

**SOUTHWEST POWER POOL
FINANCE COMMITTEE MEETING**

**June 18, 2024
Teleconference**

MINUTES

Committee Chair called the meeting to order at 9:00 a.m. The following members were in attendance:

Stuart Solomon, Chair	SPP Director
Susan Certoma, Vice Chair	SPP Director
Liz Moore	SPP Director
Brad Cochran	OG&E
Emily Koenig	Lincoln Electric System
Al Tamimi	Sunflower Electric
Mike Wise	Golden Spread Electric Coop
Laura Kapustka	NPPD
Matt Pawlowski	NextEra Energy
Dianne Branch	Staff Secretary

Others in attendance: See attached meeting register

Russell Carey, Principal Stakeholder Affairs Liaison, reviewed the Antitrust and Accessibility notices. Stuart Solomon provided opening remarks outlining the purpose of the meeting being to discuss the administrative fee rate cap recommendation. He also highlighted that the rate cap should be viewed as a long-range planning tool for our membership and that the budget process, while related to the rate cap, should be seen as the short-term mechanism to ensure recommended costs are prudent and necessary to provide necessary services for the upcoming year.

David Kelley, VP of Finance and CFO, walked through the prepared presentation, first highlighting the increasing value and services provided to the membership while holding the budget below the rate of inflation over the years. An analysis was shared that illustrated how SPP had kept costs below an inflation adjusted 2018 budget for the 2019-2024 time period. An updated effective administrative fee (EAF) financial model through 2028 was presented that indicated, under all scenarios modeled, an increase in the existing rate cap is needed to support the needs of the organization. The financial model had been updated from the April presentation to allow for changes in billing unit assumptions. There was an extensive discussion

around the billing unit forecasting process and its relationship with those units used in the annual rate setting process. In response to Mike Wise's question around growth in billing units compared to inflation, staff provided an illustration which indicated that the annual growth rate for both 1-A1 billing units (1.2%) and the budgeted NRR (2.3%), were less than the inflation growth rate (3.8%) for the period 2018-2024.

Based on the updated financial models, SPP staff is recommending that the current rate cap of \$0.465/MWh be increased to \$0.515/MWh effective January 1, 2025. Staff emphasized that this recommendation was intended to provide a bridge between the current cap and projected expenses through 2028 and there should be no expectation that the upcoming budget would immediately bump against the recommended rate cap. Staff provided an analysis of historical rate cap increases from 2004 to current, highlighting that previous increases have averaged around 11.2% and occurred about every three years. The recommended cap of \$0.515/MWh represents a 10.75% increase above the existing rate cap. There was a brief discussion around the risks of not increasing the cap, namely delayed adaption to industry changes and regulations, greater difficulty in attracting and retaining top tier talent, and inability to keep pace with new standards, risks, and threats. The presentation concluded with an overview of the timeline for stakeholder and regulatory approvals, the first step being Finance Committee approval in July, and concluding with a FERC filing in early November, which allows for a January 1, 2025, effective date.

Dianne Branch provided an overview of agenda items for the July meeting. The Committee discussed the desire to discuss the Markets + funding and budget proposal in a closed session at the conclusion of the regular scheduled meeting. The meeting is scheduled for 1-5PM on July 18th, in Tulsa, Oklahoma.

The meeting was adjourned at 10:37 a.m.

Respectfully Submitted,

Dianne Branch

Staff Secretary

MEETING ROSTER

Name	Company
Jason Mazigian	Basin Electric
Patrick Clarey	FERC
David Kelley	SPP
Marie Gieringer	SPP
Will Vestal	SPP
Dave McMartin	SPP
David Holt	SPP
Don Frerking	SPP
Dustin Smith	SPP
Michael Daly	SPP
Russell Carey	SPP
Steve Wright	SPP Board
Christine Aarnes	Sunflower Electric



**SOUTHWEST POWER POOL, INC.
FINANCE COMMITTEE MEETING**

**June 18, 2024
Web-Ex**

AGENDA

9:00 – 11.00 a.m.

- 1) Opening Remarks Stuart Solomon
- 2) Rate Cap DiscussionDavid Kelley
- 3) Recap and Next Steps Stuart Solomon
- 4) Upcoming Meeting Dianne Branch

Antitrust: SPP strictly prohibits use of participation in SPP activities as a forum for engaging in practices or communications that violate the antitrust laws. Please avoid discussion of topics or behavior that would result in anti-competitive behavior, including but not limited to, agreements between or among competitors regarding prices, bid and offer practices, availability of service, product design, terms of sale, division of markets, allocation of customers or any other activity that might unreasonably restrain competition.

WELCOME

Please be advised:

- This meeting is being recorded.
- This is a public meeting. Notice of this meeting was posted on the SPP website and publicly announced.
- In addition to industry stakeholders, attendees of today's meeting may include members of the press, representatives of various governmental authorities, or members of the public.

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ACCESSIBILITY

- We strive to host inclusive & accessible meetings that enable everyone to fully engage
- To request an accommodation or information, please contact any SPP presenter, facilitator or meeting host.
- We will do our best to help.





RATE CAP DISCUSSION

DAVID KELLEY
VP OF FINANCE AND CFO

JUNE 18, 2024

*Working together to responsibly and economically
keep the lights on today and in the future.*



SouthwestPowerPool



SPPorg



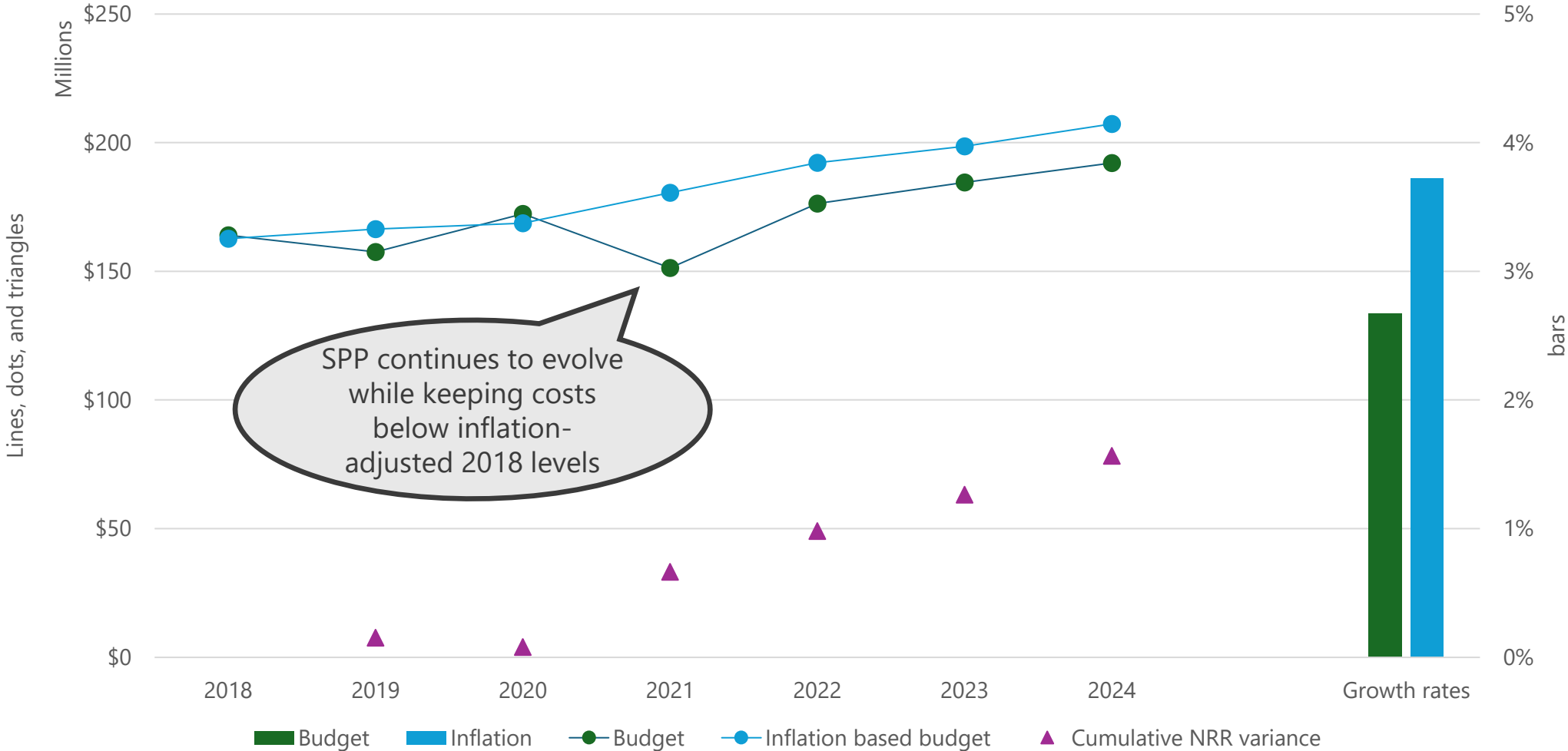
southwest-power-pool

MISSION, VALUE AND FUNDING

- SPP's purpose is to operate a **reliable, resilient,** and **affordable** grid
- Our mission also tasks us with sustaining and increasing value to our members
- SPP is funded with a rate applied to energy use in our region
- SPP controls and manages costs prudently, comparing **favorably** to our peers and to economic benchmarks
- SPP provides value to its members through operational **excellence** and a commitment to **strategic investments** that align with member, regulator, and market requirements



DOING MORE WITH LESS



INCREASING VALUE AND SERVICES

While controlling costs, SPP has matured as an organization, grown in scope and size, and navigated an increasingly complex business environment, simultaneously achieving these and other milestones since 2018:

18% increase in members, from 97 to 114

44% growth in day-ahead market participants, from 225 to 324

41% increase in volume of IM settlements from \$20.5B to \$29B

Implemented market enhancements including ramping and fast-start products

Launched Western RC service and **WEIS market**, implemented **WRAP program**, **expanding RTO footprint**, and built support for **Markets+**

Comprehensive review of Winter Storm Uri led to 22 actions and recommendations

Developed **Aspire 2026 Strategic Plan** and successfully implementing

Approved and implemented **21 HITT recommendations**

Addressed **13 recommendations from Value and Affordability Task Force**

Replaced settlements system and implemented **new Schedule 1A fee structure**

Implemented **new PRM**, more **robust LOLE analysis**, and **launched REAL Team**

Approved SCRIPT recommendations and **launched CPPTF** to revolutionize planning

Developed JTIQ process and **received \$464M in federal funding**

Implemented GI queue reforms for backlog clearing and executing GIAs for **over 24 GW of new generation**

SCENARIO ANALYSIS

Staff developed a long-range model to estimate SPP's rate cap needs with the following key variables included:

Operating and capital expenses

Headcount, salary, benefits

Western RTO expansion

Billing unit projections

Existing and new contract services

LOAD GROWTH



IEA estimates a **1.5% annual increase** in U.S. electricity use through 2026



SPP's load is **currently** growing at a faster rate than the national average



SPP **estimates vary** depending on method used, but ~2% per year may be reasonable



Utilized **FERC Form 714** compared to actual billing units to forecast growth



RTO expansion will **grow** our base of billing units starting in 2026

BILLING UNIT FORECAST PROCESS



Market Participants submit load forecasts to SPP



SPP Engineering compiles data for the annual FERC Form 714 filing



SPP Finance analyzes current and historic FERC Form 714 filings



Calculate the historical **relationships between actual billing units and load forecast data** from the past FERC Form 714 filings

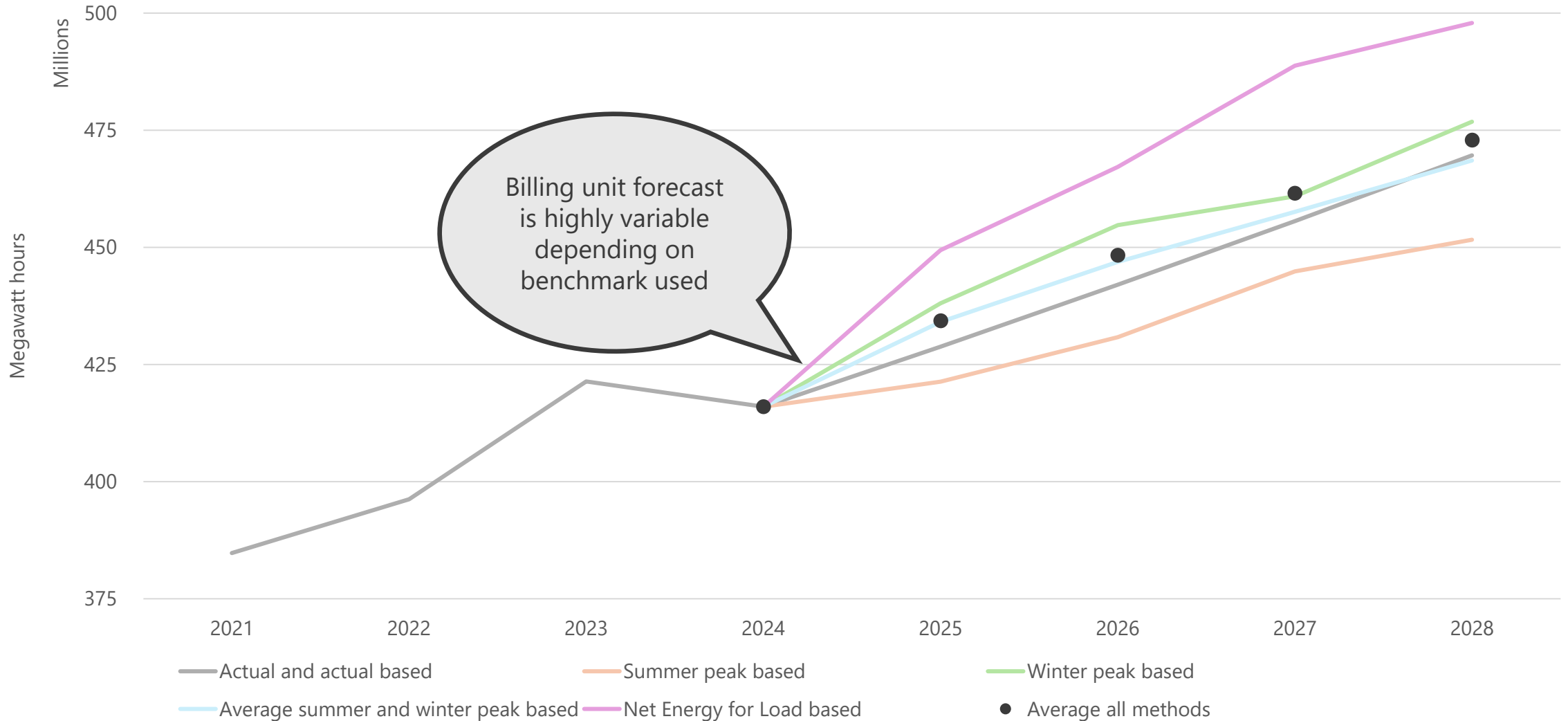


Apply historical relationships to the current FERC Form 714 filing to forecast future billing units

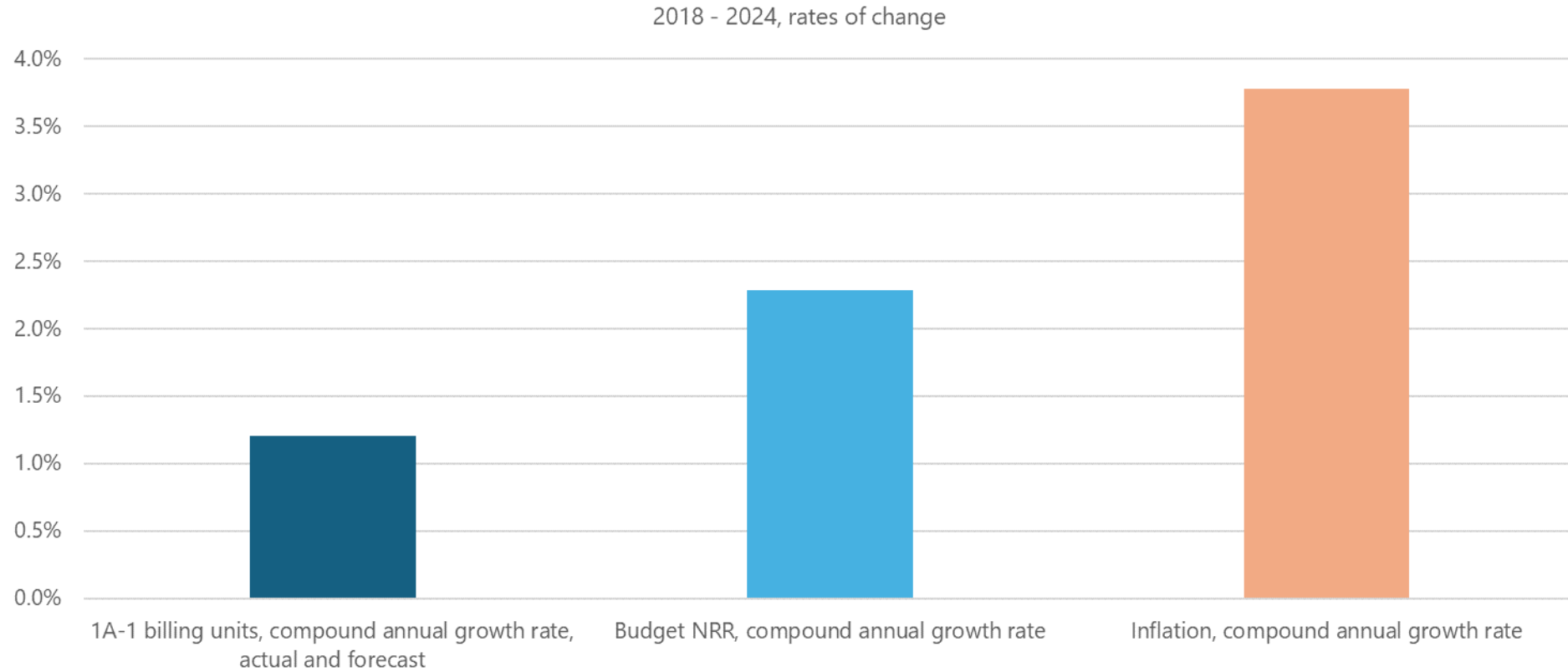


Incorporate billing unit forecasts in the financial model

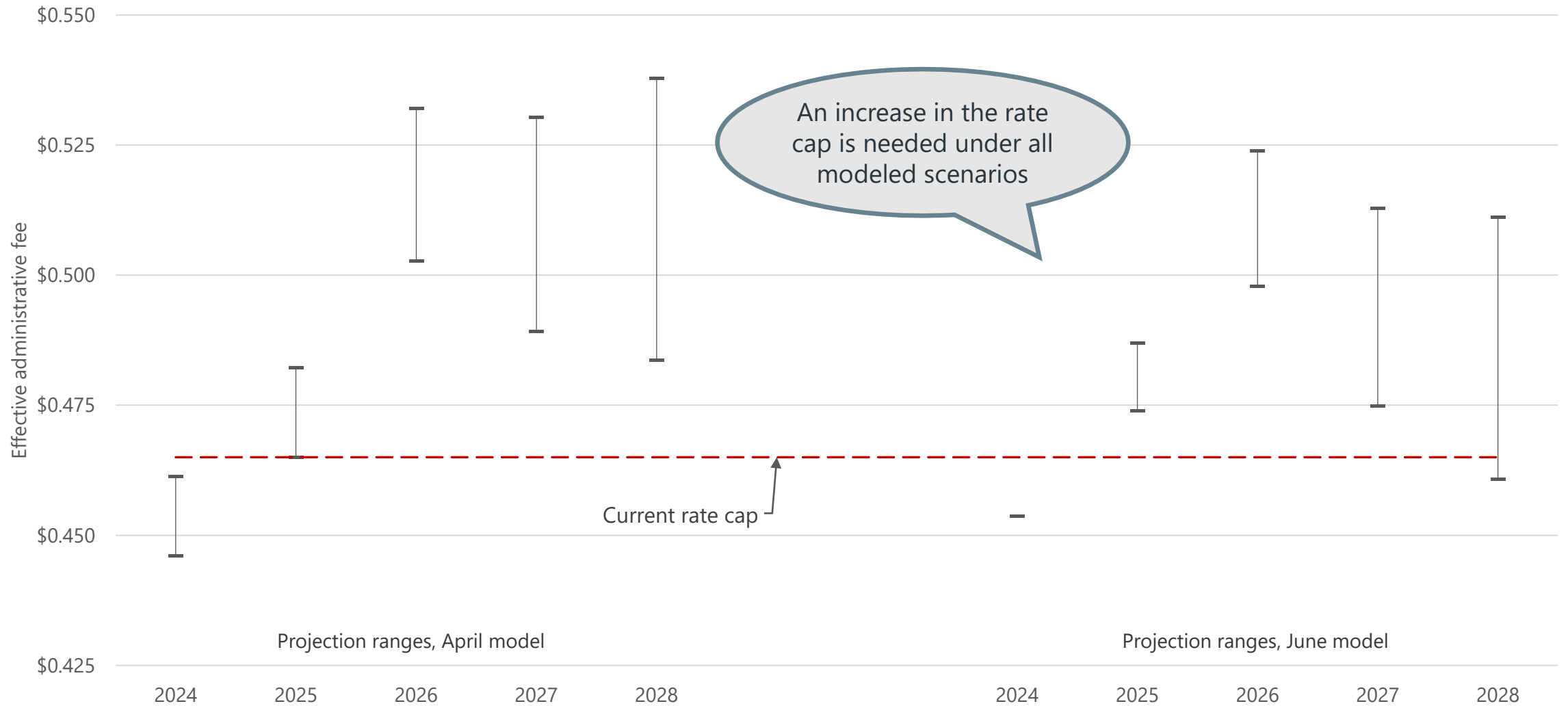
BILLING UNIT FORECAST RESULTS



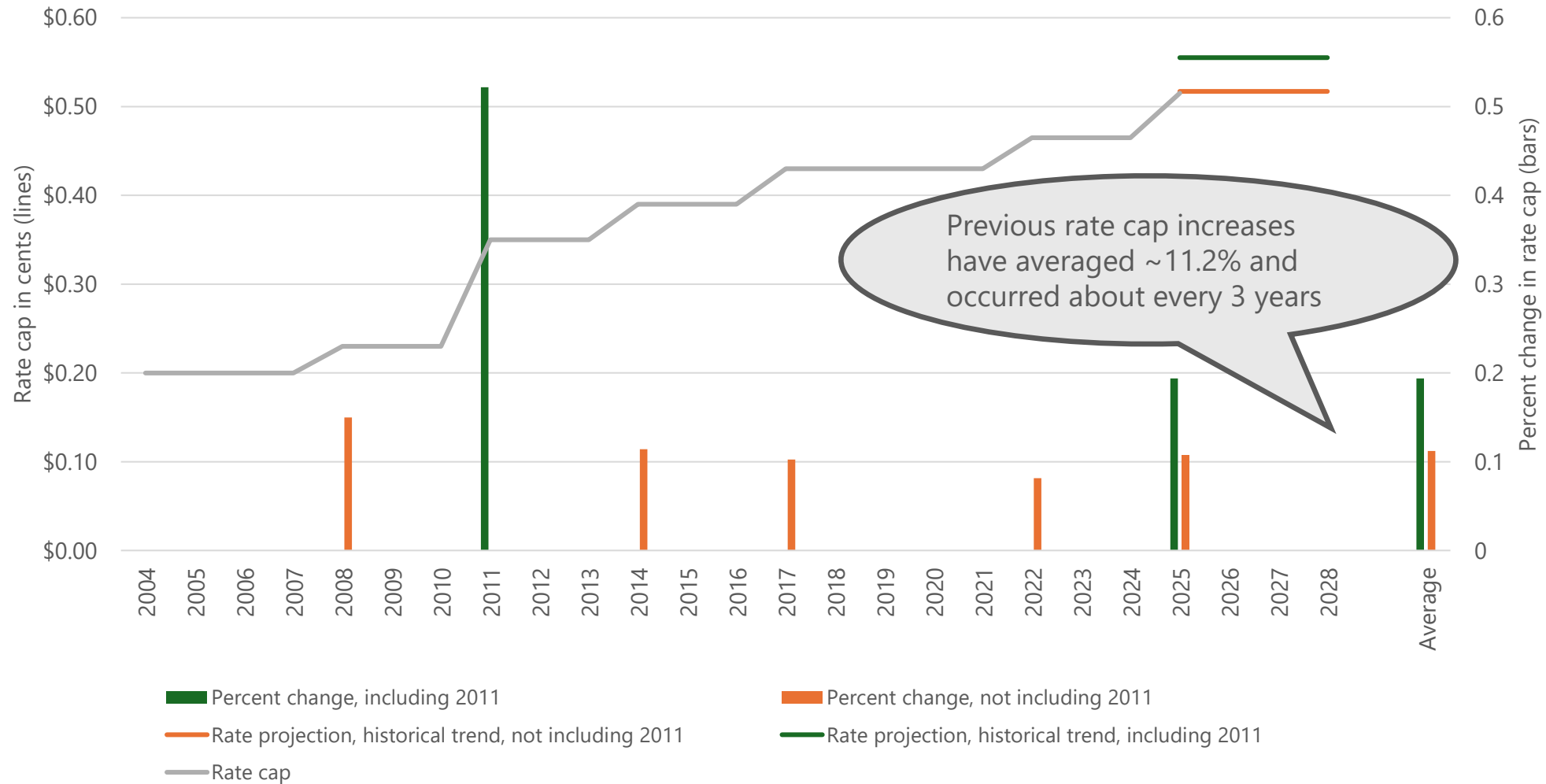
COMPOUND GROWTH RATES, SELECTED METRICS



EFFECTIVE ADMINISTRATIVE FEE MODELING



HISTORICAL RATE CAP INCREASES



RATE CAP INCREASE PROPOSAL

**Current
rate cap**

**\$0.465 /
MWh**

**Proposed
rate cap**

**\$0.515 /
MWh**

10.75% Increase Over Current Rate Cap

This rate cap recommendation is intended to provide a bridge between the current cap and projected expenses through 2028¹

¹The projection is sensitive to the key inputs. Material changes in those inputs may necessitate interim requests for rate cap increases.

RISKS OF NOT INCREASING RATE CAP



Delayed **adaptation** to industry changes and regulations



More difficult to **attract and retain** top-tier talent



Inability to keep pace with new **standards, risks, and threats**



Restricted ability to develop new **strategic plan**



Decreased **customer satisfaction**



Limited capacity to invest in **emerging technologies**

THE RATE CAP PROVIDES PREDICTABILITY



It isn't intended to be a cost-control mechanism



The annual budgeting process is the critical cost-control

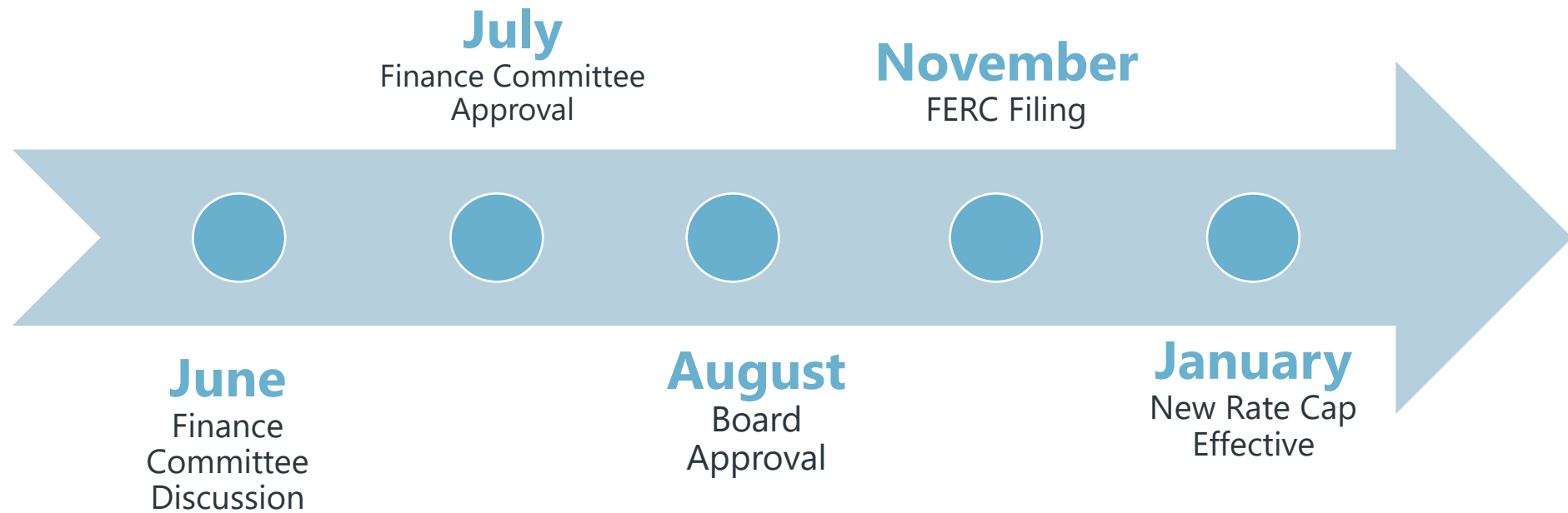


If we hit the rate cap, we must shed costs – of which ~70% are staffing



It's about setting longer-term cost certainty for members: what to expect

TIMELINE: REVIEW AND IMPLEMENTATION



NEXT MEETING

July 18 – Tulsa, OK
1-5 p.m.

- Joint Meeting with SPC (1st Hour) – Review of Operating Plan (Approval)
- Mid Year Financial Review
- Spotlight on Affordability
- Preliminary 2025-2027 Budget Highlights
- FERC Show Cause Order (Approval)
- Markets+ Phase II Funding (Approval)
- Recommendation of Rate Cap Increase (Approval)