



**Southwest Power Pool  
FINANCE COMMITTEE MEETING**

**April 29, 2019**

**Tulsa, OK**

**• M I N U T E S •**

**Administrative Items**

Chair Bruce Scherr called the meeting to order at 8:00 a.m., a quorum was present. The following individuals participated in the meeting.

Bruce Scherr	SPP Director
Susan Certoma	SPP Director
Jerry Peace	Oklahoma Gas & Electric
Laura Kapustka	Lincoln Electric
Mike Wise	Golden Spread Electric Cooperative
Sandra Bennett	American Electric Power
Tom Dunn	SPP
Others attending included:	
Denise Buffington	Evergy
Jim Jacoby	American Electric Power
Richard Ross	American Electric Power
Dennis Reed	Midwest Regulatory Consulting, LLC
John Olson (phone)	Evergy
Harry Skilton	SPP Director
Luke Haner	OPPD
Robert Pick	NPPD
Heather Starnes (phone)	MO Joint Municipal Electric Utility Comm
Jason Fortik	Lincoln Electric
Sarah Stafford	Oklahoma Gas & Electric
Ray Bergmeier	Sunflower Electric
Eddie Holt (phone)	KPMG
Chad Moore	BKD
Dianne Branch	SPP
Carl Monroe	SPP
Lanny Nickell	SPP
Scott Smith	SPP
Lauren Krigbaum	SPP
Walt Cecil	Missouri Public Service Commission
Adam McKinnie	Missouri Public Service Commission
Brandy Wreath	Oklahoma Corporation Commission

Minutes from the January 28, 2019 meeting were reviewed. Jerry Peace motioned to approve the minutes. The motion was seconded by Laura Kapustka and approved by unanimous voice vote.

**Audits**

The committee received the following information specific to activities of its external auditors:

1. KPMG – Eddie Holt, audit partner at KPMG, discussed recent findings within KPMG identifying unethical behavior on the part of former partners. Mr. Holt advised the committee of the actions taken by KPMG once the behavior was uncovered.
2. BKD – Chad Moore, audit partner at BKD, advised the committee on the results of the 2018 audit of SPP's financial reports and the status of issuance of the auditor opinion letter.
3. The committee received a recommendation from SPP staff to engage its three external auditors for an additional year and thereafter issue a request for proposal for audit services.

Finance Committee  
April 29, 2019

Jerry Peace made the following motion: **Engage KPMG to perform the 2020 controls audit, BKD to perform the 2019 financial audit, and Landmark to perform the 2019 benefit plan audit.** The motion was seconded by Laura Kapustka and approved by unanimous voice vote.

### **2019 Benefit Plan Funding**

The committee received a recommendation from SPP staff to contribute \$5.44 million to the SPP Retirement Plan in 2019 and to contribute \$0 to the SPP Post-retirement Healthcare Plan in 2019.

Susan Certoma made the following motion: **Approve 2019 funding of the SPP Retirement Plan of \$5.44 million. Approve 2019 funding of the SPP Post-retirement Healthcare Plan of \$0.** The motion was seconded by Jerry Peace and approved by unanimous voice vote.

### **Schedule 1A Task Force**

The committee received a recommendation from SPP staff to eliminate the broad rate cap approved by the Schedule 1A Task Force on February 21, 2019 as part of the proposed revisions to SPP's cost recovery processes.

Jerry Peace made the following motion: **Retain the broad rate cap approved by the Schedule 1A Task Force until it is replaced; analyze and evaluate enhanced internal budget control improvements at SPP.** The motion was seconded by Sandra Bennett and approved by unanimous voice vote.

### **Reports**

The committee received reports on the following items with no actions being undertaken:

1. Settlement system replacement project
2. Security requirements for sponsored transmission upgrades
3. Lessons learned from default in PJM congestion rights market
4. SPP internal signature authorities

### **Executive Session**

The committee convened an executive session to meet with Chad Moore of BKD regarding the 2018 financial audit. The committee convened a second executive session after the general session to discuss a legal matter.

### **Future Meetings**

The Finance Committee will next meet on Monday July 15, 2019 in Des Moines, IA beginning at 10:00 a.m. and ending at 3:30 p.m.

There being no further business, Bruce Scherr adjourned the meeting at 11:43 a.m..

Respectfully Submitted,

Thomas P. Dunn  
Secretary



**Southwest Power Pool, Inc.**  
**FINANCE COMMITTEE MEETING**  
**April 29, 2019**  
**DoubleTree Warren Place – Tulsa, OK**

**• A G E N D A •**

**8:00 a.m. – 11:30 a.m.**

- 1. Administrative Items (10 minutes)..... Bruce Scherr
- 2. Audits (60 minutes) **\*\*ACTION\*\*** .....
  - a. External Auditor Oversight – KPMG Compliance Issues..... Eddie Holt, KPMG
  - b. Report, Opinion, Mgmt. Letter, Exec. Session..... Chad Moore, BKD/Dianne Branch
  - c. Auditor Engagements for 2019 ..... All
- 3. 2019 Benefit Plan Funding (15 minutes) **\*\*ACTION\*\*** ..... Tom Dunn
- 4. Schedule 1A Task Force (20 minutes) **\*\*ACTION\*\*** ..... Tom Dunn
- 5. Credit Practices Working Group (60 minutes)..... Scott Smith
  - a. Security requirements for sponsored transmission upgrades
  - b. SPP credit practices assessment vs PJM's GreenHat default report
- 6. Settlements System Replacement Project (15 minutes)..... Tom Dunn
- 7. SPP Signature Authority Levels – No Changes (10 minutes) ..... Tom Dunn
- 8. EXECUTIVE SESSION**
- 9. Written Reports.....
  - a. 1Q'19 Financials
- 10. Future Meetings.....

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



**Southwest Power Pool  
FINANCE COMMITTEE MEETING**

**January 28, 2019**

**New Orleans, LA**

**• M I N U T E S •**

**Administrative Items**

Chair Bruce Scherr called the meeting to order at 8:00 a.m. The following individuals participated in the meeting.

Bruce Scherr	SPP Director
Susan Certoma	SPP Director
Jerry Peace	Oklahoma Gas & Electric
Laura Kapustka (phone)	Lincoln Electric
Mike Wise	Golden Spread Electric Cooperative
Sandra Bennett (phone)	American Electric Power
Tom Dunn	SPP
Others attending included:	
Denise Buffington	Evergy
Jim Jacoby	American Electric Power
Richard Ross	American Electric Power
Dennis Reed	Midwest Regulatory Consulting, LLC
Rob Janssen	Dogwood Energy, LLC
John Olson	Evergy
Darren Ives	Evergy
Patrick Cleary	FERC
Traci Bender (phone)	NPPD
Heather Starnes (phone)	MO Joint Municipal Electric Utility Comm
Stan Payne (phone)	Stephens
Jim Goss (phone)	Stephens
Kevin McBride (phone)	Stephens
Matt Jones (phone)	Stephens
Nick Brown	SPP
Carl Monroe	SPP
Lanny Nickell	SPP
Scott Smith	SPP

Minutes from the October 30, 2018 meeting were reviewed. Jerry Peace motioned to approve the minutes. The motion was seconded by Mike Wise and approved by unanimous voice vote.

**Corporate Liability Insurance Stewardship Report**

Representatives from Stephens Insurance, LLC provided an overview of the property & casualty, professional liability and director and officer insurance markets. In general, they expect renewal premiums across most lines to increase from 1%-3% with potential 8% increase expected in D&O lines.

**Administrative Fee Recovery**

John Olsen, chair of the SPP 1A Task Force, presented a new rate recovery structure being proposed by the 1A Task Force and provided examples of how the new structure would impact various types of customers. The 1A Task Force recommended a rate recovery structure using four rate schedules (1 based on transmission usage, 1 based on TCR usage, 2 based on energy market volumes). Mike Wise made a motion to accept the recommendation of the 1A Task Force. The motion was seconded by Laura Kapustka and approved by a voice vote of 5 in favor and 1 abstention. Jerry Peace, OG&E, abstained because the proposed structure, while an improvement over the current recovery structure, had room for improvement to better align the rates with the beneficiaries and users of the services.

### **2018 Financial Report**

SPP staff reported on the unaudited financial results for the 2018 fiscal year. Key highlights include: i) projected over-recovery of \$12.8 million, ii) net income of \$15 million, iii) outstanding debt down \$23 million since 2017, iv) deficit equity position of (\$142 million). Staff also discussed issues SPP is experiencing in its project to replace its settlements system which moved to a “red” health indicator earlier in January.

### **Actuary Assumption Review**

SPP staff discussed its recommendations for the four primary assumptions required for pension accounting and valuation: i) discount rate – staff recommended a discount rate of 5.00% in accordance with SPP’s process for determining the discount rate assumption; ii) investment rate of return – staff recommends remaining at 7.00% long-term rate of return; iii) rate of compensation change – staff recommends remaining at 4.00% iv) staff recommended utilizing the current IRS mortality tables in accordance with Finance Committee directives from December 2015.

Jerry Peace made a motion to accept the assumptions presented by staff. The motion was seconded by Sandra Bennett and approved by unanimous voice vote.

### **Line of Credit Renewal**

SPP staff presented a recommendation to extend the maturity of SPP’s \$30 million revolving line of credit facility from October 2019 to October 2021. All other terms and conditions of the facility would remain unchanged.

Mike Wise made a motion to approve the extension of the maturity date to October 2020. The motion was seconded by Susan Certoma and approved by unanimous voice vote.

### **Market Default in PJM**

SPP staff presented some publicly available information regarding the Greenhat Energy, LLC default experienced in the PJM Interconnection market. The presentation highlighted some differences between the PJM and SPP markets which today indicate a lower probability of that magnitude of default occurring in the SPP market.

### **Financial Policy**

The Committee engaged in an open discussion on several aspects of SPP’s financial policy and expenditures.

### **Future Meetings**

The next meeting of the Finance Committee is scheduled for Monday April 29, 2019 in Tulsa, OK beginning at 8:00 a.m. and ending at 11:30 a.m.

There being no further business, Bruce Scherr adjourned the meeting at 11:50 a.m..

Respectfully Submitted,

Thomas P. Dunn  
Secretary



**Southwest Power Pool, Inc.**  
**FINANCE COMMITTEE**  
**Recommendation to the Board of Directors**  
**April 30, 2019**  
**2018 Financial Audit Acceptance**

**Organizational Roster**

The following persons are members of the Finance Committee:

Bruce Scherr	SPP Director
Susan Certoma	SPP Director
Jerry Peace	OG&E
Laura Kapustka	Lincoln Electric
Sandra Bennett	AEP
Mike Wise	Golden Spread

**Background**

SPP annually engages a Certified Public Accounting firm to audit its financial statements and accounting controls. SPP has engaged BKD, LLC to perform audits of its financial reports since fiscal year 2004. SPP last performed a request for proposal for the financial audit engagement in July 2013.

**Analysis**

BKD, LLC has completed and published its audit of SPP's 2018 financial statements. The Finance Committee, at its April 29, 2019 meeting met with representatives of BKD, LLC and discussed their findings, specifically focusing on: 1) adequacy of SPP's accounting policies and procedures, 2) adequacy of internal control procedures and the extent tested, and 3) any areas of weakness or concern that SPP should address going forward.

BKD's opinion will be unqualified. No issues or material/significant weaknesses were noted during the audit. BKD informed the Committee of upcoming changes in accounting standards.

**Recommendation**

The Finance Committee recommends the SPP Board of Directors accept in its entirety the 2018 audit report and findings of BKD, LLC.

**Approved:** SPP Finance Committee

**Action Requested:** Approve Recommendation

Finance Committee and Board of Directors  
Southwest Power Pool, Inc.  
Little Rock, Arkansas

As part of our audit of the financial statements of Southwest Power Pool, Inc. (the Company) as of and for the year ended December 31, 2018, we wish to communicate the following to you.

## **AUDIT SCOPE AND RESULTS**

### **Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America**

An audit performed in accordance with auditing standards generally accepted in the United States of America is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the financial statements does not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

### **Qualitative Aspects of Significant Accounting Policies and Practices**

#### **Significant Accounting Policies**

The Company's significant accounting policies are described in *Note* 1 of the audited financial statements.

#### **Alternative Accounting Treatments**

No matters are reportable.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

- Pension and postretirement health benefits liabilities
- Recoverability of property and equipment (depreciation)
- Interest rate swaps

Financial Statement Disclosures

The following areas involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- Pension and other postretirement benefit plans
- Fair value
- Commitments and contingencies

**Audit Adjustments**

No matters are reportable.

**Auditor's Judgments About the Quality of the Entity's Accounting Principles**

No matters are reportable.

**Significant Issues Discussed with Management**

Prior to Retention

No matters are reportable.

During the Audit Process

No matters are reportable.



### **Other Material Communications**

Listed below is another material communication between management and us related to the audit:

- Management representation letter (attached)

### **FUTURE ACCOUNTING PRONOUNCEMENTS**

Over the course of the next few years, Southwest Power Pool will be required to implement several new accounting standards that could have a significant impact on the audited financial statements, both in presentation as well as measurement and disclosure. We have previously mentioned these new standards, but wanted to provide a recap of the implementation dates and the most significant elements of each of the upcoming Accounting Standards Updates (ASU).

#### **FASB Issues New Lease Accounting Standard**

On February 25, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, the long-awaited new standard on lease accounting.

Under the new ASU, lessees will recognize lease assets and liabilities on their balance sheet for all leases with terms of more than 12 months. The new lessee accounting model retains two types of leases and is consistent with the lessee accounting model under existing GAAP. One type of lease (finance leases) will be accounted for in substantially the same manner as capital leases are accounted for today.

The other type of lease (operating leases) will be accounted for (both in the income statement and statement of cash flows) in a manner consistent with today's operating leases. Lessor accounting under the new standard is fundamentally consistent with existing GAAP.

Lessees and lessors would be required to provide additional qualitative and quantitative disclosures to help financial statement users assess the amount, timing, and uncertainty of cash flows arising from leases. These disclosures are intended to supplement the amounts recorded in the financial statements so that users can understand more about the nature of an organization's leasing activities.

For public business entities, the final leases standard will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. For all other entities, the final leases standard will be effective for fiscal years beginning after December 15, 2019, and interim periods thereafter. Early application is permitted.

### **FASB Issues New Revenue Recognition Standard**

The model for revenue recognition is changing with FASB's release on May 28, 2014, of ASU 2014-09, *Revenue from Contracts with Customers* (the ASU). Since 2008, FASB and the International Accounting Standards Board (IASB) have been working jointly on developing a single principles-based model for recognizing revenue. The goal of the final standard is to improve consistency of requirements, comparability of revenue recognition practices and usefulness of disclosures. The ASU applies to all contracts with customers, other than those within the scope of other standards, such as leases, insurance, financing arrangements, financial instruments and guarantees (other than product or service warranties). The ASU does not apply to other parties to a contract who are not customers.

The core principle of the new model is that an entity would recognize revenue as it transfers goods or services to customers in an amount that reflects the consideration it expects to receive. In order to achieve that core principle, an entity would apply a five-step model.

The five-step application is as follows:

- Step 1: Identify the contract with a customer
- Step 2: Identify the separate performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the separate performance obligations in the contract
- Step 5: Recognize revenue when (or as) performance obligations are satisfied

The table below outlines the significant changes to expect from the new revenue recognition standard.

<b>Under the Current Guidance</b>	<b>Under the New Guidance</b>
There are several requirements for recognizing revenue, including many that are industry specific.	There will be consistent principles, regardless of industry, for recognizing revenue.
Most companies provide little disclosure information about revenue contracts; disclosures usually relate to accounting policies and segment reporting.	There is now a cohesive set of disclosure requirements. These disclosures will provide users of the financial statements with quantitative and qualitative information regarding revenue recognition policies and how they are applied.

Under the Current Guidance	Under the New Guidance
Some goods or services promised to a customer in a contract might represent separate obligations to the customer but could be determined to not be distinct revenue generating transactions.	Organizations will need to go through the five-step process outlined above.
In a multiple deliverable arrangement, the amount of consideration allocated to a delivered item is limited to the amount that is not contingent on the future delivery of goods or services.	Organizations will determine the transaction price. The transaction price will then be allocated to each performance obligation, except when a discount or some sort of variable consideration can be attributed entirely to one or more performance obligations in the contract.
Accounting for variable consideration varies from industry to industry.	Variable consideration will be included in the transaction price as long as it is deemed probable that a significant reversal of revenue will not occur. The new model includes consideration for various types of variable consideration, such as rebates, discounts bonuses or a right of return.

Entities can apply the new standard using either the full retrospective method—including the optional application of certain practical expedients—or use an alternative transition method. The alternative transition method requires an entity to apply the new guidance only to contracts in process under legacy U.S. generally accepted accounting principles (GAAP) at the date of initial application and recognize the cumulative effect of adoption as an adjustment to the opening balance of retained earnings in the year of initial application.

An entity choosing to apply the alternative transition method would not restate comparative years, but it would be required to provide additional disclosures in the initial year of adoption.

The standard will be effective for annual reporting periods beginning on or after December 15, 2018, and interim and annual reporting periods thereafter.

**FASB Releases New Statement of Cash Flows Standard**

Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* clarifies the presentation and disclosure requirements of restricted cash. The ASU requires entities to include restricted cash and restricted cash equivalents with cash and cash equivalents when reconciling beginning-of-period and end-of-period total cash in the statement of cash flows. The amendments apply to all entities with restricted cash or restricted cash equivalents and are required to present a statement of cash flows under Topic 230, including not-for-profit (NFP) entities. The ASU requires disclosure of information about the nature of restrictions on cash, cash equivalents and restricted cash balances. The ASU is effective for public business entities for fiscal years beginning after December 15, 2017 and interim periods therein and for all other entities the amendments are effective for fiscal years beginning after December 15, 2018 and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted which includes adoption in an interim period.

This communication is intended solely for the information and use of management, the finance committee and the board of directors and is not intended to be and should not be used by anyone other than these specified parties.

(Date of Auditor's Report)

Enclosure

# **Southwest Power Pool, Inc.**

Independent Auditor's Report and Financial Statements

December 31, 2018 and 2017

Draft 04/22/2019

**Southwest Power Pool, Inc.**  
December 31, 2018 and 2017

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Draft 04/22/2019

**Southwest Power Pool, Inc.**  
**Balance Sheets (in Thousands)**  
**December 31, 2018 and 2017**

**Assets**

	<b>2018</b>	<b>2017</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 93,593	\$ 100,496
Restricted cash deposits	344,904	340,612
Accounts receivable, net	65,542	74,391
Prepaid expenses and other	12,456	8,539
Total current assets	516,495	524,038
 <b>Property and Equipment, at Cost</b>		
Land	4,812	4,812
Building and improvements	67,811	67,650
Furniture and fixtures	10,352	10,380
Equipment and machinery	48,608	52,007
Software	181,065	177,480
Software in development	6,573	2,844
Equipment under capital lease	4,876	4,876
	324,097	320,049
Less accumulated depreciation and amortization	246,606	240,275
	77,491	79,774
<b>Investments (Note 2)</b>	25,239	24,456
<b>Other Assets, Net</b>	6,842	5,499
	\$ 626,067	\$ 633,767

## Liabilities and Members' Deficit

	<b>2018</b>	<b>2017</b>
<b>Current Liabilities</b>		
Line of credit	\$ 340	\$ -
Accounts payable	77,645	75,844
Customer deposits	344,904	340,612
Current maturities of long-term debt ( <i>Note 4</i> )	22,281	21,469
Current maturities of obligations under capital lease ( <i>Note 5</i> )	1,966	1,890
Accrued expenses	97,246	98,801
Deferred revenue	187	3,928
	<hr/>	<hr/>
Total current liabilities	544,569	542,544
	<hr/>	<hr/>
<b>Long-term Debt (<i>Note 4</i>)</b>	192,199	214,479
Less unamortized debt issuance costs	(708)	(803)
	<hr/>	<hr/>
	191,491	213,676
	<hr/>	<hr/>
<b>Obligation Under Capital Lease (<i>Note 5</i>)</b>	-	1,966
	<hr/>	<hr/>
<b>Other Long-term Liabilities</b>	40,101	32,302
	<hr/>	<hr/>
<b>Members' Deficit</b>	(150,094)	(156,721)
	<hr/>	<hr/>
	\$ 626,067	\$ 633,767
	<hr/>	<hr/>



**Southwest Power Pool, Inc.**  
**Statements of Income (in Thousands)**  
**Years Ended December 31, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Operating Income</b>		
Tariff fees and member assessments	\$ 192,451	\$ 190,343
Other member services	7,062	6,278
	199,513	196,621
<b>Operating Expenses</b>		
Salaries and benefits	96,616	94,650
Employee travel	1,895	2,023
Administrative	4,602	4,656
Regulatory assessment	21,060	21,663
Meetings	919	1,040
Communications system	3,840	3,504
Maintenance	17,180	16,099
Consulting services	12,370	12,620
Depreciation	18,163	27,716
	176,645	183,971
<b>Operating Income</b>	22,868	12,650
<b>Other Income (Expense)</b>		
Investment income	355	234
Interest expense	(9,268)	(10,164)
Change in fair market value of interest rate swaps	725	789
Other expense	(507)	(1,483)
	(8,695)	(10,624)
<b>Income Before Unrealized Gain (Loss) and Change in Funded Status of Employee Benefit Plans</b>	14,173	2,026
<b>Unrealized Gain (Loss) on Investments</b>	(528)	1,499
<b>Change in Funded Status of Employee Benefit Plans</b>	(7,018)	6,434
<b>Net Income</b>	\$ 6,627	\$ 9,959

**Southwest Power Pool, Inc.**  
**Statements of Members' Deficit (*in Thousands*)**  
**Years Ended December 31, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Balance, Beginning of Year</b>	\$ (156,721)	\$ (166,680)
Net income	6,627	9,959
<b>Balance, End of Year</b>	\$ (150,094)	\$ (156,721)

Draft 04/22/2019

**Southwest Power Pool, Inc.**  
**Statements of Cash Flows (in Thousands)**  
**Years Ended December 31, 2018 and 2017**

	2018	2017
<b>Operating Activities</b>		
Net income	\$ 6,627	\$ 9,959
Items not requiring cash		
Depreciation and amortization	18,263	27,813
Change in funded status of employee benefit plans	7,018	(6,434)
Unrealized loss (gain) on investments	528	(1,499)
Loss on disposal of fixed assets	-	6
Change in fair market value of interest rate swaps	(725)	(789)
Changes in assets and liabilities		
Accounts receivable, net	8,849	(10,689)
Prepaid expenses and other	(3,917)	752
Other assets	(1,348)	(871)
Accounts payable	1,801	8,917
Accrued expenses	(5,296)	43,293
Other long-term liabilities	1,506	4,479
	33,306	74,937
Net cash provided by operating activities		
<b>Investing Activities</b>		
Acquisition of property and equipment	(15,879)	(14,807)
Purchase of investments	(42,222)	(12,216)
Proceeds from investment maturities	40,808	-
Proceeds from sale of investments	103	94
	(17,190)	(26,929)
Net cash used in investing activities		
<b>Financing Activities</b>		
Repayments of long-term debt	(21,469)	(21,409)
Repayments of capital lease obligation	(1,890)	(1,818)
Repayment of borrowings under lines of credit	(13,600)	-
Borrowings under lines of credit	13,940	-
	(23,019)	(23,227)
Net cash used in financing activities		
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	(6,903)	24,781
<b>Cash and Cash Equivalents, Beginning of Year</b>	100,496	75,715
<b>Cash and Cash Equivalents, End of Year</b>	\$ 93,593	\$ 100,496
<b>Supplemental Cash Flows Information</b>		
Interest paid on long-term debt (net of interest capitalized of \$122 and \$63 in 2018 and 2017, respectively)	\$ 9,180	\$ 10,074
Property and equipment purchases in accounts payable and accrued liabilities	\$ 2,912	\$ 3,149

**Southwest Power Pool, Inc.**  
**Notes to Financial Statements (*in Thousands*)**  
**December 31, 2018 and 2017**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies**

***Nature of Operations***

Southwest Power Pool, Inc. (the Company) is a not-for-profit entity formed in 1941 and incorporated in 1994. The Company is a Federal Energy Regulatory Commission (FERC)-approved regional transmission organization (RTO) serving more than 18 million ultimate customers across all or parts of 14 states. The Company's membership consists of investor-owned utilities, municipal systems, generation and transmission cooperatives, state authorities, federal agencies, independent power producers, contract participants, power marketers and independent transmission companies.

Major services provided by the Company to its members and customers include tariff administration, reliability coordination, regional scheduling, market operations and regional transmission expansion planning. Market operations encompass day-ahead and real-time markets, transmission congestion rights, reliability unit commitment, operating reserve market and consolidated balancing authority.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Cash and Cash Equivalents and Deposits***

The Company considers all highly liquid interest-earning investments with stated maturities and coupon rate reset dates of no more than three months to be cash equivalents. At December 31, 2018 and 2017, the Company's cash and cash equivalents, including restricted deposits, are invested primarily in money market funds, mutual funds and repurchase agreements. These investments are typically revalued to the market each day and, in the case of repurchase agreements, are collateralized by U.S. government and federal agency securities. The Company's cash and cash equivalents consist primarily of funds accumulated for general operating purposes. Restricted cash deposits consist primarily of customer security deposits, amounts deposited for engineering studies and funds set aside for disputed invoices.

***Investments***

The Company's investments include equity and fixed income mutual funds and government securities. These investments are recorded at fair value, with unrealized gains and losses reported as nonoperating income. Dividends, interest income and realized gains and losses are reported as investment income. The Company's investments are intended to be utilized in funding benefits associated with the Company's postretirement health care plan and 457f deferred compensation plan in addition to maintaining collections under Schedule 12 to be utilized for the annual FERC assessment.

***Income Taxes***

The Company is exempt from income taxes under Section 501c(6) of the Internal Revenue Code and a similar provision of state law. However, the Company is subject to federal income tax on any unrelated business taxable income.

**Southwest Power Pool, Inc.**  
**Notes to Financial Statements (*in Thousands*)**  
**December 31, 2018 and 2017**

***Accounts Receivable***

Accounts receivable are stated at the amount billed to members, customers and others plus any accrued and unpaid interest. The Company provides an allowance for doubtful accounts, when necessary, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Accounts that are unpaid after the due date are subject to interest at a rate set by FERC. At December 31, 2018, the Company had recorded \$626 as an allowance for doubtful accounts. No allowance was recorded at December 31, 2017.

***Property and Equipment***

Property and equipment are recorded at cost and depreciated on a straight-line basis over the estimated useful life of each asset. The estimated useful lives are as follows:

Building	20 years
Building improvements	Shorter of useful life or remaining life of building
Furniture and fixtures	5 years
Vehicles	5 years
Equipment and machinery	3 years
Software	3 years

The Company capitalizes interest cost incurred on funds used to construct property, plant and equipment. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. Interest cost capitalized was \$122 and \$63 in 2018 and 2017, respectively.

The Company capitalizes development costs, including interest, for internal use software costs. These costs are included in software in development. Management of the Company is of the opinion that all costs capitalized in association with the software in development are fully recoverable over the anticipated life of the asset.

***Long-Lived Asset Impairment***

The Company evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended December 31, 2018 and 2017

***Revenue Recognition***

Revenues, consisting of member assessments, tariff administrative fees, contract services and miscellaneous revenues are recognized when earned, and expenses are recognized when incurred.

**Southwest Power Pool, Inc.**  
**Notes to Financial Statements (*in Thousands*)**  
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***Customer Deposits***

Customers may be required to make deposits with the Company prior to the performance of transmission services, market transactions and engineering studies. An offsetting liability equal to the deposit balance is recorded in current liabilities. Funds set aside for disputed invoices are also recorded as customer deposits under current liabilities.

***Tariff Fees and Member Assessments***

An administrative charge is applied to all transmission service under the Company's Open Access Transmission Tariff (tariff) to cover the expenses related to its administration. The charge is calculated in accordance with the terms of the Company's tariff. The administrative rate used for the calculation is established by the board of directors.

Members are assessed monthly based on their prior year average 12-month peak demand multiplied by the total hours in a month and by the monthly assessment rate as established by the board of directors.

A member's monthly assessment is offset dollar for dollar for qualifying tariff administrative fees collected from a member in any given assessment period.

The Company collects a membership fee from each member annually. The amount of the membership fee is established by the board of directors of the Company. For 2018 and 2017, all members paid a \$6 membership fee.

The Company also bills transmission customers a charge under Schedule 12 on all energy delivered under point-to-point transmission service and network integration transmission service. This provides a mechanism for recovering the annual charges the Company pays to FERC.

***Deferred Revenue***

Revenues for contract services received in advance are recognized over the periods to which the revenues relate.

***Other Member Services***

The Company provides reliability, tariff administration and scheduling for non-members on a contract basis. The Company also provides engineering study services for long-term transmission service and generation interconnection requests.

***Withdrawing Members***

Members wishing to withdraw their membership from the Company must provide 24 months' written notice and are responsible for their portion of the Company's existing obligations as defined in the bylaws, which include unpaid membership fees, any assessments imposed prior to the effective withdrawal date, any costs or expenses imposed upon the Company as a direct consequence of the member's withdrawal and the member's share of long-term obligations and related interest. Withdrawing members may also be responsible for all financial obligations incurred and costs allocated to its load for transmission facilities approved prior to their withdrawal. As of December 31, 2018, the Company had not been notified by any member of their intent to withdraw their membership from the Company.

**Southwest Power Pool, Inc.**  
**Notes to Financial Statements (*in Thousands*)**  
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***Concentration of Credit Risk***

The Company is exposed to credit risk primarily through accounts receivable and uninsured cash balances. During 2018 and 2017, the Company maintained cash balances, including transaction accounts and short-term investment accounts that are not insured by the Federal Deposit Insurance Corporation. At December 31, 2018 and 2017, the Company did not have transaction accounts exceeding federal insurance limits. The Company's investment accounts were primarily invested in highly liquid short-term investments such as money market funds, mutual funds and repurchase agreements. The Company also requires the financial institutions holding its cash balances to be rated A or better by nationally recognized rating agencies.

The Company considers its accounts receivable to be highly probable of collection. The Company had recorded an allowance of \$626 at December 31, 2018. No allowance for doubtful accounts was recorded at December 31, 2017.

The Company requires its customers to meet certain minimum standards of financial condition and creditworthiness to receive unsecured credit from the Company. If these standards cannot be met by a customer, the Company requires the posting of defined financial security instruments to cover potential liabilities.

**Note 2: Investment and Investment Returns**

Investments at December 31 consisted of the following:

	<b>2018</b>	<b>2017</b>
<b>Mutual Funds</b>		
Equity	\$ 8,571	\$ 9,359
Fixed income	4,173	3,430
Total mutual funds	<u>12,744</u>	<u>12,789</u>
<b>U.S. Government Securities</b>		
Treasury Notes	12,495	11,667
Total Government Securities	<u>12,495</u>	<u>11,667</u>
	<u>\$ 25,239</u>	<u>\$ 24,456</u>

**Southwest Power Pool, Inc.**  
**Notes to Financial Statements (in Thousands)**  
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Total investment return is comprised of the following:

	<b>2018</b>	<b>2017</b>
Interest and dividends reported at fair value	\$ 355	\$ 234
Net realized and unrealized gains (losses) on investments reported at fair value	(528)	1,499
	\$ (173)	\$ 1,733

Interest, dividends and realized gains and losses are reported as investment income, while unrealized gains and losses are reported separately in the Statements of Income.

**Note 3: Lines of Credit**

The Company has a \$30,000 revolving line of credit expiring in 2019. At December 31, 2018 and 2017, no amounts were borrowed against this line. The agreement has a variable interest rate equal to the London Interbank Offered Rate (LIBOR) plus a 1.25% credit margin. The interest rate at December 31, 2018, was 3.63%. The Company's line of credit requires compliance with certain financial and non-financial covenants as well as periodic reporting requirements. The Company was in compliance with the covenant and reporting requirements throughout and at December 31, 2018.

In September 2018, the Company established a new \$80,000 revolving line of credit expiring in 2023. At December 31, 2018, \$340 was borrowed against this line. The agreement has a variable interest rate equal to London Interbank Offered Rate (LIBOR) plus a 1.5 % credit margin. The interest rate at December 31, 2018, was 4.00%. The Company's line of credit requires compliance with certain financial and non-financial covenants as well as periodic reporting requirements. The Company was in compliance with the covenant and reporting requirements throughout and at December 31, 2018.



**Southwest Power Pool, Inc.**  
**Notes to Financial Statements (in Thousands)**  
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**Note 4: Long-term Debt and Interest Rate Swaps**

*Long-term Debt*

	<u>2018</u>	<u>2017</u>
Variable Rate Term Note due 2027 (A)	\$ 2,725	\$ 2,930
4.82% Series 2010-A and B Senior Notes due 2042 (B)	58,255	59,518
3.55% Series 2010-C Senior Notes due 2024 (C)	36,750	43,750
3.00% Series 2012-D-1 Senior Notes due 2024 (D)	26,250	31,250
3.25% Series 2012-D-2 Senior Notes due 2024 (E)	28,750	33,750
3.80% Series 2014-E Senior Notes due 2025 (F)	37,000	37,000
Floating Series Note - 2024 (G)	24,750	27,750
	<u>214,480</u>	<u>235,948</u>
Less unamortized debt issuance costs	708	803
Less current maturities	<u>22,281</u>	<u>21,469</u>
	<u>\$ 191,491</u>	<u>\$ 213,676</u>

- (A) Due February 1, 2027; principal and interest are payable quarterly based on a 25-year amortization. Payments commenced on May 1, 2007. The interest rate adjusts quarterly based on LIBOR plus 0.85%. At December 31, 2018 and 2017, the interest rate was 3.44% and 2.25%, respectively. The note is secured by a first mortgage on the Company's operation facility.
- (B) Due December 30, 2042; principal and interest are payable quarterly based on a 32-year amortization. Principal payments commenced on March 30, 2013. The interest rate is fixed at 4.82%. The notes are unsecured.
- (C) Due March 30, 2024; principal and interest are payable quarterly based on a 13-year amortization. Principal payments commenced on June 30, 2014. The interest rate is fixed at 3.55%. The notes are unsecured.
- (D) Due March 30, 2024; principal and interest are payable quarterly based on a 10-year amortization. Principal payments commenced on June 30, 2014. The interest rate is fixed at 3.00%. The notes are unsecured.
- (E) Due September 30, 2024; principal and interest are payable quarterly based on a 10-year amortization. Principal payments commenced on December 30, 2014. The interest rate is fixed at 3.25%. The notes are unsecured.
- (F) Due December 30, 2025; principal and interest are payable quarterly based on an 11 year and 9 months amortization. Principal payments commence on March 30, 2024. The interest rate is fixed at 3.80%. The notes are unsecured.

**Southwest Power Pool, Inc.**  
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- (G) Due March 30, 2024; principal and interest are payable monthly based on an eight-year amortization. Payments commenced on June 30, 2016. The interest rate adjusts monthly based on LIBOR plus 1.75%. At December 31, 2018 and 2017, the interest rate was 4.10% and 3.11%, respectively. The note is unsecured.

Aggregate annual maturities of long term debt at December 31, 2018, are:

2019	\$	22,281
2020		22,597
2021		23,414
2022		23,735
2023		24,560
Thereafter		97,893
		<hr/>
	\$	<u>214,480</u>

Certain of the Company's term notes require compliance with financial and nonfinancial covenants, as well as periodic reporting requirements. The Company was in compliance with the covenant and reporting requirements throughout and at December 31, 2018.

***Variable-to-Fixed Interest Rate Swap***

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the Company enters into interest rate swap agreements.

On September 15, 2006, the Company entered into an interest rate swap agreement with U.S. Bank National Association. The agreement provides for the Company to receive interest from the counterparty at LIBOR and to pay interest to the counterparty at a fixed rate of 5.51% on notional amounts of \$2,703 and \$2,907 at December 31, 2018 and 2017, respectively. Under the agreement, the Company pays or receives the net interest amount quarterly, with the quarterly settlements included in interest expense. The swap was established to hedge interest rate risk on its floating rate debt obligation (Loan A).

The Company entered into another interest rate swap agreement on March 10, 2014, with Regions Bank. The agreement provides for the Company to receive interest from the counterparty at LIBOR and to pay interest to the counterparty at a fixed rate of 3.225% on notional amounts of \$24,750 and \$27,750 at December 31, 2018 and 2017, respectively. Under the agreement, the Company pays or receives the net interest amount monthly, with the monthly settlements included in interest expense. The swap was established to hedge interest rate risk on its floating rate debt obligation (Loan G).

**Southwest Power Pool, Inc.**  
**Notes to Financial Statements (in Thousands)**  
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The table below presents certain information regarding the Company's interest rate swap agreements.

	<u>2018</u>	<u>2017</u>
Fair value of interest rate swap agreements	\$ 992	\$ 1,717
Balance sheet location of fair value amounts	Other Long-term Liabilities	Other Long-term Liabilities
Gain recognized in statement of income	\$ 725	\$ 789
Location of gain recognized in statement of income	Change in Fair Market Value of Interest Rate Swaps	Change in Fair Market Value of Interest Rate Swaps

**Note 5: Capital Lease Obligation**

The Company entered into a capital lease obligation on February 1, 2015, in the amount of \$6,901 to finance data storage equipment. The term of the financing is five years and expires on November 1, 2019. At December 31, 2018 and 2017, accumulated depreciation for equipment purchased under the capital lease was \$4,876 and \$4,740, respectively. Future minimum payments on the capital lease obligation at December 31, 2018, are:

2019	<u>\$ 2,015</u>
Total minimum lease payments	2,015
Less: Amount representing interest	<u>49</u>
Present value of minimum lease payments	<u>\$ 1,966</u>
Current portion of minimum lease payments	\$ 1,966
Long-term portion of minimum lease payments	<u>-</u>
Total	<u>\$ 1,966</u>

**Southwest Power Pool, Inc.**  
**Notes to Financial Statements (in Thousands)**  
**December 31, 2018 and 2017**

**Note 6: Employee Benefit Plans**

***Pension and Other Postretirement Benefit Plans***

The Company has a noncontributory defined benefit pension plan covering all employees meeting eligibility requirements. The Company's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Company may determine to be appropriate from time to time. The Company expects to contribute approximately \$5,440 to the plan in 2019.

The Company has a noncontributory defined benefit postretirement health care plan covering eligible retirees, including those retiring between the ages of 55–65 and hired prior to January 1, 1996. Employees hired after June 1, 2006, are not eligible to participate in the noncontributory defined postretirement health care plan. Eligible retirees are provided monies through a tax-free health reimbursement account to pay for individual Medicare supplemental health insurance plans or other eligible health care expenses.

The Company uses a December 31 measurement date for the plans. Information about the plans' funded status is as follows:

	Pension Benefits		Postretirement Health Care Benefits	
	2018	2017	2018	2017
Benefit obligation	\$ 96,516	\$ 85,887	\$ 10,339	\$ 9,474
Fair value of plan assets	71,578	70,182	-	-
Funded status	<u>\$ (24,938)</u>	<u>\$ (15,705)</u>	<u>\$ (10,339)</u>	<u>\$ (9,474)</u>

Amounts recognized in the balance sheets:

	Pension Benefits		Postretirement Health Care Benefits	
	2018	2017	2018	2017
Other long-term liabilities	\$ (24,938)	\$ (15,705)	\$ (10,339)	\$ (9,474)

Amounts recognized in members' deficit not yet recognized as components of net periodic benefit cost as of December 31, 2018 and 2017, consist of:

	Pension Benefits		Postretirement Health Care Benefits	
	2018	2017	2018	2017
Net loss	\$ 20,500	\$ 13,324	\$ 4,406	\$ 4,501
Prior service credit	(24)	(24)	(1,240)	(1,322)
Transition obligation	33	49	9	13
	<u>\$ 20,509</u>	<u>\$ 13,349</u>	<u>\$ 3,175</u>	<u>\$ 3,192</u>

**Southwest Power Pool, Inc.**  
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The accumulated benefit obligation for the defined benefit pension plan was \$78,417 and \$68,960 at December 31, 2018 and 2017, respectively.

Other significant balances and costs are:

	Pension Benefits		Postretirement Health Care Benefits	
	2018	2017	2018	2017
Employer contributions	\$ 4,500	\$ 5,200	\$ -	\$ -
Benefits paid	941	786	138	101
Benefit costs	6,560	7,049	1,020	1,108

No amounts for the postretirement plan were funded by the Company into the investment account intended to be utilized in providing benefits for eligible retirees in 2018 and 2017.

The following amounts have been recognized in the Statements of Income for the years ended December 31, 2018 and 2017:

	Pension Benefits		Postretirement Health Care Benefits	
	2018	2017	2018	2017
Amounts arising during the period				
Net gain (loss)	\$ (5,738)	\$ 4,759	\$ 323	\$ 819
Amounts recognized as benefit components of net periodic cost of the period				
Net loss	338	785	197	255
Net prior service cost (credit)	1	1	(83)	(83)
Net transition obligation	16	16	4	4

The estimated net loss, prior service cost and transition obligation for the defined benefit pension plan that will be amortized from members' equity into net period benefit credit over the next fiscal year are \$775, \$1 and \$16, respectively. The estimated net loss, prior service credit and net obligation for the defined benefit postretirement health care plan that will be amortized from members' equity into net periodic benefit cost over the next fiscal year are \$187, \$83 and \$4, respectively.

Weighted-average assumptions used to determine benefit obligations and costs:

	Pension Benefits		Postretirement Health Care Benefits	
	2018	2017	2018	2017
Discount rate benefit obligation	5.0%	5.0%	5.0%	5.0%
Expected return on plan assets	7.0%	7.0%	N/A	N/A
Rate of compensation increase	4.0%	4.0%	N/A	N/A

**Southwest Power Pool, Inc.**  
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The Company has estimated the long term rate of return on plan assets based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information.

For measurement purposes, a 9% annual rate of increase in the per capita cost of covered health care benefits in the next year was assumed for 2018 and 2017. The rate was assumed to decrease gradually to 5% by the year 2023 and remain at that level thereafter.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of December 31:

	<b>Pension Benefits</b>	<b>Postretirement Health Care Benefits</b>
2019	\$ 1,152	\$ 171
2020	1,310	206
2021	1,505	234
2022	1,793	271
2023	2,062	314
2024-2028	17,924	2,271

The Company's investment strategy is based on an expectation that equity securities will outperform fixed income securities over the long term. Accordingly, the composition of the Company's plan assets is broadly characterized as a 70/30 allocation between equity and fixed income securities. The strategy utilizes indexed and actively managed mutual fund instruments as well as direct investment in individual equity and fixed income securities. Investments in the plan must adhere to the Investment Policy Statement developed by the Company. The Investment Policy Statement limits investments in foreign securities to 20% of the total fair value of plan assets. The Investment Policy Statement is reviewed annually.

At December 31, 2018 and 2017, plan assets by category are as follows:

	<b>Pension Plan Assets</b>	
	<b>2018</b>	<b>2017</b>
Fixed income securities	32%	32%
Equity securities	56	63
Cash and equivalents	12	5
	<u>100%</u>	<u>100%</u>

**Southwest Power Pool, Inc.**  
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***Pension Plan Assets***

Following is a description of the valuation methodologies used for the pension plan assets measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of the assets pursuant to the valuation hierarchy.

Where quoted market prices are available in an active market, plan assets are classified within Level 1 of the valuation hierarchy. Level 1 plan assets include cash, money market accounts, closed-end mutual funds and common and foreign company stock. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of plan assets with similar characteristics or discounted cash flows. Level 2 plan assets include open-end mutual funds, corporate debt obligations, foreign corporate debt obligations and foreign government securities.

In certain cases where Level 1 or Level 2 inputs are not available, plan assets are classified within Level 3 of the hierarchy. At December 31, 2018 and 2017, the Company does not hold any plan assets valued using Level 3 inputs.

The fair values of the Company's pension plan assets at December 31, 2018 and 2017, by asset category are as follows:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>2018</b>				
<b>Money market mutual funds</b>	\$ 8,455	\$ 8,455	\$ -	\$ -
<b>Mutual funds</b>				
Equity funds	34,061	22,940	11,121	-
Fixed income funds	14,846	10,035	4,811	-
Other funds	3,066	279	2,787	-
	<u>51,973</u>	<u>33,254</u>	<u>18,719</u>	<u>-</u>
<b>Domestic common stock</b>				
Financials	2,019	2,019	-	-
Healthcare	1,958	1,958	-	-
Industrials	923	923	-	-
Telecommunications	240	240	-	-
Energy	695	695	-	-
	<u>5,835</u>	<u>5,835</u>	<u>-</u>	<u>-</u>
<b>Corporate debt obligations</b>	<u>5,315</u>	<u>-</u>	<u>5,315</u>	<u>-</u>
<b>Total</b>	<u>\$ 71,578</u>	<u>\$ 47,544</u>	<u>\$ 24,034</u>	<u>\$ -</u>

**Southwest Power Pool, Inc.**  
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	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2017				
<b>Money market mutual funds</b>	\$ 3,598	\$ 3,598	\$ -	\$ -
<b>Mutual funds</b>				
Equity funds	37,621	24,386	13,235	-
Fixed income funds	12,522	7,741	4,781	-
Other Funds	2,190	320	1,870	-
	<u>52,333</u>	<u>32,447</u>	<u>19,886</u>	<u>-</u>
<b>Domestic common stock</b>				
Financials	2,736	2,736	-	-
Healthcare	1,502	1,502	-	-
Industrials	895	895	-	-
Telecommunications	701	701	-	-
Energy	546	546	-	-
Other	55	55	-	-
	<u>6,435</u>	<u>6,435</u>	<u>-</u>	<u>-</u>
<b>Corporate debt obligations</b>	7,615	-	7,615	-
<b>Foreign government securities</b>	201	-	201	-
<b>Total</b>	<u>\$ 70,182</u>	<u>\$ 42,480</u>	<u>\$ 27,702</u>	<u>\$ -</u>

***Defined Contribution Plans***

The Company has a 401(k) defined contribution plan covering substantially all employees. The Company matches contributions at 4.75% for those employees deferring 6% of compensation, with the match fluctuating from 1% to 4.75% for each percentage of compensation contributed under 6%. Contributions to the plan were \$2,804 and \$3,030 for 2018 and 2017, respectively.

The Company has a 457(b) non-qualified tax-deferred compensation plan. This plan is an unfunded plan maintained for the purpose of providing deferred compensation for a select group of management or highly compensated employees and, therefore, is intended to be exempt from the participation, vesting, funding and fiduciary requirements of Title I of the *Employee Retirement Income Security Act of 1974* (ERISA). Accumulated contributions and earnings of \$2,585 and \$2,597 are recorded in other long-term liabilities at December 31, 2018 and 2017, respectively. The Company also offers a 457(f) non-qualified tax-deferred compensation plan to a select group of executive management. The 457(f) plan was intended to be exempt from the participation, vesting, funding and fiduciary requirements of Title I of ERISA and serves to further supplement benefits lost due to IRS limits on compensation and benefits. There were accrued benefits of \$1,246 and \$938 recorded in other long-term liabilities for the 457(f) plan participants December 31, 2018 and 2017, respectively.



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**Note 7: Related Party Transactions**

General disbursements of the Company are apportioned to members based on the formula described in the bylaws of the Company (see *Note 1*). The Company's receivables from members totaled \$11,296 and \$21,137 as of December 31, 2018 and 2017, respectively. The Company recognized revenues of \$143,645 and \$137,780, including assessments and tariff administrative fees, from members for the years ended December 31, 2018 and 2017, respectively.

The Southwest Power Pool Regional State Committee (RSC) was incorporated on April 7, 2004, in the state of Arkansas. The RSC is comprised of commissioners from public service commissions or equivalent, having regulatory authority over Company members. FERC, in its February 20, 2004 order regarding the Company's RTO application, stated, "the RSC should have primary responsibility for determining regional proposals and the transition process for funding of regional transmission enhancements, rate structure for a regional access charge and allocation of transmission rights." The RSC prepares budgets annually for the expected costs of its operations. This budget is submitted to the Company's board of directors for approval. The Company includes in its annual budget funds sufficient to cover 100% of the operating costs of the RSC. During 2018 and 2017, the Company incurred \$220 and \$253, respectively, in expenses attributable to the RSC operations. Management of the Company expects such expenditures for 2019 to be approximately \$500.

**Note 8: Open Access Transmission and Market Operations**

The Company provides short- and long-term firm and non-firm point-to-point transmission services and network integration transmission service across 46 providers in 14 states. The Company is responsible for the billing of the transmission customers for the respective services and the remittance of the subsequent collections to the transmission owners on a monthly basis. Billings for these transmission services are not included in the statements of income. The Company receives a fee for facilitating the transmission process, which is recorded as tariff fees in the Company's Statements of Income.

For the years ended December 31, 2018 and 2017, the Company billed transmission customers \$2,515,785 and \$2,130,538, respectively. For the years ended December 31, 2018 and 2017, the Company remitted to transmission owners \$2,269,671 and \$1,914,880, respectively. At December 31, 2018 and 2017, the Company was due to collect from customers and remit to owners transmission service charges of \$183,425 and \$178,581, respectively.

The Company's Integrated Marketplace includes a day-ahead market with transmission congestion rights, a reliability unit commitment process, a real-time balancing market, an operating reserve market and a consolidated balancing authority. Weekly settlements of market participants' energy transactions are not reflected in the Company's Statements of Income since they do not represent revenues or expenses of the Company, as the Company merely acts as an intermediary in the settlement process. In this role, the Company receives and disburses funds to/from market participants on a weekly basis. At December 31, 2018 and 2017, the Company held \$52,894 and \$56,757, respectively, in cash collections from the settlement of auction revenue rights in accordance with terms of the Company's tariff. These funds are disbursed annually in June for collections from the previous twelve months. A corresponding liability is reflected in accrued expenses on the Balance Sheets.

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**Note 9: Commitments and Contingencies**

***Litigation and Regulatory Matters***

The Company is engaged in various legal and regulatory proceedings at both the federal and state levels. The Company is also subject to claims and lawsuits that arise primarily in the ordinary course of business.

It is the opinion of management that the disposition or ultimate resolution of such proceedings, claims and lawsuits will not have a material adverse effect on the financial position, results of operations and cash flows of the Company.

**Note 10: Disclosures About Fair Value of Financial Instruments**

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities

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	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>December 31, 2018</b>				
Cash equivalents	\$ 1,398	\$ 1,398	\$ -	\$ -
Mutual funds				
Equity	8,571	-	8,571	-
Fixed income	4,173	-	4,173	-
U.S. Government Securities				
Treasury Notes	12,495	12,495	-	-
Interest rate swap agreements	(992)	-	(992)	-

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>December 31, 2017</b>				
Cash equivalents	\$ 15,112	\$ 15,112	\$ -	\$ -
Mutual funds				
Equity	9,359	-	9,359	-
Fixed income	3,430	-	3,430	-
U.S. Government Securities				
Treasury Notes	11,667	11,667	-	-
Interest rate swap agreements	(1,717)	-	(1,717)	-

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying Balance Sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2018.

**Investments**

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. At December 31, 2018 and 2017, the Company does not hold any assets valued using Level 3 inputs.

**Southwest Power Pool, Inc.**  
**Notes to Financial Statements (in Thousands)**  
**December 31, 2018 and 2017**

***Interest Rate Swap Agreements***

The fair value is estimated using forward-looking interest rate curves and discounted cash flows that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

***Cash Equivalents***

The fair value of money market mutual funds included in cash equivalents is estimated using quoted prices in active markets for identical assets and, therefore, is classified within Level 1 of the valuation hierarchy.

The Company has no assets or liabilities measured and recognized in the accompanying Balance Sheets on a nonrecurring basis.

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying Balance Sheets at amounts other than fair value.

***Restricted Cash Deposits***

For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

***Customer Deposits***

The carrying amount is a reasonable estimate of fair value.

***Long-term Debt and Capital Lease Obligations***

Fair value is estimated based on the borrowing rates currently available to the Company for bank loans with similar terms and maturities.

The following table presents estimated fair values of the Company's financial instruments at December 31, 2018 and 2017:

	2018		2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial assets</b>				
Cash and cash equivalents	\$ 93,593	\$ 93,593	\$ 100,496	\$ 100,496
Restricted cash deposits	\$ 344,904	\$ 344,904	\$ 340,612	\$ 340,612
Investments	\$ 25,239	\$ 25,239	\$ 24,456	\$ 24,456
<b>Financial liabilities</b>				
Customer deposits	\$ 344,904	\$ 344,904	\$ 340,612	\$ 340,612
Capital lease obligations	\$ 1,966	\$ 1,977	\$ 3,856	\$ 3,902
Long-term debt	\$ 214,480	\$ 214,825	\$ 235,948	\$ 238,802
Swap agreements	\$ 992	\$ 992	\$ 1,717	\$ 1,717

**Southwest Power Pool, Inc.**  
**Notes to Financial Statements (*in Thousands*)**  
**December 31, 2018 and 2017**

**Note 11: Subsequent Events**

Subsequent events have been evaluated through **DATE**, which is the date the financial statements were available to be issued.

**Note 12: Future Accounting Pronouncements**

*Accounting Standard Update (ASU) No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash*

On November 17, 2016, FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This standard is intended to reduce diversity in the presentation of restricted cash and restricted cash equivalents in the statement of cash flows. The standard requires restricted cash and restricted cash equivalents be included as total cash and cash equivalents as presented on the statement of cash flows when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This pronouncement will be in effect for the period beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period.

*Revenue Recognition*

The Financial Accounting Standards Board (FASB) amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized.

Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract.

The standard allows either full or modified retrospective adoption effective for nonpublic entities for annual periods beginning after December 15, 2018, and any interim periods within annual reporting periods that begin after December 15, 2019. The Organization is in the process of evaluating the effect the amendment will have on the financial statements.



**Southwest Power Pool, Inc.**  
**FINANCE COMMITTEE**  
**Recommendation to the Board of Directors**  
**April 29, 2018**  
**Auditor Engagements**

**Organizational Roster**

The following persons are members of the Finance Committee:

Bruce Scherr	SPP Director
Susan Certoma	SPP Director
Jerry Peace	Oklahoma Gas & Electric Co.
Laura Kapustka	Lincoln Electric
Mike Wise	Golden Spread
Sandra Bennett	American Electric Power

**Background**

SPP annually engages Certified Public Accounting (CPA) firms to perform audits of its control activities, financial statements and employee benefit plans (401(k) Savings Plan and Retirement Plan). The current slate of auditors and their tenure on the SPP audits are as follows:

Controls Audit	KPMG	6 years
Financial Audit	BKD	15 years
Benefit Plan Audits	Landmark (formerly Thomas & Thomas)	14 years

The Committee, in 2016, established a guideline to formally put the audit work out for bid every 6 years, unless the Committee determined, at its own discretion, to accelerate or delay the timing of a formal bid process. The last RFP issued for SPP's audit work occurred in 2013, which would put the next formal bid process occurring for the 2019 audit cycle.

**Analysis**

**Audit Fee Analysis for Financial and Benefit Plans**

SPP has seen modest increases in the combined audit fees for BKD and Landmark over the last five years, averaging 3.0% year over year from 2013-2017. The 2018 projection reflects the reduction in fees from the elimination of the medical plan audit. Fees for all other 2018 audits are estimated to be 4% higher than the 2017 audits. The 2019 fees for BKD reflect an estimate for the additional work required to address the new revenue recognition standard. Without that incremental work, the total fees were expected to increase only 4% over 2018. The combined fee history over the last five years and the projected fees for 2018-2019 for both BKD and Landmark are as follows:

	Actual Fees Paid					Projected	
	2013	2014	2015	2016	2017	2018	2019
BKD							
Landmark							
Total							
Annual Increase							

**Audit Fee Analysis for Controls Audit**

2014 was SPP's inaugural year with KPMG as the external auditor for the controls audit and the audit period covered an eight-month period, March 1, 2014 to October 31, 2014. In 2015, the controls audit scope went back to the normal

12-month audit period and was broadened to include a new control objective and control activities related to Market-to-Market processes, resulting in a 53% increase in fees. If the 2014 audit period had covered 12 months, audit fees would have been approximately \$334,000 and the 2015 increase would have been approximately 2%. In 2017, the controls audit scope was once again broadened to include a new control objective, 17 new control activities, new systems supporting Z2 credit processing and changes to control activities of existing settlement processes. In years with non-substantive changes to the controls audit scope, SPP has seen modest increases/decreases in fees. The fee history over the last six years and the projected fees for 2018-2019 are as follows:

	Actual Fees Paid							Projected
	2013 External Readiness Assessment	2014 Type I SOC1 Audit	2014 Type II SOC1 Audit ~	2015 Type II SOC1 Audit *	2016 Type II SOC1 Audit	2017 Type II SOC1 Audit +	2018 Type II SOC1 Audit	2019 Type II SOC1 Audit
<b>Total Fees</b>								
<b>Annual Increase</b>								

~ The 2014 Type II SOC 1 audit covered an eight-month period - March 1, 2014 to October 31, 2014.

\* New control objective and control activities for M2M implemented on March 1, 2015.

+ New control objective and control activities and systems supporting Z2 credit processing and changes to control activities of existing settlement processes implemented on November 3, 2016.

**Audit Staffing Continuity for Financial and Benefit Plans**

Both firms have historically provided consistency in their staffing of the audits which provides greater efficiency in the execution of fieldwork. SPP has benefited over the years from having continuity of staff, especially in the more senior positions of the audit teams. As fieldwork concluded for the 2017 audit, the engagement director resigned from the firm and was replaced by a partner who had previously served in a concurring role on the SPP financial audit. It had been the decision of the Committee to require rotation of the financial audit partner every five years and this would have occurred naturally at the conclusion of the 2017 audit. While the resignation accelerated the rotation, the partner's familiarity with SPP through his previous experience as concurring partner has provided for a smooth transition. With respect to the rotation of partners on the employee benefit plan engagements, we do not believe this to be a meaningful action given the audits are performed only due to DOL/ERISA requirements and are not opined on by the auditors due to the limited scope nature of the audits for the 401(k) and retirement plans.

**Settlement System Impact on SOC 1 Controls Engagement**

This shift in the go-live date for the new Settlement Management System from May 2019 to February 2020 has a direct and significant impact on the controls audit engagement. The introduction of the new Settlement Management System is a substantive change for the SOC 1 controls engagement and changing audit firms at this time would not be advisable. SPP has already started discussions with KPMG about how to manage next year's SOC 1 Controls Engagement. Topics discussed have included extending the gap period/bridge letter coverage period from two months to three months and shortening next year's audit to cover the period February 1, 2020 to October 31, 2020. After these transition issues have been resolved, SPP would then revert to the regular audit period of November 1, 2020 to October 31, 2021.

**Recommendation**

The Finance Committee recommends the engagement of KPMG to perform the 2020 controls audit, BKD to perform the audit of SPP's 2019 financial statements, and Landmark to perform the audit of SPP's 2019 employee benefit plan financial statements. In all cases, delaying the timing of the formal bid process which would have been due to occur in the current year under the 6 year cycle guidelines.

**Approved:** SPP Finance Committee

**Action Requested:** Approve Recommendation



**Southwest Power Pool, Inc.**

**FINANCE COMMITTEE**

**Recommendation to the Board of Directors**

**April 29, 2019**

**2019 Funding for Pension and Post-retirement Healthcare Plans**

**Organizational Roster**

The following persons are members of the Finance Committee:

Bruce Scherr	SPP Director
Susan Certoma	SPP Director
Jerry Peace	OG&E
Sandra Bennett	American Electric Power
Laura Kapustka	Lincoln Electric
Mike Wise	Golden Spread

**Background**

The SPP Finance Committee is charged with reviewing reports from the plan's actuary, establishing funding policies, and recommending annual funding levels for the plans to the SPP Board of Directors. SPP engaged Osborn, Carreiro & Associates ("the Actuary") to prepare actuarial valuation reports of the SPP Defined Benefit Retirement Plan and SPP Post-retirement Benefits Plan as of January 1, 2019.

**Analysis**

SPP Defined Benefit Retirement Plan

The report identifies 2019 accounting expense for this plan as well as minimum and maximum contributions for the plan. The Actuary determined 2019's minimum contribution level to be \$0.00 and suggested level to be \$5.44. SPP's 2019 budget anticipated contributions to the defined benefit pension plan of \$5.00.

The schedule below illustrates the historical funding of the SPP Defined Benefit Retirement Plan:

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Maximum Contribution (tax deductible)	\$37.20	\$50.29	\$61.01	\$69.18	\$86.13
Minimum Contribution	\$3.31	\$0.00	\$0.00	\$0.00	\$0.00
Actuary Suggested Contribution	3.76	5.38	5.20	4.59	5.44
Actual Contribution	3.76	5.38	5.20	4.50	
Projected Benefit Obligation (PBO)	\$68.09	\$76.97	\$85.89	\$96.52	
Accumulated Benefit Obligation (ABO)	53.75	64.48	68.96	78.42	
Fair Value of Plan Assets	47.74	57.74	70.18	71.59	
Discount Rate	5.00%	5.00%	5.00%	5.00%	
Plan Assets vs. PBO	-\$20.35	-\$19.23	-\$15.71	-\$24.93	
Plan Assets vs. ABO	-6.01	-3.74	1.22	-6.83	
Total Participants	732	764	796	819	
Benefits Paid	\$0.61	\$0.71	\$0.79	\$0.94	





SPP Defined Benefit Retirement Plan Fund Status as of December 31, 2018

The fund had total assets of \$71.59 versus an Accumulated Benefit Obligation of \$78.42, Projected Benefit Obligation of \$96.52 and termination value of approximately \$86.00. The Actuary estimates participants active on January 1, 2019 will accrue \$5.30 in benefits during fiscal year 2019. Finally, the value of the early retirement feature of the Defined Benefit Retirement Plan is estimated to be \$3.00.

SPP Post-retirement Benefits Plan

In 1995, the Board of Directors approved retiree medical coverage for all SPP employees who retire at their Normal Retirement Date as defined in the SPP Defined Benefit Retirement Plan. The Board also awarded benefits under this plan to those employees of record on January 1, 1996 who retire between the ages of 55 - 65. The SPP Board acted in 2006 to limit benefits from this plan to only those employees hired prior to June 1, 2006. As of January 1, 2019 SPP had 100 active employees covered by this plan and 23 retirees.

The Actuary estimated 2019 net periodic post-retirement benefit cost to be \$1.05. This computation is based on a 5.00% discount rate and retirement at age 65. The health care cost trend was assumed to increase 9% next year, 8% the year after and so on down to 5% and remain there thereafter.

If the plan were a funded plan and the assets SPP has set aside to cover benefits were considered in the actuarial calculations; the actuary would suggest SPP fund an additional \$0.05 during 2019. SPP's 2019 budget allocates \$0.00 in funding for post-retirement benefits. Assets SPP has set aside to cover benefits exceeded the accumulated benefit obligation as of year-end 2018 by approximately \$1.24 million.

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Actual Contribution	\$0.00	\$0.25	\$0.00	\$0.00	
Pension Cost	\$1.48	\$1.21	\$1.11	\$1.02	\$1.05
Accumulated Benefit Obligation (ABO)	\$9.29	\$9.43	\$9.47	\$10.34	
Fair Value of Plan Assets <sup>1</sup>	9.35	10.44	11.96	11.58	
Funded Status vs. ABO	0.06	1.01	2.49	1.24	
Plan Participants – Active	117	111	105	100	
Plan Participants – Retired	15	18	22	23	

**Recommendation**

Approve 2019 funding of the SPP Retirement Plan of \$5.44

Approve 2019 funding of the SPP Post-retirement Healthcare Plan of \$0.00

**Approved:**

SPP Finance Committee

April 29, 2019

**Action Requested:**

Approve Recommendation

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<sup>1</sup> The Post-retirement Healthcare plan is an unfunded plan and therefore has no plan assets. The plan sponsor has set aside specific assets with the intent to use those assets to pay benefits under the plan.

**SOUTHWEST POWER POOL  
RETIREMENT PLAN**

**ACTUARIAL VALUATION  
AS OF JANUARY 1, 2019**

# Osborn, Carreiro & Associates, Inc.

ACTUARIES • CONSULTANTS • ANALYSTS

One Union National Plaza, Suite 1690  
124 West Capitol Avenue  
Little Rock, Arkansas 72201  
(501) 376-8043  
FAX (501) 376-7847

April 4, 2019

Mr. Thomas P. Dunn  
Vice President  
Southwest Power Pool  
201 Worthen Drive  
Little Rock, AR 72223

Dear Mr. Dunn:

This report presents the results of our actuarial valuation of the assets and liabilities of the Southwest Power Pool, Inc. Retirement Plan as of January 1, 2019.

A brief summary of the more important figures developed in this valuation, with comparable results from prior reports, follows:

	<u>1/01/2017</u>	<u>1/01/2018</u>	<u>1/01/2019</u>
Individuals included	764	796	819
Total Salary	\$ 55,030,469	\$ 58,128,072	\$ 58,782,615
Net Plan Assets	\$ 57,738,806	\$ 70,183,058	\$ 71,577,630
Contribution Levels	<u>2017</u>	<u>2018</u>	<u>2019</u>
Maximum tax deductible under Pension Protection Act '06	\$ 61,013,950	\$ 69,179,752	\$ 86,129,564
"Old" Maximum/Suggested	5,196,455	4,591,570	5,438,549
Minimum required	0	0	0
Pension "expense" under accounting rules	\$ 7,048,718	\$ 6,559,844	\$ 7,632,876

Mr. Thomas P. Dunn – p 2  
April 4, 2019

### Current Status of the Plan

The contribution for the 2019 Plan Year must be between \$ 0 and \$ 86,129,564.

The “suggested contribution” and the pension expense have both increased since last year:

	<u>Suggested Contribution</u>	<u>Pension Expense</u>
(1) 2018 Amount	\$ 4,592,000	\$ 6,560,000
(2) Change due to:		
(a) 2018 Investment Loss	992,000	1,016,000
(b) More participants	0	0
(c) Change in Life Expectancy Table	196,000	312,000
(d) Change in Discount Rate	0	0
(e) Other	- 341,000	- 255,000
(3) 2019 Amount	\$ 5,439,000	\$ 7,633,000

### Some Considerations for Determining Contribution Levels

It is often helpful to review the status of a retirement plan in terms of how much money would be required if the plan were terminated. If your plan were terminated on January 1, 2019, I estimate that the total liability would be about \$86 million (using a 4.50% discount rate). This compares to assets of about \$72 million. However, be aware of three items:

- (1) During the 2019 year, employees will accrue additional benefits worth about \$5.3 million.
- (2) These numbers DO NOT include the value of the subsidized early retirement feature. This subsidy applies when an active employee retires after age 55 (provided the employee was age 45 and had 5 years of service by December 31, 2006 – current 22 people). It does not apply when an employee terminates before age 55. The current value of this subsidy is about \$3 million.
- (3) The discount rate changes over time with the markets. If the rate goes down, the termination liability will go up.

Mr. Thomas P. Dunn – p 3  
April 4, 2019

For the past several years, you decided to contribute the “Old” Maximum (i.e., before the Pension Protection Act of 2006), plus the cost for anticipated new hires. Following that same methodology, the contribution for 2019 would be \$5.4 million (the “suggested” amount).

### Top-Heavy Status

Appendix E contains a “top-heavy” test. In 1982, Congress passed a law containing the top-heavy rules. Basically, a plan under which the “key employees” benefit the most is considered top-heavy. A top-heavy plan must accelerate its vesting and provide certain minimum retirement benefits. The Plan is not currently top-heavy.

### Pension Cost for Accounting Purposes

Exhibit 3 contains a calculation of “pension cost”, as defined by Financial Accounting Standards Board Accounting Standards Codification 715-30 (“FASB ASC 715-30”), for 2019. Pension cost is the cost of the plan as recorded in the sponsor’s GAAP (Generally Accepted Accounting Principles) financial statements. This accounting pension cost will almost always differ from the actual cash contribution to the plan under this accounting guideline. Let me emphasize that FASB ASC 715-30 only dictates the cost shown in the sponsor’s GAAP financial statements. Sound actuarial projections should be used to determine the actual cash contribution requirements.

The 2019 Net Periodic Pension Cost is \$7,632,876.

The cash funding requirement is different from the pension cost for basically three different reasons:

- (1) Different assumptions: FASB ASC 715-30 prescribes certain guidelines for the assumptions used in that calculation.
- (2) Different actuarial cost method: The FASB ASC 715-30 calculation uses the Projected Unit Credit method, while the recommended contribution is based on another method.
- (3) Different amortization techniques: The FASB ASC 715-30 calculation generally uses straight-line amortization. The funding calculation uses a principal and interest amortization as required by ERISA.

Mr. Thomas P. Dunn – p 4  
April 4, 2019

Report Format

The report has been broken into five "Exhibits" and eight "Appendices". The Appendices contain certain technical information that we feel is necessary to meet professional actuarial standards. However, the information in these Appendices may not be particularly useful to you. We've endeavored to put the important information into the five Exhibits.

This report is based on the participant and financial data supplied by the plan sponsor. We did not audit this data, although we did review it for reasonableness and consistency. We have relied on the data provided to us. If any of the data provided to us is incorrect or incomplete, the results of our calculations could be materially different. The purpose of this report is to help the plan sponsor evaluate the plan status and funding requirements for an on-going plan, and to present certain actuarial items required for disclosure purposes. This report is not intended for any other purpose or for use by persons who are not familiar with such matters.

If you have any questions or comments about this report or about your plan, please let me know.

Sincerely,



Steve Osborn, F.S.A., M.A.A.A.  
Enrolled Actuary 3095

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## EXHIBIT 1

### Executive Summary

	<u>1/1/2017</u>	<u>1/1/2018</u>	<u>1/1/2019</u>
1. Individuals included in report			
a. Active	580	596	590
b. Inactive	184	200	229
c. Covered Payroll	\$ 55,030,469	\$ 58,128,074	\$ 58,782,615
2. Normal Cost Amount	\$ 4,354,448	\$ 4,591,570	\$ 4,637,961
Normal Cost Rate	7.91%	7.90%	7.89%
3. Assets	\$ 57,738,806	\$ 70,183,058	\$ 71,577,630
Investment Return for year	10.7%	13.4%	- 3.0%
4. Funding Levels			
Maximum under Pension Protection Act	\$ 61,013,950	\$ 69,179,752	\$ 86,129,564
Suggested	\$ 5,196,455	\$ 4,591,570	\$ 5,438,549
Minimum	\$ 0	\$ 0	\$ 0
5. Accounting Information (for use in auditor's report)			
a. Present Value of Vested Benefits	\$ 54,313,250	\$ 61,083,678	\$ 70,011,271
b. Present Value of Non-Vested Benefits	7,163,184	7,876,677	8,406,219
c. Present Value of Accumulated Benefits	\$ 61,476,434	\$ 68,960,355	\$ 78,417,490
d. Pension Cost per SFAS No. 87	\$ 7,048,718	\$ 6,559,844	\$ 7,632,876
6. Top-Heavy Ratio	23.2%	23.5%	23.0%



## EXHIBIT 2

### Summary of Financial Information

	<u>Plan Year Ending December 31,</u>		
	<u>2016</u>	<u>2017</u>	<u>2018</u>
<b>A. <u>INCOME</u></b>			
1. <u>Contributions</u>			
Employee	\$ 0	\$ 0	\$ 0
Employer	5,380,000	5,200,004	4,500,004
Other	0	0	814
2. <u>Investment Income</u>			
a. Interest and Dividends	1,267,923	1,452,455	1,843,636
b. Realized Gains	237,979	244,570	683,601
c. Unrealized Appreciation	3,956,708	6,484,426	- 4,513,837
d. Investment Expenses	<u>- 125,851</u>	<u>- 151,537</u>	<u>- 179,013</u>
e. Subtotal	5,336,759	8,029,914	- 2,165,613
TOTAL	\$ <u>10,716,759</u>	\$ <u>13,229,918</u>	\$ <u>2,335,205</u>
<b>B. <u>EXPENSES</u></b>			
1. <u>Administrative</u>	\$ 0	\$ 0	\$ 0
2. <u>Monthly Benefits</u>	708,474	785,666	940,633
3. <u>Lump Sum Benefits</u>	<u>4,623</u>	<u>0</u>	<u>0</u>
TOTAL	\$ <u>713,097</u>	\$ <u>785,666</u>	\$ <u>940,633</u>

Exhibit 2 - Continued

	<u>12/31/2016</u>	<u>12/31/2017</u>	<u>12/31/2018</u>
<b>C. <u>ASSETS (Market Basis)</u></b>			
1. <u>Short Term</u>			
Cash	\$ 0	\$ 0	\$ 0
Money Market Funds	3,516,661	3,595,479	8,443,238
2. <u>U.S. Treasury Bills</u>	0	0	0
3. <u>Fixed Income Assets</u>			
Government	0	0	0
Corporate	6,405,951	7,740,670	5,256,636
4. <u>Common Stock</u>	9,104,324	6,427,046	5,825,738
5. <u>Mutual Funds</u>			
Fixed Income	9,896,443	14,390,199	17,630,232
Equity	28,721,469	37,913,801	34,310,203
6. <u>Other</u>			
Contribution Receivable	0	0	0
Benefits payable	0	0	0
Accrued Interest	93,958	115,863	111,583
Other	0	0	0
	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	\$ <u>57,738,806</u>	\$ <u>70,183,058</u>	\$ <u>71,577,630</u>
<b>D. <u>Net Investment Return:</u></b>	10.7%	13.4%	- 3.0%

Exhibit 2 - Continued

	<u>1/1/2017</u>	<u>1/1/2018</u>	<u>1/1/2019</u>
<b>E. <u>INFORMATION FOR PBGC</u></b>			
<b><u>FORM 1 SCHEDULE A:</u></b>			
1. Participant count	764	796	819
2. Per person rate	69	74	80
3. (1) x (2)	\$ 52,716	\$ 58,904	\$ 65,520
4. Interest Assumption	2.04%	2.33%	3.38%
	4.03%	3.55%	4.32%
	4.82%	4.11%	4.69%
5. Present Value of Vested Benefits	\$ 57,866,215	\$ 73,059,584	\$ 74,428,836
6. Adjusted Market Value of Assets	<u>57,738,809</u>	<u>70,183,058</u>	<u>71,577,630</u>
7. Unfunded Vested Benefits	\$ 127,406	\$ 2,876,526	\$ 2,851,206
8. Rounded to next higher \$1,000	128,000	2,877,000	2,852,000
9. Variable Rate Premium Percentage	3.4%	3.8%	4.3%
10. Variable Rate Premium = (8) x (9)	\$ 4,352	\$ 109,326	\$ 122,636
11. Total PBGC premium = (3) + (10)	\$ <u>57,068</u>	\$ <u>168,230</u>	\$ <u>188,156</u>

### EXHIBIT 3

#### Accounting Information

This Exhibit is included to provide information according to FASB ASC 715-30 disclosure requirements.

#### Statement of Accumulated Plan Benefits

	<u>1/01/2018</u>	<u>1/01/2019</u>
Investment Return Assumption	5.00%	5.00%
Actuarial present value of accumulated plan benefits		
Vested Benefits		
Participants currently receiving benefits	\$ 10,105,681	\$ 12,367,868
Other Participants	<u>50,977,997</u>	<u>57,643,403</u>
	\$ 61,083,678	\$ 70,011,271
Non-Vested Benefits	7,876,677	8,406,219
Total actuarial present value of accumulated plan benefits	\$ <u>68,960,355</u>	\$ <u>78,417,490</u>

#### Statement of Changes in Accumulated Plan Benefits

Actuarial present value of accumulated plan benefits at beginning of year	\$ 61,476,434	\$ 68,960,355
Increase (Decrease) attributable to:		
Plan Amendment	0	0
Benefits Accumulated*	8,120,963	8,914,739
Benefits Paid	- 785,666	- 940,633
Change in Assumptions	<u>148,624</u>	<u>1,483,029</u>
Actuarial present value of accumulated plan benefits at end of year	\$ <u>68,960,355</u>	\$ <u>78,417,490</u>

\* Includes effect of interest and actuarial gains and losses.

Exhibit 3 - Continued

FASB ASC 715-30 Pension Cost for 2019

A. Reconciliation of Funded Status	<u>1/01/2019</u>	Projected <u>12/31/2019</u>
1. Actuarial present value of accumulated benefit obligations		
a. Vested portion	\$ ( 70,011,271)	\$ ( 77,961,951)
b. Non-Vested portion	( 8,406,219)	( 9,360,853)
2. Accumulated Benefit Obligation	\$ ( 78,417,490)	\$ ( 87,322,804)
3. Effect of estimated future pay growth	( 18,098,619)	( 20,153,950)
4. Projected Benefit Obligation	\$ ( 96,516,109)	\$ ( 107,476,754)
5. Plan assets at fair value	71,592,783	80,912,667
6. Funded status: (4)+(5)	\$ ( 24,923,326)	\$ ( 26,564,087)
7. Unrecognized net (gain) or loss	20,500,275	19,725,370
8. Unrecognized prior service cost	( 24,626)	( 25,370)
9. Unrecognized net obligation	32,943	16,477
10. Accum. Comp. Other Income	<u>20,508,592</u>	<u>19,716,477</u>
11. Total: (6) + (10)	\$ <u>( 4,414,734)</u>	\$ <u>( 6,847,610)</u>
B. Determination of Pension Cost	<u>2019</u>	
1. Service Cost	\$ 6,855,312	
2. Interest Cost (on A(4) and B(1))	5,142,638	
3. Expected return on assets	(5,157,189)	
4. Amortization of		
a. Unrecognized net (gain) or loss	774,905	
b. Unrecognized prior service cost	744	
c. Unrecognized net obligation	<u>16,466</u>	
5. Net Periodic Pension Cost	\$ <u>7,632,876</u>	
C. The assumptions are the same as those shown in Appendix E.		
D. Unrecognized net obligation of \$411,661 added 1/1/96, is amortized on a straight-line basis over 25 years. Prior Service of \$708,682 added 1/1/98 is amortized over 25 years. Prior service of \$(469,257) added 1/1/07 is amortized over 17 years. 10% corridor used for unrecognized net (gain) or loss.		

## Exhibit 4

### Employee Profile

Employee data needed for the valuation was obtained from the records furnished by the administrator. The following table shows a detailed breakdown of the present participants by the number of participants and current salary rate.

#### Actives

		<i>Years of Service</i>							
Age		0-4.9	5-9.9	10-14.9	15-19.9	20-24.9	25-29.9	30 and Over	Total
Under 25	Count	17	0	0	0	0	0	0	17
	Salary	1,112,672	0	0	0	0	0	0	1,112,672
25-29	Count	31	16	0	0	0	0	0	47
	Salary	2,017,921	1,268,080	0	0	0	0	0	3,286,001
30-34	Count	28	31	17	0	0	0	0	76
	Salary	1,910,114	2,602,310	1,619,799	0	0	0	0	6,132,223
35-39	Count	18	36	33	2	0	0	0	89
	Salary	1,391,460	3,298,467	3,591,598	238,800	0	0	0	8,520,325
40-44	Count	13	30	31	8	0	0	0	82
	Salary	1,233,954	2,711,605	3,281,347	902,469	0	0	0	8,129,375
45-49	Count	12	30	26	3	2	1	0	74
	Salary	1,169,979	3,116,403	2,798,690	310,350	243,295	272,000	0	7,910,717
50-54	Count	12	38	29	5	1	3	0	88
	Salary	1,124,806	3,801,170	3,157,912	709,008	87,000	636,392	0	9,516,288
55-59	Count	12	21	20	4	2	2	6	67
	Salary	1,263,527	2,198,536	2,244,464	534,669	309,400	371,800	900,885	7,823,281
60-64	Count	3	11	14	4	0	0	6	38
	Salary	222,277	942,784	1,772,775	560,120	0	0	1,607,085	5,105,041
65 & Over	Count	2	4	4	1	0	0	1	12
	Salary	150,666	350,950	427,976	196,800	0	0	120,300	1,246,692
Unknown Age	Count	0	0	0	0	0	0	0	0
	Salary	0	0	0	0	0	0	0	0
Total	Count	148	217	174	27	5	6	13	590
	Salary	11,597,376	20,290,305	18,894,561	3,452,216	639,695	1,280,192	2,628,270	58,782,615

Exhibit 4 - Continued

Participant Data as of January 1, 2019

	<u>Active</u>	<u>Retired</u>	<u>Terminated Vested</u>	<u>Total</u>
Number of Participants at 1/1/2018	596	57	143	796
New during year	+ 35	0	0	+ 35
Rehired	+ 1	0	- 1	0
Terminated Vested	- 24	0	+ 24	0
Terminated nonvested	- 12	0	0	- 12
Cashed out	0	0	0	0
Retired	- 6	+ 6	0	0
Died	0	- 1	0	- 1
Other	0	+ 1	0	+ 1
Number of Participants at 12/31/2018	590	63	166	819
New Entrants on 1/1/2019	0	0	0	0
Number of Participants 1/1/2019*	590	63	166	819

\*Does not include 0 employees who failed to meet the age or service requirements for participation.

## EXHIBIT 5

### Principle Provisions of the Plan

<u>EFFECTIVE DATE:</u>	January 1, 1996, adopted May 15, 1996. Restatement effective January 1, 1997, adopted December 19, 2001. Restatement effective January 1, 2008. Restatement effective January 1, 2013, adopted December 11, 2013.
<u>PARTICIPATION:</u>	Employees at January 1, 1996, who were in the Entergy Corporation Retirement Plan for Non-Bargaining Employees are eligible on January 1, 1996. Any other employee is eligible to participate on the first day of the month after date of hire, or attainment of age 21, whichever is later.
<u>PLAN YEAR:</u>	January 1 to December 31.
<u>COMPENSATION:</u>	Base pay during the calendar year.
<u>FINAL AVERAGE MONTHLY EARNINGS:</u>	Average of the Participant's Compensation over the sixty consecutive completed calendar months, out of the last 120, that produces the highest average.
<u>SERVICE:</u>	<p>A period of employment with Southwest Power Pool, Inc. For those Participants who were previously employed by a member company of Southwest Power Pool immediately prior to their being hired by Southwest Power Pool, such previous employment is also Service.</p> <p>(a) <u>Benefit Service</u> is all Service after age 21.</p> <p>(b) <u>Vesting Service</u> is all Service after age 18.</p>
<u>ACCRUED BENEFIT:</u>	Benefit based on Final Average Monthly Earnings and Benefit Service to date.



Exhibit 5 - Continued

NORMAL RETIREMENT:

Eligibility:

The first of the month on or after age 65.

Benefit:

1.5% of Final Average Monthly Earnings, times Benefit Service not in excess of 40 years. This benefit is offset by the amount due at age 65 from any Southwest Power Pool member company defined benefit plan for which Service is granted under this plan. However, the net benefit cannot be less than the benefit based on Southwest Power Pool service only.

Form:

Life Annuity.

EARLY RETIREMENT:

Eligibility:

Age 55 with 10 years of Service.

Benefit:

Accrued Benefit (unreduced for any prior plan benefits), reduced by a percentage for each year that the Early Retirement Date precedes the Normal Retirement Date, and then reduced for any member company defined benefit plan benefits payable at the Early Retirement Date. The percentage reduction is:

- a) 2% for those who were age 45 with 5 years of service by December 31, 2006;
- b) 6% for all others, except that the percentage is 2% for that part of the benefit accrued to December 31, 2006.

DEATH:

Eligibility:

Death prior to the commencement of benefits.

Benefit:

The Pre-Retirement Joint and 50% Survivors Annuity

VESTING:

Eligibility:

A Participant is 100% vested after 5 years of Service (3 years for those hired before 2014) and 0% before.

Benefit:

Accrued Benefit times the Vested Percentage, payable at Normal Retirement Age. Reduced amounts are payable if eligible for Early Retirement.

## APPENDIX A

### Calculation of Contributions

	<u>2018</u>	<u>2019</u>
A. Maximum tax-deductible contribution (IRC 404(o)(2))		
1. Funding Target	\$ 70,187,970	\$ 80,314,384
2. Target Normal Cost	6,942,506	7,322,869
3. Cushion Amount		
a) 50% of Funding Target	35,093,985	40,157,192
b) Amount Funding Target increases due to pay growth	27,138,349	29,912,749
4. Actuarial value of plan assets	70,183,058	71,577,630
5. Funding Target IF plan were "At Risk"	<u>72,427,727</u>	<u>80,731,052</u>
6. Maximum = (1)+(2)+(3)-(4), but not less than (5)+(2)-(4)	\$ <u><u>69,179,752</u></u>	\$ <u><u>86,129,564</u></u>
B. Suggested contribution		
1. Normal Cost for current group	\$ 4,591,570	\$ 4,637,961
2. Partial years cost for expected new people	0	0
3. Amortization of Unfunded Actuarial Accrued Liability	0	773,515
4. Interest	0	27,073
5. Suggested contribution	\$ <u>4,591,570</u>	\$ <u>5,438,549</u>
C. Minimum required contribution (IRC 430)		
1. Target Normal Cost	\$ 4,790,501	\$ 5,265,937
2. Shortfall amortization charges (App E)	949,901	2,096,523
3. Waiver amortization charges (App E)	<u>0</u>	<u>0</u>
4. Subtotal (1)+(2)+(3)	\$ 5,740,402	\$ 7,362,460
5. Excess of actuarial value of asset (less credit balances ) over Funding Target	<u>0</u>	<u>0</u>
6. Minimum (beginning of year) = (4), or if (5) is greater than 0, then (1)-(5), but not less than \$0.	\$ 5,740,402	\$ 7,362,460
7. Minimum reflecting pre-funding balance	\$ 0	\$ 0

## APPENDIX B

### Costs and Liabilities

	<u>1/1/2018</u>	<u>1/1/2019</u>
1. Present Value of Future Benefits		
A. Active Lives	\$ 103,554,663	\$ 108,049,584
B. Inactive Lives	<u>12,424,367</u>	<u>16,134,599</u>
C. Total Present Value	\$ 115,979,030	\$ 124,184,183
2. Actuarial Accrued Liability	\$ 69,288,326	\$ 77,390,775
3. Assets	70,183,058	71,577,630
4. Unfunded Actuarial Accrued Liability (2 - 3)	\$ - 894,232	\$ 5,813,145
5. Entry Age Normal Cost	\$ 4,591,570	\$ 4,637,961
6. Total Covered Salary	58,128,072	58,782,615
7. Normal Cost Rate (5 / 6)	.078991	.078900

Note: The “liabilities” shown on this page are not liabilities in the usual sense. These numbers are simply mathematical values derived in determining the maximum and minimum funding levels for the plan.

## APPENDIX C

### Development of Unfunded Actuarial Accrued Liability

	<u>2017</u>	<u>2018</u>
(1) Unfunded Actuarial Accrued Liability beginning of year	\$ 4,149,180	\$ - 894,232
(2) Normal Cost for year	4,354,448	4,591,570
(3) Contributions for year	5,200,004	4,500,004
(4) Interest on (1), (2), and (3)	260,849	- 59,391
(5) Other adjustments	<u>0</u>	<u>0</u>
(6) Expected Unfunded Actuarial Accrued Liability at end of year: (1)+(2)-(3)+(4)+(5)	\$ 3,564,473	\$ - 862,057
(7) Gain/loss during year	- 4,584,800	5,617,946
(8) Effect of changes in assumptions	<u>126,095</u>	<u>1,057,256</u>
(9) Unfunded Actuarial Accrued Liability at end of year	\$ - 894,232	\$ 5,813,145
(10) Amortization period	10	10
(11) Amortization of Unfunded Actuarial Accrued Liability	\$ 0	\$ 773,515

Note: The “liabilities” shown on this page are not liabilities in the usual sense. These numbers are simply mathematical values derived in determining the maximum and minimum funding levels for the plan.

## APPENDIX D

### IRC 430 Calculations

	<u>2018</u>	<u>2019</u>
A. Segment Rates	3.92/5.52/6.29	3.74/5.35/6.11
Equivalent rate	5.96%	5.79%
B. Asset Information		
1. Market Value of assets on valuation date	\$ 70,183,058	\$ 71,577,630
2. Actuarial Value of assets on valuation date	70,183,058	71,577,630
3. Carryover balance on valuation date	2,516,749	1,126,452
4. Pre-funding balance on valuation date	22,104,596	21,439,248
5. Security pledges & annuity purchases on non HCE's within last two years	0	0
C. Funding Target (IRC 430(d)(1))	\$ 51,380,408	\$ 61,219,763
D. Target Normal Cost	\$ 4,790,501	\$ 5,265,937
E. "At Risk" calculations (IRC 430 (i))		
1. Present value of accrued benefits under alternate assumptions	\$ 55,725,222	\$ 64,696,970
2. Loads		
a) \$700 times number of participants	557,200	574,000
b) 4% of (1)	2,229,009	2,587,879
3. Was plan "at risk" in 2 of last 4 years?	NO	NO
4. Funding target (1, +2 if 3=yes, and not less than C)	55,725,222	64,696,970
5. Target normal cost under alternate assumptions	5,130,980	5,508,814
6. 4% load	205,239	220,353
7. Target normal cost (5, +6 if 3=yes, and not less than D)	5,130,980	5,508,814

Appendix D - Continued

	<u>2018</u>	<u>2019</u>
F. Various percentages		
1. Funding Target Attainment Percentage for Year		
a. B(2) divided by C	136.59%	116.91%
b. B(2)-B(3)-B(4), divided by C	88.67%	80.05%
c. If a is greater than 100% then a, else b.	136.59%	116.91%
2. Adjusted Funding Target Attainment Percentage for Year B(2)-B(3)-B(4)+B(5), divided by C+B(5) [if 1(a) is greater than 100%, then 1(a)]	136.59%	116.91%
3. At Risk Funding Target Attainment Percentage for Year B(2)-B(3)-B(4), divided by E(1)	81.76%	75.75%
G. "At Risk" test for next year		
1. Minimum required Funding Target Attainment Percentage	80%	80%
2. Minimum required At Risk Funding Target Attainment Percentage	70%	70%
3. Does Plan have more than 500 participants?	YES	YES
4. Is plan "At Risk" for the next year? (If F1(c) > 80%, then "NO")	NO	NO

## APPENDIX E

### Amortization of Shortfalls

<u>Item</u>	<u>Initial Amount</u>	<u>Date Added To Costs</u>	<u>1/1/2019 Outstanding Balance</u>	<u>Amortization Period</u>	<u>Amortization Amount</u>
1) 2018 Shortfall	\$ 5,818,695	1/1/2018	\$ 5,151,166	6	\$ 949,901
2) 2019 Shortfall	7,056,667	1/1/2019	<u>7,056,667</u>	7	<u>1,146,622</u>
			\$ 12,207,833		\$ 2,096,523

Shortfall amortization base for this year

1.	Funding Shortfall	
	a) Funding Target from Appendix D	\$ 61,219,763
	b) Actuarial value of assets less carryover and prefunding balances	<u>49,011,930</u>
	c) Funding shortfall = (a)-(b), not less than \$0	\$ 12,207,833
2.	Present value of remaining shortfall amortization installments	5,151,166
3.	Shortfall amortization base = (1)-(2), or \$0 if (1)(b) is greater than Funding Target from Appendix B	\$ 7,056,667

## APPENDIX F

### Contributions and Funding Balances

Contributions for 2018:	<u>CARRYOVER BALANCE</u>	<u>PRE- FUNDING BALANCE</u>	<u>TOTAL</u>
1) Minimum required contribution for 2018			\$ 5,740,402
2) Balances used to offset minimum	\$ 1,355,339	\$ 0	1,355,339
3) Additional cash requirement (1) – (2)			<u>4,385,063</u>
4) Contributions discounted to 1/1/2018			4,385,063
5) Excess contributions (4) – (3)			\$ <u>0</u>

Carryover and Pre-funding Balances:	<u>CARRYOVER BALANCE</u>	<u>PRE- FUNDING BALANCE</u>	<u>TOTAL</u>
1) Balance at 1/1/2018	\$ 2,516,749	\$ 22,104,596	\$ 24,621,345
2) Portion used to offset 2018 funding requirement	1,355,339	0	1,355,339
3) Amount Remaining	<u>1,161,410</u>	22,104,596	<u>23,266,006</u>
4) Interest at -3.01%	- 34,958	- 665,348	- 700,306
5) Subtotal	<u>1,126,452</u>	<u>21,439,248</u>	<u>22,525,700</u>
6) Prior year's excess contributions		0	0
7) Interest on (6) at 5.96%		0	0
8) Subtotal (6) + (7)		<u>0</u>	<u>0</u>
9) Portion of (8) to be added to prefunding balance		0	0
10) Voluntary reduction	0	0	0
11) Balance at 1/1/2019 (5) + (9) + (10)	\$ <u>1,126,452</u>	\$ <u>21,439,248</u>	\$ <u>22,565,700</u>



## APPENDIX G

### Top-Heavy Test for 2019 Plan Year

Determination Date: 12/31/18

Valuation Date: 1/01/19

#### Present Value of Accrued Benefits at 7% interest - Actives

1) Key Employees (23)	\$ 8,102,054
2) Non-key Employees (567)	<u>26,917,113</u>
3) Total	\$ 35,019,167

#### Present Value of Accrued Benefits at 7% interest for new Inactives during year

1) Key Employees (2)	\$ 705,428
2) Non-key Employees (28)	<u>2,633,378</u>
3) Total	\$ 3,338,806

#### Benefit Payments Since 1/1/2018 for new Retirees during year

1) Key Employees (1)	\$ 19,357
2) Non-key Employees (5)	<u>56,150</u>
3) Total	\$ 75,507

#### Totals

1) Key Employees	\$ 8,826,839
2) Non-key Employees	<u>29,606,641</u>
3) Total	\$ 38,433,480

Top-Heavy Ratio = Key / Total 23.0%

Note: These results should be combined with top-heavy test for 401(k) plan to determine whether the combined plans are top-heavy. If neither plan is top-heavy, the combined plans will not be top-heavy.

## APPENDIX H

### Actuarial Cost Methods and Assumptions

COST METHOD:

The "frozen initial liability method" has been used in your plan.

PRE-RETIREMENT MORTALITY:

Deaths have been projected on the basis of the IRS annuitant and non-annuitant tables for 2019. Mortality rates at a few sample ages are:

<u>AGE</u>	<u>MORTALITY RATE PER 1,000</u>	
	<u>Male</u>	<u>Female</u>
25	.260	.100
30	.284	.132
35	.368	.200
40	.457	.294
45	.682	.456
50	1.173	.756
55	2.018	1.274
60	3.715	2.061

POST-RETIREMENT MORTALITY:

The IRS annuitant and non-annuitant tables for 2019 were used. The life expectancy according to the annuitant table is as follows:

<u>Age</u>	<u>Males</u>	<u>Females</u>
55	29.52 years	31.77 years
65	20.42 years	22.30 years

Appendix H (continued)

ASSUMED INVESTMENT RETURN:

7.00% annually before retirement, and 7.00% after retirement. For purposes of the accounting calculation in Exhibit 3, a discount rate of 5.00% and a long-range return on assets of 7.00% were used.

For purposes of calculating the Minimum and Maximum Contributions, the following segment rates were used:

	<u>Min</u>	<u>Max</u>
1 <sup>st</sup> segment (1-5 years)	3.74%	2.55%
2 <sup>nd</sup> segment (5-20 years)	5.35%	3.93%
3 <sup>rd</sup> segment (20+ years)	6.11%	4.49%

The equivalent rate is 5.79%.

SALARY GROWTH:

Salaries were assumed to increase 4.00% per year, (4.50% for the suggested contribution).

DISABILITIES:

None assumed.

VOLUNTARY TERMINATIONS:

For the suggested contribution, rates under the T-1 table in the Actuary's Handbook, minus mortality rates per the GA-51 table, but not less than 1%. Assumed termination rates at a few sample ages are:

<u>Age</u>	<u>Termination Rate per 1,000</u>
25	49.1
30	36.6
35	22.9
40	10.4
45	10.0
50	10.0
55	10.0
60	10.0

Appendix H (continued)

EXPECTED RETIREMENT PATTERN: For the suggested contribution, we have assumed the following rates of retirement:

<u>Age</u>	<u>Retirement Rate</u>
55 - 61	.10
62	.25
63	.15
64	.15
65	1.00

ADMINISTRATIVE EXPENSES: These were assumed to be paid by the Sponsor.

ASSET VALUATION: Market Value

CONSIDERATION OF FUTURE MORTALITY IMPROVEMENTS: The minimum and maximum contribution requirements are determined using mortality assumptions specified by the Internal Revenue Service. These assumptions do include anticipated mortality improvements up to the valuation date but not beyond.

Future mortality improvements were not considered in developing the suggested contribution or the financial statement items in Exhibit 3. A change in the life expectancy table would normally have the greatest impact on current retirees. This plan has few retirees and a relatively low average age. Thus, the liabilities are significantly more volatile with regards to the other assumptions (i.e., investment return, salary growth, retirement age and turnover) than mortality.

# **Osborn, Carreiro & Associates, Inc.**

**ACTUARIES • CONSULTANTS • ANALYSTS**

One Union National Plaza, Suite 1690  
124 West Capitol Avenue  
Little Rock, Arkansas 72201  
(501) 376-8043  
FAX (501) 376-7847

February 14, 2019

Mr. Tom Dunn  
Southwest Power Pool  
201 Worthen Drive  
Little Rock, AR 72223-4936

RE: Retiree Medical Coverage - FASB ASC 715-60

Dear Tom:

Attached is my report on the 2019 net periodic postretirement benefit cost per Financial Accounting Standards Board Accounting Standards Codification 715-60, for the retiree medical coverage.

The attached report assumes a 5.00% discount rate and the IRS mortality table for 2019. The 2019 expense is \$1,050,487.

Please let me know if you have any questions or comments.

Sincerely,



Steve Osborn, F.S.A., M.A.A.A.  
Actuary

Attachment

# **Osborn, Carreiro & Associates, Inc.**

**ACTUARIES • CONSULTANTS • ANALYSTS**

One Union National Plaza, Suite 1690  
124 West Capitol Avenue  
Little Rock, Arkansas 72201  
(501) 376-8043  
FAX (501) 376-7847

February 13, 2019

Mr. Thomas P. Dunn  
Southwest Power Pool  
201 Worthen Drive  
Little Rock, AR 72223-4936

RE: Retiree Medical Coverage

Dear Mr. Dunn:

I have calculated the 2019 net periodic postretirement benefit cost per Financial Accounting Standards Board Accounting Standards Codification 715-60.

The results are shown on the attached sheets. The 2019 net periodic post-retirement benefit cost will be \$1,050,487. All employees hired before June 1, 2006 are entitled to a \$300 (\$600 for family) monthly HSA payment toward the purchase of their own Medicare supplement coverage, once they reach normal retirement age and 10 years of vested service with Southwest Power Pool. Those employees hired before January 1, 1996 are eligible for postretirement medical coverage upon reaching age 55 and accruing 10 years of vested service with Southwest Power Pool.

The calculations incorporate various actuarial assumptions. In particular, I assumed a 5.00% discount rate and a 7.0% investment return on plan assets. The health care cost trend rate was assumed to increase 9% next year, 8% the following year, and so on, decreasing to an ultimate 5% assumption in four years.

The health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, increasing the health care cost trend rate by one percentage point each year would increase the accumulated post-retirement benefit obligation as of January 1, 2019 by \$2,253,339, and the 2019 net periodic postretirement benefit cost by \$342,698.

Please let me know if you have any questions or comments.

Sincerely,



Steve Osborn, F.S.A., M.A.A.A.  
Actuary

Attachments

**EXHIBIT 1**

**FASB ASC 715-60 FOR 2017, 2018, and 2019**

A. Reconciliation of Funded Status	<u>1/1/17</u>	<u>1/1/18</u>	<u>1/1/19</u>
1. Actuarial present value of accumulated post-retirement benefit obligations			
a. Retirees	\$ (2,181,539)	\$ (2,348,430)	\$ ( 2,854,321)
b. Fully eligible active employees	(1,077,636)	(1,367,653)	( 1,412,445)
c. Other active employees	<u>(6,166,527)</u>	<u>(5,758,262)</u>	<u>( 6,072,351)</u>
d. Subtotal	\$ (9,425,702)	\$ (9,474,345)	(10,339,117)
2. Plan assets at fair value	<u>0</u>	<u>0</u>	<u>0</u>
3. Funded Status: (1)+(2)	\$ (9,425,702)	\$ (9,474,345)	\$ (10,339,117)
4. Unrecognized net (gain) or loss	5,538,537	4,501,270	4,405,552
5. Unrecognized prior service cost	(1,404,950)	(1,322,306)	( 1,239,662)
6. Unrecognized net obligation or (net asset)	<u>17,702</u>	<u>13,279</u>	<u>8,856</u>
7. Subtotal (4) + (5) + (6)	4,151,289	3,192,243	3,174,746
10. Total: (3) + (7)	\$ <u>(5,274,413)</u>	\$ <u>(6,282,102)</u>	\$ <u>( 7,164,371)</u>

**SOUTHWEST POWER POOL**  
**RETIREMENT PLAN**

**FASB ASC 715-60 Items**

	<u>Post-Retirement Medical Asset on Balance Sheet</u>	<u>Accumulated Other Comp. Income (loss) Post-Retirement Medical Part</u>	<u>Total</u>
<b>B. Reconciliation</b>			
1. Balance 12/31/17	\$ ( 9,474,345)	\$ 3,192,243	\$ (6,282,102)
2. Change in assumption			
a) Discount Rate	( 0)	0	0
b) Mortality Table	( 424,331)	424,331	0
3. Net periodic post-retirement benefit cost for 2018	( 900,953)	( 119,214)	(1,020,167)
4. Cash contribution in 2018	137,898	0	137,898
5. Gains	322,614	( 322,614)	0
6. Balance 12/31/18	\$ (10,339,117)	\$ 3,174,746	\$ (7,164,371)

Note: The above does not include any tax effects.



**FASB ASC 715-60 Implementation**

C. Disclosure of FASB ASC 715-60 Benefit Cost	<u>2017</u>	<u>2018</u>	
1. Service Cost	\$ 441,163	\$ 410,439	
2. Interest Cost	490,118	490,514	
3. Actual Return on Assets	( 0)	( 0)	
4. Net amortization and deferral			
a. Deferral	0	0	
b. Net loss recognition	255,332	197,435	
c. Prior service cost amort.	( 82,644)	( 82,644)	
d. Transition (asset) amort.	4,423	4,423	
e. Subtotal	<u>177,111</u>	<u>119,214</u>	
5. Net Periodic Postretirement Benefit Cost	<u>\$ 1,108,392</u>	<u>\$ 1,020,167</u>	
D. Determination of Cost for next year	<u>2017</u>	<u>2018</u>	<u>2019</u>
1. Service Cost	\$ 441,163	\$ 410,439	\$ 408,299
2. Interest Cost (on A(4) and D(1))	490,118	490,514	533,096
3. Expected return on assets	( 0)	( 0)	( 0)
4. Amortization of			
a. Unrecognized net (gain) or loss	255,332	197,435	187,313
b. Unrecognized prior service cost	( 82,644)	( 82,644)	( 82,644)
c. Unrecognized net obligation or (net asset)	4,423	4,423	4,423
5. Net Periodic Postretirement Benefit Cost	<u>\$ 1,108,392</u>	<u>\$ 1,020,167</u>	<u>\$ 1,050,487</u>

**EXHIBIT 2**

**PARTICIPANT DATA**

A. The following participant data was used:

	<u>January 1 2018</u>	<u>January 1 2019</u>
Number of Active Employees covered	105	100
Number of Retirees Covered	22	23

B. Projected premium payment

1 <sup>st</sup> year	\$ 149,000	\$ 171,000
2 <sup>nd</sup> year	187,000	206,000
3 <sup>rd</sup> year	202,000	234,000
4 <sup>th</sup> year	221,000	271,000
5 <sup>th</sup> year	246,000	314,000
6 <sup>th</sup> through 10 <sup>th</sup> year	1,933,000	2,271,000

### EXHIBIT 3

#### ACTUARIAL ASSUMPTIONS

DISCOUNT RATE: A discount rate of 5.00% was used for the 2019 and 2018 Benefit Cost and the December 31, 2018 and December 31, 2017 disclosures. The expected return on assets was assumed to be 7.00%.

HEALTH CARE COST TREND RATE: "Medical inflation" was assumed to be 9.0% for the next year, 8.0% in the second year, 7.0% in the third year, 6.0% in the fourth year, and 5.0%/year thereafter.

BASE CLAIM COSTS: The following monthly base claim costs were assumed for retirees for 2019:

	<u>Total</u>	<u>Paid by Employee</u>
Single, with Medicare	\$ 300.00	\$ 0.00
Family, with Medicare	600.00	0.00
Single, no Medicare	735.93	120.00
Family, no Medicare	1,607.99	266.00

SELECTION OF COVERAGE:

We assumed that 100% of eligible retirees would select the coverage.

DATA USED:

We received a census listing from the company. The data is summarized in Exhibit 2.

PRE-RETIREMENT MORTALITY:

Deaths have been projected on the basis of the table used by the IRS for 2019, under IRC 430 (the 2018 table was used last year). Mortality rates at a few sample ages are:

	<u>MORTALITY RATE PER 1,000</u>	
<u>AGE</u>	<u>MALE</u>	<u>FEMALE</u>
25	.260	.100
30	.284	.132
35	.368	.200
40	.457	.294
45	.682	.456
50	1.173	.756
55	2.018	1.274
60	3.715	2.061

Exhibit 3 (continued)

POST-RETIREMENT MORTALITY:

The table used by the IRS for 2019, under IRC 430 was used (the 2018 table was used last year). The life expectancy according to this table is as follows:

<u>AGE</u>	<u>MALES</u>	<u>FEMALES</u>
55	29.53 years	31.77 years
65	20.43 years	22.30 years

DISABILITIES:

None assumed.

VOLUNTARY TERMINATIONS:

Rates under the T-1 table in *The Actuary's Handbook*, minus mortality rates per the Ga51 table, but not less than 1%. Assumed termination rates at a few sample ages are:

<u>AGE</u>	<u>TERMINATION RATE PER 1,000</u>
25	49.1
30	36.6
35	22.9
40	10.4
45	10.0
50	10.0
55	10.0
60	10.0

EXPECTED RETIREMENT PATTERN:

We have assumed the following rates of retirement:

<u>AGE</u>	<u>RETIREMENT RATE</u>
55 – 61	.10
62	.25
63	.15
64	.15
65	1.00

# **Osborn, Carreiro & Associates, Inc.**

**ACTUARIES • CONSULTANTS • ANALYSTS**

One Union National Plaza, Suite 1690  
124 West Capitol Avenue  
Little Rock, Arkansas 72201  
(501) 376-8043  
FAX (501) 376-7847

February 14, 2019

Mr. Thomas P. Dunn  
Southwest Power Pool  
201 Worthen Drive  
Little Rock, AR 72223-4936

RE: Retiree Medical Coverage – Cash Contribution for 2019

Dear Mr. Dunn:

I have calculated the 2019 net periodic postretirement benefit cost per Financial Accounting Standards Board Accounting Standards Codification 715-60. Those results are shown in my report to you dated February 13, 2019.

There are some assets (almost \$11.6 million) that are currently being used to “fund” the postretirement health benefits. You asked me to calculate a “contribution” for this program, reflecting these assets.

The contribution for 2019, consistent with the FASB ASC 715-60 calculations except reflecting the assets, would be \$52,241. I project claims (and retiree HRA deposits) to be around \$171,000 for 2019.

The calculation incorporates the same actuarial assumptions used in my February 13, 2019 report.

Please let me know if you have any questions or comments.

Sincerely,



Steve Osborn, F.S.A., M.A.A.A.  
Actuary

**Southwest Power Pool, Inc.**  
**FINANCE COMMITTEE**  
**Recommendation to the Board of Directors**  
**April 30, 2019**  
**Schedule 1A Rate Cap**

**Organizational Roster**

The following persons are members of the Finance Committee:

Bruce Scherr	SPP Director
Susan Certoma	SPP Director
Jerry Peace	OG&E
Sandra Bennett	American Electric Power
Laura Kapustka	Lincoln Electric
Mike Wise	Golden Spread

**Background**

SPP currently recovers its costs of operations by charging transmission customers under schedule 1A of the tariff. Schedule 1A allows SPP to recover up to 100% of its costs by charging a rate per MWh of demand usage as long as that rate doesn't exceed a stated rate cap. SPP is working to change its administrative funding processes to better align its recovery of costs with those who use and benefit from SPP's services, particularly those using its Integrated Marketplace services. The Schedule 1A Task Force has proposed an administrative funding process to recover costs using four separate rate schedules. Each rate schedule would be charged separately to customers who use and benefit from each particular service. One of these rate schedules recovers costs from transmission customers consistent with the existing process. The remaining three rate schedules recover costs from market participants based on energy billing determinants. The Schedule 1A Task Force has proposed a formula rate template that will allocate SPP's costs among the four rate schedules based on those costs being collected from those customers receiving the benefits from the various SPP services provided.

The existing Schedule 1A includes a rate cap that limits the rate charged and collected for the recovery of all of the administrative costs incurred by SPP. The Schedule 1A Task Force has voted unanimously (with one abstention) to recommend retaining the existing rate cap as a means to manage and control costs to operate SPP.

**Analysis**

SPP staff does not support maintaining the rate cap in conjunction with the proposed changes to SPP's recovery processes. SPP staff supports elimination of the existing rate cap upon implementation of the four-rate schedules proposed by the Schedule 1A Task Force. The rationale behind SPP staff's position is as follows:

- 1) The cap structure, as proposed, utilizes all costs to operate SPP regardless of whether those costs are incurred to provide planning and system operation services, virtual transactions, congestion hedging, and/or real-time energy delivery while solely utilizing billing determinants measuring transmission demand to determine the cap rate. Due to this structure, the rate cap, as proposed, bears no correlation to three of the four rate schedules.
- 2) The formula rate templates proposed by the Schedule 1A Task Force allocate SPP's operating costs for recovery from tariff customers based on the services purchased. The rate cap, as proposed, is disconnected to the individual rate schedules and may have the effect of SPP reducing costs in a manner that is unrelated to the services provided. The formula rate template is very prescriptive in the specific costs to be included in each rate schedule. Imposing a rate cap not correlated to the costs being recovered raises questions as to the validity of the formula rate template.

- 3) The SPP Finance Committee, comprised of two independent board members and four member representatives, is charged with reviewing SPP's budgets and recommending budgets to the SPP board of directors for approval. The imposition of a rate cap layered on top of the proposed formula rate templates potentially impacts the ability of the SPP Finance Committee and Board of Directors to exercise its authority and requires otherwise avoidable FERC filings.
- 4) A rate cap layered on top of a formula rate mechanism is inconsistent with the general structure of formula rates employed by SPP's members. The Schedule 1A Task Force debate on the rate did not justify the effectiveness of the rate cap to control costs.
- 5) The Schedule 1A Task Force was formed to create a rate structure to best align recovery of SPP's costs with those who utilize SPP's services, not to create mechanisms in an attempt to manage SPP's budget. Approval of a rate cap layered on top of the proposed rate structure appears to be outside the scope of the Schedule 1A Task Force.
- 6) A rate cap, as proposed, would be different from other FERC jurisdictional RTO/ISO markets with unbundled rate structures. Only California ISO has a cap within its tariff and that cap is specific to the costs to run the California ISO, not the rates charged. New York ISO has a cap on changes that can occur within a specific rate formula for virtual and congestion rights activities.

### **Recommendation**

Direct the Schedule 1A Task Force, Regional Tariff Working Group, and Markets and Operations Policy Committee to eliminate the broad rate cap approved by the Schedule 1A Task Force as part of the proposed revisions to SPP's cost recovery processes.

**Approved:** SPP Finance Committee

**Action Requested:** Approve Recommendation



### Revision Request Form

#### SPP STAFF TO COMPLETE THIS SECTION

<b>RR #:</b> 354	<b>Date:</b> 03/15/2019	
<b>RR Title:</b> Acceptable Credit for Sponsored Upgrades		
System Changes <input checked="" type="checkbox"/> No <input type="checkbox"/> Yes		
Process Changes? <input checked="" type="checkbox"/> No <input type="checkbox"/> Yes		
Impact Analysis Required? <input checked="" type="checkbox"/> No <input type="checkbox"/> Yes		
SUBMITTER INFORMATION		
<b>Name:</b> Scott Smith	<b>Company:</b> SPP	
<b>Email:</b> ssmith@spp.org	<b>Phone:</b> 501-614-3339	
<i>Only Qualified Entities may submit Revision Requests. Please select at least one applicable option below, as it applies to the named submitter(s).</i>		
<input checked="" type="checkbox"/> SPP Staff <input type="checkbox"/> SPP Market Participant <input type="checkbox"/> SPP Member <input type="checkbox"/> An entity designated by a Qualified Entity to submit a Revision Request "on their behalf"	<input type="checkbox"/> SPP Market Monitor <input type="checkbox"/> Staff of government authority with jurisdiction over SPP/SPP member <input type="checkbox"/> Rostered individual of SPP Committee, Task Force or Working Group <input type="checkbox"/> Transmission Customers or other entities that are parties to transactions under the Tariff	
REVISION REQUEST DETAILS		
<b>Requested Resolution Timing:</b> <input checked="" type="checkbox"/> Normal <input type="checkbox"/> Expedited <input type="checkbox"/> Urgent Action		
Reason for Expedited/Urgent Resolution:		
<b>Type of Revision (select all that apply):</b>		
<input type="checkbox"/> Correction <input type="checkbox"/> Clarification <input type="checkbox"/> Design Enhancement <input checked="" type="checkbox"/> New Protocol, Business Practice, Criteria, Tariff	<input type="checkbox"/> NERC Standard Impact ( <i>Specifically state if revision relates to/or impacts NERC Standards, list standard(s)</i> )  <input type="checkbox"/> FERC Mandate ( <i>List order number(s)</i> )	
REVISION REQUEST RISK DRIVERS		
<b>Are there existing risks to one or more SPP Members or the BES driving the need for this RR?</b> <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		
If yes, provided details to explain the risk and timelines associated:		
<input type="checkbox"/> Compliance (Tariff, NERC, Other) <input type="checkbox"/> Reliability/Operations <input type="checkbox"/> Financial		
<b>SPP Documents Requiring Revision:</b> <i>Please select your primary intended document(s) as well as all others known that could be impacted by the requested revision (e.g. a change to a protocol that would necessitate a criteria or business practice revision).</i>		
<input type="checkbox"/> Market Protocols	<b>Section(s):</b>	<b>Protocol Version:</b>
<input type="checkbox"/> Operating Criteria	<b>Section(s):</b>	<b>Criteria Date:</b>



<input type="checkbox"/> Planning Criteria	Section(s):	Criteria Date:
<input checked="" type="checkbox"/> Tariff (OATT)	Section(s): Attachment J Schedule 1 / Attachment Z1 Section III	
<input checked="" type="checkbox"/> Business Practice	Business Practice Number: New Business Practice	
<input type="checkbox"/> Integrated Transmission Planning (ITP) Manual	Section(s):	
<input type="checkbox"/> Revision Request Process	Section(s):	
<input type="checkbox"/> Minimum Transmission Design Standards for Competitive Upgrades (MTDS)	Section(s):	
<input type="checkbox"/> Reliability Coordinator and Balancing Authority Data Specifications (RDS)	Section(s):	
<input type="checkbox"/> SPP Communications Protocols	Section(s):	

**OBJECTIVE OF REVISION**

**Objectives of Revision Request:**

*Describe the problem/issue this revision request will resolve.*

The purpose of this RR is to provide additional clarity on two security provisions in the Tariff.

Currently, the language in Schedule 1 of Attachment J requires a Project Sponsor to provide a Letter of Credit in connection with the funding of a Sponsored Upgrade. This provides assurance to the Transmission Owner constructing the project that the funding will be provided. In many instances, the Project Sponsor and the Transmission Owner constructing the project are the same entity. The proposed revisions will allow the Letter of Credit to be waived in those instances.

Currently, the language in Attachment Z1, section III, part C, paragraph 9 requires security to be posted for payment obligations associated with upgrades identified in the Aggregate Transmission Service Study process without differentiating between those payment obligations associated with upgrades that will actually require construction and those payment obligations associated with transmission revenue credits required in accordance with Attachment Z2. The revisions proposed in this RR specify that the security requirements are associated only with those upgrades required to be constructed and have been issued a Notification to Construct in accordance with Attachment Y.

Additionally, Attachment Z1, section III, part C, paragraph 10 includes the phrase “other reasonable forms of security.” The proposed Business Practice language identifies what forms of security are deemed to be reasonable. This will help eliminate ambiguity and ensure consistency in the implementation of this Tariff provision.

Other clarifying revisions include: The term “financial security” used within attachments J and Z1 as both a capitalized defined term and lowercase non-defined term could cause confusion. The term was updated within attachment Z1 to all lowercase “security” so it is not confused with the “Financial Security” defined term within Attachment X of the tariff.

*Describe the benefits that will be realized from this revision.*

The updates within Attachment Z1, section III, part C, paragraph 9 specifies that the security requirement is only applicable for upgrades where an issuance of a Notification to Construct in accordance with Attachment Y is required.

Currently, the tariff specifies more examples of acceptable forms of security in Attachment V than in Attachment Z1. This RR will ensure SPP applies the security requirement fairly and consistently across the tariff.

Currently, SPP requires Transmission Customers to post Letters of Credit or Cash as it relates to financial security requirements defined in Attachment Z1. This RR may reduce the cost to transmission customers and at the same time not increase the credit risk to SPP.

**REVISIONS TO SPP DOCUMENTS**

*In the appropriate sections below, please provide the language from the current document(s) for which you are requesting revision(s), with all edits redlined.*

**Market Protocols**

**SPP Tariff (OATT)**

### **Schedule 1 to Attachment J**

#### **Agreement For Sponsored Upgrade**

This Agreement For Sponsored Upgrade ("Agreement") is entered into this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_, by and between \_\_\_\_\_ ("Project Sponsor"), and Southwest Power Pool, Inc. ("Transmission Provider") on behalf of itself and the designated Transmission Owner(s). The Project Sponsor and Transmission Provider shall be referred to as "Parties."

WHEREAS, the Transmission Provider administers an Open Access Transmission Tariff ("Tariff") to provide Transmission Service within the Southwest Power Pool and acts as agent for the Transmission Owners in providing service under the Tariff; and

WHEREAS, the Sponsored Upgrade identified in the Appendix attached hereto has been endorsed by the Markets and Operations Policy Committee and the Board of Directors of the Transmission Provider; and

WHEREAS, the Project Sponsor has agreed to bear the cost of the Sponsored Upgrade; and

WHEREAS, the Parties intend that capitalized terms used herein shall have the same meaning as in the Tariff;

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein, the Parties agree as follows:

1.0 This Agreement shall become effective on the later of (1) the date of the execution of this Agreement by both Parties or (2) such other date as it is permitted to become effective by the Commission. ("Effective Date")

2.0 This Agreement shall terminate on the later of the following events: (1) the Project Sponsor has fulfilled its obligation to make Project Sponsor's Payment pursuant to section 3.0; (2) the Transmission Provider has fulfilled its obligation to pay the Project Sponsor all revenue credits pursuant to section 5.0, recognizing that no obligation to pay revenue credits will remain after the Sponsored Upgrade has been permanently removed from service; or (3) the end of the candidate ILTCR term if the Project Sponsor has elected to receive candidate ILTCRs in lieu of revenue credits.

3.0 Project Sponsor agrees to pay the Directly Assigned Upgrade Costs of the Sponsored Upgrade pursuant to Attachment J of the Tariff. Project Sponsor has elected to pay for the Sponsored Upgrade in one of the following manners, as indicated in the Appendix attached hereto: (1) by a lump sum payment or (2) a periodic charge, both hereinafter referred to as "Project Sponsor's Payment." The Parties recognize that the initial Project Sponsor's Payment will be based on an estimate of the Directly Assigned Upgrade Costs. While Transmission Provider represents that the Project Sponsor's Payment is based on a good faith estimate of the Directly Assigned Upgrade Costs, such estimate shall not be binding, and the Project Sponsor shall compensate the Transmission Provider and designated Transmission Owner(s) for all costs incurred pursuant to the provisions of the Tariff. Promptly after the Sponsored Upgrade is placed in service, Transmission Provider shall adjust the Project Sponsor's Payment to reflect all such costs incurred, as appropriate.

4.0 Project Sponsor shall maintain a Letter of Credit in the amount specified in this Agreement or such other form of security acceptable to Transmission Provider pursuant to Attachment X of the Tariff until such time as the Project Sponsor has fulfilled its obligation to make Project Sponsor's Payment pursuant to section 3.0. The Transmission Provider may waive the requirement for a Letter of Credit or such other form of security if the Project Sponsor and the designated Transmission Owner are one and the same entity.

5.0 Transmission Provider agrees to provide Project Sponsor with either revenue credits pursuant to Attachment Z2 of the Tariff or candidate ILTCRs in the amounts on a specific source-to-sink path as documented in this Schedule 1. Revenue credits or candidate ILTCRs shall be the exclusive compensation of the Project Sponsor under this Agreement. Such election shall be documented in the Appendix attached hereto.

6.0 Transmission Provider agrees to arrange for the construction of the Sponsored Upgrade in accordance with the Tariff, the SPP Membership Agreement and the construction timeline specified herein.

7.0 Any notice or request made to or by either Party regarding this Agreement shall be made to the representative of the other Party as indicated below.

Southwest Power Pool, Inc.:

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201 Worthen Drive  
Little Rock, AR 72223-4936

Project Sponsor:

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8.0 The Tariff is incorporated herein and made a part hereof for all purposes.

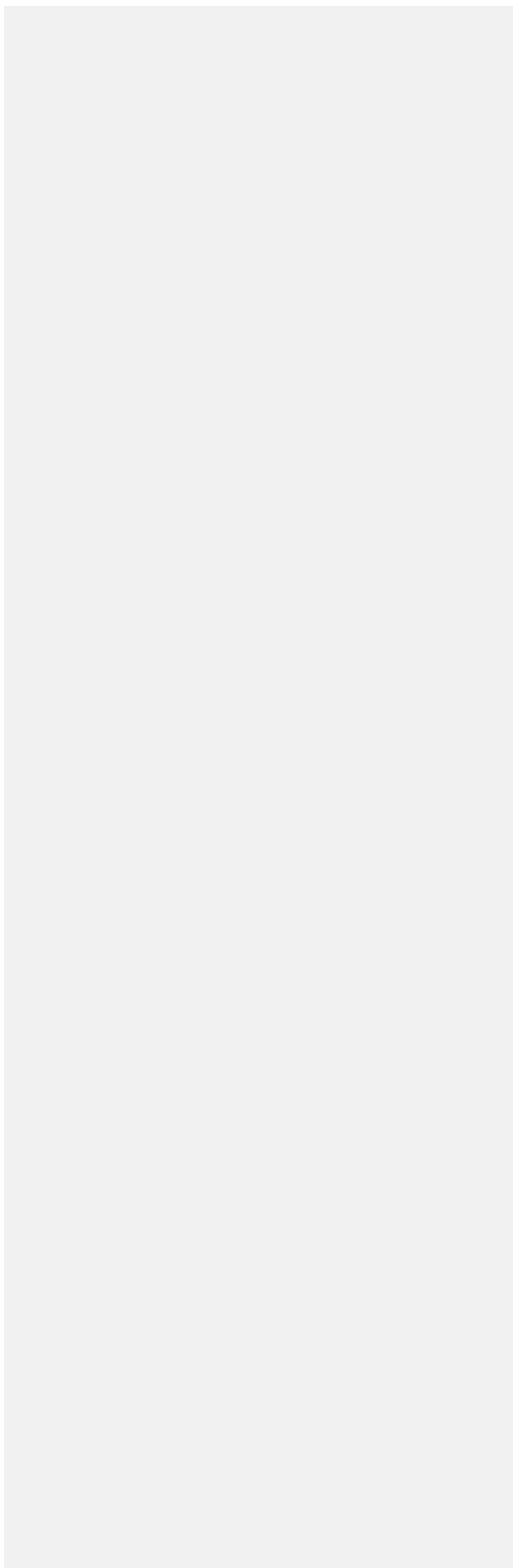
IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their respective authorized officials.

Southwest Power Pool, Inc.:

By: \_\_\_\_\_  
Name Title Date

Project Sponsor:

By: \_\_\_\_\_  
Name Title Date



## Attachment Z1 Section III

### III. Aggregate Transmission Service Study Process

#### A. Aggregate Facilities Study Agreement

1. All Eligible Customers that submitted a Completed Application for transmission service during the open season specified in Section II of this Attachment Z1 must submit an AFSA to the Transmission Provider prior to the close of the open season. The AFSA shall be available on the Transmission Provider's OASIS. By executing the AFSA, the Eligible Customer agrees to reimburse the Transmission Provider and any affected Transmission Owner(s) for its share of costs for any required Aggregate Facilities Study(ies) as described in this Section III.
2. If the Eligible Customer elects not to execute the AFSA, its transmission service request and Application shall be deemed withdrawn and its security, pursuant to this Tariff, shall be returned with accrued interest, if any.
3. The AFSA shall require the Eligible Customer to specify the following conditions under which the Eligible Customer is willing to accept the requested transmission service ("Study Completion Conditions"):
  - a. the maximum amount of Directly Assigned Upgrade Costs the Eligible Customer will accept;
  - b. the maximum amount of third party upgrade costs the Eligible Customer will accept;
  - c. the deferred start date the Eligible Customer will accept for the transmission service;
  - d. whether the Eligible Customer is willing to pay for redispatch costs and the length of duration for redispatch that is acceptable; and
  - e. the maximum amount of letter of credit requirements acceptable.

The Eligible Customer may elect to specify a single combined maximum amount for both the Directly Assigned Upgrade Costs and third party upgrade costs rather than the separate amounts specified in sections (a) and (b) immediately above.

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4. By executing the AFSA, the Eligible Customer agrees to take the transmission service requested in accordance with Section III.C.8 of this Attachment Z1 if the Study Completion Conditions specified in its AFSA are met upon the completion of the Aggregate Facilities Study except as provided in Section III.D of this Attachment Z1.
5. Changes to an Eligible Customer's request in OASIS will not be permitted following the close of the open season and withdrawal of an OASIS request after that date will not relieve an Eligible Customer of any obligations specified in Section III.A.4 of this Attachment Z1.

**C. Aggregate Facilities Study**

1. The Transmission Provider shall commence the Aggregate Facilities Study upon the close of an open season. The Transmission Provider will use due diligence to complete the required Aggregate Facilities Study within one hundred sixty-five (165) days for all Eligible Customers' requests with executed AFSAs. The Transmission Provider shall coordinate with the affected Transmission Owner(s) to complete the Aggregate Facilities Study. If the Transmission Provider is unable to complete the Aggregate Facilities Study within one hundred sixty-five (165) days, the Transmission Provider shall notify the Eligible Customer(s) and provide an estimate of the time needed to reach a final determination along with an explanation of the reason(s) that additional time is required to complete the study.
2. The Transmission Provider shall post the results of the first iteration of the Aggregate Facilities Study on the Transmission Provider's OASIS and notify all Eligible Customers in the study. Within fifteen (15) days of such posting, the Eligible Customer may request a waiver of costs in excess of the Safe Harbor Cost Limit in accordance with Attachment J. Within five (5) Business Days of the posting, any Eligible Customer with one or more Study Completion Conditions that were not met in the first iteration of the Aggregate Facilities Study may adjust its Study Completion Conditions in its AFSA to accommodate the results of the Aggregate Facilities Study. Failure by an Eligible Customer to adjust any of its Study Completion Conditions that were not met in the first iteration of the

Aggregate Facilities Study shall result in the Eligible Customer's request being withdrawn from the Aggregate Facilities Study. If all Study Completion Conditions are met in the first iteration of the Aggregate Facilities Study, the Transmission Provider shall deem the Aggregate Facilities Study complete.

3. Following the receipt of any modified Study Completion Conditions, the Transmission Provider shall perform additional iterations of the Aggregate Facilities Study, as necessary. At the completion of each iteration, if one or more of an Eligible Customer's Study Completion Conditions are not met, the Transmission Provider shall remove such Eligible Customer's request from the Aggregate Facilities Study. For any Eligible Customer's request removed from the Aggregate Facilities Study by the Transmission Provider as a result of not meeting such Eligible Customer's Study Completion Conditions, the Transmission Provider shall refuse that Eligible Customer's request in OASIS. For the Eligible Customers' requests remaining in the Aggregate Facilities Study, the Transmission Provider shall conduct an additional iteration, if necessary.
4. For each Aggregate Facilities Study, the Transmission Provider shall identify system constraints and, in conjunction with the applicable Transmission Owner(s), determine any upgrades required to reliably provide the requested transmission service for the study group in a manner that minimizes the overall costs for the study group. In identifying the required upgrades, the Transmission Provider shall perform a regional review to determine if alternative solutions would reduce overall cost to customers and incorporate such solutions as appropriate.
5. The power flow models used for an Aggregate Facilities Study shall be developed for each season for the period from the earliest start of service to the latest end of service for the applicable requests. The models will include all other applicable existing reservations having equal or greater queue priority including potential renewals of existing service having a reservation priority pursuant to Section 2.2 of this Tariff.



6. The Transmission Provider shall recognize constraints due to contractually limited facilities and allocate available capacity on a first come first served basis on the contractual constraint only.
7. The Transmission Provider shall deem the Aggregate Facilities Study complete when all remaining Eligible Customers' Study Completion Conditions have been met. The Transmission Provider will finalize the solutions for the Aggregate Facilities Study and the cost estimates for upgrades necessary to provide the requested transmission service.
8. At the completion of the Aggregate Facilities Study, the Transmission Provider shall determine the allocation of estimated cost to provide the transmission service for each request. The Transmission Provider shall issue Service Agreements to all Eligible Customers remaining in the Aggregate Facilities Study, except those Eligible Customers with third party impacts subject to Section III.D below. Upon receipt of the Service Agreement, the Eligible Customer shall have thirty (30) days to execute the Service Agreement or request the filing of an unexecuted Service Agreement. The Transmission Provider shall file an unexecuted Service Agreement with the Commission for any Eligible Customer failing within thirty (30) days to execute the Service Agreement or request the Service Agreement be filed unexecuted.

9. For those upgrades requiring the issuance of a Notification to Construct in accordance with Attachment Y of this Tariff, the Eligible Customer must provide security in an amount equal to the full amount of the upgrade's estimated engineering and construction cost allocated to the customer for cost recovery within thirty (30) days of confirmation of an Eligible Customer's OASIS request. The Transmission Provider may, at its sole discretion, waive the requirement to provide such security until the beginning of the quarter when the building Transmission Owner first incurs financial obligations for the upgrade. The amount of the security may increase or decrease each year thereafter based upon the total amount of financial obligations, plus an estimate of the increase or decrease in financial obligations that will be incurred in the next 12 months. The Eligible Customer may reduce the amount of security each year by the amount of

**Deleted:** Within thirty (30) days of confirmation of an Eligible Customer's OASIS request

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revenue paid the previous year by the Eligible Customer related to the cost allocated to it for cost recovery.

10. If security is required, the Eligible Customer shall provide the Transmission Provider with a letter of credit as specified in Appendix C to Attachment X of this Tariff, or other reasonable form of security acceptable to the Transmission Provider equivalent to only those costs of new facilities or upgrades that are allocated to the Eligible Customer for cost recovery.

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#### SPP Business Practices

##### 2500 Attachment Z1 Credit Requirements

The purpose of this Business Practice is to identify the forms of security acceptable to the Transmission Provider pursuant to Attachment Z1, Section III.C(10) for those upgrades required as a result of the Aggregate Transmission Service Study process in Attachment Z1.

##### Business Practice

Acceptable forms of security to satisfy the requirements of Attachment Z1, Section III.C(10) are as follows:

- Cash;
- Letter of credit in the form specified in Appendix C of Attachment X of the Tariff;
- Surety bond issued by an insurer reasonably acceptable to the Transmission Provider;
- Guaranty in a form consistent with Appendix D of Attachment X of the Tariff; or
- Representation by the Transmission Owner that security requirements have been independently met between the Transmission Owner and the Eligible Customer





HELPING OUR MEMBERS WORK TOGETHER  
TO KEEP THE LIGHTS ON... TODAY AND IN THE FUTURE.

# Recent RTO Credit Default

April 15, 2019



SouthwestPowerPool



SPPorg



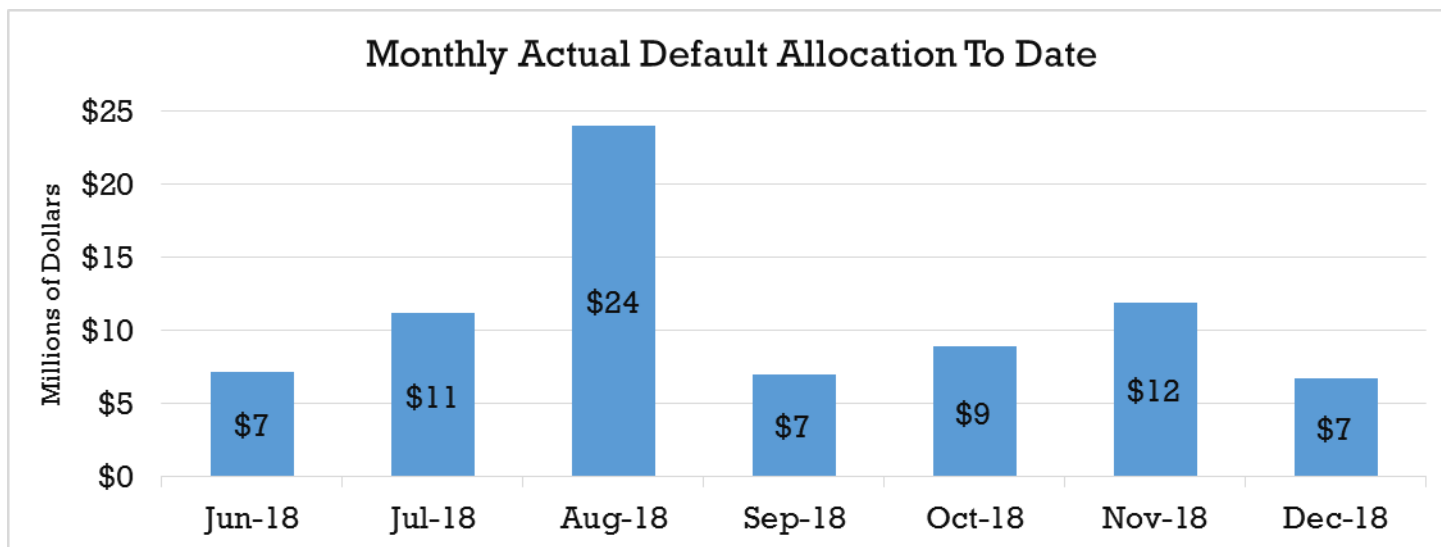
southwest-power-pool

# PJM Credit Default

- Since 2015, GH acquired a 890 million MWh FTR (TCR) long-term portfolio
  - Portfolio initially indicated as highly profitable
- PJM transmission upgrades changed congestion flows eroding Green Hat portfolio value
- PJM declared GreenHat Energy, LLC in default of credit policy on June 21, 2018
  - *Failed to pay invoice and cure a collateral call*

# PJM Credit Default

- GreenHat's Andrew Kittell & John Bartholomew (formerly JPMorgan) were involved in a FERC market manipulation settlement of \$410MM in 2013
  - *SPP has no exposure to these two individuals*
- **Estimated loss: \$400MM**



# SPP Differences with PJM

- SPP does not have true long-term TCRs
  - SPP's TCRs extend to one plan-year
- SPP's system is not as congested as PJM's
- SPP's valuation of historically negative TCRs is more conservative
- SPP only allocates a portion of the transmission system during annual auction



# Independent PJM Assessment

- PJM Board hired 3 experts to perform assessment of default
  - Credit policies
  - Internal practices
  - Specific actions taken with GreenHat
- Consultants identified 10 “Complications”
- Consultants made 7 recommendations

# SPP Assessment of Complications

	Identified Complications	Meets or Exceeds Standard	Needs Improvement	N/A	SPP Assessment
1	The PJM Credit Policy Failed to Address Critical Risks		✓		No "forward information" in exposure calculations
2	PJM Did Not Take Robust Policy Actions Following Precedent Experience			✓	PJM: Tower Companies default of \$52MM in 2007
3	PJM Failed to Perform Adequate "Know Your Customer" Procedures		✓		No background checks in registration process Thinly capitalized financial only market participants
4	PJM Management Failed to Develop Robust Credit Risk Management Tools & Procedures		✓		Reviewing existing processes and capabilities to identify enhancements
5	PJM Surrendered an Early Opportunity to Stop or Restrain GreenHat		✓		Push FERC to approve broad authority for RTOs as regulators of their markets
6	PJM's Management Mistakenly Relied on a GreenHat Pledge Agreement			✓	
7	PJM Incorrectly Believed That GreenHat Would Not Worsen the Situation			✓	
8	Qualifications and Training of PJM Staff Were Insufficient	✓			Senior credit staff performs registration approval and credit management
9	PJM FTR Market Design Flaws Gave GreenHat Room to Develop			✓	Does SPP have opportunity to adjust TCR market for safer environment?
10	An Unwarranted Air of Confidence Facilitated GreenHat's Ability to Grow		✓		Weaknesses in credit policy, capitalization, and indemnifications

# SPP Assessment of Recommendations

	Identified Complications	Possibly Effective for SPP	Not Applicable for SPP	SPP Assessment
1	Advance Credit/Collateral Best Practices into the Tariff	✓		1. Address capitalization of financial only MPs 2. Forward information in exposure calculations
2	Clarify the Role of PJM as Manager of Risk in Financial Markets	✓		Push FERC to approve broad authority for SPP as regulator
3	Build a Customer Awareness Beyond Market Procedures & Rules	✓		Build criteria for background checks and spot audits
4	Implement Technical Practices for Participant Risk Management	✓		Possibility of position limits based upon MP capitalization
5	Bring On-board and Develop New Expertise in Risk Management	✓		Identify financial market training applicable to SPP markets
6	Increase the Frequency of Long-term Auctions		✓	Market may benefit from certain TCR changes but likely not these
7	Make Critical Organizational Changes		✓	

# Settlement System Project Update

MOPC,  
April 16, 2019

Don Shipley

# Key points

- Project benefits
- Delay impacts (revision requests/costs)
- Lessons learned

# Benefits to members

- ✓ Consolidate systems
- ✓ Improve revision request implementation
- ✓ Reduce costs significantly
- ✓ Automate manual processes
- ✓ Improve customer service

# Reasons for delay

- Project timeline condensed
- Vendor missed critical delivery point
- Too many parallel paths
- Development staff ran out of time to build software and train end-users by initial deadline

# Testing revealed:

- Incomplete development of system functionality
- Inability to run system end-to-end
  - Simulating regular operating day
- Members unable to test internal systems
- Inaccurate calculations



# Revision requests implemented with go-live

- **RR229 (protocols only)/RR 333 – FERC Order 831 offer caps**  
FERC docket ER17-1568
- **RR252 – OOME cap and floor enhancement**  
FERC docket ER18-1854
- **RR259 – Market settlement timelines**  
FERC docket ER18-2058
- **RR273 – Market settlements RNU rounding**  
FERC docket ER18-2030

# Revision Requests implemented post go-live

- RR266 – Joint owned units  
FERC docket ER19-216
- RR323 - Order 841 Compliance ESR  
FERC docket ER19 -240

# Cost Impacts

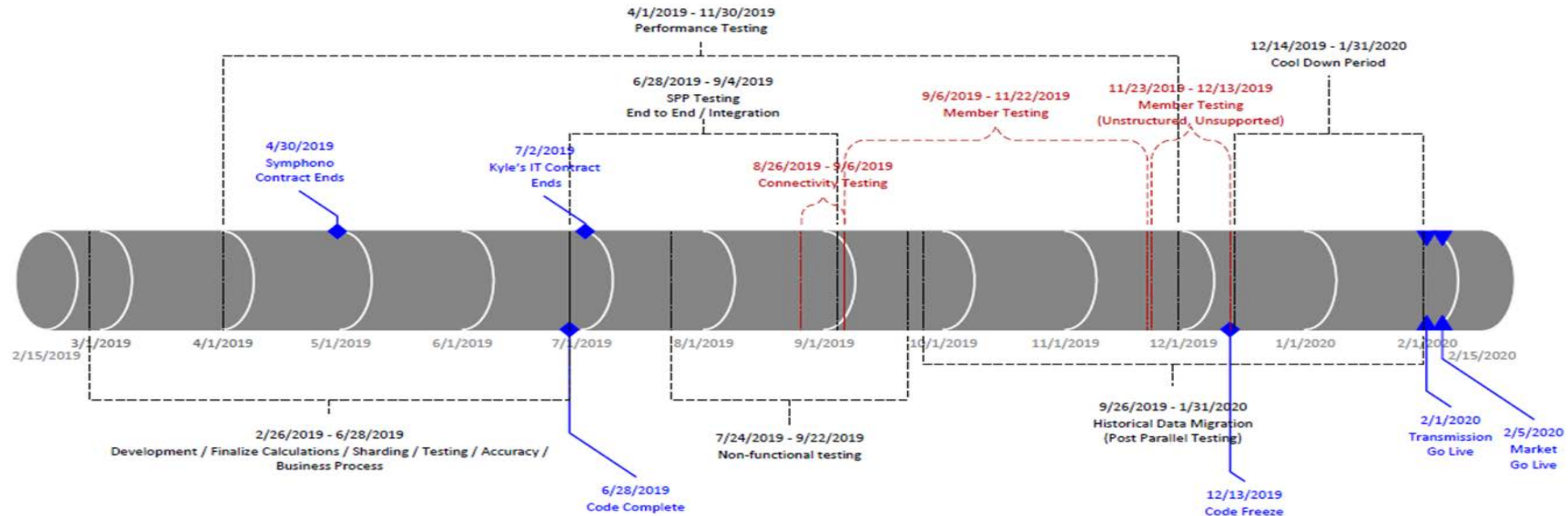
- Benefits delayed
- Continued use of current systems
  - License fees
  - Software/hardware renewals

# Applied Lessons Learned

- Improved communications internally and with vendor
- Increased focus on total development effort
- Increased internal testing/training
  - Unit testing
  - End-to-end testing
  - Settlement production analyst training

# New readiness dates

- Transmission settlements: 2/1/20
- Market settlements: 2/5/20



## CURRENT APPROVAL LEVELS - BUDGETED EXPENDITURES

### Single Signing Authority Limits

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

### Dual Signing Authority Limits

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

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

## CURRENT APPROVAL LEVELS - UNBUDGETED EXPENDITURES

### Single Signing Authority Limits

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

### Dual Signing Authority Limits

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

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

## CURRENT APPROVAL LEVELS -

### APPROVAL LEVEL FOR MARKET MONITORING UNIT (MMU) EXPENDITURES

The table below represents approval levels for budgeted expenditures only related to the MMU.

#### Single Signing Authority Limits

TIER Level	Position	Approval Limit
A	Manager	\$10K
B	Director*	\$100K
C	Oversight Committee	Within budget limits

The table below represents approval levels for unbudgeted expenditures related to the MMU.

#### Single Signing Authority Limits

TIER Level	Position	Approval Limit
A	Manager	\$0
B	Director*	\$50K
C	Oversight Committee	\$100K
D	SPP board of directors**	Above \$100K

\*Includes executive director

\*\* Excludes CEO



Monthly Financial Reporting Package  
March 2019

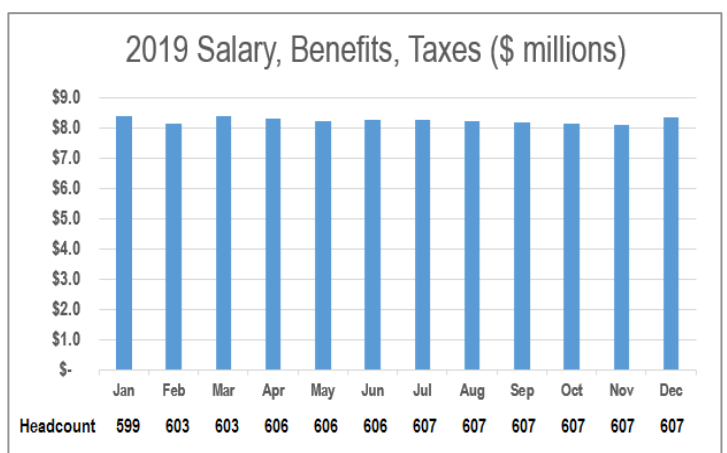
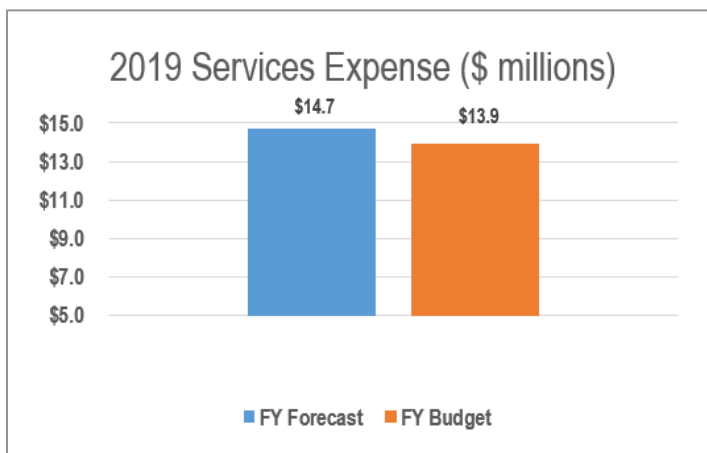
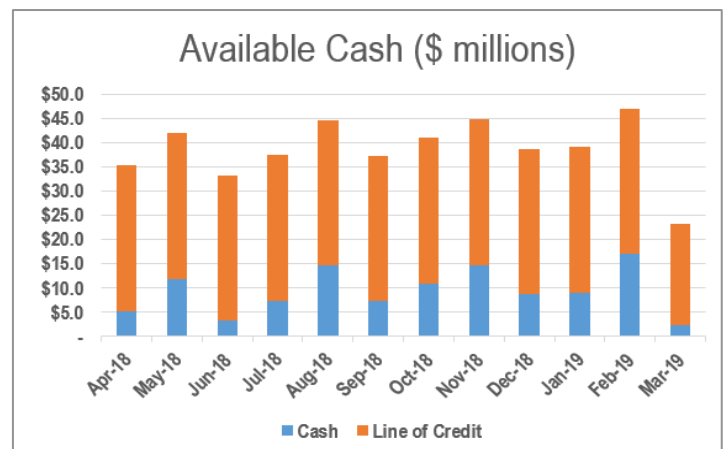
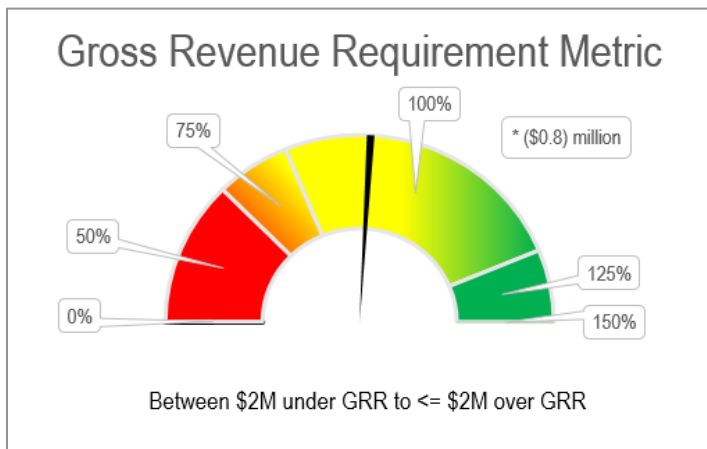
# SPP Executive Summary – March

## 2019 Over / (Under) Recovery

<u>Cost Recovery (\$ millions)</u>	2019 Fcst	2019 Budget	Fav/ (Unfav)
Gross Revenue Requirement (GRR) *	\$172.1	\$171.3	(\$0.8)
Net Revenue Requirement (NRR)	157.7	157.5	(0.2)
Admin Fee Revenue	157.8	157.5	0.3
Over / (Under) Recovery	\$0.1	\$0.0	\$0.1

\* GRR for HR metric excludes FERC fee expense

## GRR & Available Cash, Compensation and Outside Services Expenses



Southwest Power Pool  
2019 Financial Commentary  
March 31, 2019  
(in thousands)

Summary				
	2019 FY Forecast	2019 FY Budget	Fav/(Unfav) Variance	
Revenues	\$193,435	\$194,696	(\$1,261)	(0.6%)
Expenses	195,216	196,446	1,230	0.6%
Net Income/(Loss)	<u>(\$1,781)</u>	<u>(\$1,750)</u>	<u>(\$32)</u>	(1.8%)

Revenue				
	2019 FY Forecast	2019 FY Budget	Fav/(Unfav) Variance	
Tariff Administration Service	\$157,786	\$157,480	\$306	0.2%
FERC Fees	29,459	31,160	(1,701)	(5.5%)
Miscellaneous Income	5,398	5,230	168	3.2%
Contract Services Revenue	210	202	8	4.0%
Annual Non-Load Dues	582	624	(42)	(6.7%)
Total Revenue	<u>\$193,435</u>	<u>\$194,696</u>	<u>(\$1,261)</u>	(0.6%)

FERC Fees & Assessments budget assumed a significant increase in the schedule 12 rate for 2019 as a result of Schedule12 tariff changes. Although the budget assumed the rate increase to become effective in January, the rate will not go into effect until April 2019 and therefore results in an unfavorable variance to the budget.

Miscellaneous Income primarily includes revenues associated with engineering studies along with various other revenue sources such as the MISO settlement, miscellaneous rebates, reserve sharing, IM virtual fees, and circuit reimbursements. The variance is driven by increased activity related to Engineering studies, which is partially offset by higher pass-thru consulting costs reflected in outside services expense.

Southwest Power Pool  
2019 Financial Commentary  
March 31, 2019  
(in thousands)

Expense						
	2019 FY Forecast			2019 Budget	Fav/(Unfav) Variance	
	SPP	RC West	Total SPP			
Salary & Benefits	\$97,081	\$2,103	\$99,184	\$98,704	(\$480)	(0.5%)
Assessments & Fees	23,091	-	23,091	23,091	0	0.0%
Communications	4,473	461	4,935	4,792	(143)	(3.0%)
Maintenance	18,118	160	18,278	18,781	502	2.7%
Outside Services (Including RSC)	15,122	-	15,122	14,329	(793)	(5.5%)
Administrative	4,927	10	4,936	5,229	292	5.6%
Travel & Meetings	2,931	156	3,087	3,055	(32)	(1.0%)
Depreciation	19,126	116	19,242	19,447	204	1.1%
Other Expenses	7,270	71	7,341	9,019	1,679	18.6%
Total Expense	<u>\$192,138</u>	<u>\$3,078</u>	<u>\$195,216</u>	<u>\$196,446</u>	<u>\$1,230</u>	0.6%

The favorable variance in Maintenance is mainly driven by delays and/or deferrals of capital spending that drive incremental hardware and software maintenance. Additionally, spending for facilities related maintenance is favorable to budget due to shifts in timing of certain replacement/repair projects.

The increase in the Outside Services forecast is primarily related to an increase in zonal placement litigation as well as unbudgeted consulting costs associated with performing model validation studies required for the NERC MOD-033-1 requirement that were submitted in late 2018.

Other Expenses include interest expense, capitalized interest, swap valuation, investment income, unrealized gain/loss on investments, and other miscellaneous income and expense amounts. Interest expense is associated with debt issuances used for capital expenditures. Interest expense and capitalized interest are the only items in this category that are included in the budget and the NRR calculation, and are expected to remain relatively consistent with the budgeted amounts in 2019. The remaining expense and income items are highly unpredictable and therefore are not included in the budget. These unbudgeted items are currently the main driver of the favorable variance in other expenses.

The valuation adjustments contribute to the overall favorable variance in other expenses and are not reflected in the net revenue requirement (NRR) recovery calculation since they are considered non-cash items.

Southwest Power Pool  
Monthly Financial Overview  
March 31, 2019  
2018 Preliminary and Unaudited  
(in thousands)

	Actual Jan-19	Actual Feb-19	Actual Mar-19	Forecast Apr-19	Forecast May-19	Forecast Jun-19	Forecast Jul-19	Forecast Aug-19	Forecast Sep-19	Forecast Oct-19	Forecast Nov-19	Forecast Dec-19	FY 2019 Forecast	FY 2019 Budget	Variance Fav/(Unfav)	FY 2018 Actual	Variance Fav/(Unfav)
<b>Income</b>																	
Tariff Administrative Service	\$13,115	\$11,792	\$14,038	\$12,849	\$13,272	\$12,886	\$13,403	\$13,406	\$12,994	\$13,403	\$13,224	\$13,404	\$157,786	\$157,480	\$306	\$164,969	(\$7,183)
FERC Fees	2,362	1,866	1,739	2,383	2,316	2,620	2,929	3,211	3,108	2,620	2,403	2,484	30,041	31,784	(1,743)	27,482	2,559
Contract Services Revenue	5	5	5	3	3	3	3	175	3	3	3	3	210	202	8	856	(646)
Miscellaneous Income	414	452	611	421	421	550	421	421	421	421	421	421	5,398	5,230	168	6,205	(808)
<b>Total Income</b>	<b>15,895</b>	<b>14,116</b>	<b>16,393</b>	<b>15,656</b>	<b>16,012</b>	<b>16,059</b>	<b>16,756</b>	<b>17,213</b>	<b>16,525</b>	<b>16,447</b>	<b>16,051</b>	<b>16,312</b>	<b>193,435</b>	<b>194,696</b>	<b>(1,261)</b>	<b>199,513</b>	<b>(6,078)</b>
<b>Expense</b>																	
Salary & Benefits	8,368	8,131	8,535	8,325	8,236	8,263	8,300	8,236	8,200	8,153	8,104	8,332	99,184	98,704	(480)	96,616	(2,568)
Employee Travel	129	189	148	187	205	186	183	182	190	188	161	155	2,102	2,050	(53)	1,895	(207)
Administrative	268	389	279	569	339	480	396	303	501	804	303	304	4,936	5,229	292	4,602	(335)
Assessments & Fees	1,924	1,924	1,924	1,924	1,924	1,924	1,924	1,924	1,924	1,924	1,924	1,924	23,091	23,091	0	21,060	(2,031)
Meetings	62	180	52	100	110	49	134	49	56	105	34	52	985	1,006	21	919	(66)
Communications	331	351	358	404	415	419	435	435	435	447	450	454	4,935	4,792	(143)	3,840	(1,094)
Maintenance	1,135	1,381	1,245	1,487	1,497	1,519	1,553	1,556	1,556	1,647	1,591	2,111	18,278	18,781	502	17,180	(1,098)
Services	1,315	1,405	1,047	1,501	1,318	1,039	1,234	1,231	1,056	1,495	1,010	1,072	14,723	13,889	(834)	12,192	(2,531)
Regional State Committee	11	30	28	37	37	37	37	37	37	37	37	37	399	440	41	178	(221)
Depreciation	1,399	1,392	1,379	1,538	1,694	1,692	1,693	1,709	1,677	1,699	1,702	1,668	19,242	19,447	204	18,163	(1,080)
<b>Total Expense</b>	<b>14,943</b>	<b>15,372</b>	<b>14,995</b>	<b>16,071</b>	<b>15,775</b>	<b>15,609</b>	<b>15,891</b>	<b>15,663</b>	<b>15,633</b>	<b>16,498</b>	<b>15,317</b>	<b>16,108</b>	<b>187,875</b>	<b>187,427</b>	<b>(449)</b>	<b>176,644</b>	<b>(11,231)</b>
<b>Other Income/(Expense)</b>																	
Investment Income	7	6	93	-	-	-	-	-	-	-	-	-	107	-	107	355	(249)
Interest Expense	(741)	(734)	(745)	(764)	(765)	(766)	(753)	(754)	(757)	(745)	(746)	(750)	(9,021)	(9,067)	45	(9,390)	368
Capitalized Interest	-	-	49	-	-	26	-	-	34	-	-	43	152	47	104	122	30
Change in Valuation of Swap	-	-	(169)	-	-	-	-	-	-	-	-	-	(169)	-	(169)	725	(893)
Other Income/Expense	226	88	62	-	-	-	-	-	-	-	-	-	376	-	376	(507)	883
Unrealized Gain on Investment	701	300	214	-	-	-	-	-	-	-	-	-	1,215	-	1,215	(528)	1,743
Chg in Emp Benefit Plan Funded Status	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(7,019)	7,019
<b>Net Other Income (Expense)</b>	<b>193</b>	<b>(340)</b>	<b>(496)</b>	<b>(764)</b>	<b>(765)</b>	<b>(740)</b>	<b>(753)</b>	<b>(754)</b>	<b>(722)</b>	<b>(745)</b>	<b>(746)</b>	<b>(707)</b>	<b>(7,341)</b>	<b>(9,019)</b>	<b>1,679</b>	<b>(16,241)</b>	<b>8,900</b>
<b>Net Income (Loss)</b>	<b>\$1,145</b>	<b>(\$1,596)</b>	<b>\$903</b>	<b>(\$1,180)</b>	<b>(\$528)</b>	<b>(\$290)</b>	<b>\$112</b>	<b>\$796</b>	<b>\$170</b>	<b>(\$796)</b>	<b>(\$13)</b>	<b>(\$504)</b>	<b>(\$1,781)</b>	<b>(\$1,750)</b>	<b>(\$32)</b>	<b>\$6,627</b>	<b>(\$8,409)</b>
<b>2019 Headcount</b>																	
Approved Budgeted Positions	616	616	618	625	625	625	625	625	625	625	625	625	625	625		609	
Actual Headcount (Incl. Vacancy)	599	603	603	606	606	606	607	607	607	607	607	607	607	607		589	
Actual Positions (Excl. Vacancy)	618	617	619	627	627	627	627	627	627	627	627	627	627	627		609	
Headcount Vacancy Run rate	3%	2%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%			
NRR Over / (Under) Recovery	\$1,941	(\$844)	(\$2,777)	\$197	\$536	(\$4,563)	\$1,137	\$988	(\$4,604)	\$590	\$992	(\$4,600)	\$94			\$11,101	

Southwest Power Pool  
RC West Breakout  
March 31, 2019  
(in thousands)

	SPP			RC West			Total SPP		
	FY 2019 Forecast	FY 2019 Budget	Variance Fav/(Unfav)	FY 2019 Forecast	FY 2019 Budget	Variance Fav/(Unfav)	FY 2019 Forecast	FY 2019 Budget	Variance Fav/(Unfav)
<b>Total Income</b>	<b>\$193,435</b>	<b>\$194,696</b>	<b>(\$1,261)</b>	-	-	-	<b>\$193,435</b>	<b>\$194,696</b>	<b>(\$1,261)</b>
<b>Expense</b>									
Salary & Benefits	97,081	96,115	(966)	2,103	2,589	486	99,184	98,704	(480)
Employee Travel	1,957	2,019	62	145	30	(115)	2,102	2,050	(53)
Administrative	4,927	5,079	153	10	149	140	4,936	5,229	292
Assessments & Fees	23,091	23,091	0	-	-	-	23,091	23,091	0
Meetings	974	1,000	27	11	5	(6)	985	1,006	21
Communications	4,473	4,500	27	461	292	(170)	4,935	4,792	(143)
Maintenance	18,118	18,586	468	160	194	34	18,278	18,781	502
Services	14,723	13,889	(834)	-	-	-	14,723	13,889	(834)
Regional State Committee	399	440	41	-	-	-	399	440	41
Depreciation	19,126	19,447	321	116	-	(116)	19,242	19,447	204
<b>Total Expense</b>	<b>184,869</b>	<b>184,167</b>	<b>(702)</b>	<b>3,007</b>	<b>3,259</b>	<b>253</b>	<b>187,875</b>	<b>187,427</b>	<b>(449)</b>
<b>Other Income/(Expense)</b>									
Investment Income	107	-	107	-	-	-	107	-	107
Interest Expense	(8,950)	(8,974)	24	(71)	(92)	21	(9,021)	(9,067)	45
Capitalized Interest	152	47	104	-	-	-	152	47	104
Change in Valuation of Swap	(169)	-	(169)	-	-	-	(169)	-	(169)
Other Income/Expense	376	-	376	-	-	-	376	-	376
Unrealized Gain on Investment	1,215	-	1,215	-	-	-	1,215	-	1,215
<b>Net Other Income (Expense)</b>	<b>(7,270)</b>	<b>(8,927)</b>	<b>1,657</b>	<b>(71)</b>	<b>(92)</b>	<b>21</b>	<b>(7,341)</b>	<b>(9,019)</b>	<b>1,679</b>
<b>Net Income (Loss)</b>	<b>\$1,297</b>	<b>\$1,602</b>	<b>(\$306)</b>	<b>(\$3,078)</b>	<b>(\$3,352)</b>	<b>\$274</b>	<b>(\$1,781)</b>	<b>(\$1,750)</b>	<b>(\$32)</b>
<b>2019 Headcount</b>	<b>608</b>	<b>605</b>	<b>(3)</b>	<b>19</b>	<b>20</b>	<b>1</b>	<b>627</b>	<b>625</b>	<b>(2)</b>

Southwest Power Pool  
Current Month Financial Overview  
March 31, 2019  
(in thousands)

	Current Month Compared to Forecast			YTD Actual Compared to YTD Budget			FY Forecast Compared to FY Budget		
	Mar-2019	Mar-2019	Variance	Mar-2019	Mar-2019	Variance	FY 2019	FY 2019	Variance
	Actual	Forecast	Fav/(Unfav)	Actual	Budget	Fav/(Unfav)	Forecast	Budget	Fav/(Unfav)
<b>Income</b>									
Tariff Administrative Service	\$14,038	\$13,239	\$799	\$38,944	\$38,824	\$120	\$157,786	\$157,480	\$306
FERC Fees	1,739	1,704	35	5,967	6,320	(353)	30,041	31,784	(1,743)
Contract Services Revenue	5	3	3	16	8	8	210	202	8
Miscellaneous Income	611	521	90	1,477	1,382	95	5,398	5,230	168
<b>Total Income</b>	<b>16,393</b>	<b>15,467</b>	<b>926</b>	<b>46,404</b>	<b>46,534</b>	<b>(130)</b>	<b>193,435</b>	<b>194,696</b>	<b>(1,261)</b>
<b>Expense</b>									
Salary & Benefits	8,535	8,371	(164)	25,034	24,869	(165)	99,184	98,704	(480)
Employee Travel	148	182	34	466	497	31	2,102	2,050	(53)
Administrative	279	333	54	936	1,106	170	4,936	5,229	292
Assessments & Fees	1,924	1,924	0	5,773	5,773	-	23,091	23,091	-
Meetings	52	57	5	295	289	(5)	985	1,006	21
Communications	358	344	(14)	1,040	1,035	(5)	4,935	4,792	(143)
Maintenance	1,245	1,492	247	3,760	4,420	659	18,278	18,781	502
Services	1,047	1,010	(37)	3,767	3,600	(168)	14,723	13,889	(834)
Regional State Committee	28	37	9	69	110	41	399	440	41
Depreciation	1,379	1,501	122	4,170	4,467	297	19,242	19,447	204
<b>Total Expense</b>	<b>14,995</b>	<b>15,250</b>	<b>255</b>	<b>45,310</b>	<b>46,166</b>	<b>855</b>	<b>187,875</b>	<b>187,427</b>	<b>(449)</b>
<b>Other Income/(Expense)</b>									
Investment Income	93	-	93	107	-	107	107	-	107
Interest Expense	(745)	(767)	22	(2,220)	(2,247)	27	(9,021)	(9,067)	45
Capitalized Interest	49	47	1	49	47	1	152	47	104
Change in Valuation of Swap	(169)	-	(169)	(169)	-	(169)	(169)	-	(169)
Other Income/Expense	62	-	62	376	-	376	376	-	376
Unrealized Gain on Investment	214	-	214	1,215	-	1,215	1,215	-	1,215
<b>Net Other Income (Expense)</b>	<b>(496)</b>	<b>(720)</b>	<b>224</b>	<b>(642)</b>	<b>(2,200)</b>	<b>1,557</b>	<b>(7,341)</b>	<b>(9,019)</b>	<b>1,679</b>
<b>Net Income (Loss)</b>	<b>\$903</b>	<b>(\$503)</b>	<b>\$1,405</b>	<b>\$451</b>	<b>(\$1,831)</b>	<b>\$2,283</b>	<b>(\$1,781)</b>	<b>(\$1,750)</b>	<b>(\$32)</b>
Headcount	603	607	(4)	603	618	(15)	627	625	2

Southwest Power Pool  
Balance Sheet  
March 31, 2019  
*2018 Preliminary and Unaudited*  
*(in thousands)*

	<u>3/31/2019</u>	<u>12/31/2018</u>	<u>Net Change</u>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash & Equivalents	\$114,819	\$93,593	\$21,225
Restricted Cash Deposits	363,523	344,904	18,619
Accounts Receivable (net)	34,923	65,542	(30,619)
Other Current Assets	19,020	12,456	6,564
<b>Total Current Assets</b>	<b>\$532,285</b>	<b>\$516,496</b>	<b>\$15,789</b>
Total Fixed Assets	76,736	77,491	(755)
Total Other Assets	3,108	6,842	(3,734)
Investments	13,846	25,239	(11,392)
<b>Total Assets</b>	<b>\$625,974</b>	<b>\$626,067</b>	<b>(\$93)</b>
<b>LIABILITIES &amp; EQUITY</b>			
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts Payable (net)	\$20,344	\$77,645	(57,301)
Customer Deposits	366,635	344,904	21,731
Current Maturities of LT Debt	24,028	24,247	(218)
Other Current Liabilities	126,524	97,246	29,278
Deferred Revenue	366	187	179
<b>Total Current Liabilities</b>	<b>548,047</b>	<b>544,569</b>	<b>3,477</b>
<b>Long Term Liabilities</b>			
Long-Term Debt	185,872	191,491	(5,619)
Other Long Term Liabilities	41,698	40,101	1,597
<b>Total Long Term Liabilities</b>	<b>227,570</b>	<b>231,591</b>	<b>(4,021)</b>
Net Income	451	6,627	(6,176)
Members' Equity	(150,093)	(156,721)	6,627
<b>Total Members' Equity</b>	<b>(149,642)</b>	<b>(150,093)</b>	<b>451</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>\$625,974</b>	<b>\$626,067</b>	<b>(93)</b>



**Southwest Power Pool  
Headcount Analysis  
March 31, 2019**

	<u>Current Month Actual vs. Budget</u>			<u>Year End Forecast vs. Budget</u>		
	<u>Actual Mar-18</u>	<u>Budget Mar-18</u>	<u>Over/(Under) Budget</u>	<u>2019 Forecast</u>	<u>2019 Budget</u>	<u>Over/(Under) Budget</u>
Information Technology	163	168	(5)	169	168	1
Operations (excluding RC West)	155	161	(6)	158	160	(2)
Engineering	78	83	(5)	85	83	2
Process Integrity	57	58	(1)	58	58	0
Administration	49	50	(1)	50	50	0
Corporate Services	31	30	1	30	30	0
Regulatory Policy & General Counsel	25	27	(2)	27	27	0
Market Monitoring	14	16	(2)	16	16	0
Market Design & Interregional Relations	7	7	0	7	7	0
Communications & Gov't Affairs	8	8	0	8	8	0
RC West	16	12	4	19	20	(1)
Budgeted Attrition	0	(2)	2	0	(2)	2
<b>Total Positions</b>	<b>603</b>	<b>618</b>	<b>(15)</b>	<b>627</b>	<b>625</b>	<b>2</b>
Vacancy Estimate				(20)	(19)	(1)
<b>Headcount Including Vacancy Estimate</b>				<b>607</b>	<b>606</b>	<b>1</b>
				3%	3%	
<b>Headcount summary</b>	<b>2019 Forecast</b>	<b>2019 Budget</b>				
2018 Total positions at year-end	606	606				
2019 Incremental positions	2	2				
Budgeted attrition (TBD)	0	(2)				
Budgeted attrition (Operations)	(1)	(1)				
IT position accelerated from 2020	1	0				
RC West positions	19	20				
<b>2019 Headcount including RC West</b>	<b>627</b>	<b>625</b>				

Notes on staffing changes: The budget reflects two reductions in headcount in 2019, which are expected to occur through collaboration across all divisions to consider restructuring or redistributing workload as attrition occurs.

As the result of advance planning and training, the budget also includes the elimination of one operator position by the end of the first quarter. This reduction occurred in January.

IT accelerated staffing for a position originally planned for 2020.

One RC West position has been delayed until 2020 and will be reconsidered once the workload is more established.



**Capital Spending Review**  
**March 31, 2019**

**Prepared by: Accounting Department**



## Project and Foundation Investments as of March 31, 2019

**Note: Dollar amounts presented in the tables throughout the report are in \$000s**

Projects	Budget <sup>(a)</sup>	Forecast <sup>(a)</sup>	Variance
Settlement Systems Replacement	5,292	\$ 5,819	\$ (527)
DTS Upgrade Phase 2B	2,187	2,187	-
Data Lake Phase 3	350	350	-
PMO Tool Replacement <sup>(b)</sup>	498	422	76
FERC Order 841: Electric Storage	423	423	-
Freeze Data Replacement (projected to start in 2020)	346	346	-
Interface Pricing (projected to start in 2020)	165	165	-
EMS Upgrade (projected to start in 2021)	2,750	2,750	-
Online SSAT (projected to start in 2021)	1,179	1,179	-
<b>Total Projects</b>	<b>\$ 13,190</b>	<b>\$ 13,641</b>	<b>\$ (451)</b>
Carryover Projects <sup>(c)</sup>	Prior Year Budget	Forecast	Variance
Transient Stability Tool (TSAT)	1,415	\$ 562	\$ 853
IT Service Management Tool Upgrade	1,048	564	484
Identity and Access Management (IAM)	479	479	-
<b>Total Carryover Projects</b>	<b>\$ 2,463</b>	<b>\$ 1,126</b>	<b>\$ 1,337</b>
Foundation - 2019 <sup>(d)</sup>	Budget	Forecast	Variance
Information Technology	\$ 8,200	\$ 8,356	\$ (156)
Other Departments - IT Based	840	840	-
Operations	2,559	2,559	-
Facilities	965	975	(10)
Settlements	235	235	-
<b>Total Foundation - 2019</b>	<b>\$ 12,799</b>	<b>\$ 12,965</b>	<b>\$ (166)</b>

(a) Budget amounts are per the 2019 capital projects budget approved by the board unless otherwise noted. Forecast includes capital spending only.

(b) Forecast amount shown is operating expense. No capital spending will be required. Refer to page 4 for further details.

(c) Carryover projects were expected to be completed in 2018 however their completion dates had to be moved to 2019 for various reasons.

(d) Foundation projects are reforecast annually. Unused funds do not carry over to the following year.

# Multi-Year Capital Projects Over \$1 Million

## Settlement Systems Replacement

- Project had commenced in April 2017 with an expected completion date of May 2019 and included five milestones. Between 2Q'17 and 4Q'18, four of the five milestones were completed, which included the following:
  - Milestone 1 – Delivery and implementation of the formula builder (July 2017)
  - Milestone 2 – Largest of all milestones, the core calculation engine development (March 2018)
  - Milestone 3 – User interface functionality required to support day-to-day settlement operations (June 2018)
  - Milestone 4 – Included all remaining development items, in addition to workflow and audit processes (October 2018)
- Milestone 5 includes internal testing and defect fixes, along with transition of system support from the vendor to internal staff. Member connectivity testing began on January 9<sup>th</sup> and member unstructured testing started at the end of January. However due to ongoing issues with system performance, accuracy, and functionality, the transition from vendor to internal staff had to be postponed.
- In February, due to ongoing issues identified during member testing, the project team performed a full evaluation of the project status and timeline. As a result, it was decided to move the target go-live date to February 2020 with member testing occurring September through December 2019. An additional statement of work was negotiated with the vendor and executive approval was received to spend an additional \$0.5M to complete the project.
- The transition of system support from the vendor to IT staff is currently scheduled to take place on April 22.



Key Completion Dates  
 Build: 10/2018  
 Testing: 12/2019  
 Implementation: 2/2020

	Budget	Actual 2017	Actual 2018	Forecast 2019	Total Forecast	Variance	Actual Spend to Date
Capital Expense	\$ 5,292	\$ 1,967	\$ 3,120	\$ 732	\$ 5,819	\$ (527)	\$ 5,501
Operating Expense (Inception Workshop)	\$ -	\$ 26	\$ -	\$ -	\$ 26	\$ (26)	\$ 26

\* Original budget for the project as approved in the 2017 budget was \$5.1M.

## DTS Upgrade Phase 2B

- This final phase of the multi-year Dispatcher Training Simulator (DTS) project includes the build and integration of simulation software for market functionality. It will consist of the following three phases of work:
  - Phase 2B-1: Requirements, system design, and implementation of some of the core infrastructure that is required for Phase 2B. A statement of work for Phase 2B-1 was negotiated in 1Q'19 at a cost of \$0.4M. Work is planned to commence in April 2019.
  - Phase 2B-2: Design, installation, testing, and implementation of a basic markets and reliability training simulator.
  - Phase 2B-3: Design and implementation of functionality that will provide SPP instructors with the ability to simulate additional subsystems such as automation features that make the creation of scenarios easier.



Key Completion Dates  
Phase 2B-1  
 9/2019

Phase's 2B-2 & 2B-3  
 TBD upon completion of requirements and design

	Budget	2019	2020	Total Forecast	Variance	Actual Spend to Date
Capital Expense	\$ 2,187	\$ 847	\$ 1,340	\$ 2,187	\$ -	\$ -

## Capital Projects Less Than \$1 Million

	Budget	2018	2019	2020	2021	Forecast	Variance	Actual Spend to Date
Data Lake Phase 3	\$ 350	\$ 270	\$ 80	\$ -	\$ -	\$ 350	\$ -	\$ -
Project Management Tool Replacement	\$ 498	\$ -	\$ 179	\$ 121	\$ 121	\$ 422	\$ 76	\$ 121
FERC Order 841: Electric Storage	\$ 423	\$ 17	\$ 14	\$ 391		\$ 423	\$ -	\$ 32

### Data Lake Phase 3

There has been no capital spend through 1Q'19 and the direction of the project is being reevaluated. A decision is expected to be made in 2Q'19 as to the future of the project.

### Project Management Tool Replacement

During 4Q'18, a software solution provider was selected after staff review of needs and available alternatives. The chosen solution is a cloud-based subscription service that is currently being configured. Due to the nature of the selected service, no capital spending was required for this project. Forecast shown in the table above reflects subscription fees over the next three years.

### FERC Order 841: Electric Storage

The vendor began work on requirements and design activities for market system enhancements in late 4Q'18 with an expected delivery date of March 2019. However, updates to the Settlements System are also required as part of the project. Due to the delay in the settlement systems replacement project, a decision was made to place this project on hold until after the new settlements system goes live. In 1Q'19 SPP filed a request with FERC for deferral of the effective date from six to twelve months upon the completion of the new system. No additional capital costs are expected to be incurred in 2019.

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## Future Projected Capital Projects

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	2020	2021	Total Forecast
Freeze Data Replacement	\$ 346	\$ -	\$ 346
Interface Pricing	\$ 165	\$ -	\$ 165
EMS Upgrade	\$ -	\$ 2,750	\$ 2,750
Online SSAT	\$ -	\$ 1,179	\$ 423

### Freeze Data Replacement

SPP participates in a congestion- management process with certain other entities along its seams using a baseline set in 2004. The objective of this project is to implement a new method to assign firm rights among the parties which will impact transmission service, schedule curtailments and market-to-market settlements.

### Interface Pricing

The goal of this project is to implement a methodology (to be agreed upon) in both the SPP and MISO markets to change Locational Marginal Pricing (LMP) calculations on the seam to address the overlap that occurs when both markets are re-dispatching to relieve some constraint. The overlap between markets was confirmed in a previously conducted joint study.

### EMS Upgrade

The Energy Management System (EMS) is critical to providing reliability and market functions. Vendor support for the current system expires in 2023. Work on upgrading the system will need to begin in 2021 to maintain uninterrupted support.

### Online SSAT

The Online Small Signal Analysis Tool (SSAT) is an evolution upon SPP's efforts to include stability analysis in its operations reliability analyses. Online SSAT will help operations staff predict and take actions to prevent oscillations within the bulk electric system.

## Carryover Capital Projects

### Transient Security Assessment Tool (TSAT)

- After the successful completion of VSAT (real-time mode) in 2Q'18, the TSAT project was launched.
- The enhancements to the existing Market Operating System (MOS) and Energy Management System (EMS) that were required prior to the build and implementation of the TSAT software were completed in June 2018 and released to SPP for testing.
- The TSAT software was installed in the development environment in 4Q'18 during which the project team determined that there was a need to redesign the architecture of the core processors for the application. The project schedule was adjusted six weeks to allow time for redesign. The cost of the project was not affected by the required changes.
- During 1Q'19, progress continued with the redesign of the architecture. The project is tracking on schedule with build, testing and implementation expected to take place in 2Q'19.
- Factors contributing to the favorable variance include: cost savings from bundling a very large hardware order, use of virtual hardware where possible, and negotiated savings with the software vendor.



Key Completion Dates

Build: 4/2019

Testing: 5/2019

Implementation: 5/2019

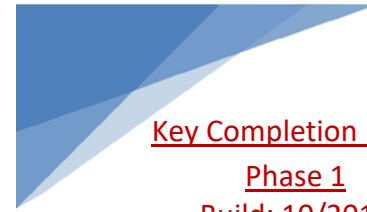
	Budget	2018	2019	Total Forecast	Variance	Actual Spend to Date
Capital Expense	\$ 1,415	\$ 543	\$ 19	\$ 562	\$ 853	\$ 562



## IT Service Management Tool Upgrade

This project is comprised of two phases:

- Phase 1: Existing IT service management tool, Remedy, reached end of life for vendor support and the decision was made during 2Q'18 to upgrade to the latest version. The decision to upgrade versus purchasing a new tool resulted in savings which accounts for the favorable variance to budget.
- The environment build was completed in 4Q'18. Internal training and implementation of the tool was completed in 1Q'19. Although the tool has been implemented, the vendor has remaining outstanding items to address in 2Q'19 to complete their statement of work that will finalize this phase.
- Phase 2: This phase consists of the implementation of an IT environment performance management and monitoring solution. Phase 2 had dependency for the Remedy upgrade to be in production before the implementation could be completed.
- The software for this phase was purchased at the end of the 4Q'18. During 1Q'19, build, installation, and configuration of the software was completed by the vendor and internal resources. The project is tracking on schedule with testing and implementation expected to take place in 2Q'19.



Key Completion Dates  
Phase 1  
 Build: 10/2018  
 Training: 1/2019  
 Implementation: 2/2019  
Phase 2  
 Build: 3/2019  
 Implementation: 5/2019

	Budget	2018	2019	Total Forecast	Variance	Actual Spend to Date
Capital Expense	\$ 1,048	\$ 376	\$ 188	\$ 564	\$ 484	\$ 433

## Identity and Access Management (IAM)

- Phase 1 of this project, consisting of requirements gathering and the purchase of the software solution, was completed in 2017.
- Phase 2 was for implementation of the solution with consulting and development services to be provided by an outside vendor. Delays due to resource constraints, conflicting organizational priorities and vendor/tool issues resulted in a need to re-baseline the project.
- Following recommendations from a third-party review and critical infrastructure protection (CIP) audit findings, staff decided to shift focus to enabling access certification through development of an access management inventory which will serve as the foundational component necessary for a successful IAM practice.
- Currently, efforts are in progress to implement an asset access management inventory and develop processes to maintain the inventory. This maintenance process will address CIP audit findings and will be necessary to ensure ongoing integrity of the inventory as well as related entitlement reviews.
- A 2020 project has been submitted to the PRPC for consideration in the 2020-2022 budget cycle to complete implementation of the software solution and align the tool with underlying processes.

	Budget	Actual 2017	Actual 2018	Forecast 2019	Total Forecast	Variance	Actual Spend to Date
Capital Expense	\$ 479	\$ 111	\$ 367	\$ 12	\$ 491	\$ (12)	\$ 491

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## Foundation Capital Expenditures

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The following sections discuss foundational capital expenditures for information technology, operations, settlements, and facilities for the current year. Although foundational spend is presented for the upcoming three years during each annual budget cycle, foundational budgets are re-forecast every budget cycle for the upcoming year. The following table shows the 3-year projection for foundation capital spend that was presented in the 2019 budget.

	2019	2020	2021	Total
Information Technology	\$ 8,200	\$ 8,400	\$ 8,900	\$ 25,500
Other Departments - IT Based	\$ 840	\$ 1,740	\$ 790	\$ 3,370
<i>Total IT Foundation</i>	<i>\$ 9,040</i>	<i>\$ 10,140</i>	<i>\$ 9,690</i>	<i>\$ 28,870</i>
Operations	\$ 2,559	\$ 2,264	\$ 2,229	\$ 7,052
Facilities	\$ 965	\$ 285	\$ 325	\$ 1,575
Settlements	\$ 235	\$ -	\$ -	\$ 235
<b>Total</b>	<b>\$ 12,799</b>	<b>\$ 12,689</b>	<b>\$ 12,244</b>	<b>\$ 37,732</b>

## Foundation Expenditures: Information Technology

The budget for IT Foundation for 2019 is \$8.2M, which is relatively flat compared to the 2018 budget of \$8.1M. The IT Foundation budget captures corporate-wide hardware and software requirements to support SPP's business applications and systems and is managed in two broad categories:

- **Infrastructure Refresh:** This category includes upgrades and/or replacements of existing infrastructure to support the ongoing requirements of existing systems and services.
- **New Initiatives:** This category is for incremental hardware, software, and/or development services to support new IT and/or Corporate projects and services.

IT Foundation (excludes Other Corporate Departments)	2019 Budget	2019 Forecast	Variance	2019 YTD Spend
Infrastructure Refresh	\$ 7,310	\$ 7,466	\$ (156)	\$ 1,765
New Initiatives	\$ 890	\$ 890	\$ -	\$ -
<b>Total</b>	<b>\$ 8,200</b>	<b>\$ 8,356</b>	<b>\$ (156)</b>	<b>\$ 1,765</b>

2019 forecast of \$7.5M includes \$156k of spend requisitioned in late-2018 that was received/recorded as capex in early 2019.

The total spend during 1Q'19 was \$1.8M and included the following items:

- Blade technology servers/platform to replace aged rack-mounted servers (\$0.9M) - *Infrastructure Refresh*
- Storage directors/cabling/consulting to replace aged equipment that has reached end-of-vendor support (\$0.6M) - *Infrastructure Refresh*
- Private cloud storage with on-premise control to meet the needs of SPP's data retention and long-term archival/retrieval/availability policies (\$0.3M) – *Infrastructure Refresh*

Aside from the IT Foundation budget, a separate budget of \$0.8M exists to support capital requirements for approximately 12 departments (Engineering, H/R, Legal, etc.). Total spend during 1Q'19 was \$0.1M and included the following items:

- Auction Revenue Requirement (AAR) enhancements within the Congestion Management TC Integrated Market System

- Software license for Engineering which allows the user to switch between data visualization, system simulation and results analysis
- Software license/products for Engineering that provides mapping and spatial analytics

Other Corporate Departments	2019 Budget	2019 Forecast	Variance	2019 YTD Spend
Infrastructure Refresh	\$ 840	\$ 840	\$ -	\$ 63

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## Foundation Expenditures: Operations, Facilities & Settlements

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The following foundation budgets reflect capital spend for enhancements to operations, marketplace, and settlements systems, and for various upgrades/improvements to SPP's physical facilities.

Other Foundation	2019 Budget	2019 Forecast	Variance	2019 YTD Spend
Operations - MOS Enhancements	\$ 2,000	\$ 2,000	\$ -	\$ 441
Operations - Legacy Systems	\$ 559	\$ 559	\$ -	\$ 283
Facilities	\$ 965	\$ 975	\$ (10)	\$ 392
Settlements	\$ 235	\$ 235	\$ -	\$ -

### Operations Marketplace Enhancements

Total spend during 1Q'19 was \$0.4M and included the following items:

- Coding as part of MOS 1.27 was completed for the following RRs:
  - RR210 – Contingency Reserve Deployment (CRD) Test Support (to be member-tested with the settlement systems replacement project)
  - RR 266 ( Completed field name) - JOU Combined Single Resource Modeling Post Settlement Share Allocation (to be member-tested subsequent to completion of the settlement systems replacement project)
- Internal testing is underway for MOS Release 1.28 (planned implementation end of April 2019). This release is non-member impacting and includes the following:
  - Multiple Market Clearing Engine (MCE) fixes and enhancements
  - Fixes for MKTNET
  - Enhancements and fixes for the markets database (MDB)
- The vendor has begun development work for Markets Release 1.29, which is member-impacting. This release contains:
  - RR316 – Multi-Configuration Resource (MCR) Plant and Group Minimum Down Time Parameter Addition
  - RR318 – Contingency Reserve Requirements Calculation Change
  - Multiple enhancements and fixes for the Markets User Interface (MUI)

Operations Legacy System Enhancements include energy management system (EMS), control-room operations window (CROW), open access same-time information system (OASIS), dispatch training simulator (DTS), centralized modeling tool (CMT) and various other applications supporting the operations division. The total spend in 1Q'19 was \$0.3M which included updates to the CMT and EMS system and the purchase of CROW Enterprise License upgrade that allows for unlimited users.

#### Facilities Enhancements

Total spend during 1Q'19 was \$0.4M and included the following items:

- Deposits for replacement of the map board projectors in Chenal and Maumelle Data Centers (\$0.3M)
- Replacement of the existing roof top heating, ventilating, and air conditioning unit at Maumelle Data Center (\$0.1M) – *budgeted and requisitioned in 2018 and was completed/recorded as capex in early 2019*

**Unbudgeted Report**  
**2019 YTD**  
**As of April 18, 2019**

<b>PO Number</b>	<b>Project Name</b>	<b>Vendor Name</b>	<b>Scope of Work/Item Description</b>	<b>Total Amount</b>	<b>Budgeted</b>	<b>Unbudgeted</b>	<b>Notes</b>
PO2019-1190	2019 Foundation General	Quanta Technology, LLC	MSA WO 10 - Cost Estimating Consulting Services	\$350,000	\$ 200,000	\$150,000	
PO2019-1185	RC West	ALSTOM Grid LLC	OSPA SOW - 2019 RC West Enhancements	\$388,620	-	\$388,620	
PO2019-1166	2017 Settlement Systems Replacement	Utilicast	SOW 88 - Consultant for System Development	\$109,965	-	\$109,965	
PO2019-1147	2017 Settlement Systems Replacement	Symphono LLC	MSA WO 3 - System Enhancements	\$400,000	-	\$400,000	
				<b>\$1,248,585</b>	<b>\$ 200,000</b>	<b>\$1,048,585</b>	



# Southwest Power Pool, Inc. - Finance Committee Project Dashboard

1 - Reliability Assurance	2 - Maintain An Economical, Optimized Transmission System	3 - Enhance and Optimize Interdependent Systems	4 - Enhance Member Value and Affordability
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Project Name ----- Linkage to Strategic Plan	Project Description	SPP Owning Officer	Approved Budget ----- Est. Cost at Completion	Remaining Milestones	Comments
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ACTIVE PROJECTS

Identity and Access Management Phase 2 ----- 1	Automation of identity and access system to ensure CIP Compliance	Sugg	\$0.5M ----- \$0.5M	On hold through 2019	Full production implementation of the SailPoint IIQ tool has been suspended until 2020 while foundational elements of an Identity and Access Management program are developed in 2019; immediate focus is on addressing findings from the 2018 CIP audit with an asset access inventory Spend to date: \$0.5M.
Online TSAT ----- 1	Transient Stability Assessment Tool (TSAT) will be used to ensure power transfers do not cause a voltage collapse event or blackout.	Rew	\$1.4M ----- \$0.6M	Test - 5/3/19 Implementation - 5/17/19 Close - 6/7/19	Under budget from software and hardware savings from original estimates. Production date reset due to new architect redesign required from vendor.
TTSE DTS Upgrade Project - Phase 2B ----- 1	Enhancement to the DTS to construct an integrated simulator that allows SPP to construct and reuse training scenarios that simulate the interactions between the EMS and MOS in production and allow for the simultaneous training of reliability and market operators.	Rew	\$2.2M ----- \$2.2M	2B-1: Requirements and Design 04/01/19-09-30/19	Phase 2B project will be completed by GE in 3 phases. I will reference each phase by 2B-1, 2B-2, and 2B-3. 2B-1 will be requirements and design along with getting hardware in place for subsequent phases.

Settlements Replacement ----- 1	Replacement of the current Market and Transmission Settlement Systems with a custom designed single high performance scalable system solution.	Dunn	\$5.3M ----- \$5.8M	Build - 10/31/18 Test - 5/01/19 Implementation - 2/1/20	Project in Green status due to re-baseline of project schedule and cost. Original budget was \$5.3mm. Out of budget approved for additional \$500k.
ITSM Tool Upgrade ----- 1	<b>Phase 1</b> - Remedy Upgrade (Incident, Problem, Change, Asset, etc.) Current Remedy Version is at end of life for Vendor support. <b>Phase 2</b> - Implement Upgrade of BPPM -Performance Manager (monitoring software)	Sugg	\$1.0M ----- \$0.6M	<b>Phase 1</b> Final close out 04/30/2019 <b>Phase 2</b> Test - 04/22/2019 Cutover 05/15/2019	Phase 1 Remedy Version 9 is in Production. Phase 2 (Monitoring) - configured and installed Solarwinds. Testing starts April 22nd; cutover is May 15th.
Reliability Communication Tool ----- 1	Project would create an application to facilitate the systematic issuance, receipt, and auditable documentation of operating instructions.	Rew	\$0.0M ----- \$0.0M	Project Closure - 4/23/19	Tool became production ready on 4/5, five weeks behind schedule due to new architecture being needed for optimal security and compliance. Parallel operation is under way through 6/28, and pending BOD approval of RR 349 use of the tool will be required starting 7/8/19 as the means for messaging and load shed events.

# Southwest Power Pool, Inc. - Finance Committee Project Dashboard

1 - Reliability Assurance	2 - Maintain An Economical, Optimized Transmission System	3 - Enhance and Optimize Interdependent Systems	4 - Enhance Member Value and Affordability
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Project Name ----- Linkage to Strategic Plan	Project Description	SPP Owning Officer	Approved Budget ----- Est. Cost at Completion	Remaining Milestones	Comments
DEFERRED, CONTINGENT OR DECLINED PROJECTS					
Distributed Generation Functionality	Enhancement to SPP's markets to allow participation by distributed generation resources and storage devices.	Rew	Deferred Project: Budget Not Approved	TBD	Not Started. ----- FERC has determined that more information is needed before taking action. This ruling has been deferred and a technical conference has been scheduled for early April.
Freeze Date Replacement	The project will update the process that calculates firm rights used in real time congestion processes in accordance with new rules and requirements agreed upon by CMP (SPP, MISO, PJM, TVA, AECI, MHEB, LGEE) members.	Rew	Deferred Project: Budget Not Approved	TBD	Not Started. Was approved in the 2019 budget as a 2020 Project.
FERC Order 841 ----- 3	The Federal Energy Regulatory Commission (FERC) amended its regulations under the Federal Power Act via the FERC Order 841 Final Rule to remove barriers to participation of electric storage resources in the capacity, energy, and ancillary service markets operated by RTOs and ISOs. In response to the Order, SPP will adhere to mandated FERC deadlines to file tariff changes needed to implement the requirements of this Final Rule to establish a participation model consisting of market rules that facilitate electric storage resources (ESR) participation in the Marketplace. SPP will also take the necessary actions of updating the modeling and dispatch software to implement the tariff provisions.	Rew	\$0.4M ----- \$0.4M	TBD	Deferred ----- Project work was placed on hold due to impacts from the Settlements Replacement project (resource availability).

Completed Projects
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Status	Project Phase	Impacting/Facing
Green	PREP	Yes - Facing
Yellow	Initiating	Yes - Impacting
Red	Planning	No
	Executing	
	Closing	