

**Southwest Power Pool
FINANCE COMMITTEE MEETING**

July 9, 2015

**DFW Hyatt Regency Hotel
Dallas, TX**

• M I N U T E S •

Administrative Items – July 8, 2015

Members of the SPP Finance Committee gathered for dinner the evening of July 8, 2015. During dinner the committee members heard reports on performance of SPP's pension and post-retirement healthcare fund managers and from Ben Bright, SPP's manager of regulatory processes, on SPP's Order 1000 cost recovery processes.

Investment Performance – Managers of both the pension and post-retirement healthcare funds underperformed the broad equity market indexes as well as underperformed against the committee member's expectations. The committee members requested the following actions be undertaken by SPP staff:

- Pension Fund – Request the investment manager provide a quarterly written report to the committee members including a narrative discussion of actions the investment manager has taken and/or plans to take for the benefit of the fund.
- Post-retirement Healthcare Fund – Investigate termination of manager and move funds to index strategy.

The Committee intends to move its annual meeting with the investment managers to the first quarter of each fiscal year to align with calendar year reporting. SPP staff will ensure a meeting is scheduled in first quarter of 2016 for the investment manager reports.

Order 1000 – Ben Bright, SPP's manager of regulatory processes, discussed the processes utilized by SPP to capture its costs for administering the competitive bidding process required by FERC Order 1000. Mr. Bright also provided the committee members with an example of expected costs and deposit levels for a sample project.

Administrative Items – July 9, 2015

SPP Chair Harry Skilton called the meeting to order at 7:30 a.m. The following members of the Finance Committee were in attendance:

Harry Skilton	SPP Director
Larry Altenbaumer	SPP Director
Kelly Harrison	Westar Energy
Sandra Bennett	AEP
Laura Kapustka (phone)	Lincoln Electric
Mike Wise	Golden Spread Electric Cooperative
Tom Dunn	SPP

Others attending included:

Denise Buffington (phone)	KCPL
Davis Rooney (phone)	Sunflower Electric Power Cooperative
Cassandra Strange (phone)	OG&E
Mark Holler (phone)	Tenaska
Nick Brown	SPP
Michael Desselle	SPP

Minutes from the April 2, 2015 meeting were reviewed. Kelly Harrison motioned to approve the minutes. The motion was seconded by Sandra Bennett and approved by unanimous voice vote.

SPP staff advised the committee members on completion of 2 “follow-up” items from prior meetings:

- Schedule of items requiring approval, monitoring, or input from the committee. Staff shared a red-lined copy of the Finance Committee Scope Statement document which outlines the duties and structure of the committee. Committee members questioned the deleted section addressing review of business continuity and disaster recovery programs related to financial and MIS risks and significant information security matters. This section had been deleted following prior reviews with the expectation it would become the responsibility of the SPP Oversight Committee. The SPP Bylaws continue to indicate responsibility for risk management rests with the Finance Committee. Nick Brown, chair of SPP’s Corporate Governance Committee, indicated the Corporate Governance Committee will review all committee scopes and the Bylaws to ensure consistency, lack of overlap, and appropriate delegation of responsibilities.

SPP staff suggested a checklist could be prepared which lists all of the duties of the Committee and would be included with the materials for each meeting. As the Committee accomplished its duties the checklist would be updated to indicate the date the duty was completed.

- Comparison of RTO financial disclosures in annual reports. Staff presented a table indicating which RTOs publish annual reports, which include their financial audits in the annual reports, and which include a MD&A section with the financial audits.

The Committee reviewed the updated schedule of meetings for the remainder of 2015. The schedule was updated to account for documentation and review of the requested 2016 Operating Plan. The Committee Chair requested the schedule contain greater detail and granularity around the planned agenda for each future meeting.

Continuous Improvement Review

Michael Desselle, SPP’s Vice President of Process Integrity and Chief Compliance Officer, reported on SPP’s business process improvement program results for the year-to-date 2015 period. The report highlighted historical and forecast improvement initiative volumes, staff participation and engagement metrics, and the achieved value of completed initiatives. Three process improvement initiatives were presented in a case study style to highlight different types of achieved improvement objectives and scopes.

Several committee members individually indicated they were pleased with the report and the progress SPP is attaining towards process improvement. The Committee requested SPP staff suggest and present metrics the Committee should review to assist the Committee in determining the success and progress of process improvement going forward. Staff will present these metrics at the December 2015 meeting of the Committee.

YTD 2015 Financial Review and Full Year Forecast

SPP staff provided a thorough review of SPP’s financial performance for the 5 months ended May 31, 2015 and the forecast for the 2015 fiscal year. Areas of extended discussion included:

- 1A revenue: above budget due in part to a change in process of crediting 1A charges against monthly membership assessments. Representatives from KCPL indicated they were disputing the change in process and were following the appropriate procedures to do so.
- Contract service revenue: above budget due to new contract to provide reliability coordination service to utilities in the Integrated System.

- Salary and benefits expense: above budget due to pension and post-retirement healthcare plan expense exceeding cash contributions to the plans (budget only assumes cash contribution), lower vacancy in staffing levels.
- Over/under recovery in 2015: current forecast indicates over-recovery of \$1.8 million in 2015 largely resulting from increased 1A revenue.
- Cost savings versus 2014: SPP is tracking expense areas identified in the 2015 budget where it will reduce costs versus 2014 actual spending.

Administrative Fee Rate Strategy

SPP staff reviewed several financial models intended to provide insight on the impact to key financial metrics of decisions regarding administrative fee rate setting, capital expenditure financing, and operating cash management. SPP staff discussed a recommendation to begin funding routine “maintenance” capital expenditures from operating cash flow as opposed to SPP’s existing practice of funding all capital expenditures with new debt issuances. The Committee identified several principles it felt were important to consider, including:

- Maintaining generational equity. This means ensuring future customers are not paying for assets no longer in use and ensuring current customers aren’t paying 100% for assets that will be used by future customers
- Minimize volatility of the administrative fee. Small incremental changes year over year are acceptable. Changes which reduce the fee are better than changes increasing the fee.
- Maintain SPP’s financial strength as measured by its credit rating and compliance with financial covenants in its debt agreements.

SPP staff was directed to create a few more models which illustrated the impact of changes in billing determinants of -1%, 0%, +1%, and resulted in a cash position of approximately \$0 annually.

2016 Administrative Fee Rate Forecast

The Committee reviewed three rate forecast options:

- 37¢/MWh – rate published in the 2015 budget as the expectation for 2016
- 39¢/MWh – existing rate cap published in the SPP tariff which SPP is not expected to exceed in 2016
- Range of 37¢ MWh - 38¢MWh – suggested by SPP staff as an achievable goal at this point in the 2016 planning process.

The Committee determined to defer decision on this issue until July 17 when it will have had an opportunity to review the additional financial models it requested earlier in the meeting.

Future Meetings

The next meeting of the Finance Committee is scheduled for July 17, 2015 as a teleconference

There being no further business, Harry Skilton adjourned the meeting at 2:20 pm.

Respectfully Submitted,

Thomas P. Dunn
Secretary

Southwest Power Pool, Inc.
FINANCE COMMITTEE
Pending Action Items Status Report
July 9, 2015

	Action Item	Date Originated	Status	Comments
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	complete	Presented at 7/09/15 meeting
3.	Create comparison of level of financial disclosures contained in RTO annual reports	7/10/2014	complete	Presented at 7/09/15 meeting
4.	Develop schedule for review of annual operating plan	4/2/2015	complete	Presented at 7/09/15 meeting
5.	Update financial models	4/2/2015	complete	Presented at 7/09/15 meeting
6.	Prepare new financial models with different load growth assumptions	7/09/2015	New	
7.	Advise on appropriate metrics for evaluating success of business process improvement program	7/09/2015	New	
8.	Evaluate passive investment management option for post-retirement healthcare fund	7/09/2015	New	
9.	Obtain quarterly written report from investment manager of pension plan	7/09/2015	New	
10.	Add more granularity and detail to future meeting schedule	7/09/2015	New	
11.	Create checklist of committee duties	7/09/2015	New	
12.	Prepare schedule of current year load	7/09/2015	New	
13.				



Southwest Power Pool, Inc.
FINANCE COMMITTEE MEETING
July 8-9, 2015
DFW – Hyatt Regency Hotel
Dallas, Texas

• A G E N D A •

July 8, 2015
7:00 p.m. – 9:30 p.m.

Coleman’s Corner in Jacob’s Spring Grille in the DFW Hyatt Regency Hotel

- 1. Dinner Discussion
 - a. Order 1000 Cost Recovery
 - b. Investment Manager Update

July 9, 2015

7:30 a.m. - 2:30 p.m.

Meeting Room: TBD

- 2. Administrative Items (15 minutes) Harry Skilton
 - a. Minutes
 - b. Action Items
- 3. Continuous Improvement Review (120 minutes) Michael Desselle
- 4. YTD 2015 Financial Review and Full Year Forecast (60 minutes) Tom Dunn
- 5. Administrative Fee Rate Strategy – Update from April 2015 meeting (30 minutes) Tom Dunn
- 6. 2016 Admin Fee Forecast (30 minutes) All
- 7. Lunch
- 8. 2016 Operating and Capital Budget Process (105 minutes) All
- 9. Future Meetings (15 minutes) Harry Skilton
- 10. Adjourn Harry Skilton



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

Finance Committee Update – Order 1000

July 8, 2015

Ben Bright

bbright@spp.org · 501.614.3965



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

Section 1

WHAT DOES THE TARIFF SAY?

Attachment Y, Section III

- **Fees and Deposits:**
 - **QRP Fee** – paid annually by non-member QRPs; \$6,000
 - **RFP Deposits** – per bid deposit based on estimated cost of the Competitive Upgrade project
 - Small Project (less than \$10 million) - \$10,000
 - Medium Project (between \$10 and \$100 million) - \$25,000
 - Large Project (greater than \$100 million) - \$50,000
 - RFP Deposits will be held in a segregated interest-bearing account in the name of the RFP Respondent

Attachment Y , Section III

- Each RFP Proposal shall pay it's share of the TPs total cost incurred to administer the TOSP for each Competitive Upgrade.
- The TP shall determine the actual costs at the completion of the process. All RFP Respondents will make additional payments or obtain refunds (with interest earned) based on the reconciliation of the deposits collected and the actual costs.
- TP costs shall include:
 - Staff and administrative costs associated with administering the TOSP for each Competitive Upgrade
 - All costs associated with the IEP process

Costs

- **Staff Time – tracked in PWA weekly**
 - Specific tasks related to each RFP (Competitive Upgrade)
 - Specific tasks for IEP related activities
 - Specific tasks for development activities
- **Administrative Costs**
 - Will be tracked as incurred
- **IEP Costs**
 - Experts will invoice all costs (retainer, hourly rates, travel costs, etc.)

Section 1

RECONCILIATION

Assumptions

IEP Pool Members	10
IEP Monthly Retainer Amount	\$1,000
IEP Training Payment	\$4,000
IEP Panels	1
IEP Panel Members	5
IEP Hourly Rate	\$200
Competive Upgrades	1
TOSP Deposit Amount per bid	\$10,000
Number of RFP Bids	20
Hours per bid	10
TOSP Development cost per bid	\$0

Revenue

TOSP Deposits	<u><u>\$200,000</u></u>
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Expenses

IEP Fixed Costs	\$160,000
IEP Hourly Costs	\$200,000
IEP Expenses	\$30,000
TOSP Development Costs	\$0
SPP Admin Costs	<u>\$50,000</u>
Total Expenses	<u><u>\$440,000</u></u>

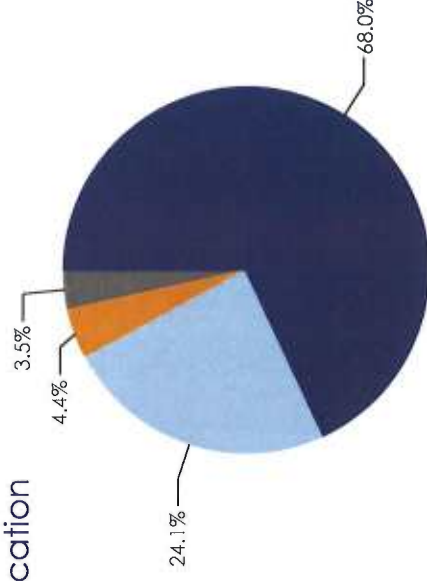
Net Amount (\$240,000)
Allocation to Bidders (\$12,000)

Questions?

Southwest Power Pool Composite

05/31/2015

Allocation



	Month to Date	Quarter to Date	Year to Date	03/04/2014 to Date
Beginning Value	48,315,954.31	47,446,445.59	45,933,838.69	0.00
Contributions	272,131.57	517,504.06	2,162,762.72	48,680,245.48
Distributions	0.00	0.00	-900,000.00	-2,509,624.23
Asset Value Change	176,328.88	800,465.10	1,567,813.34	2,593,793.50
Current Market Value	48,764,414.75	48,764,414.75	48,764,414.75	48,764,414.75
Accrued Income	106,421.42	106,421.42	106,421.42	106,421.42
Value with Accrued Income	48,870,836.17	48,870,836.17	48,870,836.17	48,870,836.17

Performance

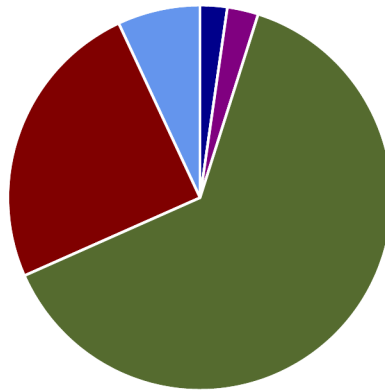
Account	Account Name	Strategy	Inception Date	MTD	QTD	YTD	1YR	3YR	5YR	10YR	ITD (Ann.)	ITD (Cum.)
530844571	Southwest Power Pool		3/4/2014	0.43	1.72	3.40	4.52	-	-	-	4.72	5.90
530866612	Southwest Power Pool Equities		3/4/2014	0.51	2.19	4.08	5.94	-	-	-	6.03	7.54
530866799	Southwest Power Pool Fixed		3/4/2014	0.23	0.58	1.76	1.31	-	-	-	2.17	2.70
	Southwest Power Pool Collect		3/4/2014	0.00	-0.05	-0.15	-0.21	-	-	-	0.29	0.36

Performance for SPP RETIREE HEALTH CARE AGENCY (01380500)

For the Period Ending May 2015

Asset Allocation

■ Cash Equivalents ■ Equities ■ Fixed Income ■ Real Estate
■ Commodities



ASSET CLASS	MARKET VALUE	% OF TOTAL
Cash Equivalents	\$224,775.01	2.27%
Fixed Income	\$2,437,262.58	24.67%
Equities	\$6,271,795.87	63.47%
Real Estate	\$688,311.86	6.97%
Commodities	\$258,701.35	2.62%
Total	\$9,880,846.67	100%

Your total portfolio of investable assets may differ from the market value on your periodic statement of account due to certain assets being excluded from the calculation of your investment return. Please contact a member of your Relationship Team for more information.

Not A Deposit - Not FDIC Insured - May Lose Value - Not Bank Guaranteed - Not Insured By Any Federal Government Agency

Past performance does not guarantee future results. All performance data, while deemed obtained from reliable sources, is not guaranteed for accuracy. Indexes shown are unmanaged and are not available for investment. Gross returns do not reflect the deduction of applicable fees which would reduce performance returns.

Performance Returns

	1 MONTH	3 MONTH	CALENDAR QUARTER TO DATE	CALENDAR YEAR TO DATE	AVERAGE ANNUAL RETURNS: 1 YEAR	AVERAGE ANNUAL RETURNS: 3 YEAR	AVERAGE ANNUAL RETURNS: 5 YEAR	SINCE INCEPTION DEC 1999*
Total Portfolio Gross of Fees	0.42%	0.05%	1.00%	2.51%	5.31%	11.12%	10.12%	4.16%
Total Portfolio Net of Fees	0.42%	(0.05%)	0.90%	2.29%	4.87%	10.61%	9.59%	3.55%
Asset Classes Gross of Fees								
Cash Equivalents	0.00%	0.00%	0.00%	0.01%	0.02%	0.01%	0.01%	1.86%
Fixed Income	(0.07%)	(0.03%)	0.22%	2.07%	1.90%	4.33%	5.47%	5.29%
Equities	0.89%	0.77%	1.95%	3.56%	8.44%	16.55%	13.85%	4.15%
Real Estate	(0.47%)	(4.69%)	(4.77%)	(2.41%)	9.35%	12.60%	N/A	N/A
Commodities	(3.15%)	(2.72%)	3.03%	(4.48%)	(27.10%)	(9.10%)	N/A	N/A

* The beginning date for this information refers to the date your account was placed on performance calculation system at U.S. Bank.

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	1 MONTH	3 MONTH	CALENDAR QUARTER TO DATE	CALENDAR YEAR TO DATE	AVERAGE ANNUAL RETURNS: 1 YEAR	AVERAGE ANNUAL RETURNS: 3 YEAR	AVERAGE ANNUAL RETURNS: 5 YEAR	SINCE INCEPTION DEC 1999*
Market Indicators Gross of Fees								
Barclays Int Gov/Cr Index	0.01%	0.46%	(0.03%)	1.42%	2.22%	1.83%	3.19%	N/A
S&P 500 Composite Index	1.29%	0.64%	2.26%	3.23%	11.81%	19.67%	16.54%	N/A

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**Southwest Power Pool
FINANCE COMMITTEE MEETING**

April 2, 2015

**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 (phone)	AEP
Laura Kapustka	Lincoln Electric
Mike Wise	Golden Spread Electric Cooperative
Tom Dunn	SPP
Others attending included:	
Gretchen Holloway	ITC
Traci Bender	NPPD
Cassandra Strange (phone)	OG&E
Mark Holler (phone)	Tenaska
Nick Brown	SPP
Michael Desselle	SPP
Dianne Branch	SPP
Barrett Breeding	BKD, LLC
Steve Osborn	Osborn, Carreiro & Associates, Inc.

Minutes from the December 8, 2014 meeting were reviewed. Kelly Harrison motioned to approve the minutes. The motion was seconded by Laura Kapustka and approved by unanimous voice vote.

2016 Operating and Capital Budget Planning and Reporting Process

Harry Skilton began by summarizing relevant take-aways from a 1-day facilitated planning meeting of the SPP Board of Directors held in late January 2015. The items highlighted were:

- Review financial performance measurement parameters for performance compensation funding
- Document “operational plan” which aligns with Strategic Plan and focuses budgeting and staff planning
- Finance Committee should monitor fiscal year financial performance consistently throughout the year
- SPP staff will report on continuous improvement program to the Finance Committee twice annually with a focus on qualitative and quantitative results.

The Committee discussion centered on the development of the operating plan, specifically the Performance section which addresses each Foundational Strategy from the 2014 SPP Strategic Plan identifying i) changes in 2016, ii) key investments in 2016, iii) metrics to monitor performance, and iv) answers the question of “why is SPP doing this”.

The Committee members expressed a desire to ensure the timeline for approval of the operating plan worked in concert with the development of the annual operating and capital budgets. SPP staff was tasked with drafting a timeline for operating plan development, review and approval by Finance

Committee and Strategic Planning Committee, review by MOPC, and approval by the SPP Board of Directors. Initial discussions supported FC and SPC approval in September, BOD approval in October, which would push approval of the annual budgets to December.

Finally, the Committee reached consensus that SPP doesn't need to use a zero-based budget approach every year and thought using a zero-based approach once every 3 or 4 years would be beneficial. Therefore, SPP's 2016 operating budget will not be prepared using a zero-based methodology.

Capital Expenditure Funding

SPP staff presented a preliminary recommendation whereby SPP would include in the calculation of its administrative fee a placeholder to collect funds which would be used for capital expenditures in the next year. The recommendation was designed to address three issues: 1) provide a level rate for SPP's transmission customers, 2) create additional capital expenditure funding options beyond debt issuance, 3) reduce long-term interest expense.

During the discussion several concerns were raised: 1) not all transmission customers desire a level rate, some might prefer a lower rate, 2) if SPP staff had excess cash on its balance sheet it would reduce SPP's staff's commitment to lower costs, 3) SPP likely is able to borrow at rates more favorable than many of its members and more favorable than most end-use customers.

The Committee requested SPP model three additional scenarios: 1) annual maintenance capital expenditures equal to \$15MM/year, 2) reduce salary and benefits and outside services expenditures by 1%/year each year for the next 5 years while holding the administrative fee flat at 39¢/MWh, 3) use a 50/50 split between debt and administrative fee to fund annual capital expenditures.

Finally, the Committee desired additional input from SPP membership on administrative fee management; specifically on whether a flat fee is more or less desirable than a fee that moves up or down as costs move. Harry Skilton will request this feedback from SPP members committee representatives at the April 2015 SPP Board of Directors meeting.

2014 Financial Review

SPP staff provided a review of the 2014 fiscal year including comparisons with both the 2013 fiscal year and the 2014 budget. Additionally, staff reviewed the final over/under recovery results for 2014. The Committee requested future reviews also include a summary of SPP's capital expenditure projects.

CPWG Report

Mark Holler, chair of SPP's Credit Practices Working Group, presented a recommendation to allow market participants who prepare their audited financial statements using International Financial Reporting Standards to use those audited financial statements in satisfaction of the audited financial statement requirements in the Minimum Criteria for Market Participation under section 3.1.1.8 of the SPP Credit Policy. Sandra Bennett motioned to approve the recommendation as presented. The motion was seconded by Mike Wise and approved by unanimous voice vote.

2014 Financial Audit Report

Barrett Breeding of BKD, LLC advised the Committee on the results of BKD's audit of SPP's 2014 financial statements. BKD determined the financial statements present fairly, in all material respects, the financial position of Southwest Power Pool, Inc. as of December 31, 2014 and 2013, and the results of operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. The financial results for 2013 were restated to correct an error in presentation related to SPP's post-retirement healthcare plan. The Committee dismissed SPP staff and convened an executive session with the auditor. Following the executive session, Larry Altenbaumer

Finance Committee
April 2, 2015

made a motion to accept the audit report of BKD. The motion was seconded by Laura Kapustka and approved by unanimous voice vote.

2015 Benefit Plan Reports

Steve Osborn of Osborn, Carreiro & Associates presented actuary reports on both the SPP Retirement Plan and the SPP Post-retirement Healthcare Plan. Steve spent some time discussing the impact of adoption of the 2014 Actuary Mortality tables on the SPP Retirement Plan and suggested he didn't recommend SPP adopt those tables this year. He indicated SPP would likely want to adopt the 2014 tables within the next two years.

SPP staff recommended \$3MM in contributions to the SPP Retirement Plan in 2015, consistent with the approved SPP 2015 budget. The actuary report for the SPP Retirement Plan includes a recommendation for sponsor contributions in 2015 of \$3.76MM. Larry Altenbaumer made a motion to contribute \$3.76MM to the SPP Retirement Plan during 2015. The motion was seconded by Kelly Harrison and approved by unanimous voice vote.

SPP staff recommended \$0 in contributions to the SPP Post-retirement Healthcare Plan in 2015, consistent with the approved SPP 2015 budget. Kelly Harrison made a motion to contribute \$0 to the SPP Post-retirement Healthcare Plan during 2015. The motion was seconded by Laura Kapustka and approved by unanimous voice vote.

Future Meeting Locations

The Committee discussed some options for locations to conduct future meetings in an effort to make attendance at the meetings more convenient. Consideration was given to locations outside of SPP's service area which offer low costs meeting and lodging space as well as numerous non-stop airline flight options (Orlando, Denver, Las Vegas). Additionally, based on the residences of many Committee members Kansas City was suggested as a possible meeting location. SPP staff will review options and may propose some changes to the meeting schedule going forward.

Future Meetings

The next meeting of the Finance Committee is scheduled for July 9, 2015 at the DFW – Hyatt Regency Hotel in Dallas, TX beginning at 8:00 am and concluding at 2:30pm.

Additionally, SPP's Human Resources Committee will hold a meeting in Little Rock on June 10 where the Committee will receive "fiduciary training". Since the Finance Committee is a fiduciary to the SPP Retirement Plan, Finance Committee members were encouraged to attend the June 10 Human Resources Committee meeting.

There being no further business, Harry Skilton adjourned the meeting at 1:45 pm.

Respectfully Submitted,

Thomas P. Dunn
Secretary

Southwest Power Pool, Inc.
FINANCE COMMITTEE
Pending Action Items Status Report
April 2, 2015

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**Southwest Power Pool
FINANCE COMMITTEE
Organizational Group Scope Statement**

Purpose

The purpose of the Finance Committee is to oversee all aspects of SPP's financial operations, primarily insure appropriate controls, policies and procedures are documented and adhered to allowing SPP to report accurate financial reports, access external capital as required, while not exposing the company or its membership to undue risks.

Scope of Activities

The Committee, in discharging its oversight role, is empowered to study or investigate any matter of interest or concern that the Committee deems appropriate. In this regard, the Committee shall have the authority to retain outside legal, accounting or other advisors for this purpose, including the authority to approve the fees payable to such advisors and any other terms of retention. The Committee is directly responsible for the compensation and oversight of the work (including both audit and non-audit services) of the independent auditors and for recommending engagement of the independent auditors for Board of Directors approval. The Committee shall be given full access to the corporation's accounting staff, Board of Directors, corporate executives and independent accountants as necessary to carry out these responsibilities.

Specific tasks include:

1. Review and discuss with management and the independent auditors, prior to public dissemination, the corporation's annual audited financial statements [with primary focus on the quality and integrity of the statements.](#)
2. The Committee shall annually recommend for Board of Directors approval engagement of independent auditors.
3. Develop, in conjunction with management, a schedule for the preparation and development of the annual operating budget, capital budget and each special budget that provides sufficient time for preliminary development by management, review by the Committee, consideration of the proposed budget by the Board of Directors, and final approval of the proposed budget by the Board of Directors, in accordance with the overall budget cycle established by the Board of Directors.
4. Monitor the methodology of cost recovery to insure continuing equity for Members.
5. Develop policies for management of the company's capitalization, financing and long-term contracts.
6. Review periodically, with the corporation's counsel, any legal matter that could have a significant impact on the corporation's financial statements.
7. Discuss with management and the independent auditors the corporation's guidelines and policies with respect to risk assessment and risk management. The Committee should discuss the corporation's major financial risk exposures and the steps management has taken to monitor and control such exposures.
8. Report regularly to the full Board of Directors including:
 - a. any issues that arise with respect to the quality or integrity of the corporation's financial statements, the corporation's compliance with legal or regulatory requirements, the performance and independence of the corporation's independent auditors;

Revised [July 9, 2015](#)

Commented [TD1]: The Bylaws state the FC will oversee the performance of the internal auditor. The Bylaws also specifically mention SAS70 requirements

Deleted: or the performance of the internal audit function

Deleted: February 2, 2006



- b. actual financial results in comparison to budgeted results;
 - c. following all meetings of the Committee; and
 - d. with respect to such other matters as are relevant to the Committee's discharge of its responsibilities.
9. Review with management and the independent auditors their assessments of the adequacy of internal financial controls and the resolution of any identified material weaknesses or reportable conditions.
10. Review reports of actuaries and provide input to the assumptions used to develop the actuarial reports.
11. Report to the Board of Directors on the financial status of the defined benefit and retiree healthcare plans and recommend any funding requirements/strategies for the plans.
12. Review annually, the Investment Policy Statements for the Company's retirement plan, 401(k) plan, post-retirement healthcare plan, and all other similar plans, to ensure the Investment Policy Statements continue to be appropriate for the goals of the plans.
13. Engage and monitor the performance of Investment Managers who have discretionary investment powers for any of the Company's ERISA and non-ERISA plans.
14. Review and approve annually significant financial and compliance policies which fall under the purview of the Committee.
15. The Committee shall perform a review and evaluation, at least annually, of the performance of the Committee and its members, including reviewing the compliance of the Committee with this Charter.

Deleted: <#>Review annually the Company's Business Continuity Planning and Disaster Recovery Programs as related to financial and MIS risks as well as significant Information Security matters and any actions being taken to address weaknesses noted.

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The Committee is not responsible for certifying the corporation's financial statements or guaranteeing the auditor's report. The fundamental responsibility for the corporation's financial statements and disclosures rests with management.

Representation

The Finance Committee shall be comprised of six members. Two representatives shall be members of the Board of Directors and one of these will be the chairperson. Two representatives from the Transmission Owning Member sector as nominated by the Corporate Governance Committee and two representatives from the Using Member sector as nominated by the Corporate Governance Committee. The Board of Directors and the Members' Committee shall separately appoint their representatives at the regular meeting of the Board of Directors immediately following the Annual Meeting of Members. The Board of Directors shall appoint their representatives at the regular meeting of the Board of Directors immediately following the Annual Meeting of Members. Persons designated as representatives on the Finance Committee will continue to serve until their successors have been appointed. Where a vacancy occurs, the Corporate Governance Committee will fill the vacancy in accordance with SPP Bylaws.

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Duration

The Finance Committee is a permanent committee. The Committee shall meet a minimum of two times per fiscal year and at other times as called by the Chair. A quorum will constitute at least half of the

Revised July 9, 2015



members of the committee but no less than three members. Proxies are allowed if reported to the Chair prior to the meeting. All meetings of the Finance Committee shall be open to all interested parties unless closed by the Chair of the Committee.

Reporting

The Finance Committee reports directly to the Board of Directors.

Revised [July 9, 2015](#)

Deleted: February 2, 2006



Southwest Power Pool, Inc.
SPP STAFF
Report to the Finance Committee
July 9, 2015

Organizational Roster

The following persons are members of the Finance Committee:

Harry Skilton, Director
 Laura Kapustka, LES
 Sandra Bennett, AEP

Larry Altenbaumer, Director
 Kelly Harrison, Westar
 Mike Wise, GSEC

Activity Update

SPP staff submits the following information in response to a request from the SPP Finance Committee to review the annual reports of the U.S. based regional transmission organization and document the level of financial disclosures contained in the reports. The data below reflects the 2014 annual reports as of May 11, 2015.

Entity	Annual Report	Audit	MD&A	Comments
California ISO		√	√	Last published annual report was for 2009 fiscal year.
ERCOT		√		Last published annual report was for 2009 fiscal year. Now appears to only post audit on website.
ISO-New England		√	√	
MISO		√		Last published annual report was for 2010 fiscal year. Now appears to only post audit on website.
New York ISO	√	√		Full audit published in annual report, no MD&A. 2013 is latest published annual report and audit.
PJM	√	√	√	No financial disclosures in annual report. Publish stand-alone financial report containing audit and MD&A

Finance Committee Update – Business Process Improvement

July 2015



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



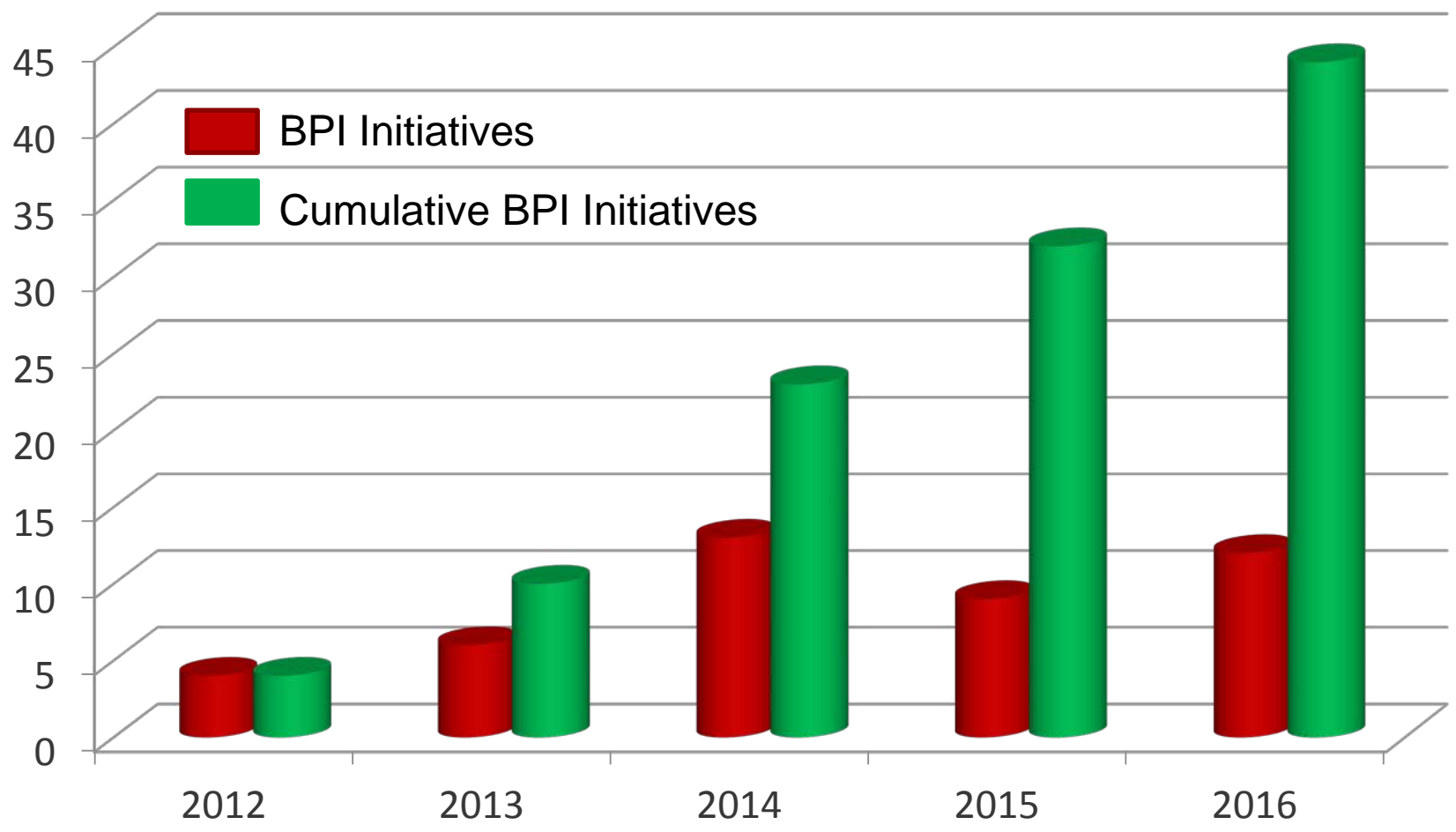
Agenda

1. 2015 Business Process Improvement Update

- a) BPI Initiative Activity
- b) BPI Program Engagement Measures
- c) Quantifiable Value of BPI Activities
- d) Value of BPI to SPP
 - Overview
 - Mini case studies

2. BPI Future Direction

Program Activity Levels



2015 Business Process Improvement Initiatives

2014 Carryover Initiatives

- IT Service Requests
- Corporate WG Efficiency
- GFA Process Improvement
- Settlements Testing
- Operations Ratings Quality
- IT Procurement

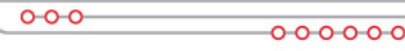
2015 New Initiatives

- Operations Analyst Efficiency
- Engineering Model Building
- Transmission Settlements RRR File Updates
- Purchasing Workflow Automation
- Transmission Planning Task Force

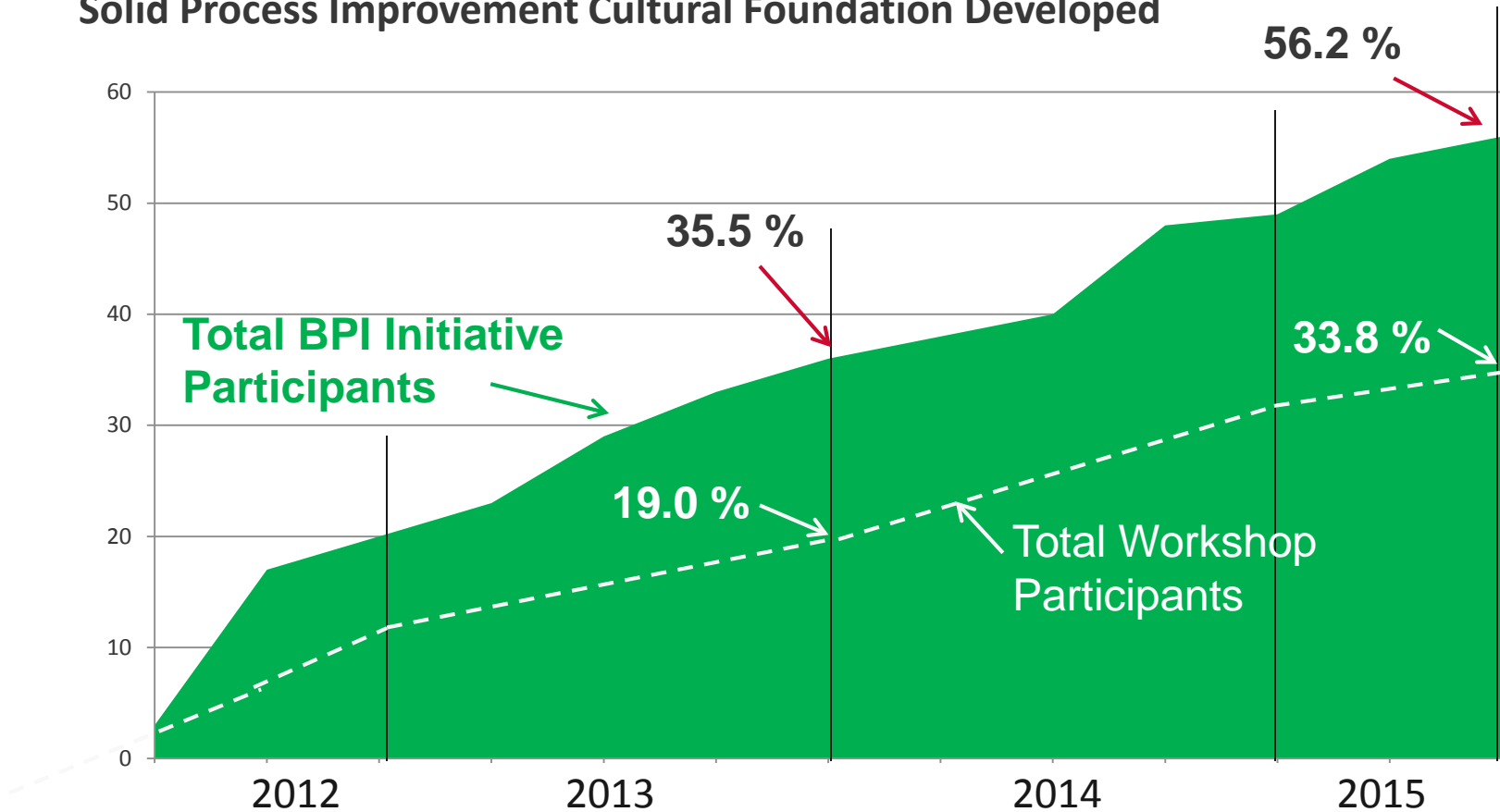
2015 Prospective Initiatives (Planned)

- Reliability Coordination Risk Management
- Stakeholder Transparency Processes
- Operations Document Review Process
- Procurement Workflow Automation
- TBD

BPI Staff Engagement Levels



Solid Process Improvement Cultural Foundation Developed



Quantifiable BPI Benefits (Cost Reduction, Productivity)

- **Nature of SPP business**

SPP vs. Mfg

- Most SPP processes are non-repetitive and dynamic, based on various situations or members involved
- Due to nature of work, time tracking is not granular enough to produce reliable before and after “time savings”

- **Process Automation**

- We have been able to estimate productivity improvement when workflows have been automated
- SPP’s focus on capital and human capital investment has been on major projects for the last three years – limited resources available for automation of internal processes

Quantifiable Cost Reduction/Productivity

BPI Initiative Name	Cost Reduction	Capacity Creation/ Productivity
2012		
Customer Request Mgmt		\$273,000 per year
ICCP-Data Connection		\$180,000 per year
2013		
Wind Curtailment		\$170,000 per year
2014		
IT Contract Strategy	\$ 986,000	\$457,000 every 3 years
IT Service Requests	\$ 150,000	\$200,000 per year
Server Patching		\$25,402 per year
Ops Ratings Quality Impr.		\$ 7,276 per year (so far) *
IM Tie Line Process Impr.		\$25,607 per year

* Task automation in-progress now

Impact of SPP Growth

Impact of rapid, large project based growth of SPP

- SPP has embarked on a series of ambitious projects
 - Nebraska integration
 - Evolution of ITP study process and hiway/byways
 - Integrated Marketplace development and implementation
 - Project Pinnacle
 - IS integration
- *Priority focus has been major projects – on time, within budget*

Current State Context

Process Evolution (Current Processes)

- Processes have been developed with a focus on meeting deadlines (vs. designing optimal process efficiency)
- Processes evolve as “workarounds” are required
- Growth has spurred more scale driven specialization
 - Many processes now require coordination across many business areas
 - Communication gaps may exist

Future Improvement Opportunities

- Re-design processes for efficiency, effectiveness and operational integrity
- Process design will leverage automation to increase efficiency and mitigate risks
 - Internal SPP processes
 - Member-impacting processes

Value of Process Improvement for SPP

The benefits of having a team of employees use a BPI process to design improved business processes include:



- Develop a “big-picture view” of end-to-end processes
- Clarify the process to internal and external (members) participants
- Reduce costs, increase productivity (more work, same staff)
- Provide better customer service and greater transparency
- Improve quality and reliability of process outputs
- Mitigate risk of errors and omissions and non-compliance
- Increase employee engagement – empower those doing the work to make it better

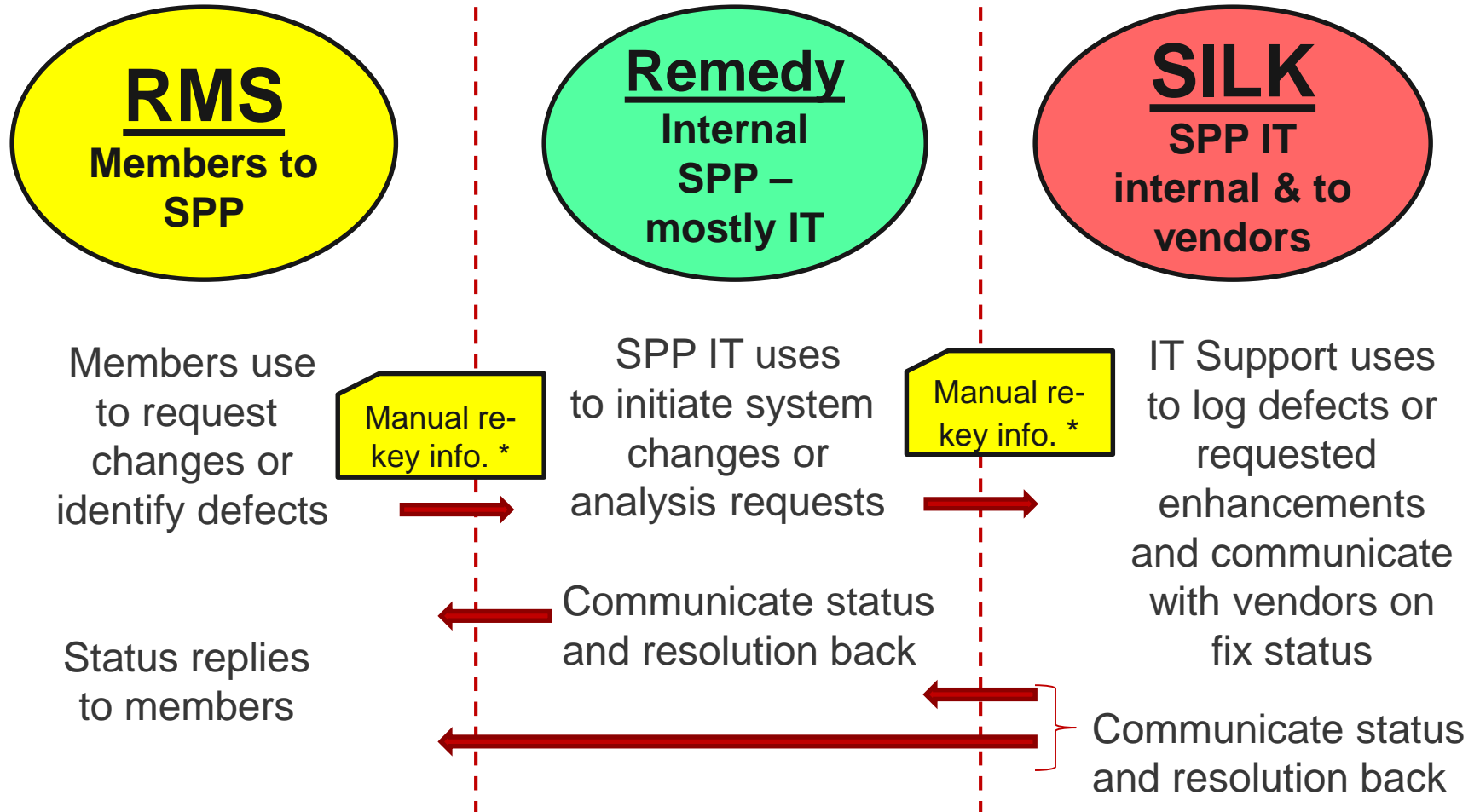


Mini Case Studies

- **IT Service Request Processes**
- **Engineering Model Build Improvements**
- **Corporate Working Group Improvements**

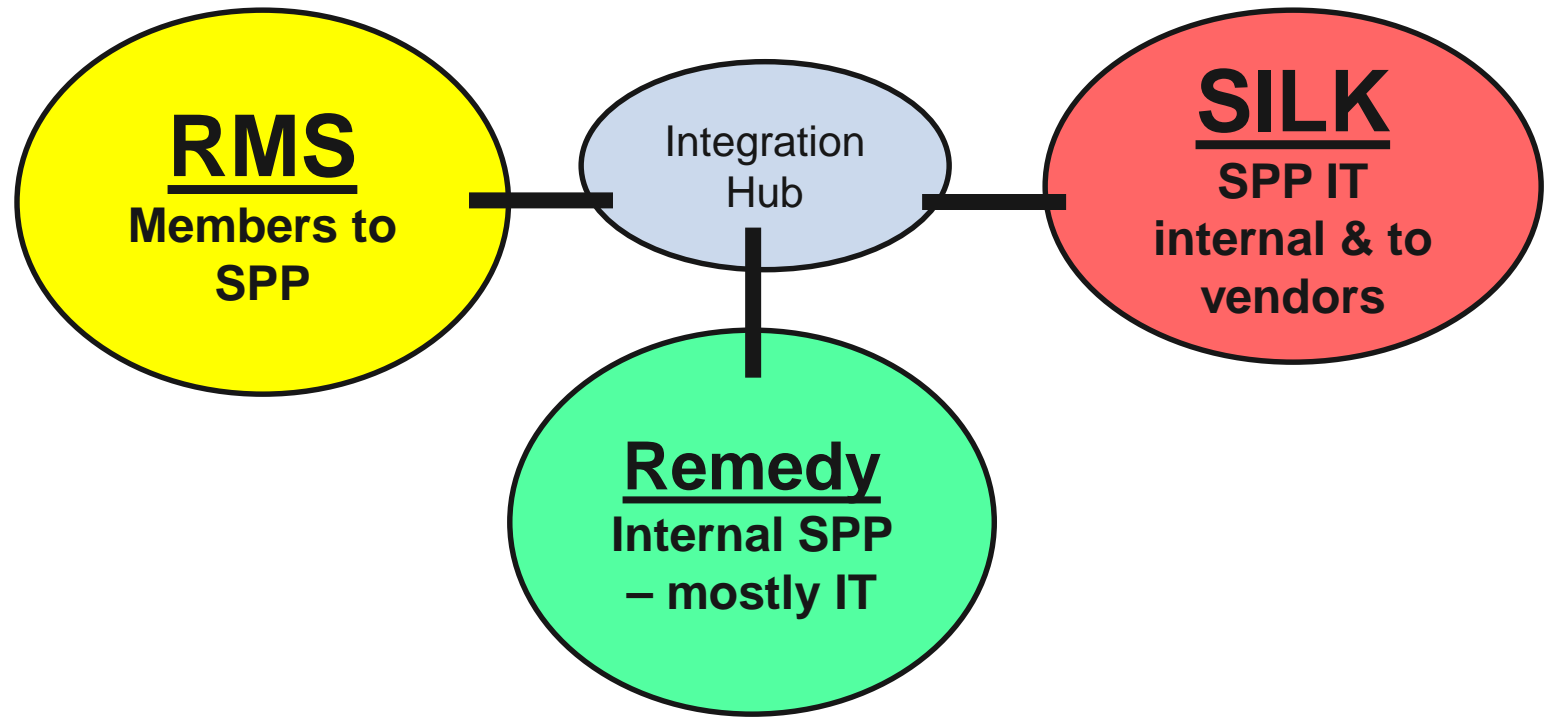
Case Study #1 – IT Service Requests

3 Systems/Processes Used by IT for “Changes”



IT Service Requests – New Processes

Develop integrated processes that include tool integration and communication standards



Integrated processes, standard routing pick tickets and business rules

IT Service Request Benefits

- **Quantifiable Benefits**

- Internal IT team developed integration – avoided \$150,000 of capital spend on contractor
- Integration eliminated manual re-entry of data into three systems for IT staff – capacity creation of \$200,000/year

- **Qualitative Benefits**

- Better process design leveraging automated routing and alerts
- Greater transparency to members throughout the request and change processes
- Greater quality – fewer errors and omissions
- Greater IT employee engagement – get to do IT stuff, not data entry

Case Study #2 – Engineering Model Build Improvements

- **Opportunity**
 - **Improve lead time of powerflow model builds**
 - Initiated by Carl Monroe and Lanny Nickell
 - In response to member feedback
 - **Improve quality of studies developed from models**
 - Balance need for speed with best data for decision-making
- **Approach**
 - **Two-day workshop to uncover issues with current state**
 - **Included 4 members** to optimize total data gathering and modeling process and create transparency
 - Focus on base MDWG model vs. downstream models
 - **5 projects identified to implement desired state**

Engineering Model Build Improvements

- **Solutions**

- **Adoption of 3-pass model build schedule (complete)**
- **Implementation of tool enhancements (pending)**
 - Comprehensive database to improve data submission
 - Model comparison tool to improve data validation
- **Accountability measures (pending)**
 - Enhanced report card
 - Staff accountability requirements
 - Better-defined escalation procedures
- **Enhanced training and communication**
 - Improved content for 2015 cycle
 - Expanded, web-based training in development for 2016

Case Study #3 – Corporate Working Group Improvements

- **Opportunity**

- **Improve productivity of working groups and staff**
 - **Initiated at encouragement of members**
 - **Resulted from growing complexity of stakeholder engagements**
- **Address delays in accessing key information**
- **Increase collaboration across working groups**

- **Approach**

- **Two-day workshop to uncover issues with current state**
- **Feedback/validation session with external stakeholders**
- **3 projects identified to implement desired state**

Corporate Working Group Improvements

- **Solutions**
 - **Standardized revision request process (complete)**
 - Consistency across tariff, criteria, business practices, protocols
 - Centralization of materials on spp.org
 - **Early engagement of “partner” working groups**
 - Defined routing criteria (complete)

Corporate Working Group Improvements

- **Anticipated benefits**

Productivity and/or Cost Reduction				Quality			SPP Staff
Internal Process Clarity	External Process Clarity	Cost Reduction	Capacity Creation/ Productivity	Customer Service Quality	Quality/ Reliability of Outputs	Risk Mitigation	Engagement & Satisfaction
X	X		X	X	X		X

- Less time to find information
- Less time to track request status
- Less scrambling to inform others
- Less time spent coaching

- More upfront involvement of key players
- More timely awareness and feedback
- More timely decision-making
- Better user experience for requesters
- Greater transparency into request status

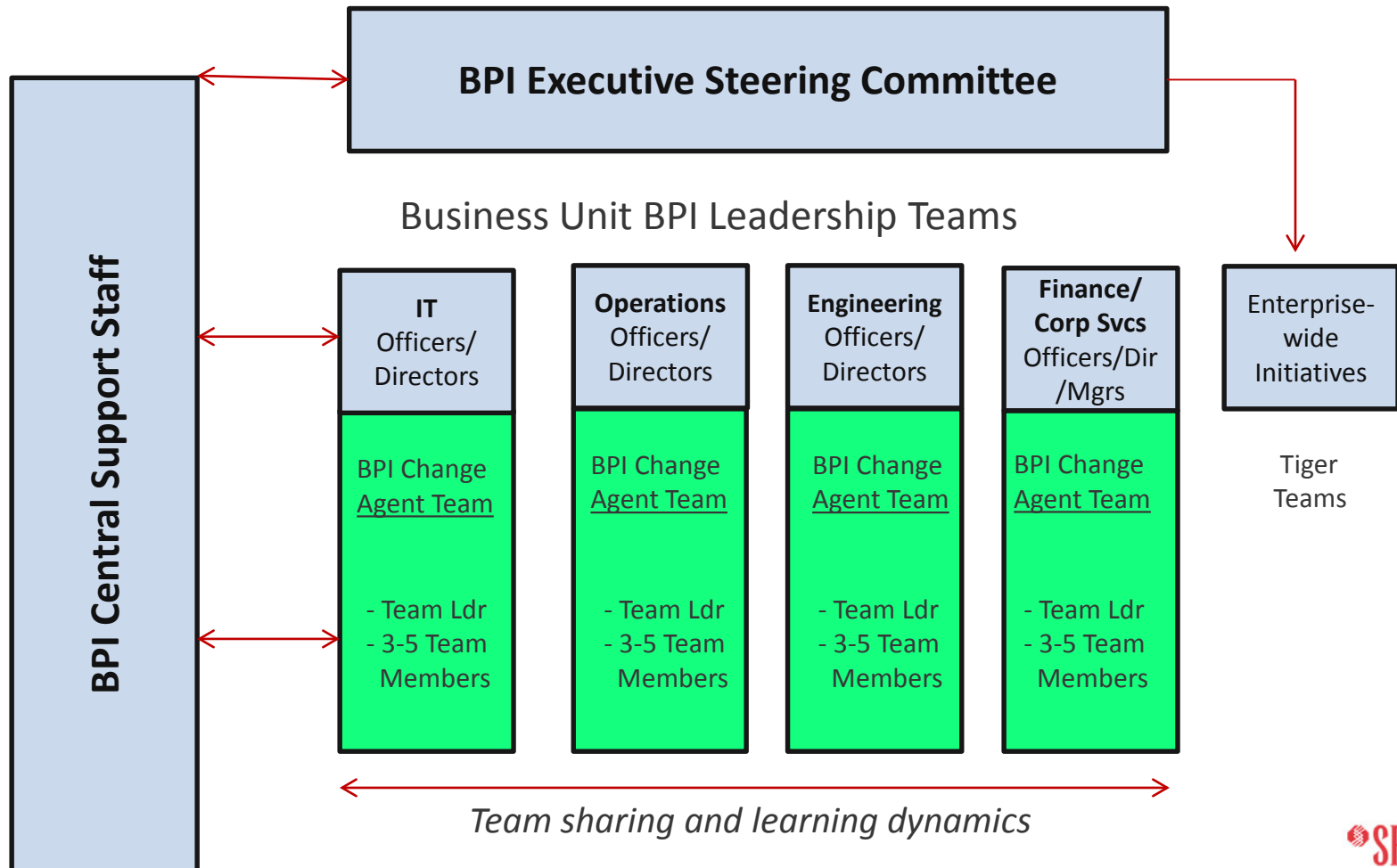
Future BPI Direction

Where we have been

- Initiated 28 BPI initiatives
- Involved over 56% of SPP staff in these initiatives
- Developed a solid foundation of experience and ingrained a BPI approach to support SPP Culture Drivers (continuous improvement, efficiency and collaboration)
- Created momentum despite being ancillary to major corporate priority implementation projects

Evolution of BPI at SPP

Next Phase: Migrate to a Business Unit Distributed Model





Memorandum

To: SPP Officers / Directors / Managers
From: Sheri Dunn / Cindy Goodwin
Date: July 2, 2015
RE: May 2015 Financial Package

Attached are the [May 2015](#) monthly financial reports.

- 1) **Financial Commentary:** FY Forecast to Budget Variances
- 2) **Financial Overview:** FY Forecast by month compared to Budget and Prior Year
- 3) **Income Statement Actual Results Overview:** Current Month Actual compared to Forecast, FY Forecast compared to Budget and FY Forecast compared to Prior Year
- 4) **2015 NRR Calculation:** As of June 2015 FY Forecast
- 5) **Balance Sheet:** Current Month compared to Year End
- 6) **Capital Projects Summary:** Project-to-Date and Remaining Forecast compared to Total Capital Project Budget
- 7) **Headcount Analysis:** Forecast compared to Budget
- 8) **Unbudgeted Purchases**
- 9) **2015 Cost Savings as Compared to 2014 Expenses**
- 10) **2015 Cost Savings as Compared to 2015 Budget**
- 11) **Salary, Benefits & Taxes:** 2015 Forecast compared to 2015 Budget by Account



2014 Financial Commentary
 May 31, 2015
 (in thousands)

Summary

	2015 FY Forecast	2015 FY Budget	Fav/(Unfav) Variance	
Revenues	\$178,836	\$174,595	\$4,241	2.4%
Expenses	210,402	209,982	(420)	(0.2%)
Net Income/(Loss)	<u>(\$31,566)</u>	<u>(\$35,387)</u>	<u>\$3,821</u>	10.8%

Revenue

	2015 FY Forecast	2015 FY Budget	Fav/(Unfav) Variance	
Tariff Administration Service	\$145,948	\$141,149	\$4,799	3.4%
FERC Fees & Assessments	16,833	15,460	1,373	8.9%
NERC ERO Regional Entity Rev	10,220	11,693	(1,473)	(12.6%)
Miscellaneous Income	4,195	5,338	(1,143)	(21.4%)
Contract Services Revenue	1,100	475	625	131.6%
Annual Non-Load Dues	540	480	60	12.5%
Total Revenue	<u>\$178,836</u>	<u>\$174,595</u>	<u>\$4,241</u>	2.4%

Tariff Administrative Service revenue was adjusted to reflect an increase due to a change in the Settlements billing process for 1A charges. The increase includes \$1.2 million for a prior-year true-up, plus additional revenues expected related to an increase in the forecasted load from the original budget (which was based on load through July 2014).

FERC Fees Assessments revenue was adjusted to reflect the current rate calculated by Settlements, which is \$0.074 as compared to \$0.066 assumed in the budget. The budget anticipated a conservative increase of 3% over the prior year; however, the new rate includes prior year adjustments resulting in a 10% increase over the prior year.

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 variance reside in compensation and outside services expenses. Although the budget assumed the RE would be fully staffed at the beginning of the year, currently 4 out of the 30 budgeted positions remain vacant with 2 of the positions eliminated from the forecast. Staffing levels and external consulting costs were reassessed and subsequently reduced based on the decreasing trend of violations experienced since the budget was finalized in early 2014. The net impact to SPP is an unfavorable variance of \$0.4.

Miscellaneous Income forecast was reduced for Order 1K IEP pass-thru revenues.



2014 Financial Commentary
 May 31, 2015
 (in thousands)

Expense				
	2015 FY Forecast	2015 FY Budget	Fav/(Unfav) Variance	
Salary & Benefits	\$83,202	\$80,020	(\$3,182)	(4.0%)
Assessments & Fees	16,382	16,400	18	0.1%
Communications	4,116	4,307	191	4.4%
Maintenance	14,053	14,670	617	4.2%
Outside Services (Including RSC)	13,140	16,137	2,996	18.6%
Administrative & Leases	5,059	5,113	54	1.1%
Travel & Meetings	2,856	3,092	237	7.6%
Depreciation & Amortization	60,771	61,247	476	0.8%
Other Expenses	10,824	8,996	(1,828)	(20.3%)
Total Expense	<u>\$210,402</u>	<u>\$209,982</u>	<u>(420)</u>	(0.2%)

Salary & Benefits were adjusted to reflect current active staff and timing of new hires based on estimates from HR. The budget assumed a vacancy rate of 5%; however, the vacancy forecast is now 4% based on current projections. This change contributes to the unfavorable variance to budget in Salary, Benefits & Taxes. The SPP Board of Directors approved an increase in pension funding from \$3.0 million to \$3.8 million, which also contributes to the unfavorable variance. The forecast for benefits expense includes actuarial adjustments to pension and retiree health care costs, which are non-cash expenses excluded from the cost recovery calculation.

The FY favorable variance in Outside Services is largely related to a significant reduction in Order 1K industry expert panel (IEP) pass-thru costs (due to the issuance of only one RFP) and to lower consulting costs in the RE (Regional Entity) due to a decreasing trend in the number of violations.

Other areas remaining favorable to budget in Outside Services are related to i) removing Legislative Outreach/Consulting expense (which was replaced with two full-time staff) and ii) the decision to remove consulting costs for ERAG (Eastern Interconnection Reliability Assessment Group).

Meetings expense also trails budget in various areas, with the largest departmental variance in Training with cost savings associated with reducing expenses for various external meetings and conferences (\$25) and eliminating restoration drill meeting expenses (\$10). Lower attendance and changing the number of meeting days from 2 to 1 has allowed the Change Working Group (CWG) to meet at American Electric Power Co (AEP) facilities and results in lower meeting expense costs given that SPP has a fixed contract with AEP.

The budget in Other Income / Expense includes a \$1.2 million expense reduction placeholder assigned by the Board, which has been removed from the forecast in order to show a more accurate representation of expected expenses for the remainder of the year. The SWAP valuation adjustment is not included in the budget due to unpredictability and results in an unfavorable variance year-to-date. Also contributing to the unfavorable variance to budget is additional Interest Expense for IT storage equipment that was financed through a capital lease. A partial offset to this can be seen in the favorable maintenance expense variance as a result of lower maintenance costs associated with the related equipment.



Southwest Power Pool
Monthly Overview
May 31, 2015
(in thousands)

	Actual Jan-15	Actual Feb-15	Actual Mar-15	Actual Apr-15	Actual May-15	Fcst Jun-15	Fcst Jul-15	Fcst Aug-15	Fcst Sep-15	Fcst Oct-15	Fcst Nov-15	Fcst Dec-15	FY 2015 Forecast	FY 2015 Budget	Variance Fav/(Unfav)	FY 2014 Actual	Variance Fav/(Unfav)
Income																	
Tariff Administrative Service	\$11,866	\$10,867	\$12,014	\$12,796	\$11,977	\$11,836	\$11,870	\$11,998	\$11,872	\$13,056	\$12,881	\$12,915	\$145,948	\$141,149	\$4,799	\$133,722	\$12,226
Fees & Assessments	2,407	2,528	2,096	2,095	1,889	2,362	2,481	2,570	2,293	2,238	2,255	2,377	27,593	27,633	(40)	25,013	2,580
Contract Services Revenue	38	38	40	40	40	165	165	165	165	165	40	40	1,100	475	625	453	648
Miscellaneous Income	88	283	602	312	228	352	275	275	322	275	275	910	4,195	5,338	(1,143)	4,350	(155)
Total Income	14,398	13,716	14,751	15,242	14,134	14,715	14,791	15,008	14,652	15,734	15,451	16,242	178,836	174,595	4,241	163,537	15,299
Expense																	
Salary & Benefits	6,699	6,722	6,933	7,483	6,631	7,145	6,646	6,689	7,276	6,777	6,808	7,392	83,202	80,020	(3,182)	85,575	2,373
Employee Travel	99	160	173	179	207	192	185	174	192	186	166	168	2,081	2,094	13	1,924	(156)
Administrative	249	275	422	445	281	683	293	342	331	918	284	350	4,872	4,921	49	4,399	(472)
Assessments & Fees	1,363	1,363	1,363	1,363	1,363	1,367	1,367	1,367	1,367	1,367	1,367	1,367	16,382	16,400	18	16,323	(59)
Meetings	78	75	46	49	70	76	83	51	47	111	62	27	775	998	223	833	58
Communications	294	308	310	351	319	335	363	363	363	363	363	387	4,116	4,307	191	3,745	(371)
Leases	15	16	14	14	17	16	16	16	16	16	16	16	188	192	4	180	(7)
Maintenance	1,111	1,079	1,035	1,122	1,121	1,196	1,199	1,171	1,181	1,172	1,169	1,497	14,053	14,670	617	15,149	1,096
Services	583	989	1,211	992	819	932	1,268	1,237	1,246	1,227	1,080	1,359	12,942	15,849	2,907	16,128	3,186
Regional State Committee	7	19	9	20	16	18	18	18	18	18	18	18	198	288	90	191	(7)
Depreciation & Amortization	4,672	4,795	5,045	5,069	5,029	5,175	5,115	5,115	5,149	5,150	5,168	5,289	60,771	61,247	476	51,046	(9,725)
Total Expense	15,171	15,800	16,560	17,086	15,874	17,136	16,553	16,543	17,184	17,304	16,500	17,869	199,578	200,987	1,408	195,493	(4,085)
Other Income/(Expense)																	
Investment Income	-	-	70	12	17	-	-	-	-	-	-	-	98	-	98	459	(361)
Interest Expense	(1,007)	(801)	(938)	(830)	(936)	(898)	(869)	(869)	(878)	(852)	(855)	(862)	(10,594)	(10,496)	(98)	(12,916)	2,322
Capitalized Interest	-	-	102	-	-	-	-	-	-	-	-	9	111	241	(130)	363	(252)
Change in Valuation of Swap	-	-	(659)	-	-	-	-	-	-	-	-	-	(659)	-	(659)	(1,528)	869
Other Income/Expense	(24)	90	(1)	14	5	-	-	-	-	-	-	-	84	1,260	(1,176)	74	10
Unrealized Gain on Investment	-	-	69	42	25	-	-	-	-	-	-	-	135	-	135	251	(116)
Change in Funded Status of Employee Benefit Plan	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(797)	797
Net Other Income (Expense)	(1,031)	(711)	(1,357)	(763)	(889)	(898)	(869)	(869)	(878)	(852)	(855)	(853)	(10,824)	(8,996)	(1,828)	(14,093)	3,269
Net Income (Loss)	(\$1,803)	(\$2,795)	(\$3,166)	(\$2,606)	(\$2,629)	(\$3,319)	(\$2,630)	(\$2,403)	(\$3,410)	(\$2,422)	(\$1,904)	(\$2,480)	(\$31,566)	(\$35,387)	\$3,821	(\$46,050)	\$14,483
2015 Headcount Forecast	576	576	570	570	573	571	573	584	590	592	595	596	596				
2015 Headcount Budget	595	595	598	598	598	598	598	598	598	598	598	598	598				
Over / (Under) Budget	(19)	(19)	(28)	(28)	(25)	(27)	(25)	(14)	(8)	(6)	(3)	(2)	(2)				
Headcount Vacancy	-3%	-3%	-5%	-5%	-4%	-5%	-4%	-2%	-1%	-1%	-1%	0%	-3%				
NRR Over / (Under) Recovery	\$2,778	\$1,250	(\$3,844)	\$2,255	\$2,334	(\$4,689)	\$1,988	\$2,075	(\$4,742)	\$2,499	\$2,942	(\$3,761)	\$1,081				



Southwest Power Pool
Actual Results Overview
May 31, 2015
(in thousands)

	Current Month Compared to Forecast			YTD Actual Compared to YTD Budget			YTD 2015 Compared to YTD 2014		
	May-2015 Actual	May-2015 Forecast	Variance Fav/(Unfav)	May-2015 Actual	May-2015 Budget	Variance Fav/(Unfav)	May-2015 Current Year	May-2014 Prior Year	Variance Fav/(Unfav)
Income									
Tariff Administrative Service	\$11,977	\$11,775	\$202	\$59,520	\$56,979	\$2,541	\$59,520	\$55,533	\$3,987
Fees & Assessments	1,889	2,188	(300)	11,014	11,578	(564)	11,014	10,125	889
Contract Services Revenue	40	40	-	196	198	(2)	196	186	9
Miscellaneous Income	228	194	34	1,512	1,991	(479)	1,512	1,465	47
Total Income	<u>14,134</u>	<u>14,197</u>	<u>(63)</u>	<u>72,242</u>	<u>70,746</u>	<u>1,496</u>	<u>72,242</u>	<u>67,309</u>	<u>4,932</u>
Expense									
Salary & Benefits	6,631	6,720	\$89	34,469	33,451	(\$1,018)	34,469	37,598	\$3,129
Employee Travel	207	167	(40)	818	874	56	818	712	(106)
Administrative	281	320	39	1,671	1,889	218	1,671	1,527	(145)
Assessments & Fees	1,363	1,367	4	6,815	6,833	18	6,815	6,500	(315)
Meetings	70	60	(10)	318	455	137	318	388	70
Communications	319	335	17	1,581	1,795	214	1,581	1,609	28
Leases	17	16	(01)	76	80	4	76	70	(5)
Maintenance	1,121	1,195	73	5,468	6,121	653	5,468	6,227	759
Services	819	1,045	226	4,594	7,029	2,436	4,594	7,266	2,673
Regional State Committee	16	18	2	71	120	49	71	74	3
Depreciation & Amortization	5,029	5,174	144	24,609	25,086	476	24,609	16,917	(7,692)
Total Expense	<u>15,874</u>	<u>16,416</u>	<u>543</u>	<u>80,490</u>	<u>83,732</u>	<u>3,243</u>	<u>80,490</u>	<u>78,888</u>	<u>(1,602)</u>
Other Income/(Expense)									
Investment Income	17	-	17	98	-	98	98	-	98
Interest Expense	(936)	(898)	(38)	(4,512)	(4,402)	(109)	(4,512)	(4,457)	(55)
Capitalized Interest	-	-	-	102	102	(1)	102	233	(131)
Change in Valuation of Swap	-	-	-	(659)	-	(659)	(659)	27	(685)
Other Income/Expense	5	-	5	84	525	(441)	84	12	72
Unrealized Gain on Investment	25	-	25	135	-	135	135	-	135
Net Other Income (Expense)	<u>(889)</u>	<u>(898)</u>	<u>9</u>	<u>(4,751)</u>	<u>(3,775)</u>	<u>(976)</u>	<u>(4,751)</u>	<u>(4,185)</u>	<u>(566)</u>
Net Income (Loss)	<u>(\$2,629)</u>	<u>(\$3,117)</u>	<u>\$489</u>	<u>(\$12,999)</u>	<u>(\$16,762)</u>	<u>\$3,763</u>	<u>(\$12,999)</u>	<u>(\$15,764)</u>	<u>\$2,765</u>
Headcount	573	568	5	573	598	(25)	573	575	(2)

2015 NRR Calculation

	2015 <u>Forecast</u>
Operating Expenses (excluding Depreciation)	\$ 199,578
Debt service	24,887
Interest expense / capitalized interest	10,483
Depreciation	(60,771)
FERC expense	(16,382)
Other Expense (Cash)	4
Gross revenue requirement	<u>157,800</u>
Less:	
NERC revenues	(10,220)
Contract Services Revenue	(1,100)
Membership dues	(540)
Misc income	(4,195)
Interest income	(25)
Subtotal	<u>(16,080)</u>
2013 Under-recovery	2,800
2014 Under-recovery	3,238
2015 Fund transfer post retirement healthcare	(1,000)
Non-Cash Adjustments to Pension/RHC	(1,486)
Capital lease maintenance recovery	(405)
Net revenue requirement	<u>144,867</u>
Admin fee revenue collected	145,948
Over/(under) recovery	<u>\$ 1,081</u>
Billing Determinants GWh	371,031



Southwest Power Pool
 Balance Sheet
 May 31, 2015
 (in thousands)

	5/31/2015	12/31/2014	Net Change
ASSETS			
Current Assets			
Cash & Equivalents	\$88,483	\$57,534	\$30,949
Restricted Cash Deposits	208,244	222,285	(14,042)
Accounts Receivable (net)	28,439	41,826	(13,387)
Other Current Assets	16,518	7,204	9,313
Total Current Assets	\$341,683	\$328,850	\$12,833
Total Fixed Assets	161,810	176,881	(15,071)
Total Other Assets	2,514	5,183	(2,669)
Investments	9,659	10,099	(440)
TOTAL ASSETS	\$515,666	\$521,013	(\$5,348)
LIABILITIES & EQUITY			
Liabilities			
Current Liabilities			
Accounts Payable (net)	\$15,761	\$31,417	(15,656)
Customer Deposits	213,427	222,285	(8,858)
Current Maturities of LT Debt	24,887	24,299	587
Other Current Liabilities	89,860	57,943	31,917
Deferred Revenue	4,566	5,895	(1,329)
Total Current Liabilities	348,501	341,840	6,661
Long Term Liabilities			
US Bank 5.45% Senior Notes - 2016	1,500	3,000	(1,500)
US Bank Maumelle Mortgage - 2027	3,238	3,341	(103)
Campus 4.82% Senior Notes - 2042	61,588	61,869	(282)
Integrated Marketplace 3.55% Senior Note - 2024	56,000	57,750	(1,750)
Senior Notes - 2024	82,500	85,000	(2,500)
Senior Notes - 2025	37,000	37,000	-
Capital Lease Obligation	5,974	-	5,974
Other Long Term Liabilities	19,308	18,158	1,150
Total Long Term Liabilities	267,108	266,118	990
Net Income	(12,999)	(46,050)	33,051
Members' Equity	(86,945)	(40,895)	(46,050)
Total Members' Equity	(99,943)	(86,945)	(12,999)
TOTAL LIABILITIES & EQUITY	\$515,666	\$521,013	(\$5,348)

2015 - 2017 Capital Project Forecast (\$0,000)

Project	Prior Year(s)	2015 Forecast	2016 Forecast	2017 Forecast	TOTAL FORECAST	TOTAL BUDGET	Variance Over/(Under)	Comments
Post Go-Live								
Project Pinnacle	\$10,930.6	\$1,568.0	\$0.0	\$0.0	\$12,498.6	\$15,371.8	(\$2,873.3)	Complete
Enhanced Combined Cycle (suspended thru Oct 2015)	1,301.0	636.0	3,816.0	952.5	6,705.5	6,708.4	(2.9)	Deferred 4Q 2015
TCR Enhancements (included in Project Pinnacle budget)	0.0	500.0	0.0	0.0	500.0	0.0	500.0	In process
Phase 1 Deferred Enhancements	1,087.3	0.0	0.0	0.0	1,087.3	1,000.0	87.3	Complete
Total Market Post Go-Live Projects	\$13,318.9	\$2,704.0	\$3,816.0	\$952.5	\$20,791.4	\$23,080.2	(\$2,288.9)	
Carry-forward projects included in 2015 Budget								
Netezza	\$2,646.3	\$171.7	\$0.0	\$0.0	\$2,818.0	\$2,818.0	\$0.0	Oct 2015
Transmission Settlements Upgrade ETSE3.0	0.0	482.5	2,778.4	926.1	4,187.0	4,187.0	(0.0)	Deferred to 2017
EMS Upgrade	0.0	0.0	1,042.5	455.0	1,497.5	1,497.7	(0.2)	Start 2016
Sonic ESB and Sonic MQ Replacement	1.4	218.5	0.0	0.0	219.8	475.0	(255.2)	On track
IssueTrak Integration with Remedy (covered by SPP staff)	0.0	0.0	0.0	0.0	0.0	150.0	(150.0)	Cancelled
Cost Allocation SQL Database	0.0	0.0	0.0	0.0	0.0	50.0	(50.0)	Cancelled
Total Other Projects	\$2,647.7	\$872.6	\$3,820.9	\$1,381.1	\$8,722.3	\$9,177.7	(\$455.4)	
2015 New Projects								
Gas / Electric Harmonization		\$0.0	\$1,000.0	\$0.0	\$1,000.0	\$2,000.0	(\$1,000.0)	Start in 2016
IS Integration		1,027.0	0.0	0.0	1,027.0	1,027.0	(0.0)	Oct 2015
Local Reliability Assessment		0.0	500.0	0.0	500.0	500.0	0.0	Deferred to 2017
2-Factor Authentication (1 of 2 - Infrastructure build)		0.0	250.0	0.0	250.0	250.0	0.0	Deferred to 2016
Vaadin 6 to 7 Upgrade		119.7	0.0	0.0	119.7	180.0	(60.3)	Aug 2015
Tie Line Meter Checkout		66.0	0.0	0.0	66.0	66.0	0.0	Req drafting, complete 2016
Total 2015 New Projects		\$1,212.7	\$1,750.0	\$0.0	\$2,962.7	\$4,023.0	(\$1,060.3)	
Foundation								
IT Systems Admin Foundation		\$8,153.7						
IT Network-Telecom Foundation		5,125.7						
IT Applications Foundation		1,251.0						
IT Service Management Foundation		200.8						
IT Environmental Ops Foundation		104.5						
Operations Marketplace Enhancements		2,343.2						
Operations Legacy Applications Foundation		337.4						
Settlements Enhancements		230.5						
Miscellaneous Facilities		170.5						
CMS Enhancements (covered by SPP IT staff)		0.0						
Total Foundation		\$17,917.2	\$13,158.2	\$13,927.0	\$45,002.4	\$42,580.1	\$2,422.26	
Capital Project Forecast (compared to Original Budget)	\$15,966.6	\$22,706.5	\$22,545.1	\$16,260.6	\$77,478.8	\$78,861.1	(\$1,382.3)	

Project	Prior Year(s)	2015 Forecast	2016 Forecast	2017 Forecast	TOTAL FORECAST	TOTAL BUDGET	Variance Over/(Under)	Comments
<u>Carry Forward Projects (expected to be complete in 2014)</u>								
Z2 Crediting Process (orig budget \$295 in 2012)	\$351.1	\$436.9	\$229.1	\$0.0	\$1,017.1	\$295.0	\$722.1	a)
Project Server 2013 Upgrade	104.0	22.3	0.0	0.0	126.4	300.0	(173.6)	Complete
QA ICCP Buildout	190.4	1.0	0.0	0.0	191.4	180.0	11.4	Complete
Total Additional Carry Forward Projects	\$645.6	\$460.2	\$229.1	\$0.0	\$1,334.8	\$775.0	\$559.8	b)
<u>Unbudgeted Projects</u>								
Corporate Website Replacement Project	\$182.8	\$180.0	\$0.0	\$0.0	\$362.8	\$0.0	\$362.8	Go-live Sep 2015
Mitigated Offer VOM Cost Calculation	0.0	193.4	0.0	0.0	193.4	0.0	193.4	Approved by BOD, Apr 2015
Total Unbudgeted Projects	\$182.8	\$373.4	\$0.0	\$0.0	\$556.2	\$0.0	\$556.2	
Total Capital Project Expense	\$16,794.9	\$23,540.1	\$22,774.2	\$16,260.6	\$79,369.8	\$79,636.1	(\$266.3)	

a) The initial project budget for Z2 Crediting Process was established in early 2012. Since 2012, there have been ongoing challenges in establishing common understanding of requirements and system functions. The current project cost forecast is based on the recently approved requirements and the decision to utilize a new vendor to complete the project. As a result, an impairment loss (\$351) and additional expense to settle with the previous vendor (\$200) were recognized as operating expense, resulting in total project cost of \$1,568.

b) The TOTAL BUDGET for the Carry Forward projects that were expected to be complete in 2014 were not included in the 2015-2017 budget (\$78,861.1).



Southwest Power Pool
Headcount Analysis
May 31, 2015

	Current Month Actual vs. Budget			Full Year Forecast vs. Budget		
	Actual May-2015	Budget May-2015	Over/(Under) Budget	FY 2015 Forecast	FY 2015 Budget	Over/(Under) Budget
Officers	11	10	1	11	10	1
Accounting	10	10	0	10	10	0
Credit	4	4	0	4	4	0
Settlements	24	24	0	24	24	0
Administration	49	48	1	49	48	1
Corporate Services	28	29	(1)	28	29	(1)
Interregional Affairs	4	4	0	4	4	0
SPP Compliance	9	11	(2)	11	11	0
Project Management	13	13	0	13	13	0
Training	11	11	0	11	11	0
Customer Service	10	10	0	9	10	(1)
Process Management	3	3	0	3	3	0
Internal Audit	6	6	0	6	6	0
Process Integrity	56	58	(2)	57	58	(1)
SPP Regional Entity	26	30	(4)	28	30	(2)
Information Technology	141	146	(5)	146	146	0
Markets	7	7	0	7	7	0
Interregional Relations	3	3	0	3	3	0
Operations	153	160	(7)	159	160	(1)
Engineering	68	73	(5)	73	73	0
Regulatory Policy & General Counsel	37	40	(3)	40	40	0
Communications & Gov't Affairs	5	4	1	5	4	1
Vacancy Allowance	0	0	0	(20)	0	(20)
TOTAL HEADCOUNT	573	598	(25)	575	598	(23)

* The forecast reflects the *addition* of two positions approved out-of-budget in December 2014 and the *removal* of two positions in the Regional Entity (RE), one position in the Regulatory department, and one position in the Officer department. The workload was assumed by existing staff for the RE and Regulatory positions, which had remained vacant since 2014. The forecast includes a negative headcount adjustment of 20 positions to reflect an average vacancy of 4% as compared to the budgeted vacancy rate of 5%. Total positions in the forecast is 596 as compared to the budget of 598.

Unbudgeted Purchases > \$100K
As of 06/30/2015

PO Number	Project Name	Vendor	Scope of Work	Total Amount	Budgeted	Unbudgeted
PO2015-1144	2015 Foundation General	GDH Consulting, Inc	Project Mangement Consulting Services/Marlene Wallace	\$ 113,880	-	\$ 113,880
PO2015-1143	2015 IS Integration	Nexant, Inc	iHedge System Dev. ARR Allocation Process	165,600	-	165,600
PO2015-1117	2015 Corporate Website Replacement	Aristotle, Inc	Corporate Website Replacement Project	180,500	-	180,500
PO2015-1323	Z2 Credit Stacking	OATI	Fees associated with termination of Change Order #2	200,000	-	200,000
PO2015-1255	Z2 Credit Stacking	Accenture	Credit Stacking System Work Order # 8	996,723	-	996,723
				\$ 1,656,703	\$ -	\$ 1,656,703

2015 Cost Savings as Compared to 2014 Expenses

Department	Description of Savings	Total Est Savings (\$000)	YTD April 2015 (\$000)
Operations	Consultants, overtime, travel, licenses expenses, level of backfill positions	\$ 935	\$ 11
Information Technology	Consultants, eliminate low value licenses, delay staffing backfill, travel	\$ 857	\$ 356
Project Management	Consultants	\$ 200	\$ (12)
Engineering	In-source reporting, raise billing for services	\$ 50	\$ 79
Training	Travel, host meetings at member sites or at SPP	\$ 33	\$ 12
Settlements	Eliminate licenses, reduce SUG meetings	\$ 24	\$ 1
HR	Change evaluation cycle, change compliance vendor	\$ 13	\$ -
Compliance	Increase teleconference vs travel	\$ 11	\$ 4
Communications	Change service provider	\$ 10	\$ (4)
Facilities	In-source HVAC maintenance	\$ 9	\$ 11
Internal Audit	Eliminate low-value 3rd party services; reduce travel	\$ 4	\$ 1
Regulatory	Eliminate subscriptions and travel	\$ 4	\$ 1
Accounting	Eliminate low-value 3rd party services; lower license expense	\$ 3	\$ 1
Legal	Overnight delivery	\$ 2	\$ 2
Customer Relations	Decrease travel	\$ 1	\$ (2)
	Subtotal per Original Budget	\$ 2,156	\$ 460
Accounting	Reduction in continuing education costs	\$ 2	\$ -
Credit	Decrease travel	\$ 2	\$ 1
Interregional Relations	Decrease meetings by hosting at SPP	\$ 11	\$ 4
Market Design	Increased consulting expense	\$ 434	\$ (165)
Human Resources	Rx expense	\$ 138	\$ 46
Human Resources	Decrease meetings	\$ -	\$ 38
	Total Cost Savings	\$ 2,744	\$ 385

2015 Cost Savings as Compared to 2015 Budget

Department	Description of Savings	2015 Budget (\$000)	2015 Forecast (\$000)	2015 Savings
Information Technology	Leveraging of wind farm additions and implementations	\$ 670	\$ 393	\$ 277
Information Technology	IT-Applications was able to absorb much of the IS-integration work "in house", alleviating the need for outside resources	\$ 500	\$ 280	\$ 220
Officer	Consultants, 3rd party review of MMU	\$ 90	\$ -	\$ 90
Information Technology	Budgeted for 12 months of consultant, engaging only for 9 months	\$ 360	\$ 270	\$ 90
Corporate Services	Most CWG meetings moved to AEP, reduced duration and # of meetings	\$ 95	\$ 8	\$ 87
Information Technology	Aurea ESB replacement project implemented with less training/consulting	\$ 100	\$ 25	\$ 75
Information Technology	Reduced scope for cloud services due to prioritization of other requirements/projects	\$ 100	\$ 50	\$ 50
Operations	eTerra-Vision is being replaced with an open source solution and the capital budget for ETV enhancements will not be used.	\$ 20	\$ -	\$ 20
Corporate Services	All PCWG meetings moved to AEP/SPP/member companies, reduced number of meetings from 8 to 4	\$ 21	\$ 2	\$ 20
Business Process Improvements	Combined planned EMBC exercise with CIP5 and Grid-Ex requirements	\$ 10	\$ -	\$ 10
Customer Service	CWG teleconference instead of travel/hotel	\$ 11	\$ 4	\$ 7
Business Process Improvements	Eliminated Dir and EMBC C.E. due to priority re-evaluation	\$ 7	\$ 2	\$ 5
Customer Service	IssueTrak/Remedy integration project cancelled	\$ 5	\$ -	\$ 5
Business Process Improvements	Travel associated with eliminated C.E.	\$ 5	\$ 2	\$ 3
	Total	\$ 1,995	\$ 1,036	\$ 959

Salary, Benefits & Taxes

	2015 Forecast	2015 Budget	Fav/(Unfav) to Budget
(\$000)			
Base Salary	54,200	53,478	(723)
Premium Pay	1,022	871	(151)
Deferred Salaries	206	60	(146)
Incentive Comp	8,683	8,558	(126)
Healthcare Expense	5,327	5,536	209
Pension Expense	4,488	3,000	(1,488)
Taxes	4,087	4,631	545
Other Benefits (401K, Life, Other)	3,106	3,132	26
Post-Retirement Expense	1,485	-	(1,485)
Continuing Education Expense	596	755	158
Total Salary, Benefits & Taxes	83,202	80,020	(3,182)
Total Excluding Vacancy	83,202	83,619	417
Total Vacancy Budget	-	(3,599)	(3,599)
Total Salary, Benefits & Taxes	83,202	80,020	(3,182)
Total Positions	596	598	2
Open / Vacancy	(19)	(27)	(8)
Headcount Including Vacancy	577	571	(6)
Vacancy %	4%	5%	1%



Southwest Power Pool, Inc.
FINANCE COMMITTEE
Staff Recommendation
July 9, 2015
Administrative Fee Rate Strategy

Organizational Roster

The following persons are members of the Finance Committee:

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

The following stakeholders participated in group discussions:

[Type Name of Participant, Company]

[Type Name of Participant, Company]

Background

SPP recovers the costs incurred to run its operations primarily through collections under schedule 1A of the SPP regional tariff. The tariff provides for recovery of 100% of SPP's costs from purchasers of transmission service. The rate utilized is based on SPP's operating budget and estimate of transmission service sales. The rate is limited by a stated rate cap which is approved by FERC. The rate recovers cash expenditures in the budget less capital expenditures.

SPP has long followed a policy of funding the capital expenditure program through issuance of notes with terms somewhat consistent with the expected useful life of the assets acquired. This policy was designed to best recover the cost of the assets from the customers who were benefiting from the assets. SPP's outstanding term notes have grown from \$25MM at FYE'03 when SPP's services were primarily provision of point-to-point and network transmission, to over \$272MM at FYE'14 following implementation of the Integrated Marketplace.

SPP continues to have access to the institutional and commercial debt markets at favorable rates and terms. Fitch Ratings maintains an "A" rating on SPP's unsecured notes and an "A+" rating on its secured mortgage note. SPP's most recent issuances, \$37MM term note placed with Thrivent Financial for Lutherans and \$33MM multi-advance term note placed with Region's Financial, are expected to fund SPP's capital expenditure programs to the end of 2016.

Scheduled principal retirements and interest payments on SPP's outstanding debt are a significant factor in the increase in SPP's schedule 1A administrative fee. Total principal and interest payments in 2014 were \$34MM, representing over 25% of the costs recovered through the schedule 1A administrative fee. Debt related payments are forecast to peak in 2015 at over \$35MM then decrease to approximately \$30MM/year beginning in 2018 and continuing at this level through 2023, absent issuance of any new notes.

SPP's capital expenditure program has been significant over the past several years, dominated by the Integrated Marketplace and Corporate Campus projects. Looking forward, SPP's capital expenditure requirements are forecast to diminish from recent levels to about \$15MM-\$20MM/year. SPP's 2015 budget totals \$29MM and includes capital expenditures associated with network, storage, and security requirements.

The schedule 1A administrative fee rate has grown in concert with the expansion of SPP's scope of responsibilities. SPP's Board of Directors and SPP's Finance Committee have been adamant in stating that SPP should strive to ensure its cost recovery requirements remain at or below the 39¢/MWh cap delineated in the open access transmission tariff.

Analysis

SPP prepared numerous financial models designed to indicate the impact of various scenarios surrounding management of the schedule 1A administrative fee rate. The results from these models follow this report. Four primary objectives shaped the modeling exercise:

- 1) Maintain an administrative fee rate of 39¢/MWh or less
- 2) Maintain compliance with financial covenant requirements in SPP's existing credit agreements
- 3) Maintain fixed asset values close to outstanding debt totals
- 4) Ensure SPP has sufficient cash available to fund its operations

SPP's fixed asset values are significantly below its outstanding debt totals. This is due to depreciation of the Integrated Marketplace assets on a three-year straight-line schedule though the debt to finance the assets is on a twelve year amortization schedule. The relative valuation of fixed assets to debt at 2024 is meaningful because at that time the debt for Integrated Marketplace will be fully retired leaving SPP with fixed assets generally acquired within the past five years and outstanding debt that will be retired within the next five years.

The main conclusions from the analysis are as follows:

- 1) To maintain 39¢/MWh administrative fee rate or less will require i) reduction in operating expenses, and/or ii) reduction in capital expenditures, and/or iii) significant increase in billing determinants.
- 2) SPP's has a strong reliance on term debt currently. Most of the scenarios assume SPP continues to have excellent access to debt on reasonable terms.
- 3) The equality between fixed assets and outstanding debt does not exist even at 2024 due to longer duration debt issuances in the past which have been used to retard the upward growth of the administrative fee. Additional longer duration issuances will further the existing imbalance.

SPP staff believes a change in the existing capital expenditure funding policy is needed to position SPP to satisfy the financial goals outlined above. Now that SPP has reached a level of operational maturity the likelihood of significant project oriented capital expenditures is reduced. SPP's need for recurring, annual capex to maintain its capabilities remains. This "maintenance" capex, which occurs each and every year at approximately the same dollar amount, can be more economically funded through SPP's operating cash flow as opposed to an ongoing series of future debt issuances. Funding these capital expenditures from operating cash flow eliminates the excess cost of interest paid on debt as well as the costs associated with issuing debt.

Members were asked at the April 28, 2015 SPP Board of Directors meeting to share with the Committee members any preferences they may have on how SPP should address its administrative fee rate strategy. The response from the membership has been very limited thus far, though those who have indicated a preference seem to prefer using term debt to fund 100% of SPP's capital expenditures and holding the fee as low as possible.



Recommendation

SPP staff recommends adoption of a policy of funding recurring capital expenditures (aka maintenance capex) from operating cash flow. Capital expenditures associated with significant projects would be funded from the issuance of new term debt.

Approved: [Name of Group] [Date]
[Vote Count (for example: x For, y Against or Passed Unopposed)]

Action Requested: Approve recommendation

BASE MODEL

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Income Statement Highlights (000s)										
Calculated NRR / MWh	\$ 0.387	0.371	0.367	0.378	0.375	0.369	0.365	0.359	0.355	0.347
Admin Fee Rate (\$/MWh)	\$ 0.387	0.371	0.367	0.378	0.375	0.369	0.365	0.359	0.355	0.347
Net Revenue Requirement (\$millions)	\$ 141	148	146	154	155	156	157	158	159	158
Operating Cash (\$millions)	\$ (4)	(25)	(39)	(52)	(65)	(79)	(92)	(105)	(118)	(131)
Net Fixed Assets (\$millions)	\$ 145	101	81	77	74	71	69	67	66	65
Outstanding Debt (\$millions)	\$ 281	257	236	215	192	170	146	122	98	74
Net Fixed Assets/Outstanding Debt	0.515	0.394	0.345	0.360	0.384	0.419	0.471	0.548	0.672	0.873
Fixed Charge Coverage	2.334	1.985	2.214	2.038	2.374	2.689	3.268	3.937	5.228	6.542

Assumptions

Admin fee equals calculated rate
 No borrowings to fund cash shortfalls
 Load is flat through 2017, then grows at 2%/year
 Annual capex is \$15/year starting in 2017

MODEL I

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Income Statement Highlights (000s)										
Calculated NRR / MWh	\$ 0.387	0.371	0.367	0.378	0.375	0.369	0.365	0.359	0.352	0.347
Admin Fee Rate (\$/MWh)	\$ 0.390	0.390	0.390	0.390	0.390	0.390	0.390	0.390	0.390	0.390
Net Revenue Requirement (\$millions)	\$ 141	148	146	154	155	156	157	158	158	158
Operating Cash (\$millions)	\$ (4)	(15)	(20)	(29)	(36)	(39)	(42)	(40)	(36)	(29)
Net Fixed Assets (\$millions)	\$ 145	101	81	77	74	71	69	67	66	65
Outstanding Debt (\$millions)	\$ 281	257	236	215	192	170	146	122	98	74
Net Fixed Assets/Outstanding Debt	0.515	0.394	0.345	0.360	0.384	0.419	0.471	0.548	0.672	0.873
Fixed Charge Coverage	2.334	2.733	3.146	2.470	3.006	3.713	4.687	6.113	11.262	11.680

Changes From Base Model

Admin fee rate is 39¢/MWh annually

MODEL III

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Income Statement Highlights (000s)										
Calculated NRR / MWh	\$ 0.387	0.355	0.357	0.364	0.349	0.332	0.328	0.322	0.315	0.310
Admin Fee Rate (\$/MWh)	\$ 0.390	0.390	0.390	0.390	0.390	0.370	0.360	0.360	0.350	0.340
Net Revenue Requirement (\$millions)	\$ 141	141	142	148	144	140	141	141	141	142
Operating Cash (\$millions)	\$ (4)	0	(0)	(4)	(2)	(1)	(2)	0	1	0
Net Fixed Assets (\$millions)	\$ 145	101	81	77	74	71	69	67	66	65
Outstanding Debt (\$millions)	\$ 281	266	242	217	192	170	146	122	98	74
Net Fixed Assets/Outstanding Debt	0.515	0.381	0.337	0.356	0.384	0.419	0.471	0.548	0.672	0.873
Fixed Charge Coverage	2.334	3.336	3.857	3.260	4.159	4.377	4.901	6.368	10.510	9.719

Changes From Base Model

Admin fee rate set at 39¢/MWh or less to provide breakeven cash position
 Salary & Benefits reduce 1%/year through 2020
 Services reduce 1%/year through 2020

MODEL III (a)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Income Statement Highlights (000s)										
Calculated NRR / MWh	\$ 0.387	0.355	0.357	0.364	0.349	0.332	0.328	0.322	0.315	0.310
Admin Fee Rate (\$/MWh)	\$ 0.387	0.355	0.357	0.364	0.349	0.332	0.328	0.322	0.315	0.310
Net Revenue Requirement (\$millions)	\$ 141	141	142	148	144	140	141	141	141	142
Operating Cash (\$millions)	\$ (4)	(16)	(29)	(44)	(59)	(75)	(89)	(104)	(118)	(133)
Net Fixed Assets (\$millions)	\$ 145	101	81	77	74	71	69	67	66	65
Outstanding Debt (\$millions)	\$ 281	266	242	217	192	170	146	122	98	74
Net Fixed Assets/Outstanding Debt	0.515	0.381	0.337	0.356	0.384	0.419	0.471	0.548	0.672	0.873
Fixed Charge Coverage	2.334	2.054	2.550	2.295	2.453	2.545	3.093	3.716	6.441	6.141

Changes From Base Model

Admin fee rate equals calculated NRR/MWh
Salary & Benefits reduce 1%/year through 2020
Services reduce 1%/year through 2020

MODEL III (b)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Income Statement Highlights (000s)										
Calculated NRR / MWh	\$ 0.387	0.356	0.370	0.382	0.372	0.365	0.365	0.359	0.351	0.347
Admin Fee Rate (\$/MWh)	\$ 0.387	0.356	0.370	0.382	0.372	0.365	0.365	0.359	0.351	0.347
Net Revenue Requirement (\$millions)	\$ 141	142	147	155	154	154	157	158	157	159
Operating Cash (\$millions)	\$ (4)	4	2	(3)	2	(2)	3	(1)	(1)	(0)
Net Fixed Assets (\$millions)	\$ 145	101	81	77	74	71	69	67	66	65
Outstanding Debt (\$millions)	\$ 281	286	268	247	234	210	192	164	141	117
Net Fixed Assets/Outstanding Debt	0.515	0.354	0.304	0.313	0.315	0.339	0.358	0.408	0.467	0.552
Fixed Charge Coverage	2.334	1.963	2.646	2.518	2.757	3.167	3.844	4.397	6.493	6.440

Changes From Base Model

Admin fee rate equals calculated NRR/MWh
Salary & Benefits reduce 1%/year through 2020
Services reduce 1%/year through 2020
New borrowings to fund shortfalls on 5 year terms

MODEL IV

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Income Statement Highlights (000s)										
Calculated NRR / MWh	\$ 0.387	0.371	0.367	0.378	0.375	0.369	0.365	0.359	0.352	0.347
Admin Fee Rate (\$/MWh)	\$ 0.387	0.371	0.367	0.378	0.375	0.369	0.365	0.359	0.352	0.347
Net Revenue Requirement (\$millions)	\$ 141	148	146	154	155	156	157	158	158	158
Operating Cash (\$millions)	\$ 5	(8)	(18)	(24)	(30)	(37)	(43)	(49)	(55)	(61)
Net Fixed Assets (\$millions)	\$ 136	85	60	55	50	47	44	41	39	38
Outstanding Debt (\$millions)	\$ 281	257	236	215	192	170	146	122	98	74
Net Fixed Assets/Outstanding Debt	0.483	0.331	0.256	0.255	0.262	0.275	0.299	0.338	0.404	0.514
Fixed Charge Coverage	2.334	1.985	2.214	2.038	2.374	2.689	3.268	3.937	6.825	6.542

Changes From Base Model

Maintenance capex reduced to \$8 from \$15
No borrowings to fund cash shortfalls

MODEL VI

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Income Statement Highlights (000s)										
Calculated NRR / MWh	\$ 0.387	0.371	0.387	0.402	0.402	0.400	0.399	0.396	0.389	0.382
Admin Fee Rate (\$/MWh)	\$ 0.387	0.371	0.387	0.402	0.402	0.400	0.399	0.396	0.389	0.382
Net Revenue Requirement (\$millions)	\$ 141	148	154	163	167	169	172	174	174	175
Operating Cash (\$millions)	\$ (4)	(25)	(32)	(28)	(26)	(24)	(22)	(20)	(18)	(16)
Net Fixed Assets (\$millions)	\$ 145	101	81	77	74	71	69	67	66	65
Outstanding Debt (\$millions)	\$ 281	257	243	228	210	191	168	145	120	96
Net Fixed Assets/Outstanding Debt	0.515	0.394	0.331	0.336	0.350	0.370	0.407	0.460	0.546	0.670
Fixed Charge Coverage	2.334	1.985	2.144	2.697	3.129	3.573	4.302	5.194	7.941	7.726

Changes from Base Model

New borrowings to fund 50% of annual capex
 New borrowings have 5 year term
 50% of annual capex funded through admin fee rate
 Annual capex is \$15MM beginning in 2017

MODEL VII

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Income Statement Highlights (000s)										
Calculated NRR / MWh	\$ 0.387	0.374	0.388	0.409	0.410	0.408	0.410	0.393	0.384	0.382
Admin Fee Rate (\$/MWh)	\$ 0.387	0.374	0.388	0.409	0.410	0.408	0.410	0.393	0.384	0.382
Net Revenue Requirement (\$millions)	\$ 141	\$ 149	\$ 154	\$ 166	\$ 170	\$ 172	\$ 177	\$ 173	\$ 172	\$ 175
Operating Cash (\$millions)	\$ (4)	5	2	1	0	2	(1)	0	(1)	0
Net Fixed Assets (\$millions)	\$ 145	101	81	77	74	71	69	67	66	65
Outstanding Debt (\$millions)	\$ 281	287	280	259	236	215	184	162	138	114
Net Fixed Assets/Outstanding Debt	0.515	0.353	0.291	0.299	0.312	0.331	0.374	0.413	0.477	0.566
Fixed Charge Coverage	2.334	1.757	1.630	2.375	2.828	3.281	4.144	4.373	6.123	6.270

Changes From Base Model

Fund cash shortfalls with new debt on 5 year terms

MODEL VIII

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Income Statement Highlights (000s)										
Calculated NRR / MWh	\$ 0.387	\$ 0.373	\$ 0.378	\$ 0.398	\$ 0.402	\$ 0.403	\$ 0.406	\$ 0.402	\$ 0.397	\$ 0.390
Admin Fee Rate (\$/MWh)	\$ 0.390	\$ 0.390	\$ 0.390	\$ 0.390	\$ 0.390	\$ 0.390	\$ 0.390	\$ 0.390	\$ 0.390	\$ 0.390
Net Revenue Requirement (\$millions)	\$ 141	\$ 148	\$ 151	\$ 161	\$ 167	\$ 170	\$ 175	\$ 177	\$ 178	\$ 179
Operating Cash (\$millions)	\$ (4)	(1)	5	4	0	(3)	(3)	(1)	(2)	0
Net Fixed Assets (\$millions)	\$ 145	101	81	77	74	71	69	67	66	65
Outstanding Debt (\$millions)	\$ 281	272	263	251	234	215	196	176	150	124
Net Fixed Assets/Outstanding Debt	0.515	0.372	0.310	0.308	0.315	0.331	0.351	0.380	0.439	0.521
Fixed Charge Coverage Ratio	2.334	2.584	2.682	1.964	2.245	2.639	3.141	3.770	5.704	6.073

Changes From Base Model

Keep admin fee at 39¢/MWh
 Maintain compliance with debt covenant
 Borrow to fund cash shortfalls on 5 year terms

MODEL IX

Highlights	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Calculated NRR / MWh	\$ 0.387	\$ 0.376	\$ 0.411	\$ 0.433	\$ 0.429	\$ 0.446	\$ 0.502	\$ 0.468	\$ 0.465	\$ 0.483
Admin Fee Rate (\$/MWh)	\$ 0.370	\$ 0.370	\$ 0.370	\$ 0.371	\$ 0.370	\$ 0.370	\$ 0.370	\$ 0.370	\$ 0.370	\$ 0.370
Net Revenue Requirement (\$millions)	\$ 141	150	164	176	178	188	216	206	208	221
Operating Cash (\$millions)	\$ (4)	39	37	(2)	5	(0)	10	(0)	(1)	0
Net Fixed Assets (\$millions)	\$ 145	101	81	77	74	71	69	67	66	65
Outstanding Debt (\$millions)	\$ 281	322	316	277	281	272	276	257	246	234
Net Fixed Assets/Outstanding Debt	0.515	0.315	0.258	0.279	0.262	0.261	0.249	0.261	0.267	0.276
Fixed Charge Coverage	2.334	1.543	1.335	1.003	1.186	1.280	1.384	1.545	2.089	2.039

Changes From Base Model

Admin fee rate at 37¢ until FCC covenant is reached
 Borrow to fund cash shortfalls on 5 year amortizations



Southwest Power Pool, Inc.

FINANCE COMMITTEE

Report from the SPP Staff on 2016 Administrative Fee Rate Forecast

July 9, 2015

Organizational Roster

The following persons are members of the Finance Committee:

Harry Skilton, Director
Mike Wise, GSEC
Kelly Harrison, Westar

Larry Altenbaumer, Director
Sandra Bennett, AEP
Laura Kapustka, LES

Activity Update

SPP staff annually provides a forecast of the upcoming year administrative fee rate for Finance Committee review at its July meeting.

SPP staff has reviewed its year-to-date actual results through May 2015 and its full year forecast for the 2015 fiscal year with the SPP Finance Committee. At this time, SPP staff expects negligible over or under recovery for 2015 which means the 2016 administrative fee forecast need only consider 2016 recoverable expenditures in setting the administrative fee rate.

SPP's 2015 budget included forecasts of the 2016 and 2017 administrative fees of 37cents/MWh and 36.6 cents/MWh, respectively. The 2016 and 2017 forecasts did not contemplate the following:

- New financing to fund capital expenditures
- 50% increase in the number of independent board of director members
- Additional future scenarios for ITP studies
- Significant security enhancements to comply with NERC CIP.5 requirements
- Adoption of 2014 mortality tables for pension liability calculations

Additionally, the 2016 and 2017 forecasts held billing determinants stable after the addition of the Integrated Systems in October 2015. Billing determinant totals for the Integrated System were based on somewhat stale data and did not include new members interconnected to the Integrated System. Total billing determinants following addition of the Integrated System were forecast to be 398,000,000 MWh in the 2016/17 forecast. The actual billing determinants available may be up to 3% higher in 2016. SPP's COO and CFO are reviewing available data to ensure greater accuracy of IS impact on SPP total load.

Currently, SPP staff believes an administrative fee rate of 37¢/MWh - 38¢/MWh for 2016 is probable.

Memorandum

To: **Finance Committee Members**
From: **Tom Dunn**
CC: **Shaun Scott**
Date: **July 16, 2015**
Re: **2015 Meeting Schedule**

Detailed below is a schedule for face-to-face meetings of the Finance Committee for 2015 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 2016 Admin Fee Forecast
Sept 10, 2015	3:00	Teleconference	2016 Budget Preview
Sept 29, 2015	8:30	Dallas, TX	Joint SPC/FC Meeting 2016 Operating Plan Review
October 28, 2015	8:30	Teleconference	Preliminary 2016 Budget Review
November 10, 2015	7:30	Dallas, TX	2016 Budget Review
November 24, 2015	10:30	Dallas, TX	2016 Budget
December 7, 2015	2:00	Little Rock, AR	SSAE-16 Audit Report Corporate Insurance Review BPI Review