



Southwest Power Pool, Inc.
OVERSIGHT COMMITTEE MEETING
April 13, 2017
Bates/White Offices, Washington, D.C.

• A G E N D A •

8:00 a.m. – 3:00 p.m. EDT

- 1. Call to Order/Administrative Items Josh Martin
- 2. Action Items Report..... Michael Desselle
- 3. Looking Forward Report..... Craig Roach
- 4. Quarterly Activity Reports
 - a. Internal Audit..... Lauren Krigbaum
 - b. Market Monitoring Unit..... Alan McQueen
 - c. Market Design Updates Richard Dillon
- 5. Action Items..... Michael Desselle
- 6. Future Meetings Josh Martin
 - 2017
 - Monday, June 12, 2017 – SPP Little Rock
 - Tuesday, August 1, 2017 – DFW Admirals Club
 - Friday, October 6, 2017 – Westin Hilton Head Island Resort
 - Monday, December 4, 2017 – SPP Little Rock
- 7. Executive Session 1 (Visitors Excluded) Oversight Committee and RTO Staff
- 8. Executive Session 2 (OC Members & MMU only) Oversight Committee and MMU Secretary

Southwest Power Pool, Inc.
OVERSIGHT COMMITTEE MEETING
February 7, 2017
DFW Admirals Club, DFW Airport, Dallas, TX

• M I N U T E S •

Agenda Item 1 – Call to Order/Administrative Items

Josh Martin called the meeting to order at 8:00 AM. Members in attendance included: Josh Martin (Director); Phyllis Bernard (Director) by phone; Harry Skilton (Director); Graham Edwards (Director); and, Bruce Scherr (Director). Additional Board members in attendance included Larry Altenbaumer. SPP staff in attendance included: Michael Desselle, Carl Stelly, Richard Dillon, Barbara Stroope, Alan McQueen, Paul Suskie, Barbara Sugg, and Chris Evans (Attendance – Attachment 1).

Graham Edwards moved and Bruce Scherr seconded adoption of the December 5, 2016 Oversight Committee meeting minutes, which were unanimously accepted (Minutes 12/5/2016 – Attachment 2).

Agenda Item 2 – Action Items Report

Michael Desselle reviewed the Pending Action Items status. He noted that the Market Working Group, as requested by the OC, began discussions to revisit the subject of mitigated offers and Variable O&M (VOM)/Short Run Marginal Costs (SRMC).

Agenda Item 3 – Quarterly Activities Report

Compliance – Carl Stelly reviewed the Compliance Department quarterly activities (Compliance Report – Attachment 3). He reported on staffing levels and departmental structure changes. He apprised the Committee on the risk review underway for 693 standards (Operations and Planning) as well as the status of CIP compliance efforts.

IEP Update – Paul Suskie provided an IEP update. He advised the Committee that since the Board did not approve a competitive project at the recent Board meeting, SPP cancelled the IEP training (previously scheduled to occur in February). He presented a timeline (IEP Timeline – Attachment 4) that would call for IEP training to occur on June 1st and 2nd with IEP panel selection on June 5 (again, subject to a competitive project being approved by the Board). He further noted that the IEP would publish its evaluation methodology on June 1.

Agenda Item 4 – SPP Purchasing Policy Implications for the MMU

Paul Suskie presented the SPP RTO and MMU consensus proposal to modify SPP's purchasing policy approval levels for MMU expenditures. He described the rationale for the proposal as a follow-up to address an issue regarding unbudgeted MMU expenditures and consistency with the recent FERC Order. He explained the approval levels (Approval Level – Attachment 5). Josh noted two modifications: first, for Unbudgeted Expenditures, tier level D, note that the SPP Board of Directors should exclude the CEO; and, second, note that "Director" could also be "Executive Director". With these two modifications, Bruce Scherr moved adoption of the proposal, seconded by Harry Skilton and passed unanimously.

Agenda Item 5 – Oversight Committee Annual Self-Assessment

Josh and the Committee reviewed the Self-Assessment (OC Self-Assessment – Attachment 6) and the organizational effectiveness survey (OX 2016 Organizational Effectiveness Survey Analysis – Attachment 7)

Agenda Item 6 – Oversight Committee Scope Changes

Michael Desselle described the scope changes (OC Org Group Scope – Attachment 8). Bruce Scherr moved adoption and Graham Edwards seconded the motion. The motion passed unanimously.

Agenda Item 7 – New Action Items

Action items are:

- Update and circulate the revised OC annual work plan.

Agenda Item 9 – Future Meetings

The Committee discussed the 2017 meetings and recommended two changes.

Adjournment

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

Executive Session 1

The Committee met in Executive Session with RTO staff and discussed Compliance and Security matters.

Executive Session 2

The Committee met in Executive Session with MMU staff only and discussed MMU matters.

Respectfully Submitted,

Michael Desselle

Southwest Power Pool, Inc.

INTERNAL AUDIT

Report to the Oversight Committee

April 13, 2017

Staffing

- The Internal Audit department continues to be fully staffed.
- One resource assigned to IT Quality Control to assist with developing/drafting controls in support of CIP standards.

Activity Update

- 2016-2017 Final Audit Schedule (see attached)
- Audits/Assessments Completed Since Last Meeting:
 - **Off We Go, LLC November 1, 2016 Aircraft Costs Review**

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

See attached for summary.
 - **SPP Security Awareness Audit Q4 2016**

This audit is one of a continuing series of audit tests designed to test compliance with SPP's corporate policies/procedures and SPP employee general security awareness. On Tuesday, December 6, 2016 Internal Audit conducted a simultaneous audit inspection at SPP's Chenal campus. The goal of the audit inspection was to observe whether or not SPP PC users locked their computers when "stepping away" from their PCs, in compliance with SPP Acceptable Use Policy (0175).

See attached for summary.
 - **Congestion Hedging Process Audit**

Internal Audit (IA) completed an audit of Southwest Power Pool's (SPP) Congestion Hedging processes. These processes were reviewed to confirm they are being performed as required and that current documentation includes sufficient detail to support their purpose and deliverables. The available documentation was evaluated for accuracy and completeness related to the following areas: monthly auction revenue rights (ARR) allocation, monthly transmission congestion rights (TCR) auction, annual long term congestion rights (LTCR) allocation, annual ARR allocation, annual TCR auction and request management system (RMS) process. The systems, applications and tools used in Congestion Hedging processes were reviewed to determine adequate measures are in place around access, security and monitoring. Also, the controls around these processes were evaluated for adequacy to mitigate risk and validate that no observable process and/or control gaps were evident.

See attached for summary.

- o **Tariff Administration Audit**

The Internal Audit (IA) department completed an audit of Southwest Power Pool's (SPP) Tariff Administration department. This audit was focused on the efficiency and effectiveness of processes and controls completed by Tariff Administration department staff.

See attached for summary.

- o **Off We Go LLC – Invoice Reimbursement Audit (5/1/16 through 10/31/16)**

The Internal Audit (IA) department has completed December 2016 review activities of Southwest Power Pool, Inc. (SPP) payments made to Off We Go, LLC for invoices received for use of their private aircraft by SPP employees for the period of May 1, 2016 through October 31, 2016. In addition, IA reviewed Off We Go, LLC's insurance policy to confirm it met stated requirements within the "Private Aircraft" section of SPP's Expense and Travel Policy.

See attached for summary.

- o **Identity and Access Management Audit**

Internal Audit (IA) completed an audit of Southwest Power Pool's (SPP) processes for managing physical and logical access to SPP assets. The objective of this review was to identify gaps and propose possible improvements to strengthen these processes. SPP's processes related to identity and access management were also compared to best practices.

See attached for summary.

- o **Enhanced Combined Cycle Internal Readiness Review**

Internal Audit has completed a readiness review for the Enhanced Combined Cycle (ECC) component of the ECC-Gas Day project. The ECC portion of the project originally started in early 2014, but was put on hold by the SPP Board of Directors in July 2014. The Board directed SPP to restart the project October 1, 2015 with a production date of March 1, 2017.

See attached for summary.

- o **SPP Security Awareness Audit Q1 2017**

This audit is one of a continuing series of audit tests designed to test compliance with SPP's corporate policies/procedures and SPP employee general security awareness. Internal Audit conducted an audit inspection at SPP's Chenal campus covering a two-day time span from Thursday, March 30th through Friday, March 31st. The goal of the audit inspection was to observe whether or not SPP PC users locked their computers when "stepping away" from their PCs, in compliance with SPP Acceptable Use Policy (0175).

See attached for summary.

- Audits Currently in Process:

- o **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/proof 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.

- o **Application Access Audit**

The primary objectives of this audit are to: obtain an overview of the application access processes from initial provisioning through removal and verify how the current processes are followed, verify adequate process documentation for granting and removing access is available, accurate and comprehensive enough to provide the steps necessary to complete the process; determine how SPP policies and industry best practices are incorporated into the access granting and removal processes for each application; review what evidence would be available to demonstrate the access processes and determine whether it is adequate or whether supplemental evidence would be needed; determine whether periodic reviews are completed and the timing of these reviews; for each application, identify the types of accounts, account names, and privileges/roles held by each user; with the application owners' assistance, assess the appropriateness of the level of privilege granted to each user based on the user's job responsibilities; identify all possible access paths to the applications and determine what "backdoor" methods might be available; determine what controls (business/SOC1/CIP) are in place to mitigate the risk of unauthorized access, including "backdoor" methods, discover what mechanisms are in place to monitor or alert on inappropriate access. This audit is in the testing phase.

Budgeting and Forecasting Audit

The primary review objectives are to determine: Adequate procedures are in place to protect the interests of SPP, its members and customers; Controls are in place to ensure compliance with SPP policies and procedures and reduce the risk of not meeting SPP objectives to an acceptable level; Adequate documentation is in place to support the budgeting and forecasting processes; Budgeted items are properly authorized and any items that are not budgeted are properly approved and documented prior to payment; Expenses are properly recorded and reported to ensure the accuracy of monthly forecasts; Proper controls are in place to review and approve of significant deviations of actual expenses forecasted from approved budgeted amounts. This audit is in the reporting phase.

- o **Z2 Historical Data Processing Audit**

The primary objectives of the audit are to: Obtain an overview of the various functions completed by staff/departments involved with the Z2 historical data processing, compliance with the SPP Tariff and other Z2 provisions that must be followed, upstream data dependencies, and downstream data users; review processes/procedures performed by involved Z2 historical data processing staff/departments; verify that processes/procedures are in place, documented and functioned/functioning properly for the implementation of the Z2 historical data processing; in addition, evaluate them to determine that thorough coverage to protect the interests of SPP and its members/customers; examine internal controls for adequate design and effective operation; confirm required/supporting documentation, validations, and overall evidence is stored

accurately and completely; review systems and system access related to the Z2 historical data processing; confirm manual workarounds or exceptions to the processes are documented and processes are evidenced to verify compliance and accuracy. This audit is in the testing phase.

- o **Study Deposits, Invoicing and Customer Refund Tracking Audit, Phase 2**

The primary objectives of the audit are to verify: sufficient processes and procedures are identified, documented and followed to protect the interests of SPP, its members and customers; internal controls are adequately designed and operating effectively; SPP EFA is complying with SPP governing documents as related to deposits that are applied toward the cost of applicable GI Studies associated with GI requests submitted in the SPP GI Queue process; study projects that have been withdrawn have all remaining balances refunded and the calculation methodology used including interest appears accurate; adequate documentation is retained to support refund calculations and invoices; adequate customer tracking process is identified and documented to ensure proper payments. The review is in the testing phase.

- Audits Currently in Planning:
 - o Data Management/Changes CSA
 - o Contract Management
 - o Credit Stack (Z2) Current production
 - o SPP Tariff Compliance Process
- Upcoming Audits:
 - o SPP Security Awareness
 - o Collateral Reconciliation
 - o Compliance Hotline
 - o Employee Expense Reporting
 - o Off We Go LLC (Invoices) Continuous Review
 - o Off We Go LLC (Rates) Continuous Review
 - o Order 1000 Process CSA
- Other Activities:
 - o Controls audit (SSAE 16/SOC1) work:
 - 2017 SOC 1 Type 2 Audit:
 - o Completion of periodic control activity reviews:
 - ❖ SOC 1 Audit period November 1, 2016 – October 31, 2017
 - 0 completed to date, 18 in process (96 total Business control activities, 13 observation only)
 - 10 completed to date, 5 in process (30 total General IT control activities, 6 observation only)
 - o Phase 1 of 2017 audit:
 - ❖ SOC 1 Overview Training Sessions (including changes due to SSAE 18) – developed and delivered eight training sessions for interested employees
 - ❖ Planning for KPMG’s onsite visit April/May 2017
 - o Other consulting/advising:
 - One IA resource assigned to IT Quality Control to assist with developing/drafting controls in support of CIP standards

- Transmission Service Market Improvement team
 - Consulting with SPP personnel concerning data stored in Request Management System (RMS)
- MOD-033 consulting with SPP Engineering
- Developed and delivered a presentation (“Systematic Inventive Thinking”) for Central AR ISACA
- Involved in the following SPP projects: Engineering Hub, Two Factor Authentication, Marketplace Portal Redesign, Governance-Risk Management-Compliance (GRC) Tool, and Identify and Access Management (IAM) System
- Z2 Task Force consulting with SPP Engineering related to Z2 Reverse Engineering

Respectfully submitted,

Lauren Krigbaum
Director, Internal Audit



MARKET MONITORING ACTIVITY REPORT TO THE OVERSIGHT COMMITTEE

13 April 2017

I. MMU Staffing

- The MMU has 16 authorized positions; 15 are filled and one is being held open until we find a suitable economist. Our new hire, Mark Rouse, will be starting as a Sr. Market Monitor on April 17, 2017. Mark will replace Michael Ray who recently moved to SPP's Market Design department. Mark has experience in Information Technology and Data Analysis and was previously employed by the University of Arkansas for Medical Sciences.

II. Federal Energy Regulatory Commission (FERC)

- The MMU continues to have conference calls with FERC staff every other week. As usual, discussions have focused on MMU recommendations to the Board of Directors as part of the Annual State of the Market (ASOM) Reports and potential market manipulation cases. Other topics include Integrated Marketplace screens, FERC NOPRs, proposed market rule changes not related to ASOM recommendations, market inefficiencies, price spikes due to wind forecast errors, and possible market rule violations.
- The MMU continues to implement changes in compliance with the recommendations in the FERC audit report. Only a few recommendations remain to be addressed. The second quarterly compliance report is due to FERC on April 30, 2017.
- The Annual Meeting of the Market Monitors hosted by FERC has been set for June. MMU staff will participate in this meeting. The panel topics for this meeting have not yet been set.
- FERC recently released a NOPRs related to "Uplift Cost Allocation and Transparency in Markets Operated by Regional Transmission Organizations and Independent System Operators" (RM17-2-000). The MMU is in the process of drafting comments to file in this NOPR proceeding.

III. Market Surveillance and Reporting

- The MMU published: 1) Monthly Market Reports through the MWG for the months of November 2016 through March 2017 and 2) Quarterly State of the Market reports for Fall and Winter 2016/2017.
- The MMU is working on the 2016 ASOM report. Current work anticipated to be part of the report includes automation of existing metrics, development of new metrics that were deferred from the 2015 report, and assessing metrics recommended by Potomac Economics in their recent review of our activities.
- The surveillance team has implemented several process improvements to screens and tracking processes. Some of these changes are incremental improvements related to Potomac Economics recommendations.
- The MMU completed with SPP Regulatory on a second review of Tariff sections directly related to MMU work. The purpose of this review is to ensure that the Tariff continues to reflect



activities consistent with FERC expectations of the MMU and to ensure that MMU is meeting all Tariff obligations.”

IV. Market Analytics

- MMU Recommendations to SPP Board of Directors – The MMU continues to work with SPP staff and the MWG regarding open recommendations
 - The MWG approved the SPP staff proposal regarding Allocation of Over-Collected Losses. This Tariff revision fully addresses MMU concerns as described in the 2014 ASOM. We now consider this recommendation closed but will continue to track progress through the stakeholder process. The MMU will provide comments when the changes are filed with FERC.
 - The two remaining topics from the 2014 ASOM are 1) minimum run time commitments in excess of two days and 2) the use of fixed regulation bids in receiving Regulation Deployment Adjustment Charge. The MMU provided proposed language to Market Design which, if implemented, would prohibit these types of manipulation. Market Design drafted revision requests for these issues, and they were both discussed at the MWG. For the minimum runtime issue, the MWG could not get a vote and by default the revision request was rejected. The MMU has submitted an official notice to appeal to MOPC the minimum run time rejection by the MWG. For the fixed regulation bid issue, AEP submitted an alternative approach. The RTO will assess the alternative approach for feasibility and will discuss this issue again at the April MWG.
- Additional MMU activities related to MWG meetings
 - The MMU submitted a new Physical Withholding Penalty revision request to the MWG in December which was reviewed at the January 24 and February 21 meetings. There was good discussion at the MWG meetings, but a motion failed to gain a second and by default the revision request was rejected. At this time, the MMU does not plan to appeal this decision.
 - The MMU reviewed a new Revision Request related to economic withholding mitigation at the January 24 and February 21 MWG meetings. The revision request allows for all resources to be eligible to receive “cost +10%” when the resource is mitigated. The MMU expressed concerns with the lack of justification for the changes, however the MWG approved the revision request. The MMU plans to express its opposition to this revision request at the April MOPC.

V. Other Items

- The MMU moved to a new location within the SPP office building in preparation for physical separation as recommended in the FERC audit report.
- SAS training is scheduled onsite for 7 MMU staff members and 8 other SPP staff members in late May. The MMU is paying a per capita share of the training costs.

Respectfully submitted
Alan McQueen
Director, Market Monitoring and Analysis