

Southwest Power Pool, Inc.
OVERSIGHT COMMITTEE MEETING
June 12, 2017
SPP Corporate Campus, Little Rock, AR

• A G E N D A •

7:00 a.m. – 1:00 p.m. EDT

1. Call to Order/Administrative ItemsJosh Martin
2. Action Items Report..... Michael Desselle
3. Quarterly Activity Reports and Preliminary Budget Discussions
 - a. Internal Audit.....Lauren Krigbaum
 - b. Compliance Update Carl Stelly
4. Annual State of the Market Report.....Alan McQueen
5. Action Items..... Michael Desselle
6. Future Meetings Josh Martin
2017
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
April 13, 2017
Bates/White Offices, Washington, D.C.

• M I N U T E S •

Agenda Item 1 – Call to Order/Administrative Items

Josh Martin called the meeting to order at 8:00 AM. Members in attendance included: Josh Martin (Director); Phyllis Bernard (Director); Harry Skilton (Director); Graham Edwards (Director); and, Bruce Scherr (Director) by phone. SPP staff in attendance included: Michael Desselle, Lauren Krigbaum, Richard Dillon, Scott Smith, Barbara Stroope, Alan McQueen, Barbara Sugg, and Chris Evans. Paul Suskie and Sam Ellis participated by phone for a portion of the first Executive session. Mike Wise (GSEC) also attended for the Looking Forward Report portion of the meeting.

Graham Edwards moved and Harry Skilton seconded adoption of the February 7, 2017 Oversight Committee meeting minutes, which were unanimously accepted (Minutes 2/7/2017 – Attachment 1).

Agenda Item 2 – Action Items Report

Michael Desselle reviewed the Pending Action Items status.

Agenda Item 3 – Looking Forward Report

Craig Roach (Bates/White) introduced the topic noting that this was the seventh Looking Forward Report that Bates/White (and its predecessor Boston Pacific) have prepared for the SPP Board. Craig and Vincent Musco (Bates/White) then presented an Overview of the 2017 Looking Forward Report (Overview presentation – Attachment 2, and Draft Annual Looking Forward Report – Attachment 3). Craig and Vincent clarified elements of the draft report in response to questions and comments from Oversight Committee members, Mike Wise and SPP staff in attendance. Related to the EPA's Environmental Campaign portion of the Draft Report, Phyllis Bernard and Josh Martin both noted the Sierra Club attendance/participation at the recent MOPC meeting. They both remarked on the Sierra Club's participation, level of sophistication and active engagement in Western markets, as well as the expectation that the Sierra Club will now be much more engaged in the SPP.

Agenda Item 4 – Quarterly Activities Report

Internal Audit – Lauren Krigbaum reviewed the Internal Audit Department report (Internal Audit Report – Attachment 4). She reported on staffing levels noting the continued temporary assignment of one IA staff member to the Information Technology Business Unit for the purposes of IT Controls Development. Lauren highlighted the Department's final audit schedule for 2017 and briefly reviewed audits completed since her last report to the Committee. Bruce Scherr reported that at the recent Finance Committee meeting, SPP's Financial Auditors reported that they had a greater sense of security due to SPP's Internal Audit department engagement and audit oversight. Lauren also reported and responded to questions about the Internal Audit department routine security awareness reviews. Associated with these reviews, she noted the potential for policy changes that the Policy Committee is considering. Lauren is to update the Committee at her next report regarding such changes.

Market Monitoring Report – Alan McQueen reviewed his written report to the Oversight Committee (MMU Activity Report – Attachment 5). Alan discussed MMU staffing and recent interactions that the MMU has had with the FERC. Alan advised the Committee that the MMU is working on the draft 2017 Annual State of the Market (ASOM) to share with the OC in June. He noted that the MMU would present the final ASOM report to the Board in July. Alan reported that the MMU has implemented some, but not all, changes recommended by Potomac Economics. Josh Martin advised Alan to prepare a list of the suggested Potomac Economics modifications that MMU disagrees with implementing (and the rationale for disagreement). Finally, Alan

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Evolutionary vs. Revolutionary • Reliability & Economics Inseparable

reported on the progress of physical separation of the MMU in the SPP Office building. Alan is to apprise the OC when the card reader access is completed.

Market Design Updates – Richard Dillon provided an update on recent Market Design activities. He reported on SPP's separate and joint participation on FERC's price transparency NOPR. Richard also discussed the 10% adder on the Mitigation Offer Revision Request approved at the MOPC and clarified that the 10% adder is to be used in calculating the LMP. Phyllis Bernard noted Rob Janssen's opposition and comparison of SPP's proposal to that of other ISO/RTOs that he shared at the MOPC. She encouraged SPP to ensure that Rob shared his comments with the SPP Board. Richard took an action item to inform Carl Monroe and Rob to assure that the comparison and Rob's comments were included in the Board materials for consideration at the upcoming April SPP Board meeting.

Agenda Item 5 – Action Items

Action items are:

- Post Bates/White presentation slides;
- Advise Tom Dunn to be prepared to discuss Admin Price changes at the SPC Retreat;
- Lauren Krigbaum to report on policy changes related to the definition of “stepping away”;
- Alan McQueen to prepare list of Potomac Economics recommended changes that the MMU disagrees with.

Agenda Item 6 – Future Meetings

The Committee discussed the remaining 2017 meetings.

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 security activity matters and SPP Emergency Management and Business Continuity matters. Additionally, SPP staff provided a Tariff Attachment AF status report.

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

June 12, 2017

Staffing

- Internal Audit experienced unanticipated turnover in May 2017. One of the Senior Internal Auditors applied for and was hired as a Senior Quality Control Specialist in the IT Quality Control department. IA requested and received approval to back-fill the position and is currently accepting applications.

Activity Update

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

The Internal Audit department has completed a review of costs and consumables in support of the May 2017 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.
 - **Z2 Historical Data Processing Audit**

As a routine part of our review of the various components of SPP, the Internal Audit (IA) department began an audit of the Z2 historical data processing during the week of November 21, 2016. However, during the course of the audit, Internal Audit staff was informed that the Z2 historical data was going to be reprocessed. This scheduled reprocessing affected IA's ability to complete the audit. Therefore, IA suspended the completion of this audit until the reprocessing work is completed. Once the reprocessing is completed and available to audit, IA will re-engage in the Z2 historical data processing audit.

See attached for summary.
- Audits Currently in Process:
 - **SPP Modeling Control Self-Assessment (CSA)**

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

- **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.

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

The primary review objectives 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. This audit is in the testing phase.

- **Credit Stack (Z2) Current production**

The primary review objectives are to: obtain an overview of the various functions completed by staff/departments in current data processing, compliance with the SPP Tariff and other Z2 provisions that must be followed, upstream data dependencies, and downstream data users; determine 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; confirm required/supporting documentation, validations and overall evidence is stored accurately and completely; review system access related to Z2 systems and data. This audit is in the testing phase.

- **Collateral Reconciliation**

The primary objectives of the audit are to verify: sufficient processes and procedures are documented and followed to protect the interests of SPP, its members and customers; bank balances of collateral accounts reconcile with Great Plains (SPP general ledger system); any differences are identified, tracked to resolution and corrective actions are thoroughly documented. The review is in the testing phase.

- **Compliance Hotline**

The primary review objectives are to determine: determining that policies, processes, and procedures are in place, adequately documented and functioning as intended; verifying that the IA test call to the Compliance Hotline was reported accurately and timely, as well as investigated and resolved in accordance with established policies, processes and procedures; utilizing SPP employee surveys, determine if SPP employees are adequately informed on the Compliance Hotline; determining the overall efficiency and effectiveness regarding SPP's Compliance Hotline program executed by SPP personnel and the SPP vendor(s). This audit is in the testing phase.

- **Off We Go LLC (Invoices) Continuous Review**

The purpose of this review is to review reimbursements made to Off We Go, LLC for use of their private aircraft for the period of November 1, 2016 through April 30, 2017. In addition, Off We Go's insurance policy is reviewed to confirm it meets the requirements listed in the Private Aircraft section of SPP's Expense and Travel Policy. The review is in the testing phase.

- **Order 1000 Processes CSA**

The primary CSA objectives include: determining sufficient processes and procedures are identified, documented and followed to protect the interests of SPP, its members and customers; identifying the risks associated with the process or function; understanding and analyzing the acceptable level of risks; determining if internal controls are adequately designed; verifying adequate documentation is retained to support the process. This CSA is in the testing phase.

- Audits Currently in Planning:
 - Contract Management
 - Data Management/Changes CSA
 - SPP Tariff Compliance Process
 - BOD/SPP Executive Officer Expense Reporting
- Upcoming Audits:
 - SPP Security Awareness
 - Employee Expense Reporting
 - EMBC(including e-mail reliance and critical spreadsheets)
 - Off We Go LLC (Fixed Costs) Continuous Review
 - Revenue Requirement and Rates (RRR) Process

- Third Party Cyber Risk Management
- Vendor Management CSA
- Other Activities:
 - Attended the ISO/RTO Internal Audit Directors and senior staff meeting hosted by ISO New England
 - Controls audit (SSAE 16/SOC1) work:
 - 2017 SOC 1 Type 2 Audit:
 - Completion of periodic control activity reviews:
 - ❖ SOC 1 Audit period November 1, 2016 – October 31, 2017
 - 17 completed to date, 18 in process (96 total Business control activities, 13 observation only)
 - 14 completed to date, 2 in process (30 total General IT control activities, 6 observation only)
 - Facilitated/coordinated external auditors' on-site visit in April
 - ❖ Communicated and acted as liaison between KPMG and control owners
 - ❖ Collected and reviewed audit items requested
 - ❖ Coordinated walkthrough meetings for external auditors and control owners
 - Designed new SOC 1 risk assessment format and delivered six SOC 1 Risk Assessment Pre-work workshops (to educate and support control owners with changes from SSAE 16 to SSAE 18)
 - Other consulting/advising:
 - Transmission Service Market Improvement team
 - Consulting with SPP personnel concerning data stored in Request Management System (RMS)
 - MOD-033 consulting with SPP Engineering
 - Involved in the following SPP projects: Engineering Hub, Two Factor Authentication, Marketplace Portal Redesign, Governance-Risk Management-Compliance (GRC) Tool, Z2 Credit Stacking historical resettlement and Identify and Access Management (IAM) System

Respectfully submitted,

Lauren Krigbaum
Director, Internal Audit



Southwest Power Pool, Inc. (SPP)
RTO Compliance Department
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Compliance Report

Compliance Structure and Staffing:

The Compliance group continues efforts to build the knowledgeable, skilled staff required to meet objectives detailed in the SPP Internal Compliance Plan. In line with those objectives, one additional FTE will be hired to assist with the NERC CIP Standards compliance-related responsibilities of the Compliance Department as shown below:

Lead Standards Coordinator (expected hire on or around August 1, 2017):

To backfill the position previously held by Manager, Reliability Standards (Standards Development). This position will be the lead in SPP's representation in the industry standards development efforts. This effort is critical to ensure SPP has accurate perspective from the industry regarding new and changing NERC Reliability Standards and to provide feedback to the industry during the process from SPP and its members.

Senior/Lead CIP Specialist (expected hire on or around August 1, 2017):

To provide more CIP technical expertise in Standards Development and implementation of new and changing requirements in the oversight and Quality Assurance of SPP's adherence to all NERC CIP-related compliance responsibilities.

Standards Development Staff Activities Update:

The Standards Development staff are currently reporting to Director, Compliance (see above reference to staffing developments). Efforts are underway to maintain SPP's presence in the industry related to standards development, which includes SPP staff and member participation in calls designed to provide feedback on new or changing NERC Reliability Standards and to solicit feedback from SPP staff and members to the industry throughout the commenting and balloting periods. No significant changes nor impacts are expected, with the exception of the reporting structure for this group at this time.

Compliance Department Staff Activities Update:

Following the completion of the internal risk assessment performed by SPP Compliance Department Staff, SPP determined a schedule for performing Reliability Standards Audit Worksheet (RSAW) reviews based on the outcome of the risk assessment. The RSAW reviews are designed to review the RSAWs that would be used during an audit. The RSAWs contain a narrative to identify methods SPP staff will complete to comply with those Standards and requirements.

For 2017, a selection of Operations and Planning standards was determined in order to perform RSAW reviews based on risk. Compliance staff has completed RSAW reviews for the Operations NERC Standards applicable to the SPP Operations organization for twenty (20) NERC Reliability Standards in March 2017, with the remaining Operations RSAWs to be reviewed over the remaining two (2) years of the three-year audit period. Although no major issues were found, SPP Compliance offered SPP Operations several recommendations for improving the RSAW Narratives as well as the evidence provided. SPP Compliance met with SPP Operations to discuss recommendations detailed in the Internal RSAW Review Report. Compliance staff will begin the RSAW review process for standards applicable to the SPP Engineering/Planning staff in June 2017. Compliance staff will continue to work with Operations and Planning to track and review any changes facilitated by the RSAW review recommendations. In



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In addition to the reviews of RSAWs and the associated evidence, Compliance staff intends to perform spot checks on the high, and a selection of the medium, risk standards (as determined by the risk assessment) by the end of the year.

Staff continues to work with SERC to close out the remaining self-reports, responding to Requests for Information (RFI) and submitting mitigation plans and associated evidence to support the mitigation of those issues identified in the self-reports. At this time all mitigation plans and supporting evidence have been submitted to SERC, and SPP is awaiting a disposition from SERC.

Staff are continuing the effort to formalize internal processes to support the Internal Compliance Program. Compliance staff are also very heavily involved in the Standards Implementation process, currently facilitated by the Reliability Standards staff. Efforts are continuing, as well, on assisting the Planning organization on their development of staff who will concentrate on implementing NERC Reliability Standards associated with the Planning Coordinator and Transmission Planner functions.

Upcoming Dates of Importance:

SPP RTO Compliance Forum

June 28, 2017, 8:30AM – 4:00PM
SPP Campus, Little Rock, AR

RCWG Meeting

June 29, 2017, 8:30AM – 5:00PM
AECC Offices, Little Rock, AR

RCWG Meeting

August 29, 2017, 1:00PM – 5:00PM
August 30, 2017, 8:00AM – 11:00AM
KCPL Offices, Kansas City, MO

RCWG Misoperations Summit

August 31, 2017, 8:00AM – 5:00PM
KCPL Offices, Kansas City, MO

SPP RTO Fall Compliance Forum

October 25, 2017, 1:00PM - 5:00PM
October 26, 2017, 8:00AM - 11:00AM
Omni Dallas Hotel at Park West, Dallas, TX

RCWG Meeting

October 26, 2017, 1:00PM – 5:00PM
October 27, 2017, 8:00AM – 11:00AM
Omni Dallas Hotel at Park West, Dallas, TX

Respectfully submitted,

Carl Stelly
Director of Compliance