

Southwest Power Pool
OVERSIGHT COMMITTEE MEETING

September 26, 2013

Chicago O'Hare Airport, American Airlines Admiral's Club

• M I N U T E S •

Agenda Item 1 – Administrative Items

SPP Chair Josh Martin called the meeting to order at 9:50 a.m. The following members were in attendance: Josh Martin (Director), Larry Altenbaumer (Director) and Phyllis Bernard (Director). Staff in attendance included Stacy Duckett, Philip Propes, Alan McQueen, and Lauren Krigbaum. Others in attendance included: Jim Eckelberger (Director); John Rhea (OGE); and Craig Roach and Vincent Musco (Boston Pacific).

Mr. Martin referred to draft minutes of the June 10, 2013 meeting and asked for corrections or a motion for approval (6/10/13 Minutes – Attachment 1). Phyllis Bernard moved to approve the minutes as presented; Larry Altenbaumer seconded the motion. The motion passed unanimously.

Agenda Item 2 – Review of Past Action Items

Stacy Duckett referred to the Action Items Report and asked for questions (Action Items Report – Attachment 2).

Agenda Item 34 – Quarterly Activity Reports

Market Monitoring Unit

Alan McQueen reviewed the quarterly activities for the Market Monitoring Unit (MMU Report – Attachment 3). FERC staff from the Division of Analytics and Surveillance will be in Little Rock to meet and discuss how the MMU is preparing for go-live. This will be a good opportunity for education and engagement. Several behavioral studies were triggered during the quarter by monitoring; all except one have been closed. The MMU reports to regulators have been shifted from monthly to quarterly. Considerable work is ongoing in preparation for market launch. Martin requested clarification of engagements with other departments and ensuring avoidance of conflicts with design in particular. The group discussed this and has no concerns. Systems development continues and progress is being made. Jim Eckelberger requested an understanding of engagement with other MMUs for lessons learned. Mr. McQueen reviewed this for the Committee.

Internal Audit

Lauren Krigbaum reviewed the quarterly activity report for Internal Audit (IA Report – Attachment 4). Focus remains on the Integrated Marketplace and areas that impact this initiative. The group continues to adjust audit plans and schedules to maximize effectiveness of audits. Ms. Krigbaum then referred to audits completed during the quarter. In particular the Privileged Accounts Audit was closed to allow more development internally; another audit is planned for 2014. Grandfathered Agreements have had rigorous review and assistance in developing cross-functional processes. More process is needed than in the past due to impact on the Integrated Marketplace. During the quarter, IA conducted a Readiness Review of Credit and Risk Management for the Integrated Marketplace. Several recommendations have been made and are in discussion. Regarding Business Continuity, the Committee strongly encouraged ensuring there is a plan that anticipates the lack of access to phones; this scenario is one Staff has plans to develop. Other audits are in process as noted in the report.

Compliance

Philip Propes reviewed quarterly activities of the Compliance Department (Compliance Report – Attachment 5). He reported that SPP's Operations and Engineering Audit (covering 68 standards and 1120 requirements) closed out with no findings and only two recommendations. The SERC audit team was very complimentary of SPP. This has been the primary focus of the group, including Subject Matter Expert (SME)

training for auditor interviews. This work will also support the upcoming Balancing Authority (BA) certification process for Integrated Marketplace in November. It also supports member compliance where they rely on SPP for certain functions. The group discussed preparation for BA certification, including observation of parallel operations to demonstrate BA functions. The group reviewed various outreach activities provided during the quarter. The Regional Compliance Working Group continues to meet and organize its priorities. The group continues to also work to increase participation by non-member registered entities. Coordination between the Regional Entity (RE) and Compliance continue to improve as well. Mr. Propes noted the upcoming Grid Ex II exercise in November. SPP is participating as a region, working with the Critical Infrastructure Protection Working Group to coordinate. The Committee is pleased with efforts and very supportive.

Agenda Item 4 – 2014 Audit Plan

Lauren Krigbaum presented a draft 2014 Audit Plan for review by the Committee, noting some new areas for audit. The final schedule will be presented in December. Jim Eckelberger suggested a review in 2015 of modeling in planning (proposed vs. actual) to see if it is achieving what was anticipated when approved. The MMU may be able to assist. In addition, consider a review of the Order 1000 process. Ms. Krigbaum will research and develop proposals for each.

Agenda Item 5 – Summary of Audit Activities

Stacy Duckett noted the Audit and Monitoring Activities Report (Audit and Monitoring Activities Report – Attachment 6). The group discussed. Larry Altenbaumer noted the flexibility staff exercises and the benefit gained from it and commended that process. Ms. Krigbaum expressed appreciation to the Committee for allowing that because all do not. Staff will continue to refine the report, adding other oversight in the organization. The report will be included on the December Board agenda.

Philip Propes mentioned the lack of regulation on security for the market systems as compared to operation systems. The Committee suggested this could be a topic for discussion at the ISO/RTO Council level to determine status among the RTOs, and whether/how issues might be elevated to policy level. Phyllis Bernard noted the SEC has a frame-work for this that might be useful to review. Ms. Duckett will visit with Nick Brown as to appropriate steps.

Agenda Item 6 – Recent Issues in Other Markets

Alan McQueen reviewed issues in other markets and potential impact in the SPP Market functions.

Agenda Item 7 – Contract for 2014 Support

Craig Roach and Vincent Musco joined the meeting to discuss a contract for 2014, presenting options for services to include (Boston Pacific Presentation – Attachment 7). The Committee would adjourn to executive session to determine how to proceed and provide direction to Staff on the contract proposal. Jim Eckelberger asked how Boston Pacific could assist with the resolution of Order 1000 inter-regional issues, focusing on economics, being able to transmit to the south and east, particularly wind in SPP. The group discussed, but made no plans at this time

Agenda Item 8 – New Action Items

- Audit and Monitoring Activities report on December agenda.
- Staff to consider cyber security issues specific to market systems, and actions SPP can/should take as well as discussion at IRC.

Agenda Item 9 – Future Meetings

Josh Martin noted future meeting dates. Advise on location for December meeting; March in Washington, D.C.; September is still TBD.

The meeting adjourned at 2:45 p.m.

Oversight Committee Meeting
September 26, 2013

Executive Session

The Committee discussed the Boston Pacific proposal and directed development of the 2014 contract with the Looking Forward Report and advise the Board as requested.

Respectfully Submitted,

Stacy Duckett
Secretary



OVERSIGHT COMMITTEE MEETING

September 26, 2013

Chicago O'Hare Airport

American Airlines Admiral's Club

• A G E N D A •

10:00 a.m. – 4:00 p.m. CDT

- 1. Call to Order/Administrative Items..... Josh Martin
- 2. Action Items ReportStacy Duckett
- 3. Quarterly Activity Reports
 - a. Market Monitoring Unit..... Alan McQueen
 - b. Internal Audit Lauren Krigbaum
 - c. Compliance Philip Propes
- 4. Draft 2014 Audit Plan Lauren Krigbaum
- 5. Summary of Audit Activities Staff
- 6. Recent Issues in Other Markets Alan McQueen
- 7. Contract for 2014 Support Craig Roach
- 8. New Action Items.....Stacy Duckett
- 9. Future Meetings..... Josh Martin

2013

December 9 Dallas, TX (day prior to BOD Workshop)

2014

March 27 TBD

June 9 Little Rock

September 25 TBD

December 8 Dallas, TX (day prior to BOD Workshop)

Executive Session

Southwest Power Pool
OVERSIGHT COMMITTEE MEETING

June 10, 2013

SPP Corporate Office, Little Rock, Arkansas

• M I N U T E S •

Agenda Item 1 – Administrative Items

SPP Chair Josh Martin called the meeting to order at 8:10 a.m. The following members were in attendance: Josh Martin (Director), Larry Altenbaumer (Director) and Phyllis Bernard (Director). Staff in attendance included Stacy Duckett, Philip Propes, Alan McQueen, Lauren Krigbaum, Joe Ghormley, Carl Monroe, and Michael Desselle. Others in attendance included Harry Skilton (Director).

Mr. Martin referred to draft minutes of the March 21, 2013 meeting and asked for corrections or a motion for approval (3/21/13 Minutes – Attachment 1). Phyllis Bernard moved to approve the minutes as presented; Larry Altenbaumer seconded the motion. The motion passed unanimously.

Agenda Item 2 – Review of Past Action Items

Stacy Duckett referred to the Action Items Report (Action Items Report – Attachment 2).

Agenda Item 3 – Order 1000 Process Update

Joe Ghormley, SPP Senior Attorney, provided an update on the Order 1000 initiative, and particularly the Oversight Committee's (OC) role in that process. The OC will be responsible for the review and selection of the Industry Expert Pool, ensuring the panel meets the criteria specified by the Tariff. The goal is to take steps to minimize risk to the organization while implementing the required process.

Agenda Item 4 – Quarterly Activity Reports

Internal Audit

Lauren Krigbaum reviewed the quarterly activity report for Internal Audit (IA Report – Attachment 3). Harry Skilton requested some detail on the process related to the Integrated Marketplace oversight. The Department is focusing more time on Integrated Marketplace matters, so other audits are taking somewhat longer to complete, as planned for this year. IA has had no resistance to its participation in meetings or questions for purposes of the Integrated Marketplace oversight.

PricewaterhouseCoopers has been onsite for Phase I of the controls audit. They will return for testing; IA has advised that staff will be less available for follow-up questions due to market implementation. During pre-audit, IA found some issues, but compensating controls are in place. Larry Altenbaumer requested additional information on other consulting/advising activities conducted by the group, and duties related to reviews provided to the CEO on Integrated Marketplace project. To ensure no conflicts, IA consults on where a control may be needed, but does not develop controls for the business owner. Harry Skilton questioned the process of ensuring whether a control should exist versus strictly having controls required for various audits. IA is working toward both. Josh Martin requested a discussion regarding Enterprise Risk Management occur with the full Board.

Compliance

Philip Propes noted the role of Compliance in audits throughout the organization, including controls audit and operational audits. Larry Altenbaumer suggested current processes seem adequate, but might consider whether broader reviews, with or without a third party vendor, would be appropriate. Staff will prepare a report outlining various audit activities throughout the organization to provide to the Board of Directors for review and as part of the risk management discussion.

Oversight Committee Meeting
June 10, 2013

Philip Propes reviewed quarterly activities of the Compliance Department (Compliance Report – Attachment 4). The primary focuses have been the launch of the Regional Compliance Working Group (RCWG), and preparation for SPP's upcoming audits. Outreach services continue as well. Josh Martin thanked Mr. Propes for his presentation at the April Board meeting. Mr. Propes noted one vacant position in the group. Compliance and the Regional Entity continue to coordinate where possible to support and promote compliance throughout the region.

Market Monitoring Unit

Alan McQueen reviewed the quarterly activities for the Market Monitoring Unit (MMU Report – Attachment 5). Mr. McQueen attended the semi-annual meeting with FERC; discussion centered on monitoring of RTOs as a market operator by market monitors. The Annual State of the Market Report has been submitted at FERC. The primary focus of the group continues to be development and preparation for the Integrated Marketplace. The MMU staff participated in the spring Energy Intermarket Surveillance Group (EISG) meeting, including presenting.

Agenda Item 5 – Strategic Planning and Budgets

Each group provided a briefing on departmental strategic plans, and budget plans for 2014.

Agenda Item 6 – New Action Items

Stacy Duckett noted new action items:

- Board to discuss the enterprise risk management process.
- Staff is to prepare a comprehensive report regarding audit activities for the Board of Directors' review.

Agenda Item 7– Future Meetings

Josh Martin noted future meeting dates. The September 26, 2013 meeting will be in Chicago at an O'Hare Airport location.

The meeting adjourned at 11:34 a.m.

Respectfully Submitted,

Stacy Duckett
Secretary



Southwest Power Pool, Inc.
OVERSIGHT COMMITTEE
Pending Action Items Status Report
September 26, 2013

Action Item	Date Originated	Status	Comments
Affirm Standards of Conduct are binding post-employment	June 13, 2011	Completed	CGC approved revisions at its August meeting; will be included in next training.
Staff to develop a proposal for a process to address vetting of industry experts to ensure lack of conflicts in the Order 1000 process	Sept 27, 2012	Pending	Order 1000 process project has been initiated; includes development of details for OC role. Order has been received from FERC; SPCTF has been re-engaged to determine next steps overall.
Clarify how various penalties are accounted for.	Mar 21, 2013	Completed	Reported at June meeting
Staff provide summary of various audit and oversight activities in the organization	June 10, 2013	Pending	Agenda item for September meeting.
Plan for Board review of risk management	June 10, 2013	Pending	Pending review of summary of current activities (above) and determination of next steps.

MARKET MONITORING REPORT

Oversight Committee

26 September 2013

Activity Update

- **Federal Energy Regulatory Commission (FERC)**
 - FERC staff from the Division of Analytics and Surveillance has requested a briefing on what the MMU is developing (metrics, screens, and dashboards) in preparation for the day-ahead market start-up. Four staff members will be on site for three days, Sep 30 – Oct 2.
- **Market Studies**
 - The MMU opened nine behavior studies since mid-June. Eight of the nine studies have been closed.
- **Reporting**
 - MMU published regular Market Monitoring reports including the Monthly Metrics Reports, monthly MWG market updates, and weekly Price Event Reports for FERC.
 - The first Quarterly State of the Market report will be published in December for the autumn season (September-November). FERC staff and the Arkansas Public Service Commission have approved this move from monthly to quarterly reports.
 - Ongoing Corporate Metrics development in addition to supporting various other corporate reporting functions.
- **Integrated Marketplace**
 - The MMU is participating in the Transmission Congestion Rights program review and has made several presentations to the Change Working Group and Market Working Group.
 - The BI/Reporting Workstream remains in yellow status because of the number of system releases and resulting changes in database tables.
 - MMU continues to be on track for completing metrics needed to effectively monitor all Marketplace activities.
 - The MMU continues to be heavily involved with the Market Working Group with the team submitting four Marketplace Protocol Revision Requests (MPRR). Two of the MPRRs introduce new mitigation rules to address design changes related to Order 755 and Enhanced Combined Cycle logic. The other two MPRRs are clarifications to previously approved mitigation rules. The four requests were approved by the Market Working Group and will be submitted to the Markets and Operations Policy Committee for approval in October.

- The MMU Resource data collection system needed to develop a shadow calculation of all mitigated offer curves is on schedule. All indications are that this project will be completed on time.
 - MMU continues to assist software testing efforts for the Integrated Marketplace. Two members of the MMU are assigned to mitigation testing. A third member of the MMU is assigned to the testing of the market simulation tool.
 - The MMU is developing an action plan related to the manipulation case recently settled with JP Morgan Ventures Energy Corporation (JPMVEC). The report will address SPP exposure to the strategies employed by JPMVEC and will recommend changes if need to market design or the monitoring plan to address any potential exposure.
 - FERC issued an Order related to the Integrated Marketplace on September 19. Several issues directly or indirectly relate to monitoring and the MMU is working closely with SPP Regulatory and Market Design to determine areas that need to be addressed.
- **Other Activities**
 - FERC approved SPP's proposal to use the funds received from the Constellation settlement case for the Integrated Marketplace market simulation tool and the data warehouse.
 - The MMU currently has two members participating in SPP's Leadership Training class. This eight week class focuses on many skills such as communication, time management, and conflict resolution.

Respectfully submitted,
Alan McQueen
Director, Market Monitoring and Analysis



Southwest Power Pool, Inc.
INTERNAL AUDIT
Report to the Oversight Committee
September 26, 2013

Staffing

- The Internal Audit department is fully staffed.

Activity Update

- Updated 2012 – 2014 Audit Schedule (see attached)
- Audits Completed Since Last Meeting:

- **Privileged Accounts [Administrator and Shared Access]**

The Internal Audit (IA) department initiated a review of SPP's Privileged Account Access for critical systems. The purpose of this review was to gather information about the access controls in place to protect information accessed through these accounts. Numerous privileged accounts including administrator and shared access accounts exist throughout SPP's current IT enterprise. These accounts allow unlimited, anonymous access for both individuals and applications and are utilized on both hardware and software at SPP. With shared accounts it is difficult to monitor since any audit trails available do not provide detail about "who" (individual or application) accessed the hardware or software and what changes were made. The focus of this review was to assess the process of granting, managing, and protecting these accounts, particularly for systems related to the Reliability function of SPP.

See attached for summary.

- **Grandfather Agreements**

The Internal Audit (IA) department completed a review of Southwest Power Pool's (SPP) grandfather agreement (GFA) processes and Attachment W (Index of Grandfathered Agreements) of SPP's Open Access Transmission Tariff (OATT). This GFA review was a consultative review designed to assist in the creation of a cross-functional GFA process; therefore no formal audit testing was completed. Additionally, the review included an evaluation of the adequacy and efficiency of GFA policies and procedures related to registration, modeling, maintenance and expiration, as well as research and categorization of the existing GFAs indexed on Attachment W.

See attached for summary.

- **Credit and Risk Management Integrated Marketplace Readiness Review**

SPP will go live with the Integrated Marketplace in March 2014. The work that is currently being performed by the Credit and Risk Management department will be changing significantly as a result of the new activities that will be occurring in the Integrated Marketplace. Therefore, Internal Audit (IA) conducted a readiness review of the proposed business processes that have been developed by the area to assess the overall readiness of the department. Readiness reviews focus on the adequacy of meeting targets and/or requirements outlined in project documents. They are designed to identify gaps in targets, requirements, programs and/or documentation rather than determining actual conformance with the requirements.

See attached for summary.

- **Business Continuity/Disaster Recovery Plan**

The Internal Audit (IA) department completed a review of SPP's Business Continuity Plan (BCP). The purpose of this review was to evaluate the processes and controls related to SPP's BCP and supporting documents, a plan created to maintain effective emergency response management processes, ensure a comprehensive level of preparedness, meet applicable reliability standards, address company continuity requirements and ensure effective coordination/management of SPP resources during emergency situations. SPP's BCP and supporting documents are designed to minimize impacts on SPP operations, infrastructure environment and property during emergency situations using a phased approach for notification/activations, recovery and reconstruction.

See attached for summary.

- **Off We Go LLC (Invoices)**

The Internal Audit department performed a review of reimbursements made to Off We Go, LLC for use of their private aircraft for the period of November 1, 2012 through April 30, 2013. In addition, Off We Go LLC's insurance policy was reviewed to confirm it meets the requirements listed in the Private Aircraft section of SPP's Expense and Travel Policy.

See attached for summary.

- **Off We Go LLC (Fixed Cost Reimbursement)**

On July 10, 2009, the SPP Finance Committee approved a process to reimburse the SPP CEO and CFO for fixed costs associated with aircraft owned by Off We Go, LLC, a limited liability company whose sole members are the SPP CEO and CFO. The aircraft owned by Off We Go, LLC is frequently used by SPP to transport SPP employees on SPP business. In general terms the approved process results in SPP reimbursing 85% of the fixed costs associated with the aircraft. Fixed costs associated with the aircraft include: depreciation, interest, maps/charts, annual

inspection, insurance, property taxes and hangar rent. Fixed cost reimbursements made to Off We Go, LLC for the period September 11, 2012 to September 10, 2013 were reviewed by the Internal Audit department. Expense reports and supporting documentation for each reimbursement were obtained from SPP Accounting and reviewed for appropriateness and accuracy.

See attached for summary.

- **Reviews Currently in Process:**

- **Invoicing/Cash Collections/Payout**

The purpose of the review is to evaluate the efficiency and effectiveness of processes and controls in providing reasonable assurance that invoices, payments collected and payouts are timely and accurate for SPP's Market and Transmission Settlements process. The review is in the reporting phase.

- **SPP ComplianceLine Administration**

The purpose of the review is to ensure that SPP's ComplianceLine Hotline continues to help maintain an ethical workplace without fear of retaliation. This line is answered 24 hours a day, seven days a week for confidential reporting of compliance/ethical concerns and is staffed by a third-party organization. It provides an anonymous avenue for employees to voice concerns when they do not feel comfortable speaking to supervisors or Human Resources employees. All calls are documented and investigated. The review is in the testing phase.

- **TCR Internal Readiness Review**

The Internal Audit (IA) department is conducting a TCR Integrated Marketplace Readiness Review. Readiness reviews differ from formal audits in that they are designed to identify gaps in proposed process documentation that is designed to meet targets, requirements, and/or protocols defined in a project plan rather than determining actual conformance with these requirements. As a part of our overall review procedures, we will conduct interviews with management and staff, review the proposed business processes and related documentation, and verify the results of TCR system testing. The review is in the testing phase.

- **Fixed Assets**

The purpose of this review is to ensure the fixed asset management process as performed: is supported by up-to-date and complete process documentation with sufficient information to support and serve the process purpose and deliverables; is accurate and complete in the acquiring, recording, monitoring, depreciating and disposing of fixed assets; includes adequate controls to mitigate risks; and does not have any process and/or control gaps. The review is in the testing phase.

- Upcoming Reviews/Audits:
 - Legacy Applications (Integrated Marketplace)
 - Market Participant Registration and Modeling Internal Readiness Review (Integrated Marketplace)
 - Settlements Internal Readiness Review (Integrated Marketplace)
 - Portal Internal Readiness Review (Integrated Marketplace)
 - EADS/BI Internal Readiness Review (Integrated Marketplace)
 - CBA Internal Readiness Review (Integrated Marketplace)
 - Customer Relations Internal Readiness Review (Integrated Marketplace)
 - MMU Internal Readiness Review (Integrated Marketplace)
 - Credit Stack Process
 - Off We Go LLC (Rate)
 - Off We Go LLC (Invoices)

- Integrated Marketplace Internal Readiness:
 - IA continues to review the Integrated Marketplace Program and Integration for SPP's President and CEO.
 - Attended SPP Working Group Meetings (e.g. Change Working Group)
 - Attended Marketplace Leadership Team (MLT) meetings
 - Interviews (e.g. workstream owners, project managers, other key employees/contractors)
 - Reviews of select workstream components
 - Staff continues to engage in Integrated Marketplace discussions; bringing perspective of internal controls, SSAE 16 and business.
 - Continued working with Congestion Hedging personnel concerning the development of TCR control objectives/activities, business processes and desk procedures
 - Observations and recommendations were formalized and provided to management in preparation for the TCR Internal Readiness Review (see "Reviews Currently in Process" section above)
 - Working with Settlements personnel concerning the development of Settlements control objectives/activities and facilitation of process risk assessment workshops
 - Working with Operations personnel concerning the development of control objectives/activities and participating in process risk assessment workshops
 - Reviewing process/procedure documentation completed by workstream personnel

- Advising on documentation of workstream/system testing
- Other Activities
 - Controls audit (SSAE 16) work:
 - Completion of periodic audits
 - Business – 33 completed to date, 6 in process (69 total control activities)
 - IT – 20 completed to date, 10 in process (30 total control activities)
 - Phase 1 of 2013 audit:
 - Control owner surveys
 - Facilitated/coordinated testing for on-site visit in July/August
 - Communicated and acted as liaison between PwC and control owners
 - Collected and reviewed additional audit item requests
 - Two employees provided approximately 120 hours each of direct assistance to the external auditors (attempt to reduce outside service fee)
 - Other consulting/advising:
 - Credit Stack process
 - FERC Order 1000
 - Loss Matrix
 - Documentum rollout for Internal Audit
 - Transmission Service Studies
 - Enterprise dispute process
 - Contractor off-boarding process improvement initiative (LEAN)

Respectfully submitted,
Lauren Krigbaum
Director, Internal Audit



SPP Oversight Committee Report

September 26, 2013

SPP Compliance Department Report

Philip Propes



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Director Summary

The SPP Compliance Department will bring the 2013 SERC Audits of SPPs Registered Functions full circle on September 23 when the Operations & Planning (693) Audit begins. Audit lessons learned are already underway from the Critical Infrastructure Protection (706) on-site Audit in July.

With responsibility for 68 standards and 1120 requirements, the SPP Compliance staff is now focusing efforts on the 693 audit readiness. Preparations include RSAW compilation, primary and secondary evidence review, Subject Matter Expert (SME) Q&A, data request fulfillments, and the SPP Internal Compliance Program (ICP) Annual Review.

Metrics

Departmental metrics were on target in Q3 2013, with all metric goals in the green.

<u>Metric Type</u>	<u>Metric Goal</u>	<u>Target Date</u>	<u>Dashboard</u>
Qualitative	706 (CIP) Post Audit Activities	Q3	On Target
Qualitative	693 (OPS/PLANNING) Pre Audit Activities	Q3	On Target
Qualitative	BA Certification November 5-6 Pre Certification Activities	Q4	On Target
Quantitative	Outreach Services Q3 Quarterly Forum >75 Participants	Q3	Target Met

Compliance Activity Highlights

693 Pre Audit Preparations – September 23-27

- 68 Standards
- 1120 Requirements
- RSAW Compilation
- Primary and Secondary Evidence Review
- Subject Matter Expert (SME) Preparation and Direct Q&A
- Pre-Audit Survey Completion
- SERC Audit Data Request Submittals
- Internal Compliance Program (ICP) Annual Review

706 Post Audit

- Lessons learned are underway from the July 2013 SERC 706 audit.

Outreach Activity Highlights

Entity Evidence Reviews

August 2013:

- 1 On-Site CIP Evidence Review
 - 2 Staff Resources
 - Evidence Review of RSAWs and Primary Evidence
 - Subject Matter Expert (SME) Preparation and Q&A
 - Physical Security Onsite Corporate and Operations Center Tour

September 2013:

- 1 On-Site Operations and Planning Evidence Review
 - 3 Staff Resources
 - Evidence Review of RSAWs and Primary Evidence
 - Subject Matter Expert (SME) Preparation and Q&A

Member Email – Entity Evidence Review Feedback:

“Thank you again for traveling last week to help us get our arms around some key CIP efforts. The conversations you had with our SMEs and the advice you offered will greatly help us finalize some of our processes. These Evidence Reviews are truly a valuable service to the SPP Membership.”

Quarterly Compliance Forum

The SPP Compliance Department hosted its first onsite Forum at the SPP Corporate Center on August 7-8.

Nick Brown kicked off the Forum with a welcome address and SPP Reliability Coordinators (RCs) Monte Grist and Mark Kingan spent the day with the members.

Over 40 Participants were given tours of the Operations and Data Center.

Member Response – August Forum Survey Feedback:

“I work with all of the regions. SPP personnel are some of the most helpful, responsive and professionals that I have worked with in the compliance arena.”

Electronic and Phone Call Compliance Support – High Volume Quarter

Electronic and phone support in Q3 has exceeded previous quarters in 2013. SPP Compliance staff goes the extra mile to ensure phones are answered, emails are responded too and the right follow up is seen through to completion.

Outreach Activities

Monthly Compliance Calls

July 2013:

- 24 Participants

August 2013:

- No call due to the SPP Quarterly Compliance Forum

September 2013:

- Call set for September 20

Weekly Industry Updates

A new format to the industry updates bulletin now includes FERC, SPP and Industry “must read” information that along with the NERC standards bulletin becomes a one stop shop of information for entities.

All issues are sent directly out to our compliance contacts list on Mondays, as well as posting on the SPP website.

July 2013:

- 5 Distributions

August 2013:

- 4 Distributions

September 2013:

- 5 Projected Distributions

Quarterly Newsletter

The August Newsletter was distributed on August 5.

SPP Working Group Participation

Regional Compliance Working Group (RCWG) Update

The RCWG held its next meeting on August 6 in Little Rock, AR at the SPP Corporate Offices.

Agenda and discussion items will include an update on the NERC RAI Initiative, the review process by SPP RTO Compliance Staff of the SPP BA Protocols, the upcoming implementation guidelines associated with PRC-023-2 and PRC-023-3, request for waivers as well as a presentation on SPPs Quality Assurance Operational Processes.

The next Meeting will be October 7, 2013 at the SPP Corporate Center in Little Rock, AR.

Critical Infrastructure Protection Working Group (CIPWG) Update

The SPP CIPWG met on July 18 at the offices of Kansas City Power and Light in Kansas City, MO.

Agenda items included an overview of the recent NERC Critical Infrastructure Protection Committee meeting (CIPC), an update on the mission and activities of the SPP Regional Compliance Working Group (RCWG) and NERC's Reliability Assurance Initiative (RAI).

The group discussed choosing alternate attendees to the CIPC meeting for the region.

An update was provided by local FBI agents and participation in NERC's Grid Exercise II in November was also discussed.

Reliability Standard Calls

Standard Calls

The Reliability Standards Group has held the follow topic calls with over 110 participants in Q3.

- BES Definition
- Coordinate Interchange Standards
- Demand Data (MOD C)
- Disturbance Control Performance
- Generator Relay Loadability
- GMD Mitigation
- MOD A (ATC)
- Modeling Data (MOD B)
- Modeling Data (MOD B)
- Modeling Data (MOD B)
- Operating Personnel Communications Protocols
- Operating Reserve Guideline
- Operations Personnel Training
- Reclosing Relays/PRC-005
- Voltage & Reactive Control

Respectfully submitted,

Philip Propes
Director, Compliance



**Southwest Power Pool, Inc.
Report to the Oversight Committee
September 26, 2013**

AUDIT AND MONITORING ACTIVITIES REPORT

The Oversight Committee requested an overview of the various audit and monitoring activities that occur on a regular basis at SPP. This report is intended to reflect those activities, their frequency, and where this information is reported.

Compliance Department Activities

The Compliance Department performs ongoing spot-checks and reviews for standards compliance with the Operations, Engineering, IT, and Facilities Departments at SPP. These reviews happen in both scheduled and ad hoc fashions, and can focus on high-risk activities, previously identified areas of weakness, and previously noted possible violation areas. These reviews focus on ongoing compliance-related processes and subsequent evidence used to demonstrate compliance.

In addition to evidence-focused reviews, the department also provides best-practice training, cyber security monitoring and oversight, physical security inspections, and Subject-Matter Expert (SME) training for varying groups. These ongoing efforts aid in the overall Culture of Compliance at SPP, and support formal audits occurring within the organization.

NERC Audits

Introduction

As a Registered Entity with NERC, SPP is subject to audits of how our processes comply with the NERC standards pertaining to Operations, Planning and Critical Infrastructure Protection. SPP is registered with NERC as a Reliability Coordinator (RC), Interchange Authority (IA), Planning Authority (PA), Reserve Sharing Group (RSG), Transmission Planner (TP), and Transmission Service Provider (TSP). As a Reliability Coordinator, NERC's Rules of Procedure require these audits on a three-year cycle. Audits of the Standards are conducted by a Regional Entity, which for SPP, is the SERC Reliability Corporation.

Operations and Engineering Audits

NERC Standards focused primarily on our Operations and Engineering Departments are commonly referred to as "693 Standards", as those were made mandatory with FERC Order 693. These standards focus on reliability coordination processes, emergency operations, communications, modeling, training, transmission operations, and transmission planning. Once SPP becomes the Balancing Authority for the region, several additional requirements become mandatory. These requirements focus on resource demand and balancing and regional emergency communications. SPP is undergoing a NERC 693 Audit September 23 – 27, 2013.



The audit primarily involves the compliance, operations, and engineering departments. The auditors spend approximately one week onsite and conduct offsite reviews as well. A significant amount of work is performed by the named teams above in advance of the auditors arriving onsite.

Critical Infrastructure Protection Audits

A Critical Infrastructure Protection (CIP) standards audit focuses on securing the Critical Assets and Critical Cyber Assets of a Responsible Entity. For SPP, those Critical Assets are our Control Centers on the Chenal Corporate Center campus and in the Maumelle facility. The Critical Cyber Assets are the computing devices which directly support activities of the Reliability Coordinator function within our Control Centers. As a Balancing Authority, SPP's CIP obligation will be the same as with the Reliability Coordinator function. The CIP standards include requirements for Asset Identification, Security Management Controls, Personnel and Training, creation and maintenance of an Electronic Security Perimeter, Physical Security of Cyber Assets, Systems Security Management, Incident Reporting and Response Planning as well as Recovery Plans for Critical Cyber Assets. SPP underwent a NERC CIP Audit from June 24 – July 12, 2013.

The audit primarily involved the compliance, human resources, facilities, and information technology departments. The auditors spent approximately one week onsite and conducted offsite reviews as well. A significant amount of work was performed by the named teams above in advance of the auditors arriving onsite.

Self-Certifications

Self-certification by entities registered with SERC affirms that entities meet requirements of applicable, actively monitored NERC Reliability Standards. Most standards must be self-certified annually, although there are a few that are submitted quarterly.

SERC reviews information submitted by SPP to determine compliance with the Reliability Standards and may request additional data and/or information if necessary. If no Possible Violations are found, this process normally completes within sixty (60) days of SERC's receipt of data. If SERC concludes, after completing a Preliminary Screen(s), that there is a Possible Violation of a Reliability Standard, it will send SPP a Notice of Possible Violation.

Other Certifications

In June 2012, SPP had an RC Certification review due to relocating the Control Center to the new Chenal Facility. The objective of this review was to assess SPP's processes, procedures, personnel, and tools that allow us to perform the functions of an RC. The scope of the review included: (1) interviewing SPP management and reviewing pertinent documentation for verification of basic requirements for RC operation; (2) reviewing procedures and other documentation developed by SPP to meet the applicable Reliability Standards/Requirements; (3) interviewing SPP system operations personnel; (4) reviewing SPP primary control center facility capabilities where the RC functions are controlled, Energy Management System (EMS), communication facilities, operator displays, etc.; and (5) performing other validation reviews as considered necessary.



SPP is also in the process of the BA Certification, which is currently scheduled for the week of November 4, 2013. SPP is taking steps to certify and operate a Balancing Area that will include loads and resources registered in the SPP Integrated Marketplace beginning March 1, 2014. SPP staff is currently developing processes, procedures, tools and training that will allow SPP Operators to perform the function of a BA.

Internal Audit Activities

Annual Audit Plan

Annually, SPP Internal Audit develops a flexible audit plan using a risk-based methodology which includes risks, process or control concerns identified by management. The annual audit plan is submitted to the Vice President, Process Integrity and the Oversight Committee for review and approval, as well as periodic updates. Audits included in the annual audit plan involve departments throughout SPP. Internal Audit is responsible for planning, conducting, reporting, and following up on audit engagements included in the annual audit plan. The Director, Internal Audit, in coordination with Internal Audit staff, allocates resources, sets frequencies, selects subjects, and determines scopes of work and audit techniques required to accomplish audit objectives. Results of audit engagements and follow-up reviews are reported to applicable SPP Management, the Vice President of Process Integrity and the Oversight Committee.

Periodic SSAE 16 Control Activity Reviews

Reviews of SPP's business and IT SSAE 16 control activities occur throughout the year. These internal tests of controls help to ensure the control activities are working as intended and supporting documentation evidencing the activities is adequate. The reviews help the owners of control activities prepare for the SSAE 16 audit (as referenced below) and any resulting recommendations help strengthen the control structure and/or the supporting documentation. Additionally, these review results are used by management as support for the SSAE 16 Management Assertion letter.

Risk Assessments

Internal Audit facilitates process risk assessment workshops for all SSAE 16 control objectives, as well as ones requested by process owners. These workshops help management identify the risks associated with control objectives; the results of which are used to refine/draft control activities. Results of risk assessments belong to the process owner.

Advisory Reviews

Internal Audit completes reviews for new and/or revised processes/procedures, supporting documentation, and control objectives/activities, in order to provide feedback and recommendations before processes/procedures are finalized and initiated. Results of advisory reviews are reported to applicable SPP Management, the Vice President of Process Integrity and the Oversight Committee.



Integrated Marketplace Internal Readiness Reviews

Internal Audit performs reviews to determine that Integrated Marketplace workstreams/systems are ready for "go live". These reviews include assessments of project plans, testing results, process documentation, interfaces, proposed control objectives/activities and supporting documentation. Results of internal readiness reviews are reported to applicable SPP Management, the Vice President of Process Integrity and the Oversight Committee.

Type 2 SSAE 16 Audits

Introduction

Annually SPP engages an external audit firm to conduct a Type 2 SSAE 16 audit of SPP's controls surrounding the energy imbalance and transmission service market settlements processes and related information technology systems and processes. The audit is completed for the benefit of SPP Transmission Customers, Transmission Owners and Market Participants, and especially for the benefit for SPP's SEC jurisdictional members that are subject to Sarbanes-Oxley requirements. The results of the audit are reported to the Finance Committee of the SPP Board of Directors.

Audit Overview

Officially known as a "Report on Management's Description of a Service Organization's System and the Suitability of the Design and Operating Effectiveness of Controls" or generically as a "Type 2 Service Auditor's Report" (it may also be referred to as a "SOC1" audit), Type 2 SSAE 16 assessments provide independent third party verification by a licensed CPA firm as to whether control activities described by a service organization are suitably designed to meet specified control objectives and are in place and operating effectively over a period of time.

Type 2 reports are generally required by service organizations' user organizations and their user auditors, and can be a substitute for performing first-hand testing in conjunction with financial statement audits or Sarbanes-Oxley compliance.

The audit primarily involves the internal audit, compliance, settlements, customer relations, engineering, operations, accounting, and information technology departments. The auditors spend approximately two weeks onsite at two separate times during the year and conduct offsite reviews as well. A material amount of work is performed by the named teams above in advance of the auditors arriving onsite.

Financial Audits

SPP financial statements are subject to an annual audit by an external independent accounting firm. The audit is conducted in accordance with generally accepted auditing standards. Those standards require that the audit be planned and performed to obtain reasonable assurance as to whether the financial statements are free from material misstatement. The audit includes evaluation of the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. While



the auditors do not issue an opinion on our internal controls, they do perform a review of our internal processes and controls in planning and performing their audit and are required under auditing standards to communicate any control issues should they exist.

The audit primarily involves the accounting department. The auditors spend approximately three weeks onsite, with one week scheduled at an interim date for planning purposes, including walkthroughs for all significant business cycles (payables, fixed assets, cash receipts, payroll, etc). A significant amount of work is performed by the accounting staff in advance of the auditors arriving onsite.

Retirement Plan Audits

SPP's Retirement Plan financial statements undergo a limited scope audit each year by an external independent accounting firm. Based upon the size of our plan, we are required by the Department of Labor to have an audit performed of the financial statements and supplemental schedules that must accompany the annual plan tax return (Form 5500). A limited scope audit excludes testing of information certified by our third party trustee. The audit is conducted in accordance with generally accepted auditing standards. While the auditors do not issue an opinion on our internal controls, they do perform a review of our internal processes and controls in planning and performing the audit and are required under auditing standards to communicate any control issues should they exist.

The audit involves both accounting and human resources personnel. Auditors spend approximately two weeks onsite to audit the Retirement Plan, the 401k Plan and the Self-Funded Medical Plan. A material amount of work is performed by both the accounting and human resource staff prior to the auditors arriving onsite.

401k Plan Audits

SPP's 401k Plan financial statements undergo a limited scope audit each year by an external independent accounting firm. Based upon the size of our plan, we are required by the Department of Labor to have an audit performed of the financial statements and supplemental schedules that must accompany the annual plan tax return (Form 5500). A limited scope audit excludes testing of information certified by our third party trustee. The audit is conducted in accordance with generally accepted auditing standards. While the auditors do not issue an opinion on our internal controls, they do perform a review of our internal processes and controls in planning and performing their audit and are required under auditing standards to communicate any control issues should they exist.

The audit involves both accounting and human resources personal. Auditors spend approximately two weeks onsite to audit the Retirement Plan, the 401k Plan and the Self-Funded Medical Plan. A material amount of work is performed by both the accounting and human resource staff prior to the auditors arriving onsite.

Self-Funded Medical Plan Audits

A full scope audit of the Medical Plan financial statements is performed each year by an external independent accounting firm. The audit is conducted in accordance with generally accepted auditing

standards. Those standards require that the audit be planned and performed to obtain reasonable assurance about the whether the financial statements are free from material misstatement. The audit includes evaluation of the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. While the auditors do not issue an opinion on our internal controls, they do perform a review of our internal processes and controls in planning and performing the audit and are required under auditing standards to communicate any control issues should they exist

The audit involves both accounting and human resources personal. Auditors spend approximately two weeks onsite to audit the Retirement Plan, the 401k Plan and the Self-Funded Medical Plan. A material amount of work is performed by both the accounting and human resource staff prior to the auditors arriving onsite.

MMU Monitoring Activities

The Market Monitoring Unit (MMU) monitors a variety of activities that have potential impacts to the SPP Markets. The current focus is on the Energy Imbalance Services Market and Transmission Services. Preparations are in process for the start-up of the Integrated Marketplace. In most cases, our monitoring activities focus on quantitative analyses of prices and behaviors. Along with Market Participants and Transmission Service Customers, the MMU also monitors some activities of the RTO. The following categories represent the MMU's major areas of attention.

Market Power Abuse, Manipulation and Gaming

The MMU's key concern is to prevent and recognize instances of market power abuse, manipulation and gaming. The MMU currently monitors potential economic withholding, physical withholding and uneconomic production. Many of these screens run on a daily basis, and the MMU conducts follow-up studies as needed. This approach will continue in the Integrated Marketplace, along with several new screens that will cover Day Ahead and Real Time Markets, Transmission Congestion Rights and Virtual trades.

Market Intervention Monitoring

SPP Operations occasionally has the need to take action to remediate real-time issues. These actions sometimes impact the market. Examples of these actions include load forecast offsets and flowgate effective limit changes. The MMU reviews these impacts regularly and conducts in-depth studies as needed.

Market Participant Inquiries

The inquiry process is used by the MMU on an as-needed basis to investigate potential problems in the market. The process is defined in the Market Protocols and includes four stages of analysis. The Market Participant Inquiry Process can be initiated by the MMU or by a request from the RTO, a Market Participant, or any other stakeholder.



Behavior Studies

Behavior Studies are conducted by the MMU on an as-need basis to analyze any issues related to the market. In contrast to formal Market Participant Inquiries, Behavior Studies tend to be small in scope. If a Behavior Study uncovers a larger issue, the MMU follows-up with an Inquiry.

Market Design Analysis

The MMU reviews proposed market design changes for market efficiency issues. The MMU also reviews the proposals to determine if the design change creates opportunities for market power abuse, manipulation or gaming. The MMU works closely with the SPP Market Design team and the Market Working Group to amend the design to address any concerns, and can/must escalate concerns to the Board of Directors or FERC when appropriate.

A Continuing Role for Boston Pacific in 2014

Presented to

THE SPP BOARD'S OVERSIGHT COMMITTEE

by

Boston Pacific Company, Inc.

Craig R. Roach, Ph.D.

Vincent Musco

September 26, 2013



OUTLINE

- I. Three Possible Work Areas in 2014
 - A. Produce Fourth Annual *Looking Forward Report*
 - B. Troubleshoot Integrated Marketplace Startup
 - C. Advise Board on Other Issues

I. Looking Forward Report

- A. Part of SPP Board's Strategic Planning Effort
- B. Focus on broad market and regulatory events that could impact SPP's markets or that require the Board's special attention
- C. Topics to be developed in collaboration with the Board
- D. Present the Report at the Spring Oversight Committee Meeting and the April 29, 2014 Members Committee Meeting

II. Troubleshoot Integrated Marketplace Startup

A. Reprise of our role in troubleshooting the EIS Market startup in 2007

1. Identified anomalous results (e.g., \$20,000/MWh prices)
2. Developed objective, independent solutions
3. Presented findings/recommendations before stakeholders and Board

II. Troubleshoot Integrated Marketplace Startup

B. “Startup Anxiety”: No other market startup has been without hiccups

1. ERCOT’s nodal market (2010)
2. California ISO’s day-ahead market (2009)
3. MISO day-ahead market (2005) and ancillary services market (2009)

II. Troubleshoot Integrated Marketplace Startup

C. Some SPP issues have already surfaced

1. TCR Market Trials (~\$260 million shortfall)
2. Combined-Cycle Modeling

II. Troubleshoot Integrated Marketplace Startup

D. How we can help

1. Hectic times with impromptu, partial solutions being offered
2. Independent and experienced voice offering practical assessment and solutions
3. Anticipate problems before they occur, suggest solutions
4. Stay true to original objective and original design, and avoid delays

II. Troubleshoot Integrated Marketplace Startup

E. Our Approach

1. Get back in the loop – MOPC, MWG
2. Help on already-identified problems (TCRs, CCM)
3. Be vigilant on 11th hour proposed changes in the Protocols
4. Alert Board on new issues
5. Watch for anomalous results, determine root cause, develop practical solutions during trials, startup
6. Prepare written documentation and conduct in-person briefings as requested

III. Advise Board on Other Issues

A. As always, we will advise Board on any issues that arise during the year

1. Entergy Integration issues
2. ROFR removal, competitive transmission solicitations
3. Others