



**Southwest Power Pool, Inc.**  
**COMPLIANCE COMMITTEE MEETING**  
**March 30, 2006**  
**Boston Pacific Offices**  
**Washington, D.C.**

**• A G E N D A •**

10:00 a.m. eastern

1. Call to Order ..... Josh Martin
2. Update on Current Activities
  - a. NERC Compliance ..... Ron Ciesiel
  - b. Market Monitoring Unit ..... Alan McQueen
  - c. External Market Monitor ..... Craig Roach
3. NERC Compliance Committee Meeting ..... Ron Ciesiel/Phyllis Bernard
4. EMM Agreement Docket ..... Stacy Duckett
5. EIS Market Tariff Order ..... Craig Roach/Stacy Duckett
6. Market Inquiry Process ..... Alan McQueen/Craig Roach
7. 2006 State of the Market Report ..... Craig Roach
8. Future Meetings ..... Josh Martin
  - a. June 29            Philadelphia
  - b. September 28    Chicago
  - c. December TBD    Teleconference



**Southwest Power Pool  
COMPLIANCE COMMITTEE MEETING**

**January 23, 2006**

**Teleconference**

**• M I N U T E S •**

**Agenda Item 1 – Administrative Items**

SPP Chair Josh Martin called the meeting to order at 3:00 p.m. The following members were in attendance: Josh Martin (Director), Phyllis Bernard (Director), and Quentin Jackson (Director). Staff in attendance included Stacy Duckett.

**Agenda Item 2 – Boston Pacific Contract**

Stacy Duckett presented the proposed Boston Pacific contract and discussed the development process (Redacted Boston Pacific Contract – Attachment). The committee directed Stacy to: 1) discuss the addition of a mediation or arbitration clause in Section 20 of the contract; and 2) to revisit insurance coverage, particularly professional liability (errors & omissions) in Section 10.4. With these revisions, the contract is approved.

**Agenda Item 3 – SPP/NERC Meetings**

SPP will host a NERC Compliance Program Workshop on March 13-14 in Tulsa. Phyllis Bernard will attend on behalf of the committee. The NERC Board of Trustees Compliance Committee will meet March 15 in Mesa, Arizona. SPP is presenting a report at that meeting. Phyllis Bernard will attend on behalf of the committee.

With no further business, Josh Martin thanked everyone for participating and adjourned the meeting at 3:30 p.m.

Respectfully Submitted,

Stacy Duckett  
Secretary



Southwest Power Pool, Inc.

COMPLIANCE DEPARTMENT

Report to the Compliance Committee

March 30, 2006

**Compliance Program Results for 2005**

SPP confirmed 59 non-compliance findings from 1,220 compliance submissions. **There is one outstanding finding that has been appealed.** The largest non-compliance issue was non-certified operators [24 of the violations were from companies using non-certified operators]. Based on current information, all SPP member operators were certified by December 31, 2005.

Overall, SPP's general compliance was 95% vs. 93% in 2004. Eleven members achieved 100% compliance in 2005.

**Members with 100% Compliance for 2005**

AEP West	East Texas Coop	Kansas City Power & Light
Empire District Electric	City of Lafayette, LA	Oklahoma Municipal Power Authority
Tex-La Coop.	Western Farmers Elec. Coop.	City of Yazoo, Mississippi
Westar	Kansas Electric Power Coop.	

**4<sup>th</sup> Quarter Confirmed Compliance Violations**

<u>Operator Certification</u>	City of Springfield
<u>Emergency Operations Planning</u>	Sunflower Electric Louisiana Energy & Power Authority
<u>System Restoration Plans</u>	Board of Public Utilities City of Independence, MO City of Springfield Sunflower Electric
<u>Plans for Loss of Control Center Functionality</u>	Board of Public Utilities Grand River Dam Authority Louisiana Energy & Power Authority Missouri Public Service City of Springfield Sunflower Electric
<u>Facility Connection Requirements</u>	City of Independence, MO Missouri Public Service City of Springfield
<u>Vegetation Management Program</u>	Board of Public Utilities



<u>Electrical Facility Rating For System Modeling</u>	Southwest Public Service
<u>Steady State Data for Transmission System Modeling and Simulation</u>	Southwest Public Service
<u>Dynamic Data for Transmission System Modeling and Simulation</u>	Southwest Public Service
<u>Operating Personnel Training</u>	Board of Public Utilities Grand River Dam Authority City of Independence, MO Louisiana Energy & Power Authority Missouri Public Service City of Springfield Sunflower Electric
<u>Transmission Protection System Maintenance and Testing</u>	Oklahoma Gas & Electric
<u>Underfrequency Load Shedding Equipment Maintenance Programs</u>	CLECO Corporation Oklahoma Gas & Electric

### **2006 Compliance Workshop**

SPP sponsored a compliance workshop March 13-14<sup>th</sup> in Tulsa, Oklahoma presenting the SPP 2006 compliance program. A total of 78 participants registered for the workshop. There was full representation of the SPP Balancing Authorities & Transmission Operators, except for Sunflower Electric Cooperative. Other participants included both members and non-members. The developers of the Compliance Data Management System [CDMS] demonstrated the 2006 enhancements to the participants. The CDMS will continue to be the main reporting tool for compliance reporting in 2006.

### **Entity Registration**

SPP responded to a request from NERC to continue entity registration based on the requirements of the Energy Policy Act of 2005 plus the more recent FERC orders.

SPP has identified ~ 200 entities that need to be registered [versus 40 members]. The other NERC regions have seen a similar ratio based on their present membership. There have been discussions between the regional compliance managers to set some parameters that these entities must meet in order to qualify for compliance registration. A formal meeting has been set for April 6, 2006 with the goal to set these parameters.

### **2006 NERC Readiness Audits**

There are 8 NERC Readiness Audits scheduled in 2006

### **2006 SPP Field Reviews**

There are 7 SPP Field Reviews scheduled in 2006. We are also scheduling a compliance review of the SPP Reliability coordinator in 2006.

### **Future Activities**

Late summer Compliance Workshop for ERO issues plus Cyber Security Standards



**Southwest Power Pool, Inc.**  
**MARKET MONITORING UNIT**  
**Report to the Compliance Committee**  
**March 30, 2006**

**Staffing**

The current staffing of the SPP Market Monitoring Unit (MMU) is at six, with budget set for a staffing of nine (including management). SPP has reviewed for employment four persons and made offers to three persons since the December Compliance meeting, run advertisements. Of the offers outstanding in December and those made since, all of have been turned down (two due to pay decreases) except one that is pending. We are in the process of reviewing for interviews five candidates currently. 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 responses to FERC regarding the Redbud to OGE FERC Order, preparation of an opinion response regarding reserve sharing cost allocation, and development of a response to a Member on the impact of congestion on the energy market since the last Compliance Committee meeting.

FERC requested operational data to analyze the level of reservations and transfer capability of the Redbud to Arcadia (OG&E). Market Monitoring, Information Technology, and Operations compiled and submitted to FERC the requested data.

The MMU and EMM responded to the request for the market monitors to express an opinion on the allocation of costs related to the reserve sharing energy. The opinion is that the costs, when abuse by resources is dealt with separately, should be the responsibility of those using the energy (Load). The opinion also requires a consequence for poor resource performance as part of the solution.

The systems that would permit faster and ongoing evaluation of both the transmission and energy market are being developed by SPP staff and consultants. The Offer Cap portion is currently in test. The Decision Support System (storing analytical data) is in use and continuing to be expanded. MMU staff continues to work with the consultants in expanding and completing 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

**SPP, INC.**  
**COMPLIANCE COMMITTEE MEETING**  
**MARCH 13, 2006**

**SUMMARY OF EMM ACTIVITY**  
**SINCE LAST TELECONFERENCE ON 12-13-05**

**A. WIN FERC APPROVAL**

1. Submitted Testimony, on specified issues, in support of SPP's filing to win approval from FERC for the EIS Market. (January 4, 2006)
2. Completed negotiation of the EMM Services Agreement. (January 2006)
3. Contributed to the SPP response to Intervenors. (February 9, 2006)
4. Reviewed and summarized FERC Order dated March 20, 2006

**B. COMPLETE REQUIRED REPORTS**

5. Completed the *Initial Assessment* after substantial input from SPP Staff and Stakeholders. (Input during January through March 2006 and completed March 24, 2006)
6. Completed first partial draft of *2005 State of Markets Report*. (March 23, 2006)

**C. COMPLETE REQUESTED INQUIRIES**

7. Completed Joint MMU/EMM Inquiry Report on reserve sharing issue. (March 3, 2006)
8. Contributed to first draft of Joint MMU/EMM Inquiry Report on Golden Spread request. (March 2006)
9. Comment on MMU's proposed Inquiry Process.

**D. ADVISE ON MARKET DESIGN**

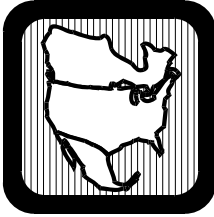
10. Advised on market design through participation in MWG phone calls and meetings and some MOPC phone calls and meetings (longer events include, four in January, three in February and two in March)
11. Assisted MMU in design and implementation of mitigation measures and metrics. (e.g. March 3, 2006 memo)
12. Assisted MMU in Offer Cap calculation.

**E. ADVISE BOARD AS REQUESTED**

13. Prepared memo summarizing reserve sharing issue.

14. Advised Board through participation in Board meetings. (January 30, 2006) and Compliance Committee meetings (March 30, 2006).

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# **NORTH AMERICAN ELECTRIC RELIABILITY COUNCIL**

*Princeton Forrestal Village, 116-390 Village Boulevard, Princeton, New Jersey 08540-5731*

## **Review of Southwest Power Pool Compliance Enforcement Program**

### **Questions for March 15, 2006 Meeting with NERC Board Compliance Committee**

#### **1) General Reliability Compliance Enforcement Program Discussion**

Describe how the overall Southwest Power Pool (SPP) Reliability Compliance Enforcement Program (RCEP) operates including monitoring, assessment, and findings of noncompliance.

**SPP performs the following type of assessments for the annual RCEP:**

- 1. Periodic Monitoring**
- 2. Quarterly Surveys**
- 3. Self-Certification**
- 4. On-site Field Reviews**
- 5. Investigations**
- 6. Results of NERC Readiness Audits**

**The results of these inputs, with or without compliance recommendations, are used by the SPP Compliance Staff for analysis and a final finding of compliance. The SPP Compliance Staff notifies the members of the findings and sends enforcement notices to the appropriate personnel.**

What notifications of noncompliance are provided and to whom? Are simulated sanctions applied for all entities within SPP?

**The SPP Compliance Staff sends notification of non-compliance findings to the member's established contact group. At a minimum, the member's Market & Operations Policy Committee [MOPC] representative [the highest full membership committee in SPP], receives the notice. Generally, there is a designated executive officer also listed for contact purposes. The typical notification letter goes to a minimum of 2 recipients and a maximum of 4 recipients.**

**All affected 'members' of SPP are included in the annual programs. Additionally, SPP has two non-members that participate in the annual programs.**

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**Also, noncompliance is reported to NERC through the quarterly update requests and the 48-hour reporting system.**

What roles do SPP compliance staff and stakeholder peers (committee members) have in the SPP RCEP, especially in the determination of compliance or noncompliance?

**The SPP Compliance Staff is the group that makes the findings of compliance in all aspects of the program.**

**The SPP stakeholder groups only role in the SPP Appeals process is if a member decides to appeal a finding. Assuming the member's appeal is beyond an administrative issue [i.e. incorrect data, wrong documents, etc.] that can be cleared up by the Compliance Staff, the SPP Working Group System and the SPP Market & Operations Policy Committee act as two avenues for the appeal process.**

**The final internal appeal level is the SPP Compliance Committee [consisting of 3 independent SPP Board Members]. Either the member or the Compliance Staff reserves the right to continue an appeal past the stakeholder groups until final resolution.**

**The SPP stakeholder groups also play an important role in recommending regional aspects to certain standards, suggesting metrics to be used in the standards and suggesting methods of monitoring and measurements.**

How are violations of standards tracked by the SPP staff for mitigation for all entities? Are expected completion dates identified and followed through? What happens if an entity is non-responsive?

**SPP has implemented the Compliance Data Management System [CDMS] to provide the tracking as part of the RCEP. [This is the same system used by the MRO.] Mitigations for major violations are tracked on each milestone date and on completion by either self-reporting by the member or a field visit by the Compliance Staff.**

**A non-responsive member is subject to a 2<sup>nd</sup> finding of non-compliance and the requisite enforcement action. Non-responsive members are also reported to SPP management for non-RCEP communications.**

How does SPP monitor compliance with other NERC or regional standards that are not in the SPP RCEP? Does SPP have a process to select specific NERC or regional standards for monitoring outside of the annual NERC standards selected or the SPP RCEP?

**Prior to the 2005 Program, SPP included several additional NERC & SPP standards in its annual program. However, with the addition of the NERC Readiness Audit Program, in 2004, and the Entity Registration Program, in 2005 and 2006, SPP decided to remove the extra standards from the actively monitored program. However, as can be seen in the responses to Section 3 of this questionnaire, information is collected and reported to the SPP Compliance Group for standards outside of the annual programs. Any violations of these standards are reported to the member and if 'confirmed', are reported through the NERC disclosure procedures.**

Explain the SPP process for developing regional standards. How does SPP monitor compliance with regional standards? Are violations of these standards, confirmed or not, reported to NERC?

**SPP uses an open process for the initiation, development and approval of SPP Criteria. All SPP meetings are open to the public with meeting material and agendas posted on the public website. The Criteria development process starts at the Working Group level where the technical experts initiate and develop original Criteria or Criteria that supports an overlying NERC Standard. The Criteria then is sent to the Market & Operations Policy Committee [a full membership Committee] for review, debate and voting by membership sector. The final vote and approval for the Criteria is at the SPP Board of Directors.**

**SPP has relatively few substantive Regional Criteria that are not subject to an overlying NERC Standard. SPP does not actively monitor these Criteria in the annual RCEP programs.**

Discuss the SPP Exclusion Process that is included in SPP's 2006 regional compliance plan. Include in your discussion how this regional process is applied to NERC standards.

**The SPP Exclusion Process was approved for inclusion in the SPP RCEP beginning in 2006. The process includes 3 types of exclusion; 1] Waiver; 2] Exception; and 3] Exemption. The definitions for each of the 3 items are as follows:**

- 1. Waiver – A member can request a waiver of an SPP Criteria if the member agrees that it is responsible for the Criteria but has a structural, on-going problem in complying with the Criteria that has been approved. The member or the SPP working group must suggest an alternative measure of compliance for the member that is seeking the waiver.**

**Example: A member has some very unusual load characteristics that make compliance with the SPP UFLS program impossible. A different measurement technique for the member can be developed and applied during the annual compliance surveys.**

- 2. Exception – A member can request an exception from compliance with an SPP Criteria if the member agrees that is responsible for the Criteria but an unusual event has created circumstances beyond the member's control and it cannot comply in the measurement timeframe. The member seeking the exception must agree to put forth all reasonable efforts to bring itself into compliance in the next measurement timeframe.**

**Example: In 2005, Hurricanes Katrina and Rita had a significant impact on a member's service territory. They may present an exception request for the annual transmission relay maintenance program including a mitigation plan to gain compliance in 2006.**

- 3. Exemption - A member can request an exemption from compliance with an SPP Criteria if the member believes it is not responsible for complying with the Criteria. The member must present its rationale to the SPP working group to support the exemption request.**

**Example: This would be an unusual request because the Compliance Group will handle most exemptions administratively before the start of the annual programs. However, the members and SPP needs this capability if a situation arises where a member changes functions and needs to request an exemption.**

**This process was put into place to handle instances where SPP has some latitude in setting underlying support Criteria and, therefore, would have the latitude to grant waivers, exceptions, and exemptions. In order to receive a waiver or exception, the member must receive the approval of the technical working group plus the SPP MOPC. The SPP Compliance Staff has the ability to intervene and appeal any decisions up to and including the SPP Compliance Committee.**

**SPP does not anticipate being able to grant waivers or exceptions to NERC Standards that have no underlying SPP Criteria. SPP will grant exemptions to members that are not required to meet the Criteria or Standards. As noted in the example, this is usually decided before the beginning of each plan year but if, a member needs this option, this process provides a trail of information for auditing purposes.**

## **2) Electric Reliability Organization Formation**

The formation of the Electric Reliability Organization (ERO) under the Energy Policy Act of 2005 and the proposed implementation rules for the ERO will establish reliability standards as mandatory and enforceable throughout on North America.

The proposed Rules of Procedure, Section 400, included in the draft ERO application document, include a series of required attributes for regional compliance enforcement programs for delegated regional entities (Attachment 1). Explain how SPP both currently meets these requirements and what changes are expected to meet these principles and rules.

**SPP is in the process of registering all users of the bulk electric system. As these entities are made know to SPP, they will be incorporated into the RCEP as required.**

**The SPP RCEP presently has a process in place to report all violations through the approved disclosure procedures.**

**The SPP Compliance Staff has always had the responsibility and authority to perform all of the functions of a RCEP with the full support of the RRO staff and the SPP Committee structure.**

**SPP actively monitors the standards in the approved annual programs plus monitors other standards on an on-going basis [see # 3 below]. The Compliance Staff also responds to complaints or requests for investigations. The Compliance Staff is also has the authority to initiate a complaint or investigation of a member or the SPP RC.**

**SPP prepares an annual program and submits it to NERC for approval. It appears that there may be several items on Section 403, such as the implementation plan, that have not been approved before the submittal. This appears to be a minor timing issue and should be fairly easy to adjust in the next round of submittals.**

**SPP does not presently and does not plan to delegate any of the duties of the RCEP, as described in Section 403 #7. SPP does use independent contractors to perform on-site**

**audits and investigation activities but each contractor is checked for conflicts before being engaged.**

**SPP has a reasonable information flow process in place both to/from the participants in the RCEP and to/from NERC. The evolving question concerning the number of new entities that may be added to the RCEP may require a review of some of these processes. SPP has implemented the use of the CDMS for all participants, effective in 2005 and is employing the mitigation tracking system for all mitigation plans submitted in the 2005 program.**

The FERC order for the ERO requires clear separation of compliance and other functions of the regional entity. FERC further discussed the need for independence within an RTO. Please explain how SPP plans to demonstrate the appropriate level of independence as a regional entity within the ERO.

**In 2005, SPP made some changes to the Compliance Staff's governance structure. First it included the functional reporting of the Compliance Staff to the SPP Compliance Committee [CC]. The CC structure consists of 3 members of the independent SPP Board of Directors. The CC is responsible for approving the Compliance Staff annual budget, provides oversight to the Compliance Staff and is the final stop for member appeals of compliance findings.**

**The SPP Compliance Staff makes all the final findings of compliance regardless of the source of data or recommendation.**

**SPP uses an independent contractor to perform all SPP sponsored compliance field reviews.**

**In 2006, SPP is instituting an annual compliance review of the SPP Reliability Coordinator using an independent contractor. This review is in addition to the monthly, quarterly and annual certifications received by the SPP Compliance Staff as well as the tri-annual audit performed by NERC. SPP is also instituting an independent review of the SPP RCEP on a periodic basis to supplement the tri-annual NERC Review. SPP is also making some administrative changes to shift all salary considerations and performance related items pertaining to the SPP Compliance Staff to the SPP CC.**

### **3) Compliance Audits**

Seventeen balancing authorities and eighteen transmission operators are registered in SPP and are expected to be covered under the SPP RCEP. (See table on last page.) Please provide the dates when each of these balancing authorities and transmission operators were last physically (on-site) audited by the SPP RCEP, and the schedule of future physical audits.

**See Attached Sheet.**

If the auditors made recommendations associated with those audits, how are these recommendations being followed or tracked by SPP? Have completion dates been identified? What follow-up mechanisms are in place to assure timely implementation of recommendations?

**SPP has elected to continue to perform Compliance Field Reviews completely separate from the NERC Readiness Audit Program. We have separated the on-site visits by SPP and NERC by approximately 18 months. When viewed over a long period, an on-site visit**

is made to each applicable member 2 out of every 3 years. Independent contractors perform the SPP Field Reviews with a SPP Compliance staff member acting as an observer. An SPP Compliance Staff member is assigned the role of co-lead on every NERC Readiness Audit. In the intervening year, the member is subject to the other techniques used by SPP in the annual RCEP.

All recommendations from the NERC Readiness Audit program are tracked at the NERC level. SPP and its members provide updates on a quarterly basis. Any recommendations that are non-compliance findings are investigated and, if upheld, are placed in the SPP CDMS for follow-up. The member enters an expected completion date with milestones, as necessary, and the SPP Compliance Staff monitors progress to completion.

The SPP on-site Compliance Field Reviews only track findings of compliance or non-compliance. There are no 'recommendations' associated with this type of review. Non-compliance findings that require mitigation plans are entered into the CDMS and tracked through the same mechanisms as discussed earlier.

A member that does not complete its mitigation plan before the next scheduled monitoring period or the next scheduled on-site visit is subject to a 2<sup>nd</sup> finding of non-compliance and a subsequent enforcement action.

What level of spot checking of areas and sub entity compliance is in place in SPP?

SPP performs the following types of 'spot checks':

1. SPP Operations personnel collect the monthly CPS data from the members and analyze the data before publishing it to the SPP Compliance Staff.
2. SPP Operations personnel collect and analyze each DCS event data from every member and recommend a compliance finding before publishing the quarterly data.
3. SPP performs an annual real-time UFLS survey on its members for compliance to the SPP UFLS criteria.
4. SPP IT personnel collect, analyze and publish a monthly chart showing member compliance to the Member-to Reliability Coordinator data requirements.
5. SPP Compliance Staff collect and review all 'misoperation' reports submitted by members.
6. SPP Compliance Staff cross references member self-certification with the Reliability Coordinator records for SOL and IROL violations.
7. SPP Engineering Staff publishes a milestone table of member participation in the SPP Regional Planning Process, including the member response to mitigation plans for reliability violations.
8. SPP Engineering Staff publishes a milestone table for the member participation in the model development cycle.
9. SPP Engineering Staff collect, analyze and publish various informational reports such as the EIA 411 that includes certain data information contained in the NERC Standards as well as capacity margins of SPP members.
10. SPP Compliance Staff reviews all Energy Emergency Alerts for compliance to procedures.
11. SPP Operations Staff updates the SPP Black Start Plan on an annual basis. This update includes submittals for testing dates of units. This update is reviewed for compliance to Criteria for unit testing.

**As discussed earlier, because SPP Compliance staff is ‘on-site’ approximately every 18 months, SPP does not perform ‘spot checks’ on document or administrative standards. The review of documents is left to the teams while on site at the member’s location.**

The FERC order calls for “proactive enforcement audits” of entities responsible to comply with the standards. How would you describe your program in meeting this objective?

**As discussed in other sections of this questionnaire, SPP has an active on-site Compliance Field Review Program. Also listed above are monitoring activities that SPP performs for various standards outside of the on-site process. SPP is adding an annual on-site compliance review of the SPP Reliability Coordinator as well as on-site audits of the SPP RCEP.**

#### **4. Supporting NERC Initiatives**

NERC has implemented several initiatives to enhance reliability and bring consistency among regional compliance enforcement programs. How has SPP supported these initiatives including providing volunteers for the readiness audit program and promoting these critical initiatives among SPP members?

**The SPP Staff and personnel from SPP members have actively participated in the NERC Readiness Audit Program. SPP has fulfilled all of its internal obligations and provided numerous volunteers for external audits. SPP promotes this program at various opportunities during the year, including the annual rollout program and during presentations to SPP Committees.**

Communication of NERC CEP, Readiness Audit, and other initiatives to enhance reliability within SPP is critical to the success of NERC and the preservation of reliability. Does SPP plan to continue to conduct regional compliance workshops or other meetings? Will SPP seek the assistance of NERC staff to help communicate these initiatives?

**SPP will be conducting its 7<sup>th</sup> annual Spring Compliance Rollout Workshop on March 13-14, 2006. A NERC speaker will be present for the 7<sup>th</sup> time this year. SPP has from time-to-time held additional Compliance Workshops for specific subjects. We anticipate that 2006 will require a 2<sup>nd</sup> and possibly a 3<sup>rd</sup> workshop for topics such as the Cyber Security Standard, ERO Transition, non-member orientation and Entity Certification.**

#### **4) NERC Guidelines for Reporting and Disclosure**

Beginning with the first quarter of 2004, regions were required to disclose all violations of NERC or regional standards to the NERC Board of Trustees and all confirmed violations of all NERC and regional standards are to be disclosed publicly on the NERC Web site quarterly. The NERC *Guidelines for Reporting and Disclosure* included provisions for reporting all violations that were not administrative in nature within 48 hours. Has SPP encountered any difficulty complying with these guidelines?

**In general, SPP has not encountered any problems meeting the disclosure Guidelines. We have added an extra step in the notification process, giving the member a period of time to decide whether to appeal a ‘pending’ non-compliance finding. This addition was made in order not to release the name of a non-compliant member before they had accepted the finding. This additional time has occasionally caused the appearance of an unusually long**

time from inception to disclosure if the timing crosses over a quarterly reporting period. We are working on shortening some of the time periods allowed for actions both of the SPP Staff and the member.

Southwest Power Pool, Inc. - SPP										
Entity Name	LAST NERC READINESS AUDIT	NEXT NERC READINESS AUDIT	LAST SPP COMPLIANCE FIELD REVIEW	NEXT SPP COMPLIANCE FIELD REVIEW	BA	PA	RC	RRO	TOP	TP
AEP - Central & Southwest	1Q2004	2Q2007	4Q2003	2Q2006	X	X			X	X
Arkansas Electric Coop	N/A	N/A	N/A	N/A						X
Board of Public Utilities, Kansas City, Kansas	3Q2005	3Q2008	4Q2004	2Q2007	X				X	X
City of Lafayette, LA	--	2Q2006	4Q2005	4Q2008	X				X	X
City Power & Light, Independence, MO	4Q2005	4Q2008	4Q2004	3Q2007	X				X	X
City Utilities, Springfield, MO	N/A	3Q2006	N/A	2Q2006					X	X
CLECO Corporation	2Q2005	1Q2008	3Q2003	1Q2007	X				X	X
Empire District Electric	--	4Q2006	2Q2005	2Q2008	X				X	X
Grand River Dam Authority	--	4Q2006	2Q2005	2Q2008	X				X	X
Kansas City Power & Light	4Q2004	4Q2007	4Q2002	2Q2006					X	X
Kansas City Power & Light	4Q2004	4Q2007	4Q2002	2Q2006	X					
Louisiana Energy & Power Authority	--	2Q2006	4Q2005	4Q2008	X					
Midwest Energy	N/A	N/A	N/A	3Q2006						X
Missouri Public Service	2Q2005	2Q2008	2Q2004	2Q2007	X				X	X
Oklahoma Gas & Electric	2Q2004	2Q2007	4Q2005	3Q2008	X	X			X	X
Southwest Power Pool	2Q2005	2Q2008	1Q2005	4Q2006		X	X	X		X
Southwestern Power Administration	--	4Q2006	2Q2005	2Q2008	X				X	X
Southwestern Public Service - Xcel	--	4Q2006	3Q2004	3Q2007	X				X	X
Sunflower Electric Power	2Q2005	2Q2008	2Q2004	2Q2007	X				X	X
West Plains Energy	--	3Q2006	4Q2003	2Q2007	X				X	X
Westar	4Q2005	4Q2008	4Q2003	1Q2007	X				X	X
Western Farmers Electric Coop	4Q2004	4Q2007	3Q2002	2Q2006	X				X	X
<b>TOTALS</b>					<b>17</b>	<b>3</b>	<b>1</b>	<b>1</b>	<b>18</b>	<b>20</b>

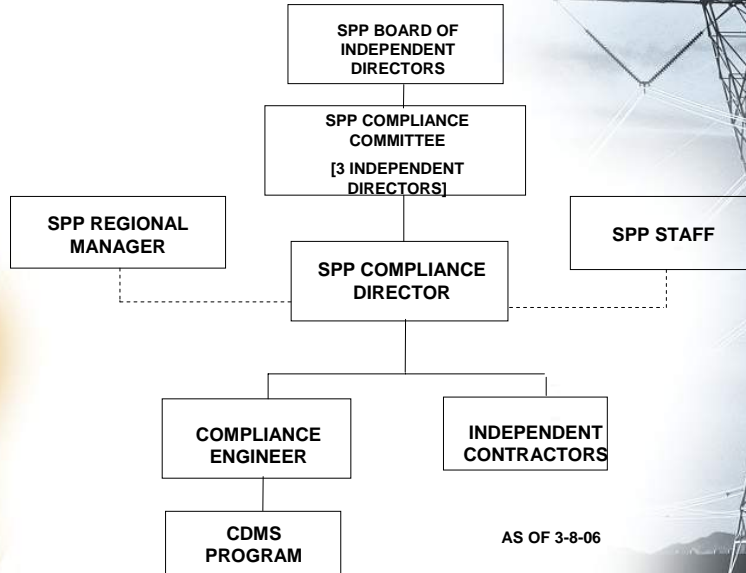


The slide has a background with a horizontal gradient from dark brown on the left to light grey on the right. In the top-left corner, the SPP logo is shown in white. The main title is centered on the left side in a white, sans-serif font, reading 'Reliability Compliance &amp; Enforcement Program'. On the right side, the text 'NERC Compliance Committee' is displayed in a bold, black, sans-serif font, with 'NERC' on the top line, 'Compliance' on the second line, and 'Committee' on the third line. Below this, the date 'March 15, 2006' is written in a bold, black, sans-serif font. A small number '2' is located in the bottom-right corner of the slide.





## SPP Organizational Structure



3



## Compliance Program History

- ❖ 1998
  - ◆ SPP Compliance Program Formulated with Compliance Director for SPP, ECAR, MAPP, and MAIN
- ❖ 1999
  - ◆ Pilot Program Launched with only 10 measures
  - ◆ SPP Performs first Compliance Field Reviews
- ❖ 2000
  - ◆ Pilot Program expanded to over 35 measures
- ❖ 2001-2003
  - ◆ Compliance Program monitoring stabilizes to 30 +/- measures
- ❖ 2004 – 2006
  - ◆ Compliance Program monitoring continues
  - ◆ Readiness Audit Program initiated
  - ◆ Version 0 Standards introduced
  - ◆ Entity Registration initiated

4



## Scope of SPP Compliance Program

### ❖ SPP Program Participation

#### ◆ 40 RRO Members

- \* 30 Members Participate in the Annual Compliance Program
- \* 2 Non-members participate in the Annual Program
- \* 1 Reliability Coordinator located in SPP's footprint

#### ◆ Expected Growth of entities

- \* Expectation that approximately 70-100 additional entities will register in 2006

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## Program Activities

### ❖ On-Site Compliance Reviews

- ◆ 3-year cycle for BA/TOP
  - \* The standard 3-year cycle has been shortened or lengthened slightly for individual members to accommodate the 3-year Readiness Audit cycle
  - \* Approximately 6 per year
    - Performed by Independent Contractors
    - SPP Compliance Staff act as observers
- ◆ Annual Cycle for SPP RC [Effective 2006]
  - Performed by Independent Contractors
  - SPP Compliance Staff act as observers
- ◆ Annual Cycle for SPP RCEP [Effective 2006]
  - Performed by Independent Contractors
  - Starting with the results of the 2006 Plan Year

### ❖ NERC Readiness Audits

- ◆ 3-year cycle for BA/TOP/RC
  - \* Approximately 6 per year
    - SPP Compliance Staff act as co-lead on every audit

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## Program Activities [cont.]

### ❖ Quarterly Surveys

#### ◆ Used for reporting of:

- \* Operator Certification issues
- \* Vegetation issues
- \* IROL/SOL Crosscheck between member and RC
- \* Misoperations
- \* Provides Affirmative Response to Exception Reporting Items such as:
  - UFLS Events
  - SPS Events



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## Program Activities [cont.]

### ❖ Data Collection/Assessments/Spot Checks

- ◆ CPS Monitoring
- ◆ DCS Monitoring
- ◆ Data Requirements Member-to-RC
- ◆ Annual Planning Studies
- ◆ Model Building
- ◆ See the response to the Questionnaire for more examples



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## Program Activities [cont]

### ❖ Self-Certification

- ◆ Some certifications are collected quarterly
- ◆ Other standards not reviewed by the previously identified activities are collected annually
- ◆ Members that did not have an on-site review must self-certify to the standards in the field review package
- ◆ All submittals are made through the SPP CDMS



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## Program Activities [cont]

### ❖ Other Activities

- ◆ Investigations
- ◆ Entity Certification



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## Program Strengths

### ❖ Streamlined Processes

- ◆ SPP Compliance Staff makes all findings of compliance/non-compliance regardless of source of the information or recommendations
- ◆ SPP Compliance Staff makes all notifications of enforcement to members

### ❖ Staff Experience

- ◆ 45 years of relevant utility experience
- ◆ Both staff members are Registered Professional Engineers
- ◆ One staff member is a NERC Certified Operator
- ◆ One staff member is an attorney

### ❖ Independent Auditing Staff Experience

- ◆ Each Auditor has 25+ years of utility experience
- ◆ Each auditor is a NERC Certified Operator

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## Program Strengths [cont]

### ❖ Communications

- ◆ SPP Compliance Staff hold between 1 and 3 Compliance Workshops annually
- ◆ Presentations are made at all SPP Compliance Committee meetings.
- ◆ Presentations are made at every regularly scheduled Market & Operations Policy Committee [MOPC]. This is the highest level full membership technical committee.
- ◆ Presentations are made at every scheduled Operating Reliability Working Group meeting.
- ◆ Presentations are made at other SPP Working Group meetings as requested.
- ◆ Compliance Staff is on-site at 2/3 of the SPP BA/TOP members every year

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## Program Strengths

### ❖ Access to Technical Experts

- ◆ SPP Compliance staff has direct access to SPP Staff and member personnel for technical expertise



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## Program Weaknesses

### ❖ Small Staff limits the ability to handle short-term surges in workload

- ◆ 2006 Entity Registration in less than 45 days
- ◆ In 2004-2005, 6 members appealed a compliance finding. Disposition of the appeal took too long.

- \* Additional compliance staff was added in 2Q2005

### ❖ Mitigation Plan/Recommendation Tracking

- ◆ Previous mitigation plans were not always tracked to completion

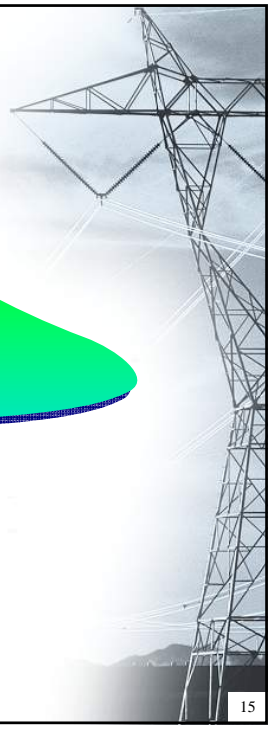
- \* CDMS became fully functional in 2H 2005



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Questions?



15

[rciesiel@spp.org](mailto:rciesiel@spp.org) or  
[cyeung@spp.org](mailto:cyeung@spp.org)



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# Memorandum

To: SPP Compliance Committee  
From: Stacy Duckett  
Date: March 30, 2006  
Re: SPP's Answer to Protests in the EMM Agreement Docket

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The 2006 Service Agreement with Boston Pacific for External Market Monitor services was filed with FERC. There were two protests filed in the docket.<sup>1</sup> The issues raised are listed here for your reference:

1. SPP should clarify that its Board will not delegate away its authority over the EMM.
2. SPP should clarify what Commission approvals the EMM will assist SPP in obtaining.
3. The EMM should be required to attend meetings of SPP stakeholder groups when requested to do so.
4. Requiring the EMM to submit draft reports to SPP for review prior to publication compromises the independence of the EMM.
5. The Agreement's provision on data and information to which the EMM will have access to is too vague.
6. SPP should clarify the EMM's role in preparing the 2005 state of the market report.
7. Board permission should not be required for the EMM to respond to stakeholder concerns within the Agreement's budget parameters.
8. The EMM should be allowed to consider complaints regarding any market that affects or could be affected by SPP's markets and services.
9. SPP's Bylaws require an external market monitor.

SPP filed a response to the interventions on March 23. A copy of that filing is attached.

Please let me know if you have any questions or if you would like to receive copies of the intervenors filings.

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<sup>1</sup> Protests were filed by the East Texas/Tex-La/North Texas Cooperatives, and TDU Intervenors (Missouri Joint Municipal Electric Utility Commission, OMPA and West Texas Municipal Power Agency).



**UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION**

Southwest Power Pool, Inc.

)

Docket No. ER06-641-000

**ANSWER OF SOUTHWEST POWER POOL, INC.  
TO PROTESTS AND REQUESTS FOR MODIFICATION AND  
CLARIFICATION**

Pursuant to Rule 213 of the Federal Energy Regulatory Commission's ("FERC" or "Commission") Rules of Practice and Procedure (18 C.F.R. § 385.213), Southwest Power Pool, Inc. ("SPP") hereby files this Answer to the protests and requests for modification or clarification filed in this proceeding.<sup>1</sup>

This proceeding arises out of a filing submitted by SPP on February 15, 2006 to revise Attachment AJ of its Tariff to incorporate an executed External Market Monitor ("EMM") Services Agreement ("Agreement"). SPP submitted the EMM Agreement in response to the Commission's September 19, 2005 order,<sup>2</sup> which rejected SPP's initial real-time energy imbalance service market ("EIS Market") filing but provided guidance on several issues the Commission considered critical to the success of SPP's EIS market. One such issue was the role of the EMM. In the September 19 Order, the Commission stated that SPP must clarify the division of responsibilities between SPP's internal Market Monitoring Unit ("MMU") and the EMM, and to the extent that any

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<sup>1</sup> Consideration of this Answer is appropriate because several of the intervening parties seek affirmative relief in the form of modification or clarification, and because this Answer will help the Commission in its decision making. See Sw. Power Pool, Inc., 113 FERC ¶ 61,014, at P 7 (2005); Sw. Power Pool, Inc., 112 FERC ¶ 61,319, at P 56 (2005); Sw. Power Pool, Inc., 112 FERC ¶ 61,100, at P 8 (2005); Sw. Power Pool, Inc., 111 FERC ¶ 61,118, at P 20 (2005).

<sup>2</sup> See Sw. Power Pool, Inc., 112 FERC ¶ 61,303 ("September 19 Order"), order on reh'g, 113 FERC ¶ 61,115 (2005).

responsibilities overlap, SPP should provide for a means of resolution in cases of conflict between the MMU and EMM.<sup>3</sup> SPP's filing of the EMM Agreement was intended to address the Commission's concerns.

East Texas Cooperatives<sup>4</sup> and the TDU Intervenors<sup>5</sup> submitted protests in this proceeding on March 8, 2006. These two parties argue that various aspects of the EMM Agreement require modification or clarification. However, as demonstrated herein, the EMM Agreement grants SPP an appropriate degree of authority over the EMM, and is consistent with Commission precedent and SPP's Bylaws. The Commission should therefore reject the protests submitted in this proceeding and accept SPP's EMM Agreement.

#### **I. STATEMENT OF ISSUES**

Consistent with Rule 203(a)(7), 18 C.F.R. § 385.203(a)(7), and Order No. 663,<sup>6</sup> SPP states that the first issue presented by this filing is whether the Commission should permit SPP to answer the protests and requests for modification or clarification submitted in this proceeding. SPP herein will provide information that will help the Commission in its decision making, and the Commission has frequently permitted such answers.<sup>7</sup> In

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<sup>3</sup> See September 19 Order at P 38.

<sup>4</sup> East Texas Cooperatives is comprised of East Texas Electric Cooperative, Inc., Northeast Texas Electric Cooperative, Inc. and Tex-La Electric Cooperative of Texas, Inc.

<sup>5</sup> The TDU Intervenors is comprised of the Missouri Joint Municipal Electric Utility Commission, the Oklahoma Municipal Power Authority and the West Texas Municipal Power Agency.

<sup>6</sup> Revision of Rules of Practice and Procedure Regarding Issue Identification, Order No. 663, III FERC Stats. & Regs., Regs. Preambles ¶ 31,193 (2005).

<sup>7</sup> See supra note 1.

addition, SPP directly responds to the requests for affirmative relief – i.e., the requests for modification of the filing.

The second issue presented by this filing is whether the EMM Agreement is just and reasonable, as required by section 205 of the Federal Power Act (“FPA”).<sup>8</sup> As demonstrated herein, the EMM Agreement grants SPP an appropriate degree of authority over the EMM, and is consistent with Commission precedent and SPP’s Bylaws.<sup>9</sup> The Commission should therefore disregard the protests and requests for modification or clarification filed in this proceeding and accept the proposed EMM Agreement.

## **II. ANSWER**

### **A. The Authority of SPP’s Board of Directors, Committees and Staff Over the EMM Is Just and Reasonable, and Consistent with Commission Precedent and SPP’s Bylaws.**

The East Texas Cooperatives object to the language of the EMM Agreement stating that all references to SPP’s Board of Directors (“Board”) includes any committees or persons to which the Board has assigned certain responsibilities.<sup>10</sup> They argue that this language is too broad, and would seem to permit the Board to delegate ultimate authority over the EMM to any SPP group or individual.<sup>11</sup> They urge the Commission to revise the first paragraph of the Agreement to clarify that the Board cannot delegate away its authority over the EMM.<sup>12</sup>

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<sup>8</sup> 16 U.S.C. § 824d.

<sup>9</sup> See ISO New England Inc., 106 FERC ¶ 61,280 (2004); PJM Interconnection, L.L.C., 96 FERC ¶ 61,061 (2001).

<sup>10</sup> See East Texas Cooperatives Protest at 6.

<sup>11</sup> See id.

<sup>12</sup> See id. at 7.

In response, SPP notes that its Bylaws explicitly assign oversight of the EMM to SPP's Board.<sup>13</sup> While the Board has assigned the oversight of the EMM to the Compliance Committee pursuant to section 6.4 of SPP's Bylaws, SPP's Board retains ultimate authority over the EMM. The relevant language in the EMM Agreement is intended to allow its Board to delegate responsibility to smaller working groups, such as the Compliance Committee, so that the entire Board would not need to be convened to address all market monitoring issues. As detailed in section 6.4 of SPP's Bylaws, the Compliance Committee consists of three Board members who will have access to SPP senior staff. No stakeholders will be involved in the oversight of the EMM. Such delegation of authority by SPP's Board is reasonable, since SPP and its staff are entirely independent of all potential market participants. Furthermore, there is no Commission precedent or policy prohibiting such a delegation by SPP's Board. Therefore, the Commission should disregard the East Texas Cooperatives' request.

The TDU Intervenors contend that the permission of SPP's Board should not be required for the EMM to respond to stakeholder concerns within the EMM Agreement's budget parameters.<sup>14</sup> However, there is no legal or other reasonable basis for the EMM to be independent of SPP's independent Board. The Commission has expressly stated that the market monitoring function of a Regional Transmission Organization ("RTO") can be entirely internal.<sup>15</sup> An internal market monitor obviously functions subject to the

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<sup>13</sup> See SPP Bylaws at section 3.17.

<sup>14</sup> See TDU Intervenors Limited Protest at 3-4.

<sup>15</sup> See ISO New England, 106 FERC at P 188; PJM Interconnection, 96 FERC at 61,239.

RTO's Board. What's more, SPP's Board is completely independent of all market participants. There is thus no reason to require the EMM to be separate from SPP.

Moreover, the TDU Intervenors' suggestion that there is no need for SPP's Board to be involved in the oversight of the EMM so long as the EMM stays within budget is not persuasive. Exhibit C of the EMM Agreement caps the amount SPP will compensate the EMM. This number is not meant to be an annual budget or retainer, but merely a limit on the amount of expenses for which SPP will be responsible. To the extent that the amount paid to the EMM in any given year is less than the cap, that reduces costs to SPP's members, and such cost reductions should be promoted. Moreover, SPP's Board has a fiduciary duty to provide proper oversight and management of the EMM Agreement and the associated expenses, which will be borne by SPP's members.<sup>16</sup> As such, SPP's Board cannot allow an independent contractor to have unfettered discretion to incur expenses, since there would be no incentive for the EMM to restrain costs. Corporations do not retain independent contractors on this basis, and neither should RTOs. SPP further notes that the authority exercised over the EMM by SPP's Board will also benefit SPP's customers, who will ultimately pay the cost of retaining the EMM. If the TDU Intervenors are concerned about SPP being able to promptly approve any necessary action by the EMM, SPP's Compliance Committee can be convened as often as necessary to approve action by the EMM. Therefore, requiring the approval of SPP's

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<sup>16</sup> See SPP Membership Agreement at section 2.3.

Board or Compliance Committee should not impede progress.

The TDU Intervenors also argue that SPP's Bylaws require an external market monitor.<sup>17</sup> However, this is a misinterpretation of SPP's Bylaws. While section 3.17 of SPP's Bylaws does state that SPP will "establish and provide appropriate support to a market monitoring function through an independent contractor," this language does not require SPP to outsource all market monitoring functions. In this regard, SPP's Bylaws are consistent with Commission precedent, which, as previously discussed, does not require an external entity to perform all market monitoring functions. SPP also notes that the issue raised by the TDU Intervenors is premature, since it would only arise if SPP no longer retained an independent contractor to perform market monitoring functions.

As demonstrated herein, the EMM Agreement grants an appropriate degree of authority over the EMM to SPP's Board, Compliance Committee and Staff, and is consistent with Commission precedent and SPP's Bylaws. It therefore warrants approval by the Commission.

**B. The EMM Will Assist SPP in Obtaining a Variety of Commission Approvals.**

The East Texas Cooperatives request that SPP clarify the Commission approvals the EMM will assist SPP in obtaining.<sup>18</sup> In response, SPP states that the initial intent of this language was for the EMM to assist SPP in obtaining Commission approvals relating to SPP's EIS Market and market monitoring and mitigation plans. However, there is no Commission precedent or policy prohibiting SPP's Board from requesting the EMM to

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<sup>17</sup> See TDU Intervenors Limited Protest at 6-7.

<sup>18</sup> See East Texas Cooperatives Protest at 7.

assist in other matters requiring Commission approval, based upon the needs of SPP. For example, SPP may, at some point in the future, propose a revision to the market design that was recommended by the EMM. In such a proceeding, it would certainly make sense for SPP to obtain the assistance of the EMM. It would thus not be reasonable for the Commission to limit the ability of SPP's Board to seek the assistance of the EMM, since SPP cannot predict what will occur in the future. What's more, SPP fails to see an issue here, since the EMM will presumably make representations to the Commission only when it is confident that such representations are accurate. The Commission should therefore reject the East Texas Cooperatives' request for clarification of this issue.

**C. Attendance at Stakeholder Group Meetings by the EMM Should Be Subject to SPP Board or Compliance Committee Approval.**

The East Texas Cooperatives argue that the EMM should be required to attend SPP stakeholder meetings when requested to do so by individual SPP stakeholder groups.<sup>19</sup> In response, SPP notes that the EMM attends meetings as requested by the Compliance Committee or the Board.<sup>20</sup> If a stakeholder group would like the EMM to attend a meeting, it may ask the Compliance Committee to provide that direction to the EMM. However, such a request by one stakeholder group does not automatically mean that the EMM's attendance is justified. Since SPP is responsible for compensating the EMM for attending any such meeting, it is therefore reasonable to condition the EMM's attendance upon the approval of SPP's Compliance Committee or the Board. Furthermore, SPP is not aware of any Commission policy or precedent supporting the

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<sup>19</sup> See East Texas Cooperatives Protest at 7-8.

<sup>20</sup> See EMM Agreement at Exhibit A, EMM Responsibility No. 10.

East Texas Cooperatives' request. The Commission should therefore reject this request.

**D. Requiring the EMM to Submit Draft Reports to SPP for Review Prior to Publication is Reasonable.**

The East Texas Cooperatives posit that requiring the EMM to submit draft reports to SPP for review prior to publication compromises the independence of the EMM.<sup>21</sup> In response, SPP submits that, since the EMM will be working in tandem with SPP's MMU, this provision makes a great deal of sense. It will allow SPP's MMU and the EMM to reconcile any issues or disagreements concerning the facts before a report is issued. Indeed, the EMM has in fact requested that SPP conduct such reviews in order to ensure factual and technical accuracy, as well as the pertinence of the reports. Moreover, the EMM Agreement explicitly states that "SPP may not screen, alter, delete or delay the EMM's findings, conclusions or recommendations."<sup>22</sup> SPP submits that this arrangement is no different than a company reviewing a draft of its annual financial audit before a final version is issued. SPP also notes that there is no Commission policy or precedent supporting the request of the East Texas Cooperatives that this provision be removed from the EMM Agreement. The Commission should thus disregard the East Texas Cooperatives' request.

**E. The EMM Agreement Strikes a Proper Balance between Limiting Distribution of Confidential Information and Providing the EMM with Sufficient Access to Relevant Information.**

The East Texas Cooperatives argue that the EMM Agreement's provision on Data and Information to which the EMM will have access is too vague, and request that the

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<sup>21</sup> See East Texas Cooperatives Protest at 8.

<sup>22</sup> EMM Agreement at Exhibit A, EMM Responsibility No. 4.



EMM Agreement be revised to provide the EMM access to all Data and Information gathered or generated by SPP in the course of operations that the EMM determines is necessary to perform its assigned duties.<sup>23</sup> In response, SPP notes that its Bylaws specifically require SPP's President to ensure that the EMM has adequate access to information in order to effectively execute its duties.<sup>24</sup> However, SPP recognizes the need to balance the interests of its members on limiting distribution of confidential information to the fewest number of parties with the need to provide the EMM with sufficient access to relevant information. The EMM Agreement attempts to achieve this balance. It is also worth noting that SPP's market monitoring unit consists of its internal MMU, as well as the EMM. If the information in question pertains to a matter that SPP's MMU is handling separately from the EMM, there would be no basis for SPP to provide the information to the EMM unless SPP determined that required the EMM's assistance. SPP therefore submits that the EMM Agreement strikes the appropriate balance between limiting distribution of confidential information and providing the EMM with sufficient access to relevant information, and requests that the Commission disregard the East Texas Cooperatives' request for modification.

**F. The EMM Will Be Responsible for Developing the 2005 Annual State of the Market Report.**

The East Texas Cooperatives contend that SPP should clarify the roles of the EMM and the MMU with respect to the preparation of the 2005 Annual State of the Market Report, as the EMM Agreement states that the EMM's role may be limited to

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<sup>23</sup> See East Texas Cooperatives Protest at 8-9.

<sup>24</sup> See SPP Bylaws at section 3.17.

reviewing drafts of Quarterly and Annual Metrics Reports for Inter-RTO comparisons prepared by the Market Monitor before they are sent out in final form.<sup>25</sup> SPP is unclear as to what the concern is of the East Texas Cooperatives, since the two types of reports referenced in its protest are different. Nonetheless, SPP notes that the EMM Agreement explicitly assigns the task of producing the Annual State of the Market Report to the EMM.<sup>26</sup> SPP's MMU is to be primarily responsible for quarterly and other reports required by the Commission, but may engage the EMM if additional resources are required.<sup>27</sup> If the MMU staff is too constrained, it may request that the EMM take the lead on a particular report. In any case, it is clear from the EMM Agreement that the EMM will prepare the Annual State of the Market Report. The Commission should thus disregard the East Texas Cooperatives' protest concerning this issue.

**G. SPP's Internal MMU Will Have Responsibility Over Complaints Regarding Any Market That Affects or Could Be Affected By SPP's Markets and Services.**

The TDU Intervenors argue that the EMM should be allowed to consider complaints regarding any market that affects or could be affected by SPP's markets and services.<sup>28</sup> In response, SPP simply states that its internal MMU will be responsible for this duty, as it was not specifically delegated to the EMM in the Agreement.<sup>29</sup> This is

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<sup>25</sup> See East Texas Cooperatives Protest at 9.

<sup>26</sup> See EMM Agreement at Exhibit A, EMM Responsibility No. 5(a).

<sup>27</sup> See EMM Agreement at Exhibit A, EMM Responsibilities No. 11 (EMM will aid SPP's MMU in additional tasks upon mutual agreement).

<sup>28</sup> See TDU Intervenors Protest at 4-6.

<sup>29</sup> The EMM Agreement specifically states that all duties not specifically delegated to the EMM will be provided by SPP's MMU. See EMM Agreement at Exhibit A.

wholly consistent with Commission policy. As discussed above, the entire market monitoring function may be performed by a RTO's internal market monitor. Therefore, there is no basis under the Commission's precedent to require that this particular function can only be performed by an EMM. To the extent that SPP believes that the EMM should be involved in such matters, the EMM Agreement allows SPP to request the EMM's assistance.<sup>30</sup> Furthermore, SPP can engage the EMM in a separate agreement to conduct other duties as needed.<sup>31</sup> Nonetheless, because both SPP and the EMM are independent from all potential market participants, SPP submits that either entity may adequately perform this function.

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<sup>30</sup> See EMM Agreement at Exhibit A (providing that the EMM will advise SPP's Board as requested by the Board).

<sup>31</sup> See id. at Section 1 (the EMM's services may be modified from time to time upon mutual agreement).

### III. CONCLUSION

As shown herein, the EMM Agreement grants SPP an appropriate degree of authority over the EMM, and is consistent with Commission precedent and SPP's Bylaws. The Commission should therefore reject the protests submitted in this proceeding and accept SPP's EMM Agreement.

Respectfully submitted,

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**Attorneys for  
Southwest Power Pool, Inc.**

March 23, 2006

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**CERTIFICATE OF SERVICE**

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Washington, D.C., this 23<sup>rd</sup> day of March, 2006.

Matthew K. Segers  
Matthew K. Segers

Attorney for  
Southwest Power Pool, Inc.

## MEMORANDUM

March 23, 2006

**TO:** Josh Martin, Chair  
Phyllis Bernard  
Quentin Jackson  
Compliance Committee, SPP  
Board of Directors

**FROM:** Craig Roach

**SUBJECT:** Quick Summary of FERC Order on SPP's EIS Market

### INTRODUCTION AND SUMMARY

The purpose of this memo is to provide a quick summary of the FERC Order, issued on March 20, 2006, concerning SPP's proposal to implement its Energy Imbalance Services (EIS) Market.<sup>1</sup> The memo will provide background for the discussion of the *March 20 Order* at the Compliance Committee meeting next week.

The major headline from the *March 20 Order* is that, by changing the effective date of the proposed Open Access Transmission Tariff ("Tariff"), FERC delayed the start of the EIS Market from May 1, 2006, to October 1, 2006. While recognizing the benefits forgone by the delay, FERC stated that "the stakes are too high to allow implementation of a market design, such as SPP proposes, that is missing important elements and assurances regarding reliable and stable market operations."<sup>2</sup>

Since FERC accepts so much of SPP's proposal, with only moderate change, the required delay comes as something of a surprise. While we can only speculate, it appears that the delay might be driven primarily by two concerns. The first, and more important, is that FERC does not believe the delineation of responsibilities between the individual control areas and SPP has been defined to assure reliable operation day-to-day. FERC requires a filing on delineation within

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<sup>1</sup> Order on Proposed Tariff Revision 114 FERC ¶ 61,289. ("March 20 Order") This Order is in response to SPP's filing on January 4, 2006, which, in turn, was in response to FERC's September 19 Order on proposed Tariff Revisions 112 FERC ¶61,303 ("September 19 Order"). The *September 19 Order* provided guidance on necessary elaborations and changes to SPP's original filing on June 15, 2005 seeking approval for the EIS Market.

<sup>2</sup> Ibid at ¶3.

60 days and also, apparently in anticipation of controversy, FERC requires negotiation on these matters before a FERC settlement judge.<sup>3</sup>

The second is that FERC has concern about new congestion management tools, most notably the Curtailment Adjustment Tool (CAT). FERC wants more detail in the Tariff and wants to review NERC assessments of the EIS Market prior to market start.<sup>4</sup>

While these may be the two primary reasons for the delay, FERC also wants to see other important filings such as those on reserve sharing and a Reversion Plan.<sup>5</sup>

With respect to market monitoring and mitigation measures, FERC approves all the central proposals. The Offer Cap is the most explicit mitigation proposal and FERC accepts its concept (it is based on the cost of new entry)<sup>6</sup> and its calculation (the explicit inputs are all approved).<sup>7</sup> FERC did reject the proposal for a floor to the Offer Cap.<sup>8</sup>

A good surprise was that FERC will allow all Market Participants the right to offer into the EIS Market at market-based bids<sup>9</sup> as we suggested they should. The alternatives would have been cost-based bids for large utilities. However, FERC will require an absolute offer cap of \$400/MWh in the first three months after market start and \$1,000/MWh for the next three months.<sup>10</sup>

The following lists key rulings by FERC, first concerning market design and implementation, then market monitoring and mitigation. It is not a complete list, but rather a list of the most important elements of FERC's ruling.

## **MARKET DESIGN AND IMPLEMENTATION**

### **Reliability Concerns**

FERC focuses on four reliability and readiness concerns. First, as already noted above, it is concerned that the relationship between the individual control

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<sup>3</sup> Ibid at ¶19, ¶90 and ¶91.

<sup>4</sup> Ibid at ¶20 and ¶75.

<sup>5</sup> Ibid at ¶96 and ¶24.

<sup>6</sup> Ibid at ¶171.

<sup>7</sup> Ibid at ¶188 and ¶189.

<sup>8</sup> Ibid at ¶190.

<sup>9</sup> Ibid at ¶203.

<sup>10</sup> Ibid at ¶26.

areas and SPP is not fully delineated.<sup>11</sup> FERC had previously made its concerns known in its *September 19 Order*.<sup>12</sup> In response, SPP argued in the January 2006 Tariff filing that the relationship was delineated in the SPP Membership Agreement.<sup>13</sup> FERC orders that an amended SPP Membership Agreement, or another document, be filed by SPP within 60 days which delineates the roles as well as states the cost and liabilities. FERC also requires SPP and the control areas to negotiate all these matters before a settlement judge, and, if the parties choose, to avail themselves of dispute resolution services at FERC.<sup>14</sup>

Second, again as noted above, FERC is concerned that the new tools for congestion management, notably the Curtailment Adjustment Tool (CAT), need to be more fully explained and assessed. Although FERC notes that SPP has taken “reasonable steps” to implement CAT and other tools,<sup>15</sup> FERC wants more detail in the Tariff.<sup>16</sup> FERC asks also that NERC assessments of the EIS Market be forwarded to FERC.<sup>17</sup>

Third, FERC is concerned about the readiness to operate the market. It requires that independently evaluated readiness metrics be submitted 60 days prior to market start and that Market Readiness Certification be submitted 30 days before market start.<sup>18</sup> FERC acknowledges that SPP already has metrics from an independent party in hand.

Fourth, FERC requires that a Reversion Plan – a plan in case of severe operations failure – be submitted no later than 60 days from the Order.<sup>19</sup> It is my understanding that SPP and SPP stakeholder groups are finalizing a Reversion Plan now.

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<sup>11</sup> Ibid at ¶19, ¶90 and ¶91. “As discussed below in section III(E)(3) Control Area-SPP Relationship of this order, SPP has not complied with the guidance provided in the *September 19 Order* to develop and define the functional responsibilities necessary for the reliable operation of the imbalance market.”

<sup>12</sup> *September 19 Order* at ¶29.

<sup>13</sup> Rossi Testimony at pages 16 to 24.

<sup>14</sup> March 20 Order at ¶90 and ¶91. “Second, we find that the SPP Membership Agreement does not adequately define the relationship between SPP and the control areas in the SPP system. We have stated a preference for negotiating among RTOs and their respective control areas in resolving these relationships issues... W(e) direct SPP and control area operators to negotiate before a settlement judge the proper allocation of functional responsibilities, costs, and liability associated with SPP’s new role in its region.”

<sup>15</sup> Ibid at ¶74.

<sup>16</sup> Ibid at ¶20 and ¶75. “SPP has not provided an adequate description of its newly developed Curtailment Adjustment Tool and other mechanisms it will use to manage the interaction of TLRs and flows in the imbalance market. We require SPP to incorporate additional detail from its market protocols into the OATT.”

<sup>17</sup> Ibid at ¶20.

<sup>18</sup> Ibid at ¶23.

<sup>19</sup> Ibid at ¶24.



## **Transitional Limits and Price Corrections**

Because of concerns about problems during start up, FERC imposes Transitional Limits in the form of additional offer caps for the first six months of market operation. (The word “additional” is used because these appear to be backstops to the Offer Caps proposed and accepted by FERC as discussed later herein.) In the first three months, the transitional offer cap will be \$400/MWh<sup>20</sup>. For the next three months the transitional offer cap will be \$1,000/MWh.<sup>21</sup> Again, Tariff language implementing these transitional offer caps must be filed within 60 days from the date of this Order<sup>22</sup>.

FERC also requires SPP to add to its Tariff, within 60 days, the procedure for correcting EIS Market prices in the case of market software and data input errors.<sup>23</sup> SPP already has completed this effort and has stakeholder approval, but SPP must revise the Tariff to include it.

## **Resource Plans**

FERC approves key proposals for day-ahead and hour-ahead Resource Plans and an Ancillary Service Plan. Indeed, importantly, these proposals appear to allay some FERC concerns about the voluntary nature of the market.<sup>24</sup> Still, FERC asks for some changes.<sup>25</sup> The changes include a statement in the Tariff that (a) resources must be offered or self-dispatched into the EIS Market sufficient to satisfy energy requirements, (b) a simultaneous feasibility test must be done day-ahead, (c) SPP must have the authority to de-commit resources if there is an excess, (d) SPP must have the authority to order generation on to meet the needs of the SPP system as a whole, not just for the needs of a control area, and must state the compensation for such generation, and (e) SPP will incorporate input from control areas and load serving entities in its load forecasts.<sup>26</sup> A compliance filing is required in 60 days with respect to these matters.

## **Scheduling Methods and Charges**

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<sup>20</sup> Ibid at ¶26.

<sup>21</sup> Ibid.

<sup>22</sup> Ibid.

<sup>23</sup> Ibid at ¶28.

<sup>24</sup> Ibid at ¶72. “We do not find that the voluntary nature of the bidding in SPP’s imbalance market is a threat to the stable operations of the market or will necessarily result in “high-cost” bids. We find that the most important protection for customers from a thin imbalance market is SPP’s day-ahead and hour-ahead resource planning process that requires commitment of sufficient deliverable resources.”

<sup>25</sup> At ¶38 to ¶45.

<sup>26</sup> Respectively at ¶40, ¶41, ¶42, ¶42 and ¶45.

FERC accepts the scheduling methods and scheduling penalties (charges) that have been proposed. However, an exception has been allowed by SPP (and the Market Monitors) to encourage market participation. FERC says that the exception must either be eliminated or the Market Monitor must provide monthly reports to FERC, during the first year of market operation, on the implementation of the scheduling charges.<sup>27</sup>

### **Reserve Sharing**

FERC rejects the provision concerning reserve sharing in which IPPs and others are required to sign a Reserve Sharing Cost Allocation Agreement (RSCAA).<sup>28</sup> An RSCAA must be filed 60 days prior to market start and, in addition, a study must be submitted addressing key questions such as (a) why any proposed reserve sharing requirement is not duplicative of SPP's OATT Schedules 5 and 6; (b) why the reserve sharing agreement is necessary for implementation of the imbalance market; (c) whether the reserve sharing requirement would reduce participation in the market by burdening independent power producers and transmission dependent utilities; and (d) whether the reserve sharing requirement is consistent with the operation and cost allocation methods in other real-time imbalance markets. Note that FERC implies this topic may also be part of what is negotiated before the FERC settlement judge.<sup>29</sup>

### **Other FERC Requirements**

FERC acknowledges that congestion management will be achieved with a combination of market and non-market mechanism.<sup>30</sup> (That is a combination of EIS Market dispatch and curtailments through CAT and the TLR process.) However, FERC asks that the Market Monitor report monthly for the first year on how congestion is resolved and the mix of these two approaches that are used.<sup>31</sup>

As already noted, FERC accepts that the EIS Market is voluntary with the knowledge that the Resource Plans day-ahead and hour-ahead promote resource adequacy. However, FERC will require that the Market Monitor report monthly for the first year on the megawatts offered as compared to the megawatts available at each node.<sup>32</sup>

FERC sees SPP proposing that it be given the authority to order generation on line in "normal" (non-emergency) conditions, and that

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<sup>27</sup> Ibid at ¶55.

<sup>28</sup> Ibid at ¶96.

<sup>29</sup> Ibid at ¶97.

<sup>30</sup> Ibid at ¶62.

<sup>31</sup> Ibid at ¶72.

<sup>32</sup> Ibid.

compensation be determined on a case-by-case basis. FERC asks that the authority be eliminated or that SPP add generic rules for compensation to the Tariff.<sup>33</sup>

FERC rejects requests by Intervenors that they be allowed to aggregate load across control area boundaries for purposes of settlement. However, FERC requires SPP to study the proposal that loads be consolidated across parties within a control area. The study is due one year after market start.<sup>34</sup>

FERC rejects language concerning confidential information going to State Commissions – saying that it had rejected the same language in MISO.<sup>35</sup>

FERC requires that offers to the EIS Market be accepted from parties external to SPP. The time line is that SPP must complete a study, two months after the market starts, and must implement this provision no later than six months after the market starts.<sup>36</sup>

## **MARKET POWER MONITORING AND MITIGATION**

### **Responsibilities of the IMM and EMM**

Because SPP has filed the proposed contract for the External Market Monitor (EMM), FERC conditionally accepts this as the SPP proposal on the delineation of responsibilities between the EMM and the internal Market Monitor. It is accepted subject to FERC review of the EMM Agreement.<sup>37</sup>

FERC wants SPP to clarify that the Market Monitor report to the full Board of Directors, not to the SPP President alone.<sup>38</sup>

FERC asks that it be clear that among the Market Monitor's responsibilities is the assessment of the incentives for new investment in transmission, generation, and demand response.<sup>39</sup>

FERC requires that the call for informal *opinions* on issues of mitigation and compliance by the Market Monitor be removed from section 6.1(a) of Attachment AG.<sup>40</sup> In footnote 135, FERC suggests that its “no action letters”

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<sup>33</sup> Ibid at ¶73.

<sup>34</sup> Ibid at ¶116 and ¶117.

<sup>35</sup> Ibid at ¶216.

<sup>36</sup> Ibid at ¶227.

<sup>37</sup> Ibid at ¶134.

<sup>38</sup> Ibid at ¶135.

<sup>39</sup> Ibid at ¶141.

<sup>40</sup> Ibid at ¶143.

may be obtained from FERC to the same effect. FERC does not block informal *discussions* with the Market Monitor.

FERC says that it is acceptable for SPP to reference FERC rules and regulations rather than incorporating market behavior rules verbatim as FERC originally required.<sup>41</sup>

FERC accepts the data requirements listed for Market Participants, but asks that SPP and the Market Monitor standardize the format of the data Market Participants are required to retain.<sup>42</sup>

### **The Offer Cap**

The proposed Offer Cap is the most explicit mitigation measure proposed by SPP and all the key elements are accepted by FERC as proposed. FERC accepts that the Offer Cap will be imposed only when and where there are transmission constraints.<sup>43</sup> FERC accepts that the Offer Cap is imposed on generators with a negative GLDF of 5% or larger, but asks that the Market Monitor be vigilant for market power abuse by all Market Participants as well as other problems that may arise.<sup>44</sup>

FERC acknowledges that the transmission situation for Southwest Public Service (SPS) is unique, and asks that this be reflected by treating two flowgates separately as opposed to jointly.<sup>45</sup>

FERC reads the Offer Cap proposal as saying that, if one resource owned by a Market Participant has the Offer Cap applied, then all of that Market Participant's resources are Offer Capped.<sup>46</sup> However, this is not how the SPP proposal works and could be a significant issue.

FERC accepts that the Offer Cap is based on the cost of new entry and accepts the actual inputs for the calculation as proposed.<sup>47</sup> However, as requested by Intervenors, the proposed floor to the Offer Cap is rejected.<sup>48</sup>

FERC agrees that exceptions to the Offer Cap must be filed with and approved by FERC.<sup>49</sup>

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<sup>41</sup> Ibid at ¶146.

<sup>42</sup> Ibid at ¶ 152.

<sup>43</sup> Ibid at ¶168.

<sup>44</sup> Ibid at ¶169.

<sup>45</sup> Ibid at ¶170.

<sup>46</sup> Ibid.

<sup>47</sup> Ibid at ¶188 and ¶189.

<sup>48</sup> Ibid at ¶190.

<sup>49</sup> Ibid at ¶191.

FERC agrees with Intervenor that the Offer Caps should be made available to all Market Participants.<sup>50</sup>

Importantly, FERC agreed that all Market Participants may offer market-based bids into the EIS Market because the EIS Market is monitored and mitigated sufficiently.<sup>51</sup> This is a blanket provision, not case-by-case, although each party must still apply to FERC for market-based rate authority.

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<sup>50</sup> Ibid at ¶192.

<sup>51</sup> Ibid at ¶203.

## MARKET MONITORING INQUIRY PROCESS

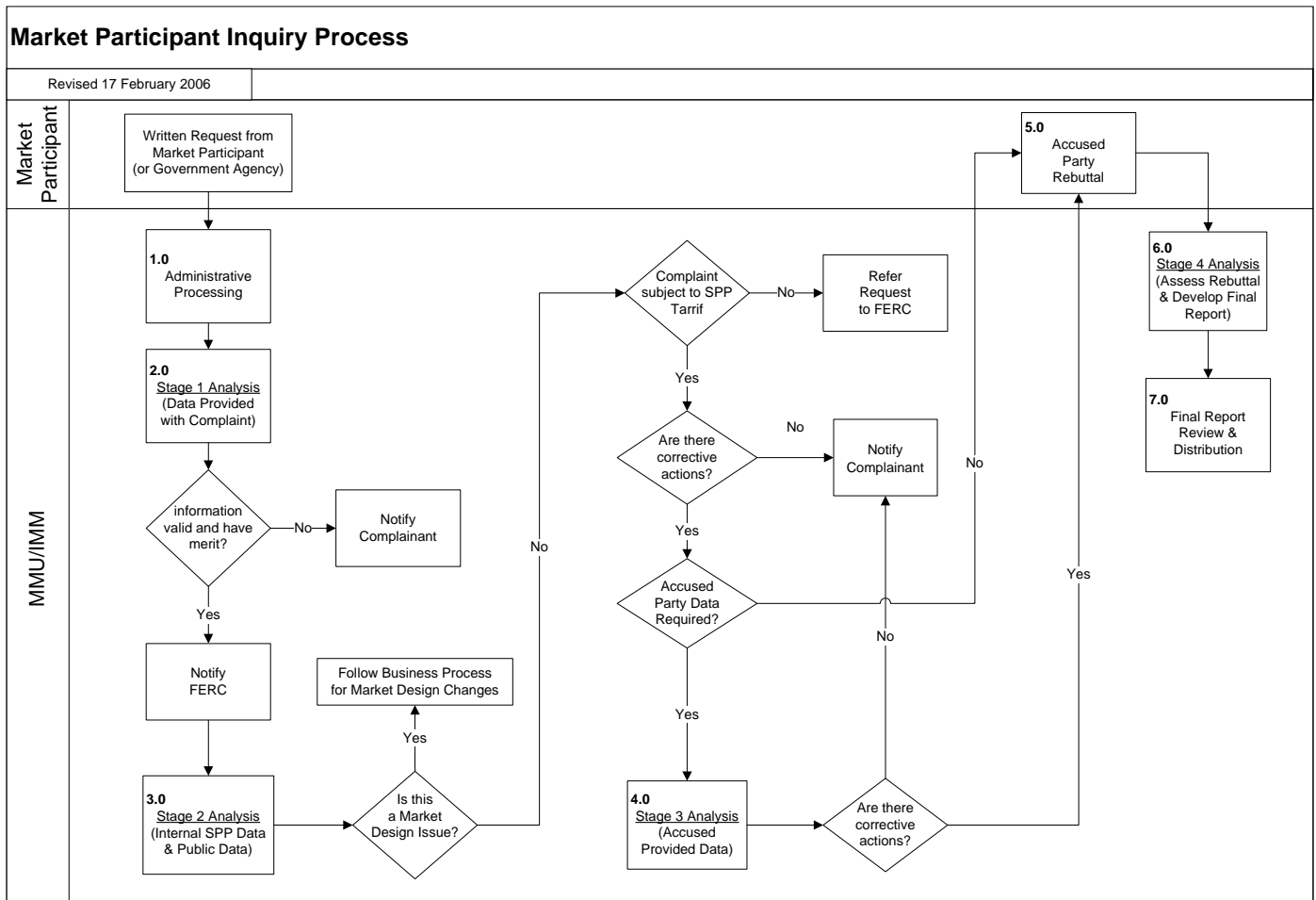
### A. Introduction

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

SPP internal Market Monitor Unit (MMU) will conduct all inquiries unless determined otherwise by the MMU and/or Compliance Committee. Determining factors may include: a potential for conflict of interest; the subject of the inquiry is SPP itself; a complainant requests the External Market Monitor (EMM) conduct the inquiry; or external resources are necessary to conduct the inquiry in a timely manner. If a complainant requests the EMM conduct an inquiry, the EMM will conduct the inquiry unless otherwise directed by the SPP Compliance Committee prior to the start of the inquiry.

The Monitors may initiate inquiries in accordance with this inquiry process independently of any submitted complaints when they deem it appropriate. The Market Monitors may initiate inquiries 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

### B. Process Steps



### Administrative Processing

- a. When an SPP Customer Relations Representative or a Market Monitor receives a request they will document the contact and forward information to the MMU Inquiry Coordinator
  - b. MMU Inquiry Coordinator will:
    - Facilitate lead assignments
    - Assign case number
    - Establish process schedule
    - Develop contact list
    - Distribute information as needed
  - c. The MMU will determine the need for and the level of involvement of the EMM in conducting the inquiry subject to the standards stated above in the Introduction.
2. Stage 1 Analysis - Review information provided by Complainant
- a. Initial screen - only assess complaints related to SPP's markets, events within the SPP footprint 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 inquiry
  - e. Notify Complainant of the decision regarding merit of the complaint
  - f. Document information regarding the complaint and disposition of the initial assessment for the SPP President and Compliance Committee
  - g. If the complaint merits further review, notify FERC within 48 hours of disposition 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 whether sufficient credible information has been gathered to substantiate or deny the complaint and warrant either corrective action, requires further evaluation by SPP Monitors, or referral to FERC:
    - If complaint pertains to a FERC Market Manipulation Rule violation ("Market Violation") or tariff with no express mitigation measure provided for by SPP tariffs, inform the SPP President and Compliance Committee of the results of the inquiry into the complaint, and if "sufficient credible information" is found, refer the complaint to FERC, and desist from any further action independent of 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, the Monitors will submit recommendations to the appropriate SPP committee or working group. If the responsible SPP committee or working group does not address the issue to the Monitor's satisfaction, the Monitors have the authority and responsibility to take other corrective actions as described in the Market Tariffs.

- If the inquiry results in findings regarding a tariff violation with specific tariff remedy and does not require data and information from the accused party, inform SPP President, Compliance Committee and FERC and proceed to Accused Party Rebuttal.
  - If the complaint pertains to a specific SPP Tariff provision but nonetheless requires additional information from the accused party, then proceed to Stage 3 Analysis and notify FERC of an ongoing inquiry
- d. Notify Complainant whether there continues to be merit to the complaint
  - e. If there is no further need to continue investigating the complaint, document the results of the inquiry for the complainant, SPP President, Compliance Committee and FERC as appropriate. A record of all complaints and disposition will be maintained by the MMU.
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
  - e. Determine penalties and or remedies as defined in SPP tariff
  - f. Develop draft report
5. Accused Party Rebuttal
- a. Inform accused party of the potential tariff violation and tariff prescribed remedy, and the process, procedures and schedule for rebuttal
  - b. Facilitate information meetings as needed
  - c. Inform accused party that any penalty can be appealed to FERC
6. Stage 4 Analysis - Review of Rebuttal
- a. Analyze and validate information provided by accused party
  - b. Determine if complaint warrants corrective action
  - c. Develop final report
7. Final Report
- a. Review results with SPP President
  - b. Review results with SPP Compliance Committee
  - c. Administer tariff prescribed remedies
  - d. 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. The MMU will maintain on file a complete set of workpapers.



**C. Process Guidelines for Referring Complaints to FERC as specified in FERC Docket No. PL05-1-000, Policy Statement on Market Monitoring Units, May 27, 2005**

An MMU should make a referral to the Commission in all instances where the MMU has reason to believe that a Market Violation may have occurred. While the MMU need not be able to prove that a Market Violation has occurred, the MMU should provide sufficient credible information to warrant further investigation by the Commission. Once the MMU has obtained sufficient credible information to warrant referral to the Commission, the MMU should immediately refer the matter to the Commission and desist from independent action related to the alleged Market Violation[s].

1. All referrals to FERC of alleged Market Violations should be in writing, whether transmitted electronically, by fax, mail, or courier. The Market Monitors may alert the FERC orally in advance of the written referral, but the FERC will not act without a written referral.
2. The referral should be addressed to the 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 the 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 the FERC
4. Following a referral to the FERC, the Market Monitors should continue to notify and inform the FERC of any information that the Market Monitors learn of 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 the FERC on tariff changes that may be necessary.

## FERC Market Manipulation Rules

FERC requires SPP Market Monitors to monitor market participant activities regarding potential violation of FERC manipulation rules. When the Market Monitor has credible evidence that any manipulation rule has been violated, the information is to be turned over to Commission staff for possible investigation. Detail discussion of the rules is found in FERC document **Prohibition of Energy Market Manipulation** (Docket No. RM06-3-000; Order No. 670). The specific rules as shown in the Code of Federal Regulations (Section 1c.2) are as follows:

### § 1c.2 Prohibition of electric energy market manipulation.

(a) It shall be unlawful for any entity, directly or indirectly, in connection with the purchase or sale of electric energy or the purchase or sale of transmission services subject to the jurisdiction of the Commission,

(1) To use or employ any device, scheme, or artifice to defraud,

(2) To Make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading, or

(3) To engage in any act, practice, or course of business that operates or would operate as a fraud or deceit upon any entity.

## D. Schedule - Guidelines Only

	<b>Incremental Time in Weeks</b>
Stage 1 Analysis	1
Stage 2 Analysis	2
Stage 3 Analysis	
• Data from accused party	2
• MM Analysis	2
Accused Party Rebuttal	2
Stage 4 Analysis	2
Compliance Committee Review	TBD

## **QUESTIONS**

### **SPP Inquiry Process**

- Clarify the “approval” process for responding to an inquiry. Must the Compliance Committee approve the initiation of work? By the internal Market Monitoring Unit? By the External Market Monitor?
- How broadly should notification of an inquiry be distributed?
- How broadly should results of an inquiry be distributed?
- If an inquiry includes a request that it be conducted by the External Market Monitor, does the requesting party need to state why it requests this approach? Does there need to be a “formal” response from the Committee?
- Should we develop a “standard” report form?

**Southwest Power Pool, Inc.**  
**COMPLIANCE COMMITTEE**  
**Report to the Board of Directors/Members Committee**  
**DATE**

**INQUIRY PROCESS**

**Organizational Roster**

The following members represent the Compliance Committee:

Josh Martin, Chair	Director
Phyllis Bernard	Director
Quentin Jackson	Director
Stacy Duckett	SPP Staff Secretary

**Background**

The Compliance Committee is charged with overseeing inquiries related to market activities. The Committee must establish a process for managing inquiries.

**Analysis**

The SPP Market Monitoring Unit and External Market Monitor have developed an Inquiry Process for SPP. This process has been reviewed with the Market Working Group as well. The Compliance Committee has reviewed this process and recommends its implementation.

**Recommendation**

The Compliance Committee recommends approval of this process for inquiries made of SPP related to market activities.

**Action Requested**

Approval

**Approval:** Corporate Governance Committee

DATE