



Southwest Power Pool
FINANCE COMMITTEE MEETING
November 10, 2015
Dallas, Texas

• 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 participated:

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:

Traci Bender	NPPD
Jim Eckelberger	SPP Director
Nick Brown	SPP
Carl Monroe	SPP
Dianne Branch (phone)	SPP
Zeynep Vural (phone)	SPP
Sheri Dunn (phone)	SPP
Jason Bailey (phone)	OG&E

Minutes from the October 27, 2015 meeting were reviewed. Kelly Harrison suggested additional language covering comments made around focusing and monitoring efficiencies achieved within SPP and development of metrics to measure the results. With the addition of the suggested comments, Kelly Harrison motioned to approve the minutes. The motion was seconded by Larry Altenbaumer and approved by unanimous voice vote.

2015 Reconciliation of Forecast Results to Budget

SPP staff provided a review of the 2015 net revenue requirement forecast via comparison to the 2015 budgeted net revenue requirement. The review highlighted significant factors that have had either a positive or negative impact on the forecast 2015 net revenue requirement. SPP staff also provided an update on its progress towards achieving its 2015 cost-savings initiatives. Finally, staff provided a few comparisons to its RTO/ISO peers looking at staffing levels, outstanding debt, load, and cost of operation.

The Committee requested staff also provide a comparison of capital expenditures, by RTO, for the past several years.

2016 Budget and Administrative Fee Rate

SPP staff provided a summary of the major components of the 2016 budget and administrative fee including; i) salary and benefit expenses; ii) maintenance expense; iii) outside services expense; iv) load assumptions; and v) other administrative expenses. In addition to the usual expenditures, the recommended 2016 budget also includes collection of \$4.3 million to be used to fund capital expenditures which will reduce the amount of future borrowings.

Committee members expressed their desire for SPP to develop a strategy to deal with flat to reducing load which will result in increased administrative fees in future years absent any meaningful changes in expenditures. The Committee will review rate design options in 2016 and suggest the SPP Strategic Planning Committee include rate design as a topic during its 2016 planning retreat.

Kelly Harrison made a motion for the Committee to recommend the 2016 Budget to the SPP Board of Directors for approval. The 2016 budget consists of total expenses of \$217.1 million, debt repayment of \$24.2 million, and capital expenditures of \$22.2 million. The motion was seconded by Sandra Bennett and approved by unanimous voice vote.

Sandra Bennett made a motion for the Committee to recommend to the SPP Board of Directors a 2016 administrative fee rate of 37¢/MWh, based on the net revenue requirement within the 2016 Budget of \$150.5 million and estimated billing determinants of 407.2 million MWhs. The motion was seconded by Laura Kapustka and approved by unanimous voice vote.

Netting of TCR Portfolio w/ Auction Submissions

The Credit Practices Working Group submitted a recommendation to allow a Credit Customer's positively-valued TCR portfolio to offset their credit requirements for TCR bids, offers, and ARR self-converts during a current auction period. This recommendation was approved unanimously by the Credit Practices Working Group, the Market Working Group, and the Regional Tariff Working Group. Committee members sought clarification on the frequency of valuation of TCRs which staff confirmed occurred daily.

Larry Altenbaumer made a motion to approve the recommendation as submitted. The motion was seconded by Kelly Harrison and approved by unanimous voice vote.

Z2 Credit Stack Project

Subsequent to the October 27, 2015 meeting, the Finance Committee was presented with a recommendation from SPP management to approve and additional \$256,000 of unbudgeted expenditures to complete the project. Approval was sought via an email vote process; 5 of the 6 members of the Committee submitted affirmative votes to approve the unbudgeted expenditures, 1 member of the Committee did not submit any vote.

Committee members indicated concerns with the project, SPP's management of the project, and lack of visibility internally on the project's status. SPP staff replied with the steps undertaken to address the deficiencies the Committee noted.

Post-retirement Healthcare Fund Investment Management

SPP staff presented a recommendation to terminate the active management of the fund and invest the account in a portfolio of Vanguard S&P500 Index mutual fund (VFIAX) and Vanguard Short-term Bond Index (VBIRX). The portfolio would be invested 70% in the S&P Index and 30% in the Bond Index and would be rebalanced annually.

The Committee suggested opening the account directly with Vanguard to eliminate any account or transaction fees.

Larry Altenbaumer motioned to approve the recommendation with the provision that the account be opened with Vanguard directly. The motion was seconded by Kelly Harrison and approved by unanimous voice vote.

Finance Committee
November 10, 2015

Future Meetings

The next meeting of the Finance Committee is scheduled for December 7, 2015 at SPP's offices in Little Rock, AR beginning at 2:00 p.m. and ending at 6:00 p.m.

There being no further business, Harry Skilton adjourned the meeting at 2:05 p.m.

Respectfully Submitted,

Thomas P. Dunn
Secretary



Southwest Power Pool, Inc.

FINANCE COMMITTEE

Action Items Status Report

November 10, 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	Stakeholder Prioritization Review Process initiates in November with first full report in mid-January 2016.
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	complete	Presented at 7/17/15 meeting
7.	Advise on appropriate metrics for evaluating success of business process improvement program	7/09/2015	incomplete	December 7, 2015 meeting topic
8.	Evaluate passive investment management option for post-retirement healthcare fund	7/09/2015	complete	Presented at 11/10/15 meeting
9.	Obtain quarterly written report from investment manager of pension plan	7/09/2015	complete	Presented at 11/10/15 meeting
10.	Add more granularity and detail to future meeting schedule	7/09/2015	complete	Presented at 11/10/15 meeting
11.	Create checklist of committee duties	7/09/2015	incomplete	December 7, 2015 meeting topic
12.	Prepare schedule of current year load	7/09/2015	complete	Presented at 11/10/15 meeting
13.	Prepare document outlining capital expenditures and funding options	7/17/2015	incomplete	
14.	Prepare schedule of RTO peer capital	11/10/2015	New	

Finance Committee
November 10, 2015

	expenditures			
15.	Revisit SPP's rate design	11/10/2015	New	



**Southwest Power Pool, Inc.
FINANCE COMMITTEE MEETING
November 10, 2015
DFW – Hyatt Regency Hotel
Dallas, Texas**

• A G E N D A •

10:30 a.m. – 2:30 p.m.

1. Administrative Items (*5 minutes*)..... Harry Skilton
 - a. Minutes
2. 2015 Year to Date Financial Report (*30 minutes*)..... Tom Dunn
3. 2016 Operating and Capital Budget (180 minutes)..... All
 - a. Approval of Budget
 - b. Capital Expenditure Funding Policy
 - c. Approval of Schedule 1A and Membership Assessment Rate
4. Other Items (*Time Permitting*) Tom Dunn
 - a. Pension Plan Quarterly Investment Manger Written Report
 - b. Investment Management for Post-Retirement Healthcare Fund
 - c. Netting of TCR Portfolio w/ Auction Submissions
5. Future Meetings..... Harry Skilton
6. Written Reports
 - a. September 2015 Financial Report
7. Adjourn Harry Skilton



**Southwest Power Pool
FINANCE COMMITTEE MEETING
October 27, 2015
Teleconference**

• M I N U T E S •

Administrative Items

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

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

Others attending included:

Traci Bender	NPPD
Bernie Lucas	Xcel Energy
Dianne Branch	SPP
Zeynep Vural	SPP
Sheri Dunn	SPP
Carl Monroe	SPP
Michael Desselle	SPP

Minutes from the July 17, 2015 and September 29, 2015 meetings were reviewed. Kelly Harrison motioned to approve the minutes. The motion was seconded by Mike Wise and approved by unanimous voice vote.

2016 SPP Budget

The format of the meeting was a “round-table” discussion whereby Committee members and other participants could provide SPP staff with their initial impressions of the 2016 budget document and request additional detail and/or information to be provided at the November 10, 2015 meeting. The discussion yielded the following items where additional information was requested:

- a. Provide additional details on budget for maintenance and consulting expenses
- b. Expand the operating budget forecast through 2020
- c. Reconcile the 2015 budget with the 2015 forecast
- d. Focus on growth in consulting expenses within Engineering department
- e. Provide analysis on impact of changes in billing units has on administrative fee

Future Meetings

The next meeting of the Finance Committee is scheduled for November 10, 2015 at the DFW Hyatt Regency hotel in Dallas, TX beginning at 10:30am and concluding at 2:30pm.

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

Respectfully Submitted,

Thomas P. Dunn
Secretary



Southwest Power Pool, Inc.

FINANCE COMMITTEE

Pending Action Items Status Report
July 17, 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	complete	Presented at 7/17/15 meeting
7.	Advise on appropriate metrics for evaluating success of business process improvement program	7/09/2015	incomplete	
8.	Evaluate passive investment management option for post-retirement healthcare fund	7/09/2015	incomplete	
9.	Obtain quarterly written report from investment manager of pension plan	7/09/2015	incomplete	
10.	Add more granularity and detail to future meeting schedule	7/09/2015	incomplete	
11.	Create checklist of committee duties	7/09/2015	incomplete	
12.	Prepare schedule of current year load	7/09/2015	incomplete	
13.	Prepare document outlining capital expenditures and funding options	7/17/2015	New	

2016 Budget Review

Finance Committee
November 10, 2015

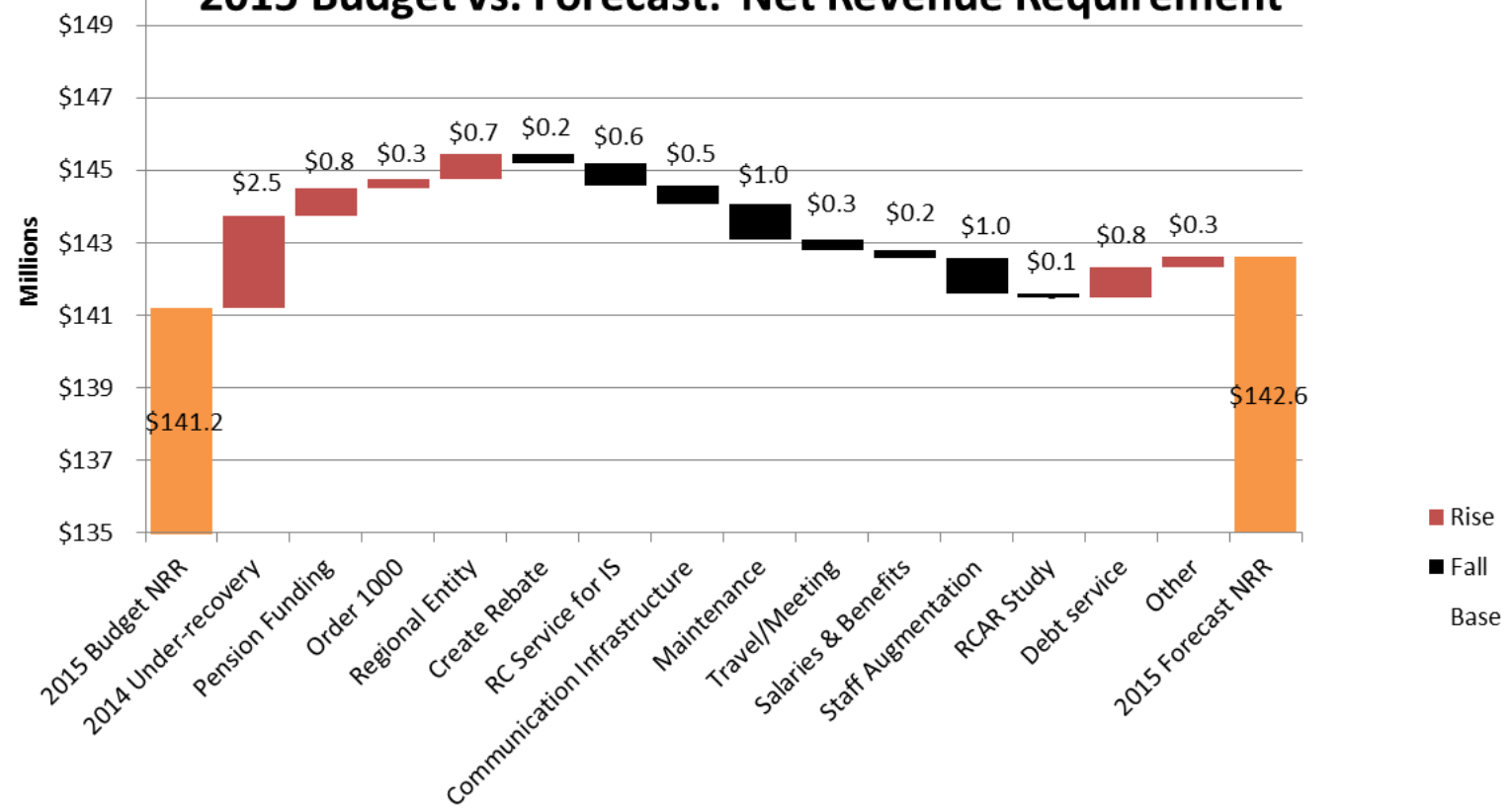


Helping our members
work together to
keep the lights on...
today and in the future



2015 BUDGET VS. FORECAST

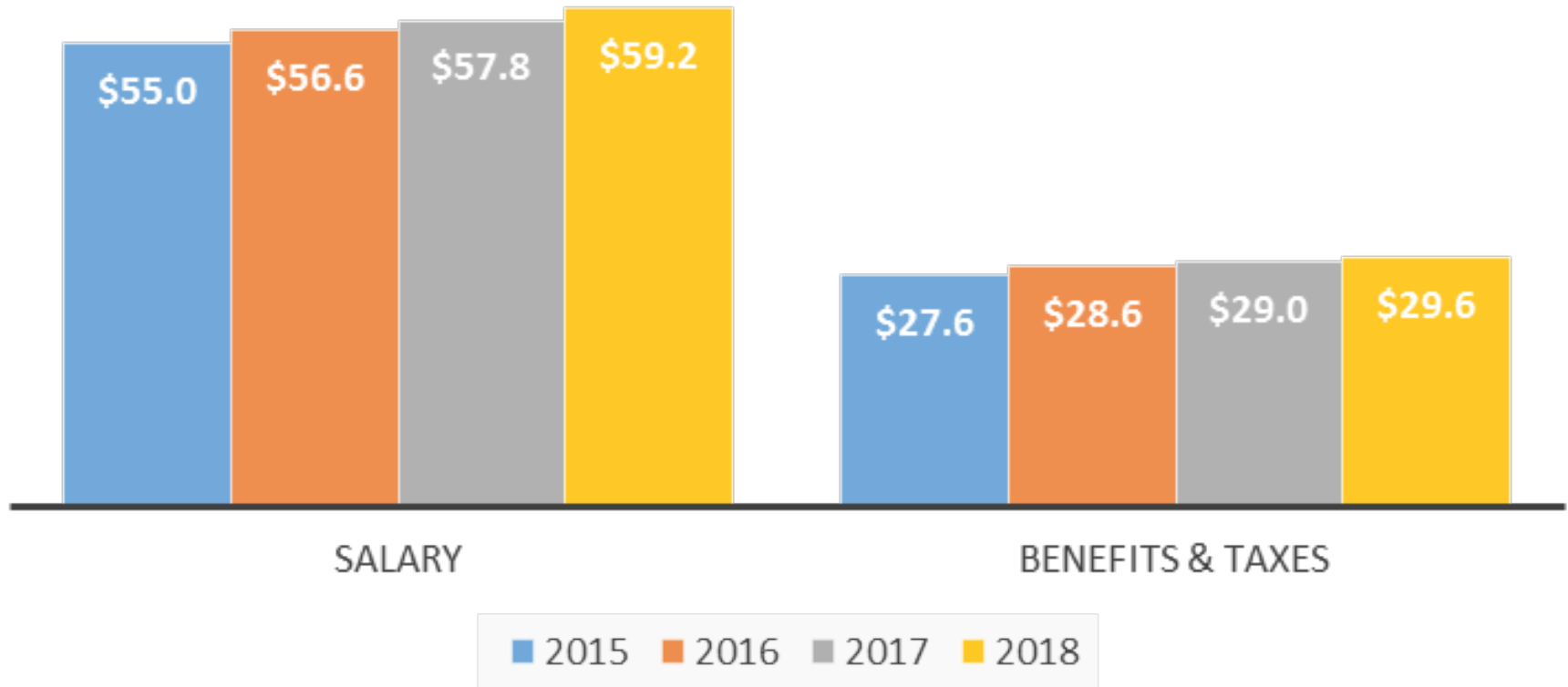
2015 Budget vs. Forecast: Net Revenue Requirement



PRIMARY BUDGET COMPONENTS

Salary, Benefits & Taxes

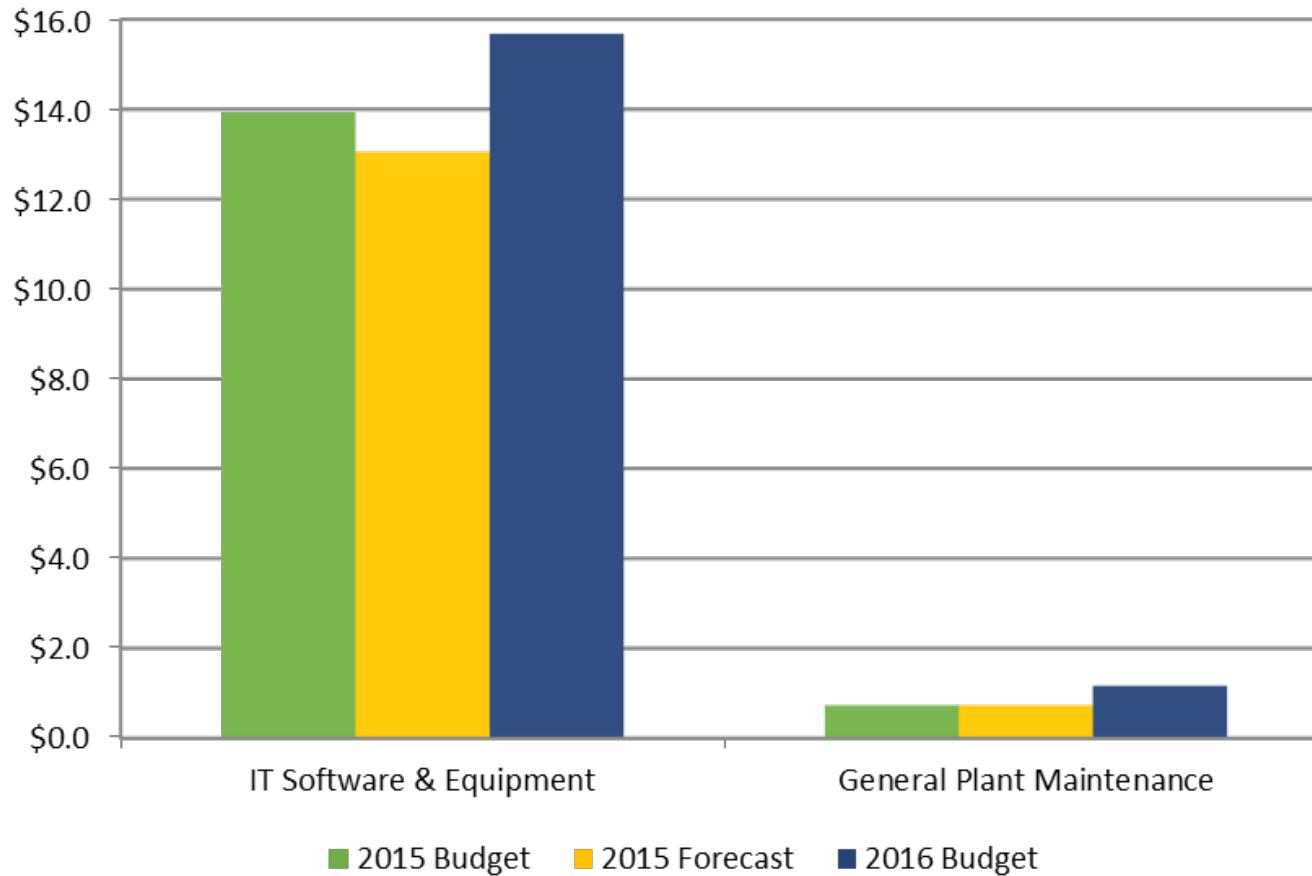
Salary, Benefits & Taxes



Salary, Benefits & Taxes

	2015	2016	2017	2018
	<u>Forecast</u>	<u>Budget</u>	<u>Forecast</u>	<u>Forecast</u>
Salary	\$55.0	\$56.6	\$57.8	\$59.2
Benefits & Taxes	27.1	27.9	28.3	28.9
Continuing Education	0.5	0.7	0.7	0.7
Salary & Benefits	\$82.5	\$85.2	\$86.8	\$88.8
Headcount	596	599	598	599
	<u>Vacancy</u>		<u>Merit</u>	
2015 Forecast	5.0%		2.0%	
2016-2018 Budget	4.0%		2.5%	

IT and Facility Maintenance



	<u>2015 Budget</u>	<u>2015 Forecast</u>	<u>2016 Budget</u>
IT Software & Equipment	\$13.9	\$13.1	\$15.7
General Plant Maintenance	0.7	0.7	1.2
Total	\$14.7	\$13.8	\$16.8

IT Maintenance

The majority of 2016 capital spend is for incremental hardware and software, which results in overall increases of IT maintenance costs.

Increase in IT maintenance from 2015 to 2016 is \$2.6 million

Incremental impact from 2015 purchases *	\$ 1.2
Maintenance for 2016 purchases	<u>1.4</u>
Increase over 2015	\$ 2.6

* Full-year of amortized expense associated with HW/SW purchases in current year (2016) as compared to a partial-year expense in the year-of-purchase (2015)

Facility Maintenance

	<u>2015 Budget</u>	<u>2015 Forecast</u>	<u>2016 Budget</u>	<u>2017 Budget</u>	<u>2018 Budget</u>
General Plant Maintenance	\$0.7	\$0.7	\$1.2	\$0.8	\$0.9

Increase over 2015 facility maintenance is partially attributed to additional maintenance for coverage no longer included under the initial purchase agreements, plus such items including \$0.3 million for repairs to the parking deck in 2016.

Outside Services and Consulting

	2015	2016	2017	2018
	Forecast	Budget	Forecast	Forecast
SPP RTO	\$11.9	\$13.9	\$11.8	\$11.5
Regional Entity	0.8	1.1	1.2	1.2
Total	\$12.74	\$12.74	\$12.74	\$12.74

Material year-over-year changes:

- Engineering – Completion of 2016 ITP studies with additional futures
- Officer – Additional board members and wage increases
- Regulatory – RCAR recommended every three years
- Operations – 2016 special wind study

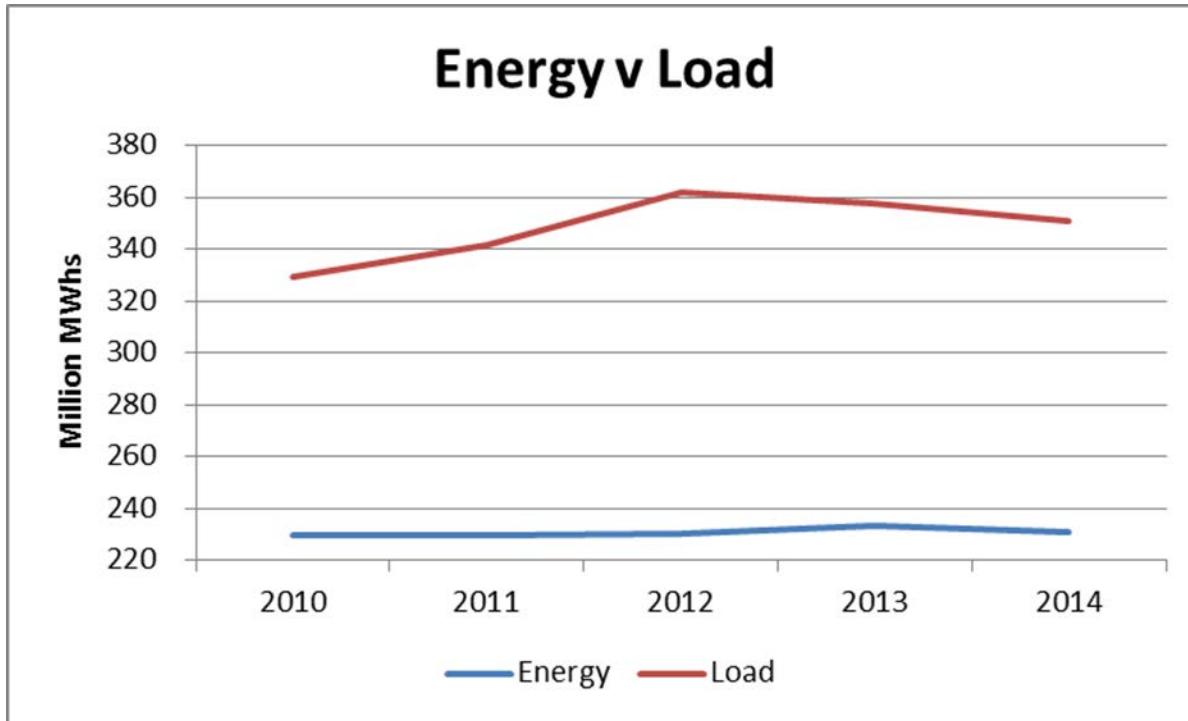
Travel, Meetings, Administrative & Leases

	2015 Forecast	2016 Budget	2017 Forecast	2018 Forecast
SPP RTO	\$2.2	\$2.7	\$2.6	\$2.6
Regional Entity	0.5	0.8	0.8	0.8
Total Travel & Meetings	\$2.7	\$3.5	\$3.4	\$3.4
Administrative & Leases	\$5.1	\$5.2	\$4.6	\$4.4

- Increase in RTO travel associated with various training related events, conferences and meetings.
- RE increase due to anticipated travel to utility sites to provide assistance with the new CIP compliance standards
- Decrease in administrative expense related to property tax; copiers purchased in 2015 resulting in zero lease expense going forward

LOAD SENSITIVITIES

Energy vs. Load



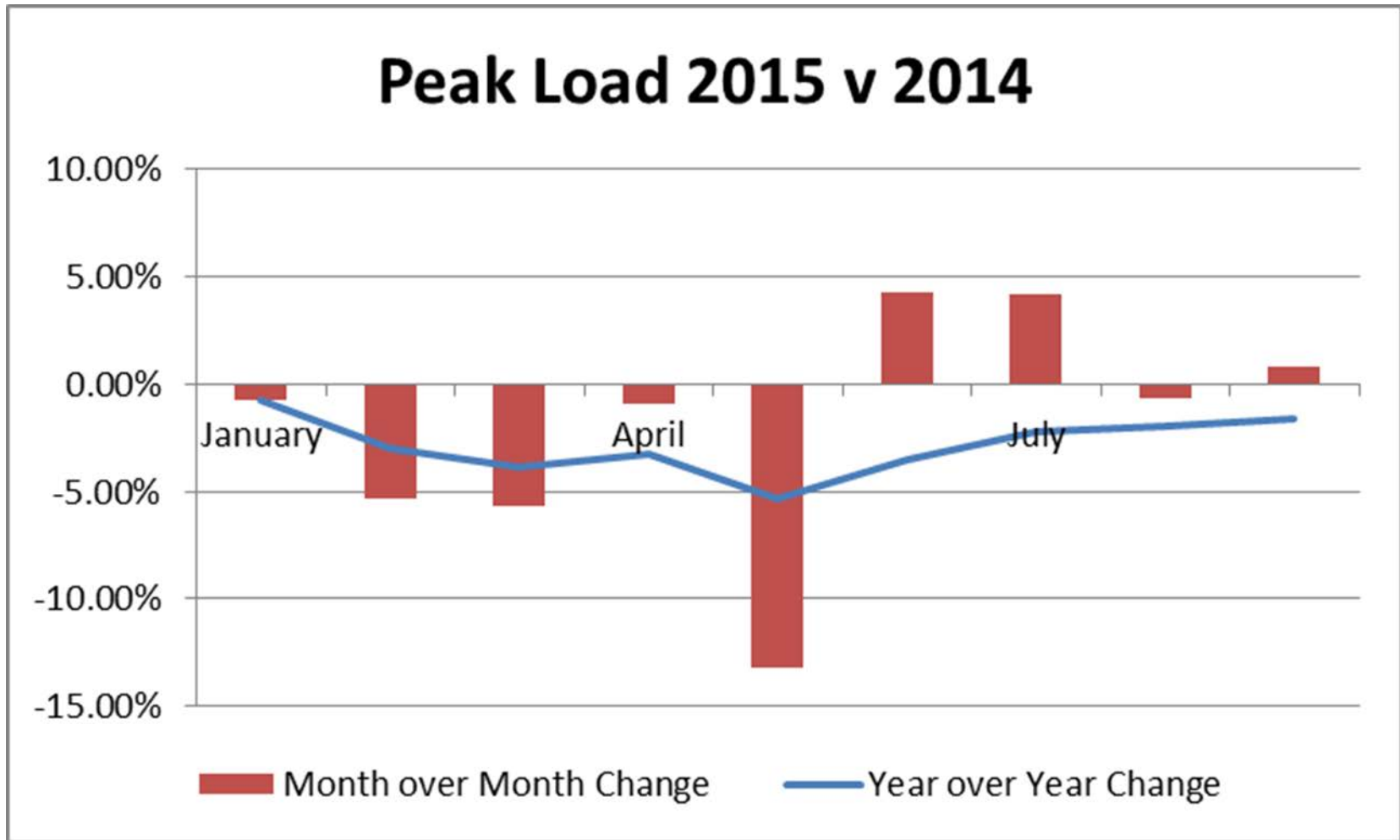
SPP load growth is 1.6% annualized since 2010

SPP energy has grown at annualized rate of 0.15% since 2010

Changes in load do not appear to have a strong correlation with changes in energy

	Year over Year Change	
	Energy	Load
2011	0.2%	3.6%
2012	0.2%	5.9%
2013	1.3%	-1.1%
2014	-1.1%	-1.8%

Peak Load Changes



2016 BUDGET RECOMMENDATION



2016 BUDGET

PREPARED BY ACCOUNTING DEPARTMENT

DRAFT



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I. EXECUTIVE SUMMARY

SPP VALUE

Southwest Power Pool remains committed to producing great value for all of its stakeholders. SPP provides its customers increased options and greater efficiency to meet the needs of electric customers, both reliably and affordably. Through centralized and leveraged services, SPP:

- Reduces overall costs by operating as a region;
- Provides reliability assurance and predictable operations of the bulk electric system;
- Facilitates effective transmission planning processes resulting in building and maintaining an economically optimized transmission system;
- Offers an open and transparent marketplace with economic benefits;
- Optimizes market efficiencies and transmission expansion along the seams of other markets and the emerging seam associated with the natural gas supply; and
- Ensures fair and equitable allocation of transmission expansion costs.

OPERATING PLAN

The 2016 Operating Plan was drafted by SPP staff and vetted at a joint meeting of the SPP Finance Committee and Strategic Planning Committee to ensure alignment with SPP's current Strategic Plan. SPP's 2016 Operating Plan documents the specific activities SPP contemplates completing during 2016, along with linking those activities to the 2014 Strategic Plan initiatives.

The 2016 Operating Plan segregates the work across three platforms:

1. **Major Project Investments** – represents investments driven by i) customers, ii) regulators, or iii) SPP staff; which generally have broad impacts to the services provided by SPP
2. **Major Technology Investments** – represents investments in technology to adapt to changes in scope, scale, and/or security for SPP's technology infrastructure
3. **Keeping The Lights On** – represents ongoing and incremental investments in SPP foundation activities.

Highlights from the 2016 Operating Plan include:

- Finalizing the Enhanced Combined Cycle project expected to be implemented in March 2017. This project will facilitate better modeling and dispatch of combined cycle generation facilities in SPP's Integrated Marketplace and lead to realization of \$3.0-\$5.0 million in reduced production costs for those facilities annually.
- Increased focus on cyber security, particularly aspects requiring compliance with the Critical Infrastructure Protection Version 5 standards (CIP V5).
- Initial implementation of Phasor Measurement Unit (PMU) data exchange and analysis capabilities. This capability is expected to enhance knowledge of system stability and improve system operation and planning.

The Operating Plan document is included following the supplementary schedules in section X.

NET REVENUE REQUIREMENT (NRR)

The proposed administrative fee rate for 2016 is 37.0¢/MWh. The 2015 rate was established at 39.0¢/MWh which is equal to the current admin fee tariff cap. The rate for 2016 was projected to be 37.0¢/MWh during the 2015 budget process.

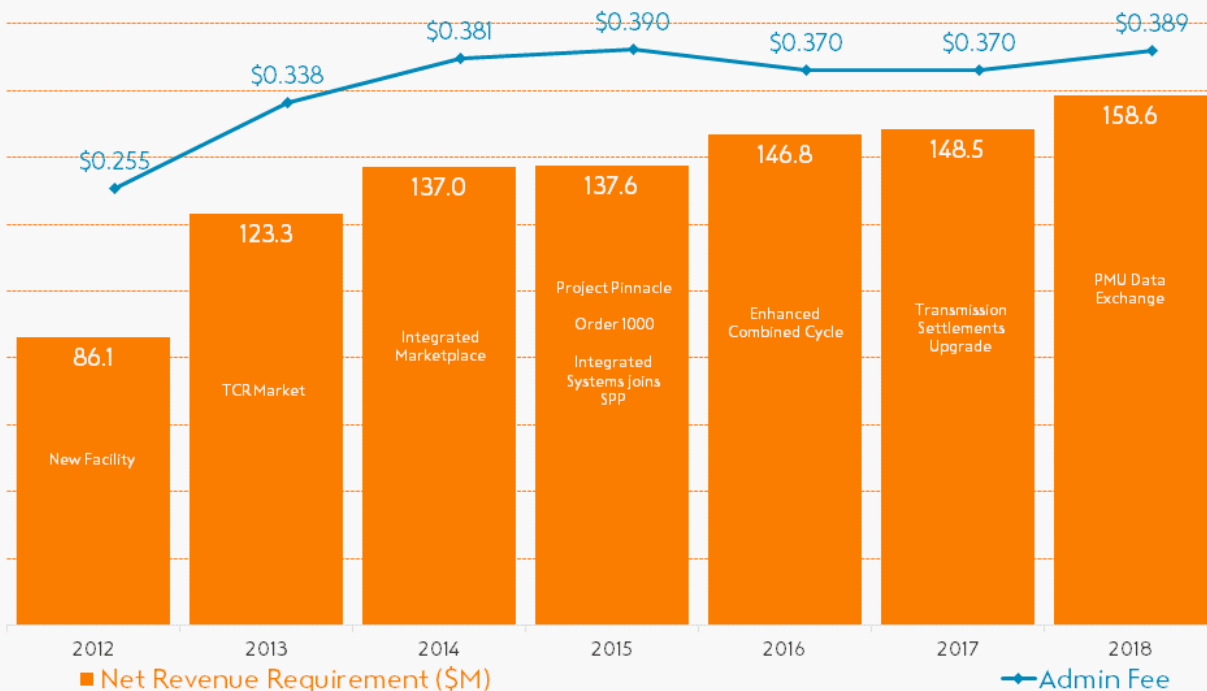
The reduction in the admin fee rate is primarily associated with increased transmission volume due to the successful addition of the Integrated System (IS) to the SPP footprint. The addition of the IS results in a 12% increase in transmission service to 407.2 million MWh in 2016 compared to the 2015 budget of 363.5 million MWh. The 2016 proposed admin fee rate of 37.0¢/MWh is based on a net revenue requirement (NRR) of \$146.8 million, compared to the 2015 budgeted NRR of \$138.6 million and the 2015 forecasted NRR of \$137.6.



The 2016 proposed admin fee rate of 37.0¢/MWh is based on a net revenue requirement (NRR) of \$146.8 million.

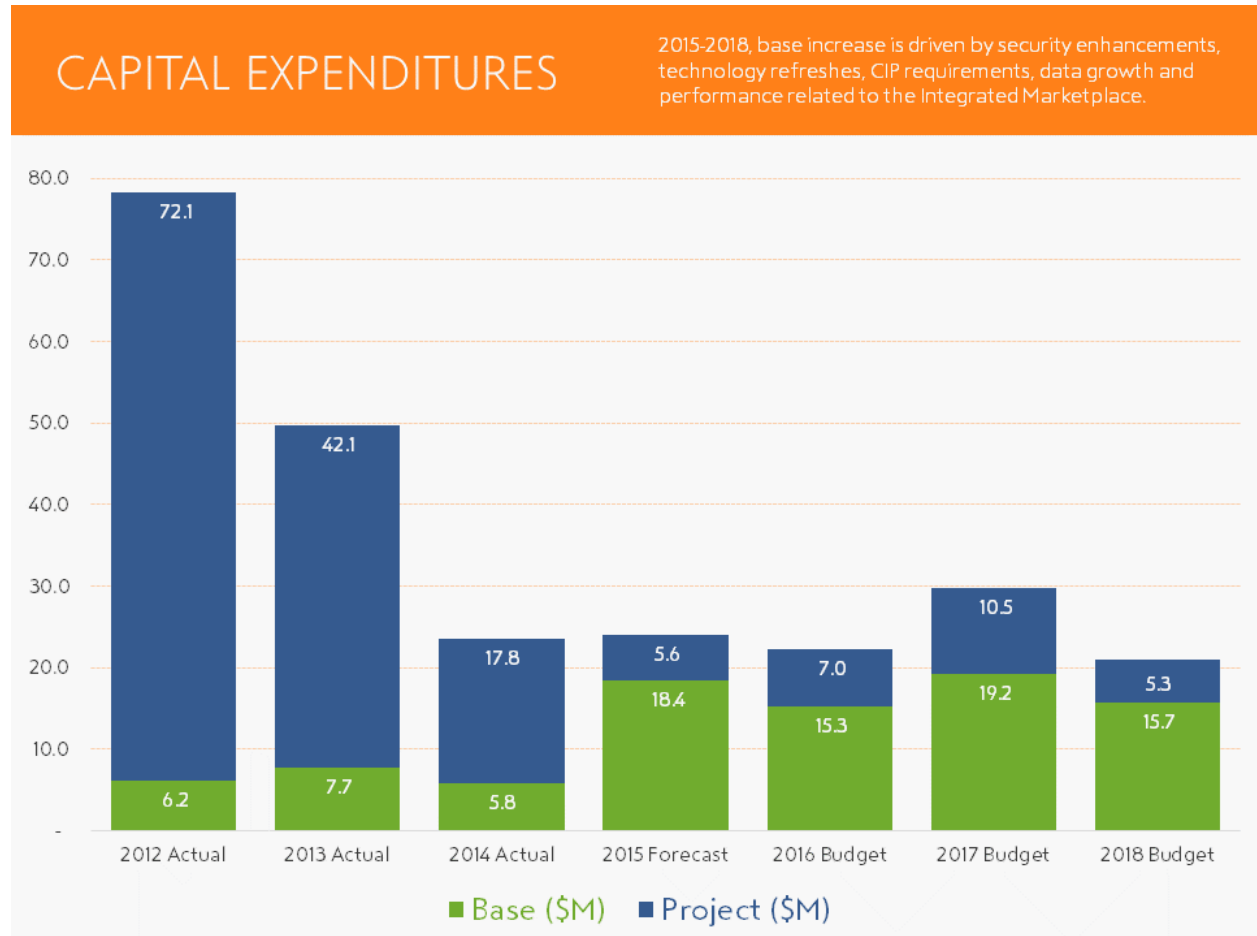
NET REVENUE REQUIREMENT AND SPP INITIATIVES

NRR is actual for 2012-2014, forecast for 2015 and budget for 2016-2018 and is prior to adjustments.



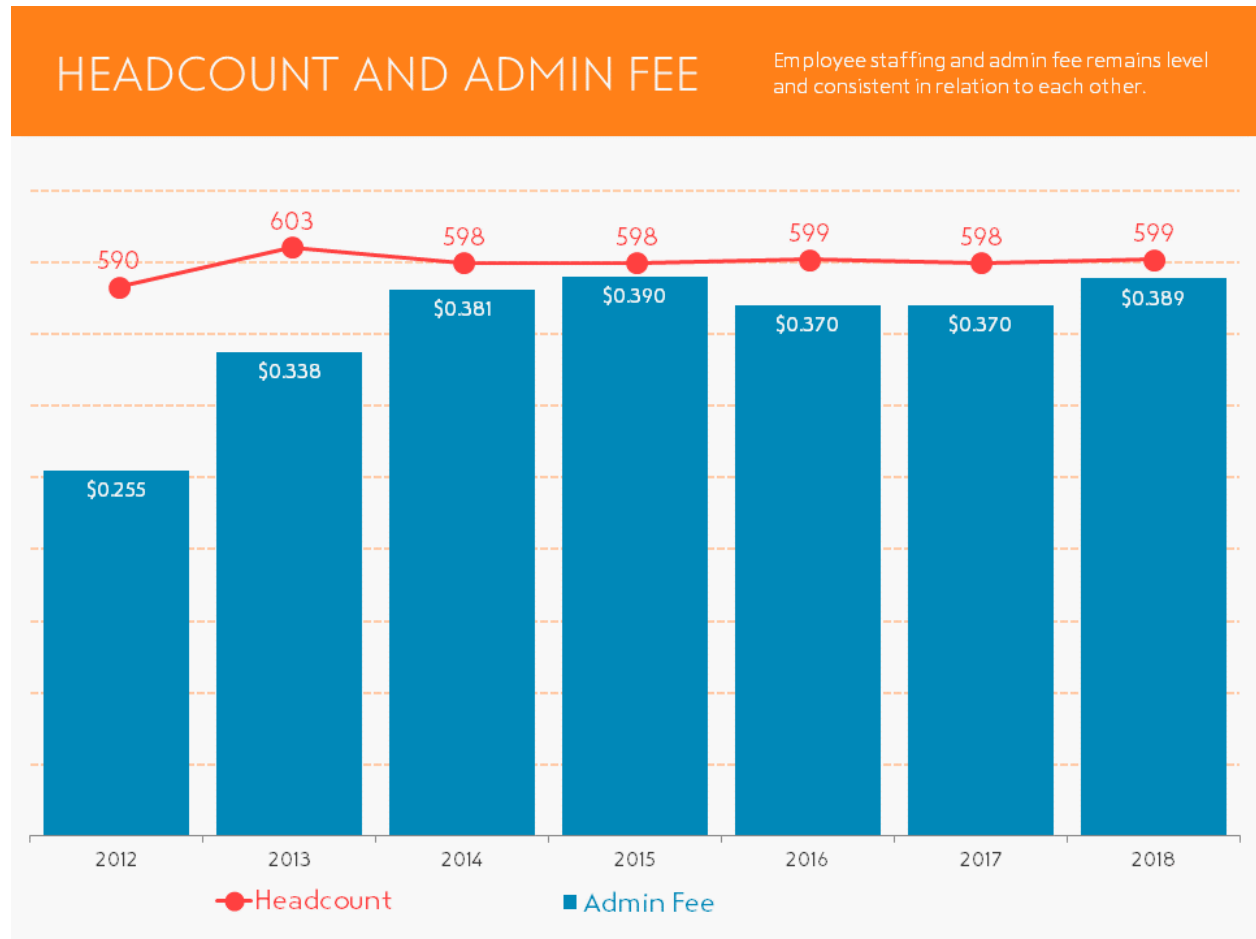
CAPITAL EXPENDITURES

The 2016 budget identifies capital expenditures totaling \$73.0 million for 2016-2018. These projects represent investments in various initiatives that are federally required or requested by stakeholders, as well as capital spending targeted to improve and strengthen information technology and operations foundation.



SPP HEADCOUNT

The number of staff positions for 2016 is expected to remain relatively level with 2015, including a net increase of only one position over the 2015 budget. The 2016 staffing level is budgeted at 599, compared to 598 projected in previous year's budget for 2016. SPP management continues to diligently evaluate staffing levels and responsibilities in response to SPP's evolving array of services and the challenges of the regulatory landscape.



II. SPP VALUE

SPP provides its customers increased options and greater efficiency to meet the needs of electric customers. Investment in transmission infrastructure throughout the SPP region enhances reliable delivery of electricity and optimizes SPP's markets to ensure electricity is delivered in the most economical fashion.

Southwest Power Pool, Inc. (SPP) manages the electric grid and wholesale energy market for the central United States. As a regional transmission organization (RTO), the nonprofit corporation is mandated by the Federal Energy Regulatory Commission (FERC) to ensure reliable supplies of power, adequate transmission infrastructure, and competitive wholesale electricity prices.



Investments in the power grid “are leading to savings in fuel and purchased power costs, which can account for as much as 25 percent of a residential customer’s monthly electricity costs.”

David Hudson
President of Southwestern Public Service Company

SPP and its diverse group of customers coordinate the flow of electricity across approximately 56,000 miles of high-voltage transmission lines spanning 14 states with the successful addition in October 2015 of the Integrated System in the Upper Great Plains region of the United States. SPP projects member benefits totaling approximately \$334.0 million over a 10-year period from the inclusion of the Integrated System.

SPP’s integrated energy market launched in March 2014. During the first year of operation, it generated approximately \$210.0 million in total net savings for the region, in addition to \$170.0 million in savings from the energy imbalance service market.

SPP is improving reliability and facilitating the integration of renewable energy, specifically wind, through an integrated transmission planning process. In 2014, SPP members completed 148 transmission expansion projects totaling more than \$1.9 billion.

As a result, a robust, modern transmission system and efficient energy market are delivering increased value to SPP members and their customers. Southwestern Public Service Company and Oklahoma Gas & Electric both highlighted the benefits of their SPP memberships while announcing cost-saving initiatives for their customers in 2015.

Southwestern Public Service Company, an Xcel Energy company, announced Sept. 10, 2015, it planned to refund \$18.6 million to Texas retail customers. In its news release, the company said its investments in the transmission system were leading to savings in fuel and purchased power costs, which can account for as much as 25 percent of a residential customer's monthly electricity costs.

Oklahoma Gas & Electric announced Sept. 1, 2015, its Oklahoma customers would see lower monthly electric bills beginning that month. The company said in a news release that the savings were the result of lower costs for the fuel used to generate electricity combined with the benefits of SPP's integrated energy market. The reduction is expected to lower the average residential bill by about \$5 a month.

As SPP prepares to celebrate its 75th anniversary in 2016, the company remains committed to its five-point value proposition that is central to its strategy:

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

III. 2016 NET REVENUE REQUIREMENT (NRR)

NET REVENUE REQUIREMENT

Operating expenses are expected to increase by 3% over the 2015 budget while transmission volume is projected to increase 12%.

SPP continues to focus on its core mission of reliable planning and operation of the wholesale electric grid. The Strategic Plan established during 2014 positions SPP to fulfill its mission over the next decade and beyond. SPP's activities and initiatives are guided by the four foundational strategies identified in the Strategic Plan which are reliability assurance, optimization of interdependent systems, maintenance of an economical and optimized transmission system, and enhanced value and affordability of SPP services. These four strategies are interdependent, with reliability assurance serving as the basis of these strategies, and enhancement of the value and affordability of SPP's services serving as the discipline.



2016 NRR is \$146.8 million, and the proposed administrative fee is \$0.370.

Operating expenses are expected to be \$217.1 million in 2016, an increase of \$7.1 million compared to the 2015 budget. Growth in operating expenses results primarily from 1) salary and benefits increases due to changing the vacancy rate assumption to 4.0% as compared to 5.0% assumed in 2015 budget and a 2.5% merit increase applied to base salaries; and 2) IT maintenance expense increases as SPP continues to expand the quality and quantity of its services through IT-intensive capital projects and investments in SPP's IT infrastructure.

Approved staffing levels for the 2016 budget is 599 compared to 598 in the forecast for 2016 during the 2015 – 2016 budget cycle. The budgeted headcount for 2015 was 598; however, the end of year projection was reduced to 596 due to the elimination of two positions in the Regional Entity. Although six new positions are planned for 2016, a net of three incremental positions are included in the budget. Three of the six positions are expected to be filled by re-purposing other approved positions.

The 2016 NRR component of the administrative fee rate is \$146.8 million versus a \$138.6 million NRR for the 2015 budget and a \$137.6 million NRR for the 2015 forecast (before non-recurring items). The \$146.8 million NRR in 2016 is calculated before an expected cost over-recovery for 2015 and creation of a reserve fund in 2016. The increase in the NRR is also partially attributed to increases in operating expenses as explained above.

	<u>2015 Budget</u>	<u>2015 Forecast</u>	<u>2016 Budget</u>
Income			
Tariff Administration Service	\$141.1	\$145.4	\$150.7
Fees & Assessments	27.6	27.5	27.5
Contract Services Revenue	0.5	1.1	0.5
Miscellaneous Income	5.3	4.4	3.4
Total Income	\$174.6	\$178.4	\$182.1
Expense			
Salary & Benefits	\$80.0	\$82.5	\$85.2
Depreciation & Amortization	61.2	60.3	59.7
Communications, Leases & Maintenance	19.2	17.8	20.9
Outside Services	16.1	12.7	15.1
Administrative / Other	13.9	16.4	15.8
Assessments & Fees	16.4	13.9	17.0
Travel & Meetings	3.1	2.8	3.4
Total Expense	\$210.0	\$206.5	\$217.1
Net Income (Loss)	(\$35.4)	(\$28.1)	(\$35.0)
Debt Repayment	\$24.3	\$24.9	\$24.2
MW/h Forecast (in millions)	363.5	372.8	407.2
Net Revenue Requirement	\$138.6	\$137.6	\$146.8
NRR Adjustments	\$2.5	\$7.2	\$3.7
Recommended Admin Fee / MWh	\$0.390	\$0.390	\$0.370

Another component used in setting the administrative fee is transmission volume, which SPP projects will increase 12.0% to 407.2 million MWh in 2016 as compared to the 2015 budget of 363.5 million MWh. The increase in transmission volume results from the addition of Integrated System (IS). The Integrated System, consisting of the Western Area Power Administration (WAPA)-Upper Great Plains region, the Basin Electric Power Cooperative, and the Heartland Consumers Power District, announced in early 2014 its intention to join SPP following a lengthy evaluation process comparing SPP, MISO, and a standalone process. SPP began the IS reliability coordination service in June 2015 and fully integrated its markets in October 2015. With the addition of IS, SPP added to its region over 5,000 MW of peak demand, all or parts of six additional states, the first federal agency (WAPA) as an RTO member, and 9,500 miles of transmission infrastructure.

SPP's 2015 budget estimated the 2016 administrative cost/MWh to be 37.0¢/MWh based on an expected NRR of \$147.1 million and load of 398.0 million MWh. SPP's 2016 budget reflects an

administrative cost of 37.0¢/MWh based on an expected 2016 NRR of \$150.5 million (with adjustments) and load of 407.2 million MWh.

The 2016 budget identifies capital expenditures totaling \$73.0 million for 2016-2018, with \$22.2 million expected to be incurred in 2016. These costs are not directly included in SPP's NRR; however, annual principal and interest payments (net of capitalized interest) for borrowings that fund these capital projects are a component of the NRR.

COMPONENTS OF 2016 NRR AND ADMINISTRATIVE FEE

The following table shows the components and calculation of the administrative fee. The 2016 calculation includes an adjustment to NRR for to account for expected over-recovery in 2015 and the creation of a reserve fund in 2016.

Net Revenue Requirement (NRR) & Administrative Fee (\$ millions)				
	2015 Budget	2015 Forecast	2016 Budget	2016 Prior Estimate ⁽¹⁾
Operating Expenses (excl. Depreciation)	\$148.7	\$146.2	\$157.3	\$158.2
Debt service	24.3	24.9	24.2	23.6
Gross revenue requirement	\$173.0	\$171.1	\$181.5	\$181.8
Less:				
FERC expense	(16.4)	(13.9)	(17.0)	(16.7)
NERC revenue	(11.7)	(9.9)	(10.4)	(12.4)
Other revenues	(6.3)	(6.1)	(4.7)	(5.5)
Non-Cash Adjustments	0.0	(3.6)	(2.6)	0.0
NRR prior to non-recurring	\$138.6	\$137.6	\$146.8	\$147.1
Billing Determinants (MWh millions) ⁽²⁾	363.5	372.8	407.2	398.0
Calculated Admin Fee / MWh	\$0.381	\$0.369	\$0.360	\$0.370
<i>Non-recurring & NRR Adjustments / MWh ⁽³⁾</i>	<i>\$0.007</i>	<i>\$0.019</i>	<i>\$0.009</i>	<i>\$0.000</i>
Current/Calculated Admin Fee/MWh	\$0.389	\$0.388	\$0.370	\$0.370
Proposed Admin Fee / MWh	\$0.390	\$0.390	\$0.370	\$0.370
Admin Fee Tariff Cap	\$0.390	\$0.390	\$0.390	\$0.390

(1) 2016 Prior Year Estimate refers to the 2016 estimate made during the 2015 budget presentation
(2) Defined as coincident peak for network service and capacity for point-to-point service in MWh
(3) Refer to section below

Non-recurring Items & NRR Adjustments (\$ millions)

	2015 Budget	2015 Forecast	2016 Budget
Net Revenue Requirement (NRR)	\$138.6	\$137.6	\$146.8
2013 Under-recovery	2.8	2.8	
2014 Under-recovery	0.7	3.2	
2015 Fund transfer (post retirement healthcare)	(1.0)	(1.0)	
2015 Schedule 1A Adjustment	0.0	2.2	
Capital expenditure reserve			4.3
2015 Over-recovery			(0.6)
Adjusted NRR	\$141.1	\$144.8	\$150.5
Billing Determinants (MWh millions)	363.5	372.8	407.2
<i>Non-recurring items / MWh</i>	<i>\$0.007</i>	<i>\$0.019</i>	<i>\$0.009</i>

NRR SENSITIVITIES

SPP's administrative fee rate is calculated by dividing SPP's budgeted (or forecasted) net revenue requirement by SPP's estimate of transmission service use throughout its 14 state region. The net revenue requirement is largely driven by the nature and quantity of services required of SPP by the utilities within SPP's region, as well as in response to regulatory and/or legislative requirements. SPP's management team makes decisions on the allocation of resources to best provide the services required in an economical manner.

Use of the transmission system within the SPP footprint is responsive to the demand for electricity experienced by the utilities within the SPP region. Measurement of transmission service use is based on reserved capacity for point-to-point transmission service and prior year average monthly peak demand for network transmission service. Interestingly, as illustrated in the table to the right, year over year variations in delivered energy do not strongly correlate to variations in average monthly peak demand. Energy delivery appears to be more predictable than average monthly peak demand likely because the average peak is only representing one hour per month, which can be impacted more significantly by weather events.

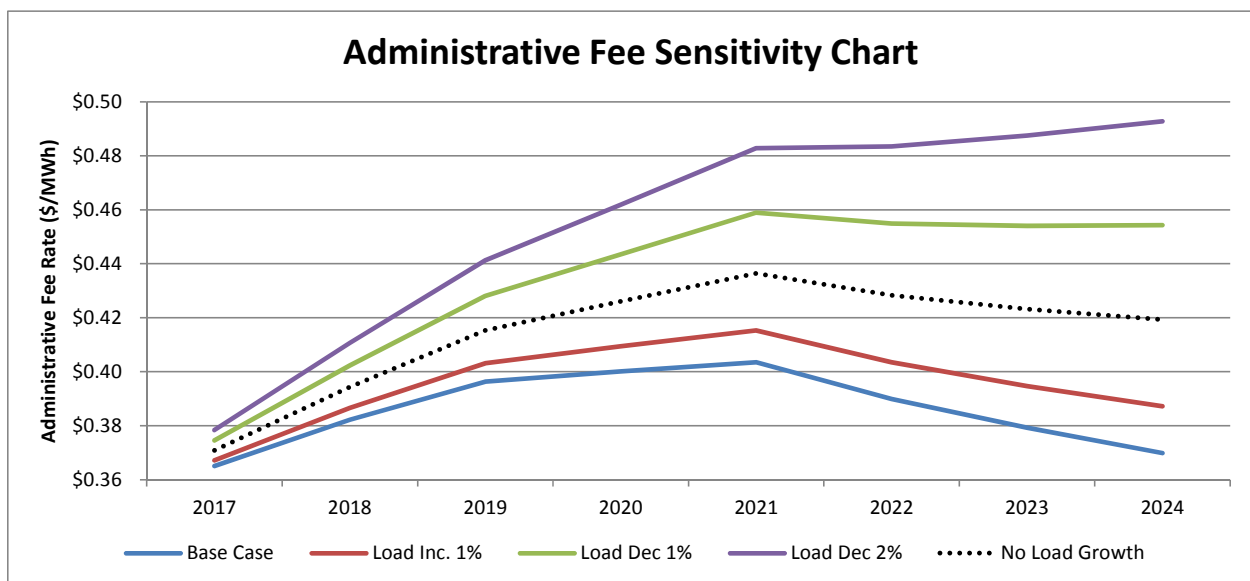
	Year over Year Change	
	Energy	Load
2011	0.2%	3.6%
2012	0.2%	5.9%
2013	1.3%	-1.1%
2014	-1.1%	-1.8%

SPP has attempted to forecast its administrative fee rates into the future. SPP has used a base-case model which includes several assumptions:

- Utilizes the 2016 – 2018 budget data as starting point
- Expenditures (excluding depreciation) grow at a 2% annual rate beyond 2018

- New debt equal to 80% of expected capital expenditures is issued annually, notes are 5-year term
- Load remains flat at 407.2 million MWhs per year

SPP demonstrates changes from the base-case based on load growth or reduction versus the base year as well as changes in expenditures beyond the 2% included in the base year. The models indicate a sharp increase in the administrative fee rate in 2019-2021 followed by a gradual reduction. The causes of the increase begin with expense growth outpacing flat transmission service usage and extend to the increase in net revenue requirements as SPP retires an additional \$100 million in new term debt issued to fund capital expenditures. The chart below depicts the sensitivities.



FUTURE FORECASTING

SPP constructs a three-year budget plan each year in accordance with the tariff. The 2016 – 2018 budget was used as the starting point to create a five-year forecast. Consistent with the original three-year budget, the load for 2019 and 2020 remained equal to the 407.2 MW/h forecast for 2016 thru 2018 and only minimal inflationary adjustments were applied to the operating expenses.

Capital expenditures were also assumed to be consistent with the 2018 forecast. SPP has included in its rate recovery in 2019 and 2020 collection of 20% of the forecast capital expenditures for each year. This collection will serve to reduce interest costs going forward.

	2016 Budget	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast
Income					
Tariff Administration Service	\$150.7	\$151.0	\$153.9	\$172.0	\$176.0
Fees & Assessments	27.5	27.9	28.4	30.0	31.0
Contract Services Revenue	0.5	0.5	0.5	1.0	1.0
Miscellaneous Income	3.4	2.8	2.8	3.0	3.0
Total Income	\$182.1	\$182.1	\$185.7	\$206.0	\$211.0
Expense					
Salary & Benefits	\$85.2	\$86.8	\$88.8	\$91.0	\$92.0
Depreciation & Amortization	59.7	33.3	23.9	24.0	24.0
Communications, Leases & Maintenance	20.9	23.2	25.1	25.0	25.0
Outside Services	15.1	13.0	12.7	13.3	13.3
Administrative / Other	15.8	16.2	16.5	18.0	17.0
Assessments & Fees	17.0	17.0	17.0	16.0	17.0
Travel & Meetings	3.4	3.4	3.5	3.5	3.5
Total Expense	\$217.1	\$192.9	\$187.5	\$190.8	\$191.8
Net Income (Loss)	(\$35.0)	(\$10.7)	(\$1.8)	\$15.2	\$19.2
Debt Repayment	\$24.2	\$23.2	\$29.6	\$35.0	\$39.0
MW/h Forecast (in millions)	407.2	407.2	407.2	407.2	407.2
Net Revenue Requirement	\$146.8	\$148.5	\$158.6	\$167.8	\$172.0
NRR Adjustments	\$3.7	\$2.2	\$0.0	\$4.2	\$4.0
Recommended Admin Fee / MWh	\$0.370	\$0.370	\$0.389	\$0.422	\$0.432

IV. BUDGET OVERVIEW

This budget document provides an overview and outlines details of the cost of services and components of the net revenue requirement, which consists of the following:

- Capital projects (section V)
- Operating expenses (section VI)
- Debt Service (section VIII)

Operating expenses represent the largest component of the net revenue requirement and consist of budgeted costs for ongoing operations. Operating expenses are presented in two different views:

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

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

The budget identifies 14 capital projects impacting 2016, in addition to the foundation projects. Capital projects are discussed in section V.

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

BUDGET GUIDANCE AND ASSUMPTIONS

New this year, an operating plan was documented and used as a guide for the budgeting process.

At the request of the Finance Committee, SPP created an operating plan to document SPP's 2016 tactical scope and provide a forum to generate broad understanding of SPP's 2016 plans, environment, assumptions, and costs.

Along with planning for technology investments, the following major project investments are identified in the operating plan:

- Enhanced Combined Cycle Integrated Marketplace Functionality
- Gas-Electric Harmonization
- Z2 Credit: Priority II and Priority III Functional Requirements
- PMU Data Exchange and Analysis
- Identity and Access Management (IAM)
- Dispatcher Training Simulator Upgrade

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

SPP's longstanding policy has been to fund capital expenditures through issuance of notes with terms somewhat consistent with the expected useful life of the assets acquired. This policy is

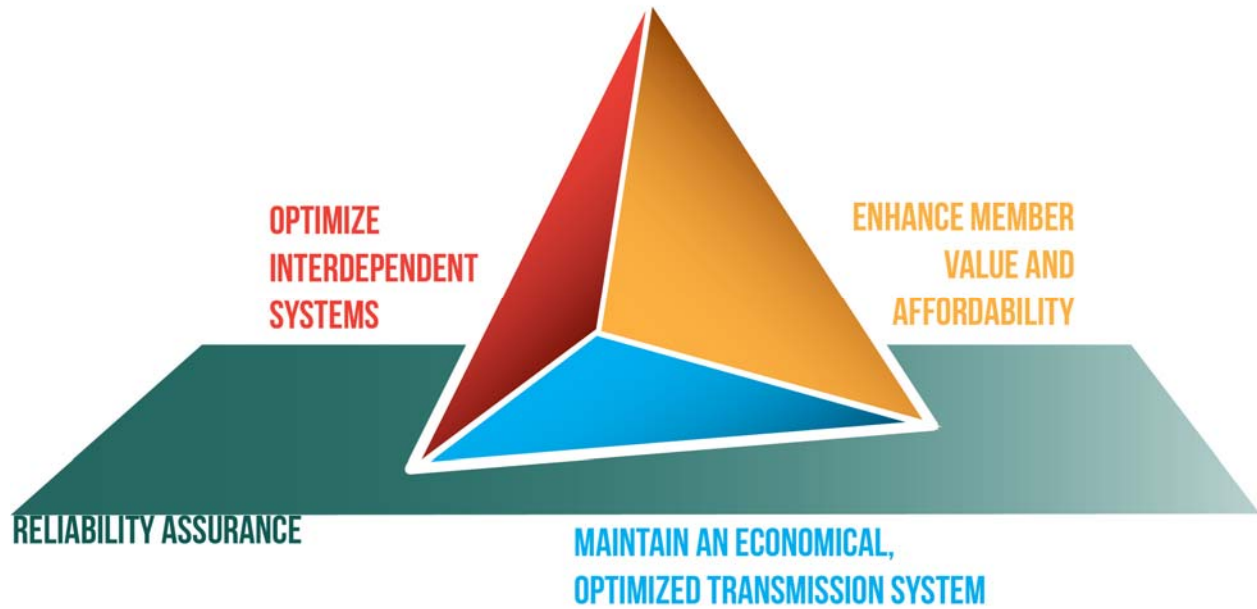
designed to best recover the cost of the assets from the customers who are benefiting from the assets. SPP's capital expenditure program has been significant over the past several years, dominated by the Integrated Marketplace and corporate campus projects. Looking forward, SPP's capital expenditure requirements are forecast to decline from recent levels to an average of \$24 million per year.

Planning meetings were held during June 2015 to provide guidance in developing the 2016 budget. Under the direction of the executive team, each department director was required to create an incremental-based budget for operating expenses as opposed to the zero-based methodology applied in previous years. Justifications were required for significant changes from the 2015 forecast.

ALIGNMENT OF 2016 BUDGET WITH SPP'S STRATEGIC PLAN

The operating plan was presented to the Strategic Planning Committee (SPC) and Finance Committee (FC) as a basis for the 2016 budget and to ensure alignment with SPP's Strategic Plan.

The energy industry remains in a period of dynamic transformation. SPP considered several of the evolving factors affecting demand, generation resources, and transmission requirements of SPP and its members while developing the Strategic Plan in 2014. The increase in demand, generation, and transmission in the SPP footprint is related to growth in oil and natural gas drilling and transportation industries, as well as the surge in the addition of renewable resources (mostly wind energy) to the generation mix. These trends present significant operational and planning challenges for SPP and are critical to the four foundational strategies identified in the Strategic Plan.



These foundational strategies are aimed at creating the capabilities and operational processes to fulfill SPP’s mission, and maintain or improve its value propositions in the face of a rapidly changing environment.

These four strategies are interdependent, with reliability assurance as the basis and the enhancement of member value and affordability as the discipline to drive all SPP strategies.

A comprehensive list of the foundational strategies, related initiatives, and how the 2016 Operating Plan and budget supports each initiative can be found in the Operating Plan document in section X of the supplementary schedules.

V. CAPITAL PROJECTS

SPP expects 2016-2018 capital expenditures to be approximately \$73.0 million.

Beginning in January, a comprehensive list of new and on-going projects was compiled for consideration for the 2016 – 2018 budget under the direction of the Project Review and Prioritization Committee (PRPC) and in collaboration with staff from the Project Management Office (PMO), Accounting and IT departments. The PRPC worked closely with project managers, IT directors, and vendor managers to create scope requirements and estimate anticipated workload associated with the implementation of the projects. The PRPC received 16 project requests for the 2016-2018 budget cycle. Additionally, three carryover projects were taken into consideration given they were anticipated to continue into 2016 requiring ongoing budget and staffing support. The PRPC reviewed, ranked, and assessed the value of the submitted projects and ultimately submitted its recommendation to the SPP officers for approval in July 2015.

2016 - 2018 Capital Expenditures (\$ millions)					
	Prior	2016	2017	2018	Total
Carry Over Projects					
Enhanced Combined Cycle and Gas Day	\$2.1	\$5.0	\$0.7	\$0.0	\$7.7
Transmission Settlements Upgrade	0.0	0.0	3.0	0.9	3.8
Z2 Crediting Process Phase 1	1.6	0.0	0.0	0.0	1.6
New Projects					
EMS Software and OS Upgrade		\$0.0	\$2.8	\$2.4	\$5.2
Dispatcher Training Simulator Upgrade		0.2	3.2	0.4	3.8
PMU Data Exchange		0.4	0.1	1.3	1.9
Identity and Access Management		0.5	0.1	0.1	0.7
Z2 Crediting Tool Priority 2 & 3		0.3	0.2	0.2	0.7
Other		0.5	0.5	0.1	1.1
Total Non-Foundation Projects	\$3.7	\$7.0	\$10.5	\$5.3	\$26.6
Foundation Capital Expenditures		15.3	19.2	15.7	50.2
Total Capital Budget	\$3.7	\$22.2	\$29.7	\$21.0	\$76.7

The three-year budget identifies \$73.0 million (excluding prior year costs) in total capital expenditures with \$22.8 million tied to specific projects and initiatives and \$50.2 million in foundation related capital expenditures. SPP expects 2016 capital expenditure spending to be approximately \$22.2 million, with \$7.0 million in specific projects and \$15.3 million related to foundation capital spending. For the 2016 budget cycle, three major projects were classified as either mandated by FERC (Gas/Electric Harmonization), requested by SPP members (Enhanced Combined Cycle), or required for tariff compliance (Z2 Crediting Tool).

The following section describes noteworthy projects in greater detail. A complete list of initiatives and associated capital budgets appears in the supplementary schedules section IX.

MAJOR CAPITAL PROJECTS

Enhanced Combined Cycle (Member Requested)

Economic dispatch expected to increase \$3.0 million annually.

These enhancements to the Integrated Marketplace will allow market participants to submit resource offers for several configurations of a combined cycle generating unit. Each configuration will be modeled in the market clearing engine as a separate resource. This increased flexibility will allow optimization of the combined cycle resource configuration throughout the unit commitment processes. SPP expects to be able to increase economic dispatch (measured as reduced generation costs) by \$3.0 million annually. New combined cycle plants are expected to join the SPP market in the future which will serve to increase the economic benefits.

Gas/Electric Harmonization (FERC Mandated)

Investment required to comply with FERC Section 206 Order.

Compatibility within the gas and power markets has become an important concern in the past few years as the electric grid's dependence on gas-fired generation has steadily increased. This project addresses timeline changes to the Day Ahead Market and Day Ahead Reliability Unit Commitment ("RUC"). This investment is necessary to comply with FERC's Section 206 Order in Docket No. RM14-2 to adjust the market timelines and explain how the proposed scheduling modifications are sufficient. These timeline changes are an incremental improvement over the existing timeline for improving coordination between the market results and the timely and evening nominations.

Z2 Crediting Tool – Priority 2 and 3 (Tariff Compliance)

Implementation of the stakeholder-designed Z2 credit stacking solution to meet current tariff requirements.

Attachment Z2 of the tariff requires SPP to identify creditable upgrades of the transmission network, calculate revenue credits associated with creditable upgrades, and distribute revenue credits to upgrade sponsors. Priority 1 requirements are on schedule for implementation in January 2016. Priority 2 and 3 work is expected to start in April 2016 after SPP has worked through the legacy credits. Implementation of the Priority 2 and 3 functionality is planned for December 2016. This investment will implement the stakeholder designed Z2 credit stacking

solution and streamline workflows in order to meet current tariff requirements. Although no monetary benefits are expected, soft benefits include reductions in error probabilities, reduced dispute and resettlement activities, and reduced future staffing needs.

Identity and Access Management

Enhance controls over system access and improve audit evidence processes.

This project includes the implementation of an identity and access management (IAM) system that would automate the vast majority of manual IAM activities in place at SPP today. Some of the noteworthy functionality/capabilities of an automated IAM system include the following: 1) ability to develop role based access models to suit individual business owners, 2) automation of user access provisioning/de-provisioning, and 3) standardization/automation of periodic access reviews. Additionally, ad-hoc access reviews can be generated to help satisfy CIP V5 transfer and termination processes for SPP employees and contractors. All identities and their access entitlements currently existing in the SPP environment will be discovered and will reduce compliance and cyber security risks associated with orphan user accounts and excess user entitlements. In summary, improved access management processes will result in enhanced controls over system access as well as provide notable improvements to audit evidence processes which will be critical going forward under the CIP V5 standards.

Phasor Measurement Unit (PMU) Data Collection and Analysis

Capabilities to better identify system issues.

Completion of this project will provide SPP with the capability to enhance after-the-fact event analysis as well as improve system model validation efforts. Additionally, PMU data can assist in 1) real-time situational awareness, 2) identifying generator trips and island situations, and 3) enhancing State Estimator accuracy. This project will commence with the purchase of a starter system (less than 50 PMUs) in 2016 to be utilized in a non-production environment thru 2017. Deployment of a highly available configuration into production environment will occur in 2018. Full implementation of the project is expected to equip SPP with predictive capabilities to identify system disturbances before they occur and allow SPP and affected utilities to take action prior to an event occurring.

Dispatcher Training Simulator Upgrade

Enhanced tool to better prepare operators in the region.

This project is a phased evolution of the current Dispatcher Training Simulator (DTS) to a more fully integrated Training and Testing Simulated Environment (TTSE) that incorporates the EMS and the Market Systems. This fully integrated simulator will provide a platform to help simulate

the operations environment and to prepare SPP Operators on the SPP region in normal and emergency situations. Phase I will establish an independent, stand-alone DTS environment for EMS in 2016. Future phases will look to add market simulators, visualization capabilities, and other additional functionality in the 2017-2018 timeframe.

FOUNDATION CAPITAL EXPENDITURES

The following section describes the various categories of foundation capital expenditures in greater detail.

Foundation Capital Expenditures (\$ millions)				
	2016	2017	2018	Total
Foundation (1)				
IT Systems Admin Foundation	\$2.8	\$4.0	\$2.9	\$10
IT Network Telecom Foundation	4.4	4.9	4.1	13.4
IT Applications Foundation	1.9	5.1	3.3	10.2
IT Ops Service Management	0.4	0.7	0.7	1.8
Other (Non-IT) Department Foundation (2)	2.2	1.2	1.1	4.6
Ops Foundation - Marketplace Enhancements	2.6	2.8	3.0	8.5
Facilities Foundation	0.7	0.2	0.3	1.2
Settlements Foundation	0.3	0.3	0.3	0.8
Total	\$15.3	\$19.2	\$15.7	\$50.2

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

(2) Other (Non-IT) represents the IT-based projects of other departments across SPP

IT Systems Administration Foundation

The Systems Administration Foundation encompasses all hardware and software infrastructure, including servers, storage, backup systems, operating systems, and systems-management tools. The major initiatives included in the 2016 budget include:

- Technology refresh of aged systems
- Additional data storage (production and backup capacity)
- CIP V5 infrastructure requirements

Technology Refresh

In projecting future needs, SPP consistently reviews the existing hardware portfolio and plans for hardware replacements (where appropriate). Although hardware maintenance is often extended to 5 years, technology refreshes become mandatory once these components reach the end of their usable life and/or maintenance for older hardware becomes unavailable or unaffordable. SPP has approximately 65 physical servers (dedicated and virtualized) targeted for replacement during 2016, contributing to roughly 41% of the total Systems Administration Foundation budget. As part of the server refresh, SPP will continue to deploy virtualization technology to maximize the utilization of computer hardware and software wherever possible.



Technology refresh, data storage and CIP V5 make up 74% of the Systems Administration Foundation budget.

Data Storage

SPP has detected a higher than anticipated growth of data across the various systems. Additional projects, such as the IS Integration and CIP V5 compliance, have also contributed to additional data storage needs. During 2016, the plan is to implement isolated “Flash Storage” into the Electronic Security Perimeter (ESP), as well as increase backup capacity (shelves) at the 3rd party data storage site. Evaluation will continue for storage virtualization technologies as well as “tiered storage” disciplines to minimize storage costs. Data storage accounts for approximately 16% of the total Systems Administration Foundation budget.

CIP V5

As part of the CIP V5 mandatory compliance deadline of April 1, 2016, additional environments will be implemented during the first part of the year for accessing the ESP. CIP V5 requires physical isolation/separation of ESP assets, and thus certain assets must be “de-leveraged” to fulfill this requirement. Implementation of a “baseline management” tool will also be complete for purposes of tracking changes to ESP assets. The budget for meeting CIP V5 requirements is roughly 17% of the total Systems Administration Foundation budget.

Additional items accounted for in the Systems-Administration budget include anti-virus Linux software, server security software, additional storage virtualization licenses, and licenses associated with backup/recovery from our remote site(s).

IT Network Telecom Foundation

The Network Telecom Foundation encompasses all SPP’s hardware and software network, which includes the core data network as well as voice, telephony, firewall, and network security solutions.

As part of a three-year upgrade project that began in 2015, the core network infrastructure will continue to be overhauled, including the upgrade to 40GB capacity for core switch modules, firewall modules, cabinet switch technology, and the data center cabling infrastructure. This upgrade will alleviate existing network/performance bottlenecks and position SPP to absorb the additional data traffic/processing that is anticipated in upcoming years. The cost for this network refresh project is approximately 86% of the total Network Telecom Foundation budget.

The remaining budget is targeted for network authentication software, a Voice-over-IP (VOIP) CCX refresh, and IP-Address software.

IT Applications Foundation

The IT Applications Foundation encompasses capital cost associated with the development, testing and support of SPP’s key business and data-services applications.

One of the primary components of the 2016 budget includes hardware and software licenses to sustain the growth and demand for SPP’s Enterprise Analytic Data Store (EADS) and Data Warehouse. EADS has become a critical system relied upon by many of SPP’s real-time Operations systems (e.g., Integrated Marketplace) as well as the systems used for after-the-fact processing such as Settlements and Market Monitoring. SPP will implement a virtualization architecture with tiered storage (aka, “Big Data”), which will allow SPP to store a vast amount of

data needed by the business users across multiple, lower cost platforms, while providing a single/transparent interface for the user. This initiative accounts for roughly 60% of the IT Applications Foundation budget.

Additional funding within this budget area will support software enhancement projects for CMS, POPS, Settlements and Data Services.

Foundation – Other (Non IT) Department Foundation

Items included in this foundation budget encompass all other software and hardware needs for departments outside of IT. A significant amount of the 2016 budget relates to anticipated enhancements to the TCR system in addition to compliance driven initiatives.

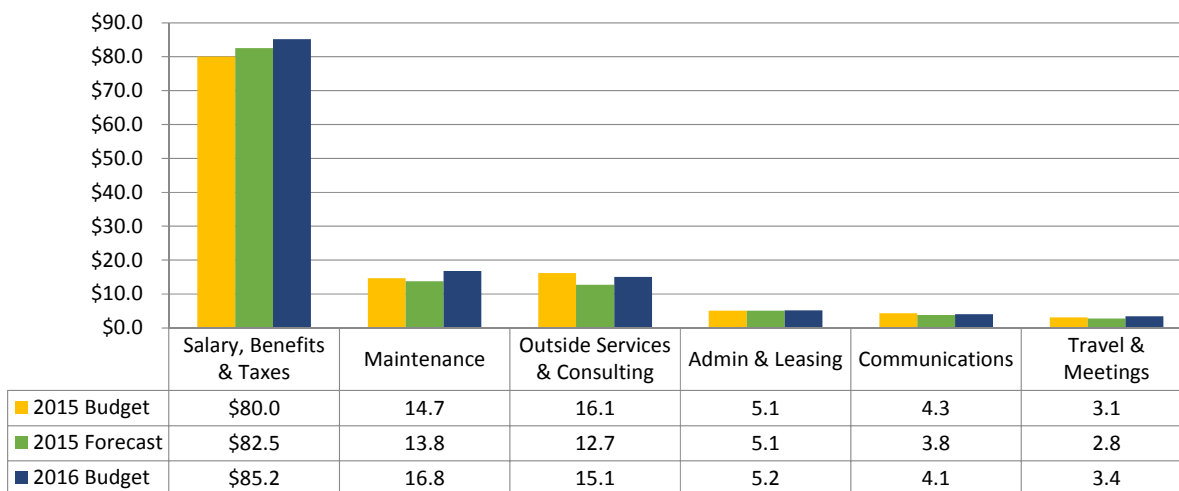
Operations – Marketplace Enhancements

The Integrated Marketplace implemented in 2014 is still considered to be in the nascent stage of operation and will continue to experience the need for higher levels of modification as both staff and market participants identify opportunities for continuous improvement of market efficiency. The trend will continue for at least the next few years where design changes are needed to improve upon certain assumptions made during the earlier stages of market rules development. These changes include expected enhancements to the Market Operator Interface (MOI), the Market User Interface (MUI), the Market Clearing Engine (MCE) applications, and the Market Database (MDB).

VI. 2016 BUDGET: RESOURCE UTILIZATION VIEW

SPP's 2016 budget encompasses utilization of various resources allowing SPP to carry out strategic goals and organizational objectives. The chart below shows SPP's resources and the corresponding 2016 budget amounts in comparison to 2015 budget and forecast. The following section discusses each component in detail.

2016 Operating Expenses by Resource (\$ millions)



2016 Operating Expense Budget by Resource (\$ millions)

	2015 Budget	2015 Forecast	2016 Budget	2016 Prior
Salary, Benefits & Taxes	\$80.0	\$82.5	\$85.2	\$83.7
Maintenance	14.7	13.8	16.8	16.6
Outside Services & Consulting	16.1	12.7	15.1	18.0
Admin & Leasing	5.1	5.1	5.2	5.0
Communications	4.3	3.8	4.1	4.4
Travel & Meetings	3.1	2.8	3.4	3.4
Total Expense	\$123.3	\$120.8	\$129.8	\$131.0

* Excludes depreciation, FERC fees, and interest

STAFFING: VALUING WORK AT SPP

SPP's employees are the most valued resource and the single largest component of the operating budget.

Staffing costs include salaries, benefits, and taxes. The budget includes assumptions for vacancy rates, merit increases, and promotions. These assumptions are discussed in detail in the staffing components section below.

Staffing Levels

SPP strives to attract and retain an educated, skilled employee base to provide the highest level of service and value for its members.

SPP's management continuously evaluates SPP's staffing levels across all areas of the organization. In addition, the SPP Human Resources Committee is responsible for the review and approval of employee and executive benefit plans, organizational structure, and

compensation programs. The committee periodically engages consultants to benchmark SPP compensation and benefit programs, and annually reviews these plans to ensure they are competitive in the marketplace within a cost effective budget. SPP benefit plans support the organization's goal of attracting and retaining career employees that are suited to the SPP corporate culture.

SPP administers an in-house Engineer in Rotation program, which seeks the most talented engineering graduates for an expansive training program. The rotating staff of engineers gain experience through on-the-job training and are placed in permanent roles as positions become available through normal employee turnover.

The 2015 headcount forecast was reduced from 598 to 596 with the elimination of two positions in the Regional Entity (RE). The RE positions remained open for more than 12 months, and existing staff was able to maintain the workload. Various other positions were reprioritized, and responsibilities were reassigned throughout the year as positions became vacant due to staff turnover, retirements, or internal transfers.



Compensation and benefits are regularly monitored to ensure SPP remains a competitive and attractive employer.

Approved Staffing Levels				
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
2015 Budget	598			
Regional Entity positions eliminated	<u>(2)</u>			
2015 Forecast	596			
Engineering Planning		2		
Engineering Modeling		1		
Market Monitoring		1		
PMU Data Exchange (IT, Ops)		2		
Proposed reductions due to turnover		<u>(3)</u>		
2016 Budget		599		
Operations reductions due to turnover			(2)	
Engineering Planning			<u>1</u>	
2017 Budget			598	
PMU Data Exchange (IT)				<u>1</u>
2018 Budget				599
Prior Budget Forecast		598	596	n/a

The table below shows the staff numbers by executive division:

2015 - 2018 APPROVED POSITIONS BY DIVISION					
	2015 Budget	2015 Forecast	2016 Budget	2017 Budget	2018 Budget
Operations	160	160	161	159	159
Information Technology	146	145	146	146	147
Engineering	73	73	76	77	77
Finance & Corporate Services	67	67	67	67	67
Process Integrity	58	58	58	58	58
Regulatory, Legal & MMU	40	39	40	40	40
Interregional Relations & Market Design	10	10	10	10	10
Officer & Administrative	10	11	8	8	8
Communications & Government Affairs	4	5	5	5	5
RTO Total	568	568	571	570	571
Regional Entity	30	28	28	28	28
SPP Total	598	596	599	598	599

Staffing Components

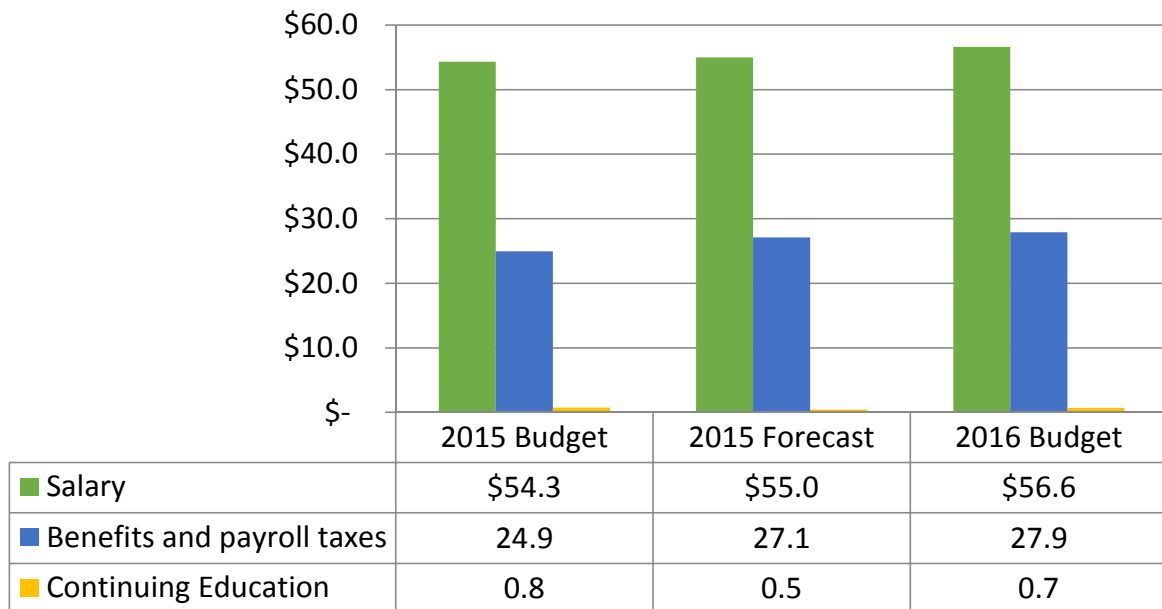
The base salary budget assumes a merit increase of 2.5%, a promotion increase of 0.75%, and a 4.0% vacancy factor.

The staffing budget for 2016 includes funding for staff compensation (base salary, performance compensation, and overtime pay), benefits and payroll taxes, relocation, and tuition reimbursement.

Salary Expenses (\$ millions)	2015 Budget ⁽¹⁾	2015 Forecast	2016 Budget ⁽²⁾	2016 Prior
Base salaries at beginning of year	\$54.5	\$54.5	\$55.6	\$55.9
Incremental staff	0.3	0.3	0.5	0.0
Merit Increase	1.1	1.1	1.4	1.3
Promotions	0.4	0.4	0.4	0.4
Premium Pay	0.9	1.1	1.0	0.9
Vacancy	(2.8)	(2.3)	(2.3)	(2.3)
Total Salary Expenses	\$54.3	\$55.0	\$56.6	\$56.2

(1) 2015 vacancy 5.0%, merit 2.0%
(2) 2016 vacancy 4.0%, merit 2.5%

Salaries, Benefits and Taxes (\$millions)



The 2015 salary forecast exceeds 2015 salary budget as a result of variations from the vacancy rate assumed in the original budget. The 2015 budget assumed a 5.0% vacancy rate; however, the 2015 forecast reflects a vacancy rate of 4.0% based on the current year trend.

Vacancy and Merit Assumptions

During the 2015 budget planning process, 2014 vacancy levels fluctuated between 4.0% and 5.0%. The 2015 budget included a vacancy factor of 5.0% based on this trend, and 4.0% was applied to 2016 – 2017. By the end of 2015, headcount is expected to be within 4.0% of the projected 2015 level (575 of 598). SPP anticipates staff turnover in 2016 to be consistent with trends experienced in 2015.

	<u>2015 Budget</u>	<u>2015 Forecast</u>	<u>2016 Budget</u>	<u>2016 Prior</u>
Vacancy rate	5.0%	4.0%	4.0%	4.0%

The 2016 budget includes a 4.0% vacancy rate which is reflective of the 2015 trend and contributes to the overall increase in staffing costs in 2016. This equates to turnover averaging 24 positions during the calendar year (575 of 599 positions).

The Human Resources Committee (HRC) recommends an overall merit increase of 2.5% for 2016 based on a review of several regional and industry factors, including SPP members. A merit increase of 2.5% is included in the 2016 salary budget. The promotion pool budget is also based on the HRC recommended percentage and remains consistent with the past several years at 0.75%.

Merit Increase 5-Year Trend					
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
HRC Approved	2.5%	2.0%	2.4%	1.7%	2.5%
SPP Budget	2.5%	2.0%	2.4%	2.0%	2.5%
CPI Growth	2.5%	1.5%	2.4%	2.3%	0.0%

Benefits and Taxes

The budget for benefits and payroll taxes includes performance compensation; retirement plan contributions; medical, dental, and life insurance benefits; relocation expenses; employee events; payroll taxes; and continuing education. Below is a breakdown of employee benefits and taxes:

Benefits, Taxes & Con't Ed (\$ millions)	2015 Budget	2015 Forecast	2016 Budget	2016 Prior
Performance Compensation	\$8.6	\$8.6	\$8.9	\$8.8
Retirement Plans (401k and Pension)	5.5	8.5	8.6	6.8
Payroll Taxes	4.6	4.3	4.7	4.8
Medical Benefits	5.1	4.4	4.4	5.3
Continuing Education	0.8	0.5	0.7	0.8
Other Employee Benefits	0.4	0.4	0.5	0.4
Dental Benefits	0.4	0.4	0.4	0.4
Life Insurance Benefits	0.3	0.5	0.4	0.3
Total Benefits, Taxes & Con't Education	\$25.7	\$27.5	\$28.6	\$27.5

Performance compensation comprises the largest component of benefits, followed by retirement plans, payroll taxes and medical benefits. Performance compensation is budgeted at the target level of 15.0% of base salary and is paid in March of the following year. SPP total compensation targets the 50th percentile inclusive of performance compensation.

For the pension and retiree healthcare expense, the 2015 forecast and 2016 budget amounts are based on the actuarial calculated pension expense, whereas the 2015 budget and 2016 prior forecast was based on anticipated cash funding. This change in methodology creates a \$3.0 million and \$1.8 million unfavorable variance when compared to 2015 budget and 2016 forecast amounts, respectively. Funding for 401(k) matching contribution is estimated at 4% of the salary expense based on recent company trends.

Insurance benefits are budgeted based on projected per participant costs, with medical benefits as the primary component. The healthcare plan is discussed in detail in the following section.

Medical Benefits Costs

The net cost of the self-funded medical plan in the 2016 budget is \$4.4 million which is in line with the 2015 forecast, and represents a decrease of 14% or \$0.7 million compared to the 2015 budget of \$5.1 million.

Healthcare Costs (\$ millions)			
	2015 Budget	2015 Forecast	2016 Budget
Gross Claims	\$5.4	\$4.7	\$4.7
Admin Fees	1.0	1.0	1.0
Employee Contributions	(1.3)	(1.3)	(1.3)
Net Expenses	\$5.1	\$4.4	\$4.4
Number of employee participants	531	532	522
Net monthly cost per participant	\$800	\$660	\$696

Following an increasing trend starting in 2012, SPP has experienced a decline in its medical plan costs since 2014, largely resulting from lower claims compared to previous highs. Total gross claims are estimated to be \$4.7 million in 2016 compared to the 2015 forecast of \$4.5 million and represent an increase of 4.1%, which is in line with national healthcare cost trends.

Approximately 91% of employees currently participate in the medical plan which is in line with previous years. The total estimated number of employee participants in 2016 is 522, compared to 532 in 2015. The decrease in the number of participants is primarily due to the fact that SPP retirees were removed from SPP's self-funded plan in late 2015. Eligible retirees will now be provided monies through a tax-free health reimbursement account to pay for individual Medicare supplement health insurance plans or other eligible health care expenses.

Fees are paid to the insurance provider to cover administrative costs and insure against excessive losses at both the participant and corporate level. These fees are estimated to be \$1.0 million in 2016, which is in line with 2015. For 2016, SPP is planning to mitigate the increase in fees that normally would have been incurred by increasing the deductible on per participant losses.

Employee contributions to the medical plan offset the overall cost and are estimated to be \$1.3 million in 2016, unchanged from 2015. The net cost of the medical plan to SPP per participant is expected to be approximately \$700 per month in 2016, compared to \$660 per month in 2015. The increase is due to the expected increase in gross claims and the estimated decrease in estimated number of participants.

SPP's Human Resource Committee targets to maintain an 80/20 cost ratio between employer and employee.

MAINTENANCE

Maintenance expense is largely driven by new capital projects requiring annual support agreements to sustain the health and operation of the system.

The maintenance budget includes expenses to maintain SPP’s IT hardware and applications and for maintaining corporate facilities (general plant maintenance).

Maintenance Expense (\$ millions)	<u>2015 Budget</u>	<u>2015 Forecast</u>	<u>2016 Budget</u>	<u>Prior 2016</u>
IT Software & Equipment	\$13.9	\$13.1	\$15.7	\$15.8
General Plant Maintenance	0.7	0.7	1.2	0.8
Total	\$14.7	\$13.8	\$16.8	\$16.6

Realizing the considerable impact of maintenance costs, the IT Sourcing team is highly focused on this area and engages in efforts to minimize maintenance costs through various measures including leveraging multi-year term agreements, aligning product purchases, pursuing price-protection agreements, and right-sizing the level of support with the criticality of the environment.

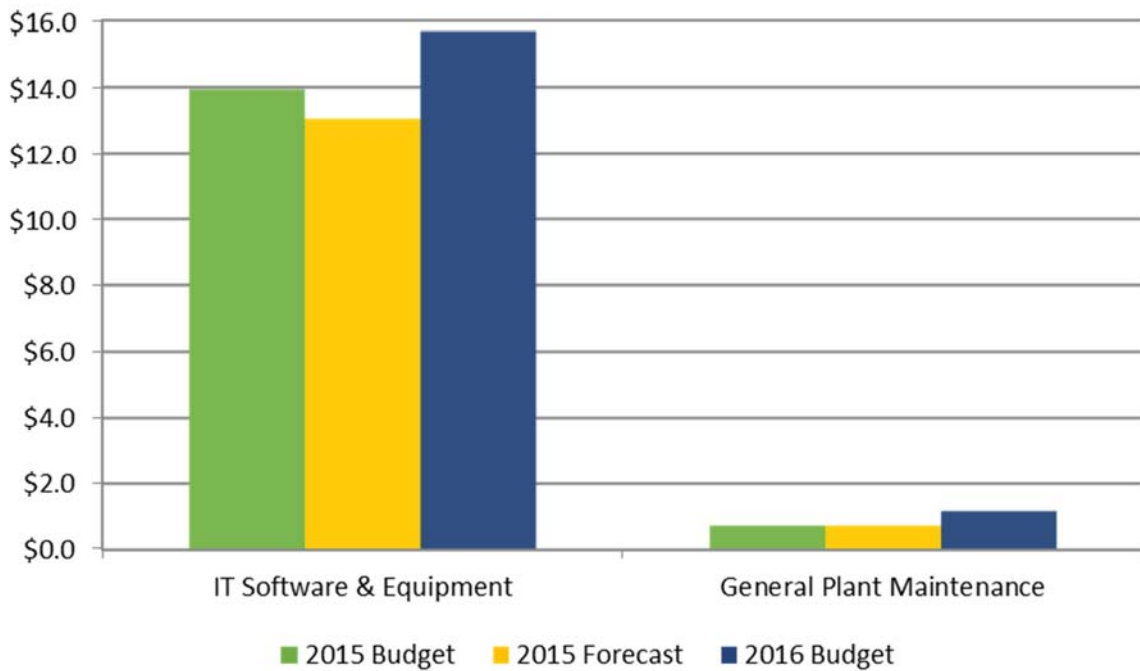
The IT maintenance budget includes anticipated expenses to support SPP’s operating environment. Maintenance agreements include necessary components such as product support, security patches, product updates, and software version upgrades. In particular, this budget includes:

- Maintenance and support agreements for hardware (servers, storage, network, etc.)
- Maintenance and support agreements for software (operating system, databases, tools, office products, usage licenses, etc.)
- Maintenance and support agreements for business applications (market, reliability, transmission, leveraged services, etc.)
- Service agreements for wind forecasting services

The 2016 budget reflects an increase of \$1.8 million and \$2.6 million over the 2015 budget and forecast, respectively. This increase is driven primarily by new capital spending in 2016 of approximately \$16.0 million which requires related annual support agreements to sustain the health and operations of the system. Capital spending in 2016 represents an estimated \$1.4 million of the increase in maintenance expense over the 2015 forecast. Also contributing to the increase is the full year impact of maintenance expense associated with capital spending in 2015 (i.e. only a partial year of maintenance expense was incurred in 2015 depending on timing of purchase). Capital spending in 2015 represents an estimated \$1.2 million of the increase in maintenance expense over the 2015 forecast.

In some instances, the purchase of new capital equipment and software will replace existing products. Maintenance cost reductions are realized for new products that include a warranty; however, the majority of the 2016 capital spend is for incremental hardware and software, which results in overall increases of maintenance costs. Of the \$15.7 million budgeted in 2016, maintenance expense is split approximately 80/20 between software and hardware, respectively.

Maintenance by Type (\$ millions)



Maintenance Expense (\$ millions)	2015 Budget	2015 Forecast	2016 Budget	Prior 2016
Foundation	\$7.0	\$6.4	\$9.0	\$6.7
Market	1.8	1.9	2.0	1.9
Leveraged Services	1.7	1.6	1.8	1.7
Reliability	1.5	1.3	1.5	1.6
General Plant Maintenance	0.7	0.7	1.2	0.8
Project/Other	1.4	1.4	0.9	3.4
Transmission	0.5	0.5	0.5	0.5
Total	\$14.7	\$13.8	\$16.8	\$16.6

In addition to IT maintenance, various other facility expenses such as janitorial expense, landscape maintenance, and preventive maintenance are included in the maintenance budget.

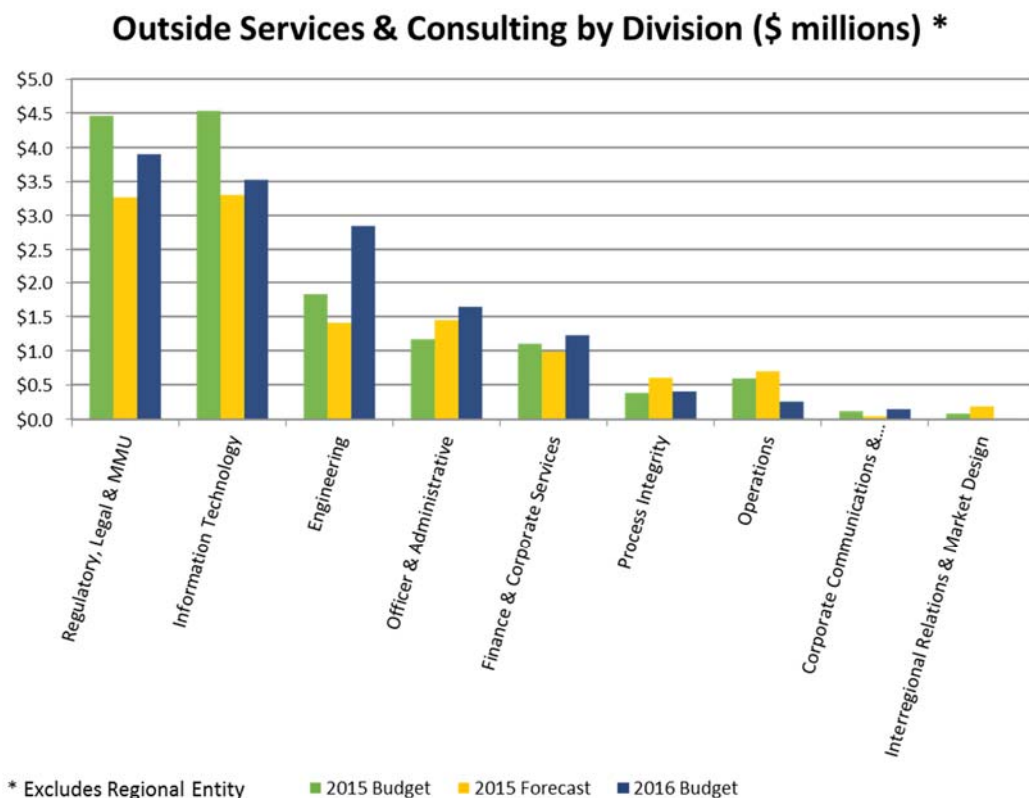
As SPP has occupied the facility for several years, trend analysis is used to estimate costs associated with general upkeep such as waste removal, landscape maintenance, janitorial services, etc. These costs remain fairly constant with only minimal increases projected. Costs associated with systems and equipment maintenance are generally defined within the multi-year service agreements (e.g. elevators, chillers, generators, etc.). These agreements are reviewed prior to the renewal dates for cost/benefit analysis.

As the campus ages, additional cost are required for repairs and upkeep of the investment. Increases over 2015 are partially attributed to additional maintenance for coverage no longer included under the initial purchase agreements. The 2016 budget reflects such items including \$0.3 million for repairs to the parking deck.

OUTSIDE SERVICES

Outside services expenses have increased from the 2015 forecast in various areas, but remain considerably lower than the 2015 budget and 2016 prior budget.

Outside services consist of third-party expertise to assist SPP in deploying various services, providing legal representation and advice, and satisfying audit requirements.



Outside Services and Consulting by Division (\$ millions)

	<u>2015 Budget</u>	<u>2015 Forecast</u>	<u>2016 Budget</u>	<u>Prior 2016</u>
Regulatory, Legal & MMU	\$4.5	\$3.3	\$3.9	\$5.1
Information Technology	4.5	3.3	3.5	3.3
Engineering	1.8	1.4	2.8	4.0
Officer & Administrative	1.2	1.4	1.6	1.2
Finance & Corporate Services	1.1	1.0	1.2	1.0
Process Integrity	0.4	0.6	0.4	0.6
Operations	0.6	0.7	0.3	0.6
Corporate Communications & Governmer	0.1	0.0	0.1	0.1
Interregional Relations & Market Design	0.1	0.2	0.0	0.0
RTO Total	\$14.3	\$11.9	\$13.9	\$16.0
Regional Entity	1.9	0.8	1.1	1.9
SPP Consolidated Summary	\$16.1	\$12.7	\$15.1	\$18.0

- The largest component of the 2016 outside services budget is in the **Regulatory and Legal** department. Outside legal counsel is employed for various litigation matters throughout the year. Outside FERC counsel provides unique legal expertise on specific FERC matters and allows SPP to leverage the counsel’s relationships with FERC staff, while also utilizing their knowledge of RTO-specific matters.

The 2015 budget included costs for Order 1000 Industry Expert Panel (IEP) of \$1.3 million, with an offset in revenue to be recovered from the participants in the proposal process. This was based on the expectation SPP would issue multiple requests for proposals (RFPs); however, only one RFP was issued in 2015. The 2015 forecast reflects this reduction in costs. Due to the unpredictability of the number of proposals and given the costs associated with Order 1000 are offset by revenue (with no impact to the Admin fee calculation), no cost or revenue is included in the 2016 budget for new projects. Only cost and revenue for the proposal underway in 2015 are included in the 2016 budget.

A provision in the Tariff (OATT) requires SPP to perform a Regional Cost Allocation Review (RCAR) to evaluate the reasonableness of the base plan allocation methodology and associated factors. Although the RCAR study was approved by the stakeholders and Board of Directors to begin 2015, the project was delayed at the request of the SPP Members. Incremental consulting costs to continue the review are again included in 2016. Plans are to engage the Rate Impact Task Force (RITF) for analysis to be completed in parallel with the RCAR.

- The **Information Technology** department incorporates outside services expense to engage consultants for various vendor support and staff augmentation needs. IT utilizes outside services for a variety of functions, including:
 - “Software-as-a-Service” for WebOasis, Webtrans, and transmission reservation services
 - Third-party data center services for hosting/storing remote data
 - Consulting for key projects and initiatives
 - Support for key application systems (e.g., CMS/POPS)
 - Staff augmentation for interim resource/skill requirements
 - IDC annual membership fees
 - Data Center cabling/wiring services, Asset disposal services
 - Vendor security/penetration testing, etc.

Although the IT staff continually analyzes options and seeks opportunities to leverage existing staff, in many cases the utilization of external entities is more cost-efficient based on the required skills or longevity of the project.

SPP currently subscribes to a variety of services from one primary vendor which supports the facilitation of transmission, reliability, and compliance requirements. SPP upgrades or increases services as needs arise throughout the year. The agreement with the vendor serves as a continuation of those services and has been in place since 2008. The monthly fees cover upgrades and defect resolutions for all of the contracted products such as WebTrans, WebOASIS, webData, WebCares, webImpact and premium service support fees. As a Reliability Coordinator, SPP is required by NERC to share in the cost of the Interchange Distribution Calculator (IDC) tool. The same vendor also supports the IDC tool, which was previously included in the Operations department budget.

- The **Engineering department** engages consultants for many aspects of the engineering planning processes including such areas as staff augmentation for Engineering studies, model building and reliability assessment for the Regional Entity, and administering the detailed project proposal (DPP) process related to FERC Order 1000. Generation Interconnection study requests are numerous, and consulting services are engaged to complete these studies when requests are greater than SPP staff can accommodate. As

appropriate, the consulting costs in these studies are passed through to the participants in the process.

Engineering's existing Integrated Transmission Planning (ITP) efforts include the ITP Near-Term (ITPNT), a new ITP10, and the Order 1000 requirements for the DPP windows in those studies. Many of the aspects of Order 1000, such as Detailed Project Proposals (DPP) and PROMOD support for ITP10, must be processed in a timely manner in order to stay within the ITP schedule and provide submitters the opportunity to cure any deficiencies in the proposals. With this short-term duration and high volume of work, SPP will engage highly skilled technical analysts on a short-term contract basis rather than hiring a permanent resource or issuing a long term consulting contract.

The 2016 budget includes outside services and consultants in various other areas including the following:

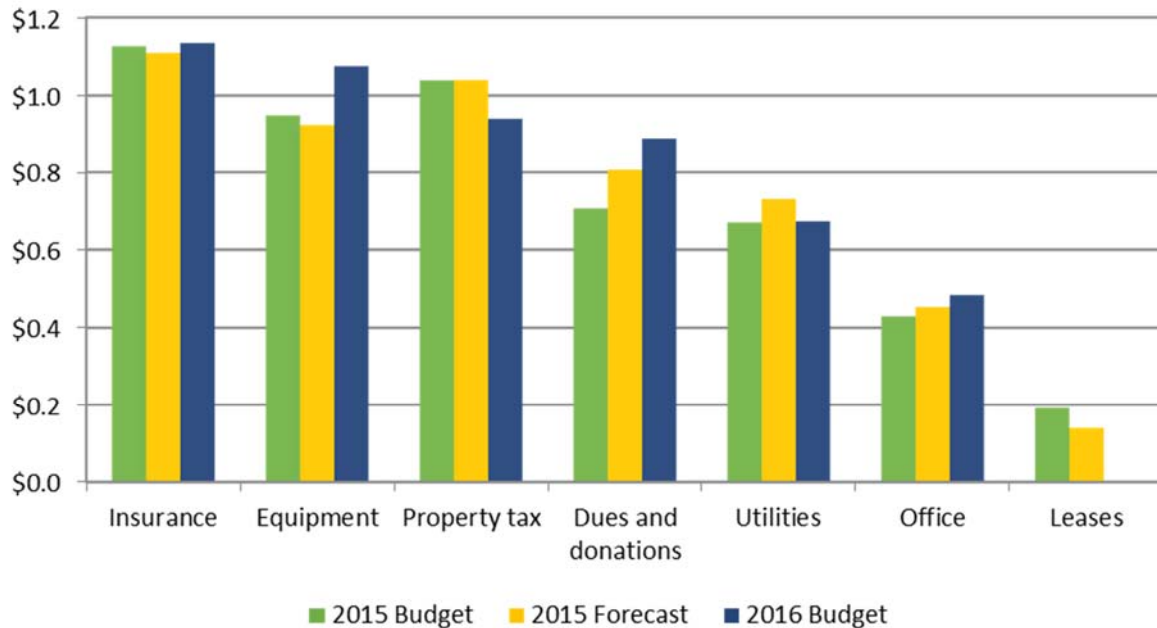
- \$1.6 million – Officer and Administrative: BOD compensation, CIP/Cyber security, reporting analysis
- \$1.2 million – Finance & Corporate Services: facility and employee services, financial audits
- \$1.1 million – Regional Entity: audits and hearings
- \$0.4 million – Process Integrity: SOC Type 2 audit and CIP mock audit
- \$0.3 million – Operations: wind study
- \$0.1 million – Communications and Government Affairs: reporting and data services

ADMINISTRATIVE AND LEASING EXPENSES

Overall administrative and leasing expenses are expected to remain relatively consistent with the 2015 budget and forecast.

Administrative expenses include items such as insurance premiums, small equipment purchases, property taxes, professional dues, utility and office expenses, and leases.

Administrative & Leasing (\$ millions)



Administrative & Leasing (\$ millions)	<u>2015 Budget</u>	<u>2015 Forecast</u>	<u>2016 Budget</u>	<u>Prior 2016</u>
Insurance	\$1.1	\$1.1	\$1.1	\$1.2
Equipment	0.9	0.9	1.1	1.1
Property tax	1.0	1.0	0.9	0.9
Dues and donations	0.7	0.8	0.9	0.6
Utilities	0.7	0.7	0.7	0.7
Office	0.4	0.4	0.5	0.4
Leases	0.2	0.2	0.0	0.2
Total	\$5.1	\$5.1	\$5.2	\$5.0

The largest component of the Administrative expense is insurance expense. The various components are listed below.

Insurance Expense (\$ millions)	<u>2015 Budget</u>	<u>2015 Forecast</u>	<u>2016 Budget</u>	<u>Prior 2016</u>
Commercial excess liability	\$0.7	\$0.7	\$0.8	\$0.7
Directors & Officers (D&O) liability	0.2	0.1	0.1	0.2
General liability	0.1	0.1	0.1	0.1
Workers compensation	0.1	0.1	0.1	0.1
Total	\$1.1	\$1.1	\$1.1	\$1.2

SPP's corporate insurance policies are used as a tool to transfer certain insurable risks from the corporation to third-party insurers. The majority of SPP's premiums provide additional indemnification related to commercial excess liability and directors and officers liability. Commercial excess liability policies provide additional indemnification from claims arising from SPP's administration of its Open Access Transmission Tariff and other contractual arrangements. Director's and officer's liability policies provide additional indemnification to SPP's independent directors, management and employees from claims arising from certain actions taken in oversight of the corporation. Both policies include the insurer's obligation to pay for defense and legal costs for claims made, which can be very extensive.

Dues are budgeted for professional or technical licenses and memberships in professional organizations which are related to employment by SPP, are required to maintain professional standing for employees, or are otherwise beneficial to SPP. In addition to such employee dues, Electric Power Research Institute (EPRI) membership dues are also included in the budget for access to research conducted on issues related to the electric power industry and account for half of the dues and donations expense. A three-year contract with EPRI goes into effect in 2016 to expand participation in existing programs in grid operations, planning, renewable integration and HVDC applications. This \$0.4 million per year agreement will include support for new markets initiatives, sparing tools to support NERC transmission planning compliance, and operational needs such as tools for system restoration. Engagement by SPP staff at EPRI provides value in terms of tools such as case studies and analyses using SPP data to address ramping needs for wind integration study.

Utilities, office and leases expenses make up the remaining administrative expense and remain reasonably constant.

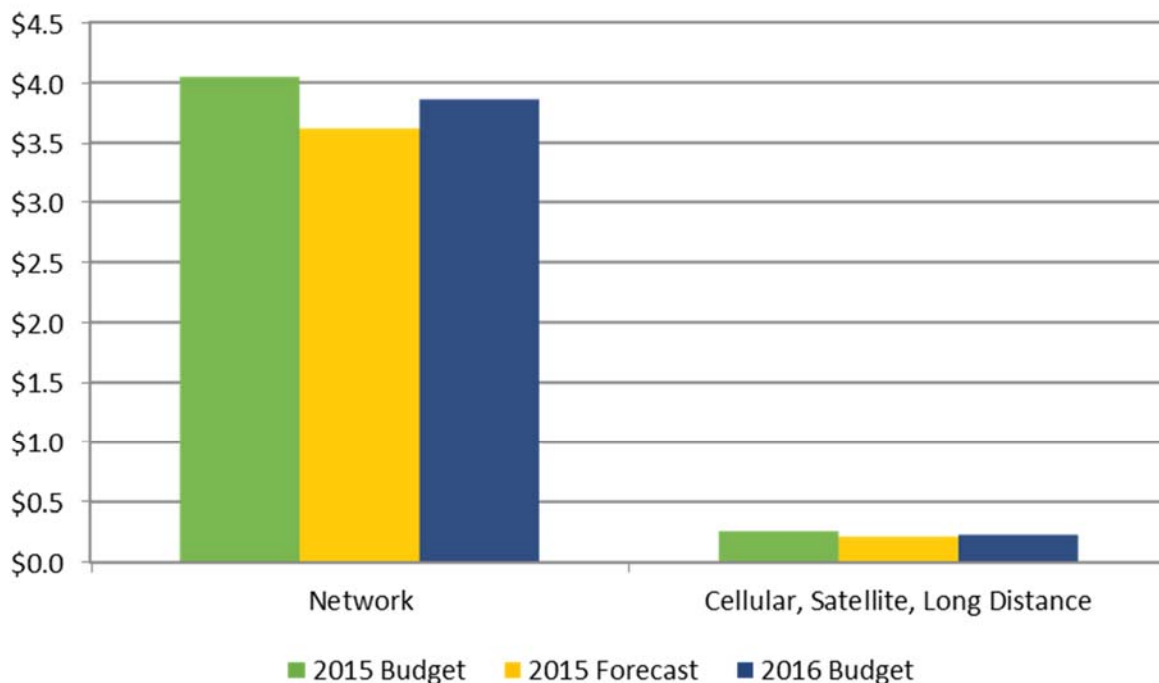
SPP has historically leased printer/copier machines. Prior to the lease expiration in August 2015, SPP performed a thorough technical and financial review of replacement options considering multiple elements including technology lifecycle, print volume, purchase versus leasing price, residual values and maintenance costs. As a result of this analysis, SPP determined a sizeable cost advantage for purchasing the units rather than continuing the lease. The 2016 budget reflects zero leasing expense.

COMMUNICATIONS INFRASTRUCTURE

Communications infrastructure includes all expenditures related to SPP's internal and external networks and telecommunications. Network communications include frame relay and circuit costs, including components for bandwidth between data centers, as well as circuits to members, market participants, etc. The increase in the 2016 communications budget over the

2015 forecast is based on projected growth of SPPnet and the addition of new members or market participants.

Communications Infrastructure (\$ millions)



Communications Infrastructure				
Communications (\$ millions)	<u>2015 Budget</u>	<u>2015 Forecast</u>	<u>2016 Budget</u>	<u>Prior 2016</u>
Network	\$4.0	\$3.6	\$3.9	\$4.1
Cellular, Satellite, Long Distance	0.3	0.2	0.2	0.3
Total	\$4.3	\$3.8	\$4.1	\$4.4

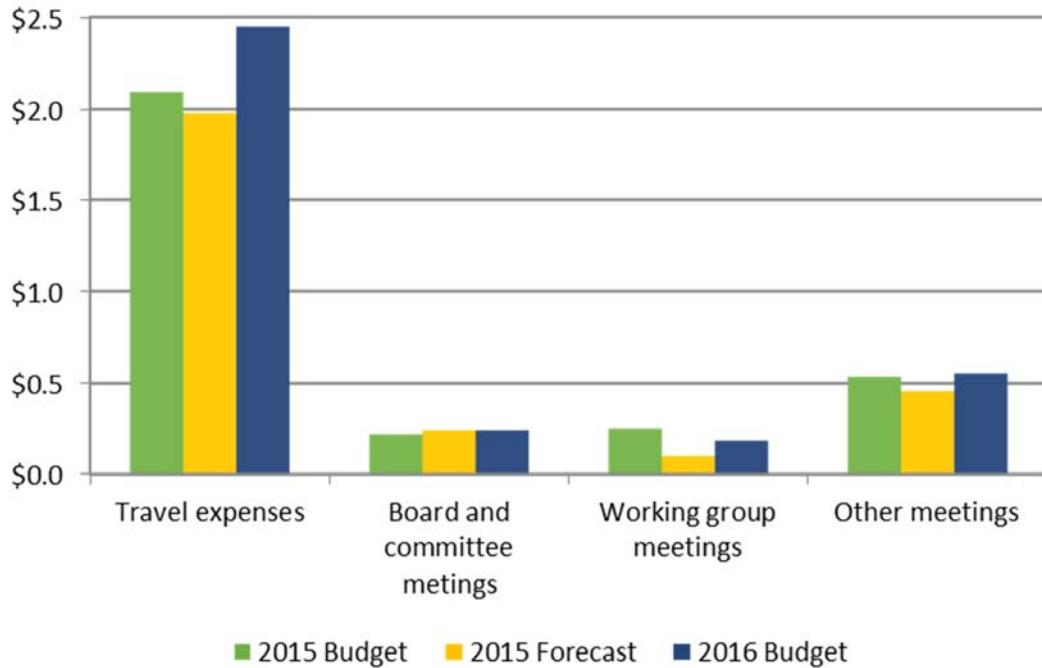
TRAVEL AND MEETINGS

In efforts to reduce travel and meeting expenses, SPP encourages the use of corporate facilities or member facilities when planning for external meetings. SPP also recommends organizational groups to include Little Rock in the rotation for working group meetings.

Travel and meetings expenses are expected to increase in 2016 as compared to the 2015 forecast, but remain consistent with the prior year 2016 budget. The largest component of the increase is in the Regional Entity, where travel is budgeted at \$0.3 million higher than the 2015

forecast due to anticipated travel to utility sites to provide assistance with the new CIP compliance standards.

Travel & Meetings (\$ millions)



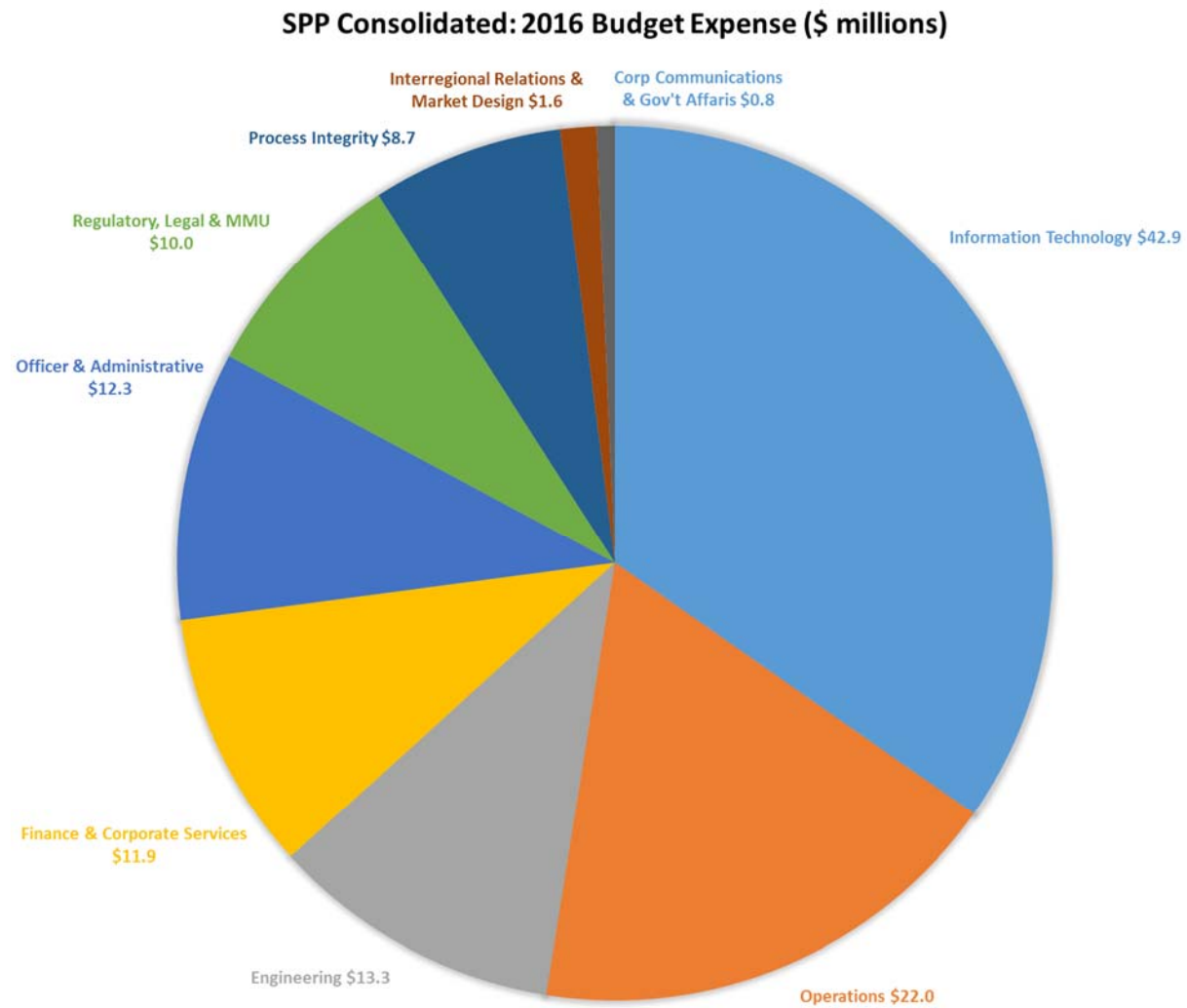
Travel & Meetings (\$ millions)	<u>2015 Budget</u>	<u>2015 Forecast</u>	<u>2016 Budget</u>	<u>Prior 2016</u>
Travel expenses	\$2.1	\$2.0	\$2.4	\$2.4
Board and committee meetings	0.2	0.2	0.2	0.2
Working group meetings	0.2	0.1	0.2	0.3
Other meetings	0.5	0.5	0.6	0.5
Total	\$3.1	\$2.8	\$3.4	\$3.4

Travel & Meetings by Division (\$ millions)

	<u>2015 Budget</u>	<u>2015 Forecast</u>	<u>2016 Budget</u>	<u>Prior 2016</u>
Finance & Corporate Services	\$0.6	\$0.5	\$0.7	\$0.7
Officer & Administrative	0.3	0.3	0.4	0.3
Process Integrity	0.4	0.3	0.4	0.4
Operations	0.3	0.3	0.4	0.3
Engineering	0.3	0.3	0.3	0.3
Regulatory, Legal & MMU	0.2	0.3	0.2	0.2
Information Technology	0.1	0.1	0.1	0.1
Corporate Communications & Government Affairs	0.0	0.0	0.1	0.0
Interregional Relations & Market Design	0.1	0.1	0.1	0.1
RTO Total	\$2.4	\$2.2	\$2.7	\$2.7
Regional Entity	0.7	0.5	0.8	0.7
SPP Consolidated Summary	\$3.1	\$2.8	\$3.4	\$3.4

VII. 2016 BUDGET: DIVISION VIEW

Total operating expense for each division is illustrated below and discussed in detail in the following section.



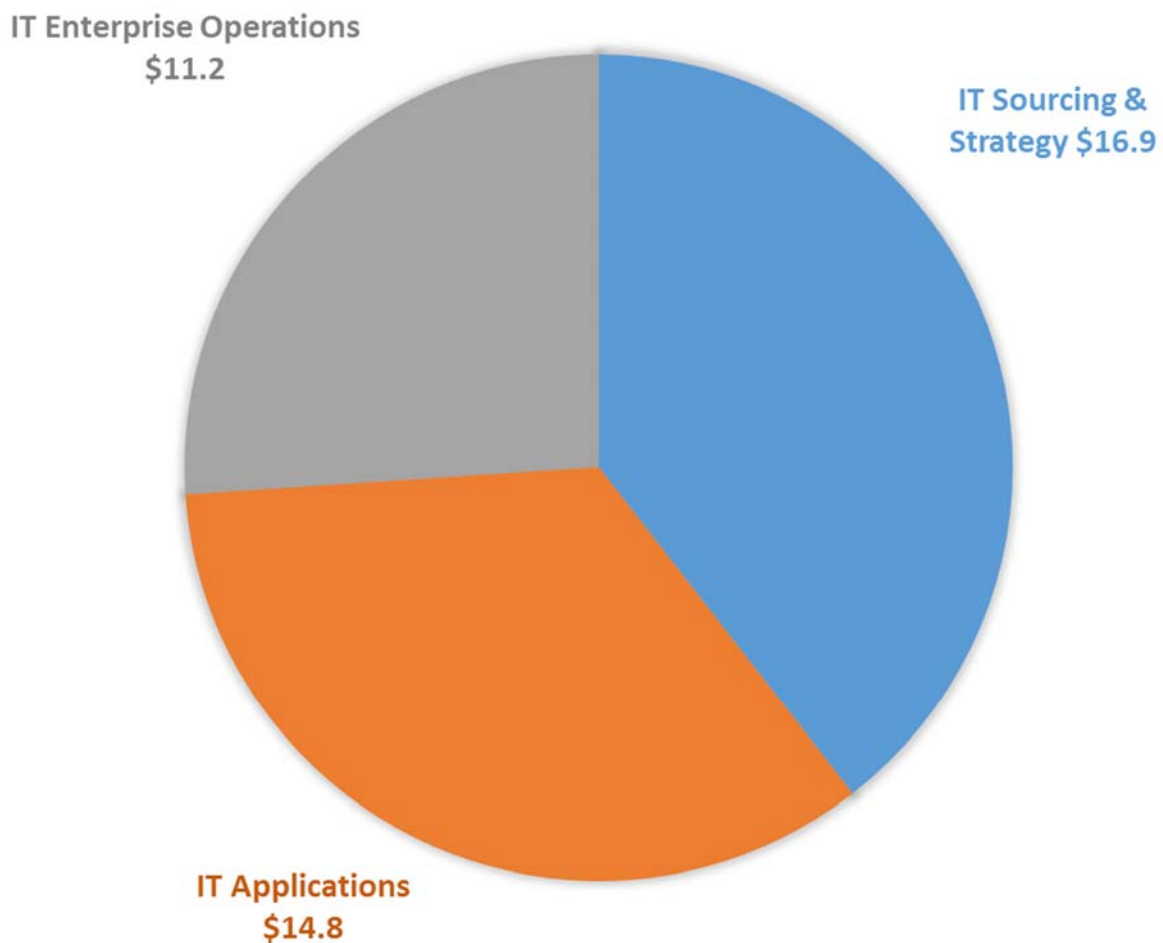
* Excludes FERC expense, interest, depreciation and Regional Entity

INFORMATION TECHNOLOGY

The primary mission of IT is to develop, deploy, integrate and support the applications and infrastructure that supply SPP's operational and corporate systems.

IT is divided into three primary groups: IT Enterprise Operations, IT Applications, and IT Sourcing & Strategy. IT headcount remains relatively flat even though responsibilities have increased. The IT department has been able to absorb the increased workload without adding staff by increasing automation processes and by maintaining a highly qualified staff that is significantly leveraged across various technical platforms and disciplines.

Information Technology: 2016 Budget Expense (\$ millions)



Information Technology

Expense	<u>2015 Budget</u>	<u>2015 Forecast</u>	<u>2016 Budget</u>	<u>2017 Budget</u>	<u>2018 Budget</u>
IT Sourcing & Strategy	\$15.4	\$14.3	\$16.9	\$19.4	\$21.3
IT Applications	15.5	14.0	14.8	15.1	15.4
IT Enterprise Operations	11.5	10.6	11.2	11.2	11.2
Information Technology	\$42.4	\$38.9	\$42.9	\$45.7	\$47.9
Headcount	146	145	146	146	147

- The **IT Sourcing and Strategy** department is responsible for overseeing the IT budget, including facilitating and negotiating business activities with major IT vendors. The team works closely with the other IT departments to assimilate an appropriate short and long-term budget and acquisition philosophy. This includes leveraging vendor relationships, managing asset lifecycles, and ensuring adequate maintenance coverage. The chief IT architect is responsible for IT’s technical strategy and direction, including a technical roadmap that encompasses network, security, application, and operation infrastructures. The chief architect works closely with the IT management team, as well as other managers within the organization to coordinate and implement the overall IT strategy.

In addition to staff expenses, the IT Sourcing and Strategy budget includes expenses for equipment and software maintenance for company-wide IT systems, as well as outside services for wind and weather forecasting.

- The **IT Applications** department provides 24x7-support for existing systems including transmission, reliability, Integrated Marketplace, and Project Pinnacle applications. The department is responsible for coordinating all software development efforts related to these key business systems, as well as planning and supporting the integration of new members/entities such as Integrated System.

The department plays an integral role in most new projects, including creating requirements, test and rollback plans; developing software; providing technical leadership; defining, implementing and reviewing architecture; and providing ongoing maintenance and support for the systems. The IT Applications group also tests and implements all software upgrades.

During 2015, the department implemented a 24x7 support group known as the “First Team”, which consists of (6) IT programmers and analysts. This team provides immediate IT response to system issues by staffing a support desk within the Operations center, 24 hours a day. During 2016, the team will continue support of existing systems and applications, as well as the addition of new SPP members. IT has implemented the

plan to bring support in-house for systems such as Credit Management System (CMS) and Post Operations Processing System (POPS) which were previously supported by outside entities. As a result, SPP's reliance and cost for outside services is reduced during 2016.

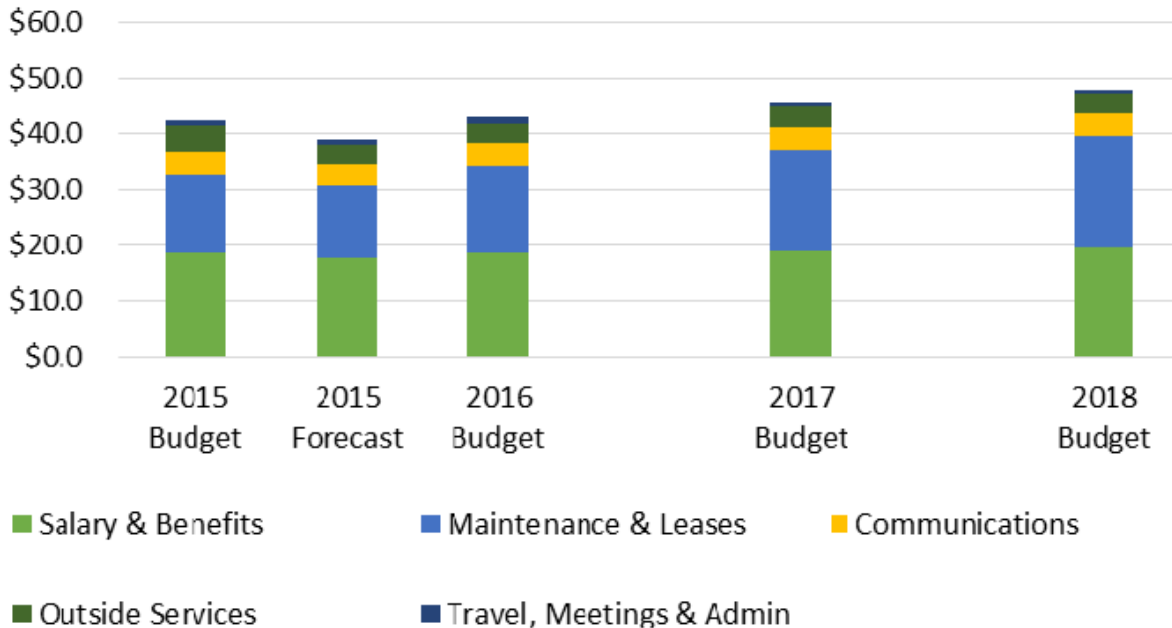
SPP's decision to collect and utilize synchrophasor data to enhance its understanding of electric system stability results in the need to add a programmer/analyst position for 2016 and a database analyst position in 2018.

- The **IT Enterprise Operations** department provides 24x7-support for all communications and networking systems, and all computer hardware and environmental needs for the SPP data centers. Each of these activities is critical to SPP's transmission, market, reliability, and business processes.

The department provides technical direction, leadership, and architectural design for the communications, network, storage, backup and recovery, and computing platforms for all aspects of the IT infrastructure utilized within SPP. IT Enterprise Operations has maintained a consistent headcount level for the past three years, while accepting a significant increase in workload (additional servers, increase in storage and capacity management, incremental software and security tools, etc.). In particular, the team inherited significant responsibilities related to CIP V5 and system security requirements.

The department has been able to absorb the increased workload without adding staff by increasing automation processes and by maintaining a highly qualified staff that is significantly leveraged across various technical platforms and disciplines. The technical resources are cross-trained in multiple areas allowing for both a primary and secondary level of support. The department historically has not utilized contractor resources to fulfill its responsibilities, and does not anticipate a need during the 2016 calendar year.

Information Technology 2016 Budget (\$ millions)



Information Technology Expenses (\$ millions)

Expense	<u>2015 Budget</u>	<u>2015 Forecast</u>	<u>2016 Budget</u>	<u>2017 Budget</u>	<u>2018 Budget</u>
Salary & Benefits	\$18.4	\$17.6	\$18.4	\$18.9	\$19.4
Maintenance & Leases	14.1	13.2	15.7	18.1	20.0
Communications	4.3	3.8	4.1	4.2	4.2
Outside Services	4.5	3.3	3.5	3.8	3.7
Travel, Meetings & Admin	1.1	1.0	1.2	0.7	0.7
Total Expense	\$42.4	\$38.9	\$42.9	\$45.7	\$47.9
Headcount	146	146	146	146	147

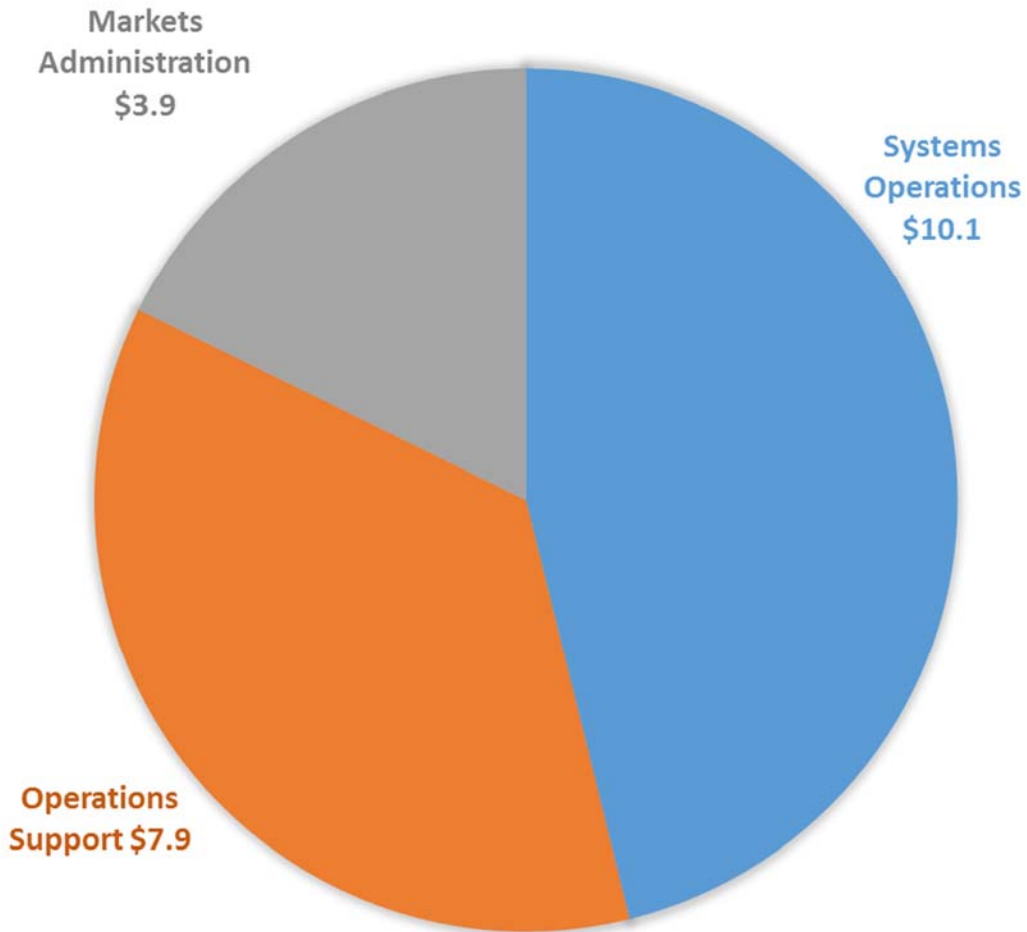
Staffing expense is the main component of the IT budget. The next largest component is related to maintenance and communications, followed by outside services. These expenses are discussed in detail in Section VI.

OPERATIONS

The Operations group administers SPP's Tariff and performs reliability coordination throughout SPP's footprint, with a highly-trained staff of engineers, certified system operators, and specialized support personnel to carry out this fundamental strategic goal.

Operations staff are the front line employees who engage real-time in the reliability and market aspects of SPP on a 24 hour a day, 7 days a week basis. Operations is divided into three primary groups: Systems Operations, Operations Support, and Markets Administration.

Operations: 2016 Budget Expense (\$ millions)



Operations					
Expense	<u>2015 Budget</u>	<u>2015 Forecast</u>	<u>2016 Budget</u>	<u>2017 Budget</u>	<u>2018 Budget</u>
Systems Operations	\$10.9	\$10.4	\$10.1	\$10.4	\$10.6
Operations Support	7.4	7.3	7.9	7.6	7.7
Markets Administration	3.8	3.6	3.9	4.0	4.1
Operations	\$22.0	\$21.2	\$22.0	\$21.9	\$22.4
Headcount	160	160	161	159	159

- The **Systems Operations** department is responsible for ensuring 24x7 monitoring of the bulk grid in the SPP region and ensuring operators and support staff are properly trained and in compliance with NERC standards.
- The **Markets Administration** department is divided into two main groups that reflect the fundamental structure of real-time and day-ahead markets. Included are operators and engineers who oversee the operation of the Day Ahead market, while optimizing energy and capacity on a daily basis. Duties include providing data integrity in real-time and performing data analyses after the fact to optimize the benefits for SPP's market participants.

Staffing levels were assessed during the project planning phase for the PMU Data Exchange project. SPP's decision to collect and utilize synchrophasor data to enhance its understanding of electric system stability results in the need to add Senior Engineer position for 2016. This position will be responsible for the planning, implementation, and custom development to benefit real-time operations and to increase the reliability of the electric grid.

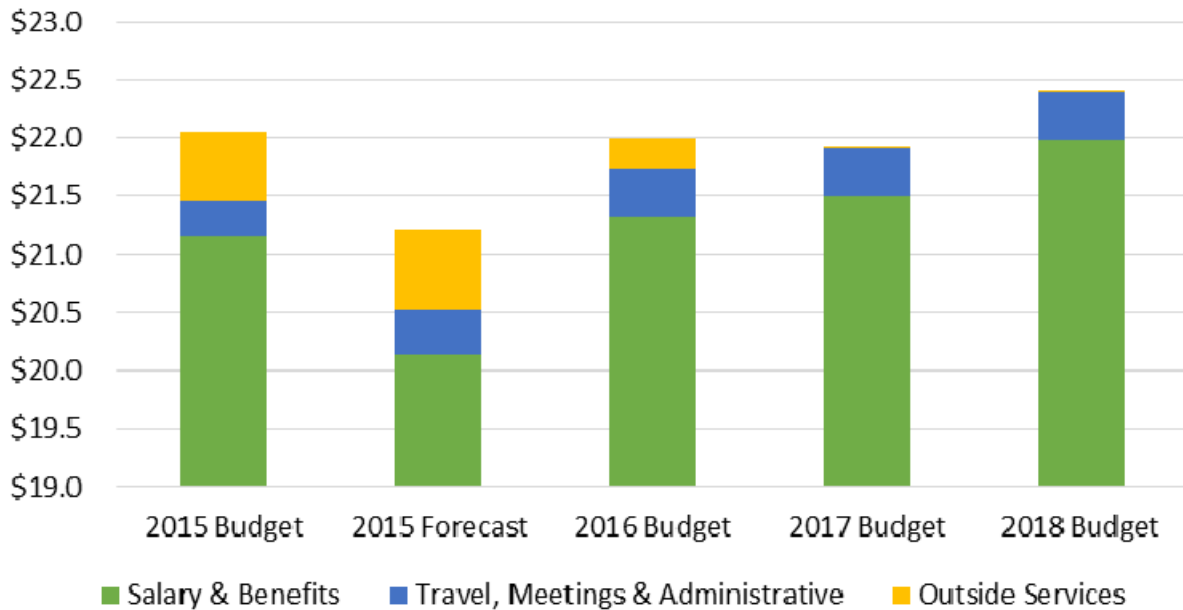
- The **Operations Support** department provides support services to the Operations division in areas such as outage coordination, load forecasting, modeling and data validation, and market data and registration, as well as extensive customer interaction and support.

Operations has committed to a reduction of two senior-level positions by the end of 2016. As a result, two positions have been removed from the 2017 budget. This reduction will be achieved through efficiencies gained from a maturing staff, who will be able to absorb workload as turnover occurs.



Staffing levels will be reduced by two positions in Operations Support by the end of 2016.

Operations 2016 Budget (\$ millions)



Operations 2016 Budget (\$ millions)

Expense	2015 Budget	2015 Forecast	2016 Budget	2017 Budget	2018 Budget
Salary & Benefits	\$21.2	\$20.1	\$21.3	\$21.5	\$22.0
Travel, Meetings & Administrative	0.3	0.4	0.4	0.4	0.4
Outside Services	0.6	0.7	0.3	0.0	0.0
Total Expense	\$22.0	\$21.2	\$22.0	\$21.9	\$22.4
Headcount	160	160	161	159	159

Staffing expense is the main component of the Operations budget, followed by travel, meetings & administrative expense. Outside services costs in Operations are declining in 2016 as a result of a reassignment of costs to the IT budget. Annual consulting expense associated with the shared cost of the interchange distribution calculator (IDC) tool was included in Operation’s budget during 2015; however, this cost has subsequently been moved to the IT budget beginning in 2016.

The Operations 2016 outside services budget does include cost for a wind study as recommended by the executive team. SPP will soon reach and exceed wind penetration levels studied in 2009. A new study is needed to ensure future reliable operations.

Increases in travel, meetings and administrative expenses are driven primarily by stakeholder and working group meetings, technical training, and professional membership/licenses.

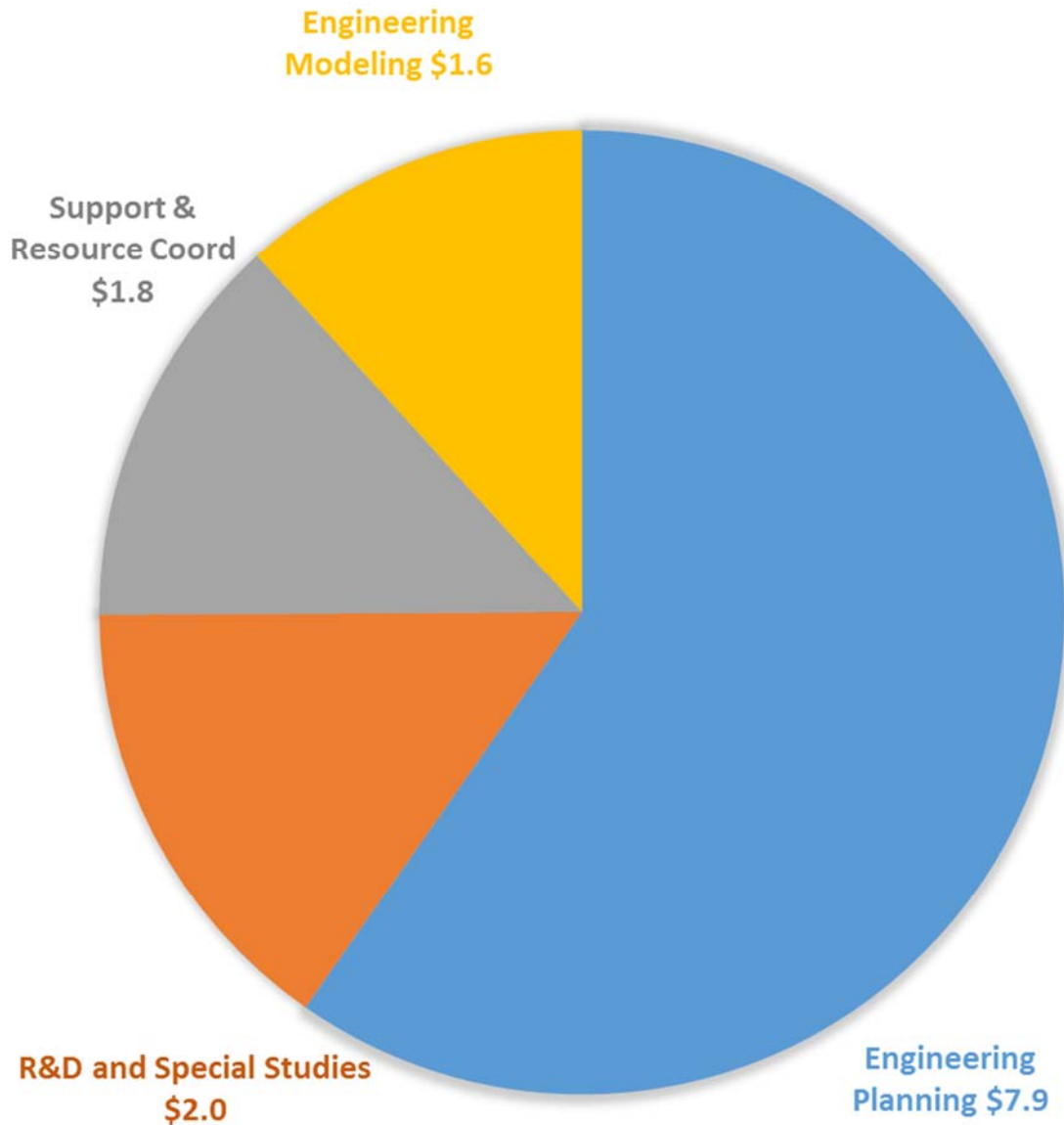
ENGINEERING

The Engineering division's mission is to facilitate SPP's strategic goal of continued development of a robust transmission system within the SPP footprint, while creating optimum value for stakeholders, members, and customers.

Principal duties of SPP's engineering department include planning SPP's transmission system to meet future regional reliability, economic, and public policy needs in an optimized manner; tracking progress and costs of approved transmission expansion projects; and performing longer term studies necessary to process requests for generation interconnection, transmission service, and transmission congestion rights. The department performs data gathering and reliability assessment responsibilities in support of the Regional Entity. The predominance of these duties are required by SPP's open-access transmission tariff (OATT) and business practices, the membership agreement (MA), NERC Reliability Standards, and SPP criteria.

The Engineering division's mission is to facilitate SPP's strategic goal of continued development of a robust transmission system within the SPP footprint, while creating optimum value for stakeholders, members, and customers. The Engineering division is comprised of four departments: Engineering Planning, Modeling, R&D and Special Studies, and Support & Resource Coordination.

Engineering: 2016 Budget Expense (\$ millions)



Engineering					
Expense	2015 Budget	2015 Forecast	2016 Budget	2017 Budget	2018 Budget
Engineering Planning	\$6.6	\$6.2	\$7.9	\$7.7	\$7.4
R&D and Special Studies	2.4	1.9	2.0	2.1	2.1
Support & Resource Coord	1.3	1.3	1.8	1.5	1.8
Engineering Modeling	1.6	1.3	1.6	1.6	1.6
Engineering	\$11.9	\$10.7	\$13.3	\$12.9	\$12.9
Headcount	73	73	76	77	77

- The primary focus of the **Engineering Planning** department involves transmission planning studies and the Integrated Transmission Planning (ITP) process. A key goal of the department in 2016 is increasing the skill and knowledge level of its staff through intensive training and development of employees to meet SPP's strategic goals and plans for 2016. The 2016 budget includes a three-to-five day training course for each staff member to attend.

The cost of various studies conducted by the planning department are recovered from the customers requiring the studies. SPP expects \$2.4 million in revenues in 2016 related to the studies performed. Generation interconnection studies have increased in volume over the last two studies as a result of the addition of new business processes and an increase in variable generation requests, such as wind and solar. The additional study request volume is covered by an increase in outside services, and the costs are passed through to the study participants.

The costs associated with providing Order 1000 support within the studies varies, depending on inputs from stakeholders and stages of the ITP studies. Even though Engineering has been successful in reducing costs associated with certain extended contracts for outside services, SPP will engage highly skilled technical analysts in 2016 on a short-term contract basis rather than hiring permanent resources or issuing long-term contracts for certain aspects of Order 1000 responsibilities. Outside Services costs are further defined in the next section.

The Engineering Planning department added two positions in the 2016 budget. An Engineer II position on the Congestion Hedging team will be assigned primarily to the increasing work volume as a result of the TCR (Transmission Congestion Rights) auction process and enhancements to the Long Term Congestion Rights (LTRC) process. An Engineer I position on the Economic Planning team will support functions related to the ITP10, coordinated system planning, and RCAR assessments.

- The **Modeling** department creates and maintains the power flow models used by the transmission planning and tariff studies groups and coordinates with members to ensure accuracy of the models, which is a critical step in planning investments in the regional transmission grid. Some resources within the Modeling department perform functions for the Regional Entity (RE), including model building and reliability assessment, which are required by NERC. Time logged for these activities is ultimately reimbursed from the RE through the funding SPP receives from NERC. The budget assumes an estimated 4.5 FTEs dedicated to RE. NERC requirements for building models are identified by specific models on demand (MOD). The number of FTEs dedicated to RE could increase with changes to the standards outlined in the MODs. NERC MOD-032

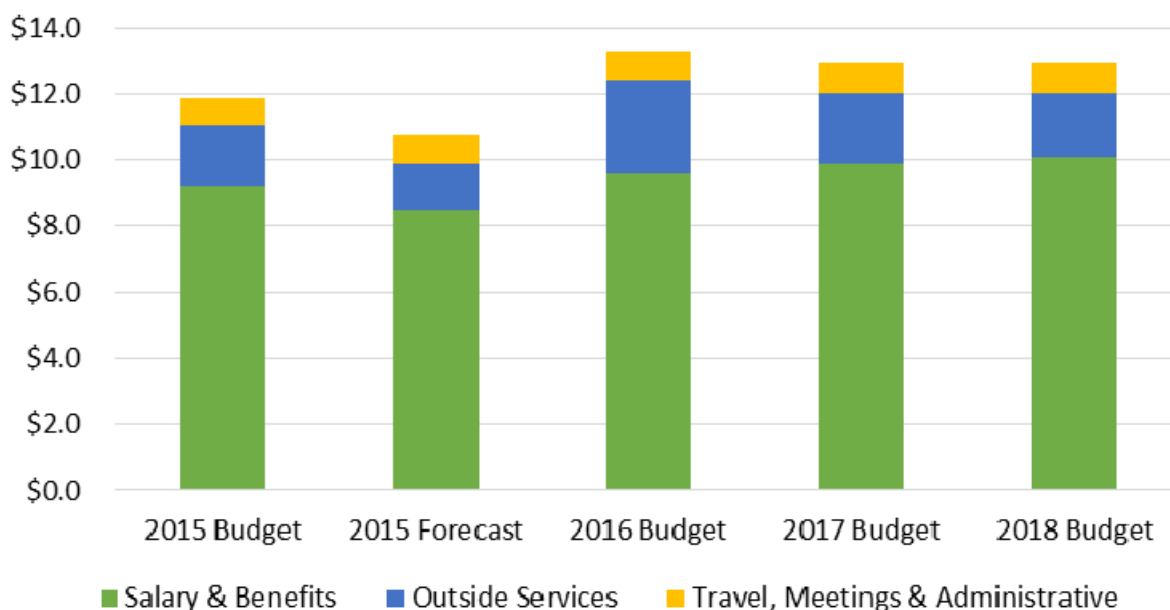
is changing to planning-coordinator-based model building, which would move the charges to the RTO instead of the RE.

An incremental Engineer II position is included in the 2016 budget as a result of MOD-033 which requires SPP to implement a documented process to perform model validation within its planning area.

- The main goal of the **R&D and Special Studies** department is to assess new approaches and tools to refine performance objectives that align with future needs. A new synchrophasor project was introduced as a result of earlier research performed by this department and will be coordinated with Operations and IT to further develop implementation needs and requirements. The use of synchrophasor data in event analysis and real-time monitoring are expected to enhance SPP's knowledge of the electric system stability which will result in improved system operations and planning. The department budgets for research and information tools, such as publications and membership in Electric Power Research Institute (EPRI), and for industry expert consulting services to provide solutions for planning and operations process improvements. A goal of the department is to conduct centralized R&D activities to benefit SPP's stakeholders. For example, EPRI is currently engaging members KCPL and NPPD in their PMU pilot program. In addition staff supports several projects at multiple energy industry groups with projects that span 24 to 36 months.
- The **Support and Resource Coordination** department provides business solutions and efficiencies, and resource coordination and allocation for engineering projects. The resource coordination and time tracking initiative allows management visibility to assess workload assignments to ensure high quality and timely completion of Engineering department duties. The department is responsible for managing consultants for work on the Detailed Project Proposal (DPP) cost estimation process as outlined in the FERC Order 1000 and the ITP10 study process. The cost estimation process is a specific skillset and occurs in a short, high activity time span. As a result, the process is performed by consultants when called upon within the ITP study.

Staffing expense is the main component of the Engineering budget, followed by outside services and travel, meetings & administrative expense.

Engineering 2016 Budget (\$ millions)



Engineering Expenses (\$ millions)

Expense	<u>2015 Budget</u>	<u>2015 Forecast</u>	<u>2016 Budget</u>	<u>2017 Budget</u>	<u>2018 Budget</u>
Salary & Benefits	\$9.2	\$8.5	\$9.6	\$9.9	\$10.1
Outside Services	1.8	1.4	2.8	2.1	1.9
Travel, Meetings & Administrative	0.9	0.8	0.9	0.9	0.9
Total Expense	\$11.9	\$10.7	\$13.3	\$12.9	\$12.9
Headcount	73	73	76	77	77

Outside services is the second largest expense behind salary and benefits. Travel, meetings & administrative costs are driven primarily by stakeholder and working group meetings, technical training, and professional membership and licenses.

Engineering Outside Services (\$ millions)

	<u>2015 Budget</u>	<u>2015 Forecast</u>	<u>2016 Budget</u>	<u>2017 Budget</u>	<u>2018 Budget</u>
Engineering Planning	\$1.0	\$1.0	\$2.2	\$1.7	\$1.3
Support & Resource Coord	0.0	0.0	0.4	0.1	0.4
R&D and Special Studies	0.7	0.4	0.2	0.2	0.2
Modeling	0.2	0.0	0.0	0.0	0.0
Total	\$1.8	\$1.4	\$2.8	\$2.1	\$1.9

Outside services are used to augment staff within Engineering for three main purposes: FERC Order 1000 process activities within the ITP planning studies, pass-thru expenses for

Generation Interconnection, Transmission Service, and Attachment AQ studies, and skill specific consulting.

There are two ITP studies planned for completion in 2016, resulting in higher costs in 2016 as compared to the 2015 forecast. In addition to the increase in the number of ITP studies, the stakeholders requested that an additional future be performed in connection with the ITP 10 study. Normally only two futures are considered with each ITP study. With stakeholder approval, three futures will be run with this year's ITP 10 resulting in higher consulting costs. The additional future, along with stricter business practices is expected to push the DPPs received from 1,600 in 2014 to 3,200 in 2016, which will increase the need for external resources during this time period in order to meet the approved schedules.

Generation Interconnection, Transmission Service, and Attachment AQ studies are based on the volume of participants. Since that volume can vary, outside services are retained to support those studies over and above the current staff level. This is a pass thru expense, with revenue collected from the study participants. A significant increase in Generation Interconnection studies is anticipated in 2016 due to recent process changes which will increase the need for external consultants.

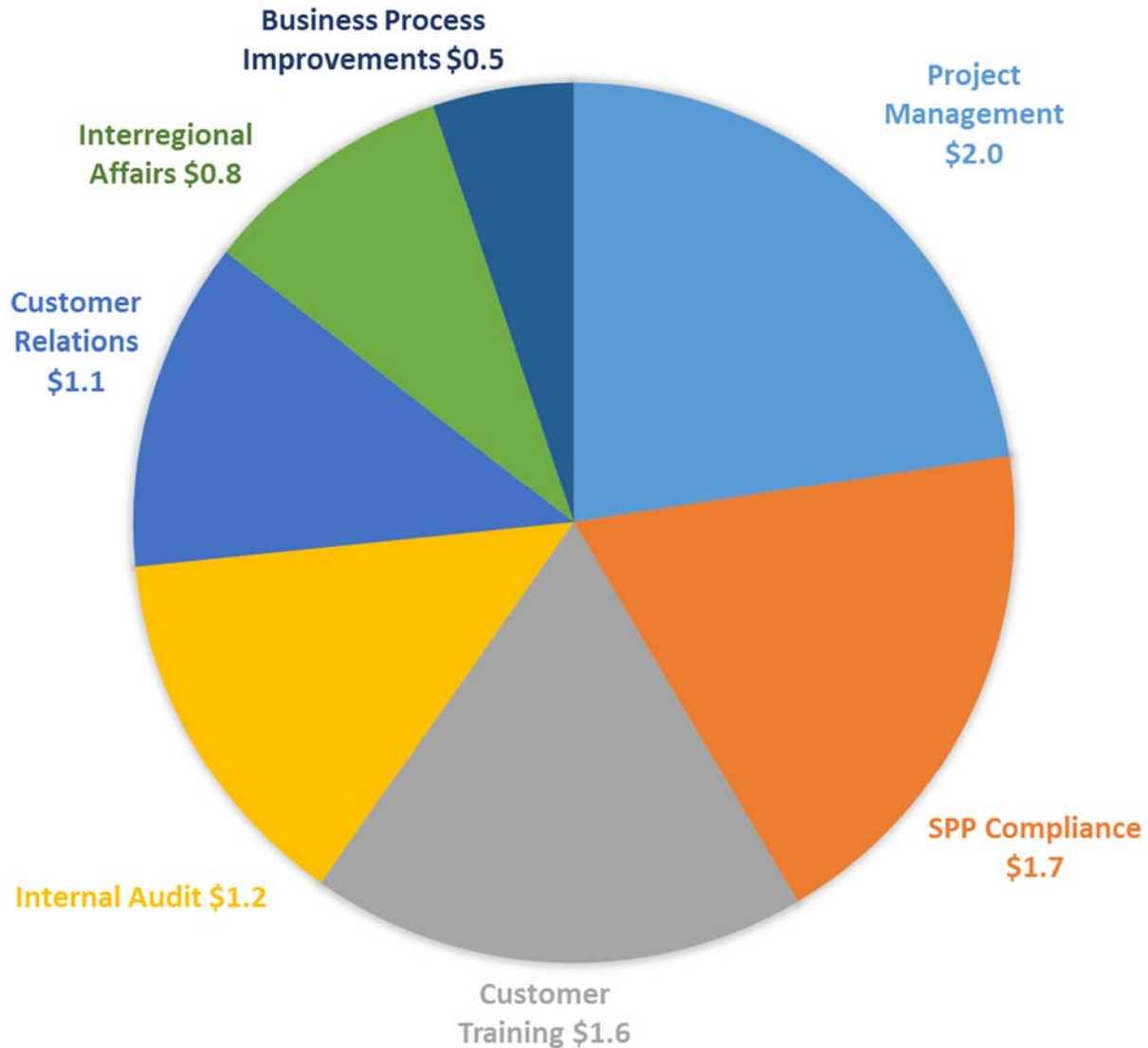
At certain times, studies performed within Engineering require a specific type of service. These services may be short-lived in nature but are necessary to the study process. Detailed project construction cost estimation and specific modeling techniques are examples of the skill sets consultants provide.

PROCESS INTEGRITY

The Process Integrity division provides leadership, expertise and value-added services that drive increased organizational efficiency, effectiveness, and customer service excellence.

Although the departments that comprise the Process Integrity Division are specialized in their focus and areas of expertise (as detailed below), they all provide facilitation services leveraged across all other SPP divisions to help create member value. The functions within Process Integrity range from primarily internally focused duties to those whose purpose is to deliver value-added services directly to SPP members, customers, and other stakeholders. Departments within this group work closely with the SPP Oversight Committee.

Process Integrity: 2016 Budget Expense (\$ millions)



Expense	Process Integrity				
	<u>2015 Budget</u>	<u>2015 Forecast</u>	<u>2016 Budget</u>	<u>2017 Budget</u>	<u>2018 Budget</u>
Project Management	\$1.9	\$1.8	\$2.0	\$2.0	\$2.1
SPP Compliance	1.6	1.5	1.7	1.6	1.7
Customer Training	1.6	1.5	1.6	1.7	1.7
Internal Audit	1.1	1.2	1.2	1.2	1.3
Customer Relations	1.2	1.1	1.1	1.1	1.1
Interregional Affairs	0.8	0.9	0.8	0.8	0.9
Business Process Improvements	0.5	0.4	0.5	0.5	0.5
Process Integrity	\$8.7	\$8.4	\$8.7	\$8.9	\$9.1
Headcount	58	58	58	58	58

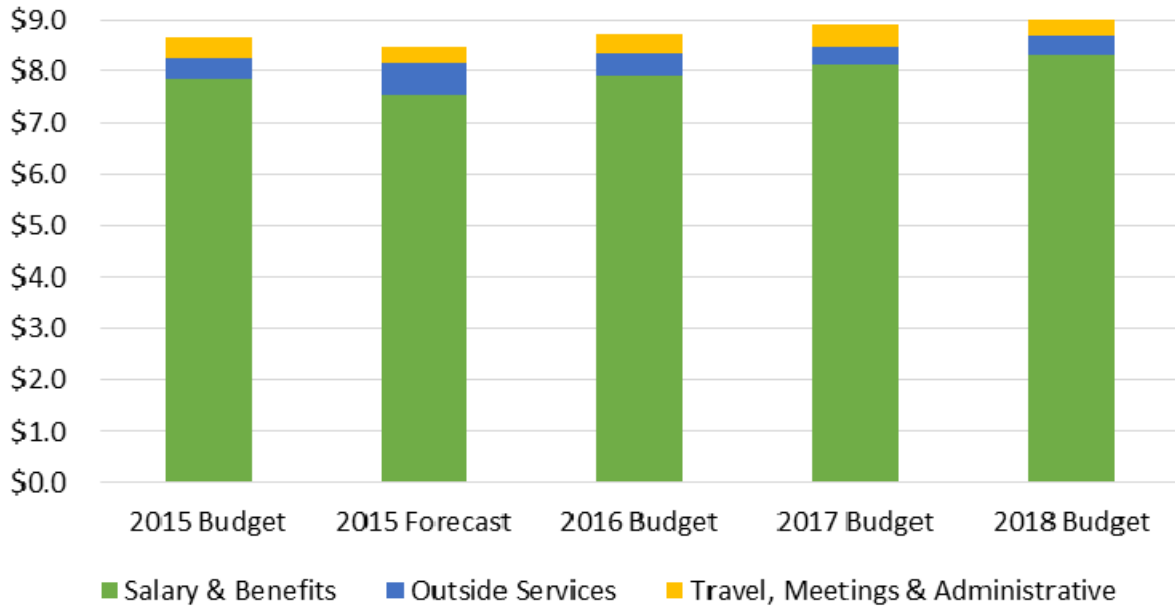
- The **Project Management Office (PMO)** department is responsible for overseeing and coordinating the design, development, and implementation of projects within SPP. Although consulting costs for staff augmentation was included in the 2015 budget, the PMO does not anticipate a need for external support for the 2016 – 2018 budget.
- The main goals for the **Compliance** department are assuring reliability standards and tariff compliance for the organization; overseeing physical and cyber security (including cyber-vulnerability assessments, security monitoring, threat evaluation, and incident response); providing risk mitigation functions throughout the SPP organization; and facilitating member compliance outreach in coordination with the Board Oversight Committee.
- The **Stakeholder Services** group encompasses two departments, **Customer Relations and Customer Training**. Customer Relations builds and maintains mutually beneficial relationships in support of the critical functions of SPP. The department provides facilitation, coordination, issue resolution, planning and organization, and account management through targeted communication to SPP’s customers, market participants and stakeholders. Interactions with and inquiries from stakeholders have increased significantly since the implementation of the Integrated Marketplace, with a monthly average of 460 inquiries from the Request Management System (RMS). In response to the increased activity, processes were implemented which have increased the first call resolution from 16% in September 2014 to 36% in August 2015. During the past 12 months, 97.4% of stakeholders indicated they were satisfied with the RMS as measured by the satisfaction survey administered when an issue is resolved and closed.

Customer Training provides educational activities intended to further develop and train SPP Stakeholders to enhance the knowledge and skills they require for the reliable operation of the bulk power system and to participate effectively and efficiently in SPP’s energy market within North America. Customer Training offers over 100 learning events for Marketplace Training, including online courses, instructor-led classroom training, virtual (net conference) instructor-led training, videos, learning bursts, Market Symposium, as well as additional reference materials and job aids. In addition, regional emergency operations training is offered including system operations conferences, regional emergency operations classroom sessions, train-the-trainer events, system restoration drills, emergency response drills, REOPS net conferences, self-study courses, and learning bursts. In 2016, Customer Training is offering one additional system operations conference, one additional REOPS classroom session, two partial restoration drills (coordinated with MISO and TVA), and six member emergency response exercises.

- The mission of the **Internal Audit** department is to provide independent and objective assurance and advisory services that are designed to add value and improve SPP's operations. The department maintains and implements a risk-based audit schedule covering all of SPP business units. A critical function of the Internal Audit department is the coordination of the annual SSAE 16 audit, which evaluates SPP's internal controls as a service organization. The focus going forward is ensuring the effectiveness and reliability of SPP's internal controls supporting Integrated Marketplace functions.
- The **Business Process Improvement** department functions as catalysts to help SPP departments increase member value in two distinct areas. BPI facilitates the identification of continuous improvement opportunities and mentors staff in applying a standard methodology for developing and implementing efficient and effective business processes. The Emergency Management and Business Continuity (EMBC) portion of BPI leads organization-wide planning, training and testing efforts designed to protect human health and safety, and ensure the effective coordination and management of SPP resources to minimize risk and disruption of business operations in emergency situations.
- The **Interregional Affairs** department is involved in the industry-wide standard development efforts by serving in leadership roles in both NERC and NAESB. The Reliability Standards staff provides SPP leadership in the national effort to develop meaningful and achievable reliability standards. Working with other SPP staff, members, and industry experts, the department works to ensure the standards necessary to maintain a reliable bulk electric system are in place, with clear, effective, reasonable, and measurable requirements.

Staffing expense is the main component of the Process Integrity budget, followed by outside services and travel, meetings & administrative expense. The outside services expense is driven by staff augmentation in the SPP Compliance department for CIP V5 mock audits and in Business Process Improvements department for EMBC test exercises.

Process Integrity 2016 Budget (\$ millions)



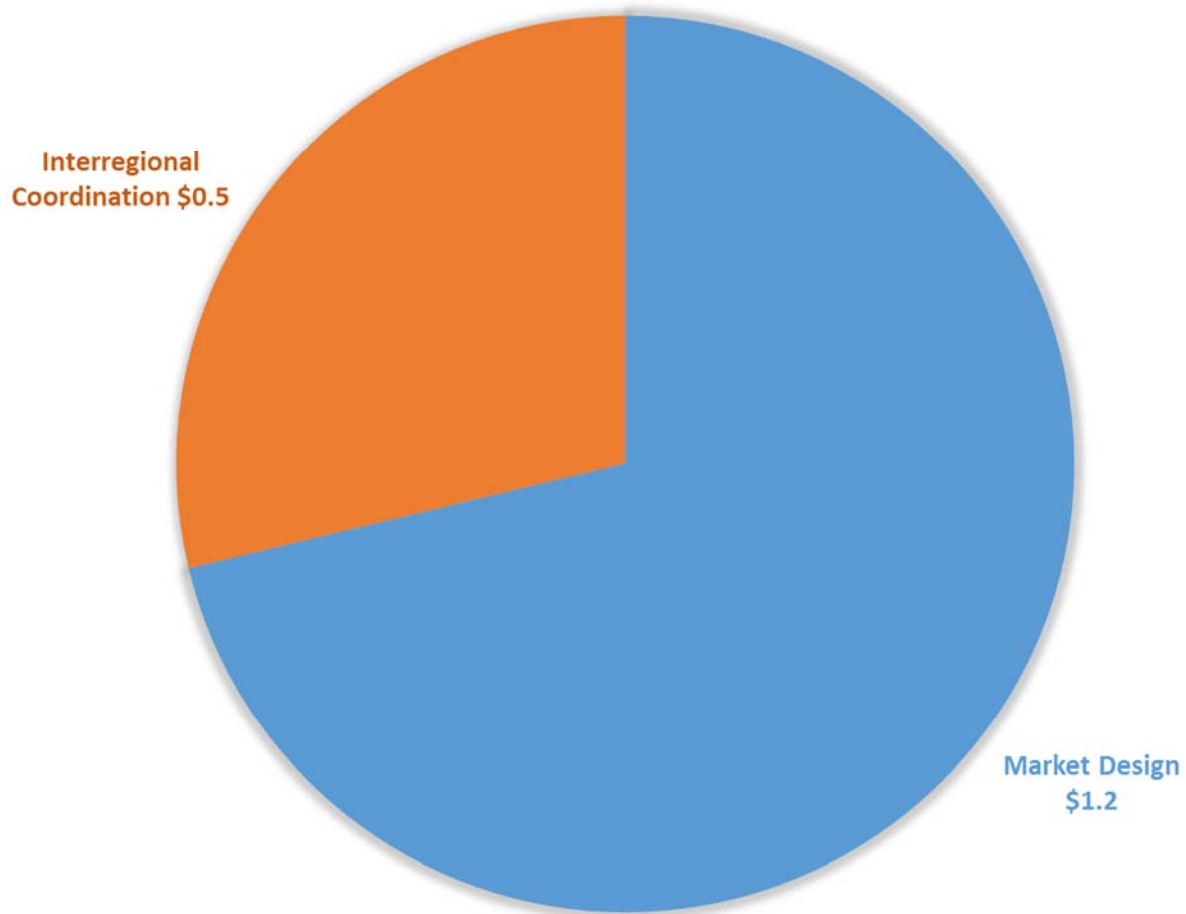
Process Integrity Expenses (\$ millions)

Expense	<u>2015 Budget</u>	<u>2015 Forecast</u>	<u>2016 Budget</u>	<u>2017 Budget</u>	<u>2018 Budget</u>
Salary & Benefits	\$7.9	\$7.6	\$7.9	\$8.1	\$8.3
Outside Services	0.4	0.6	0.4	0.4	0.4
Travel, Meetings & Administrative	0.4	0.3	0.4	0.4	0.4
Total Expense	\$8.7	\$8.5	\$8.7	\$8.9	\$9.1
Headcount	58	57	58	58	58

MARKET DESIGN AND INTERREGIONAL RELATIONS

Two distinct departments are managed under the Market Design and Interregional Relations division.

Interregional Relations & Market Design: 2016 Budget Expense (\$ millions)



Interregional Relations & Market Design					
Expense	<u>2015 Budget</u>	<u>2015 Forecast</u>	<u>2016 Budget</u>	<u>2017 Budget</u>	<u>2018 Budget</u>
Market Design	\$1.2	\$1.3	\$1.2	\$1.2	\$1.2
Interregional Relations	0.5	0.5	0.5	0.5	0.5
Interregional Relations & Market Design	\$1.7	\$1.8	\$1.6	\$1.7	\$1.7
Headcount	10	10	10	10	10

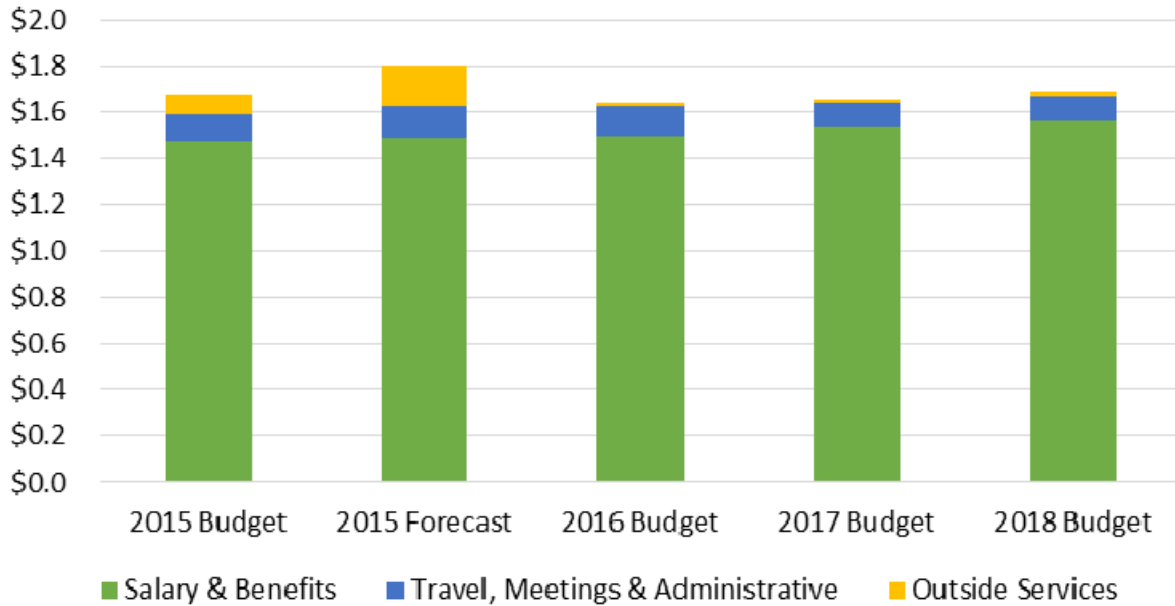
- The **Market Design** department is responsible for the evolution of the energy and capacity markets, which is achieved through interactions and cooperation with members and other stakeholders while creating and enhancing markets in a member-driven way.

Other goals of market design are to maintain reliability and pursue innovative ways to increase reliability through economics. The department has three key responsibilities:

- Create and modify the current SPP regional market design through a member-driven process
 - Conduct quality assurance functions to ensure implemented processes and systems are consistent with the market design
 - Support other market-related initiatives for the development of new members and initiatives
- The **Interregional Relations** department works closely with SPP's members and neighboring entities to ensure interregional seams activities are coordinated across the SPP organization in accordance with requirements contained in SPP's seams agreements.

Coordination with MISO and other neighbors on seams issues and joint operating agreements have become increasingly important due to the heightened operational and financial impacts to the seams parties. The department also continues to support efforts to bring new members into SPP.

IRR & Market Design 2016 Budget (\$ millions)



Interregional Relations & Market Design Expenses (\$ millions)

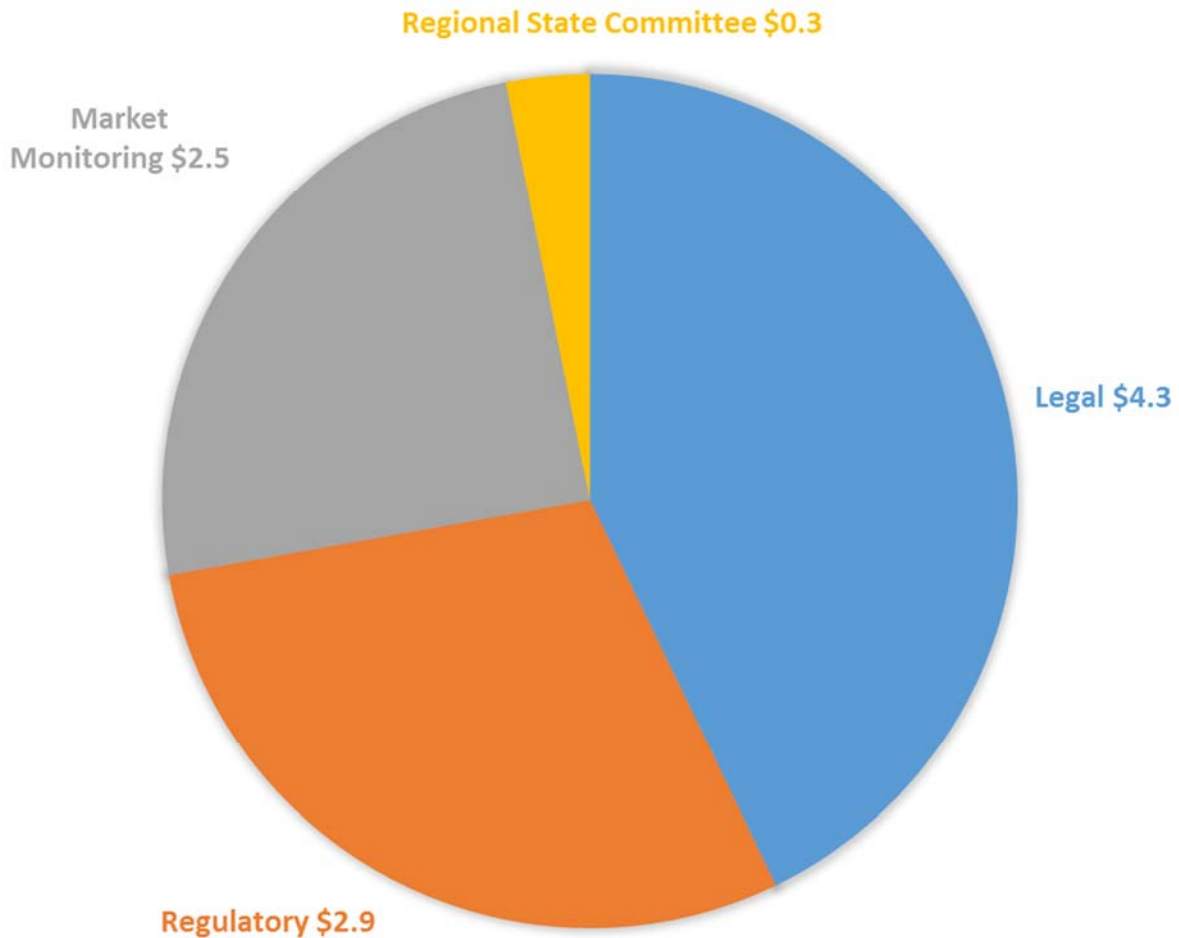
Expense	<u>2015 Budget</u>	<u>2015 Forecast</u>	<u>2016 Budget</u>	<u>2017 Budget</u>	<u>2018 Budget</u>
Salary & Benefits	\$1.5	\$1.5	\$1.5	\$1.5	\$1.6
Travel, Meetings & Administrative	0.1	0.1	0.1	0.1	0.1
Outside Services	0.1	0.2	0.0	0.0	0.0
Total Expense	\$1.7	\$1.8	\$1.6	\$1.7	\$1.7
Headcount	10	10	10	10	10

Staffing expense is the main component of the Market Design and Interregional Coordination budget, followed by travel, meetings & administrative expense and outside services expense. These costs are driven primarily by stakeholder and working group meetings, technical training, and professional membership and licenses. Although staff augmentation was required in 2015, none is anticipated for the 2016 – 2018 budget. Minimal expense is included for an Inter-RTO council (IRC) consulting contract for coordinated cross-RTO/ISO analysis (e.g., market design comparison across North American RTO/ISOs).

LEGAL, REGULATORY AND MARKET MONITORING

This division is comprised of four distinct departments including: Legal, Regulatory Policy, Market Monitoring, and Regional State Committee.

Regulatory, Legal & MMU: 2016 Budget Expense (\$ millions)



Regulatory, Legal and MMU					
Expense	<u>2015 Budget</u>	<u>2015 Forecast</u>	<u>2016 Budget</u>	<u>2017 Budget</u>	<u>2018 Budget</u>
Legal	\$3.9	\$4.2	\$4.3	\$4.3	\$4.3
Regulatory	3.7	2.3	2.9	1.9	2.0
Market Monitoring	2.3	2.2	2.5	2.5	2.6
Regional State Committee	0.3	0.2	0.3	0.3	0.3
Regulatory, Legal & MMU	\$10.2	\$8.9	\$10.0	\$9.1	\$9.2
Headcount	40	39	40	40	40

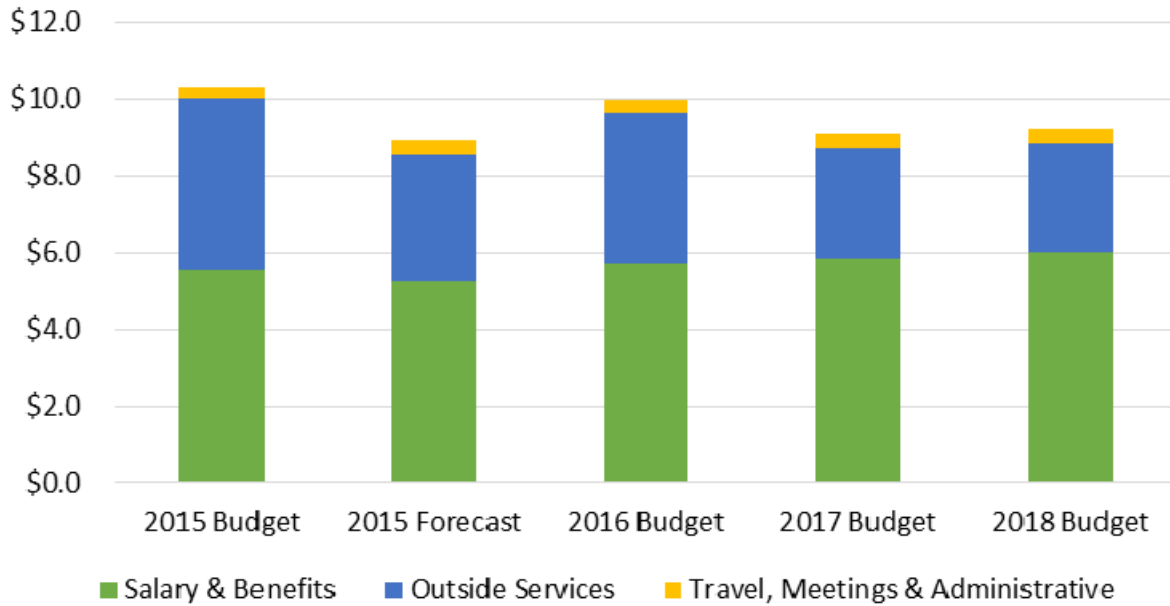
- The **Legal** department continues to evolve into a value-added internal resource with the goal of reducing costs for and dependency on outside counsel, especially in FERC matters. Over the past 5 years the Legal department has internalized a significant amount of legal work. While these saving have already been achieved, the Legal department continues to seek ways to create efficiencies.
- The **Regulatory Policy** department has responsibility for all regulatory filings related to tariff implementation and revisions. The outside services expense budget includes costs for the Order 1000 Industry Expert Panel (IEP), which is recovered in revenue from the participants in the proposal process. No new IEP costs are included in the 2016 budget due to the unpredictability of the number of proposals which may be received and given the costs associated with Order 1000 are offset by revenue. The only costs included are for the RFP currently underway. A provision in the Tariff (OATT) requires SPP to perform a Regional Cost Allocation Review (RCAR) at least every three years. Although the latest review began in 2015, the project was delayed at the request of SPP members. Incremental consulting costs to continue the review are included in 2016.
- The main focus of the **Market Monitoring** department is to improve its capabilities by implementing enhanced analytic tools and new monitoring screens. The MMU continues to concentrate on improving the efficiency of reporting activities and ensuring compliance with Tariff requirements and FERC expectations.

The MMU hired outside legal counsel to provide support for the MMU in 2015 in order to provide additional independence for the MMU. This is expected to be an annual expense and is reflected in the budget for 2016 – 2018.

Staffing levels were assessed in 2015 and one Senior Market Monitor position was added for 2016. This position will support increased market design issues, behavior studies of market participants, FERC requests, and other ad-hoc studies.

- The SPP **Regional State Committee (RSC)** was established to provide both direction and input on all matters pertinent to the participation of the members in SPP. The SPP RSC provides collective state regulatory agency input on matters of regional importance related to the development and operation of bulk electric transmission. It is comprised of retail regulatory commissioners from agencies in Arkansas, Kansas, Missouri, Nebraska, New Mexico, Oklahoma, and Texas.

Regulatory, Legal & MMU 2016 Budget (\$ millions)



Regulatory, Legal & MMU Expenses (\$ millions)

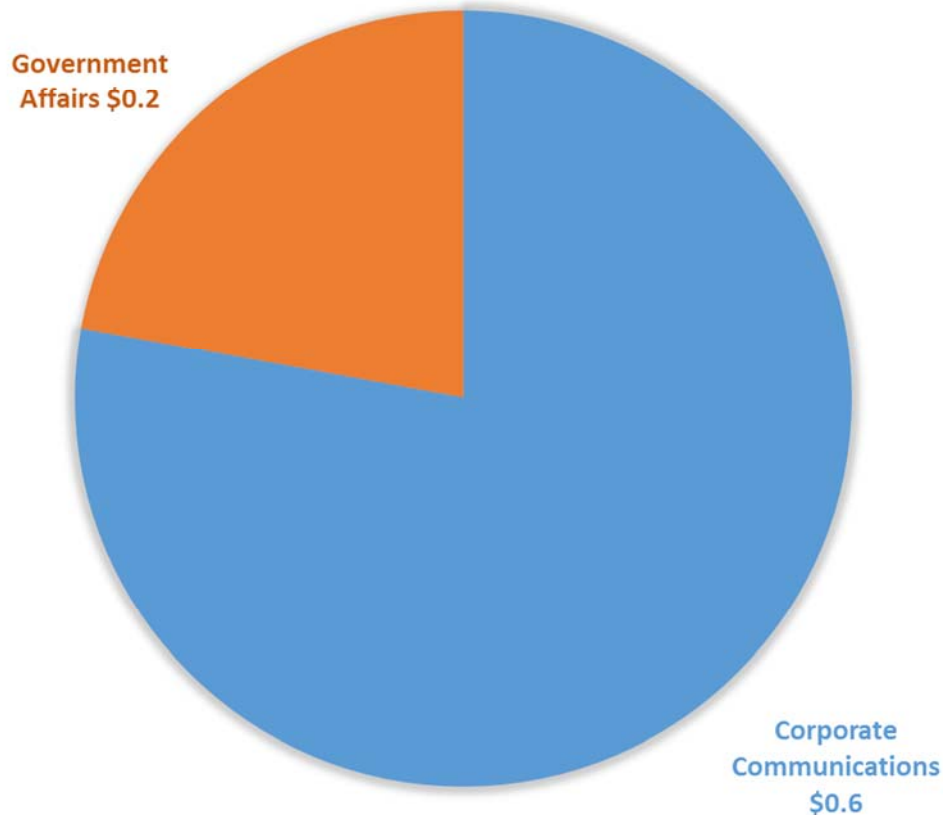
Expense	<u>2015 Budget</u>	<u>2015 Forecast</u>	<u>2016 Budget</u>	<u>2017 Budget</u>	<u>2018 Budget</u>
Salary & Benefits	\$5.5	\$5.2	\$5.7	\$5.8	\$6.0
Outside Services	4.5	3.3	3.9	2.8	2.8
Travel, Meetings & Administrative	0.3	0.4	0.4	0.4	0.4
Total Expense	\$10.2	\$8.9	\$10.0	\$9.1	\$9.2
Headcount	40	39	40	40	40

Staffing expense is the main component of the Regulatory, Legal and MMU budget, followed by outside services and travel, meetings & administrative expense.

CORPORATE COMMUNICATIONS AND GOVERNMENT AFFAIRS

This division, formerly called Communications, has been segregated into two separate departments with specific functions performed by each.

Corporate Communications & Government Affairs: 2016 Budget Expense (\$ millions)




Corporate Communications & Government Affairs					
Expense	<u>2015 Budget</u>	<u>2015 Forecast</u>	<u>2016 Budget</u>	<u>2017 Budget</u>	<u>2018 Budget</u>
Corporate Communications	\$0.6	\$0.6	\$0.6	\$0.6	\$0.6
Government Affairs	0.0	0.0	0.2	0.2	0.2
Corporate Communications & Gov't Affairs	\$0.6	\$0.6	\$0.8	\$0.8	\$0.8
Headcount	4	5	5	5	5

- The **Corporate Communications** department is responsible for directing the internal and external communications for SPP. The department develops and implements strategic communications plans to educate the public on SPP's mission and drive engagement among employees. The department also creates and preserves SPP's brand image

through its website, public presentations, collateral material, and social media. The Corporate Communications department executes this strategy through various means, including communicating the value of transmission to stakeholders, regulators, and the general public.

A multi-faceted public awareness campaign is planned for 2016 to promote a new value of transmission study, which is expected to be publicly released in January. The campaign will be coordinated with the company's

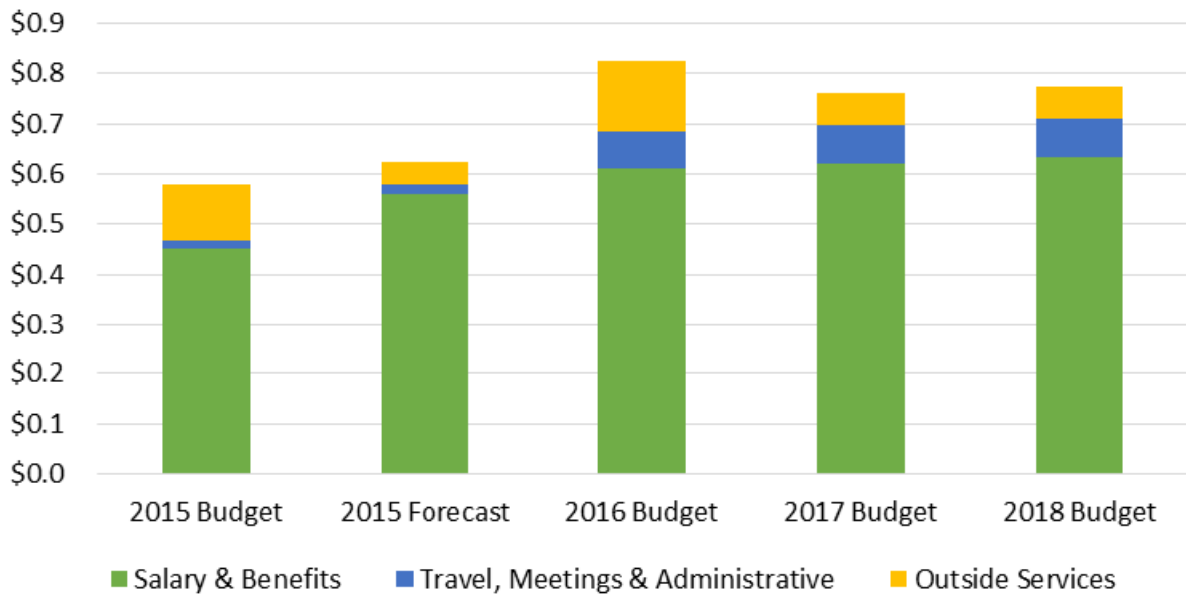
75th anniversary celebration. Additionally, the department plans to redesign in 2016 the company's intranet (The Circuit) to improve communication and collaboration between SPP staff. The redesign follows the successful transition to a new external website in October 2015, following months of planning, development and testing.



The 2016 budget includes additional expense related to SPP's 75th anniversary events.

- The newly developed **Government Affairs and Public Relations** department was established to improve working relationships with customers throughout SPP's footprint and to facilitate the dissemination of information to local, regional, state and federal agencies; legislative committees; policymakers and elected officials; the general public; and business and industry trade organizations who are engaged with or interested in the bulk electric system. The Government Affairs and Public Relations department facilitates and coordinates these relationships to develop a communications strategy to provide educational information to governmental entities, trade organizations and the general public.

Communications & Gov't Affairs 2016 Budget (\$ millions)



Communications & Government Affairs Expenses (\$ millions)

Expense	<u>2015 Budget</u>	<u>2015 Forecast</u>	<u>2016 Budget</u>	<u>2017 Budget</u>	<u>2018 Budget</u>
Salary & Benefits	\$0.5	\$0.6	\$0.6	\$0.6	\$0.6
Travel, Meetings & Administrative	0.0	0.0	0.1	0.1	0.1
Outside Services	0.1	0.0	0.1	0.1	0.1
Total Expense	\$0.6	\$0.6	\$0.8	\$0.8	\$0.8
Headcount	4	5	5	5	5

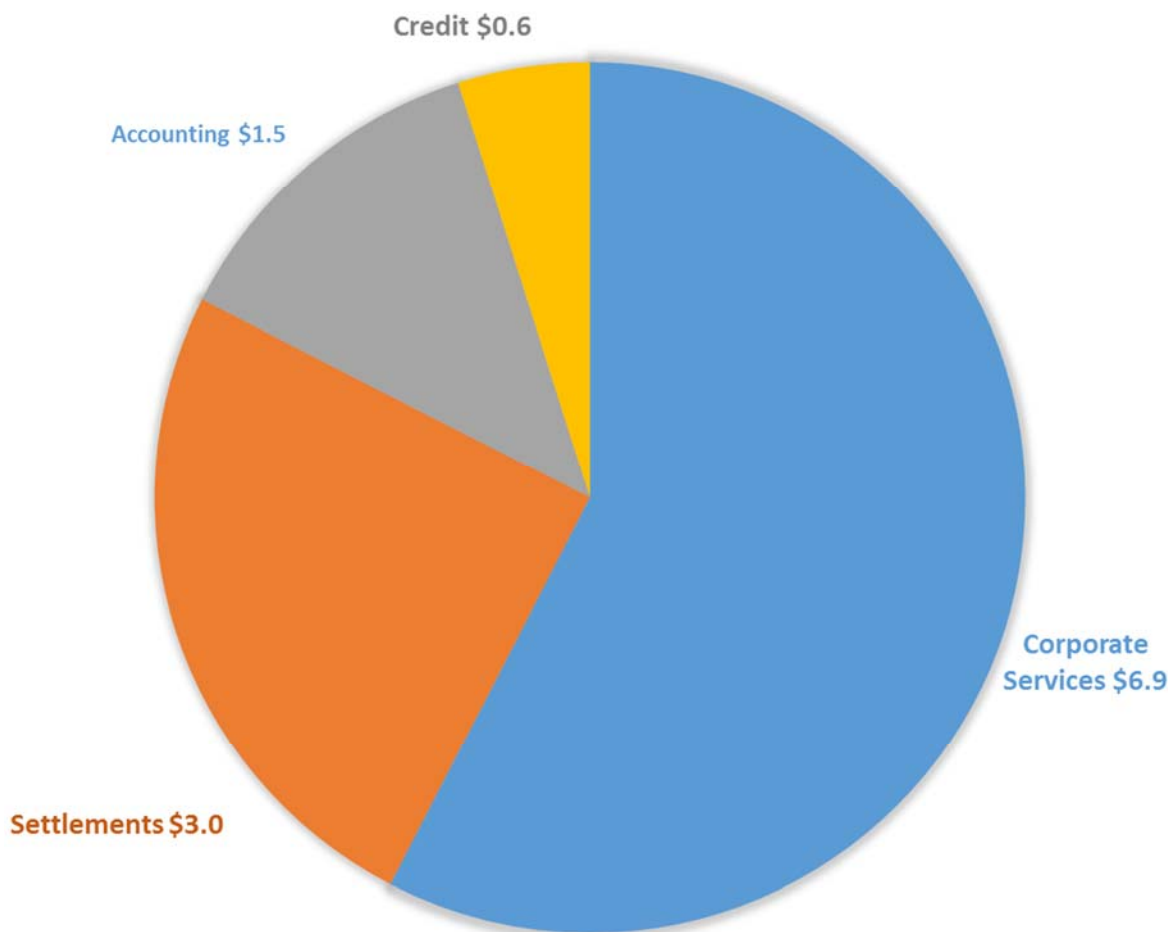
Staffing expense is the main component of the Communications & Government Affairs budget, followed by travel, meetings & administrative expense and outside services expense.

Outside services expense is primarily related to media outreach including news release distribution, media monitoring, and photography and videography services.

FINANCE AND CORPORATE SERVICES

In addition to Corporate Services, this division also includes Settlements, Credit and Risk Management, and Accounting and Purchasing departments.

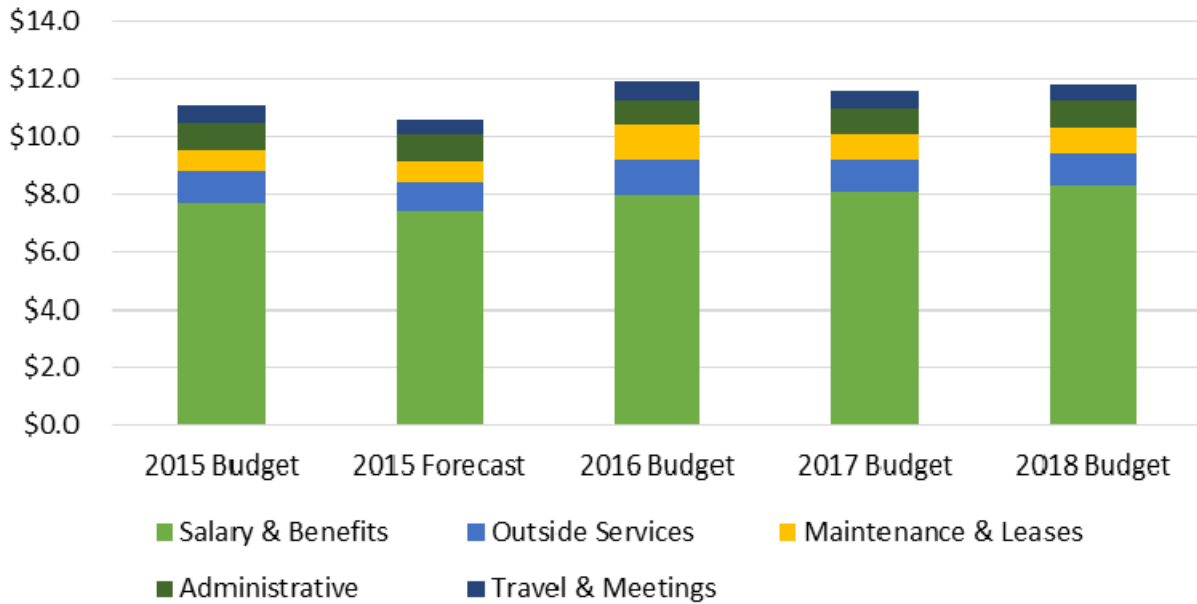
Finance & Corporate Services: 2016 Budget Expense (\$ millions)



Finance & Corporate Services					
Expense	2015 Budget	2015 Forecast	2016 Budget	2017 Budget	2018 Budget
Corporate Services	\$6.3	\$5.8	\$6.9	\$6.4	\$6.5
Settlements	2.9	2.8	3.0	3.0	3.1
Accounting	1.3	1.4	1.5	1.5	1.6
Credit	0.6	0.6	0.6	0.6	0.6
Finance & Corporate Services	\$11.1	\$10.6	\$11.9	\$11.6	\$11.8
Headcount	67	67	67	67	67

- The fundamental purpose of the **Settlements** department surrounds two of the seven critical functions required to implement SPP's overall strategy, which are tariff and market administration. The department's primary goal is to settle transactions which occur under the tariff and subsequently calculate charges and revenues based on the tariff regulations. Much of the information collected and created throughout SPP is administered within the Settlements department processes, including operational decisions that impact customer settlement statements. Software upgrades, process improvements, efficiency metrics tracking, and the cross training of staff has resulted in the ability to maintain constant staffing levels without dependency on staff augmentation.
- The **Credit and Risk Management** department administers the extension of credit to market participants and works to protect the market participants and members from losses through diligent underwriting and collection efforts. The products within the Integrated Marketplace are much more complex and represent a significant increase in default risk due to a significant expansion in market participation and increasing settlement amounts. The department's goal is to carefully monitor the increased risk and respond as necessary to continually protect the market participants and members.
- The **Accounting and Purchasing** department is responsible for invoicing, cash management, payment processing, internal and external reporting, budgeting and forecasting, corporate accounting, and end-to-end procurement services.
- The **Corporate Services** department is comprised of Human Resources, Corporate Facilities, and Corporate Administrative Services departments. These teams provide support services to SPP employees and members and offer a work environment supporting SPP's business model and culture.

Finance & Corporate Services 2016 Budget (\$ millions)



Finance & Corporate Services Expenses (\$ millions)

Expense	2015 Budget	2015 Forecast	2016 Budget	2017 Budget	2018 Budget
Salary & Benefits	\$7.7	\$7.4	\$8.0	\$8.1	\$8.3
Outside Services	1.1	1.0	1.2	1.1	1.1
Maintenance & Leases	0.7	0.7	1.2	0.8	0.9
Administrative	0.9	0.9	0.9	0.9	0.9
Travel & Meetings	0.6	0.5	0.7	0.6	0.6
Total Expense	\$11.1	\$10.6	\$11.9	\$11.6	\$11.8
Headcount	67	67	67	67	67

Staffing expense is the main component of the Finance & Corporate Services division. Outside services, maintenance, and administrative expenses are primarily in the Corporate Services department related to support services for the facility and staff (i.e., building maintenance, security, office supplies, etc.).

OFFICER AND ADMINISTRATIVE

The **Officer** department includes the executives who oversee the overall business operations and provide strategic direction to SPP. The **Administrative** department includes certain corporate administrative costs such as insurance, pension and retiree healthcare, and property taxes. These expenses are discussed in detail in section VI.

Officer & Administrative Expenses (\$ millions) *						
Expense	<u>2015 Budget</u>	<u>2015 Forecast</u>	<u>2016 Budget</u>	<u>2017 Budget</u>	<u>2018 Budget</u>	
Retiree Pension & Healthcare Expense	\$3.0	\$6.0	\$6.0	\$6.1	\$6.2	
Salary & Benefits	4.9	5.3	5.3	5.4	5.4	
Insurance & Property Tax	2.2	2.2	2.1	1.9	1.8	
Outside Services	1.2	1.4	1.6	1.5	1.5	
Travel, Meetings & Administrative	0.6	0.7	0.8	0.8	0.8	
Vacancy	(4.1)	(1.0)	(3.6)	(3.6)	(3.7)	
Total Expense	7.7	14.6	12.3	12.1	12.0	
Headcount	10	11	11	11	11	

** Excluding Interest, Deprec & FERC Fees*

Pension & retiree healthcare expense for the 2015 forecast and 2016 budget amounts are based on the actuarial calculated pension expense, whereas the 2015 budget was based on anticipated cash funding. This change in methodology creates a \$3.0 million unfavorable variance when compared to 2015 budget amounts.

The estimated vacancy rate is included in the salary and benefits budget of the Administrative department. Since this adjustment is reflected here instead of at the individual department level, the forecast is higher in comparison to the yearly budgets, as the forecast has been adjusted for vacancies at the department level with a minimal amount remaining in the Administrative department. The 2015 budget assumed a 5% vacancy rate while the 2015 forecast reflects a 4% rate. SPP is expecting vacancies of 4% for the 2016 – 2018 budgets and forecasts.

VIII. DEBT SERVICE

SPP secures funds from financial institutions and investors to finance its capital projects.

SPP's capital projects are funded from monies borrowed under medium and long-term credit agreements, primarily with institutional investors. These costs are not directly included in SPP's net revenue requirement (NRR); however, annual principal and interest payments for borrowings (net of capitalized interest) are considered in the NRR calculation. SPP's outstanding borrowings are projected to equal \$247.9 million as of Jan. 1, 2016. Interest and principal payments included in the 2016 NRR are shown in the table below.

SPP's policy is to capitalize interest costs for assets meeting certain criteria to obtain a measure of acquisition cost that more closely reflects SPP's total investment in the asset, in accordance with U.S. Generally Accepted Accounting Principles (GAAP). Projects with anticipated costs exceeding \$5.0 million with an anticipated duration of greater than 18 months are subject to interest capitalization. The Enhanced Combined Cycle and Gas Day project that began in 2015 and is slated to conclude by the end of 2016 is the only project in SPP's 2016 project portfolio that qualifies for interest capitalization.

SPP signed a new credit agreement with a commercial bank in 2014 for a \$33.0 million multiple advance term facility. The draw period on this facility expires during the first quarter of 2016. Funds from this credit facility are expected to cover SPP's capital expenditure purchases through 2016. Currently, SPP has not drawn on the facility but will do so prior to the expiration of the draw period.

The schedule below shows the principal amounts outstanding for each borrowing at the beginning and end of the 2016-2018 budget periods, as well as annual principal payments.

FUTURE DEBT REPAYMENTS SCHEDULE

Future Debt Repayments (\$ millions)								
	Issue Date	Issue Amount	Due Date	Balance 1/1/2016	2016 Prin. Pmts.	2017 Prin. Pmts.	2018 Prin. Pmts.	Balance 12/31/2018
5.45% notes due 2016	7/23/2009	\$30.0	Jul-16	\$3.0	(\$3.0)	\$0.0	\$0.0	\$0.0
5.51% notes due 2027	3/23/2007	\$5.1	Feb-27	\$3.3	(\$0.2)	(\$0.2)	(\$0.2)	\$2.7
4.82% construction notes due 2042 (2010A, 2010B)	10/31 & 12/28/2010	\$65.0	Dec-42	\$61.9	(\$1.1)	(\$1.2)	(\$1.3)	\$58.3
3.55% integrated markets notes due 2024 (2010C)	3/30/2011	\$70.0	Mar-24	\$57.8	(\$7.0)	(\$7.0)	(\$7.0)	\$36.8
3.00% capital funding notes due 2024 (2012D-1)	5/30/2012	\$50.0	Mar-24	\$41.3	(\$5.0)	(\$5.0)	(\$5.0)	\$26.3
3.25% capital funding notes due 2024 (2012D-2)	11/30/2012	\$50.0	Sep-24	\$43.8	(\$5.0)	(\$5.0)	(\$5.0)	\$28.8
3.8% capital funding notes due 2025 (2014-E)	3/21/2014	\$37.0	Dec-25	\$37.0	\$0.0	\$0.0	\$0.0	\$37.0
4.95% senior notes due 2025 *	3/10/2014	\$33.0	Mar-24	\$0.0	(\$2.3)	(\$3.0)	(\$3.0)	\$24.8
Capital lease obligation	2/1/2015	\$6.9	Nov-19	\$6.4	(\$0.6)	(\$1.8)	(\$1.9)	\$2.1
New borrowing - 2017	1/1/2017	\$25.0	Dec-21	-	-	-	(\$6.3)	\$18.8
New borrowing - 2018	1/1/2018	\$25.0	Dec-22	-	-	-	-	\$25.0
Total		\$397.0		\$254.3	(\$24.2)	(\$23.2)	(\$29.6)	\$260.3
* 4.95% Senior Notes will be funded in the amount of \$33 million in 2016								

IX. SUPPLEMENTAL ANALYSIS AND SCHEDULES

INCOME STATEMENT 2015-2016 COMPARISON (\$ MILLIONS)

	<u>2015 Budget</u>	<u>2015 Forecast</u>	<u>2016 Budget</u>	<u>2016 Prior*</u>
Income				
Tariff Administration Service	\$141.1	\$145.4	\$150.7	\$147.1
Fees & Assessments	27.6	27.5	27.5	29.6
Contract Services Revenue	0.5	1.1	0.5	0.5
Miscellaneous Income	5.3	4.4	3.4	4.5
Total Income	\$174.6	\$178.4	\$182.1	\$181.8
Expense				
Salary & Benefits	\$80.0	\$82.5	\$85.2	\$83.7
Employee Travel	2.1	2.0	2.4	2.4
Administrative	4.9	5.0	5.2	4.8
Assessments & Fees	16.4	13.9	17.0	16.7
Meetings	1.0	0.8	1.0	1.0
Communications	4.3	3.8	4.1	4.4
Leases	0.2	0.2	0.0	0.2
Maintenance	14.7	13.8	16.8	16.6
Services	15.8	12.5	14.8	17.7
Regional State Committee	0.3	0.2	0.3	0.3
Depreciation & Amortization	61.2	60.3	59.7	62.4
Other Expense	9.0	11.4	10.6	10.5
Total Expense	\$210.0	\$206.4	\$217.1	\$220.6
Net Income (Loss)	(\$35.4)	(\$28.1)	(\$35.0)	(\$38.8)
Debt Repayment	\$24.3	\$24.9	\$24.2	\$23.6
MW/h Forecast (in millions)	363.5	372.8	407.2	398.0
Net Revenue Requirement	\$138.6	\$137.6	\$146.8	\$147.1
NRR Adjustments	\$2.5	\$7.2	\$3.7	\$0.0
Calculated Admin Fee / MWh	\$0.389	\$0.388	\$0.370	\$0.370
Recommended Admin Fee / MWh	\$0.390	\$0.390	\$0.370	\$0.370
<i>Tariff Cap on Admin Fee</i>	<i>\$0.390</i>	<i>\$0.390</i>	<i>\$0.390</i>	<i>\$0.390</i>
Capital Expense	\$28.9	\$24.2	\$22.2	\$19.2
Headcount	598	596	599	598

* 2016 projection as presented in the 2015 budget

INCOME STATEMENT 2016-2018 (MILLIONS \$)

	2016 Budget	2017 Forecast	2018 Forecast
Income			
Tariff Administration Service	\$150.7	\$151.0	\$153.9
Fees & Assessments	27.5	27.9	28.4
Contract Services Revenue	0.5	0.5	0.5
Miscellaneous Income	3.4	2.8	2.8
Total Income	\$182.1	\$182.1	\$185.7
Expense			
Salary & Benefits	\$85.2	\$86.8	\$88.8
Employee Travel	2.4	2.5	2.5
Administrative	5.2	4.6	4.4
Assessments & Fees	17.0	17.0	17.0
Meetings	1.0	0.9	1.0
Communications	4.1	4.2	4.2
Leases	0.0	0.0	0.0
Maintenance	16.8	19.0	20.9
Services	14.8	12.7	12.4
Regional State Committee	0.3	0.3	0.3
Depreciation & Amortization	59.7	33.3	23.9
Other Expense	10.6	11.5	12.1
Total Expense	\$217.1	\$192.9	\$187.5
Net Income (Loss)	(\$35.0)	(\$10.7)	(\$1.8)
Debt Repayment	\$24.2	\$23.2	\$29.6
MW/h Forecast (in millions)	407.2	407.2	407.2
Net Revenue Requirement	\$146.8	\$148.5	\$158.6
NRR Adjustments	\$3.7	\$2.2	\$0.0
Calculated Admin Fee / MWh	\$0.370	\$0.370	\$0.389
Recommended Admin Fee / MWh	\$0.370	\$0.370	\$0.389
<i>Tariff Cap on Admin Fee</i>	<i>\$0.390</i>	<i>\$0.390</i>	<i>\$0.390</i>
Capital Expense	\$22.2	\$29.7	\$21.0
Headcount	599	598	599

BALANCE SHEET (\$ MILLIONS)

	<u>12/31/2015</u>	<u>12/31/2016</u>
ASSETS		
Current Assets		
Cash & Equivalents	\$39.5	\$39.3
Restricted Cash Deposits	232.7	255.9
Accounts Receivable (net)	33.2	34.6
Other Current Assets	11.7	13.3
Total Current Assets	317.1	343.1
Total Fixed Assets	140.0	102.5
Total Other Assets	2.4	2.3
Investments	8.8	8.8
TOTAL ASSETS	\$468.2	\$456.7
LIABILITIES & EQUITY		
Liabilities		
Current Liabilities		
Accounts Payable (net)	\$29.6	\$20.1
Customer Deposits	232.7	255.9
Current Maturities of LT Debt	21.9	23.2
Other Current Liabilities	40.4	37.2
Deferred Revenue	5.7	5.3
Total Current Liabilities	330.2	341.7
Long Term Liabilities		
US Bank Maumelle Mortgage - 2027	3.1	2.9
Campus 4.82% Senior Notes - 2042	60.7	59.5
Integrated Marketplace 3.55% Senior Notes - 2024	50.8	43.8
Capital Funding 3.00% - 2024	36.3	31.3
Capital Funding 3.25% - 2024	38.8	33.8
Capital Funding 3.8% - 2025	37.0	37.0
Capital Funding 4.95% - 2025	0.0	27.8
Capital Lease Obligation	5.7	3.9
Other Long Term Liabilities	20.8	25.2
Total Long Term Liabilities	253.0	265.1
Net Income	(28.1)	(35.0)
Members' Equity	(86.9)	(115.0)
Total Members' Equity	(115.0)	(150.0)
TOTAL LIABILITIES & EQUITY	\$468.2	\$456.7

CASH FLOW FORECAST 2015-2017 (\$ MILLIONS)

	<u>2016</u>	<u>2017</u>	<u>2018</u>
Operating Activities			
Net loss	(\$35.0)	(\$10.7)	(\$1.8)
Items not requiring cash			
Depreciation and amortization	59.7	33.3	23.9
Changes in assets and liabilities	4.4	-	-
Net cash provided by operating activities	<u>29.1</u>	<u>22.6</u>	<u>22.1</u>
Investing activities			
Acquisition of property and equipment	(22.2)	(29.7)	(21.0)
Net cash used in investing activities	<u>(22.2)</u>	<u>(29.7)</u>	<u>(21.0)</u>
Financing activities			
Repayments of long-term debt	(24.2)	(23.2)	(29.6)
Repayment of line of credit	(5.0)	-	-
Issuance of long-term debt	33.0	25.0	25.0
Net cash used in financing activities	<u>3.8</u>	<u>1.8</u>	<u>(4.6)</u>
Increase/(Decrease) in Cash and Cash Equivalents	<u>10.7</u>	<u>(5.3)</u>	<u>(3.5)</u>
Cash and Cash Equivalents, Beginning of Year *	<u>2.6</u>	<u>13.3</u>	<u>8.0</u>
Cash and Cash Equivalents, End of Year *	<u>\$13.3</u>	<u>\$8.0</u>	<u>\$4.5</u>

* Operating and capital spending cash accounts.

CAPITAL PROJECTS LIST (\$ MILLIONS)

	Prior Year(s)	2016 Budget	2017 Forecast	2018 Forecast	Total Capital
Carry Over Projects					
Enhanced Combined Cycle and Gas Day	\$2.1	\$5.0	\$0.7	\$0.0	\$7.7
Transmission Settlements Upgrade	0.0	0.0	3.0	0.9	3.8
Z2 Crediting Process Phase 1	1.6	0.0	0.0	0.0	1.6
New Projects					
EMS Software and OS Upgrade		\$0.0	\$2.8	\$2.4	\$5.2
Dispatcher Training Simulator Upgrade		0.2	3.2	0.4	3.8
PMU Data Exchange		0.4	0.1	1.3	1.9
Identity and Access Management		0.5	0.1	0.1	0.7
Z2 Crediting Tool Priority 2 & 3		0.3	0.2	0.2	0.7
Local Reliability Assessment		0.0	0.5	0.0	0.5
2-Factor Authentication		0.2	0.0	0.0	0.2
ICCP Hardware/Software Upgrade		0.0	0.0	0.0	0.1
FERC Order 676-H NITS WebOasis Modifications		0.1	0.0	0.0	0.1
Liferay Portal Replacement		0.1	0.0	0.0	0.1
Circuit Redesign		0.1	0.0	0.0	0.1
Other		0.5	0.5	0.1	1.1
Total Non-Foundation Projects	\$3.7	\$7.0	\$10.5	\$5.3	\$26.6
Foundation					
IT Foundation		\$11.7	\$15.9	\$12.1	\$39.7
Ops Foundation - Marketplace Enhancements		2.6	2.8	3.0	8.5
Facilities Foundation		0.7	0.2	0.3	1.2
Settlements Foundation		0.3	0.3	0.3	0.8
Total Foundation Capital Expenditures		15.3	19.2	15.7	50.2
Total Capital Budget	\$3.7	\$22.2	\$29.7	\$21.0	\$76.7

OUTSIDE SERVICES BY FUNCTION (\$ MILLIONS)

DESCRIPTION OF SERVICES	2015 Forecast	2016 Budget	Inc / (Dec)
Staff Augmentation			
Legal	\$2.5	\$2.4	(\$0.1)
Information Technology	0.9	0.5	(0.5)
Market Monitoring	0.2	0.2	0.0
Process Integrity	0.2	0.1	(0.1)
Regulatory	0.2	0.0	(0.2)
Market Design	0.2	0.0	(0.2)
Total Staff Augmentation	\$4.1	\$3.2	(\$1.0)
Information Technology			
OATI Monthly service fee	1.4	1.5	0.1
Operations Wind Forecasting Analysis, study	0.0	0.7	0.7
IDC Tool	0.6	0.6	(0.1)
Misc. IT services (cabling, storage, asset disposal)	0.3	0.3	(0.1)
Total Information Technology	\$2.4	\$3.0	\$0.7
Other			
Engineering studies, other	1.4	2.4	1.0
Board of Directors fees and expenses	0.6	1.1	0.5
Regional Entity Trustees (fees and consulting)	0.8	1.1	0.3
Corporate services	0.7	1.0	0.3
Audits, special engagements (SSAE 16/other audits)	1.0	0.9	(0.1)
Regional Cost Allocation Review (RCAR)	0.2	0.8	0.5
FERC Order 1000	0.1	0.7	0.6
Regional State Committee	0.2	0.3	0.1
Communications and training	0.0	0.1	0.1
Ops wind analysis moved to IT	0.6	0.0	(0.6)
Operations 2016 wind study	0.0	0.3	0.3
Other	0.4	0.2	(0.2)
Total Outside Services and RSC	\$12.7	\$15.1	\$2.4

ANALYSIS OF 2015 FEES & ASSESSMENTS (\$ MILLIONS)

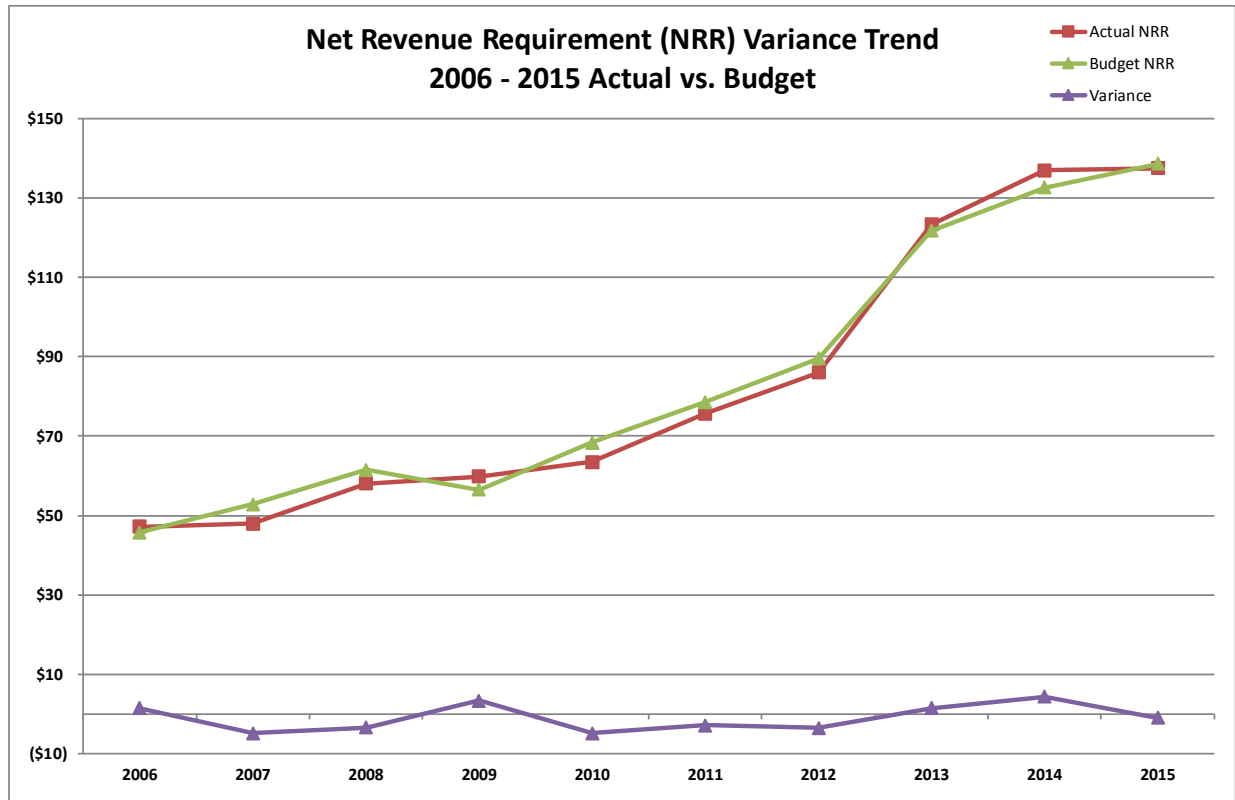
Fees & Assessments, Revenue and Expense	2015 Forecast	2015 Budget	Variance Fav/(Unfav)	Note
SPP Regional Entity Revenue	\$9.9	\$11.7	(\$1.8)	(a)
FERC Fee Assessments (Sch.12)	17.0	15.5	1.6	(b)
Annual member assessments	0.6	0.5	0.1	
Fees & Assessments Revenue	\$27.5	\$27.6	(\$0.1)	
Fees & Assessments Expense	\$13.9	\$16.4	(\$2.5)	(c)

(a) Revenue for SPP RE is recognized on a monthly basis based on direct RE expenses and an hourly charge for indirect expenses. In 2015, the RE expects to be favorable in comparison to their total expense budget, resulting in lower corresponding revenues for SPP.

(b) FERC Fee Assessment revenue is recognized monthly when billed to transmission customers. Revenue was adjusted to reflect the current rate charged under Schedule 12, which is \$0.074 as compared to \$0.066 assumed in the 2015 budget.

(c) FERC Fees & Assessments expense is estimated based on prior year assessment plus a growth rate. The current year monthly accrual amount is adjusted when the annual bill is received each year in June. The FERC bill received in 2015 was lower than the accrual, resulting in a true-up for the prior year accrual and an adjustment to the accrual for 2015.

NET REVENUE REQUIREMENT VARIANCE HISTORY (\$ MILLIONS)



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Actual NRR	\$47.1	\$48.0	\$58.1	\$59.8	\$63.5	\$75.8	\$86.1	\$123.3	\$137.0	\$137.6 *
Budget NRR	\$45.7	\$52.8	\$61.5	\$56.5	\$68.4	\$78.6	\$89.6	\$121.8	\$132.6	\$138.6
Variance	\$1.5	(\$4.8)	(\$3.4)	\$3.4	(\$4.9)	(\$2.9)	(\$3.5)	\$1.5	\$4.4	(\$1.0)
	3%	(9%)	(6%)	6%	(7%)	(4%)	(4%)	1%	3%	(1%)

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

* The 2015 NRR represents the forecast as of August 2015 and excludes non-recurring items of \$7.2 million.

PRIOR YEAR BUDGET COMPARISONS (\$ MILLIONS)

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Net Revenue Required Estimations							
2008 Budget - NRR Estimations							
2009 Budget - NRR Estimations							
2010 Budget - NRR Estimations	\$94.9						
2011 Budget - NRR Estimations	\$86.7	\$94.6					
2012 Budget - NRR Estimations	\$89.6	\$98.6	\$113.6				
2013 Budget - NRR Estimations		\$121.8	\$141.4	\$145.0			
2014 Budget - NRR Estimations			\$132.6	\$148.5	\$145.2		
2015 Budget - NRR Estimations				\$141.2	\$147.1	\$145.9	
2016 Budget - NRR Estimations *					\$146.8	\$148.5	\$158.6
<i>Actual NRR</i>	\$86.1	\$123.3	\$137.0				
Billing Unit Estimations							
2008 Budget - Billing Units Estimations							
2009 Budget - Billing Units Estimations							
2010 Budget - Billing Units Estimations	342.7						
2011 Budget - Billing Units Estimations	345.0	349.8					
2012 Budget - Billing Units Estimations	353.5	359.8	366.3				
2013 Budget - Billing Units Estimations		360.9	371.7	382.9			
2014 Budget - Billing Units Estimations			348.2	348.2	348.2		
2015 Budget - Billing Units Estimations				363.5	398.0	398.0	
2016 Budget - Billing Units Estimations					407.2	407.2	407.2
<i>Actual Billing Units</i>	361.0	358.1	351.0				
Administrative Fee Estimations							
2008 Budget - Admin Fee Estimations							
2009 Budget - Admin Fee Estimations							
2010 Budget - Admin Fee Estimations	\$0.280						
2011 Budget - Admin Fee Estimations	\$0.255	\$0.280					
2012 Budget - Admin Fee Estimations	\$0.255	\$0.280	\$0.300				
2013 Budget - Admin Fee Estimations		\$0.338	\$0.380	\$0.379			
2014 Budget - Admin Fee Estimations			\$0.381	\$0.426	\$0.417		
2015 Budget - Admin Fee Estimations				\$0.390	\$0.370	\$0.360	
2016 Budget - Admin Fee Estimations					\$0.370	\$0.370	\$0.389
<i>Actual Admin Fee</i>	\$0.238	\$0.344	\$0.390				

* Excluding non-recurring items

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

X. SPP OPERATING PLAN DOCUMENT

The SPP Operating Plan is attached in its entirety as presented to the Finance Committee on Sept. 29, 2015.



SPP 2016 Operating Plan

September 29, 2015

Finance



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Background Information

Purpose of SPP

SPP Mission is “Helping our members work together to keep the lights on...today and in the future.” All the services that SPP performs are provided on a regional basis, independently, focused on reliability and cost effectiveness. The benefits of SPP are derived from this mission and the diligence to bring value to SPP members and their customers. SPP administers reliability coordination, transmission services and wholesale markets for the benefit of all electric utility operations in the region SPP serves that use members’ transmission systems. As a Regional Transmission Organization, SPP is mandated by the Federal Energy Regulatory Commission to ensure reliable supplies of power, adequate transmission infrastructure, and a competitive wholesale electricity marketplace. Regional Transmission Organizations are like “air-traffic controllers” of the electric power grid. They do not own the power grid, but independently operate the grid minute-by-minute to ensure reliable delivery of power to end users. SPP also serves as a Regional Entity of the North American Electric Reliability Corporation.

SPP’s primary services provided to members and customers include:

- Facilitation
- Reliability Coordination
- Tariff Administration
- Transmission Planning
- Market Operations
- Compliance
- Training

Regulation

SPP is directly regulated by the Federal Energy Regulatory Commission (“FERC”) and minimally regulated by the Arkansas Public Service Commission (“ArPSC”). All changes to the SPP regional tariff must be filed with, and approved by, FERC prior to implementation. Failure by SPP to comply with the provisions of the tariff and/or any directive received from FERC must be reported to the FERC and may be subject to penalties and fines.

Governing Documents

Open Access Transmission Tariff (“OATT”)

The SPP OATT delineates the majority of the required workload for SPP’s operations and engineering departments. Significant duties include, but are not limited to, the following:

- Tariff administration services, including scheduling
- Ancillary service provisions
- Market operations
- Balancing authority operations
- Settlement of all transactions under the OATT
- Administration of credit services for OATT customers
- Complete system impact studies
- Completion of the annual SPP Transmission Expansion Plan (ITPNT, ITP10, ITP20)
- Study generation interconnection requests

- Evaluate long-term transmission service requests
- Administer the competitive process for transmission expansion
- Administer the Southwestern Power Administration transmission system beyond their tariff
- Monitor activities in SPP's energy markets and exercise plans to mitigate market power
- Operate a single balancing area for the entire SPP region

Membership Agreement ("MA")

The MA is an agreement between each individual member and SPP. The MA obligates SPP to perform the services outlined including those in the OATT. Additionally, the MA describes other significant duties which include, but are not limited to, the following:

- Act as the reliability coordinator for the Electric Transmission System
- Develop regional reliability plans and emergency procedures
- Review and approve all planned maintenance of the Electric Transmission System
- Coordinate the maintenance of generation units
- Administer an Open Access Same Time Information System

Bylaws

The Bylaws describe the organizational operation of SPP, specifically outlining the duties of the Board of Directors and Committees advising the Board of Directors. SPP has a responsibility to facilitate meetings of each and every organizational group. Currently, the scope of the organizational structure is as follows:

- Board of Directors (1)
- Regional State Committee (1)
- Members Committee (1)
- Board level committees (6)
- Working Groups (19)

Additionally, the Bylaws describe SPP's responsibilities as a Regional Entity. Duties associated with being the Regional Entity include, but are not limited to, the following:

- Investigate all reports or discoveries of non-compliance with ERO standards
- Perform reviews in conjunction with the Compliance Monitoring and Enforcement Program
- Recommend financial penalties and sanctions for non-compliance
- Administer the process for Regional Reliability standards

Protocols and Business Practices

SPP has well documented business practices which detail the administrative practices SPP will follow in administering the OATT including coordinating the sale of transmission service. SPP also has well documented market protocols which detail how customers will interact with SPP and how SPP will interact with customers. These documents are developed through SPP's stakeholder process.

Organization Structure

SPP operates via two distinct organizational structures. The first, which we'll refer to as the external structure, is actually the governance structure. It begins with the SPP board of directors and cascades into board level committees and then to working groups. This organizational structure is

populated largely with representatives from SPP's member companies. The output from this structure is generally directives on what work SPP is expected to accomplish.

The second organizational structure, which we'll refer to as the internal structure, is the typical organizational chart illustrating reporting relationships between employees. The internal structure begins with the SPP president and cascades into vice presidents, departmental directors/managers, etc. The internal structure is generally aligned based on functional responsibilities. This structure receives the directives from the external structure and then goes forward in acting on the directives.

Copies of the organizational structures can be found in Appendix A.

Funding

SPP funds its ongoing operating costs through charges to customers under the tariff and customers of specific non-tariff services. SPP's operating costs are inclusive of scheduled principal and interest payments on its outstanding debt but are exclusive of depreciation and amortization expenses incurred. SPP is able to collect up to 100% of its operating costs from charges to transmission customers up to a cap of 39¢/MWh. SPP is charging customers 39¢/MWh for service in 2015.

SPP's capital expenditures are funded with borrowings from periodic debt issuances. SPP's debt issuances are generally unsecured, have a 1 to 2 year interest only payment period and then fully amortize by the maturity of the notes. SPP is required to obtain regulatory approvals prior to issuing new debt. SPP carries an A rating from Fitch Ratings. SPP staff believes SPP will have sufficient access to debt capital, if required, in 2016.

Short-term liquidity is provided by managing SPP's cash float. In instances when working capital is insufficient, SPP has a confirmed credit facility at a commercial bank which it can access for cash up to \$30 million. This facility will mature in mid-2016; SPP expects to be able to renew this facility along the same terms that currently exist.

2016 Expected Business Environment

The EPA's Clean Power Plan ("CPP") is expected to have significant impacts in the near term and well into the future. The CPP establishes the first-ever national standards to limit carbon pollution from power plants. The final plan sets standards to reduce carbon dioxide emissions by 32% from 2005 levels by 2030. Compliance plans are due from states in 2016 and measurement against 2005 CO₂ levels begins in 2022 and will increase to final compliance by 2030.

Several states within the SPP region are participating in a coalition pursuing legal remedies to address flaws they see in the CPP. The lawsuits will muddy the water in terms of how SPP interacts with its stakeholders as they work to comply with the standards. Additionally, the CPP measures compliance at the state level, SPP is facilitating collaboration with its stakeholders to work towards a regional compliance solution. Acceptance of a regional approach by all of SPP's impacted members, states, and the EPA is still unknown.

Gas electric coordination continues to be a focus at the national level. SPP has filed in compliance with FERC's directive to align electricity markets with natural gas markets. If approved SPP will move its day-ahead market to close earlier in the day and shorten the solution time for posting

results. This will require system changes and improved processing speed to reduce the solution time by 30 minutes. SPP's members are divided on the benefits of the approach SPP has filed to comply with the FERC directive.

Another major impact on SPP includes compliance with NERC's CIPv5 standards which will affect both physical and cyber security protocols. These additional CIP requirements have impacts on several systems and processes performed by SPP. The electric industry continues to ramp up its focus on physical and cyber security. Though compliance with CIPv5 is not required until 2Q'2016, drafting teams in the NERC arena are already working on the CIPv6 standards. Cyber threats on utilities and energy companies are a growing threat with over 43% of companies in this space being attacked at least once each year according to a study published by Symantec.

Other major impacts include a full year of operations with the Integrated System participating in SPP and expected Federal legislation. SPP incorporated the Integrated System in October of 2015. New challenges for operations will include managing a winter peaking system; significant hydro generation facilities, increased seams coordination; and a much larger geographic area to monitor for reliability impacts. The addition of the Integrated System into SPP has also opened opportunities to expand SPP's services to affiliated entities in the western interconnect. Any future additions, either through membership or contracted services, will have a visible impact on SPP's operation.

Major 2016 Project Investments

Enhanced Combined Cycle Integrated Marketplace Functionality

These enhancements to the Integrated Marketplace will allow Market Participants to submit resource offers for several configurations of a combined cycle generating unit. Each configuration will be modeled in the market clearing engine as a separate resource. SPP will then be able to dispatch the most economic configuration for the combined cycle unit.

Expected Benefits

Once implemented in March 2017, this functionality will allow dispatch of combined cycle generation in a manner resulting in greater economic efficiency. Presently there are 18 combined cycle generating plants modeled in the commercial model. SPP expects to be able to increase economic dispatch (measured as reduced generation costs) by \$3 million annually. New combined cycle plants are expected to join the SPP market in the future which will serve to increase the economic benefits.

Strategic Plan Linkage

- Enhance and Optimize Interdependent Systems
 - Integrated Marketplace enhancements

Investment and Timeline

SPP began work on this project in early 2014; primarily requirements drafting and design. The project was suspended in July 2014 following meetings of the SPP MOPC and BOD where concerns about escalating cost estimates were debated. The SPP BOD approved moving forward with this

project following the integration of the Integrated System utilities in October 2015 with a total project budget of \$6.7 million (\$1.2 million had already been spent).

Risks

The vendors engaged have no significant experience in developing this functionality. This lack of experience can lead to slower development which may manifest into missed deadlines and delayed implementation. The lack of expertise can also result in significant errors in the code which will require extended testing and re-testing. Ultimately, if the risks materialized, the cost of the project will increase.

Gas-Electric Harmonization

The project implements changes to the timeline of day-ahead market (“DAMkt”) and day-ahead reliability unit commitment (“DA RUC”) to comply with the FERC order for gas-electric coordination efforts. The Gas Electric Coordination Task Force recommendation was approved by the SPP Board of Directors at its July 28, 2015 meeting. A filing with the Federal Energy Regulatory Commission outlining SPP’s compliance plan is expected in early August 2015. Pending FERC approval, MP’s have requested an implementation date of fall 2016.

Expected Benefits

This investment is necessary to comply with FERC’s Section 206 Order in Docket No. RM14-2 issued March 20, 2014 to adjust the market timelines and explain how the proposed scheduling modifications are sufficient. These timeline changes are an incremental improvement over the existing timeline for improving coordination between the market results and the Timely and Evening nominations. While the proposed timeline does not provide “day-ahead market” results prior to the 1300 Timely Gas Nomination, it does allow for “day-ahead market and day-ahead reliability unit commitment” results to be provided prior to the Evening Gas Nomination. This also allows sufficient time for price formation prior to the “day-ahead market” close. This is intended to be an incremental step, with a long-term goal being to post “day-ahead market” results prior to the Timely Gas Nomination.

Strategic Plan Linkage

- Enhance and Optimize Interdependent Systems
 - Optimize natural gas pipeline system seams

Investment and Timeline

The SPP Board of Directors approved changes to the tariff and protocols at its July 28, 2015 meeting. These changes will be filed with the FERC with a requested effective date of October 1, 2016. The cost estimate presented to the SPP Board of Directors was \$1.5 million. Work on this project will occur in coordination with the Enhanced Combined Cycle project as both will have significant impacts on the ability of the market operating system to solve in a timely manner.

Risks

The compliance plan is subject to approval by the FERC. Should the FERC find SPP’s compliance plan to be inadequate or lacking, additional stakeholder meetings, approvals, system designs, and expenses may be required.

Z2 Credit: Priority II and Priority III Functional Requirements

Attachment Z2 of the SPP tariff requires SPP to identify creditable upgrades of the transmission network, calculate revenue credits associated with creditable upgrades, and distribute revenue credits to upgrade sponsors.

Benefits

Investment will implement the stakeholder designed Z2 credit stacking solution and streamline workflows in order to meet current tariff requirements. No monetary benefits are expected from full implementation of this project. Soft benefits include reductions in error probabilities, reduced dispute and resettlement activities, and reduced future staffing needs.

Strategic Plan Linkage

- Enhance member value and affordability
- Maintain an economical, optimized transmission system
 - Fair and equitable cost/benefit allocation policies

Investment and Timeline

The Z2 P1 requirements are on schedule for implementation in January 2016. The P2 and P3 work is expected to start in April 2016 after SPP has worked through the legacy credits. Implementation of the P2 and P3 functionality is planned for December 2016. The rough estimate for cost is currently \$0.5 million which is solely software development. SPP does not expect additional hardware assets will be required for this project.

Risks

The Z2 P2 and P3 requirements are anticipated to mitigate SPP's risk of tariff violations, audit qualifications, and customer disputes in addition to reducing the needs for additional staff to perform repeatable functions manually. Two major risks introduced with this project relate to performance of the credit stacking system and the cost to implement. The magnitude and probability of these risks will become clearer as the initial credit stacking system development progresses.

Phasor Measurement Unit Data Exchange and Analysis

The PMU Data Exchange and Analysis project will equip SPP with the capability to enhance both current operations and after-the-fact event analysis as well as system model validation efforts. Additionally, PMU data can assist in real-time situational awareness, identifying generator trips, island situations, and enhance State Estimator accuracy.

The initiative will progress in three distinct phases, as follows:

- Phase I – Installation of systems to provide capability to send and receive and archive synchrophasor data, develop real-time analytics engine, and perform after the fact analysis.
- Phase II – expand the number of sites where SPP will collect PMU data, expand analytics and analysis capacity.
- Phase III – Integrate PMU data collection and analytics into SPP's secure data network for use with State Estimator and real-time operations.

Benefits

The use of synchrophasor data in event analysis and real-time monitoring are expected to enhance SPP's knowledge of the electric system stability which will result in improved system operations and planning. Full implementation of the project (phase III) is expected to equip SPP with predictive capabilities to identify system disturbances before they occur and allow SPP and affected utilities to take action prior to an event occurring.

Strategic Plan Linkage

- Reliability assurance
 - Integration of variable energy resources
 - Event analysis

Investment and Timeline

The project consists of 3 phase, each of which encompass a full calendar year.

- Phase I – capital expenditure of \$0.446 million; operating cost of \$0.45 million, 2 incremental staff additions
- Phase II – capital expenditure of \$0.116 million; operating cost of \$0.5 million
- Phase III – capital expenditure of \$1.3 million; operating cost of \$0.64 million, 1 incremental staff addition

SPP would incur ongoing operating costs beyond 2018 which would be approximately \$0.70 million and would expect to incur capital costs to replace hardware and upgrade software every 3 to 5 years.

Risks

The use of PMU data in system monitoring, planning, and operating is gaining traction but is not universally adopted. The systems utilized to analyze the data are in their infancy and have not been proven to significantly improve system operation, design or monitoring. Therefore, there is a small probability that the investment in PMU capabilities may not yield long-term benefits. Additionally, a robust solution will require SPP utilities as well as neighboring regions to share synchrophasor data with SPP. These utilities/systems may need to invest in communication infrastructure to be capable of transmitting the data.

Identity and Access Management (“IAM”)

Implement an automated IAM system that automates the vast majority of manual IAM activities in place at SPP today. Role based access models can be developed to suit individual business owners, access provisioning and de-provisioning will be automated and periodic access reviews will be standardized and automated. Ad-hoc access reviews can also be generated to help satisfy CIP v5 transfer and termination processes for SPP employees and contractors. All identities and their access entitlements that exist in the SPP environment will be discovered and will reduce compliance and cyber security risks associated with orphan user accounts and excess user entitlements.

Benefits

Improved access management process will result in enhanced controls over system access as well as provide significant improvements to audit evidence processes which will be critical going forward under the CIPv5 standards.

Strategic Plan Linkage

- Reliability assurance
 - Grid resiliency – cyber and physical

Investment and Timeline

Initial capital costs of \$0.49 million include acquisition of software, servers, and vendor implementation. Ongoing operating costs of \$0.13 million/year cover licensing and support. Full implementing is anticipated within 12 months.

Risks

The project itself is designed to mitigate significant risks which currently exists around access to SPP's systems. With that said, the actual implementation of the IAM project comes with its own set of risks, not the least of which is that the solution does not work as seamlessly as advertised.

Dispatcher Training Simulator Upgrade

This is actually a 2 phase project. Phase I implements a stand-alone dispatcher training simulator within the operations analysis and support department (currently SPP shares a dispatcher training simulator between operations and the training department). The stand-alone simulator will ensure simulations are available for real-time operations personnel at all times. Phase II of the project will result in an enhanced "Training and Testing Simulated Environment" which incorporates SPP's market systems into the training environment.

Benefits

Establishing a stand-alone dispatcher training simulator will improve the capabilities of SPP's real-time operators by providing SPP's operators increased opportunity to participate in simulated training.

Strategic Plan Linkage

None

Investment and Timeline

Phase I requires \$0.21 million in hardware, software, and licenses and is expected to be fully implemented in 2016. Phase II requires an additional \$3.6 million in hardware, software, and licenses and will not be completed until 2018. At this time Phase II has not been approved to move forward.

Risks

The project is expected to mitigate risks which currently exist in SPP's training of its real-time operations staff. SPP underwent a peer review conducted by the North American Transmission Forum in December 2014. The review noted "...*The current Dispatcher Training Simulator has limited availability to the OAPS department and does not meet the current needs of SPP operators due to the additional role of the BA function.*". Implementation of Phase I of the project is expected to address this concern.

Deferred or Declined Projects

There are many project proposals SPP considers when determining its plan for the upcoming year. Numerous of these projects are not approved to begin work during the year due to i) a lack of staff resources to accomplish the work; ii) lack of funding to pay for the project; or iii) the project lacks sufficient detail to warrant moving forward at this time.

Appendix B summarizes all of the projects reviewed by SPP for the 2016 fiscal year.

2016 Major Technology Investments

SPP's ability to provide the vast majority of its services is contingent on employing a robust and resilient technology infrastructure. SPP operates two data center facilities with full fail-over capacity in the event a single data center is unavailable. Within the data centers exist over 1,700 physical and virtual servers across multiple environments interconnected by a high availability network. Significant investments are made annually to not only maintain the existing capabilities of the technology infrastructure but to also enhance the structure to address new demands on the system, cyber security requirements, and incremental additions to SPP's service menu.

Data Growth and Performance

SPP began this initiative in 2014 when it identified a need to address exponential growth in the volume of data being received, processed, transferred, and stored. SPP replaced a large portion of its storage environment during 2015, incorporating both a technology refresh as well as support for data growth to accommodate Marketplace, Project Pinnacle, and Integrated Systems requirements. During 2016, SPP will invest in backup/archival data storage capacity, as well as additional storage virtualization solutions.

Benefits

The implementation of a 10GB network (as compared to the current 1GB level) will alleviate existing bandwidth constraints/congestion, and allow SPP to provide sufficient network capacity to meet production and backup requirements. It is imperative for SPP to be able to consume inputs from its customers, process those inputs according to the timelines dictated in the OATT and Protocols, and render solutions also in accordance with established timelines.

Investment and Timeline

The initiative began in 2014 and is set to conclude in 2016. Total capital expenditures for the project are \$5.8 million with \$2.8 million expected to be spent in 2016 to complete the work.

Security Enhancements

The quantity and sophistication of computer viruses and security threats continues to increase, including the ability for viruses to lay dormant for long periods of time and then permeate extensively through an organization. As a result, a security breach or malware insertion can have a

significant impact to SPP's operating environment. The inability to detect and quarantine security threats would greatly expose SPP systems, with potential performance implications to Reliability and Marketplace operations as well as result in mandatory compliance shortcomings and potential penalties. It is essential to stay current with best security practices to mitigate the impact to SPP.

Benefits

The 2016 security initiatives will strengthen SPP's network, server, and security infrastructure, thereby reducing SPP's exposure to unwelcomed access and adverse business impacts.

Investment and Timeline

Improvements include upgrading firewalls, authentication software, and anti-virus capabilities. These improvements will be implemented throughout 2016. Total capital investment is expected to be \$2.1 million

Application Enhancements and Support

Primary focus is on design and implementation of data storage solutions which provide tiered levels of storage access resulting in reduction in costs of storage. Implementation allows real-time users to have a common interface for accessing current and historical data with minimal delays in system performance, while providing analytical and after the fact users access to data on a higher capacity and more cost efficient platform. Internally supported systems such as POPS and CMS have periodic requests from stakeholders/regulators for enhanced functionality.

Benefits

Enhancements to POPs and CMS systems are needed to support member requests for added functionality, as well as the ability to integrate and support upstream systems. The implementation of internal cloud solutions will provide leverage of physical resources for financial and technical benefits, and the tiered storage approach for data warehouse information will reduce storage costs as compared to previous storage methodologies.

Investment and Timeline

Data storage architecture consumes the majority of this \$1.7 million budget. Implementation will complete prior to the end of 2016.

CIP and ESP Compliance

SPP must adhere to ongoing CIP requirements and regulations, including adherence to CIP Version 5 standards by April, 2016.

Benefits

SPP is required to comply with FERC/NERC regulatory requirements. As part of recent CIP regulations, SPP must further isolate the infrastructure designated within the Electronic Security Perimeter (ESP), as well as implement additional restrictions for accessing the ESP to/from the SPP corporate environment.

As a result, SPP must acquire and implement "isolated" systems (Flash Storage, Networking, and Secure Access Software) within the ESP that are currently leveraged and shared across multiple

environments. While the impact may be viewed to be beneficial from a security perspective by FERC/NERC, this additional isolation results in increased complexity and operating costs for SPP, including a formal “baseline management” process for monitoring and reporting configuration changes within the ESP.

Investment and Timeline

Work on this project began in 2015 and is on track to complete in time to meet the compliance deadline of April 2016. 2016 investment will be \$1.4 million, the total cost of compliance is \$2.4 million.

Keeping The Lights On

Reliability is job #1 at SPP. It is the central focus of every decision and action undertaken within the organization. Internally, this is known as “keeping the lights on” or “KTLO”. It is the central theme of the organization’s mission statement “Helping our Members work together to **keep the lights on**...today and in the future”. SPP’s responsibility toward reliability, and other important services, is delineated in numerous agreements, contracts, tariff, protocols, standards, etc. Significant resources are dedicated directly to fulfilling these obligations and significant support resources are invested in helping the direct satisfaction of these obligations.

Internal Work Groups

SPP’s internal organization structure is designed to ensure appropriate focus and leadership is deployed to address the KTLO work described above. Many groups have direct responsibilities to accomplish the work while others are available to provide necessary support.

Operations

	Operations Department Investment and Resources				
Salary & Benefits	Travel	Services	Other	CapEx	Approved Staff
\$ 20.9	\$ 0.4	\$ 0.3	\$ 0.1	\$ 8.7	161

SPP’s Operations Department is responsible for many of the duties and responsibilities outlined in the OATT and MA. Operations staff are the front line employees who engage real-time in the reliability and market aspects of SPP on a 24 hour a day, 7 days a week basis. Staff consists of engineers, certified system operators and specialized support personnel. The Department is organized across three distinct subgroups:

1. System Operations
2. Markets
3. Engineering Support

Significant duties include: regional reliability coordination, tariff administration, transmission service, real-time and day-ahead market operations, maintain the models for the state estimator and the commercial modeling tools, training, and balancing authority operations. Additionally, staff from this group work with numerous stakeholder groups including; MOPC, Business Practices WG, Balancing Authority Operating Committee, Generation WG, Operating Reliability WG, and Operations Training WG. Finally, staff represents SPP and its members at numerous NERC working groups.

2016 Priorities

Wind Study – refresh of 6 year old wind integration study

Enhance operator tools – improve the types of information utilized by the operations staff in monitoring system stability and status

Market to Market – Dedicated effort to address seam and congestion issues highlighted since start of Market to Market process

Gas Coordination – participate in advancing solution to extend a gas pipeline as an alternative to construction of new generation to eliminate electric system contingency

Internal Model Coordination – establish process to coordinate between real time operations and long-term planning.

Strategic Plan Linkage

- Reliability Assurance
- Optimize Interdependent Systems
- Reliability Assurance

- Optimize Interdependent Systems

- Optimize Interdependent Systems

- Reliability Assurance

Engineering

Engineering Department Investment and Resources					
Salary & Benefits	Travel	Services	Other	CapEx	Approved Staff
\$ 9.4	\$ 0.3	\$ 2.8	\$ 0.6	\$ 0.5	76

Principal duties of SPP’s engineering department include planning SPP’s transmission system necessary to meet future regional reliability, economic, and public policy needs in an optimized manner; tracking progress and costs of approved transmission expansion projects; and performing longer term (longer than one year) studies necessary to process requests for generation interconnection, transmission service, and transmission congestion rights. The department also performs data gathering and reliability assessment responsibilities in support of the Regional Entity. The predominance of these duties are required by SPP’s OATT and business practices, the Membership Agreement, NERC Reliability Standards, and SPP Criteria.

2016 Priorities

Increased Compliance – Focus on new compliance requirements resulting from changes to several NERC standards including TPL-001 and 007, MOD-31, MOD-33, and CIP-002. SPP task forces and working groups such as TWG, MDWG, and TPLTF have been working in 2015 to define how SPP should comply.

Integrated System Support – addition of the IS will increase the volume of generation interconnection and transmission

Strategic Plan Linkage

- Reliability Assurance

- Reliability Assurance
- Maintain Economical,

service requests as well as the scope of the ITP studies.

Capacity Margin Refinement – expect recommendation to reduce the capacity margin required for the region accompanied with establishing a process for assurance monitoring to ensure fair and equitable capacity provision.

Clean Power Plan Assessments – continued support for utilities and regulators to inform, guide, and facilitate implementation of the CPP.

Transmission Planning Improvements – includes more efficient structure to studies, enhanced processes to determine assumptions, improvements to data validation and collection

Z2 Crediting Support – new process to ensure accurate inputs into the crediting system, and validation efforts on the outputs from the system

Optimized Transmission System

- Reliability Assurance
- Enhance Member Value

- Optimize Interdependent Systems
- Reliability Assurance
- Maintain Economical, Optimized Transmission System
- Enhance Member Value
- Enhance Member Value
- Maintain Economical, Optimized Transmission System

- Maintain Economical, Optimized Transmission System

Information Technology

Information Technology Department Investment and Resources					
Salary & Benefits	Travel	Services	Other	CapEx	Approved Staff
\$ 18.0	\$ 0.1	\$ 3.5	\$ 20.9	\$ 11.6	146

The primary mission of IT is to develop, deploy, integrate and support the applications and infrastructure that supply SPP's operational and corporate systems. IT is divided into three primary groups (IT-Operations, IT-Applications, and IT-Sourcing), along with a Chief Architect.

The IT-Applications department provides 24x7-support for existing systems including transmission, reliability, and Integrated Marketplace. The department is responsible for coordinating all software development efforts related to these key business systems, as well as planning and supporting the integration of new members/market participants such as Integrated Systems. IT-Applications plays an integral role in nearly all new projects, including the creation of requirements/test/rollback plans; developing software; providing technical leadership; defining, implementing and reviewing architecture; and providing ongoing maintenance and support for systems.

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

The IT-Sourcing and Strategy team has responsibility for managing the IT budget and facilitating/negotiating business activities with major IT vendors. The team works closely with the other IT departments to incorporate an appropriate short and long-term budget and acquisition philosophy, which incorporates vendor leveraging/relationships, asset lifecycles, and adequate maintenance coverage.

2016 Priorities

Strategic Plan Linkage

Enterprise Data Management – ensure SPP capability to transport data, both internally and externally, and appropriately store data based on need and value

- Enhance Member Value

Cyber Security – enhance SPP’s processes for responding to and recovering from cyber events

- Reliability Assurance

Efficiency - improve the identification, evaluation and implementation of technologies to improve services and reduce costs of delivering service to customers

- Enhance Member Value

Corporate

Corporate Department Investment and Resources					
Salary & Benefits	Travel	Services	Other	CapEx	Approved Staff
\$ 20.8	\$ 0.6	\$ 6.4	\$ 5.3	\$ 1.1	118

The corporate group has responsibility for many broad aspects of the organization. The group encompasses the following support areas:

- Executive
- Communications
- Accounting
- Gov’t Affairs
- Legal
- Human Resources
- Regulatory
- Administration
- Settlements
- Facilities
- Credit
- Market Monitoring

Additionally, this group holds the budget for several expenses which are not allocated across the company such as, pension expense, corporate liability insurance, and board of director compensation.

2016 Priorities

Strategic Plan Linkage

Western expansion – effort to expand SPP’s services to utilities west of SPP’s current footprint.

- Optimize Interdependent Systems

Settlements – focus on upgrading reliability and capability of settlement systems

- None

Outreach & Education - Increase one-on-one meetings with SPP members, regulators, and legislators to build relationship and better understand regional needs and issues

- None

Tariff Compliance – Continue drive to ensure SPP is knowledgeable of its specific requirements and duties under

- None

the tariff and capable of performing those responsibilities

Process Integrity

Process Integrity Department Investment and Resources					
Salary & Benefits	Travel	Services	Other	CapEx	Approved Staff
\$ 7.8	\$ 0.3	\$ 0.4	\$ 0.1	\$ 0.5	58

Primary responsibilities within the Process Integrity group include audit, compliance, external member training and customer service, project management, and interregional activities. Departments within this group work closely with the SPP Oversight Committee.

2016 Priorities

Security and Compliance – Continue to strengthen SPP’s security posture, both cyber and physical, while ensuring an active role in development and implementation of future standards

Stakeholder Project Prioritization – Mature a process to engage stakeholders in prioritizing the project work SPP undertakes

Distributed Process Improvement – Move from a centralized process to a distributed process empowering more staff to engage in process improvement development and implementation

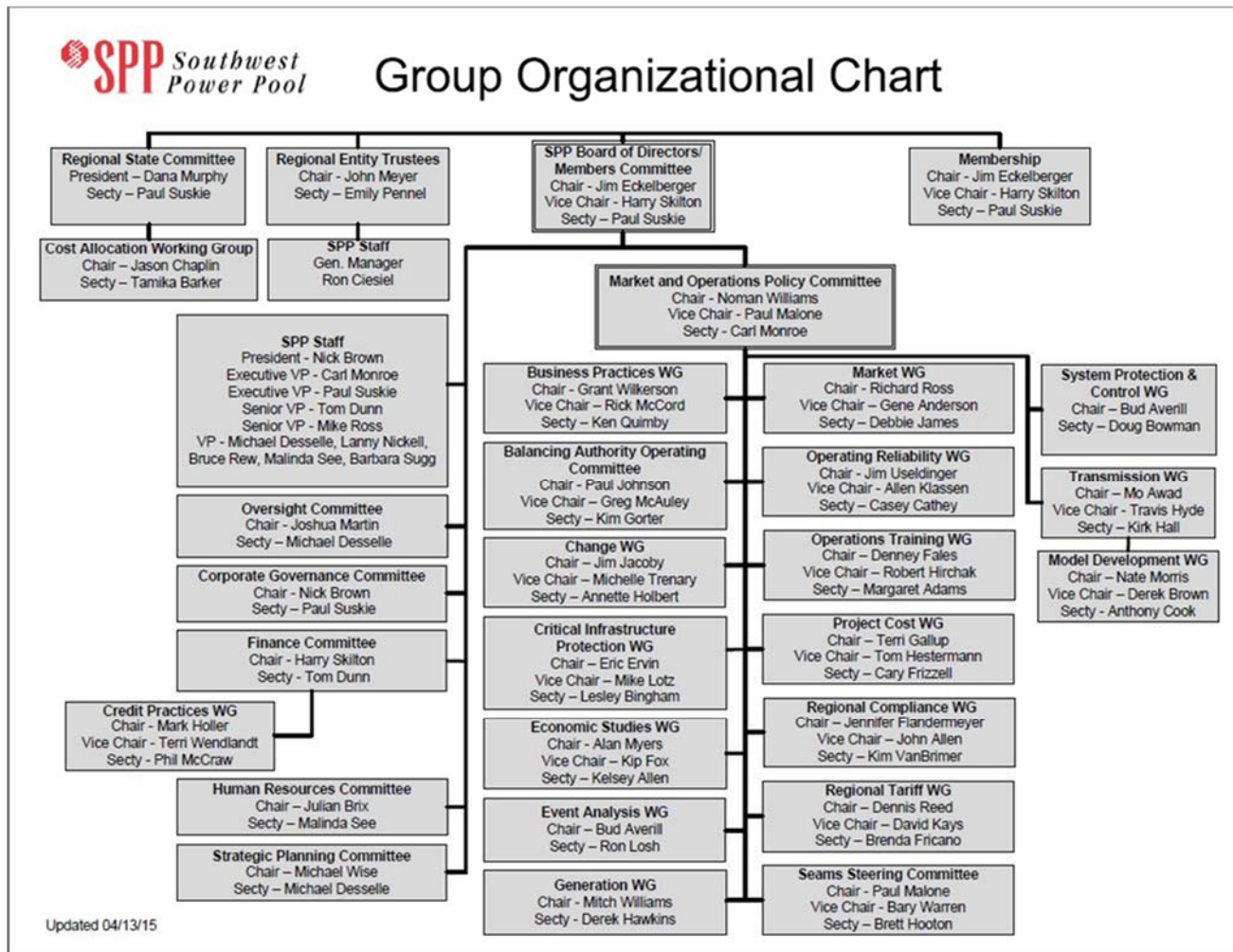
Strategic Plan Linkage

- Reliability Assurance

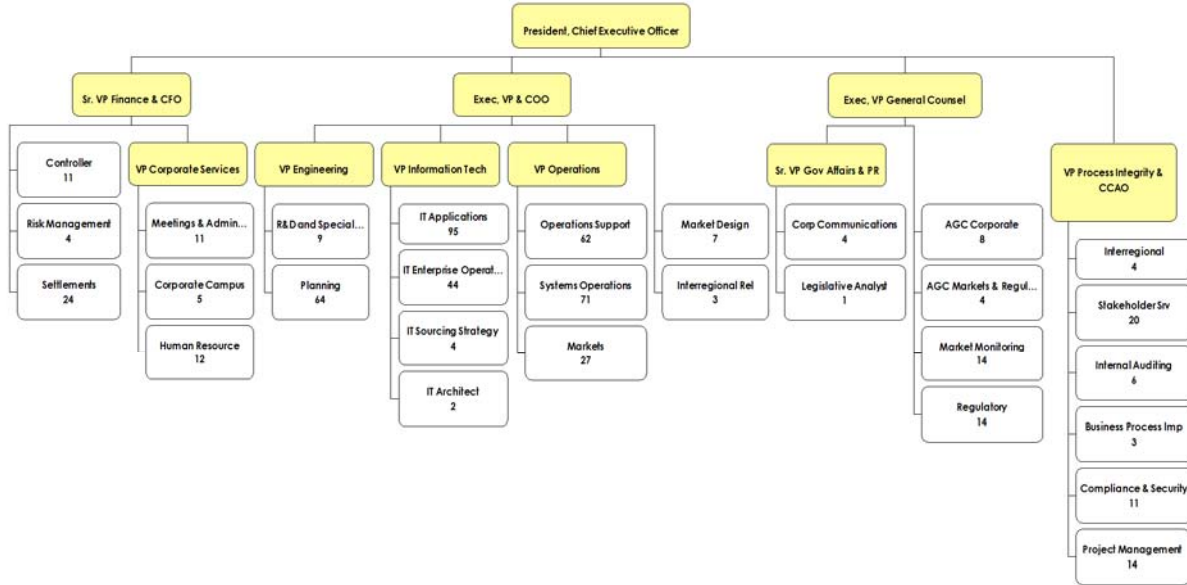
- Enhance Member Value

- Enhance Member Value

Appendix A



SPP Organizational Chart - September 21, 2015
Officers with detailed headcount



Appendix B

Project	Capital Investment		Operating Expense	Total Investment	Project		
	2016	Total			Source	Owner	Strategic Plan Linkage
A P P R O V E D							
Gas/Electric	1.0	1.0	0.5	1.5	FERC	GECTF	Enhance & Optimize Interdependent Systems
Enhanced Combined Cycle	4.3	5.2	1.0	6.2	MOPC	MWG	Enhance & Optimize Interdependent Systems
FERC 676-H NITS Web Oasis	0.1	0.1	0.1	0.2	FERC	Staff	None
Z2 Credit Stack (P1,2,3)	0.7	2.7	0.1	2.8	FERC	Staff	Economical, Optimized Transmission System
				2.8			Enhance Member Value and Affordability
2 Factor Authentication	0.2	0.2	0.4	0.6	Staff	Staff	Reliability Assurance
Identity & Access Mgmt	0.5	0.7	0.4	1.1	Staff	Staff	Reliability Assurance
Voltage Stability Tools	0.0	0.0		0.0	Staff	Staff	Reliability Assurance
Enterprise Records Mgmt ph II	-	-	0.2	0.2	Staff	Staff	Enhance Member Value and Affordability
Portal Replacement	0.1	0.1	0.1	0.2	Staff	Staff	Enhance Member Value and Affordability
Pro-law Upgrade	0.0	-	-	-	Staff	Staff	Enhance Member Value and Affordability
Intranet Redesign	0.1	0.1	-	0.1	Staff	Staff	Enhance Member Value and Affordability
DTS Upgrade	0.2	3.8	1.0	4.8	Staff	Staff	None
PMU Data Exchange	0.5	1.9	1.5	3.4	Staff	Staff	Reliability Assurance
	7.7	15.8	5.3	21.1			
D E F E R R E D / D E L A Y E D							
Transmission Settlement Upgrade	-	4.9	-	4.9	Staff	Staff	
Local Reliability Assessment	-	0.5	-	0.5	Staff	Staff	
R E J E C T E D							
Mitigated Offer Design phase II	1.2	1.2	1.5	2.7	Staff	Staff	
Enhanced EMS Export	0.1	0.1	-	0.1	Staff	Staff	



Southwest Power Pool, Inc.
FINANCE COMMITTEE
Recommendation to the Board of Directors
December 8, 2015

2016 Budget

Organizational Roster

The following persons are members of the Finance Committee:

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

Background

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

Analysis

SPP's management proposed a 2016 budget to include expenditures as follows:

	<u>\$000,000</u>
Total Expenses	\$217.1
Debt Repayment	\$24.2
FERC Assessments	\$17.0
Capital Expenditures	\$22.2

SPP management utilized an incremental approach to prepare the 2016 budget.

Management documented an Operating Plan for 2016 outlining the significant initiatives and plans for the company during 2016. This Operating Plan was presented to the Finance Committee, Strategic Planning Committee, and SPP Board of Directors to seek input and consensus. SPP's 2016 budget was developed to accomplish the plan.

Recommendation

The Finance Committee recommends the SPP Board of Directors approve the 2016 SPP operating and capital budgets as submitted.

Approved: Finance Committee

Action Requested: Approve Recommendation



Southwest Power Pool, Inc.

FINANCE COMMITTEE

Recommendation to the Board of Directors

December 8, 2015

2016 Administrative and Assessment Fee Rate

Organizational Roster

The following persons are members of the Finance Committee:

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

Background

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

Analysis

The 2016 SPP operating budget indicates a net revenue requirement ("NRR") for the year of \$150.5 million (inclusive of expected under-recovery of \$1.1 million in 2015) and estimated billing determinants of 407,200,000 MWh. NRR is derived by adjusting SPP's gross cash outflows (exclusive of capital expenditures) by all non administrative fee revenue forecast to be earned in the year. The billing determinants are calculated by analyzing the current year to date transmission usage and estimating usage through the remainder of the year.

Billing determinants are estimated based on the billing criteria detailed in the SPP tariff. Presently, network integration transmission service is charged the SPP schedule 1A administrative fee based on the average 12 monthly peaks from the previous year; point-to-point transmission service is charged the SPP schedule 1A administrative fee based on the reserved transmission capacity. Through September 2015, SPP has realized year-over-year reduction in average monthly peaks of 1.6%, though peaks through the summer months were generally higher than those experienced in 2014. The behavior of the monthly peaks within the Integrated System is largely unknown at this point. The reported 2014 peaks which are used in billing network transmission service for the Integrated System starting October 2015 were slightly higher than SPP had forecast last year but slightly lower than forecast earlier in 2015. For purposes of forecasting SPP's 2016 billing determinants, the 2014 average peaks in the Integrated System will be used.

Recommendation

The Finance Committee recommends the SPP Board of Directors establish an assessment rate and tariff administrative fee (schedule 1-A) of 37¢/MWh beginning on January 1, 2016.

Approved: Finance Committee

Action Requested: Approve Recommendation

Stephens Inc.

Larry Middleton

November 2015

The domestic and foreign markets were affected by two primary factors in the third quarter of 2015. China's disappointing economic reports coupled with the Federal Reserve's lack of decisiveness on raising rates added to the selling pressure in equities across all asset classes.

As of September 30th, the Southwest Power Pool portfolio was down (5.77)% net of manager fees year-to-date vs the blended index return of (5.73)% as shown below:

Actual Allocated Index Returns				Static Blended Index Returns			
As of 9/30/2015	Asset Weight	QTD	YTD	As of 9/30/2015	Asset Weight	QTD	YTD
Russell 3000	54.7%	-7.290	-5.540	Russell 3000	45.0%	-7.29	-5.54
S&P Energy Sector	8.1%	-17.410	-21.280	Alerian MLP	5.0%	-18.16	-24.75
Alerian MLP	3.2%	-18.160	-24.750	MSCI EAFE	10.0%	-10.23	-5.26
MSCI EAFE	3.0%	-10.230	-5.258	Barclays US Aggregate	10.0%	1.23	1.13
Barclays US Aggregate	19.0%	1.230	1.130	Barclays Intermediate Credit	5.0%	0.87	1.80
Barclays US Corporate High Yield	6.7%	-4.860	-2.450	Barclays US Corporate High Yield	5.0%	-4.86	-2.45
Barclays Global Aggregate ExUS	1.6%	0.640	-4.820	Barclays 1-3 Year Treasury	10.0%	0.31	1.00
Cash	3.7%	0.000	0.000	Barclays Global Aggregate ExUS	5.0%	0.64	-4.82
				Cash	5.0%	0.00	0.00
Weighted Average Index ROR		<u>-6.37%</u>	<u>-5.73%</u>	Weighted Average Index ROR		<u>-5.23%</u>	<u>-4.32%</u>

The lower cost of commodities affected Master Limited Partnerships (MLPs) and energy stocks along with the credit markets. At current levels, these asset classes appear to be fairly valued while inflation remains at 1.8% excluding energy.

Our outlook for the remainder of 2015 is based on the following premise:

- Improvement in global economy led by the developed markets
- Gradual federal interest rate increases expected to begin in the fourth quarter of 2015 or the first quarter of 2016
- Soft commodity prices and potential deflation in the near term which is largely influenced by China's recovery
- Slight risk of inflation in the U.S. based on the wage and employment rates over the long-term

Markets:

- Some emerging markets appear to be fairly valued
- European equities are attractively priced vs U.S. equities based on price/earning multiples
- Commodity and oil prices slow to recover
- U.S. economy to remain strong and dollar exchange rate stable

Based on current earnings reports, improved unemployment rates, and consumer confidence, we believe the year-end equity markets will improve. The bond markets are likely to remain flat in anticipation of the Federal Reserve's adjustment in rates. Consequently, we will continue to maintain a short duration as we approach year-end.

As we move into the fourth quarter of 2015, we will continue to add to the allocations among the respective equity indexes (core). The funding for those allocations will be sourced from the cash flow and rebalancing of some of its inherited secular positions. This will provide the portfolio with additional diversification and exposure to the broader equity asset classes. We will also continue to add to the (satellite) active managers.

The bond portfolio has duration of less than two years. We will continue to add short corporate credit positions to the bond allocation primarily because the markets are focused on the anticipated Federal Reserve's movement in 2016.

Please feel free to contact me if you would like to discuss your portfolio or the economic factors that were outlined above.

Sincerely,

Larry Middleton
Executive Vice President

- *Composite Allocation Pie Chart and Broader Market Snapshot for the period ending 09/30/15 are attached.*

The statements contained herein, while not guaranteed, are taken from sources we consider to be reliable. Month-end statements should remain as your documents of record. Past performance is no guarantee of future results.

Investment Bankers
www.stephens.com

111 Center Street P.O. Box 3507 Little Rock, Arkansas 72203 501-377-3493 Fax 501-210-4619

Russell 3000 Index

The Russell 3000 Index measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market.

S&P Energy Sector Index

The S&P 500[®] Energy Index comprises those companies included in the S&P 500 that are classified as members of the GICS[®] energy sector.

Alerian MLP Index

The Alerian MLP Index is the leading gauge of large- and mid-cap energy Master Limited Partnerships (MLPs). The float-adjusted, capitalization-weighted index, which includes 50 prominent companies and captures approximately 75% of available market capitalization

MSCI EAFE Index

The MSCI EAFE Index is broadly recognized as the pre-eminent benchmark for U.S. investors to measure international equity performance. It comprises the MSCI country indexes capturing large and mid-cap equities across developed markets in Europe, Australasia and the Far East, excluding the U.S. and Canada.

Barclays U.S. Aggregate Bond Index

The Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency).

Barclays U.S. Corporate High Yield Index

The Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.

Barclays Global Aggregate Bond Ex-U.S. Index

Tracks investment-grade government, corporate, agency, and mortgage-related bonds in markets outside the U.S.

Barclays Intermediate Credit Index

The index measures the performance of investment grade corporate debt and agency bonds that are dollar denominated and have a remaining maturity of greater than one year and less than ten years.

Barclays 1-3 Year U.S. Treasury Index

The Barclays US Treasury Bond 1-3 Year Term Index measures the performance of government bonds issued by the US Treasury. The Term indices include only those bonds near to their original term, rather than selecting all bonds in a maturity range. The benefit of the term methodology is that the term indices have similar yield, duration and risk/return characteristics to standard maturity-based indices but are more compact and tend to be more liquid than the equivalent maturity index, which also include bonds issued at longer tenors and that have rolled down the yield curve.

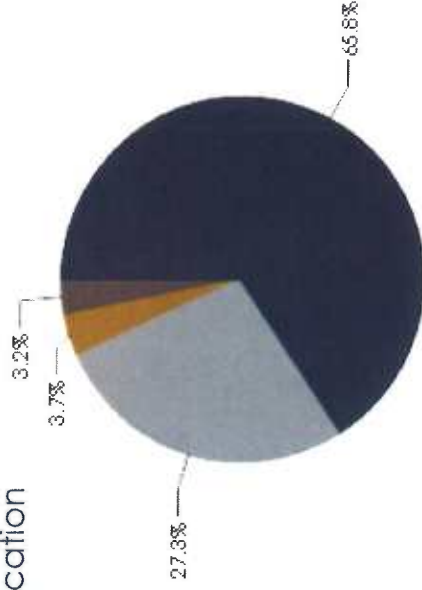
Southwest Power Pool Composite
Traditional Quarterly Package

September 30, 2015

Southwest Power Pool Composite

09/30/2015

Allocation



	Month to Date	Quarter to Date	Year to Date	03/04/2014 to Date
Beginning Value	46,531,311.78	48,156,899.48	45,933,838.69	0.00
Contributions	268,697.29	1,309,527.01	5,192,704.59	51,710,187.35
Distributions	0.00	-512,000.00	-2,862,000.00	-4,471,624.23
Asset Value Change	-1,385,409.31	-3,539,826.73	-2,849,943.52	-1,823,963.36
Current Market Value	45,414,599.76	45,414,599.76	45,414,599.76	45,414,599.76
Accrued Income	130,609.00	130,609.00	130,609.00	130,609.00
Value with Accrued Income	45,545,208.77	45,545,208.77	45,545,208.77	45,545,208.77

Asset Class	Market Value	% Assets	Yield
Equity	29,883,452.49	65.8	2.22
Fixed Income	12,406,263.78	27.3	3.78
Cash	1,680,275.27	3.7	0.00
Alternative	1,444,608.23	3.2	7.19
Totals	45,414,599.76	100.0	2.72

Performance

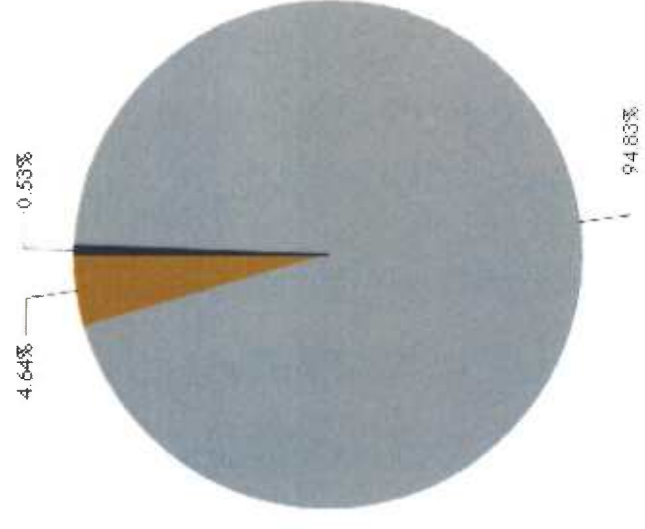
Account	Account Name	Strategy	Inception Date	MTD	QTD	YTD	1YR	3YR	5YR	10YR	ITD (Ann.)	ITD (Cum.)
530844571	Southwest Power Pool		3/4/2014	-2.88	-7.18	-5.77	-5.76	-	-	-	-2.05	-3.21
530866612	Southwest Power Pool Equities		3/4/2014	-3.93	-9.66	-8.23	-8.12	-	-	-	-3.32	-5.18
530866799	Southwest Power Pool Fixed		3/4/2014	-0.59	-1.20	0.11	-0.20	-	-	-	0.66	1.04
	Southwest Power Pool Collect		3/4/2014	0.00	-0.18	-0.33	-0.37	-	-	-	0.11	0.18

Southwest Power Pool Equities 530844571

9/30/2015

Account	Inception Date	MTD	QTD	YTD	1-Year	3-Year	5-Year	10-Year	SI (Cum)	SI (Ann)
Southwest Power Pool Equities	3/04/2014	-3.93	-9.66	-8.23	-8.12	-	-	-	-5.18	-3.32
NET										

Asset Allocation	Market Value	% of Total
Cash	\$164,227.16	0.53
Equity	\$29,508,768.99	94.83
Alternative	\$1,444,608.23	4.64
Total Assets	\$31,117,604.37	100.00



Southwest Power Pool Equities 530844571

9/30/2015

Quantity	Symbol	Security Description	Unit Cost	Total Amount	Current Price	Market Value	% Unrealized Gain/Loss	% of Assets	Estimated Annual Income	Curr. Yld./YTM
Cash										
Cash										
	-CASH-	Cash Balance	1.00	0.00	1.00	0.00	-	0.00	-	-
164,227	OA0100	Federated Treas Oblig	1.00	164,227.16	1.00	164,227.16	-	0.53	-	-
				164,227.16		164,227.16		0.53	0	
				164,227.16		164,227.16		0.53	-	
Equity										
Equity										
25,700	ABX	Barrick Gold Corp	20.36	523,252.00	6.36	163,452.00	-68.76%	0.53	2,056	1.26
8,425	ARCC	Ares Capital Corp	17.81	150,024.69	14.48	121,994.00	-18.68%	0.39	12,806	10.50
2	BRK A	Berkshire Hathaway Inc Cl A	180864.99	361,729.98	195240.00	390,480.00	7.95%	1.25	-	-
4,000	BRK B	Berkshire Hathaway Inc Cl B	118.57	474,280.00	130.40	521,600.00	9.98%	1.68	-	-
17,508	COP	ConocoPhillips	60.80	1,164,282.00	47.96	839,683.68	-27.88%	2.70	51,824	6.17
6,450	CVE	Cenovus Energy Inc	26.41	170,344.50	15.16	97,782.00	-42.60%	0.31	3,167	3.24
2,100	CVX	Chevron Corporation	115.32	242,172.00	78.88	165,648.00	-31.60%	0.53	8,988	5.43
2,200	DVN	Devon Energy Corp	64.64	142,208.00	37.09	81,598.00	-42.62%	0.26	2,112	2.59
4,400	F	Ford Motor Co	15.37	67,628.00	13.57	59,708.00	-11.71%	0.19	2,640	4.42
11,520	FCX	Freeport-McMoRan Inc	33.53	386,265.60	9.69	111,628.80	-71.10%	0.36	2,304	2.06
20,450	MIRK	Merck & Co Inc	54.27	1,166,877.00	49.39	1,010,025.50	-13.44%	3.25	36,810	3.64
18,775	NEM	Newmont Mining Corporation	15.14	453,228.50	16.07	301,714.25	-33.43%	0.97	1,878	0.62
23,100	PBT	Permian Basin Royalty Trust	13.07	301,917.00	6.11	141,141.00	-53.25%	0.45	9,956	7.05
28,800	PFE	Pfizer Incorporated	30.19	941,472.00	31.41	904,608.00	-3.92%	2.91	32,256	3.57
6,725	PSX	Phillips 66	77.21	519,267.96	76.84	516,749.00	-0.49%	1.66	15,064	2.92
484	RFP	Resolute Forest Products Inc	20.87	10,101.08	8.31	4,022.04	-60.18%	0.01	-	-
5,400	RIG	Transocean Ltd	42.00	226,800.00	12.92	69,768.00	-69.24%	0.22	3,240	4.64
8,400	T	AT & T Inc	35.66	299,532.93	32.58	273,672.00	-8.63%	0.88	15,792	5.77
500	TRGP	Targa Resources Corporation	99.02	49,509.95	51.52	25,760.00	-47.97%	0.08	1,750	6.79
13,600	VLO	Valero Energy Corporation	49.22	669,392.00	60.10	817,360.00	22.10%	2.63	21,760	2.66

Southwest Power Pool Equities 530844571

9/30/2015

Quantity	Symbol	Security Description	Unit Cost	Total Amount	Current Price	Market Value	% Unrealized Gain/Loss	% of Assets	Estimated Annual Income	Curr. Yld/ YTM
7,075	VZ	Verizon Communications	49.43	349,711.12	43.51	307,833.25	-11.97%	0.99	15,990	5.19
8,425	WM	Waste Management Inc	44.66	376,248.34	49.81	419,649.25	11.54%	1.35	12,975	3.09
2,900	WMB	Williams Companies Inc	51.90	150,506.83	36.85	106,865.00	-29.00%	0.34	7,424	6.95
				9,196,751.46		7,452,741.77		23.95	260,790	
ETF - Equity										
18,800	DIA	SPDR Dow Jones Industrial Average ETF	164.70	3,096,293.05	162.62	3,057,256.00	-1.26%	9.82	74,749	2.44
12,350	EFA	iShares MSCI EAFE Index ETF	68.08	840,788.00	57.32	707,902.00	-15.80%	2.27	20,946	2.96
20,855	IWD	iShares Russell 1000 Value ETF	98.61	2,056,558.94	93.28	1,945,354.40	-5.41%	6.25	49,468	2.54
26,305	IWF	iShares Russell 1000 Growth ETF	89.52	2,354,697.47	93.00	2,446,365.00	3.89%	7.86	35,459	1.45
7,500	IWM	iShares Russell 2000 ETF	119.85	898,910.63	109.20	819,000.00	-8.89%	2.63	12,615	1.54
11,875	IWR	iShares Russell Midcap ETF	157.76	1,873,453.00	155.56	1,847,275.00	-1.40%	5.94	29,509	1.60
18,955	IWV	iShares Russell 3000 ETF	113.42	2,149,833.97	113.89	2,158,784.95	0.42%	6.94	41,663	1.93
4,150	QQQ	PowerShares QQQ Trust	96.14	398,983.69	101.76	422,304.00	5.84%	1.36	4,768	1.13
8,875	SPY	SPDR S&P 500 ETF	197.37	1,751,664.88	191.63	1,700,716.25	-2.91%	5.47	36,645	2.15
				15,421,183.63		15,104,957.60		48.54	305,822	
Mutual Funds - Equity										
15,040	DDVIX	Delaware Value Fd Cl I	17.07	256,771.85	16.70	251,165.55	-2.18%	0.81	-	1.87
11,299	DODGX	Dodge & Cox Stock Fund	157.72	1,982,092.46	162.20	1,832,716.13	-7.54%	5.89	-	1.44
3,609	FNCMX	Fidelity Nasdaq Composite	56.19	202,795.54	61.25	221,075.20	9.01%	0.71	-	0.85
3,033	FUSEX	Fidelity Spartan 500 Index Fund Inv Cl	68.11	206,557.95	68.01	206,250.25	-0.15%	0.66	-	2.13
58,277	GSYIX	Goldman Sachs N-11 Equity Fund Inst Cl	11.12	647,877.13	8.78	511,674.86	-21.02%	1.64	-	0.57
18,414	HACAX	Harbor CapIt Appreciation Fund Inst Cl	60.26	1,109,645.39	60.09	1,106,492.51	-0.28%	3.56	-	0.08
67,553	RGAFX	American Funds Growth Fund Of America	44.30	2,992,469.21	41.77	2,821,695.12	-5.71%	9.07	-	0.70
				7,398,209.53		6,951,069.62		22.34	0	
				32,016,144.64		29,508,768.99		94.83	566,613	

Southwest Power Pool Equities 530844571

9/30/2015

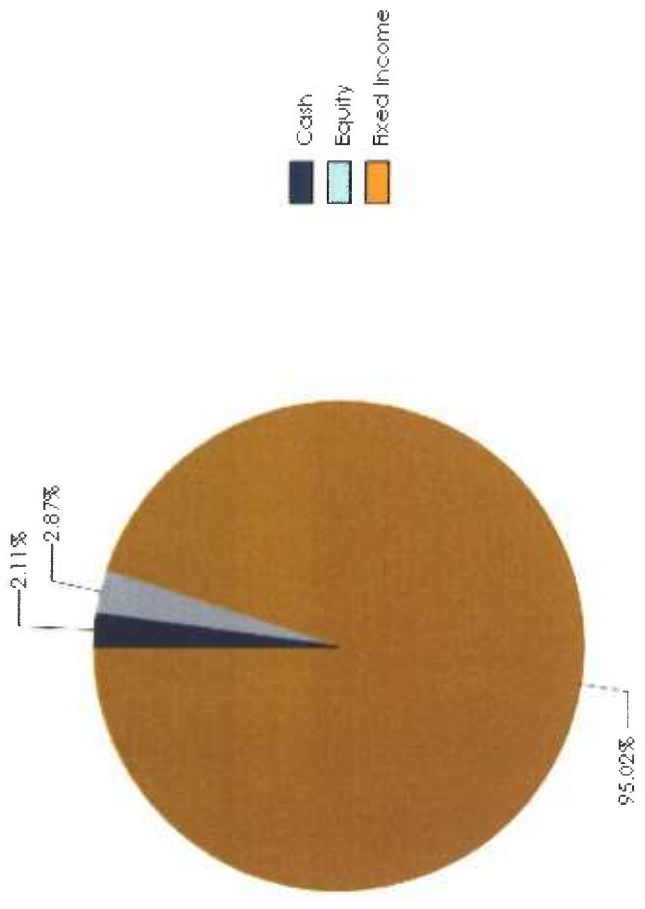
Quantity	Symbol	Security Description	Unit Cost	Total Amount	Current Price	Market Value	% Unrealized Gain/Loss	% of Assets	Estimated Annual Income	Curr. Yld./YTM
Alternative										
ETF - Equity										
21,175	AMLPL	Alerian MLP ETF	17.99	380,885.35	12.48	264,264.00	-30.62%	0.85	24,902	9.42
				380,885.35		264,264.00		0.85	24,902	
Master Limited Partnerships										
1,375	BPL	Buckeye Partners LP	73.06	100,454.36	59.27	81,496.25	-18.87%	0.26	6,394	7.85
4,800	BX	Blackstone Group	41.77	200,488.61	31.67	152,016.00	-24.18%	0.49	13,680	9.00
11,564	EPD	Enterprise Products Partners LP	33.21	383,990.18	24.90	287,943.60	-25.01%	0.93	17,577	6.10
600	EQM	EQT Midstream Ltd Partners LP	82.23	49,336.20	66.33	39,798.00	-19.33%	0.13	1,536	3.86
6,400	ETE	Energy Transfer Equity LP	25.02	160,129.28	20.81	133,184.00	-16.83%	0.43	6,784	5.09
8,270	KKR	KKR & Co LP	24.22	200,280.37	16.78	138,770.60	-30.71%	0.45	13,894	10.01
1,425	MMIP	Magellan Midstream Partners LP	70.04	99,813.11	60.11	85,656.75	-14.18%	0.28	4,218	4.92
1,850	PAA	Plains All American Pipeline LP	54.00	99,903.24	30.38	56,203.00	-43.74%	0.18	5,143	9.15
3,300	WGP	Western Gas Equity Partners LP	50.17	165,577.06	39.43	130,119.00	-21.41%	0.42	4,802	3.69
				1,459,972.41		1,105,187.20		3.55	74,027	
Mutual Fund Unclassified										
7,756	IMLPX	MainGate MLP Fund CII	13.05	101,205.97	9.69	75,157.03	-25.74%	0.24		6.50
				101,205.97		75,157.03		0.24	0	
				1,942,063.73		1,444,608.23		4.64	98,929	
				34,122,435.54		31,117,604.37		100.00	665,541	

Southwest Power Pool Fixed 530866612

9/30/2015

Account	Inception Date	MTD	QTD	YTD	1-Year	3-Year	5-Year	10-Year	SI (Cum)	SI (Ann)
Southwest Power Pool Fixed	3/04/2014	-0.59	-1.20	0.11	-0.20	-	-	-	1.04	0.66
										NET

Asset Allocation	Market Value	% of Total
Cash	\$275,801.66	2.11
Equity	\$374,683.50	2.87
Fixed Income	\$12,406,263.78	95.02
Total Assets	\$13,056,748.94	100.00



Southwest Power Pool Fixed 530866612

9/30/2015

Quantity	Symbol	Security Description	Unit Cost	Total Amount	Current Price	Market Value	% Unrealized Gain/Loss	% of Assets	Estimated Annual Income	Cur. Yld/YTM
Cash										
Cash										
-CASH-		Cash Balance	1.00	0.00	1.00	0.00	-	0.00	-	-
275,802	OA0100	Federated Treas Oblig	1.00	275,801.66	1.00	275,801.66	-	2.11	-	-
				275,801.66		275,801.66		2.11	0	
				275,801.66		275,801.66		2.11		
Equity										
ETF -Equity										
23,850	BIZD	Market Vectors BDC Income ETF	21.02	501,315.08	15.71	374,683.50	-25.26%	2.87	37,111	9.90
				501,315.08		374,683.50		2.87	37,111	
				501,315.08		374,683.50		2.87	37,111	
Fixed Income										
Corporate Bonds										
200,000	002824AU4	ABBOTT LABORATORIES 5.125% 4/01/19 002824AU4	114.47	228,938.00	110.58	221,158.00	-3.40%	1.69	10,250	-
		5.125 04/01/2019								
100,000	009158AS5	Air Products Chemicals Whole Call 10bps 009158AS5	99.00	98,997.00	99.66	99,655.00	0.66%	0.76	1,200	-
		1.200 10/15/2017								
100,000	037833AJ9	Apple Inc Sr Note 037833AJ9	97.48	97,481.00	99.53	99,533.00	2.11%	0.76	1,000	-
		1.000 05/03/2018								
100,000	055482AJ2	BJ Service Co Call Make Whole 40bp 055482AJ2	115.59	115,586.00	110.23	110,234.00	-4.63%	0.84	6,000	-
		6.000 06/01/2018								
250,000	06849AAA7	Barrick Intl Bank Corp Call Make Whole 06849AAA7	110.73	276,822.50	104.86	262,137.50	-5.30%	2.01	14,375	-
		5.750 10/15/2016								
150,000	097023BE4	Boeing Co .95% 097023BE4	97.42	146,127.00	99.22	148,822.50	1.84%	1.14	1,425	-
		0.950 05/15/2018								
100,000	120569AA6	Bunge NA Finance 5.9% 120569AA6	111.90	111,902.00	105.55	105,547.00	-5.68%	0.81	5,900	-
		5.900 04/01/2017								

Southwest Power Pool Fixed 530866612

9/30/2015

Quantity	Symbol	Security Description	Unit Cost	Total Amount	Current Price	Market Value	% Unrealized Gain/Loss	% of Assets	Estimated Annual Income	Curr. Yld./YTM
250,000	166764AE0	CHEVRON CORP 1.718% 6/2018 166764AE0 1.718 06/24/2018	100.36	250,897.50	100.78	251,940.00	0.42%	1.93	4,295	-
250,000	17275RAE2	CISCO SYSTEMS INC 17275RAE2 4.950 02/15/2019	113.66	284,145.00	110.35	275,865.00	-2.91%	2.11	12,375	-
250,000	219350AY1	Corning Inc Nt 1.45% 219350AY1 1.450 11/15/2017	98.52	246,302.50	100.04	250,097.50	1.54%	1.92	3,625	-
250,000	26054LSW4	Dow Chem Co 1.65 26054LSW4 1.650 05/15/2018	96.91	242,282.50	99.85	249,632.50	3.03%	1.91	4,125	-
100,000	268648AP7	EMC Corp Mass 1.875 268648AP7 1.875 06/01/2018	100.06	100,062.00	100.25	100,248.00	0.19%	0.77	1,875	-
320,000	303901AC6	Fairfax Financial Holding 8.25% 303901AC6 8.250 10/01/2015	109.95	351,827.20	100.00	320,000.00	-9.05%	2.45	26,400	-
250,000	4062168C4	Halliburton Co 2.0% 4062168C4 2.000 08/01/2018	100.91	252,282.50	100.65	251,632.50	-0.26%	1.93	5,000	-
150,000	458140AL4	Intel Corp 458140AL4 1.350 12/15/2017	99.94	149,908.50	99.82	149,731.50	-0.12%	1.15	2,025	-
500,000	526107AC1	Lennox International Sr Note 526107AC1 4.900 05/15/2017	104.28	521,420.21	104.36	521,790.00	0.07%	4.00	24,500	-
200,000	529772AE5	Lexmark Intl Inc 6.65% 529772AE5 6.650 06/01/2018	112.37	224,748.00	110.56	221,126.00	-1.61%	1.69	13,300	-
200,000	585055AN6	Medtronic Inc 5.6% 585055AN6 5.600 03/15/2019	116.14	232,274.00	112.56	225,110.00	-3.08%	1.72	11,200	-
150,000	666807BA9	Northrop Grumman Corp 5.05% 666807BA9 5.050 08/01/2019	111.58	167,364.00	109.68	164,512.50	-1.70%	1.26	7,575	-
200,000	68389XAN5	Oracle Corp 68389XAN5 1.200 10/15/2017	99.70	199,390.00	100.17	200,336.00	0.47%	1.53	2,400	-
200,000	71713UAQ5	Pharmacia Corp 6.5% 71713UAQ5 6.500 12/01/2018	120.88	241,760.00	114.94	229,870.00	-4.92%	1.76	13,000	-

Southwest Power Pool Fixed 530866612

9/30/2015

Quantity	Symbol	Security Description	Unit Cost	Total Amount	Current Price	Market Value	% Unrealized Gain/Loss	% of Assets	Estimated Annual Income	Curr. Yld./YTM
250,000	74005PBC7	Praxair Inc 1.05% 74005PBC7 1.050 11/07/2017	98.62	246,560.00	99.78	249,460.00	1.18%	1.91	2,625	-
200,000	911312AK2	United Parcel Service 5.125% 911312AK2 5.125 04/01/2019	114.57	229,146.00	112.03	224,052.00	-2.22%	1.72	10,250	-
200,000	931142DJ9	Wal Mart Stores Inc 931142DJ9 1.950 12/15/2018	100.77	201,548.00	102.09	204,186.00	1.31%	1.56	3,900	-
				5,217,771.41		5,136,676.50		39.34	188,620	
ETF - Fixed Income										
26,325	BKLN	PowerShares Senior Loan Port ETF	24.67	649,380.23	23.04	606,528.00	-6.60%	4.65	24,351	4.01
9,500	CSJ	iShares 1-3 Year Credit Bond ETF	105.37	1,000,986.98	105.13	998,735.00	-0.22%	7.65	10,640	1.07
7,610	HYS	PIMCO 0-5 Yr High Yld Corp Bd Index ETF	104.71	796,814.71	94.62	720,058.20	-9.63%	5.51	33,180	4.61
5,075	PFF	iShares US Preferred Stock ETF	39.35	199,700.74	38.60	195,895.00	-1.91%	1.50	12,058	6.16
14,170	SHY	iShares 1-3 Year Treasury Bond ETF	84.71	1,200,406.17	84.99	1,204,308.30	0.33%	9.22	5,796	0.48
24,710	SJNK	SPDR Barclays Short Term Hi Yld Bd ETF	30.36	750,179.12	26.94	665,687.40	-11.26%	5.10	37,312	5.61
				4,597,467.95		4,391,211.90		33.63	123,336	
Mutual Funds - Fixed Income										
85,271	EBIX	Eaton Vance Income Fund of Boston CII	6.11	521,101.42	5.55	473,255.72	-9.18%	3.62	-	6.67
46,140	EIFAX	Eaton Vance Floating Rate Advantaged I	11.17	515,503.23	10.51	484,926.52	-5.93%	3.71	-	5.01
59,380	GSZIX	Goldman Sachs Strategic Income Fd Inst	10.59	630,166.10	9.88	586,674.36	-6.90%	4.49	-	3.01
111,506	SHIAX	Western Asset High Income Fund Class A	5.38	700,228.47	5.45	607,708.77	-13.21%	4.65	-	7.19
				2,366,999.22		2,152,565.38		16.49	0	
Other Fixed Income										
200,000	ED4972490	Australia CMNWLTH 6.0% 2/15/17 6.000 02/15/2017	97.46	194,924.08	108.17	216,340.00	10.99%	1.66	12,000	(0.03)
225,000	ED9034833	New Zealand Govt 6.0% 12/15/17 6.000 12/15/2017	0.00	0.00	106.22	238,995.00	899500.00%	1.83	13,500	3.04
250,000	EI4806804	Australia CMNWLTH 5.5% 1/21/18 5.500 01/21/2018	97.33	243,327.18	108.19	270,475.00	11.16%	2.07	13,750	1.83

Southwest Power Pool Fixed 530866612

9/30/2015

Quantity	Symbol	Security Description	Unit Cost	Total Amount	Current Price	Market Value	% Unrealized Gain/Loss	% of Assets	Estimated Annual Income	Curr. Yld/YTM
			438,251.26			725,810.00		5.56	39,250	
			12,620,489.83			12,406,263.78		95.02	351,206	
Account Total			13,397,606.57			13,056,748.94		100.00	388,317	

Portfolio Snapshot

Stephens

Southwest Power Pool Collect 530866799

9/30/2015

Account	Inception Date	MTD	QTD	YTD	1-Year	3-Year	5-Year	10-Year	SI (Cum)	SI (Ann)	NET
Southwest Power Pool Collect	3/04/2014	0.00	-0.18	-0.33	-0.37	-	-	-	0.18	0.11	0.11

Asset Allocation	Market Value	% of Total
Cash	\$1,240,246.45	100.00
Total Assets	\$1,240,246.45	100.00



Southwest Power Pool Collect 530866799

9/30/2015

Quantity	Symbol	Security Description	Unit Cost	Total Amount	Current Price	Market Value	% Unrealized Gain/Loss	% of Assets	Estimated Annual Income	Curr. Yld/ YTM
Cash										
Cash										
	-CASH-	Cash Balance	1.00	0.00	1.00	0.00		0.00		
1,240,246	OA0100	Federated Treas Oblig	1.00	1,240,246.45	1.00	1,240,246.45		100.00		
				1,240,246.45		1,240,246.45		100.00	0	
				1,240,246.45		1,240,246.45		100.00		
				1,240,246.45		1,240,246.45		100.00	0	
				1,240,246.45		1,240,246.45		100.00	0	

Disclaimers

The information in the accompanying report has been prepared solely for informative purposes and is not a solicitation, or an offer, to buy, sell or hold any security or a recommendation of the services supplied by any money management organization. It does not purport to be a complete description of the securities, markets or developments referred to in the report. The information is obtained from sources which we consider reliable but we have not independently verified such information, and we do not guarantee that it is accurate or complete. The information or opinion is subject to change without notice. We, or our officers and directors, may from time to time have a long or short position in the securities mentioned and may sell or buy such securities.

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The investment return and principal value of an investment will fluctuate so that the value of an investment, when sold or redeemed, may be more or less than the original cost.

Performance data quoted represents past performance. Past performance is no guarantee of future results. Performance for periods subsequent to the periods reflected in this report may be lower or higher than the performance reflected in this report. Performance greater than one year is annualized. You may obtain the most current month-end performance data from your Financial Consultant by calling 800-643-9691.

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Income Projection has certain limitations. Cost Basis presented reflects current IRS regulation.

Estimated Annual Income (EAI) and Estimated Yield (EY):

- EAI and EY does not include a return of principal or capital gains in which case the EAI and EY would be overstated.
- EAI and EY are estimates and the actual income and yield might be lower or higher than the estimated amounts.
- EY reflects only the income generated by an investment. It does not reflect changes in its price, which may fluctuate.

Deferred losses marked with an asterisk are so marked to disclose that your cost basis has been adjusted on buys generating wash sales pursuant to a calculation designed to make the wash sale cost basis adjustment in accordance with IRS regulations. This deferred loss amount will be reported to the IRS on Form 1099B.

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Southwest Power Pool, Inc.

FINANCE COMMITTEE

Recommendation of SPP Staff

November 10, 2015

Post-retirement Healthcare Investment Management

Organizational Roster

The following persons are members of the Finance Committee:

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

Background

SPP maintains a post-retirement healthcare plan covering 124 active employees and 12 retirees as of January 1, 2015. The is unfunded but SPP has managed the plan by segregating funds into a stand-alone investment account at U.S. Bank and has provided U.S. Bank full discretion to manage the assets in the account in accordance with SPP’s Investment Policy specific to this plan. Assets in the account totaled just over \$9 million at September 30, 2015.

Analysis

The investment return on the account assets has trailed the performance of market indexes for a significant period of time. Highlighted below are the 1 year, 3 year, and 5 year annualized returns for the plan compared to a benchmark comprised 70% of the Vanguard S&P500 index and 30% of the Vanguard Short-term Bond Index.

	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>
U.S. Bank	-3.78%	4.86%	6.00%
70/30 Benchmark Index	4.04%	11.64%	10.44%

SPP can establish a self-directed investment account with First Security Wealth Management (SPP’s 3(38) Investment Manager for the SPP 401(k) account) and purchase shares in the Vanguard S&P 500 index (VFIAX) and the Vanguard Short-term Bond Index (VBIRX) which sets the plan up to return the benchmark return going forward. Investment in the indexes split 70% equity/30% bond complies with the requirements outlined in the Investment Policy Statement. The account should hold 1% of assets (\$90,000 based on September 30, 2015 balance) as liquidity to fund payment of benefits. The account would also be structured to rebalance once a year to maintain the 70%/30% allocation.

Recommendation

Terminate the investment management relationship with U.S. Bank for management of the post-retirement healthcare fund. Move the account to First Security Bank. Authorize SPP staff to invest the proceeds of the account in the Vanguard S&P 500 index (VFIAX) and the Vanguard Short-term Bond index (VBIRX) in a 70%/30% allocation except for \$90,000 which will be held in cash. Authorized SPP staff to rebalance the account annually to maintain the 70%/30% allocation and cash balances sufficient to fund benefit payments expected in the next 12 months.

Approved: Finance Committee

Action Requested: Approve Recommendation



Southwest Power Pool, Inc.
CREDIT PRACTICES WORKING GROUP
Recommendation to the Finance Committee
November 10, 2015
Netting of TCR Credit Portfolio

Organizational Roster

The following persons are members of the Credit Practices Working Group:

Mark Holler, Tenaska	Malcolm Booker, OMPA
Terri Wendlandt, Westar	Gina Wilson, ITC Holdings
Cassandra Strange, OGE	Steve Johnson, Basin Electric
Ronnie Hall, KCPL	Bill Thompson, AEP

The following stakeholders participated in group discussions:

Nathan Case, ACES	Michael Erbrick, MIS
Matt Robson, SESCO	Bryan Willnerd, LES
Matt Holstein, TEA	Don Ellis, Empire District
Jack Clark, NextEra	Ryan Johnson, AEP
Eric Levine, Exelon	Jill Jones, MEAN

Background

Current credit exposure calculations, as found in Article 5A of Attachment X (Credit Policy), may result in excess Financial Security (cash or letter of credit) required for certain TCR bids/offers and ARR self-conversions during a TCR auction. Any excess Financial Security required for an auction period will likely result in additional costs borne by the affected Credit Customer.

Analysis

During a TCR auction, existing policy requires that all TCR bids, offers, and ARR self-converts be assessed individually without regard and additive to any TCRs awarded in previous auctions for the purposes of estimating credit exposure. Once the TCR auction has cleared, TCRs awarded from that auction are netted with TCRs awarded in previous auctions for like-kind TCR products (monthly/seasonal and on/off peak). The Credit Practices Working Group (CPWG) proposes to change the Credit Policy to allow a Credit Customer's positively-valued TCR portfolio to offset their credit requirements for TCR bids, offers, and ARR self-converts during a current auction period. The CPWG believes this may lessen the amount of collateral required, under appropriate circumstances, therefore reducing costs of capital for the associated Credit Customer s without any tangible increase to risk of credit default.

All changes to the underlying Credit Management System will be developed, implemented, and tested by SPP staff. There will be no capital expenditure associated with this enhancement.

Recommendation

The CPWG recommends Finance Committee approval of proposed change to the Credit Policy.

Approved:

Credit Practices Working Group (Unanimous)	September 20, 2015
Market Working Group (Unanimous)	October 20, 2015
Regional Tariff Working Group (Unanimous)	October 22, 2015

Action Requested: Approve Recommendation





Revision Request Recommendation Report

RR #: 126		Date: 9/24/2015
RR Title: Netting of TCR Credit Portfolio		
SUBMITTER INFORMATION		
Submitter Name: Scott Smith on behalf of Credit Practices Working Group		Company: Southwest Power Pool
Email: ssmith@spp.org		Phone: 501.614.3339
EXECUTIVE SUMMARY OF ACTION AND RECOMMENDATION		
OBJECTIVE OF REVISION		

Objectives of Revision Request:

Describe the problem/issue this revision request will resolve.

Issue Statement:

Current credit exposure calculations, as found in Article 5A of Attachment X (Credit Policy), may result in excess **Financial Security** (cash or letter of credit) required for certain TCR bids/offers and ARR self-conversions during a TCR auction. Any excess Financial Security required for an auction period will likely result in additional costs borne by the affected Credit Customer.

Summary of Proposed Tariff Change:

During a TCR auction, existing policy requires that all TCR bids, offers, and ARR self-converts be assessed individually without regard and additive to any TCRs awarded in previous auctions for the purposes of estimating credit exposure. Once the TCR auction has cleared, TCRs awarded from that auction are netted with TCRs awarded in previous auctions for like-kind TCR products (monthly/seasonal and on/off peak). The Credit Practices Working Group (CPWG) proposes to change the Credit Policy to allow a Credit Customer's positively-valued TCR portfolio to offset their credit requirements for TCR bids, offers, and ARR self-converts during a current auction period. The CPWG believes this may lessen the amount of collateral required, under appropriate circumstances, therefore reducing costs of capital for the associated Credit Customers without any tangible increase to risk of credit default.

Detailed Explanation of Proposed Tariff Change:

Total TCR Credit Requirement is the sum of the Financial Security requirements associated with a Credit Customer's holding and settling of TCRs and participating in TCR Auctions. The sum includes the following components:

- (i) **TCR Portfolio Credit Requirement:** Financial Security required for a Credit Customer's TCR (owned) portfolio, reflecting all of the TCRs held by the Credit Customer, calculated pursuant to section 5A.3;
- (ii) **Estimated TCR Exposure Bid & Offer (ETCRE Bid/Offer):** Financial Security required for the Credit Customer's participation during a TCR Auction, calculated pursuant to sections 5A.4 (bids & ARR self-converts) and 5A.5 (offers). Only TCR bids and offers with negative (credit liability) values are considered in the accumulation of ETCRE Bid and ETCRE Offer due to the possibility that no positive positions may be awarded upon auction clearing;
- (iii) **Invoiced TCR Charges (ITCRC):** TCR charges or credits that have been invoiced but not yet paid; and
- (iv) **Calculated TCR Charges (CTCRC):** TCR charges or credits that have been calculated but not yet invoiced.

Both TCR Portfolio Credit Requirement and ETCRE Bid/Offer have maximum values of zero; this results in the intentional disallowance of netting between these two components of Total TCR Credit Requirement during a TCR auction. However, after that TCR auction is cleared, TCRs awarded or sold in that auction become a part of the Credit Customers TCR Portfolio Credit Requirement and are netted with other owned like-kind TCR Products (with respect to specific monthly/seasonal and on/off peak products).

In essence, currently owned TCR portfolio positions are not allowed to net with bids, offers and ARR self-converts during an auction period; but the same TCR portfolio positions net with the awarded TCRs after the auction clears. Since only negatively-valued bids and offers are included in ETCRE Bid/Offer calculations, excess Financial Security may be required under circumstances where a Credit Customer would have a positively-valued TCR Portfolio Requirement. In these instances, the excess Financial Security is required and held by SPP only for a short duration from the beginning of the TCR auction to a period shortly after TCR awards are published (and consumed by SPP's credit management system).

With the establishment of the Long-Term TCR Auction process now segregated from the Annual TCR Auction process, there were examples of significant excess Financial Security being required due to the scenario described above. *As such, the CPWG proposes to change the Credit Policy to allow a Credit Customer's positively-valued TCR Portfolio Credit Requirement to offset their credit requirements for ETCRE Bid and ETCRE Offer during a current TCR auction period.* Proposed changes to the Credit Policy will not affect the calculation of ETCRE Bid and ETCRE Offer.

Description of Benefits Realized From This Revision:

Proposed changes to the SPP Credit Policy would lessen the amount of Financial Security required, under appropriate circumstances, therefore reducing costs of capital for the associated Credit Customers without any tangible increase to risk of credit default.

IMPACT ANALYSIS REQUIRED: <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		
Estimated Cost: \$ <i>Cost is a rough order of magnitude estimate, approx. +/-50%</i>	Estimated Duration: months <i>Duration is a rough order of magnitude estimate, approx. +/-50%</i>	
Priority Rank for System Change: <input type="checkbox"/> 1 – Critical <input type="checkbox"/> 2 – High <input type="checkbox"/> 3 – Medium <input type="checkbox"/> 4 – Low		
SPP DOCUMENTS IMPACTED		
<input type="checkbox"/> Market Protocols	Protocol Section(s):	Protocol Version:
<input type="checkbox"/> Criteria	Criteria Section(s):	Criteria Date:
<input checked="" type="checkbox"/> Tariff	Tariff Section(s): Attachment X, Article 5A	
<input type="checkbox"/> Business Practice	Business Practice Number:	
WORKING GROUP REVIEWS AND RECOMMENDATIONS List Primary and any Secondary/Impacted WG Recommendations as appropriate		
Primary Working Group: CPWG	Date: 9/24/2015 Action Taken: Unanimously Approved	
Reason for Opposition:		
Secondary Working Group: MWG	Date: 10/20/2015 Action Taken: Unanimously Approved as Modified Abstained: Opposed:	
Reasons for Opposition:		
Secondary Working Group: RTWG	Date: 10/22/2015 Action Taken: Unanimously Approved as Modified Abstained: Opposed:	
Reasons for Opposition:		
Secondary Working Group: Finance Committee	Date: 11/10/2015 Action Taken: Abstained: Opposed:	
Reasons for Opposition:		
MOPC	Date: 01/12/2016 Action Taken: Abstained: Opposed:	

Reasons for Opposition:	
BOD/Member Committee	Date: 01/26/2016 Action Taken: Abstained: Opposed:
Reasons for Opposition:	
COMMENTS	
Comment Author:	
Date Comments Submitted:	
Description of Comments:	
Status:	
Comment Author:	
Date Comments Submitted:	
Description of Comments:	
Status:	
PROPOSED REVISION(S) TO SPP DOCUMENTS	
Market Protocols	
N/A	
Tariff (OATT)	

Attachment X

ARTICLE FIVE A

Transmission Congestion Rights (TCRs)

5A.1 Overview.

5A.1.1 Transmission Congestion Rights create potential exposure of non-payment, and therefore, have a credit requirement. SPP will establish a Total TCR Credit Requirement for each Credit Customer holding TCRs or participating in a TCR Auction. A Credit Customer may satisfy its Total TCR Credit Requirement by providing Financial Security. Unsecured Credit is not available to support a Credit Customer's holding of TCRs or activity in TCR Auctions. Additionally,

SPP's prior approval is required for a Credit Customer to acquire or transfer TCRs through bilateral transactions.

- 5A.1.2** To establish the credit requirement associated with TCRs, SPP analyzes: (i) the TCRs the Credit Customer holds (including TCRs held via self-conversion from ARR); (ii) the Credit Customer's Bids and Offers for TCRs in the TCR Auctions; (iii) TCR payments or charges for which settlement has been calculated but not yet invoiced; and (iv) TCR payments or charges for which an invoice has been issued but payment has not occurred.
- (a) SPP calculates the potential exposure associated with the full portfolio of TCRs that are held by the Credit Customer including TCRs obtained from LTCRs and ILTCRs.
 - (b) SPP evaluates individually each TCR Bid in the TCR Auctions to ensure that the Credit Customer has sufficient Financial Security to cover the credit requirements to purchase and hold the TCR. Only the TCR Bids for which the Credit Customer has sufficient Financial Security will be credit approved for consideration in the TCR Auction.
 - (c) SPP evaluates individually each TCR Offer in the TCR Auctions to ensure that the Credit Customer has sufficient Financial Security to cover any credit requirements associated with the Offer and the credit requirements for the retained TCR portfolio that would result if the TCR Offer clears in the TCR Auction. Only the TCR Offers for which the Credit Customer has sufficient Financial Security will be credit approved for consideration in the TCR Auction.
 - (d) Additionally, SPP analyzes the credit requirements associated with TCRs that are the subject of a proposed bilateral transfer prior to providing approval of such transfers. SPP approval of a bilateral transfer for TCRs is required for such bilateral transfers to be completed.

5A.1.3 As part of the determination of the credit requirement associated with TCRs, SPP calculates the Estimated TCR Exposure (ETCRE), which is an estimate of the potential value of the TCR over the life of the TCR. In the case of a TCR associated with a LTCR or ILTCR, the life of the TCR shall be considered one year. It will be calculated for all TCRs the Credit Customer holds, the Credit Customer's TCR Bids and TCR Offers, proposed TCR bilateral transfers, and TCRs acquired through ARR self-conversion. SPP will determine the credit requirement associated with TCRs and whether the Credit Customer has available Financial Security to support its TCR activity. After the close of a TCR Auction and on an ongoing basis, SPP will update the Credit Customer's Total TCR Credit Requirement associated with TCRs to reflect the actual TCRs the Credit Customer holds and TCR Auction results, including the costs to acquire or sell TCRs in a TCR Auction.

5A.1.4 This Article addresses the calculation of the Total TCR Credit Requirement associated with TCRs, including the ETCRE calculations for the TCRs the Credit

Customer holds and the Credit Customer's Bids and Offers for TCRs in the TCR Auctions and the acquisition and disposal costs of the TCR in the TCR Auctions; as well as the TCR payments or charges for which settlement has been calculated but not yet invoiced; and the TCR payments or charges for which an invoice has been issued but payment has not occurred. This Article also addresses the determination whether a Credit Customer has sufficient Financial Security available for the Credit Customer's proposed TCR Auction activity or proposed bilateral transfers of TCRs.

5A.2 Calculation of Estimated TCR Exposure (ETCRE) for TCRs that a Credit Customer Holds (ETCRE Hold). SPP will calculate the ETCRE Hold, which is an estimate of the potential value (positive or negative) of the TCR contract for the term of the TCR, for TCRs that a Credit Customer holds. A negative ETCRE Hold means SPP estimates that the potential value of the TCR will result in a payment by the Credit Customer. A positive ETCRE Hold means SPP estimates that the potential value of the TCR will result in a payment to the Credit Customer. The ETCRE Hold calculation is determined for each TCR on an individual basis. ETCRE Hold is the product of the TCR Final Reference Price times the TCR megawatts. SPP will calculate the TCR Final Reference Price for each TCR based on the difference of historical Day-Ahead Market Marginal Congestion Cost (MCC) between the TCR source and TCR sink.

5A.2.1 TCR Final Reference Price. For a given source and sink combination and with respect to time (season or month) and class (on-peak and off-peak), the TCR Final Reference Price has two components: (i) a TCR Mean Price; and (ii) a TCR Stress Test Price. The Final Reference Price is the TCR Mean Price *minus* the TCR Stress Test Price.

5A.2.1.1 Both the TCR Mean Price and TCR Stress Test Price are determined using the Day-Ahead Market Marginal Congestion Component (MCC) prices from the prior two years. Each year of the prior two year period will be weighted, with the more recent year receiving a 75% weighting and the more distant year receiving a 25% weighting. The MCC prices used in the calculations for a TCR match the definition of the TCR with respect to time (season or month) and class (on-peak and off-peak). Historical MCC prices to be used for the more recent year will only be used if the specific time period (season or month) has been completed, i.e. no partial period MCC prices will be used to calculate Final Reference Prices.

5A.2.1.1.1 A TCR Final Reference Price determination is used in the calculations for ETCRE Hold, ETCRE Bid, and ETCRE Offer calculations. For each such calculation, the prior two year period used in the calculation is measured from the time of the calculation. ETCRE Hold calculations will be updated to reflect updated prior two year periods for a given TCR as MCC prices are completed for a season or month that previously was not included in the prior two year period.

5A.2.1.2 The TCR Mean Price is the sum of 75% of the mean of the hourly Day-Ahead Market MCC difference calculated as the sink MCC minus the source MCC for the more recent year in the prior two year period plus

25% of the mean of the hourly Day-Ahead Market MCC difference calculated as the sink MCC minus the source MCC for the more distant year in the prior two year period.

5A.2.1.3 The TCR Stress Test Price calculation differs for TCRs with positive and negative Mean Prices. For a TCR with a negative TCR Mean Price, the TCR Stress Test Price is the 90th percentile of the opposite flow value (i.e. source MCC minus sink MCC) in the prior two year period. For a TCR with a positive TCR Mean Price, the TCR Stress Test Price is the 75th percentile of the opposite flow value (i.e. source MCC minus sink MCC) in the prior two year period. The TCR Stress Test Price has a minimum value of zero and thus can never increase the TCR Final Reference Price.

5A.2.2 Calculation of TCR Final Reference Price during the Initial Two-Years of the Integrated Marketplace. Prior to the accumulation of complete MCC data sufficient to calculate the TCR Final Reference Price pursuant to Section 5A.2.1, to calculate both the Mean Price and Stress Test Price, to the extent complete MCC price data for the applicable prior two year period is not available, SPP will use the applicable historical energy imbalance service price differences.

5A.2.3 Calculation of TCR Final Reference Price for New Settlement Locations. When a new Settlement Location is created, SPP will use a proxy price based on the system average Day-Ahead Market MCC to calculate the TCR Mean Price and TCR Stress Test Price for the new Settlement Location. The system average Day-Ahead Market MCC for each defined TCR is the mean of the hourly Day-Ahead Market MCC for all Settlement Locations for which a Day-Ahead Market MCC exists for each hour in the prior two year period for a defined TCR. Based on a two year weighted average approach, the proxy will be blended with actual data after the first year.

5A.3 TCR Portfolio Credit Requirement. The Financial Security required for a Credit Customer's TCR portfolio is the TCR Portfolio Credit Requirement and is one component of the Total TCR Credit Requirement. The TCR Portfolio Credit Requirement is the sum of (i) the sum of the ETCRE Hold values for each TCR in the Credit Customer's TCR portfolio; (ii) the portion of the cost to acquire each TCR in a TCR Auction that has not yet been settled; and (iii) the disposal cost for TCR Offers that clear a TCR Auction that has not yet been settled.

5A.3.1 The sum of the ETCRE Hold values for each TCR in the Credit Customer's TCR portfolio used in the calculation of the TCR Portfolio Credit Requirement is equal to the net sum of the ETCRE Hold values for each TCR in the Credit Customer's TCR portfolio, with individual positive and negative ETCRE Hold values netted, for a time period greater than the last settled operating day with the most negative net sum of ETCRE Hold values of the Credit Customer's TCR portfolio. For a TCR with a term longer than a month, the ETCRE Hold for each month of the TCR is equal to the total ETCRE Hold for the TCR divided by the number of months of the term of the TCR. SPP calculates the ETCRE Hold each day for which at least one TCR in the portfolio is valid.

5A.3.2 The portion of the acquisition cost to acquire each TCR in a TCR Auction that has not yet been settled includes the amounts that the Credit Customer is required to pay for TCRs it acquires in a TCR Auction, that have not yet been settled, and does not include amounts

that may be owed to a Credit Customer to acquire a TCR. For TCRs acquired through self-converted ARR, the acquisition cost is zero. For TCRs acquired through a bilateral transfer the acquisition cost is zero for the buyer because the acquisition cost remains the responsibility of the participant who originally acquired the TCR in a TCR Auction.

5A.3.3 The portion of the disposal cost for each TCR Offer that clears a TCR Auction that has not yet been settled is the portion of a Credit Customer's loss associated with the difference between the Offer price and the original Auction Clearing Price for the TCR that is the subject of the TCR Offer. For TCRs acquired pursuant to a bilateral transfer that are the subject of a TCR Offer, zero will be used for the Auction Clearing Price for this calculation.

5A.3.4 ~~Except in the case of ARRs self-converted to TCRs, only negative TCR Portfolio Credit Requirements are included in the Total TCR Credit Requirement.~~ If the TCR Portfolio Credit Requirement is a positive value ~~it does not diminish~~ can reduce the Financial Security requirement for TCRs Bids, TCR Offers, and ARRs submitted for self-conversion in a single submission for the same TCR period and zero will be used for the TCR Portfolio Credit Requirement in the calculation of the Total TCR Credit Requirement. If the TCR Portfolio Credit Requirement is a negative value it will not reduce the Financial Security requirement for TCR Bids, TCR Offers, and ARR-ARRs submitted for self-conversion in a single submission in the calculation of the Total TCR Credit Requirement.

Commented [SS1]: The changing of language in this section allows for the netting of positively-valued TCR Portfolio Requirement with ETCRE Bid/Offer during a TCR Auction period.

5A.3.5 ~~Both positive and negative TCR values for ARRs self-converted to TCRs in a TCR Auction will be included in the Credit Customer's Total TCR Credit Requirement. Ninety percent (90%) of the positive and one hundred percent (100%) of the negative TCR values for ARRs self-converted will be netted and the netted value used in establishing the credit requirement.~~

Commented [SS2]: This section moved to 5A.4.3 (see comment below)

5A.4 Calculation of ETCRE Bid. SPP evaluates the Bids for TCRs to ensure that the Credit Customer has sufficient Financial Security to cover any Financial Security requirements to purchase and hold the TCR. The ETCRE Bid calculates the Financial Security requirements for each Bid. When a TCR Bid is submitted, SPP will calculate the ETCRE Bid for the Bid, which is the maximum sum of (i) the ETCRE Segment and (ii) the TCR Segment Cost, for the segments in the Bid. SPP calculates the ETCRE Segment for each megawatt point on the submitted Bid curve, and the TCR Segment Cost for each megawatt point on the submitted Bid curve. For each segment, SPP calculates the sum of (i) the ETCRE Segment and (ii) the TCR Segment Cost.

5A.4.1 ETCRE Segment. In evaluating TCR Bids, SPP calculates the ETCRE Segment for each megawatt point on the submitted Bid curve. The ETCRE Segment can be positive or negative. It is the potential value of holding the TCR in the Bid. It is calculated in the same manner as the ETCRE Hold, using the Final Reference Price, and the TCR Bid megawatts.

5A.4.2 TCR Segment Cost. In evaluating TCR Bids, SPP estimates the TCR acquisition cost by calculating the TCR Segment Cost for each megawatt point on the submitted Bid curve by multiplying the Bid price for that megawatt point times the megawatts for that point on the submitted Bid curve. The TCR Segment Cost is the potential cost for the

Credit Customer to acquire any megawatt point on the submitted Bid segment. For TCRs with negative acquisition costs, e.g., if the Bid curve has a negative Bid price, the TCR Segment Cost will be zero. For a TCR resulting from an ARR self-conversion, the TCR Segment Cost also will be zero.

5A.4.3 Both positive and negative TCR values for ARRs submitted for self-conversion to TCRs in a TCR Auction will be included in the Credit Customer's Total TCR Credit Requirement. Ninety percent (90%) of the positive and one hundred percent (100%) of the negative TCR values for ARRs self-converted will be netted and the netted value used in establishing the credit requirement.

Commented [SS3]: CLEANUP: Moved section from 5A.3 since ARR self-converts are a component of ETCRE Bid during the TCR Auction period.

Commented [SS4]: CLEANUP: Added "submitted for self-conversion" instead of "self-converted" since TCRs have not been awarded at this point in the TCR Auction process.

5A.4.34 If multiple TCR Bids and Offers are included in a single submission, the Credit Customer must have sufficient Financial Security to cover all of the Bids and Offers in the submission. The Financial Security requirement for a single submission is the sum of the negative ETCRE Bid and ETCRE Offer for the Bids and Offers in the submission without any netting of the individual ETCRE Bid or ETCRE Offer for the TCR Bids and Offers that are included in the submission.

5A.5 Calculation of ETCRE Offer. SPP evaluates the Offers for TCRs to ensure that the Credit Customer has sufficient Financial Security to cover any Financial Security requirements resulting if the TCR is no longer held and potential losses resulting from the sale. The ETCRE Offer calculates the Financial Security requirement for each Offer. When a TCR Offer is submitted, SPP will calculate the ETCRE Offer for the Offer which is the maximum sum of (i) the ETCRE Offer Segment; and (ii) the TCR Offer Segment Cost, for the segments in the Offer. SPP calculates the ETCRE Offer Segment for each megawatt point on the submitted Offer curve. For each segment, SPP calculates the sum of (i) the ETCRE Offer Segment, and (ii) the TCR Offer Segment Cost.

5A.5.1 ETCRE Offer Segment. In evaluating TCR Offers, SPP calculates the ETCRE Offer Segment for each megawatt point on the submitted Offer curve. It is the potential value of disposing of an existing TCR in the Offer. It is calculated in the same manner as the ETCRE Hold, using the Final Reference Price and the TCR Offer megawatts. If the calculated ETCRE Offer Segment is positive, SPP sets the ETCRE Offer to zero.

5A.5.2 TCR Offer Segment Cost. In evaluating TCR Offers, SPP estimates the TCR disposal cost by calculating the TCR Offer Segment Cost for each megawatt point on the submitted Offer curve by multiplying the Offer price for that megawatt point times the megawatts for that point on the submitted Offer curve. The TCR Offer Segment Cost is the potential cost for the Credit Customer to dispose of any megawatt point on the submitted Offer segment. If the TCR was originally acquired from an ARR self-schedule or pursuant to a bilateral transfer, zero is used for the original Auction Clearing Price. If the calculated ETCRE Offer Segment Cost is *positive* SPP sets the ETCRE Offer to zero.

5A.5.3 If multiple TCR Bids and Offers are included in a single submission, the Credit Customer must have sufficient Financial Security to cover all of the Bids and Offers in the submission. The Financial Security requirement for a single submission is the sum of the negative ETCRE Bid and ETCRE Offer for the Bids and Offers in the submission without any netting of the individual ETCRE Bid or ETCRE Offer for the TCR Bids and Offers that are included in the submission.

5A.6 Determination of Credit Approved TCR Bids and Offers and Rejection of TCR Bids and Offers which are Credit Disapproved.

5A.6.1 If the sum of the ETCRE Bid and ETCRE Offer for all TCRs ~~(other than TCRs self-converted from ARR)~~ included in a single submission of Bids and Offers for a TCR Auction, calculated pursuant to sections 5A.4 and 5A.5, ~~without netting~~ netted with the TCR Portfolio Credit Requirement as described in section 5A.3.4, is less than the Credit Customer's available amount of Financial Security, then the submission is credit approved for inclusion in the TCR Auction.

Commented [SS5]: This clause is not needed and adds no value to this section

Commented [SS6]: Further reiterates the netting language above

5A.6.2 If the sum of the ETCRE Bid and ETCRE Offer for all TCRs ~~(other than TCRs self-converted from ARR)~~ included in a single submission of Bids and Offers for a TCR Auction, calculated pursuant to sections 5A.4 and 5A.5, ~~without netting~~ netted with the TCR Portfolio Credit Requirement as described in section 5A.3.4, is greater than the Credit Customer's available Financial Security, then the entire submission is credit disapproved and the Bids and Offers will not be included in the TCR Auction.

Commented [SS7]: Same as above

5A.6.3 If the sum of the ETCRE Bid and ETCRE Offer for all TCRs included in a single submission of ARR self-conversions for a TCR Auction, calculated pursuant to sections 5A.4 and 5A.5, with netting as described in Section 5A.3.4.3 of this Attachment X, is less than the Credit Customer's available amount of Financial Security, then the submission is credit approved for inclusion in the TCR Auction.

Commented [SS8]: Refers to ARR self-convert netting (90%/100%). No need for this language to change.

5A.6.4 If the sum of the ETCRE Bid and ETCRE Offer for all TCRs included in a single submission of ARR self-conversions for a TCR Auction, calculated pursuant to sections 5A.4 and 5A.5, with netting as described in Section 5A.3.4.3 of this Attachment X, is greater than the Credit Customer's available Financial Security, then the entire submission is credit deficient and the ARR self-conversion will not be included in the TCR Auction unless satisfactory alternate credit arrangements are made.

5A.7 Updated ETCRE Calculation Post TCR Auction. After the clearing of a TCR Auction, the TCR Portfolio Credit Requirement will be updated to reflect the TCRs awarded in the TCR Auction, including the acquisition cost for TCR Bids that cleared the TCR Auction and the disposal cost for TCR Offers that cleared the TCR Auction. For TCR Bids, the TCR acquisition cost is calculated as the product of the Auction Clearing Price times the awarded megawatts. For TCR Offers, the TCR disposal cost is calculated as the product of the Auction Clearing Price times the megawatts sold. The ETCRE Hold portion of the TCR Portfolio Credit Requirement will be updated to reflect the actual TCRs in the portfolio.

5A.8 Total TCR Credit Requirement. The total Financial Security requirement associated with the Credit Customer's holding of TCRs and participating in the TCR Auctions is the Total TCR Credit Requirement. The Total TCR Credit Requirement for a Credit Customers is the sum of (i) the TCR Portfolio Credit Requirement for the Credit Customer's TCR portfolio, reflecting all of the TCRs held by the Credit Customer, calculated pursuant to section 5A.3; (ii) the Financial Security required for the Credit Customer's participation in a TCR Auction, determined by the credit approved ETCRE Bid, calculated pursuant to section 5A.4, and ETCRE Offer, calculated pursuant to section 5A.5, for a TCR Auction that has not yet occurred; (iii) all TCR charges or

Commented [SS9]: (i) Is in reference to TCRs Owned by MPs as addressed in 5A.3.4. There is no change to Owned TCR calculations EXCEPT that positive Portfolio Requirements CAN be added to (i) here. I think we have that appropriately covered in the new language added in 5A.3.4.

Commented [SS10]: (ii) Is in reference to incoming TCR auction submissions. The requirements for this are not changing EXCEPT they are allowed to net with (i) above. This is appropriately covered in the new language added in 5A.6.

credits that have been invoiced but not yet paid; and (iv) TCR charges or credits that have been calculated but not yet invoiced.

Total TCR Credit Requirement =
TCR Portfolio Credit Requirement + ETCRE Bid + ETCRE Offer + (ITCRC + CTCRC)

Where,

TCR Portfolio Credit Requirement is calculated pursuant to section 5A.3.

ETCRE Bid is the sum of the ETCRE Bid amounts for the Credit Customer’s credit approved Bids for an auction that has not yet occurred, as calculated pursuant to section 5A.4, without netting ETCRE Bid or ETCRE Offers in a submission.

ETCRE Offer is the sum of the ETCRE Offer amounts for the Credit Customer’s credit approved Offers for an auction that has not yet occurred, as calculated pursuant to section 5A.5, without netting ETCRE Bid or ETCRE Offers in a submission.

ITCRC is the Invoiced TCR Charges (all TCR charges or credits that have been invoiced but not yet paid). If the sum of ITCRC and CTCRC for a Credit Customer is ~~negative~~ positive, then zero will be included for the sum of ITCRC and CTCRC in the calculation of the Total TCR Credit Requirement.

Commented [SS11]: CLEANUP: This was not changed with the initial Tariff clean-up efforts in 2014 resulting from previously make signage changes for TCR calculations. This statement disallows any netting of ITCRC and CTCRC with TCR Portfolio Requirements or ETCRE Bid/Offer.

CTCRC is the Calculated TCR Charges (TCR charges or credits that have been calculated but not yet invoiced). If the sum of ITCRC and CTCRC for a Credit Customer is ~~negative~~ positive, then zero will be included for the sum of ITCRC and CTCRC in the calculation of the Total TCR Credit Requirement.

Commented [SS12]: Same as above

5A.8.1 If a Credit Customer’s available Financial Security is less than its Total TCR Credit Requirement, then the Credit Customer shall be required to provide additional Financial Security within two (2) Business Days from receipt of notice of such violation. Failure to provide such Financial Security is a Default under this Credit Policy.

5A.9 Transfer of TCRs. If a Credit Customer proposes to sell or acquire TCRs through a bilateral transfer with another Credit Customer, SPP will evaluate the effect of the proposed transfer on the Total TCR Credit Requirement of each party to the proposed bilateral transfer and determine if both the buyer and the seller have sufficient Financial Security for the bilateral transfer to occur. SPP approval of such bilateral transfers, based on whether both the buyer and seller have provided sufficient Financial Security to support the transfer, is required prior to such transfers.

5A.9.1 For the seller in a bilateral transfer, SPP calculates the impact of the proposed transfer on the TCR Portfolio Credit Requirement that would result from the removal of the TCRs that are the subject of the proposed bilateral transfer from the TCR portfolio of the Credit Customer that is the seller in the bilateral transfer.

5A.9.2 For the buyer in a bilateral transfer, SPP calculates the impact of the proposed transfer on the TCR Portfolio Credit Requirement that would result from the addition of the TCRs that are the subject of the proposed bilateral transfer from the TCR portfolio of the Credit Customer that is the buyer in the bilateral transfer.

5A.9.3 If multiple TCRs are included in a single proposed bilateral transfer, both parties to the bilateral transfer must have sufficient Financial Security for the transfer of all of the TCRs in the proposed transfer.

5A.9.4 SPP, in its sole discretion, may approve bilateral transfers if a Credit Customer does not have sufficient Financial Security to support the transfer, but the transfer would result in a reduction in Total TCR Credit Requirement for that Credit Customer.

5A.9.5 The bilateral TCR transfer price is not included in SPP's evaluation of a bilateral transfer of TCRs. After an approved bilateral transfer of TCRs is completed, each Credit Customer's Total TCR Credit Requirement is updated.

5A.10 Return of TCR Financial Security. A Credit Customer may request that SPP return any Financial Security no longer required to hold TCRs or participate in TCR Auctions if it is not needed to support other market services. SPP may limit the frequency of such requested Financial Security returns, provided that Financial Security returns will be made by SPP at least once per month, if requested by a Credit Customer.

SPP Criteria

SPP Business Practices

Memorandum

To: **Finance Committee Members**
 From: **Tom Dunn**
 CC: **Shaun Scott**
 Date: **November 4, 2015**
 Re: **2015-16 Meeting Schedule**

Detailed below is a schedule for face-to-face meetings of the Finance Committee for 2015/2016 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>
November 10, 2015	10:30	Dallas, TX	2016 Budget Review
November 24, 2015	8:00	Dallas, TX	2016 Budget
December 7, 2015	2:00	Little Rock, AR	SSAE-16 Audit Report, BPI Review Corporate Insurance Review, Authority Review, Actuary Assumption Review
January 27, 2016	8:30	Oklahoma City, OK	Fiduciary review of 2015 Investment Manager performance
April 5, 2016	7:30	Dallas, TX	Financial Audit Review (dinner 4/4) 2017 New Debt Issuance Ongoing Auditor Engagement Process
July 6, 2016	7:30	Dallas, TX	BPI Review (dinner 7/5) Mid Year Review 2016 Admin Fee Forecast Financial Audit Engagement
August 23, 2016	10:00	Dallas, TX	FC, SPC, MOPC Chair meeting
September 27, 2016	8:30	Dallas, TX	Joint FC/SPC Meeting to review 2017 Operating Plan
October 25, 2016	3:00	Teleconference	Preliminary 2016 Budget Review
November 10, 2016	7:30	Dallas, TX	2016 Budget Review (dinner 11/9)
November 22, 2016	10:30	Dallas, TX	2016 Budget
December 5, 2016	2:00	Little Rock, AR	SSAE-16 Audit Report, BPI Review

Corporate Insurance Review, Authority
Review, Actuary Assumption Review



Memorandum

To: SPP Officers / Directors / Managers
From: Sheri Dunn / Cindy Goodwin
Date: October 20, 2015
RE: August 2015 Financial Package

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

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1) Financial Commentary: FY Forecast to Budget Variances	1
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5) Headcount Analysis: Forecast compared to Budget	9



2015 Financial Commentary
September 30, 2015
(in thousands)

Summary				
	2015 FY Forecast	2015 FY Budget	Fav/(Unfav) Variance	
Revenues	\$178,400	\$174,595	\$3,805	2.2%
Expenses	207,009	209,982	2,973	1.4%
Net Income/(Loss)	<u>(\$28,610)</u>	<u>(\$35,387)</u>	<u>\$6,778</u>	19.2%

Revenue				
	2015 FY Forecast	2015 FY Budget	Fav/(Unfav) Variance	
Tariff Administration Service	\$145,032	\$141,149	\$3,884	2.8%
FERC Fees & Assessments	17,222	15,460	1,762	11.4%
NERC ERO Regional Entity Rev	9,905	11,693	(1,789)	(15.3%)
Miscellaneous Income	4,564	5,338	(774)	(14.5%)
Contract Services Revenue	1,100	475	625	131.6%
Annual Non-Load Dues	576	480	96	20.0%
Total Revenue	<u>\$178,400</u>	<u>\$174,595</u>	<u>\$3,805</u>	2.2%

Tariff Administrative Service exceeds budget as a result of slightly higher coincident peak loads in 2014, which is the basis for the 2015 invoices for Schedule 1A. Correction of billing error for 1A credits also contributes to the favorable variance. These corrections are subject to active disputes.

FERC Fees Assessments revenue was adjusted to reflect the current rate charged under Schedule 12, which is \$0.074 as compared to \$0.066 assumed in the budget.

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. 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 the forecast was 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 \$86.

Miscellaneous Income forecast was reduced for Order 1K Industry Expert Panel (IEP) pass-thru revenues given that only one RFP was issued. An offsetting favorable variance is reflected in Outside Services associated with the reduction of expenses for the panel.

Contract Services forecast includes revenue for the WAPA reliability coordination services agreement, which was not included in the budget.



2015 Financial Commentary
September 30, 2015
(in thousands)

Expense				
	2015 FY Forecast	2015 FY Budget	Fav/(Unfav) Variance	
Salary & Benefits	\$82,791	\$80,020	(\$2,770)	(3.5%)
Assessments & Fees	13,939	16,400	2,461	15.0%
Communications	3,821	4,307	486	11.3%
Maintenance	13,674	14,670	996	6.8%
Outside Services (Including RSC)	12,419	16,137	3,718	23.0%
Administrative & Leases	5,025	5,113	88	1.7%
Travel & Meetings	2,790	3,092	302	9.8%
Depreciation & Amortization	60,033	61,247	1,214	2.0%
Other Expenses	12,517	8,996	(3,522)	(39.2%)
Total Expense	\$207,009	\$209,982	\$2,973	1.4%

Salary & Benefits reflect current active staff and timing of new hires based on estimates from HR. Benefit expense exceeds budget by \$2,500 as a result of reporting retirement benefits based on actuarial accruals versus the budget which is based on cash contributions. Cash contributions for retirement benefits exceed budget by \$800 based on BOD action in April 2015. The budget assumed a vacancy rate of 5%; however, vacancy is now trending at 4%.

Assessments and Fees is considerably less than the original budget. SPP received its annual assessment invoice from FERC in June and recognized a true-up for the prior year over-accrual. The remaining forecast for the 2015 accrual was decreased by \$800 in recognition of the lower FERC costs expected for 2015.

The FY favorable variance in Outside Services is largely related to i) a significant reduction in Order 1K industry expert panel (IEP) pass-thru costs (due to the issuance of only one RFP), ii) lower expenses related to wind forecasting, iii) staff augmentation mostly associated with Integrated Systems (IS), and iv) lower consulting costs in the RE (Regional Entity) due to a decreasing trend in the number of violations.

The impact of Integrated Systems (IS) on Communications expenses is lower than originally estimated and results in a favorable variance to budget. The budget assumed increases to both frame relay and circuit costs related to onboarding the IS; however only frame relay costs were actually impacted by the integration.

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 (\$48) and eliminating restoration drill meeting expenses (\$17). Savings in Travel and Meetings are recognized in other areas as a result of reducing the number of meeting days for face-to-face meetings and sending fewer SPP employees to attend the meetings that occur on a regular basis. Encouraging the use of the SPP corporate campus or American Electric Power Co (AEP) facilities also contributes to lower meeting 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. Other items impacting the unfavorable variance include the Z2 Credit write-off, unrealized losses on investments (non-cash) and capitalized interest on the ECC project.



Southwest Power Pool
Monthly Overview
September 30, 2015
(in thousands)

	Actual Jan-15	Actual Feb-15	Actual Mar-15	Actual Apr-15	Actual May-15	Actual Jun-15	Actual Jul-15	Actual Aug-15	Actual 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	\$11,500	\$12,033	\$11,991	\$11,528	\$11,804	\$13,310	\$13,346	\$145,032	\$141,149	\$3,884	\$133,722	\$11,310
Fees & Assessments	2,407	2,528	2,096	2,095	1,889	2,148	2,534	2,823	2,449	2,193	2,210	2,332	27,703	27,633	70	25,013	2,690
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	480	409	196	409	1,025	247	286	4,564	5,338	(774)	4,350	215
Total Income	14,398	13,716	14,751	15,242	14,134	14,293	15,141	15,174	14,550	15,187	15,808	16,004	178,400	174,595	3,805	163,537	14,863
Expense																	
Salary	4,569	4,607	4,642	4,576	4,557	4,557	4,552	4,462	4,550	4,617	4,635	4,639	54,964	54,349	(616)	54,131	(833)
Benefits & Taxes	2,108	2,101	2,273	2,887	2,029	2,833	1,935	2,017	2,581	1,989	1,993	2,658	27,404	24,917	(2,487)	30,938	3,534
Continuing Education	23	13	18	20	44	25	55	30	23	62	58	52	422	755	332	505	83
Salary & Benefits	6,699	6,722	6,933	7,483	6,631	7,415	6,542	6,508	7,153	6,668	6,686	7,349	82,791	80,020	(2,770)	85,575	2,784
Employee Travel	99	160	173	179	207	172	155	143	161	181	161	162	1,953	2,094	141	1,924	(29)
Administrative	249	275	422	445	281	661	346	490	211	838	309	378	4,903	4,921	18	4,399	(504)
Assessments & Fees	1,363	1,363	1,363	1,363	1,363	(244)	1,228	1,228	1,228	1,228	1,228	1,228	13,939	16,400	2,461	16,323	2,384
Meetings	78	75	46	49	70	84	68	74	105	115	50	23	837	998	161	833	(4)
Communications	294	308	310	351	319	318	279	322	318	334	334	334	3,821	4,307	486	3,745	(77)
Leases	15	16	14	14	17	14	17	16	(2)	-	-	-	122	192	70	180	59
Maintenance	1,111	1,079	1,035	1,122	1,121	1,121	1,115	1,130	1,052	1,262	1,149	1,377	13,674	14,670	996	15,149	1,475
Services	583	989	1,211	992	819	833	1,265	1,007	920	1,122	1,197	1,287	12,224	15,849	3,624	16,128	3,904
Regional State Committee	7	19	9	20	16	21	12	18	17	18	18	18	194	288	94	191	(3)
Depreciation & Amortization	4,672	4,795	5,045	5,069	5,029	5,007	5,022	4,905	4,883	5,150	5,168	5,289	60,033	61,247	1,214	51,046	(8,988)
Total Expense	15,171	15,800	16,560	17,086	15,874	15,403	16,050	15,841	16,045	16,915	16,301	17,446	194,492	200,987	6,495	195,493	1,001
Other Income/(Expense)																	
Investment Income	-	-	70	12	17	33	12	46	36	-	-	-	226	-	226	459	(233)
Interest Expense	(1,007)	(801)	(938)	(830)	(936)	(931)	(882)	(874)	(860)	(848)	(851)	(858)	(10,616)	(10,496)	(120)	(12,916)	2,300
Capitalized Interest	-	-	102	-	-	-	-	-	-	-	-	9	111	241	(130)	363	(252)
Change in Valuation of Swap	-	-	(659)	-	-	478	-	-	(886)	-	-	-	(1,067)	-	(1,067)	(1,528)	461
Other Income/Expense	(24)	90	(1)	14	5	(353)	19	(79)	(35)	-	-	-	(363)	1,260	(1,623)	74	(438)
Unrealized Gain on Investment	-	-	69	42	25	(193)	(3)	(510)	(238)	-	-	-	(808)	-	(808)	251	(1,059)
Net Other Income (Expense)	(1,031)	(711)	(1,357)	(763)	(889)	(966)	(854)	(1,417)	(1,983)	(848)	(851)	(849)	(12,517)	(8,996)	(3,522)	(14,093)	1,576
Net Income (Loss)	(\$1,803)	(\$2,795)	(\$3,166)	(\$2,606)	(\$2,629)	(\$2,075)	(\$1,763)	(\$2,084)	(\$3,478)	(\$2,576)	(\$1,344)	(\$2,291)	(\$28,610)	(\$35,387)	\$6,778	(\$46,050)	\$17,440
2015 Headcount Forecast	576	576	570	570	573	570	570	570	571	570	570	575	575				
2015 Headcount Budget	595	595	598	598	598	598	598	598	598	598	598	598	598				
Over / (Under) Budget	(19)	(19)	(28)	(28)	(25)	(28)	(28)	(28)	(27)	(28)	(28)	(23)	(23)				
Headcount Vacancy	-3%	-3%	-5%	-5%	-4%	-5%	-5%	-5%	-5%	-5%	-5%	-4%	-4%				
NRR Over / (Under) Recovery	\$2,839	\$1,310	(\$3,783)	\$2,312	\$2,395	(\$4,895)	\$2,511	\$2,380	(\$4,219)	\$2,266	\$3,423	(\$3,650)	\$2,889				



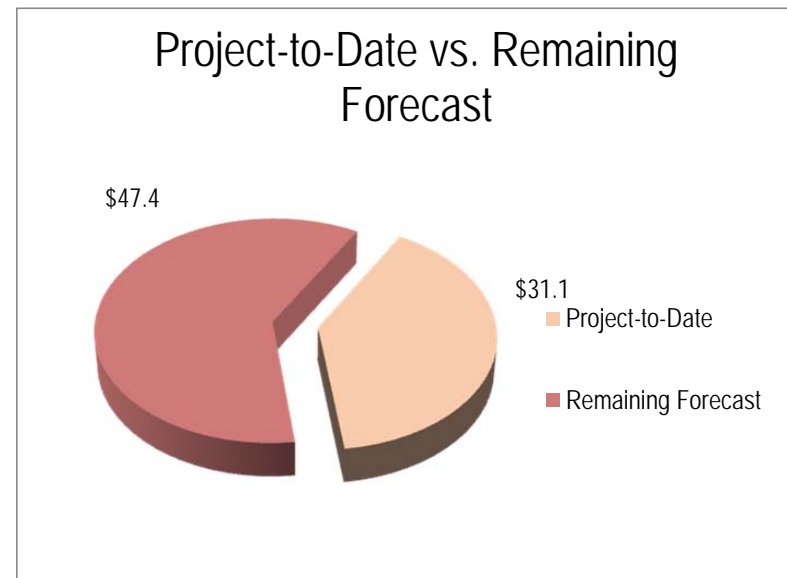
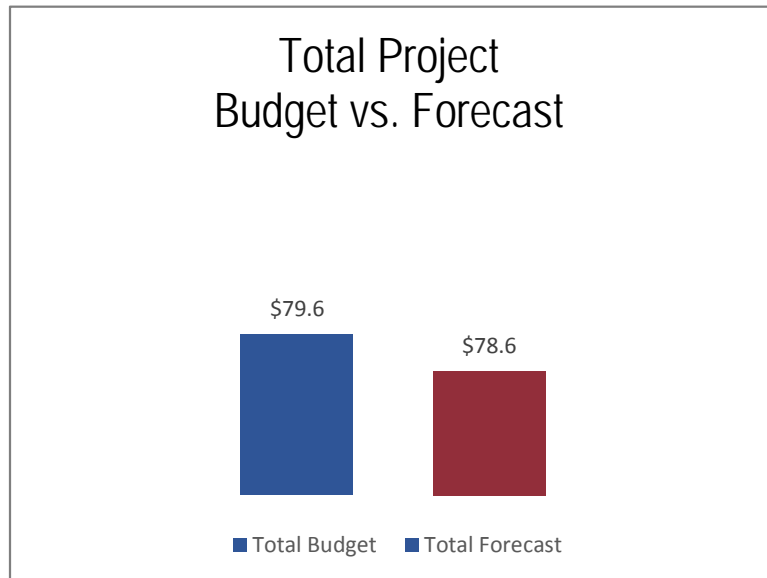
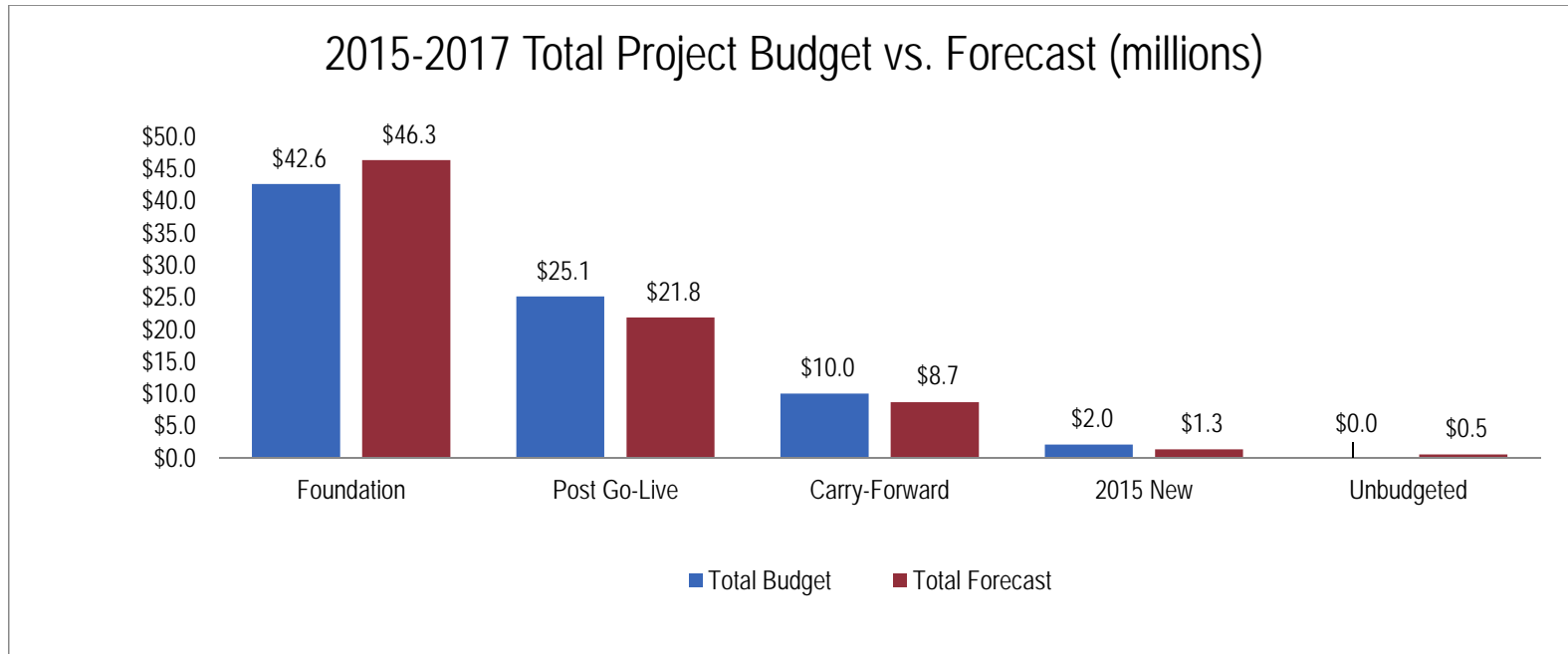
Southwest Power Pool
Actual Results Overview
September 30, 2015
(in thousands)

	Current Month Compared to Forecast			YTD Actual Compared to YTD Budget			YTD 2015 Compared to YTD 2014		
	Sep-2015 Actual	Sep-2015 Forecast	Variance Fav/(Unfav)	Sep-2015 Actual	Sep-2015 Budget	Variance Fav/(Unfav)	Sep-2015 Current Year	Sep-2014 Prior Year	Variance Fav/(Unfav)
Income									
Tariff Administrative Service	\$11,528	\$11,872	(\$344)	\$106,572	\$102,561	\$4,011	\$106,572	\$100,577	\$5,995
Fees & Assessments	2,449	2,248	200	20,967	21,076	(109)	20,967	19,207	1,759
Contract Services Revenue	165	165	-	856	356	499	856	339	517
Miscellaneous Income	409	273	136	3,006	3,584	(577)	3,006	2,821	185
Total Income	<u>14,550</u>	<u>14,558</u>	<u>(8)</u>	<u>131,401</u>	<u>127,577</u>	<u>3,823</u>	<u>131,401</u>	<u>122,944</u>	<u>8,457</u>
Expense									
Salary & Benefits	7,153	7,069	(\$85)	62,087	60,041	(\$2,046)	62,087	64,366	\$2,279
Employee Travel	161	187	27	1,449	1,589	140	1,449	1,441	(7)
Administrative	211	372	162	3,379	3,444	65	3,379	3,067	(312)
Assessments & Fees	1,228	1,228	-	10,255	12,300	2,045	10,255	12,234	1,979
Meetings	105	61	(44)	649	762	113	649	625	(24)
Communications	318	330	12	2,818	3,230	412	2,818	2,826	8
Leases	(2)	16	18	122	144	22	122	131	10
Maintenance	1,052	1,161	109	9,886	11,019	1,132	9,886	11,139	1,253
Services	920	1,244	324	8,618	12,212	3,593	8,618	12,046	3,427
Regional State Committee	17	18	1	140	216	76	140	137	(3)
Depreciation & Amortization	4,883	5,149	266	44,427	45,640	1,214	44,427	36,669	(7,757)
Total Expense	<u>16,045</u>	<u>16,835</u>	<u>790</u>	<u>143,829</u>	<u>150,597</u>	<u>6,768</u>	<u>143,829</u>	<u>144,681</u>	<u>852</u>
Other Income/(Expense)									
Investment Income	36	-	36	226	-	226	226	-	226
Interest Expense	(860)	(873)	13	(8,059)	(7,912)	(148)	(8,059)	(8,212)	153
Capitalized Interest	-	-	-	102	179	(77)	102	289	(187)
Change in Valuation of Swap	(886)	-	(886)	(1,067)	-	(1,067)	(1,067)	108	(1,175)
Other Income/Expense	(35)	-	(35)	(363)	945	(1,308)	(363)	59	(422)
Unrealized Gain on Investment	(238)	-	(238)	(808)	-	(808)	(808)	-	(808)
Net Other Income (Expense)	<u>(1,983)</u>	<u>(873)</u>	<u>(1,109)</u>	<u>(9,970)</u>	<u>(6,787)</u>	<u>(3,183)</u>	<u>(9,970)</u>	<u>(7,756)</u>	<u>(2,214)</u>
Net Income (Loss)	<u>(\$3,478)</u>	<u>(\$3,151)</u>	<u>(\$327)</u>	<u>(\$22,398)</u>	<u>(\$29,807)</u>	<u>\$7,409</u>	<u>(\$22,398)</u>	<u>(\$29,494)</u>	<u>\$7,095</u>
Headcount	571	570	1	571	598	(27)	571	573	(2)



Southwest Power Pool
Balance Sheet
September 30, 2015
(in thousands)

	9/30/2015	12/31/2014	Net Change
ASSETS			
Current Assets			
Cash & Equivalents	\$49,758	\$57,534	(\$7,776)
Restricted Cash Deposits	232,653	222,285	10,368
Accounts Receivable (net)	18,153	41,826	(23,673)
Other Current Assets	14,039	7,204	6,834
Total Current Assets	\$314,603	\$328,850	(14,247)
Total Fixed Assets	146,605	176,881	(30,276)
Total Other Assets	2,417	5,183	(2,766)
Investments	8,806	10,099	(1,293)
TOTAL ASSETS	\$472,431	\$521,013	(\$48,583)
LIABILITIES & EQUITY			
Liabilities			
Current Liabilities			
Accounts Payable (net)	\$15,203	\$31,417	(16,214)
Customer Deposits	240,938	222,285	18,653
Current Maturities of LT Debt	23,425	24,299	(875)
Other Current Liabilities	38,517	57,943	(19,426)
Deferred Revenue	5,905	5,895	10
Total Current Liabilities	323,988	341,840	(17,852)
Long Term Liabilities			
US Bank 5.45% Senior Notes - 2016	-	3,000	(3,000)
US Bank Maumelle Mortgage - 2027	3,187	3,341	(154)
Campus 4.82% Senior Notes - 2042	61,014	61,869	(856)
Integrated Marketplace 3.55% Senior Note - 2024	52,500	57,750	(5,250)
Senior Notes - 2024	77,500	85,000	(7,500)
Senior Notes - 2025	37,000	37,000	-
Capital Lease Obligation	5,824	-	5,824
Other Long Term Liabilities	20,761	18,158	2,603
Total Long Term Liabilities	257,785	266,118	(8,333)
Net Income	(22,398)	(46,050)	23,651
Members' Equity	(86,945)	(40,895)	(46,050)
Total Members' Equity	(109,343)	(86,945)	(22,398)
TOTAL LIABILITIES & EQUITY	\$472,431	\$521,013	(\$48,583)



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

Project	Prior Year(s)	2014 Actual	2015 Forecast	2016 Forecast	2017 Forecast	TOTAL FORECAST	TOTAL BUDGET	Variance Over/(Under)
Post Go-Live								
Project Pinnacle	\$457.4	\$10,473.1	\$1,603.4	\$0.0	\$0.0	\$12,534.0	\$15,371.8	(\$2,837.9)
Phase 1 Deferred Enhancements	0.0	1,087.3	0.0	0.0	0.0	1,087.3	1,000.0	87.3
TCR Enhancements (included in Project Pinnacle budget)	0.0	0.0	499.9	0.0	0.0	499.9	0.0	499.9
Enhanced Combined Cycle / Gas Day (Combined)	143.9	1,157.2	800.0	4,957.4	650.0	7,708.5	8,708.4	(999.9)
Total Market Post Go-Live Projects	\$601.3	\$12,717.6	\$2,903.3	\$4,957.4	\$650.0	\$21,829.7	\$25,080.3	(\$3,250.6) a)
Carry-forward projects								
Netezza	\$2,156.0	\$490.3	\$171.7	\$0.0	\$0.0	\$2,818.0	\$2,818.0	\$0.0
Transmission Settlements Upgrade ETSE3.0	0.0	0.0	19.4	0.0	3,817.0	3,836.4	4,187.0	(350.6)
EMS Upgrade (covered by IT Foundation)	0.0	0.0	0.0	0.0	0.0	0.0	1,497.7	(1,497.7)
Sonic ESB and Sonic MQ Replacement	0.0	1.4	235.5	0.0	0.0	236.8	475.0	(238.2)
IssueTrak Integration with Remedy (covered by SPP staff)	0.0	0.0	0.0	0.0	0.0	0.0	150.0	(150.0)
Cost Allocation SQL Database (cancelled)	0.0	0.0	0.0	0.0	0.0	0.0	50.0	(50.0)
Z2 Crediting Process (orig budget \$295 in 2012) *	348.9	2.2	1,090.3	2.9	0.0	1,444.3	295.0	1,149.3 b)
Project Server 2013 Upgrade *	0.0	104.0	22.3	0.0	0.0	126.4	300.0	(173.6)
QA ICCP Buildout *	0.0	190.4	1.0	0.0	0.0	191.4	180.0	11.4
Total Carry-forward Projects	\$2,504.9	\$788.3	\$1,540.1	\$2.9	\$3,817.0	\$8,653.2	\$9,952.7	(\$1,299.5)
* 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).								
2015 New Projects								
IS Integration			647.1	0.0	0.0	647.1	1,027.0	(379.9)
Local Reliability Assessment			0.0	0.0	500.0	500.0	500.0	0.0
2-Factor Authentication (1 of 2 - Infrastructure build)			0.0	0.0	0.0	0.0	250.0	(250.0)
Vaadin 6 to 7 Upgrade			110.4	0.0	0.0	110.4	180.0	(69.6)
Tie Line Meter Checkout			39.6	0.0	0.0	39.6	66.0	(26.4)
Total 2015 New Projects			\$797.1	\$0.0	\$500.0	\$1,297.1	\$2,023.0	(\$725.9)

Project	Prior Year(s)	2014 Actual	2015 Forecast	2016 Forecast	2017 Forecast	TOTAL FORECAST	TOTAL BUDGET	Variance Over/(Under)
Foundation								
IT Foundation			\$15,030.2	\$9,940.2	\$11,026.0	\$35,996.4	\$33,073.1	\$2,923.2 c)
Operations Marketplace Enhancements			2,328.7	2,110.0	2,200.0	6,638.7	5,968.0	670.7
Operations Legacy Applications Foundation			410.7	523.0	618.0	1,551.7	2,009.0	(457.3)
Settlements Enhancements			383.2	250.0	250.0	883.2	750.0	133.2
Miscellaneous Facilities			261.0	723.0	220.0	1,204.0	580.0	624.0
CMS Enhancements (covered by SPP IT staff)			0.0	0.0	0.0	0.0	200.0	(200.0)
Total Foundation			\$18,413.7	\$13,546.2	\$14,314.0	\$46,273.8	\$42,580.1	\$3,693.7
Unbudgeted Projects								
Corporate Website Replacement Project	\$0.0	\$182.8	\$176.8	\$0.0	\$0.0	\$359.5	\$0.0	\$359.5 d)
Mitigated Offer VOM Cost Calculation	0.0	0.0	136.4	0.0	0.0	136.4	0.0	136.4
V&R Energy Systems Research	0.0	0.0	27.0	0.0	0.0	27.0	0.0	27.0
Total Unbudgeted Projects	\$0.0	\$182.8	\$340.2	\$0.0	\$0.0	\$522.9	\$0.0	\$522.9
Total Capital Project Expense	\$3,106.3	\$13,688.7	\$23,994.3	\$18,506.5	\$19,281.0	\$78,576.8	\$79,636.1	(\$1,059.3)

Notes on material variances to budget:

a) The actual costs of the Pinnacle projects were less than the initial budget estimates, which were developed in fall of the 2013. Some contractors who were funded through the Pinnacle project budget also performed activities that were not categorized as development work (e.g. planning and staff augmentation). As such, the contractor charges incurred for those activities were included under operating expense and not included in the Pinnacle projects capital costs. TCR Enhancements forecast of \$500 was broken out of the Pinnacle budget.

The Gas / Electric Harmonization forecast (now referred to as Gas Day) has been combined with the Enhanced Combined Cycle forecast. The original estimate for the Gas Day project was reduced from \$2,000 to \$1,000.

b) 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 functionality. 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 \$1,644.

c) The timing of receipt/recording of IT equipment purchases (primarily storage equipment) causes a variance in the IT foundation budget, however these purchases were expected to be received in 2014 and were included in the 2014 budget .

d) The total project cost for the corporate website replacement includes expense of \$182.8 in 2014 for work that did not provide adequate enhancements. A new vendor was selected in 2015 to complete the project.



Southwest Power Pool
Headcount Analysis
September 30, 2015

	Current Month Actual vs. Budget			Full Year Forecast vs. Budget		
	Actual Sep-2015	Budget Sep-2015	Over/(Under) Budget	FY 2015 Forecast	FY 2015 Budget	Over/(Under) Budget
Administration	49	48	1	50	48	2
Corporate Services	27	29	(2)	28	29	(1)
Process Integrity	53	58	(5)	56	58	(2)
Information Technology	140	146	(6)	146	146	0
Markets	7	7	0	7	7	0
Interregional Relations	3	3	0	3	3	0
Operations	156	160	(4)	159	160	(1)
Engineering	67	73	(6)	73	73	0
Regulatory Policy & General Counsel	38	40	(2)	39	40	(1)
Communications & Gov't Affairs	5	4	1	5	4	1
SPP Regional Entity	26	30	(4)	27	30	(3)
TOTAL HEADCOUNT	571	598	(27)	575	598	(23)

* The forecast includes a negative headcount adjustment of 18 positions to reflect an average vacancy of 4% as compared to the budgeted vacancy rate of 5%. Due to removing two open positions in the RE and delaying hire dates for three positions to 2016, total positions in the forecast is 593 as compared to the budget of 598.

2015 Budgeted positions	598
Net positions eliminated from forecast	(2)
2015 Total positions	596
Positions delayed to 2016	(3)
Vacancy factor	(18)
2015 Forecast	575