



**SOUTHWEST POWER POOL  
FINANCE COMMITTEE MEETING**

July 18, 2024  
Hyatt Regency - Tulsa, Oklahoma

**MINUTES**

Stuart Solomon, Committee Chair called the meeting to order at 1:00 p.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 (web-ex)	Lincoln Electric System
Laura Kapustka (web-ex)	NPPD
Al Tamimi	Sunflower Electric
Mike Wise	Golden Spread Electric Coop
Dianne Branch	Staff Secretary

Others in attendance: See attached attendance roster

Matt Pawlowski was not in attendance and assigned his proxy to Jeff Wells (NextEra Energy). A quorum was present.

Russell Carey, Principal Stakeholder Affairs Liaison, reviewed the Antitrust and Accessibility notices. Minutes from the April 11, 2024, regular meeting and the June 18, 2024, special meeting were reviewed. Susan Certoma made a motion to accept the minutes. The motion was seconded by Liz Moore and approved by unanimous voice vote.

Stuart Solomon referred the members to the action items document included in the meeting materials which provided an update on all items from the April 11, 2024, meeting. All items were deemed to either be closed by action already taken or by information provided in meeting materials.

**AFFORDABILITY MOMENT: SPP'S VIP PROGRAM**

David Kelley, VP Finance & CFO, provided a brief introduction to the Value, Improvement and Performance (VIP) Program, emphasizing SPP's ongoing commitment to affordability.

Michael Desselle, VP Process Integrity & CCAO, provided an overview of the history of the Business Process Improvement efforts that began in 2012. The most recent effort is the Value, Improvement and Performance (VIP) Program which launched in early 2023. The purpose of VIP Program is to 1) create *value* by effective and efficient use of resources, 2) maintain a continuous *improvement* mindset and 3) maximize *performance*. Debbie Currie, Manager of Interregional Affairs, provided an overview of the 2024 accomplishments featuring improvements made in the IT, Operations, Engineering, Finance, and Markets & Support Services areas. In summary, there were 31 improvements made with 5,000 hours/year and \$3.7 million in savings recognized. The Committee members provided positive feedback, expressing support for the staff's ongoing efforts in creating value and maintaining an improvement mindset.

## **RATE CAP RECOMMENDATION**

David Kelley presented staff's recommendation to increase SPP's administrative fee rate cap from \$0.465 to \$0.515/MWh. David highlighted key points supporting the increase which included: the rate cap provides predictability, there are significant risks to not increasing the rate cap, and long-range models indicate the need for the rate cap increase. It was also noted that the previous rate cap increases have averaged just over 11% and have occurred approximately every 3 years. Several Committee members voiced support of the increase and thanked staff for the additional analysis and outreach that was provided in advance of this request. David commented on how the member feedback throughout this process improved staff's analysis and ultimately provided greater confidence in the final recommendation.

Stuart Solomon asked for a motion from the Committee on the following recommendation: recommend the SPP Board of Directors approve a Schedule 1-A tariff rate cap increase to \$0.515/MWh and direct SPP staff and members to develop the associated tariff change. The motion was made by Mike Wise and seconded by Jeff Wells. The motion passed with eight members voting for and one member voting against the motion. Brad Cochran with OG&E expressed appreciation for the quality of the analysis and coordination that had gone into the recommendation, however he was not able to support the recommendation due to his concern with the amount of the increase requested, with underlying concerns of the associated budget implications and the potential impact on OG&E's ratepayers.

## **FERC SHOW CAUSE: MARK TO AUCTION (MTA)**

Jared Barker, Credit Supervisor, provided an overview of the FERC Show Cause Order and SPP's approach to address the issues raised in the order through revision request (RR) 615. A recap of stakeholder approval for RR 615 was provided (CPWG-April 2024, RTWG-May 2024, MWG-May 2024, and MOPC-July 2024). Jared also provided background information to explain how the FERC Show Cause Order came to be (i.e. GreenHat Energy, LLC Default – 2018). FERC's order required that RTO/ISOs must demonstrate just and reasonableness of credit policies that did not contain both minimum portfolio and MTA TCR collateral requirements. SPP's proposed solution

as captured in RR615 addresses FERC's concern by introducing a portfolio level MTA mechanism within the TCR collateral requirement.

Stuart Solomon asked for a motion from the Committee on the following recommendation: to approve the mark-to-auction approach as presented in revision request (RR) 615. The motion was made by Al Tamimi and seconded by Mike Wise. The motion was approved by unanimous voice vote.

## **MID YEAR FINANCIAL REVIEW**

SPP Controller, Dianne Branch, provided an overview of the full year projected financial performance based on results through May 31, 2024. Revenues are forecasted to be favorable to budget 2.5%, primarily driven by contract services and billable staff time for engineering studies. Expenses are forecasted to be unfavorable 1.0% to budget, largely due to increases in Salary & Benefits from the accelerated hiring of RTO Expansion headcount (no impact on NRR) and Outside Services primarily due to contract service activities. The Net Revenue Requirement is currently forecasted to be \$5.5 million favorable to budget, largely due to the net contribution from contract services and the favorable variance to budget for the PY over-recovery with an offset from the unfavorable variance in miscellaneous revenues due to the miss on budgeted investment earnings from auction revenue funds (i.e. the budget assumed higher auction activity than was realized). With the favorable variance of \$0.4 million for Admin Fee Revenue, the over-recovery for 2024 is forecasted to be \$5.9 million as of May 31, 2024. Dianne also provided an update on the Capital Pool position as of July 11, 2024. The current forecast indicates an unfavorable variance to budget of \$1.1 million. Staff emphasized that management is actively managing capital activity to minimize or eliminate the forecasted overage.

## **BUDGET UPDATE**

Marie Gieringer, Director of Finance, Treasury and Credit, provided an update on the 2025 budget cycle currently under development, highlighting the expected business environment, executive guidance, and the underlying drivers influencing the 2025 budget process. An action item was taken for staff to revise the planning cycle slide to highlight the importance of affordability throughout the process. The overall timeline was reviewed with the Committee. Marie solicited feedback on what the Committee members wanted to see in the materials for the upcoming deep dive review meeting in September. Comments included the desire for more visibility around what was reduced/eliminated through the course of the budget process, the review processes utilized in finalizing the budget, and the possibility of receiving budget information earlier than in previous years.

## **ACTION ITEMS**

Dianne Branch recapped the action item from the meeting as follows:



- 1) Revise planning cycle slide in budget update deck to highlight the importance of affordability throughout the process.

## **FUTURE MEETINGS**

The next scheduled meeting of the Finance Committee will be held on September 26, 2024, in Little Rock from 8a.m. – 3p.m. This is a special meeting scheduled solely for the purpose of reviewing the 2025 Budget.

At 3p.m., the Committee Chair adjourned the regularly scheduled meeting and announced the Committee would reconvene in executive session.

## **EXECUTIVE SESSION**

The purpose of the executive session was to review recommendations for the budget and funding of Markets+ Phase 2.

The Committee approved the Markets+ Phase 2 budget and the funding approach to be used.

Committee Chair adjourned the Executive Session at 3:45p.m.

Respectfully Submitted,

Dianne Branch  
Finance Committee Secretary



## ATTENDANCE ROSTER

### Other In-Person Attendees

<b>Name</b>	<b>Company</b>
John Cupparo	SPP Director
Irene Dimitry	SPP Director
Ray Hepper	SPP Director
Barbara Sugg	SPP
Lanny Nickell	SPP
Paul Suskie	SPP
David Kelley	SPP
Antoine Lucas	SPP
Michael Desselle	SPP
Casey Cathey	SPP
Michael Riley	SPP
Debbie Currie	SPP
Marie Gieringer	SPP
Will Vestal	SPP
Jared Barker	SPP
Dustin Smith	SPP
Russell Carey	SPP

### Web-Ex Attendees

<b>Name</b>
Allison Duensing
Bernie Liu
Brad Johnston
Brent Wilcox
Carrie Dixon
Carson Hampson
Chris Lyons
Christine Aarnes
Corbin Harris
Dave McMartin
David Holt
Don Shipley
Emily Koenig
Emily Shuart
Geoff Lomax
Heather Starnes
Jack Fowler
Jeff Parkison
Jeff Wells
Jennifer Pytlik
Joe Ghormley
Joe Taylor
Laura Kapustka
LaGena O'Neal
Marisa Choate
Mark Price
Meghan Sever
Nicole Wagner
Patti Kelly
Rachelle Carlos
Robert Puglisi
Russell Quattlebaum
Ryan Benton
Sheri Dunn
Stan Chapman
Steve Davis
Steve Wright
Yuri Marynets

**From:** [Pawlowski, Matt](#)  
**To:** [David Kelley](#); [Dianne Branch](#)  
**Cc:** [Wells, Jeff](#)  
**Subject:** \*\*External Email\*\* Proxy for today's meeting  
**Date:** Thursday, July 18, 2024 8:40:42 AM

---

**STOP!** This is **NOT** an SPP email.

Be very cautious of any links or attachments unless you recognize this sender -  
MATT.PAWLOWSKI@nexteraenergy.com and are expecting this email.

**Please click the "Report Phish" button if you are unsure about this email.**

David/Dianne - My flight leaves from Tulsa at 12:45 today so I will be on the line for the meeting until that time and following that time, I give Jeff Wells my proxy for voting including the vote on the Markets+ project. We support all three recommended actions.

Matt Pawlowski  
NextEra Energy Transmission  
561-302-0605

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

**Thursday, July 18, 2024  
1:00 P.M. to 5:00 P.M.  
Hyatt Regency Tulsa, OK | Webex**

**AGENDA**

- 1) **Call to Order and Administrative Items** (5 minutes)..... Stuart Solomon
  - a) Antitrust Statement and Accessibility Notice
  - b) Minutes (**\*\*ACTION\*\***)
  - c) Review of Action Items
  
- 2) **Affordability Moment: SPP’s VIP Program** (15 minutes) ..... Debbie Currie
  - a) Presentation
  - b) VIP Program Report
  
- 3) **Rate Cap Recommendation** (15 minutes) .....David Kelley
  - a) Presentation
  - b) Recommendation (**\*\*ACTION\*\***)
  
- 4) **FERC Show Cause: Mark-to-Auction (MTA)** (15 minutes)..... Jared Barker
  - a) Presentation
  - b) Recommendation (**\*\*ACTION\*\***)
  
- 5) **Mid-year Financial Review** (15 minutes).....Dianne Branch
  
- 6) **Budget Update** (30 minutes) .....Marie Gieringer
  
- 7) **Recap of New Action Items** (5 minutes) ..... Dianne Branch
  
- 8) **Future Meetings** (5 minutes) ..... Dianne Branch
  - a) Presentation
  - b) Meeting Workplan
  
- Adjournment of Public Meeting/Break (10 minutes)*
  
- 9) **Executive Session: Markets+ Budget and Funding (**\*\*ACTION\*\***)**.... Antoine Lucas and David Kelley
  - a) Presentation
  - b) Budget Recommendation
  - c) Funding Recommendation

*The executive session is closed to the public. Only members of the Finance Committee and SPP staff will be permitted due to discussion of non-public data regarding Markets+ Phase 2 participants.*

*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.



## SPP ANTITRUST NOTICE

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.



## 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.





**SOUTHWEST POWER POOL  
FINANCE COMMITTEE MEETING**

**April 11, 2024  
Teleconference**

**MINUTES**

Committee Chair called the meeting to order at 8:00 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
Dianne Branch	Staff Secretary

Others in attendance: See attached meeting register

Matt Pawlowski and Laura Kapustka were not in attendance. Al Tamimi was in attendance from 8a.m. to 9a.m. and assigned his proxy for the remainder of the meeting to Tom Hestermann. A quorum was present.

Stuart Solomon announced that Susan Certoma will be serving as Vice-Chair for the Committee.

Minutes from the January 18, 2024, meeting were reviewed. Susan Certoma made a motion to accept the minutes. The motion was seconded by Al Tamimi and approved by unanimous voice vote.

Stuart Solomon referred the members to the action items document included in the meeting materials which provided an update on all items from the January 18, 2024, meeting. All items were deemed to either be closed by action already taken or by action to be taken during this meeting.



## 2023 FINANCIAL AUDIT REPORT

SPP Controller, Dianne Branch and FORVIS audit partner Chris Lindner presented the results of the 2023 financial audit. Dianne covered highlights on the financial statements. A more detailed narrative was provided in the meeting materials. Chris Lindner provided an overview of the audit and presented the audit management letter. No material weaknesses or significant deficiencies were noted in the management letter. Additionally, there were no auditor proposed or management recorded entries reported.

The Committee convened for a brief executive session with the auditors.

Stuart Solomon asked for a motion from the Committee on the following recommendation: recommend the SPP Board of Directors accept in its entirety the 2023 audit report and findings of FORVIS, LLC. The motion was made by Mike Wise and seconded by Emily Koenig. The motion was approved by unanimous vote.

## 2024 BENEFIT PLAN FUNDING

SPP's actuary, Steve Osborn, provided an overview of the valuation reports for the pension and retiree healthcare plans and highlighted factors that impacted the recommended funding for 2024. Consistent with the valuation reports, SPP staff made the recommendation to the Committee to contribute \$7.38 MM to the SPP Retirement Plan and \$0 to the Post-Retirement Healthcare Plan in 2024. The \$7.38 MM funding recommendation for the Retirement Plan is less than the 2024 budget of \$7.90 MM. The 2024 budget included \$0 for funding the Post-Retirement Healthcare Plan.

Stuart Solomon asked for a motion from the Committee on the following recommendation: Approve 2024 funding of the SPP Retirement Plan of \$7.38MM and the SPP Post-Retirement Healthcare Plan of \$0.00MM. The motion was made by Susan Certoma and seconded by Mike Wise. The motion was approved by unanimous vote.

## COMMITTEE SCOPE REVIEW

Dianne Branch walked through the remaining comments on the scope document that had been previously distributed to the Committee on February 15, 2024, for review. During the January 18, 2024 meeting, the Committee asked staff to review and edit the document to address concerns raised regarding language being too broad in terms of perceived oversight responsibility. The document distributed on February 15, 2024, addressed those concerns. During this meeting, the Committee finalized edits in the scope document to address the remaining comments. Stuart Solomon asked for a motion from the Committee on the following recommendation: Approve scope document as presented including any edits made during this April 11, 2024, meeting. The motion was made by Liz Moore and seconded by Susan Certoma. The motion was approved by unanimous vote.



## MARKETS+ PHASE II FUNDING

Antoine Lucas, VP of Markets, provided an update on the Markets + Phase II Funding effort which covered the funding approach, key assumptions, and the current timeline for finalizing contract terms, gaining stakeholder and regulatory approvals, and executing loan agreements. In summary, the plan is to utilize a bank revolver to finance the implementation costs of Markets+ Phase II and upon launching the market, debt will be converted into an amortizing note to be recovered from market participants over the term of the loan. The funding approach aims to mitigate financing risks to SPP's existing stakeholders and equitably distribute financial responsibilities among all current and future Markets+ participants. The current timeline reflects a July/August target for gaining Finance Committee/Board approval of the funding proposal. Committee members asked various questions regarding the funding approach, the post-implementation payback structure, the mitigation of risk to SPP membership, etc. There was also an action item to report back to the Committee the status of Phase I spending compared to the budget.

## RATE CAP DISCUSSION

David Kelley provided an overview of the analysis performed by staff and the resulting preliminary recommendation for raising the cap for the 2025 budget cycle. In his presentation, David highlighted that SPP has historically maintained limited cost growth but added that some growth is inevitable as there is a minimum cost to operate an RTO and that cost organically increases with inflation. David added that when rising costs, increasing risks, and market complexity and volatility meet a flat rate cap, something must give. The only levers available are for SPP to reduce services (potentially jeopardizing reliability and decreasing value to members and customers), minimize strategic spending (increasing future risks to the RTO), or increase the rate cap to sustain and improve services (increasing strategic value, and minimizing risks now and in the future).

David presented comparative data with other RTO/ISOs which highlighted that SPP has the lowest NRR, is in the bottom third for cost growth, and is the only RTO/ISO that utilizes a cap. David also provided data around the growth in the effective administrative fee (EAF) as compared to inflation and CPI growth. David discussed the long-range model (and all the key variables) that staff utilized in arriving at a preliminary recommended rate cap of \$0.550/MWh that would be effective for 2025-2028. Several committee members expressed concern over the significant increase in the cap from the current rate of \$0.465/MWh. Additionally, several members challenged the flat load growth assumptions that have been utilized in staff's analysis. In closing, the Committee asked that there be an additional meeting to further discuss this topic with emphasis on seeing updated models with load growth assumptions. An action item was taken for staff to poll Committee members with potential dates for a June special meeting in advance of the July meeting when it is expected that the Committee will be asked to vote on a recommended rate cap increase.



## FUTURE MEETINGS

The next regularly scheduled meeting of the Finance Committee will be held on July 18, 2024, in Tulsa, OK from 1-5 p.m. The meeting will include a joint session with the SPC to review the Operating Plan. Other major topics to be covered will include mid-year financial review, business process improvement update, rate cap recommendation, FERC Show Cause Order, and Markets + Phase II funding recommendation.

As noted previously, a special meeting to discuss the rate cap recommendation will be scheduled for June pending confirmation of available dates.

## ACTION ITEMS

Dianne Branch recapped the action items from the meeting as follows:

- 1) Provide Markets+ Phase I financial results compared to budget.
- 2) Poll Committee members on possible dates for a June 2024 special meeting to further discuss the rate cap recommendation.
- 3) Provide additional analysis supporting the rate cap recommendation, including updated load growth assumptions.
- 4) Provide more granularity on the financial impact of contract services and expansion efforts consistent with 2024 budget presentation.

The meeting was adjourned at 11:20 a.m.

Respectfully Submitted,

Dianne Branch

Staff Secretary



**MEETING ROSTER**

<b>Name</b>	<b>Company</b>
Barbara Sugg	SPP
Antoine Lucas	SPP
John Cupparo	SPP Board
Steve Wright	SPP Board
Marie Gieringer	SPP
Zeynep Vural	SPP
Will Vestal	SPP
David Holt	SPP
Russell Carey	SPP
Dustin Smith	SPP
Brent Wilcox	SPP
Corbin Harris	SPP
Dave McMartin	SPP
Don Shipley	SPP
Janet Calhoun	SPP
Michael Daly	SPP
Russell Quattlebaum	SPP
Sheri Dunn	SPP
Jim Jacoby	AEP
Jeff Parkison	City Utiliites Springfiled
Jim Flucke	Evergy
Chris Lindner	FORVIS
Ryan Fischer	FORVIS
Wade Leuthy	FORVIS
Carrie Dixon	Nextera
Robert Pick	NPPD
Emily Shuart	OG&E
Ryan Benton	OG&E
Jason Chaplin	OK Corp Commission
Steve Osborn	Osborn Carreiro & Associates

**From:** [T a m i m i , A l](#)  
**To:** [D i a n n e B r a n c h](#)  
**Cc:** [H e s t e r m a n n , T o m](#)  
**Subject:** \*\*External Email\*\* Proxy  
**Date:** Thursday, April 11, 2024 8:00:33 AM  
**Attachments:** [image001.png](#)

**STOP!** This is **NOT** an SPP email.  
**Be very cautious** of any links or attachments unless you recognize this sender -  
atamimi@sunflower.net and are expecting this email.  
**Please click the "Report Phish" button if you are unsure about this email.**

Dianne,  
I will be joining the FC meeting today from 8 AM to 9 AM. After that I have a conflict, so Tom Hestermann will have my proxy for the rest of the meeting.  
Thank you,  
Al



**Al Tamimi, P.E., Ph.D.**  
Sr. V.P. & Chief Operations Officer Transmission

**Sunflower Electric Power Corporation**

**Phone:** 785.628.2845

**Mobile:** 785.656.0435

**Email:** [atamimi@sunflower.net](mailto:atamimi@sunflower.net)

425 S. 119<sup>th</sup> St West  
Wichita, KS 67235





**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 18<sup>th</sup>, in Tulsa, Oklahoma.

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

Respectfully Submitted,

Dianne Branch

Staff Secretary



**MEETING ROSTER**

<b>Name</b>	<b>Company</b>
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  
FINANCE COMMITTEE MEETING**

**ACTION ITEMS**

**From April 11, 2024, Meeting**

- 1) Provide Markets+ Phase I financial results compared to budget.  
**UPDATE:** To be provided.
- 2) Poll Committee members on possible dates for a June 2024 special meeting to further discuss the rate cap recommendation.  
**UPDATE:** Meeting was held on June 18, 2024. Minutes included in meeting materials.
- 3) Provide additional analysis supporting the rate cap recommendation, including updated load growth assumptions.  
**UPDATE:** Additional analysis presented during the June 18, 2024, special meeting.
- 4) Provide more granularity on the financial impact of contract services and expansion efforts consistent with 2024 budget presentation.  
**UPDATE:** Impact to NRR is shown on an individual contract service/ expansion effort basis in the monthly reporting package provided in meeting materials. Additionally, the income statement in the reporting package illustrates, on a line-item basis, RTO and Contract Services & Expansion results, similar to the budget presentation.



# BUSINESS PROCESS IMPROVEMENTS

MICHAEL DESSELLE / DEBBIE CURRIE

JULY 18, 2024

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



## **PROGRAM HISTORY**

### 2012 - Formalization of Business Process Improvement (BPI) Program

- Director led; based on LEAN concepts

### 2015 - BPI transformed into Performance Excellence (PEX)

- One director leading teams of staff with a reporting committee of directors and officers
- 2020 – PEX 2.0
  - Focus on capturing ongoing efforts; transitioned to SPP Directors
- 2023 – Launch Value, Improvement, Performance (VIP) Program

# VIP PROGRAM



- Create **value** by effective and efficient use of resources
- Continuous **improvement** mindset
- Maximize **performance**

- Engage all SPP employees
- Broadly promote process improvements
- Recognize accomplishments
- Create a Culture of Excellence



# 2024 RESULTS

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





# INFORMATION TECHNOLOGY



4 Improvements



2,250 hrs/yr



\$214,000

# OPERATIONS



4 Improvements



900 hrs/yr



\$130,000

# ENGINEERING



8 Improvements



1,100 hrs/yr



\$2,243,000 M

# FINANCE



3 Improvements



\$1,100,000

# MARKETS & SUPPORT SERVICES



12 Improvements



640 hrs/yr



\$45,700

# IN SUMMARY



31 Improvements



5,000 hrs/yr



\$3,732,700M

# BUDGET YEAR IMPACTS



4 Improvements



2024 \$2,950,000



2025 \$200,000



## MICHAEL DESSELLE

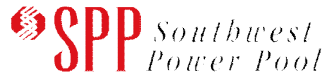
[mdesselle@spp.org](mailto:mdesselle@spp.org)



## DEBBIE CURRIE

[dcurrie@spp.org](mailto:dcurrie@spp.org)





# 2024 VALUE, IMPROVEMENT, PERFORMANCE REPORT



By Deborah Currie, VIP Program Manager

Published on July 8, 2024

# CONTENTS

---

<u>SUMMARY .....</u>	<u>1</u>
<u>2024 IMPROVEMENTS .....</u>	<u>3</u>
<u>Information Technology.....</u>	<u>3</u>
<u>Operations.....</u>	<u>3</u>
<u>Engineering .....</u>	<u>4</u>
<u>Finance.....</u>	<u>4</u>
<u>Settlements .....</u>	<u>5</u>
<u>Stakeholder Training.....</u>	<u>5</u>
<u>External Affairs .....</u>	<u>5</u>
<u>Project Management Office.....</u>	<u>5</u>
<u>CONCLUSION .....</u>	<u>6</u>

*Southwest Power Pool, Inc.*

## SUMMARY

---

SPP launched the Value, Improvement, Performance (VIP) program in March 2023. The purpose of the program is to:

- Create **value** through the effective and efficient use of resources,
- Instill a continuous **improvement** mindset in all SPP employees, and
- Maximize **performance** to achieve excellence in everything we do at SPP.

The VIP program builds on past process improvement efforts at SPP and includes a number of features designed to keep process improvement at the forefront of SPP's corporate approach to business operations. The VIP logo was developed to brand the program and give employees a visual reminder of the importance of continuous process improvement. Process improvement is promoted on a regular basis during management and staff meetings, through Circuit articles, the Corporate Campus lobby display, annual awards and an employee training class titled "Achieving Excellence through Process Improvement."

Eight (8) Process Improvement Liaisons were selected to facilitate cross-organizational process improvements. They represent Engineering, Information Technology, Markets, Operations, and Support Services. Current projects focus on resource planning and allocation, process documentation and knowledge retention. The Liaisons also research and/or facilitate process improvements suggested by SPP Staff.

Automation has been brought to the VIP program this year. Documentation and reporting will now be done through our new VIP Documentation Report Form and an added feature has been to directly link process improvements to SPP's Strategic Plan. The form can also be used by any SPP employee to submit process improvement ideas that they would like the Liaison Team to consider.

An interactive VIP Confluence page has also been established, creating a "one-stop-shop" for VIP information. Employees can find annual reports, Circuit articles, training class schedule and Liaison Team project tracking.

For the first time this year, SPP will begin capturing the direct impact of process improvements on the budget. Two process improvements implemented by the Finance team resulted in a positive variance to the 2024 budget of \$950,000. Revisions to Attachment V of the Tariff related to Generator Interconnection Application Fees are estimated to yield ~\$2,000,000 annually depending on the number of DISIS study requests.

One of the process improvements implemented by the IT and Operations teams last year will result in \$200,000 cost reduction for the 2025 budget.

*Southwest Power Pool, Inc.*

SPP staff completed over 30 process improvements during the past twelve months and this report highlights those with the highest value from a cost and time-savings perspective. While not specifically detailed in this report, many process improvements made by our innovative staff resulted in qualitative benefits. While not quantifiable, these improvements allow the efficient and effective use of our human capital and financial resources providing value to our members and stakeholders as we strive towards excellence and unmatched execution in everything we do at SPP.

Southwest Power Pool, Inc.

## 2024 IMPROVEMENTS

---

### INFORMATION TECHNOLOGY

#### *Microsoft Office 365 Implementation*

SPP's Information Technology (IT) team successfully team implemented MS Office 365 for the organization improving staff productivity through consolidation of communication applications and improved integration between communication products and editing/authoring tools. *MS Office 365 is projected to produce a value of \$214,000 as SPP increases staffing.*

#### *Security Orchestration and Automation Product Functionality*

A Security Orchestration and Automation (SOAR) product elevates an organization's security program by collecting data about security threats and responding to security events rapidly with little human assistance. Phishing email real-time detection and prevention management services allows companies to identify and respond to phishing attacks on the workforce. SPP's IT Cyber Security Team (ITCST) has demo SOAR products over the past few years and evaluated return on investment and effort to implement.

ITCST has developed an in-house product (Cybersecurity Ultimate Remedy Engine, CURE) to provide the same functionality at little to no cost while customizing it to fit ITCST needs and current security solutions and tools. ITCST estimates CURE reduces cyber incident response & triage time by 80% (20 minutes to 4 minutes). ITCST receives an average 20 Tickets a day. *CURE saves an estimated 40 working hours a week.*

ITCST estimates CURE reduces reported phishing investigation & response time by 80% (5 minutes to 1 minutes). ITCST receives an average 10 emails a day. *CURE saves an estimated 3.3 working hours a week.*

### OPERATIONS

#### *Short-term System Impact Studies (Attachment AC Revisions)*

Modified Attachment AC to remove the language stating that the feasibility study will be performed for free. Customers who request a short-term impact study (SIS) will receive a study agreement. If the agreement is executed the customer will be billed for the SIS study (currently \$2,000) whether it is deemed feasible or not. *Based on the number of requests over the 2021-2023 time period, the value can range from \$38,000 to \$228,000.*

*Southwest Power Pool, Inc.*

## ENGINEERING

### *SCRIPT C3 Common Model*

Engineering staff developed one common set of annual models by merging Model Develop Modeling Group (MDAG) and Integrated Transmission Plan Base Reliability (ITP BR) model build inputs to meet all SPP regional transmission planning needs. The common models were also developed for the "ready for use" concept for SPP Grid Asset Utilization to the best extent possible. Model development and benchmarking were consolidated to meet the requirements of SPP's tariff and NERC reliability standards. *The C3 common model reduced annual staff time by 882 hours and represents a value of \$252,550.*

### *Generator Interconnection Non-Refundable Application Fee (Attachment V Revisions)*

Modify Attachment V (Section 8.2.g and other sections) to require an initial deposit of \$10,000 non-refundable (inflation adjusted) application fee for all Generation Interconnection studies executed by interconnection customers on May 1, 2024, or after. This fee will be used to offset the costs that SPP (as the Transmission Provider) incurs to process the interconnection customers' interconnection request. *The estimated value of this Attachment V modification is \$2,000,000 annually depending on the number of DISIS study requests. Based on the 2023 study volume, the value would have been \$2.41M.*

### *Generator Interconnection Study Deposits for Special Studies*

Modify Attachment V (Section 4, 8 and other sections) to increase the study deposit for Generator Interconnection "special" studies not covered by FERC Order 2023. This is effective for all special studies (i.e. Replacement, Material Modification, Surplus) executed on May 1, 2024, or after. *This modification is expected to save staff invoicing time of approximately 200 hours per year assuming a 50% reduction in invoicing volume.*

## FINANCE

### *Leverage Cash on Hand*

Leadership on SPP's finance team collaborated with Intrafi to transfer excess cash to an insured cash sweep. This strategic move increased the interest yield from 2% to 5%. *The additional 3% yield reduced Net Revenue Requirements by approximately \$900,000 over the year.*

### *Insurance Renewal*

This year, SPP transitioned to a new insurance broker, conducting a thorough review of existing policies. This change led to budget savings of approximately \$200,000.

*Southwest Power Pool, Inc.*

## SETTLEMENTS

### *Settlement Financial Reporting Suite (Tableau)*

The settlement team developed a series of high-level financial reports to be used by SPP leadership. Included are Integrated Marketplace and Western Energy Imbalance Service Market (WEIS) invoicing reports by Market Participants, transmission invoicing reports by Transmission Customers and Transmission Owners, and Schedule 1A and Schedule 12 actuals vs forecast reports. The

creation of these reports enables leadership to get the data needed without having to have resources pull the data every time they need to perform analysis. The plan is to continue to expand on this reporting suite. *Time savings are 130 hours per year (4 hours per month, 80 hours once per year).*

## STAKEHOLDER TRAINING

### *SPP Learning Center Seat Optimization*

Stakeholder Training uses Cornerstone for its learning management system (LMS) and it automatically provided access to all active SPP employees. However, not all active SPP employees access Cornerstone, so Stakeholder Training and IT worked together to remove (deactivate) those employees from the LMS. *This process improvement will allow eliminate the need to purchase more seats for External Stakeholders yielding a value of \$6,400.*

## EXTERNAL AFFAIRS

### *Improve Markets+ Voting System, Process and Reporting*

External Affairs streamlined SPP's voting process for Markets+ and the Markets+ Participant Executive Committee resulting in a faster, more accurate, transparent recording and reporting of results. Creation of a job aid and training allowed other staff to facilitate the new process. The urgency of the Markets+ stakeholder process and the volume of decisions necessitated these kinds of improvements, reinforcing new stakeholders' satisfaction with and trust in SPP's stakeholder process. This improvement produced a value of \$5,000.

## PROJECT MANAGEMENT OFFICE

### *SPP Project Oversight Process*

The purpose of the SPP Project Oversight Process is to provide support to committees, and sub-processes for enterprise project lifecycle oversight from intake to closure. The process supports

*Southwest Power Pool, Inc.*

compliance with generally accepted principles of project management, organizational initiative management and SPP management structure and organizational norms. SPP Project Oversight Process changes include improved guidance for business owners, development of an oversight process document and communication efficiencies for management yielding *a time savings of 572 hours and a value of \$34,000.*

## CONCLUSION

---

SPP staff and leadership continue to focus on ways to improve our processes. While the value are excellent examples of the cost and efficiencies gained, there are numerous qualitative benefits that enhance both our stakeholders and employee experiences. Often these are challenging to quantify such as reducing the risk of a compliance violation or reducing the response time to a stakeholder question.

SPP continues to grow and provide additional services each year. Our focus upon continuous improvement is a key to maintaining the value and affordability provided to our membership, and I look forward to highlighting the successes achieved in the coming year.

This report was prepared by:

Deborah Currie  
VIP Program Manager





# RATE CAP RECOMMENDATION

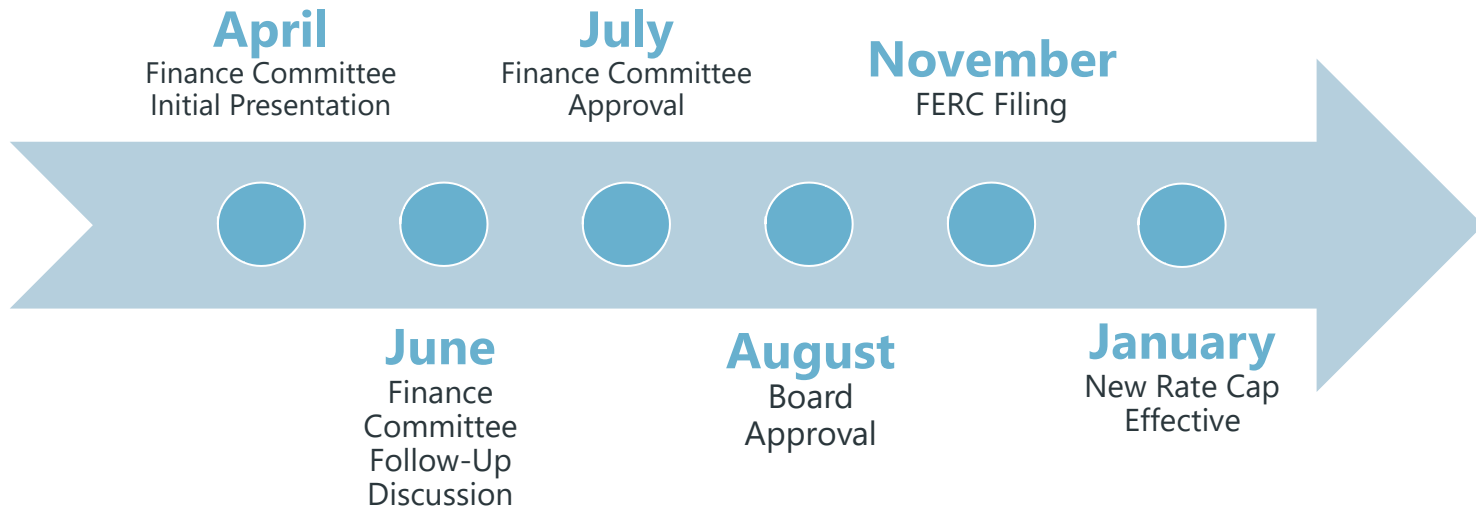
DAVID KELLEY  
VP OF FINANCE AND CFO

JULY 18, 2024

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



# TIMELINE



## KEY POINTS

---

SPP continues to **mature and grow**, while controlling costs

---

The rate cap provides **predictability** and is a long-term cost measurement

---

Long-range models indicate need for **rate cap increase**

---

Models are extremely sensitive to **billing unit estimates**

---

There are significant **risks** to not increase the rate cap

---

Previous rate cap increases have averaged ~ **11%** and occurred about **every 3 years**

---

Compound annual growth of **inflation has outpaced billing units and NRR** from 2018-2024

## 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 2028<sup>1</sup>*

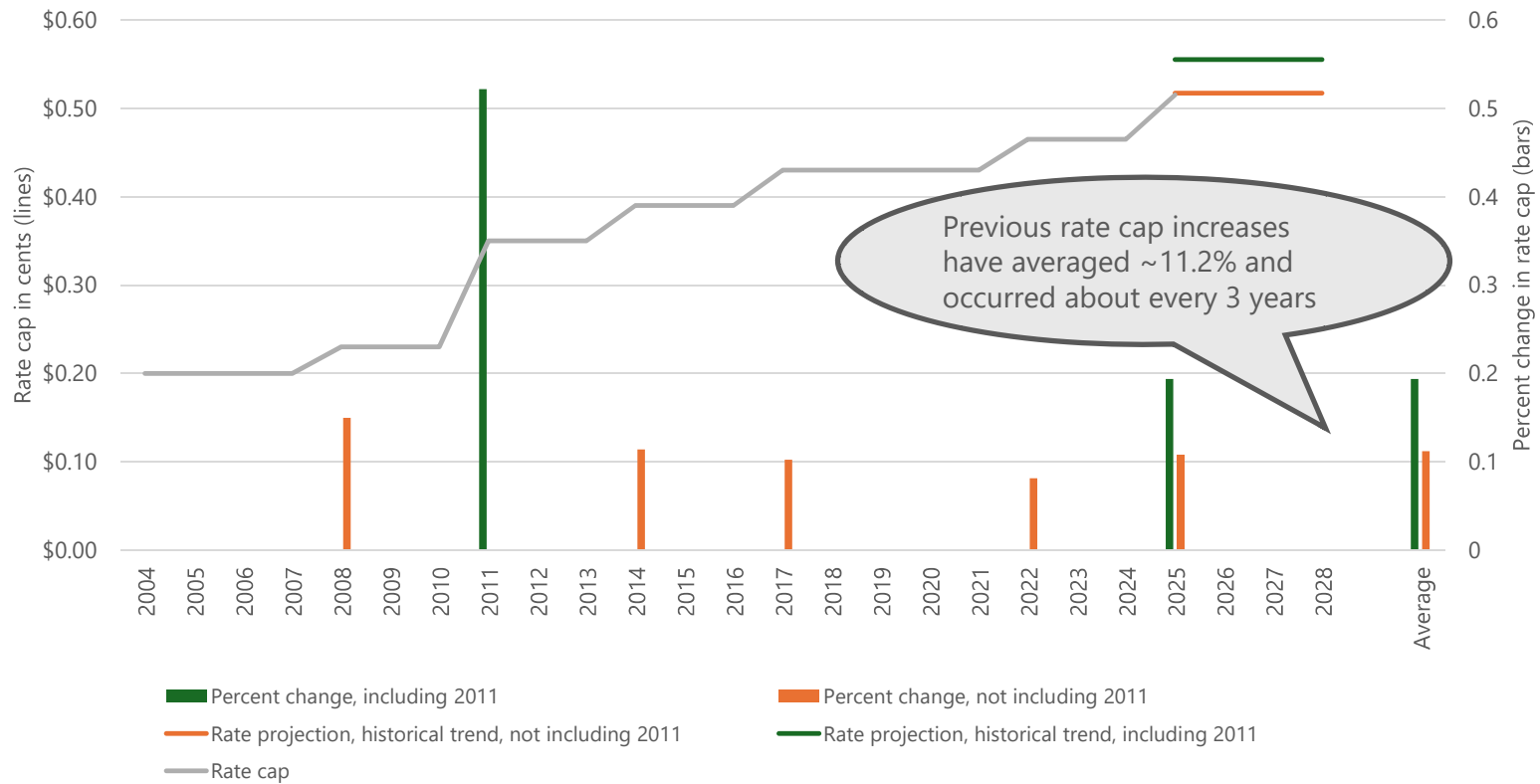
<sup>1</sup>The projection is sensitive to the key inputs. Material changes in those inputs may necessitate interim requests for rate cap increases.

## RATE CAP INCREASE: RECOMMENDATION

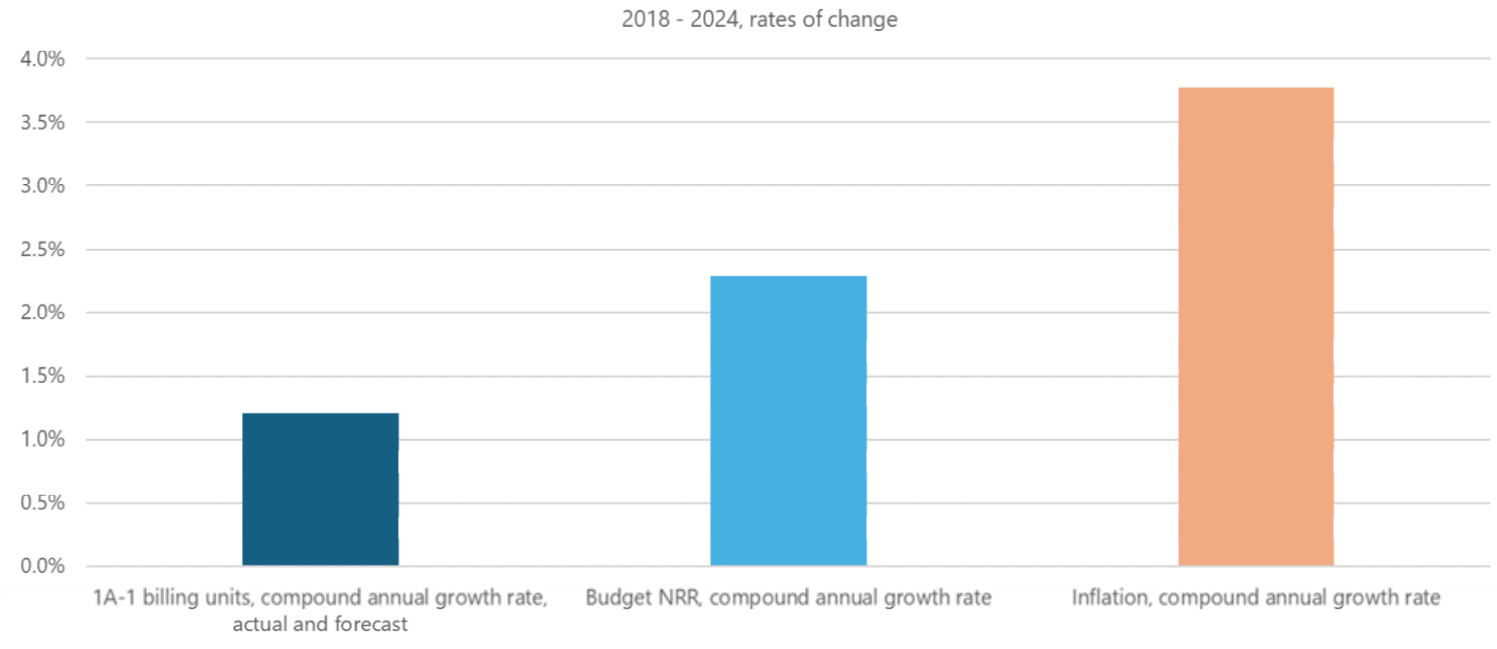
The Finance Committee recommends the SPP Board of Directors approve a Schedule 1-A tariff rate cap increase to \$0.515/MWh and direct SPP staff and members to develop the associated tariff change.

# APPENDIX

# HISTORICAL RATE CAP INCREASES



# COMPOUND GROWTH RATES, SELECTED METRICS







**SOUTHWEST POWER POOL, INC.**  
Finance Committee

**RECOMMENDATION TO THE BOARD OF DIRECTORS**

July 18, 2024

**Administrative Fee Rate Cap Change**

## BACKGROUND

Schedule 1-A of the SPP regional tariff provides a framework for SPP to recover its costs from customers by applying a rate per unit of services purchased or provided under the tariff. Individual rates under the Schedule 1-A structure are determined by a formula filed with and approved by the Federal Energy Regulatory Commission (FERC). The annual rate-setting process depends on the budget recommended by the SPP Finance Committee and approved by the SPP Board of Directors, as well as estimates of the quantities to be transacted under the tariff.

Schedule 1-A allows for the recovery of up to 100 percent of SPP's cash operating and debt service costs, with adjustments for any over or under-collections from the previous fiscal year. In addition to the formula rates, Schedule 1-A prescribes a cap on SPP's budget. This cap, currently set at 46.5 cents per megawatt-hour, is calculated by dividing SPP's budgeted net revenue requirement (including true-up from prior periods) by the estimated amount of transmission service to be provided under the tariff in the coming calendar year.<sup>1</sup> The table below details changes in the Schedule 1-A cap going back over 20 years.

Effective Date	Rate Cap (NRR/MWh)
January 1, 2000	\$0.20
January 1, 2007	\$0.23
January 1, 2011	\$0.35
January 1, 2014	\$0.39
January 1, 2017	\$0.43
January 1, 2022	\$0.465

---

<sup>1</sup> The units that represent the transmission service measurement are commonly referred to as the Schedule 1A-1 billing units.



## ANALYSIS

Southwest Power Pool (SPP) exists to provide value to its members and customers by offering services outlined in its Open Access Transmission Tariff.<sup>2</sup> This tariff represents the terms and conditions required by FERC for the provision of RTO services and which have been collaboratively designed by SPP members and subsequently approved by the Commission.<sup>3</sup>

In addition to providing core RTO services, SPP and its members have developed a strategic plan that strives to take advantage of value-add opportunities and to appropriately mitigate risk. The organization's strategic opportunities are balanced across a spectrum ranging from efforts intended to "strengthen the core" to those designed to "change the game".<sup>4</sup>

On the "strengthen the core" end of the spectrum, SPP is focused on initiatives where proven capabilities and expertise already exist. These efforts are designed to enhance SPP's existing strengths." Conversely, efforts to "change the game" are aimed at achieving long-term, transformative value and benefits for SPP's members.

While these initiatives may require significant investment and planning, they hold the potential for substantial positive impact if executed and managed effectively. Conversely, not pursuing these opportunities is likely to lead to higher costs and increased risks to SPP's members. SPP's annual budgets, and by extension the applicable tariff rate cap, provides the resources needed to provide core services and to deliver on our strategic objectives.

SPP Staff's analysis indicates that a rate cap of 51.5 cents per megawatt hour is likely sufficient to maintain the provision of all services required under the tariff and to achieve SPP's strategic objectives through at least 2028.

---

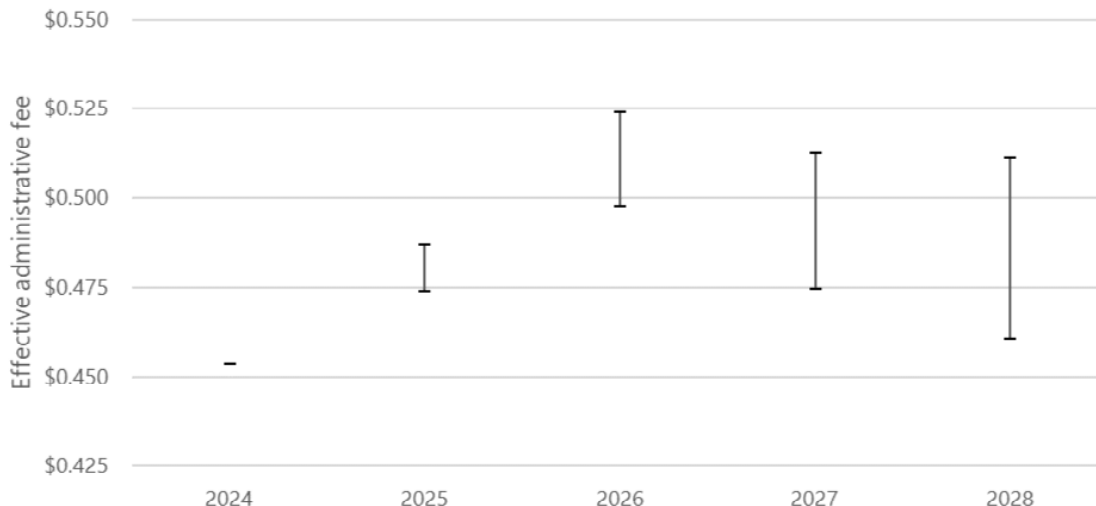
<sup>2</sup> SPP Open Access Transmission Tariff, Sixth Revised Volume No. 1, Schedule 1-A Tariff Administration Services, explicitly identifies SPP as a service organization: "The Transmission Provider shall provide administration services described in this Schedule 1-A to carry out its responsibilities under this Tariff."

<sup>3</sup> [ASPIRE 2026 - Overview](#) "The most important driver of the process was a sincerely held belief that our stakeholders should be aligned around the direction we intend to travel together."

<sup>4</sup> [ASPIRE 2026](#)



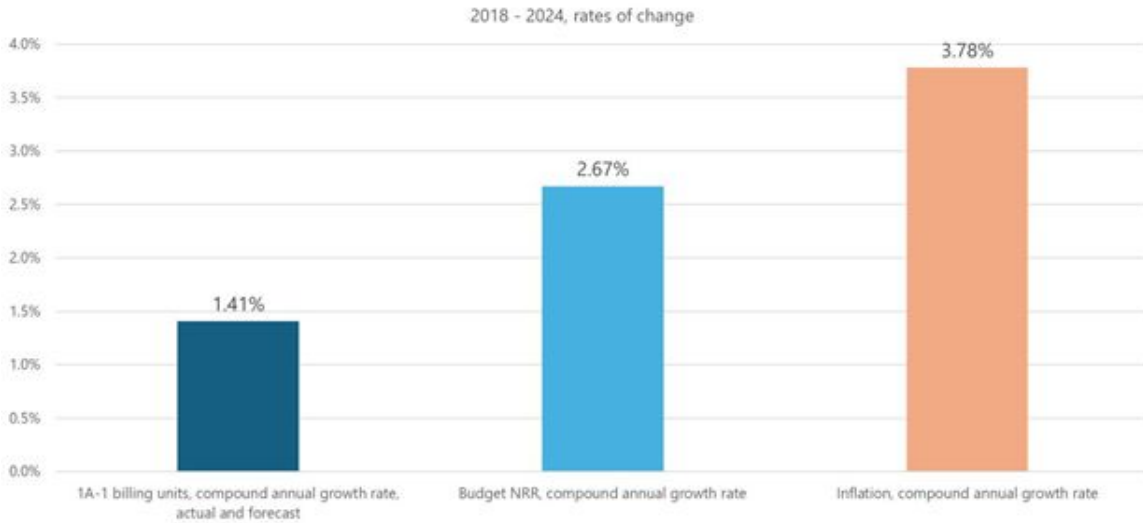
Figure 1 – Schedule 1A-1 rate projections, 2024 – 2028



Much of what drives the need to increase the rate cap over time is inflationary. The rate cap is not indexed to inflation or any other benchmark. For this reason, the rate cap is generally denominated in real economic terms only near the year of implementation. The longer the rate cap is in effect, the larger the gap between real and nominal economic terms. However, SPP’s annual budget is set in terms closest to real economic terms. This disconnect drives a significant portion of the incremental budget increases and, by extension, the need to request increases in the rate cap. Additionally, the billing units which are used to recover SPP’s costs have not increased at the same rate as inflation nor at the same rate as SPP’s budget which also contributes to the need to increase the rate cap.

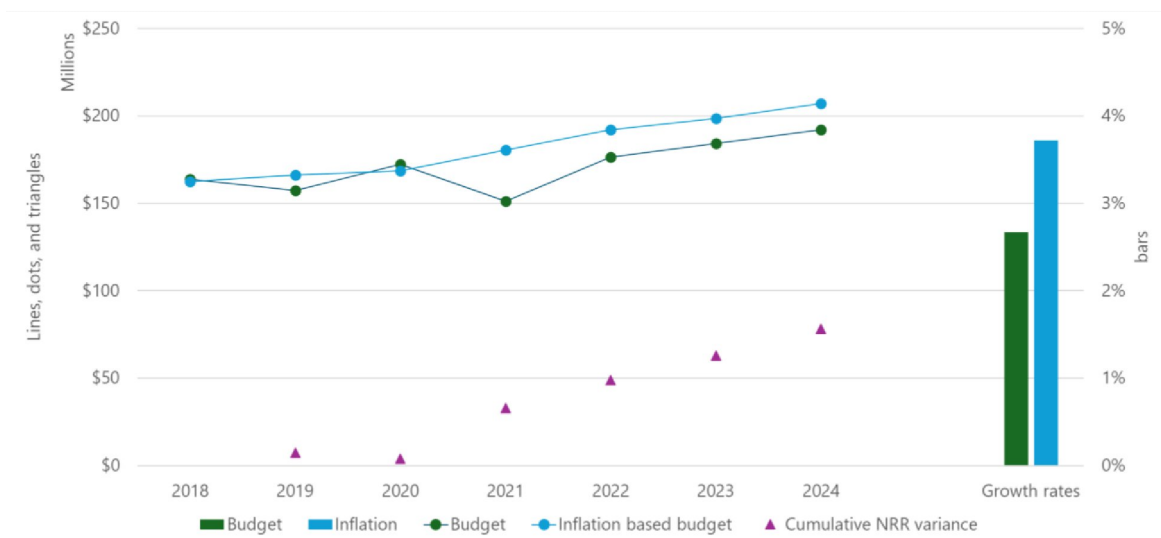


Figure 2 – Rates of change in billing units, net revenue requirements, and inflation



As previously mentioned, the numerator of the rate calculation is SPP’s annual net revenue requirement. While inflationary pressures influence the net revenue requirement, SPP has been prudent in actively managing those pressures, all while increasing the number of services provided and the customers to whom our services are provided. In support of our strategic plan, and in accordance with our corporate culture, we will continue to operate in this manner.

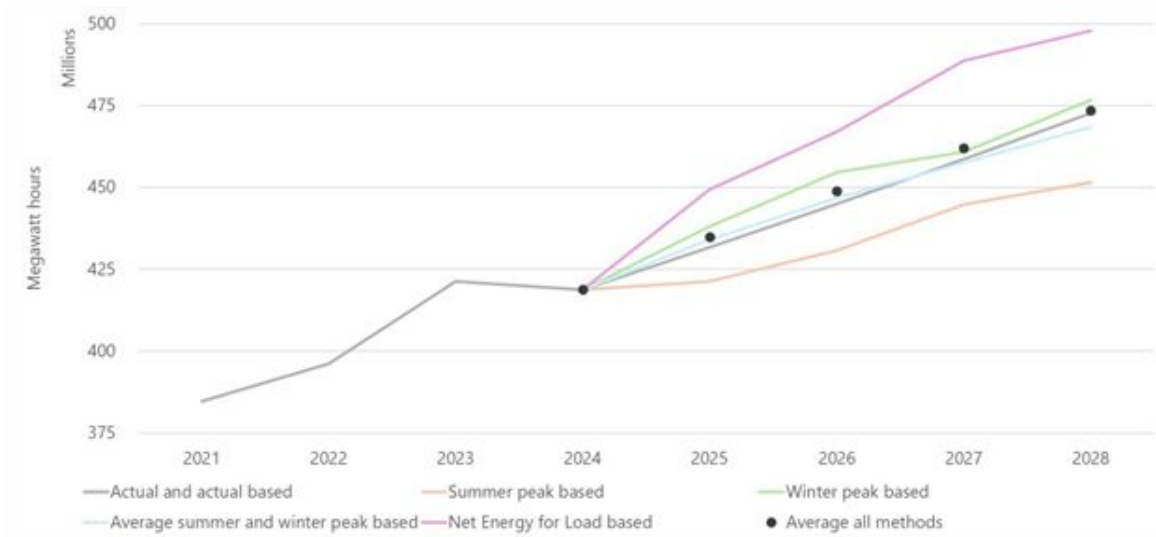
Figure 3 – Annual budget net revenue requirement vs. inflation based net revenue requirement estimates with compound growth rates





The Schedule 1A-1 billing units, the denominator, in the Schedule 1A-1 rate calculation, is an observed value. The Schedule 1A-1 rate is incredibly sensitive to this number. Historically, the estimation methodology was to hold these values flat over time when projecting future rates. In April of 2024, the Finance Committee directed staff to project these values differently. Pursuant to that direction, SPP staff developed a methodology based on Member-submitted load forecast data. The data is submitted to SPP annually, subsequently compiled by SPP and filed annually with FERC through Form 714.

Figure 4 – Schedule 1A-1 billing unit projections



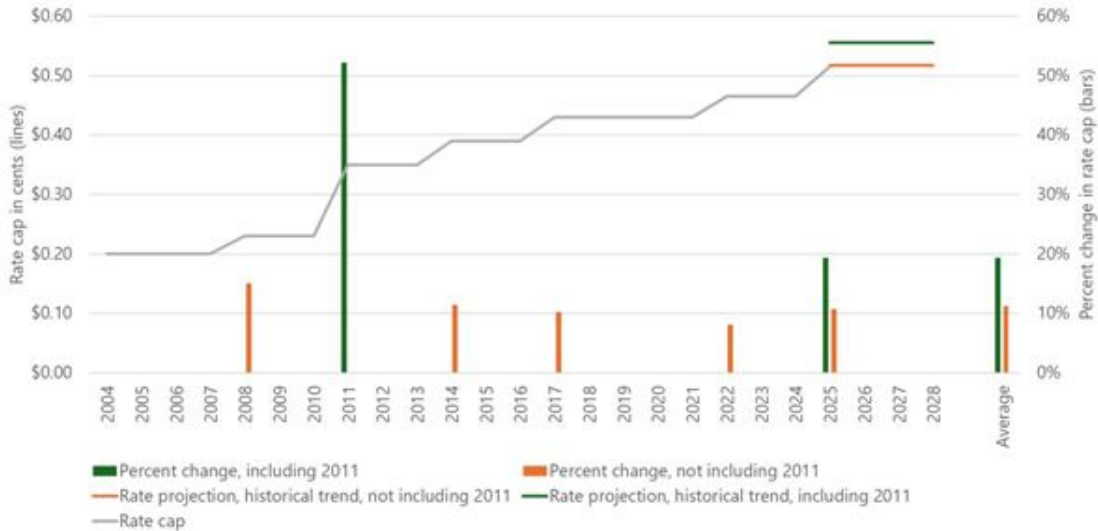
In connection with this methodology, the current Schedule 1A-1 rate projections outlined in Figure 1 incorporate growth estimates within this range. Should these growth estimates not materialize, holding all else equal, SPP may require further rate cap increases prior to 2028.

Of note, and for context, SPP staff’s 51.5 cent per megawatt recommendation is in line with previous rate cap increases. Prior rate cap increases, not including 2011, averaged approximately 11 percent and have been required about every three years.<sup>5</sup> SPP staff’s current recommended rate cap would amount to a 10.75 percent increase to the existing rate cap.

<sup>5</sup> The rate of change related to the 2011 increase is materially over and above the historical average. The driver of the deviation from the average, stems largely from the Integrated Marketplace development. The proposed rate cap increase request aligns more closely with the other historic increases.



Figure 5 – Historic rate cap and related rates of change



While SPP projects the proposed rate cap would be sufficient through 2028, SPP will require a rate cap increase to be effective in 2025. Without any increase in the rate cap, SPP will need to delay executing on aspects of the strategic plan and postpone certain risk mitigation measures.

In conclusion, SPP’s annual budgeting processes are designed to ensure that SPP delivers value to its members and customers by effectively managing inflationary pressures while concurrently implementing its strategic plan, ASPIRE 2026. By increasing the Schedule 1A-1 rate cap, SPP is better positioned to achieve its strategic objectives, to mitigate risks, and to continue providing reliable, affordable energy to its stakeholders. To that end, SPP staff respectfully requests the Finance Committee approve the following recommendation.

### RECOMMENDATION

The Finance Committee recommends the SPP Board of Directors approve a Schedule 1-A tariff rate cap increase to 51.5 cents per megawatt hour and direct SPP staff and members to develop the associated tariff change.

**Action Requested:** Approve Recommendation



# FERC SHOW CAUSE: TCR MARK-TO-AUCTION COLLATERAL REQUIREMENT

JARED BARKER

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



## FERC SHOW CAUSE ORDER – WHERE WE ARE

Approved:	Stakeholder Group	Date
	Markets and Operations Policy Committee	7/16/2024 Approved
	Market Working Group	5/21/2024 Approved <ul style="list-style-type: none"> <li>• 1 Opposition</li> <li>• 3 Abstentions</li> </ul>
	Regional Tariff Working Group	5/16/2024 Approved <ul style="list-style-type: none"> <li>• 1 Abstentions</li> </ul>
	Credit Practices Working Group	4/18/2024 Approved <ul style="list-style-type: none"> <li>• 1 Abstention</li> </ul>

CPWG initially began discussing Show Cause order in November of 2023 and continued at monthly meetings until ultimate proposal approval in April 2024



## FERC SHOW CAUSE ORDER – WHY?

### GreenHat Energy, LLC - History

- GreenHat formed in 2014 in Texas
- 2 of 3 managers implicated by FERC at previous employer
  - Manipulation of energy markets and exploitation of loopholes at CAISO and MISO
  - \$125MM in damages resulting in FERC fining JPMorgan \$410 million
- Listed net worth of \$1.01MM in credit PJM registration documentation, barely meeting the minimum requirements

### GreenHat Energy, LLC - Default

- Initially began trading TCRs in 2016
- Amassed large portfolio of TCRs at 836 million MWh with a collateral requirement of approximately \$12k by 2018
  - one of the largest portfolios in PJM's history
  - Strategy depended on parts of grid being congested, driving up power prices
  - Ultimately lead to default loss of approximately \$179MM

#### **Green-Hat**

- "*Cheated on*" in Chinese culture
- "*A computer hacker that is willing to do anything for cash*" per urban dictionary

## FERC SHOW CAUSE ORDER – WHAT?

Per the Order: “RTO/ISOs must demonstrate just and reasonableness of Credit Policies that did not contain both Minimum Portfolio and Mark-to-Auction TCR Collateral Requirements”

- ✓ • **Minimum Portfolio Requirements:**
  - SPP requires \$0.10/MWh as a minimum collateral requirement
- ✗ • **Mark-to-Auction (MTA) Requirements:**
  - Uses Auction Clearing Prices (ACPs) as an indicator of future TCR volatility

### Show Cause

*An order issued to a party, directing that party to justify or explain why a certain action should not be put into effect*

- Show Cause issued: July 2022
- SPP Initial Response: October 2022
- FERC Reply, Expanded Show Cause: September 2023
- SPP Action Required: August 2024

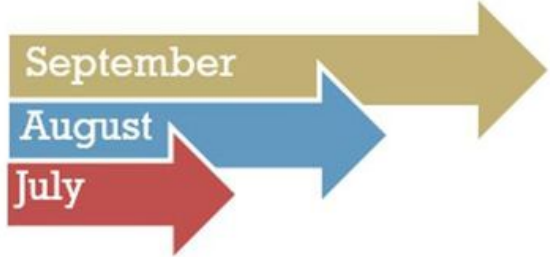
## FERC SHOW CAUSE ORDER – HOW?

### Proposed Solution:

- Use ACPs to re-mark TCR portfolio if greater collateral requirement than existing historical-based portfolio and minimum collateral calculations
  - ANNUAL: First re-mark after May annual auction clears using monthly and seasonal ACPs.
  - MONTHLY: Monthly re-mark after June auction clears for remaining July capacity and so-on for remainder of monthly auctions...
- ✓ • Solution should be an effective credit methodology and justifiable to FERC
  - Utilizes both historical and more recent pricing data
  - Mitigates the risk of default - Ensures market participants post adequate collateral to meet the potential evolving risk of their portfolio

## FERC SHOW CAUSE ORDER – HOW? CONT.

- Critical Dates
  - Requirement calculation performed on certain dates for every month in which a TCR is owned
- Forecast Exposure
  - Sum of cost to acquire<sup>1</sup>, cost to dispose<sup>2</sup>, and cost to hold<sup>3</sup> TCRs is calculated at each critical date
  - TCR Portfolio Credit Requirement is GREATEST LIABILITY sum from above, and \$0.10 Minimum TCR Collateral Requirement

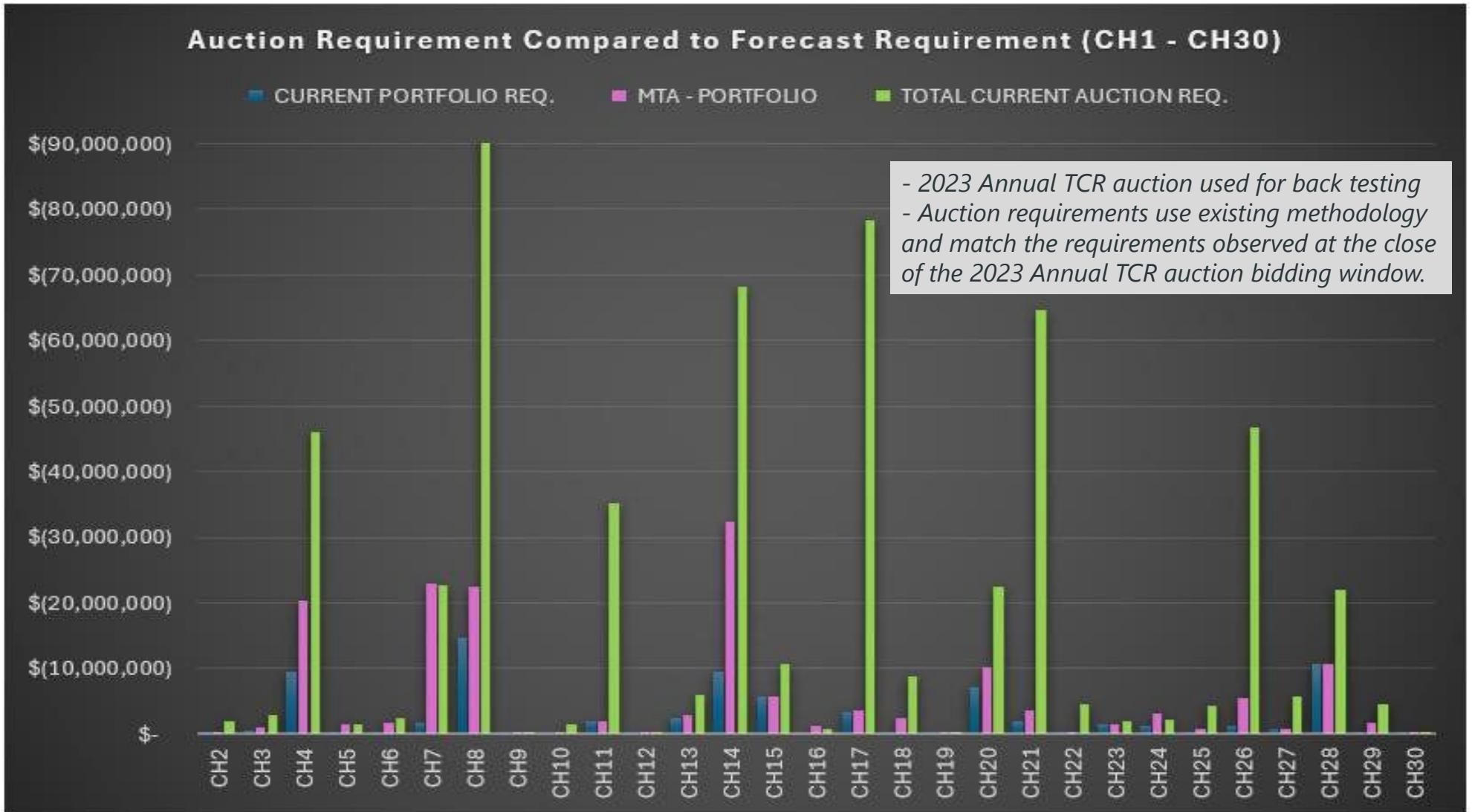


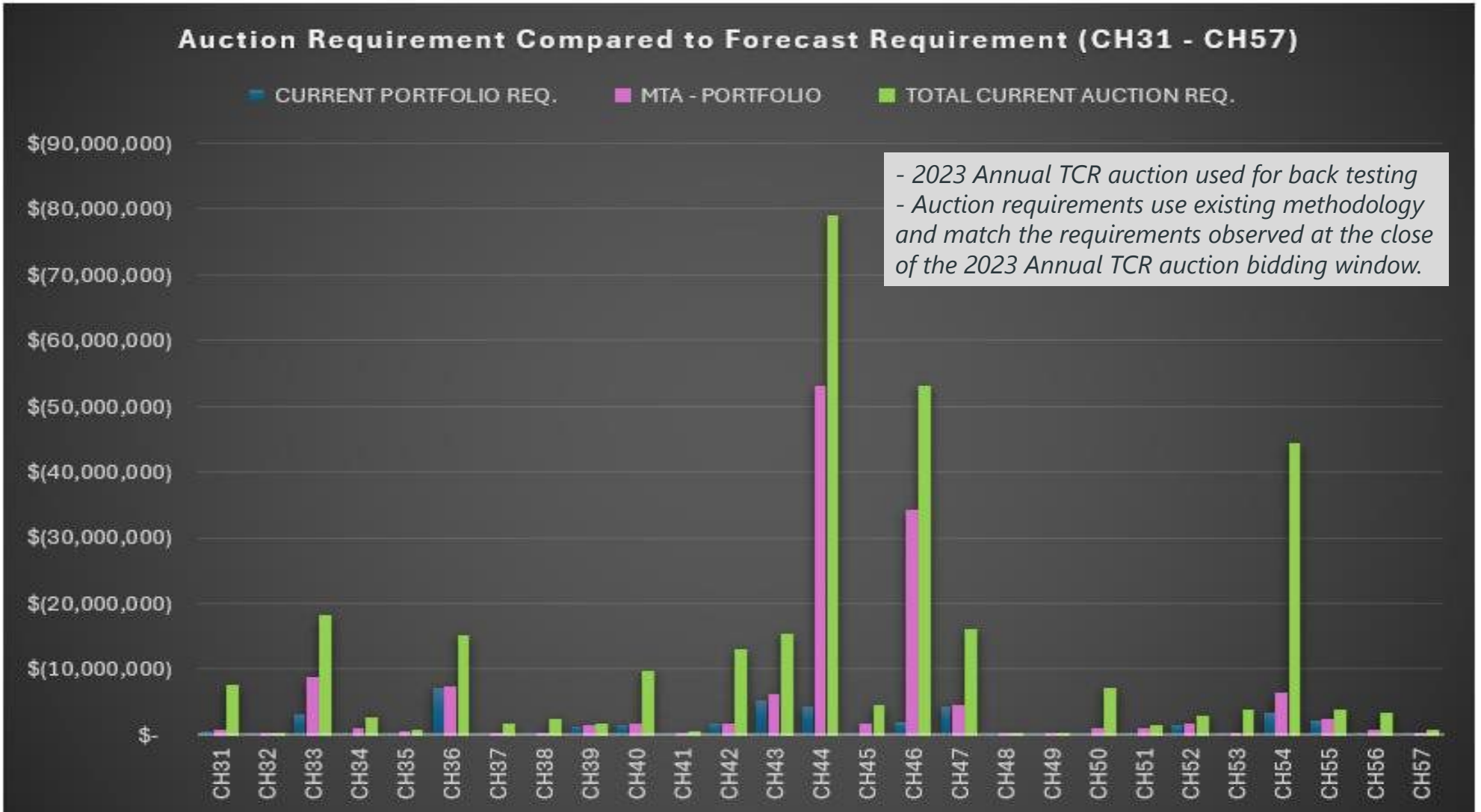
	July	August	September	October
TCR1: July	\$ (10)	\$ -	\$ -	\$ -
TCR2: July	\$ 8	\$ -	\$ -	\$ -
TCR3: August	\$ (6)	\$ (6)	\$ -	\$ -
TCR4: August	\$ 10	\$ 10	\$ -	\$ -
TCR5: September	\$ (12)	\$ (12)	\$ (12)	\$ -
TCR6: September	\$ 7	\$ 7	\$ 7	\$ -
<b>Total</b>	<b>\$ (3)</b>	<b>\$ (1)</b>	<b>\$ (5)</b>	<b>\$ -</b>

<sup>1</sup> Current calculation, no change

<sup>2</sup> Current calculation, no change

<sup>3</sup> Will include updated calculation to reflect MTA





## FERC SHOW CAUSE ORDER – SUMMARY

- During back testing, 76% of the observed increase in TCR requirements comes from five Financial Only entities
- Portfolio level MTA used by MISO and PJM
- Provides protections to the market when a TCR portfolio may be declining in value at clearing when compared to historical pricing used during auction
- Addresses FERC's concern noted in the Show Cause Order by incorporating recent pricing data in the form of ACPs
  - FERC's Concern: *"Without a mark-to-auction mechanism or comparable alternative, the Commission found that SPP's current FTR collateral requirements may be unjust and unreasonable because they do not incorporate the increased risk of default that results from an FTR portfolio that declines in value."*
  - Market Participants incorporate expected future congestion into their bidding strategy, and therefore the ACPs should be reflective of future market expectations.

## **FERC SHOW CAUSE ORDER – RECOMMENDATION**

**Recommendation:** To approve the Mark-to-Auction approach as presented in Revision Request (RR) 615.





## RR 615: TCR MARK-TO-AUCTION CREDIT REQUIREMENTS RECOMMENDATION REPORT

Date: 04/22/2024

Name: Jared Barker

Company: SPP

Email: [jbarker@spp.org](mailto:jbarker@spp.org)

Phone: 501-614-3234

### EXECUTIVE SUMMARY

---

- MOPC consent agenda  MOPC discussion and vote
- Supporting materials included

*Click or tap here to enter text.*

#### Essential points & primary issues for MOPC consideration:

1. RR615 is to address a FERC Order (EL22-65-000) requiring SPP to "show cause as to why its currently effective tariff remains just and reasonable and not unduly discriminatory or preferential in the absence of a mark-to-auction collateral requirement or comparable alternative for Financial Transmission Rights (FTRs) within its credit policies."
2. RR615 addresses FERC's concern that SPP only uses historical, potentially stale, TCR pricing data to calculate collateral requirements for TCRs. RR615 proposes changes to the SPP Credit Policy (Att. X of the OATT) that will introduce a portfolio-level mark-to-auction mechanism within the TCR collateral requirement. This addition mitigates the risk of default by updating collateral requirements to reflect the most recent valuation of the TCR portfolio using Auction Clearing Prices (ACP) instead of relying solely on historical pricing data.
3. The portfolio-level approach increases collateral requirements when the ACPs indicate a decline in the value of a portfolio. The portfolio approach is consistent with credit requirements and invoiced amounts since they are each measured at a portfolio level, and TCRs are allowed to net within both owned TCR credit requirement and settlement invoiced amounts. During back testing of this approach using the 2023 Annual TCR auction awards, it was observed that portfolio MTA would result in an increase in collateral requirements of approximately \$176MM. Of that increase, it's worth noting that 5 Financial Only entities accounted for \$135MM or 76% of the overall increase.

#### Background & drivers:

- This RR was drafted by SPP and was the primary discussion topic over multiple Credit Practices Working Group (CPWG) meetings to address the concern FERC stated in their Order of SPP using only historical pricing data to determine TCR credit requirements. This RR helps remedy this concern by including a forward-looking component, in the form of Auction Clearing Prices, to the TCR

*Portfolio Credit Requirement calculation which helps mitigate the potential default risk related to TCR portfolios declining in value over time.*

**Strategic implications:**

*This RR is to address a FERC order.*

**Risks:**

*Risk of rejecting: FERC order may not be addressed as required and potential default risk as mentioned above.*

**Costs & Benefits:**

N/A

**Major stakeholder discussion points:**

N/A

Stakeholder process overview:

Group	Date	Motion	Consensus	Stakeholder Discussion or Concerns
CPWG	04/18/2024	To approve RR 615 as presented	Approved 1 Abstention	Click or tap here to enter text.
MWG	05/21/2024	To approve RR615 TCR Mark to Auction Credit Requirements	Approved 1 Opposition 3 Abstentions	Click or tap here to enter text.
RTWG	05/16/2024	To approve RR615 as presented	Approved 1 Abstention	Click or tap here to enter text.
MOPC	07/16/2024	To approve RR615 as part of the MOPC consent agenda	Approved. Click or tap here to enter text.	Click or tap here to enter text.

FC	07/18/2024	Click or tap here to enter text.	Choose an item. Click or tap here to enter text.	Click or tap here to enter text.
	MOPC vote by sector:	Alternative Power Cooperative Federal agencies Independent power producer Independent transmission co. Investor-owned Large retail Marketer Municipal Public interest State agency		
Board	Click or tap to enter a date.	Click or tap here to enter text.	Choose an item. Click or tap here to enter text.	Click or tap here to enter text.

## RR DETAILS

---

### Comprehensive Roadmap

SIR#: 694

Prioritization Needed?  No  Yes

Impact Analysis?  No  Yes

If yes, provide the following information:

**Primary working group and priority rank:** Click or tap here to enter text.

**Estimated vendor cost:** Choose an item.

**Estimated implementation complexity:** Click or tap here to enter text.

**Estimated implementation staff hours:** Click or tap here to enter text.

**Estimated implementation time:** Click or tap here to enter text.



Choose an Item : Market Working Group	
Date	5/21/2024
Motion	To approve RR615 TCR Mark to Auction Credit Requirements
Planning-related concerns	Click or tap here to enter text.
Action	Approved
Abstained	3 – (TNSK), (KEPCO), (WAPA-UGP)
Opposed	1 – (Eversource)
Reason for each abstention/opposition (if provided): Click or tap here to enter text.	

Choose an Item : Regional Tariff Working Group	
Date	5/16/2024
Motion	To approve RR615 as presented
Tariff-related concerns	Click or tap here to enter text.
Action	Approved
Abstained	1 – (Eversource)
Opposed	0
Reason for each abstention/opposition (if provided): Click or tap here to enter text.	

Choose an Item : Finance Committee	
Date	7/18/2024
Motion	To approve RR615 as part of the MOPC consent agenda
Project Cost-related concerns	Click or tap here to enter text.

Action	Approved
Abstained	0
Opposed	0
Reason for each abstention/opposition (if provided): <b>Click or tap here to enter text.</b>	

Markets and Operations Policy Committee	
Date	7/16/2024
Motion	To approve
Action	Choose an item.
Abstained	Click or tap here to enter text.
Opposed	Click or tap here to enter text.
Reason for each abstention/opposition (if provided): <b>Click or tap here to enter text.</b>	
Board of Directors/Members Committee	
Date	
Motion	Click or tap here to enter text.
Action	Choose an item.
Abstained	Click or tap here to enter text.
Opposed	Click or tap here to enter text.
Reason for each abstention/opposition (if provided): <b>Click or tap here to enter text.</b>	

## SUMMARY OF COMMENTS

---

1. Date: 2/9/2024  
Submitter: Ruta Skucas (Financial Marketers Coalition)

Summary of comments: **1)** Current MTA plan does not re-mark annual owned positions using monthly TCR auction ACP results. **2)** Analysis not completed by SPP to determine the extent of the requirements when using TCR level MTA. **3)** Desire to review implementation of Balance of Planning Period (BOPP) auction mechanism. **4)** Expedited timing of SPP's response to the Show Cause order.

Organizational group review results: SPP and the CPWG have reviewed all concerns noted here. SPP agreed with the FMC that additional time and analysis needed to be performed and these additional analyses were presented at the CPWG at the March and April meetings. These comments were filed prior to SPP agreeing to slow down and provide additional analysis. SPP also reviewed alternative options for introducing MTA and ultimately, with the CPWG, changed the direction of RR615 to a portfolio level MTA approach rather than an individual TCR level approach. This change occurred after this comment was submitted on the RR. The CPWG has discussed that is not the group to decide upon changes to the auction makeup and potential changes to a BOPP style auction and it was discussed that this RR will not be the final review of MTA. SPP, along with the CPWG, will continue to monitor the MTA performance in order to address any potential future changes.

(e.g. Reviewed and accepted, reviewed but not accepted, reviewed with partial acceptance; provide details to explain): Reviewed with partial acceptance. SPP agreed to slow down and provide additional analysis and alternative approach for implementation of MTA.

2. Date: 2/9/2024

Submitter: Seth Cochran (DC Energy)

Summary of comments: **1)** The SPP proposal falls short of the credit efficiency that can be obtained by implementing Mark-to-Auction with Balance of Planning Period (BOPP) auctions. The main shortcoming of SPP's proposal is that it does not capture the risk of a TCR portfolio declining in value throughout a planning period. This can only be achieved with mark-to-auction supported by BOPP auctions. **2)** Concerned that SPP is moving ahead with its proposal at a much faster pace than previous credit initiatives and stakeholders have not become fully familiar with the proposal and its tradeoffs compared to Mark-To-Auction with BOPP auctions. **3)** DC Energy is concerned that this change may also reveal flaws in the current methodology for calculating TCR Reference Prices. In particular, it highlights simplifications made about how to extrapolate hourly values to full settlement periods, how to treat differentially TCRs with positive and negative Mean Prices and/or Auction Prices, and how to sum individual TCR requirements to determine portfolio requirements. **4)** DC Energy requests that SPP consider the impact of credit changes in terms of implementation timing. We request that any large changes should start with new positions being auctioned and therefore not applied retroactively. This way, TCR holders can make forward decisions based on the changes and avoid potential disruptions from retroactive application. **5)** DC Energy requests that SPP post the individual components to Reference Prices for each path available in TCR Auctions.

Organizational group review results: SPP and the CPWG have reviewed all concerns noted here. SPP agreed with Seth that additional time and analysis needed to be performed and these additional analyses were presented at the CPWG at the March and April meetings. These comments were filed prior to SPP agreeing to slow down and provide additional analysis. SPP also reviewed alternative options for introducing MTA and ultimately, with the CPWG, changed the direction of RR615 to a portfolio level MTA approach rather than an individual TCR level approach. This change

occurred after this comment was submitted on the RR. The CPWG has discussed that is not the group to decide upon changes to the auction makeup and potential changes to a BOPP style auction. SPP, along with the CPWG, will continue to monitor the MTA performance in order to address any potential future changes. SPP also provided to the CPWG all components used in the calculation of the TCR Reference Prices as well as all the Auction Clearing Prices from the annual auction that was analyzed so that participants could perform their own analysis. (e.g. Reviewed and accepted, reviewed but not accepted, reviewed with partial acceptance; provide details to explain): Reviewed with partial acceptance. SPP agreed to slow down and provide additional analysis and alternative approach for implementation of MTA and provide the components that Seth requested in the comment form. SPP and the CPWG also discussed the implementation of RR615 and agreed that the beginning of the TCR year (May) would be the best approach rather than in the middle of the TCR year.

3. Date: 4/11/2024

Submitter: Jared Barker (SPP)

Summary of comments: Revise the originally posted RR615 to shift from individual level TCR MTA to portfolio level MTA.

Organizational group review results: CPWG and SPP Reviewed at its March and April meetings. (e.g. Reviewed and accepted, reviewed but not accepted, reviewed with partial acceptance; provide details to explain): CPWG Reviewed and accepted by voting to approve redlines shown in comment form to RR615 at the April 18<sup>th</sup> CPWG meeting. Updated RR redlines are included in this Rec Report form with initial redlines that are no longer correct removed.

## DOCUMENT REVISIONS

---

*In the appropriate sections below, provide the current language approved by Stakeholders, with all proposed revisions included in redlined/editable format.*

### SPP OPEN ACCESS TRANSMISSION TARIFF

#### ARTICLE TWO

##### Definitions

**2.1 Definitions.** The following definitions apply in this Credit Policy. Capitalized terms used herein and not defined herein shall be given the meaning assigned to them under the Tariff.

##### **Affiliate**

A business concern, organization, or individual is an affiliate of another business concern, organization, or individual, including a Credit Customer, that directly or indirectly: (a) has the power to control or is controlled by it; or (b) is under common control of a third party. Elements of control include interlocking management or ownership, shared facilities and equipment, and common use of employees.

##### **Affiliated Credit Customers**

Credit Customers that are Affiliates.



**Agreements**

The Tariff, including this Credit Policy, any and all agreements entered into by the Credit Customer under, pursuant to or in connection with the Tariff and/or this Credit Policy, and any and all other Agreements to which SPP and the Credit Customer are parties.

**Auction Clearing Price (ACP)**

This term shall have the meaning given in Attachment AE of the Tariff.

**Auction Revenue Right (ARR)**

This term shall have the meaning given in Attachment AE of the Tariff.

**Bid**

This term shall have the meaning given in Attachment AE of the Tariff.

**Business Day**

A day on which the Federal Reserve System is open for business.

**Cash Deposit**

Cash collateral provided to SPP to secure a Credit Customer's performance under the Tariff, this Credit Policy, and/or any other Agreements, and any other cash to which the Credit Customer has title or rights in the possession of SPP (cash SPP has applied to payment of an obligation under the Tariff or Agreements is not cash to which a Credit Customer has title or rights).

**Central Prevailing Time**

As established by national time standards, either Central Standard Time or Central Day-Light Time.

**Composite Credit Score or Credit Score**

This term shall have the meaning given in Section 4.2.

**Credit and Security Agreement**

A legal document, outlining certain terms pursuant to which a security interest in certain collateral is granted to SPP, in the form incorporated herein as Appendix "B".

**Credit Application**

The completed, executed, and submitted Credit Application in the form attached as Appendix "A" hereto, together with the Credit Information required under this Credit Policy.

**Credit Assessment**

This term shall have the meaning given in Article Three.

**Credit Contact**

This term shall have the meaning given in Section 9.1.

**Credit Customer**

Any person that takes or seeks to take service under the Tariff including all Transmission Service or other services under the Tariff, including any market services.

**Credit Information**

This term shall have the meaning given in Section 1.2.3.

**Credit Ratings**

Rating assigned by a Rating Agency based on an obligor's creditworthiness to pay financial obligations.

**Day-Ahead Market**

This term shall have the meaning given in Attachment AE of the Tariff.

**Day-Ahead Market Marginal Congestion Component (MCC)**

This term shall have the meaning given in Section 8.3.1.2 of Attachment AE of the Tariff.

**Default or Event of Default**

Any default under Article Eight or otherwise under this Credit Policy.

**Estimated TCR Exposure (ETCRE)**

This term shall have the meaning given in Section 5A.1.3.

**Estimated Virtual Exposure ("EVE")**

This term shall have the meaning given in Section 4A.2.

**ETCRE Bid**

This term shall have the meaning given in Section 5A.4.

**ETCRE Hold**

This term shall have the meaning given in Section 5A.2.

**ETCRE Mark-to-Auction (MTA) Hold**

This term shall have the meaning given in Section 5A.2.

**ETCRE Offer**

This term shall have the meaning given in Section 5A.5.

**Federal Power Marketing Agency**

For purposes of this Credit Policy, this term shall have the same definition that is set forth in the Federal Power Act at 16 U.S.C. § 796(19), which defines a "Federal power marketing agency" as "any agency or instrumentality of the United States (other than the Tennessee Valley Authority) which sells electric energy[.]"

**FERC**

The Federal Energy Regulatory Commission.

**Financial Security**

A Cash Deposit, Irrevocable Letter of Credit, Surety Bond, or Federal Power Marketing Agency Letter in amount and in forms as described in Article Seven of this Credit Policy, provided by a Credit Customer to SPP as security.

**Financial Statements**

This term shall have the meaning given in Section 3.1.1.1.

**Guarantor**

An entity that guarantees the obligation of another entity under a Guaranty.

**Guaranty**

A legal document used by an Affiliate of a Credit Customer pursuant to Article Six to guarantee the obligations of such Credit Customer for the benefit of SPP.

**Incremental Long-Term Congestion Right (ILTCR)**

This term shall have the meaning given in Part I. Section 1 of this Tariff.

**Irrevocable Letter of Credit**

An irrevocable standby letter of credit, with SPP as beneficiary, substantially in the form attached as Appendix “C” to this Credit Policy and acceptable to SPP.

**Large Company Credit Customers or Large Company**

This term shall have the meaning given in Section 4.2.1.

**Locational Marginal Price**

This term shall have the meaning given in Attachment AE of the Tariff.

**Long-Term Congestion Right (LTCR)**

This term shall have the meaning given in Attachment AE of this Tariff.

**Market Exposure**

This term has the meaning given in Section 5.2.1.

**Material**

The lesser of (i) the materiality standard established by the certified public accounting firm performing the Credit Customer’s annual audit, (ii) an amount that equals or exceeds five percent (5%) of the Credit Customer’s Tangible Net Worth using the last audited financial statements, calculated in accordance with generally acceptable accounting principles; and (iii) a change, event, proceeding, or other occurrence, that results (or if adversely determined could result) in a change of five percent (5%) or more in the Credit Customer’s Tangible Net Worth compared to the Tangible Net Worth of the Credit Customer using the last audited financial statements, calculated in accordance with generally acceptable accounting principles.

**Material Adverse Change**

This term shall have the meaning given in Section 3.2.7.

**Minimum Offer Segment**

This term shall have the meaning given in Section 5A.5.3.

**Minimum Segment Hold**

This term shall have the meaning given in Section 5A.4.3.

**Minimum TCR Collateral Requirement**

This term has the meaning given in Section 5A.3.6.

**Mark-to-Auction (MTA) Auction Clearing Price**

This term has the meaning given in Section 5A.2.

**Not-For Profit Credit Customers or Not-For-Profit**

This term shall have the meaning given in Section 4.2.3.

**Offer**

This term shall have the meaning given in Attachment AE of the Tariff.

**Operating Day**

This term shall have the meaning given in Attachment AE of the Tariff.

**Operating Hour**

This term shall have the meaning given in Attachment AE of the Tariff.

**Peak Market Activity Day**

The day in which a Credit Customer's calculated charges owed to SPP are the greatest, over a specified period.

**Potential Exposure Window**

The number of days of credit exposure for a Credit Customer equal to the sum of days of service that have been invoiced but not paid, days of service that have been calculated but not invoiced, days of service in the cure period, and days before service can be terminated.

**Qualitative Score**

This term has the meanings applicable under Article Four.

**Quantitative Score**

This term has the meanings applicable under Article Four.

**Rating Agency(ies)**

Any Rating Agency that is a "Nationally Recognized Statistical Rating Organizations" as defined by the US Securities Exchange Commission. Currently there are four — Dominion Bond Rating Service Ltd., Fitch, Inc., Moody's Investors Service, and the Standard & Poor's Division of the McGraw Hill Companies Inc.

**Real-Time**

This term shall have the meaning given in Attachment AE of the Tariff.

**Real-Time Balancing Market**

This term shall have the meaning given in Attachment AE of the Tariff.

**SEC**

The Securities and Exchange Commission.

**Settlement Location**

This term shall have the meaning given in Attachment AE of the Tariff.

**Settlement Statement**

This term shall have the meaning given in Attachment AE of the Tariff.

**Small Company Credit Customers or Small Company**

This term shall have the meaning given in Section 4.2.2.

**Surety Bond**

A surety bond, with SPP as beneficiary, substantially in the form attached as Appendix “F” to this Credit Policy and acceptable to SPP.

**Tangible Net Worth**

This term shall have the meaning given in Section 4.3.

**TCR Final Reference Price**

This term shall have the meaning given in Section 5A.2.1.

**TCR Mean Price**

This term shall have the meaning given in Section 5A.2.1.

**TCR Portfolio Credit Requirement**

This term shall have the meaning given in Section 5A.3.

**TCR Stress Test Price**

This term shall have the meaning given in Section 5A.2.1.

**Total Credit Limit**

This term shall have the meaning given in Section 4.5.

**Total Potential Exposure or TPE**

SPP’s estimate of the Credit Customer’s current or anticipated transaction activity and resulting obligations for all services under the Tariff or otherwise, excluding Transmission Congestion Rights activity.

**Total Potential Exposure Violation**

This term shall have the meaning given in Section 5.4.1.

**Total TCR Credit Requirement**

Total TCR Credit Requirement is the amount of Financial Security a Credit Customer must provide in order to support the TCR positions that it holds and/or for which it is submitting Bids and Offers.

**Transmission Congestion Right (TCR)**

This term shall have the meaning given in Attachment AE of the Tariff.

**Transmission Congestion Right Auction (TCR Auction)**

This term shall have the meaning given in Attachment AE of the Tariff.

**Transmission Service Potential Exposure**

This term shall have the meaning give in Section 5.2.2.

**Unsecured Credit Allowance**

This term shall have the meaning given in Section 4.3.

**Virtual Energy Bid,**

This term shall have the meaning given in Attachment AE of the Tariff.

**Virtual Energy Offer**

This term shall have the meaning given in Attachment AE of the Tariff.

**ARTICLE FIVE A**

**Transmission Congestion Rights (TCRs)**

**5A.1 Overview.**

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

**5A.1.2** To establish the credit requirement associated with TCRs, SPP analyzes: (i) the TCRs the Credit Customer holds (including TCRs held via self-conversion from ARRs); (ii) the Credit Customer's Bids and Offers for TCRs in the TCR Auctions; (iii) TCR payments or charges for which settlement has been calculated but not yet invoiced; and (iv) TCR payments or charges for which an invoice has been issued but payment has not occurred.

- (a) SPP calculates the potential exposure associated with the full portfolio of TCRs that are held by the Credit Customer including TCRs obtained from LTCRs and ILTCRs.
- (b) SPP evaluates individually each TCR Bid in the TCR Auctions to ensure that the Credit Customer has sufficient Financial Security to cover the credit requirements to purchase and hold the TCR. Only the TCR Bids for which the Credit Customer has sufficient Financial

Security will be credit approved for consideration in the TCR Auction.

- (c) SPP evaluates individually each TCR Offer in the TCR Auctions to ensure that the Credit Customer has sufficient Financial Security to cover any credit requirements associated with the Offer and the credit requirements for the retained TCR portfolio that would result if the TCR Offer clears in the TCR Auction. Only the TCR Offers for which the Credit Customer has sufficient Financial Security will be credit approved for consideration in the TCR Auction.
- (d) Additionally, SPP analyzes the credit requirements associated with TCRs that are the subject of a proposed bilateral transfer prior to providing approval of such transfers. SPP approval of a bilateral transfer for TCRs is required for such bilateral transfers to be completed.

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

**5A.1.4** This Article addresses the calculation of the Total TCR Credit Requirement associated with TCRs, including the ETCRE calculations for the TCRs the Credit Customer holds and the Credit Customer's Bids and Offers for TCRs in the TCR Auctions and the acquisition and disposal costs of the TCR in the TCR Auctions; as well as the TCR payments or charges for which settlement has been calculated but not yet invoiced; and the TCR payments or charges for which an invoice has been issued but payment has not occurred. This Article also addresses the determination whether a Credit Customer has sufficient Financial Security available for the Credit Customer's proposed TCR Auction activity or proposed bilateral transfers of TCRs.

**5A.2 Calculation of Estimated TCR Exposure (ETCRE) for TCRs that a Credit Customer Holds (ETCRE Hold and ETCRE MTA Hold).** SPP will calculate the ETCRE Hold and ETCRE MTA Hold, which ~~is~~ are an estimate of the potential value (positive or negative) of the TCR contract for the term of the TCR, for TCRs that a Credit Customer holds. A

negative ETCRE Hold or ETCRE MTA Hold means SPP estimates that the potential value of the TCR will result in a payment by the Credit Customer. A positive ETCRE Hold or ETCRE MTA Hold means SPP estimates that the potential value of the TCR will result in a payment to the Credit Customer. The ETCRE Hold and ETCRE MTA Hold calculations are determined for each TCR on an individual basis. ETCRE Hold is the product of the TCR Final Reference Price times the TCR megawatts. SPP will calculate the TCR Final Reference Price for each TCR based on the difference of historical Day-Ahead Market Marginal Congestion Cost (MCC) between the TCR source and TCR sink. ETCRE MTA Hold is the product of the MTA ACP times the TCR megawatts. The ACP used will be based on the difference of the ACP between the TCR source and TCR sink. The ACP used in the calculation is derived from the most recently cleared TCR Auction for a given source and sink combination and with respect to time (season or month) and class (on-peak and off-peak). Similar to the TCR Final Reference Price, the MTA ACP is the ACP minus the TCR Stress Test Price.

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

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

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

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



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

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

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

- 5A.2.2.3 Calculation of TCR Final Reference Price for New Settlement Locations.** When a new Settlement Location is created, SPP will use a proxy price based on the system average Day-Ahead Market MCC to calculate the TCR Mean Price and TCR Stress Test Price for the new Settlement Location. The system average Day-Ahead Market MCC for each defined TCR is the mean of the hourly Day-Ahead Market MCC for all Settlement Locations for which a Day-Ahead Market MCC exists for each hour in the prior two year period for a defined TCR. Based on a two year weighted average approach, the proxy will be blended with actual data after the first year.

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

- 5A.3.1** The sum of the ETCRE Hold values for each TCR in the Credit Customer's TCR portfolio used in the calculation of the TCR Portfolio Credit Requirement is equal to the net sum of the ETCRE Hold values for each TCR in the Credit Customer's TCR portfolio, with individual positive and negative ETCRE Hold values netted, for a time period greater than the last settled operating day with the most negative

net sum of ETCRE Hold values of the Credit Customer's TCR portfolio. For a TCR with a term longer than a month, the ETCRE Hold for each month of the TCR is equal to the total ETCRE Hold for the TCR divided by the number of months of the term of the TCR. SPP calculates the ETCRE Hold each day for which at least one TCR in the portfolio is valid.

**5A.3.1.1** The sum of the ETCRE MTA Hold values for each TCR in the Credit Customer's TCR portfolio used in the calculation of the TCR Portfolio Credit Requirement is equal to the net sum of the ETCRE MTA Hold values for each TCR in the Credit Customer's TCR portfolio, with individual positive and negative ETCRE MTA Hold values netted, for a time period greater than the last settled operating day with the most negative net sum of ETCRE MTA Hold values of the Credit Customer's TCR portfolio. For a TCR with a term longer than a month, the ETCRE MTA Hold for each month of the TCR is equal to the total ETCRE MTA Hold for the TCR divided by the number of months of the term of the TCR. SPP calculates the ETCRE MTA Hold each day for which at least one TCR in the portfolio is valid.

- 5A.3.2** The portion of the acquisition cost to acquire each TCR in a TCR Auction that has not yet been settled includes the amounts that the Credit Customer is required to pay for TCRs it acquires in a TCR Auction, that have not yet been settled, and does not include amounts that may be owed to a Credit Customer to acquire a TCR. For TCRs acquired through self-converted ARR, the acquisition cost is zero. For TCRs acquired through a bilateral transfer the acquisition cost is zero for the buyer because the acquisition cost remains the responsibility of the participant who originally acquired the TCR in a TCR Auction.
- 5A.3.3** The portion of the disposal cost for each TCR Offer that clears a TCR Auction that has not yet been settled is the portion of a Credit Customer's loss associated with the difference between the Offer price and the original Auction Clearing Price for the TCR that is the subject of the TCR Offer. For TCRs acquired pursuant to a bilateral transfer that are the subject of a TCR Offer, zero will be used for the Auction Clearing Price for this calculation.
- 5A.3.4** Except in the case of ARR self-converted to TCRs, only negative TCR Portfolio Credit Requirements are included in the Total TCR Credit Requirement. If the TCR Portfolio Credit Requirement is a positive value it does not diminish the Financial Security requirement for TCRs and zero will be used for the TCR Portfolio Credit Requirement in the calculation of the Total TCR Credit Requirement.
- 5A.3.5** Both positive and negative TCR values for ARR self-converted to TCRs in a TCR Auction will be included in the Credit Customer's Total TCR Credit Requirement. Ninety percent (90%) of the positive and one hundred percent (100%) of the negative TCR values for ARR self-converted will be netted and the netted value used in establishing the credit requirement.

**5A.3.6 Minimum TCR Collateral Requirement** means the total megawatt hours owned by the Credit Customer multiplied by \$(0.10) to establish a minimum portfolio Financial Security requirement.

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

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

**5A.4.2 TCR Segment Cost.** In evaluating TCR Bids, SPP estimates the TCR acquisition cost by calculating the TCR Segment Cost for each megawatt point on the submitted Bid curve by multiplying the Bid price for that megawatt point times the megawatts for that point on the submitted Bid curve. The TCR Segment Cost is the potential cost for the Credit Customer to acquire any megawatt point on the submitted Bid segment. For TCRs with negative acquisition costs, e.g., if the Bid curve has a negative Bid price, the TCR Segment Cost will be zero. For a TCR resulting from an ARR self-conversion, the TCR Segment Cost also will be zero.

**5A.4.3 Minimum Segment Hold** means the maximum megawatt point on the submitted TCR Bid curve multiplied by \$(0.10) multiplied by the number of hours in the TCR product. The Minimum Segment Hold will always be negative.

**5A.4.4** If multiple TCR Bids and Offers are included in a single submission, the Credit Customer must have sufficient Financial Security to cover all of the Bids and Offers in the submission. The Financial Security requirement for a single submission is the sum of the negative ETCRE Bid and ETCRE Offer for the Bids and Offers in the submission without any netting of the individual ETCRE Bid or ETCRE Offer for the TCR Bids and Offers that are included in the submission.

**5A.5 Calculation of ETCRE Offer.** SPP evaluates the Offers for TCRs to ensure that the Credit Customer has sufficient Financial Security to cover any Financial Security requirements resulting if the TCR is no longer held and potential losses resulting from the sale. The ETCRE Offer calculates the Financial Security requirement for each Offer. When a TCR Offer is submitted, SPP will calculate the ETCRE Offer for the Offer which is the lesser of

(a) the minimum sum of (i) the ETCRE Offer Segment; and (ii) the TCR Offer Segment Cost, for the segments in the Offer, or (b) the Minimum Offer Segment. SPP calculates the ETCRE Offer Segment for each megawatt point on the submitted Offer curve, and the Minimum Offer Segment for the maximum megawatt on the submitted Offer curve. For each segment, SPP calculates the sum of (i) the ETCRE Offer Segment, and (ii) the TCR Offer Segment Cost.

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

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

**5A.5.3 Minimum Offer Segment** means the maximum megawatt point on the submitted TCR Offer curve multiplied by \$(0.10) multiplied by the number of hours in the TCR product. The Minimum Offer Segment will always be negative.

**5A.5.4** If multiple TCR Bids and Offers are included in a single submission, the Credit Customer must have sufficient Financial Security to cover all of the Bids and Offers in the submission. The Financial Security requirement for a single submission is the sum of the negative ETCRE Bid and ETCRE Offer for the Bids and Offers in the submission without any netting of the individual ETCRE Bid or ETCRE Offer for the TCR Bids and Offers that are included in the submission.

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

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

**5A.6.2** If the sum of the ETCRE Bid and ETCRE Offer for all TCRs (other than TCRs self-converted from ARRs) included in a single submission of Bids and Offers for a TCR Auction, calculated pursuant to sections 5A.4 and 5A.5, without netting, is greater than the Credit Customer's available Financial Security, then the entire

submission is credit disapproved and the Bids and Offers will not be included in the TCR Auction.

**5A.6.3** If the sum of the ETCRE Bid and ETCRE Offer for all TCRs included in a single submission of ARR self-conversions for a TCR Auction, calculated pursuant to sections 5A.4 and 5A.5, with netting as described in Section 5A.3.5 of this Attachment X, is less than the Credit Customer's available amount of Financial Security, then the submission is credit approved for inclusion in the TCR Auction.

**5A.6.4** If the sum of the ETCRE Bid and ETCRE Offer for all TCRs included in a single submission of ARR self-conversions for a TCR Auction, calculated pursuant to sections 5A.4 and 5A.5, with netting as described in Section 5A.3.5 of this Attachment X, is greater than the Credit Customer's available Financial Security, then the entire submission is credit deficient and the ARR self-conversion will not be included in the TCR Auction unless satisfactory alternate credit arrangements are made.

**5A.7 Updated ETCRE Calculation Post TCR Auction.** After the clearing of a TCR Auction, the TCR Portfolio Credit Requirement will be updated to reflect the TCRs awarded in the TCR Auction, including the acquisition cost for TCR Bids that cleared the TCR Auction and the disposal cost for TCR Offers that cleared the TCR Auction. For TCR Bids, the TCR acquisition cost is calculated as the product of the Auction Clearing Price times the awarded megawatts. For TCR Offers, the TCR disposal cost is calculated as the product of the Auction Clearing Price times the megawatts sold. The ETCRE Hold and ETCRE MTA Hold portion of the TCR Portfolio Credit Requirement will be updated to reflect the actual TCRs in the portfolio. The ETCRE MTA Hold calculation will use the most recently cleared ACP. The update in the ETCRE MTA Hold calculation may result in an increase in a Credit Customer's TCR Portfolio Credit Requirement.

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

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

Where,

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

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

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

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

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

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

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

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

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

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

**5A.9.4** SPP, in its sole discretion, may approve bilateral transfers if a Credit Customer does not have sufficient Financial Security to support the transfer, but the transfer

would result in a reduction in Total TCR Credit Requirement for that Credit Customer.

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

**5A.10 Return of TCR Financial Security.** A Credit Customer may request that SPP return any Financial Security no longer required to hold TCRs or participate in TCR Auctions if it is not needed to support other market services. SPP will not grant such requests for a return of excess Financial Security during a time period starting with the beginning of a TCR Auction bidding window and ending with the update to the TCR Portfolio Credit Requirement after the clearing of that TCR Auction as described in 5A.7 of this Attachment X. SPP may limit the frequency of such requested Financial Security returns, provided that Financial Security returns will be made by SPP at least once per month, if requested by a Credit Customer.

MARKET PROTOCOLS

SPP OPERATING CRITERIA

SPP PLANNING CRITERIA

SPP BUSINESS PRACTICES

INTEGRATED TRANSMISSION PLANNING (ITP) MANUAL

MINIMUM TRANSMISSION DESIGN STANDARDS FOR COMPETITIVE UPGRADES

RELIABILITY COORDINATOR AND BALANCING AUTHORITY DATA

SPP COMMUNICATIONS PROTOCOLS

REVISION REQUEST PROCESS





# FINANCIAL UPDATE

DIANNE BRANCH

JULY 18, 2024

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



SouthwestPowerPool



SPPorg



southwest-power-pool

# 2024 FINANCIALS

FORECAST VS. BUDGET AS OF 5/31/24

## REVENUES AND OPERATING EXPENSES 2024 FORECAST VS BUDGET

(\$ millions)	Forecast	Budget	Fav (Unfav)	% Variance
Revenues	\$276.0M	\$269.3M	\$6.8M	2.5%
Operating Expenses	\$278.2 M	\$275.3 M	(\$2.9 M)	(1.0%)

## REVENUES - 2024 FORECAST VS BUDGET

(\$ millions)	Forecast	Budget	Fav (Unfav)	% Variance
Tariff Admin Fees	\$192.6M	\$192.2M	\$0.4M	0.2%
FERC Fee Revenues	29.1	28.4	0.7	2.4
Engineering Studies- Staff	8.8	8.3	0.5	6.1
Engineering Studies- Pass-Thru	19.0	18.8	0.2	0.9
Contract Services	25.4	20.2	5.2	25.5
Miscellaneous Income	1.2	1.4	(0.1)	(10.7)
<b>Total Revenues</b>	<b>\$276.0M</b>	<b>\$269.3M</b>	<b>\$6.8M</b>	<b>2.5%</b>

## OPERATING EXPENSES - 2024 FORECAST VS BUDGET

(\$ millions)	Forecast	Budget	Fav (Unfav)	% Variance
Salary & Benefits	\$152.2M	\$150.1M	(\$2.1M)	(1.4%)
Assessments & Fees	28.4	28.0	(0.4)	(1.4)
Maintenance	22.7	23.0	0.3	1.3
IT Communications	5.0	5.6	0.6	10.8
Outside Services	23.3	21.9	(1.3)	(6.1)
Services Reimbursed	19.1	19.1	(0.1)	(0.3)
Administrative	6.4	6.4	0.0	0.7
Travel & Meetings	3.5	3.3	(0.2)	(5.4)
Depreciation	17.6	17.6	0.1	0.5
<b>Total Operating Expenses</b>	<b>\$278.2M</b>	<b>\$275.3M</b>	<b>(\$2.9M)</b>	<b>(1.0%)</b>

# **COST RECOVERY**

FORECAST VS. BUDGET AS OF 5/31/24

## 2024 COST RECOVERY - FORECAST VS BUDGET

(\$ millions)	Forecast	Budget	Fav (Unfav)
Operating Expenses –RTO Only*	\$189.2M	\$188.6M	(\$0.6M)
PLUS: Debt Service & Interest	33.6	34.0	0.3
NET: Contract Services	(9.4)	(5.3)	4.2
<b>Gross Revenue Requirement</b>	<b>213.4</b>	<b>217.3</b>	<b>3.9</b>
LESS: Miscellaneous Revenues	(17.8)	(19.1)	(1.3)
PLUS: Cap Ex Reserve	4.2	4.2	-
LESS: 2023 Over-Recovery	(13.2)	(10.3)	2.9
<b>Net Revenue Requirement</b>	<b>186.6</b>	<b>192.2</b>	<b>5.5</b>
<b>Admin Fee Revenue</b>	<b>192.6</b>	<b>192.2</b>	<b>0.4</b>
<b>Cost Recovery – Over/(Under)</b>	<b>\$5.9M</b>	<b>-</b>	<b>\$5.9M</b>

\* Excludes depreciation, assessments, contract service expenses, and non-cash pension adjs.

# **CAPITAL UPDATE**

CURRENT AS OF 7/11/24



## 2024 CAPITAL POOL UPDATE

(\$ millions)	
<b>2024 Budget Approved Capital Allocation</b>	<b>\$ 17.00M</b>
<b>Approved in 2024</b> (Current Year Spend)	
New Projects-FERC 881	\$ 2.28
New Projects-SATOA (Storage as Transmission only Assets)	0.45
Additional Funds for Carryover Projects	0.18
<b>TOTAL Approved YTD</b>	<b>\$ 2.91</b>
<b>2024 Foundation Spend Forecasted</b>	<b>\$ 15.20</b>
<b>TOTAL Capital Approved and Foundation</b>	<b>\$ 18.11</b>
<b>Forecasted Over/(Under) – as of 7/11/24</b>	<b>\$ 1.11M</b>

Management is actively managing capital project activity to minimize or eliminate the current forecasted overage.



# BUDGET UPDATE

MARIE GIERINGER

DIRECTOR, FINANCE TREASURY AND CREDIT

JULY 18, 2024

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



SouthwestPowerPool



SPPorg



southwest-power-pool

# SPP'S PLANNING PROCESS

## BUDGET

Budget reflects the priorities of the Operating Plan and supports ongoing strategy development for future years

## RESOURCE REQUIREMENTS

Resources to deliver operating plans: maintenance, capex, headcount, financing and investment



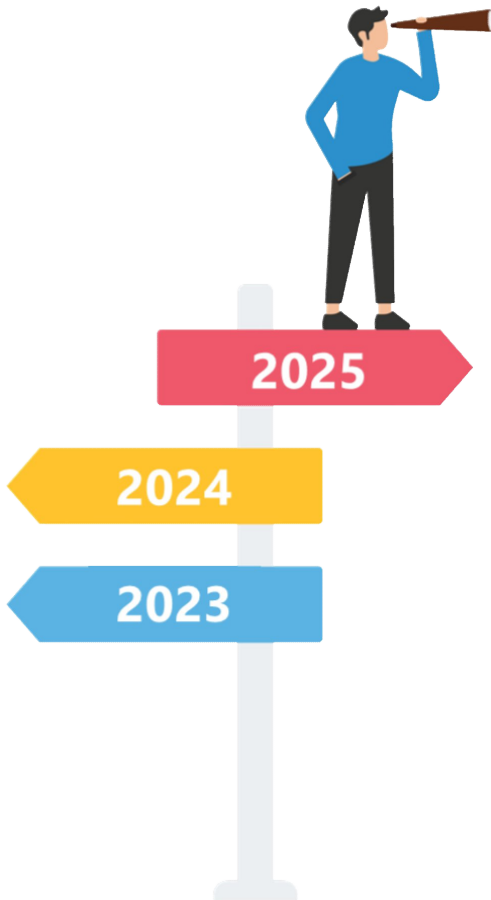
## STRATEGIC PLAN

A visionary strategy that leans-in to the future with an action-beats-reaction focus. SPP Strategy drives the change work in the annual Operating Plan.

## OPERATING PLAN

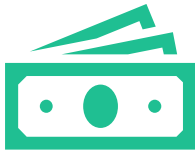
12-month priorities that inform the budget and execute on necessary strategic efforts while continuing to meet KTLO demands

# 2025 EXPECTED BUSINESS ENVIRONMENT



- **Transmission planning** and cost allocation opportunities
- Increased **electrification**
- Continued regional **fuel mix** changes
- Evolution of **markets**
- Increased **regulatory and compliance** policies
- Economic pressures on **human capital** and aging workforce
- **Expansion** of SPP services
- Increased **resource adequacy** complexity and requirements
- **Cybersecurity** risks

# EXECUTIVE GUIDANCE



**Focus on Affordability**



**Strategic Growth**



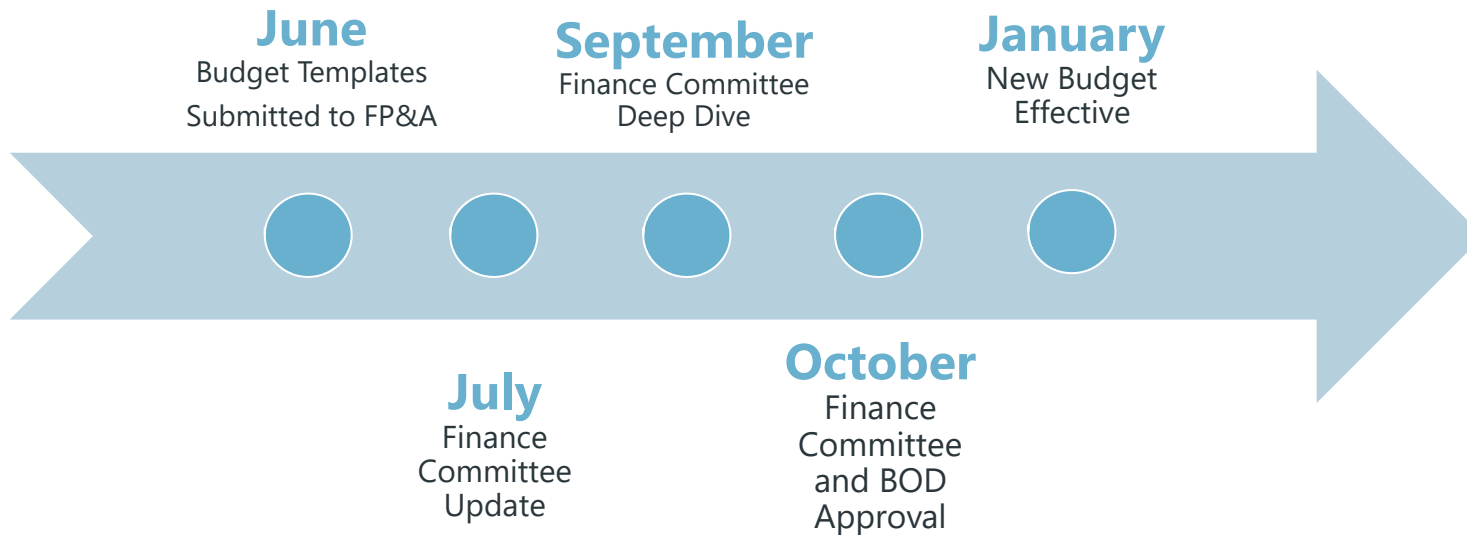
**Risk Mitigation**

# BUDGET DRIVERS

- **Mitigate** Resource and Energy Adequacy
- **Optimize** GI Queue
- **Mature** Risk Management
- **Develop** Seams and Interregional Strategy
- **Mitigate** Cybersecurity Risks
- **Advance** Innovative Transmission Planning
- **Pursue** Western Expansion
- **Address** Regulatory Compliance
- **Ensure** Organizational Readiness



# BUDGET TIMELINE



**What would the  
committee like to see at  
the September meeting?**





## **FUTURE MEETINGS**

**September 26 – Little Rock**  
**8AM - 3PM**

- 2025 Detailed Budget Review

**October 10 – Virtual**  
**8AM - Noon**

- 2025 Budget - Final Review and Approval
- Pre-Audit Meeting w/ Financial Auditors
- Organization Group Self-Assessment

**Southwest Power Pool, Inc.**  
**FINANCE COMMITTEE Rolling 12 Month Work Plan**

<b>Schedule</b>
<p><b>Thursday, July 18, 2024</b>                      1PM-5PM                      Tulsa, OK                      Agenda Items:</p> <ul style="list-style-type: none"> <li>• Joint Session with SPC- Operating Plan Review (1<sup>st</sup> Hour) <b>(Acceptance Requested)</b></li> <li>• Budget Update</li> <li>• Mid-Year Financial Review</li> <li>• Business Process Improvement Update</li> <li>• Recommendation of Rate Cap Increase <b>(Approval Required)</b></li> <li>• FERC Show Cause Order <b>(Approval Required)</b></li> <li>• Markets + Phase II Funding and Budget <b>(Approval Required)</b></li> </ul>
<p><b>September 26, 2024 (**SPECIAL MEETING**)</b>                      8AM-3PM                      Little Rock, AR                      Agenda Items</p> <ul style="list-style-type: none"> <li>• 2025 Detailed Budget Review</li> </ul>
<p><b>October 10, 2024</b>                      Virtual, 8AM-Noon                      Agenda Items:</p> <ul style="list-style-type: none"> <li>• 2025 Budget - Final Review and Approval <b>(Approval Required)</b></li> <li>• Pre-Audit Meeting w/ Financial Auditors</li> <li>• Organization Group Self-Assessment</li> </ul>
<p><b>January 2025</b>                      TBD                      Agenda Items:</p> <ul style="list-style-type: none"> <li>• 2025 Work Plan and Priorities Discussion</li> <li>• Actuarial Assumptions <b>(Approval Required)</b></li> <li>• Corporate Insurance Review <b>(consider combining with April renewal update)</b></li> <li>• Committee Scope Review</li> <li>• Stakeholder Effectiveness Survey</li> </ul>
<p><b>April 2025</b>                      TBD                      Agenda Items:</p> <ul style="list-style-type: none"> <li>• 2024 Annual Audit Presentation <b>(Approval Required)</b></li> <li>• Retirement and Post Retiree Health Valuation Presentation</li> <li>• Retirement Plan Funding Recommendations <b>(Approval Required)</b></li> <li>• Corporate Insurance Renewal Update <b>(consider combining with April renewal update)</b></li> </ul>



# **MONTHLY FINANCIAL REPORTING PACKAGE**

MAY 2024

Prepared by SPP FP&A and Accounting Departments



## Executive Summary Financial Reporting Package May 31, 2024

The May 2024 Financial Package for Southwest Power Pool (SPP) provides an overview of financial performance in comparison to the 2024 budget. Full year forecast information represents year to date actual results through May 31, 2024, with updated projections for the remainder of the year based on the best available information.

In comparison to the 2024 budget, forecasted operating revenues remain favorable (\$6.8 million) while operating expenses and net other income/expense remain unfavorable (\$2.9 million and \$1.1 million, respectively). Overall, forecasted net income remains favorable to budget (\$2.8 million).

### Revenue Overview (\$6.8 million favorable):

- Tariff Administrative Services (\$0.4 million favorable) – The favorable variance is driven largely by Schedule 1A-2 (TCR Administration) with actual billing units exceeding budget assumptions.
- Engineering Studies (\$0.7 million favorable) – The favorable variance is driven by the following:
  - Additional staff time revenues due to a 15% increase in billable rates that were not considered in the original budget assumptions.
  - An increase in pass-thru revenues which are directly offset by reimbursed consulting expenses, with no impact to NRR.
- Contract Services (\$5.2 million favorable) - The budget did not consider revenues associated with post-phase 1 activity for Markets+.

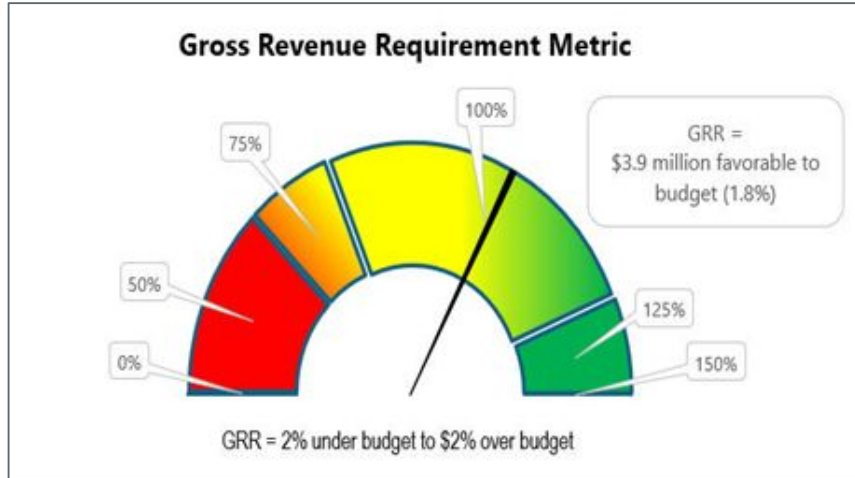
### Expense Overview (\$2.9 million unfavorable):

- Salary and Benefits (\$2.2 million unfavorable) – This variance is driven primarily by an increase in base salaries related to accelerated hiring for RTO Expansion. Additionally, a non-cash adjustment to pension service cost based on the most recent actuarial valuation report contributes an unfavorable variance.
- Outside Services and RSC (\$1.3 million unfavorable) - The main driver is the addition of consulting dollars for Markets+ post-phase 1 activities.

### Gross Revenue Requirement (GRR), Net Revenue Requirement (NRR) and Cost Recovery:

- Post-phase1 Markets+ unbudgeted revenues and expenses drive the majority of the \$3.9 million favorable GRR variance to budget. The GRR variance is now forecasted to be 1.8% favorable to budget.
- Items Impacting NRR:
  - Other revenues, unfavorable \$1.8 million, largely driven by net interest income which is primarily due to lower interest from auction revenue funds due to less activity than was assumed in the budget.
  - Engineering studies-staff time revenues, favorable \$0.5 million.
  - Cost recovery for 2023, favorable \$2.9 million.
- The favorable variance from Schedule 1-A market activities (\$0.4 million) brings the projected cost over recovery to \$5.9 million as of May 31, 2024.

## Gross & Net Revenue Requirements May 2024



### 2024 GRR / NRR & Cost Recovery

As of May 31, 2024

(\$ millions)

	(\$ millions)		
	Forecast	Budget	Fav/(Unfav)
<b>GRR / NRR Summary</b>			
RTO operating expenses excluding FERC fees & depreciation	\$210.8	\$209.0	(\$1.8)
LESS Engineering pass-through expenses	(19.0)	(18.8)	0.2
LESS Pension & other adjustments	(2.6)	(1.6)	1.1
PLUS Debt service & interest	33.6	34.0	0.3
NET Contract services adjustments <sup>(1)</sup>	(9.4)	(5.3)	4.2
<b>Gross Revenue Requirement</b>	<b>213.4</b>	<b>217.3</b>	<b>3.9</b>
Other revenues (interest income & other miscellaneous)	(9.0)	(10.8)	(1.8)
Engineering studies staff-time	(8.8)	(8.3)	0.5
Capital expenditure reserve	4.2	4.2	-
<b>Run-Rate Net Revenue Requirement</b>	<b>199.8</b>	<b>202.4</b>	<b>2.6</b>
Prior year (over)/under recovery	(13.2)	(10.3)	2.9
<b>Net Revenue Requirement</b>	<b>186.6</b>	<b>192.2</b>	<b>5.5</b>
Tariff admin fee revenue	(192.6)	(192.2)	0.4
<b>Over / (Under) Cost Recovery</b>	<b>\$5.9</b>	<b>\$0.0</b>	<b>\$5.9</b>
<b>1) Net Impact of contracts &amp; expansion</b>			
RC West & WEIS shared overhead	(\$2.1)	(\$2.1)	\$0.0
WRAP net revenue & expense	(1.9)	(1.8)	0.1
Markets+ net revenue & expense	(5.2)	(1.2)	4.0
RTO Expansion (zero NRR impact, funded by debt)	-	-	-
Contract services (WIUFMP, misc other)	(0.2)	(0.2)	(0.0)
<b>Net GRR Impact of contracts &amp; expansion</b>	<b>(\$9.4)</b>	<b>(\$5.3)</b>	<b>\$4.2</b>

**Southwest Power Pool**  
**2024 Income Statement by Line of Business**  
**As of May 31, 2024**  
*(in thousands)*

	SPP RTO			Contract Services & Expansion			Total SPP		
	2024 FY Forecast	2024 FY Budget	Variance Fav/(Unfav)	2024 FY Forecast	2024 FY Budget	Variance Fav/(Unfav)	2024 FY Forecast	2024 FY Budget	Variance Fav/(Unfav)
<b>Summary of Operating Revenues</b>									
Tariff Administrative Service	\$192,555	\$192,154	\$402	\$0	-	\$0	\$192,556	\$192,154	\$402
Fees & Assessments	29,069	28,400	669	-	-	-	29,069	28,400	669
Contract Services Revenue	68	68	(0)	25,304	20,153	5,151	25,372	20,221	5,151
Engineering Studies Revenue Staff	8,838	8,327	511	-	-	-	8,838	8,327	511
Engineering Studies Revenue Pass-Thru	18,983	18,821	162	-	-	-	18,983	18,821	162
Other Revenues	1,213	1,359	(146)	-	-	-	1,213	1,359	(146)
<b>Total Operating Revenues</b>	<b>250,728</b>	<b>249,129</b>	<b>1,599</b>	<b>25,304</b>	<b>20,153</b>	<b>5,151</b>	<b>276,032</b>	<b>269,282</b>	<b>6,750</b>
<b>Summary of Operating Expenses</b>									
Salary & Benefits	\$135,942	\$134,029	(\$1,913)	\$16,282	\$16,046	(\$235)	\$152,224	\$150,075	(\$2,148)
Assessments & Fees	28,427	28,031	(396)	-	-	-	28,427	28,031	(396)
Maintenance	21,798	21,816	18	893	1,166	273	22,691	22,982	291
IT Communications	4,511	5,115	604	479	480	1	4,990	5,595	605
Services & RSC	20,383	19,882	(501)	2,873	2,034	(838)	23,256	21,916	(1,339)
Services Reimbursed	19,113	19,062	(51)	-	-	-	19,113	19,062	(51)
Administrative	6,166	6,268	102	200	146	(54)	6,366	6,414	48
Travel & Meetings	2,863	2,817	(46)	620	487	(134)	3,484	3,304	(180)
Depreciation	17,137	17,219	82	423	423	0	17,560	17,642	83
<b>Total Operating Expenses</b>	<b>256,351</b>	<b>254,254</b>	<b>(2,097)</b>	<b>21,870</b>	<b>21,082</b>	<b>(788)</b>	<b>278,221</b>	<b>275,336</b>	<b>(2,885)</b>
Interest Expense	5,058	5,359	301	290	441	151	5,348	5,799	451
Interest Income	(8,331)	(8,723)	(392)	-	-	-	(8,331)	(8,723)	(392)
Other (Income)/Expense	(1,031)	(2,176)	(1,145)	-	-	-	(1,031)	(2,176)	(1,145)
<b>Net Other (Income)/Expense</b>	<b>(4,304)</b>	<b>(5,540)</b>	<b>(1,236)</b>	<b>290</b>	<b>441</b>	<b>151</b>	<b>(4,014)</b>	<b>(5,100)</b>	<b>(1,086)</b>
<b>Net Income (Loss)</b>	<b>(\$1,320)</b>	<b>\$415</b>	<b>(\$1,735)</b>	<b>\$3,144</b>	<b>(\$1,370)</b>	<b>\$4,514</b>	<b>\$1,825</b>	<b>(\$955)</b>	<b>\$2,780</b>

**Southwest Power Pool**  
**Balance Sheet**  
**As of May 31, 2024 and April 30, 2024**  
*(in thousands)*

	<u>5/31/2024</u>	<u>4/30/2024</u>	<u>Net Change</u>
<b>ASSETS</b>			
Current Assets			
Cash & Equivalents	\$311,406	\$247,318	\$64,088
Restricted Cash Deposits	1,608,415	2,081,512	(473,097)
Accounts Receivable (net)	52,230	52,495	(265)
Other Current Assets	21,368	23,590	(2,222)
Total Current Assets	<u>1,993,420</u>	<u>2,404,915</u>	<u>(411,495)</u>
Total Fixed Assets	58,754	58,881	(127)
Total Other Assets	5,551	5,320	231
Investments	4,118	35,656	(31,538)
<b>TOTAL ASSETS</b>	<b><u>2,061,843</u></b>	<b><u>2,504,772</u></b>	<b><u>(442,929)</u></b>
<b>LIABILITIES &amp; EQUITY</b>			
Liabilities			
Current Liabilities			
Accounts Payable (net)	\$66,067	\$44,513	\$21,554
Customer Deposits	1,611,129	2,117,859	(506,730)
Current Maturities of LT Debt	24,370	24,370	0
Other Current Liabilities	301,827	260,021	41,806
Deferred Revenue	12,114	13,810	(1,696)
Total Current Liabilities	<u>2,015,506</u>	<u>2,460,573</u>	<u>(445,067)</u>
Long Term Liabilities			
Long Term Debt	94,403	94,448	(45)
Other Long Term Liabilities	34,461	34,265	196
Total Long Term Liabilities	<u>128,864</u>	<u>128,713</u>	<u>151</u>
<b>TOTAL LIABILITIES</b>	<b><u>2,144,370</u></b>	<b><u>2,589,286</u></b>	<b><u>(444,916)</u></b>
Net Income	822	(1,164)	1,986
Members' Equity	(83,349)	(83,349)	0
<b>TOTAL MEMBERS' EQUITY</b>	<b><u>(82,527)</u></b>	<b><u>(84,513)</u></b>	<b><u>1,986</u></b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b><u>2,061,843</u></b>	<b><u>2,504,772</u></b>	<b><u>(442,929)</u></b>

**Note: The significant decrease in Restricted Cash Deposits and Customer Deposits is due to collateral deposits returned that were submitted for the annual TCR auction**





**Unbudgeted Report  
Year to Date  
As of 6/30/24**

PO Number	Project Name	Scope of Work/Item Description	Total Amount	Budgeted	Unbudgeted	Notes
Multiple	2024 Facilities Foundation	Additional Parking Deck Repairs	\$ 566,570	\$ 438,233	\$ 128,337	<b>A</b>
2024-1466	2024 Foundation General	Executive Search - SPP VP, MMU	\$ 199,500	\$ -	\$ 199,500	<b>B</b>
2024-1379	Markets Plus Program	Completion of Market's Plus Protocols	\$ 449,340	\$ -	\$ 449,340	<b>C</b>
		<b>TOTAL</b>	<b>\$ 1,215,410</b>	<b>\$ 438,233</b>	<b>\$ 777,177</b>	
		<b>LESS: Expenses Covered by Revenue</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
		<b>Unbudgeted Not Covered by Revenue</b>	<b>\$ 1,215,410</b>	<b>\$ 438,233</b>	<b>\$ 777,177</b>	

Notes	
<b>A</b>	Budget considered planned maintenance work on parking deck based on estimates obtained in Summer 2023. Estimates increased upon commencement of work to address additional areas of concern and other prudent preventative measures not contemplated in the original estimate.
<b>B</b>	Represents fees associated with engagement of executive search firm to identify replacement for the MMU Executive Director who left SPP in June 2024.
<b>C</b>	While these expenses were not assumed in the 2024 budget, they are covered by \$500k/month revenues for post phase 1 work that was also not considered in the 2024 budget assumptions. Overall impact is a reduction to NRR.