



**Southwest Power Pool**  
**FINANCE COMMITTEE MEETING**  
**September 11, 2014**  
**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. Develop schedule of items that require Committee approval, items that require Committee monitoring, and items that require Committee input.
3. Review of ARR exposures after July 2014.
4. Review SPP's status when a market participant declares bankruptcy.
5. Review any other alternatives to netting ARRs which can mitigate the short window of ARR exposure.
6. Review of credit metrics in September 2014.
7. Investigate potential to increase the exposure calculation for transmission service beyond 50 days.
8. Create comparison of level of financial disclosures contained in RTO annual reports

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• 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
Coleen Wells	KEPCo
Mike Wise	Golden Spread Electric Coop
Tom Dunn	SPP

Others attending included:

Laura Kapuska	Lincoln Electric
Jim Eckelberger	SPP Director
Traci Bender	NPPD
Patrick Smith	Westar
Dianne Branch	SPP
Zeynep Vural	SPP
Sherri Dunn	SPP

**2015 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 2015 budget document and request additional detail and/or information to be provided at the September 23, 2014 meeting. The discussion yielded the following items where additional information was requested:

- a. Provide details of what has changed in the 2014 forecast since the July 2014 Finance Committee meeting
- b. Update with the 2015 draft budget information and present the “Activity Chart” from the April 2013 presentation to the RSC
- c. Provide historical chart of capital expenditure spending for “Foundation” activities
- d. Provide additional detail on the IT “Foundation” capital expenditure spending for 2015-17
- e. Detail changes in Outside Services spending between 2014 and 2015
- f. Provide historical and forecast headcount chart
- g. Discuss changes in workload associated with adding the Integrated System to SPP
- h. Provide scenarios illustrating assumptions and impacts related to managing the administrative fee to 39¢/MWh

**Future Meetings**

The next meeting of the Finance Committee is scheduled for September 23, 2014 at the SPP corporate office in Little Rock, AR beginning at 8:30am and concluding at 3:00pm.

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

Finance Committee  
September 11, 2014

Respectfully Submitted,

Thomas P. Dunn  
Secretary



# 2015 BUDGET

PREPARED BY ACCOUNTING DEPARTMENT



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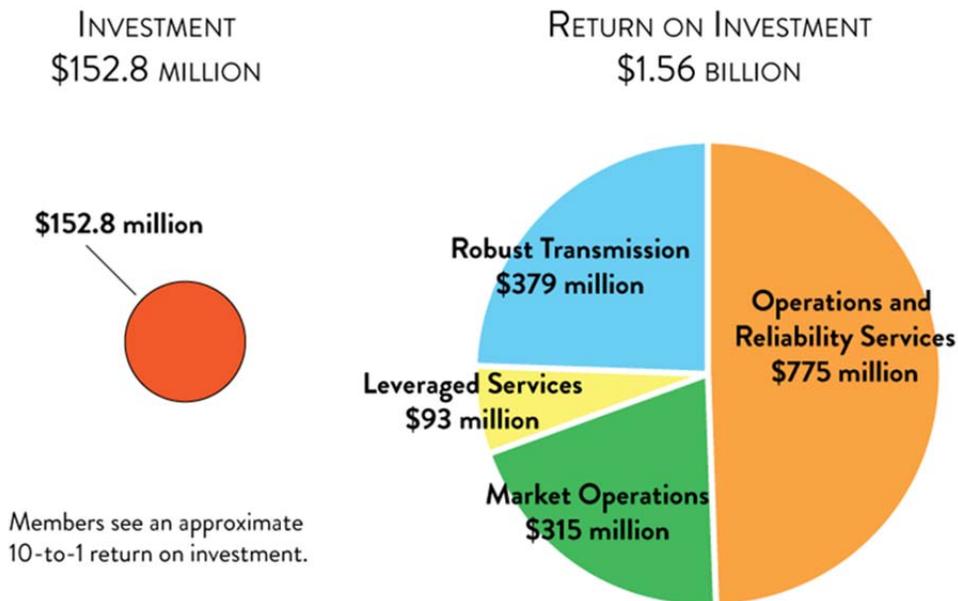
## I. Member Value

Southwest Power Pool, Inc. (SPP) ensures the reliable operation of and fair and open access to the high voltage transmission system in its 8-state footprint. SPP's services further ensure reliable least-cost delivered energy to consumers in its footprint. SPP is mandated by the Federal Energy Regulatory Commission to ensure reliable supplies of power, adequate transmission infrastructure, and competitive wholesale electricity prices. In 2015, SPP is expected to provide the eight-state region between \$1.2 and \$1.9 billion in annual benefits. This range of benefits yields between an 8-to-1 and 13-to-1 return on the annual cost of providing these federally-mandated services. At the proposed 42.0 cents per MWh administrative fee, a residential customer using 1,000 kWh per month would, on average, receive \$78 in benefits per year from SPP's services for only \$8 in costs.

Another way to view the value SPP provides is to consider SPP's net revenue requirement of \$147.3 million (before prior year true-up) as an investment that will yield a \$1.55 billion return for the year (midpoint of the range of annual benefits), or a 10.6 times return. That \$147.3 million investment provides value in the following areas:

- \$775 million in Operations and Reliability Services
- \$379 million in Region-Wide Transmission Planning
- \$315 million in Open Transparent Energy Market Operations
- \$ 93 million in Leveraged, Centralized Services

### INVESTMENT IN SPP



SPP's services create the opportunity to realize the benefits associated with planning and operating over a larger region. Prior to SPP's evolution to the Regional Transmission Organization (RTO), utilities in the region operated in a decentralized, bilateral market environment. Bilateral power transactions were characterized by physical transmission constraints managed through mechanisms that at times limited the availability of transmission, increased transaction costs, and decentralized unit commitment and dispatch. SPP's market mechanisms now utilize security-constrained, economic dispatch to optimize the use of all the market participants' resources within the region. The resources in the region provide more options and better efficiency to meet the needs of electric customers, both reliably and affordably. SPP's marketplace provides cost savings and enhanced reliability, as well as independent oversight of the region's transmission and generation facilities.

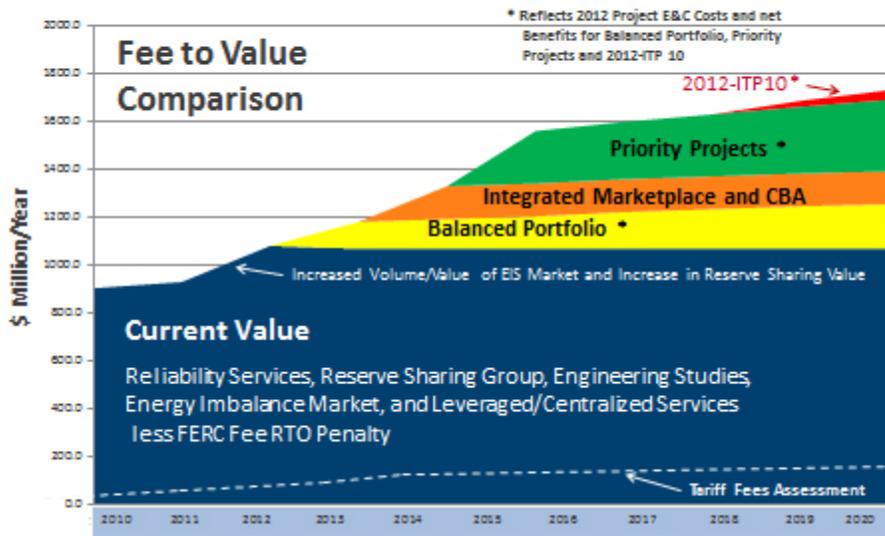
This \$147.3 million investment also enables SPP to:

1. Reduce overall costs by operating as a region
2. Provide reliability assurance and predictable operations of the bulk electric system
3. Facilitate effective transmission planning processes that result in building and maintaining an economically optimized transmission system
4. Offer an open and transparent marketplace with economic benefits
5. Optimize market efficiencies and transmission expansion along the seams of other markets and the emerging seam associated with natural gas supply
6. Ensure fair and equitable allocation of transmission expansion costs

Peter Drucker, noted author, management consultant, and educator, once commented, *"Organizations are paid to create value, not to control costs"*. The SPP organization, including all of its members, regulators, and staff, has clearly been successful in creating meaningful value throughout its region. SPP has achieved this by remaining guided by its value proposition:

1. Relationship-based
2. Member-driven
3. Independence through diversity
4. Reliability and economics are inseparable
5. Evolutionary versus revolutionary change

## MID-RANGE VALUES AND RAMPED FUTURE VALUES



### II. 2015 Net Revenue Requirement

SPP continues to focus on the core mission of reliable planning and operation of the grid. A new strategic plan was established during 2014, positioning SPP to fulfill its mission over the next decade and beyond. SPP’s activities and initiatives will be guided by the four foundational strategies identified in the new strategic plan which are: reliability assurance, optimizing interdependent systems, maintaining an economical and optimized transmission system, and enhancing member value and affordability. These four strategies are interdependent, with reliability assurance as the basis and the enhancement of member value and affordability as the discipline to drive all SPP strategies.

Total 2015 operating expenses are expected to be \$218.4 million, an increase of \$17.7 million compared to 2014. Growth in operating expenses results primarily from depreciation of the Integrated Marketplace asset (\$11.4 million) and from outside services expense related to various initiatives including: 1) adding the Integrated System to the SPP footprint (\$1.4 million), 2) administering the FERC Order 1000 competitive process (\$1.3 million), and 3) preparing studies for value of transmission planning (\$0.7 million), RCAR Regional Cost Allocation Review (\$0.8 million), and clean power plan assessment (\$0.3 million). FERC assessments (\$1.1 million) and staffing related expense growth (\$0.5 million) also contribute to the increase.

*2015 Net Revenue Requirement is \$147.3 million, and the proposed administrative fee is \$0.420.*

The requested headcount for 2015 in the previous year’s budget was 603 and remains the same for the current 2015 budget. During 2014, SPP reallocated six positions within its approved headcount to meet the changing demands of the business.

The 2015 Net Revenue Requirement (NRR), a component for setting the administrative fee rate, is \$147.3 million versus 2014 budget NRR of \$132.6 million and 2014 forecast NRR of \$136.8 million. The \$147.3 million NRR excludes the prior year true up amounts for 2013 and 2014 of \$5.5 million. The NRR including prior year true up amounts is \$152.8 million. The largest component of the increase in NRR is attributed to the increase in debt payments in 2015. The 2014 actual debt payments were \$23 million as compared to the 2015 debt payments of \$24.3 million; however, \$10 million in 2014 current maturities were funded with new debt proceeds during 2014 and therefore reduced the 2014 NRR by \$10 million. The \$4.7 million increase in outside services mentioned above represents the remaining increase in the 2015 NRR as compared to the 2014 budget.

Another component used in setting the administrative fee is transmission volume, which SPP projects will increase 4.4% to 363.5 million MWh in 2015 compared to the 2014 budget of 348.2 million MWh. Through July 2014, SPP’s members have experienced higher monthly peaks than those recorded in 2013, resulting in a forecast of 351.9 million MWh expected for 2014. Even though year-over-year projections have increased, the base projection for 2015 is equal to the 2014 forecast (351.9 million MWh) due to unseasonably cooler temperatures experienced during the summer months and less point-to-point service sold in 2014. With the addition of the Integrated System load of 11.6 million MWh in the fourth quarter, the estimated total transmission volume is 363.5 million MWh in 2015.

SPP’s 2014 budget estimated the 2015 administrative cost/MWh to be 42.6¢/MWh based on an expected NRR of \$148.4 million and load of 348.2 million MWh (equal to the 2014 budget). SPP’s 2015 budget calculates an administrative cost of 42.0¢/MWh based on an expected 2015 NRR of \$147.3 million plus \$5.5 million in under-recoveries for 2013 and 2014 and load of 363.5 million MWh.

The 2015 budget identifies capital expenditures totaling \$69.5 million for 2015-2017, with \$35.3 million expected to be incurred in 2015. These costs are not directly included in SPP’s Net

<b>SPP Consolidated Summary</b>	<b>2014 Budget</b>	<b>2014 Forecast</b>	<b>2015 Budget</b>
<b>Income</b>			
Tariff Administration Service	\$132.6	\$134.1	\$152.8
Fees & Assessments	26.8	24.8	27.6
Contract Services Revenue	0.5	0.5	0.5
Miscellaneous Income	3.4	4.3	5.2
<b>Total Income</b>	<b>\$163.2</b>	<b>\$163.7</b>	<b>\$186.1</b>
Salary & Benefits	\$82.2	\$79.7	\$82.7
Depreciation & Amortization	49.7	51.3	61.2
Communications, Leases & Maint	20.0	19.2	20.2
Outside Services	14.6	15.3	19.3
Administrative / Other	15.7	14.7	15.2
Assessments & Fees	15.3	16.3	16.4
Travel & Meetings	3.1	2.8	3.4
<b>Total Expense</b>	<b>\$200.7</b>	<b>\$199.4</b>	<b>\$218.4</b>
<b>Net Income (Loss)</b>	<b>(\$37.5)</b>	<b>(\$35.7)</b>	<b>(\$32.3)</b>
Debt Repayment	\$13.0	\$13.0	\$24.3
MW/H Forecast (in millions)	348.2	351.9	363.5
Net Revenue Requirement	\$132.6	\$130.0	\$147.3
2014 Non-Recurring Items		\$6.8	
Under Recovery/Prior Year(s) True Up			\$5.5
Current/Proposed Admin Fee / MWh	\$0.381	\$0.389	\$0.420

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.

In late 2013, SPP began work on Project Pinnacle (previously referred to as Integrated Marketplace Post-Go-Live). Project Pinnacle was originally comprised of three projects mandated by FERC for implementation within one year of the start of SPP's Integrated Marketplace (Market to Market, Regulation Compensation, and Long-Term Transmission Congestion Rights), one significant Member required project (Enhanced Combined Cycle), and several smaller projects addressing grandfather agreements, available flow-gate capacity (AFC) granularity, pseudo-ties, and IT environments.

Work and spending on Pseudo-ties and IT environments will be completed in 2014. Several other projects originally included in Project Pinnacle were not mandated by FERC but rather requested by the SPP membership. As a result of further review and deliberation among staff and the members, the following were canceled and removed from the program scope: AFC granularity changes; Sunset clause for load submittal; Marketplace data for market participants; and GFA Carve Out. The following projects will continue to incur expenditures into 2015 while still targeting a March 1, 2015 implementation date:

- Market to Market
- Regulation Compensation
- Long-Term TCR

Although the 2015 budget continues to reflect projected costs to implement Enhanced Combined Cycle functions, work on the Enhanced Combined Cycle project has been suspended pending further review of the benefits of the project. Prior to placing the project into suspended status, SPP had incurred \$1.2 million in capitalized expenses attributed to ECC. Information Technology, Operations and other foundation projects represent \$46.6 million during 2015-2017.

### **Components of 2015 Net Revenue Requirement and Administrative Fee**

The following table shows the components and calculation of the administrative fee. The 2015 calculation includes additional funding for under recovery in 2013 and 2014. The \$2.8 million 2013 under recovery is the result of higher incentive compensation (18% vs. 15%), pension and self-funded healthcare plan adjustments, and slightly reduced revenues associated with the load (\$0.18M). The expected under recovery of \$2.7 million in 2014 is related to \$2.5 million of interest paid on generation interconnection study deposits.

### Administrative Fee (\$ millions)

	2014 Budget	2014 Forecast	2015 Budget	2015 Prior Year Estimate <sup>(2)</sup>
Operating Expenses (excluding Depreciation)	\$151.0	\$148.2	\$157.2	\$156.3
Debt Service <sup>(1)</sup>	13.0	13.0	24.3	24.0
Gross Revenue Requirement	\$164.0	\$161.2	\$181.5	\$180.3
Less:				
NERC revenue	(11.8)	(9.6)	(11.7)	(12.2)
FERC fee expense	(15.3)	(16.3)	(16.4)	(15.6)
Other Revenues	(4.2)	(5.2)	(6.1)	(4.4)
Net Revenue Requirement (NRR) prior to non-recurring	\$132.6	\$130.0	\$147.3	\$148.4
Billing Determinant (MWh millions) <sup>(3)</sup>	348.2	351.9	363.5	348.2
Calculated Admin Fee/MWh	\$0.381	\$0.369	\$0.405	\$0.426
Non-recurring Items & Prior Year Under Recovery/MWh <sup>(4)</sup>		\$0.019	\$0.015	
Current/Proposed Admin Fee/MWh	\$0.381	\$0.389	\$0.420	\$0.426
Current Tariff Admin Fee Cap	\$0.390	\$0.390	\$0.390	\$0.390

(1) 2014 debt payments were \$23.0 with \$10.0 in current maturities funded with new debt proceeds

(2) Refers to the 2015 estimate made during 2014 budget presentation

(3) Defined as coincident peak for network service and capacity for point to point service in MWh

### Non-recurring items & prior-year under recovery (\$ millions) <sup>(4)</sup>

	2014 Forecast	2015 Budget
2014 Additional incentive compensation	\$4.3	
2014 Studies interest payout	2.5	
2013 Under-recovery		2.8
2014 Under-recovery		2.7
Billing Determinant (MWh millions)	351.9	363.5
Non-recurring Items/MWh	\$0.019	\$0.015

(4) The 2014 NRR includes non-recurring items of \$4.3 for incentive compensation and \$2.5 for study deposit interest.

## III. 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 (section IV)
- 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 two different views:

- 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 12 capital projects impacting 2015, in addition to the foundation projects and Project Pinnacle. Over 18% of the budgeted capital expenditures for 2015-2017 are associated with the development and implementation of Project Pinnacle. 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. 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 during June 2014 to provide guidance in developing the 2015 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:

**Project Pinnacle Initiatives** – During 2014, efforts were focused on the successful development and implementation of the Integrated Marketplace including 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 2015 budget identifies capital expenditures and consulting for market-related functionality and enhancements which will go into production in 2015-2016. The major initiatives, referred to as Project Pinnacle, were also included in the 2014 budget projections. They are as follows:

- Enhanced Combined Cycle Functionality
- Regulation Compensation (FERC Order 755)
- Long Term TCRs (FERC required)
- Market to Market (FERC required)

More information on these initiatives can be found in the Capital Projects section VI.

**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. FERC approved the competitive bidding process for regional transmission projects, which will apply to facilities approved by SPP’s Board of Directors beginning January 2015. A key component to the bidding process is awarding incentive points to bidders that submit accepted solutions to cure transmission issues. SPP received over 1,179 submissions to resolve transmission issues in 2014 versus an expected volume of 500-600 submissions. SPP expects the volume of work and costs associated with the competitive bidding process to be significant and costs in the 2015 budget reflect this effort.

In advance of the expected increased workload, SPP added a management position in 2014 to manage Order 1000 RFP administration and to assist with the legal aspects of the RFP process. A second analyst position was also added to assist with the same functions as workload is anticipated to increase for review of qualified participants. The 2015 budget also includes consulting costs related to an Industry Expert Panel to be commissioned for the purpose of evaluating RFP responses (\$1.3 million). SPP expects to recover the costs related to the RFP process from entities participating in the bidding process starting in 2015. In 2015, \$0.4 million in consulting expense was added to assist in the Definitive Project Proposal (DPP) process and for services associated with the use of cost estimation software by an outside vendor.

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. In preparation for

implementing the process, three engineering positions were added during 2013 to ensure SPP’s compliance with the Order’s interregional aspects.

**Inclusion of Integrated System (IS)** – The SPP footprint is expected to increase in size with the onboarding of the IS entities in the fourth quarter of 2015. Owned by the Western Area Power Administration’s Upper Great Plains Region, Basin Electric Power Cooperative, and Heartland Consumers Power District, the IS covers much of North Dakota, South Dakota, and includes parts of Iowa, Minnesota, Montana, and Nebraska. Its 9,848 miles of high-voltage transmission lines would mean a 17 percent increase (to 58,316 miles) in the miles of transmission lines managed by SPP.

Incremental expense associated with the IS integration includes the following:

<b>Integrated Systems Incremental Expense</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Incremental staffing (Salaries, benefits and taxes) <sup>(1)</sup>	\$ 0.2	\$ 0.3	\$ -
Travel and meetings	\$ 0.2	\$ 0.0	\$ 0.0
Maintenance	\$ 0.2	\$ 0.1	\$ 0.1
Consulting - IT / Operations Wind forecasting	\$ 0.2	\$ 0.1	\$ 0.1
Consulting - IT Staff augmentation	\$ 0.5	\$ -	\$ -
Consulting - Engineering planning and analysis	\$ 0.5	\$ -	\$ -
Consulting - IT / Operations (OATI)	\$ 0.2	\$ -	\$ -
<b>Total Operating Expenses</b>	<b>\$ 1.9</b>	<b>\$ 0.6</b>	<b>\$ 0.3</b>
IT Settlements ETS enhancements	\$ 0.3	\$ -	\$ -
IT Software development	\$ 0.3	\$ -	\$ -
IT Settlements ETSE upgrade	\$ 0.3	\$ -	\$ -
IT Hardware	\$ 0.2	\$ -	\$ -
<b>Total Capital Expenses</b>	<b>\$ 1.0</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Expenses</b>	<b>\$ 2.9</b>	<b>\$ 0.6</b>	<b>\$ 0.3</b>

*(1) Two incremental positions in Operations added in March 2015 to assist with the implementation and operations of IS. Through maturity of staff and restructuring, two positions will be eliminated by 2017.*

Offsetting the costs illustrated above, SPP transmission customers realize a reduction in the administrative fee as a result of the additional MWh load for IS. The IS annual load is estimated at 46.1 MWh, which is a 13% increase over SPP’s 2015 base load projection of 351.9 MWh. Since the integration is expected in October 2015, one-fourth of the annual IS load will be captured in SPP’s 2015 billing determinants. The Net Income/ (Loss) for SPP Foundation (total budget less IS and the Regional Entity) is shown below.

	<b>SPP</b>	<b>Integrated</b>	<b>Regional</b>	<b>Total</b>
<b>Income</b>	<b>Foundation</b>	<b>Systems</b>	<b>Entity</b>	<b>2015 Budget</b>
Tariff Administration Service	\$148.0	\$4.8	\$0.0	\$152.8
Fees & Assessments	15.8	0.0	11.8	27.6
Contract Services Revenue	0.5	0.0	0.0	0.5
Miscellaneous Income	5.2	0.0	0.0	5.2
<b>Total Income</b>	<b>\$169.5</b>	<b>\$4.8</b>	<b>\$11.8</b>	<b>\$186.1</b>
Salary & Benefits	78.0	0.2	4.5	82.7
Depreciation & Amortization	61.2	0.0	0.0	61.2
Communications, Leases & Maint	20.0	0.2	0.0	20.2
Outside Services	16.0	1.4	1.9	19.3
Administrative / Other	15.2	0.0	0.0	15.2
Assessments & Fees	16.4	0.0	0.0	16.4
Travel & Meetings	2.6	0.2	0.7	3.4
<b>Total Expense</b>	<b>\$209.3</b>	<b>\$1.9</b>	<b>\$7.1</b>	<b>\$218.4</b>
<b>Net Income (Loss)</b>	<b>(\$39.9)</b>	<b>\$2.9</b>	<b>\$4.7</b>	<b>(\$32.3)</b>
Debt Repayment				\$24.3
MW/H Forecast (in millions)				363.5
Net Revenue Requirement				\$147.3
2013 /2014 True Up				\$5.5
Recommended Admin Fee / MWh				\$0.42

## Strategic Outlook

The 2014 strategic plan positions SPP to fulfill its mission statement over the next decade and beyond. The plan recognizes the future is uncertain and that depending upon circumstances, responses must be conditioned upon cooperation, industry knowledge, technology, and the interdependence of neighboring regions, as well as new fuel resources for generation. The 2014 Strategic Plan introduces a new foundational strategy, reliability assurance, as its bedrock. With reliability assurance as its basis, the plan updates the 2010 Strategic Plan, which are anchored in the Mission Statement (“Helping our members work together to keep the lights ... today and in the future”) and the five components of SPP’s Value Proposition to its members (relationship-based, member-driven, independence through diversity, evolutionary versus revolutionary, reliability and economics are inseparable). The strategic initiatives related to each of the four interdependent foundational strategies will position SPP for the future while balancing operational priorities and financial considerations.

The energy industry remains in a period of dynamic transformation. In developing the strategic initiatives, SPP has considered several of the evolving factors affecting demand, generation resources, and transmission requirements of SPP and its members:

### *Demand Growth*

- SPP has experienced significant pockets of demand increase in certain regions of the footprint caused by the sudden and recent growth of oil and natural gas drilling and transportation industries. The most significant transmission challenges facing portions of the SPP footprint are related to the increase in oil and gas drilling. SPP fully expects that the economic cycles and the energy market pricing fluctuations will produce wide swings in overall demand from year to year.
- Growth in behind-the-meter generation resources by end-use customers, demand response, conservation, and improved efficiencies are expected to continue through 2023; however, the overall impact in meeting the energy and capacity obligations of the SPP region is relatively small.

### *Generation*

- Many competing factors will impact the future mix of generation resources. SPP will stay informed on continuing developments and will incorporate flexibility and adaptability into future plans.
- SPP continues to experience an influx of variable generation resources, leading to operational challenges; however, SPP is enhancing planning processes to better capture the impacts of the oil and gas projects and variable generation.
- 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. The increase in installed variable generation in the SPP footprint, which is composed almost entirely of wind generation, will continue to cause operational challenges. The SPP RTO Consolidated BA will provide balancing benefits for the widespread installed wind generation.

### *Transmission*

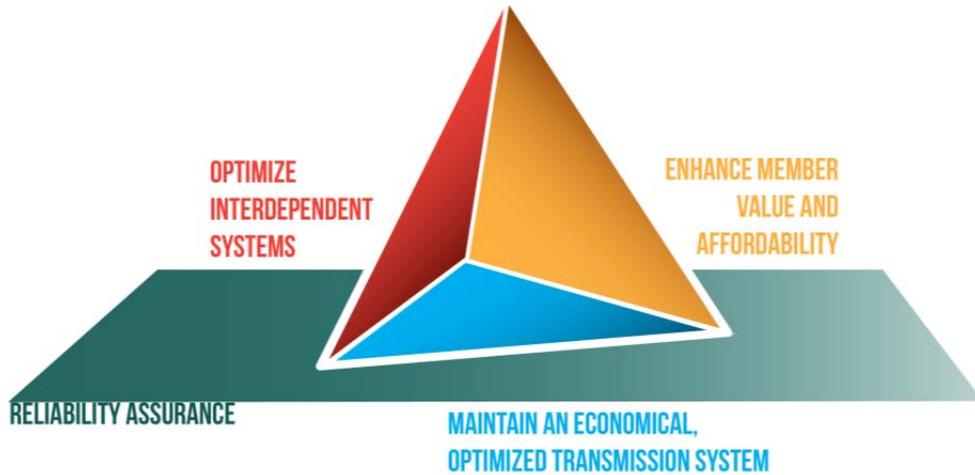
- The most significant transmission challenges facing portions of the SPP footprint are related to an increase in oil and gas drilling and environmental policies restricting carbon emissions. New oil and gas drilling facilities are built faster than they can be captured in SPP's planning processes and models. The

cumulative effect of environmental regulations on generating capacity may significantly shift the planning for future transmission facilities.

- Expansion of renewable resources will be a major factor impacting the transmission system, as many of these resources are located in areas that are 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.
- Advanced technologies will be available in the future to support robust grid operations, to help end-use customers make more informed decisions about energy use and even providing energy to the grid.
- Land acquisition and “right of way” issues are continually becoming more complex and time-consuming.
- Reliability standards are also becoming more complex and require the ability to manage multiple simultaneous contingencies.

### **Alignment of 2015 Budget with SPP’s Strategic Plan**

The Strategic Plan approved by the SPP Board of Directors identifies four foundational strategies to create the capabilities and operational processes needed to fulfill SPP’s mission and maintain or improve its value propositions in the face of a rapidly changing environment. These four strategies are interdependent, with reliability assurance as the basis, and the enhancement of member value and affordability as the discipline to drive all SPP strategies. The foundational strategies are long-term, fundamental components of the SPP business model. The plan focuses on four broad strategies to be continued, initiated, and/or completed over the next 10 years.



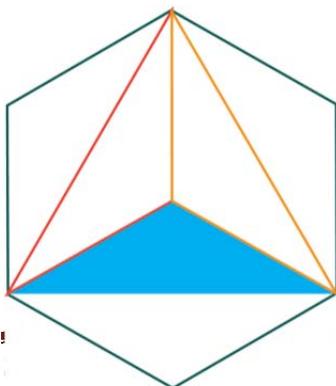
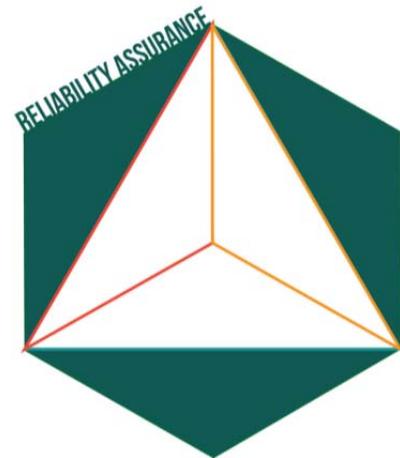
### *Reliability Assurance*

Reliability is the bedrock of SPP’s business. Many changes are taking place simultaneously in the reliability arena requiring SPP to continuously shift and improve planning and operating the system:

- Greater reliance on variable energy resources (wind and solar)
- Shift by consumers to less predictable load patterns
- Reliability implications of environmental policies and regulation
- Continued risk of cyber and physical threats

The following are specific initiatives related to reliability assurance:

- Capacity margin refinement
- Regional resource need and value assessment
- Reliability assessments of environmental rules
- Integration of variable energy resources
- Grid resiliency against cyber and physical threats
- Reliability excellence



### *Maintain an Economical, Optimized Transmission System*

The 2010 SPP Strategic Plan focused on building a robust transmission system, which was described as a system containing an optimal mix of highways (300 kV+) and byways (below 300 kV), and one that minimizes future transmission constraints without over-investing in transmission capacity. A robust system creates immense

value for SPP members and end users in the SPP region. In 2012, SPP members completed 111 transmission projects totaling more than \$1 billion. The SPP Board has authorized notices to construct for roughly \$8 billion of transmission grid upgrades since the year 2000. This represents the culmination of efforts begun seven years ago to build transmission within SPP's footprint. SPP's strategy going forward includes focusing on maintaining the transmission system in an economical and optimized way.

The following are specific initiatives related to maintaining the transmission system:

- Integrated transmission planning check and adjust
- Cost controls on competitive transmission (Order 1000)
- Flexibility to address policy initiatives
- Value pricing: import/export strategy and cost allocation
- Fair and equitable cost/benefit allocation policies

### *Enhance and Optimize Interdependent Systems*

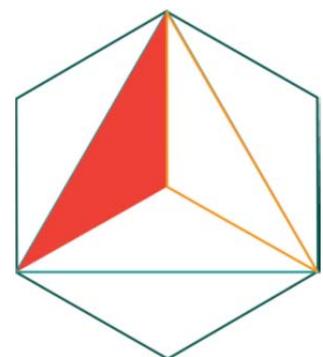
SPP successfully implemented its Integrated Marketplace (IM) on March 1, 2014. Additional enhancements (including member-driven and FERC-directed) are also being made to the Integrated Marketplace and are on track for completion in 2015.

If members are required to move toward more utilization of natural gas as a generation fuel, it will become necessary to coordinate with the natural gas industry to facilitate additional gas transmission pipelines and to develop the operating flexibility allowing the generators to follow load.

Additional value can be derived by optimizing transmission on the boundary seams of the region. This will be a comprehensive effort to focus on inter-regional agreements to plan, allocate cost, optimize usage and provide for fair compensation for the use of transmission across boundaries.

The following are specific initiatives related to enhancing and optimizing interdependent systems:

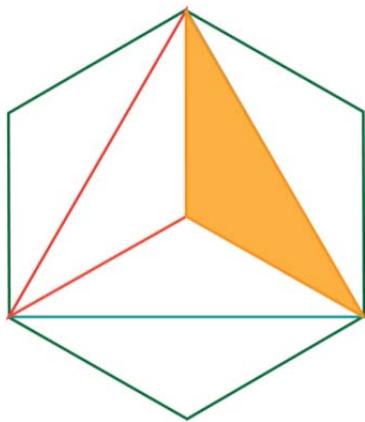
- Inter-regional coordination of transmission planning and operations
- Optimize market efficiencies along seams
- Optimize natural gas pipeline system seams
- Optimize data seams within SPP and with SPP's members, customers, and external parties
- Integrated Marketplace enhancements



OPTIMIZE  
INTERDEPENDENT  
SYSTEMS

## *Enhance Member Value and Affordability*

SPP continually strives to enhance the value delivered to its members. In addition to the strategic initiatives noted above, SPP will create and continually improve work processes to ensure they are efficient and effective.



ENHANCE MEMBER  
VALUE AND AFFORDABILITY

SPP recognizes the importance of prioritization of strategic initiatives. SPP will continue to work with its members through the Markets and Operations Policy Committee to share information about the costs and benefits of member-facing project initiatives and regularly provide updates on the entire portfolio.

SPP will further develop processes and a communication strategy to demonstrate to members, regulators, and customers the general inter-zonal equity of costs and benefits for strategic initiatives.

The following are specific initiatives related to enhancing member value and affordability:

- Communication strategy on value/affordability
- Fair and equitable cost/benefit allocation policies
- Project Management Office best practices and rigor in evaluating new projects
- Enhanced market analytics
- Strategic membership expansion and improved stakeholder processes
- Improved communication with and education of stakeholders and external parties

## **Process Improvements**

The SPP staff is conscientious of the need for continuous business process improvements as a strategy to increase the value of services delivered to SPP members at lower costs. SPP has experienced significant growth in the volume and complexity of its service offerings over the past decade. SPP's service offerings in 2005 consisted primarily of:

- Reliability Coordination
- Tariff Administration
- Transmission Scheduling
- Interconnection Studies
- Reliability Studies

Since 2005, SPP has added the following services that provide meaningful benefits to the SPP region:

- Energy Imbalance Services market (retired March 2014)
- Independent Coordinator of Transmission for Entergy (retired December 2012)
- Independent Transmission Operator for Louisville Gas & Electric (retired December 2012)
- Day-ahead Services market
- Real-time Balancing market
- Transmission Congestion Rights market
- Balancing Area services
- Aggregate Study Processes (resulting in over \$8 billion in NTCs issued)

SPP was able to provide these new value-added services in a manner satisfying the expectations of the majority of SPP members. As a result, SPP realized a significant increase in its costs of operations. The increased costs were considered in cost/benefit studies for the majority of services.

Many significant challenges still lie ahead as SPP implements Project Pinnacle in early 2015, advances the competitive bidding processes required by FERC Order 1000, and assists the membership in carrying out EPA mandates on environmental protection. SPP's members are under pressure to reduce or keep rates steady, while their rates are burdened with the cost recovery of the SPP regional transmission projects and capital requirements to satisfy environmental mandates on carbon emissions or elimination of coal production.

SPP management is cognizant of the need to reduce operating costs wherever feasible. SPP has challenged management teams to identify real cost reductions in 2015 compared to 2014. Each member of SPP management was required to identify and implement at least one cost reduction for 2015. The reduction was required to be a true savings over what is actually spent in 2014, not simply a reduction in the year-over-year budget.

The following table illustrates the cost reductions, by department, identified during the process. The largest reductions are in areas currently utilizing external consultants, as management reassessed workload in attempts to accomplish more work with the same number of resources, or to do the same amount of work with fewer resources. The savings result from eliminating and/or limiting the 2015 consulting engagements and instead relying on existing staff to absorb expertise and responsibilities. Other savings were identified by reducing travel costs for the company. These reductions take the form of hosting more meetings at SPP's Corporate Center in Little Rock and making broader use of teleconferencing options instead of travelling to attend off-site meetings. In total, the cost savings identified exceed \$2.12 million. Individual managers are responsible for tracking the cost savings throughout the year and the savings will be reported to the SPP Finance Committee throughout 2015.

Department	Description of Savings	Savings (\$millions)
Operations	Consultants, overtime, travel, licenses expenses, level of backfill positions	\$ 0.935
Information Technology	Consultants, eliminate low value licenses, delay staffing backfill, travel	\$ 0.857
Project Management	Consultants	\$ 0.200
Engineering	In-source reporting, raise billing for services	\$ 0.050
Training	Travel, host meetings at member sites or at SPP	\$ 0.033
Settlements	Eliminate licenses, reduce SUG meetings	\$ 0.024
HR	Change evaluation cycle, change compliance vendor	\$ 0.013
Compliance	Increase teleconference vs travel	\$ 0.011
Communications	Change service provider	\$ 0.010
Facilities	In-source HVAC maintenance	\$ 0.009
Internal Audit	Eliminate low-value 3rd party services; reduce travel	\$ 0.004
Regulatory	Eliminate subscriptions and travel	\$ 0.004
Accounting	Eliminate low-value 3rd party services; lower license expense	\$ 0.003
Legal	Overnight delivery	\$ 0.002
Customer Relations	Decrease travel	\$ 0.001
	<b>Total</b>	<b>\$ 2.156</b>

## Continuous Improvements LEAN Initiatives

LEAN business thinking continues to form the foundation for SPP's continuous improvement efforts. About half of SPP's workforce has participated in LEAN initiatives to refine processes across at least seven divisions. Among these initiatives:

- Operations implemented improvements to SPP's communication to market participants on wind curtailments and other non-dispatched resources. More proactive market participant notifications, combined with automated routing and tracking of inquiries, resulted in reduced external queries and increased internal productivity (estimated at \$0.2 million annually). Interested parties can now refer to spp.org for detailed, near-

real-time information to better understand the conditions affecting SPP reliability decisions.

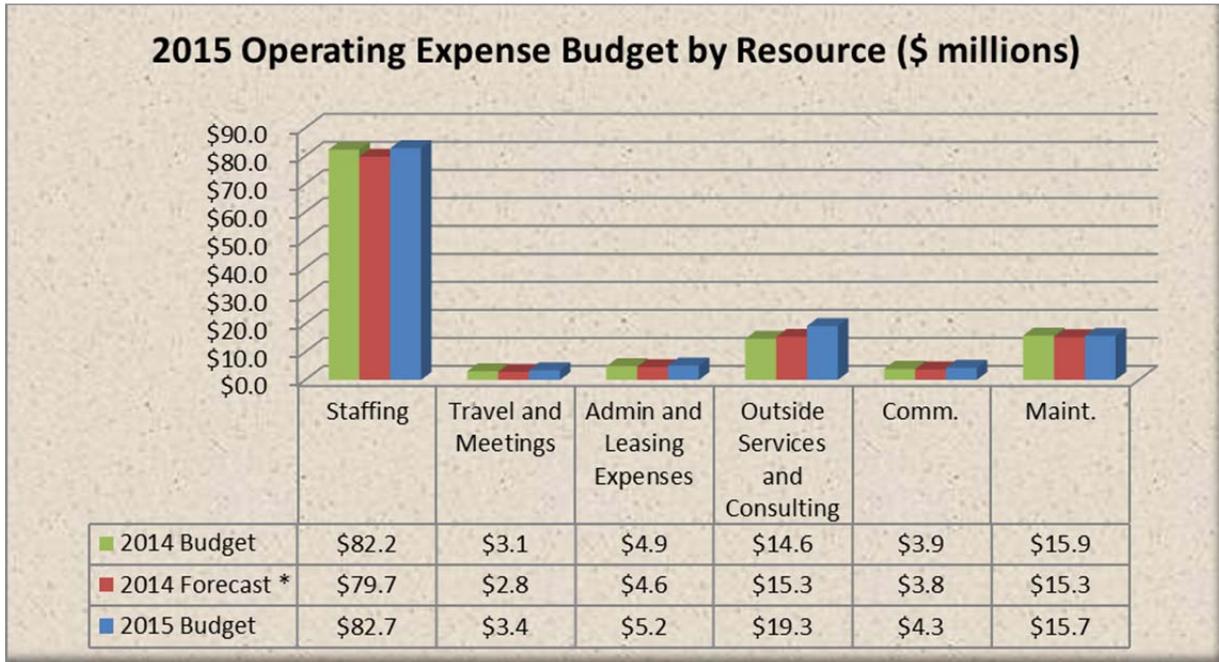
- Engineering embarked on an initiative to improve coordination and visibility of transmission facility ratings changes. The team developed an automated approach to identifying and tracking changes that has the potential to affect long-term planning models. The initiative, which improved coordination across the operations and planning departments, positions SPP to be better informed of changes that could influence cost allocation decisions. The additional visibility also enhances SPP's ability to maintain effective real-time operation of the grid as well as long-term transmission planning.
- IT determined that changes in provisioning products and services could reduce costs while still maintaining the quality of systems. In the first half of fiscal 2014, IT's change in focus on multi-year agreements and bundling of maintenance costs resulted in projected cost avoidance of the following (realized over three years):
  - \$0.6 million based on vendor discounts
  - \$0.2 million from internal productivity gains, i.e. negotiating the contract once in a three-year period instead of annually

Additional work is under way to shorten procurement timelines so new or upgraded systems are installed without costly delays.

These examples represent a wide range of activity undertaken in all areas of the company to increase productivity, improve quality and enhance effectiveness. Among the LEAN initiatives identified for 2014 are improvements to SPP's model and ratings processes, quality assurance processes, approach to Settlements information system testing, and coordination of IT requests across applications. The goals behind these efforts are multi-faceted, but true to the LEAN spirit, all are anchored by the desire to increase the value provided to SPP's members and market participants.

## IV. 2015 Budget: Resource Utilization View

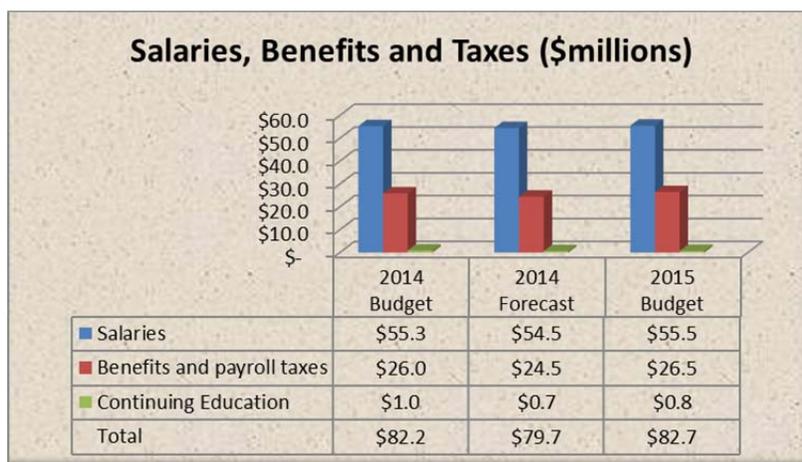
SPP's 2015 budget encompasses utilization of various resources in driving SPP to meet its strategic goals and organizational objectives. The chart below shows SPP's resources and the corresponding 2015 budget amounts in comparison to 2014 budget and forecast. The 2014 forecast excludes non-recurring items.



\* 2014 forecast excludes non-recurring items

### Staffing: Valuing Work at SPP

SPP's employees are the most valuable and significant resource and the driver of the single largest component of the operating budget. Compensation-related expenses (including salary, benefits, and taxes) total \$82.7 million and comprise 38% of the 2015 operating expenses



budget (excluding FERC, depreciation and interest), an increase of \$0.5 million compared to the 2014 budget. The main factors leading to the increase in staffing costs in 2015 are related to merit and anticipated increases in healthcare costs. These increases are offset by an

increase in the vacancy rate from 2% to 4%, which is reflective of the average vacancy rate experienced during 2014. There are six incremental headcount proposed in 2015, resulting in a total staff of 603, which is consistent with the prior 2015 forecast.

***Merit and Vacancy Rate Assumptions***

The Human Resources Committee recommended an overall merit increase of 2.3% for 2015 based on the CPI inflation rate and feedback from SPP members, which contributes to higher salary expenses in 2015. Merit increase was budgeted at 2.4% in 2014. The promotion pool remained consistent with 2014 at 0.75%.

<b>Merit Increase 5-Year Trend</b>					
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
HRC Approved	2.9%	2.5%	2.0%	2.4%	2.3%
CPI Growth	2.9%	2.5%	1.5%	2.4%	2.3%

Based on historical trends and expectations, the prior 2014 – 2016 projections included a vacancy factor of 2%. In 2014 vacancy levels fluctuated between 3% and 4% throughout the year. By the end of 2014, headcount is expected to be within 3% of the projected 2014 level (582 of 598). SPP anticipates staff turnover in 2015 to be consistent with trends experienced in 2014. Entering the year with 22 openings and assuming a 90-day period required to backfill open positions, SPP expects a vacancy rate of 3.6% at the beginning of 2015. For purposes of the 2015 budget, SPP utilized a 4% vacancy rate. This equates to turnover averaging 24 open positions during the calendar year.

***Healthcare Costs***

The net cost of the self-funded medical plan in the 2015 budget is \$5.3 million, an increase of 24.7% or \$1.1 million compared to the 2014 forecast, and 16% or \$0.8 million compared to the 2014 budget. The increase is largely due to the continued increase in medical claims SPP has been experiencing since late 2012. This upward trend is expected to continue throughout 2015, resulting in higher healthcare expenses.

Approximately 92% of employees participate in the medical plan currently. The average number of participants in 2015 is estimated to be 532, compared to the projected average of 528 employees in 2014. Total gross claims are estimated to be \$5.6 million in 2015, compared to a forecast of \$4.6 million in 2014, an increase of 22.9%. SPP 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 \$1.0 million in 2015, compared to a forecast of \$0.9 million in 2014, an increase of 9.8%. In 2014, SPP managed to mitigate the increase in fees that normally would have been incurred due to the growth in claims by increasing the deductible on per participant losses. Employee contributions to the medical plan offset the overall cost and are estimated to be \$1.3 million in 2015, compared to a forecast of \$1.2 million in 2014 as a result of a planned increase of 6.0% in contributions per participant. The net cost of the medical plan to SPP per participant is expected to be \$835/month, compared to \$724/month in 2014, 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	\$5.3	\$4.9	\$4.6	\$3.9
Employee	\$1.3	\$1.6	\$2.0	\$2.6
<b>Total</b>	<b>\$6.6</b>	<b>\$6.6</b>	<b>\$6.6</b>	<b>\$6.6</b>

### Staffing Levels

SPP's management continuously assesses and evaluates SPP's staffing levels across all areas of the organization. In 2014, SPP's forecast for headcount was reduced from 598 to 597 with the elimination of an open position in the Regional Entity. The position had been open for more than 12 months, and it was determined that existing staff was sufficient to cover the workload. Staff reductions in other areas within SPP were also the result of absorbing responsibilities as positions became vacant due to turnover, retirements or internal transfers; however, four of the six positions were reallocated to IT, with three of the four used to establish a 24x7 on-site shift of IT programmer/analysts. This shift provides immediate response to system issues within the Operations center, 24 hours a day.

	IT	Engineering	Settlements	Regional Entity	Corporate Svcs	Operations	Training/Cust-Svc	TOTAL
<b>2014 Staffing Restructure</b>								
Reductions in Engineer in Rotation program, positions transferred to IT	2	(2)						0
Settlement Analyst resignation, position transferred to IT	1		(1)					0
Executive Assistant retirement, position transferred to IT	1			(1)				0
Restructure between Engineering and Operations		(1)				1		0
Operations Customer Liason position transferred from Operations to Customer Service						(1)	1	0
Learning Mgmt System (LMS) Admin position transferred from Training to Corporate Svcs				1			(1)	0
Regional Entity Compliance Enforcement Attorney, open position eliminated				(1)				(1)
<b>Net change</b>	<b>4</b>	<b>(3)</b>	<b>(1)</b>	<b>(1)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(1)</b>

Three of the four IT positions were included in the 2015 forecast (during the 2014 three-year budget planning), so there is no impact to the previous 2015 headcount total (i.e. 2015 incremental in prior budget removed). The prior 2015 forecast included three incremental positions in IT, one in Training and one in Engineering. Engineering and Training resubmitted the positions in the current 2015 budget. In addition, Market Design submitted a Market Analyst position to eliminate the ongoing use of a consultant for staff augmentation, and Operations requested one incremental position for market support and two to address the expanded responsibilities related to the addition of the Integrated System. The incremental positions in Operations are considered interim, as Operations plans to eliminate two positions by 2017 as a result of attrition.

Prior 2015 Incremental Positions				Current 2015 Incremental Positions			
598	2014 Budget Headcount			597	2014 Forecast Headcount		
1	IT	Programmer / Analyst	Accelerated to 2014 due to restructuring	1	Mkt	Market Analyst I	Reduces ongoing consulting costs
2	IT	Programmer / Analyst	Accelerated to 2014 due to restructuring	2	Ops	Ops Sr. Engineer	Reduces ongoing consulting costs
3	IT	Programmer / Analyst	Accelerated to 2014 due to restructuring	3	Ops	Ops Shift Engineer (IS)	Restructure for elimination in 2017
4	Train	CBT/Web Developer	Approved in 2015 Forecast	4	Ops	Ops Engineer II (IS)	Restructure for elimination in 2017
5	Eng	Planning Analyst	Approved in 2015 Forecast	5	Train	Training eLearning Specialist	Repurposed from 2015 Forecast
				6	Eng	Eng Steady State Engineer	Repurposed from 2015 Forecast
603	2015 Prior Budget Headcount			603	2015 Current Budget Headcount		

The table below shows the staff numbers by executive division:

Headcount by Division	2014 Budget	2014 Forecast	2015 Budget	2016 Budget	2017 Budget
Operations	157	157	160	160	158
Information Technology	144	148	148	148	148
Engineering	76	73	74	74	74
Process Integrity	47	47	48	48	48
Finance	39	38	38	38	38
Compliance, Communications, and MMU	30	30	30	30	30
Corporate Services	29	29	29	29	29
Regulatory Policy and Legal	26	26	26	26	26
Officers	10	10	10	10	10
Market Development	6	6	7	7	7
Interregional Relations	3	3	3	3	3
Subtotal	567	567	573	573	571
Regional Entity	31	30	30	30	30
Total Headcount	598	597	603	603	601

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. This program has been reduced from six to four in 2015, with two of the positions being repurposed for IT. The rotating staff of 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 2015 includes funding for staff compensation (base salary, performance compensation, and overtime pay), benefits and payroll taxes, relocation, and tuition reimbursement. The base salary budget includes a merit increase of 2.3% and promotion increase of 0.75%, which is a pool of funds for company-wide promotions overseen by the Human Resources department. Performance compensation is budgeted at the target level of 15.0% of base salary and is paid in February of the following year.

<b>Salary Expenses (\$ millions)</b>	<b>2014 Budget <sup>(1)</sup></b>	<b>2014 Forecast</b>	<b>2015 Budget <sup>(2)</sup></b>
Base salaries at beginning of year	\$53.4	\$53.4	\$54.8
Incremental staff	0.1	0.1	0.4
Market Adjustment	0.2	0.2	0.0
Merit Increase	1.2	1.2	1.3
Promotions	0.4	0.4	0.4
Premium Pay	1.0	1.1	0.9
Vacancy	-1.1	-1.9	-2.3
<b>Total Salary Expenses</b>	<b>\$55.3</b>	<b>\$54.5</b>	<b>\$55.5</b>

(1) 2014 vacancy 2.0%, merit 2.4%

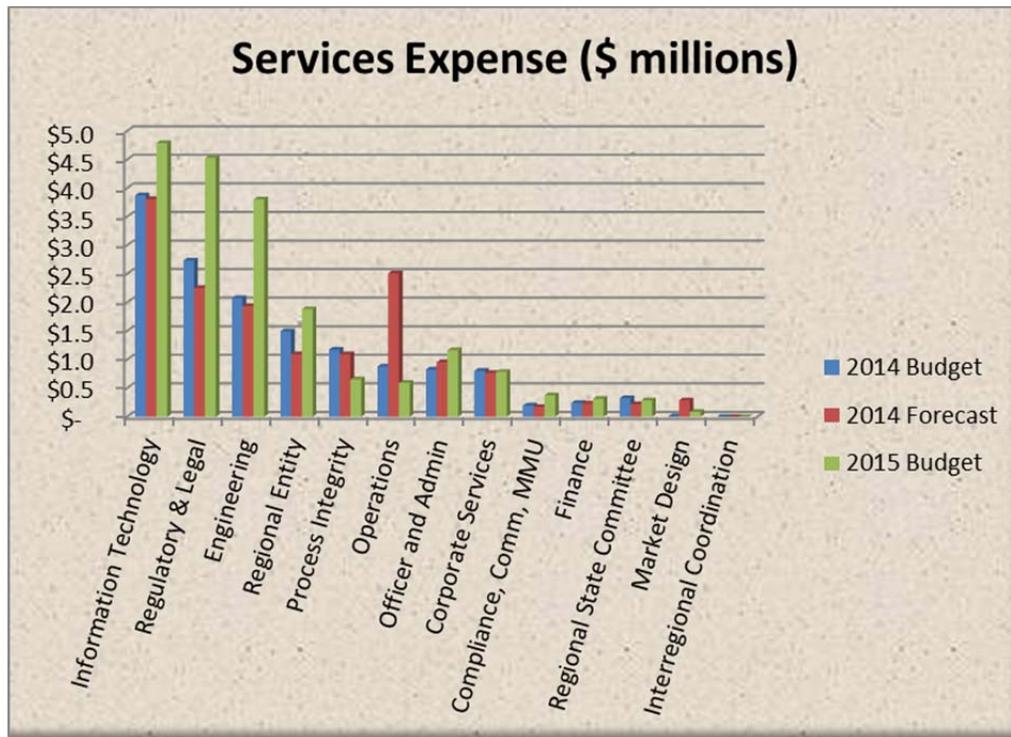
(2) 2015 vacancy 4.0%, merit 2.3%

The budget for benefits and payroll taxes includes medical, dental, and life insurance benefits, retirement plan contributions, relocation expenses, employee events, payroll taxes, and continuing education. 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>2014 Budget</b>	<b>2014 Forecast</b>	<b>2015 Budget</b>
Performance Compensation	\$8.4	\$8.4	\$8.7
Medical Benefits	4.6	4.3	5.3
Dental Benefits	0.4	0.4	0.4
Life Insurance Benefits	0.2	0.2	0.3
Retirement Plans (401k and Pension)	7.3	6.6	6.7
Payroll Taxes	4.7	4.2	4.7
Continuing Education	1.0	0.8	0.8
Other Employee Benefits	0.3	0.3	0.3
<b>Total Before Non-Recurring Items</b>	<b>\$26.9</b>	<b>\$25.2</b>	<b>\$27.2</b>
Non-Recurring Items	0.0	4.3	0.0
<b>Total Benefits and Payroll Taxes</b>	<b>\$26.9</b>	<b>\$29.5</b>	<b>\$27.2</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 \$19.3 million in 2015 representing an increase of \$4.7 million compared to the 2014 budget, and \$4.0 million compared to the 2014 forecast. This comprises 15% of the total 2015 operating expenses (excluding FERC fees, depreciation and interest).



Outside Services by Division (\$ millions)	2014 Budget	2014 Forecast	2015 Budget	2015 Budget Over / (Under):	
				2014 Budget	2014 Forecast
Information Technology	\$ 3.9	\$ 3.8	\$ 4.8	\$ 0.9	\$ 1.0
Regulatory Policy and Legal	\$ 2.7	\$ 2.3	\$ 4.5	\$ 1.8	\$ 2.3
Engineering	\$ 2.1	\$ 1.9	\$ 3.8	\$ 1.7	\$ 1.9
Regional Entity	\$ 1.5	\$ 1.1	\$ 1.9	\$ 0.4	\$ 0.8
Officer and Admin	\$ 0.8	\$ 1.0	\$ 1.2	\$ 0.3	\$ 0.2
Corporate Services	\$ 0.8	\$ 0.8	\$ 0.8	\$ (0.0)	\$ 0.0
Process Integrity	\$ 1.2	\$ 1.1	\$ 0.7	\$ (0.5)	\$ (0.4)
Operations	\$ 0.9	\$ 2.5	\$ 0.6	\$ (0.3)	\$ (1.9)
Compliance, Communications, and MMU	\$ 0.2	\$ 0.2	\$ 0.4	\$ 0.2	\$ 0.2
Finance	\$ 0.2	\$ 0.2	\$ 0.3	\$ 0.1	\$ 0.1
Regional State Committee	\$ 0.3	\$ 0.2	\$ 0.3	\$ (0.0)	\$ 0.1
Market Design	\$ 0.0	\$ 0.3	\$ 0.1	\$ 0.1	\$ (0.2)
Interregional Coordination	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Outside Services Expense</b>	<b>\$ 14.6</b>	<b>\$ 15.3</b>	<b>\$ 19.3</b>	<b>\$ 4.7</b>	<b>\$ 4.0</b>

Outside services expenses have increased from the 2014 budget and forecast in various areas.

By engaging consultants for various staff augmentation needs, the **IT department** incorporates \$4.8 million in outside services expense, representing 25% of the total and approximately a \$1.0 million increase over the 2014 budget and forecast. As SPP staff works on delivering new functionality required as part of Project Pinnacle and the IS Integration project, the contractors assist with the extra workload required to support systems. The IS Integration project represents \$0.8 million of consulting expense, accounting for over 80% of the increase from 2015 to 2014.

The **Regulatory and Legal department** represents 24% of the 2015 outside services budget. Outside legal counsel is utilized for various litigation matters throughout the year and remains relatively consistent with the 2014 budget and forecast (\$2.5 million). Outside FERC counsel provides unique legal expertise on specific and strategic FERC matters. FERC counsel allows SPP to leverage their existing relationships with FERC staff and their knowledge of RTO-specific development.

The budget includes costs for Order 1000 Industry Expert Panel (IEP) of \$1.3 million, which will be recovered in revenue from the participants in the proposal process. Since the process begins in 2015, the costs are incremental to the 2014 budget and forecast. The budget also includes incremental consulting costs of \$0.8 million related to recently required studies. A provision in the Tariff (OATT) requires SPP to perform a Regional Cost Allocation Review (RCAR) to evaluate the reasonableness of the base plan allocation methodology and associated factors. The RCAR report was approved by the stakeholders and Board of Directors to begin once the ITP10 is completed in January 2015. In order to provide efficiencies in modeling and analysis, the stakeholders and Board of Directors elected to engage the Rate Impact Task Force (RITF) for analysis to be completed in parallel with the RCAR.

The **Engineering department** represents 20% of the 2015 outside services budget (\$3.8 million) and has increased by approximately \$1.8 million over the 2014 budget and forecast. SPP engages consultants for many aspects of the engineering planning processes. Generation Interconnection study requests are numerous, and consulting services are engaged to complete these studies when requests are greater than SPP staff can accommodate. As appropriate, the consulting costs in these studies are passed through to the participants in the process.

Engineering has four new initiatives and two Order 1000 efforts driving the increase in outside services to be engaged in 2015. These originate from Board of Directors requests, new legislation, and SPP's strategic directive for member expansion and member value. Each came into focus after the 2014 budget was complete.

- \$0.7 million – The **Value of Transmission** initiative is a Market Operations and Policy Committee (MOPC) action item directed from the Board of Directors in January 2014. The main focus of this effort is to determine benefits attributable to transmission development in the SPP region. The study will provide realized and future benefits of transmission using real-time planning models, historical data, forecasts, and other sensitivities not included in SPP’s ITP or RCAR benefit studies. The results of the study will benefit members in quantifying new transmission projects that will complete in the next two years with their regulatory commissions and validate the benefits to consumers of transmission beyond that of reliability. This study is in line with SPP’s new strategic initiatives of maintaining an economical, optimized transmission system while providing member value with a communication strategy on value/affordability.
- \$0.5 million – After reviewing the efforts involved in onboarding the **Integrated System**, SPP determined additional resources are required to provide the planning and analysis to bring the IS into our planning processes. Since membership expansion is a strategic priority, the effort will be done in parallel to Engineering’s existing Integrated Transmission Planning (ITP) efforts and will include the ITP Near-Term (ITPNT), a new ITP10, and the Order 1000 requirements for the DPP windows in those studies.
- \$0.3 million – One of the most critical regulatory items for SPP Transmission Planning in the next five years is the **EPA’s Clean Power Act Rule 111(d)** draft issued in June 2014. This act has a broad impact on SPP members, stakeholders, and electric consumers within the SPP footprint. The changes to generation resources based on this ruling could have a landmark effect on SPP’s planning processes. In order to determine how transmission planning will adjust for resources impacted by Rule 111(d), multiple studies must be done on many of the aspects of the Clean Power Act, including outage impacts, regional versus state qualification, reliability analysis, economic analysis, and the effects on the ITP planning cycle. These issues will be addressed in the near term so SPP can work with its members on all the possible impacts of the Clean Power Act to make decisions with greater knowledge and confidence.
- \$0.2 million – One of the strategic initiatives for SPP in enhancing member value and affordability is communication and education. SPP’s strategic plan states, “There are a large number of rapidly changing industry developments that could dramatically transform the future operating environment for SPP and its members. These developments are likely to be in the form of breakthrough technologies or major legislative initiatives coming from a wide range of sources. SPP and its members must stay informed of new developments to have as much lead time as possible to position for emerging issues.” In order for Engineering to stay in touch with these industry developments, the Engineering R&D team is engaging with multiple university and industry expert groups to evaluate and research emerging technologies and processes

that can improve SPP’s ability to turn studies more quickly and with more accuracy. This also allows SPP to deliver breaking technologies to SPP’s members with a variety of industry experts, minimizing their risk. These efforts will include engagements with EPRI, PSERC, GRAPES/NCREPT, UALR Emerging Analytics Center, Kansas State, and others.

- \$0.3 million – **FERC Order 1000** was implemented January 2014. Many of the aspects of Order 1000, such as Detailed Project Proposals (DPP) and PROMOD support for ITP10, were accounted for in the original 2014 and 2015 budget forecasts; however, these solutions must be processed in a timely manner in order to stay within the ITP schedule and provide submitters the opportunity to cure any deficiencies in the proposals. With this short-term duration and high volume of work, SPP will engage highly skilled technical analysts on a short-term contract basis rather than hiring a permanent resource or issuing a long term consulting contract.

The 2015 budget includes outside services and consultants in various other areas including the following:

- \$1.9 million – Regional Entity: audits and hearings
- \$1.2 million – Officer and Administrative: board fees, legislative consulting
- \$0.8 million – Corporate Services: facility and employee services
- \$0.7 million – Process Integrity: audit and project management
- \$0.6 million – Operations : Integrated System OATI changes
- \$0.4 million – Communications and Market Monitoring: reporting/data services
- \$0.3 million – Finance: financial audits, credit services, IS Settlement consultant
- \$0.1 million – Market Design: market consultant

## Maintenance

The maintenance expense budget includes expenses to maintain SPP’s IT hardware and applications and for maintaining corporate facilities.

Maintenance Expense (\$ millions)	2014 Budget	2014 Forecast	2015 Budget	Prior 2015
IT Software & Equipment	\$ 15.2	\$ 14.5	\$ 15.0	\$ 15.2
General Plant Maintenance	\$ 0.7	\$ 0.7	\$ 0.7	\$ 0.7
<b>Total</b>	<b>\$15.9</b>	<b>\$15.3</b>	<b>\$15.7</b>	<b>\$15.9</b>

The IT maintenance budget increased significantly between 2013 and 2014 due to an increase in the IT operating environment to support Integrated Marketplace. The IT department is now focused on maximizing the value of ongoing hardware/software maintenance agreements by leveraging multi-year terms to align with the technical life of the asset (as appropriate). This will provide price protection and reduce the overall annual maintenance cost for the respective

products, while also reducing annual renewal activities therefore improving SPP staff productivity.

In addition to multi-year agreements, the maintenance budget is positively affected by the replacement of older IT hardware technology. The new equipment will carry a warranty, thereby eliminating maintenance costs during the warranty period. As a result, certain IT maintenance expenses are projected to decrease during 2015 by approximately \$0.2 million as compared to the 2014 budget and increase \$0.4 million as compared to the 2014 forecast.

Maintenance Expense (\$ millions)	2014 Budget	2014 Forecast	2015 Budget	Prior 2015
Support-IT Foundation	\$ 7.8	\$ 7.4	\$ 8.0	\$ 7.9
Market	\$ 2.8	\$ 2.7	\$ 1.9	\$ 2.9
Leveraged Services	\$ 1.7	\$ 1.8	\$ 1.7	\$ 1.5
Reliability	\$ 1.4	\$ 1.4	\$ 1.5	\$ 1.3
Support-Project/Other	\$ 0.9	\$ 0.8	\$ 1.4	\$ 1.2
General Plant Maintenance	\$ 0.7	\$ 0.7	\$ 0.7	\$ 0.7
Transmission	\$ 0.5	\$ 0.5	\$ 0.5	\$ 0.5
<b>Total</b>	<b>\$ 15.9</b>	<b>\$ 15.3</b>	<b>\$ 15.7</b>	<b>\$ 15.9</b>

Other maintenance costs include various facility expenses such as janitorial expense, landscape maintenance, and preventive maintenance. The facilities maintenance budget remains comparable to the 2014 budget and forecast.

### Administrative and Leasing Expenses

Administrative and leasing expenses are expected to increase by \$0.3 million in 2015 compared to the 2014 budget, with the most notable change due to the categorization of \$0.3 million for network hardware adapters as expense versus capital, as previously budgeted.

Administrative & Leasing (\$ millions)	2014 Budget	2014 Forecast	2015 Budget
Property Tax	\$ 1.1	\$ 1.1	\$ 1.0
Insurance	\$ 1.1	\$ 1.1	\$ 1.1
Utilities	\$ 0.8	\$ 0.7	\$ 0.7
Dues & Donations	\$ 0.7	\$ 0.7	\$ 0.8
Equipment	\$ 0.6	\$ 0.5	\$ 0.9
Office	\$ 0.4	\$ 0.4	\$ 0.4
Leases	\$ 0.2	\$ 0.2	\$ 0.2
<b>Total</b>	<b>\$ 4.9</b>	<b>\$ 4.6</b>	<b>\$ 5.2</b>

The largest component of the Administrative expense is property taxes, which are based on the value of SPP's assets (\$1.1million). The next largest component is insurance expense (\$1.1 million). The various components are

Insurance	2014 Budget
Commercial excess liability	\$ 0.7
Directors and Officers (D&O) liability	\$ 0.1
General liability	\$ 0.1
Workers compensation	\$ 0.1
<b>Total</b>	<b>\$ 1.1</b>

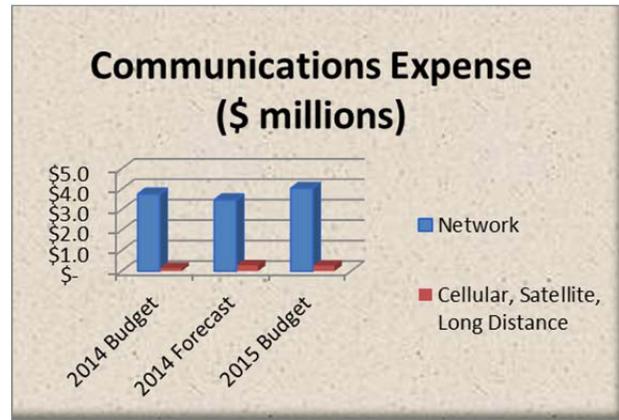
listed here.

Dues are budgeted for professional or technical licenses and/or memberships in certain professional organizations where membership is related to employment by SPP, will maintain the employee’s professional standing, or is otherwise beneficial to SPP. In addition to such employee dues, \$0.4 million of the \$0.8 million budget is related to Electric Power Research Institute (EPRI) membership for access to research conducted on issues related to the electric power industry.

Utilities, office and leases expenses make up the remaining administrative expense and remain reasonably consistent with previous projections in 2015.

### Communications

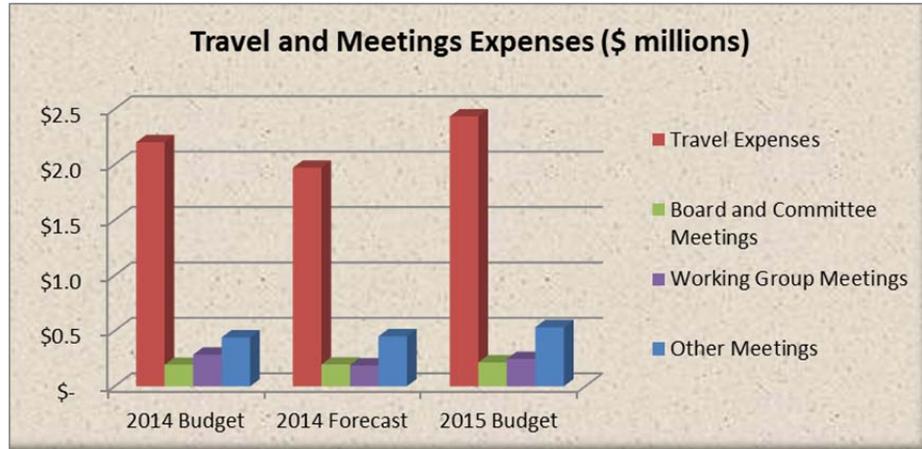
Communications expense includes all expenditures related to SPP’s internal and external networks and telecommunications. In 2015, network communication expenses are expected to be \$4.3 million. This increase of 13% over the 2014 forecast is primarily due to additional capacity required for growth and 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. The 2015 budget remains reasonably consistent with the 2014 budget.



Communications Expense (\$ millions)	2014 Budget	2014 Forecast	2015 Budget
Network	\$ 3.8	\$ 3.5	\$ 4.0
Cellular, Satellite, Long Distance	\$ 0.1	\$ 0.3	\$ 0.3
<b>Total</b>	<b>\$ 3.9</b>	<b>\$ 3.8</b>	<b>\$ 4.3</b>

## Travel and Meetings

Travel and meetings expenses are expected to increase by \$0.3 million in 2015 as compared to the 2014 budget and increase by \$0.6 million as compared to the 2014 forecast.



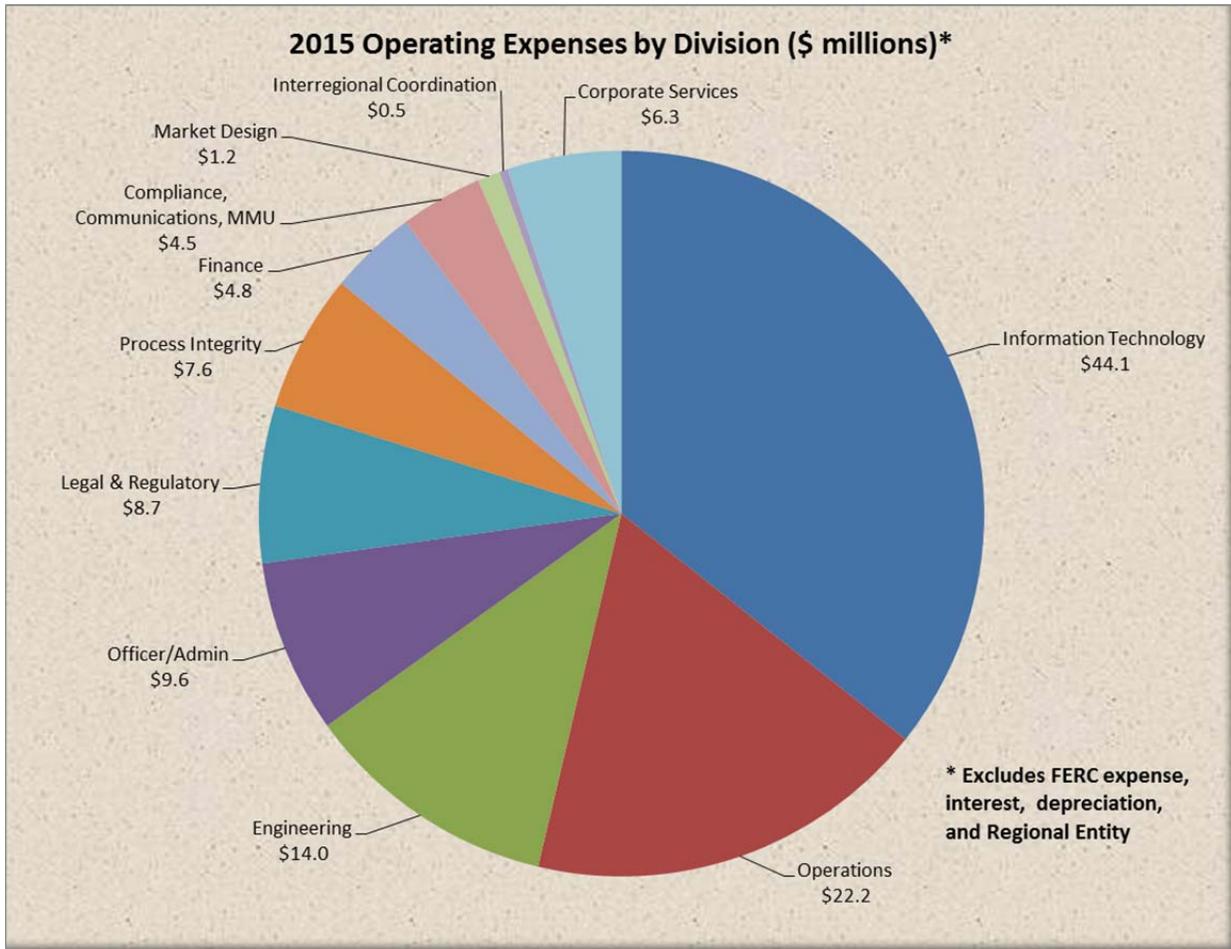
The largest component of the increase is in the Regional Entity, where travel is budgeted at \$0.2 million higher than the 2014 forecast. Additionally, travel and meetings associated with onboarding the Integrated System makes up \$0.2 million of the increase over the 2014 forecast.

When planning for external meetings, usage of SPP’s corporate facilities for various meetings, as well as utilization of member facilities is encouraged. In efforts to reduce travel and meeting expenses, SPP encourages all organizational groups to include Little Rock in the rotation for working group meetings.

Travel and Meetings Expenses (\$ millions)	2014 Budget	2014 Forecast	2015 Budget
Travel Expenses	\$ 2.2	\$ 2.0	\$ 2.4
Board and Committee Meetings	\$ 0.2	\$ 0.2	\$ 0.2
Working Group Meetings	\$ 0.3	\$ 0.2	\$ 0.2
Other Meetings	\$ 0.4	\$ 0.5	\$ 0.5
<b>Total</b>	<b>\$ 3.1</b>	<b>\$ 2.8</b>	<b>\$ 3.4</b>

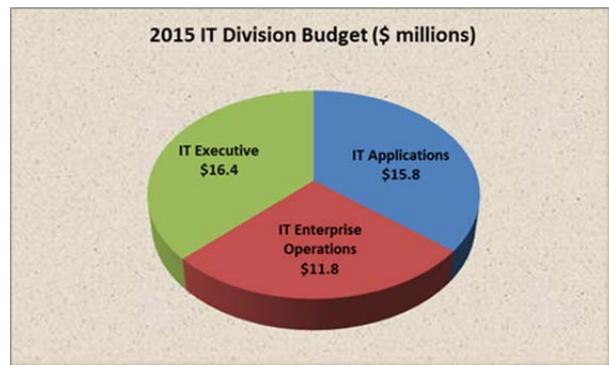
## V. 2015 Budget: Division View

The 2015 operating budgets of the ten divisions are shown below.

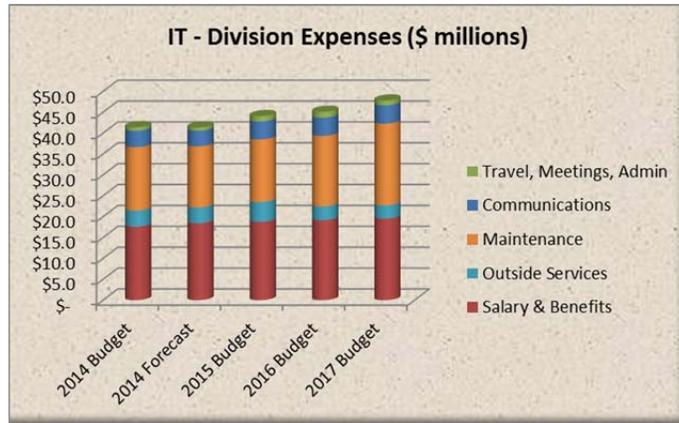


### Information Technology

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 148 employees with a proposed 2015 budget of \$44.1 million. This division has three main groups: and IT Executive (which includes maintenance), IT Enterprise Operations, and IT Applications.



**The IT Executive** department has a budget of \$16.4 million and includes compensation for a Chief Architect and IT Sourcing Team, as well as equipment and software maintenance for company-wide IT systems (\$15.0 million).



**The IT Applications** department provides 24x7 support for existing systems including transmission, reliability and the Integrated Marketplace. In addition, the department is responsible for coordinating all software development efforts related to the Integrated Marketplace enhancements as part of the Project Pinnacle. IT Applications 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.

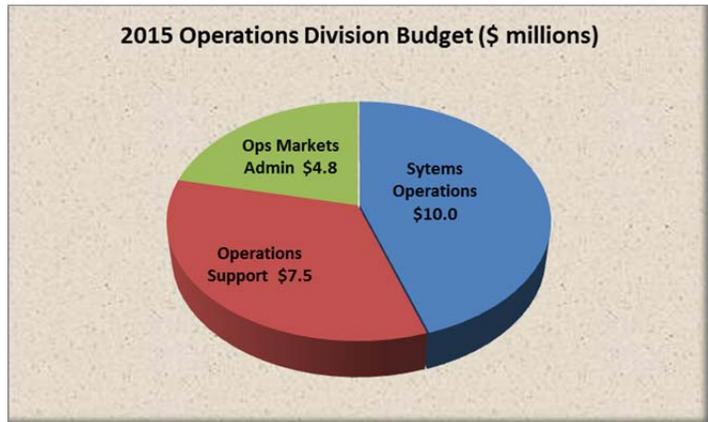
Based on recent workload requirements, along with anticipated increases in future workloads, management performed a review of current staffing levels. As a result, it was determined that current IT Applications staffing is adequate for 2015, supplemented by contractor resources to handle extra workload driven by projects such as the IS Integration. During 2014, six positions (three from within the IT department and three from existing vacancies outside of IT) were reallocated to support a new 24x7 on-site shift of IT programmer/analysts, referred to as the FIRST). This new team will provide immediate IT response to system issues by staffing a support desk within the Operations center 24 hours a day. The IT Applications department is comprised of 95 employees with a budget of \$15.8 million.

**The IT Enterprise Operations** department provides 24x7-support for all communications and networking systems, and all computer hardware and environmental needs for the SPP data centers. Each is critical to SPP's transmission, market, and business processes. IT Enterprise Operations 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 three years, while accepting a significant increase in workload (number of servers, increases in storage, etc.). The department has been able to absorb the increased workload without adding staff as a result of maintaining a highly qualified staff that is significantly leveraged across various technical platforms and disciplines as well as increasing automation processes. The department historically has not utilized contractor resources to fulfill its responsibilities, and does not anticipate doing so during 2015-2017. The department is currently comprised of 48 employees with a budget of \$11.8 million.

## Operations

The Operations group administers SPP's Tariff and performs reliability coordination throughout SPP's footprint. The department has a total budget of \$22.2 million for 2015, including staff of 158. The group achieves this strategically important goal with a highly-trained staff of professionals in the following departments:

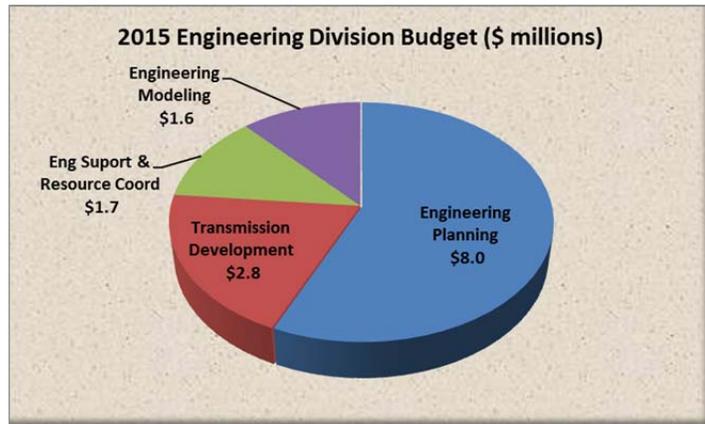
- The **Systems Operations** department is responsible for ensuring 24x7 monitoring of the bulk grid in the SPP region and ensuring operators and support staff are properly trained and in compliance with NERC standards. Outside consultants assisted throughout the transition to the Integrated Marketplace go-live date; however, SPP presently utilizes operators' expertise and has eliminated the need for further consulting services for day-to-day operations. As a Reliability Coordinator, SPP is required by NERC to share in the cost of the Interchange Distribution Calculator (IDC) tool. Annual consulting expense of \$0.5 million is included in the Systems Operation's budget for use of this tool. The department has 74 positions, including a department director, two managers, and seven shift supervisors.
- The **Markets Administration** department is comprised of a staff of 27 employees and is divided into two main groups that reflect the fundamental structure of real-time and day-ahead markets. Included are operators and engineers who oversee the operation of the Day Ahead market, optimizing energy and capacity on a daily basis. Duties include providing data integrity in real-time and performing data analyses after the fact to optimize the benefits for SPP's membership and market participants. No additional consulting is included in the Markets Administration budget and there are no plans to increase staffing levels beyond 2015.
- The **Operations Support** department 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. Two Engineer positions were added in 2015 to assist with the additional workload associated with the IS integration; however, through normal turnover, two positions will be eliminated by 2017. As a result of adding IS less than \$0.1 million was included for outside consulting for OATI software, and for interchange and market changes. This group has a staff of 59 employees, with no additional headcount anticipated beyond 2015.

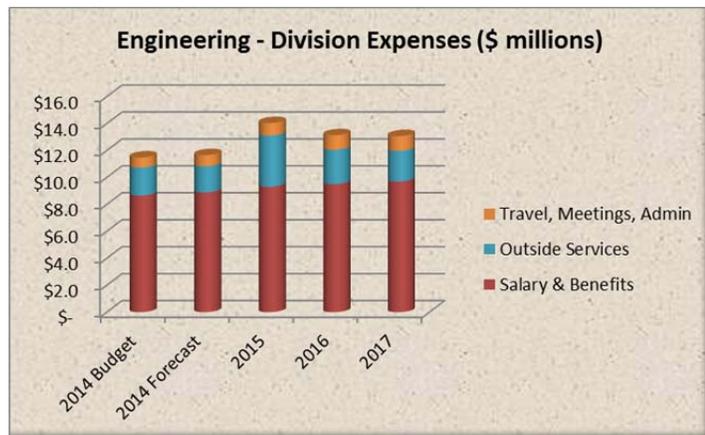
## Engineering

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 \$14.0 million for 2015 with 74 employees, including one incremental headcount in the 2015 budget.



The Engineering division is comprised of four departments:

- The **Engineering Planning** department is primarily involved in transmission planning studies and the Integrated Transmission Planning (ITP) process. As discussed in the Outside Services section (IV) four new initiatives are planned for 2015.

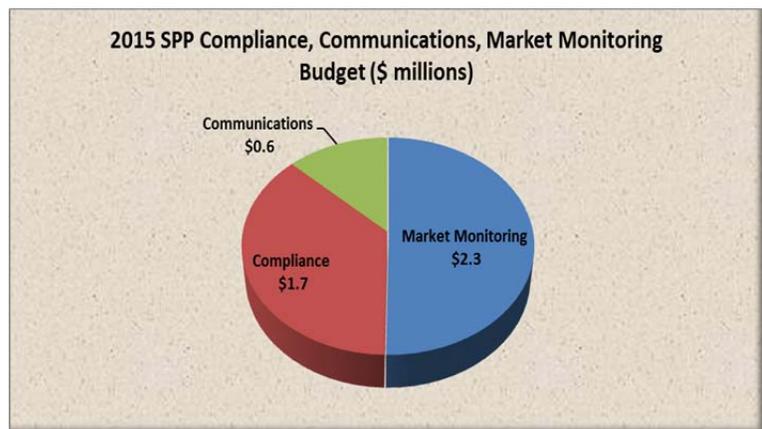


The department added one position in the 2015 budget for the steady state planning function. A primary goal of the department is increasing the skill and knowledge level of its staff through intensive training, and developing its employees to meet the goals for 2015 and SPP’s strategic plans. The various 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 \$2.5 million in 2014. This group has a staff of 44 employees.

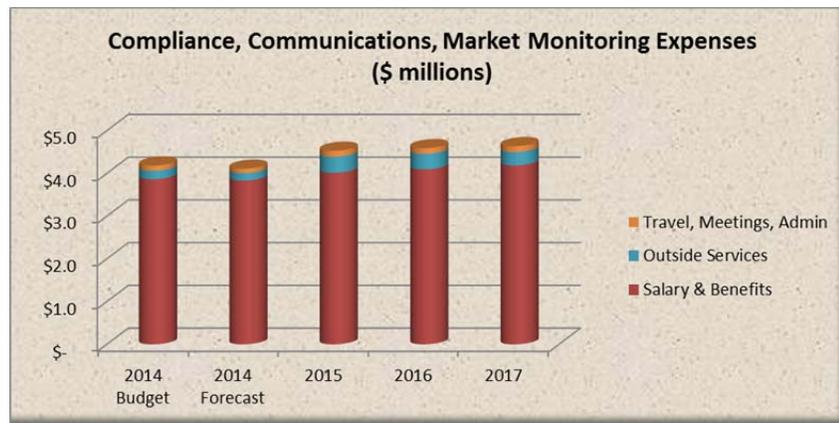
- The **Modeling** department creates and maintains the power flow models used by the transmission planning and tariff studies groups and continuously coordinates with members to ensure accuracy of the models, a critical step in planning investments in the region’s transmission grid. This department has a staff of 11 employees, with no new headcount planned for 2015 – 2017.
- The main goal of the **R&D and Special Studies** 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 in 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 9 employees, including four in the Engineer in Rotation program.
- The **Support and Resource Planning** department provides business solutions and efficiencies, and resource coordination and allocation for engineering projects. The resource coordination and time tracking initiative has produced the ability to provide mitigation plans and track work efforts to produce long-term resource plans that can more accurately predict staffing needs. This department has a staff of 10 employees.

### Compliance, Communications, and Market Monitoring

The Compliance, Communications, and Market Monitoring division has a staff of 30 employees with a budget of \$4.5 million. No additional headcount is anticipated for 2014-2016.



- The main goals for the **Compliance** department are enhancing member outreach services at the request of the Board Oversight Committee, and



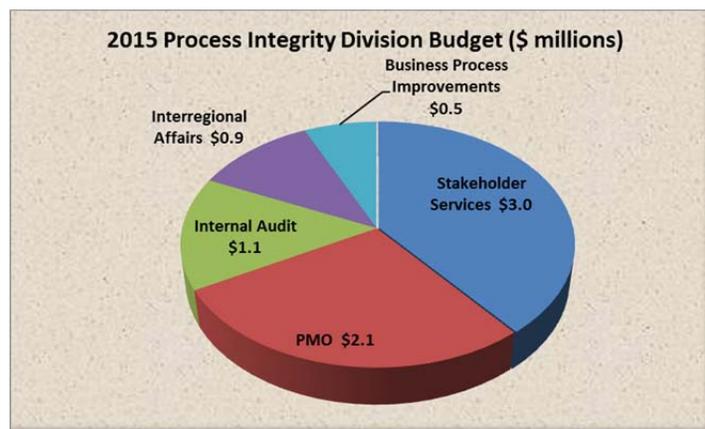
providing IT security and risk mitigation functions to the SPP organization, which includes cyber-vulnerability assessments, security monitoring, threat evaluation, and incident response. Improved processes, member outreach planning, and staff capabilities has allowed existing staff to address current and future member evidence reviews and associated outreach needs. The department has a budget of \$1.7 million with a staff of 12.

- The focus of the **Communications** department is to build and execute a communication strategy that educates, creates trust, and protects the organization. The department will continue to execute this strategy through various deliverables in 2015, especially involving communicating the value of transmission to stakeholders. The department has a budget of \$0.5 million with a staff of 4.
- The main focus of the **Market Monitoring** department is to refine and implement analytical tools and monitoring screens, and continually develop staff to effectively monitor the Integrated Marketplace. The department has a budget of \$2.0 million with a staff of 14.

### Process Integrity

This division has a total staff of 48, with a proposed budget of \$7.6 million for 2014.

- The **Project Management Office (PMO)** department is responsible for overseeing and coordinating the design, development, and implementation of projects within SPP. The department's focus is concentrated on the Project Pinnacle development and implementation. Project resource requirements in



2015 exceed internal resource availability; therefore, contractor resources will be utilized as staff augmentation. The department has a budget of \$2.1 million with a staff of 13.



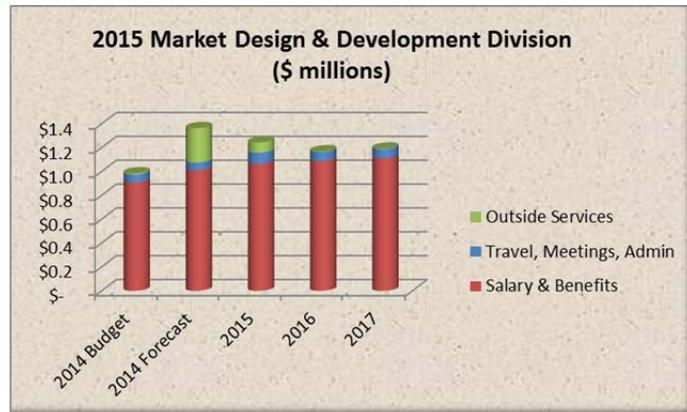
- The **Stakeholder Services** group encompasses two departments, **Customer Service and Customer Training**. Customer Service will concentrate on customer interactions related to the Integrated Marketplace in 2015, as the volume of inquiries, requests, and outreach has increased significantly. Four of the ten staff members are 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. An e-Learning Specialist position was added in 2015 to help mitigate travel and meeting costs to SPP and members by increasing computer based training initiatives. The department has a budget of \$3.3 million with a staff of 22.
- The mission of the **Internal Audit** department is to provide independent and objective assurance and advisory services that are designed to add value and improve SPP’s operations. The department maintains and implements a risk-based audit schedule for SPP’s business and IT units and functions. A critical function of the Internal Audit department is the coordination of the annual SSAE 16 audit, which evaluates SPP’s internal controls as a service organization. With the successful launch of the Integrated Marketplace, the focus going forward is 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.
- The **Business Process Improvements** department originated as a result of SPP’s organization-wide commitment to continuous improvement. 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 also focuses on SPP’s business continuity planning, which is critical as a result of increased risks associated with the Integrated Marketplace. The department currently includes a staff of 3 and a budget of \$0.4 million.
- The goal of the **Interregional Affairs** department 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 standards necessary to maintain a reliable bulk electric system are in place, with clear, effective, reasonable, and measurable requirements. The staff is comprised of 4, 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

With the implementation of the new market, the Market Design workload has increased. The volume of market design changes has increased significantly beyond those anticipated, and there are also increased requests from both internal and external stakeholders to analyze market design issues from a holistic approach. Replacing the continued use of a consultant for staff augmentation, a Market Design Analyst position is included in the 2015 budget to cover the increased workload. The Market Design department has a 2014 budget of \$1.2 million and a total staff of 7 employees.

## Interregional Coordination

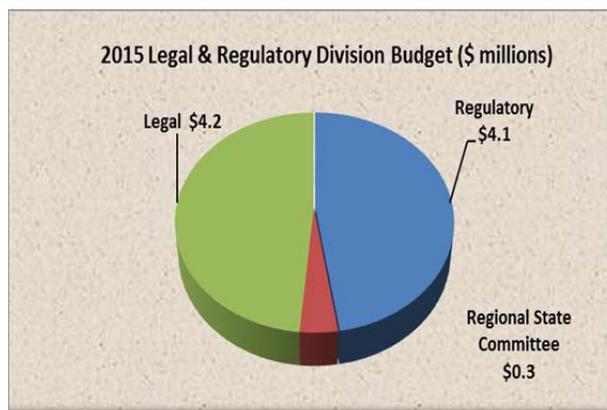
The **Interregional Coordination** department expects seams coordination activity to increase significantly over the next three-year period. The staff is working closely with SPP's neighboring entities to ensure compliance with the interregional requirements of Order 1000. Enhanced efforts with MISO and other neighbors on seams issues and joint operating agreements have become increasingly important. The department will also continue to support efforts to bring new members into SPP. This department has a staff of 3 employees and a budget of \$0.5 million.



## Legal and Regulatory Policy

The division for Legal and Regulatory Policy is comprised of a staff of 26 FTEs with a total budget of \$8.7 million for 2014.

- 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. The department has a staff of 12 and a budget of \$4.2 million.
- **The Regulatory Policy** department is expected to have increased responsibility regarding regulatory

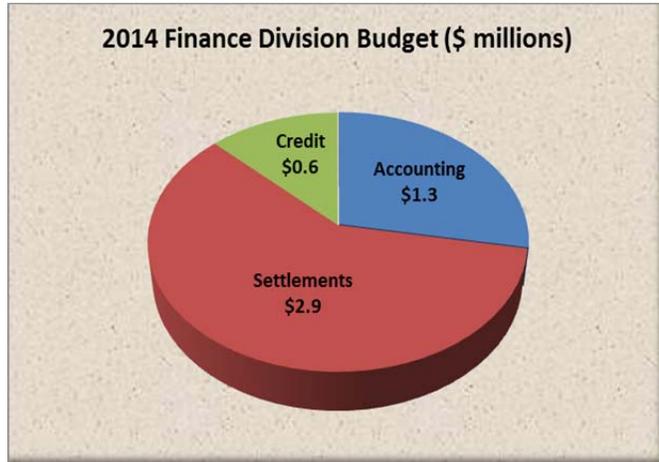


filings related to the Integrated Marketplace protocols and tariff implementation. Outside services expense has increased \$1.3 million as a result costs for the Order 1000 Industry Expert Panel (IEP), which will be recovered in revenue from the participants in the proposal process. A provision in the Tariff (OATT) requires SPP to perform a Regional Cost Allocation Review (RCAR). Consulting costs of \$0.8 million are included to assist with this review. The department has a staff of 14 and a budget of \$4.1 million.

## Finance

The Finance division is comprised of the Settlements, Credit and Risk Management, and Accounting and Purchasing departments. This division has a 2015 budget of \$4.8 million with a total staff of 38 FTEs.

- The **Settlements** department is comprised of two primary areas to support market and transmission settlements. Recent software upgrades, process improvements, efficiency metrics tracking, and the cross training of staff resulted in cost savings by being able to absorb the increased workload associated with the Integrated Marketplace.



Additionally, the departmental headcount was reduced by one, as the result of reallocating duties when a Settlement Analyst position became vacant as the result of a resignation. The position was repurposed from Settlements to the IT department and assigned to perform technical work on the Settlements systems. The department has a budget of \$2.9 million with a staff of 24.

- The **Credit and Risk Management** 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

Integrated Marketplace are much more complex and represent a significant increase in default risk to all market participants. As a result, the department's goal is 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.

- The **Accounting and Purchasing** department is responsible for invoicing, cash management, payment processing, internal and external reporting, budgeting and forecasting, corporate accounting, and end-to-end procurement services. The department has a budget of \$1.3 million with a staff of 10.

### Corporate Services

The Corporate Services division is comprised of Human Resources, Corporate Facilities, and Corporate Administrative Services departments. These teams provide support services to SPP employees and members and offer a work environment supporting SPP's business model and culture. The Corporate Services division has a total staff of 29 FTEs and a 2015 budget of \$6.3 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. Overall vacancy is reflected in the Administrative department (4% and \$3.4 million in 2015 as compared to 2% and \$1.1 million in 2014). Also included are certain corporate administrative costs such as corporate insurance expenses, pension plan and retiree healthcare funding, and property taxes.



With a staff of 10 (9 executives and 1 Assistant Corporate Secretary), the total budget for 2015 for this division is \$9.6 million.

## VI. Capital Projects

Beginning in January, a comprehensive list of new and on-going projects was compiled for consideration for the 2015 – 2017 budgets 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. The FERC-mandated Project Pinnacle components remain the highest priority and consume significant resource capacity. Consulting costs were incorporated into the operating budget to supplement for expertise and/or staffing constraints as deemed necessary.

### 2015 - 2017 Capital Expenditures by Year (\$ millions)

	Prior	2015	2016	2017	Total
Project Pinnacle	10.9	4.5	-	-	15.4
Enhanced Combined Cycle (suspended)	1.2	8.0	-	-	9.2
Phase I Deferred Enhancements	1.0	-	-	-	1.0
Netezza	2.6	0.2	-	-	2.8
Transmission Settlements Upgrade ETSE3.0	-	3.0	1.2	-	4.2
EMS Upgrade	-	-	1.0	0.5	1.5
Other	0.1	0.6	-	-	0.7
New Projects	n/a	3.7	0.3	-	4.0
<b>Total Non-Foundation Projects</b>	<b>15.8</b>	<b>19.9</b>	<b>2.5</b>	<b>0.5</b>	<b>38.7</b>
Foundation Projects	n/a	15.4	13.2	18.0	46.6
<b>Total Capital Budget</b>	<b>15.8</b>	<b>35.3</b>	<b>15.7</b>	<b>18.4</b>	<b>85.3</b>

The three-year budget identifies \$69.5 million in total capital expenditures with \$22.9 million for specific projects and initiatives and \$46.6 million in foundation related capital expenditures. SPP expects 2015 capital expenditure spending to slightly exceed \$35 million, with \$19.9 million in specific projects and \$15.4 million related to foundation capital spending. During the 2014 budget cycle, ten projects were classified as Project Pinnacle and were either mandated by FERC or requested by SPP members. Subsequently, a number of the projects that were not mandated by FERC but requested by SPP Members were canceled and removed from the program scope as a result of further review and deliberation among SPP and its members (AFC Granularity Changes, Sunset Clause for Load Submittal, Marketplace Data for MPs, and GFA Carve Out). The removal of these programs resulted in a \$2.0 million reduction in the overall Project Pinnacle budget.

The Enhanced Combined Cycle project is a member-requested project within Project Pinnacle. Due to unforeseen difficulties encountered in the design and prototype test phase that resulted in a significant increase in projected costs for completion, the Board of Directors requested additional cost-benefit analysis for the project during its meeting in July 2014. The Board asked staff to conduct a detailed cost-benefit analysis by October 2014 before any further project work is performed.

The chart below illustrates the aggregate annual administrative fee impact of the projects.

<b>Project Summary</b>	<b>Total Current Project Budget</b>	<b>Asset Life (Years)</b>	<b>Annual Admin Fee Impact</b>	<b>Aggregate Admin Fee Impact</b>
<b>Marketplace Post Go-Live:</b>				
Pinnacle Project	15.4	10	\$0.0042	\$0.0042
Phase I deferred enhancements	1.0	10	\$0.0003	\$0.0045
<b>Total Marketplace Post Go-Live Projects</b>	<b>\$16.4</b>		<b>\$0.0045</b>	
<b>Other Projects:</b>				
Transmission Settlements Upgrade ETSE 3.0	4.2	5	\$0.0023	\$0.0068
Netezza	2.8	5	\$0.0016	\$0.0084
EMS Upgrade	1.5	5	\$0.0008	\$0.0092
Other	0.7	5	\$0.0004	\$0.0096
<b>Total - Other</b>	<b>\$9.2</b>		<b>\$0.0050</b>	
<b>2015 New Projects</b>	<b>\$4.0</b>	5	<b>\$0.0022</b>	<b>\$0.0118</b>
<b>IT Foundation</b>	<b>\$37.1</b>	5	<b>\$0.0340</b>	<b>\$0.0458</b>
<b>Ops Foundation</b>	<b>\$8.0</b>	5	<b>\$0.0073</b>	<b>\$0.0531</b>
<b>Foundation - Other</b>	<b>\$1.5</b>	5	<b>\$0.0014</b>	<b>\$0.0545</b>
<b>Enhanced Combined Cycle (suspended)</b>	<b>\$9.2</b>	10	<b>\$0.0025</b>	<b>\$0.0570</b>
<b>Total Capital Project Budget</b>	<b>\$85.3</b>		<b>\$0.0570</b>	

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

### **Project Pinnacle Projects**

The Project Pinnacle projects represent post-implementation enhancements to the Integrated Marketplace that are mandated by FERC. As explained earlier, a number of member-driven post-go-live projects that were included in the previous year's budget were eliminated, and the Enhanced Combined Cycle project is currently suspended. The remaining mandated projects (Long-Term TCRs, Regulation Compensation – FERC Order 755, Market-to-Market, and Pseudo Tie-Out of Assets, along with the required build-out of IT environments for successful testing and implementation that is also managed as a separate project) are projected to cost a total of

\$15.4 million. These projects are well underway and expected to be completed by the March 1, 2015 deadline.

### ***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 are required to comply with this Order.

### ***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 existing software systems and will establish a process providing LSEs the ability to nominate LTTCRs for more than one year.

### ***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.

## Other Projects

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

	Prior Yr(s)	2015	2016	2017	Total
Upgrades / System Replacements					
Transmission Settlements ETSE	-	3.0	1.2	-	4.2
EMS Upgrade / Readiness	-	-	1.0	0.5	1.5
Netezza	2.6	0.2	-	-	2.8
Other	0.1	0.6	-	-	0.7
New Projects					
Gas / Electric Harmonization	-	2.0	-	-	2.0
IS Integration	-	1.0	-	-	1.0
Other	-	0.7	0.3	-	1.0
Foundation <sup>(2)</sup>					
IT Systems Admin Foundation		5.4	2.6	8.2	16.2
IT Network-Telecom Foundation		5.0	5.0	3.7	13.7
IT Applications Foundation		1.3	1.8	2.7	5.8
IT Service Management Foundation		0.2	0.5	0.5	1.2
IT Environmental Ops Foundation		0.2	-	-	0.2
Operations Marketplace Enhancements		2.0	2.1	1.8	6.0
Operations Legacy Applications Foundation		0.7	0.7	0.6	2.0
Other		0.6	0.5	0.5	1.5
<b>Total</b>	<b>2.7</b>	<b>22.9</b>	<b>15.7</b>	<b>18.4</b>	<b>59.8</b>

(1) Excludes Integrated Marketplace Post Go-Live Projects

(2) Foundation projects are reforecast during each budget cycle and do not include any carry-over funds.

### IT Systems Administration Foundation

IT Systems Administration Foundation projects include the technology refresh (replacement) of systems no longer covered under existing warranties, and where extending warranties is not technologically or economically feasible. IT Systems Administration Foundation projects also include incremental projects necessary to ensure the growth and high availability needs of IT systems can be met. Virtualization technology is deployed to maximize the utilization of hardware and software wherever possible. Based on SPP's experience during the implementation of the Integrated Marketplace platforms, a continuous need remains for additional data storage, information security, back-up, recovery, and archiving solutions.

During the 2014 budget cycle, storage needs were forecast at approximately 115 TB by the end of 2014, growing to 172 TB in 2015, and 229 TB in 2016. Subsequent to the Integrated Marketplace implementation, SPP is experiencing the data growth across various systems to be higher than anticipated. Additional projects, such as Project Pinnacle and the IS Integration, also contribute to higher data storage needs. Currently SPP forecasts that the data storage

needs will reach 172 TB of data by the end of 2014, 271 TB in 2015, 396 TB in 2016, and 440 TB by the end of 2017. The IT management team evaluated different types of storage and is utilizing less expensive types of storage for less critical data storage requirements. Long-term data storage (i.e. data retention) requirements are under evaluation with a similar focus on optimizing needs, benefits, and cost. In order to maximize the value of the storage assets, IT management continuously exercises diligence in aligning growth requirements with technology refreshes. Data storage accounts for roughly 45% of the growth in IT Systems Administrative Foundation.

Additional items included are hardware and software necessary for enhancements to SPP's systems security. A primary driver of this increase is the required compliance with Version 5 of the NERC CIP Standards (CIP V5) by April 1, 2016. Approximately 30% pertains to protecting SPP's infrastructure from cyber-attacks and/or complying with CIP V5.

Technology refresh is another major component of the IT Systems Administration Foundation budget. SPP staff consistently reviews existing hardware needs and plans for hardware replacements as necessary. Though hardware maintenance is often extended out to five years, technology refreshes are mandatory once these components reach the end of their usable life and/or maintenance for older hardware becomes unavailable or unaffordable. Roughly 25% of this budget is attributed to technology refreshes and related support activities.

### *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 system availability and performance expected by SPP's members and customers. 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. Approximately 61% of the IT Network Telecom Foundation budget is allocated to upgrading the network capabilities in SPP's data centers to meet existing and future performance, growth, and security needs.

The cost of hardware needed to isolate the Chenal and Maumelle Electronic Security Perimeter (ESP) environments into separate core infrastructures is also included. Certain core infrastructure is currently leveraged across multiple environments, which introduces the risk of external issues to impact systems within the ESP. This project allows for a more secure design for this critical infrastructure and accounts for roughly 25% of the budget.

Regular technology refreshes for network equipment are also included. Similar to the hardware in the Systems Administration budget, various network and security components are required

to be refreshed once they reach the end of their useful life at the end of 2015. Technology refreshes and related activities amount to roughly 14% of the IT Network Telecom Foundation budget.

### *Foundation – IT Applications*

Hardware and software licenses required to sustain the growth and demand for SPP’s Enterprise Analytic Data Store (EADS) and Data Warehouse are included in the Foundation - IT Applications budget. EADS has become a critical system relied upon by many of SPP’s real-time Operations systems (Integrated Marketplace) in addition to the systems used for after-the-fact processing such as Settlements and Market Monitoring. Anticipating the data growth and consumer needs is essential in providing the data services that have become core to SPP’s infrastructure.

Additional funding within this budget area will support anticipated software development projects, primarily driven by MPRRs (Market Protocol Revision Requests), which require subject matter expertise that is not maintained in-house.

### *Operations- Marketplace Enhancements*

During the months leading up to implementation of the Integrated Marketplace, SPP identified several items in the market systems being developed by Alstom that could be deferred until after the launch of the Integrated Marketplace. These enhancements are a combination of member requests, MPRRs (Market Protocol Revision Requests), and SPP requests. These deferrals are needed to alleviate manual workarounds being performed and improve the overall quality of the market solution and results. Additional enhancements since the start of the market have been identified that will improve the market system and the markets UI/API and allow for efficiencies in SPP and MP processes. The total amount requested for 2015-2017 is \$6.0 million. This includes an additional \$1.0 million in 2016 and 2017 to allow for the implementation of MWG approved market design enhancements.

### *Gas – Electric Harmonization*

Getting the gas and electric power markets “in sync” has become an important concern in the past few years as the electric grid’s dependence on gas-fired generation has steadily increased. This project addresses SPP market’s system timeline changes required due to FERC’s order for the gas industry to change their gas nomination periods and gas day to create better coordination and synchronization between the gas and electric power industries. The SPP market timeline is currently outside of the NAESB (North American Energy Standards Board) proposed start of the gas day and nomination cycles. FERC requires SPP to respond to NAESB

rule changes for gas nominations by ensuring the SPP market is fair and just to market participants scheduling gas for electric power generators.

### *Integrated System (IS) Integration*

In preparation for the IS entities becoming part of SPP in the 4<sup>th</sup> quarter of 2015, certain upgrades and enhancements are required on SPP markets and settlements systems. To ensure seamless integration of systems with the new entities, additional investment in hardware and equipment is necessary to accommodate the associated growth in data exchange and storage needs.

## 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) are considered in the Net Revenue Requirement calculation. SPP's outstanding borrowings are projected to equal \$272.3 million as of January 1, 2015. Interest and principal payments included in the 2015 Net Revenue Requirement are shown in the table below.

SPP's policy is to capitalize a portion of interest expense for 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. Projects with anticipated costs exceeding \$5.0 million with an anticipated duration of greater than 18 months are subject to interest capitalization. During 2015, the amount of capitalized interest related to development of software assets for Project Pinnacle (including the Enhanced Combined Cycle project) is estimated to be \$0.2 million.

During 2014, SPP issued new debt of \$37 million to fund its capital projects. As a result of the ongoing favorable interest rate environment and SPP's credit rating of "A" for senior unsecured debt and "A+" for senior secured debt, SPP was able to secure an interest rate of 3.8% on this new loan. Also in 2014, SPP signed a loan agreement to borrow up to \$33 million. This loan is currently not funded, however SPP expects to start drawing from this loan on a monthly basis in early 2015 based on capital spending needs.

The schedule below shows the principal amounts outstanding for each borrowing at the beginning and end of the 2015-2017 budget periods, as well as annual principal payments.

### Future Debt Repayments (\$ millions)

	Issue Date	Issue Amount	Due Date	Balance 1/1/2015	2015 Principal Payments	2016 Principal Payments	2017 Principal Payments	Balance 12/31/2017
5.45% notes due 2016	7/23/2009	\$30.0	7/23/2016	\$9.0	(\$6.0)	(\$3.0)	\$0.0	\$0.0
5.51% notes due 2027	3/23/2007	\$5.1	2/1/2027	\$3.5	(\$0.2)	(\$0.2)	(\$0.2)	\$2.9
4.82% construction notes due 2042 (2010A, 2010B)	10/31/2010 & 12/28/2010	\$65.0	12/30/2042	\$63.0	(\$1.1)	(\$1.1)	(\$1.2)	\$59.5
3.55% integrated markets notes due 2024 (2010C)	3/30/2011	\$70.0	3/30/2024	\$64.8	(\$7.0)	(\$7.0)	(\$7.0)	\$43.8
3.00% capital funding notes due 2024 (2012D-1)	5/30/2012	\$50.0	3/30/2024	\$46.3	(\$5.0)	(\$5.0)	(\$5.0)	\$31.3
3.25% capital funding notes due 2024 (2012D-2)	11/30/2012	\$50.0	9/30/2024	\$48.8	(\$5.0)	(\$5.0)	(\$5.0)	\$33.8
3.8% capital funding notes due 2025 (2014E-1)	3/21/2014	\$37.0	12/31/2025	\$37.0	\$0.0	\$0.0	\$0.0	\$37.0
4.95% capital funding notes due 2025 (2014E-2)	3/10/2014	\$33.0	3/30/2024	\$0.0	\$0.0	(\$2.3)	(\$3.0)	\$27.8
<b>Total</b>		<b>\$340.1</b>		<b>\$272.3</b>	<b>(\$24.3)</b>	<b>(\$23.6)</b>	<b>(\$21.4)</b>	<b>\$235.9</b>

## VIII. Supplemental Analysis and Schedules

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**Income Statement 2014-2015 Comparison**  
**(\$ millions)**

<b>SPP Consolidated Summary</b>	<b>2014 Budget</b>	<b>2014 Forecast</b>	<b>2015 Budget</b>	<b>2015 Prior *</b>
<b>Income</b>				
Tariff Administration Service	\$132.6	\$134.1	\$152.8	\$148.4
Fees & Assessments	26.8	24.8	27.6	28.6
Contract Services Revenue	0.5	0.5	0.5	0.5
Miscellaneous Income	3.4	4.3	5.2	3.5
<b>Total Income</b>	<b>\$163.2</b>	<b>\$163.7</b>	<b>\$186.1</b>	<b>\$181.0</b>
<b>Expense</b>				
Salary	\$55.3	\$54.5	\$55.5	\$57.1
Benefits & Taxes	26.0	24.5	26.5	27.0
Continuing Education	1.0	0.7	0.8	0.8
Salary & Benefits	\$82.2	\$79.7	\$82.7	\$84.9
Employee Travel	2.2	2.0	2.4	2.1
Administrative	4.7	4.4	5.0	5.0
Assessments & Fees	15.3	16.3	16.4	15.6
Meetings	0.9	0.8	1.0	0.9
Communications	3.9	3.8	4.3	4.1
Leases	0.2	0.2	0.2	0.2
Maintenance	15.9	15.3	15.7	15.9
Services	14.3	15.1	19.0	13.4
Regional State Committee	0.3	0.2	0.3	0.3
Depreciation & amortization	49.7	51.3	61.2	62.0
Other Expense	11.0	10.3	10.2	13.8
<b>Total Expense</b>	<b>\$200.7</b>	<b>\$199.4</b>	<b>\$218.4</b>	<b>\$218.3</b>
<b>Net Income (Loss)</b>	<b>(\$37.5)</b>	<b>(\$35.7)</b>	<b>(\$32.3)</b>	<b>(\$37.3)</b>
Debt Repayment	\$13.0	\$13.0	\$24.3	\$23.6
MW/H Forecast (in millions)	348.2	351.9	363.5	398.0
Net Revenue Requirement	\$132.6	\$130.0	\$147.3	\$148.0
2014 Non-Recurring Items		\$6.8		
Under Recovery/Prior Year(s) True Up			\$5.5	
Calculated Admin Fee / MWh	\$0.381	\$0.389	\$0.420	\$0.372
Recommended Admin Fee / MWh	\$0.381	\$0.389	\$0.420	\$0.372
Tariff Cap on Admin Fee	\$0.390	\$0.390	\$0.390	\$0.390
Capital Expense	\$37.1	\$31.0	\$35.3	\$22.6
Headcount	598	597	603	603

\* 2015 projection as presented in the 2014 budget

**Income Statement 2015-2017**  
**(\$ millions)**

<b>SPP Consolidated Summary</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<u><b>Budget</b></u>	<u><b>Budget</b></u>	<u><b>Budget</b></u>
<b>Income</b>			
Tariff Administration Service	\$152.8	\$148.0	\$148.6
Fees & Assessments	27.6	29.6	30.3
Contract Services Revenue	0.5	0.5	0.5
Miscellaneous Income	5.2	4.5	4.6
<b>Total Income</b>	<b>\$186.1</b>	<b>\$182.6</b>	<b>\$183.9</b>
<b>Expense</b>			
Salary & Benefits	\$82.7	\$84.6	\$86.4
Employee Travel	2.4	2.4	2.4
Administrative	5.0	5.1	4.8
Assessments & Fees	16.4	16.7	17.0
Meetings	1.0	1.0	1.0
Communications	4.3	4.4	4.4
Leases	0.2	0.2	0.2
Maintenance	15.7	17.6	20.3
Services	19.0	16.2	15.8
Regional State Committee	0.3	0.3	0.3
Depreciation & amortization	61.2	62.4	34.8
Other Expense	10.2	10.5	9.8
<b>Total Expense</b>	<b>\$218.4</b>	<b>\$221.4</b>	<b>\$197.3</b>
<b>Net Income (Loss)</b>	<b>(\$32.3)</b>	<b>(\$38.8)</b>	<b>(\$13.4)</b>
Debt Repayment	\$24.3	\$23.6	\$21.4
MW/H Forecast (in millions)	363.5	398.0	398.0
Net Revenue Requirement	\$147.3	\$148.0	\$148.6
2013 /2014 True Up	\$5.5	(\$0.0)	(\$0.0)
Calculated Admin Fee / MWh	\$0.420	\$0.372	\$0.373
Recommended Admin Fee / MWh	\$0.420	\$0.372	\$0.373
Tariff Cap on Admin Fee	\$0.390	\$0.390	\$0.390
Capital Expense	\$35.3	\$16.4	\$19.6
Headcount	603	603	601

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

**Cash Flow Forecast 2015-2017 (placeholder)**  
**(\$ millions)**

## Capital Projects List (\$ millions)

2015 - 2017 Capital Project Budget (Including Carry Over Costs)						
Project	Prior Year(s)	2014 Fcst	2015 Fcst	2016 Fcst	2017 Fcst	TOTAL
<b>Post Go-Live</b>						
Project Pinnacle	0.5	10.4	4.5	0.0	0.0	15.4
Enhanced Combined Cycle (suspended)	0.1	1.1	8.0	0.0	0.0	9.2
Phase I Deferred Enhancements		1.0				1.0
<b>Total Market Post Go-Live Projects</b>	<b>0.6</b>	<b>12.5</b>	<b>12.4</b>	<b>0.0</b>	<b>0.0</b>	<b>25.5</b>
<b>Other Projects</b>						
Netezza	2.2	0.5	0.2	0.0	0.0	2.8
Transmission Settlements Upgrade ETSE3.0		0.0	3.0	1.2	0.0	4.2
EMS Upgrade		0.0	0.0	1.0	0.5	1.5
Other		0.1	0.6	0.0	0.0	0.7
Aurea ESB Replacement		0.1	0.4	0.0	0.0	0.5
IssueTrak Integration with Remedy		0.0	0.2	0.0	0.0	0.2
Cost Allocation SQL Database		0.0	0.1	0.0	0.0	0.1
<b>Total Other Projects</b>	<b>2.2</b>	<b>0.6</b>	<b>3.8</b>	<b>2.2</b>	<b>0.5</b>	<b>9.2</b>
<b>2015 New Projects</b>						
Gas / Electric Harmonization			2.0	0.0	0.0	2.0
IS Integration			1.0	0.0	0.0	1.0
Local Reliability Assessment			0.5	0.0	0.0	0.5
2-Factor Authentication (1 of 2 - Infrastructure build)			0.0	0.3	0.0	0.3
Vaadin 6 to 7 Upgrade			0.1	0.1	0.0	0.2
Tie Line Meter Checkout			0.1	0.0	0.0	0.1
<b>Total 2015 New Projects</b>			<b>3.7</b>	<b>0.3</b>	<b>0.0</b>	<b>4.0</b>
<b>Foundation</b>						
IT Systems Admin Foundation			5.4	2.6	8.2	16.2
IT Network-Telecom Foundation			5.0	5.0	3.7	13.7
IT Applications Foundation			1.3	1.8	2.7	5.8
IT Service Management Foundation			0.2	0.5	0.5	1.2
IT Environmental Ops Foundation			0.2	0.0	0.0	0.2
Operations Marketplace Enhancements			2.0	2.1	1.8	6.0
Operations Legacy Applications Foundation			0.7	0.7	0.6	2.0
Settlements Enhancements			0.3	0.3	0.3	0.8
Miscellaneous Facilities			0.2	0.2	0.2	0.6
CMS Enhancements			0.1	0.1	0.0	0.2
<b>Total Foundation</b>			<b>15.4</b>	<b>13.2</b>	<b>18.0</b>	<b>46.6</b>
<b>Total Project Capital Budget</b>	<b>\$2.8</b>	<b>\$13.1</b>	<b>\$35.3</b>	<b>\$15.7</b>	<b>\$18.4</b>	<b>\$85.3</b>
<b>2015 - 2017 Total (excludes prior years)</b>						<b>\$69.5</b>

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

	<b>2014</b>	<b>2015</b>	
<b>DESCRIPTION OF SERVICES</b>	<b>FORECAST</b>	<b>BUDGET</b>	<b>Inc / (Dec)</b>
<b>Integrated Marketplace</b>			
Staff augmentation, Training	0.4	0.0	(0.4)
Staff augmentation, Market Design	0.3	0.1	(0.2)
Staff augmentation, Market Monitoring	0.0	0.3	0.3
Staff augmentation, Operations	1.9	0.0	(1.9)
Staff augmentation, Engineering (TCR)	0.1	0.0	(0.1)
<b>Integrated Marketplace, staff augmentation</b>	<b>2.7</b>	<b>0.4</b>	<b>(2.3)</b>
<b>Integrated Systems</b>			
IS Staff Augmentation, Settlements		0.1	0.1
IS Staff Augmentation, Engineering		0.5	0.5
IS Staff Augmentation, IT		0.5	0.5
IS OATI, IT		0.1	0.1
IS OATI, Ops		0.0	0.0
IS Ops Wind forecasting		0.2	0.2
<b>Integrated Systems, Staff augmentation / other</b>	<b>0.0</b>	<b>1.4</b>	<b>1.4</b>
<b>Staff Augmentation, other</b>			
IT	1.5	1.4	(0.1)
PMO / BPI	0.5	0.3	(0.2)
Regulatory	0.0	0.8	0.8
Legal	2.2	2.5	0.3
Engineering Modeling	0.1	0.2	0.1
<b>Total Staff Augmentation</b>	<b>4.3</b>	<b>5.2</b>	<b>0.9</b>
<b>Information Technology</b>			
OATI Monthly service fee	1.5	1.7	0.2
After hours monitoring of IT Command Center	0.3	0.0	(0.3)
Operations Wind Forecasting Analysis	0.4	0.5	0.1
Misc. IT services (cabling, storage, asset disposal)	0.1	0.2	0.1
<b>Total Information Technology</b>	<b>2.3</b>	<b>2.3</b>	<b>0.0</b>
<b>Other</b>			
Board of Directors fees and expenses	0.5	0.7	0.2
Audits (SSAE 16 and other audits)	0.3	0.4	0.1
Communications and training	0.1	0.1	0.0
Corporate services	0.9	0.9	(0.0)
Engineering studies / other	1.5	2.7	1.2
Regional Entity Trustees (fees and consulting services)	1.1	1.9	0.8
FERC Order 1000	0.2	1.7	1.5
Ops IDC	0.6	0.5	(0.1)
Regional State Committee	0.2	0.3	0.1
Other	0.6	0.5	(0.1)
<b>Total</b>	<b>\$15.3</b>	<b>\$19.0</b>	<b>\$3.7</b>

**Analysis of 2014 Fees & Assessments (placeholder)**  
**(\$ millions)**

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

**Load Variance Sensitivity (placeholder)**

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

## Member Value Category Descriptions

**Operations and Reliability services** include SPP's reliability coordination and reserve sharing. SPP is responsible for operating the regional wholesale power grid under rules and regulations from NERC and FERC. The SPP-RC monitors the grid 24x7 to maintain electrical reliability and to mitigate grid emergencies. The objectives of SPP's efforts are to maximize the availability of the power grid to support scheduled transmission and to minimize the negative impact of transmission congestion and unplanned grid disturbances or outages. Being a member of an RTO provides a higher degree of grid availability, or average Transmission System Availability (TSAI), than would be achieved as a standalone utility. Being a member of SPP's Reserve Sharing Group (RSG) enables a SPP member to share reserve resources across the group on a pro-rata basis. SPP's RSG will reserve 150% of the single largest generation contingency in the group. All members share in the cost of providing this reserve capacity as a function of their pro-rata peak loads. Absent the RSG, each entity would have to provide a reserve for their largest single contingency. The difference between the standalone versus the RSG reserve obligation is the value of the RSG to each participant.

**Region-Wide Transmission Planning** includes the value of region-wide transmission projects before the Highway/Byway cost sharing was implemented, the net value of the SPP balanced portfolio transmission projects approved by the Board in April 2009, the net value of the SPP priority project transmission project also approved by the Board and the value of SPP provided Engineering Studies.

The Engineering Department provides a series of Engineering Studies to assure planned member actions (generation, transmission, etc.) do not create issues when integrating into the current power grid. SPP is positioned as the unbiased protector of the grid integrity and operation. If SPP were not in existence, the expert witness and the objective study functions would need to be replaced with a combination of Consultants and/or Engineering staff from the requesting utility

**Market Operations** includes the net trade benefits associated with the operation of the EIS (Energy Imbalance Service) market operation as a result of the regional security-constrained economic dispatch (SCED). Additionally, Market Operations includes the net trade benefits from operating a real-time, day ahead and Ancillary services market. Finally, Market Operations includes the value of operating a Consolidated Balancing Authority.

**Leveraged, Centralized Services** include savings associated with SPP's performance of certain functions that if SPP did not exist then entities would have to contract individually and therefore represent a savings to the members. Specifically, Leveraged Centralized services

include Centralized Training, Tariff and scheduling service administration, regulatory services, and compliance and settlement services.

SPP's Training Department, through leveraged centralized resource and expertise acquisition, curriculum development and class offerings at no additional cost to members represents substantial cost avoidance to the SPP stakeholder base. SPP administers a regional tariff and its Tariff Administration group provides a centralized reservations "one-stop shopping" for reserving transmission on the power grid. In addition to administering and maintaining the OASIS reservations system, SPP provides the engineering staff to assure that transmission service requests are valid and will not compromise the integrity of the power grid. If SPP did not exist, the (15) Balancing Authorities and Transmission owners would have to provide these functions for themselves instead of being a centralized function. In addition, there would be a greater number of bilateral transmission agreements which would be more difficult to administer. A centralized regulatory group administers a single Open Access tariff and if SPP were not providing this centralized function for the consolidated group of members, each Balancing Authority would have to administer a broader scoped Tariff than it currently is responsible administering thereby increasing its cost. Finally, the SPP Compliance function and Settlement function provides compliance information, education and outreach services to our members. These centralized services provide annual cost avoidance value to SPP's members.