



Southwest Power Pool, Inc.
COMPLIANCE COMMITTEE MEETING
September 28, 2006
Sheraton Grand Hotel DFW, Dallas, TX

• A G E N D A •

10:00 a.m. CDT

- 1. Call to Order/Minutes Josh Martin
- 2. Update on Current Activities
 - a. NERC Compliance..... Ron Ciesiel
 - b. Market Monitoring Unit..... Richard Dillon
 - c. External Market Monitor.....Craig Roach
- 3. ERO/RE Entity Registration Ron Ciesiel
- 4. ERO Compliance Enforcement Program..... Ron Ciesiel
- 5. Market Monitoring Report..... Richard Dillon
- 6. EMM Services Agreement for 2007.....Craig Roach
- 7. Future Meetings Josh Martin
 - Scheduled:
 - December 11 Teleconference (9:30 a.m. Central, 10:30 a.m. Eastern)
 - Schedule for 2007:
 - March 29 Washington D.C.
 - June 28 Philadelphia
 - September 27 Chicago
 - December TBD
 - Schedule for 2008:
 - March 27 Washington D.C.
 - June 26 Philadelphia
 - September 25 Chicago
 - December TBD

Executive Session

Southwest Power Pool
COMPLIANCE COMMITTEE MEETING
June 29, 2006
Philadelphia International Airport Marriott
Philadelphia, PA

• M I N U T E S •

Agenda Item 1 – Administrative Items

SPP Chair Josh Martin called the meeting to order at 8:55 a.m. The following members were in attendance: Josh Martin (Director), Phyllis Bernard (Director), and Quentin Jackson (Director). Staff in attendance included Stacy Duckett. Guests included Ron Ciesiel and Richard Dillon (SPP) and Craig Roach (Boston Pacific).

Mr. Martin referred to the draft minutes of the March 30, 2006 meeting and asked for corrections or a motion for approval (3/30/06 Meeting Minutes – Attachment 1). Quentin Jackson moved to approve the minutes as presented. Phyllis Bernard seconded the motion, which passed unopposed.

Agenda Item 2 – Update on Current Activities

NERC Compliance

Ron Ciesiel reviewed the Compliance Department activity report (Compliance Department Report – Attachment 2). Most new entities in the SPP region that will be subject to the EPCRA compliance requirements are municipals. SPP is making preliminary contact to explain the new program. A plan is being developed to make personal contact with each entity.

The City of Lafayette is currently building a backup site to address one of its violations; LEPA may be able to utilize that site as well. The other primary deficiency is in training documentation, but again both are making progress. Staff recommends Missouri Public Service as a good example of a documented training program for small entities; Missouri Public Service is making its program available to other members.

There was one confirmed violation since the last report: City of Springfield operator certification for the month of January.

The Compliance Department is working on ERO transition documentation.

Market Monitoring Unit

Richard Dillon reviewed the Market Monitoring (MMU) activity report (MMU Report – Attachment 3). The committee discussed the status of MMU staffing.

FERC has issued an order in the OG+E/Redbud matter.

Deployment testing continues in preparation for Market implementation. The Staff analyzed the results of each testing phase for systems issues, participant issues, and any potential design or process issues. An issue with one participant during the last test has been elevated to the executive level following an unsatisfactory response at the operating level.

Richard provided the group a sample of the monthly reports that staff will be generating to meet FERC reporting requirements and the corresponding process documentation.

External Market Monitor

Craig Roach reviewed the External Market Monitor (EMM) activity report (EMM Report – Attachment 4). He then reviewed a quarterly budget report.

Craig advised the committee of a potential issue raised by Market participants related to network service and its potential use to compete in the Market, which is not allowed. The parties are not requesting an inquiry, but would like the monitors to look in to it. Some preliminary review has been done, but Craig seeks direction from the committee as to how to proceed. The committee discussed this issue providing direction for the party to document its issue and suggest any policy changes to address it. This would likely be handled via MOPC and working groups. The EEM and MMU (Craig & Richard) will address this issue together.

Agenda Item 3 – Compliance Budget

Ron Ciesiel provided a summary of the proposed budget for the Compliance Department for 2007 (Compliance Budget – Attachment 5). Ron is requesting one additional staff person in anticipation of increased activity with the addition of 40+ entities in the compliance program. In the case of any proposed promotions, the Compliance Department will follow SPP's promotion process, with final approval/review provided by the Compliance Committee. Quentin Jackson moved to approve the Compliance budget as presented. Phyllis Bernard seconded the motion, which passed unanimously.

Agenda Item 4 – Market Inquiry Process

Richard Dillon reviewed suggested edits to the Formal Inquiry Process addressing Jim Eckelberger's concerns raised at the April Board of Directors meeting (Market Inquiry Process – Attachment 6). Phyllis Bernard moved to accept these edits. Quentin Jackson seconded the motion, which passed unopposed. The Market Monitoring Inquiry Process will go to the SPP Board of Directors for final approval at its July meeting.

Ron Ciesiel noted that Compliance proposes to implement a similar process in regard to complaints of compliance violations. Pending discussions with NERC, Ron will report back any progress to the committee.

The Confrontational Dispute Prevention process will be reported to the Board of Directors, but does not require Board approval since it is an internal process/best practice.

Agenda Item 5 – Market Monitoring Systems Update

Richard Dillon provided an update on monitoring systems and data collection for reporting (Market Monitoring Systems Report – Attachment 7). Boston Pacific has access to systems and reports the needs for its activities.

Agenda Item 6 – Future Meetings

Future meetings and locations are scheduled for:

September 28.....Chicago

December TBD Teleconference

Proposed for 2007:

March 29

June 28

September 27

December TBD

Compliance Committee Meeting
June 29, 2006

The group accepted the proposed meeting dates for 2007.

With no further business, Josh Martin thanked everyone for participating and adjourned the meeting at 1:05 p.m. to executive session.

Executive Session

1. The committee declined a request for SPP's participation in a proposed filing to be made in the Entergy docket related to Boston Pacific's independence.
2. The committee received a preliminary proposal for the structure of the market monitoring function in 2007. This will be further discussed at the committee's September meeting. The committee provided a budget placeholder for outside services for the 2007 budget.

Respectfully Submitted,

Stacy Duckett
Secretary



Southwest Power Pool, Inc.

COMPLIANCE DEPARTMENT

Report to the Compliance Committee

September 28, 2006

Entity Registration

SPP solicited input from 100 non-registered entities in the SPP footprint. To date, 25 of these entities have responded. The total number of registered entities that will be subject to the future SPP Compliance Program now stands at approximately 95 [versus 83 from the last report]. We have made contact with the American Public Power Association and are receiving assistance from them to improve the response to our registration solicitations. A survey of other Regional programs indicates that most of the regions are waiting for more definitive parameters from the ERO filings before moving forward with a second round of registration requests.

2006 NERC Readiness Audits

SPP completed the following Readiness Audits since the last report:

City of Springfield Report Pending

There are 4 more NERC Readiness Audits scheduled in 2006

2006 SPP Field Reviews

SPP did not perform any Compliance Field Reviews since the last report:

There are 3 more SPP Field Reviews of members scheduled in 2006 plus the SPP Reliability Coordinator.

Confirmed Violations

The following 'confirmed violations' have been reported to NERC since the last report:

AEP	FAC-003 Level 3	Vegetation Contact [345kv system]
Western Farmers	PRC-005 Level 3	Relay Maintenance Program
AECC [2005]	PRC-007 Level 4	UFLS Program

ERO Delegation Agreement – Exhibit D – Compliance Enforcement Program

The development of a pro-forma compliance program has now entered the 3rd generation of development. The NERC staff has taken control of the final version and is expected to publish the 'final' product on Wednesday September 26th. The expectation is that the Regional Entities will adopt this program or will file exceptions with the RE Delegation Agreements. If there are no major changes to the procedures and processes agreed to in the 2nd generation document [dated 9-13-06], SPP should be able to adopt the program.



The only area of concern that SPP expressed during an informal comment period is that the adoption of the National Association of Securities Dealers [NASD] Hearing Process is too burdensome and expensive for the RE's to adopt. The proposed regional hearing process required all hearings to be recorded and transcripts produced, all testimony to be under oath, and legal representation to be available. It also required the RE to bear all of the expenses of the hearings. At a minimum, SPP requested that the cost of the hearings be borne by the loser of the hearing to at least give appellants some pause before automatically requesting a hearing on every violation.

Future Activities

2007 Compliance Program elements were discussed at the most recent Compliance Managers meeting with a final decision scheduled for September 29th. The 2007 program will have approximately 52 standards under review versus 38 for 2006.

SPP is sponsoring a Compliance Workshop for ERO issues plus Cyber Security Standards on October 31-November 1 in Tulsa, Oklahoma.



Southwest Power Pool, Inc.
MARKET MONITORING UNIT
Report to the Compliance Committee
September 28, 2006

Staffing

The Market Design and Analysis currently has three open positions: two for engineers, supporting MMU and design, and one for market design. We continue to review resumes and conduct interviewing for the engineering positions. The market design position requires very specialized skills and experiences. The design position is an extended process using focused search techniques.

Activity Update

Transmission monitoring over the last three months has focused use of Network Reservations. The complaint discussed in the last meeting was modified and called in to the FERC hotline. Initial review resulted in a change in the process for enforcement of an SPP business practice related to non-Firm Network Reservations. Informal discussions with FERC indicate that this was an acceptable resolution of the complaint.

MMU has identified a concern about the amount of non-Firm Network reserved but unused. Analysis of non firm Network indicates Reservations are utilized less than 20%. This has the potential of precluding customers from purchasing reservations to transact business. MMU, EMM, and SPP operations staff are identifying and refining options to address this concern.

SPP staff responsible for direct interface with Market Participants participated in a conflict resolution classes during the week of September 18. The training focused on:

1. Raising individuals self-awareness for how they prefer to deal with conflict, their current strengths, and where they need to improve
2. Increases their understanding of how to use conflict as an opportunity to become consultative
3. Provides them with a personalized plan to handle conflict effectively

MMU staff access to and experience using the Decision Support System (data warehouse) is resulting in a significant increase in requests. The requests are from FERC, SPP Operations, and Market Participants.

MMU staff also supported Metrics Task Force review of LIPs, Business Continuity, and evaluation of LIP volatility. This has significantly enhanced Market Participant confidence in SPP market systems and resulted in additional training of staff.

Respectfully submitted,

Richard Dillon
Director, Market Development and Analysis

SPP, INC.
COMPLIANCE COMMITTEE MEETING
SEPTEMBER 28, 2006

SUMMARY OF EMM ACTIVITY
SINCE LAST MEETING ON JUNE 29, 2006

A. WIN FERC APPROVAL

1. Contributed to SPP filing on August 21, 2006 in response to FERC July 20 Order.
2. Prepared and filed an Affidavit (as part of SPP's filing) with FERC regarding the negative implications of a widely-imposed offer cap (ATTACHED).

B. PROMOTE INFORMAL FERC RELATIONSHIP

3. Informal briefing to FERC Monitor Relations on July 27, 2006 (ATTACHED).

C. WORK WITH MMU TO DEVELOP REPORTS REQUIRED BY FERC AND BROADER REPORTS

4. FERC required reports on depth of market, resolution of congestion, strategic bidding, etc.
5. Broader reports suggested on Offer Caps and Locational Imbalance Prices (LIPs) (ATTACHED).
6. Established data connection to SPP Decision Support System for market monitoring.

D. ADVISE ON MARKET DESIGN

7. Participated in MWG phone calls and meetings and some MOPC phone calls and meetings.
8. Brainstormed response regarding Non-Firm Network Reservations practices.

E. ADVISE BOARD AS REQUESTED

9. Advised Board through participation in Board meeting on July 25, 2006.
10. Reviewed reports on EIS Market Status and participated in calls (September 1st and 15th reports).

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Southwest Power Pool, Inc.)
)
) Docket Nos. ER06-451-002
) ER06-1047-000

AFFIDAVIT OF
CRAIG R. ROACH, Ph.D.

ON BEHALF OF
SOUTHWEST POWER POOL, INC.

AUGUST 21, 2006

INTRODUCTION

1. My name is Craig R. Roach. I am the President of Boston Pacific Company, Inc. My business address is 1100 New York Avenue, NW, Suite 490 East, Washington, DC 20005. Boston Pacific is the External Market Monitor for the Southwest Power Pool Regional Transmission Organization (SPP RTO) and has served in this capacity since July 2004.

2. The purpose of this Affidavit is to address the directives in the Federal Energy Regulatory Commission's ("FERC" or "Commission") July 20, 2006 order in this proceeding related to the application of Offer Caps under sections 3.2.2 and 3.2.3 of Attachment AF of the SPP Open Access Transmission Tariff ("Tariff"). Southwest Power Pool, Inc., 116 FERC ¶ 61,053, at P 93 (2006) ("July 20 Order"). Specifically, I quantify the impact of a requirement that, if an entity has one generating unit subject to Offer Caps, then all of its generating units are subject to Offer Caps, even if the units do not satisfy the negative five percent or greater generation to load distribution factor (GLDF) requirement.

3. In Paragraph 93, the Commission states:

We direct SPP, within 30 days of the date of this order, to submit a compliance filing that modifies section 3.2.2 of Attachment AF to provide for offer-capping of resources owned by the same supplier and impacting the same constraint when the supplier has one or more offer-capped resources impacting the particular constraint.¹

¹ July 20 Order at P 93.

4. As backdrop, note that SPP proposed in its January 4, 2006 filing in this proceeding (January 4 Filing) that the Offer Cap be imposed only on the importing side of a constraint and only on those Resources that could have a significant impact on that constraint; SPP proposed using the fact that a Resource had a negative 5% or higher GLDF as its measure of (threshold for) significance.²

IMPACT OF PARAGRAPH 93

5. Assuming the Commission is directing SPP to apply an Offer Cap as described in Paragraph 2 of my Affidavit, the Commission's directive in Paragraph 93 would change the application of the Offer Cap in important ways. First, the Offer Cap would no longer be imposed on Resources on only the importing side; Resources on the exporting side of a constraint would also be capped. Second, there would be no threshold for significance; any Resource that could impact the constraint would be capped regardless of its GLDF. Third, the Offer Cap would no longer be imposed Resource-by-Resource, but company affiliation (common ownership among Resources) would play a role.

6. The Commission's directives in Paragraph 93 could require that, if a constraint on a particular flowgate occurred and the Offer Cap was imposed on one Resource owned by a Market Participant – imposed because that Resource had a negative 5% or higher GLDF for that flowgate – then the Offer Cap would be imposed on every other Resource owned by that same Company. This is because most Resources in SPP affect flowgate

² A negative 5% GLDF indicates 5% of the generation from a Resource could mitigate a constraint on a particular flowgate.

constraints even if only slightly, thus meeting the criterion in Paragraph 93 that a Resource “impact” the constraint.

7. With this interpretation of Paragraph 93, the number of hours in which the Offer Cap would be imposed increases significantly, as would the number of megawatts of generating capacity on which the Offer Cap is imposed.³ This point is made in Figure 1.⁴ The megawatts of Resource generating capacity is measured on the x-axis and the number of hours those megawatts would be capped in a year is shown on the y-axis. Under the SPP proposal (see the lower line in Figure 1) approximately 4,000 MW of capacity would have the Offer Cap imposed in 600 hours or more per year; 4,000 MW is about 7% of all the generating capacity in the SPP footprint. In sharp contrast, with my interpretation of Paragraph 93’s directive regarding ownership (see the upper line in Figure 1), almost 25,000 MW of generating capacity would have the Offer Cap imposed in 600 hours or more per year; 25,000 MW is about 45% of all the generating capacity in the SPP footprint. Another way to see the significant expansion of the application of the Offer Cap is to note that, as seen in Figure 1, under the SPP proposal, no Resource would have the Offer Cap imposed in more than 1,000 hours per year. With Paragraph 93, however, over 17,000 MW of capacity would have the Offer Cap imposed in more than 1,000 hours.

³ This can be viewed as an upper bound on impact. If the Commission, for example, set a GLDF threshold, the impact could be less.

⁴ Figure 1 and Figure 2, as well as the detailed quantitative analysis which underlies them, were produced by SPP. The analysis uses the Summer 2006 transmission model and actual TLRs for the 12 months through July 2006.

8. I should note, too, that my interpretation of the Paragraph 93 directive is that only the application of the Offer Cap would be changed – the calculation would remain the same. That is, while the Offer Cap would be imposed in many more hours, the level of the Offer Cap would be calculated as proposed by SPP (and as approved by the Commission). Specifically, it is the actual hours of constraint that would be used for the calculation of the Offer Cap, not the hours the Offer Cap might be imposed based on resource affiliation. If the Commission is proposing that the calculation change, I would have additional concerns.

9. Another implication of Paragraph 93 is that the logic of the Offer Cap as proposed by SPP would be undermined. Figure 2 helps to make this point. As in Figure 1, we plot the annual hours capped on the y-axis. On the x-axis, however, we plot the level of the Offer Cap. With the Offer Cap as proposed by SPP (see the lower line in Figure 2), there is a clear relationship between the level of the Offer Cap and the hours in which it would be imposed. That is, the more hours of constraint the lower (tighter) the Offer Cap would be. In sharp contrast, there is no such relationship using the Paragraph 93 directive. For example, looking at the upper line in the Figure, see that approximately 1,500 hours of constraint is associated with a wide range of Offer Cap levels – \$150, \$500, and \$2,400. The logic of the Offer Cap as proposed by SPP allowed it to meet the Commission’s policy of balancing mitigation with reliability. SPP explained at length how its proposed Offer Cap met that goal. SPP also went to great lengths to show the Offer Cap as proposed was reflective of the competitive price in long-run equilibrium. With Paragraph 93, all of that logic (rationale) is lost.

CONCERNS WITH PARAGRAPH 93

10. My fundamental concern is that implementation of Paragraph 93 will discourage participation in the energy imbalance services (EIS) market. Over the past two years or so, I believe Market Participants have gotten comfortable with the logic of the Offer Cap as proposed by SPP and with the number of hours in which the Offer Cap might be imposed. Paragraph 93 undermines that logic and greatly expands the number of hours of imposition. I think this would discourage participation at any point, but I am especially concerned that these changes would be made now with the start of the EIS Market so near.

11. There is another possible implication with Paragraph 93 that also should be noted. If the Offer Cap is imposed and it lowers the offers used for dispatch for Resources on the exporting side of the constraint, there is the possibility that the Offer Cap would aggravate the constraint (Exports cause the constraint, a lower offer means more exports are made, and congestion is made worse). I do not know how likely this is to happen, but it is a possibility.

12. The stated impetus for Paragraph 93 was that the Commission found the language in Section 3.2.3 of Attachment AF to be ambiguous.⁵

⁵ July 20 Order at P 93.

13. At the outset, let me state that it was never the intent to propose that the Offer Cap be applied to affiliated Resources in the manner described by the Commission.

However, any ambiguity is readily resolved within the four corners of the Tariff as proposed by SPP in its January 4 Filing. Section 3.2.2 makes it clear that the Offer Cap is to be imposed on a Resource-by-Resource basis, not by company. That same section makes it clear that the Offer Cap will be imposed on a Resource based solely on the criteria of GLDF:

An Offer Cap...shall apply to certain Resources within electrical proximity to a constrained flowgate. Such Resources will be determined for each flowgate through the use of Generation-to-Load Distribution Factors. All Resources that are located on the importing side of a constrained flowgate that have Generation-to-Load Distribution Factors greater than or equal to 5%...shall be subject to an Offer Cap.

14. Section 3.3 puts a fine point on this by stating, “Offer Caps will only be applied to the Resources identified under Section 3.2.2.”

15. Reading the full Section 3.2.3 also can help to resolve the ambiguity. Stepping back, one can see that the list of factors to be considered when assessing Offer Cap status includes those that could change the GLDF:

The Market Monitor will assess the status of Resources subject to Offer Caps when transmission and generation facility additions, outages, changes, or changes of ownership occur that may reasonably cause the Resources’ Offer Capped status to change.

Note that the words causing the ambiguity for the Commission are “*changes in ownership*,” not simply *ownership*.

RECOMMENDATIONS

16. I recommend that the Commission allow the EIS Market to start with the Offer Cap as proposed by SPP. Then the Market Monitor can study the issue of whether common ownership should expand the imposition of the Offer Cap. Put simply, we should see if affiliation among Resources is a problem before we implement a potentially harmful solution. One such study is explicitly called for in Section 4.6.2 of Attachment AF, as submitted in SPP's August 21, 2006 compliance filing in this docket.

17. This concludes my Affidavit.

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Southwest Power Pool, Inc.)
)
) Docket Nos. ER06-451-002
) ER06-1047-000

AFFIDAVIT

WASHINGTON)
)
) SS.
DISTRICT OF COLUMBIA)

I, Craig R. Roach, President of Boston Pacific Company, Inc., being first duly sworn, state that I have reviewed the above and foregoing Testimony, and state that the matters contained therein are true and accurate to the best of my knowledge, information and belief.

FURTHER AFFIANT SAITH NAUGHT.

Craig R. Roach
Craig R. Roach - Affiant

Subscribed and sworn to before me this 18th day of August, 2006.

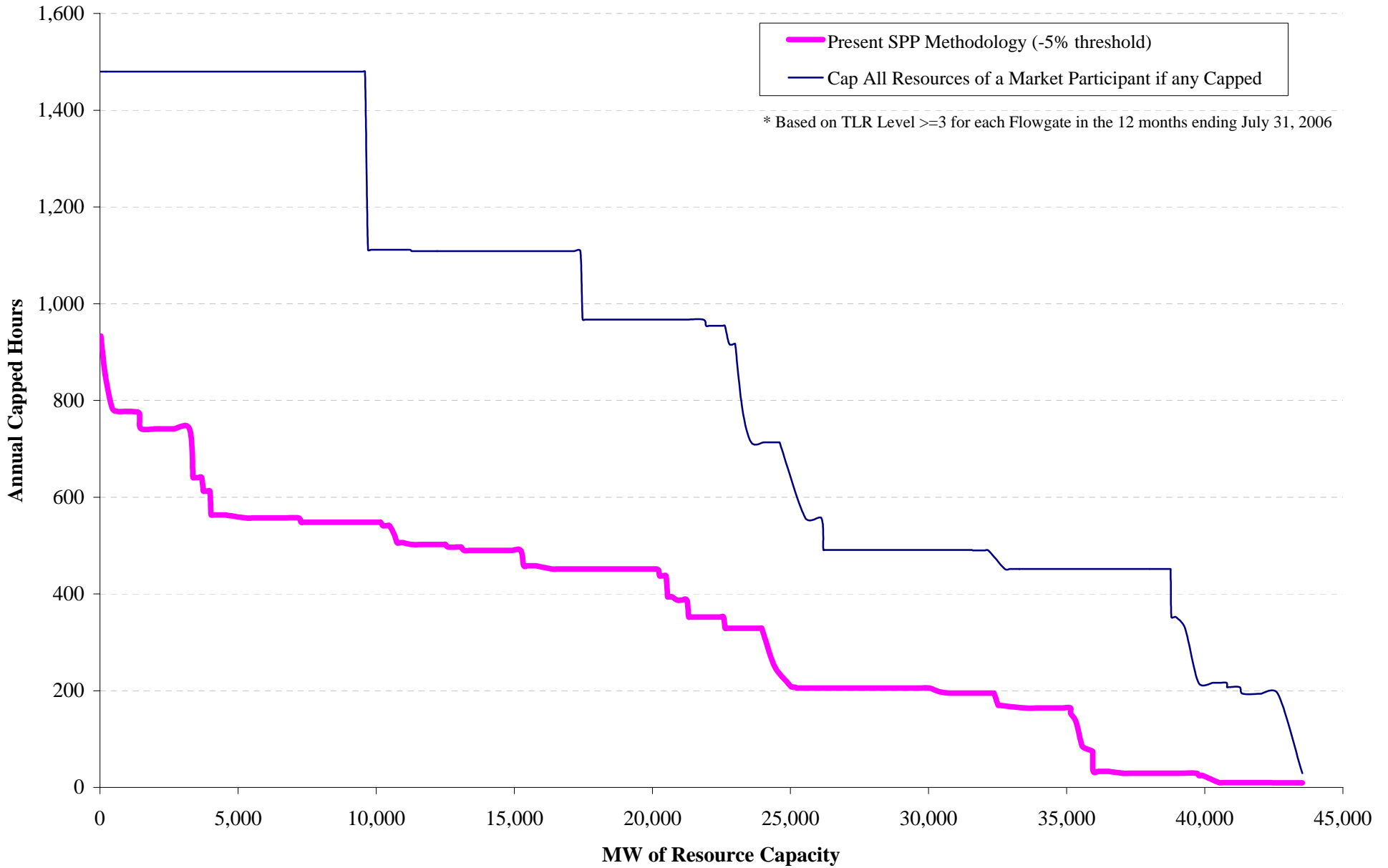
Joyce A. Thaden
Notary Public

My Appointment Expires:

4/14/2007

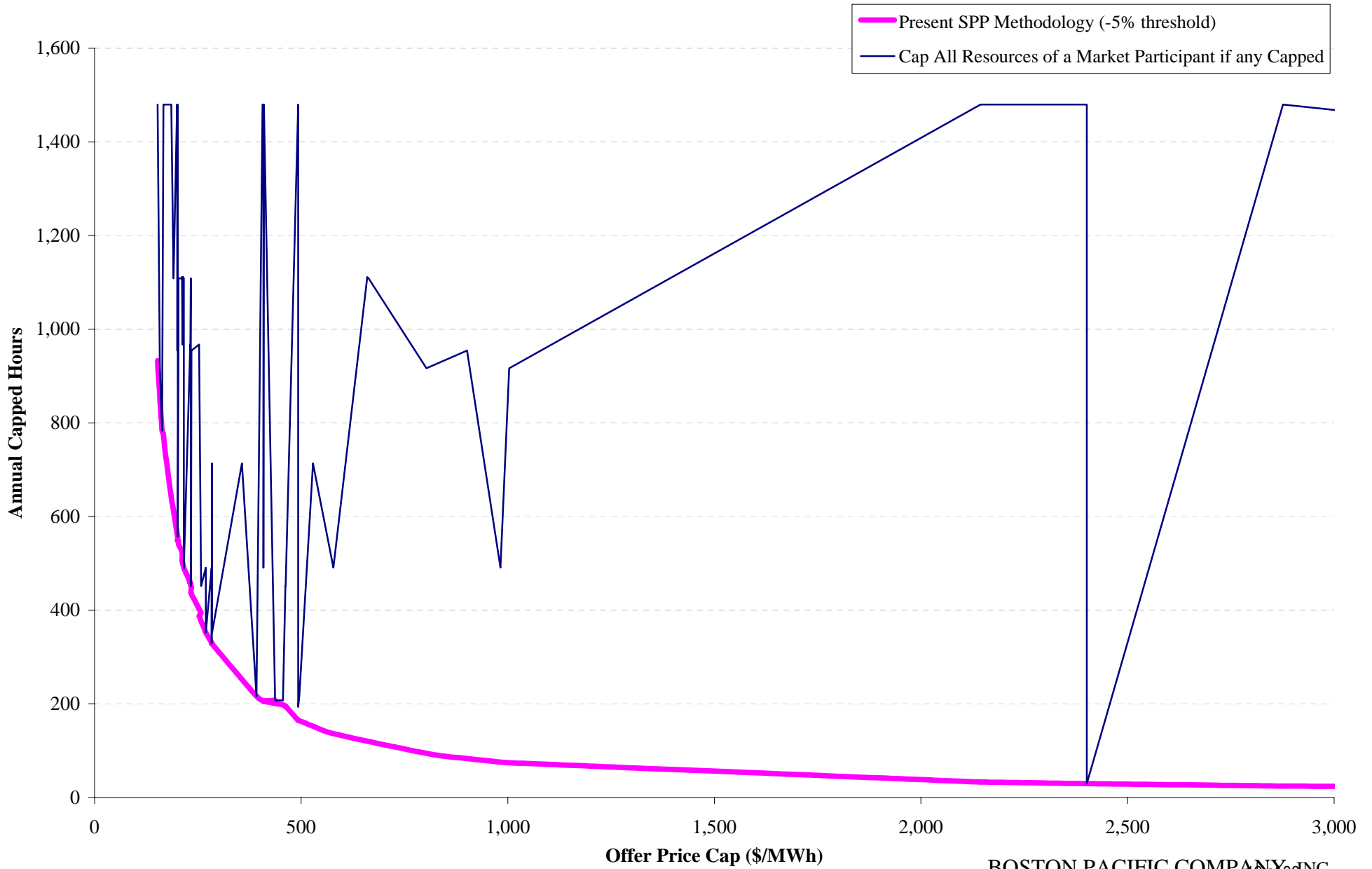
Joyce A. Thaden
Notary Public, District of Columbia
My Commission Expires 1-2007

Figure 1
Estimated Offer Cap Annual Hour Duration Curves
for Resources in SPP EIS Market *



* Based on TLR Level ≥ 3 for each Flowgate in the 12 months ending July 31, 2006

Figure 2
Estimated Relationship of Offer Cap Duration
to \$/MWh Cap for Resources in SPP EIS Market





THE SPP EIS MARKET

Presented By
Craig R. Roach, Ph.D.
Tyler Brown
Boston Pacific Company, Inc.



OUTLINE

I. HOW IT WORKS: BASIC PRINCIPLES

- A. Who Buys and How?
- B. Who Sells and How?
- C. How Are Prices Set?

II. HOW IT WILL BE MONITORED

- A. Mitigation Measures
- B. Monitoring Reports
- C. Inquiries



I. HOW IT WORKS: BASIC PRINCIPLES

A. Who Buys and How?

1. Entities that serve customers (load)
2. Not fully participate in the EIS market?
 - Self-dispatch resources
3. Fully participate in the EIS market?
 - Schedule resources, but also offer those resources into the EIS market



I. HOW IT WORKS: BASIC PRINCIPLES

B. Who Sells and How?

1. An entity with customers schedules and offers
2. Others just offer
3. Offer curve



I. HOW IT WORKS: BASIC PRINCIPLES

C. How Are Prices Set?

1. Set through Security Constrained Economic Dispatch

- No constraint: Single SPP-wide price
- Constraint: Separate prices called Locational Imbalance Prices (LIPs)



II. HOW IT WILL BE MONITORED

A. Mitigation Measures

1. Offer Cap

- Applied when: Only when there is a transmission constraint
- To whom: Applied to any unit on the importing side with a 5% or greater GLDF impact on the constraint
- How calculated: The cap is based on a CT proxy



II. HOW IT WILL BE MONITORED

A. Mitigation Measures

2. Scheduling penalties

- The goal is to prevent inappropriate arbitrage
- The remedy is to disgorge undue revenues
- Underscheduling: $LIP_G > LIP_L$
- Overscheduling: $LIP_G < LIP_L$



II. HOW IT WILL BE MONITORED

A. Mitigation Measures/Monitoring

3. Uneconomic production/portfolio bidding

- Applied when: Only when there is a transmission constraint
- To whom: Determined by a series of screens
 - i. Resource on the exporting side that has a 5% or greater GLDF
 - ii. Operating at an incremental cost above the LIP and running above minimum load
 - iii. Has affiliate resource with 5% or greater GLDF on the importing side of the constraint
- How calculated: FERC



II. HOW IT WILL BE MONITORED

B. Monitoring Reports

1. Extent of participation
2. Investment signals
3. Resolution of congestion
4. Reserve sharing, non-discriminatory



II. HOW IT WILL BE MONITORED

B. Monitoring Reports

5. Supply adequacy and deliverability, notices to FERC
6. Uninstructed deviation, extent of imposition
7. Transmission related metrics
8. Quarterly and annual reports



II. HOW IT WILL BE MONITORED

C. Inquiries

1. Matter of market design
2. Specific remedy prescribed in Tariff
3. Refer to the Commission (sufficient credible information)