target the asset allocation ranges listed below:

<b><u>Security Description</u></b>	<b><u>Lower Limit</u></b>	<b><u>Target</u></b>	<b><u>Upper Limit</u></b>
Cash	0%	5%	15%
Debt Securities	15%	25%	35%
Equity Securities	60%	70%	80%

The FC will take appropriate action should the invested assets of the Fund stray more than 10% from the desired allocation.

## **2.06 PROHIBITED INVESTMENTS**

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3. **Resources** – evaluate the state of current and proposed resources supporting the investment process including the quality and depth of research and the adequacy of information management, compliance and trading systems.
4. **Performance** – evaluate historical returns and risks relative to passive indexes, peer groups, and other competing firms.
5. **Management Fees** – evaluate the proposed fee structure relative to the industry and other competing candidates.

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The FC may eliminate or replace the investment manager/option any time the FC deems it in the best interests of the Fund.



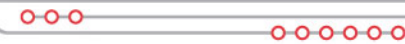
# 2015 Finance Committee Preview

July 10, 2014



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





**Income Statement**  
**Forecast as of May 31, 2014**  
(\$millions)

	2014 Forecast	2014 Budget	Over/(Under) Budget	Variance
<b>Income</b>				
Tariff Administrative Service	\$134.1	\$132.6	\$1.5	1.1%
FERC Fees Assessment	14.7	14.5	0.2	1.2%
NERC ERO Regional Entity Revenue	9.6	11.8	(2.2)	(19.0%)
Contract Services & Misc Income	4.3	4.2	0.1	2.0%
<b>Total Income</b>	<b>162.6</b>	<b>163.2</b>	<b>(0.5)</b>	<b>(0.3%)</b>
Salary & Benefits	84.7	82.2	2.4	2.9%
Communications, Maint. & Leases	19.9	20.0	(0.1)	(0.5%)
Services & RSC	15.6	14.6	1.0	6.6%
Travel & Meetings	2.9	3.1	(0.3)	(8.1%)
Administrative	4.5	4.7	(0.2)	(3.2%)
Assessments & Fees	15.6	15.3	0.3	2.0%
Depreciation & Amortization	51.6	49.7	1.9	3.8%
Interest Expense	10.4	11.0	(0.6)	(5.7%)
<b>Total Expense</b>	<b>205.1</b>	<b>200.7</b>	<b>4.4</b>	<b>2.2%</b>
<b>Net Income (Loss)</b>	<b>(42.5)</b>	<b>(37.5)</b>	<b>(5.0)</b>	
Debt Repayment	13.0	13.0	(0.0)	
MW/h Forecast	351.9	348.2	3.7	
NRR	\$ 137.0	\$ 132.6	\$ 4.4	
Calculated Admin Fee	\$ 0.389	\$ 0.381	\$ 0.009	
Headcount	586	598	(12)	(2.0%)

## 2014 Headcount

	Mid Year	2014	2014	Over/(Under)	
	Active	Open	Forecast	Budget	
			Budget	Budget	
Operations	152	5	157	157	0
Information Technology	138	10	148	144	4
Engineering	69	4	73	76	(3)
Process Integrity	45	2	47	47	0
Administration & Officer	48	0	48	49	(1)
Corporate Services	29	0	29	29	0
Compliance, Comm & MMU	29	1	30	30	0
Regulatory & Legal	26	0	26	26	0
Market Design & Interregional Rel	9	0	9	9	0
SPP Regional Entity	26	4	30	31	(1)
<b>TOTAL HEADCOUNT *</b>	<b>571</b>	<b>26</b>	<b>597</b>	<b>598</b>	<b>(1)</b>

\* The Regional Entity delayed one position to 2015.

## 2014 Budget & 2015 - 2016 Forecast

(\$millions)

	2014 Budget	2015 Forecast	2016 Forecast
<b>Income</b>			
Tariff Administrative Service	\$ 132.6	\$ 148.4	\$ 145.2
NERC ERO Regional Entity Revenue	12.3	12.6	13.0
FERC Fees Assessment	14.5	16.0	16.3
Contract Services & Miscellaneous Income	3.8	4.0	4.0
<b>Total Income</b>	<b>163.2</b>	<b>181.0</b>	<b>178.6</b>
Salary & Benefits	82.2	84.9	87.2
Communications, Maint. & Leases	20.0	20.2	21.4
Services & RSC	14.6	13.8	13.2
Travel & Meetings	3.1	3.0	3.1
Administrative	4.7	5.0	5.1
Assessments & Fees	15.3	15.6	16.0
Depreciation & Amortization	49.7	62.0	60.8
Interest Expense	11.0	13.8	10.9
<b>Total Expense</b>	<b>200.7</b>	<b>218.3</b>	<b>217.7</b>
<b>Net Income (Loss)</b>	<b>(37.5)</b>	<b>(37.3)</b>	<b>(39.2)</b>
Debt Repayment	13.0	24.0	21.4
MW/h Forecast	348.2	348.3	348.3
NRR	\$ 132.6	\$ 148.4	\$ 145.2
Calculated Admin Fee	\$ 0.381	\$ 0.426	\$ 0.417
Headcount	598	603	605

## Administrative Fee Analysis

(\$millions)

	2014 2014 Budget	2014 Forecast	2015 Forecast	2016 Forecast
Operating Expenses	\$ 200.7	\$ 205.1	\$ 218.3	\$ 217.7
Debt Service <sup>(1)</sup>	13.0	13.0	24.3	21.4
Less: Depreciation/Amorization	(49.7)	(51.6)	(62.0)	(60.8)
Gross Revenue Requirement	164.0	166.5	180.6	178.3
Less:				
NERC Expense	(11.8)	(9.6)	(12.2)	(12.5)
FERC Fee Expense	(15.3)	(15.6)	(15.6)	(16.0)
Other Revenues	(4.2)	(4.3)	(4.4)	(4.5)
Net Revenue Requirement	\$ 132.6	\$ 137.0	\$ 148.4	\$ 145.2
Billing Determinant (MWh millions)	348.2	351.85	348.2	348.2
Current Calculated Admin Fee/MWh	\$ 0.381	\$ 0.389	\$ 0.426	\$ 0.417
Current Net Revenue Requirement	\$ 132.6	\$ 137.0	\$ 148.4	\$ 145.2
2013 Net Under Recovery <sup>(2)</sup>			2.7	
2014 Net Under Recovery <sup>(3)</sup>			2.9	
Unbudgeted Interest Payment			2.5	
Adjusted Net Revenue Requirement	132.6	137.0	156.6	145.2
Re-calculated Admin Fee/MWh	\$ 0.381	\$ 0.389	\$ 0.450	\$ 0.417
Adjusted Load <sup>(4)</sup>			351.9	397.9
Re-calculated Admin Fee/MWh			\$ 0.445	\$ 0.365

(1) 2014 debt payments of \$23.0, less current maturities funded with new debt proceeds of \$10.0

(2) 2013 net under recovery added to 2015 NRR (\$10.7 actual vs. \$8.0 budgeted under recovery)

(3) 2014 under recovery added to 2015 NRR (2014 budget assumed break even)

(4) Assumes 2015 load equal to 2014 forecast and additional 46MWh for Integrated Systems in 2016

# PRPC Project Planning

## 2015-2017 Current / New Project Initiatives

- 17 Projects carried over from 2014 budget \*
- 6 New 2015/2016 projects
- 2 2017 Alstom market system patches 7-8
- 12 Projects expected to be completed in 2014
- 3 Projects cancelled during 2014

\* The carryover projects includes 4 Alstom market system patches (3-6)



Carryover to 2015	
1 Transmission Settlements Upgrade ETSE3.0	2014 C/O
2 Alstom Market System Patch 3	2014 C/O
3 Alstom Market System Patch 4	2014 C/O
4 EMS Upgrade	2014 C/O
5 Aurea ESB Replacement	2014 C/O
6 Netezza Upgrade	2014 C/O
7 Alstom Market System Patch 5	2016 C/O
8 Alstom Market System Patch 6	2016 C/O
9 AFC Granularity Changes for TSRs	Pinnacle
10 Enhanced Combined Cycle	Pinnacle
11 Long-Term Congestion Rights (LTCRs)	Pinnacle
12 CMS Enhancements (previously included in LTCR)	Pinnacle
13 Market to Market	Pinnacle
14 Marketplace Data for MPs Post Go-Live	Pinnacle
15 Regulation Compensation	Pinnacle
16 Sunset Clause for Load Submittal for Legacy BAs	Pinnacle
17 IMPhase I Deferrals (Placeholder)	Pinnacle
2015 New	
1 2-Factor Authentication (Infrastructure build 1 of 2)	2015 New
2 ESP vs. Non-ESP Separation Project	2015 New
3 Gas \ Electric Harmonization	2015 New
4 Phase IV Data Warehouse	2015 New
5 Tie Line Meter Checkout	2015 New
6 Vaadin Upgrade	2015 New
7 Alstom Market System Patch 7	2017 New
8 Alstom Market System Patch 8	2017 New

Completed in 2014	
1 Alstom Market System Patch 1	2014 C/O
2 Alstom Market System Patch 2	2014 C/O
3 Data Center Migration	2014 C/O
4 EIS Sunset 2014	2014 C/O
5 EMS Readiness	2014 C/O
6 ICCP new environment build-out	2014 C/O
7 Project Server 2013 Upgrade	2014 C/O
8 Break out of NITSA Loads	2014 New
9 MPRR 80 OOME MWP Changes	2014 New
10 TCR Netting During Auction	2014 New
11 IT Environments Buildout	Pinnacle
12 Pseudo Tie Ins/Outs	Pinnacle
Cancelled in 2014*	
1 Ops DTS Upgrade to TTSE	2014 C/O
2 FERC Order 1000 Software	2014 C/O
3 Grandfather Agreement (GFA) Carve Out	Pinnacle
* Total \$4.8M in capital costs	

# Improvements to Content of the Budget Document

## III. Quantifying & Presenting Value provided by SPP

- Brainstorming for recommendations
- Help us “tell the story” of the value SPP provides to members
- Take the focus away from number gathering to creating a business plan to “sell” SPP
- Request for management teams to provide specific and quantifiable examples of value provided to members
- Develop commentary surrounding 2015 activities which will provide member value



# Business Process Improvement: Program Status and Metrics

Finance Committee  
July 2014



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

# Agenda

- 1) **Review SPP BPI Vision/Strategy from Dec. 2012**
- 2) **Lean Metrics**
  - **Completed Initiatives, Employee Engagement**
  - **Lean Program Value Assessment**
- 3) **Overall Assessment:  
Accomplishments/Challenges**

# **VISION AND IMPLEMENTATION STRATEGY FROM DEC 2012 FC MTG**

# **BPI Program Objectives** (Dec. 2012 Finance Committee)

**Increase SPP staff proficiency and expertise in our culture drivers –**

- **Continuous Improvement**
- **Efficiency**
- **Collaboration**

**As part of our Business Mission and Strategy to:**

- **Create Member Value**

# Target Environment - Desired Future State

(Dec. 2012 Finance Committee Meeting)

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

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

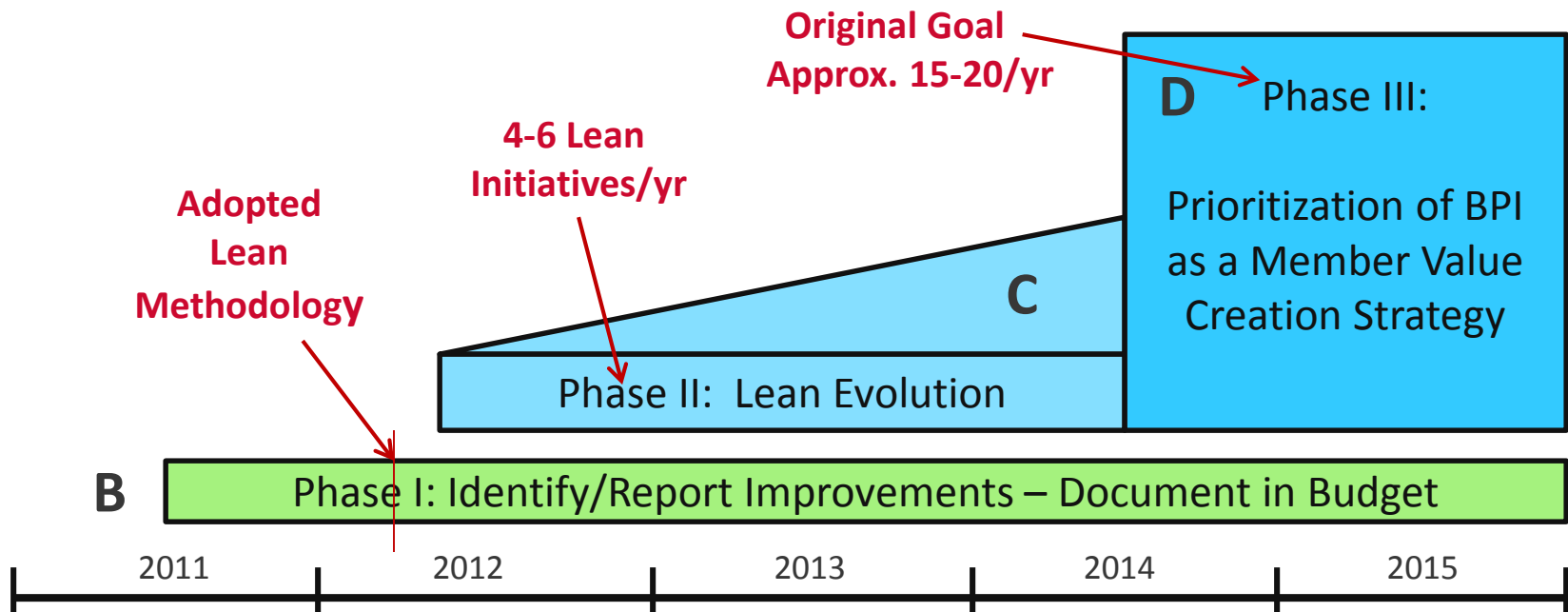
**A Strategic Cultural Transformation**

# Evolutionary Lean Implementation (12/2012 FC)

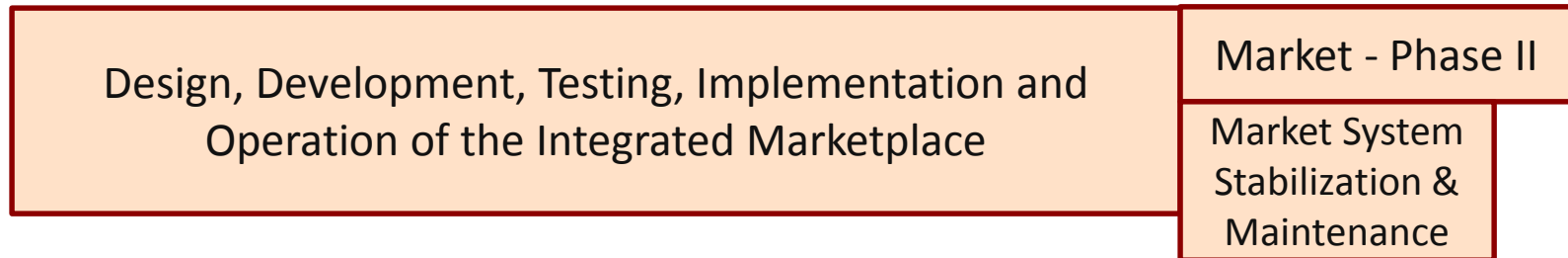
- **2012 Program Introduction – Positioning for Long Term Success**
  - **Begin Facilitated Lean Workshops**
  - **Train Workshop Teams**
  - **Target Multiple Areas of the Organization**
  - **Implement Solutions (30-60-90 days) and continuous improvement**
  - **Build Success Stories and Enthusiasm**



# BPI/Lean Evolutionary Implementation



## **A** Restricted SPP Organizational Bandwidth/Focus



# Keys for Success/Issues (12/2012 FC)

- Acknowledge that “people are the process” – Lean is an Employee Empowerment Strategy
- Don’t brand Lean Continuous Process Improvement as a budgetary “Cost Control Program”
- Business Unit Leadership must Champion Lean implementation and be held accountable for results
- Organizational maturity is needed to measure and manage a more productive workforce
  - Corporate adherence to time tracking disciplines
  - *Enhanced measurement systems*
  - *Process standardization and repeatability (many processes are dynamic)*



# Measurement of Success (Lean)

## • Organizational Adoption

- Volume of Activity
- Breadth of Participation
  - By Business Units
  - Number of Participants
- Employee engagement
- Lean adoption by SPP as collaboration standard (used to solve core business problems)

## • Initiative Value

- Productivity Improvement or Capacity Creation
- Waste Elimination
- Process Clarity (internal and stakeholder)
- Service Quality or Reliability
- Risk Mitigation

# LEAN METRICS

# Lean Metrics (Organizational Adoption)

Quarter-by-Quarter View of Lean Efforts to Date														
Area	Description	2012				2013				2014				Totals
		1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	
<b>1</b>	<b>Lean Continuous Improvement Initiatives</b>													
Project View	a. Active/carry-over			1	5	5	4	4	4	4	5	7		
	b. Newly initiated (Note: A)		1	4	1	1	1	2	1	4	3	2		
	c. Newly closed				1	2	1	2	1	3	1	2		
	d. Total active		1	5	5	4	4	4	4	5	7	7		
	e. Program to Date Total Lean Initiatives		1	5	6	7	8	10	11	15	18	20		
Participant View	a. New workshop participants (Note: B)		12	48	8	7	14	17	7	10	5	11		139
	b. Cumulative workshop participants		12	60	68	75	89	106	113	123	128	139		
	c. New project team/A3 participants (Note: C)		2	39	15	14	15	13	3	7	5	1		114
	d. Cumulative project team/A3 participants		2	41	56	70	85	98	101	108	113	114		
	e. Total lean initiative participation - cumulative		14	101	124	145	174	204	214	231	241	253		253
												E		
<b>2</b>	<b>Lean Organizational Engagement View</b>													
Efforts Initiated by Division	a. Engineering			2	1			1				1		5
	b. Information Technology			2			1			2	2			7
	c. Operations						1			1		1		3
	d. Finance/Corporate Services							1	1			1		3
	e. Process Integrity		1								1			2
	f. Regulatory/Compliance													0
	g. Market Design									1				1
	<b>h. Total</b>		1	4	1	1	1	2	1	4	3	3		21
												E		
Participants by Division (Note: D)	a. Engineering			32	11	1	7	11		1		1		64
	b. Information Technology		1	24	4	20	2	3	1	4	6			65
	c. Operations		2	5			14	7	1	2	1	11		43
	d. Finance/Corporate Services			6			1	4	5	1	3			20
	e. Process Integrity		8	11	1		2	1	2	1				26
	f. Regulatory/Compliance/MMU/Comm		3	9	6		3	4	1	6				32
	g. Market Design									2				2
	h. Other				1									1
	<b>i. Total</b>		14	87	23	21	29	30	10	17	10	12		258
												E		

# Lean Metrics (notes to prior page)

## Notes:

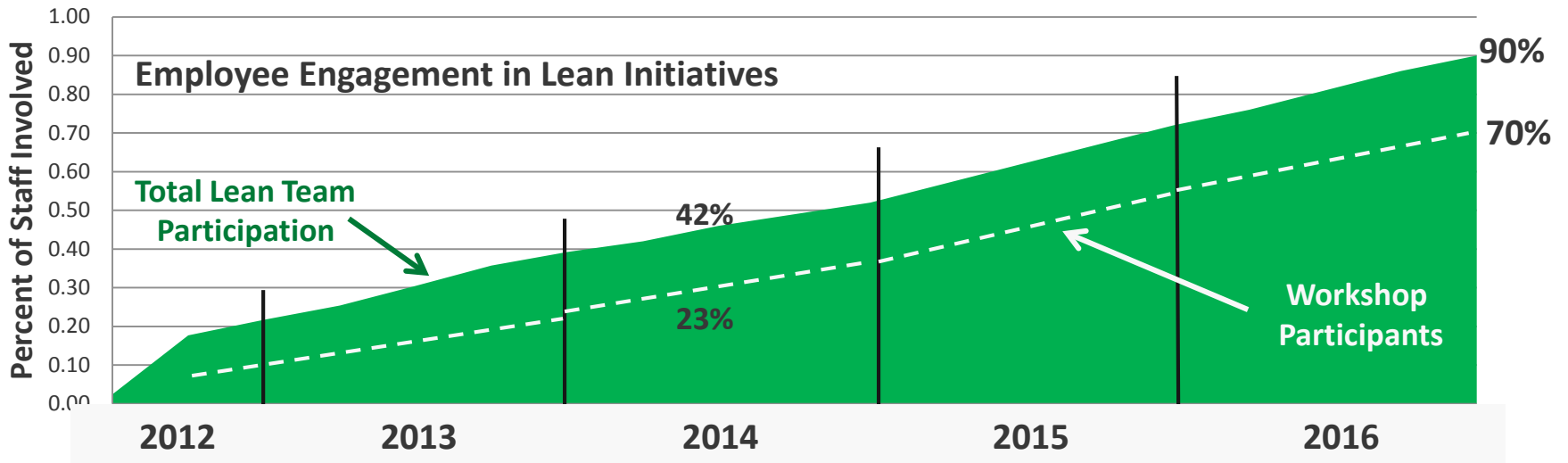
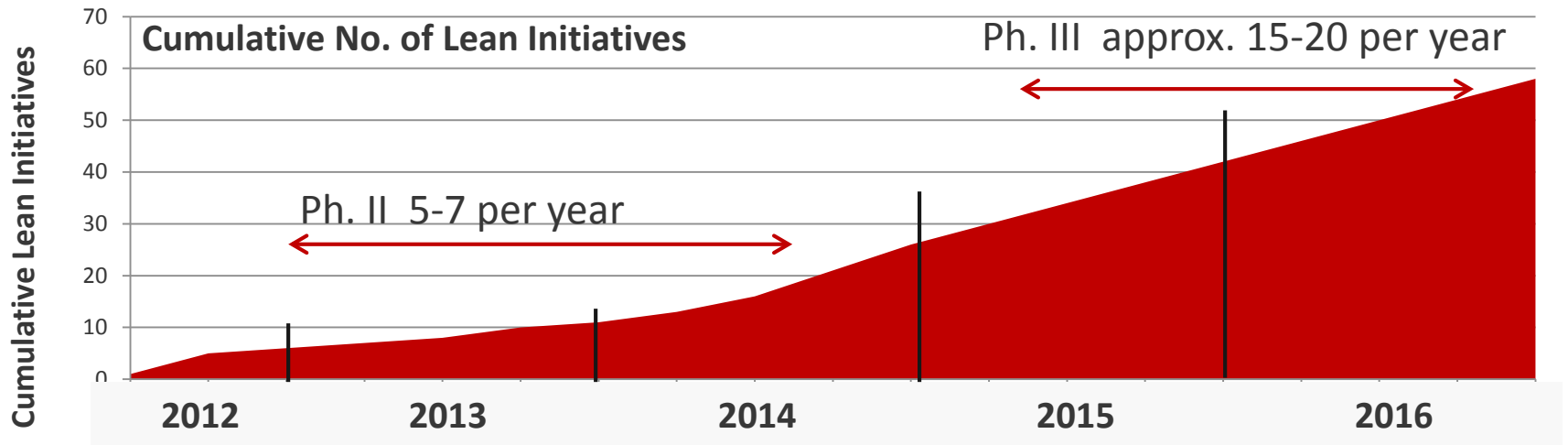
- A – Each Lean Initiative represents a full-scope multi-organization process going through a formal “Lean Workshop”. Each initiative will produce from 3 to 5 implementation projects typically taking from 30, 60, 90 to 180 days to implement.
- B – This line tracks the number of SPP staff who have received initial Lean orientation and have participated in a typical 2-day Lean Workshop or an A3 Structured Problem Solving approach.
- C – This line tracks the number of SPP staff who were not in the Lean Workshop/A3 activity who have been assigned meaningful work to implement one or more of the process improvement implementation projects.
- D – These numbers reflect the number of staff involved in the implementation workshops and implementation projects for projects initiated in that quarter. Note that several implementation efforts will span multiple months so the total number of staff involved each quarter may be higher than the total shown for the quarter.
- E – 3Q2014 numbers reflect known scheduled Lean start ups and does not reflect a forecast for the entire quarter.

# Types of Lean Initiatives



Lean Initiative Types	Description
Lean Workshop	Traditional Process-Improvement workshop Processes are Enterprise-wide spanning 4-5 functional areas  Two-day brainstorming session resulting in 3-5 implementation projects
Mini-Workshop	Same Workshop process – but process to be improved is primarily within a limited functional area – fewer people involved
A3 Problem Solving	A structured problem solving methodology that objectively lays out the problem statement, a root cause analysis, and identifies possible countermeasures. Method promotes cross-functional collaboration and moves to an implementable solution.

# Lean Actual/Projected Activity & Engagement



## Focus of Lean Improvement Initiative – Key Drivers (7-10-2014)

Lean Initiative Name	Productivity and/or Cost Reduction				Quality			SPP Staff
	Internal Process Clarity (A)	External Process Clarity (B)	Cost Reduction (C)	Capacity Creation - Productivity (D)	Customer Service Quality (E)	Quality and Reliability of Outputs (F)	Risk Mitigation (G)	Engagement & Satisfaction (H)
2012								
Customer Request Management-RMS	X	X		X	X	X	X	
Engineering Working Groups Effectiveness	X	X		X	X	X		X
ICCP-Customer Data Connections	X	X		X	X	X	X	X
ITP Process Quality Improvement	X	X		X		X	X	X
2013								
IT System Access Quality/Timing	X			X	X			X
Engr. Transmission Project Tracking	X	X		X		X	X	
IT Change Mgmt. Process Improvement	X			X	X			X
Wind Curtailment Processes	X	X		X	X			X
Purchasing Efficiencies	On "Hold" until Documentum workflow is available Enterprise-wide							
Engr. Transmission Facility Rating Chg	X	X		X		X	X	

Refer to "Lean Program Value Assessment" Report For Details on Each Initiative on this page and the next page

## Focus of Lean Improvement Initiative – Key Drivers (7-10-2014)

Lean Initiative Name	Productivity and/or Cost Reduction				Quality			SPP Staff
	Internal Process Clarity (A)	External Process Clarity (B)	Cost Reduction (C)	Capacity Creation - Productivity (D)	Customer Service Quality (E)	Quality and Reliability of Outputs (F)	Risk Mitigation (G)	Engagement & Satisfaction (H)
2014								
IT Contract Productivity and Rebalancing	X		X	X				
Contractor On & Off-boarding Process	X			X			X	X
Corporate Working Group Effectiveness	X	X		X	X	X		X
In-Process or Scheduled Lean Initiatives								
IT Procurement Process Effectiveness	X			X	X			X
IT Service Request Fulfillment Processes	X	X		X		X		X
Server Patching	X			X				X
Ratings Quality	X					X		
GFA Additions/Maint.	X	X					X	
Settlements Testing	X			X		X		



## Quantifiable Lean Improvement Initiatives (7-10-2014)

Lean Initiative Name	Productivity and/or Cost Reduction				Quality			SPP Staff
	Internal Process Clarity (A)	External Process Clarity (B)	Cost Reduction (C)	Capacity Creation - Productivity (D)	Customer Service Quality (E)	Quality and Reliability of Outputs (F)	Risk Mitigation (G)	Engagement & Satisfaction (H)
2012								
Customer Request Management-RMS	X	X		X \$273,000 Per year	X	X	X	
ICCP-Customer Data Connections	X	X		X \$180,000 Per year	X	X	X	X
2013								
Wind Curtailment Processes	X	X		X \$170,000 Per Year	X			X
2014								
IT Contract Productivity and Rebalancing	X		X \$561,606	X \$173,000				

## SPP Lean Program Observations

- **Every Lean Initiative has dealt with clarifying cross-functional processes that have “evolved”**
  - Full end-to-end process rarely understood by participants
  - Processes evolved with rapid org. changes over the years
  - Not proactively designed for efficiency or effectiveness
- **2/3rds of the Initiatives result in greater process clarity for SPP members**
- **Every Lean Initiative has resulted in greater productivity**
  - Yet we can quantify benefits for only (4) of (12)
  - What is the value of process clarity for those other (8) completed plus the (7) in progress?
- **All Initiatives but (1) have had a major focus on quality improvement or risk mitigation**

# **OVERALL ASSESSMENT ACCOMPLISHMENTS/CHALLENGES**

# Accomplishments

- **Making good progress**
  - **(12) Initiatives completed, (7) more underway**
  - **Solving real mission critical business problems**
  - **Systematically improving productivity and quality**
  - **Lean approach is well suited for SPP and is valued by SPP staff**
  - **Process improvement produces a positive ROI – but has been difficult to quantify**

# Challenges

- **Matching expectations to reality and investment**
  - SPP organizational bandwidth is still stretched
  - SPP business processes and measurement systems not well-suited to productivity improvement measurement
  - Centralized Lean resources not keeping pace with expectations
    - 1.8 FTE vs. RTO peers = 3.0, 4.0 and 5.0
    - Planned incremental Lean resources for meeting 2014-2016 Lean activity goals have not materialized



# Business Process Improvement

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## Lean Program Value Assessment

2Q2014

July 10, 2014

Business Process Improvement



Table of Contents		
Lean Initiative Name	Year	Page
Focus of Lean Improvement Initiative -- Summary		2
1. Customer Request Management - RMS	2012	4
2. Engineering Working Groups Effectiveness	2012	7
3. ICCP-Customer Data Connections	2012	9
4. ITP Process Quality Improvement	2012	12
5. IT Systems Access Quality/Timing	2013	15
6. Engineering Transmission Project Tracking	2013	17
7. IT Change Management Process Improvement	2013	19
8. Wind Curtailment Processes	2013	21
9. Purchasing Process Efficiencies <b>On-hold</b>	2013	23
10. Engineering Transmission Facility Ratings Changes	2013	25
11. IT Contract Productivity and Rebalancing	2014	27
12. Contractor On & Off-Boarding	2014	29
13. Corporate Working Group Effectiveness	2014	31
14. IT Procurement Process Effectiveness *	2014	N/A
15. IT Service Request (Enhancement/Fix) Processes*	2014	N/A
16. Server Patching *	2014	N/A
17. Ratings Quality (Engr Modeling) **	2014	N/A
18. GFA Additions/Maintenance **	2014	N/A
19. Settlements Testing **	2014	N/A
* Initiative In-Process		
** Initiative In Scoping – To Be Scheduled		

### Focus of Lean Improvement Initiative – Key Drivers (7-10-2014)

Lean Initiative Name	Productivity and/or Cost Reduction				Quality			SPP Staff
	Internal Process Clarity (A)	External Process Clarity (B)	Cost Reduction (C)	Capacity Creation - Productivity (D)	Customer Service Quality (E)	Quality and Reliability of Outputs (F)	Risk Mitigation (G)	Engagement & Satisfaction (H)
2012								
Customer Request Management-RMS	X	X		X	X	X	X	
Engineering Working Groups Effectiveness	X	X		X	X	X		X
ICCP-Customer Data Connections	X	X		X	X	X	X	X
ITP Process Quality Improvement	X	X		X		X	X	X
2013								
IT System Access Quality/Timing	X			X	X			X
Engr Transmission Project Tracking	X	X		X		X	X	
IT Change Mgmt. Process Improvement	X			X	X			X
Wind Curtailment Processes	X	X		X	X			X
Purchasing Efficiencies	On "Hold" until Documentum workflow is available Enterprise-wide							
Engr Transmission Facility Rating Chg	X	X		X		X	X	
2014								
IT Contract Productivity and Rebalancing	X		X	X				
Contractor On & Off-boarding Process	X			X			X	X
Corporate Working Group Effectiveness	X	X		X	X	X		X
In-Process or Scheduled Lean Initiatives								
IT Procurement Process Effectiveness	X			X	X			X
IT Service Request Fulfillment Processes	X	X		X		X		X
Server Patching	X			X				X
Ratings Quality	X					X		
GFA Additions/Maint.	X	X					X	
Settlements Testing	X			X		X		

See Following Table Explanations on Page 3




## Focus of Lean Improvement Initiative – Key Drivers

### Explanation of the Content and Conventions the Table on Page 2

The Business Process Improvement Department, in conjunction with each of the individual Lean Initiative teams, has attempted to summarize the Value or Benefits associated with each of the Lean Initiatives sponsored by SPP staff since the adoption of the Lean Business Thinking problem solving approach. Lean is an organized problem solving methodology that empowers those staff members doing the work to identify more efficient and effective processes.

The primary Objectives of Lean Initiatives for SPP are:

- 1) Improved Productivity and/or Cost Reduction,
  - A) Internal Process Clarity
  - B) External Process Clarity
  - C) Cost Reduction
  - D) Capacity Creation, Productivity Improvement or Cycle Time Reduction
- 2) Improved Quality or Risk Mitigation
  - E) Improved Customer Service Quality
  - F) Improved Quality and Reliability of Outputs
  - G) Risk Mitigation
- 3) Greater Employee Engagement

Many of the Lean Initiatives will impact multiple categories of improvement. In the Table on Page 2, we have placed an “X” in each of the categories where the Lean initiative has made an improvement. To the extent we can, we have attempted to quantify this improvement. To help categorize the primary areas of focus and impact, we have shaded the “key drivers” behind the Lean Initiatives with a Yellow Shading.  Several of the initiatives were primarily driven by Quality improvement considerations, or improved customer service. A good number of SPP processes that span across functional “silos” have evolved as SPP has grown. These processes need to be redesigned with an end-to-end enterprise view and designed for improved interdepartmental coordination and greater levels of productivity, efficiency and effectiveness.

**Lean Initiative Name: Customer Request Management**

**Lean Approach Type:** Workshop                      **Business Owner:** Russell Quattlebaum  
**Initiation Date:** May, 2012    **Manager, Customer Relations**

**Business Issues or Pain:** Members complained they were not consistently getting timely and high-quality resolution to issues and requests from SPP.

**Initiative Description and Objectives:** Develop and document an improved, standardized, SPP-wide management process that will support the automation of SPP member requests for information. An automated Member Request process will channel requests to a central location, document the request, assign the request to knowledgeable SME’s for issue resolution and will track request fulfillment metrics. The establishment of a standard process and fulfillment structure will provide enhanced request responsiveness to member inquiries, will increase SPP staff productivity, minimize multiple inquiries, promote development of a knowledge base, and will protect mission critical staff from disruptions. This will provide greater productivity and reliability for the expected increased inquiry volume as the Integrated Marketplace go-live approaches.

Productivity and/or Cost Reduction				Quality			SPP Staff
Internal Process Clarity (A)	External Process Clarity (B)	Cost Reduction (C)	Capacity Creation (D) (Productivity)	Improved Customer Service (E)	Quality and Reliability of Outputs (F)	Risk Mitigation (G)	Engagement & Satisfaction (H)
<b>X</b>	<b>X</b>		<b>X</b> \$273,000/yr	<b>X</b>	<b>X</b>	<b>X</b>	

**Description of the Primary Benefits of the Initiative (attach measurements, if applicable):**

1. Developed a centralized management process administered by Customer Relations **(A,B,D)**
2. Established a central point of contact (CPOC) within SPP business functions that have request support responsibilities **(A,D)**
3. Established service level agreements (SLA’s) as goals for issue resolution responsiveness Maintained Closure Rate SLA of 97-98% with 8-fold volume increase. **(E,F)**
4. Implemented the Request Management System (RMS) and rolled out for member use **(A,B,D)**
5. Process improved the consistency of information given and provided an audit-trail to assure that requests were not dropped **(E,G)**
6. Created a knowledge based for FAQs so that questions may be answered by self-service or by Customer Relations on the first handle of the information **(D, E)**
7. 50% of an FTE within CR was reallocated from manual administration of requests and metrics tracking (now automated) to providing Customer Relations **(D)**
8. Created a process to handle Integrated Marketplace inquiry volume growth with existing staff **(D)** -- *see inquiry volume growth graphic attached below:*

9. Customer Rep Staff Efficiency (D):

	<u>Staff</u>	<u>Requests/mo</u>	<u>Req/FTE</u>	<u>Improvement</u>
October 2012	<b>5.5</b>	<b>109</b>	<b>19.8</b>	
Aug-Oct 2013 (avg)	<b>6.0</b>	<b>848</b>	<b>141</b>	+ 600%

This large increase in handling productivity is enabled by a combination of automation (RMS) and a defined optimal process for assigning “answering responsibility” and automatically tracking accountability. Without RMS and Lean, SPP would have had to increase staff by an estimated 2-4 FTE to handle the surge in inquiries. **The estimated value of this automation and process improvement solution is from \$182,000 to \$364,000 (midpoint = \$273,000) per year associated with cost avoidance plus the other qualitative benefits cited.**

10. Customer Service Quality Improvement (E)

Average Customer Inquiry Response Time – 2011 **15 – 20 Days**

Average Customer Inquiry Response Time – Oct 2012 – Sept 2013\* **< 5 days (98%)**

\* Reflects first year of operation

<b>Lean Initiative Teams</b>		
<b>Workshop Participants</b>	<b>Additional Project Team Members</b>	<b>Steering Committee</b>
Russell Quattlebaum - CR	Kathy Myhand - Ops	Russell Quattlebaum
Don Martin - CR		Scott Noble
Ryan Garrett - CR		Michael Desselle
Lorie Bailey - CR		
Christi Pinkerton - CR		
Karen Johnson - CR		
Sonya Hall - CR		
Sherry Hamilton - Regulatory		
Ashley Stringer - Ops		
Tessie Kentner - Legal		
Erin Jester – IT Apps, CWG		
Scott Maple – BPI Facilitator		
Scott Noble – BPI Co-Facilitator		

**Lean Workshop:** May, 2012

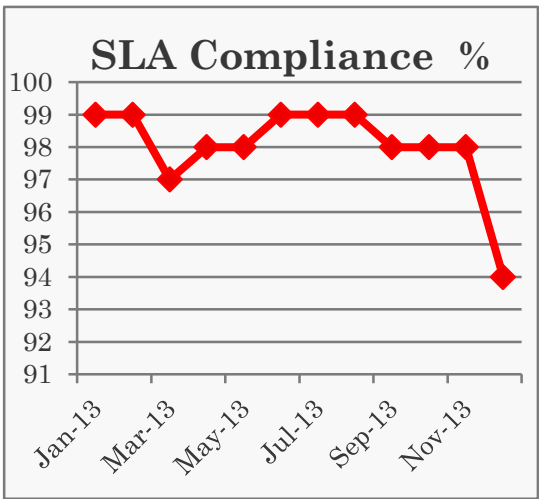
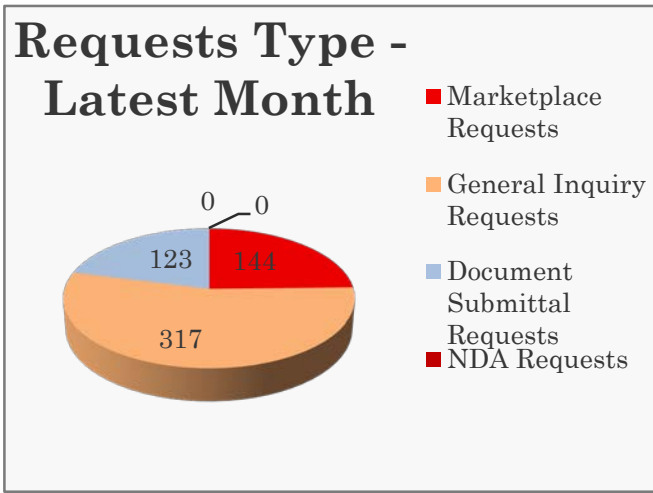
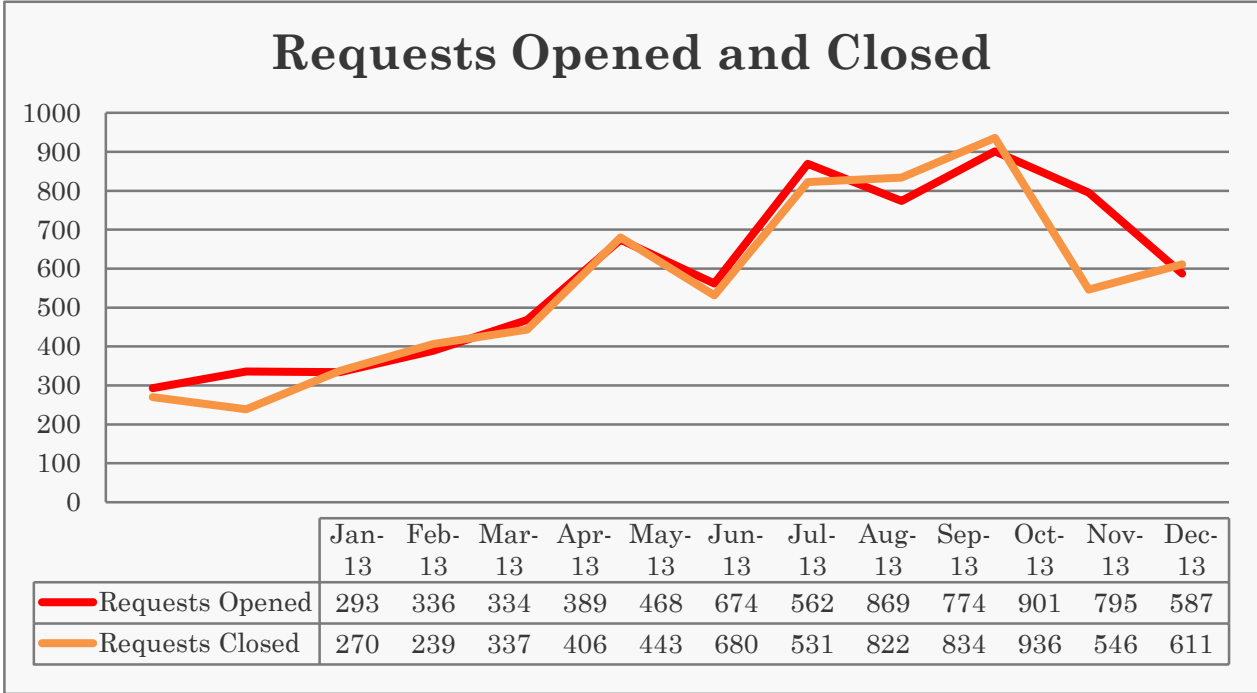
**Project Team Development:** June through Sept, 2012

**Process Implementation:** October, 2012

Note: The implementation scope was focused on Integrated Marketplace inquiries. The application scope has continued to grow to incorporate other key functions (Working Groups, Operations, etc.) over time.

## Monthly Request Management System (RMS) Metrics Dashboard

### Trailing 12 Month Trends



**Lean Initiative Name: Engineering Working Group Effectiveness**

**Lean Approach Type:** Workshop  
**Initiation Date:** July, 2012

**Business Owner:** Katherine Prewitt  
 Director, Planning

**Business Issues or Pain:** Engineering working group meetings are not consistently productive, which means decision-making at SPP is difficult and time-consuming. Examples: 1) Working group participants arrive unprepared to make informed decisions; 2) Actions needed between meetings are not happening timely; 3) Design and conduct of meetings is not conducive to effective meetings; and 4) Coordination across working groups and the need for multiple internal approvals create inefficiencies.

**Initiative Description and Objectives:** Develop and document an improved, standardized, Engineering-wide process for Member engagement through working groups. A more consistent, pre-planned approach will increase Member Satisfaction by reducing the turn-around time between introduction of material and final approval through working groups. Additionally, increased productivity should result from improved resource planning based on more diligent scoping of requests coming through stakeholder groups.

Productivity and/or Cost Reduction				Quality			SPP Staff
Internal Process Clarity (A)	External Process Clarity (B)	Cost Reduction (C)	Capacity Creation (D) (Productivity)	Customer Service Quality (E)	Quality and Reliability of Outputs (F)	Risk Mitigation (G)	Engagement & Satisfaction (H)
<b>X</b>	<b>X</b>		<b>X</b>	<b>X</b>	<b>X</b>		<b>X</b>

**Description of the Primary Benefits of the Initiative (attach measurements, if applicable):**

1. Developed guidelines, a checklist and a process for scoping and responding to stakeholder requests in light of available resources and time needed to meet expectations. Project schedules now take into account needed activity for these efforts. **(A,B,D,E,F,H)**
2. Developed standards for preparing for and communicating working group meetings, including strategic pre-planning, prompting member reviews on upcoming critical requests, and better post-meeting follow-up. Provided extensive staff training, some chair training and several printable job aids available online. **(A, B, D, E, F, H)**
3. Developed a universal process flow for stakeholder engagements (working groups, task forces, etc.) and trained staff on the flow according to types of requests (business practice, protocol, criteria, and tariff). Better understanding of this process, combined with the addition of a standing collaborative meeting of Engineering staff secretaries, has resulted in improved coordination of requests across partner stakeholder groups. **(A, F,H)**
4. An Engineering post-training survey indicated the following: 1) 100% agreed that “I left the training session understanding the objectives for improving”; 2) 83% agreed that “I left the training session prepared to support the improvements identified”; and 3) 83% agreed that “The materials presented during the session will help me in my job.” **(H)**

<b>Lean Initiative Teams</b>		
<b>Workshop Participants</b>	<b>Additional Project Team Members</b>	<b>Steering Committee</b>
Katherine Prewitt (Sponsor)	Jeff McDiarmid – Eng	Lanny Nickell – Eng
Antoine Lucas – Eng	Mitch Jackson – Eng	Jim Gunnell – Process Integrity
Charles Cates – Eng	Brenda Fite – Eng	Bruce Rew – Ops
Tim Miller – Eng	Jason Gross – Purchasing	Katherine Prewitt – Eng
Tony Green – Eng	Kaye McCarty – Corp Svcs	
Brett Hooton – Eng	Margaret Adams – Process Int	
Clint Savoy – Process Int.	Derek Wingfield – Corp Svcs	
Dan Jones – Regulatory		
Stacy Duckett – Compliance		
Pete Hoelscher – Compliance		
Scott Maple – BPI Facilitator		
Scott Noble – BPI Co-Facilitator		

**Lean Workshop:** July, 2012

**Project Team Development:** August through Jan, 2013

**Process Implementation:** January, 2013

**Lean Initiative Name: ICCP Member Data Connections**

**Lean Approach Type:** Workshop  
**Initiation Date:** August, 2012

**Business Owner:** Reed Thornton  
 Director, IT Applications

**Business Issues or Pain:** There was no documented, standardized process for working with Members to get all aspects of new ICCP data connections established. The current approach is undefined for Members and the four different SPP functions that must participate have been doing so in an ad hoc manner. The current approach is inefficient and contains elements of surprise for SPP staff and members. The driver to address this issue is that the ICCP connections added per year are expected to go from 4-6 per year to 25 - 50 with the implementation of the Integrated Marketplace.

**Initiative Description and Objectives:** Develop and document an improved, standardized, SPP-wide process that involves SPP departments on a planned and coordinated manner and is transparent to Members. This approach will increase Member Satisfaction, will eliminate SPP staff frustration with the ill-defined approach, will eliminate unproductive time starting and stopping, and will create the efficiencies required to be able to meet the expected surge in demand without adding significant manpower or delaying the Marketplace go-live.

Productivity and/or Cost Reduction				Quality			SPP Staff
Internal Process Clarity (A)	External Process Clarity (B)	Cost Reduction (C)	Capacity Creation (D) (Productivity)	Customer Service Quality (E)	Quality and Reliability of Outputs (F)	Risk Mitigation (G)	Engagement & Satisfaction (H)
<b>X</b>	<b>X</b>		<b>X</b> \$180,000/yr	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>

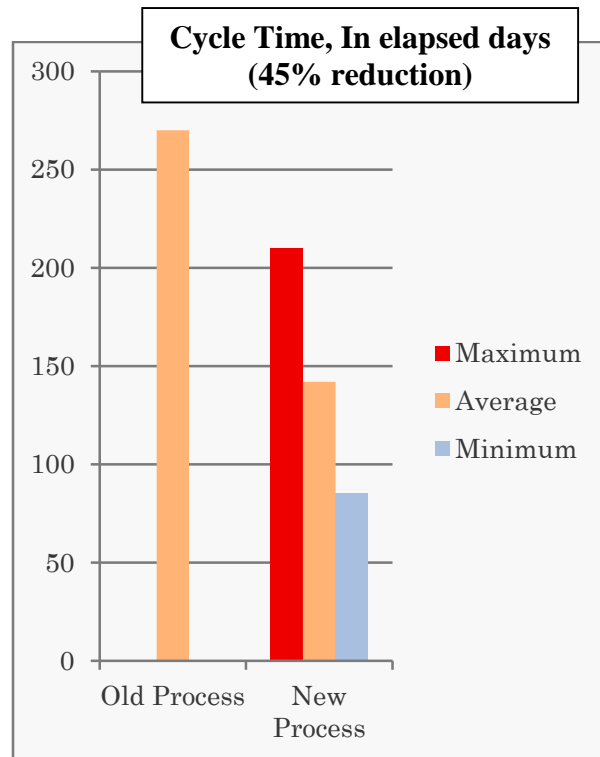
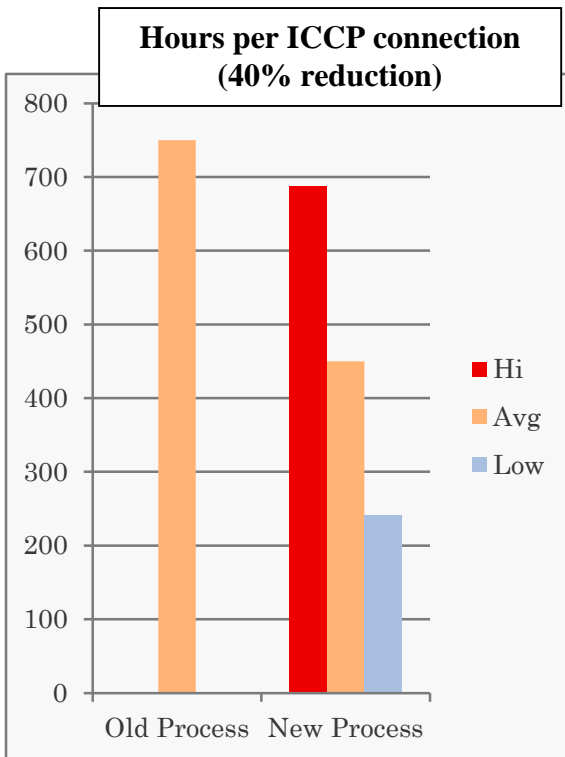
**Description of the Primary Benefits of the Initiative (attach measurements, if applicable):**

1. Developed a defined process administered by Customer Relations (A,B,D,E,G)
2. Process starts with communication of the process and expectations to the Member. Customer Relations coordinates the flow through the process and includes various SPP business functions only as needed and on a scheduled basis (A, B, D, E)
3. The SPP employee engagement levels increased as they were empowered to create a more rational and efficient approach. Their job satisfaction increased as they only participated in the parts of the process where they were needed and major surprises were minimized (D, E,H)
4. SPP Staff members involved in the exercise have estimated that the new process has increased their productivity for supporting ICCP’s by at least 40% due to planning, scheduling, and focused participation only when needed. (D) *Note: We are not able to validate the actual productivity improvement since each ICCP connection process is unique based upon the members timing and requirements, urgency level and support from their communications vendor. In addition, SPP did not have any mechanism that tracked labor hours spent supporting the prior process.*

- 5. Based upon the labor tracking that has been established for the new process, in 2013, SPP staff spent a total of 3599 hours supporting (8) entities with their ICCP data connections. If the 40% productivity assumption is correct, **the Lean process improvement has created approximately 2400 SPP staff hours per year** (IT and Customer Relations) of capacity for reallocation. **(D)**

It is estimated that this level of productivity improvement **is approximately \$180,000 per year** based on (8) per year. If the initial estimate of 25 – 50 connections for the marketplace had come to pass the value would be significantly greater.

- 6. The New Process has improved both the Internal SPP process clarity and improved the External (member) process clarity. As a result of increased transparency and communication, the average ICCP cycle time has decreased from an average of approximately 9 months to an average of 4.7 months or a reduction in cycle time of 45%. **(E)**



Above data based upon consensus estimates of Hours and Cycle Time for the pre-2013 process performance and actual tracking of (8) ICCP connections completed in 2013.



<b>Lean Initiative Teams</b>		
<b>Workshop Participants</b>	<b>Additional Project Team Members</b>	<b>Steering Committee</b>
Matt Beck – IT Apps	Matt Harward - Legal	Reed Thornton – IT Apps
Karen Johnson - CR	John Mills - Engr	Stan Chapman – IT Ops
Martina Miller - PMO		Terry Rhoades – IT Apps
Tiffany Williams – IT APPS		Bert Bressers -- Ops
Rob Wheeler – IT Ops		Russell Quattlebaum -- CR
Julia Sites – IT Apps		
David Peterson - Ops		
Todd Chumley – IT Apps		
Jennifer Broyles -- FIN		
Zeynep Vural -- FIN		
Tennille Tims -- PMO		
Marlene Wallace -- PMO		
Scott Maple – BPI Facilitator		
Scott Noble – BPI Co-Facilitator		

**Lean Workshop:** August, 2012

**Project Team Development:** August through Nov, 2012

**Process Implementation:** November, 2012

**Lean Initiative Name: ITP Process Quality**

**Lean Approach Type:** Workshop                      **Business Owner:** Katherine Prewitt  
**Initiation Date:** Sept, 2012    Director, Engineering Planning

**Business Issues or Pain:** SPP teams are struggling with accurate and timely completion of ITP studies. The ITP10/20 Planning processes span 18 months from start to finish. Each ITP cycle includes a significant amount of time on the front end for scoping with members and model development. This is followed by analysis, solution alternatives development, benefits assessment and then the report development, communication and follow on issuing of NTC’s. Historically, the process gets bogged down in the detail model development – attempting to get thousands of details of the model very accurate and spending a lot of time getting members to promptly input model details. The elongation of the front end of the process has then squeezed the backend of the process where Solution Development, Benefits Assessment and Report Development get squeezed into a short, hectic time frame just prior to the deadline. The time crunch at the end is conducive to making errors. Project time is over allocated to very detailed modeling accuracy that can have a minor impact to the overall results. Consequently, time is under allocated to the critical steps of analysis, communication and feedback on alternative solutions and report development. Another difficulty in improving the process is that each process cycle is 18 months so it is difficult to quickly measure effectiveness of improvements.

**Initiative Description and Objectives:** Develop an overall ITP process definition and time line by phase. Design the process where each phase of the process has a designed end date so that the critical functions at the end of the process do not get squeezed. Design in Quality Assurance steps into each phase of the ITP process including bringing in technical writing expertise to assist with report development. Begin the report development and review process during each phase of the process rather than waiting until the end to assure quality and help alleviate some of the time crunch at the end of the project.

Productivity and/or Cost Reduction				Quality			SPP Staff
Internal Process Clarity (A)	External Process Clarity (B)	Cost Reduction (C)	Capacity Creation (D) (Productivity)	Customer Service Quality (E)	Quality and Reliability of Outputs (F)	Risk Mitigation (G)	Engagement & Satisfaction (H)
<b>X</b>	<b>X</b>		<b>X</b>		<b>X</b>	<b>X</b>	<b>X</b>

**Description of the Primary Benefits of the Initiative (attach measurements, if applicable):**

1. Developed an overall ITP project plan that allocates appropriate time for each step of the process. Clearly communicate this time line internally and reflect this process in schedules and timelines distributed to members **(A,B,D,F,G,H)**
2. Develop sections of the final report all through the process to help avoid a “report writing crunch” at the end. Get assistance from SPP Communications to help improve report quality and subject the report sections to more rigorous QA reviews. **(F,G,H)**
3. Create improved process documentation that clarifies roles and responsibilities of team members throughout the process. Assign resources to tasks based upon expertise needed (avoids use of overqualified resources for routine tasks.) **(A,D,G,H)**

4. By standardizing and documenting the ITP process, there is more synergy associated with conducting ITP-Near Term, ITP10 and ITP20 studies using a more standard process. **(D)**
5. Enhance training programs to improve quality.**(F)**
6. Create an overall Project Plan and schedule that includes forecasted timelines for critical report review tasks. **(D,E,H)**
7. Improve report quality by “as-you-go” report reviews by Managers. **(F)**

**Notes:**

**Quality Improvement (F):** After the implementation of these process improvements, positive feedback was received from the Board of Directors on the ITP report quality and quality of the recommendations.

**Capacity Creation/Productivity (D):** It is apparent from all involved that this process has a better allocation of time to tasks, better matches needed skill levels to task assignments and has eliminated unproductive time due to better process definition, more clear assignment of roles and responsibilities and less wait times. We are unable to quantify the improvement in productivity associated the improved process for the following reasons: a) there is no baseline time measurement, b) each ITP has a unique scope so by definition the process is a non-standard process, and many of the steps and iterations are member-driven and contribute to the non-standard aspects of the process.

**Capacity Creation/Productivity (D):** *The improvement in productivity of the base ITP process has permitted SPP to incorporate the increased scope complexities of Order 1000 in the ITP cycle without adding incremental headcount.*

<b>Lean Initiative Teams</b>		
<b>Workshop Participants</b>	<b>Additional Project Team Members</b>	<b>Steering Committee</b>
Katherine Prewitt	Cary Frizzell	Lanny Nickell - Engr
Tim McGinnis	Amber Greb	Jim Gunnell – Customer Rel.
Charles Cates	Heather Harris - Audit	Katherine Prewitt - Engr
Jody Holland	Ted Bell	Don Shipley -- Ops
Antoine Lucas	Brenda Fite	Lauren Krigbaum - Audit
John Mills	Brett Hooton	
Bob Lux	Sheila Watts - Finance	
William Mauldin	Cody Crisp – IT	
Juliano Freitas	Rachel Hulett	
Kelsay Allen	Pete Hoelscher- Commun.	
Mitch Jackson		
Kirk Hall		
Scott Maple – BPI Facilitator		
Scott Noble – BPI Co-Facilitator		

**Lean Workshop:** Sept, 2012

**Project Team Development:** Phased development from Sept, 2012 through March, 2013

**Process Implementation:** Phased implementation beginning in January, 2013 - July, 2013

**Lean Initiative Name: IT Systems Access**

**Lean Approach Type:** Workshop                      **Business Owner:** Jennifer Morrison  
**Initiation Date:** Sept, 2012    Manager, IT Service Management

**Business Issues or Pain:** As new staff members and new contractors are hired/added, or current staff members begin new projects, they need access to different portions of SPP application systems and administrative systems. The process for granting required access in September, 2012 had evolved, was confusing, was inefficient, very manual, had many inconsistent hand offs and caused delays and did not permit timely access required to be quickly productive. This became an increasing pain point as SPP was gearing up with internal staff and contractors to support Integrated Marketplace development.

**Initiative Description and Objectives:** The teams discovered that the process had gaps, was generally not well understood by those needing to use it, and there was no way to check status of requests and where they were in the process. The teams created a desired process flow and developed an education and training program that was delivered to the SPP internal customer base for this service. An escalation process was established, request status tracking transparency was improved. The newly created Service Desk was leveraged to better support this process. These were the near term improvements that were implemented. In addition, longer-term improvements were identified to automate the escalation points and to create alternate approvers if the primary approver was not available. The Steering Team decided that we would implement these improvements with the scheduled update to the supported version of the Remedy System in the Fall of 2013.

Productivity				Quality			SPP Staff
Internal Process Clarity (A)	External Process Clarity (B)	Cost Reduction (C)	Capacity Creation (D) Productivity	Customer Service Quality (E)	Quality and Reliability of Outputs (F)	Risk Mitigation (G)	Engagement & Satisfaction (H)
<b>X</b>			<b>X</b>	<b>X</b>			<b>X</b>

**Description of the Primary Benefits of the Initiative (attach measurements, if applicable):**

1. Developed an enhanced and defined process for requests and fulfillment. **(A)**
2. Develop and deliver training on the new process for internal SPP customers of the process. **(A,E,H)**
3. Establish a process for escalations, if needed. **(E, H)**
4. Develop increased status transparency to monitor requests moving through the process. **(E,G,H)**
5. Identified "Future State Improvements" for automation of tracking, follow up and routing to alternative approvers to be implemented with the new version of Remedy in Fall, 2013. **(D,E,H)**
6. Anecdotal evidence suggests that the major pain associated with lack of timely access to systems for employees and contractors was successfully eliminated. **(E,H) (see below note)**
7. The primary improvement to productivity was that staff and contractors were given access to the tools needed to do their job in a more expeditious manner, therefore eliminating unproductive time. **(D,E) (see Note)**

**Note: SPP had no process for tracking the “wait times” and the negative contribution to productivity for such a fragmented process. The pain point was eliminated, but there is no estimate of the value of productivity improvement as it would be highly speculative.**

<b>Lean Initiative Teams</b>		
<b>Workshop Participants</b>	<b>Additional Project Team Members</b>	<b>Steering Committee</b>
Jennifer Morrison – IT Ops	Chris Evans – Server Team	Reed Thornton – IT Apps
Katie Battreal – Service Desk	Jerald Todd – IT Ops	Stan Chapman – IT Ops
Matt Beck – IT Apps		Philip Propes - Compliance
Annette Holbert – IT Apps		
Kim Hoffman – IT Apps		
Mike Wilkerson – IT Ops		
Tom Burdick -IT Ops		
Lesley Bingham - Compliance		
Tanya Sorrells – IT Apps		
David Daugherty - Database		
Hunter Austin – IT Apps		
Phillip Miller -		
Scott Maple – BPI Facilitator		

**Lean Workshop:** September, 2012

**Project Team Development:** September, 2012 through Feb, 2013

**Process Implementation:** March - June, 2013

**Lean Initiative Name: Engineering Transmission Project Tracking**

**Lean Approach Type:** Workshop                      **Business Owner:** Katherine Prewitt  
**Initiation Date:** November, 2012                      Director, Engineering Planning

**Business Issues or Pain:** In late 2012, SPP did not have an efficient/effective process for getting complete, accurate and timely information into the Project Tracking database to provide quarterly reports on status of SPP-sourced Transmission Construction Projects to SPP stakeholder groups. The current process pain points included a quarterly time crunch and lost productivity trying to get needed project data from Transmission owners and then obtaining reliability risk mitigation plans developed and reviewed. Confusion exists for members on what data is needed, when it is needed and why it is needed.

**Initiative Description and Objectives:** The objectives of this Lean initiative are to develop standards to improve consistency in how we track transmission projects, improve SPP’s partnering with Transmission Owner’s to share requirements and accountability for producing accurate reports, mitigate bottlenecks in the process through internal management team reviews of SCERT (Standard Cost Estimate estimates and mitigation plans. In addition, we will design processes to improve report quality and value and will explore development of automation tools to eliminate some of the manual data input steps.

Productivity and/or Cost Reduction				Quality			SPP Staff
Internal Process Clarity (A)	External Process Clarity (B)	Cost Reduction (C)	Capacity Creation (D) (Productivity)	Customer Service Quality (E)	Quality and Reliability of Outputs (F)	Risk Mitigation (G)	Engagement & Satisfaction (H)
<b>X</b>	<b>X</b>		<b>X</b>		<b>X</b>	<b>X</b>	

**Description of the Primary Benefits of the Initiative (attach measurements, if applicable):**

1. Developed an enhanced process for working with Transmission Owners to communicate the information needed, the purpose of the information and the timing of submissions. **(A,B, D)**
2. Developed better standards for reporting to ensure data consistency and accuracy. **(F,G)**
3. Developed a positive “no change” indicator where the TO can acknowledge that they have reviewed the Project Status information and that no changes are warranted. **(A, B, D, F, G)**
4. Eliminated a process bottleneck by creating a review team to review Project Data Submission and Mitigation plans for accuracy, reasonableness and completeness to replace a single individual. This promotes scheduling flexibility and promotes quality improvement. **(A,F,G)**
5. Added a review step to assure that any project slippage has a “Reliability Mitigation” assessment and plan as part of the project update. **(F,G)**
6. Developed a formal “close out process” at the conclusion of a Transmission construction project to promote quality. The process is being reviewed by PCWG and TWG. Automation changes to TAGIT are in queue to facilitate this close out process once approved and resources are available. **(A,B,F)**
7. TAGIT enhancements have been identified to help improve report development productivity and quality. Enhancements are in the project queue waiting for resource availability. **(D,F)**

<b>Lean Initiative Teams</b>		
<b>Workshop Participants</b>	<b>Additional Project Team Members</b>	<b>Steering Committee</b>
Katherine Prewitt	Doug Clark	Carl Monroe
Jody Holland	Alice Wright - PMO	Paul Suskie
Lonnie Lindekugel - Compliance	Brenda Fite	Lanny Nickell
Ben Bright - Regulatory	Brett Hooten	Katherine Prewitt
Cary Frizzell	Alfred Busbee - Compliance	
Steve Purdy	Tony Green	
Dan Jones - Regulatory	Jonathan Hayes - Interregional	
Rachel Hulett	Kirk Hall	
	Cody Crisp - IT	
	Lynda Mace - IT	
Scott Maple – BPI Facilitator		
Scott Noble – BPI Co-Facilitator		

**Lean Workshop:** Nov, 2012

**Project Team Development:** Phased Development - Nov, 2012 through August, 2013

**Process Implementation:** Phases: May 2013 through November, 2013 (some enhancements still pending the stakeholder process and allocation of technology resources for automation upgrades).



**Lean Initiative Name: IT Change Management Processes**

**Lean Approach Type:** Workshop      **Business Owner:** Jennifer Morrison  
**Initiation Date:** Feb, 2013      Manager, IT Service Management

**Business Issues or Pain:** The change management process for managing SPP’s IT assets is not as efficient or effective as it needs to be to accommodate growing business needs and ensure audit requirements are met. Pain points include: 1) Approvals take too long and result in delays, 2) Confusion over process and tool leads to frustration, 3) Task assignments may not go to right person with right availability, 4) Task staging leads to compressed timeframes, and 5) Level of tracking could pose risks from audit standpoint.

**Initiative Description and Objectives:** The IT Change Management Process is supported by the Remedy Automated Request and Approval system. In early 2013, SPP was operating on a “soon to be unsupported” version of Remedy and one that was not particularly user-friendly. Many of the process steps were time-consuming and confusing. It still required external communications for many process steps. This Lean initiative created several near term process improvements for the decision-making and approval processes that could be supported under the current version of Remedy. In addition, the Lean teams drove out the business requirements that would guide the implementation of the new upgraded version of Remedy which was implemented in late 2013.

Productivity				Quality			SPP Staff
Internal Process Clarity (A)	External Process Clarity (B)	Cost Reduction (C)	Capacity Creation (D) Productivity	Customer Service Quality (E)	Quality and Reliability of Outputs (F)	Risk Mitigation (G)	Engagement & Satisfaction (H)
<b>X</b>			<b>X</b>	<b>X</b>			<b>X</b>

**Description of the Primary Benefits of the Initiative (attach measurements, if applicable):**

1. Streamlined the approval process by adding alternate approvers to eliminate unnecessary delays. Many of the streamlining steps decreased the total amount of human resource time, but the primary advantage is the decrease in cycle time for approving and implementing changes. **(A, D)**
2. Consolidated Change Management status calls across IT to reduce coordination and streamline change implementation scheduling. **(A,D,H)**
3. Reformulated the business rules associated with the Change Advisory Board to improve the responsiveness of the approval process. **(A,D)**
4. Develop enhanced training for SPP staff involved in Change Management. **(D,E,H)**
5. Identified “Improvements” for the Remedy upgrade including automated routing through the approvals process, tracking and alerts for delays, and the creation of an improved audit trail. **(D,H)**
6. Eliminated confusion by moving close-down approvals to IT Service Management (a post change implementation task that had been a user task). **(D,H)**

**Note: The improved productivity referenced above includes eliminating several minutes a day for a wide spectrum of IT users by eliminating confusion and improving status clarity. We have no objective way of measuring the actual amount of improvement as we have no baseline measurements.**

<b>Lean Initiative Teams</b>		
<b>Workshop Participants</b>	<b>Additional Project Team Members</b>	<b>Steering Committee</b>
Jennifer Morrison – IT Ops	Brian Choate	Barbara Sugg -- IT
Cheryl Kirk	Matthew Sites	Reed Thornton – IT Apps
Jerald Todd	Chris Evans	Stan Chapman – IT Ops
Amber Collins	Chad Dunlap	Kim Hoffman – IT Apps
Brandon Cloer	Niki Gunn	
Keith Freeman	Donna Reahard	
David Daugherty - Database		
Scott Maple – BPI Facilitator		

**Lean Workshop:** February, 2013

**Project Team Development:** March, 2013 – July, 2013

**Process Implementation:** September - November , 2013

**Lean Initiative Name: Ops – Wind Curtailment**

**Lean Approach Type:** Workshop                      **Business Owner:** Don Shipley  
**Initiation Date:** May, 2013    Director, Real Time Operations

**Business Issues or Pain:** Wind customers were dissatisfied with how SPP handles non-dispatchable wind curtailments creating unnecessary churn, and lost productivity across SPP. Several customers were escalating issues to the Executive level for explanation and resolution. Pain points included: 1) resources from multiple departments being required to develop reports (manually created) to explain wind curtailments. 2) SPP struggles with how much transparency we can provide based on confidentiality. 3) Customers push us for curtailment forecasts that we are not equipped to provide them. 4) Customers complain that expectations set by our long range planning are not consistent with near term realities. 5) Requests come in from multiple channels to different people in the organization which creates duplicate work. 6) Lack of a defined process and communication around wind curtailments is creating tension between SPP and wind customers.

**Initiative Description and Objectives:** The primary objective of this Lean initiative is to define a proactive process for: Explaining the curtailment process, providing more responsive real-time information to wind customers, assuring that expectations from long-term planning and real-time operations are consistent, eliminating duplicate, uncoordinated efforts to provide answers, get out of the “fire-fighting” mode and eliminate the need for the costly escalation processes for both members and SPP.

Productivity and/or Cost Reduction				Quality			SPP Staff
Internal Process Clarity (A)	External Process Clarity (B)	Cost Reduction (C)	Capacity Creation (D) (Productivity)	Customer Service Quality (E)	Quality and Reliability of Outputs (F)	Risk Mitigation (G)	Engagement & Satisfaction (H)
<b>X</b>	<b>X</b>		<b>X</b> \$170,000/yr	<b>X</b>			<b>X</b>

**Description of the Primary Benefits of the Initiative (attach measurements, if applicable):**

1. Developed communications materials to explain the issues associated with curtailing non-dispatchable resources to better educate SPP’s wind customers concerning the process. Reviewed this material at the May 30-31 SPP Wind Conference to solicit improvement ideas. **(B,E)**
2. Initiated a process where all wind curtailment related inquiries were routed to SPP through RMS where the issue resolution could be assigned for follow up and progress could be tracked. **(A,B,D,E,H)**
3. Developed a more proactive communications of wind curtailments by posting status information to the OASIS and SPP web-sites to increase transparency and communication. This “customer self-service” aspect improves productivity of both SPP and members by minimizing the need for one-off communications. **(B,D,E,H)**
4. Improved the curtailment communications by using the Out of Merit Energy (OOME) as the interim solution. OOME will be used in the Integrated Marketplace. **(B,D,E)**
5. Developed an internal SPP process to quickly identify whether a TSR associated with a congestion event includes a re-dispatch option (ties RT operation to the long-term expectation). Also improved the rigor in the registration process to ensure generation requirements have been met. **(B,E)**

- 6. The improved processes are conservatively estimated to have **eliminated \$170,000 per year of SPP labor** for reallocation to other Real-Time operations priorities (“reactionary process” compared to the “proactive” process). **(D)** No attempt has been made to quantify the savings in productivity that this more transparent, better communicated process has provided to SPP wind customers.

<b>Lean Initiative Teams</b>		
<b>Workshop Participants</b>	<b>Additional Project Team Members</b>	<b>Steering Committee</b>
Don Shipley – RT Ops	Elizabeth Walters - Ops	Bruce Rew -- Ops
Carrie Simpson – Mkt Ops	Kathy Myhand - Ops	Don Shipley -- Ops
Russell Quattlebaum – Cust Rel	Hamilton Bitely - Ops	Katherine Prewitt - Engr
Terry Oxandale – RT Ops	Temper Williams - Ops	Mike Riley -- Legal
Brian Strickland – RT Ops	Terry Fang - Engr	Pat Bourne -- Regulatory
Steve Purdy - Engr	Chris Davis	
Charles Hendrix - Engr	Eddie Watson - Ops	
Tessie Kentner – Legal/Reg	John O’Dell - Engr	
Sherry Maxey -- Engr	Doug Clark - Engr	
Terry Rhoades – IT Apps	Amber Wallace - Training	
Matt Beck – IT Apps	Derek Wingfield - HR	
Billy Whitfield – RT Ops		
Warren Brown – RT Ops		
Will Tootle – Ops Engr		
Scott Maple -- Facilitator		
Scott Noble – Co-Facilitator		

**Lean Workshop:** May, 2013

**Project Team Development:** June through July, 2013

**Process Implementation:** August through September, 2013

**Lean Initiative Name: Purchasing Process Improvement**

**Lean Approach Type:** Workshop  
**Initiation Date:** July, 2013

**Business Owner:** Jason Gross  
 Manager, Purchasing

**Business Issues or Pain:** SPP’s purchasing process is a manual process supported by e-mail communications and is not as efficient as it could be, resulting in lost productivity, risk of human error and employee dissatisfaction. Pain points:

- Key data is captured and tracked in emails and folders
- Data is passed back and forth and entered in multiple systems
- Manual checks to validate data are labor-intensive
- Delayed approvals create inefficiency
- Duplication in documentation increases risk of error
- Duplication of effort occurs in initiating the process and keeping it moving

**Initiative Description and Objectives:** An initial mini-workshop was conducted in July, 2013. The “Desired Future State” of a more automated process was defined under the assumption that the SPP Records Retention solution (Documentum) would be able to provide a workflow capability to route documents from business owner, to purchasing, and to Legal. In addition, Documentum will provide an automated records retention program for all legal contracts and documents. For Documentum to be an effective corporate support solution to enhance overall efficiency and effectiveness of the Purchasing process, it will need to be deployed SPP-wide and will need to have custom Enterprise workflows implemented to support Purchasing. Based on the implementation scope for getting all SPP Departments converted, combined with the limited availability of technical resources, the decision was made to prioritize all Departmental implementations prior to implementing Enterprise-wide workflow solutions. Therefore, this Process Improvement initiative is on HOLD until approximately the end of 2014.

Productivity				Quality			SPP Staff
Internal Process Clarity (A)	External Process Clarity (B)	Cost Reduction (C)	Capacity Creation (D) Productivity	Customer Service Quality (E)	Quality and Reliability of Outputs (F)	Risk Mitigation (G)	Engagement & Satisfaction (H)
X			X	X		X	X

**Description of the Primary Benefits of the Initiative (attach measurements, if applicable):**

1. ON HOLD

<b>Lean Initiative Teams</b>		
<b>Workshop Participants</b>	<b>Additional Project Team Members</b>	<b>Steering Committee</b>
Jason Gross		Tom Dunn
Cynthia Sled		Diane Branch
Michael Watson - IT		Jason Gross
Brenda Vammen - IT		
Marty Knight - PMO		
Ginny Webster - Legal		
Scott Maple – BPI Facilitator		

**Lean Workshop:** July, 2013

**Project Team Development:** TBD

**Process Implementation:** Planned for 2015

**Lean Initiative Name: Engineering Transmission Project Tracking**

**Lean Approach Type:** Workshop  
**Initiation Date:** September, 2013

**Business Owner:** Lanny Nickell  
 VP, Engineering

**Business Issues or Pain:** Transmission owners often make changes to their transmission facility ratings with limited coordination across SPP and limited SPP understanding of why the changes are happening. This creates challenges with effective real-time operation of the SPP grid as well as long-term transmission planning. Additionally, it poses challenges in applying our regional transmission funding mechanism. There has been no process in place to rationalize facility de-rating changes. Addressing these shortcomings would: 1) Improve the quality of ITP studies (improve SPP’s ability to answer stakeholder questions on why upgrades are needed and how upgrades should be funded), 2) improve the equity/accuracy of regional transmission funding, 3) and improve SPP staff productivity by having a defined process for flagging changes and providing information on those changes.

**Initiative Description and Objectives:** The objectives of this Lean initiative are to create an efficient, effective, and transparent process for identifying transmission facilities ratings changes which also provides information about the nature and duration of the changes. Assure that the process provides consistent information to Real-Time Operations and Engineering planning. Develop information on the extent of historical “de-ratings” and provide that information to the appropriate stakeholder groups for their review.

Productivity and/or Cost Reduction				Quality			SPP Staff
Internal Process Clarity (A)	External Process Clarity (B)	Cost Reduction (C)	Capacity Creation (D) (Productivity)	Customer Service Quality (E)	Quality and Reliability of Outputs (F)	Risk Mitigation (G)	Engagement & Satisfaction (H)
<b>X</b>	<b>X</b>		<b>X</b>		<b>X</b>	<b>X</b>	

**Description of the Primary Benefits of the Initiative (attach measurements, if applicable):**

1. Develop a comparison of all current transmission facilities ratings compared to the baseline used for regional cost allocation to determine the scope of variances and present findings to the TWG. **(F)**

**Note:** TWG determined we would not go back to 2006 to adjust historical cost allocations based upon previously unknown ratings changes. The direction was to develop a process to assure that all changes in base level ratings are understood and incorporated into future studies.

2. Developed an automated process to flag ratings changes (triggered from multiple sources) that need follow up for further explanation. The process accessed information that SPP already had in Modeling, Steady-State planning and Real-time operations. **(A,D)**
3. Value Add: The automated process developed to flag changes in ratings was able to be leveraged to flag other types of changes in the various model building processes. This provides an enhanced ability to assure the quality of data used for modeling that drives Transmission Planning studies. **(F)**
4. **Productivity:** Prior to this initiative, the Transmission Planning process did not have a process for detecting any changes in ratings of facilities (whether valid for regional cost allocation or not valid). Therefore, it is difficult to measure productivity improvement for a new process. The reason that

we checked box "D" is that the initial solution envisioned was going to be a labor intensive comparison process. By getting the "Automation Lean sub-team" involved, an automated database solution was identified. This approach was then also leveraged to make other data quality comparisons. So the primary driver of this initiative is Quality (getting accurate information to support Regional Cost Allocations). The Lean process contributed adding this quality and reliability step with minimal incremental effort by the Modeling Team. **(D)**

<b>Lean Initiative Teams</b>		
<b>Workshop Participants</b>	<b>Additional Project Team Members</b>	<b>Steering Committee</b>
Lanny Nickell	Todd Liles - IT	Lanny Nickell
Tessie Kenter - Legal	William Mauldin	Pat Bourne
Tim Miller - Ops	John Langford - Ops	Bert Bressers
Jason Smith - Ops	Ryan Schoppe - Ops	Katherine Prewitt
Anthony Cook	Jason Terhune	Jay Caspary
Will Tootle - Ops	Seth Mayfield	Nicole Wagner
Daniel Harless	Alex Watkins	
Kirk Hall		
Mike Nugent - Ops		
Jody Holland		
John Mills		
Scott Maple – BPI Facilitator		
Scott Noble – BPI Co-Facilitator		

**Lean Workshop:** Sept, 2013

**Project Team Development:** Sept, 2013 through Nov, 2013

**Process Implementation:** November, 2013 – March 2014



**Lean Initiative Name: IT Contracting Effectiveness**

**Lean Approach Type:** A3 Problem Solving  
**Initiation Date:** January, 2014

**Business Owner:** Carson Hampson  
 Manager, IT Sourcing

**Business Issues or Pain:** SPP has had little centralized focus on developing and implementing a procurement strategy that maximizes the value of our vendor contracts for hardware and software. The Business Owners have been given wide latitude in making decisions regarding the structuring of contract length, bundling of services and timing of contracts that might provide greater value to SPP as the buyer. An initial assessment of our IT contracts and their renewal terms has indicated that: 1) contract renewals are bunched at certain times of the year, 2) many contracts are only one-year contracts, 3)an opportunity exists to bundle software/hardware, services and maintenance contracts which may provide deeper discounts, and 4) opportunities may exist for SPP to obtain better terms by aligning contract renewals near the end of the vendors fiscal year.

**Initiative Description and Objectives:** An initial review of the opportunities for improvement has identified two key actions. 1) Utilize the A3 Structured Problem Solving approach to analytically define and assess the current situation, determine the root causes of the problem, and collaboratively explore alternative solutions. Rapidly implement solutions on contracts coming up for renewal. 2) Assess the processes for end-to-end procurement including Business Owners, IT Sourcing and Vendor Managers, Purchasing, Legal and the SPP Vendors. A Lean Initiative has been formed to address this opportunity (IT Procurement Processes). This Lean Initiative is outside the scope of this “IT Contracting Effectiveness” initiative.

A master list of renewal dates for all IT contracts was constructed along with the fiscal year ends for our key vendors. The objective of this initiative is to proactively identify low-risk opportunities for multi-year agreements, opportunities to bundle hardware/software with services and/or maintenance agreements to obtain deeper discounts than the single-focus 1-year contract. In addition, assess the viability(opportunity) of realigning the contract renewal timing to the vendor’s fiscal year to maximize discount potential and to smooth out the peak renewal time periods. ***The added benefit of multi-year contracts is that the contracting process occurs once every three years compared to each year. Over time, this decreases the workload for this element of the contracting process by 66%.***

Productivity and/or Cost Reduction				Quality			SPP Staff
Internal Process Clarity (A)	External Process Clarity (B)	Cost Reduction (C)	Capacity Creation (D) (Productivity)	Customer Service Quality (E)	Quality and Reliability of Outputs (F)	Risk Mitigation (G)	Engagement & Satisfaction (H)
<b>X</b>		<b>X</b> \$561,606 (see note)	<b>X</b> \$173,000 (see note)				

**Note:** A running tally of contract renewals using the strategy developed by the A3 Process and by IT Sourcing (Carson Hampson) is being kept by IT Sourcing. To date, (14) contracts have been able to be converted to multi-year and bundled contracts. The Cost Reduction (C) reflects the difference between the new contract costs (3-year contract) vs. (3) one-year renewals. The Capacity Creation (D) number is based upon an estimate of all SPP labor for the contracting renewal processes by contract. All Labor hours for years two and three are avoided. The numbers reflect (3) year cost avoidance and capacity creation values for years 2 and 3.

**Description of the Primary Benefits of the Initiative (attach measurements, if applicable):**

1. Proactively identify an annual calendar of contracts up for renewal. Develop a process for assessing which of these fit the potential criteria for the multi-year, bundling, or fiscal year end approaches to lower contracting cost (greater discounts) and minimize three year contracting labor hours **(A)**
2. Create a standard labor hours spent by function for simple, mid-level and complex contracts based on actual experience. Use these categories for estimating labor savings. Adjust the standard approach on an exception basis . **(A,D)**
3. Develop a process and rules for calculating the cost avoidance value of the “multi-year contract” compared to a series of one year contract renewals. Update this spreadsheet as each eligible opportunity is finalized. **(A,C)**

Lean Initiative Teams		
A3 Analysis Participants	Additional Project Team Members	Steering Committee
Carson Hampson		N/A
Sharon Owens		
Jason Gross		
Susan Polk		
Julie Bittle		
Rick Stobaugh		
Scott Maple – BPI Facilitator		

**Initial A3 Development:** January, 2014

**Development:** February-March

**Process Implementation:** February, 2014

**Lean Initiative Name: Contractor Off-boarding Effectiveness**

**Lean Approach Type:** Workshop      **Business Owner:** Malinda See  
**Initiation Date:**      October, 2013      Director, General Services

**Business Issues or Pain:** SPP’s process for revoking contractors’ physical and system access is not as efficient and effective as it needs to be to avoid unnecessary risk to our reputation and potentially to the effective operation of the SPP power grid. Specific risks: 1) Damage to SPP systems; 2) Negative audit findings.

**Initiative Description and Objectives:** Streamline and enhance the process by which SPP manages the physical and virtual access of non-SPP personnel throughout the life of their engagement. Establishing HR as the central point of contact for all personnel improves SPP’s ability to revoke access in a timely manner and help prevent any unauthorized entry to virtual systems or premises. Training business owners and non-SPP personnel on expectations for both on- and off-boarding will ensure compliance and understanding of roles and responsibilities for all parties.

Productivity and/or Cost Reduction				Quality			SPP Staff
Internal Process Clarity (A)	External Process Clarity (B)	Cost Reduction (C)	Capacity Creation (D) (Productivity)	Customer Service Quality (E)	Quality and Reliability of Outputs (F)	Risk Mitigation (G)	Engagement & Satisfaction (H)
<b>X</b>			<b>X</b>			<b>X</b>	<b>X</b>

**Description of the Primary Benefits of the Initiative (attach measurements, if applicable):**

1. Enhanced an existing tool (ABRA) to enable tracking of all non-SPP personnel, including identifying upcoming engagement end dates to trigger checks with hiring managers; additional side benefits will include notification in the event of emergencies and inclement weather. **(A,D,G,H)**
2. Established HR as the central point of contact for all personnel entering or exiting SPP’s employ or contract services, creating consistency and ability to replicate best practices. Additional efficiency/effectiveness is enabled through backup notification when the primary contact in HR is unavailable. **(A,D,G,H)**
3. Updated SPP policies and developed guides and training to help hiring managers and non-SPP personnel understand roles and responsibilities for on-boarding, off-boarding and conduct. **(A,B,F,H)**
4. Added an additional fail-safe for front desk personnel to help prevent unauthorized re-entry to the premises. **(A,G,H)**

Lean Initiative Teams		
Workshop Participants	Additional Project Team Members	Steering Committee
Malinda See – Corp Svcs (Sponsor)	Tanya Parker – HR	None
Lauren Krigbaum – Int Audit	Rick Cummins – Ops	
Brian Smith – HR	Nancy Neel – HR	
Jason Gross – Purchasing		
Linda Helms – HR		
Kevin Molder – Comp		
Rick Stobaugh – IT		
Katie Battreal – IT		
Lesley Bingham – Comp		
Jennifer Wigley – Int Audit		
Scott Maple – BPI Facilitator		
English Cook – Eng Facilitator		
Scott Noble – BPI		

**Lean Workshop:** October, 2014

**Project Team Development:** November – June 2014

**Process Implementation:** June, 2014

**Southwest Power Pool**  
**Process Improvement and Cost Avoidance Initiatives for 2014**

**2Q2014 Tracking Report for the Finance Committee**

**July 10, 2014**

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

Cost Reduction Category	2014	2015	2016
<b><u>Operations Staffing Cost Reductions</u></b>			
• Operation Automation and Desk Consolidation – Tariff Admin and Interchange Desks <b>note #1</b>	\$ 514	\$ 534	standard practice
• Process Improvements and Increased <b>note #2</b> Efficiency (12) FTE in Zero-Base analysis	\$ 1,430	standard practice	standard practice
• <b>New! Lean A3 Project</b> – Contracting Efficiency – Productivity from doing 3-yr contracts instead of 1-yr contracts for (14) contracts <b>note #3</b>	\$ 0	\$ 87	\$ 87
• <b>New!</b> Engineering Modeling Automation <b>note #4</b>	\$ 147	\$ 147	
<b>Total Operations Staffing Cost Reductions</b>	\$ 2,091	\$ 768	\$ 87
<b><u>Capital Non-Staffing Cost Reductions</u></b>			
• Year 3 of Oracle Unlimited Database Licensing Agreement <b>note #5</b>	\$ 2,455	standard practice	standard practice
<b><u>Operations Non-Staffing Cost Reductions</u></b>			
• 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 <b>note #6</b>	\$ 0	standard practice	standard practice
• <b>New! Lean A3 Project</b> – Contracting Strategy Cost Avoidance – (14) Contracts <b>note #7</b>	\$ 235	\$ 165	\$ 161
<b>Total Operations Non-Staffing Cost Reductions</b>	\$ 549	\$ 165	\$ 161
<b>Grand Total Cost Reductions - Act/Fcst (\$ 000)</b>	<b>\$ 5,095</b>	<b>\$ 933</b>	<b>\$ 248</b>
<b>Amount In Original 2014 Budget Document</b>	<b>\$ 4,235</b>	<b>\$ 534</b>	<b>\$ 0</b>

### Notes:

1 – This is the consolidation of two desks in Operations. 2014 is the 2<sup>nd</sup> 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 (signing multi-year and/or bundled deals where feasible). Labor savings are from developing one three year contract instead of developing three separate one-year contracts (labor savings realized in 2015 and 2016). (14) contracts renewed so far this year contribute to this staffing related capacity creation.

4 – Promod automation project (spawned from Leadership training) has reduced required contractor augmentation and internal staff labor.

5 – 2014 represents the third year of cost avoidance associated with the Unlimited Oracle Database Agreement.

6 – Savings projection was based on having meetings in Little Rock vs. Off-site. This actually happened in 2013. Further tracking research revealed that the budgeted reduction is due to a lower meeting volume – not the expense reduction strategy.

7 – **New! Incremental to initial Budget document.** Annual savings associated with signing multi-year deals and deals bundling products and services compared to doing three one-year deals.

### Tracking of Productivity and Cost Avoidance Actuals/Forecast to Budget

Cost Reduction Category	2014 Budget	2014 Actual/ Forecast	Variance	Variance Explanation
<b><u>Operations Staffing Cost Reductions</u></b>				
<ul style="list-style-type: none"> <li>Operation Automation and Desk Consolidation</li> </ul>	\$ 514	\$ 514		On target
<ul style="list-style-type: none"> <li>Reduction of (12) FTE in 2014 vs. Prior Year Budget</li> </ul>	\$ 1,430	\$ 1,430		On target
<ul style="list-style-type: none"> <li><b>New! Lean A3 Project</b> – Contracting Efficiency</li> </ul>	\$ 0	\$ 0		New initiative – labor avoided in 2015 and 2016
<ul style="list-style-type: none"> <li><b>New!</b> Promod Automation</li> </ul>	\$ 0	\$ 147		New initiative – saves contractor augmentation and staff labor
<b>Total Operations Staffing Cost Reductions</b>	<b>\$ 1,944</b>	<b>\$ 2,091</b>	<b>\$ 147</b>	
<b><u>Capital Non-Staffing Cost Reductions</u></b>				
<ul style="list-style-type: none"> <li>Year 3 of Oracle Unlimited Database License Agree.</li> </ul>	<b>\$ 1,802</b>	<b>\$ 2,455</b>	<b>\$ 653</b>	Added more databases for IM Ph I and II – Increased “unlimited” value
<b><u>Operations Non-Staffing</u></b>				
<ul style="list-style-type: none"> <li>Eliminate on-site medical services</li> </ul>	\$ 214	\$ 214		Per budget plan
<ul style="list-style-type: none"> <li>Eliminates Meloria software contract</li> </ul>	\$ 40	\$ 40		Per budget plan
<ul style="list-style-type: none"> <li>Beverage service cost reductions</li> </ul>	\$ 60	\$ 60		On target
<ul style="list-style-type: none"> <li>Meeting expense reduction strategy</li> </ul>	\$ 175	\$ 0	( \$ 175 )	See note 6 on prior page.
<ul style="list-style-type: none"> <li><b>New! Lean A3 Project - Contracting Strategy Cost Avoidance (14 contracts)</b></li> </ul>	\$ 0	\$ 235	\$ 235	Newly identified Lean A3 initiative – Carson Hampson (IT Sourcing)
<b>Total Operations Non-Staffing Cost Reductions</b>	<b>\$ 489</b>	<b>\$ 549</b>	<b>\$ 60</b>	
<b>Grand Total Cost Reductions (\$ 000)</b>	<b>\$ 4,235</b>	<b>\$ 5,095</b>	<b>\$ 860</b>	Favorable to 2014 Budget Amount



# Memorandum

To: SPP Officers / Directors / Managers  
From: Sheri Dunn / Cindy Goodwin  
Date: June 30, 2014  
RE: May 2014 Financial Package

Attached are the [May 2014](#) monthly financial reports.

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2014 Financial Commentary  
May 31, 2014  
(in thousands)

Summary				
	2014 FY Forecast	2014 FY Budget	Fav/(Unfav) Variance	
Revenues	\$162,628	\$163,166	(\$538)	(0.3%)
Expenses	205,095	200,692	(4,403)	(2.2%)
Net Income/(Loss)	<u>(\$42,467)</u>	<u>(\$37,526)</u>	<u>(\$4,941)</u>	(13.2%)

Revenue				
	2014 FY Forecast	2014 FY Budget	Fav/(Unfav) Variance	
Tariff Administration Service	\$134,056	\$132,600	\$1,456	1.1%
FERC Fees & Assessments	14,668	14,500	168	1.2%
NERC ERO Regional Entity Rev	9,577	11,824	(2,247)	(19.0%)
Miscellaneous Income	3,419	3,350	69	2.1%
Contract Services Revenue	453	453	1	0.0%
Annual Non-Load Dues	456	440	16	3.6%
Total Revenue	<u>\$162,628</u>	<u>\$163,166</u>	<u>(\$538)</u>	(0.3%)

In preparation of the 2014 budget for 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 the September - December 2013 estimates. The SPP region realized a significant reversal of the trend for the September -December 2013 period. The 2014 MWh forecast is anticipated to be approximately 352 million MWh as compared to the budget of 348 million.

	<u>2012 Actual</u>	<u>2014 Budget</u>	<u>2013 Actual</u>
Network Service (GWh)	325,356	307,106	318,980
Point-to-Point	<u>36,000</u>	<u>41,094</u>	<u>38,555</u>
	361,356	348,200	357,535

SPP expects to collect approximately \$1,456 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. The primary drivers of the unfavorable revenue variance relate to compensation and pass-thru expense associated with outside services and SPP resource time. Although the budget assumed the RE would be fully staffed at the beginning of the year, currently 5 of the 31 budgeted positions remain vacant (with 1 position postponed until 2015). The services variance is related to fewer audit and hearings expenses. The revenue forecast has been reduced to align with the current revenue trend for 2014. The net impact associated with both RE revenue and expense is \$965.



2014 Financial Commentary  
 May 31, 2014  
 (in thousands)

Expense				
	2014 FY Forecast	2014 FY Budget	Fav/(Unfav) Variance	
Salary & Benefits	\$84,653	\$82,247	(\$2,407)	(2.9%)
Assessments & Fees	15,600	15,300	(300)	(2.0%)
Communications	3,933	3,916	(18)	(0.5%)
Maintenance	15,754	15,866	112	0.7%
Outside Services (Including RSC)	15,612	14,640	(972)	(6.6%)
Administrative & Leases	4,702	4,858	156	3.2%
Travel & Meetings	2,859	3,112	252	8.1%
Depreciation & Amortization	51,617	49,718	(1,899)	(3.8%)
Other Expenses	10,364	11,035	671	6.1%
Total Expense	<u>\$205,095</u>	<u>\$200,692</u>	<u>(4,403)</u>	(2.2%)

The forecast includes the incentive payout in May for the successful launch of the Integrated Marketplace, thus resulting in the overall unfavorable variance in Salary & Benefits. As a result of work efforts leading up to the Integrated Marketplace launch, premium pay for overtime also contributes to the unfavorable variance (\$126). Various other factors partially offset the unfavorable variance. Pension and retiree healthcare funding was reduced according to the Finance Committee funding recommendations (\$603). A higher vacancy rate (4% as compared to 2% in the budget) also results in expenses trailing budget including base pay and associated benefits costs such as insurance and taxes (\$943 YTD). The budget assumed headcount would be 597 beginning in January; however, 15 positions became vacant after the budget was finalized. The 2014 beginning headcount was only 569, and 23 positions remain open as of May 31st. A slow start in scheduling outside training also favorably impacts the variance in Continuing Education expense (\$196).

The Outside Services variance is related to various offsetting factors. A portion of the IM consulting contracts (included in the IM capital budget) was actually related to post go-live support activities and therefore will be expensed in accordance with GAAP for the remainder of the support contracts (\$1,732). A supplement to the 2013 State of the Market report was approved subsequent to the completion of the budget with costs of the report and advisory services of \$205K. Conversely, outside services trail budget across several departments, with the main contributors found in Regional Entity (\$391), Engineering (\$268), Legal (\$210), and Internal Audit (\$180). The Regional Entity variance relates to fewer audit and hearings expenses. Year-to-date outside legal fees related to the Integrated Market were lower than expected, but this decrease was partially offset by higher than anticipated expenses related to the MISO contested docket. Internal Audit expense trails budget as a result of restructuring the Type 1 audit. This change resulted in part of the Type 1 audit items being included in the 2013 Readiness Assessment.

Travel expenses fall below budget across most departments, with the most notable variances in the Regional Entity (\$77) and Operations (\$31). This is partially due to lower headcount. Various working group meetings trail budget, contributing to the favorable variance in Meetings expense (\$62).

Depreciation for the Integrated Marketplace was budgeted to begin April 1st instead of March 1st and therefore results in an unfavorable variance in depreciation expense.



Southwest Power Pool  
Monthly Overview  
May 31, 2014  
(in thousands)

	Actual Jan-14	Actual Feb-14	Actual Mar-14	Actual Apr-14	Actual 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)
<b>Income</b>																	
Tariff Administrative Service	11,613	10,265	11,348	10,970	11,338	10,992	11,488	11,595	11,112	11,193	10,901	11,243	\$134,056	132,600	\$1,456	112,624	\$21,432
Fees & Assessments	2,483	2,122	1,789	1,982	1,748	2,068	2,118	2,218	2,218	2,018	1,918	2,018	24,701	26,764	(2,063)	25,188	(487)
Contract Services Revenue	36	36	38	38	38	38	38	38	38	38	38	38	453	453	0	425	28
Miscellaneous Income	380	191	231	362	301	279	279	279	279	279	279	279	3,419	3,350	69	4,502	(1,083)
<b>Total Income</b>	<b>14,512</b>	<b>12,615</b>	<b>13,406</b>	<b>13,352</b>	<b>13,425</b>	<b>13,377</b>	<b>13,923</b>	<b>14,130</b>	<b>13,647</b>	<b>13,528</b>	<b>13,136</b>	<b>13,578</b>	<b>162,628</b>	<b>163,166</b>	<b>(538)</b>	<b>142,738</b>	<b>19,890</b>
<b>Expense</b>																	
Salary & Benefits	6,489	6,737	6,646	6,806	10,919	6,693	6,694	6,687	6,695	6,806	6,738	6,742	84,653	82,247	(2,406)	79,660	(4,993)
Employee Travel	106	135	150	153	168	192	168	177	231	212	151	158	2,002	2,192	191	1,868	(134)
Administrative	188	344	207	533	255	627	337	323	245	894	285	289	4,525	4,675	150	3,967	(559)
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	80	67	38	91	56	81	82	76	46	858	919	62	930	72
Communications	374	318	308	305	305	332	332	332	332	332	332	332	3,933	3,916	(18)	3,665	(269)
Leases	13	12	16	18	12	15	15	15	15	15	15	15	177	183	6	432	255
Maintenance	1,013	1,012	1,144	1,270	1,787	1,374	1,369	1,359	1,355	1,355	1,356	1,358	15,754	15,866	112	11,301	(4,453)
Services	837	1,261	1,857	1,155	2,156	1,135	1,208	1,131	1,200	1,250	1,061	1,076	15,326	14,313	(1,013)	15,870	544
Regional State Committee	11	15	15	14	20	23	73	23	23	23	23	23	286	328	41	207	(79)
Depreciation & Amortization	1,750	1,736	4,517	4,511	4,403	4,953	4,949	4,963	4,972	4,951	4,949	4,962	51,617	49,718	(1,899)	19,398	(32,219)
<b>Total Expense</b>	<b>12,171</b>	<b>12,942</b>	<b>16,238</b>	<b>16,146</b>	<b>21,391</b>	<b>16,682</b>	<b>16,536</b>	<b>16,367</b>	<b>16,449</b>	<b>17,220</b>	<b>16,286</b>	<b>16,303</b>	<b>194,731</b>	<b>189,657</b>	<b>(5,074)</b>	<b>151,995</b>	<b>(42,736)</b>
<b>Other Income/(Expense)</b>																	
Other Income/Expense	(41)	58	(36)	(18)	34	-	-	-	-	-	-	-	(3)	-	(3)	5,651	(5,654)
Interest Income	2	2	3	4	4	-	-	-	-	-	-	-	15	-	15	223	(207)
Interest Expense	(837)	(886)	(841)	(962)	(930)	(937)	(920)	(920)	(918)	(900)	(898)	(900)	(10,849)	(12,195)	1,346	(10,540)	309
Capitalized Interest	-	-	221	12	-	50	-	-	71	-	-	92	446	1,160	(713)	2,777	2,330
Change in Valuation of Swap	-	-	27	-	-	-	-	-	-	-	-	-	27	-	27	923	896
<b>Net Other Income (Expense)</b>	<b>(875)</b>	<b>(826)</b>	<b>(627)</b>	<b>(964)</b>	<b>(893)</b>	<b>(887)</b>	<b>(920)</b>	<b>(920)</b>	<b>(847)</b>	<b>(900)</b>	<b>(898)</b>	<b>(808)</b>	<b>(10,364)</b>	<b>(11,035)</b>	<b>671</b>	<b>(910)</b>	<b>(2,383)</b>
<b>Net Income (Loss)</b>	<b>\$1,465</b>	<b>(\$1,153)</b>	<b>(\$3,459)</b>	<b>(\$3,758)</b>	<b>(\$8,858)</b>	<b>(\$4,192)</b>	<b>(\$3,533)</b>	<b>(\$3,157)</b>	<b>(\$3,648)</b>	<b>(\$4,592)</b>	<b>(\$4,048)</b>	<b>(\$3,532)</b>	<b>(\$42,467)</b>	<b>(\$37,526)</b>	<b>(\$4,941)</b>	<b>(\$10,168)</b>	<b>(\$32,299)</b>
2014 Headcount Forecast	569	570	573	576	575	579	580	581	582	585	585	597	597 *				
2014 Headcount Budget	597	598	598	598	598	598	598	598	598	598	598	598	598				
<b>Over / (Under) Budget</b>	<b>(28)</b>	<b>(28)</b>	<b>(25)</b>	<b>(22)</b>	<b>(23)</b>	<b>(19)</b>	<b>(18)</b>	<b>(17)</b>	<b>(16)</b>	<b>(13)</b>	<b>(13)</b>	<b>(1)</b>	<b>(1)</b>				
Headcount Vacancy	-5%	-5%	-4%	-4%	-4%	-3%	-3%	-3%	-3%	-2%	-2%	0%	0%				
NRR Over / (Under) Recovery	\$3,193	\$501	(\$1,825)	\$4,041	(\$4,153)	\$862	\$1,416	\$1,655	(\$4,281)	\$459	\$1,049	(\$5,860)	(\$2,943)	\$0	(\$2,943)	\$4,549	(\$7,492)

\* Regional Entity postponed one position to 2015. The 2014 forecast assumes a vacancy average of 2% for July - December.



Southwest Power Pool  
Actual Results Overview  
May 31, 2014  
(in thousands)

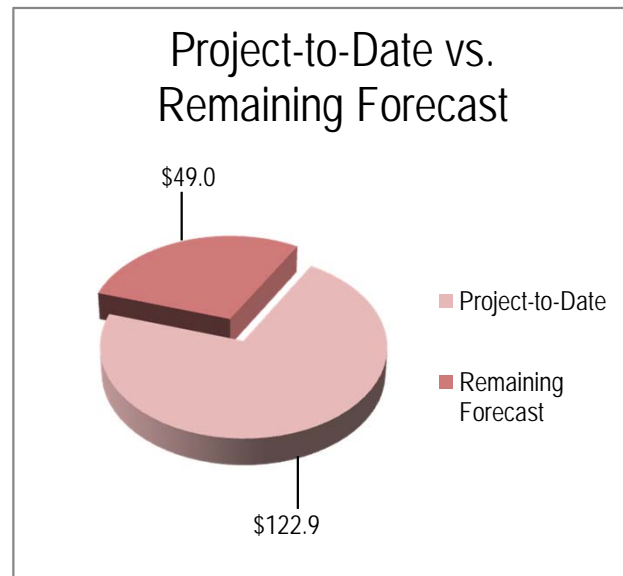
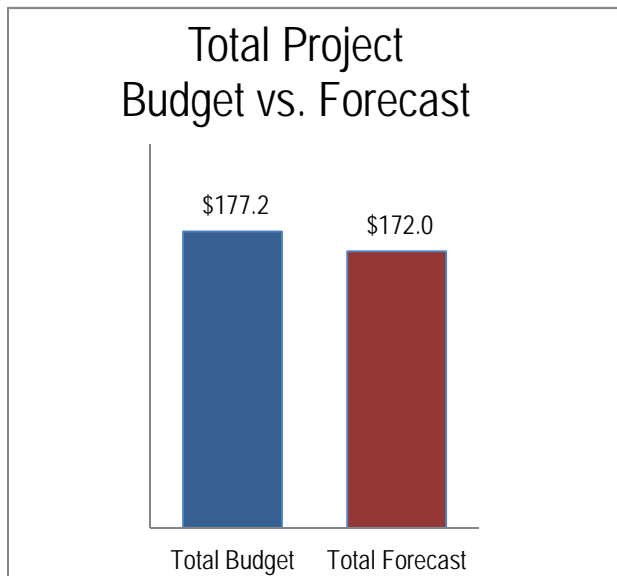
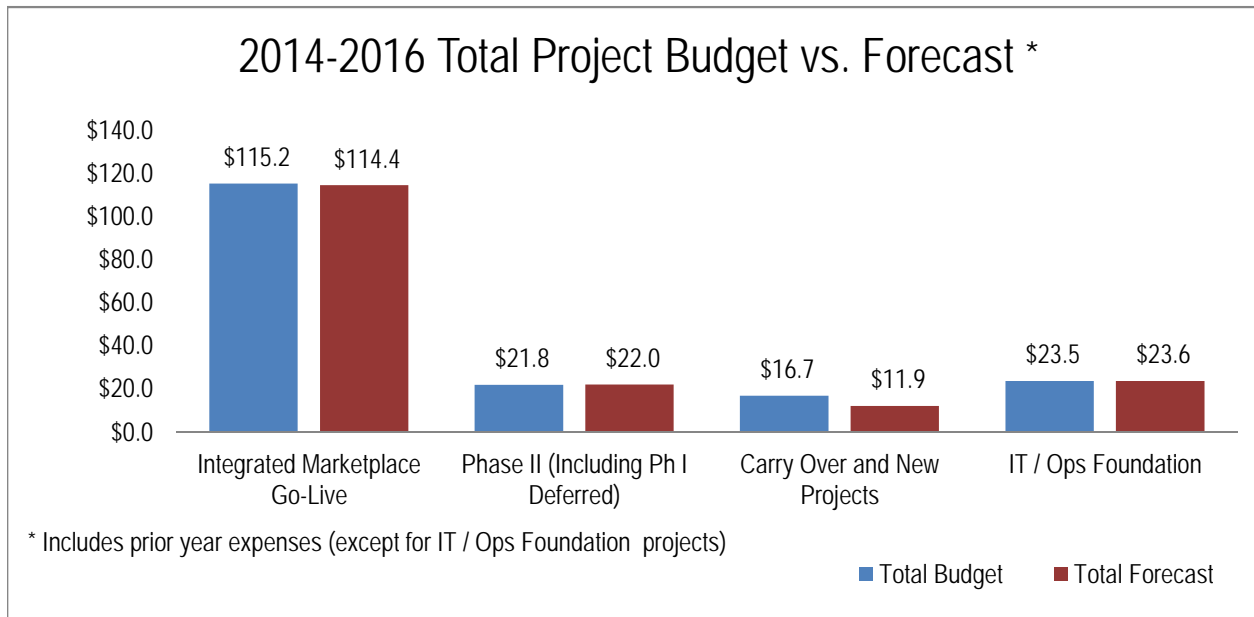
	Current Month Compared to Forecast			YTD Actual Compared to YTD Budget			YTD 2014 Compared to YTD 2013		
	May-2014 Actual	May-2014 Forecast	Variance Fav/(Unfav)	May-2014 Actual	May-2014 Budget	Variance Fav/(Unfav)	May-2014 Current Year	May-2013 Prior Year	Variance Fav/(Unfav)
<b>Income</b>									
Tariff Administrative Service	\$11,338	\$11,303	\$35	\$55,533	\$55,250	\$283	\$55,533	\$46,610	\$8,924
Fees & Assessments	\$1,748	\$2,018	(270)	\$10,125	\$11,267	(1,142)	\$10,125	\$10,121	3
Contract Services Revenue	\$38	\$38		\$186	\$186		\$186	\$171	15
Miscellaneous Income	\$301	\$279	22	\$1,465	\$1,396	69	\$1,465	\$1,645	(180)
<b>Total Income</b>	<b>13,425</b>	<b>13,638</b>	<b>(213)</b>	<b>67,309</b>	<b>68,099</b>	<b>(790)</b>	<b>67,309</b>	<b>58,547</b>	<b>8,762</b>
<b>Expense</b>									
Salary & Benefits	10,919	11,204	\$285	37,598	34,524	(\$3,073)	37,598	31,984	(\$5,614)
Employee Travel	168	180	13	712	910	198	712	857	145
Administrative	255	376	121	1,527	1,803	276	1,527	1,479	(48)
Assessments & Fees	1,300	1,300	-	6,500	6,375	(125)	6,500	6,810	310
Meetings	67	84	17	388	449	61	388	368	(20)
Communications	305	332	27	1,609	1,632	23	1,609	1,505	(103)
Leases	12	15	3	70	76	6	70	315	244
Maintenance	1,787	1,354	(433)	6,227	6,614	387	6,227	4,538	(1,689)
Services	2,156	1,528	(628)	7,266	6,253	(1,014)	7,266	5,523	(1,743)
Regional State Committee	20	23	3	74	116	41	74	84	10
Depreciation & Amortization	4,403	4,891	488	16,917	15,018	(1,899)	16,917	7,948	(8,969)
<b>Total Expense</b>	<b>21,391</b>	<b>21,288</b>	<b>(104)</b>	<b>78,888</b>	<b>73,768</b>	<b>(5,119)</b>	<b>78,888</b>	<b>61,411</b>	<b>(17,477)</b>
<b>Other Income/(Expense)</b>									
Gain or Loss on Sale of Fixed Asset	-	-	-	-	-	-	-	58	(58)
Other Income/Expense	34	-	34	(3)	-	(3)	(3)	108	(111)
Interest Income	4	-	4	15	-	15	15	128	(112)
Interest Expense	(930)	(939)	9	(4,457)	(5,048)	592	(4,457)	(4,434)	(23)
Capitalized Interest	-	-	-	233	946	(713)	233	800	(567)
Change in Valuation of Swap	-	-	-	27	-	27	27	231	(204)
<b>Net Other Income (Expense)</b>	<b>(893)</b>	<b>(939)</b>	<b>47</b>	<b>(4,185)</b>	<b>(4,102)</b>	<b>(83)</b>	<b>(4,185)</b>	<b>(3,110)</b>	<b>(1,075)</b>
<b>Net Income (Loss)</b>	<b>(\$8,858)</b>	<b>(\$8,589)</b>	<b>(\$270)</b>	<b>(\$15,764)</b>	<b>(\$9,772)</b>	<b>(\$5,992)</b>	<b>(\$15,764)</b>	<b>(\$5,974)</b>	<b>(\$9,790)</b>
Headcount	575	573	2	575	598	(23)	575	569	6



Southwest Power Pool  
Balance Sheet  
May 31, 2014  
(in thousands)

	<u>5/31/2014</u>	<u>12/31/2013</u>	<u>Net Change</u>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash & Equivalents	\$60,487	\$34,874	\$25,613
Restricted Cash Deposits	199,521	76,713	122,808
Accounts Receivable (net)	28,501	24,134	4,366
Other Current Assets	12,583	6,966	5,617
<b>Total Current Assets</b>	<b>\$301,092</b>	<b>\$142,688</b>	<b>\$158,405</b>
Total Fixed Assets	195,853	204,260	(8,407)
Total Other Assets	2,805	3,158	(354)
Investments	1,376	1,305	71
<b>TOTAL ASSETS</b>	<b>\$501,124</b>	<b>\$351,411</b>	<b>\$149,714</b>
<b>LIABILITIES &amp; EQUITY</b>			
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts Payable (net)	\$17,879	\$15,954	\$1,925
Customer Deposits	199,387	76,714	122,673
Current Maturities of LT Debt	25,886	22,998	2,888
Other Current Liabilities	37,985	29,038	8,947
Deferred Revenue	4,911	5,919	(1,008)
<b>Total Current Liabilities</b>	<b>286,047</b>	<b>150,622</b>	<b>135,425</b>
<b>Long Term Liabilities</b>			
US Bank 5.45% Senior Notes - 2016	7,500	9,000	(1,500)
US Bank Maumelle Mortgage - 2027	3,444	3,547	(103)
Campus 4.82% Senior Notes - 2042	62,695	62,964	(270)
Integrated Marketplace 3.55% Senior Note - 2024	63,000	64,750	(1,750)
Senior Notes - 2024	92,500	95,000	(2,500)
Senior Notes - 2025	37,000	-	37,000
Other Long Term Liabilities	5,598	6,426	(828)
<b>Total Long Term Liabilities</b>	<b>271,737</b>	<b>241,687</b>	<b>30,050</b>
Net Income	(15,764)	(10,168)	(5,596)
Members' Equity	(40,896)	(30,728)	(10,168)
<b>Total Members' Equity</b>	<b>(56,660)</b>	<b>(40,896)</b>	<b>(15,764)</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>\$501,124</b>	<b>\$351,411</b>	<b>\$149,714</b>

## Capital Project Dashboard *(in millions)*



Complete Project List  
Total Project-to-Date and Remaining Forecast Compared to Budget  
As of May 31, 2014  
(in thousands)

	Total Budget	Project-to- Date Actual	Remaining Forecast	Total Forecast	Over/(Under) Budget
Integrated Marketplace Go-Live	\$115,173	\$114,415	-	\$114,415	(\$758)
Phase II (Project Pinnacle), Including Phase I Deferred	\$21,770	\$3,751	\$18,261	\$22,012	\$242
<b>Carry Over and New Projects</b>					
OPS DTS Upgrade to TTSE (cancelled)	4,400	-	-	-	(4,400)
Transmission Settlements Upgrade ETSE3.0 (2015)	3,775	-	3,775	3,775	-
Netezza Upgrade	3,038	2,606	432	3,038	(0)
EMS Upgrade	1,696	-	1,447	1,447	(249)
EMS Readiness	728	889	-	889	161
Data Center Migration	720	264	450	714	(6)
Aurea ESB Replacement	706	-	706	706	-
Project Server Upgrade	300	-	156	156	(144)
Miscellaneous Facilities	318	71	247	318	0
Alstom ETS Foundation	225	-	225	225	-
QA ICCP Buildout	180	60	123	183	3
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 (costs to be expensed, not capitalized)	150	-	-	-	(150)
Rate Impact Automation (2015)	75	-	75	75	-
2013 Carryforward - Centralized Modeling Tool	-	7	-	7	7
2013 Carryforward - Credit Stacking	-	2	-	2	2
2014 Unbudgeted - Engineering POM License	-	25	-	25	25
<b>Carry Over and New Projects</b>	<b>\$16,700</b>	<b>\$3,923</b>	<b>\$8,025</b>	<b>\$11,948</b>	<b>(\$4,752)</b>
<b>IT / Ops Foundation *</b>					
IT Systems Foundation	8,154	48	8,120	8,168	14
IT Network Telecom	7,596	621	7,021	7,642	46
IT Applications Foundation	2,799	-	2,799	2,799	-
IT Service Management Foundation	901	2	874	876	(25)
IT Environment Foundation	173	-	173	173	-
Operations Foundation	3,889	181	3,721	3,902	13
<b>IT / Ops Foundation</b>	<b>\$23,513</b>	<b>\$852</b>	<b>\$22,708</b>	<b>\$23,560</b>	<b>\$47</b>
<b>Total Capitalized Project Expense</b>	<b>\$177,156</b>	<b>\$122,941</b>	<b>\$48,994</b>	<b>\$171,935</b>	<b>(\$5,221)</b>

\* IT / Operations 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. The remaining forecast includes 2015 and 2016 forecast.



Southwest Power Pool  
Headcount Analysis  
May 31, 2014

	Current Month Actual vs. Budget			Full Year Forecast vs. Budget		
	Actual May-14	Budget May-14	Over/(Under) Budget	FY 2014 Forecast	FY 2014 Budget	Over/(Under) Budget
Administration	0	0	0	0	0	0
Officers	10	10	0	10	10	0
Accounting	10	10	0	10	10	0
Credit	3	4	(1)	4	4	0
Settlements	24	25	(1)	24	25	(1)
Administration	47	49	(2)	48	49	(1)
Corporate Services	29	29	0	29	29	0
Inter-Regional Affairs	4	4	0	4	4	0
Project Management	12	13	(1)	13	13	0
Training	11	13	(2)	11	13	(2)
Customer Service	9	9	0	10	9	1
Process Management	3	2	1	3	2	1
Internal Audit	6	6	0	6	6	0
Process Integrity	45	47	(2)	47	47	0
SPP Compliance	12	13	(1)	12	13	(1)
Communications	4	3	1	4	3	1
Market Monitoring	13	14	(1)	14	14	0
Compliance & Market Monitoring	29	30	(1)	30	30	0
SPP Regional Entity	26	31	(5)	30	31	(1)
Information Technology	141	144	(3)	148	144	4
Markets	6	6	0	6	6	0
Interregional Relations	3	3	0	3	3	0
Operations	155	157	(2)	157	157	0
Engineering Planning	40	41	(1)	43	41	2
Engineering Other	28	35	(7)	30	35	(5)
Regulatory Policy & General Counsel	26	26	0	26	26	0
<b>TOTAL HEADCOUNT</b>	<b>575</b>	<b>598</b>	<b>(23)</b>	<b>597</b>	<b>598</b>	<b>(1)</b>

\* Regional Entity postponed one position to 2015. The 2014 forecast assumes a vacancy average of 2% for July - December.



**Unbudgeted Purchases  
>\$100K**

1st Qtr 2014 (previously reported)						
PO Number	Project Name	Vendor	Scopt of Work/Resource	Total Amount	Budgeted	Unbudgeted
2014-1160	2014 Market Post Go-Live	Glarus Group	Post Go Live Projects / Gary Rosenwald	\$551.0	\$0.0	\$551.0
2014-1119	2014 Carry Over Projects	Power Systems	EMS Upgrade	\$197.0	\$197.0	\$0.0
2014-1119	2014 Carry Over Projects	Power Systems	QA ICCP Buildout	\$47.5	\$47.5	\$0.0
2014-1119	2014 IT Foundation	Power Systems	EMS Marketplace Readiness	\$28.0	\$28.0	\$0.0
2014-1119	2014 IT Foundation	Power Systems	EMS/ICCP Staff Training, Documentation (Staff Augmentation)	\$101.1	\$0.0	\$101.1
2014-1087	2014 Integrated Marketplace	Structure	Phase I Extension / Manish Lakhmi	\$120.3	\$0.0	\$120.3
2014-1088	2014 Integrated Marketplace	Utilicast	Phase I Extension / Jeff Fruit	\$108.9	\$0.0	\$108.9
2014-1043	2014 Integrated Marketplace	Glarus Group	Phase I Extension / Gary Rosenwald	\$109.0	\$0.0	\$109.0
						\$990.4

2nd Qtr 2014						
PO Number	Project Name	Vendor	Scopt of Work/Resource	Total Amount	Budgeted	Unbudgeted
2014-1390	2013 Foundation General	Brattle Group	WO# 3 - Study on Entergy MISO Flows	\$160.0	\$0.0	\$160.0
2014-1346	2014 IT Outside Services	Structure	WO# 16 - CMS & POPS System Support	\$221.0	\$84.0	\$137.0
2014-1267	2014 Integrated Marketplace/CBA	Utilicast	SOW# 57, Amendment 1- S.Staples Extension to complete support for IM launch (Note 1)	\$35.5	\$0.0	\$35.5
2014-1229	2014 Phase I Deferred	Monitoring Analytics	MMU Opportunity Cost Calculator-MPRR153 (Initial Development Cost)	\$105.7	\$0.0	\$105.7
2014-1228	2014 Phase I Deferred	Monitoring Analytics	MMU Opportunity Cost Calculator-MPRR153 (Maintenance for remainder of 2014 thru 2016)	\$192.5	\$0.0	\$192.5
						\$630.6
						\$1,620.9

## Memorandum

**To:** Tom Dunn  
**From:** Scott Smith  
**CC:** Phil McCraw  
**Date:** 06/24/2014  
**Re:** Credit Practices Working Group Second Quarter 2014 Activities

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During second quarter 2014, the Credit Practices Working Group (CPWG) addressed the following issues:

- Credit Portal Information – Stakeholders have expressed significant interest for SPP to enhance available credit reporting for each individual credit holder. Staff identified and presented additional credit data, which would require only internal technical resources to distribute via the SPP portal (requiring no capital spending). Stakeholders uniformly agreed the additional data would be beneficial. Staff is coordinating with SPP’s technical resources to prioritize the work and is targeting the end of August to have the new report tested and delivered. The new report will appear on the SPP portal and be updated every 15 minutes with the most current data available.
- TCR Auction Credit Training – Prior to the annual TCR auction in May, Staff led two open training sessions for approximately 80 market participants. These sessions covered the calculations of credit exposure for ARRs and TCRs through various examples and presentation materials. SPP received positive feedback from stakeholders who were appreciative of the training.
- Prepayments for Marketplace and Transmission Settlements – Stakeholders have expressed some interest for SPP to accept prepayments. Various members of the CPWG will research other RTO business practices and credit policies related to prepayment processes and report back to CPWG in the July meeting. A subgroup of members may be formed to further explore SPP policy criteria for a formal recommendation to the CPWG.
- September CPWG Meeting in Little Rock – SPP will host a face-to-face meeting of the CPWG in Little Rock on Wednesday, September 24.