

Southwest Power Pool, Inc.
OVERSIGHT COMMITTEE MEETING
March 26, 2015
Boston Pacific Offices, Washington, DC

• M I N U T E S •

Agenda Item 1 – Administrative Items

Josh Martin called the meeting to order at 8:36 AM. Members in attendance: Josh Martin (Director), Larry Altenbaumer (Director), and Phyllis Bernard (Director) and Paul Suskie (Staff Secretary). In person attendance included Alan McQueen (SPP MMU Staff), Lauren Krigbaum and Michael Desselle (SPP Staff), Vincent Musco and Sam Choi (Boston Pacific), Stephen Flanagan, Nick Coughlin, Danielle Rourke, Jason Stanek, Dillon Kolkmann, and Susan Pollonais (Federal Energy Regulatory Commission (FERC) Staff). On the phone was Shaun Scott, Kim VanBrimer, and Ben Bright (SPP Staff).

Larry Altenbaumer made a motion and Phyllis Bernard seconded it to approve minutes from the December 8, 2014 meeting (Minutes 12/8/14 – Attachment 1). Phyllis Bernard made a motion and Larry Altenbaumer seconded the motion to approve minutes from the February 3, 2015 meeting (Minutes 2/3/15 – Attachment 2), both motions passed with unanimous approval.

The Committee went into Executive Session to listen to the FERC Audit Process and FERC Market Oversight Reports provided by Mr. Nick Coughlin and Mr. Jason Stanek, respectively (Role of Oversight Committee in SPP's Governance Structure – Attachment 3).

Agenda Item 4 – Action Items Report

Josh Martin reviewed the Action Items Report (Action Items Report – Attachment 4) referring to updates in the report.

Agenda Item 5 – Order 1000 Update

Ben Bright (SPP Staff) provided the Order 1000 Update (Order 1000 Update – Attachment 5).

ITP 10 – Ben Bright noted that in the January Board of Directors' meeting ITP10 was approved which included one potential competitive project -- the Sunflower Walkemeyer 115 kV line. This project is being re-evaluated and will be re-addressed with the MOPC and Board of Directors in April 2015.

IEPs - In February, the Oversight Committee directed SPP staff to wait until April to contract with the Industry Expert Pool. Mr. Bright provided a sample of the letter he sent to the Industry Experts communicating the delay.

Mr. Bright explained that this is an annual process. The next steps for the Industry Expert Pool (IEP):

- Attachment Y of the Tariff states the creation of the pool is an annual requirement
- Board approval must be done in a meeting prior to the approval of any Competitive Upgrade projects
- 2016 ITP Near-Term schedule for final Board of Directors approval in April 2016
- IEP recommendations to Oversight Committee in December 2015 meeting for approval and to the Board of Directors in January 2016
- Application period open until October 31, 2015

2014 IEP Experience - Mr. Bright recapped the 2014 experience with recruiting and vetting the individuals through the IEP experience. He noted that there is a concern that there are not enough applicants and that there is no "Plan B" in the Tariff. Having few IEP members has raised a concern that if there are

Oversight Committee Minutes

March 26, 2015

multiple competitive projects with overlapping dates that the Pool of IEP members may be too small to accomplish the evaluation task.

Potential Tariff Change to IEPs – Mr. Bright presented a staff recommendation to the Oversight Committee to endorse a staff-drafted Revision Request (RR) to amend the Tariff to allow firms (not just individuals) to serve on the Industry Expert Pool. Additionally, the Industry Expert Panel could be a single firm if approved by the Oversight Committee. The proposal is designed to give the Oversight Committee flexibility in considering consulting firms in the creation of the Industry Expert Pool as well Industry Expert Panel.

After much discussion the Oversight Committee agreed this item should be sent back to the Strategic Planning Committee (SPC) to assist with coming up with a “Plan B” noting that this is a policy change.

Mr. Bright said the RR will be presented to the SPC in April 2015.

Action Items related to IEPs – The Oversight Committee developed two items for additional action items.

- (1) The first is whether or not SPP should be looking at working with consulting firms; and
- (2) The second is to discuss a “Plan B” as to what SPP should do if there are not enough experts to pull from for a project.

The Oversight Committee added that when the RR goes before the SPC two items need to be looked at: the highest standard of the independence of the process and the issues associated with working with a firm.

The Committee additionally noted some push-back against the assumption that any IEP member who is currently not employed in the industry lacks the capacity to be able to engage in the analyses that are necessary to perform the duties of the IEP.

The Oversight Committee took no further action on the RR as the RR will move forth to the SPC.

Agenda Item 6 – Looking Forward Report

Vincent Musco and Sam Choi from Boston Pacific provided the 2015 Looking Forward Report. The report contributes to the long-term strategic planning by the Board.

- There are eight issues, including three updates:
 - o Blurred Jurisdictional Lines,
 - o Update on the Changing Electric Sector Business Model,
 - o Thoughts on a Framework for Evaluating Transmission Investments,
 - o Wind (and Solar) Exports from SPP’s Footprint,
 - o EPA’s Continued Environmental Campaign,
 - o The Shale Gas Revolution,
 - o Physical Grid Security, and
 - o Smart Grid.

Agenda Item 7 – Quarterly Activity Reports

Compliance

Kim VanBrimer (SPP Staff) provided the first quarter RTO Compliance Oversight Report (Q1 2015 SPP RTO Compliance Oversight Report – Attachment 6). She noted that the year has gotten off to an eventful start with the integration of the Integrated System (IS), the Balancing Authority (BA) and Reliability Coordinator (RC certifications, the self-certifications and a FERC audit. The Compliance Staff prepared for and hosted an Outreach Event for Western, Heartland, and Basin Compliance staff, held the Spring Compliance Forum for 111 Member participants and answered 87 ad hoc Member requests. The 2015 Metrics have also been compiled.

**Oversight Committee Minutes
March 26, 2015**

Ms. VanBrimer stated that there is a Tariff project that has kicked off named "What Does the Tariff Say?". This project involves a lot of collaboration with the various departments and includes each department taking a look at its respective section(s) of the Tariff, as applicable, and will also involve education. After the initial review there will continue to be regular reviews in the future.

Market Monitoring Unit

Alan McQueen (SPP MMU Staff) provided the Market Monitoring Report (MMU Report to OC – Attachment 7). The FERC has begun an audit of SPP and the Market Monitoring function. Conference calls with FERC continue on a weekly basis. FERC staff members continue to ask for briefings on the Strike Team and Market Working Group (MWG) activities with regard to proposed changes to the SPP mitigation rules. Several MMU staff members will be attending the FERC annual meeting in June of all market monitors under FERC jurisdiction. The Mitigated Offer Strike Team completed their first draft of proposed Tariff and Protocol changes and voted 2 to 1 in support of the draft.

The MMU continues to expand the content included in the Integrated Marketplace Quarterly State of the Market (QSOM) reports. The Winter QSOM report (December/January/February) is scheduled to be released by the end of March. The MMU continues to develop monthly review presentations that are given to the MWG and FERC. The Oversight Committee has requested the Annual State of the Market Report be presented to the Board before it is presented to FERC.

The MMU has filed comments on several SPP filings regarding changes to the Integrated Marketplace rules. The Frequently Constrained Area (FCA) study is now complete. The study recommended eliminating two of the existing designated FCAs. The results have been filed with FERC and the changes are requested to be implemented on April 15. There have not been any Day Ahead Must Offer Requirement violations over the last three months.

There are some staff members planning on attending the spring Energy Inter-market Surveillance Group conference scheduled for early May.

An Action Item brought before the committee was to obtain SPP Staff's position on the mitigated offer issue.

Internal Audit

Lauren Krigbaum (SPP Staff) provided the Internal Audit report (Internal Audit Report – Attachment 8). The Internal Audit department is fully staffed. The 2014-2015 audit schedule has been updated. There have been three audits completed since the last meeting and there are several in process.

Agenda Item 8 – Future Meetings

2015

June 8	Little Rock, AR
September 24	Chicago, O'Hare Airport
December 7	Little Rock, AR

Adjourned to Executive Session at 2:03 PM.

Adjournment

Josh Martin thanked everyone for participating and adjourned the meeting at 3:15 PM.

Respectfully Submitted,

Paul Suskie



**Southwest Power Pool, Inc.
OVERSIGHT COMMITTEE MEETING**

March 26, 2015

Boston Pacific Offices, Washington, D.C.

• **A G E N D A** •

9:00 a.m. – 3:00 p.m. EDT

1. Call to Order/Administrative ItemsJosh Martin
2. Overview of FERC Audit Process (FERC Staff) Nick Coughlin
3. Overview of FERC Market Oversight (FERC Staff)Jason Stanek
4. Action Items Report..... Paul Suskie
5. Order 1000 Update.....Ben Bright
6. Looking Forward Report..... Craig Roach
7. Quarterly Activity Reports
 - a. ComplianceLauren Krigbaum
 - b. Market Monitoring UnitAlan McQueen
 - c. Internal AuditLauren Krigbaum
8. Future Meetings Josh Martin

2015

 - a. June 8 Little Rock, AR (morning prior to the BOD Education Workshop)
 - b. September 24 Chicago, O'Hare Airport
 - c. December 7 Little Rock, AR (day before BOD Organizational Effectiveness Meeting)
9. Executive SessionOversight Committee

**Southwest Power Pool
OVERSIGHT COMMITTEE MEETING**

**December 8, 2014
Southwest Power Pool Corporate Center
Little Rock, AR**

• M I N U T E S •

Agenda Item 1 – Administrative Items

Josh Martin called the meeting to order at 8:36 AM. Members in attendance: Josh Martin (Director), Larry Altenbaumer (Director), and Phyllis Bernard (Director). Staff in attendance included Stacy Duckett, Alan McQueen, Lauren Krigbaum, Joseph Ghormley, Michael Desselle, Shaun Scott, Kevin Molder, Paul Suskie, Kim VanBrimer, and Ben Bright. Others in attendance were Harry Skilton (Director), Julian Brix (Director), Kristine Schmidt (ITC), and joining the meeting for a report were Andrew Gisselquist, Vincent Musco, and Craig Roach (Boston Pacific). Phyllis Bernard made a motion and Larry Altenbaumer seconded it to approve minutes from the September 25, 2014 meeting (Minutes 9/25/14 – Attachment 1), which passed with unanimous approval.

Agenda Item 2 – Action Items Report

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

Agenda Item 3 – Update on Current Activities

- a. Kim Van Brimer provided the Compliance report (4th Quarter Compliance Report – Attachment 3). SPP is preparing for the certification from SERC Reliability Corporation (SERC) on the Reliability Coordinator (RC) and Balancing Authority (BA) for Western, Basin, and Heartland. The certifications should be completed by June 2015 for the RC functions and October 2015 for the BA function. In December, 15-19, the North American Transmission Forum (NATF) will be at SPP and will conduct a peer review of SPP. They will take a look at our policies and procedures and interview our Subject Matter Experts (SME). The Critical Infrastructure Protection Working Group (CIPWG) chair, Robert McClanahan, is stepping down after being in this position since 2007. There will be a CIP Version 5 Roadshow in 2015 that will include the collaboration of the SPP Regional Entity (RE) and the CIP Compliance staff. There were 10 completed Entity Evidence Reviews in 2014. Compliance is averaging 75 ad-hoc questions per quarter. The launch of the Compliance Support Site (CSS) is targeted for the first quarter of 2015. Regional Compliance Working Group (RCWG) members are currently testing it out. A key highlight for the tool is a real-time chat feature targeting specific categories and instant notification.

Kevin Molder reported on the SPPEX which was a simulated multi-component attack with a cyber-security and physical component. There were nine member utilities that participated. It was a very successful exercise. This exercise will take place every other year. The Incident Response Training is a four day training that will take place in the second quarter of 2015. This training is designed specifically for technical personnel. It was developed in conjunction with the University of Arkansas and the Department of Homeland Security (DHS). The program has been around for over four years and has been recently updated with new materials. There is a minimal charge for the training. The course leans itself to the electrical industry.

Josh Martin mentioned he spoke with Nick Brown prior to the meeting and headway is being made in the hiring of a new Director of Compliance.

- b. Lauren Krigbaum provided the Internal Audit Activity Report, (IA Activity Report – Attachment 4). She began by discussing the Audit Charter update, this was an action item. The committee

Oversight Committee Minutes December 8, 2014

requested that Internal Audit provide more clarity regarding the relationship with the supervisor and the Oversight Committee beyond what is currently in the Charter. Larry Altenbaumer made a motion to accept the revised Internal Audit Charter, Phyllis Bernard seconded the motion and the motion passed.

Lauren updated the committee on changes in the audit schedule. Changes are related to timing. She then reviewed audits completed since the last meeting and noted there are a large number of audits in process. One of the audits in process, SPP Modeling, completes an action item.

The SOC1 audit has required considerable time from IA this quarter. Additionally, IA is engaged in several corporate projects. They are assisting SPP by facilitating discussions related to documenting a process for the unreserved use of the transmission system. IA is also working with SPP Compliance to develop controls training related to the NERC Reliability Assurance Initiative (RAI) which will begin to be used by NERC in 2015.

IA was contacted by SPP Compliance related to the NATF Peer Review. They would like IA to assist them as a subject matter expert (SME) with risk assessment and internal controls.

- c. Alan McQueen provided the MMU report, (MMU report – Attachment 5). Alan reviewed staff in the MMU department. Catherine Mooney has been promoted to the position of manager; she is responsible for investigations, special studies, and market design issues. Her previous position is now currently open.

Communicating with FERC weekly. Catherine Mooney participated in a FERC Workshop on Mitigation along with market monitoring representatives from other RTOs.

The Mitigated Offer Task Force (MOTF) work is close to completing its work. The MOTF approved MPRR 197 and MPRR 213 and passed it on to the MWG. There was only one Day Ahead Must Offer Requirement violation over the last three months compared with three for the summer months.

The MMU external review as required in the SPP Tariff has been moved to 2016 and the funding has been removed from the 2015 budget. In October, five MMU staff members attended the Energy Inter-market Surveillance Group conference. Two MMU staff members visited the ISO NE Market Monitors for best practices discussions.

MMU continues to expand the content included in the Integrated Marketplace Quarterly State of the Market reports.

Josh Martin requested the following two items be action items:

- The frequently constrained areas (FCA) study is almost complete. It will be going through the stakeholder process and it can be covered in a presentation to the committee if they are interested.
- The committee is requesting briefings on the magnitude and frequency of market rule violations. They are leaving it up to Alan's judgment on the threshold of what warrants the committee's attention.

Agenda Item 5 – 2015 Audit Plan

Lauren Krigbaum provided the 2015 Audit Plan. No adjustments have been made since the last meeting. Lauren noted that the plan is a forecast and will be updated throughout the year in response to the changes experienced by the company. Updates to the Audit Plan will continue to be reviewed quarterly with the Oversight Committee.

Agenda Item 4 – Looking Forward Report

Craig Roach provided the Looking Forward Report, (Looking Forward Report – Attachment 6). Craig reviewed the possible topics Boston Pacific will look at for the 2015 Looking Forward report. Josh asked that the studies and information provided be inclusive of the expanding SPP footprint. Under item number six Phyllis Bernard asked that if there were any suggestions that could be provided for strategic planning. It is very difficult to plan on what type of transmission needs to be built in the light of new technology. The Looking Forward Report is a portion of the strategic planning initiative. Paul Suskie had a question that covered three of the areas, one, three, and five. If the EPA is able to go through and require the changes in 111(d) what are the impacts on our market? Can FERC approve market rules that allow for environmental dispatch as opposed to cost under the federal power act? Craig and Andrew both thought this would be a good area to look with further study.

- I. EPA's Continued Environmental Campaign
 - a. EPA continues to be a driving force in the shutdown of coal-fired generation.
- II. The Shale Gas Revolution
 - a. As the Shale Gas Revolution continues, based on new reports and data, we will update our discussion of the implications of shale gas from four perspectives.
- III. Update on the Changing Utility Model
 - a. Previous reports have noted increasing interest and discussion of changing utility business models. Such changes threaten both the efficacy of existing regulatory structures and billions of dollars.
- IV. Physical Grid Security
 - a. We teed up the issue of potential drivers toward a less centralized grid in our last Looking Forward Report, including the threat of cyber-attacks on our grid. This year we will examine physical grid security with a focus on the following topics.
- V. Blurred Jurisdictional Lines
 - a. A new topic for this year's Report, we will highlight three significant issues related to the jurisdictional split between the States and the Federal government.
- VI. Developments in Decentralization
 - a. Past reports discussed drivers of a less centralized electricity grid and explained various technologies that have been deployed in markets across the country (e.g., microgrids).
- VII. Smart Grid
 - a. Since 2010, public and private investments in smart grid technologies made under the Stimulus Act of 2009 have totaled over \$9 billion. This section explores the status of smart grid investment and technology, its impacts on the grid, and where the industry is headed.
- VIII. For Sale: SPP Wind
 - a. SPP has ample wind generation resources in its footprint and could benefit from selling its wind to other areas of the U.S. However, seams issues have thus far prevented meaningful transactions. We look for potential solutions.

Agenda Item 6 – Order 1000 Update

Ben Bright provided an Order 1000 Update. In October the Board approved the ten recommended experts to be included in the 2015 Industry Expert Pool. Since October, staff has been working on the participation agreements for those individuals. Prior to this meeting, the goal was to get them under contract this year. Language was added to the participation agreement for ethical screening in the event that a panelist was employed by a professional service company. There is the possibility of only one ITP10 competitive project for 2015, however the ITPNT is still in process and that could change the number of competitive projects for 2015. Staff has also been working on the expert training process that is currently expected to be held during the first or second quarter of 2015. Given the uncertainty of the competitive projects for 2015, the Committee requested that the experts not be contracted until after the January 2015 Board cycle.

**Oversight Committee Minutes
December 8, 2014**

Agenda Item 7 – Annual Survey/Assessment Review

Josh Martin briefly mentioned the 2014 survey and assessment (Oversight Committee 2014 Survey & Assessment – Attachment 7). He asked if there were any questions or comments. There were none.

Agenda Item 8 – New Action Items

- The frequently constrained areas (FCA) study is almost complete. It will be going through the stakeholder process and it can be covered in a presentation to the committee if they are interested.
- The committee is requesting briefings on the magnitude and frequency of market rule violations. They are leaving it up to Alan’s judgment on the threshold of what warrants the committee’s attention.

Agenda Item 9 – Future Meetings

2015

March 26	Washington D.C.
June 8	Little Rock, AR
September 24	Chicago, O’Hare Airport
December 7	Little Rock, AR

Adjourned to Executive Session at 12:05 PM.

Executive Session

Leslie Bingham provided an overview of the Cyber Vulnerability Assessment.

Adjournment

Josh Martin thanked everyone for participating and adjourned the meeting at 1:03 PM.

Respectfully Submitted,

Paul Suskie

Southwest Power Pool, Inc.
OVERSIGHT COMMITTEE
February 3, 2015
Conference Call

• M I N U T E S •

Agenda Item 1: Call to Order and Administrative Items

Chair Josh Martin started the meeting at 4:03PM. All committee members were present.

Agenda Item 2: Engagement of the Industry Experts for 2015

Paul Suskie and Ben Bright updated the committee on the status of the projects that were approved by the SPP BOD on January 27, 2015. That status included one project approved in the ITP10 that will be re-studied and two projects from the ITPNT that staff considers Short-term Reliability Projects. All three projects will be reviewed by the BOD again in April 2015.

The group then discussed the need to contract the industry experts now or wait until the BOD has final approval of the outstanding projects. The committee agreed to hold off on contracting until after the April BOD meeting. Staff was also directed to send a letter to each expert pool member explaining the situation.

Agenda Item 3: Summary of Action Items

1. Delay engagement of the industry expert pool until at least after the April BOD meeting.
2. Staff send a letter to each pool member explaining the situation.

Agenda Item 10: Announcements and Adjournment

The meeting was adjourned at 4:18PM.

Respectfully Submitted,

Paul Suskie

Oversight Committee role in SPP's Governance

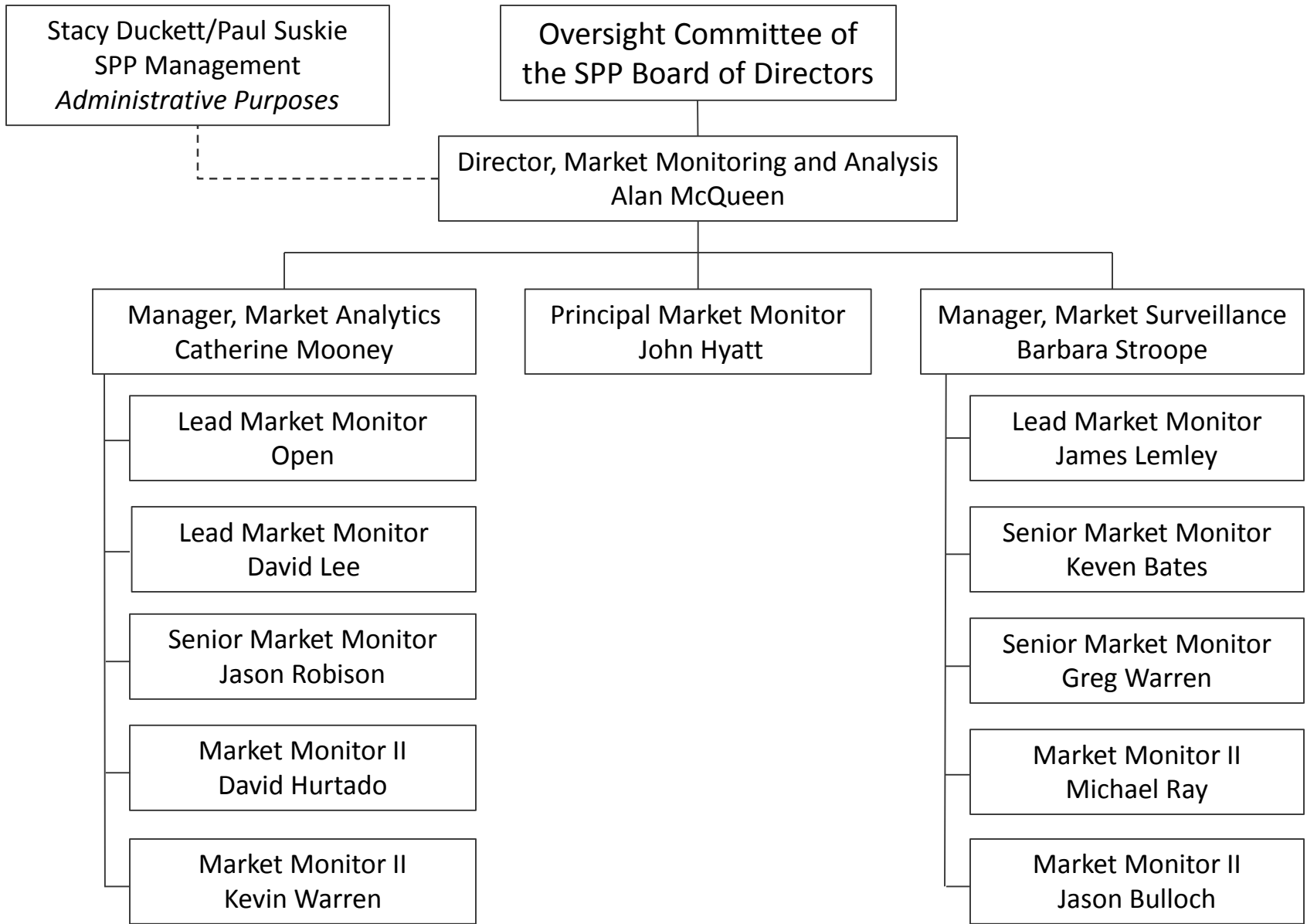
March 26, 2015
Washington, DC



Oversight Committee's Governance Role in SPP

- **Market Monitor Unit (MMU)**
- **Internal Audit**
- **Compliance Department**
- **Order 1000 - Independent Expert Panels (IEPs)**

MMU



OC Role in Oversight of Market Monitoring

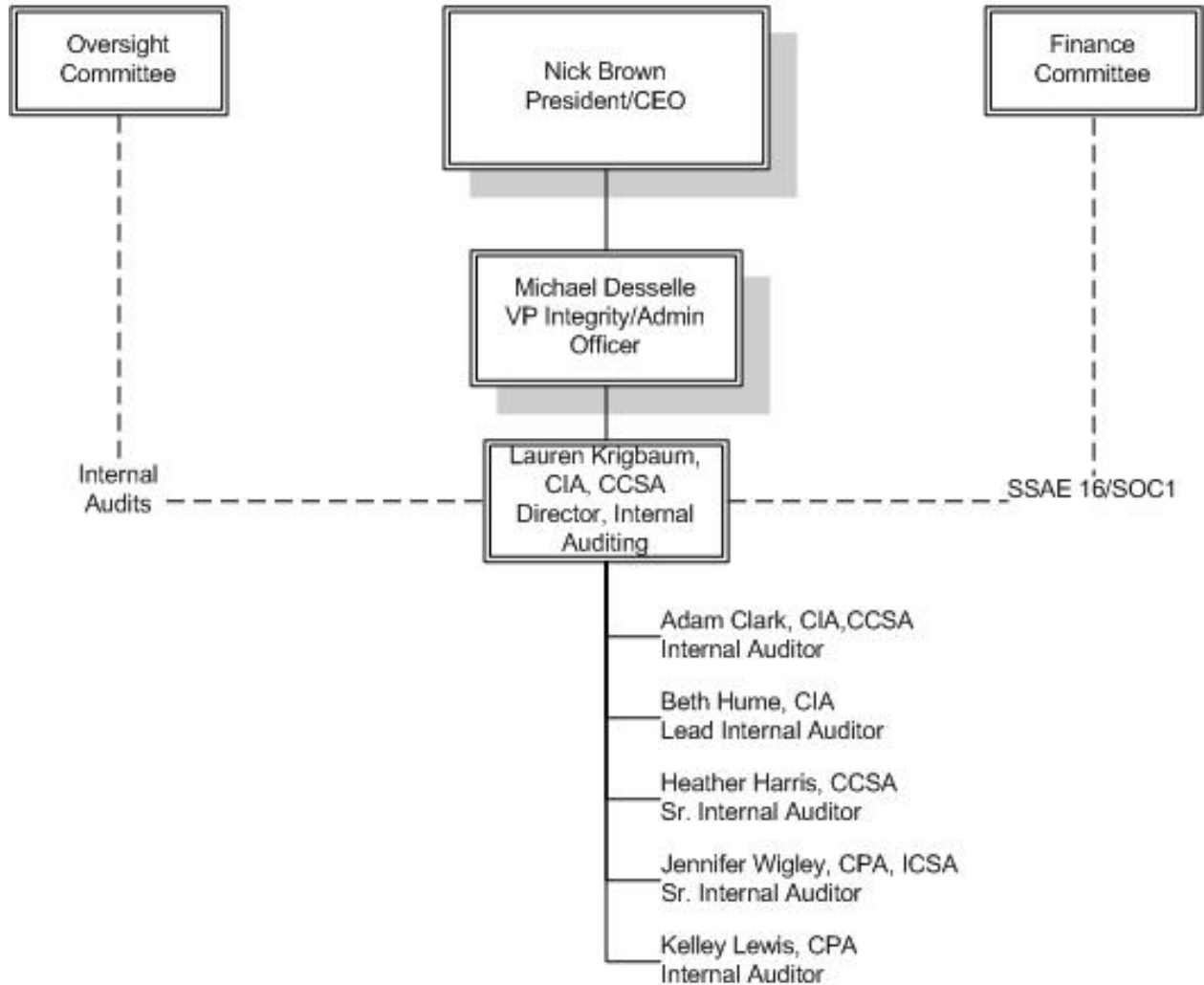
FERC Order 719

- Requires MMU report to OC/Board to ensure independence
- Balance independence and accountability
- Responsible for decision on MMU structure: internal, external, or hybrid

Contact for market design flaws – Tariff requirement

INTERNAL AUDIT

Internal Audit

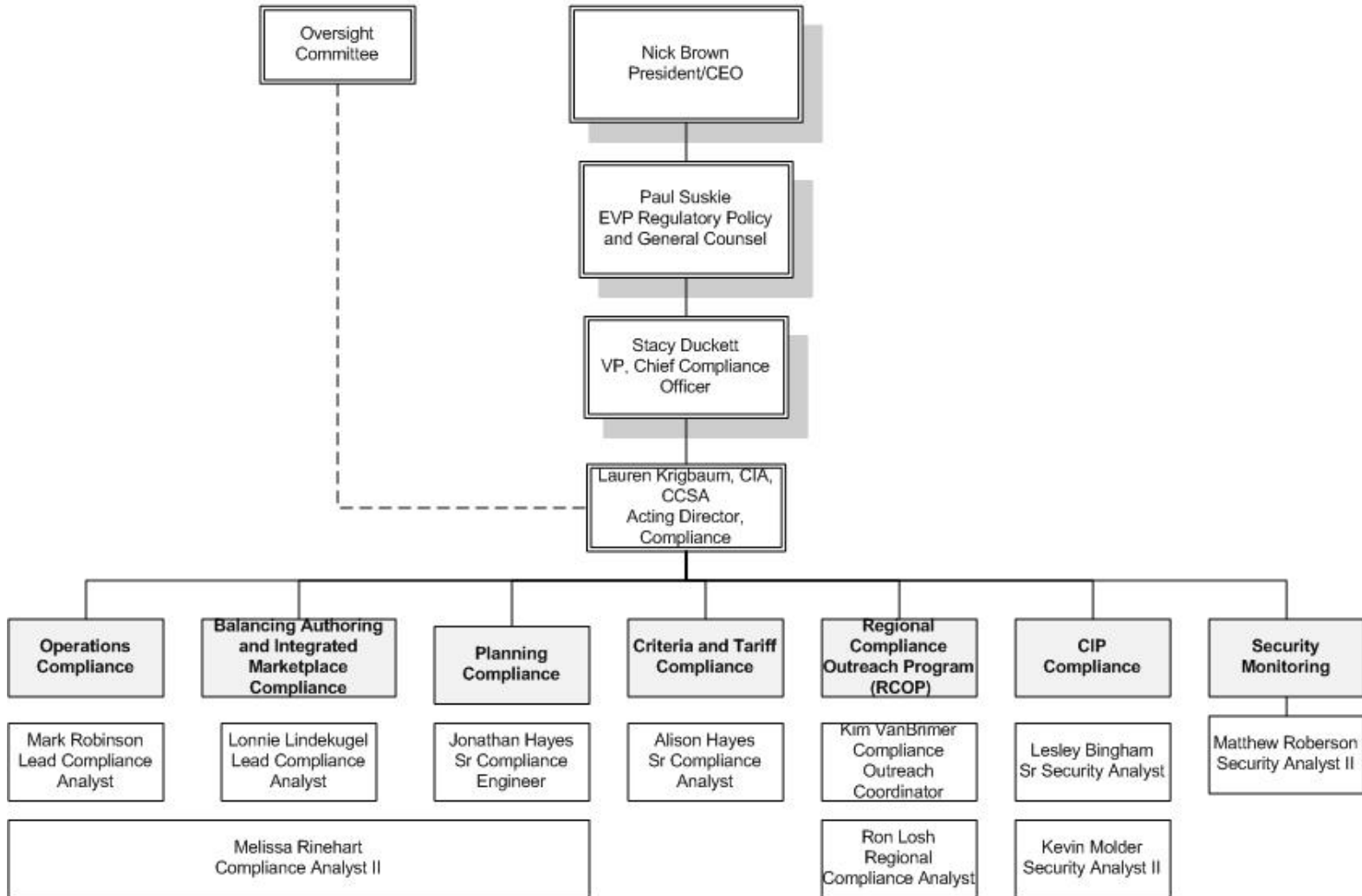


OC Role over Internal Audit

- **The OC oversees the Internal Audit function and receives regular reports, except for work associated with the controls audit and other financial requirements**
- **In this oversight role, the OC:**
 - Approves the internal audit charter
 - Approves the risk based internal audit plan (annually)
 - Receives communications from the Director, Internal Audit on Internal Audit's performance relative to its plan and other matters (including adjustments to the audit plan)
 - Confirms the Internal Audit department's organizational independence
 - Meets in executive session with Internal Audit, as necessary, to safeguard confidentiality of sensitive information

COMPLIANCE DEPARTMENT

Compliance



OC Role over Compliance



- **The OC oversees the Compliance Function**
 - May approve the Director of Compliance's requests to make compliance changes within the Company
 - May grant specific additional authority to Staff responsible for the compliance monitoring function when needed to perform challenging investigations
- **The OC meets Quarterly in both *Regular* and *Executive Sessions***
 - Receives quarterly status reports and metrics from Compliance staff
 - Executive sessions safeguard confidentiality of sensitive information

ORDER 1000 - IEPS

OC Role in Order 1000

- **Attachment Y, Section III.2 (b)**
- **Industry Expert Panel**
 - On an annual basis the OC must identify a pool of industry experts to evaluate proposals for Competitive Upgrade RFPs
 - Evaluate expert affiliations that could adversely impact their ability to independently evaluate proposals
 - Recommend a pool of expert candidates to the SPP BOD
 - Create an expert 3-5 person panel from the pool to evaluate proposals



Southwest Power Pool, Inc.
OVERSIGHT COMMITTEE
Pending Action Items Status Report
June 8, 2015

Action Item	Date Originated	Status	Comments
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 2016.
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.
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 Q2, 2015. Looks like it will be Q3 before the training is available and DHS would like SPP to host. This will be an Outreach Service Offering. Fee to attend TBD. This training is for the member entities and our internal IT and CIP Compliance team.
TBD to seek resources (s) for 3rd party review of SPP systems	Sept 25, 2014	Pending	Further research
SPP Staff's position on the mitigated offer issue	Mar 26, 2015		Further research
Develop a Stakeholder Education Program about the MMU	Mar 26, 2015		

Order 1000 – Update

March 26, 2015

Paul Suskie

psuskie@spp.org · 501.688.2535

Ben Bright

bbright@spp.org · 501.614.3965



Helping our members
work together to
keep the lights on...
today and in the future

Planning Update – Competitive Projects

- In the January BOD Meeting the ITP10 was approved
 - Included Sunflower Walkemeyer 115kV line to be re-evaluated
 - Sunflower stated line may not be needed due to generation assets in the zone that were not running in the model
 - Sunflower provided Op Guide for the unit
 - Staff re-evaluating the project given the new information
 - Will re-address the project with the MOPC and BOD in April 2015

Previous OC Guidance – IEP Engagement

- In December 2014 the Oversight Committee directed staff to wait until after the January BOD meeting to contract the approved members of the Industry Expert Pool.
- In February 2015 the Oversight Committee directed staff to communicate with the approved pool members and wait until at least the April BOD meeting to contract the members of the Industry Expert Pool.

Mr. Pool Member,

I write to update you on the status of the Southwest Power Pool, Inc. (SPP) 2015 Industry Expert Pool (IEP) for which you were selected in October of last year.

As you probably know, SPP recently completed its Integrated Transmission Planning (ITP) process, which was approved by the SPP Board of Directors in late January 2015. The outcome of the SPP ITP process included three approved projects that will require additional evaluations prior to final approval at the SPP Board of Directors' next meeting in April 2015. This additional evaluation will determine whether the projects are subject to SPP's new competitive solicitation process and will require evaluation by the IEP. Because SPP is unaware of the final outcome as to whether these projects will be competitive, we will wait to contract with the IEP members until after the results of the reevaluation are known.

We continue to be pleased with the credentials you presented during the application process, and we look forward to the approval of any competitive projects that will require your services. I apologize sincerely for the unforeseen lack of certainty we are all experiencing during the administration of this new process. We will provide you with additional information as it becomes available.

As always, if you have any questions, please give me a call at 501-614-3965 or email me at bbright@spp.org.

Regards,

Ben Bright

Southwest Power Pool, Inc.

IEP Next Steps

- **Attachment Y of Tariff states the creation of the pool in an annual requirement.**
- **BOD approval must be done in a meeting prior to the approval of any Competitive Upgrade projects**
- **2016 ITP Near Term schedule for final BOD approval in April 2016**
- **IEP Pool recommendations to OC in December 2015 meeting for approval and to BOD in January 2016**
- **Application period open until October 31, 2015**

2014 Experience

- **Opened Application period from June – August**
- **Total 18 Applications**
 - **Ultimately 10 recommended to move forward by the OC**
- **Concerns that we did not get enough applications**
 - **There is not a Plan B in the tariff**
 - **What if we would have multiple competitive projects with overlapping dates?**
 - **Affiliations could make the panel creation more tricky with so few members**

Staff Request for Future IEPs

- Current Tariff is structured towards “individuals”
- Introduce tariff language to provide flexibility to include consulting firms in the IEP process
 - Stakeholder feedback – need IEPs that have knowledge of latest technologies and design structures
 - Stakeholder feedback – number of RFP responses expected to be high – IEP will need help in coordinating evaluation
 - Staff feedback – if we have multiple competitive projects would need more than 10 experts; pool that is quickly scalable
- Ultimate recommendation of pool/panel still OC

Staff Recommendation

- **Oversight Committee endorse Staff's recommendation to amend the Tariff to allow firms (not just individuals) to serve on the Industry Expert Pool. Additionally, the Industry Expert Panel could be a single firm if approved by the Oversight Committee.**
- **This proposal is designed to give the Oversight Committee flexibility in considering consulting firms in the creation of the Industry Expert Pool as well Industry Expert Panel.**



**Southwest Power Pool, Inc. (SPP)
RTO Compliance Department
Q1 2015**

Overview and Highlights

2015 has gotten off to an eventful start with the IS Integration, the Balancing Authority (BA) and Reliability Coordinator (RC) Certifications, the March 1 Self Certifications and a Federal Energy Regulatory Commission (FERC) audit.

In addition to the activities above, the Compliance Staff prepared for and hosted an Outreach Event for Western, Heartland and Basin Compliance staff, held the Spring Compliance Forum for 111 Member participants and answered 87 Adhoc Member requests.

2015 Metrics have been compiled and are provided in Attachment A.

Compliance Report

Integrated Systems (IS)

During the first quarter of 2015, SPP Compliance continued its assistance of the IS entities; Western Area Power Administration – Upper Great Plains East (WAUE), Basin Electric Power Cooperative, and Heartland Consumers Power District, in drafting and gaining SPP approval of their respective Requests for Waiver of certain SPP Criteria.

The WAUE IS Team Leaders group and the Compliance Staff supporting that effort, is on schedule with all deliverables.

SERC, NERC and MRO - BA and RC Certification

The overall impression from the Certification Team was positive. High level “pros” included the Energy Management System (EMS) Model and the data exchange between SPP and MISO and the Planning Model. The “cons” included completing EMS displays and training of all applicable operators.

Staff received the SERC Certification Team Report the week of March 16, which included the list of Bucket 2 Items. Bucket 2 items are defined as items that must be closed within 180 days of the on-site visit completion. It is understood by the certification team that these items are being addressed accordingly and are understandable with a project of this magnitude.

Post the certification visit, staff held a lesson learned meeting to walk through all WAUE IS BA/RC Certification processes.

March 1, 2015 Self Certifications

50 Self-Certifications were submitted to SERC as compliant, which included 145 Reliability Standards. Operations, Engineering, and IT collaborated to compile evidence.

Q1 Spot Checks

13 NERC Standards completed their internal spot check process this quarter.

FERC Audit

Compliance staff is working in conjunction with Internal Audit and the Legal department to complete 8 line items from the FERC Data Request.

Tariff Project Update

A corporate wide initiative entitled "What Does the Tariff Say (WDTTS)?" has kicked off under the direction of Paul Suskie, Executive Vice President of Regulatory/Legal. The current Tariff Review Project has been rolled into the larger initiative with everything scheduled to conclude at the end of the year. Departments are reviewing for Tariff compliance, gaps in compliance and needed language revisions. The current schedule anticipates submitting all Tariff Revision Requests (TRRs) that come out of the project to the Market and Operations Policy Committee (MOPC) and the SPP Board of Directors (BOD) for approval in October, with a FERC filing by the end of the year. The WDTTS program will include not only immediate review of Tariff, but also development of ongoing Tariff training and continued Tariff compliance oversight.

Certification Observers

Staff participated in a Transmission Operator Certification due to a complete Energy Management System (EMS) replacement. The objective of the Certification Review Team (CRT) evaluation was to assess the entities processes, procedures, tools, training, and personnel surrounding a complete EMS replacement that will allow it to perform the function of a Transmission Operator (TOP). A Certification Review is required by the NERC Rules of Procedure for a complete EMS replacement.

North American Transmission Forum (NATF)

SPP Compliance staff participated as a Subject Matter Experts (SMEs) in the North American Transmission Forum (NATF) peer review of SPP during the week of December 15-19, 2014. Staff is currently working with Executive Management to respond to observations/recommendations resulting from the review.

SPP participated in the February 5, 2015 North American Transmission Forum (NATF) Compliance Practices Group conference call to discuss the NATF Peer Review of SPP in the areas of Compliance, Risk Assessment, and Internal Controls.

Staff Attendance at External Trainings

- System Restoration Training – March 16 – March 20 – SPP Corporate Training Offices
- NERC Industry and Regional Entity "joint" Conference - April 1-3 – Atlanta

Facilitation of Internal Trainings

- 3 training opportunities were provided to internal staff in Q1; NERC Reliability Assurance Initiative (RAI), PRC-006-2 and PRC-026-1.

Critical Infrastructure Protection (CIP) Version 5

The program to transition SPP processes to Version 5 is underway. The program includes 4 projects: Compliance Readiness, Emergency Management/Business Continuity Readiness, IT Readiness and Facilities Readiness

CIP Audit Follow-Up

SPP is waiting on the Notice of Alleged Violation and Proposed Penalty or Sanction (NAVAPS) from SERC Enforcement. Items from the 2013 CIP audit which will be remedied by transition to CIP Version 5 are included in the CIP Version 5 Transition Program. Resources in IT and other stakeholder areas will review other outstanding items upon receipt of the NAVAPS.

Regional Compliance Outreach Program Report

Outreach Event – Western, Heartland and Basin

Western, Heartland and Basin compliance staff were onsite for attendance at the RTO Forum this past week. During their time here, a Meet and Greet was held to introduce them to the Regional Compliance Working Group voting members and to hold a one on one meeting with the compliance staff to learn about the department and the Outreach Program offerings.

Evidence Reviews

3 Operations and Planning (O&P) Entity Evidence Reviews were facilitated in Q1.

The CIP Staff conducted a Mock Audit session with seven (7) Member Entity technical SMEs on January 22, 2015. The all-day session was to prepare for their CIP Audits. The session covered processes, evidence, and role-based SME preparation. Emails thanking staff for their expertise, thorough evaluation and feedback were received.

Adhoc

There were 87 adhoc responses provided by staff in Q1.

Compliance Calls

Compliance Calls were held in January and February with 47 participants.

Newsletters

Newsletters were released in January and February and reached over 700 new recipients added by the end of 2014.

Forum Attendance

111 Members came to the SPP Corporate Center to participate in the Spring Compliance Forum. Survey results showed "good" to "excellent" ratings, with Speakers receiving nothing less than a 4 out of 5 average rating.

Working Group Reports**Critical Infrastructure Protection Working Group (CIPWG)**

The CIPWG will have their first meeting of 2015 on March 17 in Topeka, KS. The group will have a slight change in structure this year; the morning will be the usual open session, with the afternoon dedicated to an Executive Session for Members to discuss the use and implementation of tools and processes to support security efforts.

Events Analysis Working Group (EAWG)

The EAWG had a conference call on January 9. A new Chair and Staff Secretary were inducted. No new events have been reviewed.

Regional Compliance Working Group (RCWG)

The RCWG recently held a conference call with SPP Executive staff on the Strategic Plan Initiatives. Plans to collaborate with the EAWG are being discussed to address Event Analysis.

The RCWG will hold its first face to face meeting of 2015 on March 31 in Topeka, KS.

Respectfully Submitted,

SPP RTO Compliance Staff

Compliance Department Metrics – 2015

Function	Metric	Quarter	Status
Administrative	Budget - Achieve Cost Saving Initiatives	Q1,Q2,Q3,Q4	
Collective Compliance	RC and BA Certifications - Western, Heartland and Basin	Q2,Q3	
Collective Compliance	Self-Certifications – BA,RC, Engineering and CIP	Q2	
Collective Compliance	Internal Spot Checks – BA,RC, Engineering and CIP	Q4	
Collective Compliance	NATF- Post Review Initiatives	Q4	
Collective Compliance	Internal Compliance Training – BA and Engineering	Q2,Q4	
Collective Compliance	IS Integration and Transition Initiatives	Q2,Q3	
Collective Compliance	Internal Compliance Program (ICP)	Q3,Q4	
Collective Compliance	Active CVI's	Open	
CIP	CIP Audit-Final Report	Open	
CIP	CIP Version 5 Transition Initiatives	Q4	
Outreach	Overall Program - Achieve Good to Excellent Ratings	Q1,Q2,Q3,Q4	
Regulatory Compliance	Tariff Project – Phase 2 Completion	Q4	
Security Metrics	SIEM (SPLUNK) – Successful Launch and Implementation	Q3	
Working Groups	Continued Support and Success – CIPWG, RCWG and EAWG	Q1,Q2,Q3,Q4	

MARKET MONITORING Activity
REPORT to the Oversight Committee

26 March 2015

I. MMU Staffing

- The MMU department currently has one opening. We have completed interviews and expect to have the position filled in the near future.

II. Federal Energy Regulatory Commission (FERC)

- FERC has begun an audit of SPP and the Market Monitoring function. The MMU has responded to FERC's first data request, and we expect to attend interviews with FERC at the end of March and beginning of April.
- 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, Market Working Group issues, and market screen results.
- FERC staff members continue to ask for briefings on the Strike Team and MWG activities with regards to proposed changes to the SPP mitigation rules.
- Several MMU staff members will be attending the FERC annual meeting in June of all market monitors under FERC jurisdiction. These meetings are always informative. FERC staff is in the process of developing a list of discussion topics.

III. Market Studies

- The MMU has initiated three behavior studies since November.
- The Mitigated Offer Strike Team completed their first draft of proposed Tariff and Protocol changes and voted 2 to 1 in support of the draft. The proposal was presented to the Market Working Group on March 13 and 16. The MWG reviewed the Strike Team proposal and then voted it down. The MWG then revived MPRR 197 with the exact language that was turned down by the SPP Board in December and approved it for submittal to MOPC.

IV. Reporting

- MMU continues to expand the content included in the Integrated Marketplace Quarterly State of the Market reports. The Winter QSOM report (December/January/February) is scheduled to be released by the end of March.
- MMU continues to develop monthly market review presentations that are given to the MWG and FERC.
- Work on the first Annual State of the Market Report for the Integrated Marketplace is behind schedule. The Strike Team effort and numerous other unanticipated tasks have reduced the resources available for work on this report. The final report will be present to the Board at the July meeting. A draft will be presented to the OC meeting in June. We will also be presenting our findings to FERC Staff in late June.
- The ISO RTO Council is putting together a report to compare across regions. The Market Monitoring Unit will be coordinating this effort. This report will be due in June, 2015.

- Through several different orders, FERC requested a specialized report 15 months after market go-live. FERC has required the Market Monitor to produce parts of the report related to issues such as mitigation and Day Ahead Must Offer.

V. Integrated Marketplace

- The MMU has filed comments on several SPP filings regarding changes to the Integrated Marketplace rules.
 - The MMU filed comments in support of a new manual mitigation process. FERC accepted the changes and SPP implemented the new process on February 18th, 2015.
 - The MMU filed comments in support of rule changes for monitoring uneconomic production, monitoring physical withholding, and the distribution of funds associated with the marginal loss allocation rules. The three filings are still pending at the FERC. FERC issued a deficiency letter in response to the uneconomic withholding filing; the MMU and the RTO are working to address the letter.
- The MMU is working closely with SPP TCR group on proposed design changes. Initial feedback from the TCR is very positive.
- The Frequently Constrained Area study (FCA) is now complete. The study recommended eliminating two of the existing designated FCA. The two areas to be removed from that designation are the Kansas City area and the northwest Kansas area. The one area to retain the FCA designation would be the Texas Panhandle area. The study results have been filed with FERC and the changes are expected to be implemented on April 15 unless FERC rejects the filing or issues a deficiency letter.
- There has not been any Day Ahead Must Offer Requirement violation over the last three months. The last penalty was for Operating Day September 5.
- MMU has implemented new monitoring the new market functions that started up on March 1 as scheduled, Regulation Compensation (Reg Comp) and Market-to-Market (M2M).

VI. Miscellaneous

- Five MMU staff members are planning on attending the spring Energy Inter-market Surveillance Group conference scheduled for early May. These meetings are especially beneficial for market monitoring staff because of the relevance of the topics discussed and the opportunity to establish professional contacts within the market monitoring industry.

Respectfully submitted
Alan McQueen
Director, Market Monitoring and Analysis



Southwest Power Pool, Inc.

INTERNAL AUDIT

Report to the Oversight Committee

March 26, 2015

Staffing

- The Internal Audit department is fully staffed.

Activity Update

- 2014-2015 Audit Schedule – Updated (see attached)
- Audits Completed Since Last Meeting:

- **Transmission Settlements Process Review**

Internal Audit completed a review of Southwest Power Pool's (SPP) Transmission Settlements processes. These processes were reviewed to confirm they were being performed as required and that current documentation includes sufficient detail to support their purpose and deliverables. The available documentation was evaluated for accuracy and completeness in summarizing the rates/schedules used in NITS and PTP services, calculating transmission service charges for Transmission Customers, and calculating revenue distributions to the Transmission Owners. Also, the controls around these processes were evaluated for adequacy to mitigate risk and validate that no observable process and/or control gaps were evident.

See attached for summary.

- **Compliance Program Review**

Internal Audit completed a review of SPP's Compliance Program. The purpose of this review was to evaluate the processes related to SPP's Compliance Program, a program used to ensure SPP's corporate-wide adherence to national and regional reliability standards and commercial business practice standards, to ensure the processes are sufficient and complete to protect the compliance interests of the SPP RTO. SPP's Compliance Program is designed to educate, prevent, detect and correct practices or incidents of non-compliance.

See attached for summary.

- **Project Pinnacle Internal Readiness Reviews**

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

- Long-Term Transmission Congestion Rights (LTCR)

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 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.

- 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.

- **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.

- **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.

- **Tariff Administration**

The primary objectives of the review are to: obtain an overview of the various functions completed by the Tariff Administration department, industry standards that must be followed, and downstream data users; review the policies and procedures in place for functions performed by Tariff Administration and evaluate them for thorough coverage to protect the interest of SPP, its members and customers; examine internal controls for adequate design and effective operation; confirm required documentation/evidence is stored accurately and completely; determine downstream consumers of data are receiving data accurately and timely. The review is in the testing phase.

- **HR Payroll**

The primary objectives of the review are to verify: proper processes and procedures are in place, documented and functioning properly; internal controls are adequately designed and operate effectively; payroll and employee information is properly secured and access is restricted to appropriate personnel; proper procedures are in place to verify compliance with applicable laws and regulations; documentation is complete, proper and retained to support payroll; calculations of earnings, special payments, employee benefits and voluntary/involuntary deductions are approved, accurate, complete and authorized in a timely manner; tax and non-tax reporting requirements are in compliance with applicable federal/state laws; accounting for payroll transactions are properly classified, reconciled, approved and posted to the general ledger; adequacy of system and manual check processing including functions/information (if applicable); existence of adequate segregation of duties; completeness of personnel files, adequacy of supporting documentation for changes to employees profile, and timely reporting of employee information (new hires, terminations, merit increase, etc.); systems used for payroll have appropriate access, are operating accurately and manual inputs are reviewed for accuracy. This review is in the testing phase.

- **Market Settlements**

The primary objectives of the review are to ensure: sufficient processes and procedures are identified, documented and followed for Market Settlements to protect the interests of SPP, its members and customers; internal controls are adequately designed and operating effectively; requirements related to market 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; any concerns or gaps have been identified and resolved; manual processes, procedures and work-arounds are documented and have adequate controls to mitigate risk to SPP, SPP's members and customers; re-pricing process is documented and working as intended in POPS. This review is in the reporting phase.

- **Procurement/Accounts Payable**

The primary objectives are to ensure: appropriate documentation is in place to support accounts payable and procurement transactions; purchases and payments are properly authorized and recorded; payments to vendors are for

goods and/or services received and are made in a timely manner; processes are in place to prevent duplicate, unauthorized or inappropriate payment to vendors; system access is appropriate for employee job duties and updates to vendor files are limited to authorized personnel only; vendor selection is objective and transparent, satisfying both technical and economic evaluations. This review is in the testing phase.

- **Project Pinnacle Internal Readiness Reviews**

The Internal Audit department is in the process of completing a review for the following Project Pinnacle workstreams:

- Market to Market
- Regulation Compensation

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 applications, as well as, review the adequacy and accuracy of data retention for sunset applications and any data conversions to new applications. The reviews are in the reporting phase.

- **Change Management Monitoring Tools**

The primary objectives of the review are to: evaluate the configuration of each of the monitoring tools to determine the accuracy and completeness of the changes captured; inspect reporting parameters of the change listings from each tool for completeness; test changes from each of the monitoring systems and trace reconciliations to the evidence of these changes; analyze how the automatic reconciliation process works for Business as Usual (BAU) type elements in each tool; assess audit logs/trails to understand how records are maintained of actions taken in each tool, and examine the administration of the tools. The review is in the testing phase.

- Reviews Currently in Planning
 - Balancing Authority
 - Digital Certificates
 - SPP Modeling
- Upcoming Reviews/Audits:
 - Corporate-Wide “Manual Workarounds”
 - Collateral Management
 - Customer Additions/Terminations
 - Grandfather Agreements (GFA) / Federal Statutory (FSE) Exemptions GFAs
 - Post Operations Processing System (POPS)



- Study Deposits, Invoicing and Customer Refund Tracking Process
- Pension Plan / 401(k) / SERP
- Off We Go LLC (Rate)
- Off We Go LLC (Invoices)
- Defect Management for Production Systems
- Business Continuity Planning
- Application Access
- Credit Management System (CMS)
- Budget/Forecasting
- 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:
 - SOC 1 Type 2 Audit:
 - Completion of periodic control activity reviews:
 - ❖ 12 completed to date, 3 in process (76 total control activities)
 - ❖ 0 completed to date, 4 in process (30 total control activities)
 - Phase 1 of 2015 audit:
 - ❖ Risk Assessment workshops for existing Control Objectives for 2015 (Business and General IT)
 - ❖ Planning for KPMG's onsite visit June/July 2015
 - Intermediate Controls Training – developed and delivered three training sessions for interested employees
 - 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
 - NERC Risk Based CMEP controls advisement for standards related processes/procedures
 - SPP liaison for external Financial Audit
 - Revenue Requirements and Rates file Process Improvement Lean Process
 - North American Transmission Forum (NATF) peer review December 15 to 19, 2014

Respectfully submitted,

Lauren Krigbaum
Director, Internal Audit