

Southwest Power Pool
OVERSIGHT COMMITTEE MEETING
June 9, 2014
Southwest Power Pool Corporate Offices, Little Rock, AR

• M I N U T E S •

Agenda Item 1 – Administrative Items

Josh Martin called the meeting to order at 8:07 a.m. Members in attendance: Josh Martin (Director), Larry Altenbaumer (Director), and Phyllis Bernard (Director). Staff in attendance included Stacy Duckett, Alan McQueen, Philip Propes, Lauren Krigbaum, and Ben Bright. Others in attendance were Harry Skilton (Director), Tom Dunn, Kristine Schmidt (ITC) and Noman Williams (Sunflower Electric). Larry Altenbaumer made a motion and Phyllis Bernard seconded it to approve minutes from the March 20, 2014 meeting (Minutes 3/20/14 – Attachment 1), which passed with unanimous approval.

Agenda Item 2 – Action Items Report

Stacy Duckett reviewed the Action Items Report (Action Items Report – Attachment 2) referring to updates in the report.

Agenda Item 3 – Order 1000 Update

Ben Bright reviewed Order 1000 Materials (Order 1000 Process – Attachment 3). The process and documents were posted at the end of May with some responses to date. SPP is still on schedule to provide a report for committee action in September, with Board action to follow in October. SPP is publishing a list of applicants for QRP on July 15. Ben next reviewed the current draft of the IEP Agreement, requesting any comments from the committee. The compensation section remains in draft pending further discussion. A contract is planned for an annual basis, but the dates are not firm. The Oversight Committee (OC) requested details on SPP's due diligence process for both conflicts and expertise claims. Kristine Schmidt asked if a list will be posted in advance; Ben confirmed it will be as required by the Tariff. Members need a process to communicate confidential information regarding any of the entities, perhaps attorney-to-attorney. The OC discussed indemnification provisions in particular. Tom Dunn joined the meeting to discuss coverage details. Ben was asked to further vet and bring a follow-up proposal to ensure SPP is meeting all goals. Ben then reviewed the compensation proposal. It has been reviewed with this committee before, and with Market and Operations Policy Committee (MOPC), Regional State Committee (RSC) and Board of Directors (BOD) with no feedback to date. Josh Martin asked the OC to commit to a compensation process so staff can move forward accordingly, focusing on Cost Example #2 as a starting point. Ms. Bernard made the motion to make Cost Example #2 the starting point, noting \$5000 for critical training; plus monthly retainer of \$1000; once selected to be paid at \$200/hour and retainer ceases; noting estimated hours per project per expert to be 25 hours. Larry Altenbaumer seconded. The motion passed unanimously. Ben asked for discretion to pay a Panel Chair as selected by a Panel at a higher level; committee discussed but determined this person would receive more by default so no need to pay higher hourly rate. Ben then reviewed Education Training overview for IEP. While materials will be published, actual sessions will be closed as previously discussed. Josh Martin suggested videotaping for use by those who may miss. Phyllis asked about on-line training as well. The OC confirmed one process/contract/rate schedule for all with no one – off negotiations. To maintain the timeline, the Committee may need an additional meeting before the September meeting.

Agenda Item 4 – Update on Current Activities

- a. Member outreach efforts continue, including Critical Infrastructure Protection (CIP) Week last week (Compliance – Attachment 4a). Philip Propes will be scheduling incident response training with participation from staff and members. Josh Martin and Harry Skilton specifically

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referenced discussions at a recent ISO/RTO Council (IRC) meeting. Philip noted metrics are in development; and he will present a draft at the September meeting in Executive Session. The Forum this time included one-on-one sessions with various staff on compliance topics and received a very good response. This included a session with one entity and the Regional Entity (RE) Enforcement staff to discuss audit results; as a result two of three possible violations were removed.

- b. Alan McQueen reviewed the Market Monitoring Unit (MMU) activity report (Market Monitoring Report – Attachment 4b). Engagement with FERC is escalating, but still an education effort, particularly related to Order 760 data. Josh Martin requested estimates for study conclusions; these vary by study. The MMU is developing the first quarter State of the Market report for the end of June. MMU has no substantive concerns at this time, but continues to monitor and fine tune metrics.
- c. Lauren Krigbaum referred to the Activity Report for Internal Audit (IA) (Internal Audit – Attachment 4c). There are updates to the IA Charter as recommended by the annual review and approval, which will be set for the September meeting. Now that Integrated Marketplace (IM) is live, IA is returning to “normal”. The audit schedule has been revised to reflect the resumption of the usual activities. Lauren noted an increase in the controls audit, including one that includes an MMU process. She reported that IA did complete the “gap period” audit for the EIS market and will report to the Finance Committee, but no findings resulted. The group participated in a LEAN process to review and improve contractor on/off boarding, which was launched recently. The department has also recommended a similar LEAN process review of the on/off boarding for Grandfathered Service Agreements, which is being planned.

Agenda Item 5 – Strategic Planning and Budgets

- a. Alan McQueen reported no substantive changes to the MMU plan. The group will continue to fine tune metrics for another one to two years, and then determine other ways they can support the company with analysis. Josh asked for review of their role in Phase II, and whether staffing levels are adequate. The MMU staff role in Phase II is similar to their role in Phase I. Staffing is stretched but they are trying to make other changes rather than ask for additional staff.
- b. Lauren Krigbaum noted IA plan is rolled into the Process Integrity plan. IA facilitates audits with KPMG, but one change for one year is no IA staff will be on the audit team to avoid any appearance of conflict. There are no plans to add staff.
- c. Philip Propes noted focus on cyber and overall security and ways to support members where possible, including audit follow-ups as a service. Tariff compliance will also be a focus, as well as Balancing Authority (BA) compliance. Josh congratulated Philip for engagement with RE to help with moving issues forward. Staffing levels are adequate. Propes will continue with setting up training re: Cyber Terrorism and apprise OC of dates.

Agenda Item 6 – New Action Items

- Philip Propes will present security metrics at the September meeting in Executive Session.
- Review and approval of Internal Audit charter at September meeting.
- Dates for Cyber training at SPP

Meeting was adjourned to Executive Session at 11:30 AM.

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Agenda Item 9 – Future Meetings

June 9	Little Rock, AR (morning prior to the BOD Education Workshop)
September 25	Chicago O'Hare (inside the airport)
December 8	Little Rock, AR (day before BOD Organizational Effectiveness Meeting)

Executive Session

In Executive Session, Alan McQueen reported on issues related to referrals associated with mitigation. The MMU staff is working with the Task Force established by MWG, as well as FERC.

Adjournment

Josh Martin thanked everyone for participating and adjourned the meeting at 11:50 AM.

Respectfully Submitted,

Stacy Duckett, Secretary



OVERSIGHT COMMITTEE MEETING

June 9, 2014

Southwest Power Pool Corporate Offices, Little Rock, AR

Executive Conference Room, 2nd Floor

• A G E N D A •

8:00 a.m. – 12:00 p.m. CDT

- 1. Call to Order/Administrative ItemsJosh Martin
- 2. Action Items Report..... Stacy Duckett
- 3. Order 1000 Process Update Ben Bright
- 4. Update on Current Activities
 - a. Compliance..... Philip Propes
 - b. Market Monitoring Unit Alan McQueen
 - c. Internal Audit.....Lauren Krigbaum
- 5. Strategic Planning and Budgets
 - a. Market Monitoring Unit Alan McQueen
 - b. Internal Audit.....Lauren Krigbaum
 - c. Compliance..... Philip Propes
- 6. New Action Items Stacy Duckett
- 7. Future MeetingsJosh Martin

2014

September 25 Chicago, O’Hare Airport

December 8 Dallas

2015

March 26 Washington, D.C.

June 8 Little Rock

September 24 Chicago, O’Hare Airport

December 8 Little Rock

Southwest Power Pool
OVERSIGHT COMMITTEE MEETING
March 20, 2014
Boston Pacific Offices, Washington, D.C.

• M I N U T E S •

Agenda Item 1 – Administrative Items

Josh Martin called the meeting to order at 9:00 a.m. Members in attendance: Josh Martin (Director), Larry Altenbaumer (Director) and Phyllis Bernard (Director). Staff in attendance included Stacy Duckett, Alan McQueen, Barbara Stroope, Philip Propes, Lauren Krigbaum, Paul Suskie, Joe Ghormley and Ben Bright. Others in attendance were Craig Roach and Vincent Musco, Boston Pacific. Larry Altenbaumer made a motion and Phyllis Bernard seconded it to approve minutes from the December 9, 2013 meeting (Minutes 12/9/13 – Attachment 1), which passed with unanimous approval.

Agenda Item 2 – Action Items Report

Stacy Duckett reviewed the Action Items Report (Action Items Report – Attachment 2) noting several items are related to Order 1000 and will be covered at this meeting. Stacy then noted the Memo-of-Authority for SPP Operations regarding authority as reliability coordinator. Josh Martin asked that a reference be included in his committee report at the April 29 Board of Directors meeting.

Agenda Item 3 – Order 1000 Update

Ben Bright and Paul Suskie discussed the Order 1000 process design and the Oversight Committee's (OC) role in it. The September OC meeting will include the first approval of a potential pool for recommendation at the October Board of Directors (BOD) meeting. The first panel(s) will be developed in 2015. Staff is planning training for potential panelists, making the material visible to members but limiting the training access only to the panelists. Larry Altenbaumer suggested and Josh Martin concurred with presenting the training to members as a walk-through to ensure there is as much transparency as possible. Staff will do so at a Markets and Operations Policy Committee meeting (MOPC) and/or BOD/Members Committee (MC) meeting. Ben Bright then reviewed various compensation approaches for the pool members. The group discussed the details of options. More details will be presented at the June OC meeting. The committee members would like to ensure as much information is available to members and the Regional State Committee (RSC), and will currently plan to do this at July meetings of the MOPC, RSC, and BOD/MC. Ben referred to a job description and draft application and requested any comments be provided to him. Larry and Josh thanked Ben for his presentation and complimented him.

Paul Suskie referred to Joe Ghormley and the work he is doing on the contract forms, and specifically defining "affiliation". A pool applicant must disclose affiliations, and then the committee determines whether the affiliation actually disqualifies a potential panelist. Larry Altenbaumer asked whether the pool will be known; and qualifications disclosed/published. The group discussed how the committee would consider conflicts, and possibly define "affiliation", with primary the focus on request to disclose, not automatic disqualification. Phyllis complimented Joe Ghormley for his work on this issue. The group requested more details on the affiliation section of the application. Paul reviewed his notes to ensure the various follow-up items were captured.

Agenda Item 4 – 2013 Annual State of the Market Report

Alan McQueen and Barbara Stroope provided an overview of 2013 Annual State of the Market report for the Energy Imbalance Services (EIS) Market. The report will be reviewed at the Market Working Group (MWG) meeting and then presented at the April BOD/MC meeting. It has been presented to the Federal Energy Regulatory Commission (FERC) already, with the final version to be filed in May. Alan McQueen

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also provided a brief discussion of the first two weeks of the new Integrated Marketplace performance. Barbara Stroope noted all the metrics indicated good performance of the EIS Market. There are no concerns from the Market Monitoring Unit (MMU), Metrics indicate a lack of market power and a highly competitive market. Josh Martin asked about FERC's reaction to the report; there are no concerns and they were more interested in early indicators from the new market services.

Alan McQueen reviewed early metrics from the Integrated Marketplace. As market operations progress, the Day Ahead and Real Time prices are converging and this is expected to continue. FERC seeks divergence of 10% or less over a rolling month. Alan noted the first few days of the market were difficult due to weather, but operations performed well. MMU is now looking back to ensure there was no abuse as a result. Josh asked how operations uses data to consider any changes in the future; Alan referred to operations, and Philip Propes noted event analysis reviews pending as well. Barbara also noted operations flexibility to adjust as needed to protect systems, which it did. Alan and Barbara noted benefits SPP experiences because we settle on five minute intervals versus other markets that aggregate to an hour to settle. MMU staff meets daily to review and discuss various metrics and results. There are no overall concerns so far. Alan noted that SPP's MMU has significant a quantity of data at market start and credits the Regional Transmission Organization (RTO) with supporting this.

Agenda Item 5 – Looking Forward Report

Craig Roach and Vincent Musco from Boston Pacific (BP) presented the draft Looking Forward Report. They solicited feedback and questions. The committee thanked BP for their work. There are a few items that BP will fine tune before its presentation at the April BOC/MC meeting

Agenda Item 6 – Integrated Marketplace Update

Lauren Kingbaum noted most of the recent activity for the group has been focused on the Integrated Marketplace (IM) working with various groups on reviews of processes. Internal Audit will continue to do so, as well as have an oversight role in Phase II. Philip Propes noted more compliance focus has been on the Balancing Authority function. It is going well, but there are many more requirements, and much less room for missing any obligations. Josh Martin asked both if they had adequate staff to address new requirements. Both indicated they currently do, but will raise the issue if needed.

Agenda Item 7 – Quarterly Activity Reports

Compliance Report

Philip Propes referred to the Compliance Report (Compliance Report - Attachment 3). Compliance staff is currently assisting as needed with deregistration of incumbent Balancing Authorities (BAs). SPP will also have to coordinate with those entities to support evidence of SPP's compliance as the BA. SPP has been accepted into a North American Electric Reliability Corporation (NERC) field test for the BAL-001 standard, and as such will receive a waiver from compliance with CPS2 requirements. Compliance is developing more cyber security metrics to report at future meetings. Philip also noted recent cyber tabletop exercises conducted in-house; a report is pending to Stacy and Barbara Sugg. Phyllis Bernard noted the group's work on outreach and expressed appreciation for it.

Market Monitoring Unit

Alan McQueen report the MMU will include a budget item in 2015 for a third party review of MMU processes (MMU Report – Attachment 4). Alan noted that while data is needed by the MMU, it has enterprise-wide applications. The MMU is starting to make the information available to others in the organization to maximize its value. Larry Altenbaumer asked about the level of FERC engagement post go-live; Alan indicated it has increased, but more educational than concern.

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Internal Audit

Lauren referred to the report (IA Report – Attachment 5), noting most of the work associated with IM. This will continue in the near term. Josh asked whether Internal Audit (IA) compromised its independence such that cannot now go back and audit. Lauren assured him that IA only provided recommendations on internal reviews, but did not write processes, etc., such that independence was compromised. IM reviews for Nick Brown are concluded. New auditors (KPMG) are onsite conducting SOC1 audit. Things are going well so far. IA is 80% complete with the EIS gap period audit with no issues to date.

Agenda Item 8 – Review Annual Assessment

Stacy referred to the Organization Group Assessment and survey results (Review Annual Assessment – Attachment 6). No comments or discussion.

Meeting was adjourned to Executive Session at 2:30 PM.

Agenda Item 9 – Future Meetings

June 9	Little Rock, AR (morning prior to the BOD Education Workshop)
September 25	Chicago O'Hare (inside the airport)
December 8	Little Rock, AR (day before BOD Organizational Effectiveness Meeting)

Executive Session

In Executive Session, Philip Propes updated the committee on SPP's CIP Audit and its status.

Adjournment

Josh Martin thanked everyone for participating and adjourned the meeting at 3:00.

Respectfully Submitted,

Stacy Duckett, Secretary



Southwest Power Pool, Inc.
OVERSIGHT COMMITTEE
Pending Action Items Status Report
June 9, 2014

Action Item	Date Originated	Status	Comments
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. UPDATE: Staff is to develop a communications plan to present the training for the industry experts to Members, RSC and other stakeholders to maximize transparency.
Staff provide summary of various audit and oversight activities in the organization	June 10, 2013	Completed	Presented at September meeting. Staff will further refine, including a resource estimate, and present at December BOD meeting. UPDATE: missed the December BOD meeting, but including in June BOD Education Workshop materials.
Staff consider approach to review and discuss cyber security issues related to market systems (versus reliability systems).	Sept 26, 2013	Completed	Staff will review, including possible work through the IRC. UPDATE: Staff will be holding cyber tabletop exercises in March, 2014. These exercises will include a market-related attack and will highlight possible strengths and weaknesses in this area. UPDATE: The exercises were conducted and results will be reported at the June Workshop, including plans for future exercises.
The Committee will consider engagement of an outside firm to audit/assess MMU metrics and processes.	Dec 9, 2013	Pending	Any engagement will occur in 2015, or later.
Internal Audit will cover the gap period between the end of PWC's engagement for controls audit of the EIS market.	Dec 9, 2013	Pending	Internal Audit will cover this four-month period and report out. The gap period reviews are currently in process. UPDATE: Internal Audit completed the review. Results will be reported to the



			Finance Committee during the July 10, 2014 meeting.
Internal Audit to develop approach for assessing SPP modeling processes and effectiveness.	Dec 9, 2013	Pending	Will work with Engineering and Compliance to develop.
Staff further develop definition of "affiliates" for Order 1000 process.	Dec 9, 2013	Pending	This may also be impacted by pending filing at FERC in re: prohibited investments. UPDATE: Several questions were noted for further review/research and presentation at the June meeting.



Industry Expert Candidate Application for 2015

Application Instructions:

- All sections of this application should be completed by all Candidates.
- Please provide a current resume' with this application.
- Candidate may attach additional information to this application.
- Please submit completed application and resume to: IEPApplications@spp.org.
- All applications must be submitted no later than September 1, 2014.

Section 1: Personal Information

Name:	
Mailing Address:	
City/State/Zip:	
Email Address:	
Business Phone:	
Mobile Phone:	

If the Candidate is not applying individually, but is applying on the behalf of a firm or company please provide an explanation below.

Section 2: Acknowledgement

Is the Candidate legally entitled to work in the United States?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
Is the Candidate 18 years of age or older?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
Has the Candidate been convicted of a felony or been incarcerated in connection with a felony in the past seven years? (If "Yes", please provide written explanation.)	Yes <input type="checkbox"/>	No <input type="checkbox"/>

Section 3: Certification

By submitting this Application, Candidate certifies it has read and understands Attachment Y to the SPP Tariff. Candidate agrees that, in the event of a conflict between any terms set forth in this Application and the terms of the SPP Tariff, including, without limitation, Attachment Y thereto, the terms of the SPP Tariff shall govern.	Yes <input type="checkbox"/>	No <input type="checkbox"/>
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Section 4: Education

College or University:	
Attendance Dates:	
Major or Emphasis:	

College or University:	
Attendance Dates:	
Major or Emphasis:	

College or University:	
Attendance Dates:	
Major or Emphasis:	

If the Candidate has additional educational experience that should be considered, please summarize below.

Section 5: Employment History - Most Recent 10 Years	
Employer Name:	
Mailing Address:	
City/State/Zip:	
Business Phone:	
Name/Role of Supervisor:	
Dates of Employment:	
Position/ Job Title:	
Compensation:	
Reason for Leaving:	

Employer Name :	
Mailing Address:	
City/State/Zip:	
Business Phone:	
Name/Role of Supervisor:	
Dates of Employment:	
Position/ Job Title:	
Compensation:	
Reason for Leaving:	

Employer Name:	
Mailing Address:	
City/State/Zip:	
Business Phone:	
Name/Role of Supervisor:	
Dates of Employment:	
Position/ Job Title:	
Compensation:	
Reason for Leaving:	

If the Candidate has additional employment history or experience that should be considered, please summarize below.

Section 6: Subject Matter Expertise

Pursuant to Attachment Y of SPP's Tariff, an Industry Expert candidate shall have documented expertise on file with the Transmission Provider in one or more of the following areas: (1) electric transmission engineering design; (2) electric transmission project management and construction; (3) electric transmission operations; (4) electric transmission rate design and analysis; and (5) electric transmission finance. Please provide written explanations below, and where available, please attach documentation substantiating experience.

1. Describe in detail your experience with electric transmission engineering design. (If none write N/A)
2. Describe in detail your experience with electric transmission project management and construction. (If none write N/A)
3. Describe in detail your experience with electric transmission operations. (If none write N/A)
4. Describe in detail your experience with electric transmission rate design and analysis. (If none write N/A)
5. Describe in detail your experience with electric transmission finance. (If none write N/A)

Section 7: Professional References

Reference Name:	
Reference Title:	
Mailing Address:	
City/State/Zip:	
Business Phone:	
Email Address:	

Reference Name:	
Reference Title:	
Mailing Address:	
City/State/Zip:	
Business Phone:	
Email Address:	

Reference Name:	
Reference Title:	
Mailing Address:	
City/State/Zip:	
Business Phone:	
Email Address:	

Section 8: Other Industry Expertise and Experience

1. List any Board of Director positions currently held or served in the past.
2. Describe your career in the electric transmission field and document where any of those year(s) were in a senior-level position at an electric transmission firm or organization.
3. List any honors, awards and citations you have received that demonstrate leadership in the electric transmission field.
4. List published articles, white papers, or research you have authored or contributed to.
5. List any membership in relevant professional associations.

Section 9: Affiliations

Please provide a comprehensive list of any and all affiliations that Candidate has with (1) an SPP stakeholder or member as listed on the 'Members' section of the SPP homepage; and (2) any entity that is listed as a Qualified RFP Participant ("QRP") on the SPP homepage.

For purposes of SPP's Order 1000 process, an affiliation is defined as the existence of a relationship or situation whereby an Industry Expert has past, present, or currently planned interests that either directly or indirectly (through a client, contractual, financial, organizational or other relationship) may relate to a QRP or SPP stakeholder.

Section 10: Acknowledgment, Release, and Consent

Candidate agrees that neither Candidate's submission of an application nor SPP's receipt of an application implies or creates any relationship between Candidate and SPP, including without limitation employer-employee, partnership, or principal-agent. Candidate certifies that all information supplied in this application, attachments, and any attached resume, is complete and correct. Candidate further acknowledges that provision of any false information in this application is grounds for SPP to reject the application and/or terminate the Candidate's inclusion in the Industry Expert Pool at any time. Candidate agrees to abide by all provisions and requirements set forth in the SPP Tariff governing the application and any other aspect of the Industry Expert Panel process.

Candidate hereby authorizes all persons, schools, companies, employers and/or their representatives to furnish verification to Southwest Power Pool, its representatives or agents, any and all information set forth in this application and/or attached resume. In addition, I hereby agree to hold harmless and to release from all liability all said persons, schools, companies, employers and/or their representatives from any and all claims that I may have, or which may arise, against any and/or all of them, including Southwest Power Pool, as a result of them furnishing information to Southwest Power Pool. I also authorize the Southwest Power Pool to conduct credit, police, criminal and driving record inquiries, or any other employment related inquiries in compliance with the provisions of the Fair Credit Reporting Act, 15 U.S.C. Section 1681, et. seq. I understand that the decision to be a part of the Industry Expert Pool and/or Panel and my continued engagement will be subject to the results of these inquiries.

Candidate's signature below evidences Candidate's understanding of an agreement with the foregoing.

Candidate's Signature

Date

Southwest Power Pool (“SPP”)

• Education Training Overview for Industry Expert Pool (“IEP”) •

1. SPP Stakeholder Process

Objective: The objective with this section is to provide the industry experts with a broad overview of SPP structure, process for moving items through the stakeholder process, and appropriate timelines.

- a. Org Group(s)
- b. Board Timeline

2. SPP Planning Process Overview

Objective: The objective with this section is to provide background and information to better understand the SPP planning processes as to how projects have been derived and reached a RFP status.

- a. ITP Process
- b. DPP Process

3. Order 1000 Overview

Objective: The objective with this section is to provide the industry experts with a background and history of Order 1000. After establishing a better understanding of Order 1000, provide information on how SPP uniquely handles Order 1000 requirements.

- a. Background
- b. FERC Order 1000 Information
- c. SPP Specific Order 1000 Information

4. IEP Panel Responsibilities

Objective: The objective with this section is to provide the industry experts with knowledge on both what their responsibilities are and at a high level how they will perform the administration side of the process.

- a. Evaluation Process
 - i. Procedure
 - ii. Confidential Materials/Information
 - iii. Templates
 - iv. Information Request
- b. Reports
- c. Timeline
- d. Ethics and Conflicts of Interest

5. Tariff Education

Objective: The objective with this section is to provide information and training on what the Tariff requires/allows the IEP to do when performing their role. Certain sections (i.e. Attachment H and J) are included to provide background information to better understand requirements within Attachments O and Y.

- a. Relevant Definitions

- b. Attachment H -? (Could help with understanding Revenue Requirements and Cost Recovery with FERC Formula Rates.)
- c. Attachment O
 - i. Section I – Overview of Planning Process
 - ii. Section III – The Integrated Transmission Planning Process
 - 1. BP7650 - BPR 49 – Detailed Project Proposal (“DPP”) Submission Process
 - 2. BP7650 - BPR 50 – Detailed Project Proposal (“DPP”) Project Posting Correlation
 - iii. Section IV – Planning Studies
 - iv. Section V – The SPP Transmission Expansion Plan
 - v. Section VI – Construction of Transmission Facilities
 - vi. Section VII – Information Exchange
 - vii. Section X – Cost Allocation
 - 1. Attachment J – Cost Recovery
 - a. Section III – Base Plan Upgrades
 - i. Schedule 11
 - b. Section IV – Balanced Portfolio
- d. Attachment Y
 - i. Section I – Overview of Transmission Owner Designation Process
 - ii. Section III – Transmission Owner Selection Process for Competitive Upgrades
 - 1. BP7600 - BPR 48 – Qualified RFP Participant (“QRP”)
 - 2. BP7600 - BPR 54 – Request For Proposal (“RFP”)
 - iii. Section V – Notification to Construct Process
 - iv. Section VI – Project Tracking Process

6. Questions

Objective: The objective is to allow industry experts the opportunity to review information and ask questions.



**Southwest Power Pool, Inc. (SPP)
Compliance Department
Second Quarter 2014 Director Report to the Oversight Committee**

Executive Summary

2014 has gotten off to an excellent start, as we have seen a great response from our forums, with record-setting attendance, excellent feedback from our member evidence reviews, and the development of our internal compliance auditing processes for the new Balancing Authority function.

The quality and value of our evidence reviews has been outstanding, as several members have credited our assistance with avoiding some very specific compliance violations. Our ability to hear from multiple entities, lend our experience and expertise, and relay that information to subsequent entities has been invaluable.

The Balancing Authority function, introduced with the implementation of the Integrated Marketplace, introduced a number of complex compliance concerns. Our close coordination with SPP Operations, former Balancing Authorities in the footprint, and our other member companies will be critical for our ongoing compliance. A new compliance matrix and related ongoing review processes are being developed in this area.

Another focal point for 2014 is the heightened awareness and sensitivity toward both cyber and physical attacks against critical infrastructure. SPP is leading the way across the footprint by providing CIP-focused training for physical security best practices, enhanced cyber security monitoring and alerting, and better defined regional response capabilities. It is the Compliance Department's intent to establish SPP as an industry leader in these critical security areas.

Member Outreach

Q2 Compliance Calls:

72 participants joined the SPP Compliance Staff on the Q2 calls. Agenda topics included CIP-014, Flowgate Assessments, NERC Reliability Standard Updates and the BES Implementation Schedule. These calls also continue to be an excellent member resource for ad hoc questions, audience polling opportunities, and general information sharing.

June Forum:

SPP Corporate Headquarters will be the location of the upcoming June 3 & 4, 2014 Forum. The entire week will be CIP related as we offer our members the CIPWG Meeting, the SPP RE CIP Version 5 Training, the SPP RE CIP Workshop and the SPP Compliance Forum. The Forum agenda highlights include Mark Bowling from the FBI and 2 panels of experts in the areas of Physical Security and Authentication.

In the CIPWG meeting preceding the forum, detailed cyber incident response training will be provided to member entities, providing them with better understanding of important response techniques. This training will be a preview of a multi-day training provided later this year.

Member Assistance:

The SPP Compliance Staff assisted SPP Member Entities by answering over 59 ad hoc calls and emails this Quarter. These calls included ongoing compliance concerns with Operations and Planning (O&P) Standards and CIP Standards compliance. Calls were also fielded regarding SPP RE audit processes,

enforcement concerns, and possible RTO support and intervention. The turnaround rates for the group from receipt to return were less than 24 hours.

Entity Evidence Reviews:

In an effort to provide our Members with continuing opportunities to support them with their Compliance needs, we are offering reserved time slots during the upcoming June Forum to assist them with RSAW Reviews, Primary and/or Secondary Evidence Reviews, Compliance Questions and open Q&A in private 2 hours sessions. Specific meeting rooms were reserved to accommodate topical areas focusing on Operations, Planning, Balancing Authority transition, and CIP. To date, we have 4 sessions reserved.

Information Sharing:

4 newsletters were released this quarter with a large emphasis on the CIP Week of Events upcoming in June 2014. NERC Standard Calls and Webinars were covered in detail as we continue our collaboration effort with the SPP Reliability Standards Group in getting the word out on the importance of the calls, the commenting and the voting.

Security Metrics Update:

Security Analysts within the Compliance Department have completed training and research regarding Security Metrics development and have identified an initial array of metrics that are applicable to SPP IT activities.

These metrics will be gathered and reported on in a phased approach utilizing data generated by the existing Security Incident and Event Monitoring (SIEM) tool. Reports will provide information on topics such as malware protection coverage, device configuration, account management and control, firewall and Intrusion Prevention System (IPS) activity, Email Content Management effectiveness, vulnerability assessment and patching trends, and Change Management trends.

For future phases, a new SIEM tool will be used to expand the coverage to additional systems not currently in the scope of the existing SIEM and to increase the collection of metrics for tracking. These metrics will enable SPP to gauge the effectiveness of the SPP security program in reducing and mitigating cyber security risks.

Working Groups

Critical Infrastructure Protection Working Group (CIPWG)

The CIPWG will meet on Monday, June 2, 2014 at SPP Corporate Center, Little Rock. Agenda items include an ES-ISAC update, CIPC Training Session Information, and a CIP Version 5 discussion including an update from an entity currently in a NERC program for early Version 5 transition and a standard drafting team update.

With the June Forum having a CIP focus, the CIPWG has been in collaboration with the Outreach Program to assist with building the agenda, acquiring speakers and developing panel questions.

The CIPWG received a template developed by a CIPWG member for Chain of Custody documentation for moving assets between Physical Security Perimeters. This document was discussed among the members. The CIPWG Staff Secretary coordinated the best practice summaries that came out of that discussion.



Regional Compliance Working Group (RCWG)

The Regional Compliance Working Group (RCWG) met on May 13, 2014 in Omaha, NE at the corporate headquarters of Omaha Public Power District (OPPD).

The RCWG has several projects currently underway. The Compliance Index, which will identify supporting NERC Standard documentation including the owner and location. The purpose of the index is to identify areas of mutual dependency between member companies and SPP for compliant practices. The SPP Compliance Staff is assisting in the project. The Revision Request Project, which will assist in strengthened SPP Working Group collaboration and consistent processes. Lastly, the SPP Criteria transfer to SPP Operating Protocols where the members are collaborating with other working groups to share insights and comments on the process itself, as well as the communication output to the member entities.

The RCWG continues to focus on expertise related to maintaining compliant positions for member companies partnering with the SPP RTO.

The RCWG will meet on August 26, 2014 at the City of Springfield Utilities, Springfield, MO.

SPP Event Analysis Working Group (EAWG)

The SPP EAWG continues working with the SPP System Protection and Control Working Group (SPCWG) to review the leading causes and sub-causes of Misoperations of Protection System elements within the SPP footprint between 100 kV and 161 kV, in order to share lessons learned with the relevant entities. The goal is to reduce the number of SPP Misoperations in the future. A report of the findings will be presented to the SPP Markets and Operations Policy Committee at its July, 2014 meeting. Preliminary discussions have been held with the SPP Regional Entity (RE) Event Analysis team regarding the possibility of a jointly hosted workshop for the relevant Registered Entities within the SPP footprint to discuss the cause analysis and lessons learned.

Respectfully submitted,

Philip Propes
Director, Compliance



**Southwest Power Pool, Inc.
Report to the Oversight Committee
June, 2014**

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.

Other Review Activities

Criteria Review

The Compliance Department performed a thorough review of SPP Criteria in 2013. The review was designed to identify the following: sections that are duplicative of NERC Reliability Standards, sections no longer needed, sections still necessary but in need of modification, sections better suited for a different governing document, and for language clarity and accuracy.

The Criteria was divided among four working groups, which were identified as primary owners – ORWG, SPCWG, GWG and TWG. With the assistance of the Compliance Department, each working group reviewed their sections and made suggestions based on the above referenced criteria.

A dashboard spreadsheet was maintained to manage timeline metrics and data submissions. The final report was presented to MOPC at the October 2013 meeting who sent it back to each working group to begin implementing their suggested modifications.

In early 2014, RCWG requested that the Compliance Department draft an SPP Compliance Index for member entities, which will provide a “one-stop” document to include NERC standards, associated SPP processes, required documentation, Working Group ownership, timelines, associated SPP Criteria and communication requirements between entities and SPP.

The SPP Criteria review report is being used in the development of the Compliance Index and efforts are ongoing on that project.

Tariff Compliance Review

An SPP OATI Tariff review is in process. A similar process to the Criteria Review is being utilized. The Compliance Department works closely with each department in assisting with their individual review. Applicable Tariff sections are distributed with questions and a spreadsheet for data retention. The review is designed to assess compliance or non-compliance with the Tariff, language accuracy and necessity, needed modifications, and additions or deletions. The departments must identify evidence that supports their compliance via documentation, processes, policies, logs, etc.

Departments that have completed their review are Risk Management and Accounting, Transmission Settlements, Marketing Settlements and Legal Service Agreements. An Engineering Department review has started, beginning with the Planning division.



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 test 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.

SPP Operations Quality Assurance Program (QAP)

The SPP Operations Quality Assurance Program (QAP) is a key component in support of our commitment to superior operation of the Bulk Electric System (BES) and high standards of corporate conduct including human error prevention. The program is designed to:

- Verify consistent execution of policies and procedures in accordance with all applicable tariffs, business practices, and regulatory standards.
- Verify execution of non-regulatory, management mandated activities, and to capture anomalies.
- Produce measurable metrics of activities for performance support and certification functions.
- Strengthen SPP's efforts to detect and prevent policy and procedure variance.

Each month, the Operations Quality Assurance (QA) Analysts perform a monthly QAP review of required daily, weekly, monthly, quarterly, and annual events for each function within Operations.

- Initial Pre- QAP review steps, outlined in specific Operations Process documents, are performed in the first 4 days of the month.
- Each Analyst performs the evaluation for the prior month based on Log or Non Log information available based on the Pre-QAP work.
- The Reports are provided to the Operations QA Manager for review. Once approved, the Analyst sends the reports to the Manager and Supervisor of the functional area for the report.

MARKET MONITORING REPORT
Oversight Committee
9 June 2014

Activity Update

- **MMU Staffing**
 - MMU has one open position, Senior Market Monitor/Engineer. Hassan Shah resigned on March 20. Position has been posted and we have started interviews

- **Federal Energy Regulatory Commission (FERC)**
 - MMU is attending the annual FERC/MMU two-day conference on June 3 and 4. Discussion topics include Mitigation Reference Level, Winter Market Review, SPP Day-2 Market Start-up, and Physical-financial Cross-produce review.
 - Conference calls with FERC staff continue to be weekly. All aspects of the Integrated Marketplace are discussed; special studies, market efficiency, market anomalies, Market Participant participation in new markets, and market screen results.
 - FERC staff has requested a 2-3 day meeting to be conducted at SPP Offices. Dates in late August or early September are under consideration. Proposed discussion topics include Market Operations, referral process, and MMU screens.
 - FERC Division of Analytics and Surveillance is beginning to analyze Order 760 data. We have begun receiving detailed questions about how to analyze and interpret the data.

- **Market Studies**
 - The MMU has initiated eight behavior studies since 1 March. Seven of the eight studies are closed.
 - The MMU has initiated three studies in response to Market Participant concerns. The results of these studies will be shared with members of the Market Working Group. The three studies are as follows: Price Volatility effects on Day-Ahead margins, Cost Recovery, and a survey of how other RTOs mitigate the impacts of congestion on the members with load in Frequently Constrained Areas.

- **Reporting**
 - MMU is in the process of developing the first Integrated Marketplace Quarterly – State of the Market report. This report will be distributed around the end of June. The 2013 ASOM was finalized and filed with FERC and posted on SPP web page in late May.

- **Reporting** *(continued)*
 - MMU continues to develop monthly market review presentations that are given to the MWG and FERC.
 - MMU meeting informally with other SPP departments (i.e., Operations Support, Market Design) to demonstrate how we use the data warehouse and the reporting tool OBIEE.
 - MMU coordinated the effort to re-design the Quarterly Corporate Metrics for the Board of Directors.

- **Integrated Marketplace**
 - Daily monitoring of the Day Ahead Must Offer Requirement continues. Three Market Participants failed to comply with the requirement in March, leading to 49 hourly penalties. There were no failures to comply in April. There have been several initial failures detected in May but final penalty assessments are pending.
 - MMU is helping to coordinate between Congestion Hedging and Operations to improve modeling synchronization between the groups which in turn helps improve Transmission Congestion Rights (TCR) Revenue Adequacy.
 - Opportunity Costs Calculator system for adjusting mitigated offers as requested by Market Participants is on schedule. The system is in testing phase and expected to go-live on July 11.
 - The number of calls to the MMU on-call monitor has diminished dramatically from what was experienced during the first couple of weeks of the market as expected. Most calls concern mitigated offers and physical parameters. Market participants have refined their data submittal processes and most are now fully compliant with the protocol.

Respectfully submitted,
Alan McQueen
Director, Market Monitoring and Analysis



Southwest Power Pool, Inc.
INTERNAL AUDIT
Report to the Oversight Committee
June 9, 2014

Staffing

- The Internal Audit department is fully staffed.

Activity Update

- Updated 2013 – 2014 Audit Schedule (see attached)
- Audit Charter (see attached)
- Audits Completed Since Last Meeting:
 - **Invoicing/Cash Collections/Payout (Transmission)**

The Internal Audit department completed a review of SPP's Invoicing/Cash Collections/Payouts processes for the Transmission Settlements function. The purpose of the review was to evaluate the efficiency and effectiveness of processes and controls in providing reasonable assurance invoices, payments collected and payouts are timely and accurate for SPP's Transmission Settlements process.

A sample of Transmission Owner (TO) statements and Transmission Customer (TC) invoices were chosen for detailed transaction testing. The review included an examination of transmission settlement validations, invoices, statements, payments and supporting documentation for the selected TOs and TCs.

See attached for summary.

- **Integrated Marketplace Internal Readiness Reviews**

In an effort to support SPP's Integrated Marketplace Readiness workstream and SPP management, the Internal Audit department completed internal readiness review activities for the following Integrated Marketplace workstreams/systems:

1. Enterprise Analytic Data Store (EADS)/Business Intelligence (BI)
2. Forensics (Markets Workstream)

The reviews focused on the following objectives:

- Adequacy of proposed business processes and system business requirements in meeting project and protocol requirements
- Functionality of systems and related components as evidenced by documented testing results, market trials and integrated deployment testing
- Business continuity plan is documented and up-to-date prior to the go-live to ensure continuity of operations; as well as, a revision plan to assure a smooth

transition from Integrated Marketplace back to the pre-determined state, if required

- Up-stream and down-stream system interfaces have been thoroughly tested to ensure that they are functioning as intended
- Proposed control objectives and activities (business and SOC1) are designed to address the risks associated with proposed business processes and related IT systems and are properly evidenced by supporting documentation, if applicable

See attached for summary.

- **Integrated Marketplace Internal Readiness Review – Market Monitoring Unit (MMU)**

In the Integrated Marketplace the SPP Market Monitoring Unit (MMU) will perform new processes that could have a direct impact to the financial results of market participants through the SPP RTO Day Ahead, Reliability Unit Commitment, Real Time Balancing and Market Settlements processes. Internal Audit (IA) conducted a review of those points of impact and the resulting control objectives and related control activity.

See attached for summary.

- **Reviews Currently in Process:**

- **Integrated Marketplace Internal Readiness Reviews**

The Internal Audit department is in the process of completing reviews for the following the Integrated Marketplace workstreams:

- Legacy Applications
- Market Participant Registration and Modeling

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 processes and related documentation, verify the testing results for each workstream/system, verify the precision of the interfaces with other Integrated Marketplace applications, as well as, review the adequacy and accuracy of data retention for sunset applications and any data conversions to new applications.

The internal readiness review of the MMU included only those functions that have a direct impact to the financial results of market participants through the SPP RTO Day Ahead, Reliability Unit Commitment, Real Time Balancing and Market Settlements processes. The scope of this review was narrowly focused on the points of impact the RTO and the resulting SSAE 16/SOC1 control objectives and activities and did not include a review of the internal MMU processes.

The reviews are in the reporting phase.

- o **Remedy System**

The primary objectives of our review are to: evaluate the system design, development, testing and rollout of the Remedy 8.1 upgrade; review input and output data for accuracy, completeness and authorization; determine whether data is processed as intended and in an acceptable time period; confirm whether the data is stored accurately and completely; assess audit logs/trails to see whether a record is maintained that tracks the processing of data from input to output to storage; examine the change control and maintenance process for the system; and review the administration of the application including security and configuration elements. The review is in the testing phase.

- o **SPP Compliance Program**

The purpose of this review is to evaluate the efficiency and effectiveness of SPP's Compliance program. Specifically to ensure the program is adequate and approved by Senior Management; compliance training for relevant staff is occurring; regular self-audits of SPP, Inc. (including spot checks, mock audits, documentation/data requests and email/log reviews) are performed; self-assessment and self-enforcement actions to prevent reoccurrence of potential or actual violations are completed; and results of external reviews conducted per Member request are adequate. The review is in the testing phase.

- o **Project Expense Reporting**

The audit includes a review of the current operating environment in place for reporting project expenses to determine whether adequate controls are in place to ensure that project goals and objectives are met in both a timely and cost effective manner. The primary audit objectives are to review: the adequacy of existing processes and procedures related to project expense reporting; the adequacy of existing processes and procedures related to budgeting for approved projects; the accounting methodology in place for capitalization of project related expenditures and interest incurred; and project management reports that reflect project status and projections to completion to verify that costs are properly allocated, reported and forecast. The review is in the planning phase.

- o **Enterprise Disputes Process**

The primary review objectives are to ensure that: sufficient processes and procedures are identified, documented and followed for complete tracing of disputes from origination to resolution to protect the interests of SPP, its members and customers; tracking is established on dispute submissions to verify designated timelines are met; internal controls are adequately designed and operating effectively; requirements related to disputes are complied with in accordance to SPP governing documents; internal and external communication processes are in place to help facilitate accurate and timely dispute resolution; points of contact are identified and designated with documented roles and responsibilities to make sure accurate and timely dispute resolution; and supporting documentation is retained for evidence of dispute resolution.

- **Software Licensing**

The primary objectives of our review are to: review the policies and procedures in place for software assets and licenses and evaluate them as related to license requirements for thorough coverage; examine existing software asset and license processes and evaluate for completeness and accuracy; assess current software licensing agreements and determine whether all necessary requirements are adequately met; evaluate the current internal controls implemented over software assets and licenses as related to the applicable licensing requirements and obtain an understanding of the roles and responsibilities related to the monitoring of the software assets and licenses through the acquisition, certification, deployment, support, removal and disposal phases. The review is in the planning phase.

- **Fixed Assets**

The purpose of this review is to: proper procedures are in place and followed according to policy in order to protect the interests of SPP, its members and customers; internal controls are adequately designed and operating effectively; fixed assets represent all tangible assets owned or held under finance lease/hire that are purchased for use in the company's operations; fixed assets are properly recorded at cost/valuation; all fixed assets are identified and reflected accurately in accounting records/ systems; fixed assets are adequately secured; fixed assets are tracked and monitored in accordance to policies and procedures; depreciation and capitalization is calculated and recorded in accordance to policies and procedures; and fixed assets disposals and write-offs are retired and disposed of per policy and procedures. The review is in the testing phase.

- **Off We Go LLC – Aircraft Ownership Cost Review (Rate)**

The purpose of this review to review costs and consumables in support of the May 2014 rate adjustment charged for use of the Off We Go, LLC private aircraft. The review is completed, in part; to fulfill Southwest Power Pool, Inc.'s (SPP) commitment to FERC Office of Enforcement's recommendation that SPP should "perform an analysis to validate the fairness and reasonableness of any cost factors submitted by the CEO and CFO for purposes of reimbursement." The review is in the testing phase.

- **Off We Go LLC – Invoice Reimbursement Review (11/1/13 through 4/30/14)**

The purpose of this review is to review reimbursements made to Off We Go, LLC for use of their private aircraft for the period of November 1, 2013 through April 30, 2014. In addition, Off We Go's insurance policy is reviewed to confirm it meets the requirements listed in the Private Aircraft section of SPP's Expense and Travel Policy. The review is in the testing phase.

- **Upcoming Reviews/Audits:**

- Credit Stack Process
- Interchange
- Accounts Payable

- Transmission Settlements
- Database Management
- SPP Modeling
- HR Payroll and Benefits
- Balancing Authority
- Operations Support Forensics
- Digital Certificates
- Off We Go LLC (Fixed Cost Reimbursements)
- Procurement
- Project Pinnacle:
 - Staff beginning to be engaged in Integrated Marketplace Phase II project work
 - Staff assigned to each project to provide guidance concerning process development/documentation, internal controls and SOC1 audit controls (as applicable).
- Other Activities
 - EIS/Transmission Service Settlements Markets audit work:
 - Completed gap period (November 1, 2013 to February 28, 2014) reviews
 - 17 business control objectives with 67 total control activities
 - Three IT control objectives with 28 total control activities
 - The control activities were suitably designed and operating effectively to achieve the specified control objectives. All supporting documentation reviewed was current and sufficient to substantiate the control activities being properly and thoroughly applied.
 - Integrated Marketplace controls audit (SSAE 16/SOC1) work:
 - Confirmation of proposed control objectives and activities:
 - 0 completed to date, 3 in process (77 total control activities)
 - 2 completed to date, 6 in process (34 total control activities)
 - Drafting SPP's portion of audit report narrative
 - Facilitated/coordinated testing for on-site visit in March for SOC1 Type 1 audit
 - Communicated and acted as liaison between KPMG and control owners
 - Collected and reviewed additional audit item requests
 - "Common Language of Controls" presentation for June 10th Central Arkansas ISACA chapter meeting
 - Other consulting/advising:
 - Credit Stack process
 - Enterprise dispute process
 - Contractor off-boarding process improvement initiative (LEAN)
 - Grandfather Agreement process development (potential LEAN)

Respectfully submitted,
Lauren Krigbaum
Director, Internal Audit