



**Southwest Power Pool**  
**FINANCE COMMITTEE MEETING**  
**July 9, 2010**

**Little Rock, Arkansas**

**• Summary of Action Items •**

1. Approved minutes from June 4, 2010 meeting
2. Approved increase in rate cap in Schedule 1A of the SPP regional tariff to 35¢/MWh.
3. Approved engagement of Price Waterhouse Coopers to perform annual audits of SPP's controls for up to a three year term.

**• Schedule of Follow up Items •**

1. Identify entities with poor meter data quality and offer to assist in improving the quality of meter data submission. Report to the Committee the results of this effort at the September 2010 meeting.
2. Draft organizational charter to propose forming a task force focused on meters within SPP.
3. Review/determine benefits & costs of individual SPP services
4. Model SPP's future expenses assuming 0% growth.
5. Incorporate increased effectiveness/cost savings as a line item in SPP's budgets and financial reports.

## FINANCE COMMITTEE MEETING

July 9, 2010

Little Rock, Arkansas

### • M I N U T E S •

#### Call to Order

Harry Skilton called the meeting to order at 8:30 am. The following members were in attendance:

Mr. Harry Skilton	Director
Mr. Larry Altenbaumer	Director
Mr. Kelly Harrison	Westar Energy
Mr. Gary Voigt	Arkansas Electric Cooperative
Mr. Tom Dunn	Southwest Power Pool

Southwest Power Pool staff participating: Nick Brown, Lauren Krigbaum and Michael Desselle

Other guests in attendance: Tim Cherry and Mark Neihaus from Price Waterhouse Coopers.

#### Minutes

The minutes from the June 4, 2010 meeting were reviewed. Gary Voigt motioned to approve the minutes. The motion was seconded by Kelly Harrison and approved by unanimous voice vote.

#### New Facilities

SPP staff advised the Committee the Company would likely close, in the next two weeks, on the purchase of land upon which SPP will construct facilities to house SPP's operations. Additionally, the Committee was advised SPP would execute a master contract with the general contractor for the project and soon thereafter execute a statement of work for the excavation and site prep aspects of the project.

#### Forecast of SPP Administrative Fee

SPP staff provided a review of SPP's administrative fee structure and the principles guiding management of the fee. The Committee reviewed comparisons of SPP to three other multi-state RTOs both in structure and services provided and quantitative measures of operating scope and financial impacts. The Committee also reviewed specific cost drivers which are expected to require higher administrative fee recoveries to fund SPP's operations.

SPP staff advised the Committee on its efforts to value the benefits members and customers receive from SPP's operations. SPP has recently assigned resources on its staff focused on documenting and monetizing SPP's value as well as documenting process improvements and the value of those improvements. The Committee focused on the value of process improvements, directing SPP to forecast those improvements in future years and include them in the development of the 2011 budget.

SPP staff presented four models illustrating SPP's administrative fee requirements through 2016 under various scenarios, as follows:

1. Base Model: Follows SPP existing structure with the administrative fee peaking at just under 38¢/MWh. The Committee expressed concern regarding the growth rate for load as well as the growth rates used for SPP's expenses.
2. Model 1: Illustrates the impacts of not retiring SPP's term debt. Resulted in an administrative fee of approximately 35¢/MWh in 2016. Also resulted in SPP's Members Equity account falling

- to a deficit \$71 million while outstanding debt increased to \$207 million. The Committee determined this structure didn't appear feasible for management of the administrative fee.
3. Model 2: Illustrates the impacts of reducing growth in operating expenses by 50% compared to the Base Model. Resulted in an administrative fee of approximately 36¢/MWh in 2014. The Committee expressed concern the growth rates to forecast SPP's expenses were too high and directed SPP staff to model with 0% growth rates as a more realistic model for the future.
  4. Model 3: Illustrates the impacts of establishing an administrative fee for three year periods. Resulted in an administrative fee of 30.6¢/MWh for 2011 – 2013, increasing to 37¢/MWh for 2014 – 2016.

SPP staff presented a recommendation to increase the cap for Schedule 1A of the SPP regional tariff to 40¢/MWh. The Committee debated the rationale supporting establishing the cap at a level well above SPP's needs in the upcoming few years versus the implications of setting the rate at a lower level.

Harry Skilton motioned to set the cap for Schedule 1A of the SPP regional tariff at 35¢/MWh. The motion was seconded by Kelly Harrison and approved by unanimous voice vote.

SPP staff was directed to develop amendments to the SPP regional tariff which would allow SPP greater flexibility to set its rates based on its expected future needs allowing SPP to maintain a rate which is predictable.

### **SAS 70 Audit**

Representatives from Price Waterhouse Coopers presented the results of Phase I of the audit of SPP's controls. Upon concluding Phase I audit procedures covering the period November 1, 2009 through March 2010, Price Waterhouse Coopers reported no deficiencies in the design of controls and 1 exception to control effectiveness. The identified control exception was a single instance in the sample. Additional testing of this control will be done during Phase II, any additional exceptions of this control will likely result in a reported qualification.

SPP staff discussed actions taken by Internal Audit to address the identified control exception. Additionally, Internal Audit reported its plan to meet with the Committee annually to review its upcoming audit plan as well as discuss audits of financial processes during the prior year. Finally, Internal Audit will meet at least annually with SPP's external financial statement auditors.

SPP staff presented a recommendation to engage Price Waterhouse Coopers to perform audits of SPP's controls for at least the 2010-11 audit. The Committee discussed opportunities to manage the audit costs for longer than one year. Larry Altenbaumer motioned to approve the engagement of Price Waterhouse Coopers for up to three years contingent upon obtaining savings on the audit rates for the period of the engagement. The motion was seconded by Kelly Harrison and approved by unanimous voice vote.

### **2010 Insurance Stewardship Report**

SPP staff presented a review of SPP's existing corporate insurance program and outlook for 2011. SPP staff indicated it was planning to review higher retentions during renewal and to also attempt to move the annual program renewal date to something other than calendar year. Several Committee members also requested SPP review obtaining increased limits in the D&O program.

### **Follow-up Items**

SPP staff reviewed the impact the Committee's prior action to extend the depreciable lives of its assets would have on SPP's annual property tax bill. The most significant impact occurs from extending the life of software assets to 10 years from 3 years which results in a meaningful increase in SPP's expected property tax billings.

SPP staff reviewed the proposed roster for the Credit Working Group. SPP staff indicated it would continue to identify additional policy level individuals at its membership to also participate on the Credit Working Group.

**Future Meetings**

The next scheduled meeting of the SPP Finance Committee will now be held on September 29, 2010 from 8:00 am to 4:00 pm in Atlanta, GA (meeting was previously scheduled for September 20, 2010 in Dallas, TX). The primary topics for this meeting will be review/approval of SPP's 2011 budget, engagement of auditors to audit SPP's 2010 financial reports, and report from SPP's Internal Audit department.

**Adjourn**

There being no further business, Harry Skilton adjourned the meeting at 2:59 pm.

Respectfully Submitted,

Thomas P. Dunn  
Secretary



**Southwest Power Pool, Inc.**  
**FINANCE COMMITTEE MEETING**  
**July 9, 2010**  
**Little Rock, Arkansas**

**• A G E N D A •**

8:30 pm – 3:00 pm

1. Old Business – Approval of minutes..... Harry Skilton
2. Old Business – Forecast of SPP Administrative Fee ..... Tom Dunn
  - a. Review of principles for cost recovery
  - b. Review of models
  - c. Recommendation to change Schedule 1A limitation
3. New Business – SAS70 Audit
  - a. 2010 audit interim report .....PWC
  - b. Report from SPP Internal Audit..... Lauren Krigbaum
  - c. Recommendation for 2010/11 audit.....Michael Desselle
4. New Business – 2010 Insurance Stewardship Report ..... Tom Dunn
5. Follow-Up Items
  - a. Impact of extended depreciation on taxes ..... Tom Dunn
  - b. Review of proposed roster for Credit Working Group ..... Tom Dunn
6. Other Business ..... All
7. Future Meetings ..... All

**Southwest Power Pool  
FINANCE COMMITTEE MEETING**

**June 4, 2010**

**Teleconference**

**• Summary of Action Items •**

1. Approved minutes from April 1, 2010 meeting
2. Approved Organization Scope document for creation of Credit Working Group
3. Approved plan to proceed with construction of office building co-located with new SPP operations center, stop looking at existing office buildings for acquisition, confirmed budget for new facility project.

**• Schedule of Follow up Items •**

1. Identify entities with poor meter data quality and offer to assist in improving the quality of meter data submission. Report to the committee the results of this effort.
2. Draft organizational charter to propose forming a task force focused on meters within SPP.
3. Formal review of forecast administrative fee for 2011 and 2012 in July 2010.
4. Review/determine benefits & costs of individual SPP services
5. Report financial impact of extending depreciation lives on SPP's annual property tax bill.
6. Present potential roster for Credit Working Group to Finance Committee prior to Corporate Governance Committee action.

**FINANCE COMMITTEE MEETING**

**June 4, 2010**

**Teleconference**

**• M I N U T E S •**

**Call to Order**

Harry Skilton called the meeting to order at 2:30 pm. The following members were in attendance:

Mr. Harry Skilton	Director
Mr. Larry Altenbaumer	Director
Mr. Kelly Harrison	Westar Energy
Mr. Gary Voigt	Arkansas Electric Cooperative
Mr. Tom Dunn	Southwest Power Pool

Southwest Power Pool staff participating: Nick Brown, Tom Fritsche, and Michael Desselle  
SPP members participating: Carol Shoemake (OG&E), Kip Fox (AEP), Richard Ross (AEP), David Ried (OPPD), and Bruce Cude (Xcel Energy)  
Other guests: David Sargent (Witsell Evans Rasco Architects/Planners)

**Minutes**

The minutes from the February 9, 2010 meeting were reviewed with several edits suggested by Kelly Harrison. Kelly Harrison motioned to approve the minutes as amended. The motion was seconded by Larry Altenbaumer and approved by unanimous voice vote.

**Credit Working Group Organizational Group Scope Statement Review**

The Organizational Group Scope Statement was updated to indicate neither the Credit Working Group nor its individual members would be privy to credit or exposure information on any specifically identified customer. Kelly Harrison motioned to approve the Organizational Group Scope Statement as amended. The motion was seconded by Larry Altenbaumer and approved by unanimous voice vote.

Harry Skilton requested the potential roster for the Credit Working Group be presented to the Finance Committee at its July 9, 2010 meeting.

**Facilities**

SPP staff reviewed the following activities and findings related to the construction of operations and office buildings on a single SPP owned site:

- Approved budget of \$62.2 million for construction of operations building and office building co-located on a single site.
- Characteristics of local office property listed for sale
- Evaluation of office property for sale:
  - Abandons stated goal of single campus,
  - Expected acquisition and remodel costs slightly lower than new construction cost
  - Requires expansion of new operations facility to accommodate additional staff and enhance mechanical and electrical capabilities,
  - Total expected costs close to cost for newly constructed co-located operations and office buildings

- Reviewed schematic design of office building and revised cost estimates for entire project (current estimate is \$65 million).

The Committee spent significant time questioning the rationale for selecting the site based on the design implications resulting from the topography of the site and the presence of novaculite (a hard, dense sedimentary rock). The topography of the site lends itself to a preference for deck parking as opposed to surface parking. Deck parking results in an increase in expected costs of approximately \$3 million. The novaculite rock results in an increase in expected site prep costs of approximately \$1.7 million. Several comments were made suggesting abandoning the existing site, reopening the site search process, and selecting a site which is more level which may not have the site prep issues of the existing site. Opposing comments indicated the cost savings may not be present as level sites will sell at a higher cost and still may have equal or even worse site prep issues.

Gary Voigt motioned to direct SPP staff to cease review of alternate office building locations, proceed with the development of construction of an office building co-located with the new operations center, and bring the project in within the approved budget of \$62.2 million. The motion was seconded by Larry Altenbaumer and approved by a vote of 3 for and 1 against.

#### **Forecast of SPP Administrative Fee**

Harry Skilton advised the Committee that the July 9 meeting will spend considerable time reviewing opportunities to reduce SPP's administrative fee.

#### **Future Meetings**

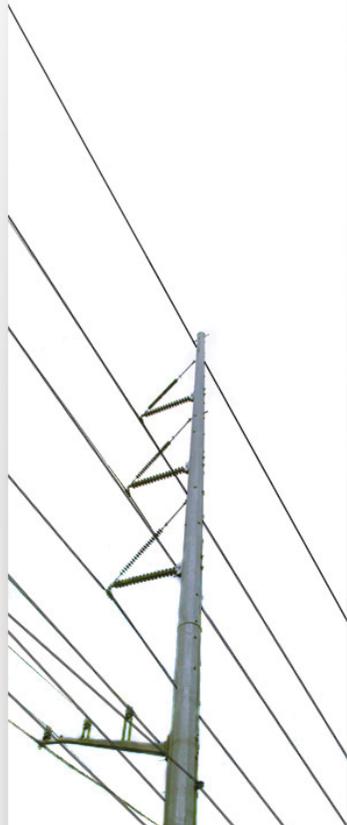
The next scheduled meeting of the SPP Finance Committee will be held on July 9, 2010 from 8:30 am to 3:00 pm at the DFW – Hyatt hotel in Dallas, TX. The primary topics for this meeting will be management of SPP's administrative fee, review of interim 2010 SAS70 audit results, and review of corporate insurance programs.

#### **Adjourn**

There being no further business, Harry Skilton adjourned the meeting at 4:30 pm.

Respectfully Submitted,

Thomas P. Dunn  
Secretary



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



## SPP Administrative Fee



## Guiding Principles of SPP Admin Fee

- **Single rate for all services**
- **Recovers 100% of expected costs in fiscal year**
- **Based on budgeted cash costs and forecast load**
- **Includes true-up from prior fiscal year**
- **Includes retirement of debt, no depreciation**
- **Net of other forecasted revenue**
- **Established annually by Board of Directors**



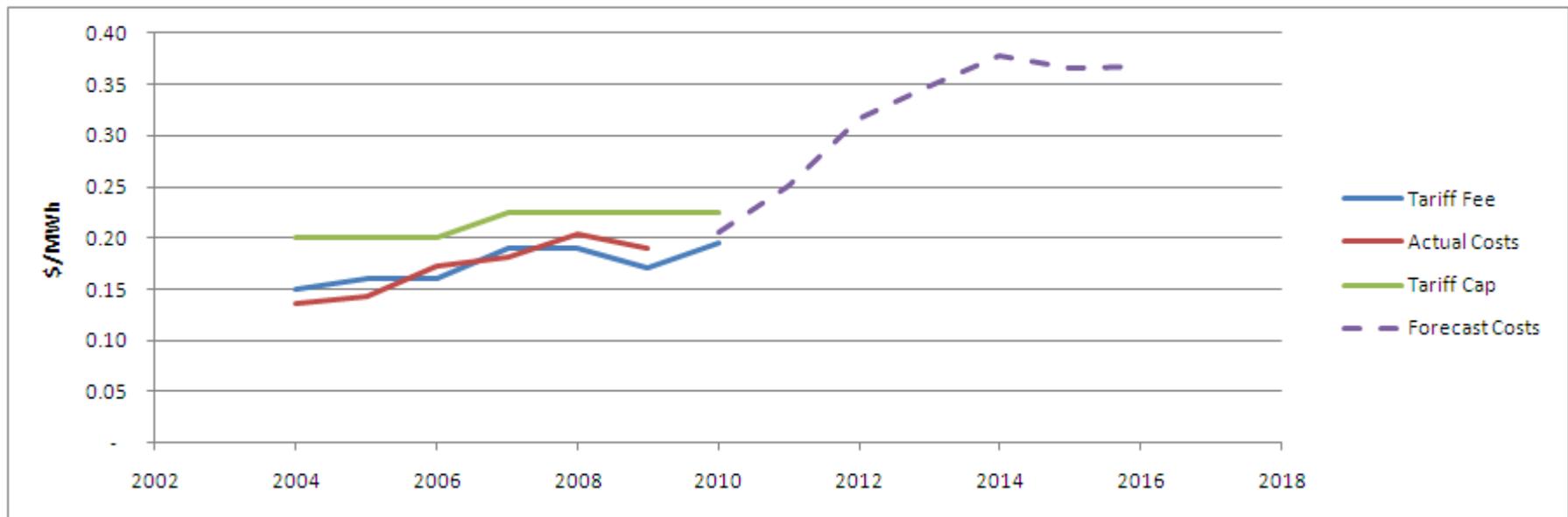
# Multi-State RTO Comparison

	Fiscal Year 2009 Results				Forecast 2014
	MISO	NE-ISO	PJM	SPP	SPP
<b>Multi-state</b>	Y	Y	Y	Y	Y
<b>Functional Model Registration</b>					
BA	Y	Y	Y		Y
Interchange Authority	Y	Y	Y	Y	Y
Planning Authority	Y	Y	Y	Y	Y
Reliability Coordinator	Y	Y	Y	Y	Y
Resource Planner		Y	Y		
Transmission Operator		Y	Y		
Transmission Planner		Y	Y	Y	Y
Transmission Provider	Y	Y	Y	Y	Y
<b>Markets</b>					
Real Time Energy	Y	Y	Y	Y	Y
Day-Ahead Energy	Y	Y	Y		Y
Congestion Hedging	Y	Y	Y		Y
Capacity		Y	Y		
Ancillary Services	Y	Y	Y		Y

# Multi-State RTO Comparison

	Fiscal Year 2009 Results				Forecast 2014
	MISO	NE-ISO	PJM	SPP	SPP
<b>Operating Statistics</b>					
Number of State Jurisdictions	14	6	14	9	9
Number of Members	135		565	58	58
Transmission Lines (miles)	55,090	8,130	56,499	46,921	50,042
Installed Generation (MW)	159,000	33,700	164,895	63,000	64,212
Population (millions)	43	14	51	15	15
2009 Load Served (TWh)	513	137	710	324	357
<b>Financial Statistics (2009, \$ millions)</b>					
Total Assets	644	594	847	114	233
Total Term Financing	241	79	109	70	170
Total Operating Expense	310	124	241	120	162
Tariff Fees (excl. FERC Fee)	260	123	228	59	135
Total Staff	733	431	600	423	600
Tariff Fees ÷ Load	\$ 0.51	\$ 0.90	\$ 0.32	\$ 0.18	0.38

# Admin Fee: Past and Future



# Admin Fee Drivers

	2010	2011	2012	2013	2014	2015	2016
<b>Transmission Expansion</b>							
Capital Expenditures	\$ 1.5	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
Operating Expenses	\$ 3.5	\$ 4.8	\$ 5.8	\$ 6.0	\$ 6.2	\$ 6.3	\$ 6.5
Total Staff	5	10	25	25	25	25	25
<b>Contribution to Administrative Fee</b>	<b>\$ 0.010</b>	<b>\$ 0.014</b>	<b>\$ 0.017</b>	<b>\$ 0.017</b>	<b>\$ 0.017</b>	<b>\$ 0.017</b>	<b>\$ 0.018</b>
<b>Future Markets</b>							
Capital Expenditures	\$ 12.3	\$ 23.3	\$ 21.3	\$ 11.7	\$ 5.8	\$ 6.3	\$ 6.8
Operating Expenses	\$ 3.0	\$ 7.3	\$ 10.9	\$ 11.2	\$ 11.6	\$ 11.9	\$ 12.3
Total Staff	18	68	75	75	75	75	75
Interest Expense			\$ 3.4	\$ 3.8	\$ 3.5	\$ 3.2	\$ 2.8
Principal Payments					\$ 6.2	\$ 6.2	\$ 6.2
<b>Contribution to Administrative Fee</b>	<b>\$ 0.009</b>	<b>\$ 0.022</b>	<b>\$ 0.042</b>	<b>\$ 0.043</b>	<b>\$ 0.060</b>	<b>\$ 0.059</b>	<b>\$ 0.057</b>
<b>Non-Future Market Debt Service</b>							
Interest Expense	\$ 4.1	\$ 5.1	\$ 9.6	\$ 9.0	\$ 8.3	\$ 7.4	\$ 6.8
Principal Payments	\$ 9.2	\$ 15.7	\$ 21.4	\$ 24.1	\$ 26.1	\$ 20.6	\$ 19.1
<b>Contribution to Administrative Fee</b>	<b>\$ 0.040</b>	<b>\$ 0.061</b>	<b>\$ 0.091</b>	<b>\$ 0.095</b>	<b>\$ 0.096</b>	<b>\$ 0.077</b>	<b>\$ 0.070</b>



## Value of SPP Services

- **Services where value can be estimated:**
  - **EIS Market – regional benefit of \$100MM/year**
  - **Total Schedule 1A costs well below benefit for each year of EIS operation**
- **Services which are difficult to value:**
  - **Regional reliability coordination**
  - **One stop shopping for transmission service**
  - **Region-wide transmission planning**



## Value of SPP Services

- **Services to be implemented / developed**
  - **Future Markets – expected net regional benefits of \$100MM/year**
  - **ITP – construction of transmission w/ certainty of recovery through accepted cost allocation methodology**
  - **Consolidated Balancing Areas – centralized service resulting in operating efficiencies and cost efficiencies**



## Future Admin Fee Assumptions

- Entergy contract remains in place, ITO terminates 9/12
- Load growth is 2%/year, SPP footprint is unchanged
- 2010 – 12 forecast data from 2010 SPP budget
- 2013 and forward based on estimate of growth
- Annual maintenance capex of \$10 million after 2012



# Future Admin Fee Assumptions

## BASE MODEL GROWTH ASSUMPTIONS

	Historical			Projected						
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Salaries & Benefits	40.6%	47.2%	53.3%	48,659	16.99%	7.53%	5.00%	5.00%	5.00%	5.00%
Outside Services	17.9%	19.7%	19.1%	16,552	-4.78%	5.67%	10.00%	10.00%	5.00%	5.00%
Leases & Maintenance	5.5%	5.9%	7.2%	5,983	24.33%	5.65%	5.00%	5.00%	5.00%	5.00%
Communication Systems	2.5%	3.0%	3.4%	2,805	22.99%	19.94%	4.00%	4.00%	4.00%	4.00%
Travel and Meetings	2.0%	2.3%	2.3%	2,148	28.21%	0.64%	2.00%	2.00%	2.00%	2.00%
Regulatory Assessments	10.7%	10.7%	13.8%	12,759	0.00%	0.00%	5.00%	5.00%	5.00%	5.00%
Administrative & Other	2.1%	2.6%	3.1%	3,520	5.65%	9.09%	10.00%	10.00%	10.00%	10.00%

## Projected SPP Admin Fee (Base Model)

	2010	2011	2012	2013	2014	2015	2016
<b>Income Statement Highlights (000s)</b>							
Calculated NRR / MWh	\$ 0.195	\$ 0.251	\$ 0.318	\$ 0.348	\$ 0.377	\$ 0.366	\$ 0.367
Total Revenue	\$ 100,616	\$ 126,404	\$ 147,275	\$ 157,171	\$ 172,219	\$ 172,809	\$ 177,973
Total Cash Operating Expenses <sup>1</sup>	\$ 107,347	\$ 119,987	\$ 127,906	\$ 135,316	\$ 143,206	\$ 150,475	\$ 158,128
Growth in Cash Op Exp (\$/MWh)		3.7%	2.3%	2.1%	2.2%	2.0%	2.1%
<b>Debt Summary</b>							
Debt Service (principal + interest)	\$ 13,301	\$ 20,756	\$ 34,422	\$ 36,909	\$ 44,067	\$ 37,387	\$ 34,899
Ending Outstanding Principal Balance	\$ 134,470	\$ 201,125	\$ 206,425	\$ 192,354	\$ 170,063	\$ 153,272	\$ 137,961
Growth in Debt Service (\$/MWh)		\$ 0.022	\$ 0.040	\$ 0.007	\$ 0.020	\$ (0.018)	\$ (0.007)
<b>Balance Sheet Highlights (000s)</b>							
Members Equity	\$ (36,862)	\$ (39,160)	\$ (36,504)	\$ (30,219)	\$ (16,825)	\$ (7,943)	\$ (1,791)
Net Fixed Assets	\$ 95,716	\$ 160,056	\$ 167,861	\$ 160,075	\$ 151,178	\$ 143,269	\$ 134,110
Long-term Debt	\$ 134,470	\$ 201,125	\$ 206,425	\$ 192,354	\$ 170,063	\$ 153,272	\$ 137,961
<b>Cash Flow Highlights (000s)</b>							
Capital Expenditures	\$ 74,077	\$ 82,324	\$ 26,560	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000
New Debt Issued	74,101	82,341	26,711	10,000	10,000	10,000	10,000
Ending Cash	31,540	35,569	39,094	40,666	43,057	43,151	43,972

- **Future Markets implement in 2014**
  - **Admin Fee peaks at approximately 38¢/MWh**
  - **Scheduled debt payments peak at \$44 million**
- **Consistent improvement in SPP Member Equity balance**

# Projected SPP Admin Fee (Model 1)

	2010	2011	2012	2013	2014	2015	2016
<b>Income Statement Highlights (000s)</b>							
Calculated NRR / MWh	\$0.195	\$0.228	\$0.288	\$0.319	\$0.334	\$0.341	\$0.352
Total Revenue	\$ 100,616	\$ 118,626	\$ 137,022	\$ 147,040	\$ 156,690	\$ 163,634	\$ 172,418
Total Cash Operating Expenses <sup>1</sup>	\$ 107,347	\$ 119,987	\$ 127,906	\$ 135,316	\$ 143,206	\$ 150,475	\$ 158,128
Growth in Cash Op Exp (\$/MWh)		\$ 0.037	\$ 0.023	\$ 0.021	\$ 0.022	\$ 0.020	\$ 0.021
<b>Debt Summary</b>							
Debt Service (principal + interest)	\$ 13,301	\$ 12,978	\$ 24,170	\$ 26,778	\$ 28,538	\$ 28,213	\$ 29,344
Ending Outstanding Principal Balance	\$ 134,470	\$ 209,125	\$ 225,425	\$ 222,854	\$ 218,283	\$ 213,712	\$ 207,621
Growth in Debt Service (\$/MWh)		\$ (0.001)	\$ 0.033	\$ 0.007	\$ 0.005	\$ (0.001)	\$ 0.003
<b>Balance Sheet Highlights (000s)</b>							
Members Equity	(36,862)	(47,160)	(55,504)	(60,719)	(65,045)	(68,383)	(71,451)
Net Fixed Assets	95,716	160,056	167,861	160,075	151,178	143,269	134,110
Long-term Debt	134,470	209,125	225,425	222,854	218,283	213,712	207,621
<b>Cash Flow Highlights (000s)</b>							
Capital Expenditures	\$ 74,077	\$ 82,324	\$ 26,560	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000
New Debt Issued	74,101	82,341	26,711	10,000	10,000	10,000	10,000
Ending Cash	31,540	34,333	37,465	39,056	40,590	41,693	43,089

**Changes From Base Model**

no scheduled retirement of FM debt

no scheduled retirement of 2014 and 2016 debt

- Reduces fee by 4¢/MWh in 2014
- Deficit in Equity grows to over \$70 million
- Term debt balances peak at \$225 million



## Withdrawal Obligation Impacts of Debt

- **Withdrawal Obligation July 2010**

$$= \$347,665 + \$0.2835 * \text{NEL}$$

- **Withdrawal Obligation July 2011**

$$= \$1,260,306 + \$1.0277 * \text{NEL}$$

- **Withdrawal Obligation July 2011 with no retirement of scheduled debt through 2024**

$$= \$1,430,441 + \$1.1665 * \text{NEL}$$

## Projected SPP Admin Fee (Model 2)

	2010	2011	2012	2013	2014	2015	2016
<b>Income Statement Highlights (000s)</b>							
Calculated NRR / MWh	\$ 0.195	\$ 0.251	\$ 0.318	\$ 0.340	\$ 0.361	\$ 0.342	\$ 0.336
Total Revenue	\$ 100,616	\$ 126,404	\$ 147,275	\$ 154,377	\$ 166,350	\$ 164,180	\$ 166,386
Total Cash Operating Expenses <sup>1</sup>	\$ 107,347	\$ 119,987	\$ 127,906	\$ 132,521	\$ 137,338	\$ 141,847	\$ 146,540
Growth in Cash Op Exp (\$/MWh)		3.7%	2.3%	1.3%	1.4%	1.2%	1.3%
<b>Debt Summary</b>							
Debt Service (principal + interest)	\$ 13,301	\$ 20,756	\$ 34,422	\$ 36,909	\$ 44,067	\$ 37,387	\$ 34,899
Ending Outstanding Principal Balance	\$ 134,470	\$ 201,125	\$ 206,425	\$ 192,354	\$ 170,063	\$ 153,272	\$ 137,961
Growth in Debt Service (\$/MWh)		\$ 0.022	\$ 0.040	\$ 0.007	\$ 0.020	\$ (0.018)	\$ (0.007)
<b>Balance Sheet Highlights (000s)</b>							
Members Equity	\$ (36,862)	\$ (39,160)	\$ (36,504)	\$ (30,219)	\$ (16,825)	\$ (7,943)	\$ (1,791)
Net Fixed Assets	\$ 95,716	\$ 160,056	\$ 167,861	\$ 160,075	\$ 151,178	\$ 143,269	\$ 134,110
Long-term Debt	\$ 134,470	\$ 201,125	\$ 206,425	\$ 192,354	\$ 170,063	\$ 153,272	\$ 137,961
<b>Cash Flow Highlights (000s)</b>							
Capital Expenditures	\$ 74,077	\$ 82,324	\$ 26,560	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000
New Debt Issued	74,101	82,341	26,711	10,000	10,000	10,000	10,000
Ending Cash	31,540	35,569	39,094	40,222	42,125	41,780	42,131

### Changes From Base Model

Growth rate for Salaries & Benefits and Outside Services reduced by half

- **Reduced cash operating expenses by \$6 million in 2014**
- **Growth in operating expenses is less than growth in load**

## Projected SPP Admin Fee (Model 3)

	2010	2011	2012	2013	2014	2015	2016
<b>Income Statement Highlights (000s)</b>							
Calculated NRR / MWh	\$ 0.195	\$ 0.306	\$ 0.306	\$ 0.306	\$ 0.370	\$ 0.370	\$ 0.370
Total Revenue	\$ 100,616	\$ 144,889	\$ 143,269	\$ 142,654	\$ 169,571	\$ 174,256	\$ 179,087
Total Cash Operating Expenses <sup>1</sup>	\$ 107,347	\$ 119,987	\$ 127,906	\$ 135,316	\$ 143,206	\$ 150,475	\$ 158,128
Growth in Cash Op Exp (\$/MWh)		3.7%	2.3%	2.1%	2.2%	2.0%	2.1%
<b>Debt Summary</b>							
Debt Service (principal + interest)	\$ 13,301	\$ 20,756	\$ 34,422	\$ 36,909	\$ 44,067	\$ 37,387	\$ 34,899
Ending Outstanding Principal Balance	\$ 134,470	\$ 201,125	\$ 206,425	\$ 192,354	\$ 170,063	\$ 153,272	\$ 137,961
Growth in Debt Service (\$/MWh)		\$ 0.022	\$ 0.040	\$ 0.007	\$ 0.020	\$ (0.018)	\$ (0.007)
<b>Balance Sheet Highlights (000s)</b>							
Members Equity	\$ (36,862)	\$ (20,675)	\$ (22,025)	\$ (30,256)	\$ (19,511)	\$ (9,181)	\$ (1,915)
Net Fixed Assets	\$ 95,716	\$ 160,056	\$ 167,861	\$ 160,075	\$ 151,178	\$ 143,269	\$ 134,110
Long-term Debt	\$ 134,470	\$ 201,125	\$ 206,425	\$ 192,354	\$ 170,063	\$ 153,272	\$ 137,961
<b>Cash Flow Highlights (000s)</b>							
Capital Expenditures	\$ 74,077	\$ 82,324	\$ 26,560	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000
New Debt Issued	74,101	82,341	26,711	10,000	10,000	10,000	10,000
Ending Cash	31,540	56,992	52,937	38,322	39,951	42,143	44,024

### Changes From Base Model

Admin Fee levelized every three years

- **Fee higher in 2011 by approximately 5¢/MWh vs. Base Model**
- **Improvement in Equity similar to Base Model**



**Southwest Power Pool, Inc.**  
**FINANCE COMMITTEE**  
**Recommendation to the Board of Directors**  
**July 9, 2010**  
**Tariff Schedule 1A Fee Cap**

**Organizational Roster**

The following persons are members of the Finance Committee:

Harry Skilton, Chair	Director
Larry Altenbaumer, Vice Chair	Director
Gary Voigt	Arkansas Electric Cooperatives
Trudy Harper	Tenaska
Kelly Harrison	Westar Energy

**Background**

Schedule 1-A of the SPP regional tariff provides the mechanism for SPP to recover its costs from its customers by applying a rate (“tariff rate”) against the load served under the tariff. The tariff rate is set annually by the SPP Board of Directors based on a recommendation from the SPP Finance Committee. The SPP Finance Committee establishes its recommendation based on its review of numerous inputs, primarily SPP’s year to date financial reports, SPP’s current fiscal year financial forecast, and SPP’s next year’s budget. The tariff rate is allowed to recover up to 100% of SPP’s cash operating and debt service costs, adjusting for any over or under collections in the prior fiscal year. SPP’s Board of Directors may currently set the tariff rate at any level up to and including 22.5¢/MWh. SPP assesses the tariff rate against all transmission service sold under the tariff, either based upon the prior year’s average monthly coincident peak for network transmission service, or based on the current reserved capacity for point to point transmission service.

SPP has forecast its future costs eligible for recovery via the tariff rate. This forecast indicates SPP’s eligible costs will exceed the current rate cap of 22.5¢/MWh in fiscal year 2011 and beyond.

**Analysis**

SPP’s transmission tariff was implemented in 1998. The tariff initially allowed SPP to recover up to 80% of its costs through application of the tariff rate against the reserved capacity sold under point to point service or the prior year’s 12 month average coincident peak demand for network service sold. SPP amended the tariff to allow for recovery of up to 100% of its costs through the tariff rate in 2004. The schedule 1-A administrative fee cap was set at 15¢/MWh when the tariff was implemented. This cap was raised to 20¢/MWh in April 2000 and then raised to 22.5¢/MWh in 2007.

SPP has implemented several customer services over the past several years which have served to escalate SPP’s costs. These services have also resulted in significant and meaningful benefits to the SPP region.

<u>Service</u>	<u>Benefit</u>
Energy Imbalance Market savings	\$100,000,000 net annual production cost
Est. Compliance Department	High touch assistance and training to members



on compliance and changing regulatory requirements

Incr. Transmission Planning & Regulatory

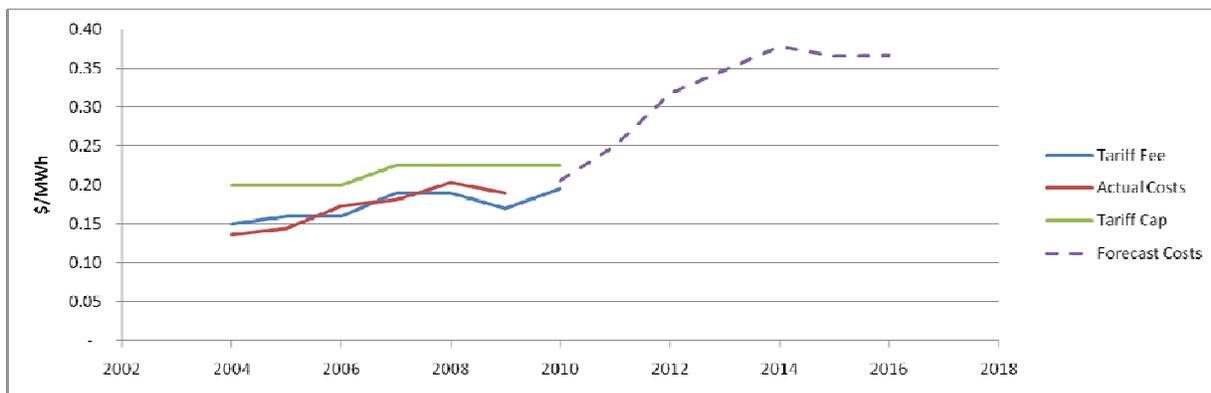
Creation and implementation of several cost allocation plans to spur transmission development, improvement in transmission interconnection and reliability study processes

Focus on processes and controls

Reduce opportunities for production errors, assist members with Sarbanes Oxley certifications

SPP is now embarking on the development and implementation of additional markets for ancillary services, day-ahead energy, and congestion hedging. Additionally, SPP will soon become the sole balancing area for the SPP region. These services are expected to bring another \$100,000,000 in net annual production costs savings to the SPP region while also providing the tools necessary to ensure the reliable operation of the transmission grid in an environment consisting of higher levels of intermittent resources and increased complexity.

The chart below illustrates SPP's historical tariff rate, schedule 1A administrative fee cap, actual costs/MWh, and forecast costs/MWh.



SPP expects to fully implement the new services in 2014. Thereafter, SPP's forecast indicates its costs/MWh will level off, assuming no new services are added to SPP's products. The additional costs forecast for Future Market services are consistent with the assumptions used in the 2009 CRA Cost/Benefit report. Other cost drivers include incremental resources to support SPP's transmission expansion initiatives, as well as expected inflation of all ongoing costs.

**Recommendation**

Establish a new rate cap for schedule 1A of the SPP regional tariff at 40¢/MWh.

**Approved:** Finance Committee July 9, 2010

**Action Requested:** Approve Recommendation

# 2010 STEWARDSHIP REPORT



**June 23, 2010**

**Stephens**

Capitalize on Independence™

1

# INSURANCE MARKET UPDATE

## OVERALL RESULTS

- Net income after taxes grew 25.3 Billion to \$28.3 Billion in 2009
- Net Losses down from \$21.2B to \$3.1 in 2009
- Combined Loss Ratio down to 101% from 105%
- Investment income up 23% over prior year \$39B vs. \$31.7B
- Surplus Rose 11.8% to \$511.5 Billion
- Written Premium Dropped \$16 Billion to \$419 Billion
- The market remains well capitalized. Few if any signs of soft phase of market loosening grip
  - *Average premium fell by 1.2% in 2009 and likely to match in 2010*
  - *However, above average catastrophe losses could contribute to a reversal of this market cycle.*
- Interestingly should the surplus ratio to GDP fall below 3.2% look for prices to increase in the next 12 Months as noted in Exhibit 3 of the market report
- Developing markets (China, India & others) become more popular as avenue for growth
- New Product Development
- Decrease in Surplus Lines (Carriers chasing business that would typically be in the hard to place arena)



# INSURANCE MARKET UPDATE

## BY LINE DEVELOPMENT

- General Liability - rate levels are now at 2000 rate levels
- Workers Compensation - premiums down as a result of unemployment reaching 26 year high in September
- Property relatively stable
- Directors and Officers Liability relatively flat to slightly lower

## BOTTOM LINE

- Most likely scenario for 2010 is continued soft conditions
- BP loss appears to be segregated to London & Bermuda underwriters
- Increase in multiples likely for Oil Services industry
- Market may remain flat in 2011
- Wildcard – Hurricane Season

# INSURANCE MARKET UPDATE

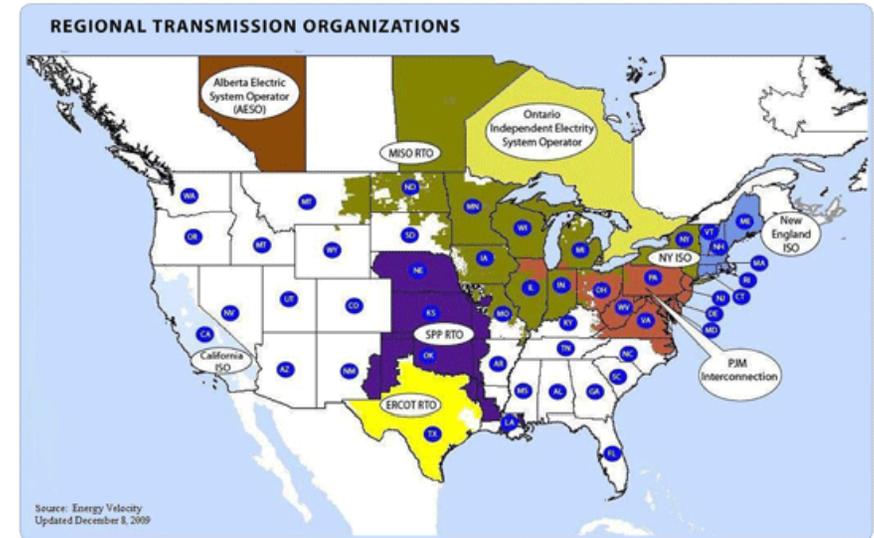
- **AEGIS CURRENTLY INSURES**

- California Independent System Operator (CAISO)
- Electric Reliability Council of Texas (ERCOT)
- Southwest Power Pool (SPP)
- PJM Interconnection
- ISO New England
- Western Electricity Coordinating Council
- Midwest Independent Transmission System Operator (MISO)
- California Power Exchange Corporation

- **All Carry \$35M Excess – some carry \$2M SIR**

- **AEGIS CURRENT NEWS**

- Excess Liability 188% Loss Ratio in 2009
- Approximately 60 % of total Book likely to continue to as loss leader for the present
- Target combined ratio for 2010 -105% . First Qtr -103%
- NEW POLICY LIMIT: \$35mm each occurrence and \$70 million annual policy aggregate limit on XS GL to begin with renewals 1-1-2011
- AEGIS Membership 359 and stable. Departures primarily non- core.
- Surplus grew by \$104M in 2009
- Goal to continue to grow surplus and AM Best A Rating
- No Continuity Credit

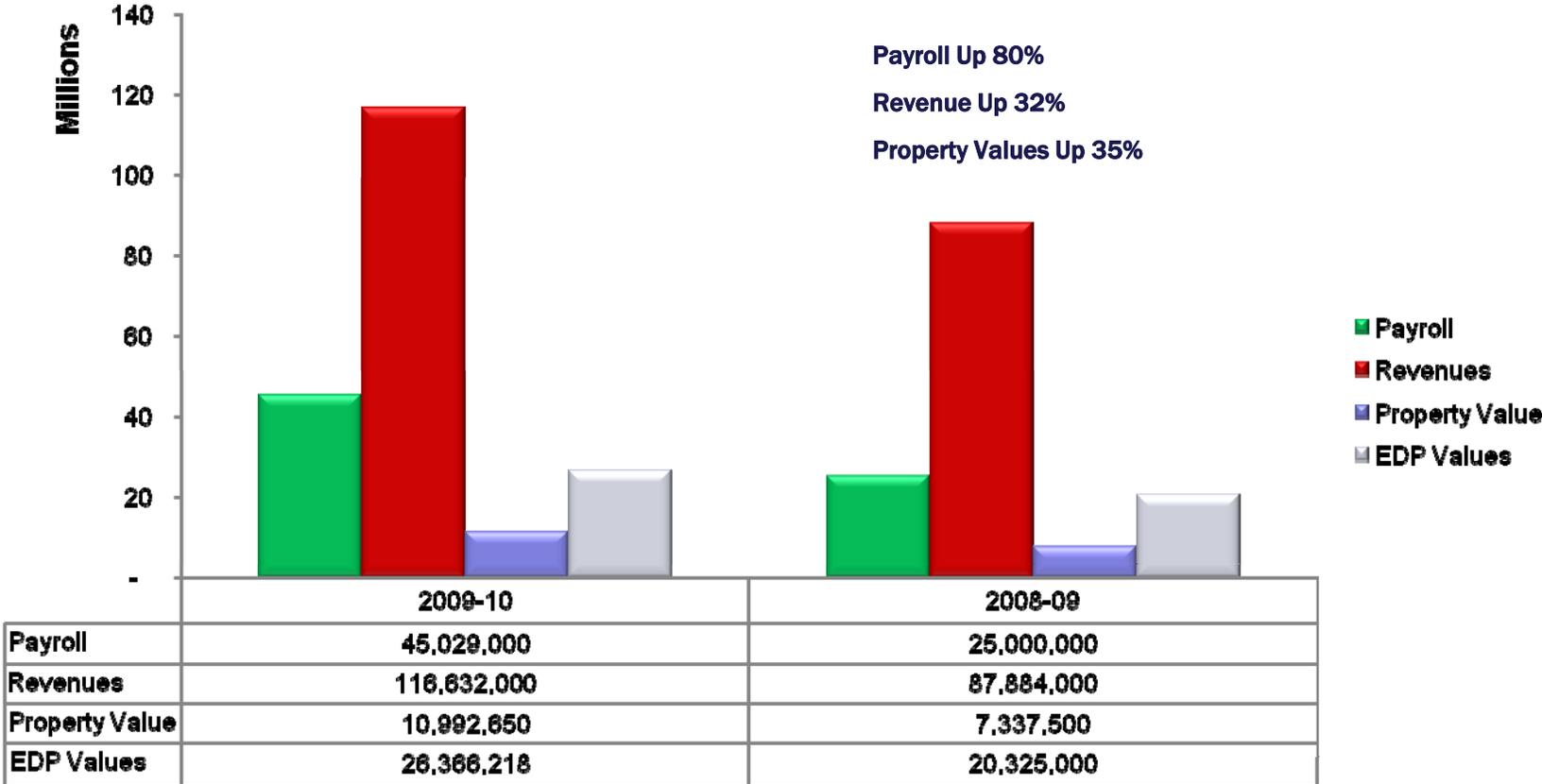


# PROGRAM OVERVIEW



# RENEWAL PREMIUM BASE

## Renewal Base



# RENEWAL PREMIUM BASE

## PAYROLL

Location	State	Classification	Code	Estimated Payroll 1-1-2010/2011
415 North Mckinley	Arkansas	Clerical office Employees	8810	\$ 44,854,000
12203 N Shadow Cove Drive	Texas	Clerical office Employees	8810	\$ 175,000
				<b>\$ 45,029,000</b>

## STATEMENT OF VALUES

Location	Street	City	State	Building Value	Equipment - EDP	Furniture and Fixtures	Leasehold Improvements	Software	Total
1	415 N McKinley, Ste 140,680,700,800,900,1200 and 1250	Little Rock	AR	\$0	\$13,030,791	\$2,817,677	\$510,578	\$4,750,000	\$21,109,046
2	1300 Murphy Drive	Maumelle	AR	\$5,965,433	\$7,324,590	\$738,543	\$805,010	\$1,139,261	\$15,972,837
3	16101 Lagrande Drive	Little Rock	AR	\$0	\$121,576	\$712,191	\$155,409	\$0	\$989,176
<b>Total</b>				<b>\$5,965,433</b>	<b>\$20,476,957</b>	<b>\$4,268,411</b>	<b>\$1,470,997</b>	<b>\$5,889,261</b>	<b>\$38,071,059</b>

### Masonry Non combustible property all locations

Business Interruption	Value	Protection
415 N McKinley, Ste 140,680,700,800,900,1200 and 1250	\$500,000	FM200
1300 Murphy Drive	\$500,000	Pre Action
16101 Lagrande Drive	\$500,000	Sprinkler

# POLICY SCHEDULE

## Southwest Power Pool - Insurance Schedule 2010/2011

Coverage	Issuing Company	Policy Number	Policy Term
Property	Liberty Mutual Fire Ins Co	YU2-L9L-453603-010	1-1-10/11
Auto	Liberty Mutual Fire Ins Co	AS2-641-439074-020	1-1-10/11
Crime	Travelers Casualty & Surety	103164905	1-1-10/11
General Liability	Liberty Mutual Fire Ins Co	TB2-641-439074-030	1-1-10/11
Umbrella (Primary \$35M) Incl E&O	Associated Electric & Gas	X0637A1A10	1-1-10/11
Excess Liability (\$40 xs \$35M)	Energy Insurance Mutual Limited	251423-10GL	1-1-10/11
Work Comp	Liberty Mutual	WC7-641-439074-010	1-1-10/11
D&O Primary (\$5M)	Federal Insurance Company	8164-4998	1-1-10/11
D&O Excess (\$5M xs of \$5M)	Travelers Casualty & Surety	1-5395390	1-1-10/11
D&O Excess (\$10M xs of \$10 M)	RSUI	NHS635774	1-1-10/11
D&O Excess (\$10M xs of \$20 M)	Westchester Fire Insurance Company	G21941943 006	1-1-10/11
D&O = Side A (\$10M xs \$30M)	Arch Insurance Company	ABX0024371-02	1-1-10/11
D&O - Side A (\$10M xs \$40M)	Liberty Mutual Ins Co	204113-020	1-1-10/11
Fiduciary	Travelers Casualty & Surety	105387937	1-1-10/11

# AM BEST RATINGS

COMPANY	AM BEST RATING	
Liberty Mutual	A	XV
AEGIS	A-	XI
Energy Insurance Mutual Limited	A	X
Federal Insurance Company	A++	XV
Travelers Casualty and Surety	A+	XV
RSUI Group	A	XII
Westchester Fire Insurance Company	A+	XV
Arch Insurance Company	A	XV

## Financial Strength Ratings

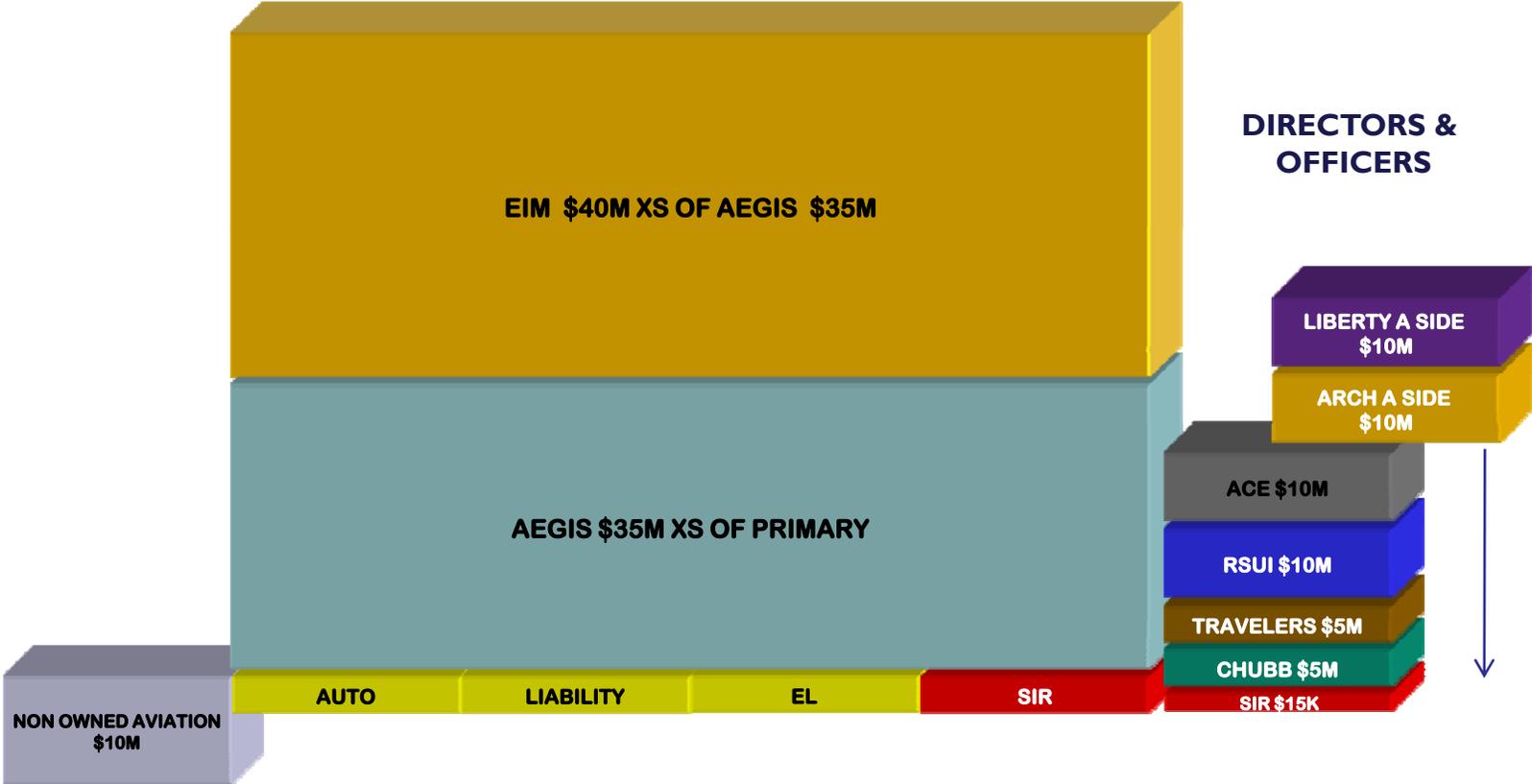
Secure	Vulnerable
<b>A++, A+</b> (Superior)	<b>B, B-</b> (Fair)
<b>A, A-</b> (Excellent)	<b>C++, C+</b> (Marginal)
<b>B++, B+</b> (Good)	<b>C, C-</b> (Weak)
	<b>D</b> (Poor)
	<b>E</b> (Under Regulatory Supervision)
	<b>F</b> (In Liquidation)
	<b>S</b> (Suspended)

## Financial Size Category

Class	Adj. PHS (\$ Millions)	Class	Adj. PHS (\$ Millions)
I	Less than 1	IX	250 to 500
II	1 to 2	X	500 to 750
III	2 to 5	XI	750 to 1,000
IV	5 to 10	XII	1,000 to 1,250
V	10 to 25	XIII	1,250 to 1,500
VI	25 to 50	XIV	1,500 to 2,000
VII	50 to 100	XV	2,000 or greater
VIII	100 to 250		

# LIMITS OF LIABILITY

## CASUALTY



# COVERAGE ENHANCEMENTS

- **EXCESS LIABILITY**

- **Failure to supply coverage added**

FAILURE TO SUPPLY EXCLUSION AMENDATORY ENDORSEMENT 4

Section III., Exclusions, (D) is deleted in its entirety and replaced with the following:

(D) for liability with respect to the **FAILURE TO SUPPLY LIABILITY unless such failure is caused by OCCURRENCE.**

Definition of Occurrence (S) OCCURRENCE: The term "OCCURRENCE" shall mean:

(1) with respect to BODILY INJURY and PROPERTY DAMAGE, an accident, event or continuous or repeated exposure to conditions neither expected nor intended from the standpoint of the INSURED;

and

(2) with respect to PERSONAL INJURY, only the acts specified in Definition (T).

(T) PERSONAL INJURY: The term "**PERSONAL INJURY**" shall mean any injury (other than BODILY INJURY or PROPERTY DAMAGE) neither expected nor intended from the standpoint of the INSURED and arising out of one or more of the following acts committed during the COVERAGE PERIOD

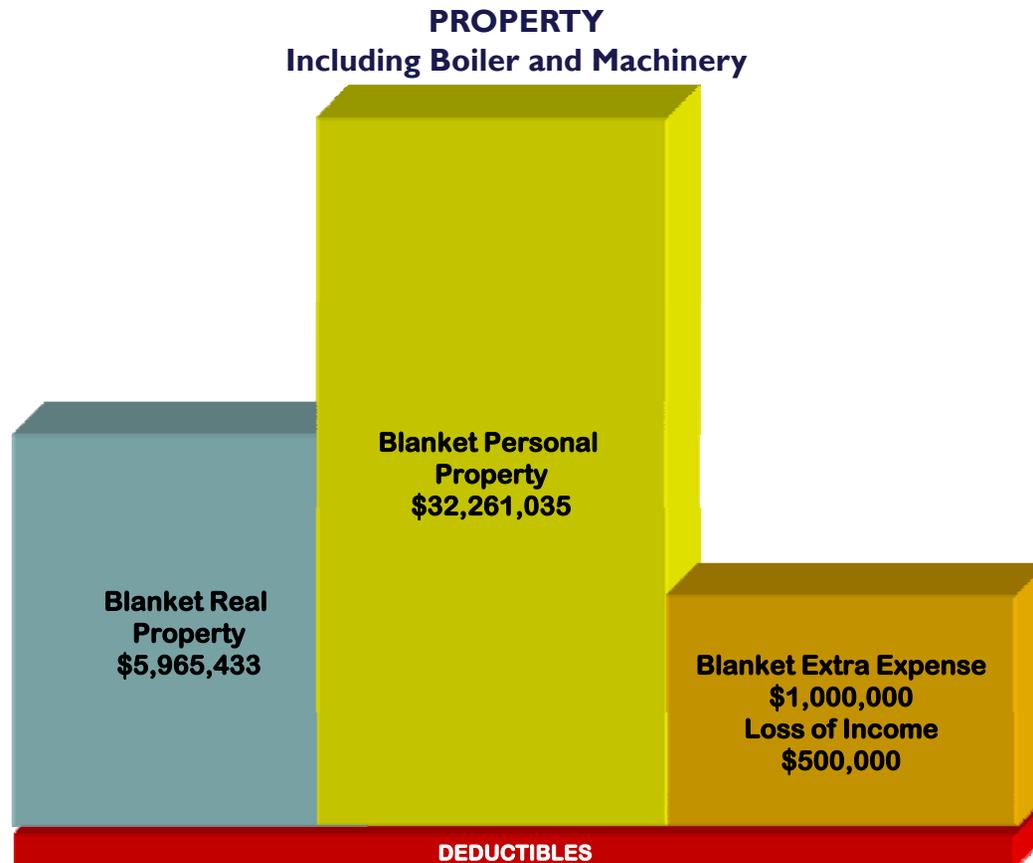
(A) For the purposes of coverage as provided in this Endorsement 5 only, the term "**PERSONAL INJURY**" shall also mean any injury or damage neither expected nor intended from the standpoint of the INSURED and arising out of any **negligent act, error or omission** actually or allegedly caused, committed or attempted by an INSURED **while performing DESIGNATED SERVICES** at the request of or on behalf of the NAMED INSURED.

(B) For purposes of this Endorsement only, a negligent act, error or omission in the course of the INSURED's performance, or failure to perform, **DESIGNATED SERVICES shall be deemed to be an "OCCURRENCE"**. **All interrelated negligent acts, errors or omissions** actually or allegedly caused, committed or attempted by or claimed against one or more INSURED(s) **shall be deemed to be one OCCURRENCE**

(Z) PROPERTY DAMAGE: The term "PROPERTY DAMAGE" shall mean:

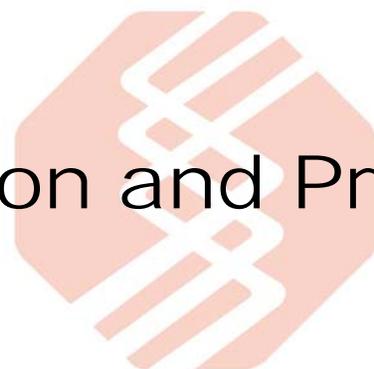
(1) physical damage to or destruction of tangible property which occurs during the COVERAGE PERIOD, including the loss of use thereof at anytime resulting there from; or (2) **loss of use** at any time of **tangible property** which has not been physically damaged or destroyed provided such loss of use is caused by an OCCURRENCE during the COVERAGE PERIOD.

# PROPERTY LIMITS





# Depreciation and Property Tax





# SPP Costs Compared To ISO/RTO

	Property Tax Impact From Extended Depreciation Schedule (\$millions)												
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Current Schedule													
Maumelle	0.06	0.05	0.05	0.05	0.04	0.04	0.04	0.03	0.03	0.03	0.02	0.02	0.02
Campus	-	0.77	0.73	0.69	0.66	0.62	0.58	0.54	0.50	0.46	0.42	0.39	0.35
Future Markets	-	-	-	0.72	0.48	0.24	-	-	-	-	-	-	-
Total Tax	0.06	0.83	0.78	1.46	1.18	0.90	0.62	0.57	0.53	0.49	0.45	0.41	0.36
Extended Schedule													
Maumelle	0.06	0.06	0.05	0.05	0.05	0.05	0.04	0.04	0.04	0.04	0.04	0.03	0.03
Campus	-	0.77	0.75	0.72	0.69	0.67	0.64	0.62	0.59	0.57	0.54	0.51	0.49
Future Markets	-	-	-	0.72	0.64	0.57	0.50	0.43	0.36	0.29	0.21	0.14	0.07
Total Tax	0.06	0.83	0.80	1.49	1.39	1.29	1.19	1.09	0.99	0.89	0.79	0.69	0.59
Variance	-	0.00	0.02	0.03	0.21	0.39	0.57	0.51	0.46	0.40	0.34	0.28	0.23

# Memorandum

To: **Finance Committee Members**  
 From: **Tom Dunn**  
 CC: **Stacy Duckett, Cheryl Robertson**  
 Date: **July 3, 2010**  
 Re: **2010/11 Meeting Schedule**

---

Detailed below is a schedule for face-to-face meetings of the Finance Committee for 2008/09 along with suggested agenda items to be covered at the meetings.

<u>Meeting Date</u>	<u>Time</u>	<u>Meeting Location</u>	<u>Major Agenda Items</u>
July 9 , 2010	8:30	Little Rock, AR	Admin Fee Estimate SAS 70 Mid-year review Insurance review
Sept 20, 2010	8:30	Dallas, TX	2011 budget review Internal Audit report Auditor engagements
Dec 6, 2010	2pm	Dallas, TX	SAS70 audit
April 5, 2011	8:30	Dallas, TX	Financial audit review
July 8, 2011	8:30	Dallas, TX	Admin Fee Estimate SAS 70 Mid-year review Insurance review
Sept 29, 2011	8:30	Dallas, TX	2012 budget review Internal Audit report Auditor engagements
Dec 5, 2011	2:00	Dallas, TX	SAS70 audit