



SOUTHWEST POWER POOL FINANCE COMMITTEE MEETING

August 7, 2020
Teleconference

MINUTES

AGENDA ITEM 1 – ADMINISTRATIVE ITEMS

SPP Chair Susan Certoma called the meeting to order at 9:30 a.m. The following members were in attendance:

Susan Certoma	SPP Director
Graham Edwards	SPP Director
Sandra Bennett	AEP
Sarah Stafford	OG&E
Mike Wise	Golden Spread Electric Coop
Laura Kapustka	Lincoln Electric System

Others in attendance: See attached meeting register

A quorum was present. Minutes from the July 13, 2020 meeting were reviewed. Mike Wise made a motion to accept the minutes. The motion was seconded by Laura Kapustka and approved by unanimous voice vote.

SCHEDULE 1A POLICY CLARIFICATIONS

SPP staff presented background on RR413 and the request by the SPP Regional Tariff Working Group to have the SPP Finance Committee clarify policy treatment on two items; 1) revenues and expenses associated with contract services provided by SPP, and 2) treatment of forecasted over/under recoveries in evaluating SPP's next year's budget rate versus the rate cap.

Staff recommended revenues and expenses associated with contract services be included in the formula rate templates in the calculation of overhead which is then allocated to the four rate schedules. Staff recommended forecasted over/under recoveries be included in the calculation of the next year's budget rate, just as it has been done prior to the 2021 budget.

Mike Wise made a motion to accept the staff recommendation as presented. The motion was seconded by Sandra Bennett and approved by unanimous voice vote.

FINANCE COMMITTEE SELF EVALUATION

The committee reviewed the self-evaluation documenting its meetings and activities over the prior 12 months. The committee members agreed that the documented accomplishments should include a summary of standard activities undertaken by the committee.

CAPEX FUNDING AND WITHDRAWAL OBLIGATIONS

SPP staff introduced the concept of funding the majority of SPP's future capital expenditures through revenues in a given year. Staff was asked to prepare some models illustrating the financial impact of doing so.

Respectfully Submitted,

Tom Dunn

Secretary

<u>FirstName</u>	<u>LastName</u>	<u>Company</u>
Russell	Carey	SPP
Susan	Certoma	SPP
Jason	Mazigian (BEPC)	Basin Electric Power Cooperative
Patti	Kelly	SPP
Sandra	Bennett	AEP
Tom	Hestermann	Sunflower Electric Power Corporation
MICHAEL	WISE	Golden Spread Electric Coop
Heather	Starnes	MJMEUC/KMEA
Dianne	Branch	Southwest Power Pool
LAURA	KAPUSTKA	LES
Denise	Martin	SPP
Jeff	Parkison	CUS
Jason	Chaplin	Oklahoma Corporation Commission
Tom	Dunn	SPP
Mike	Riley	SPP
Ruth	Sakya	SPS
Robert	Pick	NPPD
Mo	Awad (Evergy)	Evergy
Sarah	Stafford	OG&E
Jim	Jacoby (AEP)	AEP/PSO



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

**August 7, 2020 (9:30am – 11:00pm CDT)
WebEx**

AGENDA

1. Administrative Items Susan Certoma
2. Schedule 1A Policy Clarifications (*30 minutes*) Tom Dunn
3. Finance Committee Self-Review (*5 minutes*) Tom Dunn
4. Thoughts on CapEx Funding and Withdrawal Obligations (*10 minutes*) Tom Dunn
5. Future Meetings

SOUTHWEST POWER POOL FINANCE COMMITTEE MEETING

July 13, 2020
Teleconference

MINUTES

AGENDA ITEM 1 – ADMINISTRATIVE ITEMS

SPP Chair Susan Certoma called the meeting to order at 8:30 a.m. The following members were in attendance or represented by proxy:

Susan Certoma	SPP Director
Graham Edwards	SPP Director
Sandra Bennett	AEP
Sarah Stafford	OG&E
Mike Wise	Golden Spread Electric Coop
Laura Kapustka	Lincoln Electric System

Others in attendance: See attached meeting register

A quorum was present. Minutes from the April 27, 2020 meeting were reviewed. Graham Edwards made a motion to accept the minutes. The motion was seconded by Mike Wise and approved by unanimous voice vote.

AGENDA ITEM 2 – 2021 OPERATING PLAN

SPP staff presented the 2021 Operating Plan document, highlighting i) the scope of work involved in existing operations, ii) ten primary corporate objectives, and iii) the 2021 project plan. Members of the Strategic Planning Committee and SPP Board of Directors were polled in the meeting if they believed any aspects of the proposed 2021 Operating Plan were out of alignment with the SPP Strategic Plan; none were noted.

A question asked asked by Mike Wise during the discussion dealing specifically with the legal process associated with the refund of legacy Z2 credits was unable to be answered during the meeting but would be addressed in the minutes. Following is the answer to that question: *SPP and OG&E have appealed FERC's order reversing the Commission's previous order granting SPP's waivers to bill and collect Z2 billing. In FERC's order reversing the waivers, the Commission directed SPP to not refund Z2 payments until ordered to do so by the Commission. SPP has yet to receive a refund order. SPP's best estimate is that FERC will not will not issue a refund order until the Appeal is resolved and other remaining litigation (206 Complaints) are complete.*

Graham Edwards made the following motion: The Finance Committee recommends the SPP Board of Directors accept the 2021 SPP Operating Plan as a working document for development of the 2021 budget. The motion was seconded by Mike Wise and approved by unanimous voice vote.

AGENDA ITEM 3 – PROCESS IMPROVEMENT REPORT

The committee received a report from SPP staff on process improvement program efforts that have occurred over the trailing 12 month period. 41 improvement projects have been completed during the reporting period with estimated financial savings of \$198,000 and freeing up over 2,400 hours of annual staff time.

AGENDA ITEM 4 – MID YEAR REVIEW

SPP staff provided a concise overview of full year projected financial performance. Expenses are projected to be well below budget while revenues are inline with budget. Through May 2020, the full year financial over-recovery was projected to be in excess of \$6 million.

AGENDA ITEM 5 – AUDITOR ENGAGEMENTS

SPP completed a request for proposal process, in accordance with its stated practices, for financial, benefit plan, and controls audit engagements. The results of the process were shared with the committee along with a recommendation to retain BKD (financial audit), Landmark (benefit plan audit), and KPMG (controls audit).

Sandra Bennett made a motion to accept SPP staff's recommendation and recommend the Board of Directors approve the recommendation. The motion was seconded by Laura Kapustka and approved by unanimous voice vote.

AGENDA ITEM 6 – VATF ASSIGNMENT UPDATE

Tom Dunn and Susan Certoma advised the Committee on progress on the VATF recommendations through the first six months of 2020. A formal recommendation is expected at the October finance committee meeting

AGENDA ITEM 7 – ENGINEERING STAFFING UPDATE

SPP is currently on track in realizing the financial benefits of the additional engineering staff added since 3Q'19.

CREDIT PRACTICES WORKING GROUP REPORT

The committee was informed that the credit policy changes approved in April 2020 were converted to tariff language and will be presented to the MOPC at its July meeting.

Respectfully Submitted,

Tom Dunn

Secretary

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

**August 7, 2020
Schedule 1A Policy Clarifications**

ORGANIZATIONAL ROSTER

The following persons are members of the Finance Committee:

Susan Certoma	SPP Director
Graham Edwards	SPP Director
Sarah Stafford	OG&E
Sandra Bennett	American Electric Power
Laura Kapustka	Lincoln Electric
Mike Wise	Golden Spread

BACKGROUND

The SPP Markets and Operations Policy Committee approved sweeping policy changes to SPP's administrative fee rate recovery structure in January 2019 and tariff changes to implement this policy in July 2019. The tariff changes were subsequently filed with the FERC with the FERC issuing an order accepting these changes on February 6, 2020 for implementation effective January 1, 2021.

SPP staff identified opportunities to improve the transparency and clarity of the formula rate templates utilized to determine rates under the 2021 administrative fee recovery structure. The changes were presented to the SPP Regional Tariff Working Group in July 2020 for their review and incorporation into Schedule 1A of the SPP Tariff. Upon review, the SPP Regional Tariff Working Group requested clarification of policy from the SPP Finance Committee on two items, as follows:

- 1) Treatment of expenses and revenues from contracts administered by SPP
- 2) Treatment of over and under recovery in calculation of the rate cap

ANALYSIS

The Schedule 1A Task Force, formed by the SPP Markets and Operations Policy Committee to develop revisions to the administrative fee recovery structure, published a white paper to

document its intentions related to the proposed policy changes to the recovery structure. The white paper is attached for reference with language highlighted below to guide the analysis.

Treatment of revenues and expenses from contracts

SPP provides services under stand-alone contracts to various utility customers whereby SPP incurs expense to provide the services and also receives revenues from the customers receiving the services. For purposes of complying with reporting requirements of FERC Order 668, revenues and expenses associated with these contracts are classified into one of three reporting categories depending on the nature of the service being provided. As an example, if SPP were to provide reliability coordination services under a contract, SPP would classify the revenues and expenses associated with that service under FERC account 561.4 – Scheduling, System Control & Dispatch.

SPP staff proposed to the SPP Regional Tariff Working Group changes to the formula rate template to provide transparency to the expenses that were directly attributable to services provided under contract services. Contract service revenues by rate schedule was previously represented in the original, FERC approved formula rate template. In the example of reliability coordination services, SPP staff proposed specificity around expenses being assigned to RS 1 related to this contract service work. The guidance provided by the white paper is in direct support with the changes proposed by staff (similar language exists in the white paper related to market related costs for rate schedules 2, 3, and 4):

Please note that the total costs recovered through RS 1 equals those costs reported by the Transmission Provider as being associated with FERC accounts 561.4 – Scheduling, System Control & Dispatch and 561.8 – Reliability Planning & Standards Development.

It is important that the financial impact of the services provided under contract make their way into the formula rate templates because the contracts are structured to provide cash flows in excess of the direct incremental costs to provide services under the contracts. This cash flow ultimately has to find its way back to the tariff customers to reduce their costs of service. Despite this reality, several members of the SPP Regional Tariff Working Group indicated it was inappropriate to include those costs and revenues in a formula rate template used to calculate rates they ultimately pay as tariff customers.

SPP staff, influenced by this feedback, now proposes to include the net impact of the contracts in the calculation of the overhead that is shared by all rate payers under the 2021 and forward administrative fee recovery structure.

Treatment of Over/Under Recovery in Rate Cap Calculation

The tariff language approved by the SPP Markets and Operations Committee and filed at the FERC does not clearly address prior period over/under recoveries.

The white paper clearly specifies calculations for measurement against a rate cap as being done as it is currently performed:

The Task Force agreed to continue calculating the cap the same as is done today by taking the total SPP budget and dividing it by the MWHs associated with RS 1 billing determinants.

SPP staff proposed to the SPP Regional Tariff Working Group changes to the formula rate template and tariff to clearly illustrate the inclusion of prior period over/under recoveries in the calculation of rates to compare to the rate cap. Members of the SPP Regional Tariff Working Group challenged whether it was truly the intention of the task force to include over/under recovery in the calculation despite the clear evidence of the white paper language.

SPP staff recommends the Finance Committee clarify for the SPP Regional Tariff Working Group that the rate calculation for rate cap purposes will follow the calculations as are performed today and thus will include prior period over/under recoveries.

RECOMMENDATIONS

Direct the SPP Regional Tariff Working Group to incorporate changes to the formula rate templates and SPP Tariff Schedule 1A to:

- 1) Include the net financial impact of contracts in the overhead calculation in the formula rate template.
- 2) Include prior period over/under recoveries in the calculation of rates for rate cap purposes

Approved: Finance Committee



SCHEDULE 1-A POLICY DISCUSSION

FINANCE COMMITTEE

AUGUST 7, 2020



SCHEDULE 1-A BACKGROUND

- April 9 2018: Finance Committee decision to engage MOPC in efforts to revise Schedule 1-A rate structure
- July 17, 2018: MOPC authorized formation of the Schedule 1-A Task Force
- April 12, 2019: Task Force completed the proposed changes to Schedule 1-A
- July 16, 2019: MOPC approved Schedule 1-A changes
- November 19, 2019: SPP filed tariff changes with FERC
- February 6, 2020: FERC approved Schedule 1-A changes to be effective on January 1, 2021

RECENT ACTIVITY

- Staff sponsored RR413
- Inclusion of over/under recoveries into the “Rate Cap” calculation
- Increase transparency of the financial impact of contract services
- RR413 went to RTWG because it proposed Tariff changes
- RTWG tabled RR413 pending review and action by the Finance Committee and MOPC

RECENT ACTIVITY

- (1) Inclusion of tariff language specifying prior year over or under recovered amounts are applied to current year budgeted expenses in evaluating compliance with prescribed rate cap
- (2) Assignment of contract service revenue and expenses to one or more of the individual Schedule 1-A rate schedule(s)

RECOMMENDATION TO THE FINANCE COMMITTEE

- Confirmation that net financial impact of contract services will continue to be applied to Schedule 1-A through corporate overhead allocation
- Confirmation that rate cap calculation will continue to be determined by using the budgeted NRR that includes over/under recovery from the prior period

SPP Organizational Group Self-Evaluation/Assessment
(August 2019 – July 2020)

GROUP NAME: **Finance Committee**

THE SCOPE HAS BEEN REVIEWED IN THE PAST YEAR: **Yes**

MEMBER ROSTER/ATTENDANCE:

Member	Company	Sector	# Present	# Absent
Certoma, Susan (C) (2020)	Director	N/A	4	0
Bennett, Sandra	American Electric Power	Investor-Owned Utility (TO)	4	0
Kapustka, Laura	Lincoln Electric, Inc.	Municipal (TU)	3	1
*Scherr, Bruce	Director	N/A	2	0
Stafford, Sarah	Oklahoma Gas & Electric Company	Investor-Owned Utility (TO)	4	0
Wise, Mike	Golden Spread Electric	Cooperative (TU)	4	0
Dunn, Tom	Staff Secretary	Southwest Power Pool	4	0

***Only on Committee for part of the assessment period.**

List the number of members represented in the following areas:

Transmission/Owners	Transmission/Users	Director(s)
2	2	2

Sectors									
Investor Owned Utility	Cooperative	Municipal	State	Federal	Independent Power Producer/Marketer	Independent Transmission Company	Alt Power/Public Interest	Large Retail	Small Retail
2	1	1							

AVERAGE OVERALL ATTENDANCE (INCLUDING NON-GROUP MEMBERS): 29

MEETINGS HELD DURING ASSESSMENT PERIOD: Live: 2 Teleconference: 2

AVERAGE LENGTH OF MEETINGS: 4:30 Hours

NUMBER OF VOTES TAKEN: 11

MEETING COST(S): \$399.53

- Meeting costs include hotel expenses (room rental, A/V, food and beverage), estimate of teleconference expenses, and Director fees for attendance.

MAJOR ACCOMPLISHMENTS/ISSUES ADDRESSED BY THE GROUP:

1. Approved phase I credit enhancements for TCR markets
2. Completed request for proposal process for external auditor engagements
3. Performed major assigned duties, including but not limited to:
 - a. Budget review and approval, recommend schedule 1A rate
 - b. Review of audited financial reports, meeting with external auditor
 - c. Establish major assumptions for pension plan valuations, recommend funding

MAJOR PENDING ISSUES BEFORE THE GROUP:

1. Completion of VATF recommendations on budget controls
2. Successful implementation of unbundled administrative fee structure