

**Southwest Power Pool
OVERSIGHT COMMITTEE MEETING**

**September 25, 2014
American Airlines Admiral's Club, Terminal 3
Chicago O'Hare Airport, Chicago, IL**

• M I N U T E S •

Agenda Item 1 – Administrative Items

Josh Martin called the meeting to order at 9:03 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, Joseph Ghormley, Michael Desselle and Ben Bright. Others in attendance were Jim Eckelberger (Director) and Noman Williams (Sunflower Electric). Phyllis Bernard made a motion and Larry Altenbaumer seconded it to approve minutes from the June 9, 2014 meeting (Minutes 6/9/14 – 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. Josh Martin asked that the audit of Market Monitoring Unit (MMU) be conducted by the end of 2015.

Agenda Item 3 – Update on Current Activities

- a. Lauren Krigbaum updated the Oversight Committee on changes in the audit schedule (IA Activity Report – Attachment 3a). Most changes are related to timing. There will be a new focus on manual work arounds to assess risk. Lauren noted Off We Go invoices are available for Josh Martin's review as they are each year. The SOC1 audit has required considerable time from Internal Audit (IA), but it is going well. The group is also conducting a controls review. They are monitoring and supporting the Tariff review, but see more of a role in the future of reviewing results. Josh confirmed this work is within the Charter; Lauren agreed. Jim Eckelberger requested more information on fixed assets – need to address to resolve, including consideration of reducing the requirement. Jim also discussed the IT Foundation budget and whether it is possible to design an audit to assess; Larry Altenbaumer noted discussion at the Finance Committee meeting as well. Lauren noted the group is working on a project expense review now; this can be expanded to include all expenses. The group is also planning an audit of the budget process.
- b. Philip Propes referred to the outreach support program and current statistics (Compliance Directors Report – Attachment 3b). Attendance continues to increase at Forums and meetings. Evidence reviews continue to increase as well. The group is now being asked for feedback on mitigation plans, including meeting with the entity and the Regional Entity (RE). This has resulted in the reduction of violations in some cases.

Compliance initiated a corporate-wide Tariff review project. Compliance will work with IA for the going forward process to ensure it is done properly in the future. Phase I (assignment of sections of the Tariff) is to be done by the end of September. Phase II (review by the assigned group) is to be done by the end of March. Phyllis asked about timing; we are being flexible, but also pushing to complete the project.

Noman Williams asked whether members will be advised of Tariff gaps. He also asked about understanding by the RE staff of the division of duties between SPP and the Registered Entities. Compliance is expanding spot checks internally.

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Regarding the Action Item on Cyber Security:

- o The course has to be revised and updated by the third party provider. This is currently pending and will be scheduled once approved and made available.

Regarding the Action Item on developing security metrics the group is working with IT now.

- o The current draft is too technical so it is being revised and will be ready at the December meeting. One example, entities are required to run vulnerability tests annually, but SPP runs them at least quarterly. Group continued to discuss risk level at SPP.

Josh Martin asked if we need to bring someone in, but prefers to say we have it covered, and even better, so no need to hire someone. Committee suggested finding resources to provide additional insight as “outsider”, noting there are no standards from NERC, NAESB, etc. Philip will explore this. Jim Eckelberger asked about the impact on the outreach program if SPP begins charging; Philip noted some work has been done to assess what fees might be. Larry Altenbaumer also noted the discussion at the Finance Committee regarding charging for services “above and beyond” to help show value and consider impact to the organization.

- c. Alan McQueen provided the MMU report, (MMU report – Attachment 3c1 and Market Participant Interactions Protocols – Attachment 3c2). On staffing, we have upgraded the Supervisor roles to the Manager level to reflect work being done by those positions. We also elevated a role to Principal to oversee special studies. This will save consulting dollars and continue to develop internal expertise. There are two open positions, but we are moving forward with postings and interviews and expect to fill both soon.

FERC staff is coming to SPP next week for an educational session. The engagements with FERC are going well, but require a lot of time. Alan noted efforts by SPP MMU to encourage FERC to make quicker determinations and be as transparent as possible in the review and referral process.

Phyllis Bernard asked how much money moves through the market. Alan noted attempts to quantify and put into context. A number should be available in the future.

Noman Williams asked questions regarding must offer as considered by MMU. Alan noted MMU looks at considerable details to assess. There are several discussions on-going through the stakeholder process, including consideration of Tariff revisions.

Agenda Item 4 – Internal Audit

- a. Lauren Krigbaum referred to the draft audit plan and requested any feedback. Jim Eckelberger provided one suggestion. Any additional input can be provided directly to Lauren. The final plan will be presented for approval at the December meeting.
- b. The Internal Audit Charter revisions reflect updates from a national level. The committee requested adding more clarity regarding the relationship with the supervisor and the Oversight Committee beyond what is currently in the Charter. A new draft will be presented at the December meeting.

Agenda Item 6 - MMU/Stakeholder Engagement

Alan McQueen introduced the discussion of Mitigated Offer concerns as captured in MPRR 197. The MMU staff has been working with stakeholder groups to clarify and resolve. Current approach in the SPP Tariff was developed and approved by stakeholders. The MMU’s role is to assess mitigated offers to ensure they are in compliance with the Tariff. The current dispute is the way in which the MMU is assessing short run marginal costs. For example some want to include general O&M in SRMC and the MMU disagrees. Several options are moving through the stakeholder process at this time.

(The meeting moved to Agenda Item 5 to accommodate schedules, then resumed Agenda Item 6.)

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Agenda Item 5 – Contract for 2015 Support

Craig Roach referred to the memo outlining a proposal for work for Boston Pacific in 2015 (Boston Pacific Memo – Attachment 5), including a Looking Forward Report, and being generally available for consultation as needed, all at the same price as in 2014. The next step is for Boston Pacific (BP) to propose topics, then review and discuss with the Oversight Committee. Jim Eckelberger suggested any tactical ideas for addressing seams issues would be helpful. Phyllis noted technology advances and the impact they may have on planning and the grid and the existing utility business model. The Committee determined to engage BP. We will get topics and set up a call to discuss.

Resumed Agenda Item 6 - MMU/Stakeholder Engagement

Noman Williams attended the meeting to represent the Member perspective on MPRR 197. He suggested MMU be more overt on its positions and intent to resolve matters through the SPP process. All of this ultimately ends up at FERC for resolution. Josh Martin thanked Noman for his participation.

The meeting was adjourned to Executive Session at 12:30 PM. Those present for the Executive Session: Committee members Josh Martin, Larry Altenbaumer, and Phyllis Bernard. Others in attendance, Jim Eckelberger, Michael Desselle, Ben Bright, Joseph Ghormley and Stacy Duckett.

The purpose of the Executive Session was to discuss Order 1000, and specifically requirements from Tariff, Att Y, including Affiliation and its impact on eligibility. Ben Bright reviewed the process and presented the candidates. The Oversight Committee reviewed candidates and determined a group to recommend as a panel for consideration by the Board. To clarify previous directions, Larry Altenbaumer proposed a retainer of \$1000 per month or hourly compensation, whichever is greater. The Training month is \$1000 plus \$4000 for total of \$5000. The contracts will start and run annually in January.

Adjourned Executive Session at 2:30 PM.

Agenda Item 7 – New Action Items

- Stacy Duckett will ensure Josh Martin’s report at the October Board meeting includes Tariff review project
- Philip Propes to seek resources to provide third party view of SPP systems
- Josh will report on the Order 1000 process at the October Board Meeting and recommend the Pool

Agenda Item 8 – Future Meetings

2014

December 8 Little Rock, AR

2015

March 26 Washington D.C.

June 8 Little Rock, AR

September 24 Chicago, O’Hare Airport

December 7 Little Rock, AR

Adjournment

Josh Martin thanked everyone for participating and adjourned the meeting at 2:30 PM.

Respectfully Submitted,

Stacy Duckett, Secretary



OVERSIGHT COMMITTEE MEETING

September 25, 2014

Chicago O’Hare Airport, Chicago, IL

American Airlines Admiral’s Club, Terminal 3

• A G E N D A •

9:30 a.m. – 4:00 p.m. CDT

- 1. Call to Order/Administrative ItemsJosh Martin
- 2. Action Items Report..... Stacy Duckett
- 3. Update on Current Activities
 - a. Internal Audit.....Lauren Krigbaum
 - b. Compliance..... Philip Propes
 - c. Market Monitoring Unit Alan McQueen
- 4. Internal AuditLauren Krigbaum
 - a. Draft 2015 Audit Plan
 - b. Charter Revisions
- 5. Contract for 2015 Support..... Craig Roach
- 6. MMU/Stakeholder Engagement..... Alan McQueen
- 7. New Action Items Stacy Duckett
- 8. Future MeetingsJosh Martin

2014

December 8 Little Rock

2015

March 26 Washington, D.C.

June 8 Little Rock

September 24 Chicago, O’Hare Airport

December 8 Little Rock

Executive Session

Order 1000 Ben Bright

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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June 9, 2014**

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

Southwest Power Pool, Inc.
OVERSIGHT COMMITTEE
Pending Action Items Status Report
September 25, 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	In Process	Staff is to develop a communications plan to present the training for the industry experts to Members, RSC and other stakeholders to maximize transparency by 1Q 2015.
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 to develop approach for assessing SPP modeling processes and effectiveness.	Dec 9, 2013	In Process	Internal Audit is working with various departments to develop an inventory list of SPP models. Will work with Engineering and Compliance to develop an approach for assessing the processes and effectiveness of the processes.
Staff further develop definition of "affiliates" for Order 1000 process.	Dec 9, 2013	Completed	
Philip Propes will present security metrics at the September meeting in Executive Session.	June 9, 2014	In Process	Targeted Security Metrics will be presented in Q3, 2014. Production metric reports will be presented at Q4, 2014 meeting.
Review and approval of Internal Audit charter at September meeting.	June 9, 2014	Pending	Scheduled for review during the September meeting.
Dates for Cyber training at SPP.	June 9, 2014	In Process	Training partner is awaiting authorization from DHS for new course. Delivery will be scheduled after approval. Tentatively Q1, 2015.



Southwest Power Pool, Inc.
INTERNAL AUDIT
Report to the Oversight Committee
September 25, 2014

Staffing

- The Internal Audit department is fully staffed.

Activity Update

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

- 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.

See attached for summary.

- **Fixed Assets**

Internal Audit completed a review of Southwest Power Pool's (SPP) Fixed Asset Management process, focusing on the processes occurring after acquisition of the asset. The purpose of this review was to ensure the processes as performed: are supported by up-to-date and complete process documentation with sufficient information to support and serve the process purpose and deliverables; are accurate and complete in the recording, monitoring, depreciating and disposing of fixed assets; includes adequate controls to mitigate risks; and does not have any observable process and/or control gaps.

See attached for summary.

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

The Internal Audit department has completed a review of costs and consumables in support of the May 2014 rate adjustment charged for use of the Off We Go, LLC private aircraft. The review was 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."*

See attached for summary.

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

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, 2013 through April 30, 2014. In addition, we reviewed Off We Go's insurance policy 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 Reimbursements)**

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, 2013 to September 11 2014 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:**

- **Remedy System**

The primary objectives of the 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.

- **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 reporting phase.

- **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 testing phase.

- **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. The review is in the reporting phase.

- **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 testing phase.

- **Transmission Settlements**

The primary review objectives are to confirm: sufficient processes and procedures are identified, documented and followed for Transmission Settlements to protect the interests of SPP, its members and customers; internal controls are adequately designed and operating effectively; requirements related to transmission settlements are complied with in accordance to SPP governing documents; processes have been reviewed and adequately updated for all changes made in relation to the Integrated Marketplaces being implemented; and all data required for settlement calculations are being received accurately and timely in order to ensure proper settlement timelines. The review is in the testing phase.

- **Reviews Currently in Planning**

- SPP Modeling
- Procurement/Accounts Payable
- HR Payroll and Benefits

- **Upcoming Reviews/Audits:**

- Interchange
- Balancing Authority
- Operations Support Forensics
- Digital Certificates
- Collateral Management
- Pension Plan / 401(k) / SERP
- Market Settlements
- Privileged Accounts
- Off We Go LLC (Rate)
- Off We Go LLC (Invoices)
- Study Deposits, Invoicing and Customer Refund Tracking Process
- Corporate-Wide "Manual Workarounds"

- **Project Pinnacle:**

- Staff 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**

- Controls audit (SSAE 16/SOC1) work:
 - Conducted five sessions of SOC1 Overview training
 - SOC1 Type 1 Audit:
 - Finalizing SPP's portion of SOC1 Type 1 audit report narrative
 - SOC 1 Type 1 audit issued – unqualified, controls suitably designed
 - SOC 1 Type 2 Audit:

- Completion of periodic control activity reviews:
 - ❖ 50 completed to date, 26 in process (76 total control activities)
 - ❖ 25 completed to date, 3 in process (30 total control activities)
- Facilitated/coordinated external auditors on-site visit in August 2014
 - ❖ Communicated and acted as liaison between KPMG and control owners
 - ❖ Collected and reviewed additional audit item requests
- Other consulting/advising:
 - Credit Stack process
 - Grandfather Agreement LEAN project
 - Tariff review process
 - Termination of Market Participant process
 - CIP Version 5 Program
 - Engineering Quality Assurance LEAN project

Respectfully submitted,
Lauren Krigbaum
Director, Internal Audit



**Southwest Power Pool, Inc. (SPP)
Compliance Department
Q3 2014 Director Report to the Oversight Committee**

Executive Summary

In recent months, we've seen a significant increase in compliance requests and subsequent support from both external and internal customers. Our Member Outreach program has reached new levels of success, with improved communications across the footprint, increased forum attendance each quarter, and a rapid growth of our entity evidence review services. Our expanded internal services have included the kick-off of a formal Tariff Review Project, streamlined completion of our NERC Quarterly Certification process, and the introduction of a company-wide internal spot-check program. We have cut costs, reduced headcount, and increased services through innovation, increased efficiency, and regional collaboration.

Member Outreach Report

The Regional Compliance Outreach Program (RCOP) continues to gain momentum as we enter into Q3 with **92 new additions** to our Compliance Contacts Exploder. This is a clear indicator of how the program continues to offer services that are meeting the needs of our Member Entities.

The RCOP was recently introduced to the Western, Basin Electric and Heartland Compliance Staffs. Two (2) conference calls were held to bring them up to speed on the dynamics of how the Compliance Department is set up and the support services we offer.

The newly redesigned Compliance Support Site (CSS) is set to launch in Q4. Recommendations and feedback has been solicited from the Member Entities to ensure the site is a solid tool for shared regional services and peer to peer communication. A demonstration will be given at this year's Fall Forum.

Oklahoma City, OK on October 1 and 2 is the location for the upcoming Fall Compliance Forum. Current registration is at **122 attendees**. With Misoperations being a current topic in the region and the industry, we are including a ½ day session on best practices, lessons learned, and Q&A with John W. Miller, Manager, System Protection from Georgia Transmission Corp. Discussion will focus heavily on reducing Misoperations caused by communication failures.

Entity Evidence Reviews continue to be a valued service to our Member Entities. On July 15-17 and 22-24, SPP conducted an Entity Evidence review with American Electric Power (AEP) in Columbus, OH. The review was for facilities in the SPP Regional Entity footprint. The first week of the review, SPP staffs participated remotely, and were then onsite at AEP for the second week. All of the CIP standards (CIP-002-3 through CIP-009-3) were included in the review. Other active participants included resources from KCP&L and N&ST.

Violation Assistance provided this quarter has resulted in one SPP Member **violation dismissal** and one SPP Member **violation downsized** to a Find, Fix and Track (FFT). Standards included TOP-004 R4 and TOP-008 R4. The dollar amounts and resource time savings to the SPP Member Entities are significant based on the working efforts provided by the Compliance Staff.

The department organization includes defined areas of responsibilities which ensure dedicated resources and expertise in critical areas. With the addition of the Regional Compliance Outreach Analyst, the department has a strong and solid structure that we have communicated to the members via the Outreach Program. This structure ensures they know who to go to for what Compliance specific needs they have at any given time. Members continue to express the appreciation for the delivery time and depth of answers they receive via the Adhoc Process. Q3 numbers hit **84 Adhoc Responses**.

Philip Propes - Director, Compliance						
Regional Compliance Outreach Program (RCOP)	Operations Compliance	Planning Compliance	Balancing Authority Compliance	CIP Compliance	Criteria and Tariff Compliance	Security Monitoring
Compliance Outreach Coordinator	Lead Compliance Analyst, Operations	Senior Compliance Engineer	Lead Compliance Analyst, Operations	Senior Security Analyst	Senior Compliance Analyst	Security Analyst II
Regional Compliance Analyst	Compliance Analyst II (1/3)	Compliance Analyst II (1/3)	Compliance Analyst II (1/3)	Security Analyst II		

Compliance Report

Tariff Review Project:

The existing SPP Tariff Review has been escalated to High Priority Project status. The Compliance Department, via Alison Hayes, has been meeting with the project manager, SPP Officers and staff in an effort to put a more aggressive, thorough review plan together in order to evaluate processes and procedures as they relate to Tariff requirements. The Project Team will include representatives from the Compliance, Regulatory and Legal Departments, as well as staff from all other departments governed by Tariff requirements. An official “kick off” is scheduled for the week of August 25th, at which time the broader scope will be explained to the team, as well as, milestones and completion dates. At that meeting additional department representatives will be decided for inclusion on the Committee.

The first step in the Review process involves determining actual “business owners” of the various sections. Many Tariff sections cross multiple departments and reference multiple sections. Once that Matrix has been started, the actual process for the Review will include one on one interaction with staff, looking at Processes and Procedures as they relate to Tariff requirements. The team will look at any and all evidence in the form of documents, logs, manuals, business practices etc. The object of the Review is to determine compliance with Tariff requirements, as well as, evaluate that the intent of the language is being met and that sections are accurate and necessary. Departments that were reviewed prior to the broadened scope will be revisited and reviewed at a deeper level. Any suggested changes to the Tariff will be noted and addressed at the end of the review. Accordingly, any potential noncompliance will be addressed immediately.

SERC Self Certification:

The SPP RTO Compliance Team reviewed RSAWs and evidence for 15 NERC Standards that were submitted to SERC on August 1, 2014. After three days of individual desk reviews and one full day meeting as a team to discuss the evidence, Compliance deemed SPP as compliant.

SPP Internal Spot Checks:

The SPP RTO Evidence Review Team is halfway finished with the 2014 Internal Spot Check. In August, the team reviewed the RSAWs and evidence for 10 NERC Standards. Team members reviewed the evidence individually from August 11 to August 15. The team met on August 19 to discuss the individual findings. All comments will be submitted as a Final Report once the project is completed.

Topic/Action	Due Date	Standards	Requirements/Sub Requirements	Status
SERC Annual Certification	7/18/2014	9	86	Complete/Compliant for Annual Certification, some rework needed on additional requirements requested that were not part of the Annual Certification.
SPP Annual Spot Check	8/8/2014	5	75	Returned for additional evidence, rewording, or comments to review. This includes some of the requirements from the Annual Certification.
SPP Annual Spot Check	9/5/2014	7	83	Compliance Department Review
SPP Annual Spot Check	10/5/2014	7	27	In Progress

Security Incident and Event Management (SIEM) System Replacement:

Security Analysts, working with team members from other SPP departments have begun conducting Proof of Concept (POC) evaluations of a new Security Incident and Event Monitoring (SIEM) solution to replace the existing system currently in place at SPP. SIEM technology supports threat detection and security incident response through the real-time collection and historical analysis of security events from a wide variety of event and contextual data sources. It also supports compliance reporting and incident investigation through analysis of historical data from these sources. The core capabilities of SIEM technology are a broad scope of event collection and the ability to correlate and analyze events across disparate sources.

Two vendors were chosen from several competitors and the first POC began on August 18, 2014. Once the first POC is completed, the second POC will commence and continue for six weeks. Upon completion of the POCs, a determination will be made regarding the best system for SPP and deployment will begin as soon as feasible.

Security Analysts within the Compliance Department have started creating reports with an array of security metrics that are applicable to SPP IT activities. These metrics will be gathered and reported on in a phased approach utilizing data collected by the existing Security Incident and Event Monitoring (SIEM), File Integrity Monitoring (FIM) and Security Configuration Management (SCM), Intrusion Prevention System (IPS) and Vulnerability Management tools. While reports 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 are in various stages of implementation, the initial release of the security metrics reports will be in the fourth quarter.

For future phases, a new SIEM tool will be used to expand the coverage to additional systems not feeding security related information to the existing SIEM and to consolidate more of the reporting functionality for the metrics into the new SIEM tool where possible. These metrics will enable SPP to gauge the effectiveness of the SPP security program in reducing and mitigating cyber security risks.

IS Integration:

SPP Compliance Staff continues their efforts for the combined certification of the RC and BA with SERC, MRO and NERC in March 2015. The current status is that we are on schedule with the project assignments and timelines.

Working Groups

CIPWG—CIP Version 5 Task Force: The Critical Infrastructure Protection Working Group (CIPWG) has started a task force specifically focused on the transition to Version 5 of the NERC CIP standards. Currently, 32 individuals from 15 Member companies are members or observers in the task force. Member companies have had two meetings (July 11 and August 8) to share questions, challenges and best practices as they review their current programs and move to the new standards. The calls are designed to cover specific areas of the standards so that the task force members can bring technical, operational or other SME resources to the call. The goal is to offer Members a way to discuss detailed processes and technical implementations in a confidential forum.

CIPWG—Regular Meeting: The Critical Infrastructure Protection Working Group (CIPWG) will meet on September 23 at facilities owned by the Grand River Dam Authority (GRDA). Agenda items include a review of the Working Group Scope, an update on CIP Version 5 changes from the member of the Standards Drafting Team, an update from the CIP Version 5 Task Force.

SPP Event Analysis Working Group (EAWG): In its continued effort to assist entities within the SPP footprint to reduce Misoperations caused by communication failures, the SPP EAWG will host a member of the NERC Protection System Misoperations Task Force, and a member of his staff, at the October, 2014 Compliance Forum to share their lessons learned regarding Misoperations caused by communication failures. This effort builds on the work completed by the SPP System Protection and Control Working Group (SPCWG), specifically, the SPCWG whitepaper analyzing the leading causes and sub-causes of Misoperations of Protection System elements within the SPP footprint for the year 2013. The goal of this collaborative effort is to reduce the number of Misoperations within the SPP footprint caused by communication failures.

Regional Compliance Working Group (RCWG):

The RCWG recently met on August 26, 2014, in Springfield, MO where the meeting was hosted by City Utilities of Springfield. Agenda highlights included the Reliability Assurance Initiative (RAI) Status, CIP-002 Methodology, CIP-014 Proposals for Third Party Assessments, and a presentation on the NAESB Standards Process.

The next meeting will be held on September 29 in conjunction with the SPP Compliance Forum and the SPP RE Workshop in Oklahoma City, OK.

At the October 14/15, 2014 MOPC Meeting, Chair Jennifer Flandermeyer will present an RCWG Overview of Activities, Coordination with the RTO Compliance Team, Q&A and Open Discussion.

Respectfully Submitted,

Philip Propes
Director, Compliance

MARKET MONITORING REPORT
Oversight Committee
25 September 2014

Activity Update

I. MMU Staffing

- MMU department reorganization has resulted in several staffing changes. The two Supervisor positions have been changed to Manager level positions and Barbara Stroope was promoted to Manager. John Hyatt was a supervisor and he has been promoted to Principal Monitor. The open manager position has been posted, interviews have been completed, and an assessment of applicants is underway.
- One staff position is open as a result of the resignation of Hanhan Hammer. She accepted an offer from ISO New England in their market design department. The position has been posted and some applicant interviews have been completed.

II. Federal Energy Regulatory Commission (FERC)

- Six FERC staff members are schedule to attend a 3 day meeting to be conducted at SPP offices on September 29 through October 1. Discussion topics include Market Operations, referral process, and MMU screens.
- 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.
- In October, one MMU member will be attending a FERC workshop on price formation. This workshop will bring together FERC staff, RTO staff and Market Monitors from around the country to discuss offer price mitigation, offer price caps, and scarcity pricing.

III. Market Studies

- The MMU has initiated four behavior studies since June. Three of the four studies are closed.
- The analysis of ARR allocations in Frequently Constrained Areas, requested in MOPC Action Item 227, is near completion and the results will be shared with stakeholders in September meetings.

IV. Reporting

- MMU completed the first Integrated Marketplace Quarterly State of the Market report covering March – May. We are currently working on the second quarterly report, and it will include some new metrics and interpretation.

IV. Reporting *(continued)*

- MMU continues to develop monthly market review presentations that are given to the MWG and FERC.
- MMU is working with SPP executives and other subject matter experts on a second round of updates to the Quarterly Corporate metrics.
- The IRC ISO/RTO Council is beginning another round of cross-RTO metrics. The MMU will likely coordinate, facilitate, and collect some data for this report.

V. Integrated Marketplace

- The MMU is working closely with the Mitigated Offer Task Force (MOTF) to address a variety of concerns. Long term cost recovery for infrequently used generation and reducing the complexity of mitigation compliance are the top issues the task force is addressing.
- The MMU is required to update the Frequently Constrained Area designations on an annual basis; the 2014 study is near completion and the results of the study will be presented to stakeholders in October.
- Daily monitoring of the Day Ahead Must Offer Requirement has resulted in fewer failures as Market Participants adjust to the rules. There were only 2 failures in the last 3 months.
- Opportunity Costs Calculator system for adjusting mitigated offers as requested by Market Participants is in production. It is currently being used by members with environmental emissions limits and coal supply limitations.

VI. Miscellaneous

- MMU has requested 2015 budgetary funding for an external review of the MMU as required in the SPP Tariff. A detailed scope of work will be drafted for the OC to review and approve early in 2015.
- Four members of the MMU will be attending the Energy Inter-market Surveillance Group conference in October. This conference represents a unique learning opportunity for Market Monitors.
- Six MMU members recently attended a day-long Reliability Unit Commitment (RUC) training session offered by SPP Operations. The training session included Market Participants and offered the MMU an interesting view into both SPP Operations and Market Participant's concerns and challenges with RUC processes.
- The MMU process guidelines for interacting with Market Participant has reviewed and updated. A copy is attached.

Respectfully submitted
Alan McQueen
Director, Market Monitoring and Analysis

MARKET PARTICIPANT INTERACTIONS

MMU PROCESS GUIDELINES

AUGUST 2014

GUIDELINES FOR RESPONDING TO MP

- ***ALL CONTACTS WITH MPs REQUIRE SOME DOCUMENTATION: RMS, MMU STORED EMAIL, LOG, ETC.***
- Establish your personal process that minimizes overhead while achieving acceptable level of responsiveness and documentation
- First response to all requests must be within one business day. Acknowledge receiving request and respond with a resolution or with a schedule for the next response.
- Second contact within three days. If request is not complete, then establish timeline or process for resolving the request.
- Use appropriate documentation tool to safeguard MMU confidential information

TOOLS – IN ORDER OF PREFERENCE

- **RMS** – use RMS whenever possible and practical.
Note – RMS not acceptable for MMU confidential material
- **MMU email** – always copy MMU email box when sending emails to MPs
- **SharePoint** – department log using SharePoint is effective when more than one person involved
- **Personal Log** – may be effective when an individual has a large number of contacts and it does not involve other MMU staff members

MEMORANDUM

September 10, 2014

TO: Josh Martin, Chairman, SPP Oversight Committee
Stacy Duckett, Staff Secretary, SPP Oversight Committee

FROM: Craig Roach, Ph.D.
Vincent Musco

SUBJECT: Continuing Role for Boston Pacific in 2015

We hope all is well with you. The purpose of this short memo is to ask whether the Board would like Boston Pacific Company, Inc. to continue in its role as an independent advisor in the coming year. This would be our eleventh year serving the Board—as always, thank you for that.

For 2014, the *Looking Forward Report* was our only requested effort. The Report appeared to be well received by the Board and Members, and we were happy to help contribute to the Board's consideration of long-term, strategic issues. Boston Pacific would be pleased to prepare a *Looking Forward Report* in 2015. Our second task was to serve as an advisor to the Board as needed – there were no efforts requested under this second task in 2014. We explain both of these tasks in more detail below. If you would like to discuss this at your upcoming meeting (September 25), we would be happy to call in at any time convenient for you.

TASK 1: 2015 LOOKING FORWARD REPORT

We would provide our fifth annual *Looking Forward Report* to help the Board with its long-term strategic planning efforts. The *Looking Forward Report* will focus on broad market and regulatory events that (a) potentially could have a significant impact on SPP's markets and/or (b) could require the Board's special attention. As always, we will develop the list of topics in consultation with the Board to ensure that we focus our Report on issues of greatest interest. We would present the Report at both the Spring 2015 Oversight Committee meeting and the April 28, 2015 Members Committee meeting.

TASK 2: ADVISE BOARD (AS NEEDED)

As always, we can continue with the role of advising the Board as needed at its request. If the Board sees specific challenges arise during the term of the contract that were not apparent before, please tell us and we would help address those issues. For example, tasks may arise

related to MISO's uncompensated use of SPP's transmission system, expansion of SPP's footprint and potential seams issues with the west, or in SPP's evaluations of competing transmission projects in its transmission planning process.

NEXT STEPS

Please let us know whether and how you would like to proceed. Thank you for your consideration.