SPP Southwest Power Pool

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.

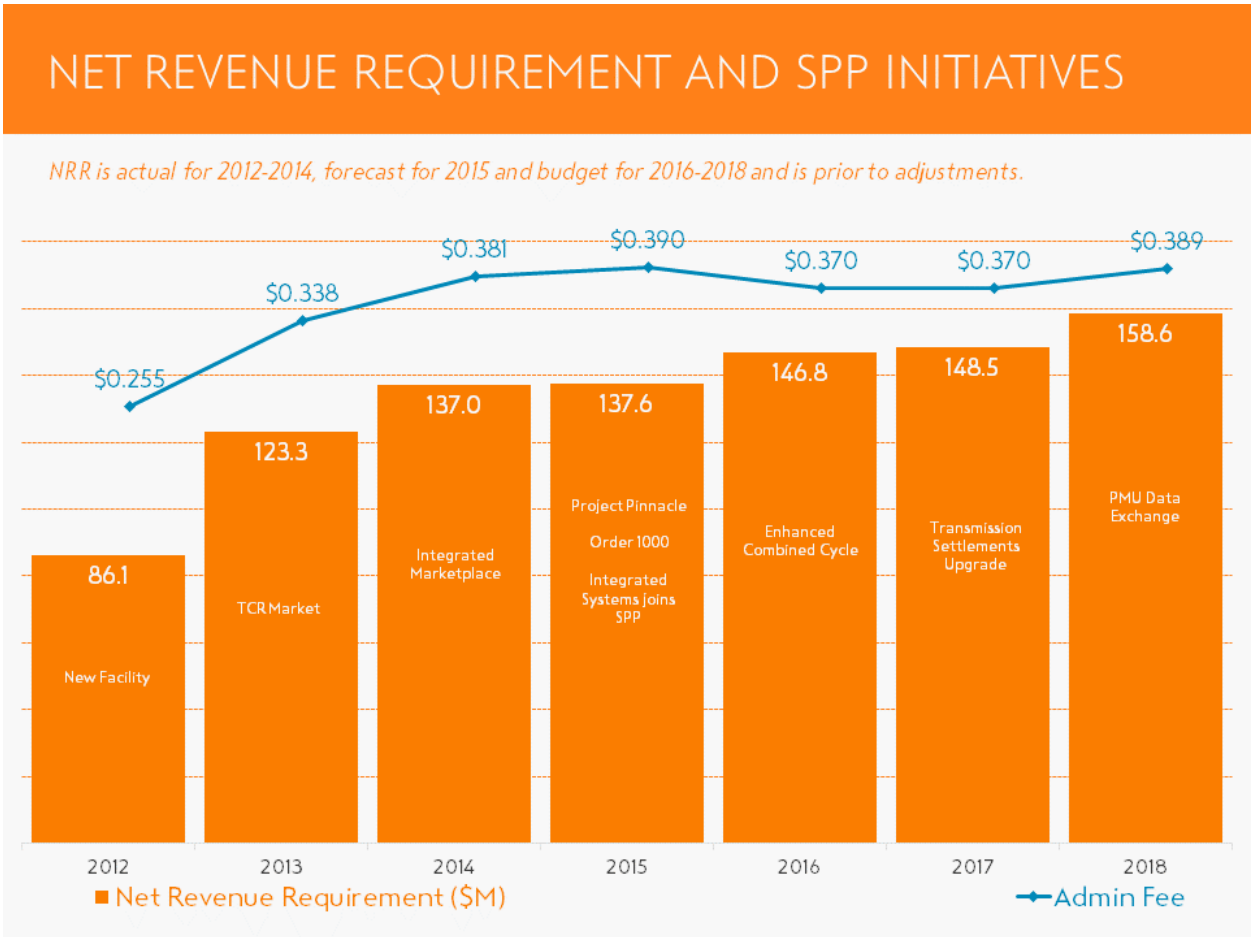
The Operating Plan document is included following the supplementary schedules in section X.

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.

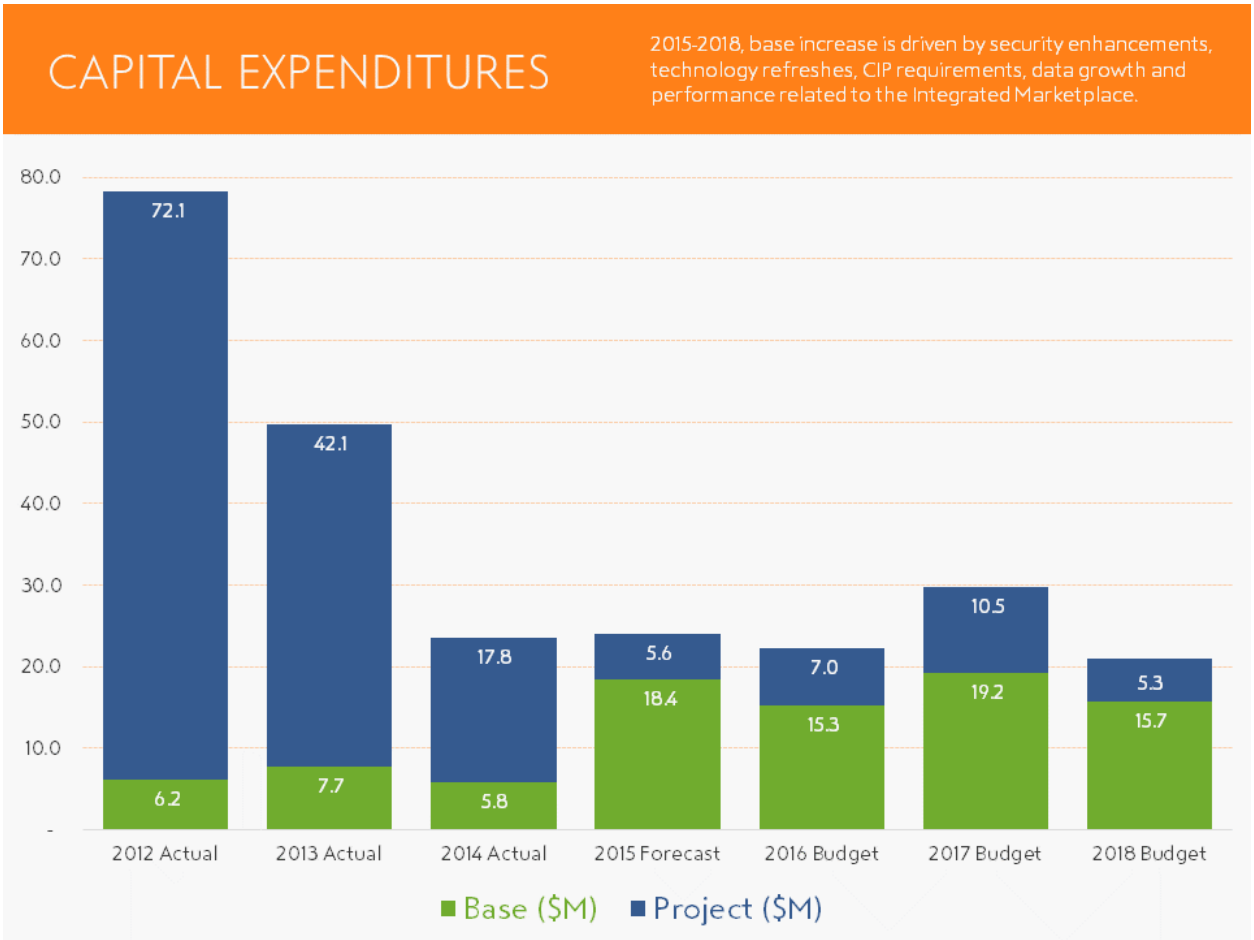
The reduction in the admin fee rate is primarily associated with increased transmission volume due to the successful addition of the Integrated System (IS) to the SPP footprint. The addition of the IS results in a 12% increase in transmission service to 407.2 million MWh in 2016 compared to the 2015 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.



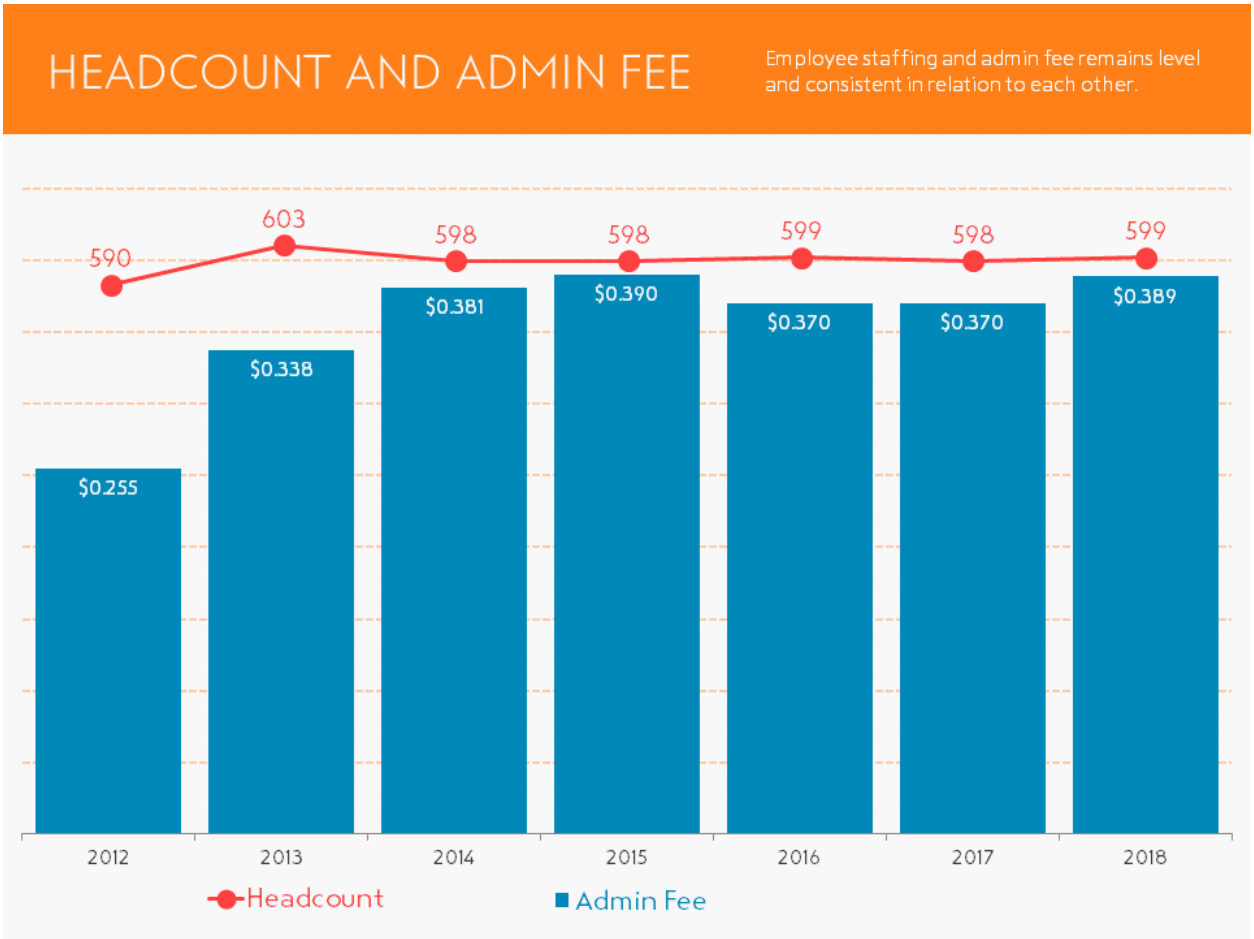
CAPITAL EXPENDITURES

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.

	2015 Budget	2015 Forecast	2016 Budget
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
Non-recurring & NRR Adjustments / MWh [3]	*$0.007*	*$0.019*	*$0.009*	*$0.000*
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
Non-recurring items / MWh	*$0.007*	*$0.019*	*$0.009*

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.

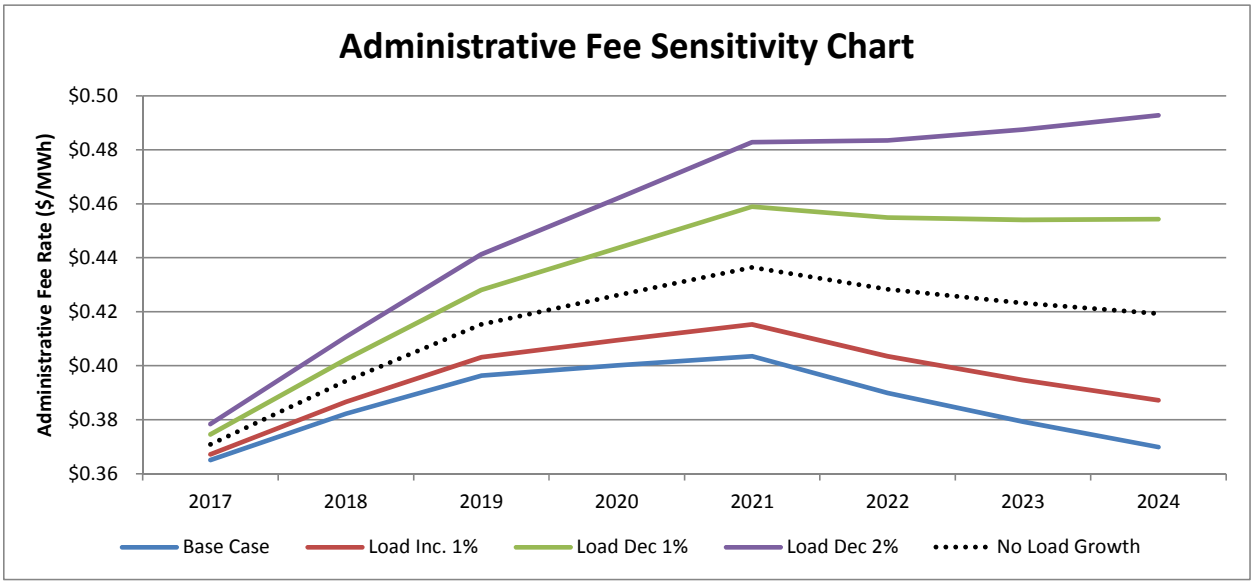
Year over Year Change		
	Energy	Load
2011	0.2%	3.6%
2012	0.2%	5.9%
2013	1.3%	-1.1%
2014	-1.1%	-1.8%

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

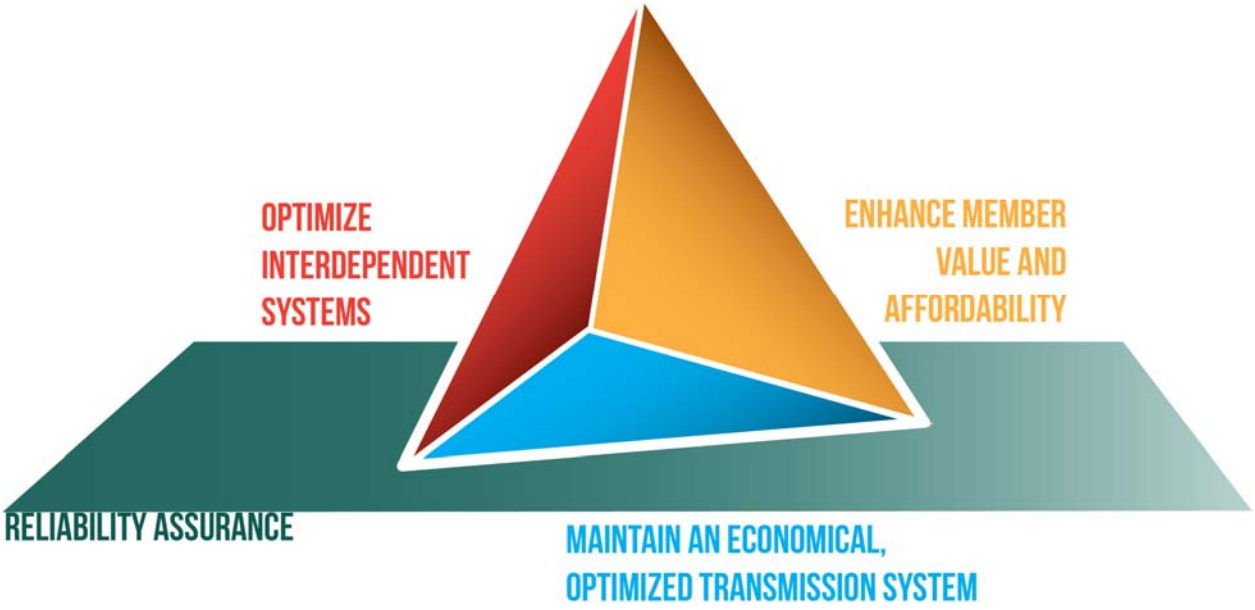
designed to best recover the cost of the assets from the customers who are benefiting from the assets. SPP's capital expenditure program has been significant over the past several years, dominated by the Integrated Marketplace and corporate campus projects. Looking forward, SPP's capital expenditure 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.

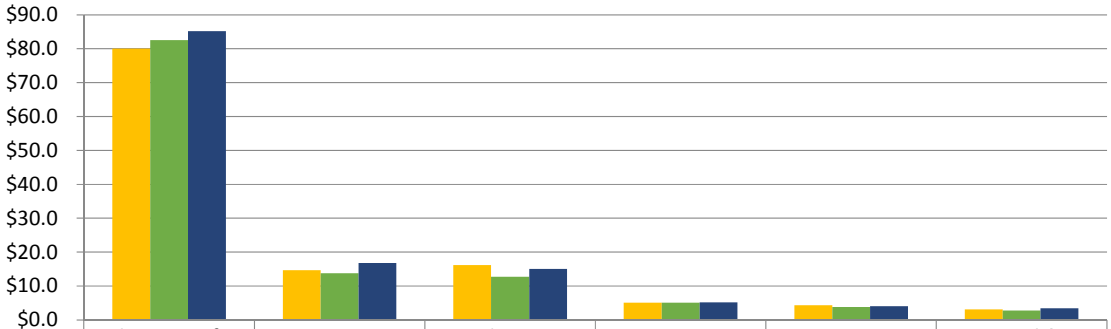
Operations – Marketplace Enhancements

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)



	Salary, Benefits & Taxes	Maintenance	Outside Services & Consulting	Admin & Leasing	Communications	Travel & Meetings
2015 Budget	$80.0	14.7	16.1	5.1	4.3	3.1
2015 Forecast	$82.5	13.8	12.7	5.1	3.8	2.8
2016 Budget	$85.2	16.8	15.1	5.2	4.1	3.4

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.

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

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.

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

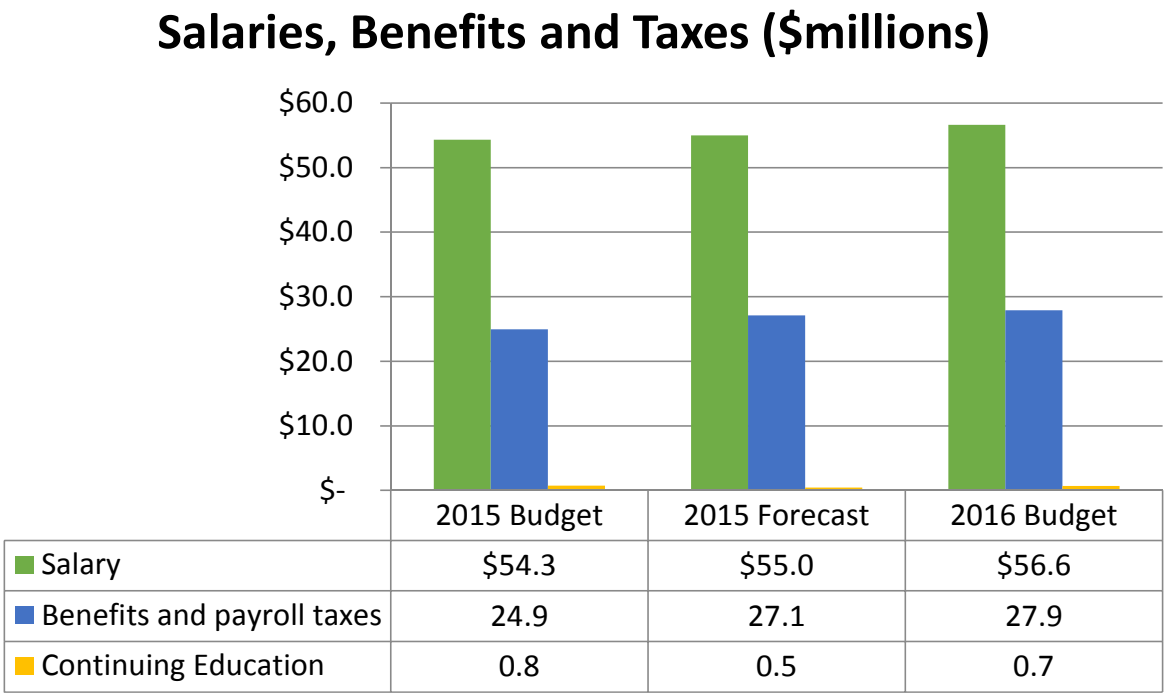
The base salary budget assumes a merit increase of 2.5%, a promotion increase of 0.75%, and a 4.0% vacancy factor.

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%



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.

	2015 Budget	2015 Forecast	2016 Budget	2016 Prior
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

	2012	2013	2014	2015	2016
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)	2015 Budget	2015 Forecast	2016 Budget	Prior 2016
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**

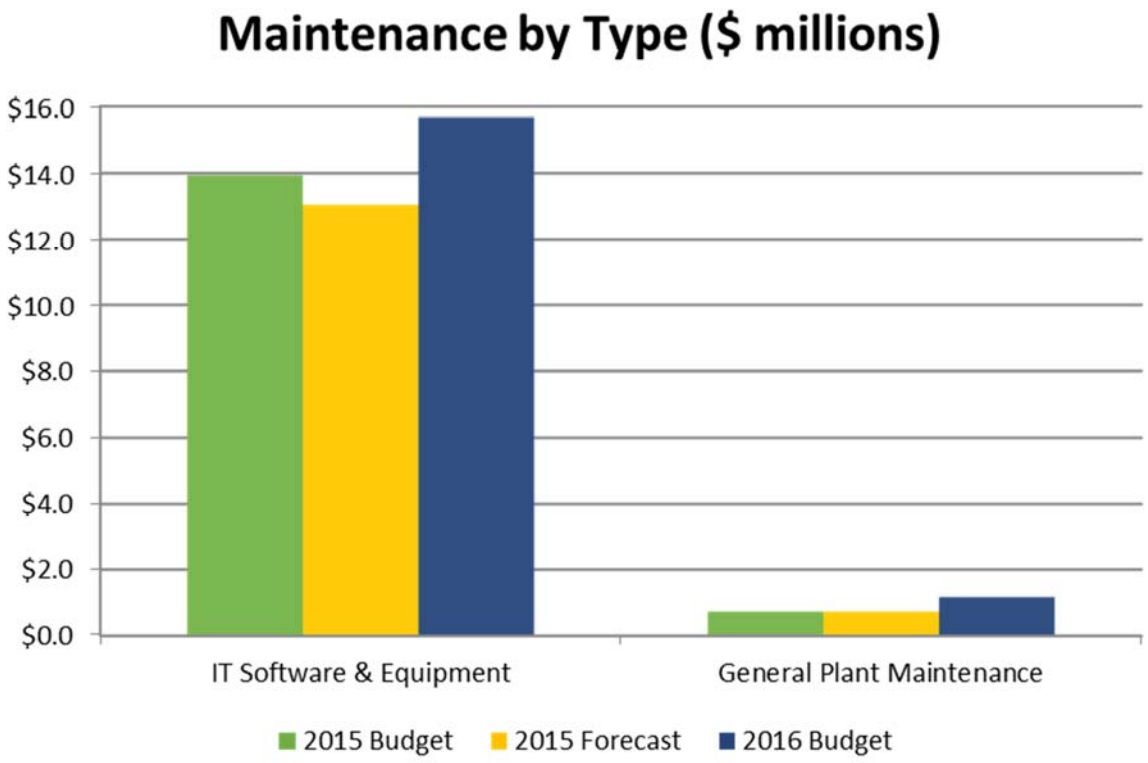
Realizing the considerable impact of maintenance costs, the IT Sourcing team is highly focused on this area and engages in efforts to minimize maintenance costs through various measures including leveraging multi-year term agreements, aligning product purchases, pursuing price-protection agreements,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

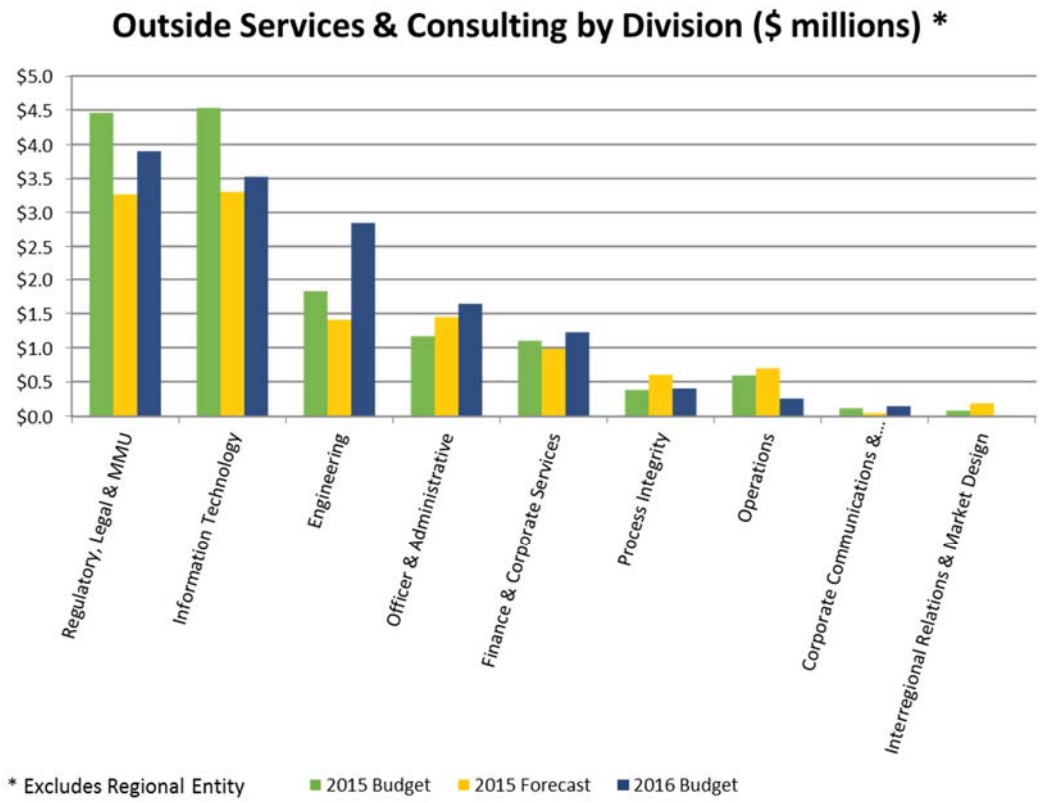
As SPP has occupied the facility for several years, trend analysis is used to estimate costs associated with general upkeep such as waste removal, landscape maintenance, janitorial services, etc. These costs remain fairly constant with only minimal increases projected. Costs associated with systems and 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)

	2015 Budget	2015 Forecast	2016 Budget	Prior 2016
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.

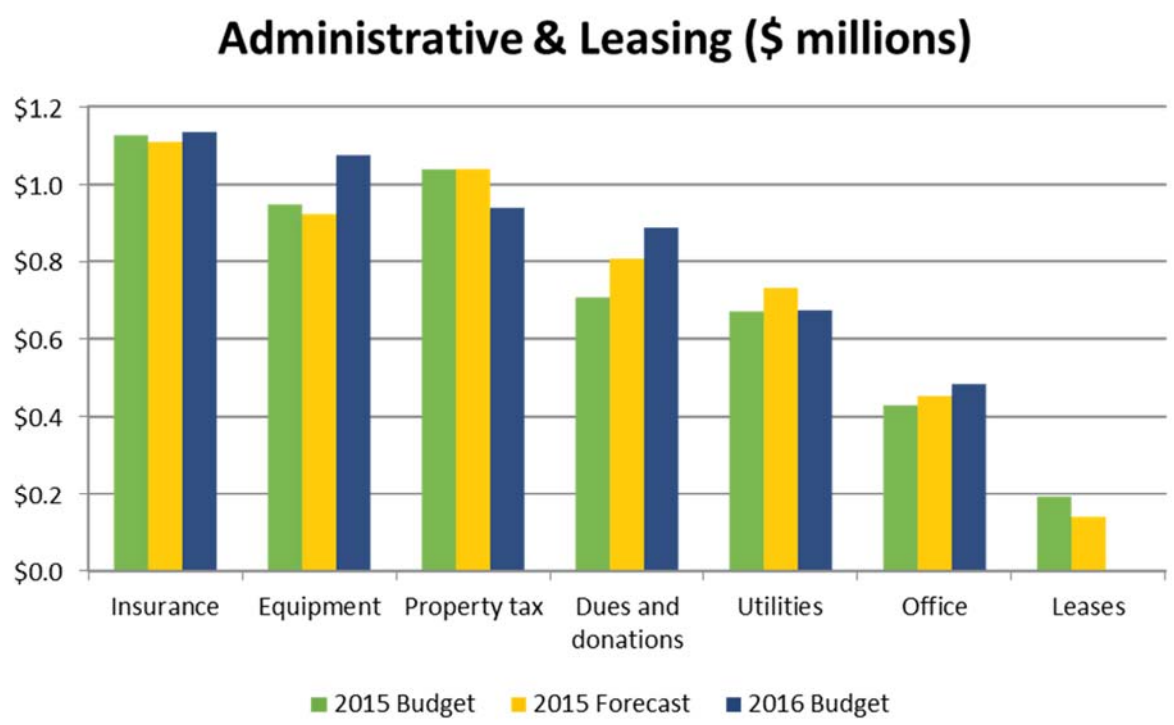
The 2016 budget includes outside services and consultants in various other areas including the following:

- $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)	2015 Budget	2015 Forecast	2016 Budget	Prior 2016
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)	2015 Budget	2015 Forecast	2016 Budget	Prior 2016
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.

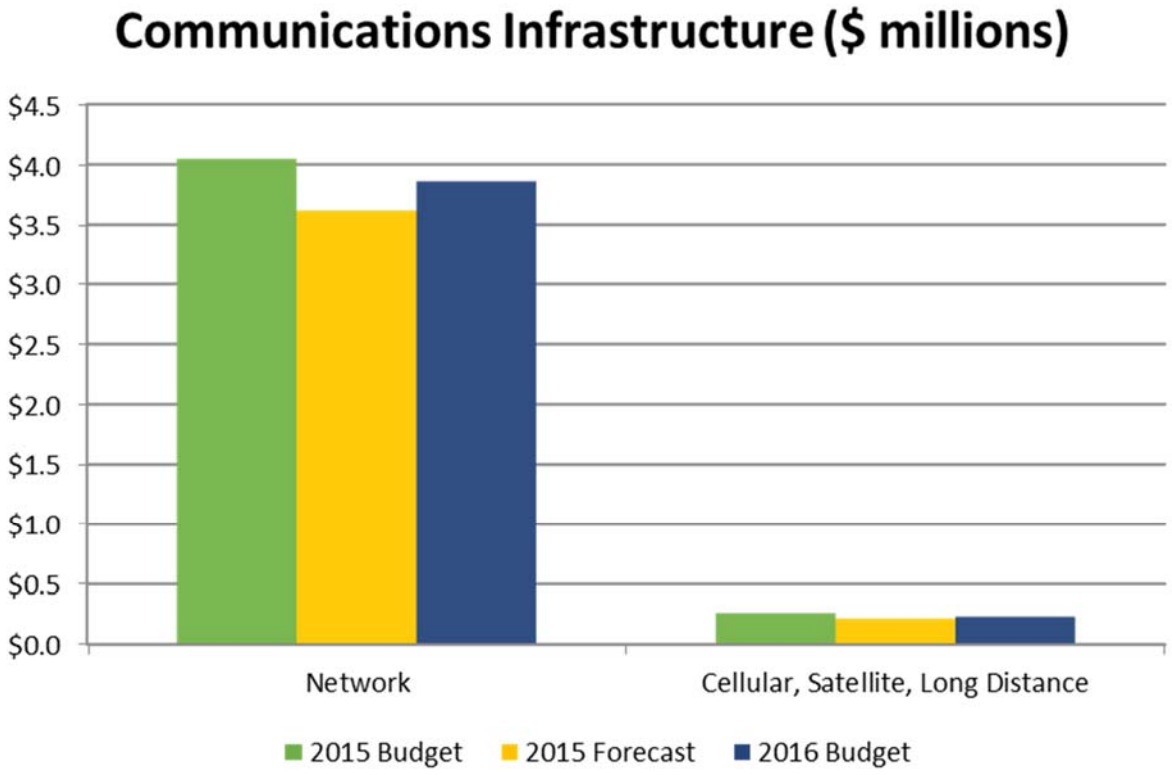
Utilities, office and leases expenses make up the remaining administrative expense and remain reasonably constant.

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

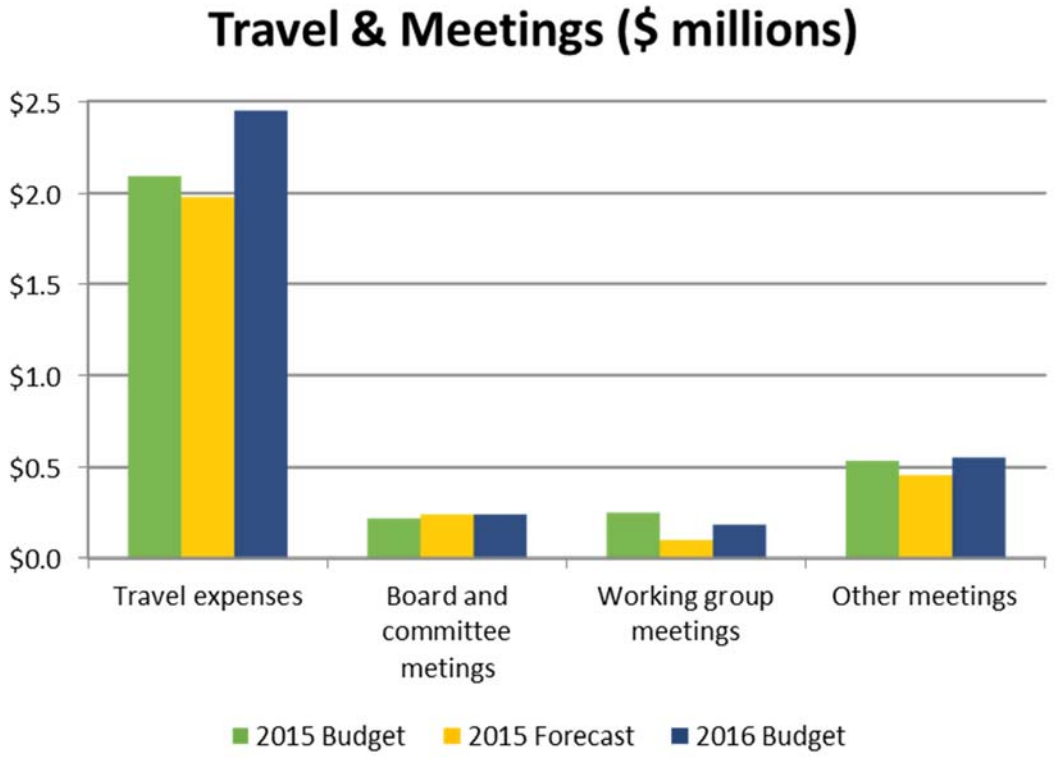
Communications ($ millions)	2015 Budget	2015 Forecast	2016 Budget	Prior 2016
Network	$4.0	$3.6	$3.9	$4.1
Cellular, Satellite, Long Distance	0.3	0.2	0.2	0.3
Total	**$4.3**	**$3.8**	**$4.1**	**$4.4**

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.



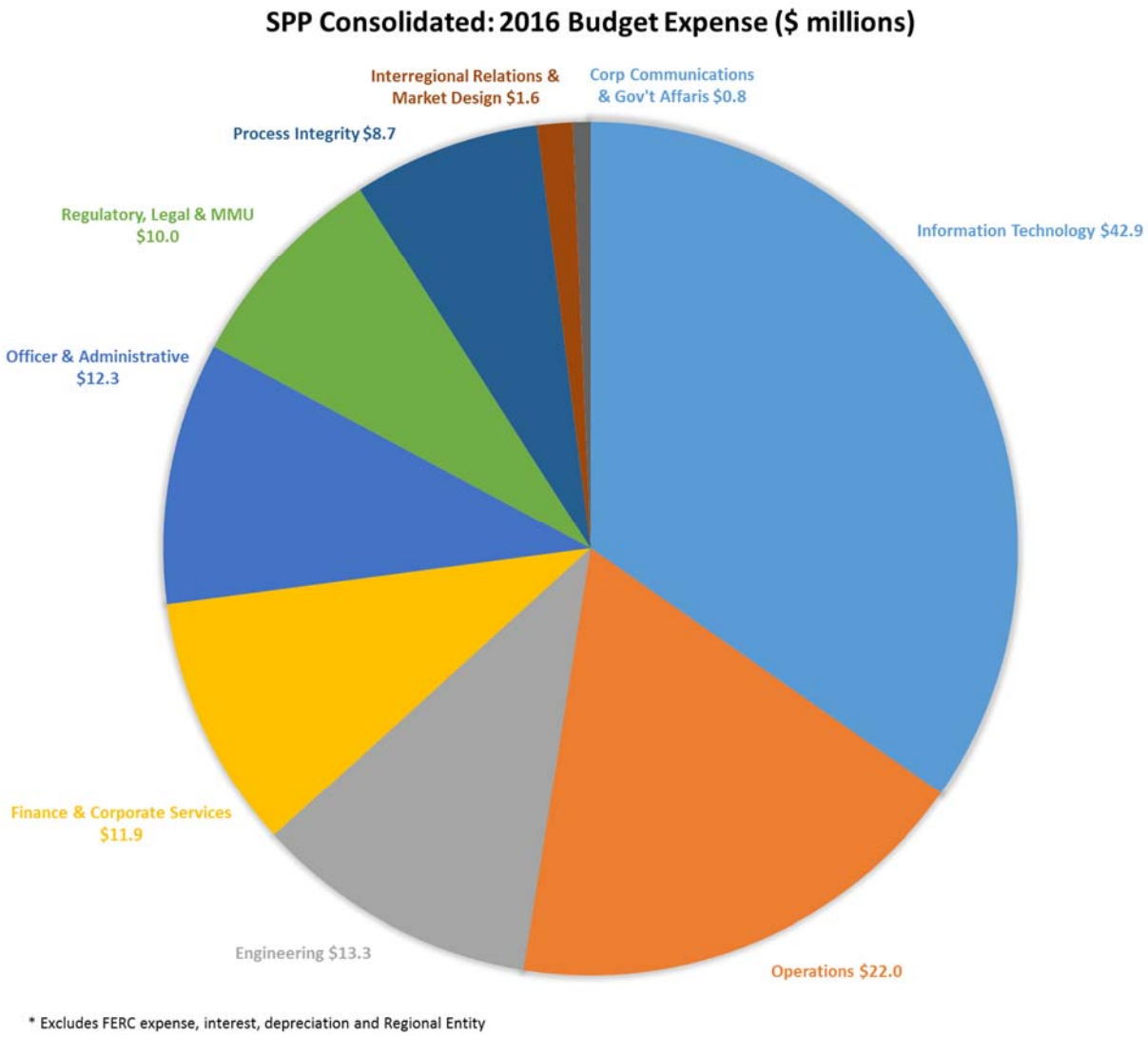
Travel & Meetings ($ millions)	2015 Budget	2015 Forecast	2016 Budget	Prior 2016
Travel expenses	$2.1	$2.0	$2.4	$2.4
Board and committee metings	0.2	0.2	0.2	0.2
Working group meetings	0.2	0.1	0.2	0.3
Other meetings	0.5	0.5	0.6	0.5
Total	**$3.1**	**$2.8**	**$3.4**	**$3.4**

Travel & Meetings by Division ($ millions)

	2015 Budget	2015 Forecast	2016 Budget	Prior 2016
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.

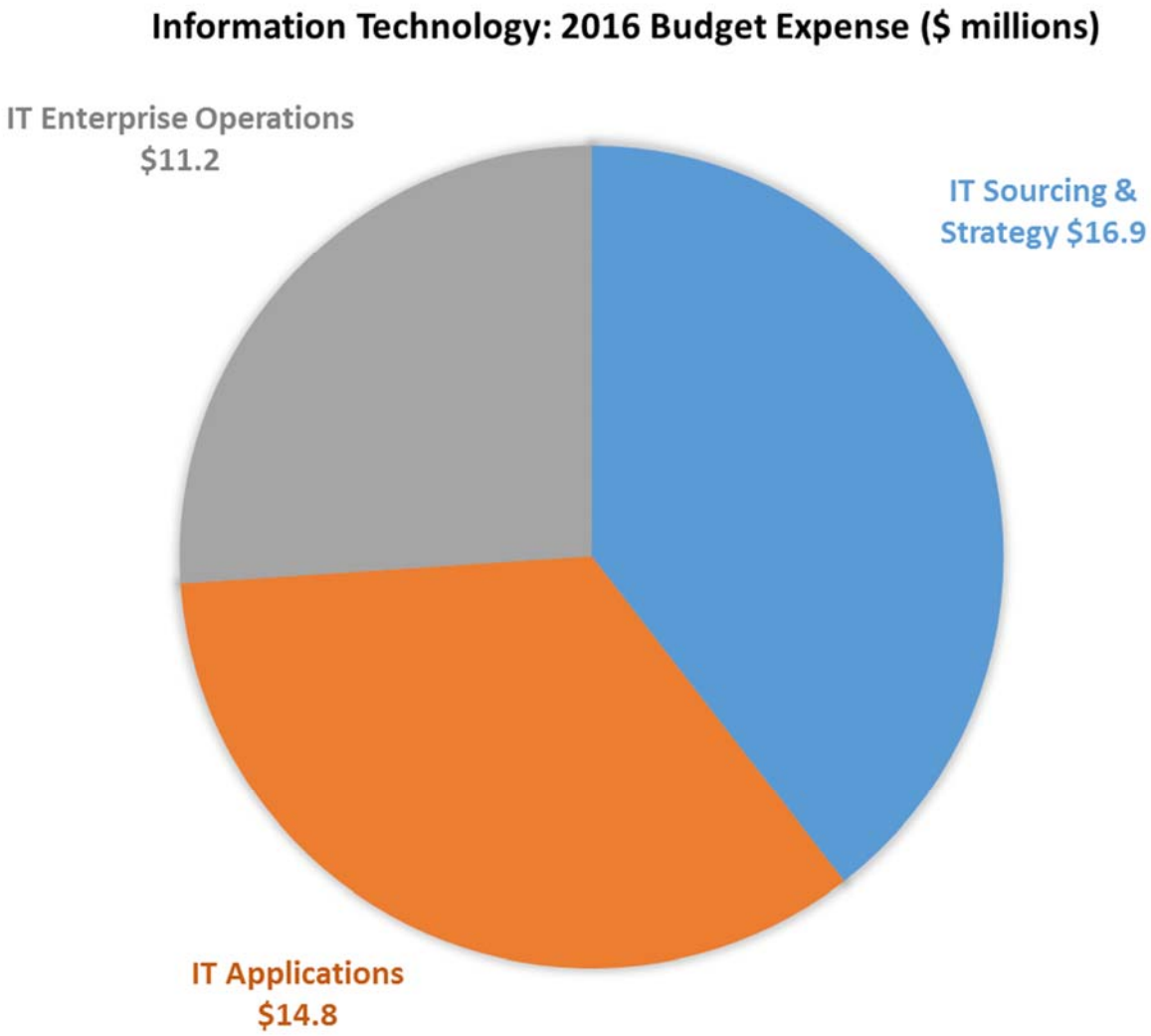


* Excludes FERC expense, interest, depreciation and Regional Entity

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

Expense	2015 Budget	2015 Forecast	2016 Budget	2017 Budget	2018 Budget
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

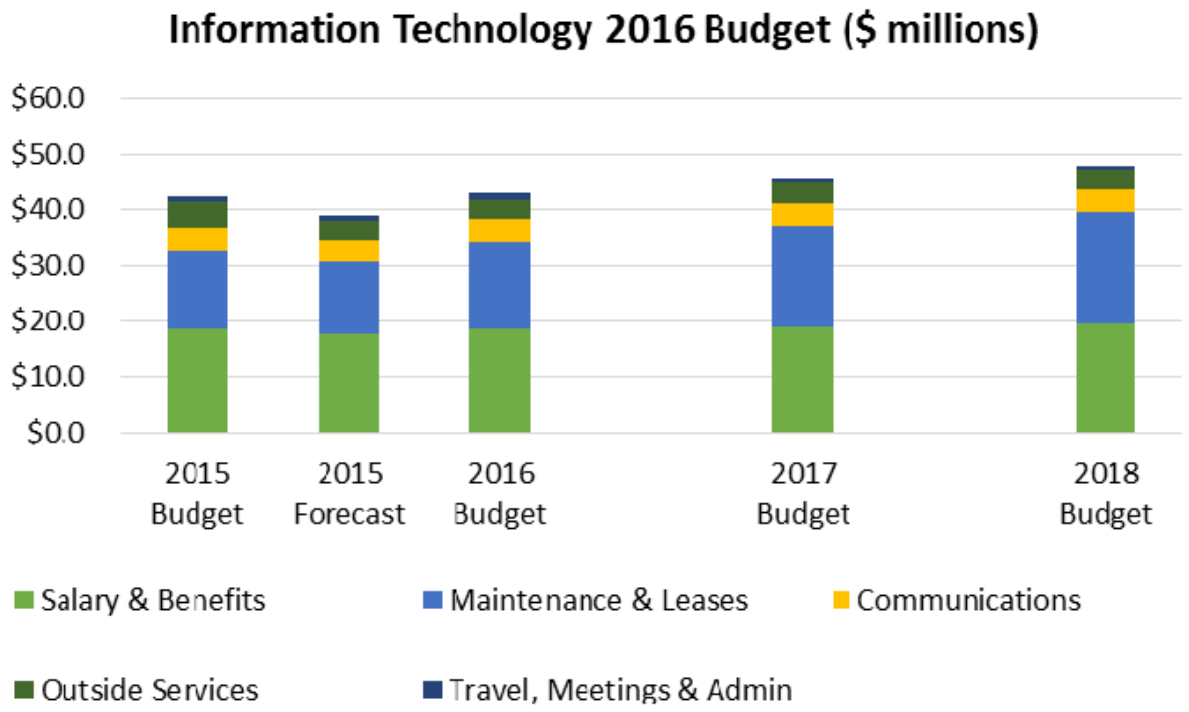
plan to bring support in-house for systems such as Credit Management System (CMS) and Post Operations Processing System (POPS) which were previously supported by outside entities. As a result, SPP's reliance and cost for outside services is reduced during 2016.

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 Expenses ($ millions)

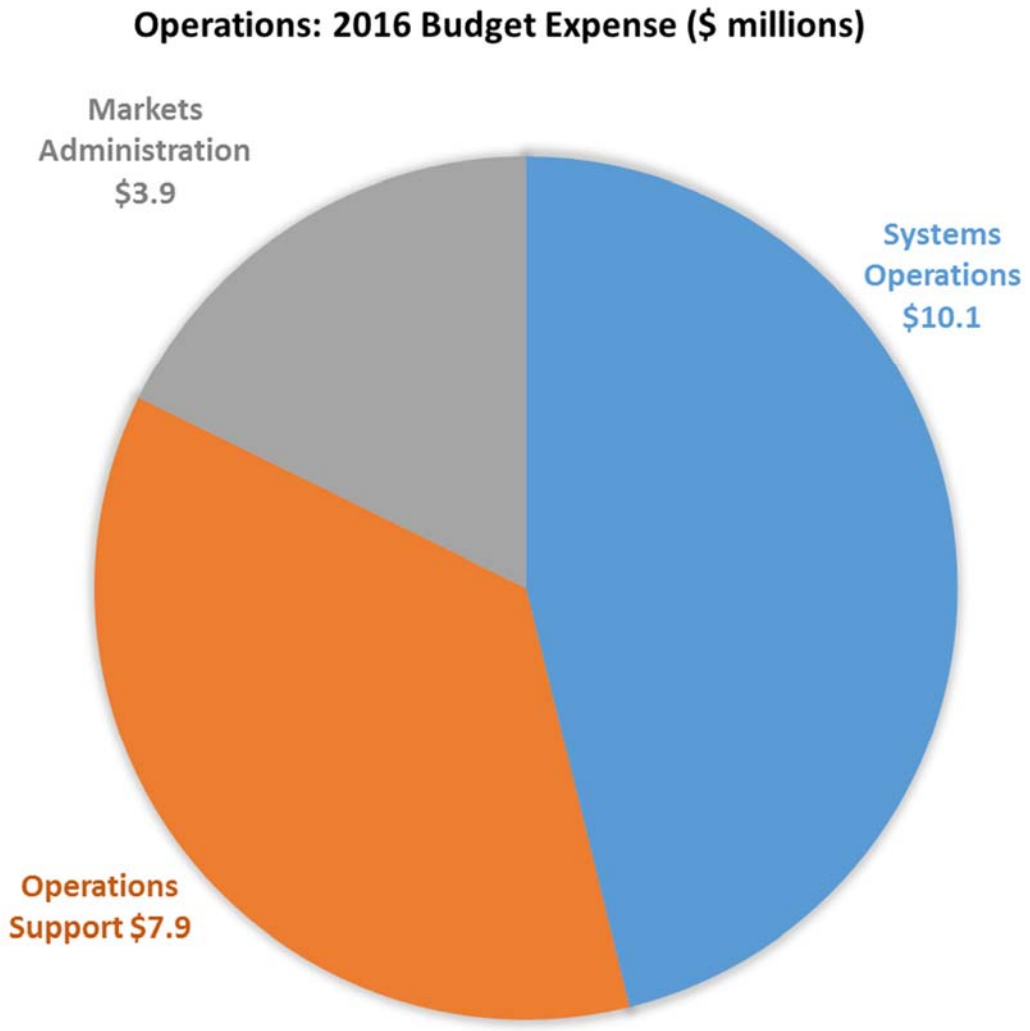
Expense	2015 Budget	2015 Forecast	2016 Budget	2017 Budget	2018 Budget
Salary & Benefits	$18.4	$17.6	$18.4	$18.9	$19.4
Maintenance & Leases	14.1	13.2	15.7	18.1	20.0
Communications	4.3	3.8	4.1	4.2	4.2
Outside Services	4.5	3.3	3.5	3.8	3.7
Travel, Meetings & Admin	1.1	1.0	1.2	0.7	0.7
Total Expense	**$42.4**	**$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

Expense	2015 Budget	2015 Forecast	2016 Budget	2017 Budget	2018 Budget
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.

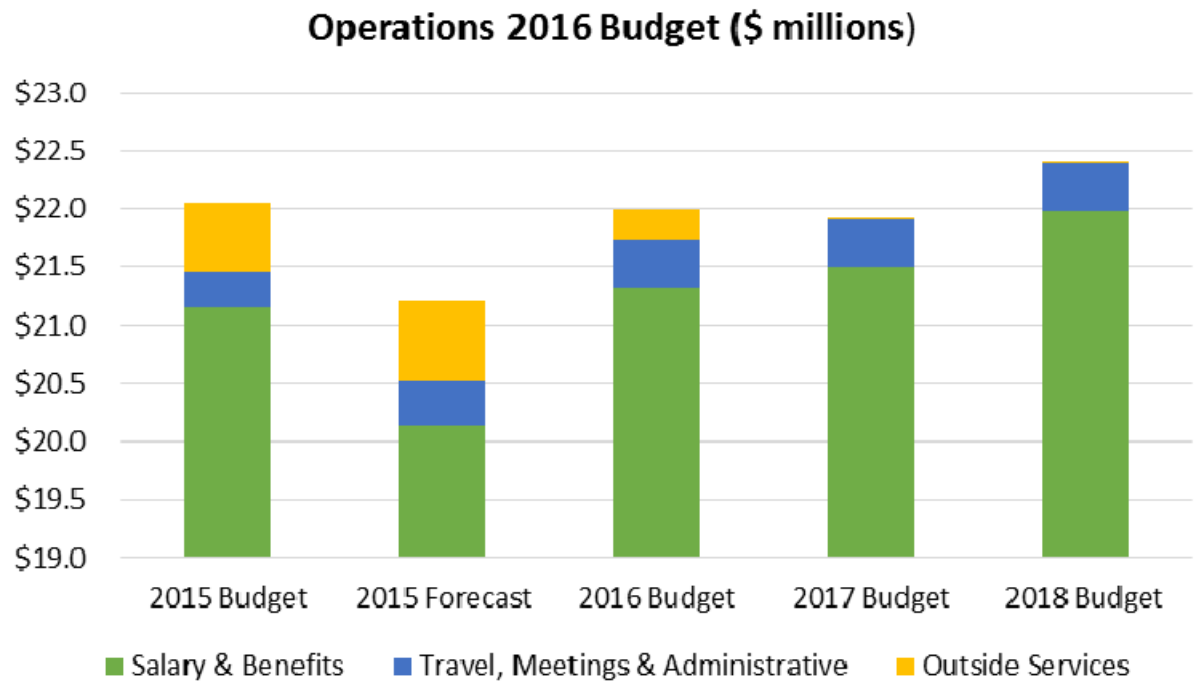
- The **Markets Administration** department is divided into two main groups that reflect the fundamental structure of real-time and day-ahead markets. Included are operators and engineers who oversee the operation of the Day Ahead market, while optimizing energy and capacity on a daily basis. Duties 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)

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.

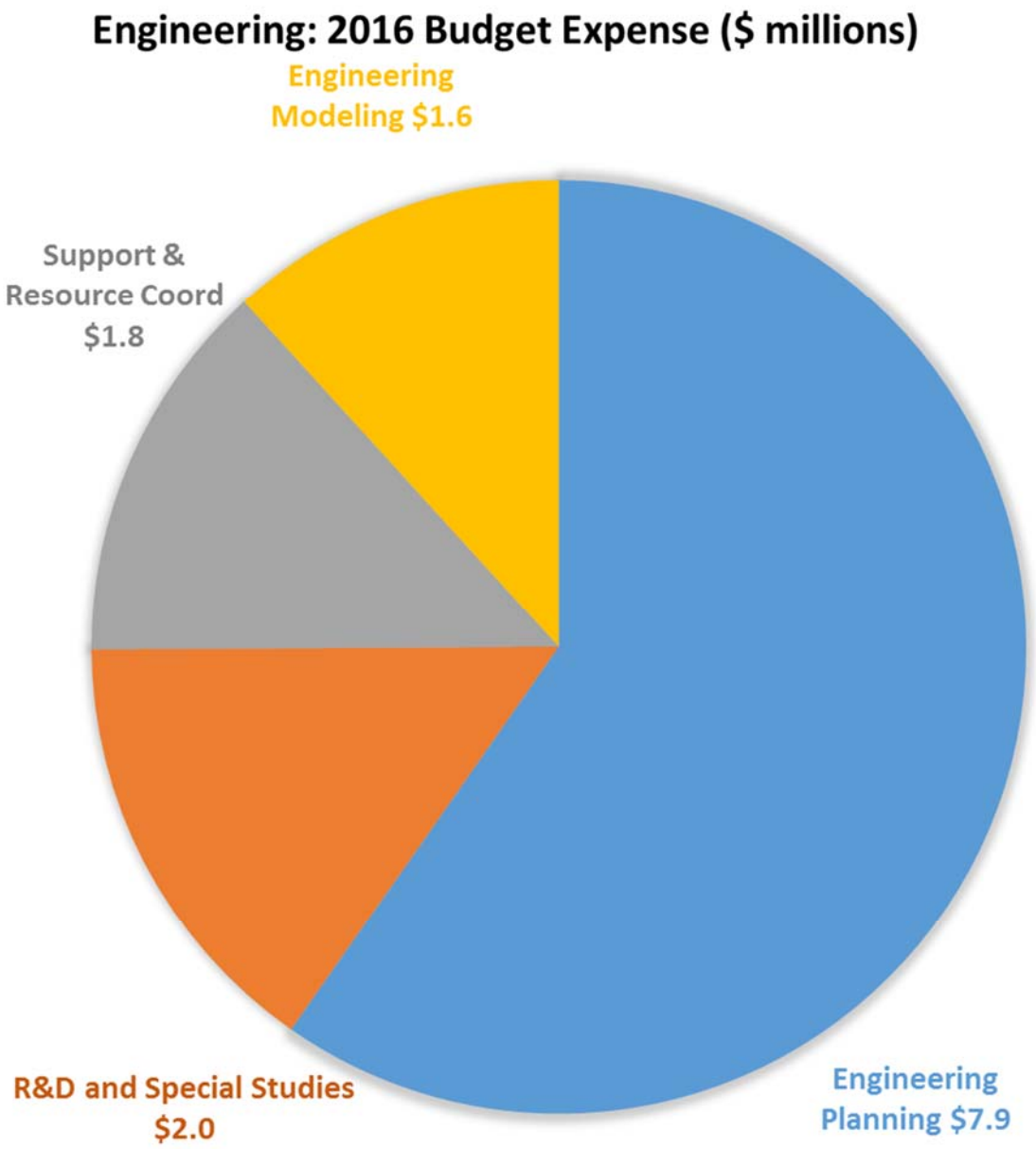
Increases in travel, meetings and administrative expenses are driven primarily by stakeholder and working group meetings, technical training, and professional membership/licenses.

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

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

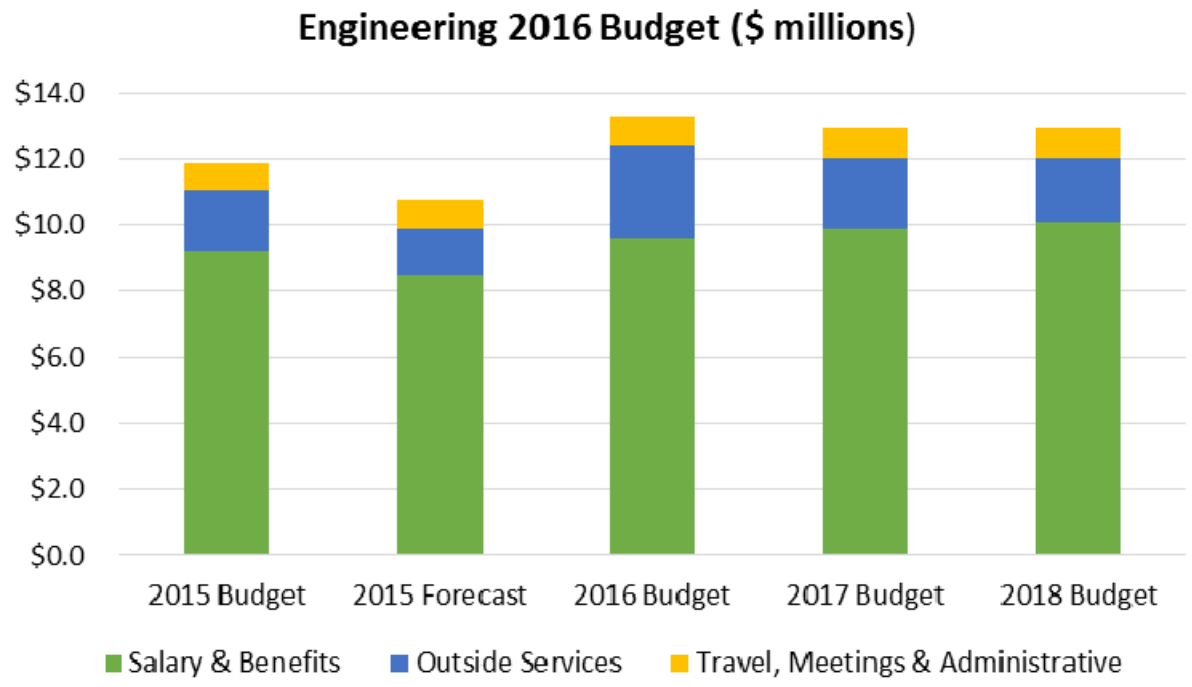
is changing to planning-coordinator-based model building, which would move the charges to the RTO instead of the RE.

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 Expenses ($ millions)

Expense	2015 Budget	2015 Forecast	2016 Budget	2017 Budget	2018 Budget
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)

	2015 Budget	2015 Forecast	2016 Budget	2017 Budget	2018 Budget
Engineering Planning	$1.0	$1.0	$2.2	$1.7	$1.3
Suport & 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.

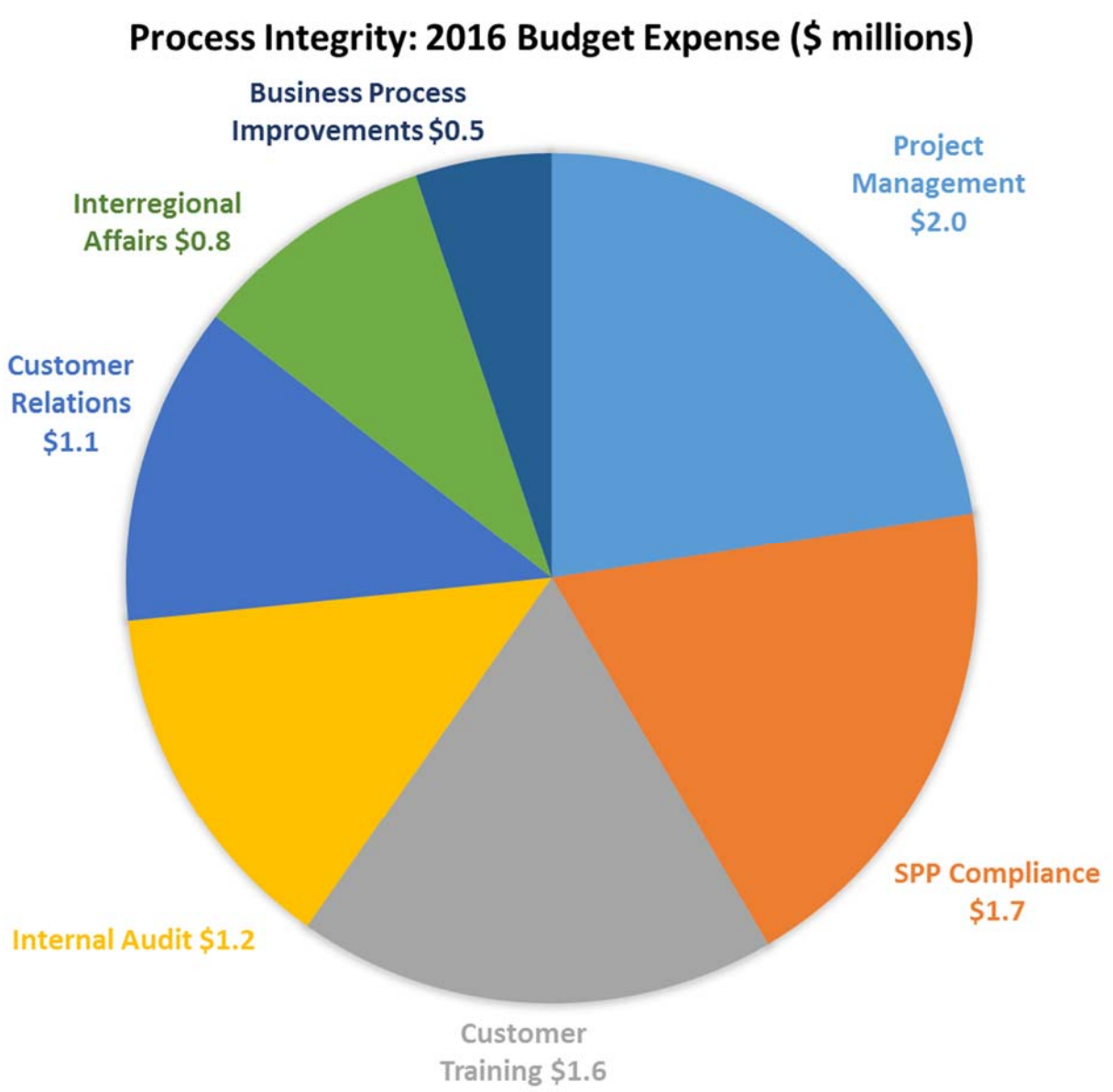
Generation Interconnection, Transmission Service, and Attachment AQ studies are based on the volume of participants. Since that volume can vary, outside services are retained to support those studies over and above the current staff level. This is a pass thru expense, with revenue collected from the 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

Expense	2015 Budget	2015 Forecast	2016 Budget	2017 Budget	2018 Budget
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.

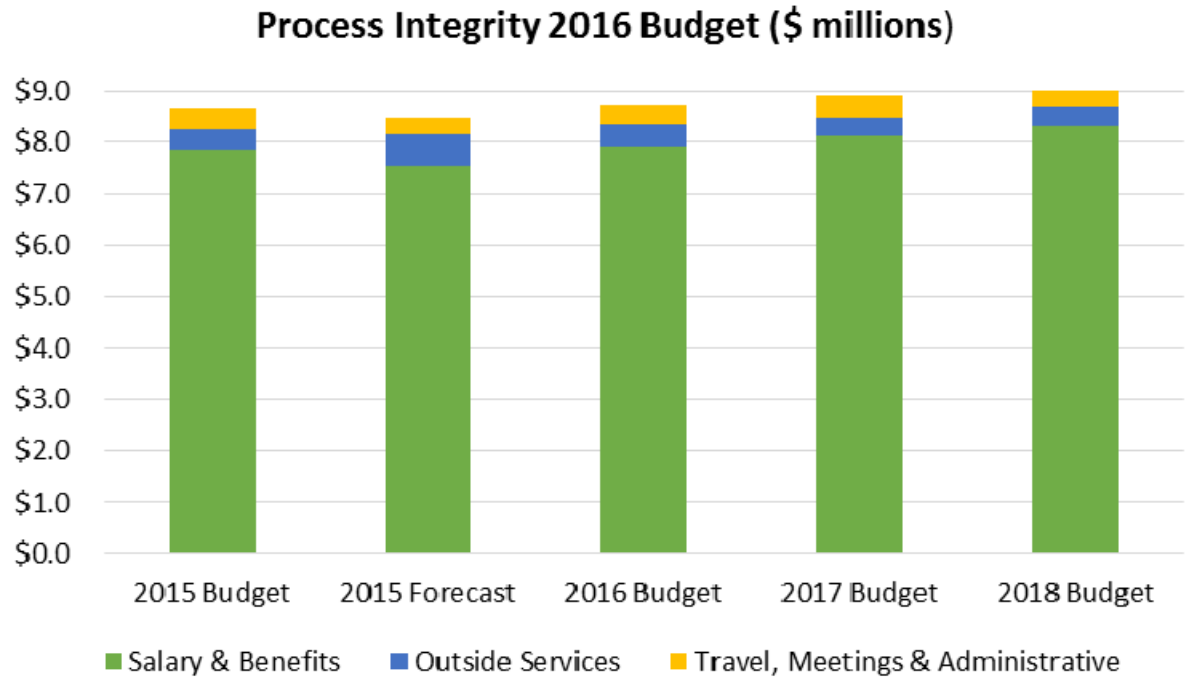
  Customer Training provides educational activities intended to further develop and train SPP Stakeholders to enhance the knowledge and skills they require for the reliable operation of the bulk power system and to participate effectively and efficiently in SPP's energy market within North America. Customer 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.

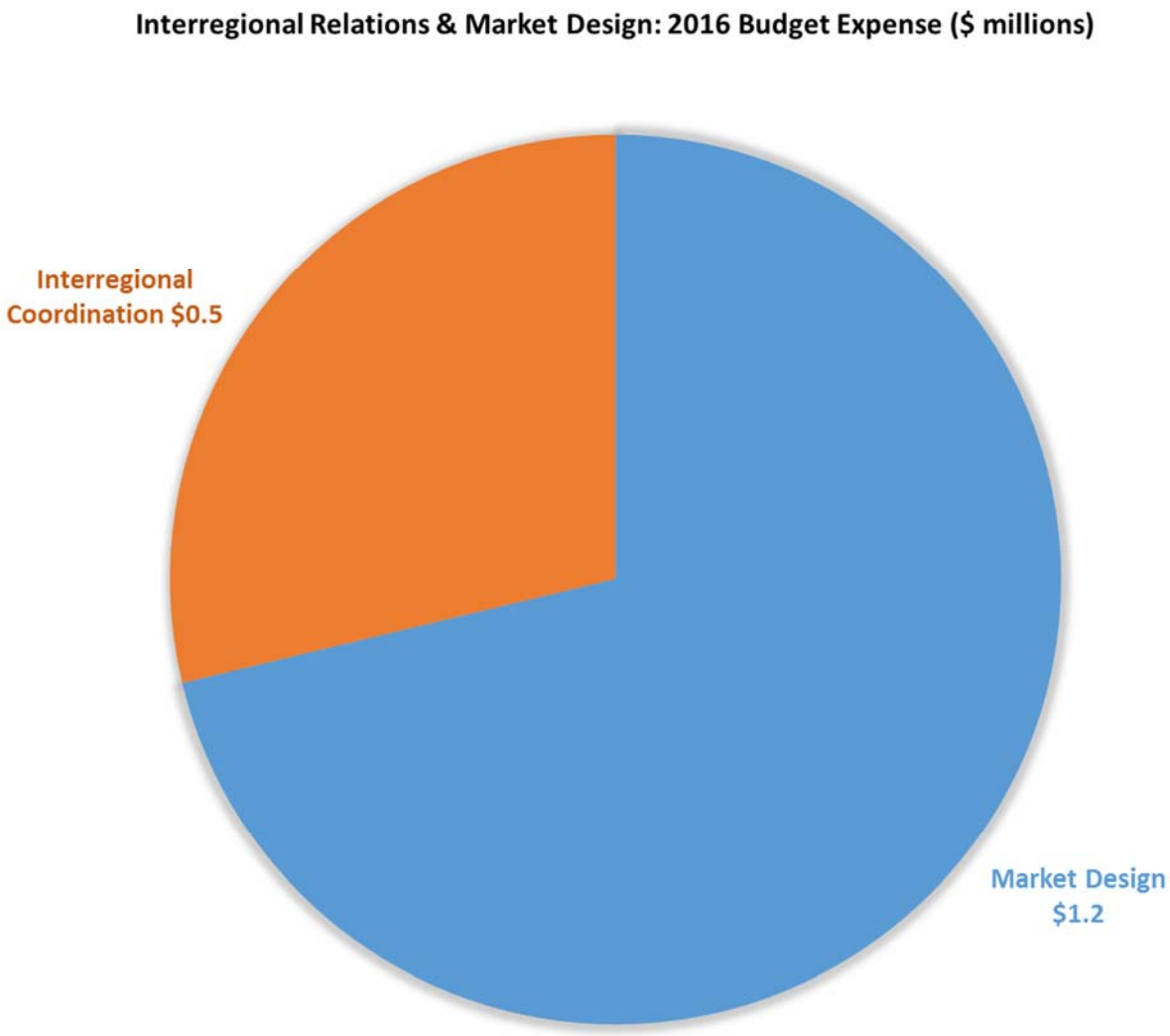


Process Integrity Expenses ($ millions)

Expense	2015 Budget	2015 Forecast	2016 Budget	2017 Budget	2018 Budget
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

Expense	2015 Budget	2015 Forecast	2016 Budget	2017 Budget	2018 Budget
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

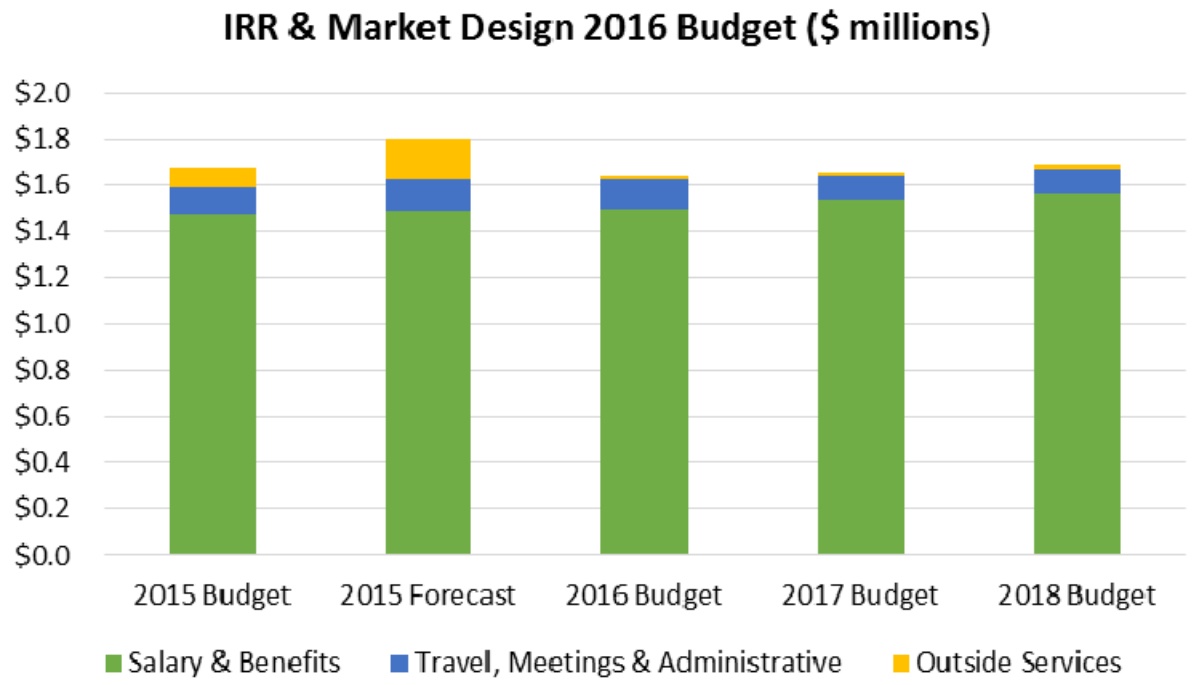
- The **Market Design** department is responsible for the evolution of the energy and capacity markets, which is achieved through interactions and cooperation with members and other stakeholders while creating and enhancing markets in a member-driven way.

  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.



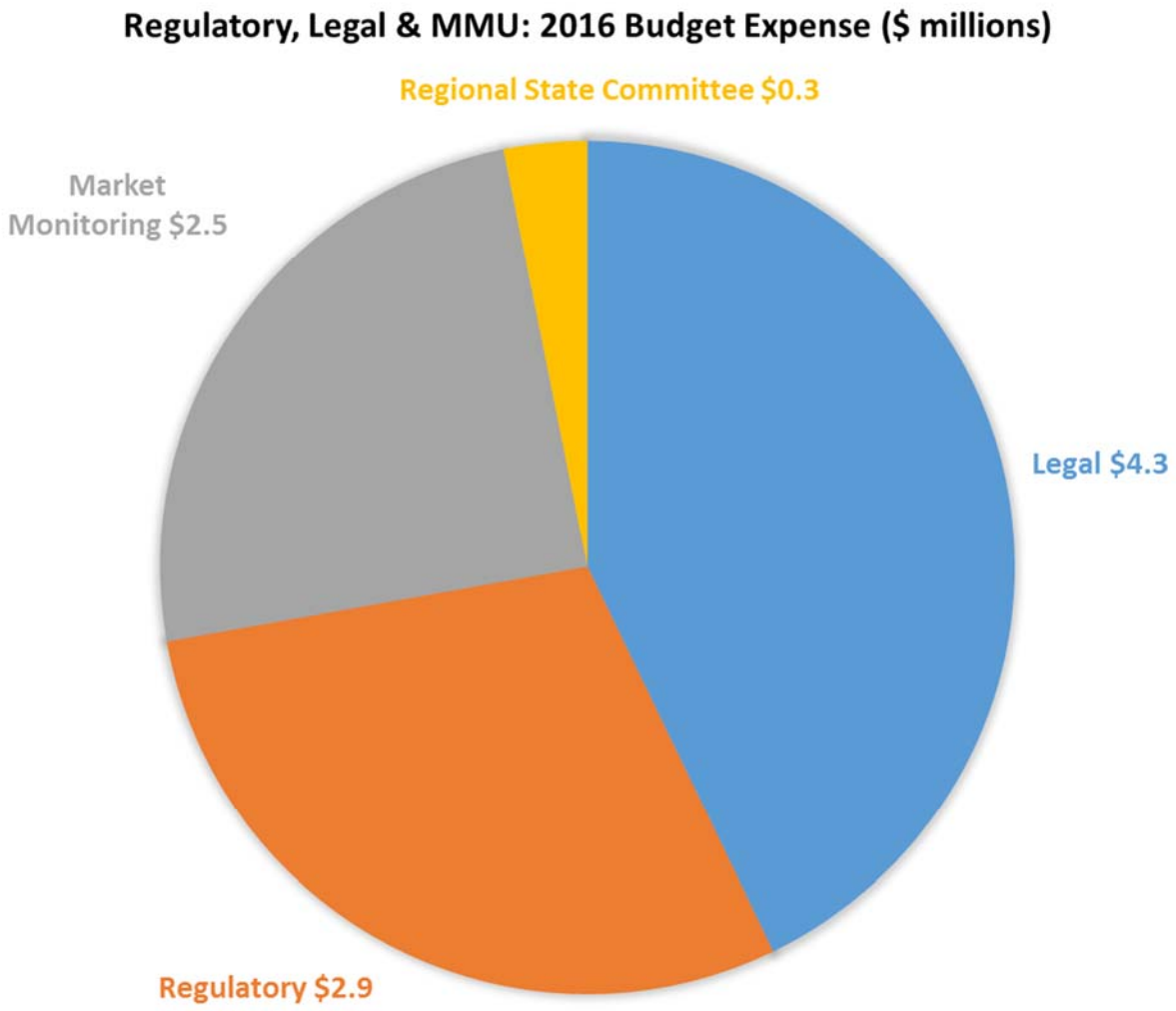
Interregional Relations & Market Design Expenses ($ millions)

Expense	2015 Budget	2015 Forecast	2016 Budget	2017 Budget	2018 Budget
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 and MMU

Expense	2015 Budget	2015 Forecast	2016 Budget	2017 Budget	2018 Budget
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.

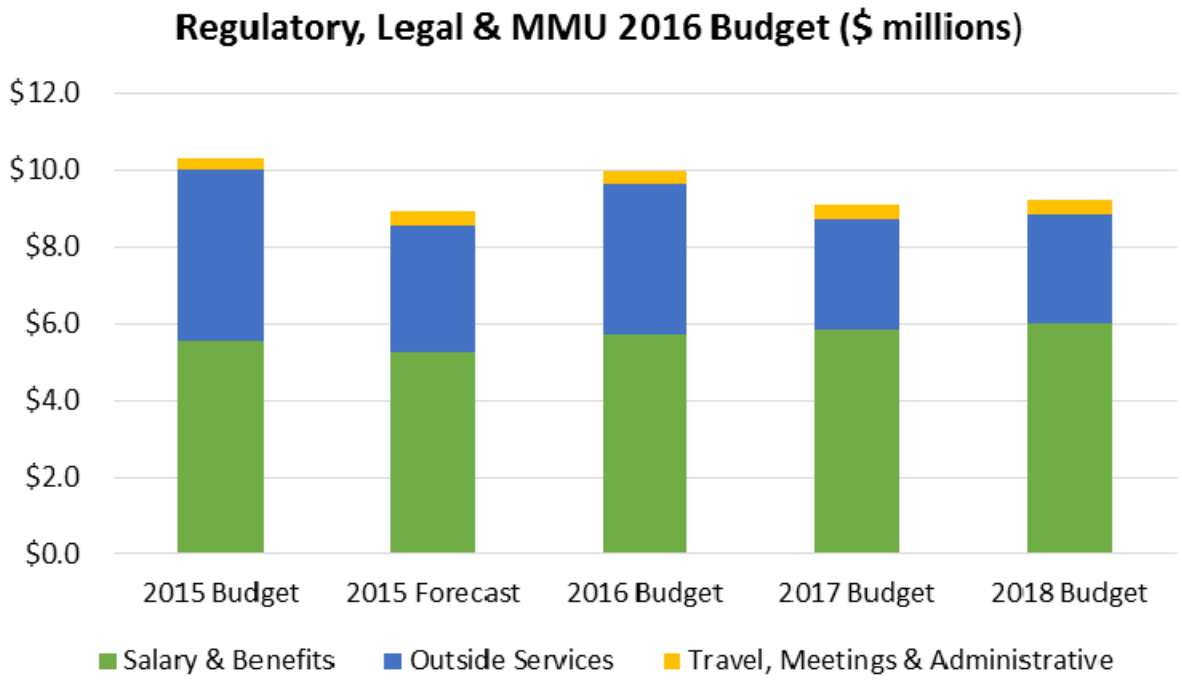
- The **Regulatory Policy** department has responsibility for all regulatory filings related to tariff implementation and revisions. The outside services expense budget includes costs for the Order 1000 Industry Expert Panel (IEP), which is recovered in revenue from the participants in the proposal process. 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.



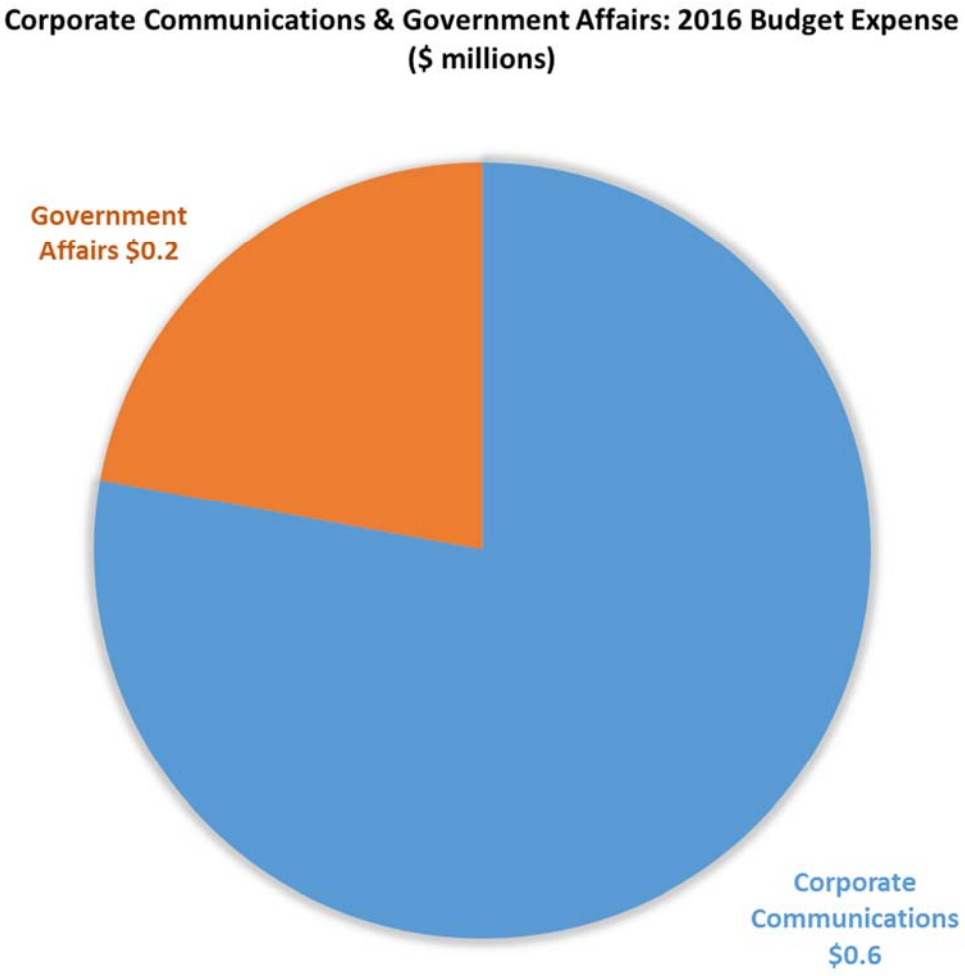
Regulatory, Legal & MMU Expenses ($ millions)

Expense	2015 Budget	2015 Forecast	2016 Budget	2017 Budget	2018 Budget
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

Expense	2015 Budget	2015 Forecast	2016 Budget	2017 Budget	2018 Budget
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

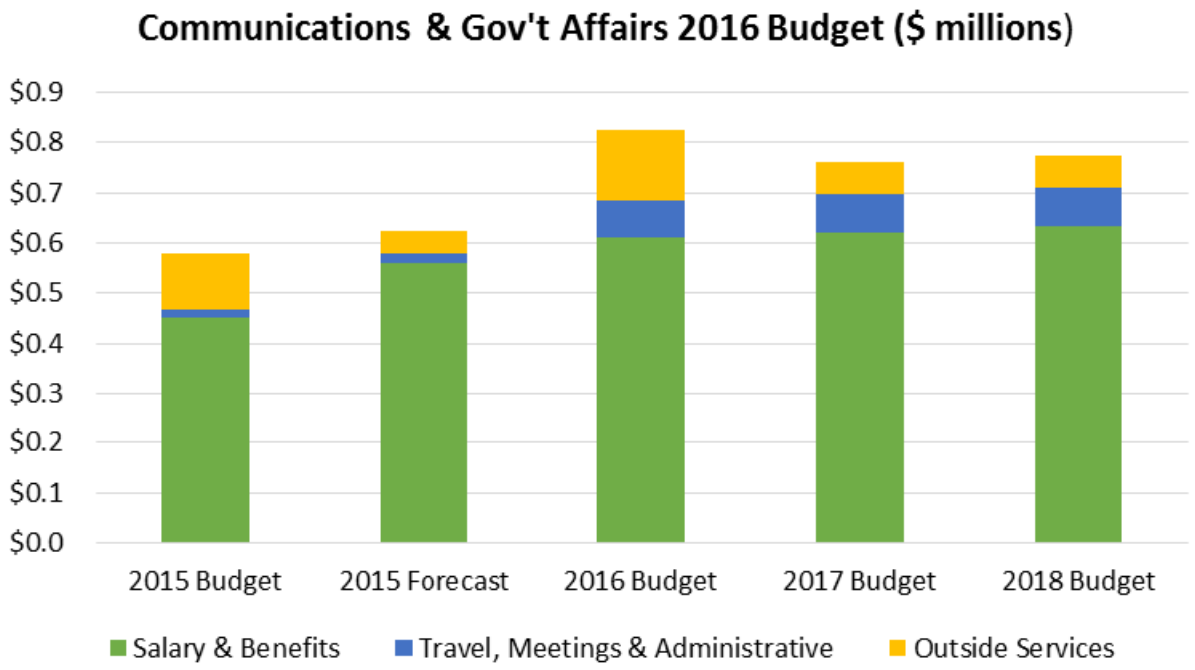
- The **Corporate Communications** department is responsible for directing the internal and external communications for SPP. The department develops and implements strategic communications plans to educate the public on SPP's mission and drive engagement among employees. The department also creates and 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 & Government Affairs Expenses ($ millions)

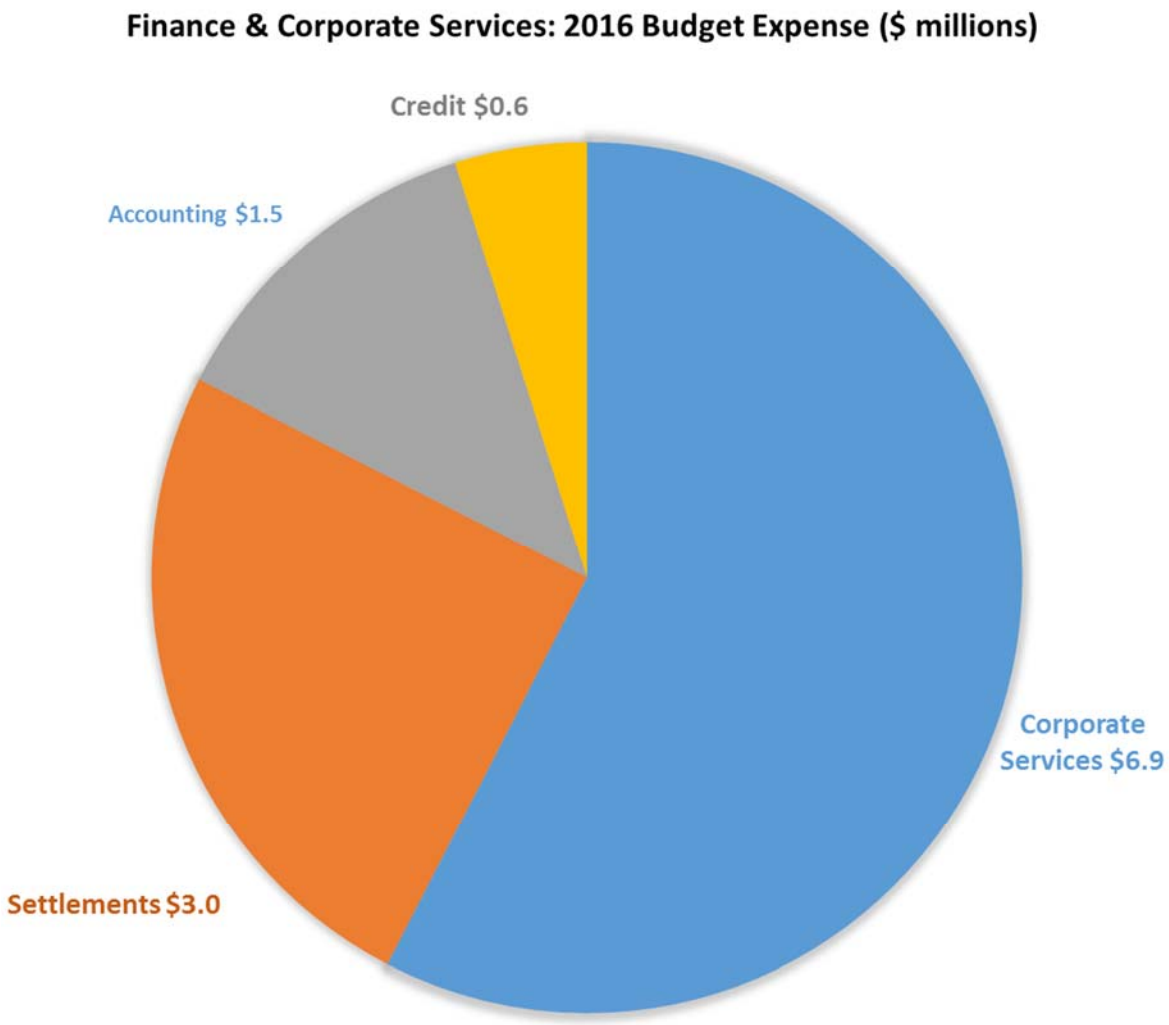
Expense	2015 Budget	2015 Forecast	2016 Budget	2017 Budget	2018 Budget
Salary & Benefits	$0.5	$0.6	$0.6	$0.6	$0.6
Travel, Meetings & Administrative	0.0	0.0	0.1	0.1	0.1
Outside Services	0.1	0.0	0.1	0.1	0.1
Total Expense	**$0.6**	**$0.6**	**$0.8**	**$0.8**	**$0.8**
Headcount	4	5	5	5	5

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

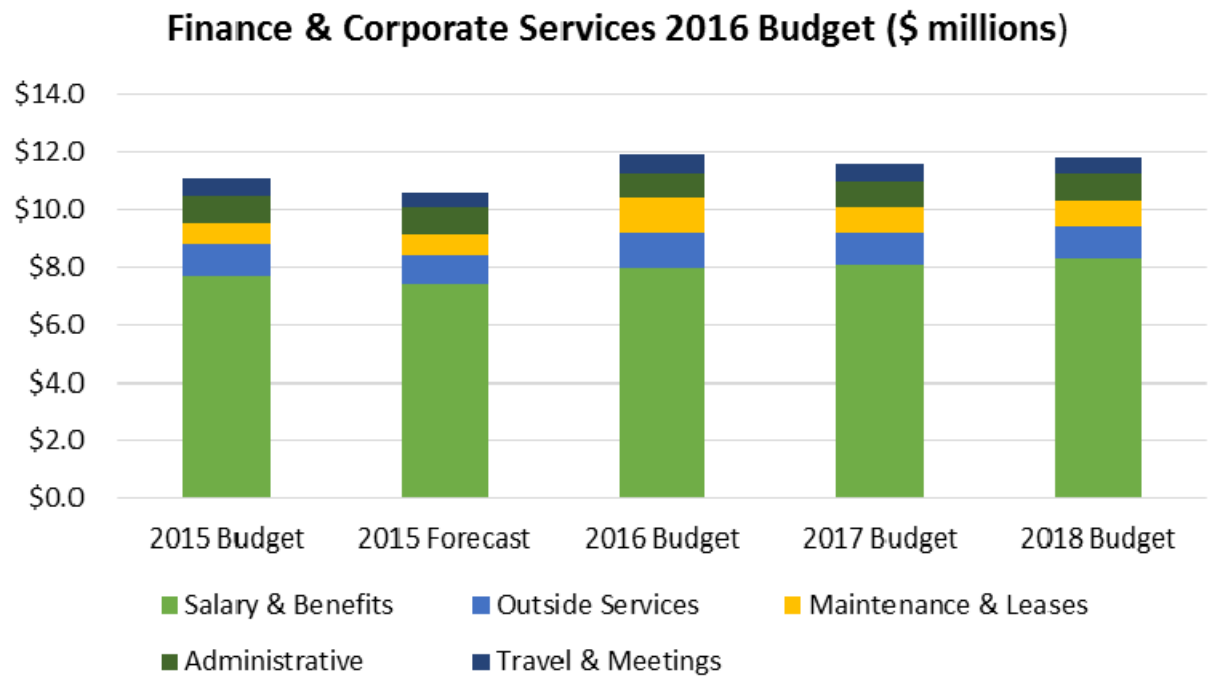
Expense	2015 Budget	2015 Forecast	2016 Budget	2017 Budget	2018 Budget
Corporate Services	$6.3	$5.8	$6.9	$6.4	$6.5
Settlements	2.9	2.8	3.0	3.0	3.1
Accounting	1.3	1.4	1.5	1.5	1.6
Credit	0.6	0.6	0.6	0.6	0.6
Finance & Corporate Services	**$11.1**	**$10.6**	**$11.9**	**$11.6**	**$11.8**
Headcount	67	67	67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

	2015 Budget	2015 Forecast	2016 Budget	2016 Prior*
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
Tariff Cap on Admin Fee	*$0.390*	*$0.390*	*$0.390*	*$0.390*
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
Tariff Cap on Admin Fee	*$0.390*	*$0.390*	*$0.390*
Capital Expense	$22.2	$29.7	$21.0
Headcount	599	598	599

BALANCE SHEET *($ MILLIONS)*

	12/31/2015	12/31/2016
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)*

	2016	2017	2018
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	**29.1**	**22.6**	**22.1**
Investing activities			
Acquisition of property and equipment	(22.2)	(29.7)	(21.0)
Net cash used in investing activities	**(22.2)**	**(29.7)**	**(21.0)**
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	**3.8**	**1.8**	**(4.6)**
Increase/(Decrease) in Cash and Cash Equivalents	10.7	(5.3)	(3.5)
Cash and Cash Equivalents, Beginning of Year *	**2.6**	**13.3**	**8.0**
Cash and Cash Equivalents, End of Year *	**$13.3**	**$8.0**	**$4.5**

* 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)*

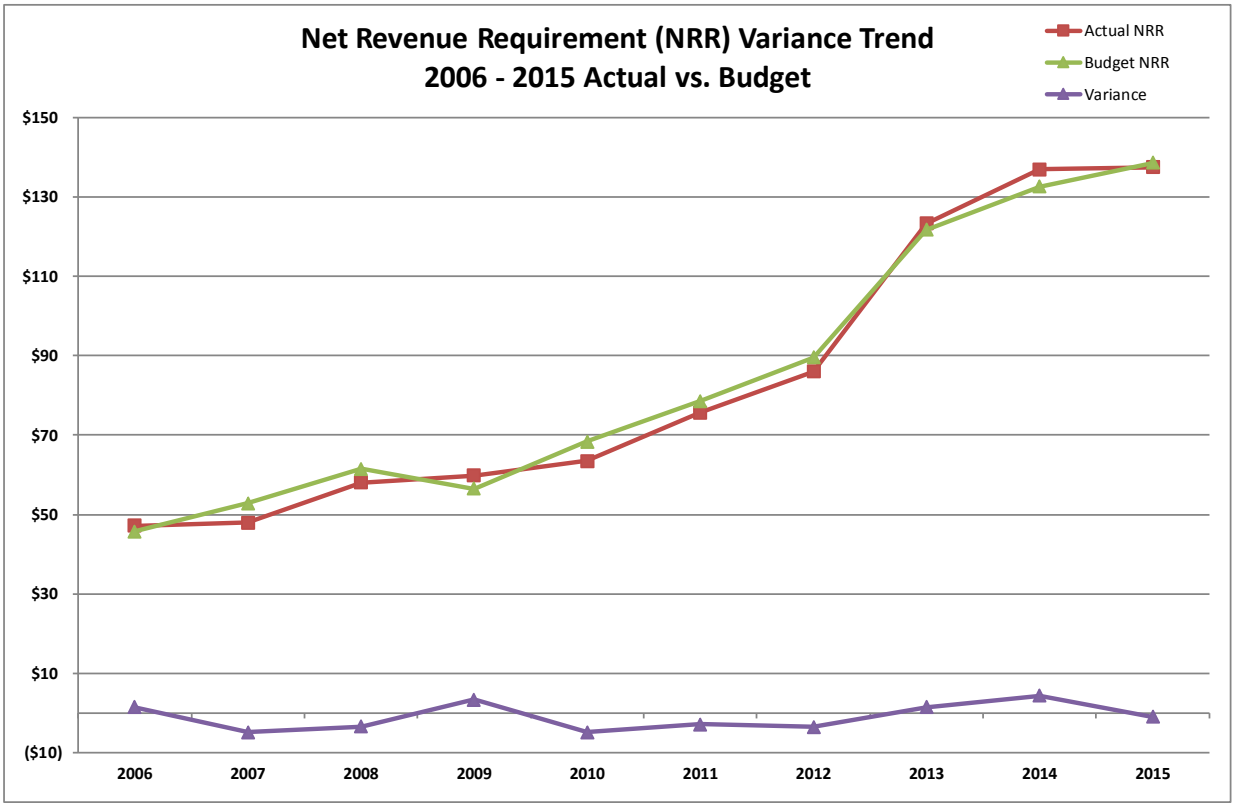
Fees & Assessments, Revenue and Expense	2015 Forecast	2015 Budget	Variance Fav/(Unfav)	Note
SPP Regional Entity Revenue	$9.9	$11.7	($1.8)	(a)
FERC Fee Assessments (Sch.12)	17.0	15.5	1.6	(b)
Annual member assessments	0.6	0.5	0.1	
Fees & Assessments Revenue	**$27.5**	**$27.6**	**($0.1)**	
Fees & Assessments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

	2012	2013	2014	2015	2016	2017	2018
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
Actual NRR	*$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
Actual Billing Units	*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
Actual Admin Fee	*$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

SPP Southwest Power Pool

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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 CO_2 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 date 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 broach 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	Strategic Plan Linkage
Wind Study – refresh of 6 year old wind integration study	• Reliability Assurance • Optimize Interdependent Systems
Enhance operator tools – improve the types of information utilized by the operations staff in monitoring system stability and status	• Reliability Assurance
Market to Market – Dedicated effort to address seam and congestion issues highlighted since start of Market to Market process	• Optimize Interdependent Systems
Gas Coordination – participate in advancing solution to extend a gas pipeline as an alternative to construction of new generation to eliminate electric system contingency	• Optimize Interdependent Systems
Internal Model Coordination – establish process to coordinate between real time operations and long-term planning.	• 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	Strategic Plan Linkage
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.	• Reliability Assurance
Integrated System Support – addition of the IS will increase the volume of generation interconnection and transmission	• Reliability Assurance • Maintain Economical,

service requests as well as the scope of the ITP studies.	Optimized Transmission System
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.	• Reliability Assurance • Enhance Member Value
Clean Power Plan Assessments – continued support for utilities and regulators to inform, guide, and facilitate implementation of the CPP.	• Optimize Interdependent Systems • Reliability Assurance • Maintain Economical, Optimized Transmission System • Enhance Member Value
Transmission Planning Improvements – includes more efficient structure to studies, enhanced processes to determine assumptions, improvements to data validation and collection	• Enhance Member Value • Maintain Economical, Optimized Transmission System
Z2 Crediting Support – new process to ensure accurate inputs into the crediting system, and validation efforts on the outputs from the 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

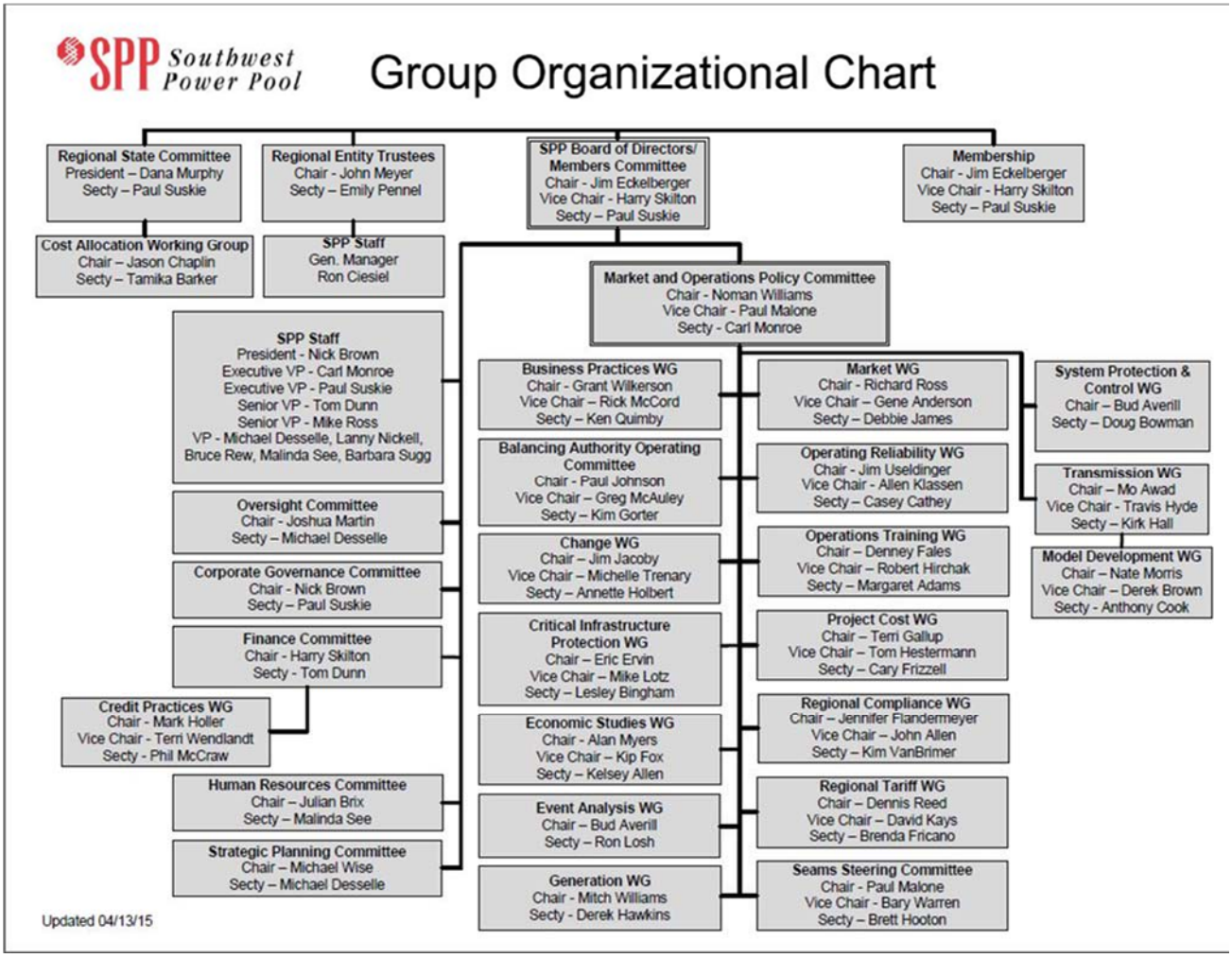
Process Integrity

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

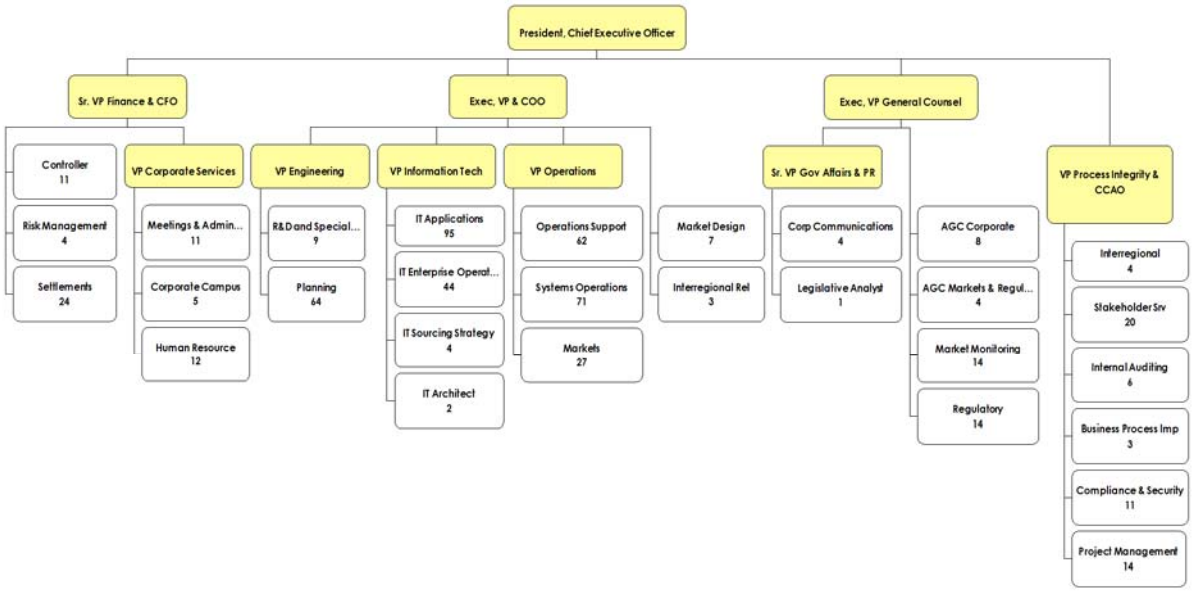
Primary responsibilities within the Process Integrity group include audit, compliance, external member training and customer service, project management, and interregional activities. Departments within this group work closely with the SPP Oversight Committee.

2016 Priorities	Strategic Plan Linkage
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	• Reliability Assurance
Stakeholder Project Prioritization – Mature a process to engage stakeholders in prioritizing the project work SPP undertakes	• Enhance Member Value
Distributed Process Improvement – Move from a centralized process to a distributed process empowering more staff to engage in process improvement development and implementation	• Enhance Member Value

Appendix A


SPP Southwest Power Pool
Group Organizational Chart
Regional State Committee
President – Dana Murphy
Secty – Paul Suskie
Regional Entity Trustees
Chair - John Meyer
Secty – Emily Pennel
SPP Board of Directors/ Members Committee
Chair - Jim Eckelberger
Vice Chair - Harry Skilton
Secty – Paul Suskie
Membership
Chair - Jim Eckelberger
Vice Chair - Harry Skilton
Secty – Paul Suskie
Cost Allocation Working Group
Chair – Jason Chaplin
Secty – Tamika Barker
SPP Staff
Gen. Manager
Ron Ciesiel
Market and Operations Policy Committee
Chair - Noman Williams
Vice Chair - Paul Malone
Secty - Carl Monroe
SPP Staff
President - Nick Brown
Executive VP - Carl Monroe
Executive VP - Paul Suskie
Senior VP - Tom Dunn
Senior VP - Mike Ross
VP - Michael Desselle, Lanny Nickell, Bruce Rew, Malinda See, Barbara Sugg
Business Practices WG
Chair - Grant Wilkerson
Vice Chair – Rick McCord
Secty – Ken Quimby
Market WG
Chair - Richard Ross
Vice Chair – Gene Anderson
Secty – Debbie James
System Protection & Control WG
Chair – Bud Averill
Secty – Doug Bowman
Balancing Authority Operating Committee
Chair - Paul Johnson
Vice Chair – Greg McAuley
Secty – Kim Gorter
Operating Reliability WG
Chair - Jim Useldinger
Vice Chair - Allen Klassen
Secty – Casey Cathey
Transmission WG
Chair – Mo Awad
Vice Chair - Travis Hyde
Secty – Kirk Hall
Oversight Committee
Chair - Joshua Martin
Secty – Michael Desselle
Change WG
Chair – Jim Jacoby
Vice Chair – Michelle Trenary
Secty – Annette Holbert
Operations Training WG
Chair – Denney Fales
Vice Chair – Robert Hirchak
Secty – Margaret Adams
Model Development WG
Chair – Nate Morris
Vice Chair – Derek Brown
Secty - Anthony Cook
Corporate Governance Committee
Chair - Nick Brown
Secty – Paul Suskie
Critical Infrastructure Protection WG
Chair – Eric Ervin
Vice Chair – Mike Lotz
Secty – Lesley Bingham
Project Cost WG
Chair – Terri Gallup
Vice Chair – Tom Hestermann
Secty – Cary Frizzell
Finance Committee
Chair - Harry Skilton
Secty - Tom Dunn
Credit Practices WG
Chair - Mark Holler
Vice Chair - Terri Wendlandt
Secty - Phil McCraw
Economic Studies WG
Chair - Alan Myers
Vice Chair – Kip Fox
Secty – Kelsey Allen
Regional Compliance WG
Chair – Jennifer Flandermeyer
Vice Chair – John Allen
Secty – Kim VanBrimer
Human Resources Committee
Chair – Julian Brix
Secty – Malinda See
Event Analysis WG
Chair – Bud Averill
Secty – Ron Losh
Regional Tariff WG
Chair – Dennis Reed
Vice Chair – David Kays
Secty – Brenda Fricano
Strategic Planning Committee
Chair – Michael Wise
Secty – Michael Desselle
Generation WG
Chair - Mitch Williams
Secty - Derek Hawkins
Seams Steering Committee
Chair - Paul Malone
Vice Chair - Bary Warren
Secty – Brett Hooton
Updated 04/13/15

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



Appendix B

Project	Capital Investment 2016	Capital Investment Total	Operating Expense	Total Investment	Project Source	Owner	Strategic Plan Linkage
			APPROVED				
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		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			
			DEFERRED/DELAYED				
Transmission Settlement Upgrade	-	4.9	-	4.9	Staff	Staff	
Local Reliability Assessment	-	0.5	-	0.5	Staff	Staff	
			REJECTED				
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	