



**Southwest Power Pool**  
**FINANCE COMMITTEE MEETING**  
**September 13, 2013**  
**Teleconference**

**• Summary of Action Items •**

**• Schedule of Follow-up Items •**

1. Establish a scorecard for presentation to MOPC, SPC, and BOD indicating costs associated with member required projects/services.
2. Review assumptions for pension and post-retirement healthcare actuarial calculations (discount rate, investment return, compensation growth rate) at either September or December meetings.
3. Presentation at a future meeting which will cover the exposure calculations and credit underwriting practices of the Credit Policy.
4. The Committee requested a schedule illustrating the expected remaining real useful life of SPP's fixed assets compared to the term of SPP's existing debt obligations
5. The Committee requested that the Corporate Governance Committee review the issue and determine where the authority to approve individual internal signature authorities lies.
6. SPP 2014 Budget
  - a. Provide more background on 2013 loads which form basis for 2014 billings
  - b. Provide additional analysis on maintenance expenditures
  - c. Provide more information on debt structure and opportunities to roll current maturities into new borrowings
  - d. Provide additional analysis on Post Go-Live projects and assumptions on costs
  - e. Provide additional metrics on LEAN initiative



**Southwest Power Pool  
FINANCE COMMITTEE MEETING**

**September 13, 2013**

**Dallas, Texas**

**• M I N U T E S •**

**Administrative Items**

SPP Chair Harry Skilton called the meeting to order at 3:00 p.m. The following members of the Finance Committee were in attendance:

Harry Skilton	SPP Director
Larry Altenbaumer	SPP Director
Kelly Harrison	Westar Energy
Tom Dunn	SPP
Others attending included:	
Dianne Branch	SPP
Zeynep Vural	SPP
Sheri Dunn	SPP
Phyllis Bernard	SPP Board of Directors
Julian Brix	SPP Board of Directors
Traci Bender	NPPD
Kelly Walters (phone)	Empire District
Carol Shoemake	OG&E

**2014 SPP Budget**

The format of the meeting was a “round-table” discussion whereby Committee members and other participants could provide SPP staff with their initial impressions of the 2014 budget document and request additional detail and/or information to be provided at the September 24, 2013 meeting. The discussion yielded the following items where additional information was requested:

- a. Provide more background on 2013 loads which form basis for 2014 billings
- b. Provide additional analysis on maintenance expenditures
- c. Provide more information on debt structure and opportunities to roll current maturities into new borrowings
- d. Provide additional analysis on Post Go-Live projects and assumptions on costs
- e. Provide additional metrics on LEAN initiative

**Future Meetings**

The next meeting of the SPP Finance Committee is scheduled for September 24, 2013 beginning at 8:30 am central time and finishing at 3:30 pm central. This meeting will be held in Dallas, TX.

There being no further business, Harry Skilton adjourned the meeting at 4:00 p.m.

Respectfully Submitted,

Thomas P. Dunn  
Secretary



# 2014 BUDGET

PREPARED BY ACCOUNTING DEPARTMENT



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## I. 2014 Net Revenue Requirement

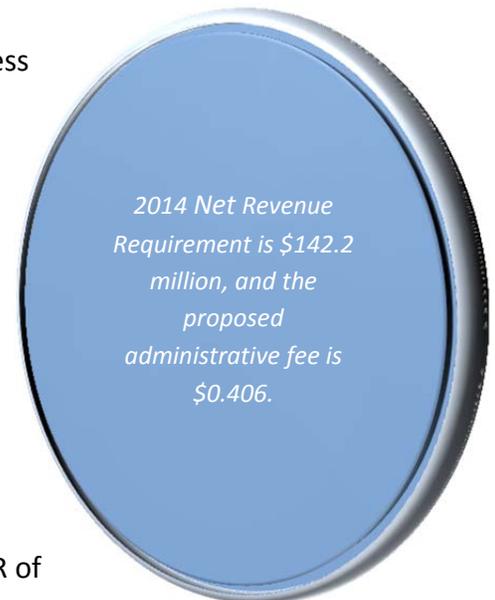
Southwest Power Pool (SPP) administers reliability coordination, wholesale energy markets, and transmission services for the benefit of electric utility operations in the SPP service region. As a Regional Transmission Organization, SPP is mandated by the Federal Energy Regulatory Commission to ensure reliable supplies of power, adequate transmission infrastructure, and a competitive wholesale electricity marketplace. In 2014, SPP will continue to gain momentum toward the realization of its strategic objectives of building a robust transmission system, developing efficient market processes, and creating and enhancing member value as outlined in its 2010 Strategic Plan.

Total 2014 operating expenses are expected to be \$200.3 million and represent an increase of \$37.7 million compared to the 2013 budget. Growth in operating expenses results primarily from implementation of the Integrated Marketplace (\$5.4 million for maintenance of Integrated Marketplace software and \$29.4 million for depreciation of the Integrated Marketplace asset), staffing related expense growth (\$4.7 million), and interest on additional financing (\$2.2 million).

SPP expects total savings of \$4.2 million in 2014 due to various process improvements. The savings expected to be realized in 2014 due to operations staffing reductions is \$1.9 million. The requested headcount for 2014 in the previous year's budget was 618; the total headcount in the 2014 budget is 598, representing a net decline in headcount of 20 FTEs. Additionally, SPP expects to recognize savings in capital costs and non-staffing operating expenses of \$1.8 million and \$0.5 million, respectively. These initiatives and savings are discussed in further detail under Process Improvements in Section II.

The 2014 Net Revenue Requirement (NRR), a component for setting the administrative fee rate, is \$142.2 million versus 2013 budget NRR of \$121.8 million and 2013 forecast NRR of \$120.8 million. Approximately 75% of the increase in NRR can be attributed to required retirements of long-term debt (nearly \$10 million increase) and the maintenance expense associated with the Integrated Marketplace assets.

SPP projects transmission volume, another component used in setting the administrative fee, will decrease 2.9% to 350.4 million MWh in 2014 compared to the 2013 budget of 360.9 million MWh. Through July 2013, SPP's members have experienced lower monthly peaks than those recorded in 2012. These reductions have been slightly offset by growth in point-to-point reservations primarily associated with moving renewable generation output out of the SPP



region. Transmission volume of 350 million MWh represents a 2.2% decrease compared to the 2013 forecast of 358 million MWh.

SPP's 2013 budget estimated the 2014 administrative cost/MWh to be 38¢/MWh based on an expected NRR of \$141.4 million and load of 372 million MWh. SPP's 2014 budget calculates an administrative cost of 40.6¢/MWh based on an expected NRR of \$142.2 million and load of 350.4 million MWh.

The 2014 budget identifies capital expenditures totaling \$61.8 million for 2014-2016, with \$37.1 million expected to be incurred in 2014. These costs are not directly included in SPP's Net Revenue Requirement; however, annual principal and interest payments (net of capitalized interest) for borrowings that fund these capital projects are a component of the Net Revenue Requirement. Integrated Marketplace and associated post-market projects represent \$25.8 million of the capital expenditures projected for 2014-2016. Information Technology and Operations foundation projects represent \$23.5 million during 2014-2016.

### Components of 2014 Net Revenue Requirement and Administrative Fee

The following table shows the components and calculation of the administrative fee.

#### Administrative Fee (\$ millions)

	2013 Budget	2013 Forecast	2014 Budget	2014 Prior Year Estimate <sup>(2)</sup>
Operating Expenses	\$162.6	\$157.4	\$200.3	\$199.4
Debt Service	12.7	12.7	23.0	23.0
Less: Depreciation/Amorization	(20.3)	(19.7)	(49.7)	(47.0)
Gross Revenue Requirement	\$155.0	\$150.4	\$173.6	\$175.4
Less:				
NERC revenue	(11.5)	(10.2)	(11.8)	(11.9)
FERC fee expense	(16.3)	(14.7)	(15.3)	(17.2)
Other Revenues	(5.4)	(4.7)	(4.2)	(4.8)
Net Revenue Requirement	\$121.8	\$120.8	\$142.2	\$141.4
Billing Determinant (MWh millions) <sup>(1)</sup>	360.9	358.1	350.4	371.7
Calculated Admin Fee/MWh	\$0.338	\$0.337	\$0.406	\$0.380
Proposed Admin Fee/MWh	\$0.315	\$0.315	\$0.406	\$0.370
Current Tariff Admin Fee Cap	\$0.350	\$0.350	\$0.350	\$0.350

*(1) Defined as coincident peak for network service and capacity for point to point service in MWh.*

*(2) Refers to the 2014 estimate made during 2013 budget presentation.*

## II. Budget Overview

This budget document provides an overview and outlines details of the cost of services and components of the Net Revenue Requirement, which consists of the following:

- Operating expenses (sections III through V)
- Capital projects (section VI)
- Debt Service (section VII)

Operating expenses represent the largest component of the Net Revenue Requirement and consist of budgeted costs for ongoing operations. Operating expenses are presented in three different views:

- By contribution towards Member Value Statements (section III)
- By resource type (e.g. staffing, facilities) (section IV)
- By division (e.g. Operations, Engineering) (section V)

Capital projects are investments in long-term assets required for SPP to meet its strategic goals and operational requirements. These capital expenditures represent costs incurred to enhance or expand current systems and services, and to maintain existing capabilities.

The budget identifies 20 other capital projects impacting 2014, in addition to the Integrated Marketplace project and IT Foundation projects. Similar to prior years, over 42% of the budgeted capital expenditures is associated with the development and implementation of the Integrated Marketplace and the associated post-go-live projects. Capital projects are discussed in section VI.

Debt service costs are principal payments and interest expense related to various borrowings obtained to fund SPP's capital expenditures. These include the Integrated Marketplace and construction of SPP's new facilities, which was completed in July 2012. The term of different sources of funding is matched to the estimated useful life of these specific projects. Debt service is discussed in section VII.

### Budget Guidance and Assumptions

Budget meetings were held in May and June 2013 to provide guidance in developing the 2014 budget. Under the direction of the executive team, each department director was tasked to create a zero-based budget for operating expenses. The following major drivers and assumptions were identified during the meetings:

**Integrated Marketplace** – The 2014 budget includes costs associated with the final phases of the Integrated Marketplace, which is set to launch on March 1, 2014. Integrated Marketplace

consists of a group of interrelated projects and tasks that have been combined into a greater program. Given the expected annual net benefit of up to \$100 million, this program has been identified as the highest priority by SPP's Membership and Board of Directors. SPP's Board of Directors initially approved a capital budget of \$105 million in April 2011. In late 2012, cost projections began to trend upward primarily due to the cumulative impact of system component delays and related impacts to development, testing, and integration of downstream systems. Additionally, a FERC order received in October 2012 required changes to the market monitoring processes, which required additional hardware and software. In April 2013, the Board approved additional funding of \$9.4 million for: 1) the extension of existing subject matter experts and testing resources required to meet the March 1, 2014 go-live date, and 2) the cost to bring market monitoring practices into compliance with FERC mandated requirements. The revised project budget of \$115 million includes funding for the design, development and implementation of the following functions:

- Day-Ahead Market
- Transmission Congestion Rights
- Reliability Unit Commitment
- Real-Time Balancing Market
- Operating Reserve Market
- Consolidated Balancing Authority

The 2014 budget identifies capital expenditures and staffing for market-related functionality or enhancements that will be implemented after the March 2014 go-live date. The major initiatives contemplated in the 2014-2016 budget projections are as follows:

- Combined Cycle Functionality
- Regulation Compensation (FERC Order 755)
- Long Term TCRs (FERC required)
- AFC Granularity Changes for TSRs
- Market to Market (FERC required)

**FERC Order 1000** - Order 1000, which was issued by FERC in July 2011, has both regional and interregional planning implications.

From the regional perspective, the Order requires removal from regional tariffs of the federal right of first refusal ("ROFR") for "green field" transmission construction. To comply with this requirement, SPP will implement a request for proposal (RFP) process to select qualified transmission owners for construction of approved transmission projects. On July 18, 2013, FERC conditionally accepted SPP's Order 1000 regional compliance filing and set an effective date of

March 30, 2014. FERC also approved the competitive bidding process for regional transmission projects, which will apply to facilities approved by SPP's Board of Directors beginning January 2015. SPP is required to initiate the process for reviewing applications from entities seeking to become qualified RFP participants in April 2014. SPP's compliance filing proposed that SPP would retain the ROFR for "Byway" projects, which was the assumption in the 2013 budget planning for Order 1000; however, FERC did not approve this request. As a result, SPP expects the volume of work and costs associated with the competitive bidding process to be significantly higher than assumed in the 2013 budget.

By the end of 2013 SPP expects to add one position in the Legal and Regulatory division (originally approved in the 2013 budget) to manage Order 1000 RFP administration and to assist with the legal aspects of the RFP process. A second FTE was added in the 2014 budget to assist with the same functions as workload is anticipated to increase for review of qualified participants leading up to the April 2014 start date. Other costs budgeted in 2014 include RFP tracking software (\$0.2 million) and consulting costs related to an Industry Expert Panel to be commissioned for the purpose of evaluating RFP responses beginning in 2015 (\$1.3 million). SPP expects to recover the costs related to the RFP process from entities participating in the bidding process starting in 2015.

From the interregional perspective, the Order most notably increases information sharing and coordination between planning regions for interregional projects, and also calls for the development of joint planning studies between neighboring planning regions. For the 2013 budget, three engineering positions were added to ensure SPP's compliance with the Order's interregional aspects. As of August 2013, two of these positions have been filled, with the third position expected to be filled by the end of 2013.

## Strategic Outlook

The 2010 Strategic Plan established a strategic direction for SPP, positioning SPP to fulfill its mission statement over the next decade and beyond. As a Regional Transmission Organization, SPP is mandated by FERC to ensure reliable supplies of power, adequate transmission structure, and a competitive wholesale marketplace. The strategic outlook for the energy industry drives SPP's Strategic Plan, the ultimate goal of which is to ensure SPP fulfills its mandate. Below is the outlook per the Strategic Plan for the three main dimensions of the energy industry impacting SPP and its members in the development of strategic initiatives as determined by the Strategic Planning Committee (SPC).

## *Demand Growth*

- The annual growth rate for electricity usage is projected to be 1.16% for 2010-2020 in SPP's region; however, the actual rate is expected to fluctuate with the global economic cycles. SPP plans to accommodate these peaks and valleys in demand growth.
- Behind the meter generation resources by end-use customers, demand response, conservation and improved efficiencies are expected to impact demand at an increasingly growing rate.

## *Generation*

- Many competing factors will impact the future mix of generation resources. SPP will remain informed on continuing developments and will incorporate flexibility and adaptability into future plans.
- Increased usage of renewable resources is becoming a significant factor in the generation mix, and necessitates the development of new tools and capabilities to plan for reliably integrating these resources into the grid.

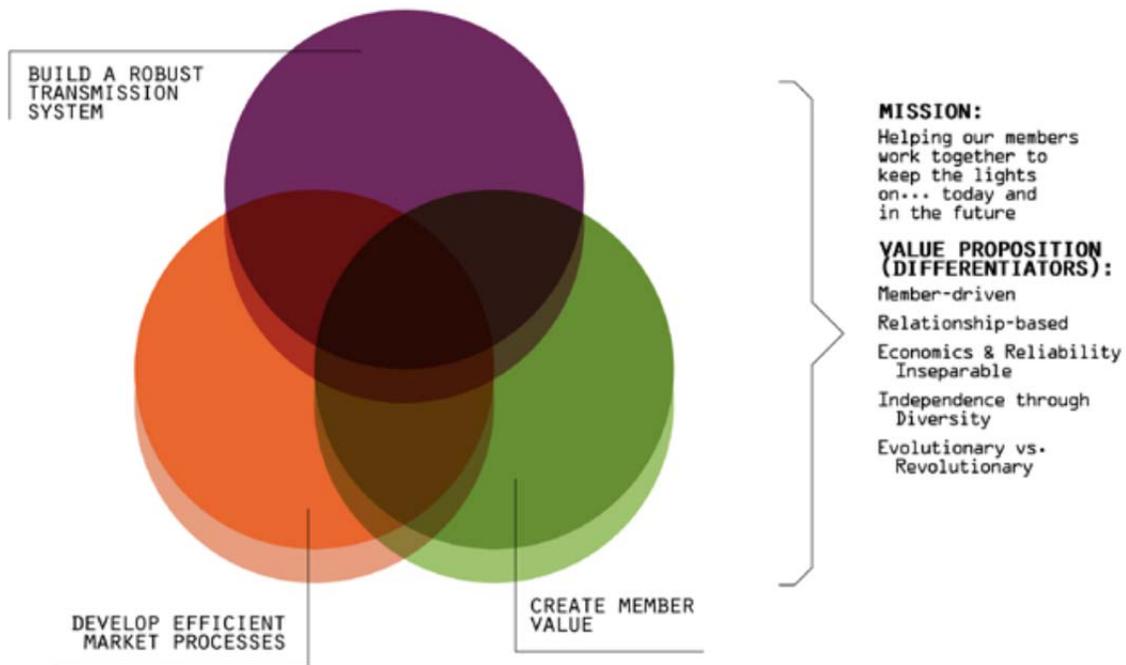
## *Transmission*

- Expansion of renewable resources will be a major factor impacting the transmission system, as many of these resources are located in areas not currently connected to the grid or will require significant capacity expansion.
- The introduction of new types of generation resources into the traditional mix will require greater inter-regional planning and coordination of the transmission system.
- More robust market capabilities will be required in the future, and regional grid operators will need to develop better mechanisms to extend benefits across the seams between market areas.
- Land acquisition and "right of way" issues are likely to continue becoming more complex and time-consuming.
- Reliability standards will likely grow in complexity and will require the ability to manage multiple simultaneous contingencies.

## **Alignment of 2014 Budget with SPP's Strategic Plan**

The Strategic Plan approved by the SPP Board of Directors in 2010 identifies three foundational strategies intended to leverage SPP's capabilities and operational processes to ensure SPP fulfills its mission. The foundational strategies are the long-term, fundamental components of the SPP business model. As in previous years and consistent with the zero-based budgeting approach, SPP's management completed an exercise in preparation for the 2014 budget in

which all business units set goals and initiatives linked to SPP’s strategic plan. These initiatives then went through a rigorous vetting process of prioritization and capacity measurement (i.e. determining adequate resource levels required to accomplish objectives without adversely impacting higher priority projects).



### *Build a robust transmission system*

A robust transmission system includes an optimal mix of highways and byways, and minimizes future transmission constraints without over-investing in transmission capacity. A robust transmission system creates new value for SPP members and end users in the region. 2014 budget initiatives supporting this objective include:

- In 2014, Aggregate Transmission Service Studies (ATSS) and Generator Interconnection (GI) studies are expected to have stakeholder approval of process improvements that will expedite the study processes.
- Beginning in 2013, interregional aspects of Order 1000 have led SPP to work more closely with neighboring systems, which is expected to result in improved long-term planning processes and ensure the most cost-effective transmission expansions are approved and built, whether through interregional or regional solutions. In 2014 SPP will execute many of the provisions included in the

compliance filing. Working with neighboring entities, SPP will jointly evaluate potential interregional transmission solutions which would be more efficient and cost effective than regional transmission solutions.

- SPP's R&D staff continues to research additional transmission planning approaches and tools to improve SPP's ability to properly plan for future needs, which are projected to include non-dispatchable renewable energy resources in addition to the traditional dispatchable resources.
- ITP-10 and ITP-NT assessments will be performed in 2014.
- Engineering Division targets to conclude a high-priority Incremental Load Study in April 2014.

### *Develop efficient market processes*

SPP's strategy is to develop systems and tools to create effective, efficient, and transparent markets for its members. Members have indicated SPP has the objectivity and integrity needed to operate fair and open markets. The major initiative associated with this foundational strategy is the Integrated Marketplace. The activities surrounding the final phases of the development, testing and eventual launch of the Integrated Marketplace, as well as post-go-live projects, constitute a major portion of the 2014 budget.

- Creation of highly liquid and efficient Day Ahead and Real Time Balancing markets with Transmission Congestion Rights enables SPP members and customers greater utilization of the region's diverse generating resources.
- The SPP market will allow reliability unit commitment performance on a region-wide basis, as well as economic unit commitment in the Day Ahead market.
- SPP will serve as the balancing authority for the SPP market region. In doing so, SPP will balance supply and demand for the market footprint and reduce individual participants' balancing duties and the volume of operating reserves and energy, which currently must be provided by each individual entity.

### *Create member value*

SPP creates and continually improves work processes to ensure efficiency and effectiveness. The following activities are examples:

- Reliability excellence: SPP maintains a quality-assurance program to monitor the operations staff and to continuously improve the operations processes and procedures. SPP has a rigorous operator training program and a process in place to track reliability related changes in NERC standards so that necessary training is provided to close any gaps.

- Enhance market monitoring tools: One of the 2014 goals of SPP's Market Monitoring Department is to implement and refine analytical and monitoring tools needed to effectively monitor the Integrated Marketplace. Improved monitoring will ensure the prices formed in the energy markets reliably reflect energy supply and demand, and will provide optimum value for all market participants.
- Continuous process improvement: SPP continues to expand its LEAN program with the purpose of development and facilitation of an organization-wide business improvement capability to improve the efficiency and effectiveness of the SPP work processes. The goal of this program is to eliminate or significantly reduce time spent for baseline jobs. Resulting time savings can then be allocated to support higher-value work or to manage staff attrition. The next section discusses how SPP has created value for its members through process improvements.
- Stakeholder communications and education: The Training department will enhance product delivery in response to demand for additional training in the areas of reliability, new and/or updated operator tools, and the Integrated Marketplace. This encompasses curriculum developments in the following areas: reliability tools training, scenario-based dispatch training, simulator learning experiences, and blended learning experiences for Integrated Marketplace, which includes preparation for parallel operations and go-live and post go-Live enhancements. The development and implementation of an Integrated Marketplace on-boarding curriculum will also be introduced in 2014.

### Process Improvements

The requested headcount for 2014 in the previous year's projection was 618. The total headcount in the 2014 budget is 598, which represents a net decline in headcount of 20 FTEs. The decline in headcount is attributable to 1) a net decrease in the scope of services required to provide member services (4 FTEs), and 2) a range of process improvements and management actions designed to increase efficiency and effectiveness and/or lower costs throughout the organization (16 FTEs).

The headcount projection for 2014 in the previous year's budget was based on the best estimate of scope and associated headcount required to deliver planned services. Changes in scope come from three primary sources: 1) revised scope requirements by regulatory agencies changing the amount of work required for compliance (such as FERC Order 1000), 2) additions or elimination of services per member requests, 3) scope assumptions change as projects or initiatives become more mature and the projected support requirements become clearer.

The SPP staff is conscientious of the need for continuous business process improvements as a strategy to lower costs and increase the value of services delivered to SPP members. Several factors have contributed to SPP's increased efficiency assumptions for the 2014 budget.

### *Process Improvement Initiatives*

SPP has embraced continuous process improvement as a fundamental part of its business model and LEAN methodologies as the framework for empowering the staff to analyze work processes and create more efficient and effective business processes. The LEAN methodology helps cross-functional teams view processes that cross organizational boundaries as continuous end-to-end processes. This approach helps teams define the "desired future state" and helps identify the work required to further define better processes for implementation. As individual process improvements are implemented, small increments of work capacity are created. This additional capacity can either be allocated to valuable work currently left unattended, or in the aggregate, it allows redistribution of total work to enable lower headcount, thus leveraging turnover and retirement opportunities.

### *Resource Planning Initiatives*

As SPP continues to utilize formal resource planning methodologies, the cross utilization of staff becomes a source of improved manpower utilization. As one example, the Integrated Marketplace-driven congestion hedging services initially required an engineer addition in the 2014 budget. This position was removed from the 2014 budget as a result of more granular analysis of manpower capabilities and assignments determining that required functions could be supported by existing qualified staff.

### *Staff Cross-Training*

SPP has many highly specialized job functions. One source of staffing leverage is cross-training of staff in a functional area to perform multiple job functions. This allows the managers to adjust to dynamic shifts in workload from one specialty to another. Cross-training is a strategy that enables greater levels of staff utilization.

### *Process Automation*

Automating manual processing steps can be a source of increased productivity, efficiency, and improved quality and reliability. Processes automation can be the result of creating "tools" developed by staff to automate repetitive tasks or may be the result of large projects to upgrade or implement software designed to support new or improved business processes. For example, SPP recently upgraded the ABRA Human Resources system. This upgrade enabled

automation to support benefits enrollment and support, which was previously provided by an outside contractor. The automation reduces operating expenses by \$40,000 per year.

### *Learning Curve Impact*

Over the last several years, SPP increased staffing levels to develop and support new products and services. A large number of new hires were either new college graduates with limited experience, or experienced however new to SPP. In both cases, a “learning curve” is associated with gaining specific work experience. The new employees hired in the last few years have become more efficient and effective. The “learning curve effect” has resulted in the elimination of several planned staff additions required for Integrated Marketplace driven scope expansions. This is a result of current staff becoming more experienced and able to accommodate the expanded requirements.

### *Management Challenge*

SPP management is cognizant of the need to reduce operating costs wherever feasible. This challenge has resulted in management reassessing workload in attempts to accomplish more work with the same number of resources, or to do the same amount of work with fewer resources. All of the above factors (LEAN, resource planning, staff cross-training, process automation, and learning curve impact) combined with accepting the challenge to increase efficiency, led to planned staff reductions in 2014 versus last year’s 2014 projections, even though the scope of services provided expanded in multiple areas of the organization. Implementation of the Integrated Marketplace is expected to bring both staffing challenges and opportunities; however, processes are expected to become more efficient and effective across the organization as staff maturation continues.

The following table shows the savings associated with the headcount reductions explained above, as well as other cost reduction initiatives.

<b>Business Process Improvements</b>			
<b>Cost Reduction Category</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Operations Staffing Cost Reductions</b>			
• Operation automation and desk consolidation – Tariff Admin and Interchange desks	\$514	\$534	standard practice
• Process improvements and increased efficiency (11) FTE in zero-based analysis	\$1,430	standard practice	standard practice
	\$1,944	\$534	-
<b>Capital Non-Staffing Cost Reductions</b>			
• Year 3 of Oracle Unlimited Database Licensing Agreement	\$1,802	standard practice	standard practice
<b>Operations Non-Staffing Cost Reductions</b>			
• Enhanced approach to SPP on-site Medical Clinic vs. baseline	\$214	standard practice	standard practice
• ABRA upgrade eliminates Meloria contract support costs	\$40	standard practice	standard practice
• Switched coffee service vendor for Corporate Campus	\$60	standard practice	standard practice
• Meeting expense reduction strategy to leverage new Corporate Campus	\$175	standard practice	standard practice
	\$489	-	-
<b>Total</b>	<b>\$4,235</b>	<b>\$534</b>	<b>-</b>
<b>Prior Years Cumulative Balance*</b>	<b>\$18,976</b>		
<b>Cumulative Value of Business Improvement Initiatives</b>	<b>\$23,211</b>	<b>\$23,745</b>	<b>\$23,745</b>

*\* includes \$4.8 million in additional savings versus prior projections for 2013 Oracle unlimited database licensing fees due to increase in number of database cores actually deployed.*

An analysis of the work scope changes and process improvements impacting 2014 staffing compared to the projection in the previous year's budget is shown in the following table.

<b>2014 Headcount Analysis</b>	<b>Headcount change</b>	<b>Cumulative Headcount</b>
<b>Estimated 2014 Headcount in 2013 Budget</b>		<b>618</b>
<b>Scope Changes:</b>		
Scope decreases in 2013	<b>-7</b>	
(2) Governmental Affairs positions not replaced		
(1) Duplicate position		
(1) RE Legal Clerk		
(2) Stochastic Planning Engineer/BA (member direction)		
(1) Interregional Coordination – Engineer III (Order 1000)		
Scope decreases in 2014	<b>-3</b>	
(3) Stochastic Planning Engineer/BA (member direction)		
Scope increases in 2014	<b>6</b>	
(1) Engineer II – (GFA Carve Outs)		
(1) Regulatory Analyst II (Order 1000)		
(1) Manager, IT Acquisitions		
(1) Sr Customer Relations Rep (Market Operations Focus) *		
(1) Business Continuity Specialist *		
(1) Business Process Improvement Project Manager *		
<b>Net Impact of scope changes</b>	<b>-4</b>	<b>614</b>
<b>Process Improvements:</b>		
Staff planning and management efficiencies	<b>-9</b>	
(1) Settlements Analyst		
(1) Sr Compliance Analyst		
(1) Market Monitor II		
(1) Sr Accountant		
(3) Operations Engineers (Ops Suppt/Market Ops)		
(1) Manager, Operations Quality Assurance (RT Ops)		
(1) Engineer/BA (Congestion Hedging)		
Capacity creation initiatives (offset in 2014 scope increase above)	<b>-3</b>	
(1) Operator position transferred to Customer Relations		
(1) Customer Trainer moved as Business Continuity Specialist		
(1) PMO Project Manager moved to support LEAN focus		
Deferred headcount additions	<b>-4</b>	
(2) IT Programmer Analysts deferred to 2015 **		
(2) IT Programmer Analysts deferred to 2016 **		
<b>Total process improvements</b>	<b>-16</b>	
<b>Estimated 2014 Headcount in 2014 Budget</b>	<b>-20</b>	<b>598</b>

\* These positions are offset by Capacity Creation initiatives and are net headcount neutral.

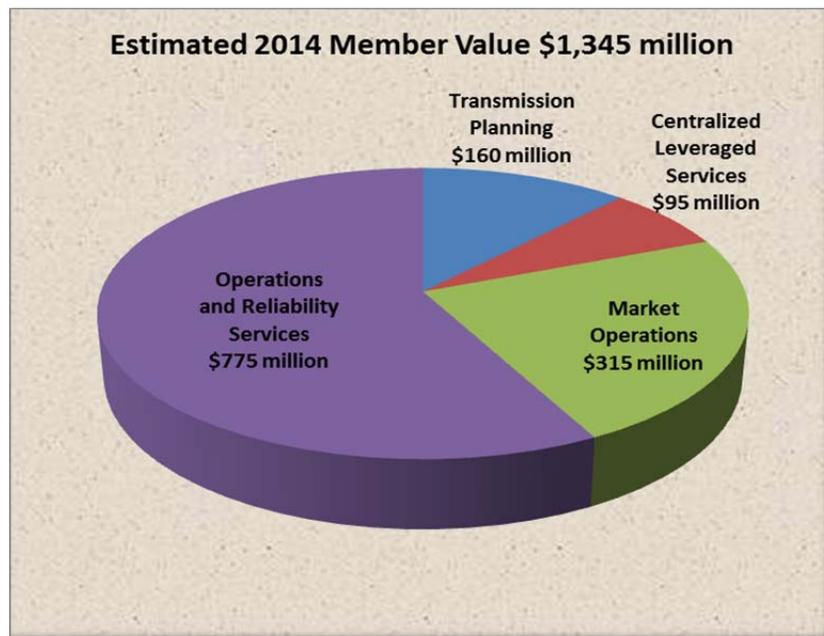
\*\* Given the magnitude of systems change, increased workload is offset by planned productivity/efficiency gains. Work scope will be validated before making headcount additions in 2015 and 2016.

### III. 2014 Budget: Member Value Statements (MVS) View

SPP aims to provide maximum value to its members and customers. SPP delivers significant value to its stakeholders in these four areas:

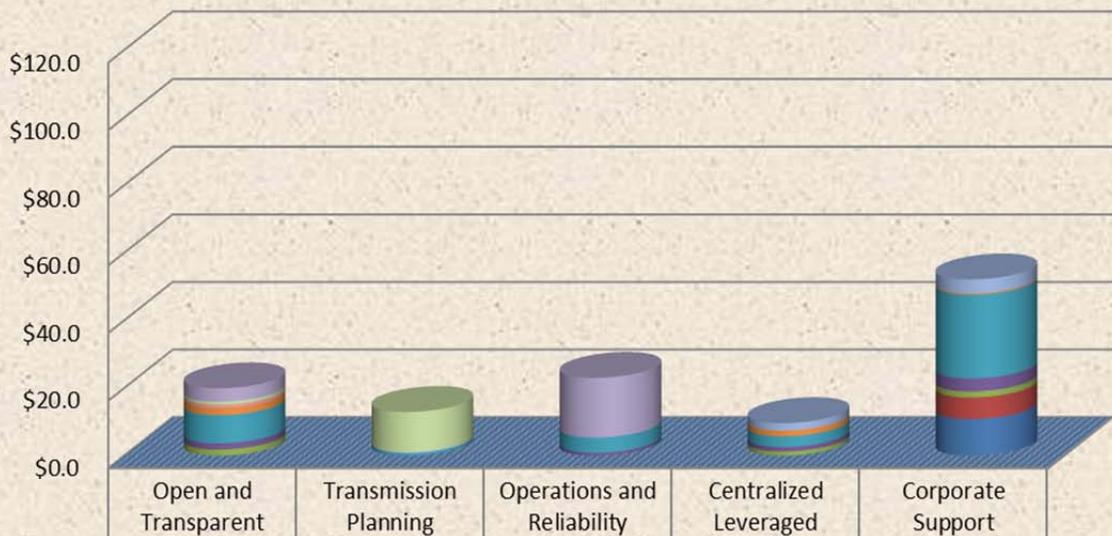
1. **Region-wide transmission planning** - SPP's planning processes benefits members and the entire region by seeking to identify system limitations, developing transmission upgrade plans, and tracking project progress to ensure timely completion of system improvements.
2. **Operate open, transparent energy markets** - SPP's markets are designed to ensure access to the least expensive reliably available energy from across the region.
3. **Operations and reliability services** - SPP provides one-stop shopping for use of the region's transmission lines, which includes monitoring power flow throughout the footprint, managing congestion, and coordinating emergency response.
4. **Leveraged, centralized services** - SPP provides the following centralized services to its members:
  - a. Training
  - b. Tariff administration and scheduling services
  - c. Regulatory services
  - d. Compliance services
  - e. Settlements

The value provided by SPP to its members in 2014 is estimated to be \$1,345 million, as calculated by SPP's Business Process Improvement Department and previously presented to the Board of Directors and various Board committees.



SPP staff analyzed the objectives, functions and activities of the various business units to determine how each contributes to the member value statement. Certain groups that do not directly contribute to one of the value statements listed above, but rather provide corporate support to the organization as a whole, are grouped separately (i.e. IT, Corporate Services, Finance). The following chart illustrates the 2014 budgeted operating expenses by contribution to each member value statement:

**2014 Operating Expenses Budget by MVS (\$ millions)**



	Open and Transparent Markets	Transmission Planning	Operations and Reliability	Centralized Leveraged Services	Corporate Support
Total	\$19.9	\$12.9	\$23.0	\$9.6	\$52.1
Operations	\$4.0		\$17.6		
Engineering	\$0.8	\$11.9			
Market Design	\$1.0				
Regulatory and Legal		\$0.3		\$2.2	\$4.1
Comp, Comm, MMU	\$2.1			\$1.7	\$0.4
Information Technology	\$8.3	\$0.7	\$4.5	\$3.2	\$24.7
Process Integrity	\$1.8		\$0.8	\$1.3	\$3.8
Finance	\$1.8			\$1.2	\$1.8
Corporate Services					\$6.4
Officers / Admin					\$10.8

### Transmission Planning

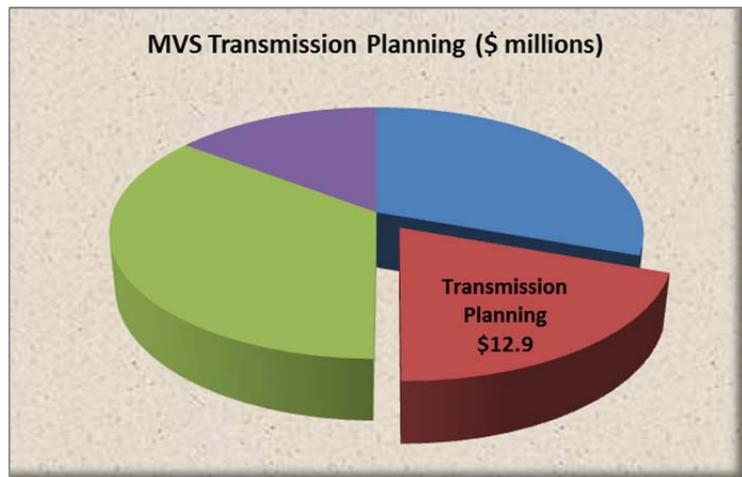
SPP's engineering function develops transmission plans for the SPP region, optimizing the effectiveness and efficiency of the transmission grid and enabling access to the lowest cost sources of power generation for all members, ensuring grid reliability. This incorporates

utilization of the Integrated Transmission Planning (ITP) process with guidance from and collaboration with the Transmission Working Group (TWG) and the Markets and Operations Policy Committee (MOPC). SPP identifies transmission expansion projects that benefit the region, and a regional cost-sharing methodology helps fund and build out the needed incremental transmission capacity. Transmission projects from both the balanced portfolio and the priority projects will be added to the transmission grid during the next several years to increase value to SPP members and their customers. The total value of region-wide transmission planning services provided to SPP members in 2014 is \$160 million.

SPP’s collaborative, member-driven focus is reflected in its Integrated Transmission Planning (ITP) process, which balances the SPP footprint’s reliability, policy, and economic needs by assessing transmission needs. The ITP’s iterative three-year cycle includes 20-Year, 10-Year, and Near-Term assessments.

Members have indicated SPP’s consensus-building approach enables faster results and the ability to create effective regional cost allocation to aid construction of transmission.

The departments engaged in transmission planning activities are concentrated within SPP’s Engineering organization and include the following departments: Tariff Studies, Generation Interconnection Studies, Modeling, Economic Planning, Steady State Planning and Interregional Coordination.



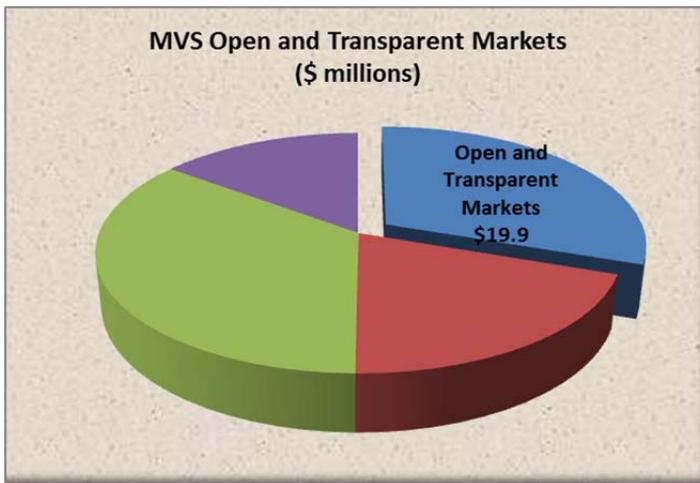
2014 direct operating expenses related to transmission planning functions totals \$12.9 million, comprised of:

- Staffing costs \$9.2 million
- Consulting \$2.1 million
- System maintenance \$0.5 million
- Meetings and travel \$0.4 million
- Administrative \$0.4 million
- Regional State Committee (RSC) expenses \$0.3 million

## Operate open, transparent energy markets

SPP currently operates an Energy Imbalance Service (EIS) market, which produces net trade benefits to the region due to the reduced amount of short-term electricity production costs within the market footprint. This is a result of the regional security-constrained economic dispatch (SCED) implemented for the EIS market. In addition, SPP will implement a highly liquid and efficient Day Ahead and Real Time Balancing market with the launch of the Integrated Marketplace in 2014. The market will allow unit commitment performance on a region-wide basis. The estimated total member value of these markets is \$315 million for 2014.

During the first quarter of 2014, SPP's leadership and staff will be focused on getting all stakeholders to the Integrated Marketplace March 2014 finish line at the same time.



Subsequent to the go-live date, a series of projects will be underway to provide enhancements and new functionalities to the Integrated Marketplace.

The 2014 direct operating expenses that enable SPP to provide open and transparent market services to SPP members is \$19.9 million, comprised of:

- Staffing costs \$14.8 million
- System Maintenance \$ 2.8 million
- Consulting \$ 2.0 million
- Meetings and travel \$ 0.3 million

Although the launch of the Integrated Marketplace is a company-wide effort, certain departments within the Operations, Engineering, Market Design, and Compliance divisions are solely engaged in the Marketplace activities: Market Operations, Market Development and Analysis, Market Support, Market Monitoring and Congestion Hedging. A total of 52 employees in these departments are committed to providing market related services. In addition, a number of staff members in other departments (75) are also dedicated to Marketplace activities; the associated costs are included in the totals above.

## Operations and Reliability Services

SPP provides member value through the provision of reliability coordination services. SPP's operations data center monitors all activity on the bulk electrical energy grid 24 hours a day, 7



services in 2014 to SPP members is estimated to be \$95 million per year.

SPP is committed to providing centralized and leveraged services so SPP members benefit from expertise developed within SPP and realize significant savings by eliminating the need for these functions within their own organizations.

The 2014 direct operating expenses for Centralized Leveraged Services is \$9.6 million, comprised of:

- Staffing costs                      \$6.9 million
- System maintenance              \$1.7 million
- Consulting                          \$0.5 million
- Meetings and travel                \$0.5 million

The following are the major centralized services provided by SPP:

### *Compliance*

At the request of the Board Oversight Committee, the Compliance department will expand member outreach activities in 2014 to address identified compliance concerns. The department will continue developing a framework for improved outreach services throughout the region. This phased approach through 2016 includes marketing new services, providing an arena to engage member entities to share best practices and lessons learned, and reaching a unified approach to openly sharing information to facilitate compliance practice consistency. The Compliance department is comprised of a staff of 13 employees with a total budget of \$1.7 million.

### *Training*

The Training Department continues to provide significant benefits to members and staff in 2014 by offering centralized training services in a host of formats, which translates to significant savings to SPP members in training development and consulting costs. In 2014, Customer Training will increase its product delivery in response to demand for additional reliability-related training, new and/or updated operator tools, and Integrated Marketplace training. The curriculum will include 1) development of new virtual modules, 2) enhancements to emergency response drills, 3) development of training on reliability tools, 4) development of scenario-based dispatch training simulator learning experiences, 5) five System Operations Conferences, and 6) development of blended learning experiences for the Integrated Marketplace, including an on-boarding curriculum that will launch in 2014. Due to member-hosted training events and increased utilization of computer-based training, travel and meeting expenses within the Training Department are expected to decrease from both the 2013 forecast and budget. Of the

13 total Training staff, 8 are dedicated to Centralized Leveraged Services with a 2014 budget of \$1.3 million.

### *Regulatory Policy*

In 2014, the Regulatory Department will continue to have responsibility for all regulatory filings related to the Integrated Marketplace protocols and tariff revisions, including filings necessary to implement the Readiness and Reversion Plans. The department will implement all tariffs and other governing document revisions, market monitoring revisions, and all necessary member/market participant regulatory approvals for participation in the Integrated Marketplace, including FERC market-based rate authority issues. With the exception of consulting for Order 1000, the department has eliminated consulting expenses in 2014, due to staff's increased Integrated Marketplace expertise.

Regulatory Department will continue to assist new members and market participants in obtaining appropriate regulatory approvals to participate in SPP's Open Access Transmission Tariff (OATT) and manage the processes required to transition the facilities and services under the SPP tariff. The department has a staff of 14 employees with a total 2014 budget of \$2.2 million.

### *Settlements*

The two primary areas supported by this department are market settlements and transmission settlements. The market-settlements dedicated staff is included in the Market Operations member value category. The transmission settlements support includes performing daily pre- and post-validation settlements, publishing daily settlement statements, providing evidence documentation for SSAE-16 controls, on-boarding new market participants and transmission customers/owners, providing customer care administration and education, administering dispute resolution, and monitoring credit exposure.

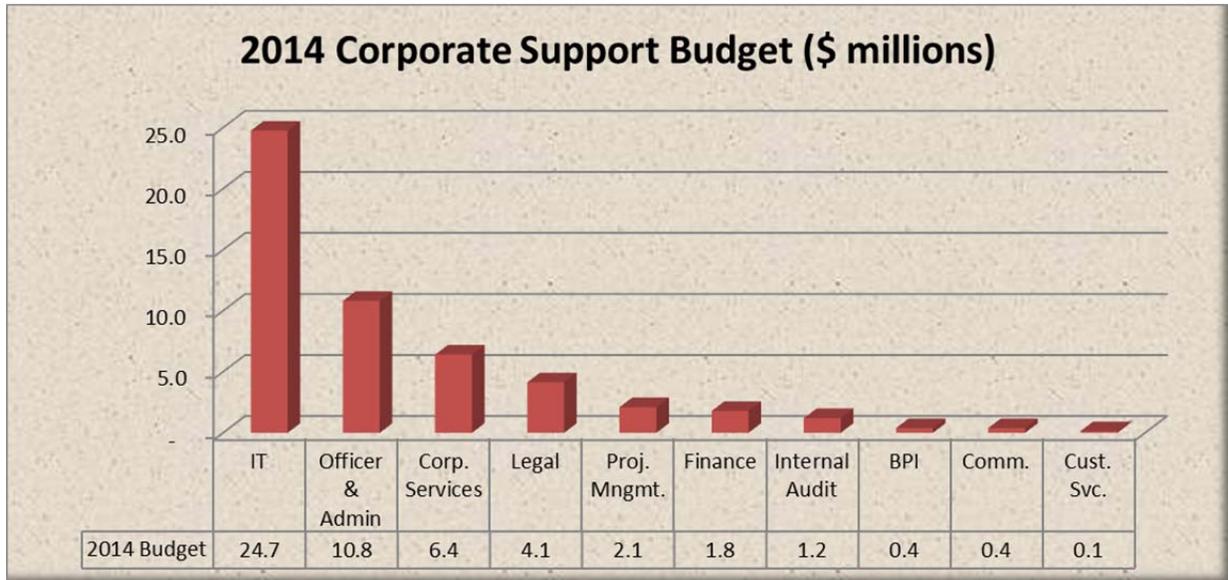
Of the 25 total Settlements staff, 9 are dedicated to Centralized Leveraged Services with a 2014 budget of \$4.4 million, which includes \$1.7 million for maintenance expense related to Settlement systems.

### *Information Technology*

Information Technology supports various systems throughout SPP. Services related to staff augmentation to support the Settlements system is allocated to Centralized Leveraged Services (\$0.2 million). A staff of ten supports the systems (\$1.2 million), with maintenance of \$1.7 million.

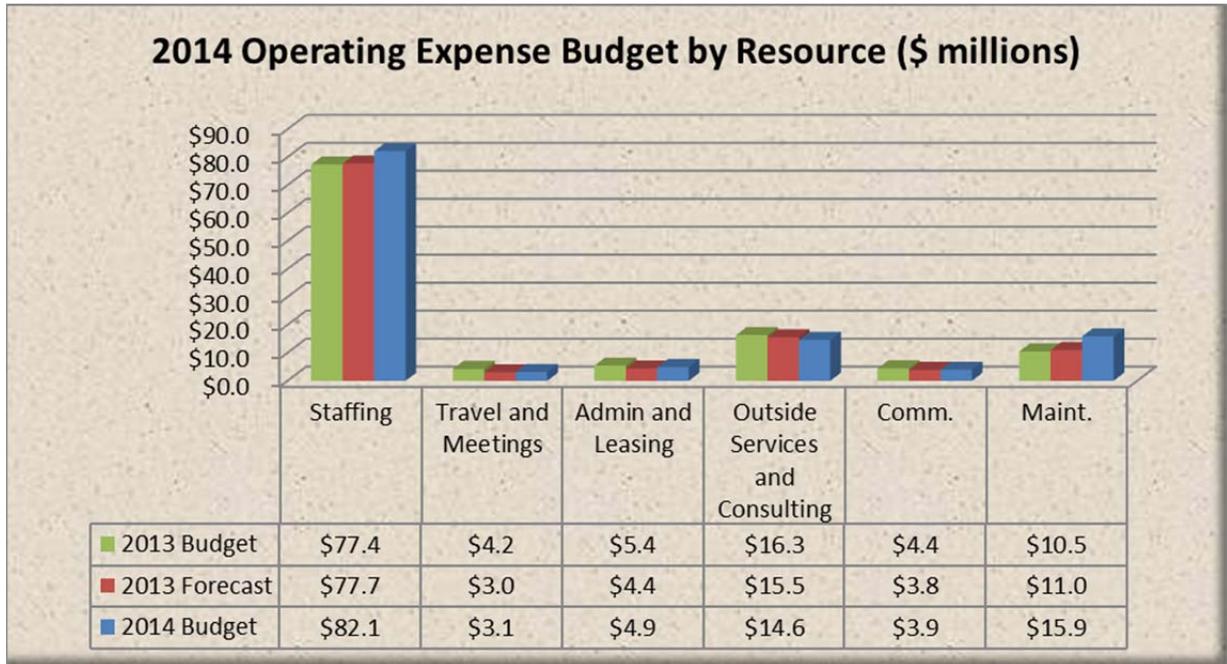
## Corporate Support

The various departments grouped under Corporate Support provide support services to the departments outlined above, which provide indirect value to SPP's members. These departments and the corresponding 2014 budgets are shown below. Certain of these departments' operating expenses related specifically to a member value statement are included in the operating budget of each member value statement as shown earlier, and excluded from the amounts below.



#### IV. 2014 Budget: Resource Utilization View

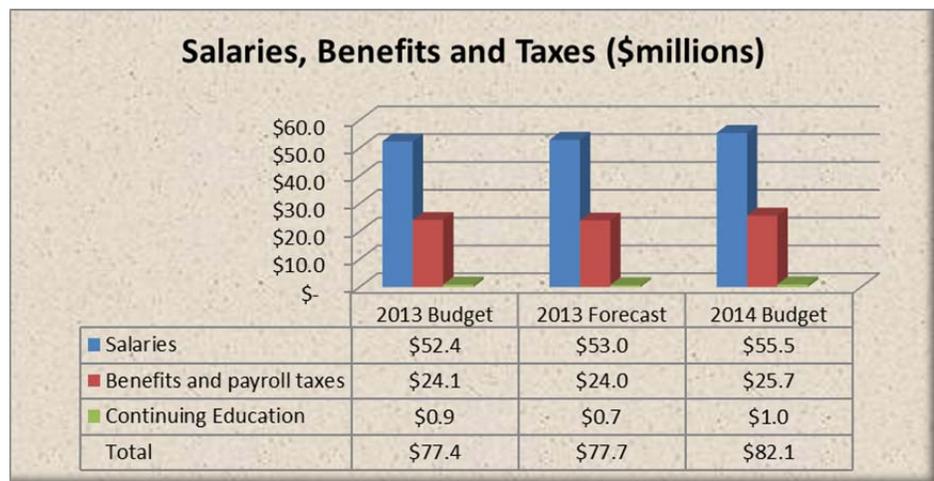
SPP’s 2014 budget encompasses utilization of various resources in driving SPP to meet its strategic goals and organizational objectives. The chart below shows SPP’s resources and the corresponding 2014 budget amounts in comparison to 2013 budget and forecast.



#### Staffing: Valuing Work at SPP

SPP’s most valuable and significant resource, and driver of the single largest component of SPP’s annual operating budget, is its employees.

Compensation-related expenses (including salary, benefits, and taxes) total \$82.1 million and comprise



41% of the 2014 operating expenses budget, an increase of \$4.7 million compared to the 2013 budget. The main factors leading to the increase in staffing costs in 2014 include changes in



pays fees to the insurance provider to cover administrative costs and insure against excessive losses at both the participant and corporate level. These fees are estimated to be \$0.97 million and \$0.91 million in 2014 and 2013, respectively. By increasing the deductible on per participant losses, SPP plans to mitigate the increase in fees that would normally be incurred due to the growth in claims. Employee contributions to the medical plan offset the overall cost and are estimated to be \$1.2 million in 2014, compared to a forecast of \$1.1 million in 2013. The net cost of the medical plan to SPP per participant is expected to be \$713/month, compared to \$645/month in 2013 mainly due to the increase in claims. SPP’s Human Resource Committee targets to maintain an 80/20 cost ratio between employer and employee. The following table illustrates total healthcare costs using various cost ratio percentages.

### Healthcare Costs (\$ millions)

Cost Ratio	80/20	75/25	70/30	60/40
Employer	\$4.6	\$4.4	\$4.1	\$3.5
Employee	\$1.2	\$1.5	\$1.7	\$2.3
<b>Total</b>	<b>\$5.8</b>	<b>\$5.8</b>	<b>\$5.8</b>	<b>\$5.8</b>

### Staffing Levels

SPP’s management continuously assesses and evaluates SPP’s staffing levels across all areas of the organization. SPP’s approved headcount was reduced to 596 during 2013 from a budget-approved level of 603. These reductions primarily resulted from restructuring efforts to absorb responsibilities as positions became vacant due to turnover or internal transfers, and changes in member requests for services. Similarly, the 2014 headcount forecast was 618 during the 2013 budget cycle.



During the zero-based budget process used during the 2014 budget cycle, SPP’s management team determined staffing levels required to perform SPP’s functions could be accomplished at a staffing level of 598, which is 20 positions below the previous forecast. Management continues to monitor staff capabilities and capacity versus staffing levels.

Incremental staffing for the Stochastic Planning initiative was removed from the 2013 budget after the Markets and Operations Policy Committee (MOPC) withdrew the project from consideration in early 2013. Four IT positions originally planned for 2014 were deferred until 2015-2016. The IT Applications department will evaluate the need for additional staffing subsequent to the Integrated Marketplace implementation. Operations Support Department seeks to gain efficiencies through software and process improvements, and increased utilization of “smart” tools developed by the Operations Engineering staff. Recognizing these efficiencies, Operations Support is confident of their ability to absorb incremental workload from all phases of the Market-to-Market initiative, and has eliminated three positions previously expected for 2014. Various other areas have also withdrawn positions previously anticipated for 2014 including Finance, Compliance, and Communications.

The table below shows the staff numbers by executive division:

<b>Headcount by Division</b>	<b>2013 Budget</b>	<b>2013 Forecast</b>	<b>2014 Budget</b>
Operations	158	157	157
Information Technology	143	144	144
Engineering	81	78	79
Process Integrity	47	47	47
Finance	40	39	39
Compliance, Communications, and MMU	31	30	30
Corporate Services	29	29	29
Regulatory Policy and Legal	25	25	26
Officers	11	10	10
Market Development	6	6	6
Subtotal	571	565	567
Regional Entity	32	31	31
<b>Total Headcount</b>	<b>603</b>	<b>596</b>	<b>598</b>

SPP strives to attract and retain a highly educated and skilled employee base to provide the highest level of service and value for its members. Compensation and benefits are regularly monitored to ensure SPP remains a competitive and attractive employer. SPP administers an in-house Engineer in Rotation program, which seeks the most talented Engineering graduates for an expansive training program. A rotating staff of six engineers gain experience through on-the-job training, and are placed in permanent roles as positions become available through normal employee turnover.

The staffing budget for 2014 includes funding for staff compensation (base salary, incentive compensation, and overtime pay), benefits and payroll taxes, relocation, and tuition reimbursement. The base salary budget includes a merit increase of 3% and

<b>Salary Expenses (\$ millions)</b>	<b>2013 Budget*</b>	<b>2014 Budget**</b>
Base salaries at beginning of year	\$51.0	\$53.5
Incremental staff	1.7	0.1
Merit Increase	1.1	1.6
Promotions	0.4	0.4
Premium Pay	1.4	1.0
Vacancy	-3.2	-1.1
<b>Total Salary Expenses</b>	<b>\$52.4</b>	<b>\$55.5</b>

\* 2013 vacancy 6%, merit 2%

\* 2014 vacancy 2%, merit 3%

promotion increase of 0.75%, which is a pool of funds for company-wide promotions overseen by the Human Resources Department. Incentive compensation is budgeted at the target level of 15% of base salary and is paid in February of the following year.

The budget for benefits and payroll taxes includes medical, dental, and life insurance benefits, retirement plan contributions, relocation expenses, and payroll taxes. Insurance benefits are budgeted based on projected per participant costs. Funding for 401(k) matching contribution is estimated at 4% of the salary expense based on recent company trends. Below is a breakdown of various employee benefits and taxes:

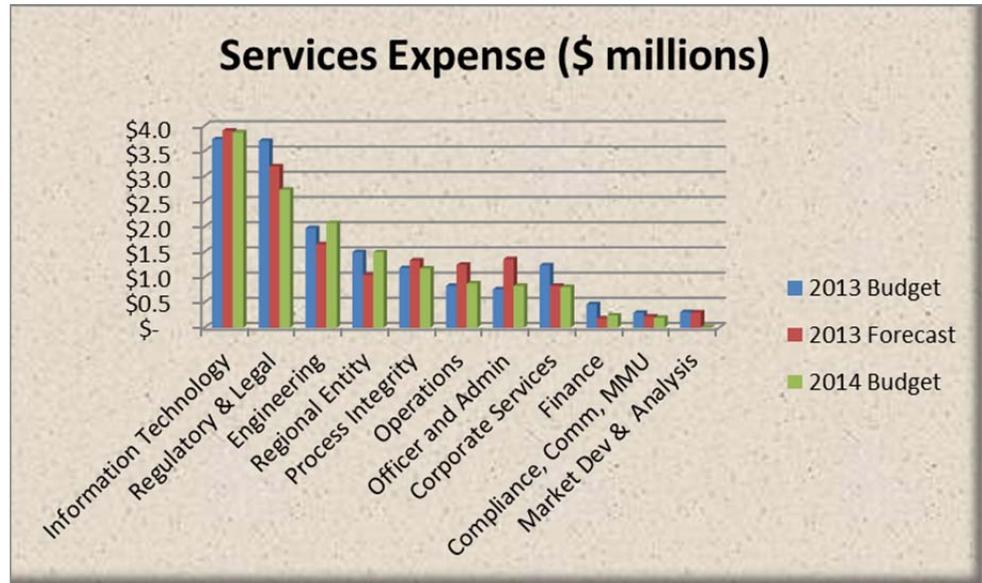
<b>Benefits and Payroll Taxes (\$ millions)</b>	<b>2013 Budget</b>	<b>2013 Forecast</b>	<b>2014 Budget</b>
Incentive Compensation	\$7.6	\$7.7	\$8.2
Medical Benefits	3.7	3.9	4.6
Dental Benefits	0.5	0.4	0.4
Life Insurance Benefits	0.4	0.2	0.2
Retirement Plans (401k and Pension)	6.9	6.9	7.3
Payroll Taxes	4.4	4.5	4.7
Continuing Education	0.9	1.0	1.0
Other Employee Benefits	0.6	0.3	0.3
<b>Total Benefits and Payroll Taxes</b>	<b>\$25.0</b>	<b>\$24.7</b>	<b>\$26.7</b>

## Outside Services

Outside services consist of third-party expertise to assist SPP in deploying various services, providing legal representation and advice, and satisfying audit requirements. Outside service expenses are estimated to be \$14.6 million in 2014 representing a decrease of \$1.7 million compared to the 2013 budget, and comprising 12% of the total operating expenses (excluding FERC fees, depreciation and interest).

Outside services expenses have decreased from the 2013 budget in various areas, with offsetting minimal increases in other areas. As the Integrated Marketplace project nears completion, the demand for staff augmentation related to Integrated Marketplace has decreased by \$0.9 million in the following departments: Training (\$0.2 million), Market Design (\$0.3 million), Market Monitoring (\$0.2 million), and Operations (\$0.2 million).

Outside legal counsel is utilized for various litigation matters throughout the year. The Legal department has made conscious efforts to internalize work previously done by outside FERC counsel. Legal staff



currently responds to 60-75% of all FERC requests, excluding Integrated Marketplace filings. Much of the work brought in-house was previously performed by highly specialized outside counsel, which demanded premium rates. Reducing reliance on outside legal expertise results in considerable cost savings. The decrease in 2014 versus the 2013 budget is \$0.7 million.

Outside Services by Division (\$ millions)	2013 Budget	2013 Forecast	2014 Budget
Information Technology	\$ 3.7	\$ 3.9	\$ 3.9
Regulatory Policy and Legal	\$ 3.7	\$ 3.2	\$ 2.7
Engineering	\$ 2.0	\$ 1.7	\$ 2.1
Regional Entity	\$ 1.5	\$ 1.0	\$ 1.5
Process Integrity	\$ 1.2	\$ 1.3	\$ 1.2
Operations	\$ 0.8	\$ 1.2	\$ 0.9
Officer and Admin	\$ 0.8	\$ 1.4	\$ 0.8
Corporate Services	\$ 1.2	\$ 0.8	\$ 0.8
Finance	\$ 0.5	\$ 0.2	\$ 0.2
Compliance, Communications, and MMU	\$ 0.3	\$ 0.2	\$ 0.2
Market Development and Analysis	\$ 0.3	\$ 0.3	\$ 0.0
<b>Total Outside Services Expense</b>	<b>\$ 16.0</b>	<b>\$ 15.3</b>	<b>\$ 14.3</b>

The Regulatory department has progressively worked to integrate consulting knowledge in-house and therefore eliminate the need for outside

consultants. These efforts have resulted in noticeable savings in the 2014 budget. SPP's Regulatory staff will assume responsibilities for coordinating efforts within the Integrated Marketplace work-stream with other areas within SPP, resolve complex tariff matters such as the Z2 crediting project, and carry out various other tariff filings. The Regulatory work-stream coordinates and analyzes the impact of future regulatory changes with the market design and any appropriate work-streams, and is responsible for all of the Integrated Marketplace filings, tariff language, and coordination with the other work-streams (i.e. Market Systems, Readiness, Ops, etc.). The decrease versus the 2013 budget is \$0.5 million.

The 2013 Corporate Services budget included \$0.2 million to incorporate an on-site medical clinic. As SPP remains focused on maintaining a healthy workplace, a fitness kiosk has been included in the 2014 budget in lieu of the full-scale medical clinic at a fraction of the original cost.

The above reductions from 2013 are partially offset by increases in various areas. In 2013, consulting engagements for Project Managers were assumed dedicated to the Integrated Marketplace and associated costs were included in capital expenditures instead of the operating budget. As responsibilities were assigned throughout the year, most of the external consultants were assigned to general project management duties not associated with the Integrated Marketplace or other capital projects, causing 2013 expenses to exceed the budget. The 2014 Project Manager resource-demand requirements exceed the internal staff capacity, and contractors will be engaged for staff augmentation. Projects associated with the Integrated Marketplace are driving the resource demands on internal staff. Proficiency gains, coupled with the projected completion date of the Integrated Marketplace, are expected to result in a decrease in the demand for Project Managers in the fourth quarter of 2014. As a result, staff augmentation was incorporated into the 2014 budget instead of requesting additional permanent staff, and outside services expenses have increased over the 2013 budget by \$0.3 million.

In the IT department, the 2014 OATI budget has increased over 2013 due to additional services supporting the Integrated Marketplace and new initiatives for improved reliability (\$0.1 million). These increases include changes related to the Integrated Marketplace for Regional Transmission Organization Scheduling System, Reserve Sharing System and related interfaces, and OATI webTag. The implementation of OATI Premium Support provides an additional level of support including a dedicated customer-service support-line. The level of network redundancy will be upgraded by adding a business-to-business VPN, which will improve the functionality of the network in the event of circuit issues.

Consultants are also engaged to perform wind forecasting analysis. These costs increased over 2013 due to efforts involved in sharing wind-forecast data with members, and costs associated with adding new wind farms to the 2014 analysis. The increase over the 2013 budget is \$0.1 million.

The Systems Operations department budget includes fees for the Interchange Distribution Calculation (IDC) tool, which is a web-based service to assist SPP in providing reliability services throughout the entire region. Since NERC ceased funding of the tool, each Reliability Coordinator (RC) is responsible for its administration within the region based on load-ratio share within the RC footprint. SPP's 2014 fee for the IDC tool is expected to increase by \$0.3 million from 2013.

## Maintenance

Maintenance expense includes facilities maintenance, and all hardware and software support and maintenance. These expenses are expected to increase significantly versus both 2013 budget and forecast primarily due to new maintenance support agreements in 2014 related to the Integrated Marketplace.

Maintenance Expense (\$ millions)	2013 Budget	2013 Forecast	2014 Budget	Prior 2014
General Plant Maintenance	\$ 0.8	\$ 0.8	\$ 0.7	\$ 0.8
IT Equipment	\$ 9.7	\$ 10.2	\$ 15.2	\$ 14.5
<b>Total</b>	<b>\$ 10.5</b>	<b>\$ 11.0</b>	<b>\$ 15.9</b>	<b>\$ 15.3</b>

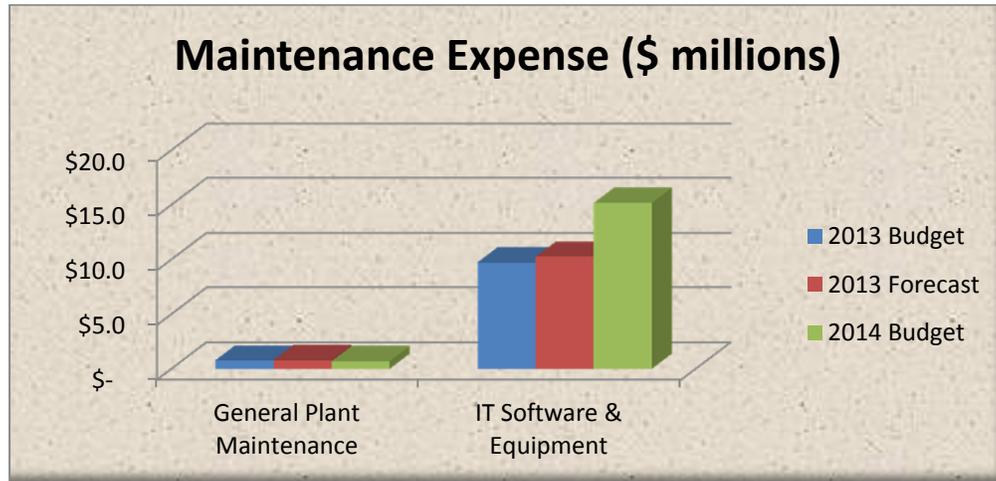
IT maintenance is associated with hardware and software currently supported and expected to be utilized over the next three years. IT maintenance expenses are projected to increase \$5.5 million and \$5.0 million compared to the 2013 budget and 2013 forecast, respectively, however only \$0.7 million over the prior 2014 forecast. Approximately \$2.8 million of the 2014 budget is for software and systems maintenance related to market operations, driven by the launch of Integrated Marketplace necessitating maintenance on system software, plus additional servers and associated software. Maintenance must be in place on all system hardware and software to obtain the latest releases or upgrades, and to provide vendor support for new functionality and features, assistance in diagnosing issues, and answering configuration questions.

Maintenance related to IT foundation increased approximately \$1.8 million compared to the 2013 budget and forecast, mainly due to server, data warehouse, and network related equipment upgrades.

Maintenance Expense (\$ millions)	2013 Budget	2013 Forecast	2014 Budget	Prior 2014
Support-IT Foundation	\$ 6.0	\$ 6.0	\$ 7.8	\$ 5.9
Market	\$ 0.7	\$ 0.9	\$ 2.8	\$ 5.3
Support-Project/Other	\$ 0.3	\$ 0.6	\$ 0.9	\$ 0.7
General Plant Maintenance	\$ 0.8	\$ 0.8	\$ 0.7	\$ 0.8
Transmission	\$ 0.5	\$ 0.5	\$ 0.5	\$ 0.5
Leveraged Services	\$ 1.0	\$ 1.0	\$ 1.7	\$ 0.8
Reliability	\$ 1.3	\$ 1.2	\$ 1.4	\$ 1.3
<b>Total</b>	<b>\$ 10.5</b>	<b>\$ 11.0</b>	<b>\$ 15.9</b>	<b>\$ 15.3</b>

Other maintenance costs include various facility expenses such as janitorial expense, landscape maintenance, and preventive maintenance. The facilities maintenance budget for 2013 was based upon a combination of industry best practices and guidelines, input from the architects and engineers involved with the Corporate Campus construction project, and actual pricing for known services. The 2014 budget was established based on historical costs of operating the

facility for 12 months. The facilities maintenance budget for 2014 is \$0.7 million versus 2013 budget and forecast of \$0.8 million.



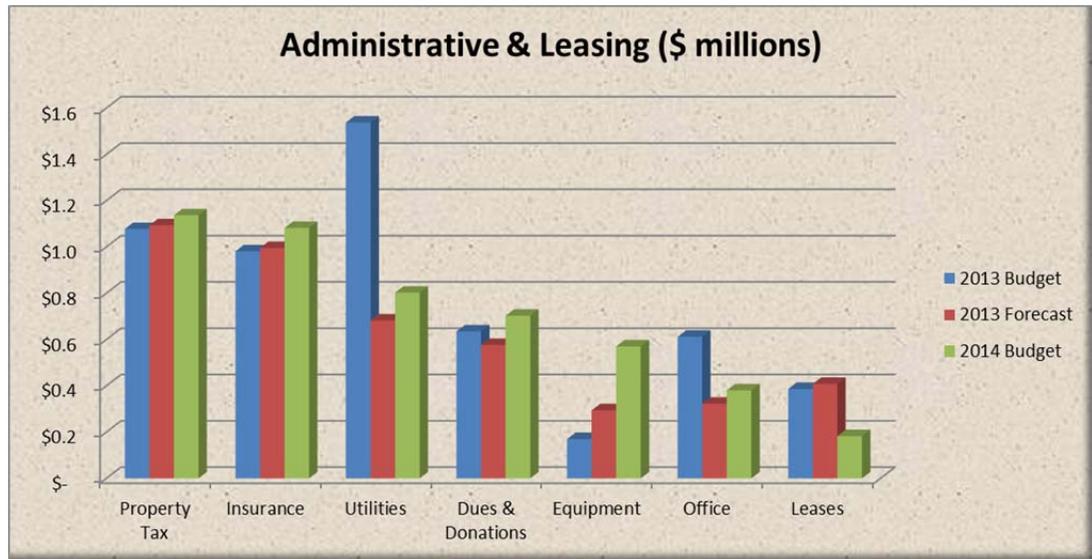
### Administrative and Leasing Expenses

Administrative and leasing expenses are expected to decrease by \$0.5 million in 2014 compared to the 2013 budget. Utilities for the 2013 budget were estimated based on guidance received from outside experts working on the new campus project. After having occupied the campus for a full year, more comprehensive data was available to better estimate utilities expenses for the 2014 budget, which is \$0.7 million under the 2013 budget. The budget for office expenses in 2014 also reflects a decrease of \$0.2 million, primarily related to savings resulting from consolidating employees on one campus. Leasing expenses decreased by \$0.2 million in 2014. When SPP's lease on the additional office space expired in April 2013, employees and consultants were relocated to the corporate campus in order to accommodate the testing and parallel operations phases of the Integrated Marketplace. The decreases are offset by a rise in small equipment expenses, which is driven by the decision to increase the capitalization threshold in 2014 and primarily impacts desktop and laptop computer purchases. During 2013, SPP analyzed the number and dollar amount of capitalized asset additions and determined over 45% of the number of assets capitalized were less than \$5,000 in acquisition cost. These same assets comprised

Administrative & Leasing (\$ millions)	2013 Budget	2013 Forecast	2014 Budget
Property Tax	\$ 1.1	\$ 1.1	\$ 1.1
Insurance	\$ 1.0	\$ 1.0	\$ 1.1
Utilities	\$ 1.5	\$ 0.7	\$ 0.8
Dues & Donations	\$ 0.6	\$ 0.6	\$ 0.7
Equipment	\$ 0.2	\$ 0.3	\$ 0.6
Office	\$ 0.6	\$ 0.3	\$ 0.4
Leases	\$ 0.4	\$ 0.4	\$ 0.2
<b>Total</b>	<b>\$ 5.4</b>	<b>\$ 4.4</b>	<b>\$ 4.9</b>

less than 1% of the total dollar amount of assets capitalized. Given the administrative costs associated with tagging, recording, tracking, etc., a more cost-effective and resource-efficient approach was considered, and the decision was made to raise the capitalization threshold from \$1,000 to \$5,000 beginning in 2014. The impact of this change in 2014 is an increase to operating expense of \$0.3 million. Slight increases were also reflected in insurance, dues, and property taxes (\$0.1 million each).

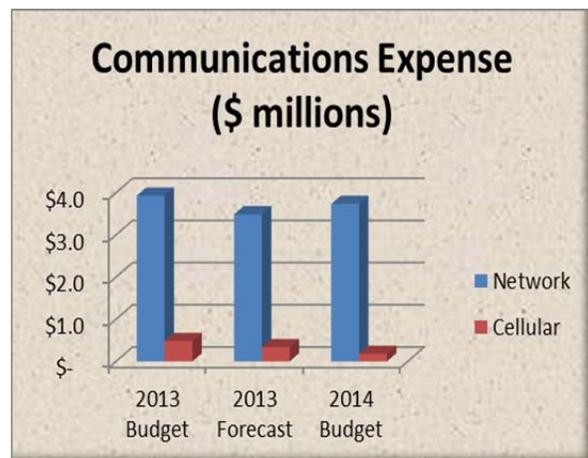
During 2013, SPP worked extensively with the Arkansas Public Service Commission (APSC) to modify the methodology for assessing property for taxing



purposes. SPP successfully persuaded the APSC to take into consideration that software assets were utilized outside of the state of Arkansas to deliver reliable low-cost electricity and therefore only the value of the software providing reliable low-cost electricity within Arkansas should be subject to Arkansas personal property taxes. Commencing with the 2012 year-end assets, values were assessed in 2013 using the new methodology. The bill for the 2013 assessment will be payable in 2014 and represents an estimated net savings of approximately \$1.0 million in comparison to the previous methodology.

### Communications

Communications expense includes all expenditures related to SPP’s internal and external networks and telecommunications. In 2014, network communication expenses are expected to increase slightly over the current 2013 forecast (\$0.1 million). This increase is primarily due to additional capacity required for the Integrated Marketplace. Other factors contributing to the increase are expected increases in NERCnet expenses due to a change



in provider (initiated by NERC), addition of a SERC hotline to provide a direct link for critical reliability issues, and an increase in OATI frame relay costs to increase capacity arising from bandwidth saturation.

SPP will realize cost savings in cellular communications expenses in 2014 by either eliminating or reducing employee reimbursements for cellular services, and significantly reducing the number of company provided phones and aircards. The reduction in such expenses compared to 2013 is estimated to be approximately \$0.2 million.

### Travel and Meetings

Travel and meetings expenses are expected to decrease by \$1.1 million in 2014 as compared to the 2013 budget; however, the 2014 expenses are more closely aligned with the 2013 forecast. The 2013 budget assumed meeting expenses of \$0.2 million and travel of \$0.2 million for



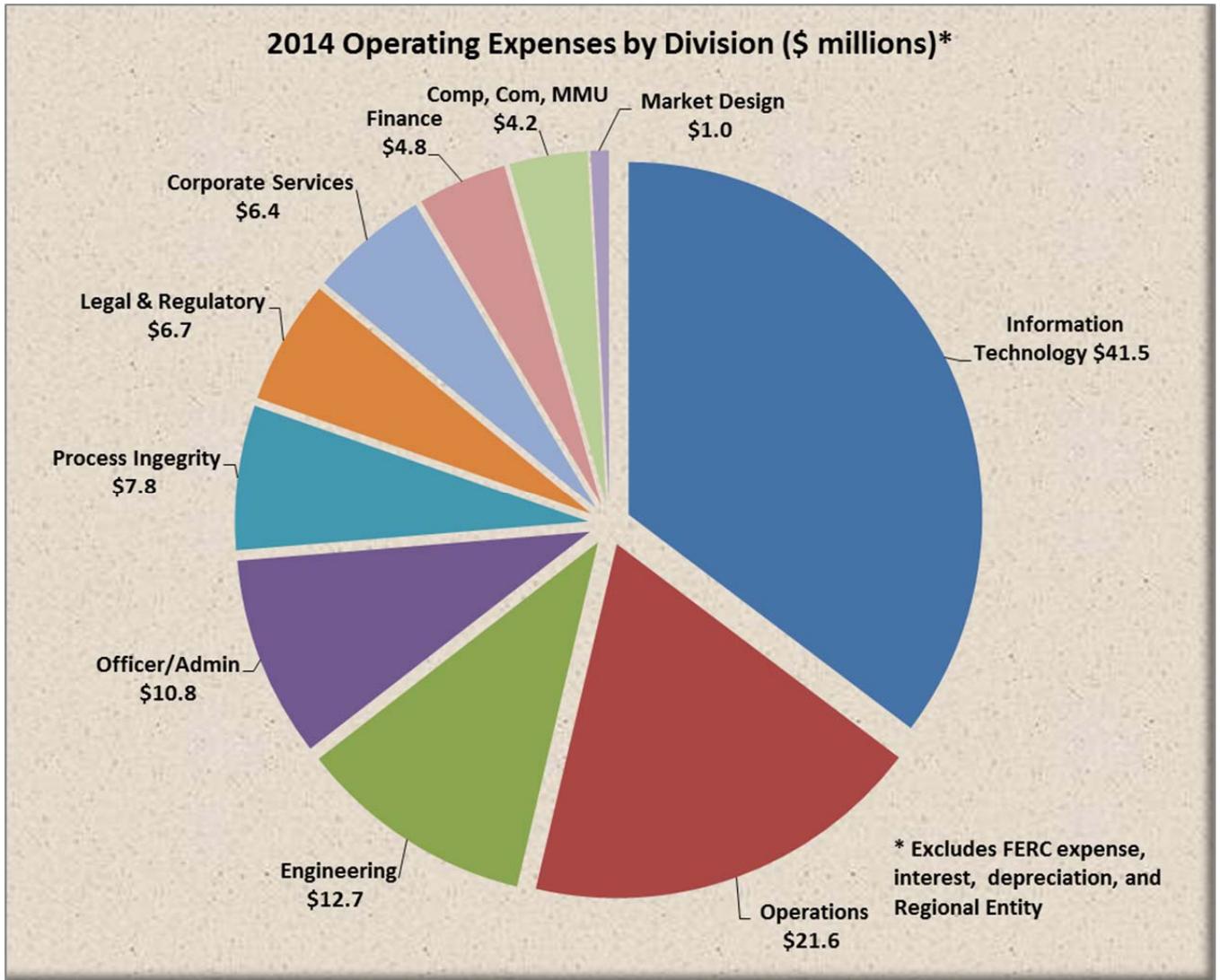
member outreach workshops for the Integrated Marketplace. At members' requests, many of the workshops were performed via computer-based training (CBT) and/or net conferences, thus leading to considerable cost

savings in 2013. The 2014 budget includes a minimal amount of travel and meeting expenses for Integrated Marketplace member outreach.

The decrease is also partially attributable to increased usage of SPP's corporate facilities for various meetings, as well as utilization of member facilities, which results in significant savings compared to hotel or conference space rentals. In efforts to reduce travel and meeting expenses, SPP encourages all organizational groups to include Little Rock in the rotation for working group meetings.

## V. 2014 Budget: Division View

The 2014 operating budgets of the nine divisions are shown below.



### Operations

The Operations group administers SPP's Tariff and performs reliability coordination throughout SPP's footprint. The department has a total budget of \$21.6 million for 2014, including staff of 157. The group achieves this strategically important goal with a highly-trained staff of professionals in the following departments:

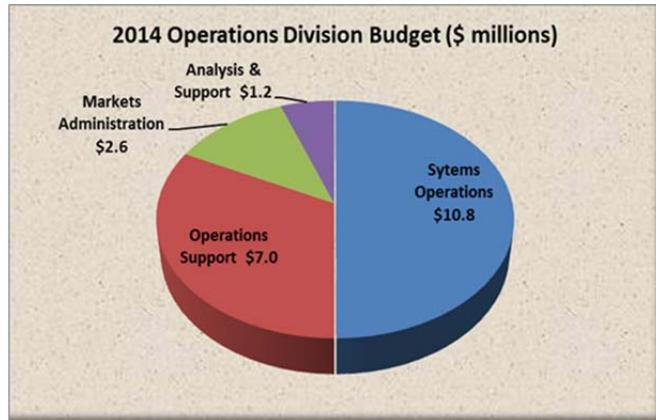
- **Systems Operations:** This department is responsible for ensuring 24/7 monitoring of the bulk grid in the SPP region. During 2013, process improvements and automation resulted in the combination of tariff and interchange functions. As a result, operator resources became available for utilization in Integrated Marketplace and Centralized

Balancing Authority (CBA) functions, which eliminated the need for the incremental resources previously forecasted for 2014. At the Integrated Marketplace launch in 2014, Systems Operations will transition to the role of CBA. Outside consultant will assist throughout the transition to the go-live date; however, SPP will utilize operators' expertise thereafter and eliminate the need for further consulting services. This department has 74 positions, including a department director, four managers, and seven shift supervisors.



- **Markets Administration:** This group plays an integral role in the launch of the Integrated Marketplace. The group is comprised of a staff of 19 employees and is divided into two main groups which reflect the fundamental structure of real-time and day-ahead markets.

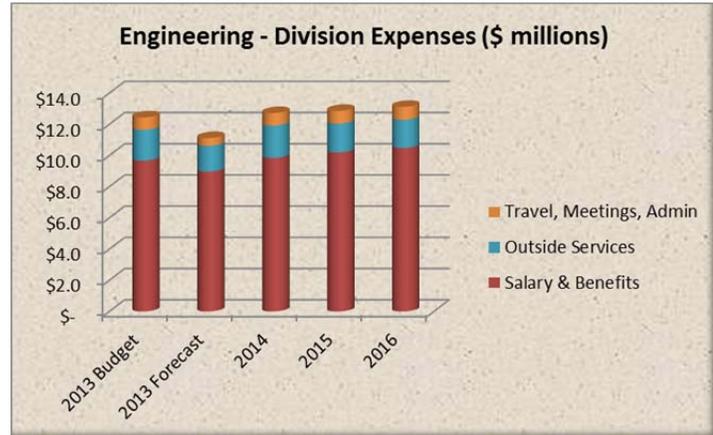
- **Operations Support:** This group provides support services to the Operations division in areas such as outage coordination, load forecasting, modeling and data validation, and market data and registration, as well as extensive customer interaction and support. As a result of the Integrated Marketplace launch in 2014, Operations Support expects its workload to increase significantly due to inquiries and disputes resulting from an increased number of market participants, as well as the increased complexity of market models and calculations. This group has a staff of 56 employees, with no additional headcount anticipated for 2014 and beyond.



- **Operations Analysis and Performance:** This group's main goal in 2014 is to ensure operators and support staff are properly trained and prepared for Integrated Marketplace go-live. This group has a staff of 8 employees, with the primary goal of training SPP's operators to ensure compliance with NERC standards.

## Engineering

The Engineering division's mission is to facilitate SPP's strategic goal of continued development of a robust transmission system within the SPP footprint, while creating optimum value for stakeholders, members, and customers. This division has a total budget of \$12.7 million for 2014 with 79 employees, including one incremental headcount in the 2014 budget.



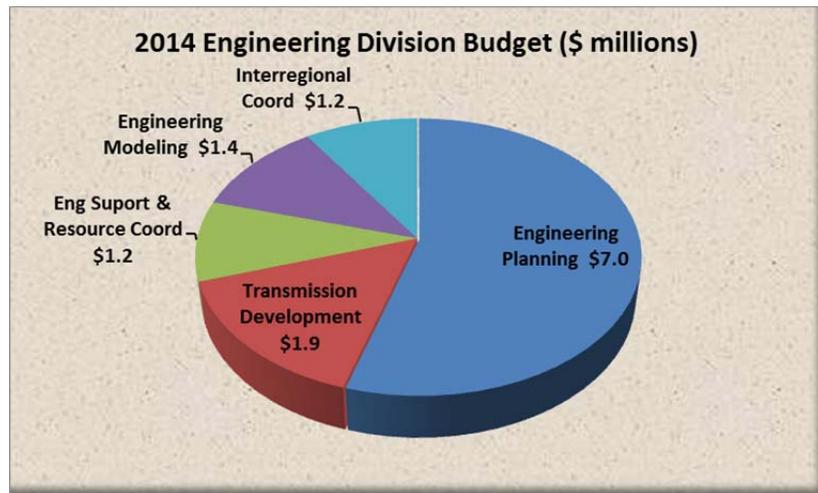
The Engineering division is comprised of five departments:

- **Planning:** This department is primarily involved in transmission planning studies and the Integrated Transmission Planning (“ITP”) process. The Engineering Planning Department has several key initiatives included in the 2014 Budget, such as process improvements in the Aggregate Transmission Service Studies (ATSS) and Generator Interconnection (GI) studies, FERC-mandated development and implementation of Long Term Congestion Rights subsequent to Integrated Marketplace go-live, and implementation of FERC Order 1000 for which the pre-qualification phase starts in May 2014. The department is planning to add one position in the 2014 budget for the congestion hedging function within Integrated Marketplace. A primary goal of the department is increasing the skill and knowledge level of its staff during 2014 through intensive training, developing its employees to a maturity and experience level to meet the goals for 2014 and SPP's strategic plans. The various planning studies conducted by the Planning department produce revenues for SPP, which serve to reduce SPP's Net Revenue Requirement. Revenue expected from studies is \$3.0 million in 2014. This group has a staff of 40 employees.
- **Modeling:** This department will be involved with a wider range of industry groups in 2014-2016. The ability to perform certain dynamic stability studies is expected to be fully transitioned to SPP Engineering staff in 2014, eliminating third-party consulting services and resulting in cost savings. In relation to the Integrated Marketplace, new processes will be executed associated with the Centralized Balancing Authority model efforts. The Modeling Department is continuously gaining more experience with the

Centralized Balancing Authority and ITP processes; therefore, no new headcount is planned for 2014. This department has a staff of 10 employees.

- **Interregional Coordination:** This department expects seams coordination activity to increase significantly over the next three-year period. The staff is working closely with SPP’s neighboring entities to ensure compliance with the interregional requirements of Order 1000. With the pending integration of Entergy into MISO, enhanced efforts with MISO and other neighbors on seams issues and joint operating agreements will become increasingly important. The department will also continue to support efforts to bring new members into SPP. This department has a staff of 9 employees.
- **R&D and Special Studies:** A main goal of this department is to assess new approaches and tools to refine performance objectives that align with future needs surrounding renewable resources, which are expected to drive the future of the power grid. To achieve this goal, the department is budgeting for extensive research and information tools, such as publications and membership to Electric Power Research Institute (“EPRI”), and for increased consulting services from industry experts to bring proven solutions into SPP to improve the planning process. SPP’s goal is to conduct centralized R&D activities that will benefit SPP’s stakeholders as a region. This department has a staff of 10 employees, including five in the Engineer in Rotation program.

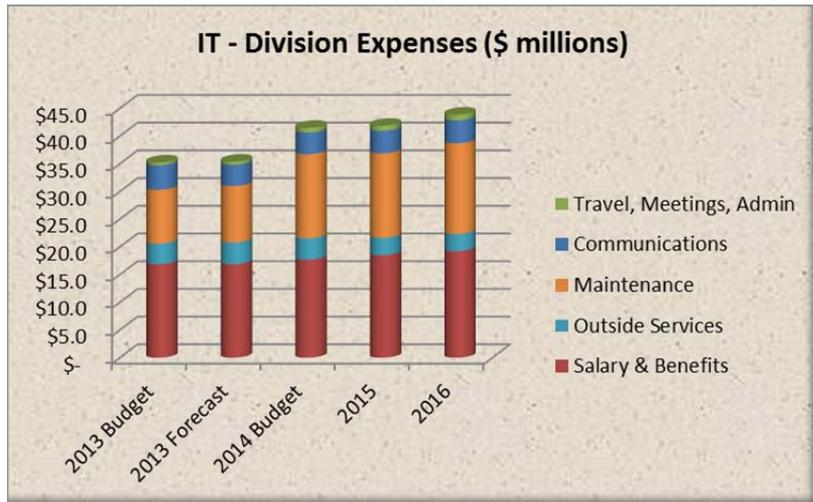
- **Support and Resource Planning:** This new department provides business solutions and efficiencies, and resource coordination and allocation for engineering projects. The resource coordination and time tracking initiative, which began in 2012,



has produced the ability to provide mitigation plans and track work efforts to produce long-term resource plans which can more accurately predict staffing needs. This department has a staff of 10 employees, including one incremental headcount in 2014 assigned to the Integrated Marketplace post-go-live Grandfather Agreement project.

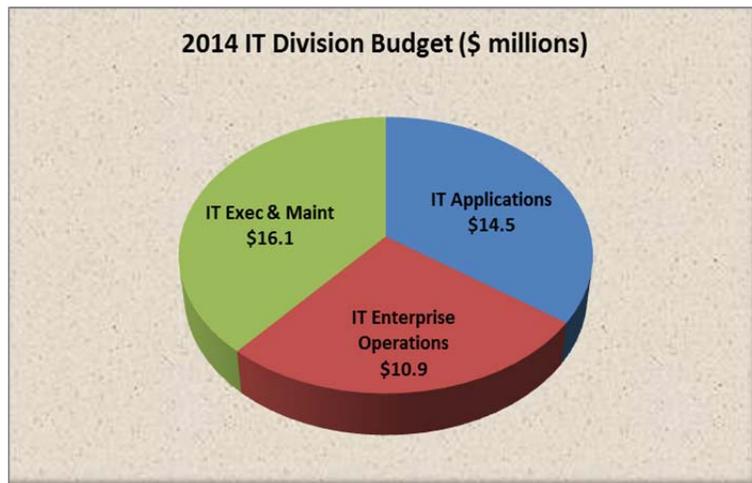
## Information Technology

The primary mission of IT is to develop, deploy, integrate and support applications and infrastructure for SPP's operational and corporate systems. IT has a total of 144 employees with a proposed 2014 budget of \$41.5 million. This division has two main groups, IT Enterprise Operations and IT Applications. The IT



Executive and Maintenance department has a budget of \$16.1 million and includes compensation for a Chief Architect, Budget Analyst and IT Sourcing Manager, as well as equipment and software maintenance for company-wide IT systems (\$15.2 million).

- IT Applications: This department provides 24x7 support for existing systems including transmission, market, and other support systems for SPP staff and members/customers. In addition, the department is responsible for



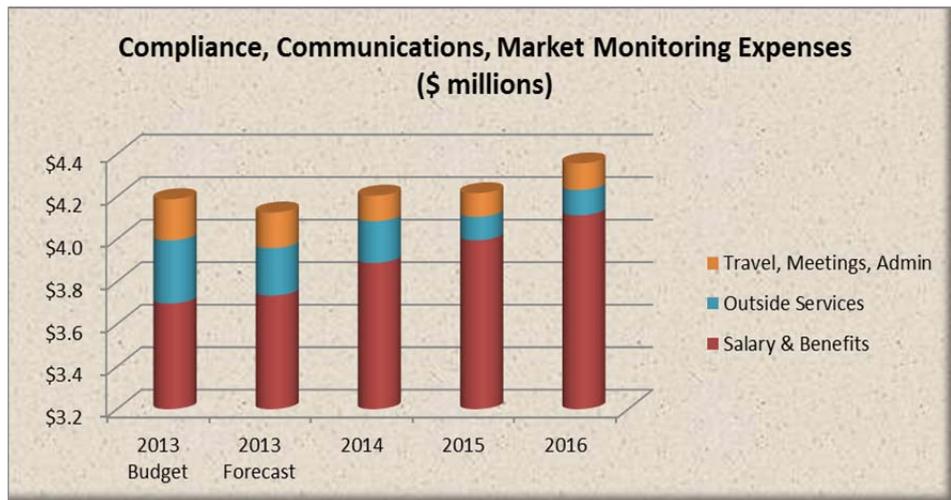
coordinating software development efforts related to the Integrated Marketplace. This department plays an integral role in nearly all new projects, including creating requirements/test/rollback plans; developing software; providing technical leadership; defining, implementing and reviewing architecture; and providing ongoing maintenance and support for these systems. The IT Applications group also tests and implements all software upgrades. Primarily driven by system growth, a review of current staff levels and anticipated workload, indicated current IT Applications staffing is adequate for 2014, with contractor resources to handle extra workload driven by Integrated Marketplace. Although six incremental headcount were added in 2013, projected workload for 2014-2016 requires additional resources. It has not yet been determined

whether this workload will continue past 2015, so continued contractor assistance is included in the outside services portion of the budget (\$1.3 million). The department is comprised of 93 employees with a budget of \$14.5 million.

- IT Enterprise Operations: This department provides 24x7 support for all communications and networking systems, and all computer hardware and environmental needs for the SPP data center. Each of these activities is critical to SPP's transmission, market, and business processes. This department also provides technical direction, leadership, and architectural design for the communications, network, storage, backup/recovery, and computing platforms for all aspects of the IT infrastructure utilized within SPP. IT Enterprise Operations has maintained a consistent headcount level for the past two years, while accepting a significant increase in workload (number of servers, increases in storage, etc.). As a result of maintaining a highly qualified staff that is significantly leveraged across various technical platforms and disciplines and increasing automation processes, the department has been able to absorb the increased workload without adding staff. This department historically has not utilized contractor resources to fulfill its responsibilities, and does not anticipate doing so during 2014-2016. The department is comprised of 48 employees with a budget of \$10.9 million.

### Compliance, Communications, and Market Monitoring

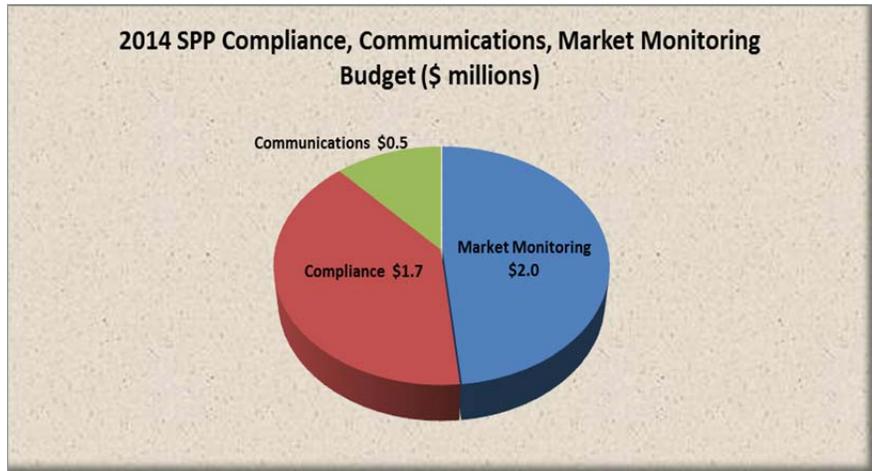
This division has a staff of 30 employees with a budget of \$4.2 million and is comprised of the following three departments. No additional headcount is anticipated for 2014-2016.



- Compliance: The main goals for this department in 2014 are enhancing member outreach services at the request of the Board Oversight Committee, and providing IT security and risk mitigation functions to the SPP organization, which includes cyber-vulnerability assessments, security monitoring, threat evaluation, and incident response. Improved processes, member outreach planning, and staff capabilities has

allowed existing staff to address current and future member evidence reviews and associated outreach needs. The department has a budget of \$1.7 million with a staff of 13.

- **Communications:** The focus of this department is to build and execute a communication strategy which educates, creates trust, and protects the SPP brand. The department will continue to execute



this strategy through various deliverables in 2014, especially involving communicating the value of transmission to stakeholders. The department has a budget of \$0.5 million with a staff of 3.

- **Market Monitoring:** The main focus in 2014 for this department is to refine and implement analytical tools and monitoring screens, and continually develop staff to effectively monitor the Integrated Marketplace. This department is implementing automated systems and enhanced utilization of data to introduce further efficiencies and effectiveness to its monitoring mandate. Although increased workload is anticipated upon implementation of the Integrated Marketplace, management has determined the additional work can be absorbed without additional staff (which was initially considered for 2014 during the 2013 budget cycle). This is made possible through efficiency improvements associated with the new data warehouse and improvements in staff skills and expertise. The department has a budget of \$2.0 million with a staff of 14.

## Process Integrity

This division has a total staff of 47, with a proposed budget of \$7.8 million for 2014.

- **Project Management Office (PMO):** This department is responsible for overseeing and coordinating the design, development, and implementation of projects within SPP. The department's focus will be on Integrated Marketplace implementation during the first quarter of 2014, and the subsequent post-go-live projects thereafter. Project resource requirements in 2014 exceed internal resource availability; therefore, contractor resources will be utilized through the third quarter of 2014. As a result of process improvements and efficiency gains, one FTE will be available by the fourth quarter of

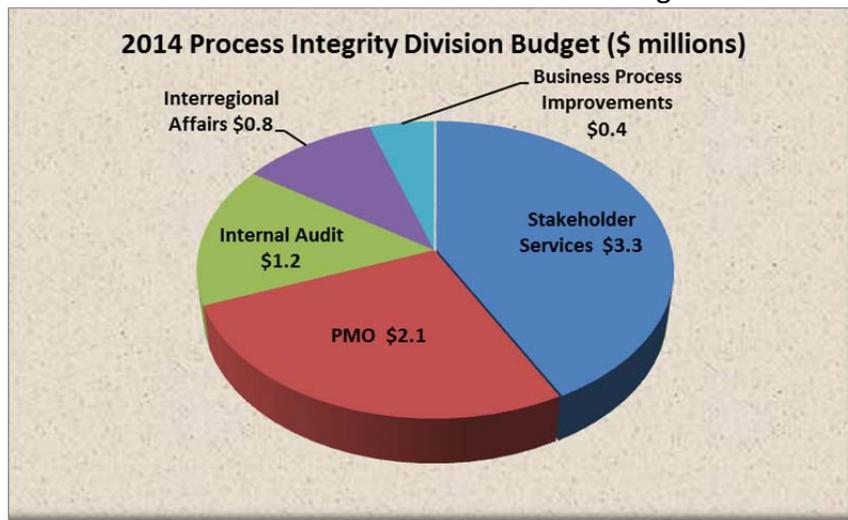
2014 to cover the resource need for the LEAN initiative in the Business Process Improvement Department (see below). The department has a budget of \$2.1 million with a staff of 13.

- Stakeholder Services: This group encompasses two departments, Customer Service and Customer Training. Customer Service will concentrate on customer interactions related to the Integrated Marketplace in 2014, as the volume of inquiries, requests, and outreach efforts is estimated to



increase significantly. Four of the ten staff members will be dedicated to the Integrated Marketplace customer interactions. Customer Training will increase services and product delivery in response to demand for additional reliability-related training, new and/or updated operator tools, and Integrated Marketplace. The department has a budget of \$3.3 million with a staff of 22.

- Internal Audit: The mission of this department is to provide independent and objective assurance and advisory services, which are designed to add value and improve SPP’s operations. The department will maintain and implement a risk-based audit schedule for SPP’s business and IT units and functions in 2014. One of the most important functions of this department is to coordination of the annual SSAE 16 audit, which evaluates SPP’s internal controls as a service organization. With the transition to the



Integrated Marketplace in 2014, the focus will be on ensuring the effectiveness and reliability of SPP’s internal controls supporting Integrated Marketplace functions. The department has a budget of \$1.2 million with a staff of 6.

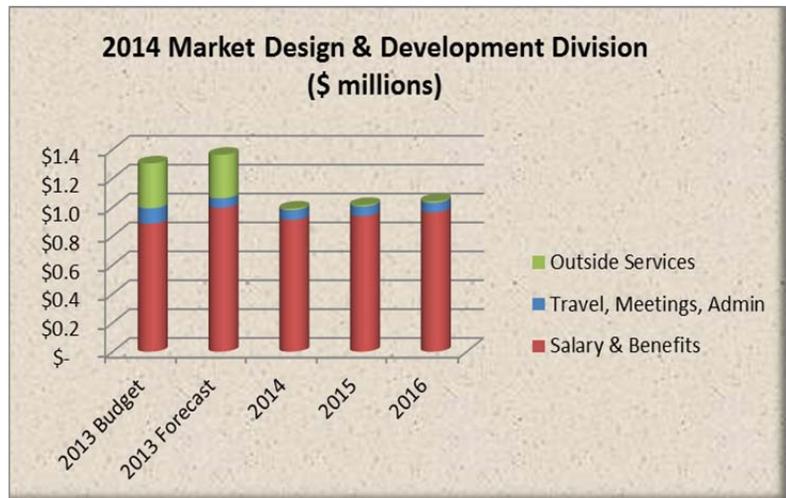
- **Business Process Improvements:** This department originated with one FTE as a result of SPP’s organization-wide commitment to continuous improvement, and is projected to include a staff of four by 2014 (by re-allocating internal resources from various departments). The main focus of the department is to continue to implement the LEAN program throughout the SPP organization, to identify opportunities for process improvements, and to improve effectiveness and efficiencies. The department will also focus on SPP’s business continuity planning, which has become critical as a result of increased risks associated with the Integrated Marketplace. The budget currently includes a staff of two, with a budget of \$0.4 million.
- **Interregional Affairs:** The department’s goal is increased involvement in the industry-wide standard development efforts by serving in leadership roles in both NERC and NAESB. The Reliability Standards staff provides SPP leadership in the national effort to develop meaningful and achievable reliability standards. Working with other SPP staff, members, and industry experts, the department works to ensure the reliability standards necessary to maintain a reliable bulk electric system for SPP are in place, with clear, effective, reasonable, and measurable requirements. The staff is comprised of four, with a budget of \$0.8 million.

### Market Design and Development

This department is responsible for the evolution of the energy and capacity markets, which is achieved through interactions and cooperation with members and other stakeholders while creating and enhancing markets in a member-driven way. Other goals of market design are to maintain reliability and pursue innovative ways to increase reliability through economics.

The department has three key responsibilities:

- Create and modify the SPP regional market design through a member-driven process
- Conduct quality assurance functions to ensure implemented processes and systems are consistent with the market design
- Support other market-related initiatives



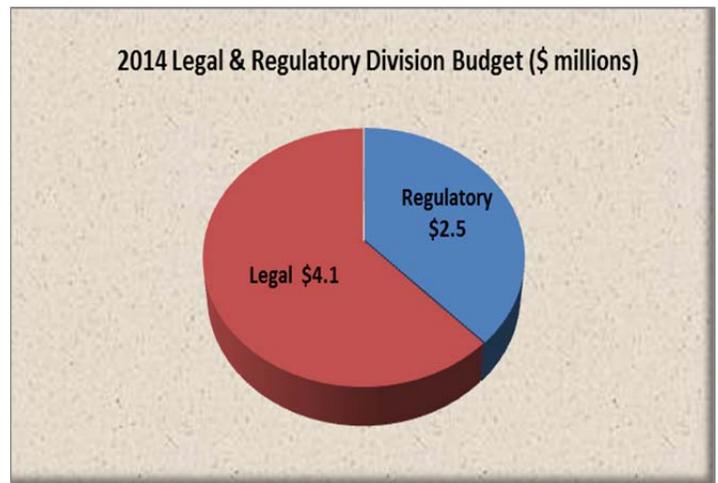
The backlog of Integrated Marketplace enhancements demonstrates the continued evolution of markets and the need to facilitate and manage the growth. This department also assists in the development of SPP membership. In addition, this department manages coordination and communications with other RTOs regarding market development.

The Market Design Department has a 2014 budget of \$1.0 million and a total staff of six employees.

### Legal and Regulatory Policy

The division for Legal and Regulatory Policy is comprised of a staff of 26 FTEs with a total budget of \$6.6 million for 2014.

- Legal:** The Legal department continues to evolve into a value-added internal resource with the goal of significantly reducing costs for and dependency on outside counsel, especially in FERC matters. Over the past three years, the outside legal services budget has decreased; however, Integrated Marketplace filings continue to require third party services. Integrated Marketplace filings and disputes are anticipated to increase significantly in 2014. The department has a staff of 12 and a budget of \$4.1 million.
- Regulatory Policy:** In 2014, this department is expected to have increased responsibility regarding regulatory filings related to the Integrated Marketplace protocols and tariff implementation, including filings necessary to implement the Readiness and Reversion Plans. As a result of improved staff expertise and knowledge of the Integrated Marketplace, a reduced reliance on outside consultants is anticipated, and no consulting dollars are budgeted for 2014. The department has a staff of 14 and a budget of \$2.5 million.



## Finance

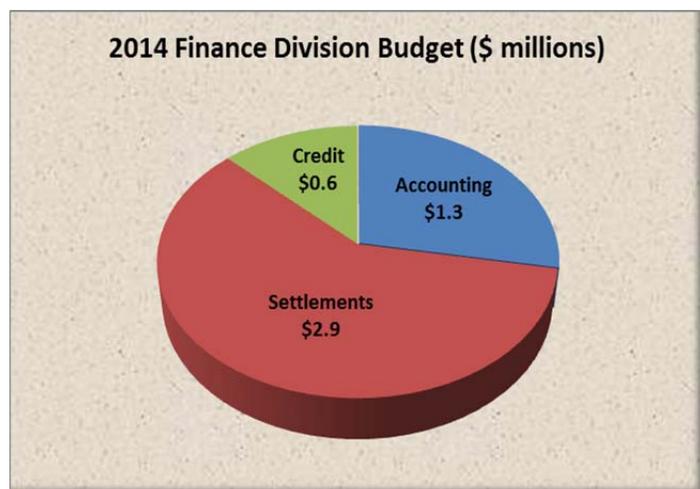
The Finance division is comprised of the Settlements, Credit and Risk Management, and Accounting and Purchasing departments. This division has a 2014 budget of \$4.8 million with a total staff of 39 FTEs.

- **Settlements:** This department is comprised of two primary areas to support market and transmission settlements. In 2014, the department's focus will be on ensuring a successful go-live and providing post-implementation



support of the Integrated Marketplace. Recent software upgrades, process improvements, efficiency metrics tracking, and the cross training of staff will continue to result in cost savings by avoiding the need for temporary consulting support. The total departmental headcount was reduced by one, as the result of reallocating duties when a Settlement Analyst position was vacated (transferred to another position within SPP). The department has a budget of \$2.9 million with a staff of 25.

- **Credit and Risk Management:** This department administers the extension of credit to market participants and works to protect the market participants and members from losses through diligent underwriting and collection efforts. The products within the Marketplace are much more complex and represent a significant increase in default risk to all Marketplace participants. As a result, the department's goal in 2014 and beyond will be to carefully monitor the increased risk and



respond as necessary to continually protect the market participants and members. The department has a budget of \$0.6 million with a staff of 4.

- Accounting and Purchasing: This department is responsible for invoicing, cash management, payment processing, internal and external reporting, budgeting and forecasting, corporate accounting, and end-to-end procurement services. This department has a staff of 10 employees. Although one position was proposed to be added for 2014 in the 2013 budget presentation, no additional headcount is foreseen in the 2014 budget due to efficiencies achieved in financial reporting with software automation and increased level of experience in key positions. The department has a budget of \$1.3 million with a staff of 10.

### Corporate Services

This division is comprised of Human Resources, Corporate Facilities, and Corporate Administrative Services departments. The 2014 budget for Corporate Services represents a 33% reduction compared to the 2013 budget. After occupying the new corporate campus for one year, office expense savings have been recognized due to campus



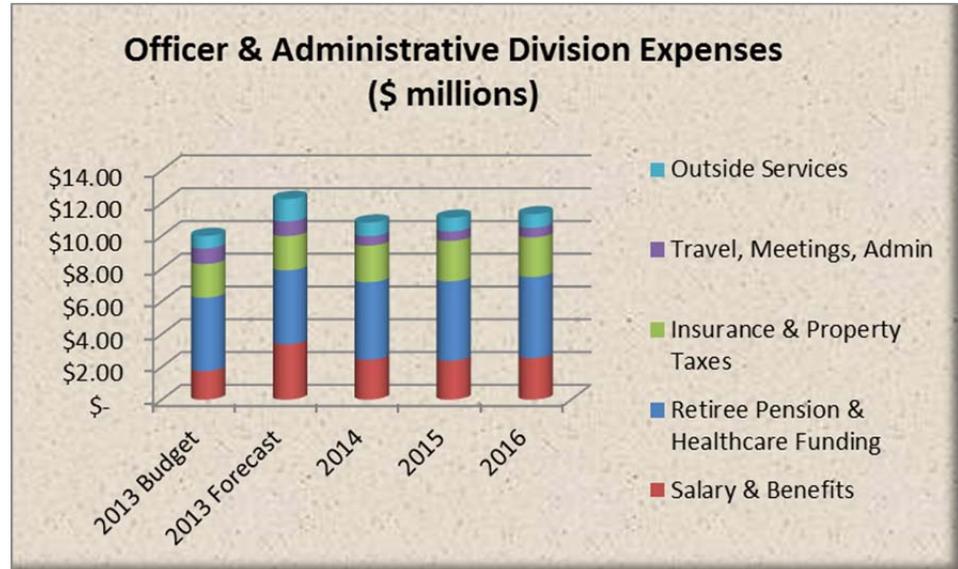
consolidation. Additional savings in utility expenses resulted from SPP's new energy efficient facilities. The elimination leasing of additional office space and associated decommissioning costs result in a \$0.3 million reduction in the budget over 2013. Meeting expenses have also been reduced due to elimination of certain working group meetings, and the ability to host meetings at the SPP campus for approximately one-third of the cost of hosting a meeting at a hotel. Certain employee services included in the 2013 budget were re-evaluated, and alternative solutions were devised for a fraction of the original cost. As an example the company is implementing a wellness kiosk at a fraction of the cost of the previously planned on-site wellness clinic.

The Human Resources department has implemented software upgrades which result in savings in fees paid to third party providers, and resulted in improved HR interface capabilities with SPP employees. Expense reductions are expected in pre-employment screenings and new employee activities in general. This is the result of significantly fewer new hires than in prior

years. The Corporate Services division has a total staff of 29 FTEs and a 2014 budget of \$6.4 million.

### Officer and Administrative

This group of nine officers is comprised of SPP's CEO and President, COO, and seven executives overseeing the overall business operations and providing strategic direction to SPP as a whole. Also included in this division expenses are certain corporate



administrative costs such as corporate insurance expenses, pension plan and retiree healthcare funding, and property taxes.

The total budget for 2014 for this division is \$10.8 million, with a staff of ten.

## VI. Capital Projects

Beginning in January, a comprehensive list of new and on-going projects was compiled for consideration for the 2014 – 2016 Budget under the direction of the Project Review and Prioritization Committee (PRPC) and in collaboration with staff from the Project Management Office (PMO), Accounting and IT departments. The PRPC worked closely with Project Managers, IT Directors and vendor managers to scope and estimate anticipated workload associated with the implementation of the projects. Considering the Integrated Marketplace remains the highest priority and consumes significant resource capacity, new projects were carefully reviewed to ensure no projects were added that would impede the go-live date of the program. Consulting dollars were incorporated into the budget to supplement for expertise and/or staffing constraints as deemed necessary.

The three-year budget identifies \$61.8 million in total capital expenditures with \$38.3 million tied to specific projects and initiatives and \$23.5 million in foundation related maintenance capital expenditures. SPP expects 2014 capital expenditure spending will exceed \$37 million. Ten projects are classified as “Integrated Marketplace Post Go-Live”, which are supplementary projects either mandated by regulators or requested by SPP members, and comprise \$20.0 million of the three-year total. Also included are 11 carry-over projects (\$11.8 million) and 5 new projects (\$0.7 million), with \$5.8 million remaining on the Integrated Marketplace Go-Live project.

### 2014 - 2016 Capital Expenditures by Year (\$ millions)

	2014	2015	2016	Total
Integrated Marketplace Go-Live	5.8	-	-	5.8
Integrated Marketplace Post-Go-Live	17.5	2.5	-	20.0
Carry Over Projects	2.2	9.4	0.2	11.8
New Projects	0.6	0.2	-	0.7
Total Non-Foundation Projects	26.0	12.1	0.2	38.3
Foundation	11.1	7.0	5.4	23.5
<b>Total Capital Budget</b>	<b>37.1</b>	<b>19.2</b>	<b>5.6</b>	<b>61.8</b>

The following section describes the Integrated Marketplace and other noteworthy projects in greater detail. A complete list of initiatives and associated capital and operating budgets appear in the Supplementary Schedules section.

### Integrated Marketplace

The 2014 budget includes the final phases of work associated with the Integrated Marketplace. Following the launch of the Integrated Marketplace, SPP will have implemented the following large-scale initiatives:

- Day-Ahead Market
- Transmission Congestion Rights
- Reliability Unit Commitment
- Real-Time Balancing Market
- Operating Reserve Market
- Consolidated Balancing Authority

The primary business drivers of the Integrated Marketplace program include the following: 1) to further recognize benefits of the diversity of generating unit resource assets, 2) optimize utilization of the transmission system within SPP, and 3) minimize overall costs to consumers.

The Integrated Marketplace allows for a single, larger consolidated balancing authority, which produces more efficient balancing and dispatch of generation and load. The primary business benefits of the Integrated Marketplace program as determined from the Cost Benefit Task Force cost/benefit analysis are: 1) \$45.0 million - \$100.0 million per year net benefit to the SPP region based on various gas cost assumptions, and 2) a more efficient utilization of generation assets through centralized unit commitment. The program will be considered complete when:

- SPP assumes the role of balancing authority from members
- SPP implements and completes a monthly settlement for each of the following markets-related initiatives
  - Day Ahead Markets
  - Real Time Balancing Market
  - Operating Reserves
  - Transmission Congestion Rights Markets

SPP's Board of Directors approved a capital budget of \$105.6 million during its April 2011 meeting. In April 2013, the Board approved additional funding of \$9.4 million for the primary purpose of funding additional resources (consultants, hardware, and software) needed to meet the March 1, 2014 go-live date, bringing the total project budget to \$115.0 million. The project total shown below represents the current 2013 forecast, which is \$0.2 over the revised budget.

#### **Integrated Marketplace Capital Expenditures by Year (\$ millions) \***

	<b>2007-2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>Total</b>
Marketplace	8.6	20.9	41.6	35.8	5.8	112.6
CBA	0.2	1.1	0.6	0.7	-	2.6
<b>Total</b>	<b>8.7</b>	<b>22.0</b>	<b>42.2</b>	<b>36.4</b>	<b>5.8</b>	<b>115.2</b>

\* excludes capitalized interest.

## **Integrated Marketplace Post-Go-Live Projects**

The post-go-live projects represent post-implementation enhancements to the Integrated Marketplace. Preliminary planning work is underway in 2013 for five of these projects. The total projected capital expense for 2014 – 2016 is \$20.0 million, with a project total of \$21.7 million including prior year costs. All post-go-live projects are expected to be completed and in service before the end of 2015.

The budget estimates for the Post Go-Live Projects were refined during the 2014 budget cycle. This analysis resulted in significant increases over the 2013 total project estimates. The major driver of the Market-to-Market estimate increase (\$5.2 million) is due to refinement of the design and the use of consultants to implement this functionality. The major driver of the increase in the Long-Term Congestion Rights (\$2.7 million) and Enhanced Combined Cycle (\$1.5 million) projections was the inclusion of contingencies in the estimates. Contingencies were added due to unresolved issues surrounding impacts to other Engineering planning processes, and to cover potential cost overruns since the vendor has never before developed this functionality. A decrease was reflected in the Regulation Compensation budget (\$0.8 million) due to refinement of the design which resulted in a simpler implementation than originally contemplated.

### ***Combined Cycle Enhancements***

These enhancements will allow market participants to submit resource offers for each configuration of a combined cycle unit. Each configuration will be modeled in the market-clearing engine as a separate resource in order to select the most economic configuration for unit commitment and dispatch. The MOPC is expected to authorize this project during its October 2013 meeting. Once authorized, work will commence, and completion is anticipated in second quarter of 2015.

### ***Regulation Compensation (FERC Order 755)***

FERC Order 755 requires RTOs to provide a two-part payment to resources providing regulation service in the Integrated Marketplace. Tariff changes, protocol changes, and software changes will be required to comply with this Order. Work on this project is expected to commence in third quarter of 2013, and completion is anticipated in second quarter of 2015.

### ***Long-Term Transmission Congestion Rights (LTTCRs)***

FERC Order 681 requires Load Serving Entities (LSEs) to have priority in the allocation of long-term firm transmission rights. FERC expects most transmission organizations to be

able to use their current allocation/auction systems to allow LSEs to nominate source-to-sink transmission rights on a longer-term basis than what is currently available. This project will consist of enhancements to the Nexant software and will establish a process providing LSEs the ability to nominate LTTCRs for more than one year. Work is expected to commence in third quarter of 2013, and completion is anticipated in 2015.

### *Market-to-Market*

Market-to-market coordination logic is required as an addition to the Integrated Marketplace system software to manage congestion appropriately and efficiently between SPP and neighboring markets. This project adds functionality to the market clearing engine enabling market-to-market coordination. This provides the ability for each market to request re-dispatch of generation to solve a constraint at a lower cost, therefore reducing the overall cost of congestion. Work is expected to commence in third quarter of 2013, and completion is anticipated in the first quarter of 2015.

### *AFC Granularity Changes for TSRs*

The objective of this project is to change how the available flow-gate capability (AFC) associated with transmission service requests (TSR) is evaluated to accommodate the SPP Balancing Authority (BA). Once SPP is the BA, this change provides SPP and its members a more accurate evaluation of transmission service impacts. Changes are expected for many applications within Operations, IT, Transmission Planning and Settlements departments. Work is expected to commence in first quarter of 2015, and completion is anticipated in late 2015.

## **Post Go-Live Capital Expenditures by Year (\$ millions)**

<b>Post-Go-Live Projects</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>Total</b>
Market-to-Market	0.7	5.9	0.5	-	7.0
Combined Cycle Enhancements	0.2	4.3	0.1	-	4.6
Long-Term TCRs (LTTCRs)	0.2	4.0	0.1	-	4.3
Regulation Compensation (FERC Order 755)	0.5	2.4	0.3	-	3.2
AFC Granularity Changes for TSRs	-	-	1.4	-	1.4
IT Environments Buildout for IM	-	0.6	-	-	0.6
Grandfather Agreement Carve Out (GFA)	-	0.3	-	-	0.3
Assets Pseudo-Tying Out of SPP BA	0.2	-	-	-	0.2
Sunset Clause for Load Submittal for Legacy BAs	-	-	0.2	-	0.2
Marketplace Data for MPs Post Go-Live	-	-	0.1	-	0.1
<b>Total</b>	<b>1.7</b>	<b>17.5</b>	<b>2.5</b>	<b>-</b>	<b>21.7</b>

## Other Foundation Projects

### *IT Systems Administration Foundation*

IT Systems Administration foundation projects include the replacement of systems no longer covered under existing warranties. Also included are new virtualized servers, which will be housed within an ESX Host Cluster. As required, associated ESX Host(s) purchases are also included in the project costs. While virtualization to consolidate hardware is the main focus surrounding server replacement, some physical servers are still required to replace certain systems currently not candidates for virtualization. Implementation of the Integrated Marketplace drives the need for additional data storage, information security, back-up, recovery and archiving solutions. The IT Systems Foundation budget includes hardware and software to meet these needs. The total project cost is estimated at \$8.2 million from 2014 through 2016.

### *IT Network Telecom Foundation*

Items in the Telecom/Network/Security (TNS) Foundation budget are requested for various reasons, the most prominent being improvements to existing network architecture to achieve the highest level of system availability, which is required by a Centralized Balancing Authority and the Integrated Marketplace. Equipment planned for replacement has either been in service for over three years, has an increased risk of failure, and/or lacks feature sets conducive to achieving the availability required by the Integrated Marketplace and other high availability projects. Upgrades of licensing and module/components, which will extend the life of assets already in production lacking port density or capacity, are also included.

Additional costs include hardware to isolate the Chenal and Maumelle ESP environments into separate core infrastructures. At present, certain core infrastructure is leveraged across multiple environments, which allows for issues outside of the ESP to impact systems within the ESP. This project allows for a “best practice” design for critical infrastructure.

Additional Network/Security lab equipment provides the Telecom/Network/Security team an isolated test environment for software upgrades/hardware replacements, new features/protocols, and stress/capacity. The environment infrastructure will be identical to SPP’s production, QA and test environments. The investment in this lab will produce a positive impact on the performance and reliability of SPP’s network and security infrastructure and will allow for the availability metrics required by the business.

Total project cost is estimated at \$7.6 million from 2014 through 2016.

## Foundation – IT Applications

The complexity of the Integrated Marketplace requires more stringent processes surrounding software deployment and release management, and reconciliation of the availability and capability of development tools. Internally customized processes and tools have proven unreliable for long-term deployments, thus creating a necessity for implementation of industry accepted standards, methods, and models. The components identified under this initiative focus on improved support, data modeling, and patch management for the key database management system. Subject-matter expert consultants are utilized for increasing levels of support for application and data warehouse solutions. Enhanced problem isolation through centralized logging increases SPP's capability to identify root causes of issues, thus contributing to the Integrated Marketplace high availability requirements. Improved patching for databases improves SPP's capability to meet CIP standards. Outside consultants will train and assist SPP personnel on two complex and critical systems. Each of these items promotes efficiencies within IT Applications. Total project costs are estimated at \$3.9 million from 2014 through 2016.

### Foundation / Other Capital Expenditures by Year (\$ millions) <sup>(1)</sup>

Foundation / Other	Prior Yr(s)	2014	2015	2016	Total
Upgrades / System Replacements					
DTS to TTSE <sup>(2)</sup>	-	-	4.4	-	4.4
Transmission Settlements ETSE & Alstom ETS	-	0.1	3.9	0.1	4.0
Netezza	2.7	0.2	0.1	-	3.0
EMS Upgrade / Readiness	0.7	1.3	0.4	-	2.4
Data Center Migration	0.6	0.1	-	-	0.7
Project Server	-	0.3	-	-	0.3
Foundation					
IT Systems Foundation	-	3.1	2.8	2.3	8.2
IT Network Telecom	-	5.0	1.3	1.3	7.6
IT Applications Foundation	-	1.5	1.6	0.8	3.9
Operations Foundation	-	0.7	0.5	0.4	1.1
Other / Carryover	-	1.5	1.6	0.8	3.9
<b>Total</b>	<b>4.0</b>	<b>13.8</b>	<b>16.6</b>	<b>5.6</b>	<b>39.5</b>

(1) Excludes Integrated Marketplace and Post Go-Live Projects

(2) Upgrade Dispatcher Training Simulator (DTS) to Training and Testing Simulated Environment (TTSE)

## VII. Debt Service

SPP secures funds from financial institutions and investors to finance its capital projects. Costs of the capital projects are paid directly from the funds provided by the borrowings. These costs are not directly included in SPP's Net Revenue Requirement; however, annual principal and interest payments for borrowings (net of capitalized interest) considered in the Net Revenue Requirement calculation. SPP's outstanding borrowings are projected to equal \$258.3 million as of January 1, 2014. Interest and principal payments included in the 2014 Net Revenue Requirement are shown in the table below.

### 2014 Debt Service (\$ millions)

	Issue Date	Issue Amount	Due Date	2014 Principal payments	2014 Interest payments	2014 Capitalized Interest	2014 Total Debt Service
5.31% notes due 2014	2/24/2007	\$30.0	12/25/2014	\$5.5	\$0.2		\$5.7
5.45% notes due 2016	7/23/2009	\$30.0	7/23/2016	\$6.0	\$0.7		\$6.7
5.51% notes due 2027	3/23/2007	\$5.1	2/1/2027	\$0.2	\$0.2		\$0.4
4.82% construction notes due 2042	10/31/2010 & 12/28/2010	\$65.0	12/30/2042	\$1.0	\$3.1		\$4.1
3.55% integrated markets notes due 2024	3/30/2011	\$70.0	3/30/2024	\$5.3	\$2.4	(\$0.4)	\$7.3
3.00% capital funding notes due 2024	5/30/2012	\$50.0	3/30/2024	\$3.8	\$1.5	(\$0.3)	\$4.9
3.25% capital funding notes due 2024	11/30/2012	\$50.0	9/30/2024	\$1.3	\$1.6	(\$0.3)	\$2.5
New funding	1Q2014	\$60.0	2024	\$0.0	\$2.2	(\$0.1)	\$2.1
<b>Total</b>		<b>\$360.1</b>		<b>\$23.0</b>	<b>\$11.8</b>	<b>(\$1.1)</b>	<b>\$33.8</b>

SPP anticipates issuing \$60.0 million in new borrowings during the first quarter of 2014 to fund capital projects for 2014-2016. Due to the favorable interest rate environment and SPP's credit rating of "A" for senior unsecured debt and "A+" for senior secured debt, the budget assumed the cost of new borrowing to be 4% with a term of ten years.

SPP capitalizes a portion of interest expense in association with Integrated Marketplace development costs, and expects to do the same for the Marketplace post-go-live projects that meet SPP's capitalization threshold criteria. According to U.S. GAAP, the historical cost of acquiring an asset should include all costs incurred to bring it to the condition and location necessary for its intended use. Financing costs incurred for an asset during the construction or development period are considered part of the asset's historical acquisition cost. In accordance

with GAAP, SPP's policy is to capitalize interest costs for assets meeting certain criteria to obtain a measure of acquisition cost that more closely reflects SPP's total investment in the asset. In summary, projects with anticipated costs exceeding \$5.0 million with an anticipated duration of greater than 18 months would be subject to interest capitalization.

### Impact of Capitalized Interest (\$ millions)

	Actual Interest Payments		Capitalized Interest*	Net Revenue Requirement	
	2014 Budget	Impact on Admin Fee		2014 Budget	Impact on Admin Fee
5.31% notes due 2014	\$0.2	\$ 0.001		\$0.2	\$ 0.001
5.45% notes due 2016	\$0.7	\$ 0.002		\$0.7	\$ 0.002
5.51% notes due 2027	\$0.2	\$ 0.001		\$0.2	\$ 0.001
4.82% construction notes due 2042	\$3.1	\$ 0.009		\$3.1	\$ 0.009
3.55% integrated markets notes due 2023	\$2.4	\$ 0.007	(\$0.4)	\$2.1	\$ 0.006
3.00% capital funding notes due 2024	\$1.5	\$ 0.004	(\$0.3)	\$1.1	\$ 0.003
3.25% capital funding notes due 2024	\$1.6	\$ 0.004	(\$0.3)	\$1.3	\$ 0.004
New funding	\$2.2	\$ 0.006	(\$0.1)	\$2.1	\$ 0.006
<b>Total</b>	<b>\$11.8</b>	<b>\$0.0335</b>	<b>(\$1.1)</b>	<b>\$10.8</b>	<b>\$0.0305</b>

*\*Capitalization of interest on long-term debt associated with the development of the Integrated Marketplace and applicable post-go-live projects results in a reduction to the admin fee of \$0.003. This assumes the capitalized interest is not deemed to be impaired.*

**VIII. Supplemental Analysis and Schedules**

Financial Statement Forecasts

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**Income Statement 2013-2014 Comparison**  
**(\$ millions)**

	<b>2013 Budget</b>	<b>2013 Forecast</b>	<b>2014 Budget</b>	<b>2014 Prior*</b>
<b>Income</b>				
Tariff Administration Service	\$113.8	\$112.8	\$142.2	\$137.5
Fees & Assessments	28.2	24.9	26.8	29.1
Contract Services Revenue	0.7	0.4	0.5	0.7
Miscellaneous Income	4.3	3.1	3.4	4.1
<b>Total Income</b>	<b>\$147.0</b>	<b>\$141.2</b>	<b>\$172.8</b>	<b>\$171.5</b>
<b>Expense</b>				
Salary & Benefits	\$77.4	\$77.7	\$82.1	\$80.8
Employee Travel	2.6	2.1	2.2	2.4
Administrative	5.0	4.0	4.7	5.5
Assessments & Fees	16.3	14.7	15.3	17.2
Meetings	1.6	0.9	0.9	1.5
Communications	4.4	3.8	3.9	4.5
Leases	0.4	0.4	0.2	0.1
Maintenance	10.5	11.0	15.9	15.3
Services	16.0	15.3	14.3	15.7
Regional State Committee	0.3	0.3	0.3	0.4
Depreciation & Amortization	20.3	19.7	49.7	47.0
Other Expense	7.8	7.6	10.8	9.1
<b>Total Expense</b>	<b>\$162.6</b>	<b>\$157.4</b>	<b>\$200.3</b>	<b>\$199.4</b>
<b>Net Income (Loss)</b>	<b>(\$15.6)</b>	<b>(\$16.1)</b>	<b>(\$27.5)</b>	<b>(\$27.9)</b>
Debt Repayment	\$12.7	\$12.7	\$23.0	\$23.0
MW/h Forecast (in millions)	360.9	358.1	350.4	371.7
Net Revenue Requirement	\$121.8	\$120.8	\$142.2	\$141.4
Projected Over / (Under) Recovery	(\$7.8)	(\$8.0)	\$0.0	(\$1.1)
Calculated Admin Fee / MWh	\$0.338	\$0.337	\$0.406	\$0.380
Recommended Admin Fee / MWh	\$0.315	\$0.315	\$0.406	\$0.370
<i>Tariff Cap on Admin Fee</i>	<i>\$0.350</i>	<i>\$0.350</i>	<i>\$0.350</i>	<i>\$0.350</i>
Capital Expense	\$35.8	\$51.3	\$37.1	\$22.6
Headcount	603	596	598	618

\* 2014 projection as presented in the 2013 budget

**Income Statement 2014-2016**  
(\$ millions)

	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<u>Budget</u>	<u>Budget</u>	<u>Budget</u>
<b>Income</b>			
Tariff Administration Service	\$142.2	\$150.4	\$149.8
Fees & Assessments	26.8	28.6	29.3
Contract Services Revenue	0.5	0.5	0.5
Miscellaneous Income	3.4	3.5	3.5
<b>Total Income</b>	<b>\$172.8</b>	<b>\$183.0</b>	<b>\$183.1</b>
<b>Expense</b>			
Salary & Benefits	\$82.1	\$84.7	\$87.3
Employee Travel	2.2	2.1	2.2
Administrative	4.7	5.0	5.1
Assessments & Fees	15.3	15.6	16.0
Meetings	0.9	0.9	0.9
Communications	3.9	4.1	4.2
Leases	0.2	0.2	0.2
Maintenance	15.9	15.9	17.1
Services	14.3	13.4	12.8
Regional State Committee	0.3	0.3	0.3
Depreciation & Amortization	49.7	62.0	60.8
Other Expense	10.8	11.0	10.2
<b>Total Expense</b>	<b>\$200.3</b>	<b>\$215.4</b>	<b>\$217.1</b>
<b>Net Income (Loss)</b>	<b><u>(\$27.5)</u></b>	<b><u>(\$32.4)</u></b>	<b><u>(\$34.0)</u></b>
Debt Repayment	\$23.0	\$29.0	\$26.5
MW/h Forecast	350.4	350.4	350.4
Net Revenue Requirement	\$142.2	\$150.4	\$149.8
Calculated Admin Fee / MWh	\$0.406	\$0.429	\$0.428
Recommended Admin Fee / MWh	\$0.406	\$0.429	\$0.428
<i>Tariff Cap on Admin Fee</i>	<i>\$0.350</i>	<i>\$0.350</i>	<i>\$0.350</i>
Capital Expense	\$37.1	\$19.2	\$5.6
Headcount	598	603	605

**Balance Sheet**  
**(\$ millions)**

	<u>12/31/2013</u>	<u>12/31/2014</u>
<b>ASSETS</b>		
Current Assets		
Cash & Equivalents	\$30.2	\$33.9
Restricted Cash Deposits	42.4	45.4
Accounts Receivable (net)	16.0	18.5
Other Current Assets	5.9	9.5
Total Current Assets	94.5	107.3
Total Fixed Assets	208.5	196.9
Total Other Assets	1.7	1.6
Investments	1.1	0.2
<b>TOTAL ASSETS</b>	<b><u>\$305.8</u></b>	<b><u>\$306.1</u></b>
<b>LIABILITIES &amp; EQUITY</b>		
Liabilities		
Current Liabilities		
Accounts Payable (net)	\$10.7	\$2.7
Customer Deposits	42.4	45.4
Current Maturities of LT Debt	23.0	30.4
Other Current Liabilities	26.6	23.3
Deferred Revenue	5.5	4.5
Total Current Liabilities	108.2	106.4
Long Term Liabilities		
US Bank 5.45% Senior Notes - 2016	9.0	3.0
US Bank Maumelle Mortgage - 2027	3.5	3.3
Campus 4.82% Senior Notes - 2042	63.0	61.9
Integrated Marketplace 3.55% Senior Notes - 2024	64.8	57.8
Capital Funding 3.00% - 2024	46.3	41.3
Capital Funding 3.25% - 2024	48.8	43.8
Additional Financing	0.0	54.0
Other Long Term Liabilities	9.1	8.9
Total Long Term Liabilities	244.4	273.9
Net Income	(16.1)	(27.5)
Members' Equity	(30.7)	(46.8)
Total Members' Equity	(46.8)	(74.3)
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b><u>\$305.8</u></b>	<b><u>\$306.1</u></b>

**Cash Flow Forecast 2014-2016**  
(\$ millions)

	<u>2014</u>	<u>2015</u>	<u>2016</u>
<b>OPERATING CASH</b>			
<b>Beginning Cash on Hand</b>	<b>\$3.9</b>	<b>\$2.6</b>	<b>\$0.2</b>
<b>Income</b>			
Tariff Administration Service	\$142.2	\$150.4	\$149.8
NERC Fees	11.8	12.2	12.5
Annual Dues	0.4	0.4	0.4
Contract Services Revenue	0.5	0.5	0.5
Studies and Other Income	3.4	3.5	3.5
<b>Operating Income</b>	<b>158.27</b>	<b>167.0</b>	<b>166.8</b>
<b>Expense</b>			
Salary & Benefits	81.6	84.7	87.3
Employee Travel	2.2	2.1	2.2
Administrative	4.7	5.0	5.1
Meetings	0.9	0.9	0.9
Communications	3.9	4.1	4.2
Leases	0.2	0.2	0.2
Maintenance	15.9	15.9	17.1
Services	14.3	13.4	12.8
Regional State Committee	0.3	0.3	0.3
Other Expense	12.6	13.4	12.3
Debt Service	22.9	29.3	26.5
<b>Operating Expense</b>	<b>159.5</b>	<b>169.4</b>	<b>169.0</b>
<b>Ending Cash on Hand</b>	<b>\$2.6</b>	<b>\$0.2</b>	<b>(\$2.0)</b>
Recommended Admin Fee / MWh	\$0.406	\$0.429	\$0.428
<b>CAPITAL CASH</b>			
<b>Beginning Cash on Hand</b>	<b>\$8.0</b>	<b>\$31.0</b>	<b>\$11.8</b>
Capital Expenditures	37.1	19.2	5.6
Capital Financing	60.0		
<b>Ending Cash on Hand</b>	<b>\$31.0</b>	<b>\$11.8</b>	<b>\$6.2</b>
<b>TOTAL ENDING CASH</b>	<b>\$33.6</b>	<b>\$12.0</b>	<b>\$4.2</b>

## Capital Projects List (\$ millions)

2014 - 2016 Capital Project Budget (Including Carry Over Costs)						
Project	Prior Year(s)	2013 Fcst	2014 Bud	2015 Fcst	2016 Fcst	TOTAL
<b>Original Go-Live</b>						
Integrated Marketplace Go-Live (Includes CBA)	\$72.9	\$36.4	\$5.8	\$0.0	\$0.0	\$115.2
<b>Post Go-Live</b>						
Market to Market	0.0	0.7	5.9	0.5	0.0	7.0
Regulation Compensation	0.0	0.5	2.4	0.3	0.0	3.2
Long-Term Congestion Rights (LTCRs)	0.0	0.2	4.0	0.1	0.0	4.3
Enhanced Combined Cycle	0.0	0.2	4.3	0.1	0.0	4.6
Pseudo Tie In/Out	0.0	0.2	0.0	0.0	0.0	0.2
AFC Granularity Changes for TSRs	0.0	0.0	0.0	1.4	0.0	1.4
Sunset Clause for Load Submittal for Legacy Bas	0.0	0.0	0.0	0.2	0.0	0.2
Marketplace Date for MPs Post Go-Live	0.0	0.0	0.0	0.1	0.0	0.1
IT Environments Buildout for Marketplace	0.0	0.0	0.6	0.0	0.0	0.6
Grandfather Agreement Carve Out (GFA Carve Out)	0.0	0.0	0.3	0.0	0.0	0.3
<b>Total Market Post Go-Live Projects</b>	<b>0.0</b>	<b>1.7</b>	<b>17.5</b>	<b>2.5</b>	<b>0.0</b>	<b>21.7</b>
<b>Carry Over Projects</b>						
Netezza Upgrade	0.5	2.3	0.2	0.1	0.0	3.0
EMS Upgrade	0.0	0.0	1.3	0.4	0.0	1.7
Data Center Migration	0.0	0.6	0.1	0.0	0.0	0.7
EMS Readiness	0.3	0.3	0.0	0.0	0.0	0.7
Transmission Settlements Upgrade ETSE3.0	0.0	0.0	0.0	3.8	0.0	3.8
OPS DTS Upgrade to TTSE	0.0	0.0	0.0	4.4	0.0	4.4
Miscellaneous Facilities	0.0	0.0	0.2	0.1	0.0	0.3
Alstom ETS Foundation	0.0	0.0	0.1	0.1	0.1	0.2
Rate Impact Automation	0.0	0.0	0.0	0.1	0.0	0.1
EIS Sunset	0.0	0.0	0.0	0.0	0.0	0.0
Integration of IssueTrak with Remedy	0.0	0.0	0.0	0.0	0.0	0.0
ETS Foundation - Alstom	0.0	0.0	0.0	0.0	0.0	0.0
Aurea ESB Replacement	0.0	0.0	0.1	0.5	0.1	0.7
FERC Order 1000 Regional RFP	0.0	0.0	0.2	0.0	0.0	0.2
<b>Total Carry Over Projects</b>	<b>0.8</b>	<b>3.2</b>	<b>2.2</b>	<b>9.4</b>	<b>0.2</b>	<b>15.8</b>
<b>2014 New Projects</b>						
Project Server Upgrade	0.0	0.0	0.3	0.0	0.0	0.3
QA ICCP Buildout	0.0	0.0	0.2	0.0	0.0	0.2
TAGIT Database Enhancement	0.0	0.0	0.0	0.2	0.0	0.2
Cost Allocation SQL Database	0.0	0.0	0.1	0.0	0.0	0.1
Engineering App Store	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total 2014 New Projects</b>	<b>0.0</b>	<b>0.0</b>	<b>0.6</b>	<b>0.2</b>	<b>0.0</b>	<b>0.7</b>
<b>IT / Ops Foundation</b>						
IT Systems Foundation			3.1	2.8	2.3	8.2
IT Network Telecom			5.0	1.3	1.3	7.6
IT Applications Foundation			1.5	1.6	0.8	3.9
Ops Foundation			1.5	1.3	1.1	3.9
<b>Total IT / Ops Foundation</b>			<b>11.1</b>	<b>7.0</b>	<b>5.4</b>	<b>23.5</b>
<b>Total Project Capital Budget</b>	<b>\$73.8</b>	<b>\$41.4</b>	<b>\$37.1</b>	<b>\$19.2</b>	<b>\$5.6</b>	<b>\$176.9</b>
<b>2014 - 2016 Total (excludes prior years)</b>						<b>\$61.8</b>

**Outside Services by Function  
(\$ millions)**

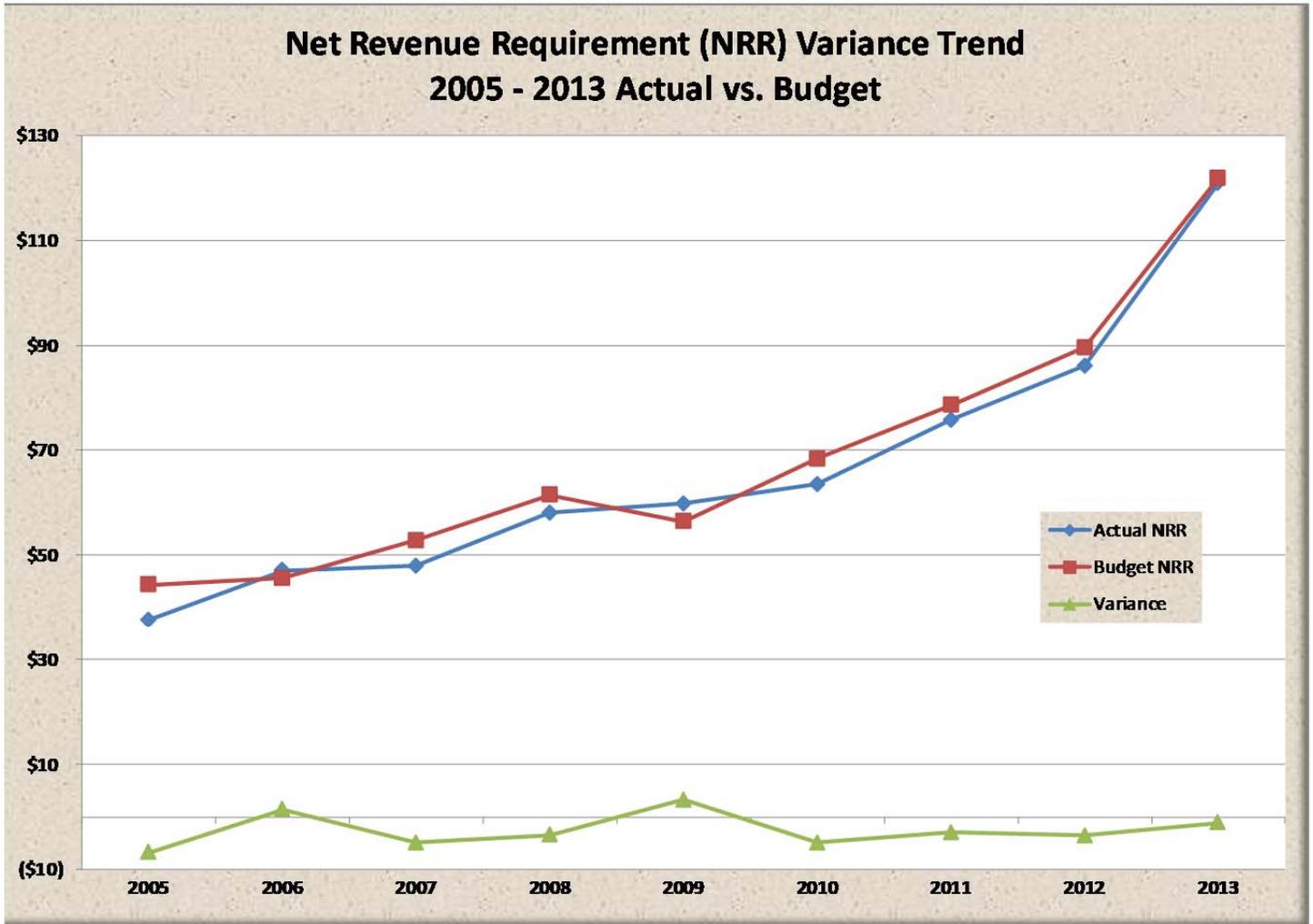
	<b>2014</b>	<b>2013</b>	
<b>DESCRIPTION OF SERVICES</b>	<b>BUDGET</b>	<b>BUDGET</b>	<b>Inc / (Dec)</b>
<b>Integrated Marketplace</b>			
SSAE 16 Audits	\$0.4	\$0.6	(\$0.2)
Staff augmentation, Training	0.4	0.5	(0.2)
Staff augmentation, Market Design	0.0	0.3	(0.3)
Staff augmentation, Market Monitoring	0.1	0.3	(0.2)
Staff augmentation, Operations	0.3	0.6	(0.2)
<b>Total Integrated Marketplace</b>	<b>1.3</b>	<b>2.2</b>	<b>(1.0)</b>
<b>Staff Augmentation</b>			
IT	1.6	1.6	(0.0)
PMO / BPI	0.3	0.0	0.3
Regulatory	0.0	0.5	(0.5)
Legal	2.5	3.2	(0.7)
Engineering Modeling	0.2	0.3	(0.1)
<b>Total Staff Augmentation</b>	<b>4.6</b>	<b>5.6</b>	<b>(1.0)</b>
<b>Information Technology</b>			
OATI Monthly service fee	1.5	1.4	0.1
After hours monitoring of IT Command Center	0.3	0.3	(0.0)
Operations Wind Forecasting Analysis	0.4	0.3	0.1
Misc. IT services (cabling, storage, asset disposal)	0.1	0.1	(0.1)
<b>Total Information Technology</b>	<b>2.3</b>	<b>2.1</b>	<b>0.2</b>
<b>Other</b>			
Board of Directors Fees, audits, etc.	1.0	1.0	(0.0)
Communications and training	0.1	0.1	0.1
Corporate services	0.9	1.2	(0.3)
Engineering studies / other	1.8	1.5	0.3
Regional Entity hearings and audits	1.5	1.5	(0.0)
FERC Order 1000	0.4	0.4	(0.1)
Ops IDC / Other	0.5	0.3	0.3
Regional State Committee	0.3	0.3	0.3
<b>Total</b>	<b>\$14.6</b>	<b>\$16.3</b>	<b>(\$1.4)</b>

## Analysis of 2013 Fees & Assessments (\$ millions)

Fees & Assessments, Revenue and Expense	2013 Forecast	2013 Budget	Variance Fav/(Unfav)	Note
SPP Regional Entity Revenue	\$10.2	\$11.5	(\$1.3)	Revenue for SPP RE is recognized as earned based on expense totals. In 2013, the RE expects to be favorable in comparison to their total expense budget, resulting in lower corresponding revenues.
FERC Fee Assessments (Sch.12)	\$14.7	\$16.7	(2.0)	FERC Fee Assessment revenue is recognized as collected. The Schedule 12 rate decreased in 2013 but the decrease was not reflected in the 2013 budget due to timing issues.
<b>Fees &amp; Assessments Revenue*</b>	24.9	28.2	(3.3)	
<b>Fees &amp; Assessments Expense</b>	<b>\$14.7</b>	<b>\$16.3</b>	<b>(\$1.6)</b>	FERC Fees & Assessments expense is estimated based on prior year assessment plus a growth rate. The current year run rate is adjusted once the annual bill is received in June, causing variance to budget.

\*Total Fees & Assessments revenue also includes annual non-load dues, which are \$0.4 million for both the 2013 Forecast and Budget.

**Net Revenue Requirement Variance History**  
(\$ millions)

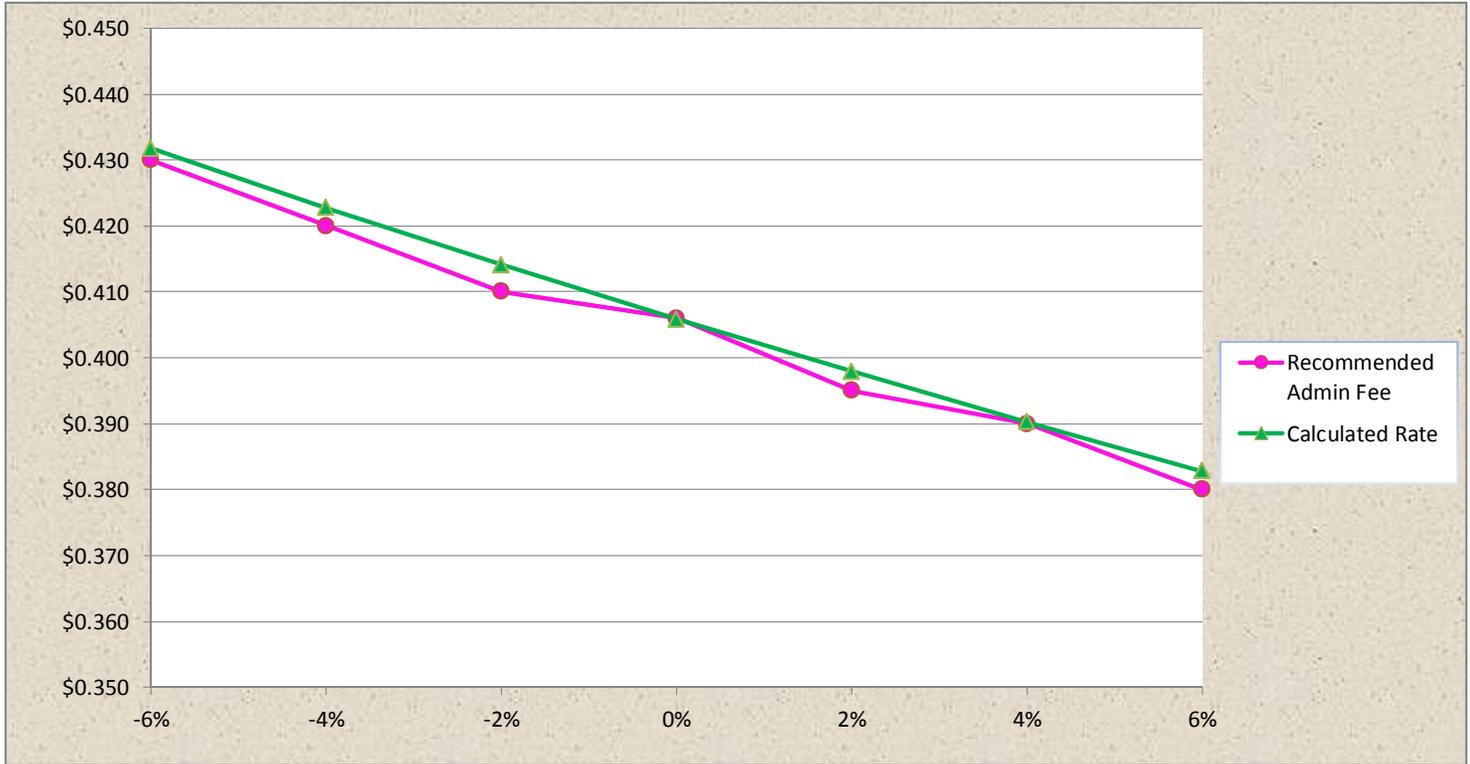


	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Actual NRR	\$37.7	\$47.1	\$48.0	\$58.1	\$59.8	\$63.5	\$75.8	\$86.1	\$120.8
Budget NRR	\$44.4	\$45.7	\$52.8	\$61.5	\$56.5	\$68.4	\$78.6	\$89.6	\$121.8
Variance	(\$6.7)	\$1.5	(\$4.8)	(\$3.4)	\$3.4	(\$4.9)	(\$2.9)	(\$3.5)	(\$1.0)
	(15%)	3%	(9%)	(6%)	6%	(7%)	(4%)	(4%)	(1%)

The graph and table above highlight the range of variance between SPP's actual and budgeted Net Revenue Requirement (NRR) by year. As SPP's NRR has increased over the years, the variances between actual and budget remain relatively small.

## Load Variance Sensitivity

### Rate Sensitivity to Load Variances



Load Variance	-6%	-4%	-2%	0%	2%	4%	6%
<b>Billing Determinants</b>	329.4	336.4	343.4	350.4	357.4	364.4	371.4
<b>Year Ending Operating Cash</b>	\$2.0	\$1.6	\$1.1	\$2.6	\$1.5	\$2.5	\$1.5
<b>Over/(Under) Recovery at \$.406 per MWh</b>	(\$8.5)	(\$5.6)	(\$2.8)	\$0.1	\$2.9	\$5.8	\$8.6
<b>Recommended Admin Fee</b>	\$0.430	\$0.420	\$0.410	\$0.406	\$0.395	\$0.390	\$0.380
<b>Calculated Rate</b>	\$0.432	\$0.423	\$0.414	\$0.406	\$0.398	\$0.390	\$0.383

This graph depicts the impact on SPP's admin fee due to variances in expected billing determinants. SPP has estimated its billing determinants to be 350.4 MWh for 2014. With a Net Revenue Requirement (NRR) of \$142.2, SPP recommends its administrative fee to be \$0.406 per MWh resulting in an estimated year ending operating cash balance of \$2.6 million.

Assuming NRR remained the same and billing determinants were estimated at 357.4 MWh, a 2% increase, SPP would recommend an administrative fee of \$0.395, but would have approximately \$1.5 million in operating cash at the end of 2014. If billing determinants were estimated a 4% increase, SPP would change the administrative fee recommendation to \$0.390 and would expect to have approximately \$2.5 million in operating cash at the end of 2014. The results are reversed if billing determinants are estimated at less than 350.4 MWh.

**Prior Year Budget Comparisons  
(\$ millions)**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<b>Net Revenue Required Estimations</b>									
2008 Budget - NRR Estimations	\$61.5	\$64.5	\$71.2						
2009 Budget - NRR Estimations		\$56.5	\$68.4	\$75.1					
2010 Budget - NRR Estimations			\$68.4	\$90.1	\$94.9				
2011 Budget - NRR Estimations				\$78.6	\$86.7	\$94.6			
2012 Budget - NRR Estimations					\$89.6	\$98.6	\$113.6		
2013 Budget - NRR Estimations						\$121.8	\$141.4	\$145.0	
2014 Budget - NRR Estimations							\$142.2	\$150.4	\$149.8
<i>Actual NRR</i>	\$58.1	\$59.8	\$63.5	\$75.8	\$86.1	\$120.8			
<b>Billing Unit Estimations</b>									
2008 Budget - Billing Units Estimations	312.5	319.1	325.8						
2009 Budget - Billing Units Estimations		331.4	346.4	353.4					
2010 Budget - Billing Units Estimations			333.5	338.1	342.7				
2011 Budget - Billing Units Estimations				343.0	345.0	349.8			
2012 Budget - Billing Units Estimations					353.5	359.8	366.3		
2013 Budget - Billing Units Estimations						360.9	371.7	382.9	
2014 Budget - Billing Units Estimations							350.4	350.4	350.4
<i>Actual Billing Units</i>	296.1	328.2	329.6	341.4	361.0	358.1			
<b>Administrative Fee Estimations</b>									
2008 Budget - Admin Fee Estimations	\$0.190	\$0.200	\$0.200						
2009 Budget - Admin Fee Estimations		\$0.170	\$0.170	\$0.170					
2010 Budget - Admin Fee Estimations			\$0.195	\$0.270	\$0.280				
2011 Budget - Admin Fee Estimations				\$0.210	\$0.255	\$0.280			
2012 Budget - Admin Fee Estimations					\$0.255	\$0.280	\$0.300		
2013 Budget - Admin Fee Estimations						\$0.338	\$0.380	\$0.379	
2014 Budget - Admin Fee Estimations							\$0.406	\$0.429	\$0.428
<i>Actual Admin Fee</i>	\$0.190	\$0.170	\$0.195	\$0.210	\$0.255	\$0.315			

This table attempts to quantify the year-to-year changes in SPP's three year projections made during each budget cycle as required by the membership agreement. Accuracy of these projections can be significantly influenced by both internal and external pressures such as board and committee directives, incremental membership, environmental factors, etc.



# Memorandum

To: **Finance Committee Members**  
From: **Tom Dunn**  
CC: **Cheryl Robertson**  
Date: **October 2, 2013**  
Re: **2013-2014 Meeting Schedule**

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Detailed below is a schedule for face-to-face meetings of the Finance Committee for 2011/12 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 23, 2013	8:30	Dallas, TX	Rate Cap Increase Pension Mgmt Interviews Financing Review Audit RFP – Response Review BPI Review Mid Year Review Budget Process Review
Sept 24, 2013	8:30	Dallas, TX	2014 Budget Review Internal Audit Report Auditor Engagements
Oct 15, 2013	8:30	Little Rock, AR	2014 Budget Review
Dec 9, 2013	2:00	Dallas, TX	SSAE-16 Audit Report Corp Ins Review
April 3, 2014	8:30	Dallas, TX	Financial Audit Review
July 10, 2014	8:30	Dallas, TX	BPI Review Mid Year Review Budget Process Review