

**Southwest Power Pool
FINANCE COMMITTEE MEETING**

October 13, 2014

**DFW Hyatt Regency Hotel
Dallas, TX**

• Summary of Action Items •

1. Approved 2015 Budget
2. Approved 2015 schedule 1A and administrative fee rate of 39¢/MWh

• 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. Provide line item detail of expenses expected to be recovered from bidders in the competitive bidding process under Order 1000.

**Southwest Power Pool
FINANCE COMMITTEE MEETING**

October 13, 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 10:30 a.m. The following members of the Finance Committee were in attendance:

Harry Skilton	SPP Director
Larry Altenbaumer	SPP Director
Kelly Harrison	Westar Energy
Sandra Bennett (phone)	AEP
Mike Wise	Golden Spread Electric Coop
Laura Kapustka	Lincoln Electric
Tom Dunn	SPP
Others attending included:	
Gretchen Holloway (phone)	ITC
Traci Bender	NPPD
Denise Buffington (phone)	KCPL
Jim Jacoby	AEP
Steve Pittinger	OG&E
Nick Brown	SPP
Carl Monroe	SPP
Lauren Krigbaum	SPP
Stan Chapman (phone)	SPP
Jim Eckelberger	SPP Director
Rick Hannmann	KPMG
Schoen Hertell	KPMG

Minutes from July 10, 2014, September 11, 2014, and September 23, 2014 meetings were reviewed. Kelly Harrison motioned to approve the minutes. The motion was seconded by Sandra Bennett and approved by unanimous voice vote.

The Committee asked a few questions about the August 2014 financial report.

The Committee requested a line item detail of expenses forecast to be recovered from the Order 1000 competitive bidding process.

2015 Budget

SPP staff reviewed, in detail, specific actions it proposes to allow the 2015 operating budget to be fully funded within the existing schedule 1A administrative fee rate cap of 39¢/MWh. Various committee members expressed reservations regarding specific items regarding the appropriateness of the action and/or the impact to members if the action was undertaken.

The actions outlined by SPP staff would reduce the 2015 net revenue requirement from \$150.2 million to \$142.4 million. Committee members noted that none of the actions proposed resulted in cost reductions attributable to LEAN process improvements and that none of the reductions stretched staff to identify cost

efficiency improvements. Several Committee members indicated the purpose of these actions were to “smooth” out SPP’s administrative fee in anticipation of a reduction in the rate in 2016 and beyond.

Larry Altenbaumer made the following motions, which were seconded by Kelly Harrison:

- 1) Establish the 2015 schedule 1A administrative fee rate at 39¢/MWh
- 2) Approve the 2015 budget with a net revenue requirement of \$141.2 million, directing SPP management to create an additional \$1.2 million in expense reductions (in addition to the list provided to the committee during the meeting) in the spirit of the proposed cuts which do not transfer costs into future years.

The motions were approved by unanimous voice vote.

Nick Brown, SPP’s President, shared concerns regarding the direction being taken by the Committee; specifically steering the Company’s focus away from solving regional issues and providing regional benefits and more towards an entity where financial management is the primary concern. SPP management has viewed the annual budget as a forecast to guide the Company’s work, not as cap within which the Company must operate. The dynamic of viewing the budget as a cap will impact how SPP accomplishes its work in the future and may also impact what SPP is able to accomplish. Committee members countered that the restrictions they are exercising on SPP and its budget are no different than those they experience in their companies. Additionally, there is renewed focus on utility costs, driven by the increased cost of transmission, which requires changes to how SPP manages itself financially. Staff was encouraged to keep the Committee informed of changes in priorities and/or new initiatives so that the Committee can provide guidance and assistance in managing these issues in concert with the financial limitations established.

2015 Controls Audit Results and Progress

Representatives of KPMG discussed the results of i) the readiness review performed in advance of implementing the Integrated Marketplace; ii) the SOC 1 Type 1 audit of Integrated Marketplace controls conducted as of March 1, 2014; and iii) the SOC 1 Type II audit of SPP’s controls environment covering the period March 1, 2014 through October 31, 2014.

The readiness assessment work resulted in clearly defining 34 control objectives and 111 control activities around Integrated Marketplace and Transmission Settlement functions.

The SOC Type 1 audit was issued on August 21, 2014 with an unqualified opinion. The report noted opportunity for improvement in control of program changes.

The SOC Type II audit is ongoing. KPMG has completed their first round of on-site reviews with the second round of on-site review scheduled for late October 2014. No issues have been identified to date.

Future Meetings

The next meeting of the Finance Committee is scheduled for December 8, 2014 at the SPP corporate office in Little Rock, AR beginning at 2:00 pm and concluding at 6:00pm.

There being no further business, Harry Skilton adjourned the meeting at 4:00 pm.

Respectfully Submitted,

Thomas P. Dunn
Secretary



**Southwest Power Pool, Inc.
FINANCE COMMITTEE MEETING
October 13, 2014
DFW – Hyatt Regency Hotel
Dallas, Texas**

• A G E N D A •

10:30 a.m. – 3:00 p.m.

1. Administrative Items (*15 minutes*)..... Harry Skilton
 - a. Minutes
2. 2015 Budget (*2 hours*)..... Tom Dunn
 - a. 2015 Detailed Budget
 - b. 2015 Administrative Fee Rate
3. 2015 Controls Audit Results and Progress (*60 minutes*)KPMG
 - a. Readiness Assessment completed as of February 28, 2014
 - b. Type I audit completed as of March 1, 2014
 - c. Type II audit preliminary findings (March 1 – July 31, 2014)
4. Written Reports
 - a. August 2014 Financials
5. Adjourn Harry Skilton



**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 implored management to implement actions to cut costs to budget levels in 2014. [specifically the Committee members required SPP to eliminate any under-recovery resulting from the bonus approved by the Board in recognition of the successful implementation of the Integrated Marketplace.](#)

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
September 11, 2014
Teleconference

• 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

Southwest Power Pool
FINANCE COMMITTEE MEETING
September 11, 2014
Teleconference

• M I N U T E S •

Administrative Items

SPP Chair Harry Skilton called the meeting to order at 3:00 p.m. The following members of the Finance Committee were in attendance:

Harry Skilton	SPP Director
Larry Altenbaumer	SPP Director
Kelly Harrison	Westar Energy
Coleen Wells	KEPCo
Mike Wise	Golden Spread Electric Coop
Tom Dunn	SPP

Others attending included:

Laura Kapuska	Lincoln Electric
Jim Eckelberger	SPP Director
Traci Bender	NPPD
Patrick Smith	Westar
Dianne Branch	SPP
Zeynep Vural	SPP
Sherri Dunn	SPP

2015 SPP Budget

The format of the meeting was a “round-table” discussion whereby Committee members and other participants could provide SPP staff with their initial impressions of the 2015 budget document and request additional detail and/or information to be provided at the September 23, 2014 meeting. The discussion yielded the following items where additional information was requested:

- a. Provide details of what has changed in the 2014 forecast since the July 2014 Finance Committee meeting
- b. Update with the 2015 draft budget information and present the “Activity Chart” from the April 2013 presentation to the RSC
- c. Provide historical chart of capital expenditure spending for “Foundation” activities
- d. Provide additional detail on the IT “Foundation” capital expenditure spending for 2015-17
- e. Detail changes in Outside Services spending between 2014 and 2015
- f. Provide historical and forecast headcount chart
- g. Discuss changes in workload associated with adding the Integrated System to SPP
- h. Provide scenarios illustrating assumptions and impacts related to managing the administrative fee to 39¢/MWh

Future Meetings

The next meeting of the Finance Committee is scheduled for September 23, 2014 at the SPP corporate office in Little Rock, AR beginning at 8:30am and concluding at 3:00pm.

There being no further business, Harry Skilton adjourned the meeting at 4:30 p.m.

Finance Committee
September 11, 2014

Respectfully Submitted,

Thomas P. Dunn
Secretary

**Southwest Power Pool
FINANCE COMMITTEE MEETING**

September 23, 2014

**SPP Corporate Office
Little Rock, AR**

• Summary of Action Items •

1. Approve clarifications to the FERC Order 1000 competitive bidding process tariff language addressing financial requirements when submitting a bid and the period subject to financial review when evaluating bidders
2. Approved format for recovery of the development costs incurred by SPP to develop its FERC Order 1000 competitive bidding process. The development costs will be recognized at a rate of \$2,000/bid until fully recovered.

• 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

Southwest Power Pool
FINANCE COMMITTEE MEETING
September 23, 2014
SPP Corporate Office
Little Rock, Arkansas

• 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
Patrick Smith (proxy for Kelly Harrison)	Westar Energy
Sandra Bennett	AEP
Mike Wise	Golden Spread Electric Coop
Tom Dunn	SPP

Others attending included:

Jason Fortik	Lincoln Electric
Gretchen Holloway	ITC
Traci Bender	NPPD
Nick Brown	SPP
Carl Monroe	SPP
Ricky Bittle	Arkansas Electric Cooperative
Bruce Cude	SPS

FERC Order 1000

Ricky Bittle, chair of the SPP Strategic Planning Committee, requested the Finance Committee provide clarification on three issues related to the Order 1000 Competitive Bidding Process:

- 1) Financial Requirements for bid submissions: The Finance Committee had previously recommended that bidders who did not possess an investment grade credit rating (or have a guarantor with an investment grade credit rating) would be required to demonstrate the ability to obtain either a letter of credit or performance bond in the minimum amount of their bid plus 30%. The SPP tariff, as drafted, states the l/c or bond must be provided with the bid.

Sandra Bennett made the following motion: Re-engage the Regional Tariff Working Group to make clarifications in tariff language to only require bidders provide conclusive evidence of their ability to obtain satisfactory l/c or bonding. A letter from bank or bonding agent (who meet SPP's credit requirements as detailed in Attachment X section 7.1.3.2 in the case of a bank, or has a "Financial Strength Rating" of Superior or Excellent from A.M.Best and a policyholder surplus in excess of \$500,000,000 in the case of a bonding company. The motion was seconded by Patrick Smith and approved by unanimous voice vote

- 2) Time Frame for Finance Review: The RFP scoring criteria requires metrics related to liquidity and cash flow be evaluated when reviewing the individual bids. Tariff language didn't specify the period which would be reviewed.

Sandra Bennett made the following motion: The time frame for review of project financial metrics should be limited to the greater of the expected construction period for the specific facility being

evaluated or 5 years. The motion was seconded by Mike Wise and approved by unanimous voice vote.

- 3) Recover of Order 1000 Development Costs: The tariff provides for full recovery of the costs to administer the Order 1000 Competitive Bidding Process but does not outline the time period for recovery of development costs.

Larry Altenbaumer made the following motion: Development costs should be included in the annual competitive bidding process costs at a rate equal to \$2,000 per bid received until such time as development costs have been fully recovered. The motion was seconded by Mike Wise and approved by unanimous voice vote.

2015 Budget Outlook

SPP staff led a detailed discussion of the SPP 2015 operating and capital budgets. The presentation followed the following main areas:

- Highlighting the value generated by the services provided by SPP; 10:1 benefit to cost ratio
- Review of major capital expenditure programs with deeper dive into ongoing IT spending
- 2015 billing determinant forecast
- 2015 costs by major category
- Existing debt structure and contribution to required recovery

SPP staff next reviewed its responses to the questions and information requested at the September 11, 2014 Finance Committee meeting. Significant discussion surrounded the options presented for administrative fee rate for 2015. The Finance Committee members reached consensus that SPP should strive to reduce its costs to maintain an administrative fee rate of 39¢/MWh in 2015.

Future Meetings

The next meeting of the Finance Committee is scheduled for October 13, 2014 at the DFW Hyatt Regency hotel in Dallas, TX beginning at 10:30am and concluding at 3:00pm.

There being no further business, Harry Skilton adjourned the meeting at 2:15 p.m.

Respectfully Submitted,

Thomas P. Dunn
Secretary

Memorandum

To: SPP Finance Committee
From: Thomas P. Dunn
CC:
Date: October 6, 2014
Re: Adjustments to 2015 Budget to Attain 39¢/MWh Rate

Following is a description of each change proposed by SPP to reduce the costs recovered in 2015 to 39¢/MWh.

2014 Performance Comp Accrual: SPP accrues performance compensation at a rate of 15% of salaries paid during the year. SPP became aware of and resolved an issue where SPP neglected to pay interest on deposits submitted by generation interconnection customers over numerous years. This resulted in SPP needing to pay past generation interconnection study customers approximately \$1.8 million. SPP proposes reducing its performance compensation accrual in 2014 by a like amount. This adjustment will eliminate the under-recovery expected in 2014 due to the generation interconnection study interest payments.

Post-retirement Healthcare Fund: SPP's post-retirement healthcare fund was over-funded as of January 1, 2014 by approximately \$1.7 million. SPP proposes to eliminate any funding to the account in 2015 (\$0.441 million) and transfer \$1.0 million from the fund to SPP's operating account to fund O&M costs incurred in 2015. SPP has discussed this approach with the actuary who did not believe these steps would materially impact the plan's funded status.

Delay ITP10 Study: Eliminating work on the ITP20 study for 2015 and delaying the start of the ITP10 study for six months will allow SPP to remove \$1.0 million from the 2015 operating budget by reducing the need to engage outside engineering resources to complete the studies. Delay of the ITP10 study for six months will allow the study to consider clearer EPA impacts.

Delay Value of Transmission Study to 2016: This is a discretionary study not required under the SPP tariff or by any regulatory agency. The value of the study is not reduced by waiting until SPP is better able to afford the study within the administrative fee cap.

Increase Vacancy Assumption to 5%: Increasing the vacancy assumption will reduce salary and benefit expenses by \$0.7 million. SPP proposes a minimum 90 day vacancy for nearly every position prior to consideration of re-filling the vacant position. This should result in vacancies taking a minimum of 150 days between the day the position becomes open to the day the position is filled.

Pension Funding Reduction: SPP's pension plan is well funded. The plan assets represented 93% of projected benefit obligations at January 1, 2014. Recent changes in pension legislation provide greater flexibility in minimum funding. SPP proposes to reduce 2015 funding from \$3.66 million to \$3.0 million. SPP has discussed this approach with the actuary who did not believe this would materially impact the plan's funded status.

Create Rebate: SPP participates in an Arkansas Economic Development program whereby the state provides a rebate of salaries paid for new jobs. SPP estimates it will receive \$0.5 million in 2015 under this program.

Reductions in IT Consultants and Maintenance: Specific reductions in consultant engagements to augment ongoing staff efforts will remove \$0.26 million from the budget. Additionally, changes to maintenance contracts for two applications will reduce the maintenance budget by another \$0.16 million

Outside Counsel Reductions in Legal: Reduced forecast engagements of outside attorneys by \$0.3 million. SPP typically underspends this budget area.

Outside Service and Travel Reductions in Process Integrity: Reductions include elimination of outside consultants to augment staff efforts in project management post implementation of Project Pinnacle. Elimination of a LEAN expert to review SPP's LEAN implementation and lead an educational seminar will remove \$0.035 million in 2015.

Reduce Healthcare: SPP is reviewing alternatives to better manage its pharmacy costs within the self-funded healthcare plan.

Reduce Merit Pool for 2015 to 2%: SPP's Human Resources Committee typically funds a pool for merit compensation changes equivalent to the year over year change in the Consumer Price Index. The Human Resource Committee approved a merit pool equal to 2.3% of salaries; this reduction to 2% will reduce salary and benefit costs by \$0.2 million.

Decrease 2014 Staff: SPP management has identified a position that is no longer required by the organization and has eliminated the position.

Decrease 2015 Staff: The Operations Training Working Group has encouraged SPP to develop additional computer based training solutions. SPP had previously engaged consultants to assist with development of these programs. SPP had proposed an incremental position in 2015 to replace the consultant.

Order 1000 Development Cost Recovery: SPP previously proposed recovering all of the Order 1000 development costs from first year bidders. The SPP Finance Committee proposed recovering these costs over several years by charging bidders \$2,000/bid. This change reduced Miscellaneous Revenue by \$0.3 million.

SOUTHWEST POWER POOL
2015 BUDGET CHANGES
(\$ millions)

SPP Consolidated Summary	2015 Budget	Changes	2015 Budget
Income			
Tariff Administration Service	\$150.6	(\$8.2)	\$142.4
Fees & Assessments	27.6	0.0	27.6
Contract Services Revenue	0.5	(0.0)	0.5
Miscellaneous Income	5.2	0.1	5.3
Total Income	\$183.9	(\$8.0)	\$175.9
Expense			
Salary & Benefits	\$82.4	(\$2.4)	\$80.0
Employee Travel	2.1	(0.0)	2.1
Administrative	4.8	0.1	4.9
Assessments & Fees	16.4	0.0	16.4
Meetings	1.0	(0.0)	1.0
Communications	4.3	0.0	4.3
Leases	0.2	(0.0)	0.2
Maintenance	14.8	(0.1)	14.7
Services	18.7	(2.9)	15.8
Regional State Committee	0.3	(0.0)	0.3
Depreciation & Amortization	61.2	0.0	61.2
Other Expense	10.2	(0.0)	10.2
Total Expense	\$216.4	(\$5.2)	\$211.2
Net Income (Loss)	(\$32.5)	(\$2.8)	(\$35.3)
Headcount	600	(2)	598
Debt Repayment	\$24.3	\$0.0	\$24.3
MW/H Forecast (in millions)	363.5	0.0	363.5
Calculated Net Revenue Requirement	\$145.3	(\$5.5)	\$139.8
2013 / 2014 True Up	4.9	(1.3)	3.6
2014 Post-retirement healthcare transfer		(1.0)	(1.0)
2015 Net Revenue Requirement	\$150.2	(\$7.8)	\$142.4
Calculated Admin Fee / MWh	\$0.413	(\$0.021)	\$0.392
Recommended Admin Fee / MWh	\$0.413	(\$0.023)	\$0.390

**SOUTHWEST POWER POOL
2015 BUDGET CHANGES
(\$ millions)**

Original 2015 Net Revenue Requirement **\$150.2**

Adjustments

2014 Performance Comp Reduction	(\$1.8)
2014 Post-retirement healthcare transfer	(1.4)
Delay in ITP10 Study	(1.0)
Delay Value of Transmission study to 2016	(0.7)
Increase vacancy from 4% to 5%	(0.7)
Pension funding reduction	(0.7)
Add revenue for Create Rebate	(0.5)
Outside Counsel reductions in Legal	(0.3)
Reductions in IT consultants and maintenance	(0.4)
Outside Services & Travel reductions in Process Integrity	(0.3)
Reduce healthcare budget	(0.2)
Reduce merit increase from 2.3% to 2.0%	(0.2)
Decrease 2014 staff (1 Compliance)	(0.1)
Decrease 2015 incremental headcount (1 Training)	(0.1)
Order 1000 Cost recovery revenue reduction	0.3
Total Adjustments	(\$7.8)

Revised Adjusted NRR **\$142.4**

Revised Admin Fee / MWh **\$0.392**

Recommended Admin Fee / MWh **\$0.390**

2015 BUDGET

PREPARED BY ACCOUNTING DEPARTMENT

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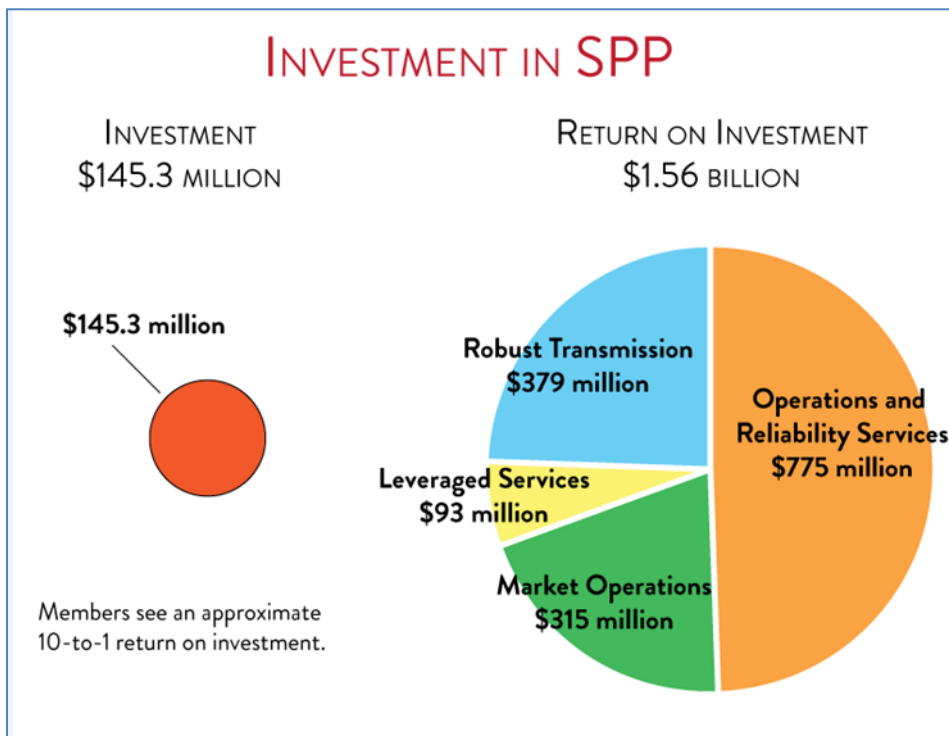
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I. Member Value

Southwest Power Pool, Inc. (SPP) ensures the reliable operation of and fair and open access to the high voltage transmission system in its 8-state footprint. SPP's services further ensure reliable least-cost delivered energy to consumers in its footprint. SPP is mandated by the Federal Energy Regulatory Commission to ensure reliable supplies of power, adequate transmission infrastructure, and competitive wholesale electricity prices. In 2015, SPP is expected to provide the eight-state region between \$1.2 and \$1.9 billion in annual benefits. This range of benefits yields between an 8-to-1 and 13-to-1 return on the annual cost of providing these federally-mandated services. At the proposed 41.3 cents per MWh administrative fee, a residential customer using 1,000 kWh per month would, on average, receive \$78 in benefits per year from SPP's services for only \$8 in costs.

Another way to view the value SPP provides is to consider SPP's net revenue requirement of \$145.3 million (before prior year true-up) as an investment that will yield a \$1.56 billion return for the year (midpoint of the range of annual benefits), or a 10.6 times return. That \$145.3 million investment provides value in the following areas:

- \$775 million in Operations and Reliability Services
- \$379 million in Region-Wide Transmission Planning
- \$315 million in Open Transparent Energy Market Operations
- \$ 93 million in Leveraged, Centralized Services



SPP's services create the opportunity to realize the benefits associated with planning and operating over a larger region. Prior to SPP's evolution to the Regional Transmission Organization (RTO), utilities in the region operated in a decentralized, bilateral market environment. Bilateral power transactions were characterized by physical transmission constraints managed through mechanisms that at times limited the availability of transmission, increased transaction costs, and decentralized unit commitment and dispatch. SPP's market mechanisms now utilize security-constrained, economic dispatch to optimize the use of all the market participants' resources within the region. The resources in the region provide more options and better efficiency to meet the needs of electric customers, both reliably and affordably. SPP's marketplace provides cost savings and enhanced reliability, as well as independent oversight of the region's transmission and generation facilities.

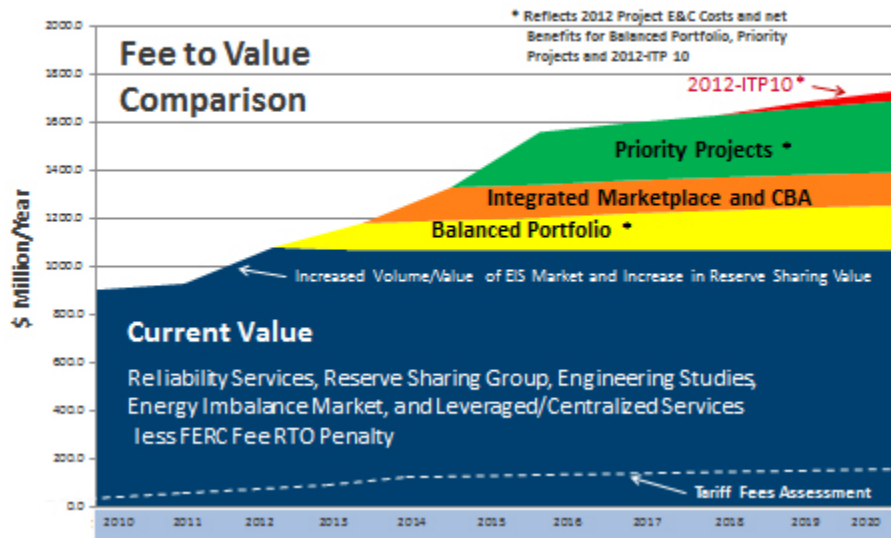
This \$145.3 million investment also enables SPP to:

1. Reduce overall costs by operating as a region
2. Provide reliability assurance and predictable operations of the bulk electric system
3. Facilitate effective transmission planning processes that result in building and maintaining an economically optimized transmission system
4. Offer an open and transparent marketplace with economic benefits
5. Optimize market efficiencies and transmission expansion along the seams of other markets and the emerging seam associated with natural gas supply
6. Ensure fair and equitable allocation of transmission expansion costs

Peter Drucker, noted author, management consultant, and educator, once commented, *"Organizations are paid to create value, not to control costs"*. The SPP organization, including all of its members, regulators, and staff, has clearly been successful in creating meaningful value throughout its region. SPP has achieved this by remaining guided by its value proposition:

1. Relationship-based
2. Member-driven
3. Independence through diversity
4. Reliability and economics are inseparable
5. Evolutionary versus revolutionary change

MID-RANGE VALUES AND RAMPED FUTURE VALUES



II. 2015 Net Revenue Requirement

SPP continues to focus on the core mission of reliable planning and operation of the grid. A new strategic plan was established during 2014, positioning SPP to fulfill its mission over the next decade and beyond. SPP’s activities and initiatives will be guided by the four foundational strategies identified in the new strategic plan which are: reliability assurance, optimizing interdependent systems, maintaining an economical and optimized transmission system, and enhancing member value and affordability. These four strategies are interdependent, with reliability assurance as the basis and the enhancement of member value and affordability as the discipline to drive all SPP strategies.

Total 2015 operating expenses are expected to be \$216.5 million, an increase of \$15.8 million compared to 2014. Growth in operating expenses results primarily from depreciation of the Integrated Marketplace asset (\$11.5 million) and from outside services expense related to various initiatives including: 1) adding the Integrated System to the SPP footprint (\$1.4 million), 2) administering the FERC Order 1000 competitive process (\$1.3 million), and 3) preparing studies for value of transmission planning (\$0.7 million), RCAR Regional Cost Allocation Review (\$0.8 million), and clean power plan assessment (\$0.3 million). FERC assessments (\$1.1 million) also contribute to the increase.

2015 Net Revenue Requirement is \$145.3 million, and the proposed administrative fee is \$0.413.

The requested headcount for the current 2015 budget is 600 which compares to 603 in the previous year's budget for 2015. During 2014, SPP reallocated six positions within its approved headcount to meet the changing demands of the business.

The 2015 Net Revenue Requirement (NRR), a component for setting the administrative fee rate, is \$145.3 million versus 2014 budget NRR of \$132.6 million and 2014 forecast NRR of \$136.1 million. The \$145.3 million NRR excludes the prior year true up amounts for 2013 and 2014 of \$4.9 million. The NRR including prior year true up amounts is \$150.2 million. The largest component of the increase in NRR is attributed to the increase in debt payments in 2015. The 2014 actual debt payments were \$23 million as compared to the 2015 debt payments of \$24.3 million; however, \$10 million in 2014 current maturities were funded with new debt proceeds during 2014 and therefore reduced the 2014 NRR by \$10 million. The \$4.4 million increase in outside services mentioned above represents the remaining increase in the 2015 NRR as compared to the 2014 budget.

SPP Consolidated Summary	2014	2014	2015
	Budget	Forecast	Budget
Income			
Tariff Administration Service	\$132.6	\$134.1	\$150.6
Fees & Assessments	26.8	24.8	27.6
Contract Services Revenue	0.5	0.5	0.5
Miscellaneous Income	3.4	4.3	5.2
Total Income	\$163.2	\$163.7	\$183.9
Salary & Benefits	\$82.2	\$79.8	\$82.4
Depreciation & Amortization	49.7	51.3	61.2
Communications, Leases & Maint	20.0	19.2	19.3
Outside Services	14.6	15.3	19.0
Administrative / Other	15.7	14.7	15.0
Assessments & Fees	15.3	16.3	16.4
Travel & Meetings	3.1	2.8	3.1
Total Expense	\$200.7	\$199.5	\$216.5
Net Income (Loss)	(\$37.5)	(\$35.8)	(\$32.6)
Debt Repayment	\$13.0	\$13.0	\$24.3
MW/H Forecast (in millions)	348.2	351.9	363.5
Net Revenue Requirement	\$132.6	\$130.0	\$145.3
2014 Non-Recurring Items		\$6.1	
Under Recovery/Prior Year(s) True Up			\$4.9
Current/Proposed Admin Fee / MWh	\$0.381	\$0.387	\$0.413

Another component used in setting the administrative fee is transmission volume, which SPP projects will increase 4.4% to 363.5 million MWh in 2015 compared to the 2014 budget of 348.2 million MWh. Through July 2014, SPP's members have experienced higher monthly peaks than those recorded in 2013, resulting in a forecast of 351.9 million MWh expected for 2014. Even though year-over-year projections have increased, the base projection for 2015 is equal to the 2014 forecast (351.9 million MWh) due to unseasonably cooler temperatures experienced during the summer months and less point-to-point service sold in 2014. With the addition of the Integrated System load of 11.6 million MWh in the fourth quarter, the estimated total transmission volume is 363.5 million MWh in 2015.

SPP's 2014 budget estimated the 2015 administrative cost/MWh to be 42.6¢/MWh based on an expected NRR of \$148.4 million and load of 348.2 million MWh (equal to the 2014 budget). SPP's 2015 budget calculates an administrative cost of 41.3¢/MWh based on an expected 2015 NRR of \$145.3 million plus \$4.9 million in under-recoveries for 2013 and 2014 and load of 363.5 million MWh.

The 2015 budget identifies capital expenditures totaling \$65.5 million for 2015-2017, with \$35.3 million expected to be incurred in 2015. These costs are not directly included in SPP's Net Revenue Requirement; however, annual principal and interest payments (net of capitalized interest) for borrowings that fund these capital projects are a component of the Net Revenue Requirement.

In late 2013, SPP began work on Project Pinnacle (previously referred to as Integrated Marketplace Post-Go-Live). Project Pinnacle was originally comprised of three projects mandated by FERC for implementation within one year of the start of SPP's Integrated Marketplace (Market to Market, Regulation Compensation, and Long-Term Transmission Congestion Rights), one significant Member required project (Enhanced Combined Cycle), and several smaller projects addressing grandfather agreements, available flow-gate capacity (AFC) granularity, pseudo-ties, and IT environments.

Work and spending on Pseudo-ties and IT environments will be completed in 2014. Several other projects originally included in Project Pinnacle were not mandated by FERC but rather requested by the SPP membership. As a result of further review and deliberation among staff and the members, the following were canceled and removed from the program scope: AFC granularity changes; Sunset clause for load submittal; Marketplace data for market participants; and GFA Carve Out. The following projects will continue to incur expenditures into 2015 while still targeting a March 1, 2015 implementation date:

- Market to Market
- Regulation Compensation
- Long-Term TCR

Although the 2015 budget continues to reflect projected costs to implement Enhanced Combined Cycle functions, work on the Enhanced Combined Cycle project has been suspended pending further review of the benefits of the project. Prior to placing the project into suspended status, SPP had incurred \$1.2 million in capitalized expenses attributed to ECC. Information Technology, Operations and other foundation projects represent \$42.6 million during 2015-2017.

Components of 2015 Net Revenue Requirement and Administrative Fee

The following table shows the components and calculation of the administrative fee. The 2015 calculation includes additional funding for under recovery in 2013 and 2014. The \$2.8 million 2013 under recovery is the result of higher incentive compensation (18% vs. 15%), pension and self-funded healthcare plan adjustments; and slightly reduced revenues associated with the

load (\$0.18M). The expected under recovery of \$2.0 million in 2014 is related to \$1.8 million of interest to be paid on generation interconnection study deposits.

Administrative Fee (\$ millions)

	2014 Budget	2014 Forecast	2015 Budget	2015 Prior Year Estimate ⁽²⁾
Operating Expenses (excluding Depreciation)	\$151.0	\$148.2	\$155.3	\$156.3
Debt Service ⁽¹⁾	13.0	13.0	24.3	24.0
Gross Revenue Requirement	\$164.0	\$161.2	\$179.5	\$180.3
Less:				
NERC revenue	(11.8)	(9.6)	(11.7)	(12.2)
FERC fee expense	(15.3)	(16.3)	(16.4)	(15.6)
Other Revenues	(4.2)	(5.2)	(6.1)	(4.4)
Net Revenue Requirement (NRR) prior to non-recurring	\$132.6	\$130.0	\$145.3	\$148.4
Billing Determinant (MWh millions) ⁽³⁾	348.2	351.9	363.5	348.2
Calculated Admin Fee/MWh	\$0.381	\$0.369	\$0.400	\$0.426
Non-recurring Items & Prior Year Under Recovery/MWh ⁽⁴⁾		\$0.017	\$0.013	
Current/Proposed Admin Fee/MWh	\$0.381	\$0.387	\$0.413	\$0.426
Current Tariff Admin Fee Cap	\$0.390	\$0.390	\$0.390	\$0.390

(1) 2014 debt payments were \$23.0 with \$10.0 in current maturities funded with new debt proceeds

(2) Refers to the 2015 estimate made during 2014 budget presentation

(3) Defined as coincident peak for network service and capacity for point to point service in MWh

Non-recurring items & prior-year under recovery (\$ millions) ⁽⁴⁾

	2014 Forecast	2015 Budget
2014 Additional incentive compensation	\$4.3	
2014 Studies interest payout	1.8	
2013 Under-recovery		2.8
2014 Under-recovery		2.0
Billing Determinant (MWh millions)	351.9	363.5
Non-recurring Items/MWh	\$0.017	\$0.013

(4) The 2014 NRR includes non-recurring items of \$4.3 for incentive compensation and \$1.8 for study deposit interest.

III. Budget Overview

This budget document provides an overview and outlines details of the cost of services and components of the Net Revenue Requirement, which consists of the following:

- Operating expenses (section IV)
- Capital projects (section VI)
- Debt Service (section VII)

Operating expenses represent the largest component of the Net Revenue Requirement and consist of budgeted costs for ongoing operations. Operating expenses are presented in two different views:

- By resource type (e.g. staffing, facilities) (section IV)
- By division (e.g. Operations, Engineering) (section V)

Capital projects are investments in long-term assets required for SPP to meet its strategic goals and operational requirements. These capital expenditures represent costs incurred to enhance or expand current systems and services, and to maintain existing capabilities.

The budget identifies 12 capital projects impacting 2015, in addition to the foundation projects and Project Pinnacle. Capital projects are discussed in section VI.

Debt service costs are principal payments and interest expense related to various borrowings obtained to fund SPP's capital expenditures. The term of different sources of funding is matched to the estimated useful life of these specific projects. Debt service is discussed in section VII.

Budget Guidance and Assumptions

Budget meetings were held during June 2014 to provide guidance in developing the 2015 budget. Under the direction of the executive team, each department director was tasked to create a zero-based budget for operating expenses. The following major drivers and assumptions were identified during the meetings:

Project Pinnacle Initiatives – During 2014, efforts were focused on the successful development and implementation of the Integrated Marketplace including the design, development and implementation of the following functions:

- Day-Ahead Market
- Transmission Congestion Rights
- Reliability Unit Commitment
- Real-Time Balancing Market
- Operating Reserve Market
- Consolidated Balancing Authority

The 2015 budget identifies capital expenditures and consulting for market-related functionality and enhancements which will go into production in 2015-2016. The major initiatives, referred to as Project Pinnacle, were also included in the 2014 budget projections. They are as follows:

- Enhanced Combined Cycle Functionality
- Regulation Compensation (FERC Order 755)
- Long Term TCRs (FERC required)
- Market to Market (FERC required)

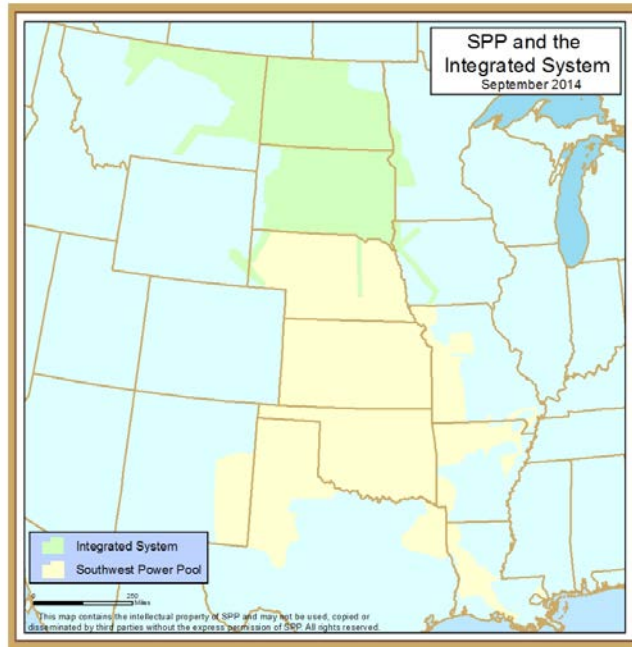
More information on these initiatives can be found in the Capital Projects section VI.

FERC Order 1000 - Order 1000, which was issued by FERC in July 2011, has both regional and interregional planning implications. From the regional perspective, the Order requires removal from regional tariffs of the federal right of first refusal (“ROFR”) for “green field” transmission construction. To comply with this requirement, SPP will implement a request for proposal (RFP) process to select qualified transmission owners for construction of approved transmission projects. FERC approved the competitive bidding process for regional transmission projects, which will apply to facilities approved by SPP’s Board of Directors beginning January 2015. A key component to the bidding process is awarding incentive points to bidders that submit accepted solutions to cure transmission issues. SPP received over 1,179 submissions to resolve transmission issues in 2014 versus an expected volume of 500-600 submissions. SPP expects the volume of work and costs associated with the competitive bidding process to be significant and costs in the 2015 budget reflect this effort.

In advance of the expected increased workload, SPP added a management position in 2014 to manage Order 1000 RFP administration and to assist with the legal aspects of the RFP process. A second analyst position was also added to assist with the same functions as workload is anticipated to increase for review of qualified participants. The 2015 budget also includes consulting costs related to an Industry Expert Panel to be commissioned for the purpose of evaluating RFP responses (\$1.3 million). SPP expects to recover the costs related to the RFP process from entities participating in the bidding process starting in 2015. In 2015, \$0.4 million in consulting expense was added to assist in the Definitive Project Proposal (DPP) process and for services associated with the use of cost estimation software by an outside vendor.

From the interregional perspective, the Order most notably increases information sharing and coordination between planning regions for interregional projects, and also calls for the development of joint planning studies between neighboring planning regions. In preparation for implementing the process, three engineering positions were added during 2013 to ensure SPP’s compliance with the Order’s interregional aspects.

Inclusion of Integrated System (IS) – The SPP footprint is expected to increase in size with the onboarding of the IS entities in the fourth quarter of 2015. Owned by the Western Area Power Administration’s Upper Great Plains Region, Basin Electric Power Cooperative, and Heartland Consumers Power District, the IS covers much of North Dakota, South Dakota, and includes parts of Iowa, Minnesota, Montana, and Nebraska. Its 9,848 miles of high-voltage transmission lines would mean a 17 percent increase (to 58,316 miles) in the miles of transmission lines managed by SPP.



Incremental expense associated with the IS integration includes the following:

Integrated Systems Incremental Expense	2015	2016	2017
Incremental staffing (Salaries, benefits and taxes) ⁽¹⁾	\$ 0.2	\$ 0.3	\$ -
Travel and meetings	\$ 0.2	\$ 0.0	\$ 0.0
Maintenance	\$ 0.2	\$ 0.1	\$ 0.1
Consulting - IT / Operations Wind forecasting	\$ 0.2	\$ 0.1	\$ 0.1
Consulting - IT Staff augmentation	\$ 0.5	\$ -	\$ -
Consulting - Engineering planning and analysis	\$ 0.5	\$ -	\$ -
Consulting - IT / Operations (O&I)	\$ 0.2	\$ -	\$ -
Consulting - Settlements	\$ 0.1	\$ -	\$ -
Total Operating Expenses	\$ 1.9	\$ 0.6	\$ 0.3
IT Settlements ETS enhancements	\$ 0.3	\$ -	\$ -
IT Software development	\$ 0.3	\$ -	\$ -
IT Settlements ETSE upgrade	\$ 0.3	\$ -	\$ -
IT Hardware	\$ 0.2	\$ -	\$ -
Total Capital Expenses	\$ 1.0	\$ -	\$ -
Total Expenses	\$ 3.0	\$ 0.6	\$ 0.3

(1) Two incremental positions in Operations added in March 2015 to assist with the implementation and operations of IS. Through maturity of staff and restructuring, two positions will be eliminated by 2017.

Offsetting the costs illustrated above, SPP transmission customers realize a reduction in the administrative fee as a result of the additional MWh load for IS. The IS annual load is estimated at 46.1 MWh, which is a 13% increase over SPP’s 2015 base load projection of 351.9 MWh. Since the integration is expected in October 2015, one-fourth of the annual IS load will be captured in SPP’s 2015 billing determinants. The Net Income/ (Loss) for SPP Foundation (total budget less IS and the Regional Entity) is shown below.

	SPP	Integrated	Regional	Total
Income	Foundation	Systems	Entity	2015 Budget
Tariff Administration Service	\$145.8	\$4.8	\$0.0	\$150.6
Fees & Assessments	15.8	0.0	11.8	27.6
Contract Services Revenue	0.5	0.0	0.0	0.5
Miscellaneous Income	5.2	0.0	0.0	5.2
Total Income	\$167.3	\$4.8	\$11.8	\$183.9
Salary & Benefits	77.7	0.2	4.5	82.4
Depreciation & Amortization	61.2	0.0	0.0	61.2
Communications, Leases & Maint	19.2	0.2	0.0	19.3
Outside Services	15.7	1.4	1.9	19.0
Administrative / Other	15.0	0.0	0.0	15.0
Assessments & Fees	16.4	0.0	0.0	16.4
Travel & Meetings	2.2	0.2	0.7	3.1
Total Expense	\$207.5	\$1.9	\$7.1	\$216.5
Net Income (Loss)	(\$40.2)	\$2.9	\$4.7	(\$32.6)
Debt Repayment				\$24.3
MW/H Forecast (in millions)				363.5
Net Revenue Requirement				\$145.3
2013 /2014 True Up				\$4.9
Recommended Admin Fee / MWh				\$0.413

Strategic Outlook

The 2014 strategic plan positions SPP to fulfill its mission statement over the next decade and beyond. The plan recognizes the future is uncertain and that depending upon circumstances, responses must be conditioned upon cooperation, industry knowledge, technology, and the interdependence of neighboring regions, as well as new fuel resources for generation. The 2014 Strategic Plan introduces a new foundational strategy, reliability assurance, as its bedrock. With reliability assurance as its basis, the plan updates the 2010 Strategic Plan, which are anchored in the Mission Statement (“Helping our members work together to keep the lights ... today and in the future”) and the five components of SPP’s Value Proposition to its members (relationship-based, member-driven, independence through diversity, evolutionary versus revolutionary, reliability and economics are inseparable). The strategic initiatives related to each of the four interdependent foundational strategies will position SPP for the future while balancing operational priorities and financial considerations.

The energy industry remains in a period of dynamic transformation. In developing the strategic initiatives, SPP has considered several of the evolving factors affecting demand, generation resources, and transmission requirements of SPP and its members:

Demand Growth

- SPP has experienced significant pockets of demand increase in certain regions of the footprint caused by the sudden and recent growth of oil and natural gas drilling and transportation industries. The most significant transmission challenges facing portions of the SPP footprint are related to the increase in oil and gas drilling. SPP fully expects that the economic cycles and the energy market pricing fluctuations will produce wide swings in overall demand from year to year.
- Growth in behind-the-meter generation resources by end-use customers, demand response, conservation, and improved efficiencies are expected to continue through 2023; however, the overall impact in meeting the energy and capacity obligations of the SPP region is relatively small.

Generation

- Many competing factors will impact the future mix of generation resources. SPP will stay informed on continuing developments and will incorporate flexibility and adaptability into future plans.
- SPP continues to experience an influx of variable generation resources, leading to operational challenges; however, SPP is enhancing planning processes to better capture the impacts of the oil and gas projects and variable generation.
- Increased usage of renewable resources is becoming a significant factor in the generation mix, and necessitates the development of new tools and capabilities to plan for reliably integrating these resources into the grid. The increase in installed variable generation in the SPP footprint, which is composed almost entirely of wind generation, will continue to cause operational challenges. The SPP RTO Consolidated BA will provide balancing benefits for the widespread installed wind generation.

Transmission

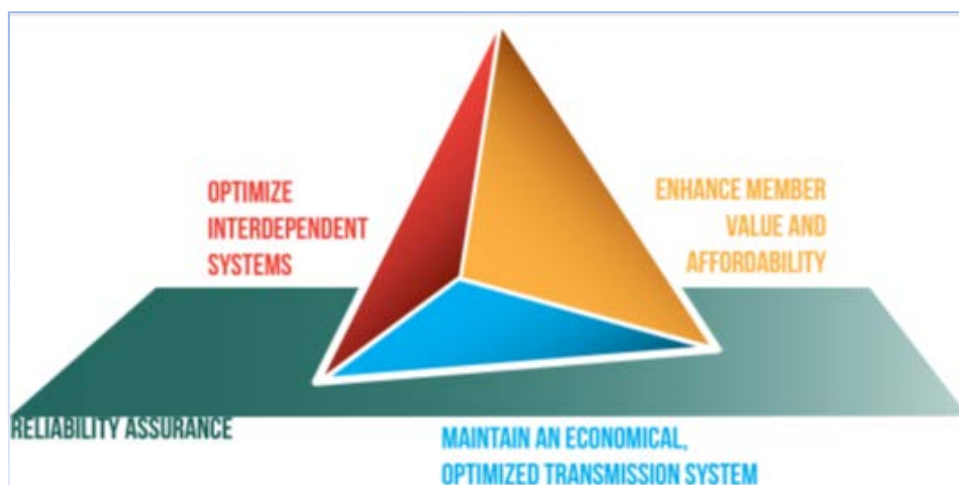
- The most significant transmission challenges facing portions of the SPP footprint are related to an increase in oil and gas drilling and environmental policies restricting carbon emissions. New oil and gas drilling facilities are built faster than they can be captured in SPP's planning processes and models. The

cumulative effect of environmental regulations on generating capacity may significantly shift the planning for future transmission facilities.

- Expansion of renewable resources will be a major factor impacting the transmission system, as many of these resources are located in areas that are not currently connected to the grid or will require significant capacity expansion.
- The introduction of new types of generation resources into the traditional mix will require greater inter-regional planning and coordination of the transmission system.
- More robust market capabilities will be required in the future, and regional grid operators will need to develop better mechanisms to extend benefits across the seams between market areas.
- Advanced technologies will be available in the future to support robust grid operations, to help end-use customers make more informed decisions about energy use and even providing energy to the grid.
- Land acquisition and “right of way” issues are continually becoming more complex and time-consuming.
- Reliability standards are also becoming more complex and require the ability to manage multiple simultaneous contingencies.

Alignment of 2015 Budget with SPP’s Strategic Plan

The Strategic Plan approved by the SPP Board of Directors identifies four foundational strategies to create the capabilities and operational processes needed to fulfill SPP’s mission and maintain or improve its value propositions in the face of a rapidly changing environment. These four strategies are interdependent, with reliability assurance as the basis, and the enhancement of member value and affordability as the discipline to drive all SPP strategies. The foundational strategies are long-term, fundamental components of the SPP business model. The plan focuses on four broad strategies to be continued, initiated, and/or completed over the next 10 years.



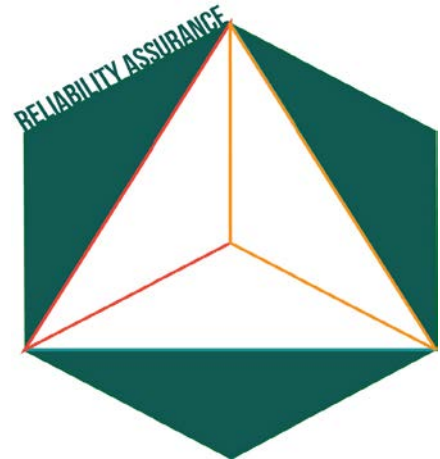
Reliability Assurance

Reliability is the bedrock of SPP's business. Many changes are taking place simultaneously in the reliability arena requiring SPP to continuously shift and improve planning and operating the system:

- Greater reliance on variable energy resources (wind and solar)
- Shift by consumers to less predictable load patterns
- Reliability implications of environmental policies and regulation
- Continued risk of cyber and physical threats

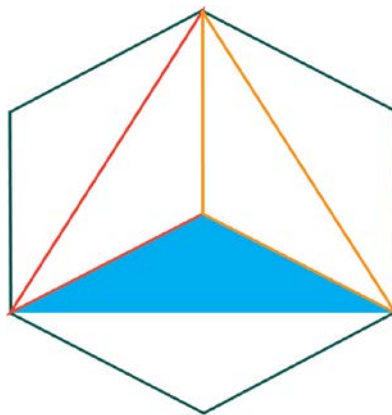
The following are specific initiatives related to reliability assurance:

- Capacity margin refinement
- Regional resource need and value assessment
- Reliability assessments of environmental rules
- Integration of variable energy resources
- Grid resiliency against cyber and physical threats
- Reliability excellence



Maintain an Economical, Optimized Transmission System

The 2010 SPP Strategic Plan focused on building a robust transmission system, which was described as a system containing an optimal mix of highways (300 kV+) and byways (below 300 kV), and one that minimizes future transmission constraints without over-investing in



**MAINTAIN AN ECONOMICAL,
OPTIMIZED TRANSMISSION SYSTEM**

transmission capacity. A robust system creates immense value for SPP members and end users in the SPP region. In 2013, SPP members completed 112 transmission projects totaling more than \$612.7 million. The SPP Board has authorized notices to construct for roughly \$8 billion of transmission grid upgrades since the year 2000. This represents the culmination of efforts begun seven years ago to build transmission within SPP's footprint. SPP's strategy going forward includes focusing on maintaining the transmission system in an economical and optimized way.

The following are specific initiatives related to maintaining the transmission system:

- Integrated transmission planning check and adjust
- Cost controls on competitive transmission (Order 1000)

- Flexibility to address policy initiatives
- Value pricing: import/export strategy and cost allocation
- Fair and equitable cost/benefit allocation policies

Enhance and Optimize Interdependent Systems

SPP successfully implemented its Integrated Marketplace (IM) on March 1, 2014. Additional enhancements (including member-driven and FERC-directed) are also being made to the Integrated Marketplace and are on track for completion in 2015.



If members are required to move toward more utilization of natural gas as a generation fuel, it will become necessary to coordinate with the natural gas industry to facilitate additional gas transmission pipelines and to develop the operating flexibility allowing the generators to follow load.

Additional value can be derived by optimizing transmission on the boundary seams of the region. This will be a comprehensive effort to focus on inter-regional agreements to plan, allocate cost, optimize usage and provide for fair compensation for the use of transmission across boundaries.

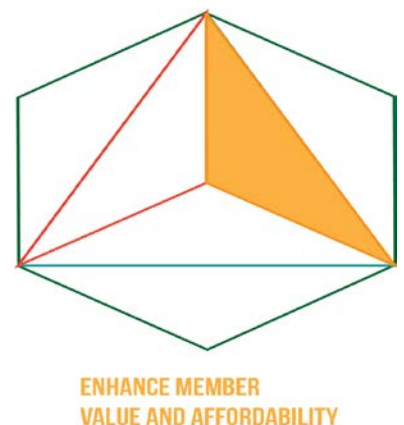
The following are specific initiatives related to enhancing and optimizing interdependent systems:

- Inter-regional coordination of transmission planning and operations
- Optimize market efficiencies along seams
- Optimize natural gas pipeline system seams
- Optimize data seams within SPP and with SPP’s members, customers, and external parties
- Integrated Marketplace enhancements

Enhance Member Value and Affordability

SPP continually strives to enhance the value delivered to its members. In addition to the strategic initiatives noted above, SPP will create and continually improve work processes to ensure they are efficient and effective.

SPP recognizes the importance of prioritization of strategic initiatives. SPP will continue to work with its members through the Markets and Operations Policy Committee to share information about the costs and



benefits of member-facing project initiatives and regularly provide updates on the entire portfolio.

SPP will further develop processes and a communication strategy to demonstrate to members, regulators, and customers the general inter-zonal equity of costs and benefits for strategic initiatives.

The following are specific initiatives related to enhancing member value and affordability:

- Communication strategy on value/affordability
- Fair and equitable cost/benefit allocation policies
- Project Management Office best practices and rigor in evaluating new projects
- Enhanced market analytics
- Strategic membership expansion and improved stakeholder processes
- Improved communication with and education of stakeholders and external parties

Process Improvements

The SPP staff is conscientious of the need for continuous business process improvements as a strategy to increase the value of services delivered to SPP members at lower costs. SPP has experienced significant growth in the volume and complexity of its service offerings over the past decade. SPP's service offerings in 2005 consisted primarily of:

- Reliability Coordination
- Tariff Administration
- Transmission Scheduling
- Interconnection Studies
- Reliability Studies

Since 2005, SPP has added the following services that provide meaningful benefits to the SPP region:

- Energy Imbalance Services market (retired March 2014)
- Independent Coordinator of Transmission for Entergy (retired December 2012)
- Independent Transmission Operator for Louisville Gas & Electric (retired December 2012)
- Day-ahead Services market
- Real-time Balancing market
- Transmission Congestion Rights market
- Balancing Area services
- Aggregate Study Processes (resulting in over \$8 billion in NTCs issued)

SPP was able to provide these new value-added services in a manner satisfying the expectations of the majority of SPP members. As a result, SPP realized a significant increase in its costs of operations. The increased costs were considered in cost/benefit studies for the majority of services.

Many significant challenges still lie ahead as SPP implements Project Pinnacle in early 2015, advances the competitive bidding processes required by FERC Order 1000, and assists the membership in carrying out EPA mandates on environmental protection. SPP's members are under pressure to reduce or keep rates steady, while their rates are burdened with the cost recovery of the SPP regional transmission projects and capital requirements to satisfy environmental mandates on carbon emissions or elimination of coal production.

SPP management is cognizant of the need to reduce operating costs wherever feasible. SPP has challenged management teams to identify real cost reductions in 2015 compared to 2014. Each member of SPP management was required to identify and implement at least one cost reduction for 2015. The reduction was required to be a true savings over what is actually spent in 2014, not simply a reduction in the year-over-year budget.

The following table illustrates the cost reductions, by department, identified during the process. The largest reductions are in areas currently utilizing external consultants, as management reassessed workload in attempts to accomplish more work with the same number of resources, or to do the same amount of work with fewer resources. The savings result from eliminating and/or limiting the 2015 consulting engagements and instead relying on existing staff to absorb expertise and responsibilities. Other savings were identified by reducing travel costs for the company. These reductions take the form of hosting more meetings at SPP's Corporate Center in Little Rock and making broader use of teleconferencing options instead of travelling to attend off-site meetings. In total, the cost savings identified exceed \$2.15 million. Individual managers are responsible for tracking the cost savings throughout the year and the savings will be reported to the SPP Finance Committee throughout 2015.

Department	Description of Savings	Savings (\$millions)
Operations	Consultants, overtime, travel, licenses expenses, level of backfill positions	\$ 0.935
Information Technology	Consultants, eliminate low value licenses, delay staffing backfill, travel	\$ 0.857
Project Management	Consultants	\$ 0.200
Engineering	In-source reporting, raise billing for services	\$ 0.050
Training	Travel, host meetings at member sites or at SPP	\$ 0.033
Settlements	Eliminate licenses, reduce SUG meetings	\$ 0.024
HR	Change evaluation cycle, change compliance vendor	\$ 0.013
Compliance	Increase teleconference vs travel	\$ 0.011
Communications	Change service provider	\$ 0.010
Facilities	In-source HVAC maintenance	\$ 0.009
Internal Audit	Eliminate low-value 3rd party services; reduce travel	\$ 0.004
Regulatory	Eliminate subscriptions and travel	\$ 0.004
Accounting	Eliminate low-value 3rd party services; lower license expense	\$ 0.003
Legal	Overnight delivery	\$ 0.002
Customer Relations	Decrease travel	\$ 0.001
	Total	\$ 2.156

Continuous Improvements LEAN Initiatives

LEAN business thinking continues to form the foundation for SPP's continuous improvement efforts. About half of SPP's workforce has participated in LEAN initiatives to refine processes across at least seven divisions. Among these initiatives:

- Operations implemented improvements to SPP's communication with market participants on wind curtailments and other non-dispatched resources. As a result of more proactive market participant notifications, combined with automated routing and tracking of inquiries, the number of external queries declined and internal productivity increased (estimated at \$0.2 million annually). Interested parties can now refer to spp.org for detailed, near-real-time information to better understand the conditions affecting SPP reliability decisions.

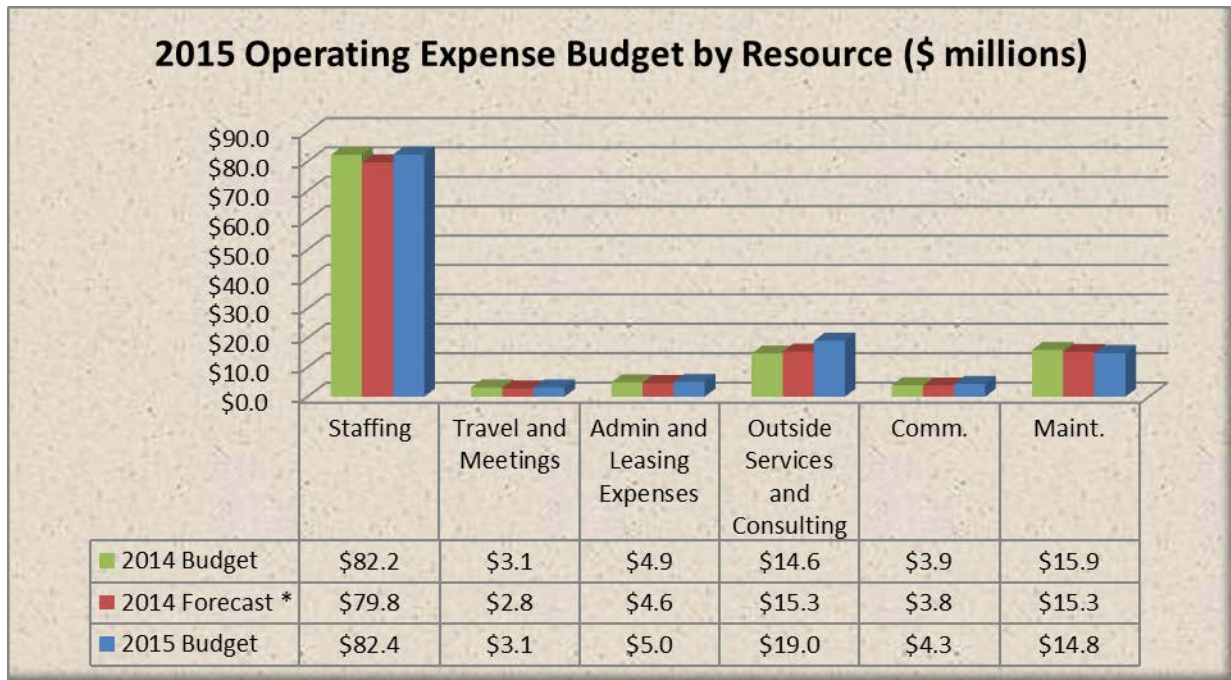
- Engineering embarked on an initiative to improve coordination and visibility of transmission facility ratings changes. The team developed an automated approach to identifying and tracking changes with the potential to affect long-term planning models. The initiative, which improved coordination across the operations and planning departments, positions SPP to be better informed of changes that could influence cost allocation decisions. The additional visibility also enhances SPP's ability to maintain effective real-time operation of the grid as well as long-term transmission planning.
- IT determined that changes in provisioning products and services could reduce costs while still maintaining the quality of systems. In the first half of fiscal 2014, IT's change in focus on multi-year agreements and bundling of maintenance costs resulted in projected cost avoidance of the following (realized over three years):
 - \$0.6 million based on vendor discounts
 - \$0.2 million from internal productivity gains, i.e. negotiating the contract once in a three-year period instead of annually

Additional work is under way to shorten procurement timelines so new or upgraded systems are installed without costly delays.

These examples represent a wide range of activity undertaken in all areas of the company to increase productivity, improve quality and enhance effectiveness. Among the LEAN initiatives identified for 2014 are improvements to SPP's model and ratings processes, quality assurance processes, approach to Settlements information system testing, and coordination of IT requests across applications. The goals behind these efforts are multi-faceted, but true to the LEAN spirit, all are anchored by the desire to increase the value provided to SPP's members and market participants.

IV. 2015 Budget: Resource Utilization View

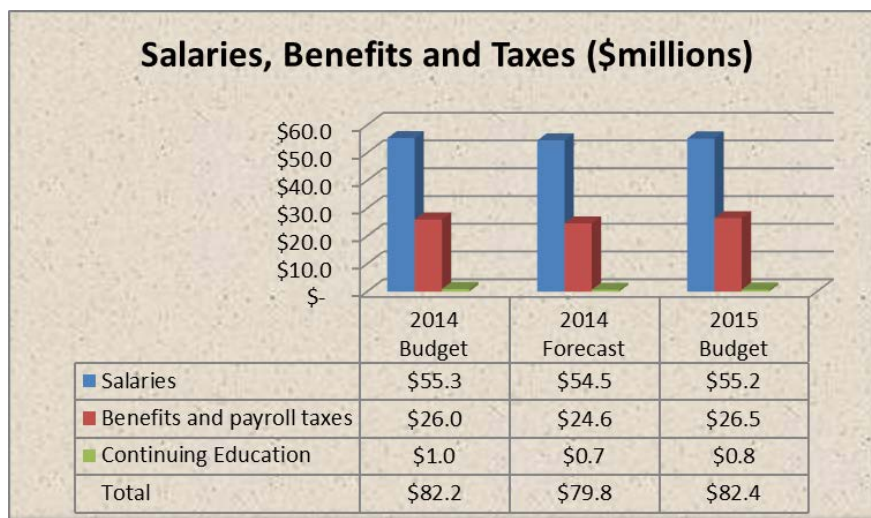
SPP's 2015 budget encompasses utilization of various resources in driving SPP to meet its strategic goals and organizational objectives. The chart below shows SPP's resources and the corresponding 2015 budget amounts in comparison to 2014 budget and forecast. The 2014 forecast excludes non-recurring items.



* 2014 forecast excludes non-recurring items

Staffing: Valuing Work at SPP

SPP's employees are the most valuable and significant resource and the driver of the single largest component of the operating budget. Compensation-related expenses (including salary,



benefits, and taxes) total \$82.4 million and comprise 64% of the 2015 operating expenses budget (excluding FERC, depreciation and interest), an increase of \$0.2 million compared to the 2014 budget. The main factors leading to the increase in staffing costs in 2015 are

related to merit and anticipated increases in healthcare costs. These increases are offset by an increase in the vacancy rate from 2% to 4%, which is reflective of the average vacancy rate experienced during 2014. There are five incremental headcount proposed in 2015, resulting in a total staff of 600, which is three less than the prior 2015 forecast.

Merit and Vacancy Rate Assumptions

The Human Resources Committee recommended an overall merit increase of 2.3% for 2015 based on the CPI inflation rate and feedback from SPP members, which contributes to higher salary expenses in 2015. Merit increase was budgeted at 2.4% in 2014. The promotion pool remained consistent with 2014 at 0.75%.

Merit Increase 5-Year Trend					
	2011	2012	2013	2014	2015
HRC Approved	2.9%	2.5%	2.0%	2.4%	2.3%
CPI Growth	2.9%	2.5%	1.5%	2.4%	2.3%

Based on historical trends and expectations, the prior 2014 – 2016 projections included a vacancy factor of 2%. In 2014 vacancy levels fluctuated between 3% and 4% throughout the year. By the end of 2014, headcount is expected to be within 3% of the projected 2014 level (582 of 598). SPP anticipates staff turnover in 2015 to be consistent with trends experienced in 2014. Entering the year with 22 openings and assuming a 90-day period required to backfill open positions, SPP expects a vacancy rate of 3.6% at the beginning of 2015. For purposes of the 2015 budget, SPP utilized a 4% vacancy rate. This equates to turnover averaging 24 open positions during the calendar year.

Healthcare Costs

The net cost of the self-funded medical plan in the 2015 budget is \$5.3 million, an increase of 24.7% or \$1.1 million compared to the 2014 forecast, and 16% or \$0.8 million compared to the 2014 budget. The increase is largely due to the continued increase in medical claims SPP has been experiencing since late 2012. This upward trend is expected to continue throughout 2015, resulting in higher healthcare expenses.

Approximately 92% of employees participate in the medical plan currently. The average number of participants in 2015 is estimated to be 532, compared to the projected average of 528 employees in 2014. Total gross claims are estimated to be \$5.6 million in 2015, compared to a forecast of \$4.6 million in 2014, an increase of 22.9%. SPP pays fees to the insurance provider to cover administrative costs and insure against excessive losses at both the participant and corporate level. These fees are estimated to be \$1.0 million in 2015, compared

to a forecast of \$0.9 million in 2014, an increase of 9.8%. In 2014, SPP managed to mitigate the increase in fees that normally would have been incurred due to the growth in claims by increasing the deductible on per participant losses. Employee contributions to the medical plan offset the overall cost and are estimated to be \$1.3 million in 2015, compared to a forecast of \$1.2 million in 2014 as a result of a planned increase of 6.0% in contributions per participant. The net cost of the medical plan to SPP per participant is expected to be \$835/month, compared to \$724/month in 2014, mainly due to the increase in claims. SPP's Human Resource Committee targets to maintain an 80/20 cost ratio between employer and employee. The following table illustrates total healthcare costs using various cost ratio percentages.

Healthcare Costs (\$ millions)				
Cost Ratio	80/20	75/25	70/30	60/40
Employer	\$5.3	\$4.9	\$4.6	\$3.9
Employee	\$1.3	\$1.6	\$2.0	\$2.6
Total	\$6.6	\$6.6	\$6.6	\$6.6

Staffing Levels

SPP's management continuously assesses and evaluates SPP's staffing levels across all areas of the organization. In 2014, SPP's forecast for headcount was reduced from 598 to 595 with the elimination of an open position in the Regional Entity (RE) and two positions within IT. The RE position had been open for more than 12 months, and it was determined that existing staff was sufficient to cover the workload. Due to reassignment of responsibilities, an IT manager position and an IT specialist position were eliminated after a retirement and resignation. Staff reductions in other areas within SPP were also the result of absorbing responsibilities as positions became vacant due to turnover, retirements or internal transfers; however, four of the six positions were reallocated to IT, with three of the four used to establish a 24x7 on-site shift of IT programmer/analysts. This shift provides immediate response to system issues within the Operations center, 24 hours a day.

	IT	Engineering	Settlements	Regional Entity	Corporate Svcs	Operations	Training/Cust Svc	TOTAL
2014 Staffing Reallocation								
Reductions in Engineer in Rotation program, positions transferred to IT	2	(2)						0
Settlement Analyst resignation, position transferred to IT	1		(1)					0
Executive Assistant retirement, position transferred to IT	1			(1)				0
Restructure between Engineering and Operations		(1)				1		0
Operations Customer Liason position transferred from Operations to Customer Service					(1)	1		0
Learning Mgmt System (LMS) Admin position transferred from Training to Corporate Svcs				1		(1)		0
IT Manager and IT Specialist, open positions eliminated	(2)							(2)
Regional Entity Compliance Enforcement Attorney, open position eliminated				(1)				(1)
Net change	2	(3)	(1)	(1)	0	0	0	(3)

Three of the four IT positions were included in the 2015 forecast (during the 2014 three-year budget planning), so there is no impact to the previous 2015 headcount total (i.e. 2015 incremental in prior forecast was removed). The prior 2015 forecast included three incremental positions in IT, one in Training and one in Engineering. Training resubmitted the position in the current 2015 budget; however, Engineering did not resubmit a request for incremental headcount in 2015. Market Design submitted a Market Analyst position to eliminate the ongoing use of a consultant for staff augmentation, and Operations requested one incremental position for market support and two to address the expanded responsibilities related to the addition of the Integrated System. The incremental positions in Operations are considered interim, as Operations plans to eliminate two positions by 2017 as a result of attrition.

Prior 2015 Incremental Positions			Current 2015 Incremental Positions		
598	2014 Budget Headcount		595	2014 Forecast Headcount	
1	IT	Accelerated to 2014 due to restructuring	1	Mkt	Reduces ongoing consulting costs
2	IT	Accelerated to 2014 due to restructuring	2	Ops	Reduces ongoing consulting costs
3	IT	Accelerated to 2014 due to restructuring	3	Ops	Restructure for elimination in 2017
4	Train	Approved in 2015 Forecast	4	Ops	Restructure for elimination in 2017
5	Eng	Approved in 2015 Forecast	5	Train	Repurposed from 2015 Forecast
603			600		

The table below shows the staff numbers by executive division:

Headcount by Division	2014 Budget	2014 Forecast	2015 Budget	2016 Budget	2017 Budget
Operations	157	157	160	160	158
Information Technology	144	146	146	146	146
Engineering	76	73	73	73	73
Process Integrity	47	47	48	48	48
Finance	39	38	38	38	38
Compliance, Communications, and MMU	30	30	30	30	30
Corporate Services	29	29	29	29	29
Regulatory Policy and Legal	26	26	26	26	26
Officers	10	10	10	10	10
Market Design	6	6	7	7	7
Interregional Relations	3	3	3	3	3
Subtotal	567	565	570	570	568
Regional Entity	31	30	30	30	30
Total Headcount	598	595	600	600	598

SPP strives to attract and retain a highly educated and skilled employee base to provide the highest level of service and value for its members. Compensation and benefits are regularly monitored to ensure SPP remains a competitive and attractive employer. SPP administers an in-house Engineer in Rotation program, which seeks the most talented engineering graduates for an expansive training program. This program has been reduced from six to four in 2015, with two of the positions being repurposed for IT. The rotating staff of engineers gain experience

through on-the-job training and are placed in permanent roles as positions become available through normal employee turnover.

The staffing budget for 2015 includes funding for staff compensation (base salary, performance compensation,

and overtime pay), benefits and payroll taxes, relocation, and tuition reimbursement. The base salary budget includes a merit increase of 2.3% and promotion increase of 0.75%, which is a pool of funds for company-wide promotions overseen by the Human Resources department. Performance compensation is budgeted at the target level of 15.0% of base salary and is paid in February of the following year.

The budget for benefits and payroll taxes includes medical, dental, and life insurance benefits, retirement plan contributions, relocation expenses, employee events, payroll taxes, and continuing education. Insurance benefits are budgeted based on projected per participant costs. Funding for 401(k) matching contribution is estimated at 4% of the salary expense based on recent company trends. Below is a breakdown of various employee benefits and taxes:

Salary Expenses (\$ millions)	2014 Budget ⁽¹⁾	2014 Forecast	2015 Budget ⁽²⁾
Base salaries at beginning of year	\$53.4	\$53.4	\$54.5
Incremental staff	0.1	0.1	0.4
Market Adjustment	0.2	0.2	0.0
Merit Increase	1.2	1.2	1.3
Promotions	0.4	0.4	0.4
Premium Pay	1.0	1.1	0.9
Vacancy	-1.1	-1.9	-2.2
Total Salary Expenses	\$55.3	\$54.5	\$55.2

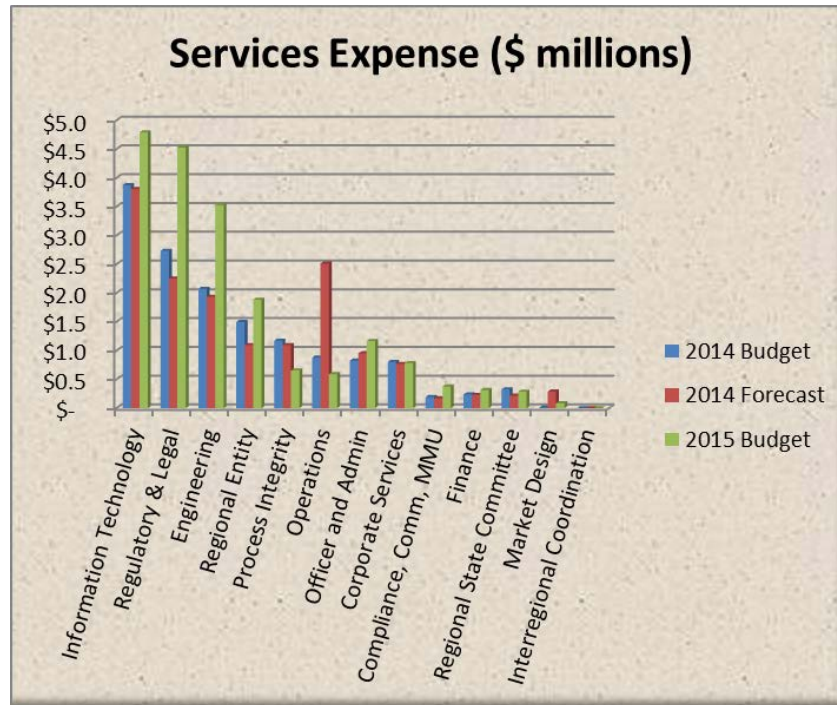
(1) 2014 vacancy 2.0%, merit 2.4%

(2) 2015 vacancy 4.0%, merit 2.3%

Benefits and Payroll Taxes (\$ millions)	2014 Budget	2014 Forecast	2015 Budget
Performance Compensation	\$8.4	\$8.4	\$8.7
Medical Benefits	4.6	4.3	5.3
Dental Benefits	0.4	0.4	0.4
Life Insurance Benefits	0.2	0.2	0.3
Retirement Plans (401k and Pension)	7.3	6.6	6.7
Payroll Taxes	4.7	4.2	4.7
Continuing Education	1.0	0.8	0.8
Other Employee Benefits	0.3	0.4	0.4
Total Before Non-Recurring Items	\$26.9	\$25.3	\$27.2
Non-Recurring Items	0.0	4.3	0.0
Total Benefits and Payroll Taxes	\$26.9	\$29.6	\$27.2

Outside Services

Outside services consist of third-party expertise to assist SPP in deploying various services, providing legal representation and advice, and satisfying audit requirements. Outside service expenses are estimated to be \$18.7 million in 2015 representing an increase of \$4.4 million compared to the 2014 budget, and \$3.6 million compared to the 2014 forecast. This comprises 15% of the total 2015 operating expenses (excluding FERC fees, depreciation and interest).



Outside Services by Division (\$ millions)	2014 Budget	2014 Forecast	2015 Budget	2015 Budget Over / (Under):	
				2014 Budget	2014 Forecast
Information Technology	\$ 3.9	\$ 3.8	\$ 4.8	\$ 0.9	\$ 1.0
Regulatory Policy and Legal	\$ 2.7	\$ 2.3	\$ 4.5	\$ 1.8	\$ 2.3
Engineering	\$ 2.1	\$ 1.9	\$ 3.5	\$ 1.5	\$ 1.6
Regional Entity	\$ 1.5	\$ 1.1	\$ 1.9	\$ 0.4	\$ 0.8
Officer and Admin	\$ 0.8	\$ 1.0	\$ 1.2	\$ 0.3	\$ 0.2
Corporate Services	\$ 0.8	\$ 0.8	\$ 0.8	\$ (0.0)	\$ 0.0
Process Integrity	\$ 1.2	\$ 1.1	\$ 0.7	\$ (0.5)	\$ (0.4)
Operations	\$ 0.9	\$ 2.5	\$ 0.6	\$ (0.3)	\$ (1.9)
Compliance, Communications, and MMU	\$ 0.2	\$ 0.2	\$ 0.4	\$ 0.2	\$ 0.2
Finance	\$ 0.2	\$ 0.2	\$ 0.3	\$ 0.1	\$ 0.1
Market Design	\$ 0.0	\$ 0.3	\$ 0.1	\$ 0.1	\$ (0.2)
Interregional Coordination	\$ -	\$ -	\$ -	\$ -	\$ -
Total Outside Services Expense	\$ 14.3	\$ 15.1	\$ 18.7	\$ 4.4	\$ 3.6

Outside services expenses have increased from the 2014 budget and forecast in various areas.

By engaging consultants for various staff augmentation needs, the **IT department** incorporates \$4.8 million in outside services expense, representing 25% of the total and approximately a \$1.0 million increase over the 2014 budget and forecast. As SPP staff works on delivering new functionality required as part of Project Pinnacle and the IS Integration project, the contractors assist with the extra workload required to support systems. The IS Integration project represents \$0.9million of consulting expense, accounting for over 90% of the increase from 2015 to 2014.

The **Regulatory and Legal department** represents 24% of the 2015 outside services budget. Outside legal counsel is utilized for various litigation matters throughout the year and remains relatively consistent with the 2014 budget and forecast (\$2.5 million). Outside FERC counsel provides unique legal expertise on specific and strategic FERC matters. FERC counsel allows SPP to leverage their existing relationships with FERC staff and their knowledge of RTO-specific development.

The budget includes costs for Order 1000 Industry Expert Panel (IEP) of \$1.3 million, which will be recovered in revenue from the participants in the proposal process. Since the process begins in 2015, the costs are incremental to the 2014 budget and forecast. The budget also includes incremental consulting costs of \$0.8 million related to recently required studies. A provision in the Tariff (OATT) requires SPP to perform a Regional Cost Allocation Review (RCAR) to evaluate the reasonableness of the base plan allocation methodology and associated factors. The RCAR report was approved by the stakeholders and Board of Directors to begin once the ITP10 is completed in January 2015. In order to provide efficiencies in modeling and analysis, the stakeholders and Board of Directors elected to engage the Rate Impact Task Force (RITF) for analysis to be completed in parallel with the RCAR.

The **Engineering department** represents over 18% of the 2015 outside services budget (\$3.5 million) and has increased by approximately \$1.5 million over the 2014 budget and forecast. SPP engages consultants for many aspects of the engineering planning processes. Generation Interconnection study requests are numerous, and consulting services are engaged to complete these studies when requests are greater than SPP staff can accommodate. As appropriate, the consulting costs in these studies are passed through to the participants in the process.

Engineering has three new initiatives and two Order 1000 efforts driving the increase in outside services to be engaged in 2015. These originate from Board of Directors requests, new legislation, and SPP's strategic directive for member expansion and member value. Each came into focus after the 2014 budget was complete.

- \$0.7 million – The **Value of Transmission** initiative is a Market Operations and Policy Committee (MOPC) action item directed from the Board of Directors in January 2014. The main focus of this effort is to determine benefits attributable to transmission development in the SPP region. The study will provide realized and future benefits of transmission using real-time planning models, historical data, forecasts, and other sensitivities not included in SPP's ITP or RCAR benefit studies. The results of the study will benefit members in quantifying new transmission projects that will complete in the next two years with their regulatory commissions and validate the benefits to consumers of transmission beyond that of reliability. This study is in line with SPP's new

strategic initiatives of maintaining an economical, optimized transmission system while providing member value with a communication strategy on value/affordability.

- \$0.5 million – After reviewing the efforts involved in onboarding the **Integrated System**, SPP determined additional resources are required to provide the planning and analysis to bring the IS into our planning processes. Since membership expansion is a strategic priority, the effort will be done in parallel to Engineering’s existing Integrated Transmission Planning (ITP) efforts and will include the ITP Near-Term (ITPNT), a new ITP10, and the Order 1000 requirements for the DPP windows in those studies.
- \$0.3 million – One of the most critical regulatory items for SPP Transmission Planning in the next five years is the **EPA’s Clean Power Act Rule 111(d)** draft issued in June 2014. This act has a broad impact on SPP members, stakeholders, and electric consumers within the SPP footprint. The changes to generation resources based on this ruling could have a landmark effect on SPP’s planning processes. In order to determine how transmission planning will adjust for resources impacted by Rule 111(d), multiple studies must be done on many of the aspects of the Clean Power Act, including outage impacts, regional versus state qualification, reliability analysis, economic analysis, and the effects on the ITP planning cycle. These issues will be addressed in the near term so SPP can work with its members on all the possible impacts of the Clean Power Act to make decisions with greater knowledge and confidence.
- \$0.3 million – **FERC Order 1000** was implemented January 2014. Many of the aspects of Order 1000, such as Detailed Project Proposals (DPP) and PROMOD support for ITP10, were accounted for in the original 2014 and 2015 budget forecasts; however, these solutions must be processed in a timely manner in order to stay within the ITP schedule and provide submitters the opportunity to cure any deficiencies in the proposals. With this short-term duration and high volume of work, SPP will engage highly skilled technical analysts on a short-term contract basis rather than hiring a permanent resource or issuing a long term consulting contract.

The 2015 budget includes outside services and consultants in various other areas including the following:

- \$1.9 million – Regional Entity: audits and hearings
- \$1.2 million – Officer and Administrative: board fees, legislative consulting
- \$0.8 million – Corporate Services: facility and employee services
- \$0.7 million – Process Integrity: audit and project management
- \$0.6 million – Operations : Integrated System OATI changes
- \$0.4 million – Communications and Market Monitoring: reporting/data services
- \$0.3 million – Finance: financial audits, credit services, IS Settlement consultant

- \$0.1 million – Market Design: market consultant

Maintenance

The maintenance expense budget includes expenses to maintain SPP’s IT hardware and applications and for maintaining corporate facilities.

Maintenance Expense (\$ millions)	2014 Budget	2014 Forecast	2015 Budget	Prior 2015
IT Software & Equipment	\$ 15.2	\$ 14.5	\$ 14.1	\$ 15.2
General Plant Maintenance	\$ 0.7	\$ 0.7	\$ 0.7	\$ 0.7
Total	\$15.9	\$15.3	\$14.8	\$15.9

The IT maintenance budget increased significantly between 2013 and 2014 due to an increase in the IT operating environment to support Integrated Marketplace. The IT department is now focused on maximizing the value of ongoing hardware/software maintenance agreements by leveraging multi-year terms to align with the technical life of the asset (as appropriate). This will provide price protection and reduce the overall annual maintenance cost for the respective products, while also reducing annual renewal activities therefore improving SPP staff productivity.

In addition to multi-year agreements, the maintenance budget is positively affected by the replacement of older IT hardware technology. The new equipment will carry a warranty, thereby eliminating maintenance costs during the warranty period. As a result, certain IT maintenance expenses are projected to decrease during 2015 by approximately \$1.1 million as compared to the 2014 budget and \$0.5 million as compared to the 2014 forecast.

Maintenance Expense (\$ millions)	2014 Budget	2014 Forecast	2015 Budget	Prior 2015
Support-IT Foundation	\$ 7.8	\$ 7.4	\$ 7.1	\$ 7.9
Market	\$ 2.8	\$ 2.7	\$ 1.9	\$ 2.9
Leveraged Services	\$ 1.7	\$ 1.8	\$ 1.7	\$ 1.5
Reliability	\$ 1.4	\$ 1.4	\$ 1.5	\$ 1.3
Support-Project/Other	\$ 0.9	\$ 0.8	\$ 1.4	\$ 1.2
General Plant Maintenance	\$ 0.7	\$ 0.7	\$ 0.7	\$ 0.7
Transmission	\$ 0.5	\$ 0.5	\$ 0.5	\$ 0.5
Total	\$ 15.9	\$ 15.3	\$ 14.8	\$ 15.9

Other maintenance costs include various facility expenses such as janitorial expense, landscape maintenance, and preventive maintenance. The facilities maintenance budget remains comparable to the 2014 budget and forecast.

Administrative and Leasing Expenses

Administrative and leasing expenses are expected to increase by \$0.1 million in 2015 compared to the 2014 budget, with the most notable change due to the categorization of \$0.3 million for network hardware adapters as expense versus capital, as previously budgeted. This increase is offset by modest decreases in dues & donations (\$0.1 million) and utilities (\$0.1 million).

Administrative & Leasing (\$ millions)	2014 Budget	2014 Forecast	2015 Budget	Prior 2015
Property Tax	\$ 1.1	\$ 1.1	\$ 1.0	\$ 1.3
Insurance	\$ 1.1	\$ 1.1	\$ 1.1	\$ 1.1
Utilities	\$ 0.8	\$ 0.7	\$ 0.7	\$ 0.8
Dues & Donations	\$ 0.7	\$ 0.7	\$ 0.6	\$ 0.7
Equipment	\$ 0.6	\$ 0.5	\$ 0.9	\$ 0.6
Office	\$ 0.4	\$ 0.4	\$ 0.4	\$ 0.4
Leases	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2
Total	\$ 4.9	\$ 4.6	\$ 5.0	\$ 5.2

The largest component of the Administrative expense is insurance expense (\$1.1 million). The various components are listed here. The next largest component is property taxes, which are based on the value of SPP's assets (\$1.0 million).

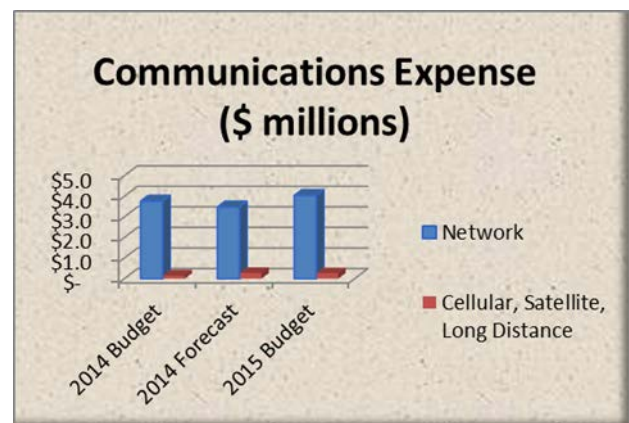
Insurance	2015 Budget
Commercial excess liability	\$ 0.7
Directors and Officers (D&O) liability	\$ 0.1
General liability	\$ 0.2
Workers compensation	\$ 0.1
Total	\$ 1.1

Dues are budgeted for professional or technical licenses and/or memberships in certain professional organizations where membership is related to employment by SPP, will maintain the employee's professional standing, or is otherwise beneficial to SPP. In addition to such employee dues, \$0.3 million of the \$0.6 million budget is related to Electric Power Research Institute (EPRI) membership for access to research conducted on issues related to the electric power industry.

Utilities, office and leases expenses make up the remaining administrative expense and remain reasonably consistent with previous projections in 2015.

Communications

Communications expense includes all expenditures related to SPP's internal and external networks and telecommunications. In 2015, network communication expenses are

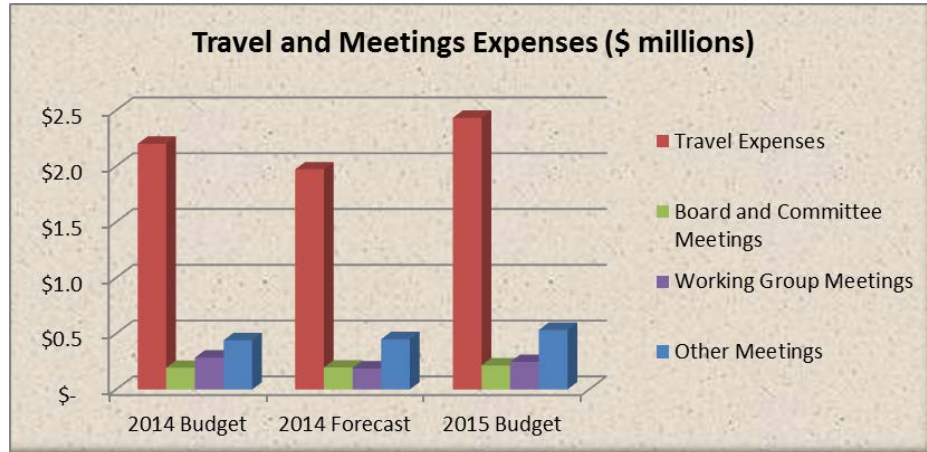


expected to be \$4.3 million. This increase of 13% over the 2014 forecast is primarily due to additional capacity required for growth and the Integrated Marketplace. Other factors contributing to the increase are expected increases in NERCnet expenses due to a change in provider (initiated by NERC), addition of a SERC hotline to provide a direct link for critical reliability issues, and an increase in OATI frame relay costs to increase capacity arising from bandwidth saturation.

Communications Expense (\$ millions)	2014 Budget	2014 Forecast	2015 Budget	Prior 2015
Network	\$ 3.8	\$ 3.5	\$ 4.0	\$ 4.0
Cellular, Satellite, Long Distance	\$ 0.1	\$ 0.3	\$ 0.3	\$ 0.1
Total	\$ 3.9	\$ 3.8	\$ 4.3	\$ 4.1

Travel and Meetings

Travel and meetings expenses are expected to increase by \$0.3 million in 2015 as compared to the 2014 budget and increase by \$0.6 million as compared to the 2014 forecast.



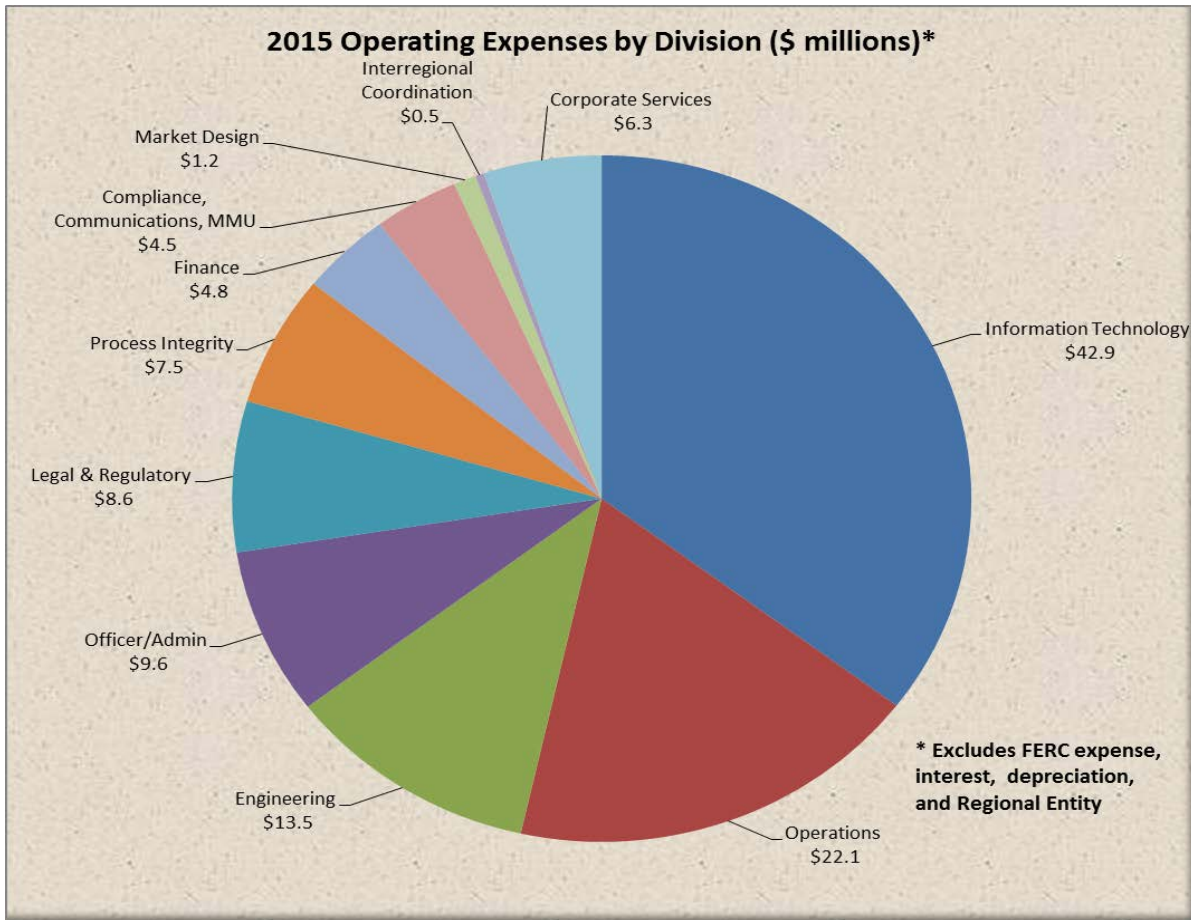
The largest component of the increase is in the Regional Entity, where travel is budgeted at \$0.2 million higher than the 2014 forecast. Additionally, travel and meetings associated with onboarding the Integrated System makes up \$0.2 million of the increase over the 2014 forecast.

When planning for external meetings, usage of SPP’s corporate facilities for various meetings, as well as utilization of member facilities is encouraged. In efforts to reduce travel and meeting expenses, SPP encourages all organizational groups to include Little Rock in the rotation for working group meetings.

Travel and Meetings Expenses (\$ millions)	2014 Budget	2014 Forecast	2015 Budget
Travel Expenses	\$ 2.2	\$ 2.0	\$ 2.1
Board and Committee Meetings	\$ 0.2	\$ 0.2	\$ 0.2
Working Group Meetings	\$ 0.3	\$ 0.2	\$ 0.2
Other Meetings	\$ 0.4	\$ 0.5	\$ 0.5
Total	\$ 3.1	\$ 2.8	\$ 3.1

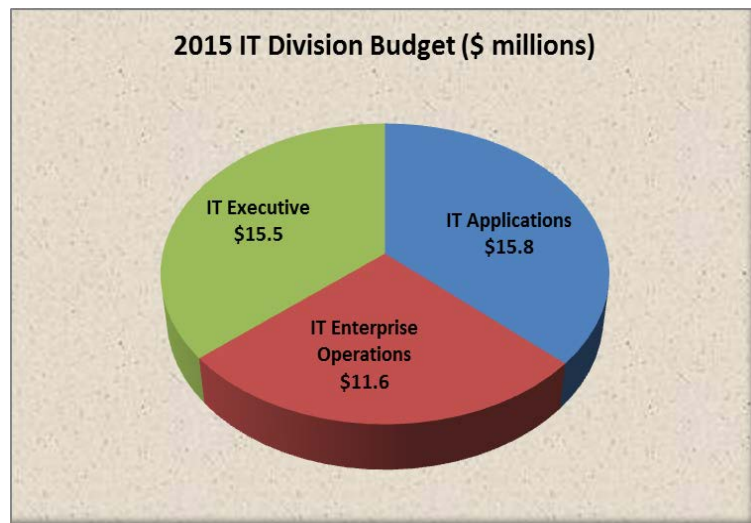
V. 2015 Budget: Division View

The 2015 operating budgets of the ten divisions are shown below.

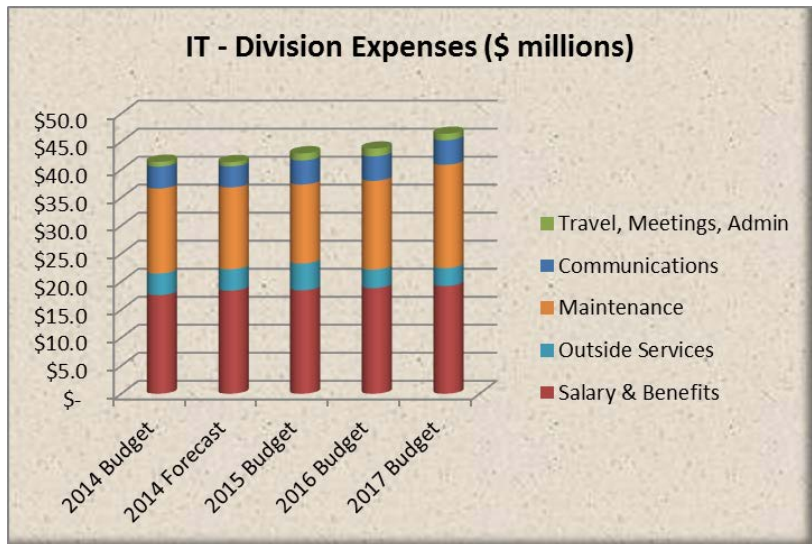


Information Technology

The primary mission of IT is to develop, deploy, integrate and support applications and infrastructure for SPP's operational and corporate systems. IT has a total of 148 employees with a proposed 2015 budget of \$42.9 million. This division has three main groups: and IT Executive (which includes maintenance), IT Enterprise Operations, and IT Applications.



The **IT Executive** department has a budget of \$15.5 million and includes compensation for a Chief Architect and IT Sourcing Team, as well as equipment and software maintenance for company-wide IT systems (\$14.1 million).



The **IT Applications** department provides 24x7 support for existing systems including transmission, reliability and the

Integrated Marketplace. In addition, the department is responsible for coordinating all software development efforts related to the Integrated Marketplace enhancements as part of the Project Pinnacle. IT Applications plays an integral role in nearly all new projects, including creating requirements/test/rollback plans; developing software; providing technical leadership; defining, implementing and reviewing architecture; and providing ongoing maintenance and support for these systems. The IT Applications group also tests and implements all software upgrades.

Based on recent workload requirements, along with anticipated increases in future workloads, management performed a review of current staffing levels. As a result, it was determined that current IT Applications staffing is adequate for 2015, supplemented by contractor resources to handle extra workload driven by projects such as the IS Integration. During 2014, six positions (three from within the IT department and three from existing vacancies outside of IT) were reallocated to support a new 24x7 on-site shift of IT programmer/analysts, referred to as the FIRST). This new team will provide immediate IT response to system issues by staffing a support desk within the Operations center 24 hours a day. The IT Applications department is comprised of 95 employees with a budget of \$15.8 million.

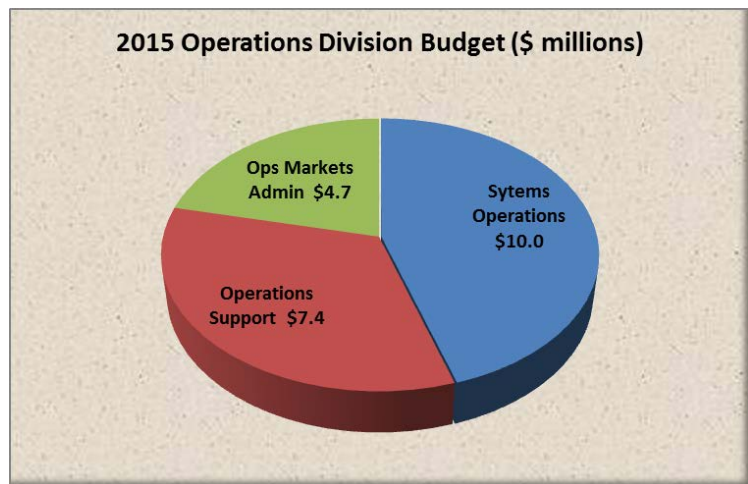
The **IT Enterprise Operations** department provides 24x7-support for all communications and networking systems, and all computer hardware and environmental needs for the SPP data centers. Each is critical to SPP's transmission, market, and business processes. IT Enterprise Operations provides technical direction, leadership, and architectural design for the communications, network, storage, backup/recovery, and computing platforms for all aspects

of the IT infrastructure utilized within SPP. IT Enterprise Operations has maintained a consistent headcount level for the past three years, while accepting a significant increase in workload (number of servers, increases in storage, etc.). The department has been able to absorb the increased workload without adding staff as a result of maintaining a highly qualified staff that is significantly leveraged across various technical platforms and disciplines as well as increasing automation processes. The department historically has not utilized contractor resources to fulfill its responsibilities, and does not anticipate doing so during 2015-2017. The department is currently comprised of 48 employees with a budget of \$11.6 million.

Operations

The Operations group administers SPP's Tariff and performs reliability coordination throughout SPP's footprint. The department has a total budget of \$22.1 million for 2015, including staff of 158. The group achieves this strategically important goal with a highly-trained staff of professionals in the following departments:

- The **Systems Operations** department is responsible for ensuring 24x7 monitoring of the bulk grid in the SPP region and ensuring operators and support staff are properly trained and in compliance with NERC standards. Outside consultants assisted throughout the transition to the Integrated Marketplace go-live date; however, SPP

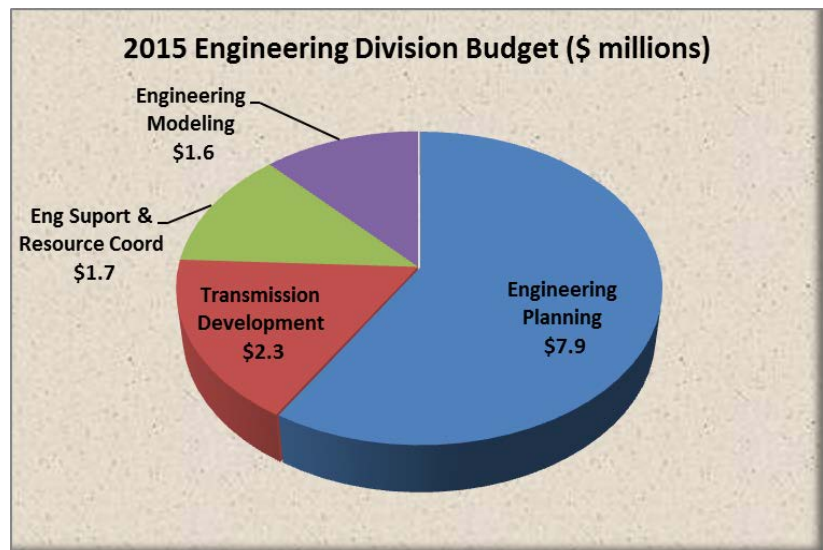


presently utilizes operators' expertise and has eliminated the need for further consulting services for day-to-day operations. As a Reliability Coordinator, SPP is required by NERC to share in the cost of the Interchange Distribution Calculator (IDC) tool. Annual consulting expense of \$0.5 million is included in the Systems Operation's budget for use of this tool. The department has 74 positions, including a department director, two managers, and seven shift supervisors.

- The **Markets Administration** department is comprised of a staff of 27 employees and is divided into two main groups that reflect the fundamental structure of real-time and day-ahead markets. Included are operators and engineers who oversee the operation of the Day Ahead market, optimizing energy and capacity on a daily basis. Duties include providing data integrity in real-time and performing data analyses after the fact to optimize the benefits for SPP’s membership and market participants. No additional consulting is included in the Markets Administration budget and there are no plans to increase staffing levels beyond 2015.
- The **Operations Support** department provides support services to the Operations division in areas such as outage coordination, load forecasting, modeling and data validation, and market data and registration, as well as extensive customer interaction and support. Two Engineer positions were added in 2015 to assist with the additional workload associated with the IS integration; however, through normal turnover, two positions will be eliminated by 2017. As a result of adding IS less than \$0.1 million was included for outside consulting for OATI software, and for interchange and market changes. This group has a staff of 59 employees, with no additional headcount anticipated beyond 2015.

Engineering

The Engineering division’s mission is to facilitate SPP’s strategic goal of continued development of a robust transmission system within the SPP footprint, while creating optimum value for stakeholders, members, and customers. This division has a total budget of \$13.5 million for 2015 with 73 employees.



The Engineering division is comprised of four departments:

- The **Engineering Planning** department is primarily involved in transmission planning studies and the Integrated Transmission Planning (ITP) process. As discussed in the Outside Services section (IV) four new initiatives are planned for 2015. The department

added one position in the 2015 budget for the steady state planning function. A primary goal of the department is increasing the skill and knowledge level of its staff through intensive training, and developing its employees to meet the goals for 2015 and SPP's strategic plans. The various planning studies conducted by the planning department produce revenues



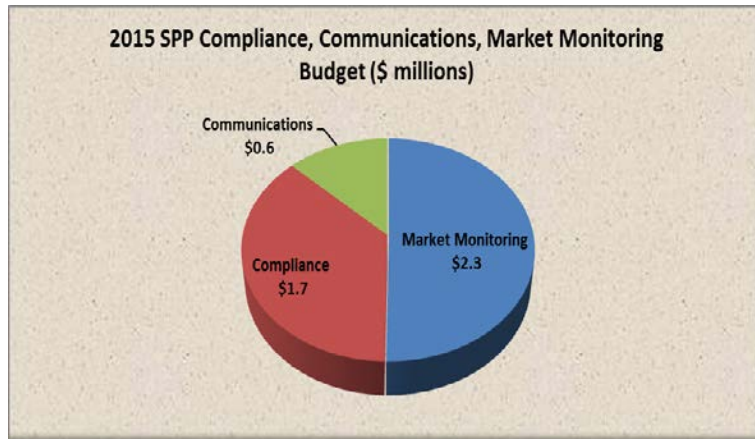
for SPP, which serve to reduce SPP's Net Revenue Requirement. Revenue expected from studies is \$2.5 million in 2014. This group has a staff of 43 employees.

- The **Modeling** department creates and maintains the power flow models used by the transmission planning and tariff studies groups and continuously coordinates with members to ensure accuracy of the models, a critical step in planning investments in the region's transmission grid. This department has a staff of 11 employees, with no new headcount planned for 2015 – 2017.
- The main goal of the **R&D and Special Studies** department is to assess new approaches and tools to refine performance objectives that align with future needs surrounding renewable resources, which are expected to drive the future of the power grid. To achieve this goal, the department is budgeting for extensive research and information tools, such as publications and membership in Electric Power Research Institute (EPRI), and for increased consulting services from industry experts to bring proven solutions into SPP to improve the planning process. SPP's goal is to conduct centralized R&D activities that will benefit SPP's stakeholders as a region. This department has a staff of 9 employees, including four in the Engineer in Rotation program.
- The **Support and Resource Planning** department provides business solutions and efficiencies, and resource coordination and allocation for engineering projects. The resource coordination and time tracking initiative has produced the ability to provide mitigation plans and track work efforts to produce long-term resource plans that can more accurately predict staffing needs. This department has a staff of 10 employees.

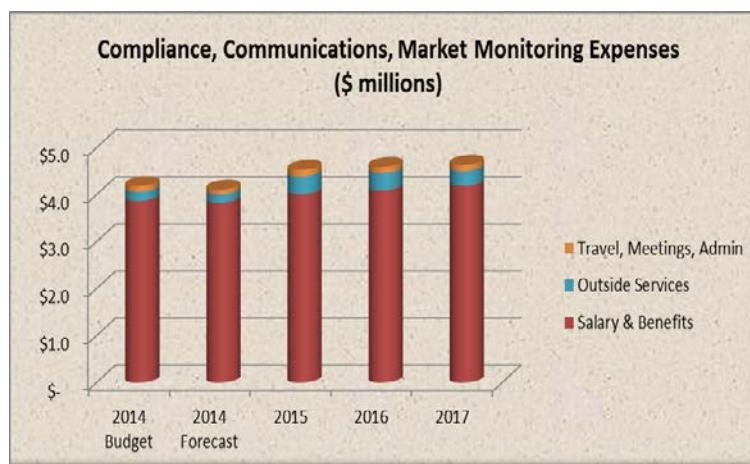
Compliance, Communications, and Market Monitoring

The Compliance, Communications, and Market Monitoring division has a staff of 30 employees with a budget of \$4.5 million. No additional headcount is anticipated for 2014-2016.

- The main goals for the **Compliance** department are enhancing member outreach services at the request of the Board Oversight Committee, and providing IT security and risk mitigation functions to the SPP organization, which includes cyber-vulnerability assessments, security monitoring, threat evaluation, and incident response. Improved processes, member outreach planning, and staff capabilities has allowed existing staff to address current and future member evidence reviews and associated outreach needs. The department has a budget of \$1.7 million with a staff of 12.



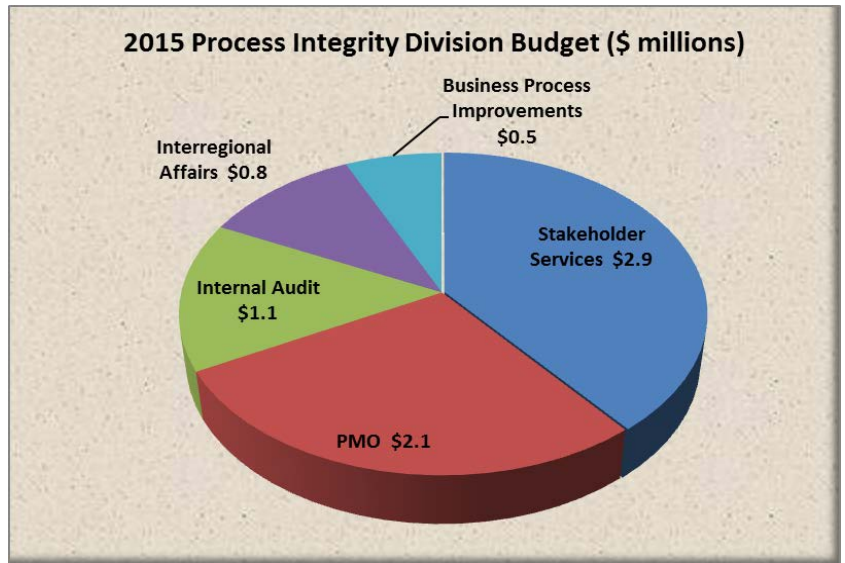
- The focus of the **Communications** department is to build and execute a communication strategy that educates, creates trust, and protects the organization. The department will continue to execute this strategy through various deliverables in 2015, especially involving communicating the value of transmission to stakeholders. The department has a budget of \$0.6 million with a staff of 4.
- The main focus of the **Market Monitoring** department is to refine and implement analytical tools and monitoring screens, and continually develop staff to effectively monitor the Integrated Marketplace. The department has a budget of \$2.3 million with a staff of 14.



Process Integrity

This division has a total staff of 48, with a proposed budget of \$7.5 million for 2014.

- The **Project Management Office (PMO)** department is responsible for overseeing and coordinating the design, development, and implementation of projects within SPP. The department's focus is concentrated on the Project Pinnacle development and implementation. Project resource requirements in 2015 exceed internal resource availability; therefore, contractor resources will be utilized as staff augmentation. The department has a budget of \$2.1 million with a staff of 13.



- The **Stakeholder Services** group encompasses two departments, **Customer Service and Customer Training**. Customer Service will concentrate on customer interactions related to the Integrated Marketplace in 2015, as the volume of inquiries, requests, and outreach has increased significantly. Four of the ten staff members are dedicated to the Integrated Marketplace customer interactions. Customer Training will increase services and product delivery in response to demand for additional reliability-related training, new and/or updated operator tools, and Integrated Marketplace. An e-Learning Specialist position was added in 2015 to help mitigate travel and meeting costs to SPP and members by increasing computer based training initiatives. The department has a budget of \$2.9 million with a staff of 22.

- The mission of the **Internal Audit** department is to provide independent and objective assurance and advisory services that are designed to add value and improve SPP's operations. The department maintains and implements a risk-based audit schedule for SPP's business and IT units and functions. A critical function of the Internal Audit

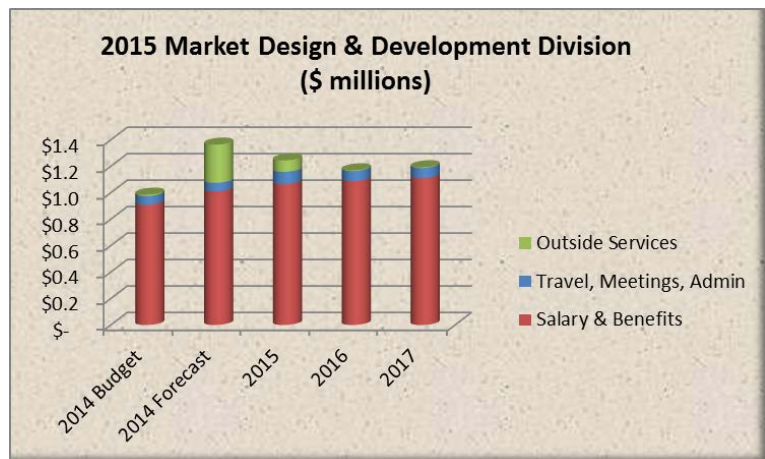


department is the coordination of the annual SSAE 16 audit, which evaluates SPP’s internal controls as a service organization. With the successful launch of the Integrated Marketplace, the focus going forward is ensuring the effectiveness and reliability of SPP’s internal controls supporting Integrated Marketplace functions. The department has a budget of \$1.1 million with a staff of 6.

- The **Business Process Improvements** department originated as a result of SPP’s organization-wide commitment to continuous improvement. The main focus of the department is to continue to implement the LEAN program throughout the SPP organization, to identify opportunities for process improvements, and to improve effectiveness and efficiencies. The department also focuses on SPP’s business continuity planning, which is critical as a result of increased risks associated with the Integrated Marketplace. The department currently includes a staff of 3 and a budget of \$0.5 million.
- The goal of the **Interregional Affairs** department is increased involvement in the industry-wide standard development efforts by serving in leadership roles in both NERC and NAESB. The Reliability Standards staff provides SPP leadership in the national effort to develop meaningful and achievable reliability standards. Working with other SPP staff, members, and industry experts, the department works to ensure the standards necessary to maintain a reliable bulk electric system are in place, with clear, effective, reasonable, and measurable requirements. The staff is comprised of 4, with a budget of \$0.8 million.

Market Design and Development

This department is responsible for the evolution of the energy and capacity markets, which is achieved through interactions and cooperation with members and other stakeholders while creating and enhancing markets in a member-driven way. Other goals of market design are to maintain reliability and pursue innovative ways to increase reliability through economics.



The department has three key responsibilities:

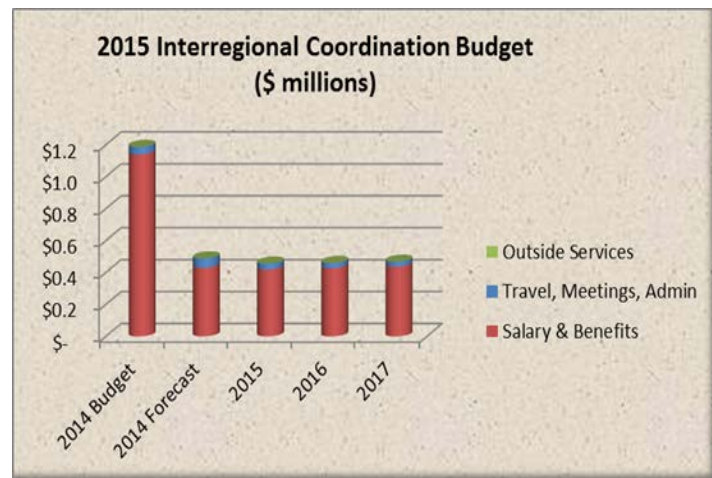
- Create and modify the SPP regional market design through a member-driven process

- Conduct quality assurance functions to ensure implemented processes and systems are consistent with the market design
- Support other market-related initiatives

With the implementation of the new market, the Market Design workload has increased. The volume of market design changes has increased significantly beyond those anticipated, and there are also increased requests from both internal and external stakeholders to analyze market design issues from a holistic approach. Replacing the continued use of a consultant for staff augmentation, a Market Design Analyst position is included in the 2015 budget to cover the increased workload. The Market Design department has a 2014 budget of \$1.2 million and a total staff of 7 employees.

Interregional Coordination

The **Interregional Coordination** department expects seams coordination activity to increase significantly over the next three-year period. The staff is working closely with SPP’s neighboring entities to ensure compliance with the interregional requirements of Order 1000. Enhanced efforts with MISO and other neighbors on seams issues and joint operating agreements have become increasingly important. The



department will also continue to support efforts to bring new members into SPP. This department has a staff of 3 employees and a budget of \$0.5 million.

Legal and Regulatory Policy

The division for Legal and Regulatory Policy is comprised of a staff of 26 FTEs with a total budget of \$8.6 million for 2014.

- The **Legal** department continues to evolve into a value-added internal resource with the goal of significantly reducing costs for and dependency on outside counsel, especially in FERC matters. Over the



past three years, the outside legal services budget has decreased; however, Integrated Marketplace filings continue to require third party services. The department has a staff of 12 and a budget of \$4.2 million.

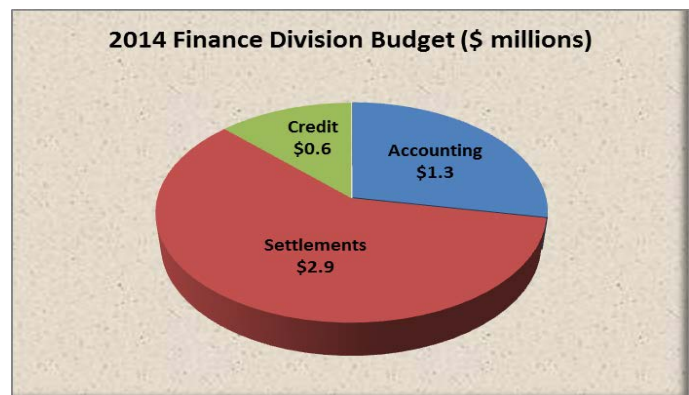
- The Regulatory Policy** department is expected to have increased responsibility regarding regulatory filings related to the Integrated Marketplace protocols and tariff implementation. Outside services expense has increased \$1.3 million as a result costs for the Order 1000 Industry Expert Panel (IEP), which will be recovered in revenue from the participants in the proposal process. A provision in the Tariff (OATT) requires SPP to perform a Regional Cost Allocation Review (RCAR). Consulting costs of \$0.8 million are included to assist with this review. The department has a staff of 14 and a budget of \$4.1 million.



Finance

The Finance division is comprised of the Settlements, Credit and Risk Management, and Accounting and Purchasing departments. This division has a 2015 budget of \$4.8 million with a total staff of 38 FTEs.

- The Settlements** department is comprised of two primary areas to support market and transmission settlements. Recent software upgrades, process improvements, efficiency metrics tracking, and the cross training of staff resulted in cost savings by being able to absorb the increased workload associated with the Integrated Marketplace. Additionally, the departmental headcount was reduced by one, as the result of reallocating duties when a Settlement



Analyst position became vacant as the result of a resignation. The position was repurposed from Settlements to the IT department and assigned to perform technical work on the Settlements systems. The department has a budget of \$2.9 million with a staff of 24.

- The **Credit and Risk Management** department administers the extension of credit to market participants and works to protect the market participants and members from losses through diligent underwriting and collection efforts. The products within the Integrated Marketplace are much more complex and represent a significant increase in default risk to all market participants. As a result, the department’s goal is to carefully monitor the increased risk and respond as necessary to continually protect the market participants and members. The department has a budget of \$0.6 million with a staff of 4.
- The **Accounting and Purchasing** department is responsible for invoicing, cash management, payment processing, internal and external reporting, budgeting and forecasting, corporate accounting, and end-to-end procurement services. The department has a budget of \$1.3 million with a staff of 10.

Corporate Services

The Corporate Services division is comprised of Human Resources, Corporate Facilities, and Corporate Administrative Services departments. These teams provide support services to SPP employees and members and offer a work environment supporting SPP’s business model and culture. The Corporate Services division has a total staff of 29 FTEs and a 2015 budget of \$6.3 million.



Officer and Administrative

This group of nine officers is comprised of SPP’s CEO and President, COO, and seven executives overseeing the overall business operations and providing strategic direction to SPP as a whole. Overall vacancy is reflected in the Administrative department (4% and \$3.4 million in 2015 as compared to 2% and \$1.1 million in 2014). Also



included are certain corporate administrative costs such as corporate insurance expenses, pension plan and retiree healthcare funding, and property taxes.

With a staff of 10 (9 executives and 1 Assistant Corporate Secretary), the total budget for 2015 for this division is \$9.6 million.

VI. Capital Projects

Beginning in January, a comprehensive list of new and on-going projects was compiled for consideration for the 2015 – 2017 Budget under the direction of the Project Review and Prioritization Committee (PRPC) and in collaboration with staff from the Project Management Office (PMO), Accounting and IT departments. The PRPC worked closely with Project Managers, IT Directors, and vendor managers to scope and estimate anticipated workload associated with the implementation of the projects. The Integrated Marketplace Post-Go-Live projects (“Project Pinnacle”) mandated by FERC remain the highest priority and consume significant resource capacity. Therefore, consulting costs were incorporated into the operating budget to supplement for expertise and/or staffing constraints as deemed necessary.

2015 - 2017 Capital Expenditures by Year (\$ millions)

	Prior	2015	2016	2017	Total
Project Pinnacle	10.9	4.5	-	-	15.4
Enhanced Combined Cycle (suspended)	1.2	8.0	-	-	9.2
Phase I Deferred Enhancements	1.0	-	-	-	1.0
Netezza	2.6	0.2	-	-	2.8
Transmission Settlements Upgrade ETSE3.0	-	3.0	1.2	-	4.2
EMS Upgrade	-	-	1.0	0.5	1.5
Other	0.1	0.6	-	-	0.7
New Projects	n/a	3.7	0.3	-	4.0
Total Non-Foundation Projects	15.8	19.9	2.5	0.5	38.7
Foundation Projects	n/a	15.4	13.2	14.0	42.6
Total Capital Budget	15.8	35.3	15.7	14.4	81.3
2015 - 2017 Budget (excluding prior years)					65.5
2014 - 2016 Budget (excluding prior years)					62.0

The three-year budget identifies \$65.5 million in total capital expenditures with \$22.9 million tied to specific projects and initiatives and \$42.6 million in foundation related capital expenditures. SPP expects 2015 capital expenditure spending to slightly exceed \$35 million, with \$19.9 million in specific projects and \$15.4 million related to foundation capital spending. During the 2014 budget cycle in 2013, a total of ten projects were classified as “Integrated Marketplace Post Go-Live”, which were either mandated by FERC or requested by SPP members. Subsequently, a number of the projects that were not mandated by FERC but requested by SPP membership were canceled and removed from the program scope as a result of further review and deliberation among SPP and its members (AFC Granularity Changes, Sunset Clause for Load Submittal, Marketplace Data for MPs, and GFA Carve Out). The removal

of these programs resulted in a \$2.0 million reduction in the overall Integrated Marketplace Post-Go-Live budget.

During its meeting in July 2014, the Board of Directors decided to suspend the Enhanced Combined Cycle project, which is a member-requested project within Project Pinnacle, due to unforeseen difficulties encountered in the design and prototype test phase which resulted in a significant increase in projected costs for completion. The Board asked staff to conduct a detailed cost-benefit analysis by October 2014 before any further project work is performed.

The chart below illustrates the aggregate annual administrative fee impact of the projects.

Project Summary	Total Current Project Budget	Asset Life (Years)	Annual Admin Fee Impact	Aggregate Admin Fee Impact
Marketplace Post Go-Live:				
Pinnacle Project	15.4	10	\$0.0042	\$0.0042
Phase I deferred enhancements	1.0	10	\$0.0003	\$0.0045
Total Marketplace Post Go-Live Projects	\$16.4		\$0.0045	
Other Projects:				
Transmission Settlements Upgrade ETSE 3.0	4.2	5	\$0.0023	\$0.0068
Netezza	2.8	5	\$0.0016	\$0.0084
EMS Upgrade	1.5	5	\$0.0008	\$0.0092
Other	0.7	5	\$0.0004	\$0.0096
Total - Other	\$9.2		\$0.0050	
2015 New Projects	\$4.0	5	\$0.0022	\$0.0118
IT Foundation	\$33.1	5	\$0.0303	\$0.0421
Ops Foundation	\$8.0	5	\$0.0073	\$0.0494
Foundation - Other	\$1.5	5	\$0.0014	\$0.0508
Enhanced Combined Cycle (suspended)	\$9.2	10	\$0.0025	\$0.0533
Total Capital Project Budget	\$81.3		\$0.0533	

The following section describes the Project Pinnacle and other noteworthy projects in greater detail. A complete list of initiatives and associated capital and operating budgets appear in the Supplementary Schedules section.

Project Pinnacle

The post-go-live projects represent post-implementation enhancements to the Integrated Marketplace that are mandated by FERC. As explained earlier, a number of member-driven post-go-live projects that were included in the previous year's budget were eliminated, and the Enhanced Combined Cycle project is currently suspended. The remaining mandated projects (Long-term TCRs, Regulation Compensation – FERC Order 755, Market-to-Market, and Pseudo Tie-Out of Assets, along with the required build-out of IT environments for successful testing

and implementation which is also managed as a separate project) are projected to cost a total of \$15.4 million. These projects are well underway and expected to be completed by the March 1, 2015 deadline.

Regulation Compensation (FERC Order 755)

FERC Order 755 requires RTOs to provide a two-part payment to resources providing regulation service in the Integrated Marketplace. Tariff changes, protocol changes, and software changes are required to comply with this Order.

Long-Term Transmission Congestion Rights (LTTCRs)

FERC Order 681 requires Load Serving Entities (LSEs) to have priority in the allocation of long-term firm transmission rights. FERC expects most transmission organizations to be able to use their current allocation/auction systems to allow LSEs to nominate source-to-sink transmission rights on a longer-term basis than what is currently available. This project will consist of enhancements to the existing software systems and will establish a process providing LSEs the ability to nominate LTTCRs for more than one year.

Market-to-Market

Market-to-market coordination logic is required as an addition to the Integrated Marketplace system software to manage congestion appropriately and efficiently between SPP and neighboring markets. This project adds functionality to the market clearing engine enabling market-to-market coordination. This provides the ability for each market to request re-dispatch of generation to solve a constraint at a lower cost, therefore reducing the overall cost of congestion.

Combined Cycle Enhancements

These enhancements will allow market participants to submit resource offers for each configuration of a combined cycle unit. Each configuration will be modeled in the market-clearing engine as a separate resource in order to select the most economic configuration for unit commitment and dispatch.

Other Projects

Foundation / Other Capital Expenditures by Year (\$ millions) ⁽¹⁾

	Prior Yr(s)	2015	2016	2017	Total
Upgrades / System Replacements					
Transmission Settlements ETSE	-	3.0	1.2	-	4.2
EMS Upgrade / Readiness	-	-	1.0	0.5	1.5
Netezza	2.6	0.2	-	-	2.8
Other	0.1	0.6	-	-	0.7
New Projects					
Gas / Electric Harmonization	-	2.0	-	-	2.0
IS Integration	-	1.0	-	-	1.0
Other	-	0.7	0.3	-	1.0
Foundation ⁽²⁾					
IT Systems Admin Foundation		5.4	2.6	4.2	12.2
IT Network-Telecom Foundation		5.0	5.0	3.7	13.7
IT Applications Foundation		1.3	1.8	2.7	5.8
IT Service Management Foundation		0.2	0.5	0.5	1.2
IT Environmental Ops Foundation		0.2	-	-	0.2
Operations Marketplace Enhancements		2.0	2.1	1.8	6.0
Operations Legacy Applications Foundation		0.7	0.7	0.6	2.0
Other		0.6	0.5	0.5	1.5
Total	2.7	22.9	15.7	14.4	55.8

(1) Excludes Integrated Marketplace Post Go-Live Projects

(2) Foundation projects are reforecast during each budget cycle and do not include any carry-over funds.

IT Systems Administration Foundation

IT Systems Administration foundation projects include the technology refresh (replacement) of systems no longer covered under existing warranties and where extending warranties is not technologically or economically feasible. IT Systems Administration Foundation projects also include incremental projects necessary to ensure the growth and high availability needs of IT systems can be met. Virtualization technology is deployed to maximize the utilization of hardware and software wherever possible. Based on SPP's experience during the implementation of the Integrated Marketplace platforms, there will be a continuous need for additional data storage, information security, back-up, recovery, and archiving solutions.

During the 2014 budget cycle, storage needs were forecast at approximately 115 TB by the end of 2014, growing to 172 TB in 2015, and 229 TB in 2016. However, subsequent to the Integrated Marketplace implementation, SPP is experiencing the data growth across various systems to be higher than anticipated. Additional projects, such as Project Pinnacle and the IS Integration, have also contributed to higher data storage needs. Currently SPP forecasts that the data

storage needs will reach 172 TB of data by the end of 2014, 271 TB in 2015, 396 TB in 2016, and 440 TB by the end of 2017. The IT management team has evaluated different types of storage and is utilizing less expensive types of storage for less critical data storage requirements. Long-term data storage (i.e. data retention) requirements are also being evaluated similarly with a focus on optimizing needs, benefits, and cost. Lastly, IT management continuously exercises diligence in aligning growth requirements with technology refreshes, in order to maximize the value of the storage assets. Data storage growth accounts for roughly 45% of this budget category.

Additional items accounted included in this budget category include hardware and software that are necessary for SPP to enhance the security of its systems. Much of this is driven by the required compliance with Version 5 of the NERC CIP Standards (CIP V5) by April 1, 2016. Approximately 30% of this budget category pertains to protecting SPP's infrastructure from cyber-attacks and/or complying with CIP V5.

The third major component of the IT Systems Administration Foundation budget is technology refresh. As SPP plans for future needs, staff consistently reviews existing hardware and, where appropriate, plan for hardware replacements. Though hardware maintenance is often extended out to five years, technology refreshes become mandatory once these components reach the end of their usable life and/or maintenance for older hardware becomes unavailable or unaffordable. Roughly 25% of this budget category is attributed to technology refreshes and related support activities.

IT Network Telecom Foundation

Items in the Telecom/Network/Security (TNS) Foundation budget are requested for various reasons, the most prominent being improvements to existing network architecture to achieve the highest level of system availability and performance, which is required by a Centralized Balancing Authority and the Integrated Marketplace. Equipment planned for replacement has either been in service for over three years, has an increased risk of failure, and/or lacks feature sets conducive to achieving the availability required by the Integrated Marketplace and other high availability projects. Approximately 61% of the funds in this budget category are allocated to upgrading the network capabilities in SPP's data centers to meet existing and future performance, growth, and security needs.

Additional dollars in this budget category include the cost of hardware to isolate the Chenal and Maumelle Electronic Security Perimeter (ESP) environments into separate core infrastructures. At present, certain core infrastructure is leveraged across multiple environments, which introduces the risk of external issues to impact systems within the ESP. This project allows for a

more secure design for this critical infrastructure. This accounts for roughly 25% of this budget area.

Regular technology refreshes for network equipment are also included within this budget category. Similar to the hardware in the Systems Administration budget, there are various network and security components that are required to be refreshed as they will have reached the end of their useful life by the end of 2015. Technology refreshes and related activities amount to roughly 14 % of the IT Network Telecom Foundation budget.

Foundation – IT Applications

The primary components of this particular budget category include hardware and software licenses to keep up with the growth and demand for SPP’s Enterprise Analytic Data Store (EADS) and Data Warehouse. EADS has become a critical system relied upon by many of SPP’s real-time Operations systems (Integrated Marketplace) as well as the systems used for after-the-fact processing such as Settlements and Market Monitoring. Anticipating the data growth and consumer needs is essential in providing the data services that have become core to our infrastructure.

Additional funding within this budget area will support anticipated software development projects, primarily driven by MPRRs (Market Protocol Revision Requests), which require subject matter expertise that is not maintained in-house.

Operations- Marketplace Enhancements

During the months leading up to implementation of the Integrated Marketplace, SPP identified several items in the market systems being developed by Alstom that could be deferred until after the launch of the Integrated Marketplace. These enhancements are a combination of member requests, MPRRs (Market Protocol Revision Requests), and SPP requests. These deferrals are needed to alleviate manual workarounds being performed and improve the overall quality of the Market solution and results. There have also been additional enhancements identified since the start of the market which will improve the Market system and the Markets UI/API (User Interface/Application Programming Interface), and allow for efficiencies in SPP and MP processes. The total amount being requested for 2015-2017 is \$6 million. This includes an additional \$1 million in 2016 and 2017 to allow for the implementation of MWG approved Market Design enhancements.

Gas – Electric Harmonization

Getting the gas and power markets “in sync” has become an important concern in the past few years as the electric grid’s dependence on gas-fired generation has steadily increased. This project addresses SPP Market’s system timeline changes required due to FERC order for the Gas

Industry to change their Gas Nomination periods and Gas day to create better coordination and synchronization between the gas and electric power industries. The SPP Market timeline is currently outside of the NAESB (North American Energy Standards Board) proposed start of the Gas Day and nomination cycles. FERC requires SPP to respond to NAESB rule changes for Gas Nominations by ensuring the SPP market is fair and just to Market Participants scheduling Gas for power generators.

Integrated System (IS) Integration

In preparation for the IS entities becoming part of SPP in the 4th quarter of 2015, certain upgrades and enhancements are required to be performed on SPP markets and settlements systems to ensure seamless integration of systems with the new entities, along with additional investment in hardware and equipment to accommodate the associated growth in data exchange and storage needs.

VII. Debt Service

SPP secures funds from financial institutions and investors to finance its capital projects. Costs of the capital projects are paid directly from the funds provided by the borrowings. These costs are not directly included in SPP's Net Revenue Requirement; however, annual principal and interest payments for borrowings (net of capitalized interest) are considered in the Net Revenue Requirement calculation. SPP's outstanding borrowings are projected to equal \$272.3 million as of January 1, 2015. Interest and principal payments included in the 2015 Net Revenue Requirement are shown in the table below.

SPP's policy is to capitalize a portion of interest expense for projects that meet SPP's capitalization threshold criteria. According to U.S. GAAP, the historical cost of acquiring an asset should include all costs incurred to bring it to the condition and location necessary for its intended use. Financing costs incurred for an asset during the construction or development period are considered part of the asset's historical acquisition cost. In accordance with GAAP, SPP's policy is to capitalize interest costs for assets meeting certain criteria to obtain a measure of acquisition cost that more closely reflects SPP's total investment in the asset. Projects with anticipated costs exceeding \$5.0 million with an anticipated duration of greater than 18 months are subject to interest capitalization. During 2015, the amount of capitalized interest related to development of software assets for Project Pinnacle (including the Enhanced Combined Cycle project) is estimated to be \$0.2 million.

During 2014, SPP issued new debt of \$37 million to fund its capital projects. As a result of the ongoing favorable interest rate environment and SPP's credit rating of "A" for senior unsecured debt and "A+" for senior secured debt, SPP was able to secure an interest rate of 3.8% on this new loan. Also in 2014, SPP signed a loan agreement to borrow up to \$33 million. This loan is currently not funded, however SPP expects to start drawing from this loan on a monthly basis in early 2015 based on capital spending needs.

The schedule below shows the principal amounts outstanding for each borrowing at the beginning and end of the 2015-2017 budget periods, as well as annual principal payments.

Future Debt Repayments (\$ millions)

	Issue Date	Issue Amount	Due Date	Balance 1/1/2015	2015 Principal Payments	2016 Principal Payments	2017 Principal Payments	Balance 12/31/2017
5.45% notes due 2016	7/23/2009	\$30.0	7/23/2016	\$9.0	(\$6.0)	(\$3.0)	\$0.0	\$0.0
5.51% notes due 2027	3/23/2007	\$5.1	2/1/2027	\$3.5	(\$0.2)	(\$0.2)	(\$0.2)	\$2.9
4.82% construction notes due 2042 (2010A, 2010B)	10/31/2010 & 12/28/2010	\$65.0	12/30/2042	\$63.0	(\$1.1)	(\$1.1)	(\$1.2)	\$59.5
3.55% integrated markets notes due 2024 (2010C)	3/30/2011	\$70.0	3/30/2024	\$64.8	(\$7.0)	(\$7.0)	(\$7.0)	\$43.8
3.00% capital funding notes due 2024 (2012D-1)	5/30/2012	\$50.0	3/30/2024	\$46.3	(\$5.0)	(\$5.0)	(\$5.0)	\$31.3
3.25% capital funding notes due 2024 (2012D-2)	11/30/2012	\$50.0	9/30/2024	\$48.8	(\$5.0)	(\$5.0)	(\$5.0)	\$33.8
3.8% capital funding notes due 2025 (2014E-1)	3/21/2014	\$37.0	12/31/2025	\$37.0	\$0.0	\$0.0	\$0.0	\$37.0
4.95% capital funding notes due 2025 (2014E-2)	3/10/2014	\$33.0	3/30/2024	\$0.0	\$0.0	(\$2.3)	(\$3.0)	\$27.8
Total		\$340.1		\$272.3	(\$24.3)	(\$23.6)	(\$21.4)	\$235.9

VIII. Supplemental Analysis and Schedules

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Income Statement 2014-2015 Comparison
(\$ millions)

SPP Consolidated Summary	2014 Budget	2014 Forecast	2015 Budget	2015 Prior *
Income				
Tariff Administration Service	\$132.6	\$134.1	\$150.6	\$148.4
Fees & Assessments	26.8	24.8	27.6	28.6
Contract Services Revenue	0.5	0.5	0.5	0.5
Miscellaneous Income	3.4	4.3	5.2	3.5
Total Income	\$163.2	\$163.7	\$183.9	\$181.0
Expense				
Salary	\$55.3	\$54.5	\$55.2	\$57.1
Benefits & Taxes	26.0	24.6	26.5	27.0
Continuing Education	1.0	0.7	0.8	0.8
Salary & Benefits	\$82.2	\$79.8	\$82.4	\$84.9
Employee Travel	2.2	2.0	2.1	2.1
Administrative	4.7	4.4	4.8	5.0
Assessments & Fees	15.3	16.3	16.4	15.6
Meetings	0.9	0.8	1.0	0.9
Communications	3.9	3.8	4.3	4.1
Leases	0.2	0.2	0.2	0.2
Maintenance	15.9	15.3	14.8	15.9
Services	14.3	15.1	18.7	13.4
Regional State Committee	0.3	0.2	0.3	0.3
Depreciation & amortization	49.7	51.3	61.2	62.0
Other Expense	11.0	10.3	10.2	13.8
Total Expense	\$200.7	\$199.5	\$216.5	\$218.3
Net Income (Loss)	(\$37.5)	(\$35.8)	(\$32.6)	(\$37.3)
Debt Repayment	\$13.0	\$13.0	\$24.3	\$24.0
MW/H Forecast (in millions)	348.2	351.9	363.5	348.2
Net Revenue Requirement	\$132.6	\$130.0	\$145.3	\$148.4
2014 Non-Recurring Items		\$6.1		
Under Recovery/Prior Year(s) True Up			\$4.9	
Calculated Admin Fee / MWh	\$0.381	\$0.387	\$0.413	\$0.426
Recommended Admin Fee / MWh	\$0.381	\$0.381	\$0.413	\$0.426
Tariff Cap on Admin Fee	\$0.390	\$0.390	\$0.390	\$0.390
Capital Expense	\$37.1	\$31.0	\$35.3	\$19.2
Headcount	598	595	600	603

* 2015 projection as presented in the 2014 budget

Income Statement 2015-2017
(\$ millions)

SPP Consolidated Summary	2015	2016	2017
	<u>Budget</u>	<u>Budget</u>	<u>Budget</u>
Income			
Tariff Administration Service	\$150.6	\$146.0	\$146.3
Fees & Assessments	27.6	29.6	30.3
Contract Services Revenue	0.5	0.5	0.5
Miscellaneous Income	5.2	4.5	4.6
Total Income	\$183.9	\$180.7	\$181.6
Expense			
Salary	\$55.2	\$56.4	\$57.5
Benefits & Taxes	26.5	27.1	27.5
Continuing Education	0.8	0.8	0.8
Salary & Benefits	\$82.4	\$84.3	\$85.8
Employee Travel	2.1	2.4	2.4
Administrative	4.8	4.8	4.5
Assessments & Fees	16.4	16.7	17.0
Meetings	1.0	1.0	1.0
Communications	4.3	4.4	4.4
Leases	0.2	0.2	0.2
Maintenance	14.8	16.6	19.2
Services	18.7	16.0	15.6
Regional State Committee	0.3	0.3	0.3
Depreciation & amortization	61.2	62.4	34.8
Other Expense	10.2	10.5	9.8
Total Expense	\$216.5	\$219.4	\$195.0
Net Income (Loss)	(\$32.6)	(\$38.8)	(\$13.4)
Debt Repayment	\$24.3	\$23.6	\$21.4
MW/H Forecast (in millions)	363.5	398.0	398.0
Net Revenue Requirement	\$145.3	\$146.0	\$146.3
2013 /2014 True Up	\$4.9	\$0.0	(\$0.0)
Calculated Admin Fee / MWh	\$0.413	\$0.367	\$0.367
Recommended Admin Fee / MWh	\$0.413	\$0.367	\$0.367
Tariff Cap on Admin Fee	\$0.390	\$0.390	\$0.390
Capital Expense	\$35.3	\$16.4	\$19.6
Headcount	600	600	598

Balance Sheet (\$ millions)

	<u>12/31/2014</u>	<u>12/31/2015</u>
ASSETS		
Current Assets		
Cash & Equivalents	\$42.5	\$42.0
Restricted Cash Deposits	201.1	211.2
Accounts Receivable (net)	\$15.5	\$16.8
Other Current Assets	14.3	16.3
Total Current Assets	273.5	286.4
Total Fixed Assets	180.7	154.7
Total Other Assets	2.8	2.7
Investments	1.6	1.7
TOTAL ASSETS	\$458.5	\$445.4
LIABILITIES & EQUITY		
Liabilities		
Current Liabilities		
Accounts Payable (net)	\$23.6	\$25.6
Customer Deposits	201.1	211.2
Current Maturities of LT Debt	24.3	23.6
Other Current Liabilities	35.5	36.1
Deferred Revenue	3.5	1.4
Total Current Liabilities	288.0	298.0
Long Term Liabilities		
US Bank Floating Senior Note - 2014	0.0	0.0
US Bank 5.45% Senior Notes - 2016	3.0	0.0
US Bank Maumelle Mortgage - 2027	3.3	3.1
Campus 4.82% Senior Notes - 2042	61.9	60.7
Integrated Marketplace 3.55% Senior Notes - 2024	57.8	50.8
Capital Funding 3.00% - 2024	41.3	36.3
Capital Funding 3.25% - 2024	43.8	38.8
Capital Funding 3.8% - 2025	37.0	34.8
Capital Funding (Line of Credit)		33.0
Other Long Term Liabilities	5.4	5.5
Total Long Term Liabilities	253.3	262.9
Net Income	(42.0)	(32.6)
Members' Equity	(40.9)	(82.9)
Total Members' Equity	(82.9)	(115.4)
TOTAL LIABILITIES & EQUITY	\$458.5	\$445.4

Cash Flow Forecast 2015-2017

(\$ millions)

	2015	2016	2017
OPERATING CASH			
Beginning Cash on Hand	\$0.0	(\$0.5)	(\$0.5)
Income			
Tariff Administration Service	\$150.6	\$146.0	\$146.3
NERC Fees	11.7	12.4	12.7
Annual Dues	0.5	0.5	0.5
Contract Services Revenue	0.5	0.5	0.5
Studies and Other Income	5.2	4.5	4.6
Cash provided by operating activities	168.5	164.0	164.6
Expenses and Debt Repayments			
Salary & Benefits	81.2	84.3	85.8
Employee Travel	2.1	2.4	2.4
Administrative	4.8	4.8	4.5
Meetings	1.0	1.0	1.0
Communications	4.3	4.4	4.4
Leases	0.2	0.2	0.2
Maintenance	16.8	16.6	19.2
Services	18.7	16.0	15.6
Regional State Committee	0.3	0.3	0.3
Other Expense	10.2	10.5	9.8
Transfer to Capital Cash Account*	5.0		
Debt Repayments	24.3	23.6	21.4
Cash used for operating and financing activities	168.9	164.0	164.6
Ending Cash on Hand	(\$0.5)	(\$0.5)	(\$0.4)
CAPITAL CASH			
Beginning Cash on Hand	\$3.7	\$6.4	(\$9.3)
Capital Expenditures	(35.3)	(15.7)	(14.4)
Capital Financing	33.0		
Transfer from Operating Account*	5.0		
Ending Cash on Hand	\$6.4	(\$9.3)	(\$23.7)
TOTAL ENDING CASH	\$5.9	(\$9.8)	(\$24.1)
Recommended Admin Fee / MWh	\$0.413	\$0.367	\$0.367

* \$5 million from the Capital Cash account will need to be transferred to the operating account during 4Q14 to temporarily fund cash shortfall at year-end, which will be refunded to the Capital Cash account in 2015.

Capital Projects List (\$ millions)

2015 - 2017 Capital Project Budget (Including Carry Over Costs)						
Project	Prior Year(s)	2014 Fcst	2015 Fcst	2016 Fcst	2017 Fcst	TOTAL
Post Go-Live						
Project Pinnacle	0.5	10.4	4.5	0.0	0.0	15.4
Enhanced Combined Cycle (suspended)	0.1	1.1	8.0	0.0	0.0	9.2
Phase I Deferred Enhancements		1.0				1.0
Total Market Post Go-Live Projects	0.6	12.5	12.4	0.0	0.0	25.5
Other Projects						
Netezza	2.2	0.5	0.2	0.0	0.0	2.8
Transmission Settlements Upgrade ETSE 3.0		0.0	3.0	1.2	0.0	4.2
EMS Upgrade		0.0	0.0	1.0	0.5	1.5
Other		0.1	0.6	0.0	0.0	0.7
Aurea ESB Replacement		0.1	0.4	0.0	0.0	0.5
IssueTrak Integration with Remedy		0.0	0.2	0.0	0.0	0.2
Cost Allocation SQL Database		0.0	0.1	0.0	0.0	0.1
Total Other Projects	2.2	0.6	3.8	2.2	0.5	9.2
2015 New Projects						
Gas / Electric Harmonization			2.0	0.0	0.0	2.0
IS Integration			1.0	0.0	0.0	1.0
Local Reliability Assessment			0.5	0.0	0.0	0.5
2-Factor Authentication (1 of 2 - Infrastructure build)			0.0	0.3	0.0	0.3
Vaadin 6 to 7 Upgrade			0.1	0.1	0.0	0.2
Tie Line Meter Checkout			0.1	0.0	0.0	0.1
Total 2015 New Projects			3.7	0.3	0.0	4.0
Foundation						
IT Systems Admin Foundation			5.4	2.6	4.2	12.2
IT Network-Telecom Foundation			5.0	5.0	3.7	13.7
IT Applications Foundation			1.3	1.8	2.7	5.8
IT Service Management Foundation			0.2	0.5	0.5	1.2
IT Environmental Ops Foundation			0.2	0.0	0.0	0.2
Operations Marketplace Enhancements			2.0	2.1	1.8	6.0
Operations Legacy Applications Foundation			0.7	0.7	0.6	2.0
Settlements Enhancements			0.3	0.3	0.3	0.8
Miscellaneous Facilities			0.2	0.2	0.2	0.6
CMS Enhancements			0.1	0.1	0.0	0.2
Total Foundation			15.4	13.2	14.0	42.6
Total Project Capital Budget	\$2.8	\$13.1	\$35.3	\$15.7	\$14.4	\$81.3
2015 - 2017 Total (excludes prior years)						\$65.5

**Outside Services by Function
(\$ millions)**

	2014	2015	
DESCRIPTION OF SERVICES	FORECAST	BUDGET	Inc / (Dec)
Integrated Marketplace			
Staff augmentation, Training	0.4	0.0	(0.4)
Staff augmentation, Market Design	0.3	0.1	(0.2)
Staff augmentation, Market Monitoring	0.0	0.3	0.3
Staff augmentation, Operations	1.9	0.0	(1.9)
Staff augmentation, Engineering (TCR)	0.1	0.0	(0.1)
Integrated Marketplace, staff augmentation	2.7	0.4	(2.3)
Integrated Systems			
IS Staff Augmentation, Settlements		0.1	0.1
IS Staff Augmentation, Engineering		0.5	0.5
IS Staff Augmentation, IT		0.5	0.5
IS OATI, IT		0.1	0.1
IS OATI, Ops		0.0	0.0
IS Ops Wind forecasting		0.2	0.2
Integrated Systems, Staff augmentation / other	0.0	1.4	1.4
Staff Augmentation, other			
IT	1.5	1.4	(0.1)
PMO / BPI	0.5	0.3	(0.2)
Regulatory	0.0	0.8	0.8
Legal	2.2	2.5	0.3
Engineering Modeling	0.1	0.2	0.1
Total Staff Augmentation	4.3	5.2	0.9
Information Technology			
OATI Monthly service fee	1.5	1.7	0.2
After hours monitoring of IT Command Center	0.3	0.0	(0.3)
Operations Wind Forecasting Analysis	0.4	0.5	0.1
Misc. IT services (cabling, storage, asset disposal)	0.1	0.5	0.4
Total Information Technology	2.3	2.6	0.3
Other			
Board of Directors fees and expenses	0.5	0.7	0.2
Audits (SSAE 16 and other audits)	0.3	0.4	0.1
Communications and training	0.1	0.1	0.0
Corporate services	0.9	0.9	(0.0)
Engineering studies / other	1.5	2.5	1.0
Regional Entity Trustees (fees and consulting services)	1.1	1.9	0.8
FERC Order 1000	0.2	1.7	1.5
Ops IDC	0.6	0.5	(0.1)
Other	0.6	0.5	(0.1)
Total	\$15.1	\$18.7	\$3.6

**Analysis of 2014 Fees & Assessments
(\$ millions)**

Fees & Assessments, Revenue and Expense	2014 Forecast	2014 Budget	Variance Fav/(Unfav)	Note
SPP Regional Entity Revenue	\$9.6	\$11.8	(\$2.2)	(a)
FERC Fee Assessments (Sch.12)	\$15.2	\$14.9	0.3	(b)
Fees & Assessments Revenue*	24.8	26.8	(1.9)	
Fees & Assessments Expense	\$16.3	\$15.3	\$1.0	(c)

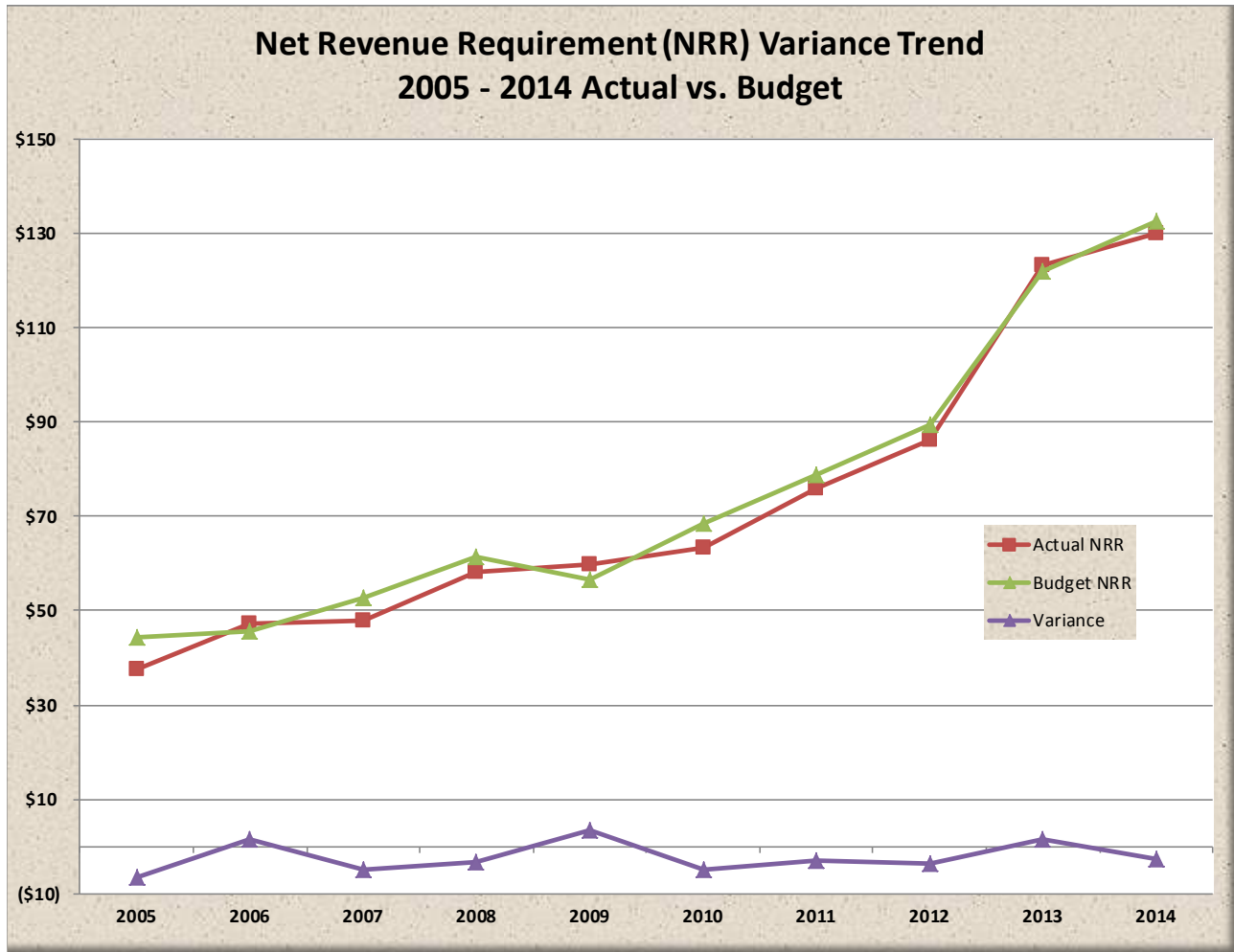
* Total Fees & Assessments revenue includes annual non-load dues, which are \$0.5 million and \$0.4 million for the 2014 Forecast and Budget, respectively.

(a) Revenue for SPP RE is recognized on a monthly basis based on direct RE expenses and an hourly charge for indirect expenses. In 2014, the RE expects to be favorable in comparison to their total expense budget, resulting in lower corresponding revenues for SPP.

(b) FERC Fee Assessment revenue is recognized monthly when billed to transmission customers.

(c) FERC Fees & Assessments expense is estimated based on prior year assessment plus a growth rate. The current year monthly accrual amount is adjusted once the annual bill is received in June.

Net Revenue Requirement Variance History (\$ millions)



	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Actual NRR	\$37.7	\$47.1	\$48.0	\$58.1	\$59.8	\$63.5	\$75.8	\$86.1	\$123.3	\$130.0 *
Budget NRR	\$44.4	\$45.7	\$52.8	\$61.5	\$56.5	\$68.4	\$78.6	\$89.6	\$121.8	\$132.6
Variance	(\$6.7)	\$1.5	(\$4.8)	(\$3.4)	\$3.4	(\$4.9)	(\$2.9)	(\$3.5)	\$1.5	(\$2.6)
	(15%)	3%	(9%)	(6%)	6%	(7%)	(4%)	(4%)	1%	(2%)

The graph and table above highlight the range of variance between SPP's actual and budgeted Net Revenue Requirement (NRR) by year. As SPP's NRR has increased over the years, the variances between actual and budget remain relatively small.

* The 2014 NRR represents the forecast as of July 2014 and excludes non-recurring items of \$6.1 million.

Prior Year Budget Comparisons (\$ millions)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Net Revenue Required Estimations										
2008 Budget - NRR Estimations	\$61.5	\$64.5	\$71.2							
2009 Budget - NRR Estimations		\$56.5	\$68.4	\$75.1						
2010 Budget - NRR Estimations			\$68.4	\$90.1	\$94.9					
2011 Budget - NRR Estimations				\$78.6	\$86.7	\$94.6				
2012 Budget - NRR Estimations					\$89.6	\$98.6	\$113.6			
2013 Budget - NRR Estimations						\$121.8	\$141.4	\$145.0		
2014 Budget - NRR Estimations							\$132.6	\$148.4	\$145.2	
2015 Budget - NRR Estimations ⁽¹⁾								\$145.3	\$146.0	\$146.3
<i>Actual NRR</i>	\$58.1	\$59.8	\$63.5	\$75.8	\$86.1	\$123.3	\$130.0			
Billing Unit Estimations										
2008 Budget - Billing Units Estimations	312.5	319.1	325.8							
2009 Budget - Billing Units Estimations		331.4	346.4	353.4						
2010 Budget - Billing Units Estimations			333.5	338.1	342.7					
2011 Budget - Billing Units Estimations				343.0	345.0	349.8				
2012 Budget - Billing Units Estimations					353.5	359.8	366.3			
2013 Budget - Billing Units Estimations						360.9	371.7	382.9		
2014 Budget - Billing Units Estimations							348.2	348.2	348.2	
2015 Budget - Billing Units Estimations								363.5	398.0	398.0
<i>Actual Billing Units</i>	296.1	328.2	329.6	341.4	361.0	358.1	351.9			
Administrative Fee Estimations										
2008 Budget - Admin Fee Estimations	\$0.190	\$0.200	\$0.200							
2009 Budget - Admin Fee Estimations		\$0.170	\$0.170	\$0.170						
2010 Budget - Admin Fee Estimations			\$0.195	\$0.270	\$0.280					
2011 Budget - Admin Fee Estimations				\$0.210	\$0.255	\$0.280				
2012 Budget - Admin Fee Estimations					\$0.255	\$0.280	\$0.300			
2013 Budget - Admin Fee Estimations						\$0.338	\$0.380	\$0.379		
2014 Budget - Admin Fee Estimations							\$0.381	\$0.433	\$0.424	
2015 Budget - Admin Fee Estimations ⁽¹⁾								\$0.413	\$0.367	\$0.367
<i>Actual Admin Fee</i>	\$0.196	\$0.182	\$0.193	\$0.222	\$0.238	\$0.337	\$0.387			

(1) 2014 actual NRR and admin fee excludes non-recurring items of \$6.1 million.

The purpose of this schedule is to quantify the year-to-year changes in SPP's three year projections made during each budget cycle as required by the membership agreement. Accuracy of these projections can be significantly influenced by both internal and external pressures such as board and committee directives, incremental membership, environmental factors, etc.

Member Value Category Descriptions

Operations and Reliability services include SPP's reliability coordination and reserve sharing. SPP is responsible for operating the regional wholesale power grid under rules and regulations from NERC and FERC. The SPP-RC monitors the grid 24x7 to maintain electrical reliability and to mitigate grid emergencies. The objectives of SPP's efforts are to maximize the availability of the power grid to support scheduled transmission while minimizing the negative impacts of transmission congestion and unplanned grid disturbances or outages. Being a member of an RTO provides a higher degree of grid availability, or average Transmission System Availability (TSA), than would be achieved as a standalone utility. Being a member of SPP's Reserve Sharing Group (RSG) enables an SPP member to share reserve resources across the group on a pro-rata basis. SPP's RSG will reserve 150% of the single largest generation contingency in the group. All members share in the cost of providing this reserve capacity as a function of their pro-rata peak loads. Absent the RSG, each entity would have to provide a reserve for its largest single contingency. The difference between the standalone versus the RSG reserve obligation is the value of the RSG to each participant.

Region-Wide Transmission Planning includes: 1) the value of region-wide transmission projects before the Highway/Byway cost sharing was implemented, 2) the net value of the SPP balanced portfolio transmission projects approved by the Board in April 2009, 3) the net value of the Board approved priority project transmission project, and 4) the value of Engineering Studies provided by SPP.

The Engineering Department provides a series of Engineering Studies to ensure planned member actions (generation, transmission, etc.) do not create issues when integrating into the current power grid. SPP is positioned as the unbiased protector of the grid integrity and operation. If SPP were not in existence, the expert witness and the objective study functions would need to be replaced with a combination of consultants and/or engineering staff from the requesting utility.

Market Operations includes the net trade benefits associated with the operation of the EIS (Energy Imbalance Service) market operation as a result of the regional security-constrained economic dispatch (SCED). Additionally, Market Operations includes the net trade benefits from operating a real-time, day ahead and Ancillary services market. Finally, Market Operations includes the value of operating a Consolidated Balancing Authority.

Leveraged, Centralized Services include savings associated with SPP's performance of certain functions that would otherwise have to be contracted individually and therefore represent a savings to the members. Specifically, Leveraged Centralized services include centralized

training, Tariff and scheduling service administration, regulatory services, and compliance and settlement services.

SPP's Training Department, through leveraged centralized resource and expertise acquisition, curriculum development and class offerings, allows for substantial cost avoidance to the SPP stakeholder base. SPP administers a regional tariff and its Tariff Administration group provides a centralized reservations "one-stop shopping" for reserving transmission on the power grid. In addition to administering and maintaining the OASIS reservations system, SPP provides the engineering staff to ensure that transmission service requests are valid and will not compromise the integrity of the power grid. If SPP did not exist, the 15 Balancing Authorities and Transmission owners would have to provide these functions for themselves. In addition, there would be a greater number of bilateral transmission agreements, which would be more difficult to administer. A centralized regulatory group administers a single Open Access Tariff. If SPP were not providing this centralized function for the consolidated group of members, each Balancing Authority would have to administer a broader scoped Tariff than it currently is responsible for administering, thereby increasing its cost. Finally, the SPP Compliance function and Settlement function provides compliance information, education and outreach services to our members. These centralized services provide annual cost avoidance value to SPP's members.



Southwest Power Pool, Inc.
FINANCE COMMITTEE
Recommendation to the Board of Directors
October 28, 2014

2015 Budget

Organizational Roster

The following persons are members of the Finance Committee:

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

Background

Section 6.5 of the SPP Bylaws identifies establishment of annual and long-term budgets as a primary duty of the Finance Committee.

Analysis

SPP's management proposed a 2015 budget to include expenditures as follows:

	<u>\$000,000</u>
Operating Expense (incl. dep. & am.)	\$201.0
Debt Repayment	\$24.3
FERC Assessments	\$16.4
Capital Expenditures	\$35.3

SPP management utilized a "zero-based" budget approach to prepare the 2015 budget.

The most significant cost drivers for 2015 are the scheduled retirement of debt obtained to fund the development of the Integrated Marketplace and other capital expenditure projects.

Recommendation

The Finance Committee recommends the SPP Board of Directors approve the 2015 SPP operating and capital budgets as submitted.

Approved: Finance Committee

Action Requested: Approve Recommendation



Southwest Power Pool, Inc.
FINANCE COMMITTEE
Recommendation to the Board of Directors
October 28, 2014

2015 Administrative and Assessment Fee Rate

Organizational Roster

The following persons are members of the Finance Committee:

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

Background

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

Analysis

The 2015 SPP operating budget indicates a net revenue requirement ("NRR") for the year of \$142.4 million (inclusive of 2013 under-recovery of \$2.8 and 2014 forecast under-recovery of \$0.7, and net of \$1.0 transfer from overfunded post-retirement healthcare fund) and estimated billing determinants of 363,500,000 MWh. The rate is determined by dividing the NRR by the estimated billing determinants which results in a rate of 39.2¢/MWh. NRR is derived by adjusting SPP's gross cash outflows (exclusive of capital expenditures) by all non administrative fee revenue forecast to be earned in the year. The billing determinants are calculated by analyzing the current year to date transmission usage and estimating usage through the remainder of the year.

Billing determinants are estimated based on the billing criteria detailed in the SPP tariff. Presently, network integration transmission service is charged the SPP schedule 1A administrative fee based on the average 12 monthly peaks from the previous year; point-to-point transmission service is charged the SPP schedule 1A administrative fee based on the reserved transmission capacity. Through August 2013, SPP has realized year-over-year increase in average monthly peaks of 2.7%. Point to Point transmission sales are down 8.3% year over year through August. SPP forecasts the addition of the Integrated System in October 2015 which will add roughly 46,000,000 MWh of billing determinants annually. SPP is holding its forecast of load level with 2014 and adding 25% of the annual Integrated System load to arrive at the forecast billing determinants of 363,500,000.

Recommendation

The Finance Committee recommends the SPP Board of Directors establish an assessment rate and tariff administrative fee (schedule 1-A) of 39¢/MWh beginning on January 1, 2015.

Approved: Finance Committee

Action Requested: Approve Recommendation



Memorandum

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

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

	Page
1). Financial Commentary: FY Actual to Budget Variances	1
2). Financial Overview: FY Actual by month compared to Budget and Prior Year	2
3). Income Statement Actual Results Overview: Current Month Actual compared to Forecast, FY Actual compared to Budget and FY Actual compared to Prior Year	4
4). Balance Sheet: Current Month compared to Ending Prior Year	5
6). Capital Projects Summary: Project-to-Date and Remaining Forecast compared to Total Capital Project Budget	6
7). Headcount Analysis: Forecast compared to Budget	8



2014 Financial Commentary
August 31, 2014
(in thousands)

Summary				
	2014 FY Forecast	2014 FY Budget	Fav/(Unfav) Variance	
Revenues	\$163,618	\$163,166	\$452	0.3%
Expenses	205,554	200,692	(4,862)	(2.4%)
Net Income/(Loss)	<u>(\$41,936)</u>	<u>(\$37,526)</u>	<u>(\$4,410)</u>	(11.8%)

Revenue				
	2014 FY Forecast	2014 FY Budget	Fav/(Unfav) Variance	
Tariff Administration Service	\$133,921	\$132,600	\$1,321	1.0%
FERC Fees & Assessments	14,866	14,500	366	2.5%
NERC ERO Regional Entity Rev	9,650	11,824	(2,174)	(18.4%)
Miscellaneous Income	4,273	3,350	923	27.5%
Contract Services Revenue	453	453	2	0.0%
Annual Non-Load Dues	456	440	16	3.6%
Total Revenue	<u>\$163,618</u>	<u>\$163,166</u>	<u>\$452</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 \$1,321 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 4 of the 31 budgeted positions remain vacant (with 1 position removed from the RE 2015 budget). 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 unfavorable by \$620.



2014 Financial Commentary
August 31, 2014
(in thousands)

Expense				
	2014 FY Forecast	2014 FY Budget	Fav/(Unfav) Variance	
Salary & Benefits	\$83,916	\$82,247	(\$1,670)	(2.0%)
Assessments & Fees	16,323	15,300	(1,023)	(6.7%)
Communications	3,754	3,916	161	4.1%
Maintenance	15,182	15,866	684	4.3%
Outside Services (Including RSC)	15,522	14,640	(882)	(6.0%)
Administrative & Leases	4,666	4,858	192	3.9%
Travel & Meetings	2,834	3,112	278	8.9%
Depreciation & Amortization	51,217	49,718	(1,499)	(3.0%)
Other Expenses	12,139	11,035	(1,104)	(10.0%)
Total Expense	<u>\$205,554</u>	<u>\$200,692</u>	<u>(4,862)</u>	(2.4%)

Salary & Benefits expenses represent an unfavorable variance to budget primarily resulting from an unbudgeted performance payout to SPP staff which was proposed and approved by the SPP Board of Directors and Members Committee. The impact of the performance payout has been mitigated somewhat by lower staffing levels (average 4% vacancy resulting in approximately \$1,000 reduction in expenses), decreased contributions to retirement plans (\$650 reduction), and lower than budgeted expenditures for continuing education (\$300 reduction).

SPP received its annual assessment invoice from FERC in June and immediately recognized a \$240 charge to true-up the prior year under-accrual in **Assessments and Fees** expense. The current year accrual was increased by \$740 in recognition of the increased FERC costs now expected for 2014 (to be paid in 2015).

Outside Services exceeds budget as a result of classifying several of the consultants engaged in Integrated Marketplace as operating expenses instead of capital expenses as they were budgeted. These activities were primarily the expected post go-live support activities (\$1,810 increase). Additionally, a supplement to the 2013 State of the Market report was approved by the SPP Oversight Committee out of budget at a cost of \$200. Conversely, outside services trail budget across several departments, with the main contributors found in Regional Entity (\$450), Legal (\$400), Internal Audit (\$125), Regulatory (\$190), Engineering (\$80) and IT (\$45). 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 (\$80), Training (\$50), and Operations (\$30). This is partially due to lower headcount. Various working group meetings trail budget, contributing to the favorable variance in **Meetings** expense (\$87).

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; however this variance is non-cash and has no impact on cost recovery.

The estimated interest payout for study deposits was added to the forecast in **Interest expense** (\$1,800).



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

	Actual Jan-14	Actual Feb-14	Actual Mar-14	Actual Apr-14	Actual May-14	Actual Jun-14	Actual Jul-14	Actual Aug-14	Fcst Sep-14	Fcst Oct-14	Fcst Nov-14	Fcst Dec-14	FY 2014 Forecast	FY 2014 Budget	Variance Fav/(Unfav)	FY 2013 Actual	Variance Fav/(Unfav)
Income																	
Tariff Administrative Service	11,613	10,265	11,348	10,970	11,338	11,079	11,436	11,425	11,112	11,193	10,901	11,243	\$133,921	132,600	\$1,321	112,624	\$21,298
Fees & Assessments	2,483	2,122	1,789	1,982	1,748	2,115	2,207	2,353	2,218	2,018	1,918	2,018	24,971	26,764	(1,792)	25,188	(216)
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	430	296	265	286	286	286	961	4,273	3,350	923	4,502	(229)
Total Income	14,512	12,615	13,406	13,352	13,425	13,661	13,977	14,080	13,654	13,534	13,142	14,259	163,618	163,166	452	142,738	20,880
Expense																	
Salary & Benefits	6,489	6,737	6,646	6,806	10,919	6,646	6,530	6,779	6,572	6,562	6,604	6,625	83,916	82,247	(1,669)	79,660	(4,256)
Employee Travel	106	135	150	153	168	167	195	206	204	212	153	153	2,002	2,192	190	1,868	(135)
Administrative	188	344	207	533	255	539	465	345	236	854	243	281	4,490	4,675	185	3,967	(524)
Assessments & Fees	1,300	1,300	1,300	1,300	1,300	1,645	1,363	1,363	1,363	1,363	1,363	1,363	16,323	15,300	(1,023)	14,699	(1,624)
Meetings	91	72	77	80	67	84	50	64	69	76	71	31	831	919	88	930	98
Communications	374	318	308	305	305	308	297	305	308	309	309	309	3,754	3,916	161	3,665	(90)
Leases	13	12	16	18	12	15	15	15	15	15	15	15	176	183	7	432	256
Maintenance	1,013	1,012	1,144	1,270	1,787	1,447	1,103	1,184	1,281	1,270	1,257	1,412	15,182	15,866	684	11,301	(3,881)
Services	837	1,261	1,857	1,155	2,156	973	1,204	1,312	1,215	1,165	1,121	1,053	15,310	14,313	(998)	15,870	559
Regional State Committee	11	15	15	14	20	15	13	17	23	23	23	23	212	328	116	207	(5)
Depreciation & Amortization	1,750	1,736	4,517	4,511	4,403	5,731	4,677	4,673	4,790	4,790	4,800	4,840	51,217	49,718	(1,499)	19,398	(31,819)
Total Expense	12,171	12,942	16,238	16,146	21,391	17,570	15,911	16,264	16,076	16,640	15,960	16,106	193,415	189,657	(3,758)	151,995	(41,420)
Other Income/(Expense)																	
Other Income/Expense	(41)	58	(36)	(18)	34	31	(21)	55	-	-	-	-	62	-	62	5,651	(5,589)
Interest Income	2	2	3	4	4	6	5	4	-	-	-	-	31	-	31	223	(192)
Interest Expense	(837)	(886)	(841)	(962)	(930)	(1,034)	(855)	(917)	(901)	(1,784)	(1,782)	(884)	(12,613)	(12,195)	(418)	(10,540)	2,073
Capitalized Interest	-	-	221	12	-	78	-	(68)	44	-	-	61	349	1,160	(811)	2,777	2,428
Change in Valuation of Swap	-	-	27	-	-	7	-	-	-	-	-	-	34	-	34	923	889
Net Other Income (Expense)	(875)	(826)	(627)	(964)	(893)	(912)	(871)	(925)	(857)	(1,784)	(1,782)	(823)	(12,139)	(11,035)	(1,104)	(910)	(448)
Net Income (Loss)	\$1,465	(\$1,153)	(\$3,459)	(\$3,758)	(\$8,858)	(\$4,821)	(\$2,804)	(\$3,109)	(\$3,280)	(\$4,890)	(\$4,600)	(\$2,669)	(\$41,936)	(\$37,526)	(\$4,410)	(\$10,168)	(\$31,768)
2014 Headcount Forecast	569	570	573	576	575	573	573	570	573	575	579	582	582 *				
2014 Headcount Budget	597	598	598	598	598	598	598	598	598	598	598	598	598				
Over / (Under) Budget	(28)	(28)	(25)	(22)	(23)	(25)	(25)	(28)	(25)	(23)	(19)	(16)	(16)				
Headcount Vacancy	-5%	-5%	-4%	-4%	-4%	-4%	-4%	-5%	-4%	-4%	-3%	-3%	-4%				
NRR Over / (Under) Recovery	\$3,193	\$501	(\$1,825)	\$4,041	(\$4,153)	\$1,350	\$1,846	\$1,365	(\$4,032)	\$63	\$412	(\$5,056)	(\$2,294)	\$0	(\$2,294)	(\$10,712)	\$8,419

* The 2014 forecast assumes a vacancy average of 3% for October - December.



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

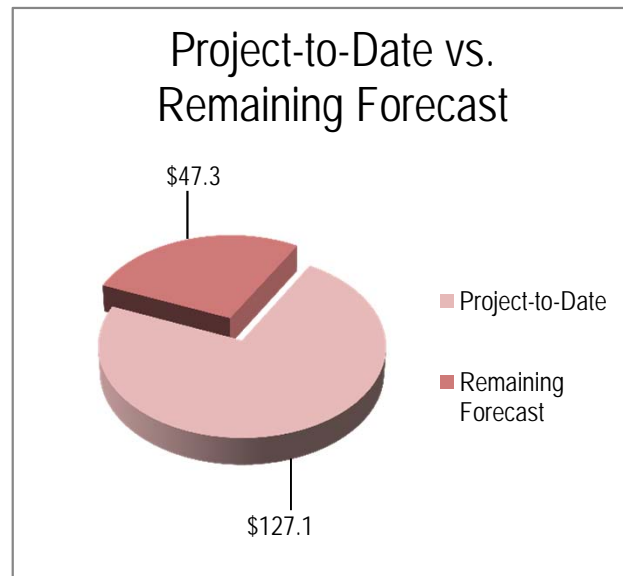
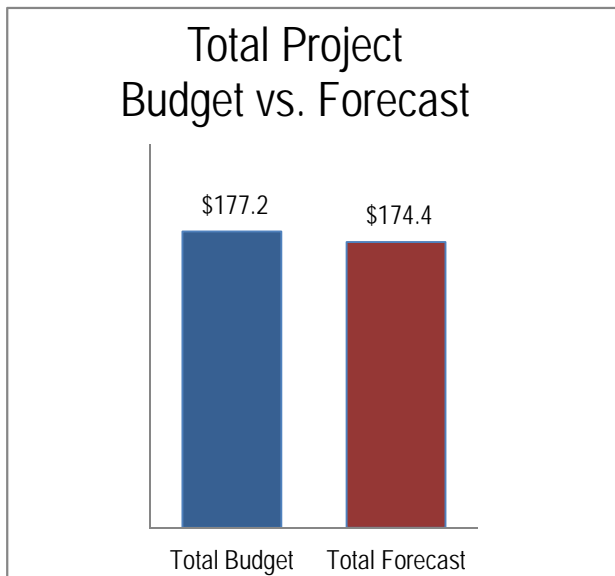
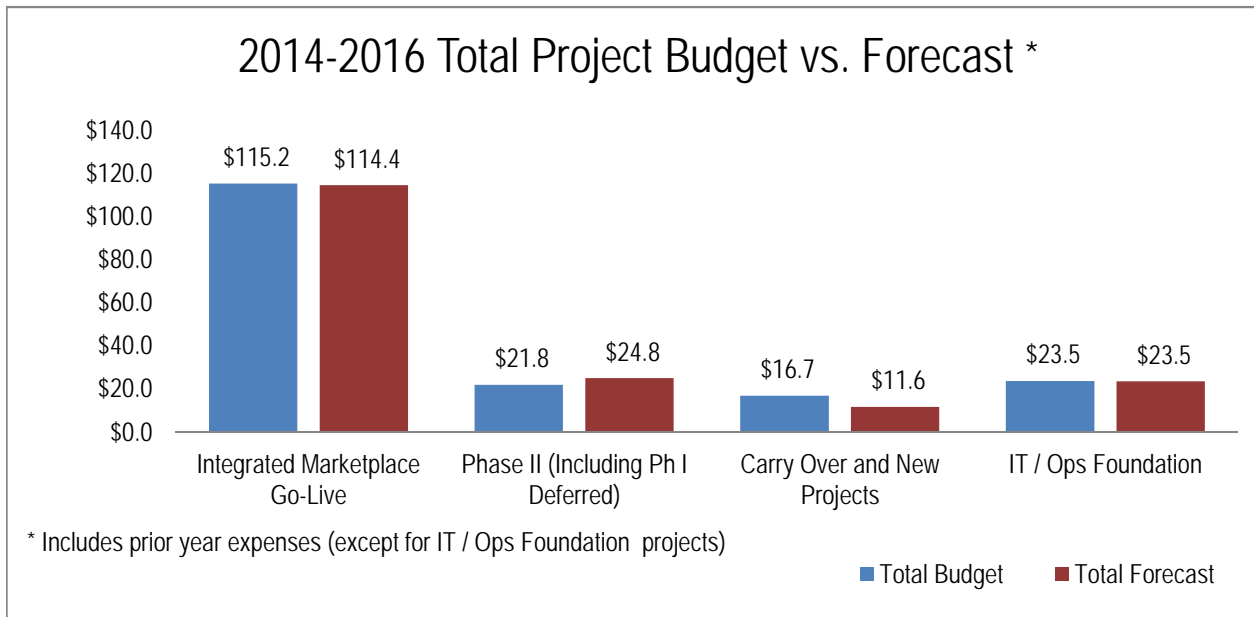
	Current Month Compared to Forecast			YTD Actual Compared to YTD Budget			YTD 2014 Compared to YTD 2013		
	Aug-2014 Actual	Aug-2014 Forecast	Variance Fav/(Unfav)	Aug-2014 Actual	Aug-2014 Budget	Variance Fav/(Unfav)	Aug-2014 Current Year	Aug-2013 Prior Year	Variance Fav/(Unfav)
Income									
Tariff Administrative Service	\$11,425	\$11,595	(\$170)	\$89,473	\$88,400	\$1,073	\$89,473	\$75,091	\$14,382
Fees & Assessments	\$2,353	\$2,218	135	\$16,799	\$18,222	(1,423)	\$16,799	\$16,870	(70)
Contract Services Revenue	\$38	\$38		\$301	\$301		\$301	\$280	21
Miscellaneous Income	\$265	\$286	(21)	\$2,455	\$2,233	222	\$2,455	\$2,603	(148)
Total Income	14,080	14,136	(56)	109,028	109,156	(128)	109,028	94,844	14,184
Expense									
Salary & Benefits	6,779	6,880	\$100	57,553	55,013	(\$2,540)	57,553	51,365	(\$6,188)
Employee Travel	206	176	(30)	1,280	1,446	166	1,280	1,307	27
Administrative	345	275	(71)	2,877	2,962	85	2,877	2,540	(337)
Assessments & Fees	1,363	1,363	-	10,871	10,200	(671)	10,871	9,847	(1,024)
Meetings	64	67	2	585	640	54	585	654	69
Communications	305	308	4	2,518	2,610	92	2,518	2,385	(134)
Leases	15	15		115	122	7	115	366	251
Maintenance	1,184	1,262	78	9,961	10,600	639	9,961	7,324	(2,637)
Services	1,312	1,117	(195)	10,756	9,803	(952)	10,756	9,762	(994)
Regional State Committee	17	23	6	119	235	116	119	130	11
Depreciation & Amortization	4,673	4,765	92	31,997	29,884	(2,114)	31,997	12,815	(19,183)
Total Expense	16,264	16,251	(13)	128,633	123,516	(5,118)	128,633	98,494	(30,139)
Other Income/(Expense)									
Gain or Loss on Sale of Fixed Asset	0	-	0	0	-	0	0	58	(58)
Other Income/Expense	55	-	55	62	-	62	62	55	7
Interest Income	4	-	4	31	-	31	31	133	(103)
Interest Expense	(917)	(903)	(14)	(7,262)	(8,150)	888	(7,262)	(7,071)	(191)
Capitalized Interest	(68)	-	(68)	243	996	(753)	243	1,519	(1,275)
Change in Valuation of Swap	-	-	-	34	-	34	34	592	(559)
Net Other Income (Expense)	(925)	(903)	(22)	(6,893)	(7,154)	261	(6,893)	(4,714)	(2,179)
Net Income (Loss)	(\$3,109)	(\$3,018)	(\$91)	(\$26,498)	(\$21,514)	(\$4,984)	(\$26,498)	(\$8,364)	(\$18,134)
Headcount	570	571	(1)	570	598	(28)	570	579	(9)



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

	<u>8/31/2014</u>	<u>12/31/2013</u>	<u>Net Change</u>
ASSETS			
Current Assets			
Cash & Equivalents	\$44,149	\$34,874	\$9,275
Restricted Cash Deposits	205,139	76,712	128,427
Accounts Receivable (net)	31,375	24,134	7,240
Other Current Assets	12,379	6,966	5,412
Total Current Assets	\$293,041	\$142,687	\$150,354
Total Fixed Assets	184,932	204,259	(19,327)
Total Other Assets	2,780	3,158	(378)
Investments	1,461	1,305	156
TOTAL ASSETS	\$482,213	\$351,409	\$130,804
LIABILITIES & EQUITY			
Liabilities			
Current Liabilities			
Accounts Payable (net)	\$19,995	\$15,953	\$4,042
Customer Deposits	205,140	76,713	128,428
Current Maturities of LT Debt	25,774	22,998	2,775
Other Current Liabilities	28,734	29,038	(304)
Deferred Revenue	4,604	5,919	(1,315)
Total Current Liabilities	284,247	150,620	133,627
Long Term Liabilities			
US Bank 5.45% Senior Notes - 2016	6,000	9,000	(3,000)
US Bank Maumelle Mortgage - 2027	3,392	3,547	(154)
Campus 4.82% Senior Notes - 2042	62,423	62,963	(540)
Integrated Marketplace 3.55% Senior Note - 2024	61,250	64,750	(3,500)
Senior Notes - 2024	90,000	95,000	(5,000)
Senior Notes - 2025	37,000	-	37,000
Other Long Term Liabilities	5,295	6,425	(1,130)
Total Long Term Liabilities	265,360	241,685	23,676
Net Income	(26,498)	(10,168)	(16,330)
Members' Equity	(40,896)	(30,728)	(10,168)
Total Members' Equity	(67,394)	(40,896)	(26,498)
TOTAL LIABILITIES & EQUITY	\$482,213	\$351,409	\$130,804

Capital Project Dashboard *(in millions)*



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

	Total Budget	Project-to- Date Actual	Remaining Forecast	Total Forecast	Over/(Under) Budget
Integrated Marketplace Go-Live	\$115,173	\$114,413	-	\$114,413	(\$761)
Phase I Deferred (Budget found in Ph II contingency)		957	\$43	\$1,000	\$1,000
Phase II					
Market to Market	7,033	1,600	4,789	6,389	(644)
Regulation Compensation	3,211	1,076	2,351	3,427	215
Long-Term Congestion Rights (LTCRs)	4,322	707	2,910	3,617	(705)
Enhanced Combined Cycle	4,599	1,376	7,603	8,979	4,380
Pseudo Tie In/Out	169	253	-	253	84
AFC Granularity Changes for TSRs	1,363	-	-	-	(1,363)
Sunset Clause for Load Submittal for Legacy Bas	156	-	-	-	(156)
Marketplace Date for MPs Post Go-Live	50	-	-	-	(50)
IT Environments Buildout for Marketplace	608	874	311	1,185	577
Grandfather Agreement (GFA) Carve Out (cancelled)	259	-	-	-	(259)
Phase I Deferred (Included in Phase II Budget)	-	-	-	-	-
Unallocated Program Costs (TBD)	-	-	-	-	-
Phase II (Project Pinnacle), Including Phase I Deferred	\$21,770	\$6,842	\$18,007	\$24,849	\$3,079
Carry Over and New Projects					
OPS DTS Upgrade to TTSE (cancelled)	4,400	-	-	-	(4,400)
Transmission Settlements Upgrade ETSE3.0 (2015)	3,775	-	4,187	4,187	412
Netezza Upgrade	3,038	2,646	172	2,818	(220)
EMS Upgrade	1,696	-	1,498	1,498	(198)
EMS Readiness	728	889	-	889	161
Data Center Migration	720	264	450	714	(6)
Aurea ESB Replacement	706	-	475	475	(231)
Project Server Upgrade	300	44	42	86	(213)
Miscellaneous Facilities	318	72	176	248	(70)
Alstom ETS Foundation	225	-	-	-	(225)
QA ICCP Buildout	180	108	87	195	15
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 will not be 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
Carry Over and New Projects	\$16,700	\$4,056	\$7,551	\$11,607	(\$5,092)
IT / Ops Foundation					
IT Systems Foundation	8,154	48	8,107	8,154	0
IT Network Telecom	7,596	742	6,854	7,596	0
IT Applications Foundation	2,799	-	2,844	2,844	45
IT Service Management Foundation	901	107	739	846	(55)
IT Environment Foundation	173	-	118	118	(55)
Operations Foundation	3,889	853	3,049	3,902	13
IT / Ops Foundation	\$23,513	\$1,750	\$21,710	\$23,461	(\$52)
Total Capitalized Project Expense	\$177,156	\$127,062	\$47,269	\$174,330	(\$2,826)

* 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
August 31, 2014

	Current Month Actual vs. Budget			Full Year Forecast vs. Budget		
	Actual Aug-14	Budget Aug-14	Over/(Under) Budget	FY 2014 Forecast	FY 2014 Budget	Over/(Under) Budget
Administration	0	0	0	(12)	0	(12)
Officers	10	10	0	10	10	0
Accounting	10	10	0	10	10	0
Credit	4	4	0	4	4	0
Settlements	24	25	(1)	24	25	(1)
Administration	48	49	(1)	36	49	(13)
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	10	9	1	10	9	1
Process Management	3	2	1	3	2	1
Internal Audit	6	6	0	6	6	0
Process Integrity	46	47	(1)	47	47	0
SPP Compliance	12	13	(1)	12	13	(1)
Communications	4	3	1	4	3	1
Market Monitoring	12	14	(2)	14	14	0
Compliance & Market Monitoring	28	30	(2)	30	30	0
SPP Regional Entity	27	31	(4)	30	31	(1)
Information Technology	137	144	(7)	146	144	2
Markets	6	6	0	6	6	0
Interregional Relations	3	3	0	3	3	0
Operations	150	157	(7)	154	157	(3)
Engineering Planning	39	41	(2)	43	41	2
Engineering Other	31	35	(4)	32	35	(3)
Regulatory Policy & General Counsel	26	26	0	26	26	0
TOTAL HEADCOUNT	570	598	(28)	582	598	(16)

* The 2014 forecast assumes a vacancy average of 4% for September - December.