



**Southwest Power Pool  
FINANCE COMMITTEE MEETING**

**December 8, 2014**

**SPP Corporate Office  
Little Rock, AR**

- **Summary of Action Items** •

**Southwest Power Pool  
FINANCE COMMITTEE MEETING**

**December 8, 2014**

**SPP Corporate Office  
Little Rock, AR**

**• M I N U T E S •**

**Administrative Items**

SPP Chair Harry Skilton called the meeting to order at 2:00 p.m. The following members of the Finance Committee were in attendance:

Harry Skilton	SPP Director
Larry Altenbaumer	SPP Director
Kelly Harrison	Westar Energy
Sandra Bennett	AEP
Laura Kapustka	Lincoln Electric
Tom Dunn	SPP

Others attending included:

Gretchen Holloway (phone)	ITC
Traci Bender (phone)	NPPD
Kristine Schmidt	ITC – Great Plains
Nick Brown	SPP
Carl Monroe	SPP
Lauren Krigbaum	SPP
Michael Desselle	SPP
Scott Smith	SPP
Phyllis Bernard	SPP Director
Julian Brix	SPP Director
Josh Martin	SPP Director
Barrett Breeding	BKD, LLC
Rick Hannmann	KPMG
Schoen Hertell	KPMG
Stan Payne	Stephens Insurance
Kevin McBride	Stephens Insurance
Jim Goss	Stephens Insurance
Matt Jones	Stephens Insurance

Minutes from the October 13, 2014 meeting were reviewed. Kelly Harrison motioned to approve the minutes. The motion was seconded by Larry Altenbaumer and approved by unanimous voice vote.

The Chair requested future meeting minutes include the “action items” scheduled utilized by the SPP Oversight Committee

The Committee encouraged SPP to broaden the financial disclosures published in the SPP annual report.

**2014 Financial Audit**

Barrett Breeding of BKD, LLC presented the 2014 financial audit plan identifying significant focus areas for the audit and seeking input from the Committee on other areas which the Committee would like audited.

**2014 Controls Audit Results and Progress**

Lauren Krigbaum, Director of Internal Audit at SPP and Rick Hannmann and Schoen Hertell from KPMG presented the results of SPP's SSAE 16 Controls Audit completed as of October 31, 2014 covering the period March 1, 2014 through October 31, 2014. The audit report will be issued with an unqualified opinion and no noted exceptions.

### **SPP Credit Practices Working Group Report**

Scott Smith, Director of Treasury and Risk Management at SPP, provided a broad report on SPP's credit practices. The report covered the following areas:

- Review of collateral and exposure metrics
- ARR self-conversions and TCR auction results
- Alternatives to ARR netting during auction open window period
- Protections/mitigations when credit customers declare bankruptcy
- Transmission exposure window

### **Corporate Insurance Stewardship Report**

Stephens Insurance, LLC provided an overview of the property & casualty, professional liability and Director & Officer insurance markets. In general, the marketplace is softening which results in underwriters being more competitive on renewal quotes. Stephens indicated SPP could expect flat to single digit increases in premiums at renewal. Stephens expects SPP's existing underwriters to be interested in continuing coverage. All of SPP's underwriters are ranked "Secure" by A.M. Best.

### **SPP Internal Signature Authorities**

The Committee reviewed SPP's schedule of internal signature authorities and YTD 2014 approvals. No changes to the schedule of internal signature authorities were recommended.

### **Other Items**

SPP staff discussed the following items

- Negotiations with Northwest Power Pool for development and operation of an imbalance energy market
- Disclosure by Omaha Public Power District that it has been over-reporting its load for schedule 1A billing purposes since joining SPP
- The Market-to-Market functionality required by FERC to be implemented no later than March 1, 2015 will put SPP into a position whereby it is disbursing funds to market participants prior to collecting funds from market participants.

### **Future Meetings**

The next meeting of the Finance Committee is scheduled for April 2, 2015 at the DFW – Hyatt Regency Hotel in Dallas, TX beginning at 8:30 am and concluding at 3:00pm.

The Committee also suggested scheduling a meeting in late February/early March to facilitate meaningful strategic discussion on important issues. SPP staff will work to schedule that meeting and identify the issues to be discussed.

There being no further business, Harry Skilton adjourned the meeting at 6:00 pm.

Respectfully Submitted,

Thomas P. Dunn  
Secretary

**Southwest Power Pool, Inc.**  
**FINANCE COMMITTEE**  
**Pending Action Items Status Report**  
**December 8, 2014**

	<b>Action Item</b>	<b>Date Originated</b>	<b>Status</b>	<b>Comments</b>
1.	Establish a scorecard for presentation to MOPC, SPC, and BOD indicating costs associated with member required projects/services.	10/11/2012	incomplete	Absence of member required projects during Integrated Marketplace development and implementation
2.	Develop schedule of items that require Committee approval, items that require Committee monitoring, and items that require Committee input.	12/20/2013	incomplete	
3.	Create comparison of level of financial disclosures contained in RTO annual reports	7/10/2014	incomplete	
4.	Provide line item detail of expenses expected to be recovered from bidders in the competitive bidding process under Order 1000	10/13/2013	Complete	Posted with minutes from December 8, 2014 meeting
5.				
6.				
7.				
8.				
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10.				
11.				
12.				
13.				
14.				



**Southwest Power Pool, Inc.  
FINANCE COMMITTEE MEETING  
December 8, 2014  
SPP Offices  
Little Rock, Arkansas**

**• A G E N D A •**

2:00 p.m. – 6:00 p.m.

1. Administrative Items (15 minutes)..... Harry Skilton
  - a. Minutes
2. 2014 Financial Audit (30 minutes)..... BKD – Barrett Breeding
3. 2015 Controls Audit Results and Progress (60 minutes) .....KPMG
  - a. Type II audit report (March 1 – October 31, 2014)
4. SPP Credit Practices Working Group Report (60 minutes).....Scott Smith
5. Corporate Insurance Stewardship Report (45 minutes)..... Stephens Insurance
6. SPP Signature Authority **\*\*ACTION\*\***( 15 minutes) ..... Tom Dunn
7. Other Items (30 minutes).....
  - a. Northwest Power Pool request for proposal
  - b. Omaha Public Power District network load reporting
  - c. Market to market billing
8. Written Reports
  - a. October 2014 financials
  - b. Actuary assumptions
  - c. Future meetings
9. Adjourn ..... Harry Skilton

*Relationship-Based • Member-Driven • Independence Through Diversity  
Evolutionary vs. Revolutionary • Reliability & Economics Inseparable*

**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 reviewed the August 2014 financial report. [{Did we do this?}](#)

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 [\[Skilton\] and that staff is still expected to focus on reliability and regional benefits](#). Additionally, there is renewed focus on utility costs, driven by the increased cost of transmission, which requires changes to how SPP manages itself financially. [\[Skilton\] If circumstances change through the year requiring the change in priorities or new initiatives or changes in the funding, staff can make this known to the Committee or other appropriate committee such as SPC and MOPC.](#)

#### **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



# Credit Risk Management – Presentation to Finance Committee

December 8, 2014

Scott Smith  
Director, Treasury and Risk Mgmt  
[ssmith@spp.org](mailto:ssmith@spp.org)  
501-614-3339



# Discussion Topics

- Review of Credit Collateral and Exposure Metrics
- 2014-2015 Annual TCR Auction Results – ARR Self Converts
- Possible Alternatives to ARR Netting During Auction Period
- SPP Tariff Protections against Bankruptcy Risk
- Transmission Exposure Window

# Credit Collateral & Exposure Metrics

As of October 31, 2014

*Millions of Dollars*

Customer Rating	# of Cust	Unsecured Credit	%	Collateral	Total Credit Limit	Total Potential Exposure
AAA thru A	12	\$162	25%	\$16	\$178	\$11
A- thru BBB-	32	\$207	32%	\$134	\$342	\$45
Below Invest Grade	2	\$0	0%	\$1	\$1	\$0
Not Rated: For-Profit	86	\$44	7%	\$173	\$217	\$46
Not Rated: Not-For-Profit	58	\$243	37%	\$58	\$301	\$40
<b>Total</b>	<b>190</b>	<b>\$656</b>	<b>100%</b>	<b>\$382</b>	<b>\$1,038</b>	<b>\$142</b>

- Includes all credit customers registered as MPs or TCs
- Table reflects 'point in time' data for exposure and credit limits
- Collateral is cash or letter of credit only
- TPE is calculated per SPP Credit Policy and presented on a gross basis, i.e. includes only liability balances aggregated at the credit holder level

# 2014 Annual Auction – All Activity

*Millions of Dollars*

PRE-AWARD PERIOD*	TCR Bids	ARR Converts	Total
# of Credit Holders	36	31	55*
# of Credit Approved Bids	63,250	4,734	67,984
# of Credit Approved MWh	260,978	401,286	662,264
Calculated Credit Exposure	\$234.0	\$59.4	\$293.4

*\* 12 Credit Holder have both TCR and ARR Activity*

- Includes activity during 4-day bid window; prior to auction clearing
- ARR Converts exposure includes netting functionality (90%)
  - TCR Bids do not net during the auction period
- 9,724 Bids and ARR Converts were Disapproved for credit deficiency

# ARR Netting in Annual Auction

- FERC approved changes to SPP's Credit Policy to allow the netting of 90% positive credit-valued ARR with 100% of negative credit-valued ARRs
  - Functionality implemented in CMS for 2014 Annual Auction
  - Effectively reduces collateral requirements for ARR conversions
  - ARRs that are not converted are not assessed for credit risk
- \$59MM of credit exposure was calculated for ARRs that were bid to be self-converted (pre-award)
  - \$230MM of credit exposure would have been calculated had Policy not been changed

# 2014 Annual Auction – ARR Activity Only

	ARR Converts Bid	ARR Converts Awarded	Difference
# of ARRs Self-Converted to TCRs	4,734	4,727	7
# of MWh	401,286	358,689	42,597
Calculated ARR Credit Exposure	\$59.4	\$58.1	\$1.3
# of Credit Holders with increased collateral required due to awards		6	

- Of the 6 Credit Holders whose collateral requirements increased:
  - 2 increased greater than \$100,000
  - Increases ranged from 0.05% to 29.6%
  - No Credit Holders were required to post add'l collateral upon awards
- Does not include Credit Holders whose netted ARR exposure was positive and remained positive after awards were granted

# ARR Netting Sensitivity Analysis

Positive ARR Weight	100%	90%	80%	70%	60%
Calculated Credit Exposure*	\$48.5	\$59.4	\$72.1	\$86.5	\$101.2
# of Credit Holders whose calculated ARR exposure increases due to awards	16	6	1	1	0

- Does not include Credit Holders whose netted ARR exposure was positive and remained positive after awards were granted
- Statistics used for this analysis were derived from actual trading activities and may not be entirely applicable for future auctions
- Changes to the current ARR netting policy would require stakeholder and regulatory approval

# Market Participant Bankruptcy

- Defaults and Remedies addressed in Attach X, Section 8
- 8.1.4 – “A Credit Customer’s involvement in financial difficulties”
  - Voluntary or Involuntary
  - Title 11 of U.S. Code or Other (Court Ordered, etc.)
- 8.2 - Credit Customer (“CC”) required to notify SPP and provide documentation (pleadings, orders, etc.)





# Market Participant Bankruptcy

- 8.3 – Remedies for Default
- “Upon the first occurrence...as defined in Section 8.1.4”
  - Immediate suspension of unsecured allowance
  - May terminate CC’s rights
  - May order CC to post additional collateral
  - May order CC to cease one or more market transactions
  - May take other measures to protect SPP and MPs



# Market Participant Bankruptcy

- Minimum Capitalization Requirements
  - Failing to meet capitalization standards require up to \$5MM deposit not to be used for trading collateral
  - Exposure calculations require double the amount of trading collateral
  - All TCR and Virtual trades are assessed for collateral prior to being accepted for market clearing
- Credit and Security Agreement
  - Creates a security interest in any collateral



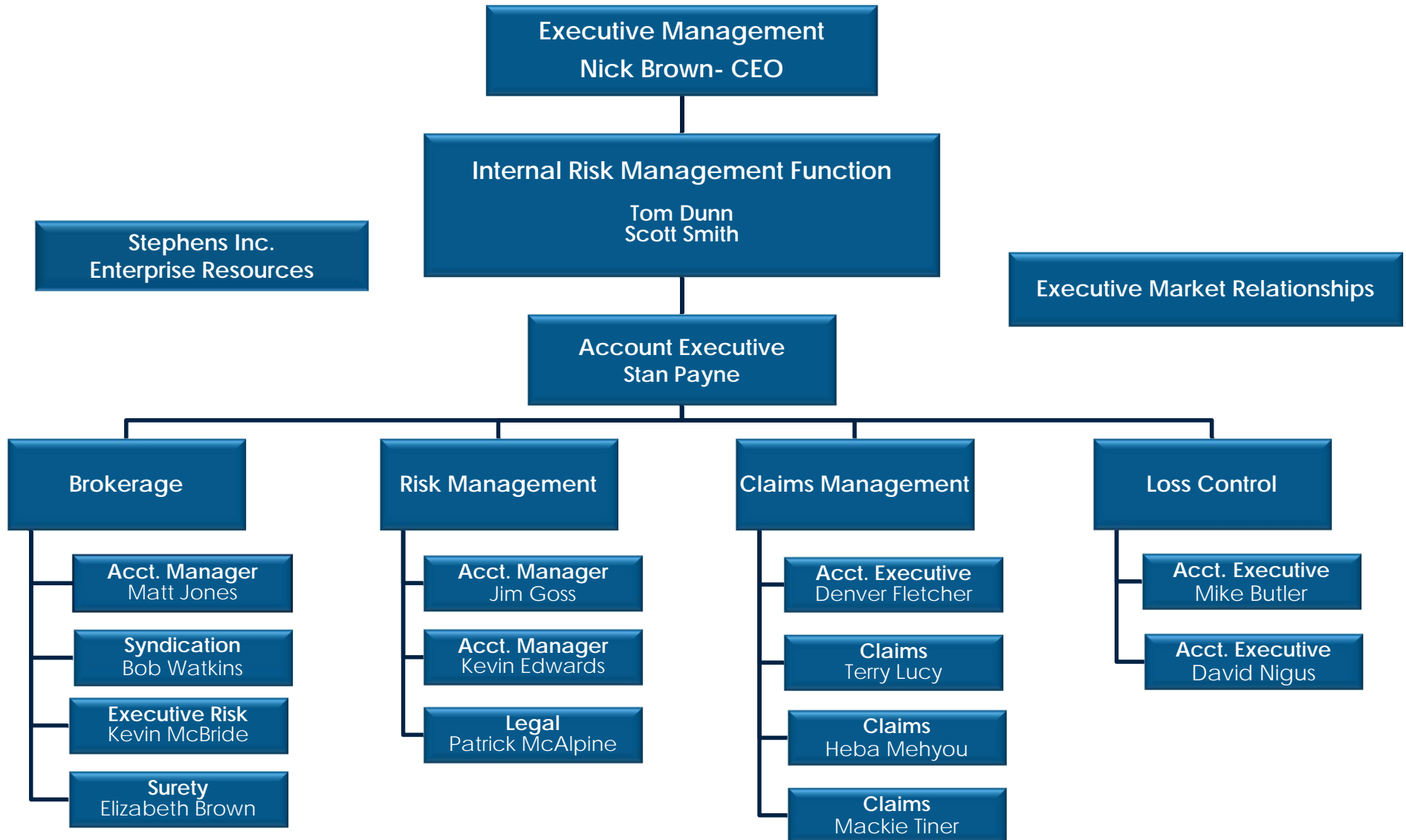
# Market Participant Bankruptcy

- SPP as Centralized Counterparty
  - Per FERC Order 741
  - Counterparty to all Marketplace transactions except: bilaterals and self-commitments
  - Allows for the use of netting and set-off in bankruptcy cases
- Bankruptcy Courts vs. FERC
  - FERC has had influence in determination of executory contracts
  - Likely that FERC would order an asset owning MP to continue participation in regulated energy market

# 2014 STEWARDSHIP REPORT



**Stephens**  
Stephens Insurance, LLC



# ACTIVITIES & ACCOMPLISHMENTS



Stephens appreciates the opportunity to continue to serve Southwest Power Pool in the role of insurance and risk management advisor.

## **Overall**

- Stephens arranged a meeting late in 2013 with the Aegis underwriter, Brian Madden, in order to increase familiarity with Southwest Power Pool management and to provide details of your project plan to implement the marketplace. We believe this meeting led to a smoother renewal with the inclusion of the integrated marketplace in February 2014.
- Reviewed D&O program in depth and provided options to move this coverage to Aegis.
- Kevin McBride provided a Cyber Liability policy form to Scott Smith for review and markup.
- Looked at options to separate Employment Practices and Directors/Officers Liability

## **Risk Management**

- Provided templates to Scott Smith with regard to Risk Inventory/ Enterprise Risk Management
- In October, Terry Lucy and Mike Butler had a call with Scott and Tom regarding their parking deck and various exposures that they have, including employees using the deck for a walking track and possible slip & fall claims due to ice. Terry assisted with explaining when and how work comp would be engaged.
- As a result of the previous call, Mike Butler is scheduled to go out and inspect the parking deck to see if he can offer suggestions to prevent slip and fall claims due to ice accumulation

# MARKET UPDATE





## Third Quarter 2014 Update and Outlook for Remainder of Year

While results vary by line of coverage and in some cases by jurisdiction, general market conditions continue to be favorable for buyers with adequate to excess capacity for most major lines of coverage. Abundant capacity driven by better than average losses, lower reinsurance cost and emerging new capacity (capital markets) have resulted in increased competition among underwriters. As a result, accounts with average or better experience saw renewal rates ranging from low single digit increases to modest decreases depending upon industry group and line of coverage. The largest overall rate increases were seen in the construction and transportation industry groups with increases of 4% and 3% respectively. This overall rate improvement has been tempered somewhat by the continued low interest rate environment in financial markets. Industry results for 2013 were much better than average with many insurance carriers reporting combined loss and expense ratios between 80% and 90%. Industry-wide combined loss ratio deteriorated slightly to 98.9% for first half of 2014 compared to 98.0 for the first six months of 2013.

At the same time, investment income fell from \$23.3 billion for the first six months of 2013 to \$23 billion for the first six months of 2014 reflecting the continued low interest rate environment. Through the first six months of 2014 industry net income after taxes rose \$1.6 billion to \$26 billion compared to \$24.4 billion for the first half of 2013. Industry-wide policyholder surplus increased to \$671.6 billion at 30 June 2014 compared to \$653.4 billion at year end 2013. This follows an increase of 10.4% or \$62.2 billion for year end 2013 compared to 2012.

The industry-wide combined loss ratio for the first six months of 2014 deteriorated to 98.9% compared to 98.0% for the same period of 2013. Combined loss ratio for the industry at year end 2013 was 95.7%, an improvement of 7.5% over the same period a year earlier. Year-end combined loss ratio for 2013 was 103.2%.



**“Improving results drives growing competition in most lines”**

Catastrophe losses for the first six months of 2014 increased modestly to \$12.4 billion, an increase of \$2.5 billion compared to \$10.0 for the first six months of 2013 and a ten year average for the first six months of \$10.2 billion. This follows a decline to \$30 billion in full year Catastrophe losses for 2013 which compared to a 10 year annual average of \$56 billion per year.

## Property

Rates for large CAT and Non-CAT property accounts have generally been lower by 5% to 10% in the first half of 2014 and we expect that trend to continue and likely improve throughout the remainder of this year barring any major CAT events. RMS 13 which was released in July 2013 has been adopted by most carriers and in many cases is producing lower estimates for windstorm losses in the range of 15% to 20% which has resulted in significant rate reductions and increased availability for wind driven accounts. The exception to this would be "convective storm" exposures in the Midwestern US as this segment has seen heavy losses in recent years and extended periods of relative low rates.

The competitive pricing has begun to trickle down to smaller, Non-CAT property and inland marine accounts as rate reductions are now being seen in these segments.

On layered property accounts primary underwriters are frequently offering increased capacity, broader terms, higher sublimits and lower deductibles. Capacity for excess layers is increasing and is more competitively priced.



**"Improving results drives growing competition in most lines"**

## Primary and Excess Casualty

In view of the abundant capacity and less expensive reinsurance, underwriters for primary general liability, umbrella and excess liability have become more aggressive in an effort to increase market share. Even though experience has improved due to prior year rate increases and some moderation in medical inflation trends, workers' compensation continues to be the most volatile casualty line with rate variations anywhere from decreases of 5% to increases of 20% or more depending upon jurisdiction and account experience. California, New York, Massachusetts, Pennsylvania and Illinois continue to be the most challenging jurisdictions with the largest rate increases. We continue to see limited availability for excess workers' compensation and to a lesser degree monoline workers' compensation.

Auto liability rates for accounts with favorable experience are generally flat while accounts with less favorable experience are seeing rate increases of 7.5% or more. Umbrella underwriters continue to look for higher attachment points for large difficult fleets with heavy trucking exposures and/or poor loss experience.

As cyber crime becomes an increasingly common event, particularly with point of sale retailers, the market for stand-alone cyber coverage continues to grow. First time buyers with no loss history will generate competition among underwriters. Renewal rates for other than point of sale retailers generally trend from -2% to + 5%.



**“Improving results drives growing competition in most lines”**

# MANAGEMENT LIABILITY MARKET UPDATE

## State of the Market

- In general, becoming competitive again, especially for mid-sized organizations.
- Overall global capacity for D&O remains very high, with some estimates putting the number at +\$1 Billion.
- Average claim payments (settlements) increased in 2013, but that was driven by 6 \$100+ million settlements with one exceeding \$2 Billion. Median settlements decreased by 37% to \$6.5 million according to Cornerstone Research.
- The SEC remains active under new chair Mary Jo White, initiating almost 700 regulatory investigations in 2013. Those proceedings produced disgorgement of illegal profits of approximately \$2.3 Billion and penalties of \$1.2 Billion.
- New class action securities filings increased slightly from 2012 to 2013 but remain below the 1997-2012 average. However, the number of U.S. Exchange listed companies has decreased by 46% since 1998. The percentage of listed companies that were the subject of a filing remains around the 15 year average of 3%.
- Litigation involving mergers & acquisitions has tapered off, but is still prominent. The monetary portion of settlements remains below 10% of the total settlement with additional disclosure requirements representing 75% of the settlement. The plaintiff attorneys are still the winners in this litigation.

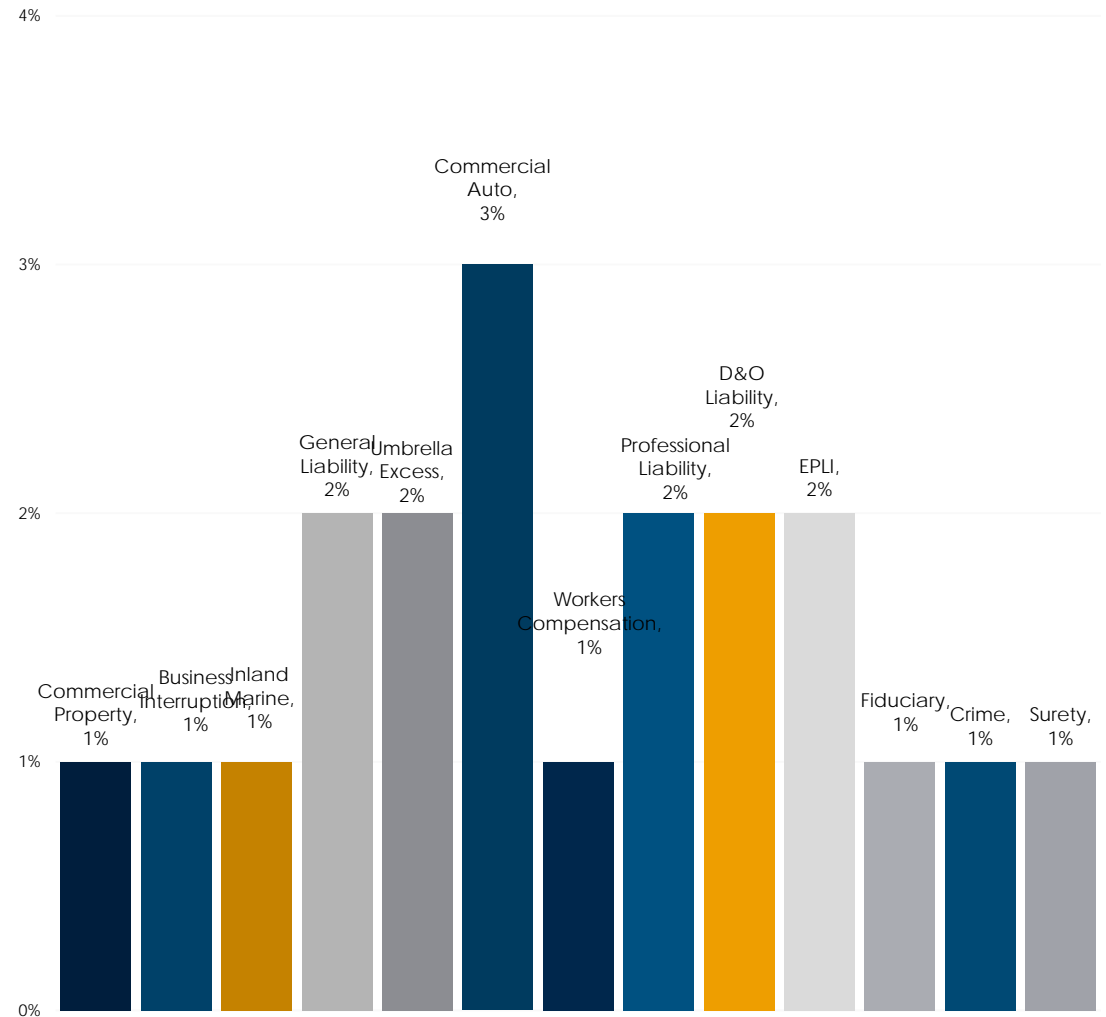
## Emerging Trends

- Cyber related D&O litigation – Wyndham and Target are both defending derivative litigation brought as a result of a cyber related security breaches.
- Derivative litigation – According to D&O insurers and defense attorneys, derivative litigation is expected to be the next big wave of D&O litigation. Data is tough to come by but the anecdotal evidence points in that direction. The News Corp. \$139 million settlement of derivative litigation in 2013 sets a high water mark for how bad it can get.
- Halliburton Supreme Court Case – Fraud on the market theory NOT overturned in court's 6/23/14 decision, but allowed for defendant to rebut the presumption at class certification which could cause an increase in defense expenses.
- Costs associated with responding to regulatory inquiries as well as the document production costs remain a hot topic.

## Premium Trends by Coverage Class

- Commercial Property Up 1%
- Business Interruption Up 1%
- Inland Marine Up 1%
- General Liability Up 2%
- Umbrella /Excess Up 2%
- Commercial Automobile Up 3%
- Workers Compensation Up 1%
- Professional Liability Up 2%
- D&O Liability Up 2%
- EPLI Up 2%
- Fiduciary Up 1%
- Crime Up 1%
- Surety Up 1%

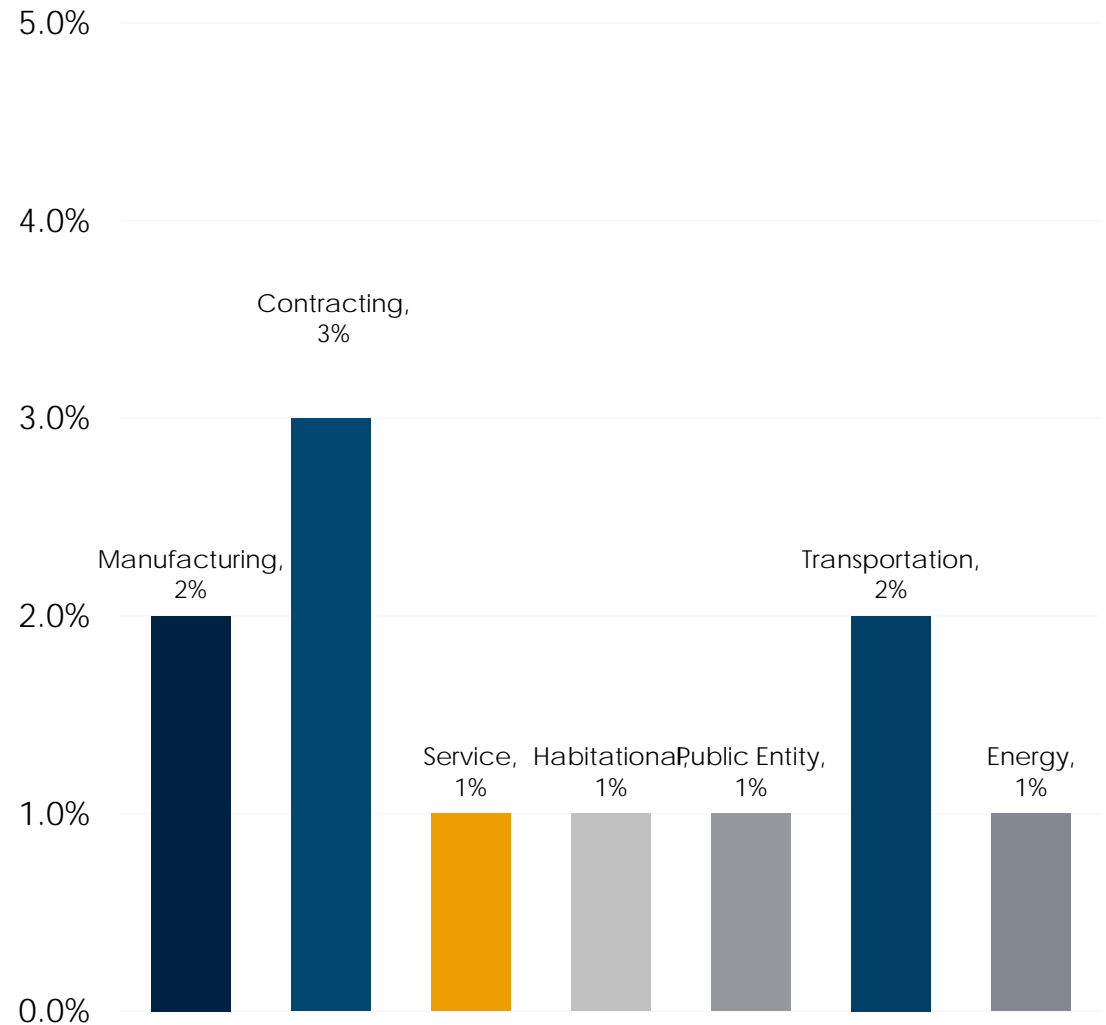
## Premium Trends By Coverage Class October 2014



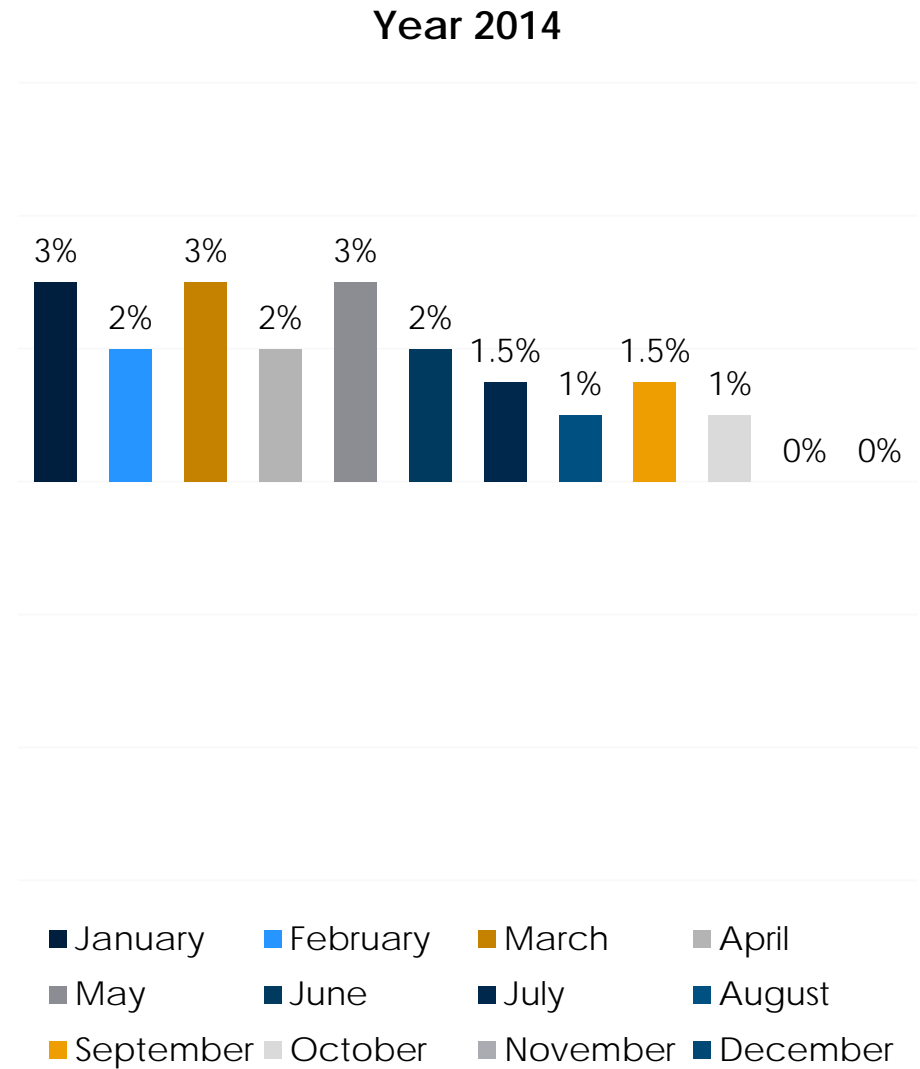
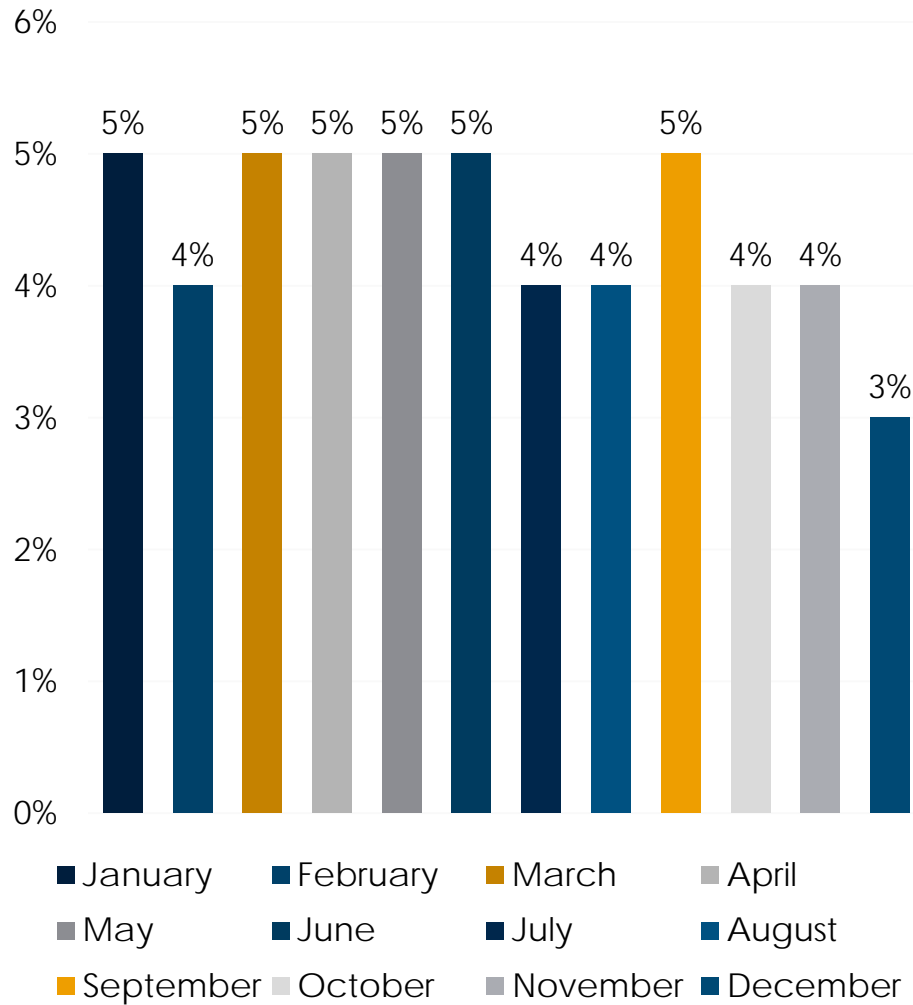
## Premium Trends by Industry Class

- Manufacturing Up 2%
- Contracting Up 3%
- Service Up 1%
- Habitational Up 1%
- Public Entity Up 1%
- Transportation Up 2%
- Energy Up 2%

### Premium Trends By Industry Class October 2014



## Average Rate Change by Month Year Over Year

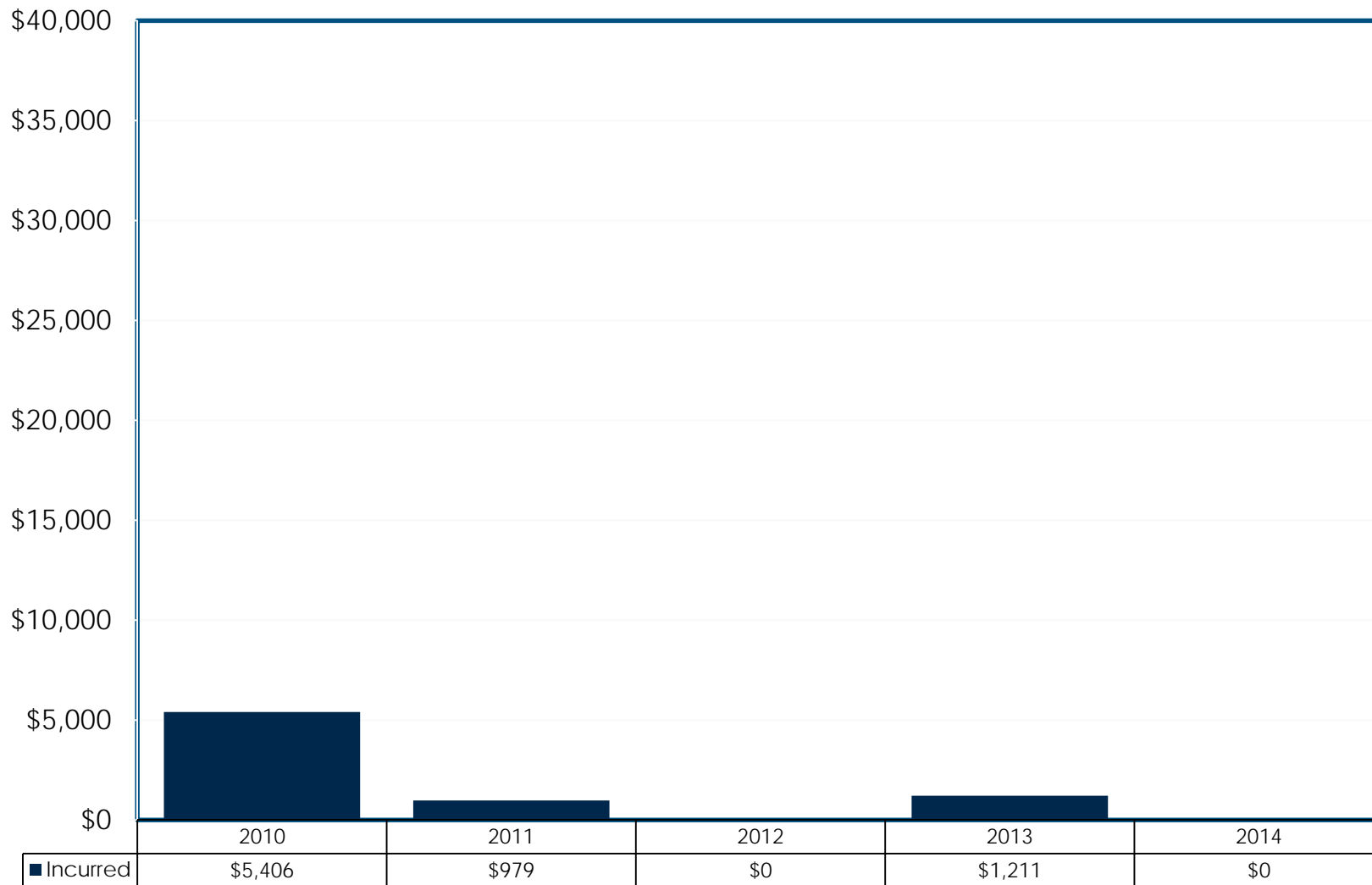


# CLAIMS SUMMARY

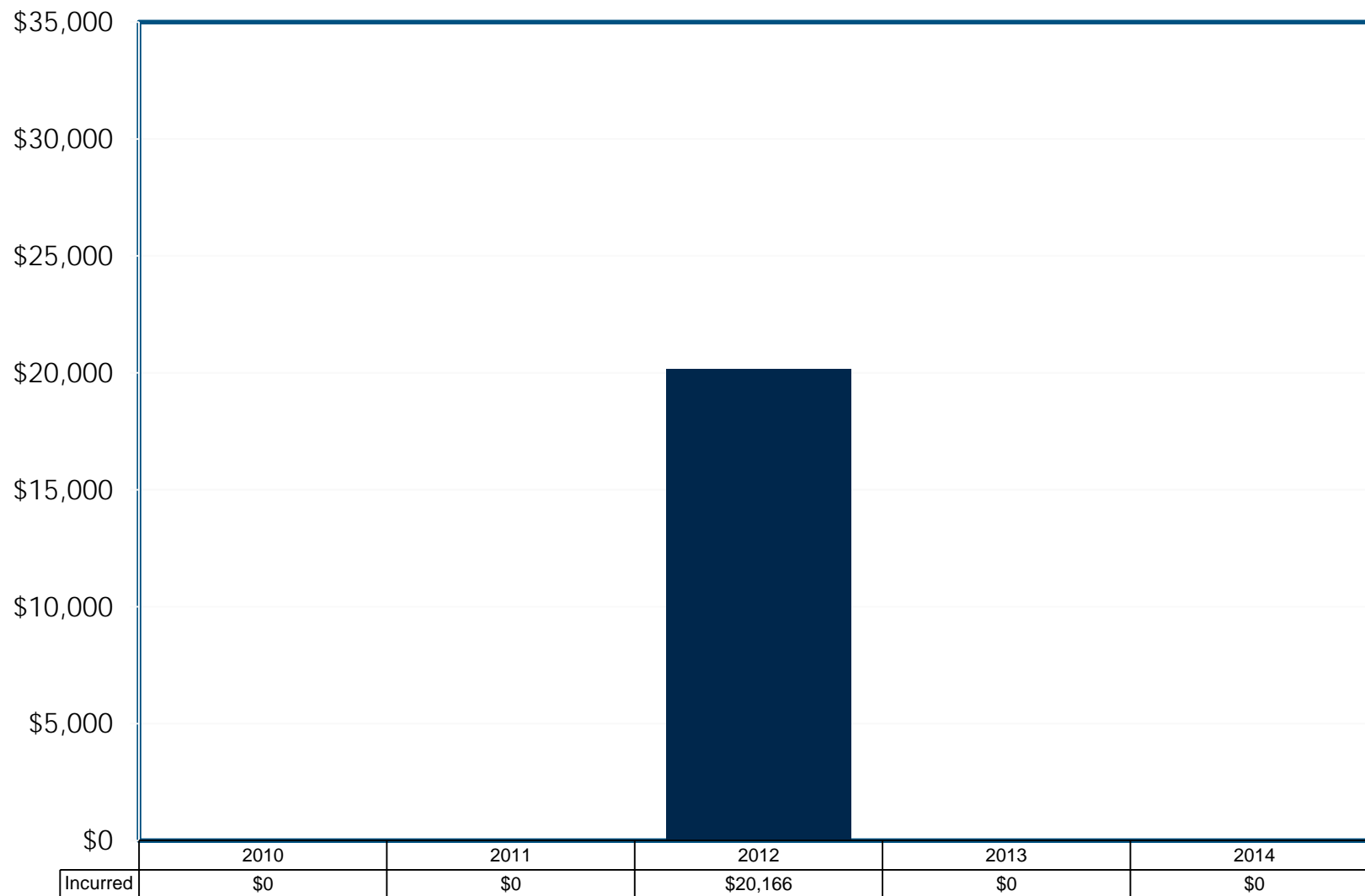




# WORKERS' COMPENSATION CLAIMS HISTORY



# AUTOMOBILE LOSS HISTORY (LOSSES VALUED 11-14)



# PROGRAM REVIEW



# POLICY REGISTER

Coverage	Billing Company	Issuing Company	Policy Number	Policy Term
Property	C.N.A	Continental Casualty Company (A XV)	RMP 4034831490	4/1/2014 - 4/1/2015
Workers Compensation	Liberty Mutual	Liberty Mutual Fire Ins Co (A XV)	WC2-641-439074-044	4/1/2014 - 4/1/2015
General Liability	Liberty Mutual	Liberty Mutual Fire Ins Co (A XV)	TB6-641-439074-034	4/1/2014 - 4/1/2015
Automobile	Liberty Insurance Corp	Liberty Mutual (A XV)	AS2-641-439074-024	4/1/2014 - 4/1/2015
Umbrella (Primary \$35M) Incl E&O	Aegis Insurance Services	Associated Electric & Gas (A XII)	XL5088003P	4/1/2014 - 4/1/2015
Excess Liability (\$40 xs \$35M)	Energy Insurance Mutual	Energy Insurance Mutual Limited (A XI)	252714-14 GL	4/1/2014 - 4/1/2015
Crime	Travelers Property Casualty	Travelers Casualty & Surety (A+XV)		
D&O Primary (\$5M)	Chubb Insurance Company	Federal Insurance Company (A++XV)	8164-4998	4/1/2014 - 4/1/2015
D&O Excess (\$5M xs of \$5M)	Travelers Property Casualty	Travelers Casualty & Surety (A+XV)	105539453	4/1/2014 - 4/1/2015
D&O Excess (\$10M xs of \$10M)	AmWINS Brokerage of Texas, Inc.	RSUI (A+XV)	NHS656460	4/1/2014 - 4/1/2015
D&O Excess (\$10M xs of \$20M)	Ace American Insurance Company	ACE American Insurance Company (A++XV)	G25758523 001	4/1/2014 - 4/1/2015
D&O - Side A & B (\$10M xs \$30M)	Chartis	National Union Fire Insurance Company of Pittsburgh, PA (A XV)	02-585-01-14	4/1/2014 - 4/1/2015
D&O - Side A & B (\$10M xs \$40M)	RLI Insurance Company	RLI Insurance Company (A+XI)	EPG0015625	4/1/2014 - 4/1/2015
D&O - Side A & B (\$10M xs \$50M)	Liberty Mutual Insurance Company	Liberty Mutual (A XV)	204113-214	4/1/2014 - 4/1/2015
Fiduciary (\$5M)	Travelers Property Casualty	Travelers Casualty & Surety (A+XV)	105538997	4/1/2014 - 4/1/2015

# A. M. BEST INSURANCE RATING

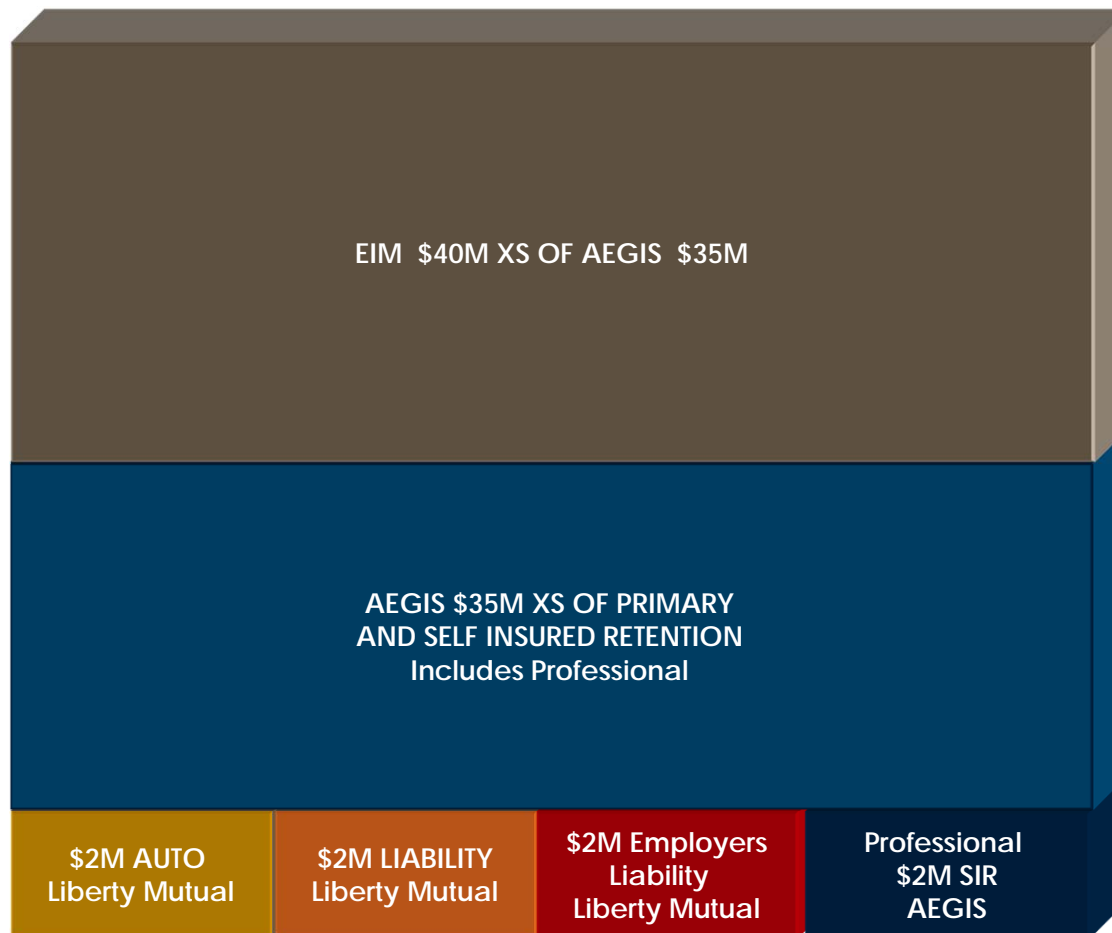
## Financial Size Category

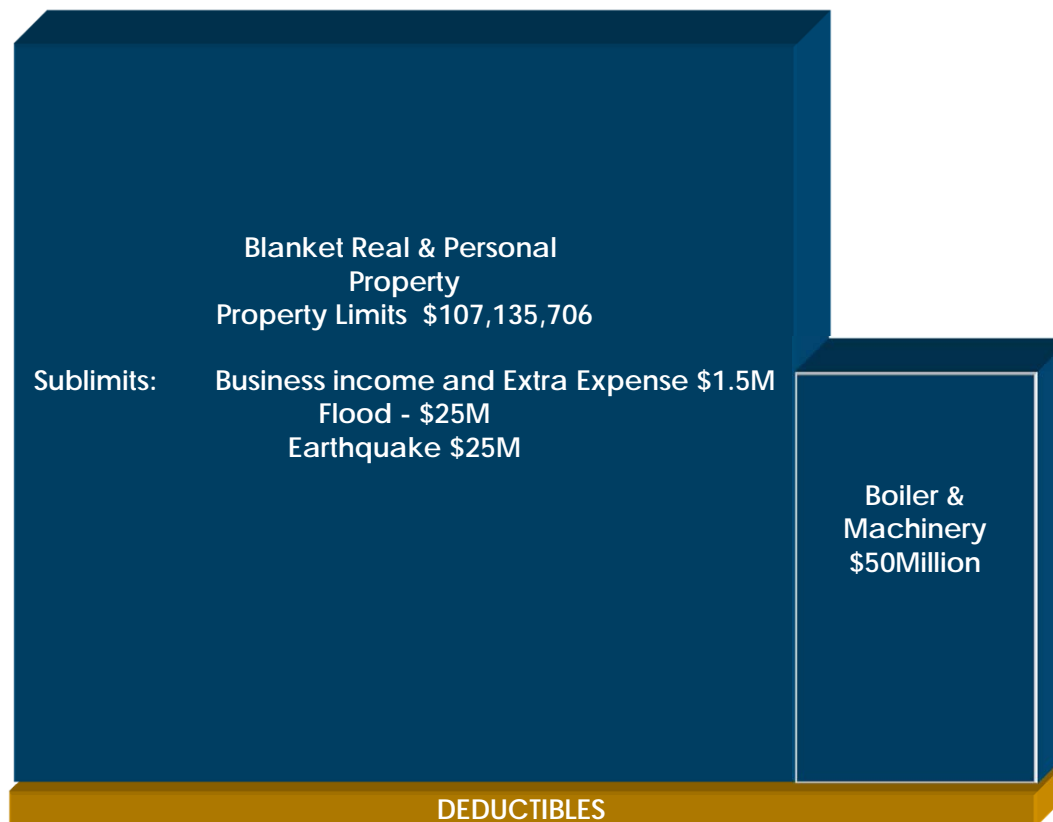
Class	Adj. PHS (\$ Millions)	Class	Adj. PHS (\$ Millions)
I	Less than 1	IX	250 to 500
II	1 to 2	X	500 to 750
III	2 to 5	XI	750 to 1,000
IV	5 to 10	XII	1,000 to 1,250
V	10 to 25	XIII	1,250 to 1,500
VI	25 to 50	XIV	1,500 to 2,000
VII	50 to 100	XV	2,000 or greater
VIII	100 to 250		

## Financial Strength Ratings

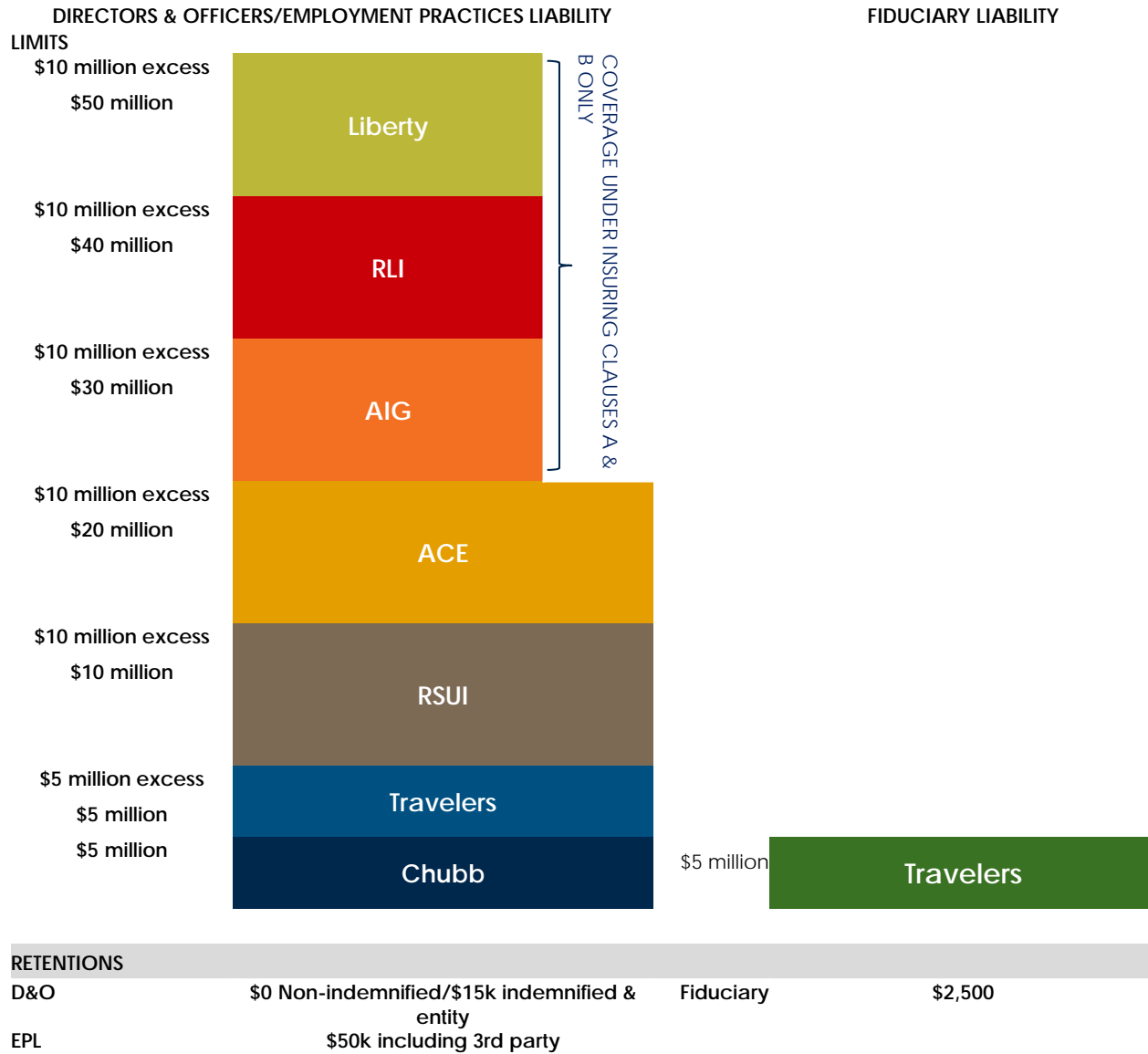
Secure	Vulnerable
<b>A++, A+</b> (Superior)	<b>B, B-</b> (Fair)
<b>A, A-</b> (Excellent)	<b>C++, C+</b> (Marginal)
<b>B++, B+</b> (Good)	<b>C, C-</b> (Weak)
	<b>D</b> (Poor)
	<b>E</b> (Under Regulatory Supervision)
	<b>F</b> (In Liquidation)
	<b>S</b> (Suspended)

\$75M Excess of Primary



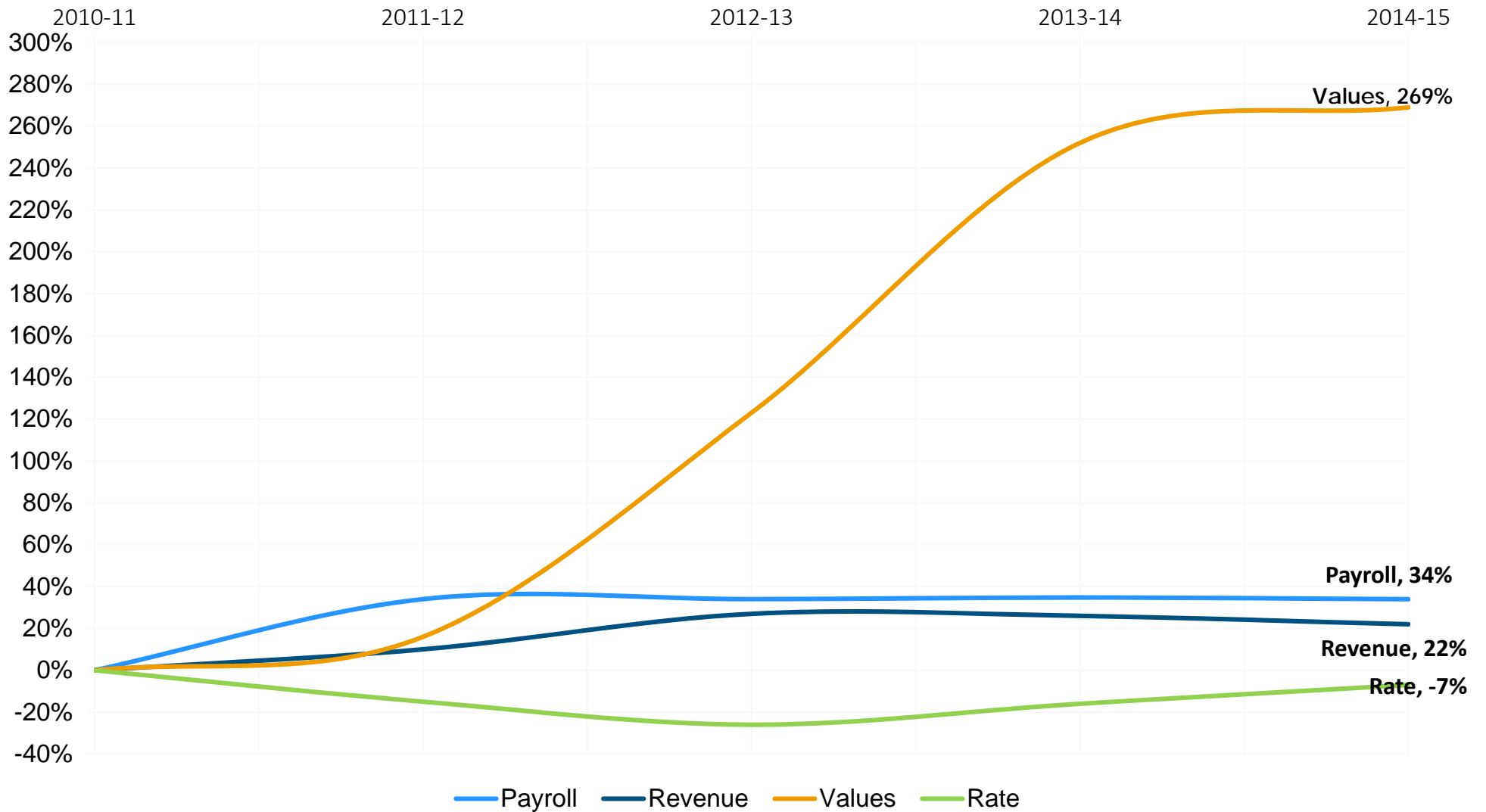


Deductibles:	
All Perils	\$10,000
Flood	\$50,000
Quake	\$50,000
Named Storm	\$50,000
Time Element	\$50,000
Machinery	\$10,000





# PREMIUM BASE CHANGE VERSUS RATE CHANGE

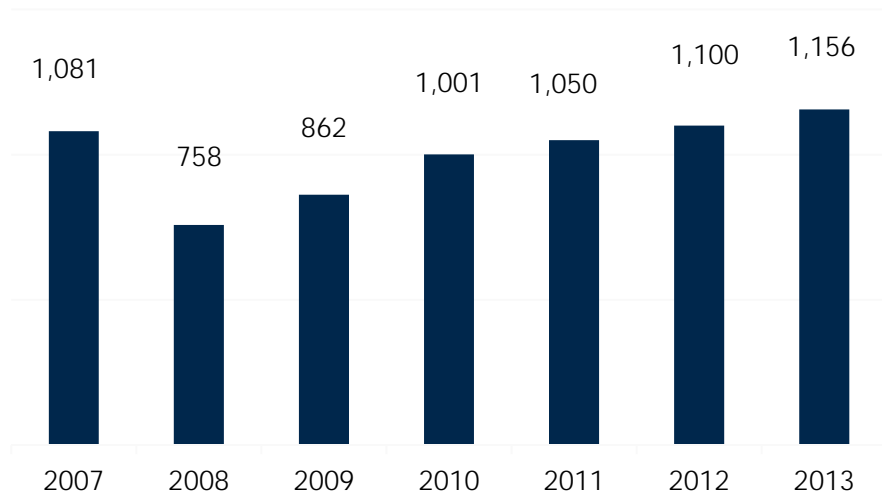


Stephens  
Stephens Insurance, LLC

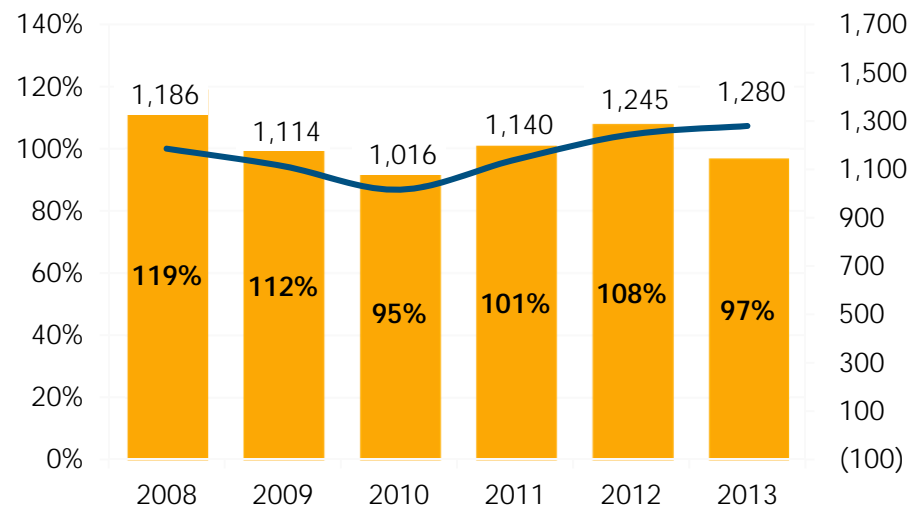
AEGIS



**Total Surplus**  
 December 31 (millions of U.S. Dollars)



**Gross Premiums Written and Combined Ratio**  
 For the years ended December 31 (millions of U.S. dollars)



## AEGIS CURRENT NEWS

- AM Best rating improved from A- to A in 2014
- Aegis currently insures eight US RTO's (including SPP) and one Canadian operator in regard to Excess Liability
- Aegis insures three RTO/ISO organizations for Directors and Officers Liability
- For fiscal year ending 1-31-2013, net income rose from \$19.5M to \$89.6M and surplus rose from \$1.10B to \$1.156B
- Through three quarters of 2014, surplus is now at \$1.2B
- Property book is having a tough 2014
- Approximately 2/3 of its growth comes from London syndicate
- Aegis will underwrite risks on an individual basis in 2015 and are not currently looking for a general increase across the book.
- Actual worldwide combined ratio for 2013 was 97%- running about 96% through three quarters. The 2014 loss ratio is comprised of 102% US results and 91% for the London operations
- Aegis is now offering \$15M in Cyberliability capacity due to demand from its Members

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**Approved Purchase Orders  
2014 YTD**

**Budgeted: 1/1/2014 - current**

<b>Amount Range</b>	<b># of Requisitions</b>	<b>Total Amount</b>
\$50 -100k	35	\$2,514,233
\$100 - \$250k	48	\$7,319,904
\$250 - \$500k	24	\$8,481,668
\$500k - \$1M	14	\$10,480,497
\$1M+	5	\$10,469,361

**Unbudgeted: 1/1/2014 - current**

<b>Amount Range</b>	<b># of Requisitions</b>	<b>Total Amount</b>
\$50 -100k	7	\$447,104
\$100 - \$250k	7	\$936,250
\$250 - \$500k	1	\$298,108
\$500k - \$1M	2	\$1,476,000
\$1M+	0	\$0

**CURRENT APPROVAL LEVELS -  
BUDGETED EXPENDITURES**

**Single Signing Authority Limits**

TIER Level	Position	Signing Limit
A	Supervisor, Meeting Planner	\$5K
B	Manager	\$10K
C	Director	\$100K
D	Vice President, COO	\$500K
E	President	\$1M

**Dual Signing Authority Limits**

Multi	COO/CFO + VP *	\$1M
Multi	VP* + President	Within Budget Limits

\*Must include VP that oversees the department incurring the expenditure. For VP Information Technology, VP Engineering, and VP Operations, approval must include both the COO and CFO. The combination of approvals can only be used in the event the President is out on an extended basis due to illness or other unforeseen circumstances.



## CURRENT APPROVAL LEVELS - UNBUDGETED EXPENDITURES

### Single Signing Authority Limits

TIER Level	Position	Signing Limit
A	Supervisor	\$0
B	Manager	\$0
C	Director	\$10K
D	Vice President, COO	\$100K
E	President	\$500K

### Dual Signing Authority Limits

Multi	President+COO+CFO	\$500K + *
Multi	Finance Committee	\$1M + *

\* Unbudgeted expenditures greater than \$1M will require Finance Committee approval prior to the expense being incurred. Once approved, purchase can be internally processed with the stated combination of executive staff. All unbudgeted expenditures in excess of \$100k will be reported to the Finance Committee at their next regularly scheduled meeting.



**Southwest Power Pool, Inc.**  
**FINANCE COMMITTEE**  
**Recommendation from SPP Staff**  
**December 8, 2014**

**2015 Purchasing Authorization Levels**

**Organizational Roster**

The following persons are members of the Finance Committee:

Harry Skilton	Director
Larry Altenbaumer	Director
Sandra Bennett	AEP
Kelly Harrison	Westar
Laura Kapustka	Lincoln Electric
Mike Wise	Golden Spread

**Background**

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

**Analysis**

SPP has implemented an annual practice of seeking Finance Committee approval of the internal signature authorities. SPP is recommending no changes be made to the existing approval limits for budgeted and unbudgeted purchases. A summary of the current approval levels as contained in SPP's Purchasing Policy is attached. Internal review indicates the current approval levels have served its intended purpose and should remain in effect for 2015. A summary of the purchase orders approved in 2014 is attached.

**Recommendation**

Approve the internal signature authority levels as presented.

**Approved:** Finance Committee

**Action Requested:** Approve Recommendation



# Memorandum

To: SPP Officers / Directors / Managers  
From: Sheri Dunn / Cindy Goodwin  
Date: November 25, 2014  
RE: October 2014 Financial Package

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

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



2014 Financial Commentary  
October 31, 2014  
(in thousands)

Summary				
	2014 FY Forecast	2014 FY Budget	Fav/(Unfav) Variance	
Revenues	\$163,076	\$163,166	(\$91)	(0.1%)
Expenses	203,012	200,692	(2,320)	(1.2%)
Net Income/(Loss)	<u>(\$39,937)</u>	<u>(\$37,526)</u>	<u>(\$2,411)</u>	(6.4%)

Revenue				
	2014 FY Forecast	2014 FY Budget	Fav/(Unfav) Variance	
Tariff Administration Service	\$133,394	\$132,600	\$794	0.6%
FERC Fees & Assessments	14,819	14,500	319	2.2%
NERC ERO Regional Entity Rev	9,551	11,824	(2,273)	(19.2%)
Miscellaneous Income	4,379	3,350	1,029	30.7%
Contract Services Revenue	453	453	0	0.0%
Annual Non-Load Dues	480	440	40	9.1%
Total Revenue	<u>\$163,076</u>	<u>\$163,166</u>	<u>(\$91)</u>	(0.1%)

**Tariff Administration Service** revenue exceeds budget as a result of greater monthly peaks in September – December 2013 versus those forecasted in the budget. Following implementation of the Integrated Marketplace on March 1, 2014; SPP has experienced a reduction in Point-to-Point transmission service reservations of approximately 8% year over year. The full year forecast was reduced from prior forecast as a result of a one-time credit to a transmission customer for two years of over-reported load.

**NERC ERO Regional Entity** revenue significantly trails budget due to lower staffing levels throughout the year and lower engagement of consultants to assist with audit and hearing duties. SPP Regional Entity activities are funded by NERC based on the approved budget.



2014 Financial Commentary  
October 31, 2014  
(in thousands)

Expense				
	2014 FY Forecast	2014 FY Budget	Fav/(Unfav) Variance	
Salary & Benefits	\$81,771	\$82,247	\$476	0.6%
Assessments & Fees	16,323	15,300	(1,023)	(6.7%)
Communications	3,769	3,916	147	3.7%
Maintenance	15,032	15,866	834	5.3%
Outside Services (Including RSC)	15,428	14,640	(788)	(5.4%)
Administrative & Leases	4,607	4,858	252	5.2%
Travel & Meetings	2,798	3,112	314	10.1%
Depreciation & Amortization	50,959	49,718	(1,241)	(2.5%)
Other Expenses	12,326	11,035	(1,291)	(11.7%)
Total Expense	\$203,012	\$200,692	(2,320)	(1.2%)

Factors contributing to the lower expenditures in **Salary & Benefits** include i) staffing vacancies running approximately 5% as SPP management exercises greater diligence in evaluating the need to fill open positions, ii) lower contributions to retirement benefit plans due to strong returns in those plans during 2013, iii) lower usage of continuing education benefits by staff, and iv) reduced accrual for performance compensation plan in 2014.

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).

Upon implementation of the Integrated Marketplace, SPP retained several consultants involved in the design and build to assist with post go-live support. Funding for this effort had been included in the 2014 budget as a capitalized item. The cost for this effort was appropriately expensed resulting in an increase in **Outside Services** expenditures. Other factors contributing to out of budget spending in this area include i) acceleration of the Regional Cost Allocation Review study previously slated to begin in 2015, ii) the SPP Oversight Committee commissioned an out of budget supplement report to the 2013 State of the Market report, and iii) expenses associated with contesting MISO's unauthorized use of SPP's transmission assets.

**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 **Other expense** (\$2,000).



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

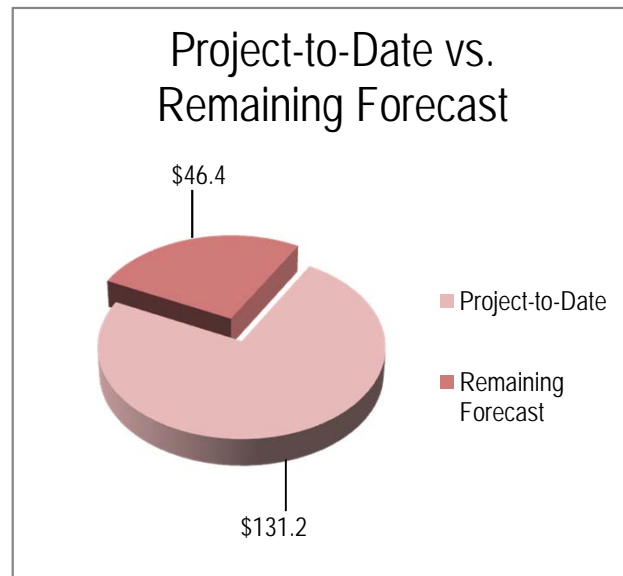
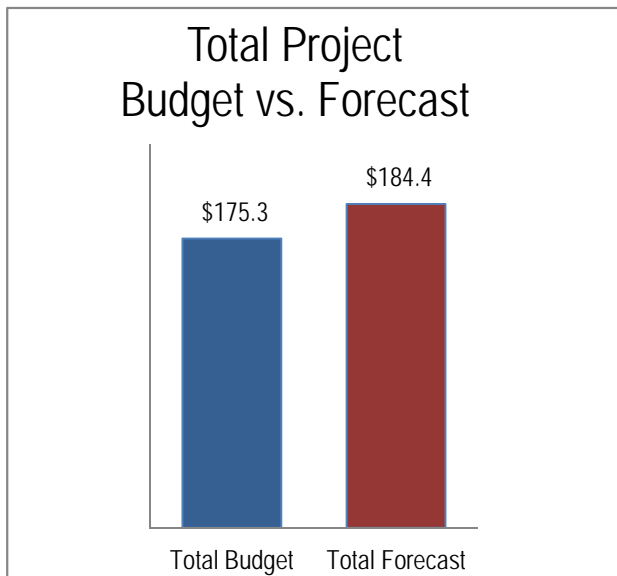
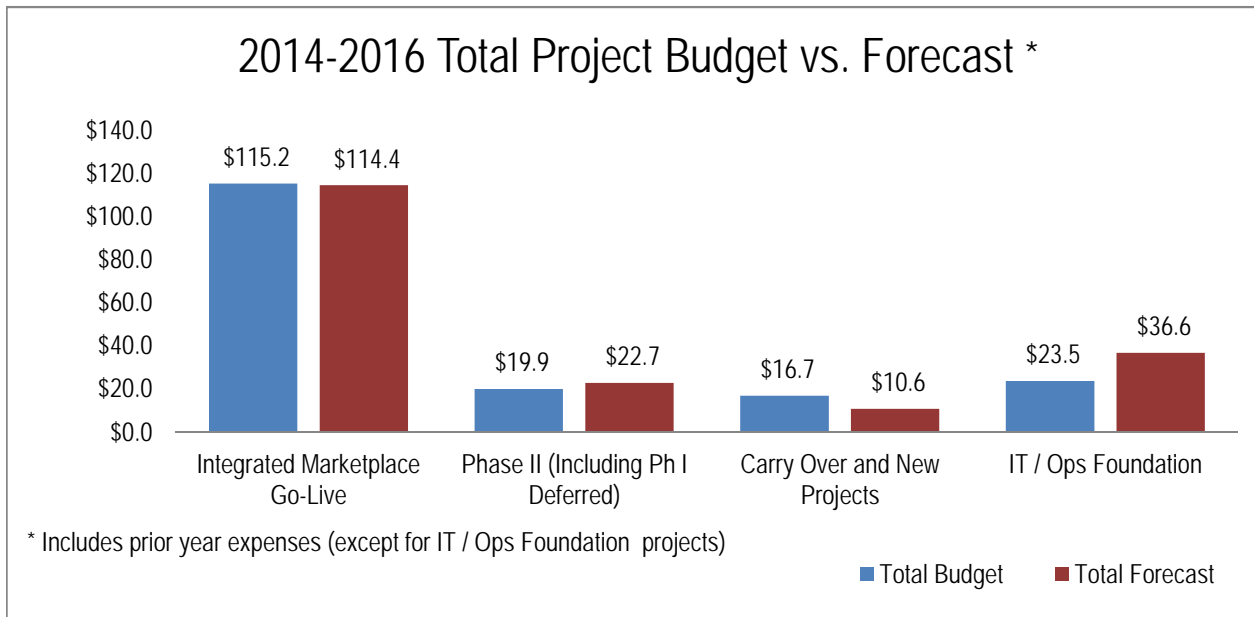
	Actual Jan-14	Actual Feb-14	Actual Mar-14	Actual Apr-14	Actual May-14	Actual Jun-14	Actual Jul-14	Actual Aug-14	Actual Sep-14	Actual Oct-14	Fcst Nov-14	Fcst Dec-14	FY 2014 Forecast	FY 2014 Budget	Variance Fav/(Unfav)	FY 2013 Actual	Variance Fav/(Unfav)
<b>Income</b>																	
Tariff Administrative Service	11,613	10,265	11,348	10,970	11,338	11,079	11,436	11,425	11,103	11,374	10,901	10,543	\$133,394	132,600	\$794	112,624	\$20,771
Fees & Assessments	2,483	2,122	1,789	1,982	1,748	2,115	2,207	2,353	2,408	1,766	1,888	1,988	24,850	26,764	(1,914)	25,188	(338)
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	366	311	286	961	4,379	3,350	1,029	4,502	(123)
<b>Total Income</b>	<b>14,512</b>	<b>12,615</b>	<b>13,406</b>	<b>13,352</b>	<b>13,425</b>	<b>13,661</b>	<b>13,977</b>	<b>14,080</b>	<b>13,916</b>	<b>13,490</b>	<b>13,112</b>	<b>13,529</b>	<b>163,076</b>	<b>163,166</b>	<b>(91)</b>	<b>142,738</b>	<b>20,337</b>
<b>Expense</b>																	
Salary & Benefits	6,489	6,737	6,646	6,806	10,919	6,646	6,530	6,779	6,814	5,797	5,797	5,811	81,771	82,247	476	79,660	(2,111)
Employee Travel	106	135	150	153	168	167	195	206	161	230	142	147	1,960	2,192	232	1,868	(92)
Administrative	188	344	207	533	255	539	465	345	190	872	235	254	4,428	4,675	247	3,967	(461)
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	39	118	70	25	838	919	82	930	92
Communications	374	318	308	305	305	308	297	305	308	327	308	308	3,769	3,916	147	3,665	(104)
Leases	13	12	16	18	12	15	15	15	16	16	16	16	179	183	4	432	253
Maintenance	1,013	1,012	1,144	1,270	1,787	1,447	1,103	1,184	1,178	1,168	1,173	1,552	15,032	15,866	834	11,301	(3,731)
Services	837	1,261	1,857	1,155	2,156	973	1,204	1,312	1,290	1,042	1,060	1,086	15,234	14,313	(921)	15,870	636
Regional State Committee	11	15	15	14	20	15	13	17	17	11	23	23	194	328	133	207	13
Depreciation & Amortization	1,750	1,736	4,517	4,511	4,403	5,731	4,677	4,673	4,672	4,649	4,800	4,840	50,959	49,718	(1,241)	19,398	(31,561)
<b>Total Expense</b>	<b>12,171</b>	<b>12,942</b>	<b>16,238</b>	<b>16,146</b>	<b>21,391</b>	<b>17,570</b>	<b>15,911</b>	<b>16,264</b>	<b>16,048</b>	<b>15,593</b>	<b>14,986</b>	<b>15,426</b>	<b>190,686</b>	<b>189,657</b>	<b>(1,029)</b>	<b>151,995</b>	<b>(38,691)</b>
<b>Other Income/(Expense)</b>																	
Other Income/Expense	(41)	58	(36)	(18)	34	31	(21)	55	(38)	31	-	-	55	-	55	5,651	(5,595)
Interest Income	2	2	3	4	4	6	5	4	5	5	-	-	40	-	40	223	(183)
Interest Expense	(837)	(886)	(841)	(962)	(930)	(1,034)	(855)	(917)	(950)	(901)	(1,882)	(1,884)	(12,879)	(12,195)	(684)	(10,540)	2,339
Capitalized Interest	-	-	221	12	-	78	-	(68)	45	-	-	61	350	1,160	(810)	2,777	2,427
Change in Valuation of Swap	-	-	27	-	-	7	-	-	74	-	-	-	108	-	108	923	815
<b>Net Other Income (Expense)</b>	<b>(875)</b>	<b>(826)</b>	<b>(627)</b>	<b>(964)</b>	<b>(893)</b>	<b>(912)</b>	<b>(871)</b>	<b>(925)</b>	<b>(864)</b>	<b>(865)</b>	<b>(1,882)</b>	<b>(1,823)</b>	<b>(12,326)</b>	<b>(11,035)</b>	<b>(1,291)</b>	<b>(910)</b>	<b>(255)</b>
<b>Net Income (Loss)</b>	<b>\$1,465</b>	<b>(\$1,153)</b>	<b>(\$3,459)</b>	<b>(\$3,758)</b>	<b>(\$8,858)</b>	<b>(\$4,821)</b>	<b>(\$2,804)</b>	<b>(\$3,109)</b>	<b>(\$2,996)</b>	<b>(\$2,968)</b>	<b>(\$3,756)</b>	<b>(\$3,719)</b>	<b>(\$39,937)</b>	<b>(\$37,526)</b>	<b>(\$2,411)</b>	<b>(\$10,168)</b>	<b>(\$29,769)</b>
2014 Headcount Forecast	569	570	573	576	575	573	573	570	571	569	567	569	569 *				
2014 Headcount Budget	597	598	598	598	598	598	598	598	598	598	598	598	598				
<b>Over / (Under) Budget</b>	<b>(28)</b>	<b>(28)</b>	<b>(25)</b>	<b>(22)</b>	<b>(23)</b>	<b>(25)</b>	<b>(25)</b>	<b>(28)</b>	<b>(27)</b>	<b>(29)</b>	<b>(31)</b>	<b>(29)</b>	<b>(29)</b>				
Headcount Vacancy	-5%	-5%	-4%	-4%	-4%	-4%	-4%	-5%	-5%	-5%	-5%	-5%	-5%				
NRR Over / (Under) Recovery	\$3,193	\$501	(\$1,825)	\$4,041	(\$4,153)	\$1,350	\$1,846	\$1,365	(\$4,118)	\$2,069	\$1,255	(\$6,106)	(\$581)	\$0	(\$581)	(\$10,712)	\$10,132



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

	<u>Current Month Compared to Forecast</u>			<u>YTD Actual Compared to YTD Budget</u>			<u>YTD 2014 Compared to YTD 2013</u>		
	Oct-2014 Actual	Oct-2014 Forecast	Variance Fav/(Unfav)	Oct-2014 Actual	Oct-2014 Budget	Variance Fav/(Unfav)	Oct-2014 Current Year	Oct-2013 Prior Year	Variance Fav/(Unfav)
<b>Income</b>									
Tariff Administrative Service	\$11,374	\$11,193	\$181	\$111,951	\$110,500	\$1,451	\$111,951	\$93,968	\$17,983
Fees & Assessments	\$1,766	\$2,018	(252)	\$20,974	\$22,493	(1,519)	\$20,974	\$21,248	(275)
Contract Services Revenue	\$38	\$38		\$377	\$377		\$377	\$362	14
Miscellaneous Income	\$311	\$286	26	\$3,133	\$2,792	341	\$3,133	\$3,201	(68)
<b>Total Income</b>	<b>13,490</b>	<b>13,534</b>	<b>(45)</b>	<b>136,434</b>	<b>136,161</b>	<b>272</b>	<b>136,434</b>	<b>118,779</b>	<b>17,655</b>
<b>Expense</b>									
Salary & Benefits	5,797	6,082	\$285	70,163	68,626	(\$1,537)	70,163	64,389	(\$5,774)
Employee Travel	230	212	(18)	1,671	1,884	213	1,671	1,615	(56)
Administrative	872	854	(18)	3,939	4,078	139	3,939	3,560	(379)
Assessments & Fees	1,363	1,363	-	13,597	12,750	(847)	13,597	12,273	(1,324)
Meetings	118	76	(42)	743	790	48	743	819	76
Communications	327	309	(17)	3,153	3,263	110	3,153	2,993	(160)
Leases	16	15	(0)	147	152	6	147	398	251
Maintenance	1,168	1,270	102	12,307	13,234	927	12,307	9,241	(3,066)
Services	1,042	1,290	248	13,088	12,171	(917)	13,088	12,287	(801)
Regional State Committee	11	23	12	148	281	133	148	160	12
Depreciation & Amortization	4,649	4,790	141	41,319	39,807	(1,512)	41,319	16,097	(25,221)
<b>Total Expense</b>	<b>15,593</b>	<b>16,285</b>	<b>692</b>	<b>160,274</b>	<b>157,037</b>	<b>(3,237)</b>	<b>160,274</b>	<b>123,831</b>	<b>(36,442)</b>
<b>Other Income/(Expense)</b>									
Gain or Loss on Sale of Fixed Asset	-	-	-	0	-	0	0	57	(57)
Other Income/Expense	31	-	31	55	-	55	55	146	(90)
Interest Income	5	-	5	40	-	40	40	206	(166)
Interest Expense	(901)	(1,784)	883	(9,113)	(10,183)	1,070	(9,113)	(8,811)	(302)
Capitalized Interest	-	-	-	289	1,067	(778)	289	2,193	(1,904)
Change in Valuation of Swap	-	-	-	108	-	108	108	734	(626)
<b>Net Other Income (Expense)</b>	<b>(865)</b>	<b>(1,784)</b>	<b>919</b>	<b>(8,621)</b>	<b>(9,116)</b>	<b>495</b>	<b>(8,621)</b>	<b>(5,476)</b>	<b>(3,146)</b>
<b>Net Income (Loss)</b>	<b>(\$2,968)</b>	<b>(\$4,534)</b>	<b>\$1,566</b>	<b>(\$32,461)</b>	<b>(\$29,992)</b>	<b>(\$2,470)</b>	<b>(\$32,461)</b>	<b>(\$10,528)</b>	<b>(\$21,933)</b>
Headcount	569	576	(7)	569	598	(29)	569	578	(9)

## Capital Project Dashboard *(in millions)*





Complete Project List  
Total Project-to-Date and Remaining Forecast Compared to Budget  
As of October 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)
Enhanced Combined Cycle	\$4,599	\$1,504	\$5,195	\$6,700	\$2,101
Phase II (Project Pinnacle), Including Phase I Deferred	\$15,343	\$8,751	\$7,248	\$15,999	\$656
Phase II Cancelled Projects <sup>(1)</sup>	\$1,828	-	-	-	(\$1,828)
<b>Carry Over and New Projects</b>					
OPS DTS Upgrade to TTSE (cancelled)	4,400	-	-	-	(4,400)
Transmission Settlements Upgrade ETSE3.0 (2015)	3,775	-	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	-	264	(456)
Aurea ESB Replacement	706	-	75	75	(631)
Project Server Upgrade	300	66	33	99	(200)
Miscellaneous Facilities	318	148	120	268	(50)
Alstom ETS Foundation	225	-	-	-	(225)
QA ICCP Buildout	180	152	39	191	11
TAGIT Database Enhancement	150	-	150	150	-
Cost Allocation SQL Database	50	-	50	50	-
Engineering App Store	25	-	-	-	(25)
FERC Order 1000 Regional RFP	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
<b>Carry Over and New Projects</b>	<b>\$16,700</b>	<b>\$4,198</b>	<b>\$6,399</b>	<b>\$10,597</b>	<b>(\$6,103)</b>
<b>IT / Ops Foundation <sup>(2)</sup></b>					
IT Systems Foundation	8,154	48	11,062	11,109	2,955
IT Network Telecom	7,596	2,694	11,128	13,822	6,226
IT Applications Foundation	2,799	-	3,621	3,621	822
IT Service Management Foundation	901	107	770	877	(24)
IT Environment Foundation	173	-	199	199	26
Operations Foundation	3,889	1,027	5,946	6,973	3,084
<b>IT / Ops Foundation</b>	<b>\$23,513</b>	<b>\$3,876</b>	<b>\$32,726</b>	<b>\$36,602</b>	<b>\$13,089</b>
<b>Total Capitalized Project Expense</b>	<b>\$170,729</b>	<b>\$131,238</b>	<b>\$46,373</b>	<b>\$177,611</b>	<b>\$6,882</b>

<sup>(1)</sup> Phase II Cancelled Projects include: AFC Granularity Changes for TSRs, Sunset Clause for Load Submittal for Legacy BAs, Marketplace Date for MPs Post Go-Live, and Grandfather Agreement (GFA) Carve Out

<sup>(2)</sup> 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 projections based on the 2015 budget.



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

	<u>10/31/2014</u>	<u>12/31/2013</u>	<u>Net Change</u>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash & Equivalents	\$54,199	\$34,874	\$19,324
Restricted Cash Deposits	231,842	76,712	155,130
Accounts Receivable (net)	27,707	24,134	3,572
Other Current Assets	11,466	6,966	4,499
<b>Total Current Assets</b>	<b>\$325,213</b>	<b>\$142,687</b>	<b>\$182,526</b>
Total Fixed Assets	181,350	204,259	(22,909)
Total Other Assets	2,764	3,158	(394)
Investments	1,465	1,305	161
<b>TOTAL ASSETS</b>	<b>\$510,792</b>	<b>\$351,409</b>	<b>\$159,383</b>
<b>LIABILITIES &amp; EQUITY</b>			
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts Payable (net)	\$17,822	\$15,953	\$1,869
Customer Deposits	232,568	76,713	155,856
Current Maturities of LT Debt	25,661	22,998	2,663
Other Current Liabilities	43,521	29,038	14,483
Deferred Revenue	5,311	5,919	(607)
<b>Total Current Liabilities</b>	<b>324,884</b>	<b>150,620</b>	<b>174,264</b>
<b>Long Term Liabilities</b>			
US Bank 5.45% Senior Notes - 2016	4,500	9,000	(4,500)
US Bank Maumelle Mortgage - 2027	3,392	3,547	(154)
Campus 4.82% Senior Notes - 2042	62,148	62,963	(815)
Integrated Marketplace 3.55% Senior Note - 2024	59,500	64,750	(5,250)
Senior Notes - 2024	87,500	95,000	(7,500)
Senior Notes - 2025	37,000	-	37,000
Other Long Term Liabilities	5,225	6,425	(1,200)
<b>Total Long Term Liabilities</b>	<b>259,265</b>	<b>241,685</b>	<b>17,580</b>
Net Income	(32,461)	(10,168)	(22,294)
Members' Equity	(40,896)	(30,728)	(10,168)
<b>Total Members' Equity</b>	<b>(73,357)</b>	<b>(40,896)</b>	<b>(32,461)</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>\$510,792</b>	<b>\$351,409</b>	<b>\$159,383</b>



Southwest Power Pool  
Headcount Analysis  
October 31, 2014

	Current Month Actual vs. Budget			Full Year Forecast vs. Budget		
	Actual Oct-14	Budget Oct-14	Over/(Under) Budget	FY 2014 Forecast	FY 2014 Budget	Over/(Under) Budget
Vacancy	0	0	0	0	0	0
Officers	10	10	0	12	10	2
Accounting	10	10	0	10	10	0
Credit	4	4	0	4	4	0
Settlements	24	25	(1)	23	25	(2)
Administration	48	49	(1)	49	49	0
Corporate Services	29	29	0	29	29	0
Interregional Affairs	4	4	0	4	4	0
Project Management	13	13	0	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	47	47	0	47	47	0
SPP Compliance	11	13	(2)	10	13	(3)
Communications	4	3	1	4	3	1
Market Monitoring	12	14	(2)	12	14	(2)
Compliance & Market Monitoring	27	30	(3)	26	30	(4)
SPP Regional Entity	26	31	(5)	26	31	(5)
Information Technology	137	144	(7)	138	144	(6)
Markets	6	6	0	6	6	0
Interregional Relations	3	3	0	3	3	0
Operations	151	157	(6)	151	157	(6)
Engineering Planning	39	41	(2)	40	41	(1)
Engineering Other	30	35	(5)	30	35	(5)
Regulatory Policy & General Counsel	26	26	0	24	26	(2)
<b>TOTAL HEADCOUNT</b>	<b>569</b>	<b>598</b>	<b>(29)</b>	<b>569</b>	<b>598</b>	<b>(29)</b>

# Memorandum

**To:** SPP Finance Committee  
**From:** Tom Dunn  
**CC:**  
**Date:** December 8, 2014  
**Re:** Actuarial Assumptions for Pension Valuation

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The SPP Finance Committee, at its April 2013 meeting, requested SPP staff provide an early look at assumptions utilized in valuation of SPP's pension plan and post-retirement healthcare plan. This memo provides that look at the three major assumptions: discount rate, long-term rate of return, and compensation change rate.

Discount Rate: The SPP Finance Committee, at its April 2008 meeting, concurred on a process to set the discount rate used in valuing pension liabilities. In general, the method used to set the discount rate follows the framework described in the Pension Protection Act of 2006. Section 102 of Title I of the Pension Protection Act of 2006 defines interest rates for determining the funding targets of covered plans. These interest rates are based on the Corporate Bond Yield Curve prescribed by the U.S. Treasury Department and reflect the twenty four month average of investment grade corporate bonds (the top three rating tranches).

Also described in the Pension Protection Act of 2006 are three Segment Rates that can be used for the purpose of assigning a discount rate. These rates are differentiated based on the maturities of the corporate bonds underlying the yield curves used to determine each rate. The segments are broken down as follows:

1. First – zero through five years
2. Two – six through fifteen years and
3. Three – greater than fifteen years

The final issue to address is the selection of a Segment Rate for the SPP plan. One of the most pertinent demographic points to consider here is that the average age of the participants in the SPP retirement plan is less than 45 years. This would indicate that major distributions from the plan should not begin occurring, on average, for another twenty years.

The Moving Ahead for Progress in the 21st Century Act (MAP-21), a funding and authorization bill to govern U.S. federal surface transportation spending, contained a pension stabilization feature which reduced required contributions for single-employer pension plans substantially, especially for plan years 2012 and 2013. Unless interest rates rise, however, required contributions will return to pre-MAP-21 levels in a few years.

MAP-21 allows plan sponsors to measure pension liability using the 25-year average of segment rates plus or minus a corridor. The corridor started at plus or minus 10% for 2012, and increases by 5% each year until it reaches plus or minus 30% for 2016 and later. This will increase segment interest rates by 100 – 320 basis points, which will significantly lower plan liabilities and thus required contributions for plan years 2012 to 2016. Over time, the pension funding stabilization effect will decline as projected segment rates fall within the corridors.

On August 8, 2014, the Highway and Transportation Funding Act of 2014 ("HAFTA") was signed into law. HAFTA adjusted the pension smoothing timeline whereby the 25 year average segment rate plus or minus the 10% corridor would be in effect through 2017, thereafter the corridor rates would adjust 5% per year.

The Internal Revenue Service publishes periodic updates to segment rates throughout the year. The most recent update, published October 30, 2014 indicated 24-month average segment rates of 1.17%/4.07%/5.17% and adjusted rates consistent with the MAP-21 and HAFTA directives of 4.99%/6.32%/6.99%. SPP used a discount rate of 5.50% in 2014.



**Long-term Rate of Return:** The SPP Finance Committee, at its April 2008 meeting, concurred on a process to set the discount rate used in pension valuation. The method used by SPP to assign the long-term rate of return is based upon an analysis of the long-term returns of widely recognized benchmark investments similar in asset allocation to the investments held in the pension plan trust. The benchmark returns are weighted based on SPP’s desired asset allocation described in the Investment Policy Statement.

The Russell 3000 Index measures the performance of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market. The Russell 3000 Index is constructed to provide a comprehensive, unbiased, and stable barometer of the broad market and is completely reconstituted annually to ensure new and growing equities are reflected. The Barclays Government/Credit Bond Index is a non-securitized component of the Barclays U.S. Aggregate Index. The U.S. Government/Credit Index includes U.S. Treasury with remaining maturities of more than one year, U.S. government-related issues (agency, sovereign, local authority, supranational) and corporate issues.

	<u>Russell 3000</u>	<u>Barclays Gov't/Credit Ind ex</u>
15 Year Return (11/1/1999 – 10/31/2014)	5.28%	5.84
Target Allocation	70%	30%
Weighted Avg. Return	3.70%	1.75%
<b>Historical Expected Portfolio Return</b>	<b>5.45%</b>	

SPP used a long-term rate of return assumption of 7.00% in 2014.

**Compensation Change Rate:** SPP’s year over year growth rate in compensation has significantly exceeded the long-term growth rate of 4% SPP has used in its pension valuation. SPP expects compensation growth to slow absent unforeseen growth in total staffing levels. A 4% long-term growth rate is consistent with that used by many of SPP’s members in their pension plan evaluations. This rate appears to be a reasonable assumption and provides a buffer for potential inflation in the future.

# Memorandum

To: **Finance Committee Members**  
From: **Tom Dunn**  
CC: **Shaun Scott**  
Date: **December 1, 2014**  
Re: **2015 Meeting Schedule**

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

<u>Meeting Date</u>	<u>Time</u>	<u>Meeting Location</u>	<u>Major Agenda Items</u>
April 2, 2015	8:30	Dallas, TX	Financial Audit Review
July 9, 2015	8:30	Dallas, TX	BPI Review Mid Year Review Budget Process Review
Sept 10, 2015	3:00	Teleconference	2015 Budget Preview
Sept 29, 2015 (LK – oot)	8:30	Dallas, TX	2015 Budget Review Internal Audit Report Auditor Engagements
Oct 13, 2015	10:30	Dallas, TX	2015 Budget
Dec 7, 2015	2:00	Little Rock, AR	SSAE-16 Audit Report Corp Ins Review