Southwest Power Pool
CREDIT PRACTICES WORKING GROUP
July 18, 2019
Teleconference
Minutes

Agenda Item 1 – Call to Order
Mark Holler called the meeting to order at 1:30pm. The following members were in attendance: Mark Holler (Tenaska); Terri Wendlandt (Westar); Tom Hestermann (Sunflower); Jeffrey Parkison (SPRM); Matthew Simon (Basin); and Mark Breese (Xcel). Also in attendance were: Evan Truitt (Xcel); Nick Becvar (ACES); Matt Robson (Sesco); Jason Regehr (SPRM); Jeff Bieker (Sunflower); Justin Riddell (TEA) and Scott Smith; Tom Dunn; Jared Barker; Will Vestal; Patti Kelly; Dendy Collier; Joseph Ghormley; Luke Hill (SPP).

Agenda Item 2 – Approval of Minutes from June Meeting
Mark Holler presented the June meeting minutes (CPWG Minutes 062019 - DRAFT) for approval. The minutes incorrectly showed agenda item 2 was approval of the minutes from the April meeting rather than May. Terri Wendlandt made a motion to accept the minutes and Tom Hestermann seconded. The minutes were unanimously accepted with the condition that April would be replaced with May.

Agenda Item 3 – Update on GreenHat Loss at PJM
Mark Holler updated the group that total loss was still in line with earlier estimates totaling around $160MM (without the effect of the FERC Order to recalculate auction results). There has been no response from FERC on PJM waiver. There was no other recent news regarding this default.

Agenda Item 4 – Update from Quantitative Subgroup
Justin Riddell provided an update on the Quantitative Subgroups work thus far. The group meets every other week and they are currently looking into Mark to Auction data at SPP. Most recently, SPP walked through an analysis looking at Auction Clearing Prices (known) and reference price based Hold calculations (unknown) after auction clearing and compared this information to invoiced data. Please send an email to Jared Barker (jbarker@spp.org) if you would like to participate in this group.

Agenda Item 5 – Update from Qualitative Subgroup
Terri Wendlandt provided an update on the Qualitative Subgroups work thus far. The group meets every other week and they are currently looking into the SPP Minimum Participation/Capitalization Requirements and what position limits based on those requirements would look like. They are also looking at different Know Your Customer (KYC) approaches. Please send an email to Jared Barker (jbarker@spp.org) if you would like to participate in this group.

Agenda Item 6 – Review of Surety Bonds
Terri Wendlandt reintroduced the Surety Bond form that Mark Holler and Terri developed and presented at a previous CPWG meeting. The group discussed and compared the differences in liquidity and timeliness of payment between Surety Bonds and Letters of Credit.

Agenda Item 7 – Scope Statement Vote
SPP’s MOPC is requesting all working groups review their Scope Statements and provide updates to or indicate approval of their current statements. The group reviewed the CPWG Organizational Group Scope Statement and updated the language in the Representation section to read as follows: The CPWG “will consist of at least 6 and no more than 12 individuals…” rather
than the previous wording of: The CPWG “will consist of 10 individuals…” The group unanimously voted to accept the Scope Statement with the condition that the language be updated as noted above. The Scope Statement will now go before the CGC in November and the BOD in December.

**Agenda Item 8 – New/Old Business**
- Scott Smith advised the group that RR354 was approved by the MOPC.
- Bret DeBenedictis brought to the group’s attention some high RT prices for mid-July operating days and wants to have a discussion about RT preliminary pricing and Virtual Reference Prices at a future meeting.
- The group would like to see a tentative agenda for the October face to face meeting. If you have not already done so, please register for the October meeting by going to the CPWG page at spp.org.

**Agenda Item 9 – Next Meeting August 15th**
Our next scheduled meeting is August 15th.

**Agenda Item 10 – Adjournment**
There being no further business, the meeting was adjourned at 3:10pm

Respectfully submitted,

Jared Barker, Secretary
Southwest Power Pool, Inc.
CREDIT PRACTICES WORKING GROUP MEETING
July 18, 2019
Teleconference

• A G E N D A •

1:30 – 3:30pm

1. Call to Order ................................................................. Mark Holler

2. Approval of Minutes from June Meeting ......................... Mark Holler

3. Update on GreenHat Loss at PJM ..................................... Mark Holler

4. Update from Quantitative Subgroup ................................ Justin Riddell

5. Update from Qualitative Subgroup ................................. Terri Wendlandt

6. Review of Surety Bonds ................................................ Terri Wendlandt

7. Scope Statement Vote .................................................. Jared Barker

8. New/Old Business ....................................................... Mark Holler

9. Next Meeting August 15th .............................................. Mark Holler

10. Adjournment ............................................................. Mark Holler
Agenda Item 1 – Call to Order
Mark Holler called the meeting to order at 1:30pm. The following members were in attendance: Mark Holler (Tenaska); Terri Wendlandt (Westar); Tom Hestermann (Sunflower); Caleb Head (NTEC); Michael Malone (Heartland); and Kerry Kaseman (Basin, Proxy for Matthew Simon). Also in attendance were: Evan Truitt (Xcel); Nick Becvar (ACES); Matt Holstein (Duke); Matt Robson (Sesco); Seth Cochran (DC Energy); Ryan Johnson and Bill Thompson (AEP); and Scott Smith; Jared Barker; Will Vestal; Patti Kelly; Dendy Collier; Joseph Ghormley and Luke Hill (SPP).

Agenda Item 2 – Approval of Minutes from May Meeting
Mark Holler presented the May meeting minutes (CPWG Minutes 051519 - DRAFT) for approval. Caleb Head made a motion to accept the minutes and Mark Holler seconded. The minutes were unanimously accepted without amendment.

Agenda Item 3 – Update on GreenHat Loss at PJM
Mark Holler updated the group that May 2019 resulted in GreenHat credit losses of ~$5MM and the total loss was still in line with earlier estimates totaling around $160MM (without the effect of the FERC Order to recalculate auction results). There was no other recent news regarding this default.

Agenda Item 4 – Annual Auction Participation
Jared Barker presented participation numbers from the 2019/20 Annual TCR Auction that took place in May 2019. Participation was up from previous years which resulted in higher exposure valuations in all areas except for ARR exposure. The reduction in ARR exposure appears to be due to the way participants participated in the LTCR allocation in March 2019 and the subsequent Annual auction in May.

Agenda Item 5 – Update from Quantitative Subgroup
Mark Holler provided an update on the Quantitative Subgroups work thus far. The group meets every other week and they are currently looking into Mark to Auction data at SPP, how future upgrades may impact exposures, and also reviewing previously tabled RR311. Please send an email to Jared Barker (jbarker@spp.org) if you would like to participate in this group.

Agenda Item 6 – Update from Qualitative Subgroup
Tom Hestermann provided an update on the Qualitative Subgroups work thus far. The group meets every other week and they are currently looking into the SPP Minimum Participation/Capitalization Requirements and reviewing a straw man proposal that was provided by Xcel. Please send an email to Jared Barker (jbarker@spp.org) if you would like to participate in this group.

Agenda Item 7 – ISO / RTO Comparison
Mark Holler presented some material that PJM created which compares exposure calculations and market participation requirements for each of the ISO/RTOs.
Agenda Item 8 – Review of CPWG Scope Statement
SPP’s MOPC is requesting that all working groups review their Scope Statements and provide updates to or indicate approval of their current statements. This is to be completed in time for the MOPC to review all Scope Statements at their October meeting. We are requesting the group to review the CPWG Scope Statement (provided in the 062019 meeting materials) and provide comments prior to our July CPWG meeting. This item will be voted on in our July meeting as well.

Agenda Item 9 – New/Old Business
Scott Smith provided an update on RR354. During the review of this RR in the RTWG, it was decided to remove the Business Practice and place all language within the pertinent Tariff language. This will now go before the MOPC in July. To view the current/updated RR, click HERE and select the “RR354 – Acceptable Credit for Sponsored Upgrades” zip file from the list on the right.

Agenda Item 9 – Next Meeting July 18th
Our next scheduled meeting is July 18th.

Agenda Item 10 – Adjournment
There being no further business, the meeting was adjourned at 2:30pm

Respectfully submitted,

Jared Barker, Secretary
FORM OF SURETY BOND

Surety Bond No._________

THIS SURETY BOND is issued on [date] by [full legal name of surety] (“Surety”) on behalf of [full legal name of SPP customer] (“Principal”), and in favor of the Southwest Power Pool (“SPP”). Capitalized terms used and not otherwise defined herein shall have the meaning ascribed to those terms in SPP’s Open Access Transmission Tariff (“OATT”) or SPP’s Tariff (“Services Tariff”), as context requires.

WHEREAS, Principal seeks to participate in the markets administered by SPP [and to schedule transmission service within SPP]; and

WHEREAS, Principal must satisfy the credit requirements established in the OATT and Services Tariff to participate in the markets administered by SPP or to schedule transmission service within SPP; and

WHEREAS, Surety is U.S. Treasury-listed with a minimum “A-” rating from A.M. Best and a certificate of authority from the insurance commissioner in each state in which the Surety conducts surety business, and has agreed, in exchange for compensation provided by Principal, to provide this Surety Bond on behalf of Principal in accordance with SPP’s credit requirements;

NOW, THEREFORE, Surety hereby agrees and covenants as follows:

1. Amount of Bond. Surety unconditionally and irrevocably agrees to pay SPP amounts not to exceed an aggregate of [amount], in accordance with the terms of this Surety Bond.

2. Payment Upon Demand. Surety shall pay such amount as specified by SPP upon receipt of a demand notice: (i) signed by an officer or authorized agent of SPP, (ii) dated the date of presentation, and (iii) containing one of the following statements:

“The undersigned hereby certifies to [name of surety] (“Surety”), with reference to its Surety Bond No. [bond number], dated [date], issued on behalf of [Principal name] (“Principal”) and in favor of Southwest Power Pool, (“SPP”) that Principal has failed to make payment in accordance with the terms of the OATT, Services Tariff, the Service Agreements thereto, or any other related agreement between SPP and Principal. SPP hereby demands payment in the amount of [amount].”

- or -

“The undersigned hereby certifies to [name of surety] (“Surety”), with reference to its Surety Bond No. [bond number], dated [date], issued on behalf of [Principal name] (“Principal”) and in favor of Southwest Power Pool, (“SPP”) that, as of the close of business on [date less than thirty (30) days prior to the expiration of the bond], Principal has failed to renew, replace, or amend this
Surety Bond in satisfaction of the credit requirements established pursuant to the SPP tariffs. SPP hereby demands payment in the amount of [amount]."

3. **Multiple Draws.** SPP may demand multiple payments pursuant to this Surety Bond; *provided, however*, that the total amount of Surety’s obligation hereunder shall not exceed an aggregate of [amount].

4. **Time and Form of Payment.** Surety shall pay amounts owed pursuant to this Surety Bond in full not later than the first business day following receipt of SPP’s written demand for payment to the account designated therein.

5. **Obligations Unconditional.** This Surety Bond is not conditioned upon SPP first attempting to collect payment, resorting to any other means of security or collateral, or pursuing any other remedies it may have. The obligations of Surety hereunder are independent of the obligations of Principal, and SPP may bring an action against Surety without bringing an action against Principal. SPP may from time to time, without notice or demand, and without affecting Surety’s liability hereunder, take and hold other security for Principal’s obligations to SPP and exchange, waive, release, or apply such security as SPP deems appropriate in its sole discretion. Surety’s liability under this Surety Bond is not conditioned upon the validity or enforceability of Principal’s obligations to SPP.

6. **Term of Surety Bond.** The term of this Surety Bond shall begin on the date of its issuance, as set forth above, and shall continue in full force and effect until Principal ceases to be a SPP customer and all amounts owed by Principal pursuant to the OATT, Services Tariff, the Service Agreements thereto, and any other related agreements are paid in full, including any amounts owed as a result of true-ups or other corrections to previous settlements; *provided, however*, that Surety may terminate this Surety Bond as provided in Paragraph 7, below.

7. **Termination.** Surety may terminate this Surety Bond upon sixty (60) days written notice to SPP; *provided, however*, that: (i) Surety’s liability hereunder shall survive such termination and remain in full force and effect as to obligations incurred by Principal during the term of this Surety Bond and (ii) in the event that Principal fails to provide an acceptable form of replacement security to SPP at least thirty (30) days prior to the termination of this Surety Bond, Surety shall, upon demand, without any notice other than such demand, and without any further action by SPP deliver cash collateral to SPP not later than the next business day in the amount of the full remaining value of this Surety Bond as security for Principal’s obligations to SPP. Cash collateral provided to SPP by Surety and not applied by SPP to satisfy unpaid obligations of Principal shall be returned to Surety at such time as: (i) Principal provides adequate replacement security to SPP or (ii) Principal ceases to be a SPP customer and all amounts owed by Principal to SPP are paid in full, including amounts owed as a result of true-ups or other corrections to previous settlements.

8. **Principal Pays Bond Costs.** Principal shall pay all commissions and charges for this Surety Bond. Principal’s failure to pay any such charges shall not be grounds for termination of this Surety Bond, except as provided in Paragraph 7, above.
9. **Expenses.** Surety shall pay all reasonable costs incurred by SPP in the enforcement of this Surety Bond, including attorney fees and expenses. Surety’s obligation to pay such costs shall be in addition to other amounts owed pursuant to this Surety Bond and shall not be limited by the maximum stated amount of this Surety Bond.

10. **Communications.** Demands, notices, and other communications shall be deemed effective when received, shall be in writing, and shall be delivered by courier with receipt of delivery or by registered mail to the following addresses:

   a. If to Surety:
      [Surety notice address]

   b. If to SPP:
      If to Creditor:
      Southwest Power Pool, Inc.
      201 Worthen Drive
      Little Rock, AR 72223-4936
      Attention: Credit and Risk Management Department

   c. If to Principal:
      [Principal notice address]

Surety, SPP, or Principal may change the address provided for receipt of communications pursuant to this Surety Bond by providing written notice to the other parties.

11. **Representations and Warranties.** Surety represents and warrants to SPP that:

   a. Surety has the legal power to execute and deliver this Surety Bond and to perform in accordance with its terms. All necessary actions have been taken to authorize the execution and delivery of this Surety Bond and performance in accordance with its terms. This Surety Bond is a legal, valid, and binding obligation of Surety.

   b. There is no action or proceeding pending or, to Surety’s knowledge, threatened before any court, arbitrator, or governmental agency that may materially adversely affect Surety’s ability to perform its obligations under this Surety Bond.

   c. There is no fact that Surety has not disclosed in writing to SPP of which Surety is aware or which Surety can reasonably foresee that would materially adversely affect Surety or the ability of Surety to perform its obligations hereunder.

12. **Assignment.** SPP may assign its rights under this Surety Bond without in any way diminishing Surety’s obligations hereunder.

13. **Amendment and Waiver.** The terms and provisions of this Surety Bond may not be amended or waived except in a writing signed by SPP and Surety.
14. **Entire Agreement.** This Surety Bond embodies the entire agreement between Surety and SPP with respect to the matters set forth herein and supercedes all prior such agreements.

15. **Severability.** Should any provision of this Surety Bond be determined by a court of competent jurisdiction to be unenforceable, all of the other provisions shall remain effective.

16. **Choice of Law; Jurisdiction; Venue; and Service of Process.** This Surety Bond shall be governed by the laws of the State of Arkansas without regard to conflict of laws principles. Surety irrevocably submits to the jurisdiction of any Arkansas court or any United States court sitting in Arkansas over any action or proceeding arising out of or relating to this Surety Bond and irrevocably agrees that all claims in such action or proceeding may be heard and determined by such court. Surety agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Surety waives any objection to venue on the basis of forum non conveniens. Surety irrevocably consents to the service of process in any action or proceeding by the mailing of copies of such process to Surety at its address set forth herein. Nothing herein shall affect the right of SPP to bring any action or proceeding against Surety or its property in the courts of any other jurisdictions.

17. **Waiver of Jury Trial.** SURETY IRREVOCABLY, VOLUNTARILY, AND WITH ADVICE OF COUNSEL WAIVES ANY RIGHTS IT MAY HAVE TO A TRIAL BY JURY IN ANY ACTION ARISING IN CONNECTION WITH THIS SURETY BOND.

IN WITNESS Whereof, Surety has executed and delivered this Surety Bond this [date].

[full legal name of surety]

By: __________________________

    Name: ________________________

    Title: __________________________
Purpose
The Credit Working Group’s responsibility is to develop and recommend courses of action to address credit risk issues resulting from administration of the SPP regional tariff and operation of the SPP business.

Scope of Activities
Develop and recommend changes to the SPP Credit Policy to mitigate the risk of socialized default charges to customers and members of SPP, using commercially viable practices.

Provide expertise to SPP in its administration and monitoring of credit exposures. However, neither the Credit Practices Working Group nor any of its members will be privy to credit or exposure information on any specifically identified customer(s).

Representation
The Credit Practices Working Group will consist of 10 individuals representing members of SPP. The chair of the Credit Practices Working Group will be elected in the even year and will begin serving on January 1 of the odd year. A vice chair will be elected by the members of the Credit Practices Working Group. Each will serve a 2 year term. A meeting quorum will exist with 1/2 of the sitting members.

Duration
The Credit Working Group is a permanent working group.

Reporting
The Credit Working Group will report to the SPP Finance Committee.
Participation Language of SPP Stakeholder Groups

July 18, 2019
Credit Practices Working Group

Representation
The Credit Practices Working Group will consist of 10 individuals representing members of SPP. The chair of the Credit Practices Working Group will be elected in the even year and will begin serving on January 1 of the odd year. A vice chair will be elected by the members of the Credit Practices Working Group. Each will serve a 2 year term. A meeting quorum will exist with 1/2 of the sitting members.
Finance Committee

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

Business Practice Working Group

Representation

BPWG membership will consist of a Chair, a Vice-Chair, and at least 6 but no more than 12 voting members. Representatives will consist of transmission customers under SPP’s tariff, half of which will be merchant group affiliates of transmission owners with facilities under the SPP OATT.
Market Working Group

Representation

The MWG is comprised of at least eight and no more than eighteen members, including a chair and vice-chair. The MWG shall maintain a membership with balanced representation from the market participants.

Economic Studies Working Group

REPRESENTATION

The ESWG membership will consist of up to seventeen voting members (including the Chairman). The ESWG will have one non-voting Regulatory Liaison member.

Members of the ESWG shall have experience and knowledge in one or more of the following areas:

- Economic Analysis
- Economic Modeling
- Energy markets
- Transmission Planning
- Planning and Forecasting
- Generation