



Southwest Power Pool, Inc.
OVERSIGHT COMMITTEE MEETING
June 13, 2016
Executive Conference Room
SPP Corporate Campus, Little Rock, AR.

• A G E N D A •

7:30 a.m. – 1:00 p.m. EDT

1. Call to Order/Administrative Items Josh Martin
2. Action Items Report..... Michael Desselle
3. Annual State of the Market Report.....Alan McQueen
4. Quarterly Activity Reports
 - a. Compliance Carl Stelly
 - b. Market Monitoring Unit Alan McQueen
 - c. Internal Audit Lauren Krigbaum
 - d. Security (written report only this meeting)..... Chris Evans
5. Future Meetings Josh Martin

2016

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|--------------|---|-----------------------|
| September 22 | | Hilton Chicago O'Hare |
| December 5 | Little Rock, AR (day before BOD Organizational Effectiveness Meeting) | |
6. Executive Session Oversight Committee
 7. MMU Executive Session Oversight Committee & MMU



Southwest Power Pool, Inc.
OVERSIGHT COMMITTEE MEETING
March 29, 2016
Boston Pacific Offices, Washington, D.C.

• M I N U T E S •

Agenda Item 1 – Call to Order/Administrative Items

Josh Martin called the meeting to order at 9 AM. Members in attendance included: Josh Martin (Director); Larry Altenbaumer (Director); and, Phyllis Bernard (Director). Additional Board members in attendance included Graham Edwards, Harry Skilton and Julian Brix. SPP Members present included Mike Wise (GSEC) and John Rhea (OGE). SPP staff in attendance was: Michael Desselle, Lauren Krigbaum, Carl Stelly, Alan McQueen, Barbara Sugg, Chris Evans, Barbara Stroope, Matt Morais and Paul Suskie (Attendance – Attachment 1).

Larry Altenbaumer moved and Josh Martin seconded adoption of the December 7, 2015 Oversight Committee meeting minutes, the December 23, 2015 OC Conference Call minutes and the February 12, 2016 OC Executive Session Conference Call minutes which were unanimously accepted (Minutes 12/7/15, 12/23/2015 and 02/12/2016 – Attachment 2).

Agenda Item 2 – Action Items Report

Michael Desselle reviewed the Pending Action Items status, noting that the two follow-up questions regarding SPP's Emergency Management Business Continuity Plan (EMBC) would be communicated in a follow-up email to the OC members. Lauren noted that the IA team is still working with the Staff Policy Committee on revising language as part of the "Acceptable Use Policy" what defines when employees must lock their computers upon stepping away from their desks.

Agenda Item 3 – Looking Forward Report

Craig Roach and Vincent Musco (Boston Pacific) presented the Draft 2016 Looking Forward report. They conducted an interactive discussion and the Committee and participants provided feedback on the draft report. Craig accepted the feedback for revisions to the report. Craig will present the final 2016 Looking Forward report to the Board at the April SPP Board meeting.

Agenda Item 4 – Quarterly Activities Report

Compliance – Carl Stelly reviewed the Compliance Department quarterly activities (Compliance Report – Attachment 3). He reported that during the final weeks of Q4 2015 and in the early weeks of Q1 2016, SPP separated the Cyber Security responsibilities from the Compliance and Security Department and re-established those within the SPP IT Organization. Two Full Time Employees (FTEs) in the Compliance Department were transferred to IT along with those responsibilities. Carl also reported that as part of SPP's Compliance Demonstration Project, two firms were hired to assess SPP's Internal Compliance Program and as a result of their recommendations, described the new structure of the department. Carl also reported on readiness for the upcoming O&P audit to be performed by SERC in May and the progress for CIP5 compliance. Finally, Carl reported the Committee material developments from the recent Reliability Compliance Working Group meeting.

Michael Desselle provided an update on SPP's efforts to restore its compliance reputation and its CIP3 Mitigation project.

Market Monitoring Unit – Alan McQueen provided his update on quarterly activities (Market Monitoring Activity Report – Attachment 4). He reported on the progress to fill an open Manager and two open analyst

positions within the MMU and responded to questions of the Committee members on how to increase the applicant pool for the open positions. Alan reported on the progress of the FERC's audit currently underway. Alan reported that the MMU is on schedule to complete the Annual State of the Market (ASOM) report and present the results at the July SPP Board of Directors meeting. Alan noted that the MMU continues to work with SPP Market Design and the MWG regarding the recommendations that are contained in the 2014 ASOM, specifically, as it relates to the recommendations and analysis on a proposal for physical withholding penalties that would complement the elimination of must offer penalties. Mike Wise (GSEC) noted the Golden Spread was willing to remove the "must-offer" provisions pending a need to fully understand the physical withholding penalties before completely agreeing. Finally, Alan apprised the Committee of his understanding of the status of the project to make changes to the SPP market engine to resolve the Jointly Owned Unit market design flaw the Board approved in January.

Internal Audit – Lauren Krigbaum provided the quarterly report (Internal Audit Report – Attachment 5) for the Internal Audit department. She described changes in the audit schedule since the last OC meeting. Lauren also informed the Committee on the outcomes of Audits and Assessments that have been completed since the December OC meeting. Committee members raised concerns regarding the Study Deposits, Invoicing and Customer Refund Tracking (Phase 1) audit, the Collateral Management audit, the Accounts Payable and Procurement audit, and the Retirement Benefits Process audit. Lauren was asked to coordinate with Tom Dunn to add to the Finance Committee (FC) agenda discussions regarding management responses on the Collateral Management and Accounts Payable and Procurement audits. Additionally, Lauren was asked to coordinate with Malinda See to add to the Human Resources Committee (HRC) agenda issues surrounding the Retirement Benefits Process audit. Additionally, the Committee asked questions about Internal Audit's rating definitions and suggested that the threshold for what is "significant" may need greater scrutiny.

Order 1000 Update – While not on the agenda for the meeting, Paul Suskie provided an update on recent Order 1000 activities. He noted that IEP Panel completed their work and proceeded to describe the next steps for Board action. Paul accepted a couple of process recommendations to ensure confidentiality.

Agenda Item 5 – New Action Items

Action items are:

- Michael Desselle to report on two EMBC follow-up questions;
- Lauren Krigbaum to report on Acceptable Use Policy clarification;

Adjournment

Josh Martin thanked everyone for participating and adjourned the meeting at noon and went into Executive Session.

Executive Session

The Committee met in Executive Session and discussed Compliance, Security and MMU matters.

Respectfully Submitted,

Michael Desselle



**Southwest Power Pool, Inc. (SPP)
RTO Compliance Department
Oversight Report – Q2 2016**

Compliance Report

Compliance Department Structure and Staffing:

As part of the continuing effort to build on the recommendations obtained from two independent reviews of the SPP Compliance Program, the Compliance Department transitioned one FTE into the Standards Development group. Additionally, one FTE shifted from the Compliance Group into the Legal/Regulatory group along with the Tariff compliance responsibilities. In line with the recommendations, three additional FTEs will be hired to assist with the NERC Standards compliance-related responsibilities of the Compliance Department as shown below:

Manager of Compliance (hired June 1, 2016):

To manage the Compliance Group and assist with the development of a Quality Assurance focus in this group.

Lead CIP Analyst:

To provide more CIP expertise in Standards Development and with the oversight and Quality Assurance on all NERC CIP-related compliance responsibilities.

Engineer/Analyst:

To provide more Planning expertise in oversight and Quality Assurance on all NERC Planning-related compliance responsibilities.

Operations & Planning (O&P):

April and May had SPP Compliance Staff focused on the 2016 O&P Audit activities for the SERC Reliability Standards O&P Audit. The initial scope included 34 NERC Reliability Standards and 96 requirements and sub-requirements. Prior to the on-site visit by the Audit Team the Reliability Standard Audit Worksheet (RSAW's) and evidence requested for each of those Standards had been supplied to SERC and the rest of the Audit Team.

On May 9 – 11, the O&P Audit team was on-site to complete the audit. As a result of that visit, which included Operations and Data Center tours, and SME interviews, SPP received a preliminary report which included "No Findings" on all requirements, with the exception of three (3) Open Enforcement items. These items were a result of self-reports submitted by SPP staff prior to the Audit. Of those three items, one is being closed out and one is expected to be dismissed. SPP is currently awaiting the Final Report.

Critical Infrastructure and Protection (CIP):

CIP v5 Transition:

On February 25, 2016 FERC issued an Order granting an extension of time and deferring the implementation of the CIP v5 Reliability Standards from April 1 to July 1, 2016. SPP staff is working diligently to complete all of the work necessary to complete its transition to the CIP v5 Standards.

SPP is continuing with its efforts to close out the 2013 CIP Audit findings, which included 19 Potential Violations. After closing four (4) Mitigation Plans deemed complete and after multiple on-site visits to review the remaining Mitigation Plan evidence, SERC terminated its review and, instead, asked SPP Staff to review its processes relative to the four (4) most serious Potential Violations. SPP Staff had its Subject Matter Experts discuss the relevant Processes and Procedures and demonstrate evidence SPP was following those in order to abate any risk associated with those individual issues identified in the 2013 Audit.



**Southwest Power Pool, Inc. (SPP)
RTO Compliance Department
Oversight Report – Q2 2016**

On May 13, 2016, SERC issued a Notice of Alleged Violation and Proposed Penalty or Sanction (NAVAPS), which, in effect, set aside the fifteen (15) remaining Mitigation Plans, identified the Proposed Penalty, and requested SPP submit revised Mitigation Plans. SPP Staff is on schedule to submit those prior to the June 10, 2016, deadline.

Another subsequent on-site visit by SERC, NERC, FERC and MRO allowed SPP Staff to review its Processes and Procedures on some of the remaining CIP v5 Standards. SPP Staff was made aware the review team did identify some concerns with the transition to CIP v5 Standards, and SPP Staff is awaiting a report of those findings.

Open Enforcement Items:

2013 CIP v3 Audit; 19 Potential Violations (4 closed, 15 pending); NAVAPS issued on May 13, 2016

Pending Self-Reports:

10 CIP-related (1 was subsequently dismissed)

15 O&P-related (1 near closure, DCS; 5 are in discussion to be dismissed, TPL-001-4)

Upcoming Dates of Importance:

June 10, 2016:

SPP Staff to resubmit Mitigation Plans on 15 remaining 2013 v3 issues

July 1, 2016:

Effective date for CIP v5 Reliability Standards

September 19, 2016:

RCWG Meeting, OGE Offices, Oklahoma City, OK

October 26, 2016:

SPP to host multi-regional Mis-Operations Summit at its offices in Little Rock

October 31 – November 3, 2016:

SPP Reliability Standards CIP Audit, on-site

Reliability Compliance Working Group (RCWG):

The RCWG's second quarter meeting of 2016 was hosted by Lincoln Electric June 7-8, 2016 at their offices in Lincoln, Nebraska. The agenda included two Revision Requests, a discussion of the Mis-Operations Summit Agenda, a discussion of making the RCWG a Full Representation Group, and other technical discussions.

Respectfully submitted,

Carl Stelly
Director of Compliance

MARKET MONITORING ACTIVITY REPORT TO THE OVERSIGHT COMMITTEE

13 June 2016

I. MMU Staffing

- The MMU currently has an open manager position and two open analyst positions.
- MMU management is reviewing the current organization. We may restructure in order to maximize the value of our top applicants.
- One staff member, David Lee, retired on May 31. We have a new staff member, Cuiping (Ping) Xu. Ping has a Ph.D. in Economics and an MS in Statistics.
- Potomac Economics continues to supplement our work during this period when the MMU has several open staff positions.

II. Federal Energy Regulatory Commission (FERC)

- The MMU continues to have conference calls with FERC staff on a once every two weeks basis. Discussions focus on Integrated Marketplace screens, proposed market rule changes, market inefficiencies, possible market rule violations, and potential market manipulation.
- FERC annual Meeting of the Market Monitors is planned for June 15. Proposed topics include: verification of fuel costs, gas dependence and fuel assurance, resource retirements, monitoring of demand response, and the process Market Monitors use to comment on RTO/ISO filings.
- FERC staff members continue to request data and analysis from the MMU.

III. Market Surveillance and Reporting

- The Surveillance team continues to monitor the effects of extremely low gas prices on the market and impacts on individual power plants.
- The MMU is on schedule to complete the ASOM and present the results at the July SPP Board of Directors meeting.
- The MMU published: 1) Monthly Market Reports through the MWG for the months of March, April and May and 2) Quarterly State of the Market report for Winter 2016

IV. Market Analytics

- The MMU continues to work with SPP and the MWG regarding our 2014 ASOM recommendations. The MWG supported a market change that will prevent transmission congestion hedging offers and bids between Electrically Equivalent Settlement Locations, which was one of the MMU recommendations. A complete status review of the recommendations will be provided in the 2015 ASOM.
- At the May MWG meeting, the MMU withdrew a proposal for physical withholding penalties. Initial simulations by MMU staff indicate that the process and procedures to implement the penalty need to be refined. The MMU plans to revise and resubmit the proposal.
- The MMU has closed several behavior studies and continue to have several open studies.

*Respectfully submitted,
Alan McQueen
Director, Market Monitoring and Analysis*

Southwest Power Pool, Inc.

INTERNAL AUDIT

Report to the Oversight Committee

June 13, 2016

Staffing

- The Internal Audit department continues to be fully staffed.
- Business Process Improvement (BPI) position?

Activity Update

- 2015-2016 Audit Schedule – Updated (see attached)
- Audits/Assessments Completed Since Last Meeting:

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

The Internal Audit department has completed an audit of costs and consumables in support of the May 2016 rate adjustment charged for use of the Off We Go, LLC private aircraft. The audit was completed, in part; to fulfill Southwest Power Pool, Inc.'s (SPP) commitment to FERC Office of Enforcement's recommendation that SPP should "perform an analysis to validate the fairness and reasonableness of any cost factors submitted by the CEO and CFO for purposes of reimbursement."

See attached for summary.

- **Off We Go LLC – Invoice Reimbursement Review (11/1/15 through 4/30/16)**

The Internal Audit department performed an audit of reimbursements made to Off We Go, LLC for use of their private aircraft for the period of November 1, 2015 through April 30, 2016. In addition, we reviewed Off We Go's insurance policy to confirm it meets the requirements listed in the Private Aircraft section of SPP's Expense and Travel Policy.

See attached for summary.

- Audits Currently in Process:

- **Software Licensing**

This audit has been reassessed and a determination made that a phased approach will provide better coverage of this area. Phase 1 will cover software licenses on all PCs – desktops and laptops. Phase 2 will cover software licenses on servers/operating systems (OS) and databases. The primary objectives of our audit 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. Phase 1 testing of the audit has been placed on hold in order for IA personnel to complete the Identify Access Management audit and CIP-related control documentation.

- **Tariff Administration**

The primary objectives of the audit 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 audit is in the testing phase.

- **SPP Modeling Control Self-Assessment (CSA)**

The primary objectives of the CSA are for participants to: build a map of all SPP models/interfaces; develop "Fit for Purpose Statement" for each model by user; conduct CSA workshops with subject matter experts to develop/prove process maps; conduct CSA workshops with subject matter experts to identify risks and controls (including backup, versioning, system access and data change monitoring), develop/prove validations; CSA workshops to review internal and external coordination/communication; CSA workshops to review preparation for MOD 33 NERC Steady-State and Dynamic System Model Validation (in effect July 1, 2017). This audit is in the testing phase.

- **Identity Access Management**

The primary objective of this review is to examine all physical and logical access for all employees and contractors. Logical access will be limited to user account domain, VPN, digital certificate and firewall access. Particular areas of concentration will be the following; access provisioning/de-provisioning processes, access provisioning/de-provisioning documentation, access provisioning/de-provisioning approvals, access change monitoring, periodic reviews of physical and logical user access, visitor and forgotten badge access, current SPP policies/procedures related to Identity Access Management (e.g. Physical Access, User Account Management, Password, Personnel Risk Assessment, Etc.). This audit is in the testing phase.

- **Audits Currently in Planning:**

- Data Management/Changes CSA
- Application Access
- EMBC (including e-mail reliance and critical spreadsheets)
- Balancing Authority
- SPP Tariff Compliance Process
- Transmission Congestion Rights Markets Processes

- **Upcoming Audits:**

- Budget/Forecasting
- Customer Additions/Terminations CSA
- SPP Security Awareness
- Corporate-Wide "Manual Workarounds" CSA

- Contract Management
- Credit Management System (CMS)
- Credit Stack (Z2) Historical true up
- Enhanced Combined Cycle (ECC) Internal
- GFA/FSE GFA
- Off We Go LLC (Fixed Costs)
- Order 1000 Processes CSA
- User Interfaces/Application Programming
- Other Activities:
 - Attended the ISO/RTO Internal Audit Directors meeting in Albany, NY – first meeting to include senior staff in meeting
 - Controls audit (SSAE 16/SOC1) work:
 - 2016 SOC 1 Type 2 Audit:
 - Completion of periodic control activity reviews:
 - ❖ SOC 1 Audit period November 1, 2015 – October 31, 2016
 - 9 completed to date, 38 in process (80 total Business control activities, 13 observation only)
 - 1 completed to date, 18 in process (30 total General IT control activities, 6 observation only)
 - Phase 1 of 2016 audit:
 - ❖ Planning for KPMG's onsite visit July/August 2016
 - Transmission Usage Disputes (MISO/NRG Settlement) controls discussions
 - Other consulting/advising:
 - Credit Stack (Z2) process – including Z2 "Day in the Life"
 - Engineering database initiative
 - Transmission Service Market Improvement team
 - Invoice Approval Process Improvement
 - Compliance Awareness Training (mandatory for all SPP staff)
 - CMTF Planning Reserve Assurance Policy Payment
 - Hosted PJM Internal Audit staff

Respectfully submitted,

Lauren Krigbaum
Director, Internal Audit