



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

September 28, 2005

**American Airlines Admirals Club Executive Center (Terminal 3)
Chicago O'Hare Airport – Chicago, IL**

• A G E N D A •

10:00 a.m. central

1. Call to Order Josh Martin
2. Update on Current Activities
 - a. NERC Compliance Ron Ciesiel
 - b. Market Monitoring Unit Richard Dillon
 - c. Independent Market Monitor Craig Roach
3. Issues Anticipated for the October Board meeting Craig Roach
4. SPP Compliance Function/2006 Budget Ron Ciesiel
5. Compliance Appeal Process Stacy Duckett/Ron Ciesiel
6. Market Investigation Process Richard Dillon
7. IMM Services Agreement Extension for 2006 Craig Roach
 - a. Priorities for the IMM
 - b. Projected budget cap
8. IMM Communication with the Board (time permitting) Craig Roach
9. Other Business Stacy Duckett
10. Future Meetings Josh Martin

Southwest Power Pool
COMPLIANCE COMMITTEE MEETING
June 3, 2005
Teleconference

• M I N U T E S •

Agenda Item 1 – Administrative Items

SPP Chair Josh Martin called the meeting to order at 10:00 a.m. The following members were in attendance or represented by proxy: Josh Martin (Director), Phyllis Bernard (Director), and Quentin Jackson (Director). Also in attendance: Craig Roach and Rob Janssen (Boston Pacific). Staff in attendance: Ron Ciesiel, Richard Dillon, and Stacy Duckett.

Mr. Martin referred to draft minutes of the March 31 meeting and asked for corrections or a motion for approval (3/31/05 Meeting Minutes - Attachment 1). Quentin Jackson moved to approve the minutes as presented. Phyllis seconded the motion, which passed unopposed.

Agenda Item 2 – State of the Market Report/Review

Craig Roach(Boston Pacific) reported that the State of the Market Report is completed and posted on the SPP and Boston Pacific websites. Links were sent out via email. Hard copies will be sent out to the Board of Directors and the Regional State Committee. Craig thanked the SPP Staff for its work and noted others who provided useful comments to the drafts.

Agenda Item 3 – Market Monitoring Plan/Tariff Filing

Stacy Duckett reported that the Markets and Operations Policy Committee (MOPC) has approved Tariff language for the Market Monitoring Plan (SPP Tariff Language – Attachment 2). Richard Dillon provided additional comments related to the filing format. Craig Roach provided comments from the meeting as well, and noted that it is a big step and very positive that the Tariff filing will be made and meet the Board of Directors deadline of June 15.

Agenda Item 4 – Boston Pacific Contract Extension

Craig Roach presented a recommendation for a contract extension (Boston Pacific Memorandum – Attachment 3). The current contract expires June 30. It is recommended that the current contract with SPP be extended for 6 months to meet the calendar/budget year and then develop a new one-year contract for 2006. He then reviewed priorities outlined in page two of the memorandum. Craig proposed a budget cap for July 1 – December 31. This cap tracks with expenditures to date. Craig reviewed three possible contract revisions regarding 1) approval of time and materials tasks, 2) invoice payments and disputes, and 3) liability and indemnification. Stacy Duckett is to review the liability and indemnification provisions and provide feedback as to how they will be addressed (either in the contract or the Tariff). Phyllis Bernard moved and Quentin Jackson seconded that the contract with Boston Pacific be extended with the terms and budget as noted and presented in the memorandum. The motion passed.

Agenda Item 5 – NERC Compliance Update

Ron Ciesiel provided a general update on the NERC compliance progress status. The first quarter audits have been completed. Two companies had violations that have been reported to NERC. They were lacking in NERC certified operators due to turnover. One has already been resolved. The other has been on-going but is expected to be resolved through retirement later this year. At this time there is no other action other than to continue reporting. The committee will put this in its report to the Board of

Directors in July to assure it is performing its (the committee's) duty. It was the consensus of the committee to request the member company provide assurance in writing that this situation is being resolved through retirement and with a NERC certified replacement. Ron will request this.

Ron reported that some NERC Readiness Audits had been completed. The reports are not currently published but will be on the NERC website. The SPP Compliance Department will follow up on any recommendations. A NERC audit team will be at SPP June 14 and 15 to review the compliance function. Ron announced that Kevin Goolsby has joined the SPP Compliance Department.

The committee decided to add the NERC public report to the Board of Directors background material as well as pending violations to give focus to NERC compliance matters and to drive our position that reliability and economic issues can/should be managed together.

Agenda Item 6 – Future Meetings

The next Compliance Committee meeting is scheduled in Chicago on September 28, 2005.

Quentin Jackson requested that a draft report to the Board of Directors be provided to the committee in advance for review/comment. Stacy Duckett will draft a report, provide it to Josh Martin for review, and Josh will forward it to the committee.

With no further business, Josh Martin thanked everyone for participating and adjourned the meeting.

Respectfully Submitted,

Stacy Duckett
Secretary



Southwest Power Pool, Inc.
COMPLIANCE DEPARTMENT
Report to the Compliance Committee
September 28, 2005

Staffing

The current staffing of the SPP Compliance Department is at two. There are no additional positions budgeted at this time.

Activity Update

NERC Readiness Audits

CLECO	Report Issued: June 17, 2005
SPP Reliability Coordinator	Report Issued: July 11, 2005
Sunflower Electric	Report Issued: August 15, 2005
Missouri Public Service	Report Pending
SPP Compliance Program	Report Pending

SPP Compliance Field Reviews

Empire Electric District	Report Issued *
Grand River Dam Authority	Report Issued *
Southwestern Power Administration	Report Issued *

*Members have until 9/30 to provide evidence of compliance.

Confirmed Violations

1 ST Quarter Certified Operators	West Plains Electric Missouri Public Service
2 ND Quarter Certified Operators	West Plains Electric City of Springfield Midwest Energy

Other Activities

- 2004 Under-frequency Load Shedding Appeal Announcement
- 2005 Under-frequency Load Shedding Compliance Survey – August 18, 2005 [still missing 3 members' results as of 9/16/05]

Items on Horizon for Compliance Group

- Electric Reliability Organization [ERO] formation at FERC level and transition activities at NERC level.
- Increased enforcement issues [financial penalties] expected as early as 7/1/06 – issue is what SPP intends to do with any \$s collected as a result of enforcement.
- Development of an SPP waiver, exception and exemption policy.

Respectfully submitted,

Ronald W. Ciesiel
SPP Compliance Director



Southwest Power Pool, Inc.
MARKET MONITORING UNIT
Report to the Compliance Committee
September 28, 2005

Staffing

The current staffing of the SPP Market Monitoring Unit (MMU) is at six, with budget set for a staffing of nine (including management). The responsibilities of the staff include: monitoring of transmission and energy markets; design of energy markets; support of regulatory initiatives; and support of long-term planning models.

Activity Update

In addition to the work on market design, the MMU has been involved in two investigations since the last Compliance Committee meeting.

Of the two investigations:

- A verbal request to review a transmission request process resulted in determination that the process had been approved by the MOPC and implemented. Based on the review, the ORWG was requested to document the process for updating the zonal Electrical Equivalency table. Subsequent to communication regarding the documentation of the process, the requestor submitted a written request to Boston Pacific to “evaluate the fairness and efficacy of the Available Flowgate Capability methodology in the Southwest Power Pool which relies on the newly implemented Electrical Equivalency Table.”
- A written request was submitted to Boston Pacific to determine why a request for firm transmission service was declined by SPP from a lack of AFC on two flowgates. Although the final report has not been issued, the conclusions noted that an operational assumption overstated the injections, thereby reducing AFC. Operations management has assured the MMU that the practice has been changed. The requestor is also involved in a state regulatory case regarding a FERC ordered upgrade of facilities that was performed prior to the transmission service request. At this time, Boston Pacific has been communicating with the requestor on an ongoing basis and the MMU informed the SPP president, SPP internal legal counsel, and FERC Office of Market Oversight and Investigation (per the rules regarding market monitoring to FERC communication) of the request and preliminary conclusions. A report is anticipated to be released within a few weeks.

The systems that would permit faster and ongoing evaluation of both the transmission and energy market are being developed by SPP staff. The work is progressing slower than we prefer and the above investigation was more difficult as a result. MMU staff will continue to emphasize the need to complete the computer software systems to support ongoing evaluations of the transmission market and, when the energy market is in production, the energy market.

Respectfully submitted,

Richard Dillon
Director, Market Development and Analysis

Southwest Power Pool, Inc.
COMPLIANCE COMMITTEE MEETING
September 28, 2005
Chicago, Illinois

**SUMMARY OF IMM ACTIVITY
BY PRIORITY TASK SINCE
THE LAST MEETING ON JUNE 3, 2005**

- I. WIN FERC APPROVAL FOR SPP EIS MARKET
 - A. June 15, 2005: File two Direct Testimonies proposing Market Power Mitigation Measures and a Market Monitoring Plan
 - B. August 1, 2005: File two Supplemental Testimonies in response to interventions
 - C. September: Start Testimony to respond to FERC Order (9-19-05)

- II. PROMOTE ON-TIME EIS MARKET START
 - A. Prepare for, participate in, and summarize meetings of MITF and Steering Committee (Please see attached list of meetings and calls)
 - B. Promote at MWG and MOPC meetings
 - C. Raise, diffuse, and influence issues in stakeholder process
 - D. Complete computer link to SPP to access market monitoring database
 - E. Complete computer system training (SAS)

- III. CONDUCT INITIAL ASSESSMENT OF TRANSMISSION MARKET POWER
 - A. Begun September 2005: key points outline draft complete

- IV. MONITOR FOR TRANSMISSION MARKET POWER
 - A. June 24, 2005: MO-KN-OK comments to FERC
 - B. September 2005: two requested inquiries

- V. PROVIDE MARKET DESIGN ASSISTANCE
 - A. Prepare for, participate in, and summarize meetings of MWG and MOPC plus some ORWG (please see attached list of meetings and calls)
 - B. Raise, diffuse, and influence issues in stakeholder process

- VI. OTHER PRIORITIES
 - A. Maintain reporting and operational relationships

- July 12 and 13, 2005: Market Monitor meeting at FERC

VII. ADVISE BOARD AS REQUESTED

- A. Market delays and process improvements
- B. Background and reliability-related changes to be voted on by MOPC
- C. SPP as Regional entity under EPACT 2005
- D. FERC's Order on the SPP filing for EIS Market design

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IMM PARTICIPATION IN SPP MEETINGS AND CALLS

Date	SPP Entity	Location	BPC Responsibility	Date Memo Completed
JUNE 2005				
7 th and 8 th	MWG	Phone	CR	6/24/2005
22 nd	RSC	Phone	CH	6/27/2005
24 th	MWG	Phone	CR/SK	
29 th	MITF	Phone	CH/TB	6/30/2005
JULY 2005				
5 th and 6 th	MWG	Dallas	CR	7/11/2005
8 th	CAWG	Phone	CH	7/20/2005
8 th	MITF	Phone	CH/TB	7/11/2005
8 th	EMMTF	Phone	SK	8/10/2005
11 th	RSC	Phone	CH	7/11/2005
12 th	CAWG	Phone	CH	7/20/2005
12 th and 13 th	MOPC	Phone	RJ/CH	7/14/2005
12 th and 13 th	FERC	DC	CR	7/15/2005
14 th	SPC	Phone	RJ	7/19/2005
22 nd	CAWG	Phone	CH	7/20/2005
26 th	Board	Tulsa	CR	
27 th	RSC	Phone	CH	8/2/2005
29 th	MITF	Phone	TB	8/1/2005
AUGUST 2005				
3 rd	Steering	Phone	TB	8/8/2005
4 th	ORWG	Phone	SK	8/7/2005
9 th and 10 th	MWG	Dallas	CR	8/16/2005
10 th	CAWG	Phone	CH	8/10/2005
15 th	MWG	Phone	CR	8/15/2005
17 th	ORWG	Phone	SK	8/19/2005
24 th	MITF	Phone	CH/TB	8/25/2005
30 th	MOPC	Phone	CR	9/12/2005
SEPTEMBER 2005				
1 st	ORWG	Phone	SK	9/7/2005
1 st	EMMTF	Phone	SK	9/12/2005
1 st	Steering	Phone	CR/TB	9/2/2005
6 th and 7 th	MWG	Dallas	CR	9/12/2005
7 th	CAWG	Phone	CH	9/8/2005
7 th and 8 th	ORWG	Phone	SK	
9 th	SPC	Phone	TB	9/13/2005
14 th	MITF	Phone	CH/TB	9/14/2005
20 th	MWG	Phone	CR	9/20/2005
23 rd	ORWG	Phone	SK	
27 th	CAWG	Phone	CH	
28 th	Compliance	Chicago	CR	

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Southwest Power Pool, Inc.
COMPLIANCE COMMITTEE MEETING
September 28, 2005
Chicago, Illinois

**I. BRIEF DESCRIPTION OF ISSUES ANTICIPATED FOR THE
OCTOBER BOARD MEETING**

- A. The FERC's September 19, 2005 Order on SPP's EIS Market filing
- B. SPP's second filing on the EIS Market (reliability changes)
- C. Progress toward EIS Market start on May 1, 2006 (Independent Assessment)
- D. Draft of IMM Initial Assessment of Transmission Market Power
- E. SPP as a "Regional Entity" under EPACT 2005
- F. Phase 2 Market Development (Ancillary Services and single control area)
- G. Economic expansions of the Transmission System

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Southwest Power Pool, Inc.
COMPLIANCE COMMITTEE
September 28, 2005

2006 Compliance Department Projected Budget

The following has been submitted to the Finance Committee as the budget for FY2006 for the Compliance Department.

Manpower

No anticipated changes for 2006. Although it appears that FERC will have finished and implemented the reliability portion of the recently approved Energy Bill by mid-2006, I do not anticipate the need for additional manpower in 2006.

Travel

\$38,000

Notes: Same as FY2005.

Continuing Education

\$5,000

Ron - \$3,000 (PE license plus Law license)
Kevin - \$2,000 (PE license plus NERC Certified Operator license)

Notes: This item has increased slightly due to the addition of Kevin to the department. Kevin also earned his PE in 2004 as well as re-certifying as a NERC Certified Operator in 2005.

SPP Meetings

\$7,000

2 Compliance Workshops (Spring/Fall)

Notes: Small increase due to increased meeting costs.

Outside Services

\$168,000

MAPPCORP Compliance Database Management Services - \$60,000
MAPPCORP Personnel Travel Expenses - \$10,000
Independent Compliance Reviews 7 @ \$14,000 = \$98,000

Notes: This item has been increased (up \$ 36,000) based on:

1. Adding MAPPCORP travel expenses (up \$10,000)
2. Increasing the number of reviews in 2006 to 7 versus 6 in 2005 (up \$14,000)
3. Anticipated Compliance Review price increase (up \$2,000 per review or 6 x \$2,000=\$12,000)

Action Requested

Approval of the budget for the Compliance Department for 2006 as submitted.

**PROCESS FOR APPEAL OF COMPLIANCE ISSUES
TO THE COMPLIANCE COMMITTEE¹**

October 2005

SPP Member organizations may appeal a finding of non-compliance by the SPP Compliance Department. As outlined in the Compliance Program, an appeal should first be made to the SPP Organizational Group responsible for the Criteria at issue. Any further appeal(s) may be made to the Markets and Operations Policy Committee (MOPC) and/or to the Compliance Committee (CC).

When making an appeal to the Compliance Committee, the following procedure will be applicable.

- 1) The Appellant must notify, in writing, the Director of Compliance and/or the Staff Secretary to the CC of its request for a review by the CC.
- 2) The Staff Secretary will notify the CC of the request and develop a timeline for hearing the appeal.
- 3) The Appellant and the Director of Compliance will submit written statements of their respective positions, as well as any supporting documentation. This must include the findings of previous review(s) by other Organizational Groups.
- 4) The Staff Secretary will seek other information/documentation as requested by the representatives from the CC.
- 5) A session will be scheduled (live or teleconference) at which the parties will present their respective positions; the representatives from the CC will seek additional information/clarification from the participants as needed.
- 6) The CC will reconvene to deliberate within three (3) business days of the session.
- 7) The CC will issue a Determination to the participants, in writing, within thirty (30) days of the session. This Determination will be presented at the next regular Board of Directors/Members Committee meeting.

Participants in the appeal session will include:

- The members of the Compliance Committee
- The Staff Secretary
- A representative for the Appellant(s)
- SPP Director of Compliance
- A representative from each SPP Organizational Group that has heard an appeal on the issue

Other interested parties may be allowed to participate solely at the discretion of the Chairman of the CC. If the appeal is generally a policy interpretation that impacts multiple parties, the Chairman may conduct it in an open session available to all interested parties. If the appeal involves proprietary and/or competitive information, it will be conducted in a closed session. Participants will be notified in advance whether the session will be open or closed.

¹ Once approved, this process will be integrated into the Compliance Program documentation related to appeals.

MARKET MONITORING INVESTIGATION PROCESS

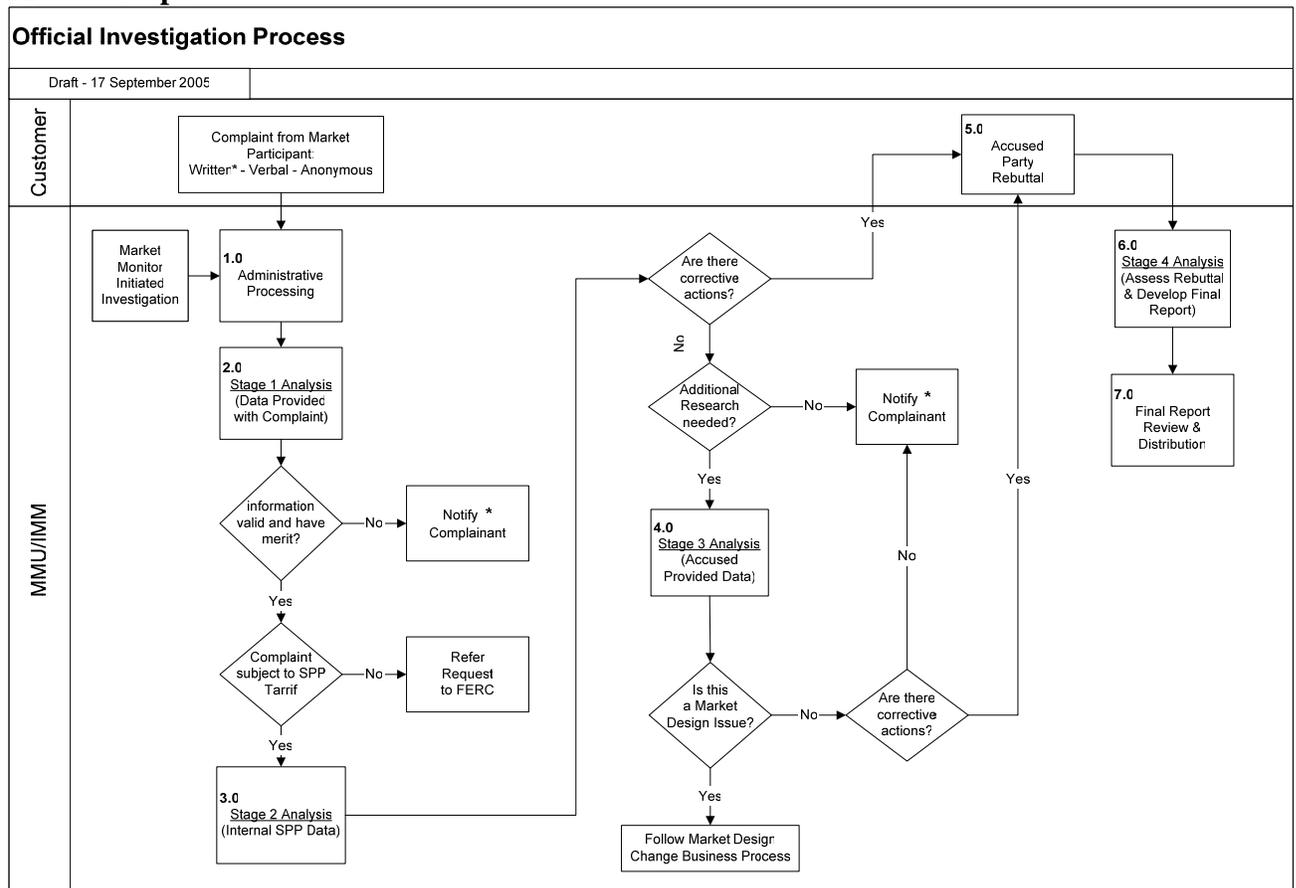
A. Introduction

A Market Participant or Interested Government Agency may submit a written complaint or request for investigation to SPP Market Monitors. The Monitors shall keep the identity of the requestor confidential. The existence of any investigation will be kept confidential from all uninvolved parties and from involved parties, other than the requesting party, to the extent practicable.

SPP's internal Market Monitor Unit (MMU) will conduct all investigations except where the MMU determines that there is a potential for conflict of interest or external resources are required. The MMU will determine when external resources are required subject to guidance and direction from the Compliance Committee. If a complainant requests the Independent Market Monitor (IMM) to conduct the investigation, the request must be approved by the SPP Compliance Committee prior to the start of the investigation.

The Monitors may initiate investigations independent of any submitted complaints when they deem it appropriate. The Market Monitors may initiate investigations into any matter at any time that pertains to SPP's Markets and Services that is part of their market monitoring and/or market power mitigation obligation. Verbal complaints from any interested party will be assessed by the Market Monitors, and if the issue merits further review, then the Monitors will sponsor the investigation.

B. Process Steps



* Notifications are sent out to complainant only for written complaints

1. Administrative Processing
 - a. If SPP Customer Relations Representatives receive an inquiry regarding a request for an investigation, they will forward the contact to the MMU Investigation Coordinator
 - b. Any SPP Market Monitor receiving a complaint/request will document the contact and forward information to the MMU Investigation Coordinator
 - c. MMU Investigation Coordinator will:
 - Facilitate lead assignments
 - Assign case number
 - Establish process schedule
 - Develop contact list
 - Distribute information as needed
 - Inform Complainant that only written complaints will receive a response
 - d. The MMU will determine the need for and the level of involvement of the IMM in conducting the investigation subject to guidance and direction from the SPP Compliance Committee
2. Stage 1 Analysis - Review information provided by Complainant
 - a. Initial screen - only investigate complaints related to SPP's markets or services
 - b. Determine if complaint is clearly defined
 - c. Determine if the data provided, if any, with the complaint is valid
 - d. Conduct assessment and determine if complaint merits further investigation
 - e. Notify Complainant of the decision regarding merit of the complaint
 - f. Document information regarding the complaint and initial assessment for the SPP President and Compliance Committee
 - g. If the complaint merits further investigation, notify FERC and proceed to Stage 2 Analysis
3. Stage 2 Analysis - SPP Internal Data
 - a. Identify, collect, and analyze internal SPP information relevant to the complaint
 - b. Identify, collect, and analyze publicly available information outside SPP relevant to the complaint
 - c. Determine if investigation requires data and information from the accused party
 - d. Determine whether sufficient credible information has been gathered to substantiate the complaint and warrant either corrective action, requires further investigation by SPP Monitors, or further investigation by the FERC:
 - If the complaint pertains to a tariff or Market Behavior Rule violation ("Market Violation") with no express mitigation measure provided for by SPP tariffs, inform the SPP President and Compliance Committee of the results of the investigation into the complaint, refer the complaint to FERC, and desist from any further action independent of the FERC's investigation into the complaint.
 - If there are findings that require corrective action to the Market Protocols, Market Monitoring Plan, Market Power Mitigation Measures, or other SPP governing document, inform the SPP President and Compliance Committee of the recommended corrective action and forward notification of such recommended corrective action to the appropriate SPP Organizational Group, the RSC, and any affected Interested Government Agencies.

- If the complaint pertains to a specific SPP Tariff and results in specific findings, proceed to Stage 4.
 - If the complaint pertains to a specific SPP Tariff and requires additional information from the accused party, then proceed to Stage 3 and notify FERC of an ongoing investigation
 - e. Notify Complainant whether there continues to be merit to the complaint
 - f. If there is no further need to continue investigating the complaint, document the results of the investigation for the complainant, SPP President, Compliance Committee and FERC as appropriate.
4. Stage 3 Analysis - Data Provided by Accused Party
- a. Inform the SPP President and Compliance Committee if there is a need to request information or data from the accused party
 - b. Develop and transmit data requests to accused party with information on process, procedures and schedule
 - c. Analyze data from accused party, determine if data provided is valid or if additional requests or an audit is required
 - d. Determine if corrective action is required and develop draft report
 - e. Proceed to Stage 4
5. Stage 4 Accused Party Rebuttal
- a. Inform accused party of process, procedures and schedule for rebuttal
 - b. Facilitate information meetings as needed
6. Stage 5 Analysis - Review of Rebuttal
- a. Analyze and validate information provided by accused party
 - b. Determine if complaint warrants corrective action
 - c. Determine financial impacts
 - d. Determine recommended penalties to forward to FERC
 - e. Develop final report
7. Final Report
- a. Review results with SPP President
 - b. Review results with SPP Compliance Committee
 - c. Distribute final report: Complainant, accused party, and, if necessary for documentation of need for corrective actions, post redacted version to SPP web page for review by the appropriate SPP Organizational Group.

C. Process Guidelines for Referring Complaints to FERC

1. All referrals to FERC of alleged Market Violations shall be in writing, whether transmitted electronically, by fax, mail, or courier. The Market Monitors may alert FERC orally in advance of the written referral, but FERC will not act without a written referral.
2. The referral should be addressed to FERC's Director of Enforcement Division of the Office of Market Oversight and Investigation, with a copy also directed to both the Director of the Office of Market, Tariffs and Rates and FERC's General Counsel.
3. The referral should include, but is not limited to, the following information:
 - a. the name(s) of and, if possible, the contact information for, the market participants that allegedly took the action(s) that constituted the alleged Market Violation(s);

- b. the date(s) or time period during which the alleged Market Violation(s) occurred and whether the alleged wrongful conduct is ongoing;
 - c. the specific Market Behavior Rule(s) and/or tariff provision(s) that were allegedly violated;
 - d. the specific act(s) or conduct that allegedly violated the Market Behavior Rule or tariff;
 - e. the consequences in the market resulting from the act(s) or conduct, including, if known, an estimate of economic impact on the market;
 - f. if the Market Monitors believe that the act(s) or conduct constituted manipulative behavior in violation of Market Behavior Rule 2, a description of the alleged manipulative effect on market prices, market conditions, or market rules;
 - g. any other information that the Market Monitors believe is relevant and may be helpful to FERC
4. Following a referral to FERC, the Market Monitors should continue to notify and inform FERC of any information that the Market Monitors learn that may be related to the referral, but the Market Monitors should not undertake any investigative steps regarding the referral except at the express direction of FERC Staff. However, this does not mean the Market Monitors cannot continue their monitoring functions and make recommendations to SPP, stakeholders, and FERC on tariff changes that may be necessary.

D. FERC Market Behavior Rules

FERC requires SPP Market Monitors to monitor market participant activities regarding potential violation of FERC Market Behavior Rules. When the Market Monitor has credible evidence that any Behavior Rule has been violated, the assessment is to be turned over to FERC staff for possible investigation. Detailed discussion of these rules is found in FERC document Investigation of Terms and Conditions - EL01-118-001. A list of the rules is shown below with a brief description of each:

1. Unit Operation - Operate and schedule generating facilities, undertake maintenance, declare outages, and commit or otherwise bid supply in a manner that complies with the Commission approved rules and regulations of the applicable power market
2. Market Manipulation - Actions or transactions that are without a legitimate business purpose and that are intended to or foreseeable could manipulate market prices, market conditions, or market rules for electric energy or electricity products are prohibited
3. Prohibition of "Wash Trades" - Pre-arranged offsetting trades of the same product among the same parties, which involve no economic risk and no net change in beneficial ownership
4. Prohibition Against Transactions Predicated on Submission of False Information - Transactions predicated on submitting false information to transmission providers or other entities responsible for operation of the transmission grid unless Seller exercised due diligence to prevent such occurrences
5. Creation of Artificial Congestion Followed by the Relief of Such Artificial Congestion - Transactions in which an entity creates artificial congestion and then purports to relieve such artificial congestion are prohibited
6. Prohibition Against Certain Collusive Acts - Collusion with another party for the purpose of manipulating market prices, market conditions, or market rules for electric energy or electricity products
7. Submitting False or Misleading Information - Provide accurate and factual information and not submit false or misleading information, or omit material information in any communications with the Commission, Commission-approved market monitors, Commission-approved regional transmission organizations

8. False Reporting to Publishers of Indices - When providing transaction information to publishers of electricity or natural gas indices, Seller shall provide accurate and factual information

E. Schedule - Guidelines Only

	<u>Incremental Time in Weeks</u>
1. <u>Stage 1 Review</u>	1
2. <u>Stage 2 Review</u>	2
3. <u>Stage 3 Review</u>	
a. <u>Data from accused party</u>	2
b. <u>MM Analysis</u>	2
4. <u>Accused Party Rebuttal</u>	2
5. <u>Stage 4</u>	2
6. <u>Compliance Committee Review & Approval</u>	TBD

Agenda Item 7

IMM Services Agreement Extension for 2006

(Confidential Memo from Boston Pacific)

7. Advise the SPP Board as requested.

With respect to budget, I propose a continuation of the current budget cap of \$100,000 per month on average so the cap for calendar year 2006 in total would be \$1.2 million. This is a cap, and the IMM will bill only work actually needed and completed. I know there was an expectation of a decline in late 2006, but as explained later in detail, based on a ground-up assessment of the work to be done, I could not realistically propose a decline. Indeed, I expect the cap to be exceeded and Boston Pacific to absorb that excess. While I believe the proposed cap will maintain the quality, effectiveness, responsiveness, and independence of our work, I am open, of course, to a lower cap if the Board determines the proposed cap is inappropriate

PRIORITY WORK FOR THE IMM IN 2006

1. Win continuing FERC approval for the EIS Market

FERC should give final approval by the end of 2005 or early 2006 for the EIS Market design to be implemented on May 1, 2006. If and as required, the IMM will file additional testimony at FERC in late 2005 (a) to respond to the FERC Order on September 19, 2005, (b) to support and explain SPP's proposals for the changes to market design that will be filed in November 2005, and (c) to respond to FERC questions and concerns on the November 2005 filing.

However, for 2006, as market trials and market operation reveal more precisely how the market actually works, FERC may have more comments and questions for which a response by the IMM is appropriate. For that reason, I include such an effort in our priority work. In addition, the IMM must maintain its relationship with FERC Staff through meetings (including two meetings for all market monitors) and at other times.

2. Promote EIS Market Start on May 1, 2006

At the Board's direction, the IMM has promoted an on-time market start through its participation in stakeholder meetings (especially those by the MWG, MITF, and MOPC) and through its participation on the Steering Committee (SPP's project coordination team which includes all outside vendors as well as SPP Staff). The IMM will continue these efforts in 2006.

In addition, the IMM will participate in market tests and market trials for the remainder of 2005 and then from January through May 2006. Specifically, in 2005 I anticipate work (a) to assess and use the Market Monitoring Application (MMA) (the database built for use by the MMU and IMM); and (b) to participate in early connectivity tests, focusing on implementation of the offer cap and scheduling requirements.

In 2006, we anticipate participation in the following market trials

January 23 – February 10: Monitor Day in the Life Enhanced
 February 20 – March 3: Monitor Unscripted Testing
 March 13 – March 24: Monitor Parallel Operations Testing

April 3 – April 14: Monitor Final Market Trials

3. Conduct inquiries and periodic analysis of the EIS Market after market start

With a written request from a Market Participant or Interested Government Agency, or on our own initiative, the IMM may conduct inquiries in coordination with the MMU.¹ I expect the number of inquiries to increase after the EIS Market start.

While the MMU is responsible for continuous EIS market monitoring, the IMM will conduct periodic studies in coordination with the MMU, especially in the first several months of actual market operation. For example, we have promised to monitor for adverse effects due to the fact the EIS Market is voluntary. We also have promised to analyze (a) possible market manipulation on the exporting side of a transmission constraint and (b) the effect of scheduling requirements. And FERC explicitly requires the IMM to identify and propose corrections for “weaknesses” in market design.

4. Monitor transmission procedures, policies, and market power, and conduct inquiries related to transmission.

In 2005, the IMM will complete its Initial Assessment of the opportunities for the abuse of transmission market power; this includes completing a draft of the Initial Assessment for the Board Meeting in October and completing the stakeholder process for the January 2006 Board meeting. In addition, two requested inquiries related to transmission policy will be completed.

We expect the Initial Assessment to reveal the areas that require monitoring to block market power abuse, but also to reveal best practices in SPP procedures and policies related to transmission system utilization and expansion. So, in 2006, with the course set by the Initial Assessment, the IMM will continue to monitor and to propose changes in SPP procedures and policy. As we did in 2005, the IMM will participate in meetings by the RSC, the CAWG and TWG, in which important work is done related to transmission. And we expect additional inquiries to be requested concerning transmission procedures and policies.

5. Participate in continuing Phase 1 and new Phase 2 market design

Phase 1 market design covers the design and implementation of the EIS Market. I expect proposals for change in the EIS Market through 2006 as actual market experience is accumulated.

It has been proposed that Phase 2 cover the design and implementation of (a) ancillary services market – the products will be regulating service (ramping power plants up and down to respond to changes in customer needs), spinning reserves, and non-spinning reserves and (b) the consolidation of existing, separate control areas into a single

¹ I have switched to the word “inquiry” because of FERC’s sensitivity to the use of “investigation” in light of its Market Monitoring Policy Statement.

SPP control area. FERC requires the IMM to provide an independent opinion on the cost benefit study of Phase 2 Markets.

The IMM has participated in market design through the MWG, MITF, ORWG, and MOPC, and expects to do throughout 2006 on both Phase 1 and Phase 2. Our effort includes opining on proposals made by others and, when appropriate, making our own proposals.

6. Fulfill reporting requirements

The IMM is required by FERC to fulfill specified reporting requirements in 2006. These include (a) the *2005 State of the Market Report* and, once the EIS Market starts in 2006, (b) quarterly and annual metrics reports and (c) a quarterly report on indications of market power. These reports require that the IMM work with stakeholders to develop new metrics to assess the performance of the EIS Market. The IMM must also assess the work of the MMU. I proposed to FERC that the Board and the RSC hold a Reliability Summit and that the IMM assist in that event. In addition, I proposed that the IMM produce a White Paper on Resource Adequacy.

These are high profile reports that require research in-and-of-themselves, but also reflect and publicize much of the knowledge gained through our other priority work.

7. Advise the SPP Board as requested

The IMM serves as an independent advisor to the Board and acts in this capacity at the request of the Board. I see this advisory role as among our most important, but acknowledge that the role is being defined as we go along. In the past six months, we have given our opinion on matters ranging from (a) process changes needed to assure EIS market start on May 1 to (b) the issues related to SPP serving as the Regional Entity for reliability standards as defined under the Energy Policy Act of 2005. I believe the advisory role also includes efforts to help the Board understand in advance the technical background on issues it is asked to decide at its quarterly meetings or at other times.

PROPOSED BUDGET CAP FOR 2006

As is evident from the description of the seven Priority Tasks, the IMM has a lot of work to do in 2006. I know there was an expectation of a decline in budget in late 2006, but in light of this anticipated workload. I could not realistically propose a decline. Specifically, I see three reasons a decline is unlikely.

- First, once the market starts, FERC requires the IMM to produce additional quarterly and annual reports over and above the *State of the Market Report* we produced last year.
- Second, inquiries are included under the cap and I expect the number of inquiries to rise once real money is lost and won.

- Third, market design does not end after the EIS Market start. I expect proposals to alter the EIS Market and to create new markets for ancillary services.

Indeed, with this anticipated workload, it will be difficult to complete the work within the existing budget cap. However, that is what I propose. I propose to continue the existing budget cap of \$100,000 per month on average for a total cap of \$1.2 million for 2006. Expenses such as that for travel and communication will be billed separately at cost.²

Given the proposed cap, I developed a budget estimate to approximately allocate the cap to the seven Priority Tasks. The cap is allocated to Priority Tasks in Table One below.

TABLE ONE
APPROXIMATE ALLOCATION OF BUDGET CAP BY
PRIORITY TASK

PRIORITY TASK	ESTIMATED BUDGET
1	\$66,770
2	\$132,210
3	\$200,000
4	\$122,910
5	\$137,820
6	\$450,000
7	\$120,625
TOTAL	\$1,230,335

A few comments on the assumptions underlying some of these allocations to the Priority Tasks is useful background. The largest budget estimate (\$450,000) is for Task 6 which covers the reports that FERC requires from the IMM. As background, note that our *2004 State of the Market Report* had a budget estimate of \$366,600 and our actual invoices were at about that level (\$360,546). For purposes of this allocation, I have cut that budget to \$250,000 for the *2005 State of the Market Report*. For the *Quarterly Metrics Reports* I have budgeted \$50,000 for the first one and \$25,000 for each of the next two – there will be three quarters in 2006 after the EIS Market starts up on May 1, 2006. We will have to develop metrics for those reports and take them through the stakeholder process. I included no cost for the *Annual Metrics Report* since it should be a compilation of the first three. I took the same approach for the *Quarterly Indications Report* -- \$50,000 for the first and \$25,000 each for the next two. Note that the assessment of the MMU will be part of *State of the Market Report*. Note, too, that no

² As you know, the \$1.2 million annual cap is an “old number” in the sense (a) it is approximately what Boston Pacific bid when competing for the IMM role in April 2004, (b) it is approximately what we invoiced in the first twelve months of our contract, and (c) it is the cap we operate under now in our six-month extension.

explicit cost is included for the Reliability Summit or the White Paper on Resource Adequacy.

I mention meetings at several points in my description of Priority Tasks. I believe these meetings are essential. There is no way to know how things work and what problems or opportunities exist unless the IMM prepares for and actively participates in stakeholder meetings, and then records in summary memos what transpired in these meetings. Equally important, there is no opportunity to influence outcomes before they get to the Board without this direct involvement in stakeholder meetings. I have spread the cost of preparation, participation, and recording these meetings across several tasks. For example, Priority Task 5 (participate in continuing Phase 1 and New Phase 2 market design) reflects the cost of all MWG and MOPC meetings plus some ORWG meetings. The MWG meetings are expensive because I attend them myself due to the high level discussion there. Priority Task 4 (monitor transmission procedures, policies and market power) includes the cost of RSC meetings plus some of the meetings of CAWG, TWG, and EMMTF. Likewise, MITF and Steering Committee Meetings are reflected in Priority Task 2 (promote EIS Market start on May 1, 2006.)

I also believe more inquiries will be requested in 2006 once the market starts and after our Initial Assessment of transmission market power is taken through the stakeholder process. For purposes of the budget cap, I assume eight inquiries on the EIS Market in Priority Task 3 and five inquiries related to transmission in Priority Task 4.

Again, I propose a budget cap of \$1.2 million or \$100,000 per month on average. It is a cap and only work actually completed will be billed. I will hold our hourly rates at the current 2005 level for the SPP work through 2006; the only change is that a new rate of \$300 per hour is established for Kip Fox who will join us as a Managing Director on October 1, 2005.³

NEXT STEPS

I provided a draft of this memo to both Stacy Duckett and Richard Dillon before the final version was sent out. If I can provide more information on any topic covered here prior to seeing you in Chicago, please just ask. Otherwise we will look forward to your comments and questions at that time. Thank you for your consideration.

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³ Kip brings 23 years of hands-on experience in risk management, power marketing, and system operation, including 13 years with Entergy and 4 years with TVA.



Southwest Power Pool, Inc.
Staff Recommendation to the Compliance Committee
September 28, 2005

Committee Meetings in 2006

Background

The Compliance Committee members desire to establish a regular meeting schedule on a quarterly basis. In 2005, the committee met the last week of the month preceding the Board of Directors/Members Committee meetings. A date has not yet been determined for a December 2005 meeting.

Analysis

A similar meeting schedule for 2006:

Thursday, March 30

Thursday, June 29

Thursday September 28

Monday, December 4 (in conjunction with the BOD/MC meeting)

Recommendation

Staff recommends that the meeting schedule for 2006 be accepted with the committee members determining the locations. In addition, staff recommends that the December 2005 meeting be held on Monday, December 5 in conjunction with the Board of Directors/Members Committee meeting.

Action Requested: Approval