

Southwest Power Pool, Inc.
OVERSIGHT COMMITTEE MEETING
August 1, 2017
DFW AAdmirals Club, Dallas, TX

• A G E N D A •

8:00 a.m. – 3:00 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
 - i. Draft 2018 Internal Audit Plan
 - ii. Off-We-Go Fixed Cost Reimbursement
 - iii. 2018 Department Budget/Plans
 - b. MMU Keith Collins
 - i. 2018 Budget Department Budget/Plans
4. Action Items..... Michael Desselle
5. Future MeetingsJosh Martin
 - 2017
 - Friday, October 6, 2017 – Westin Hilton Head Island Resort
 - Monday, December 4, 2017 – SPP Little Rock
6. Executive Session 1 (Visitors Excluded)Oversight Committee and RTO Staff
7. Executive Session 2 (OC Members & MMU only)Oversight Committee and MMU Secretary

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

• M I N U T E S •

Agenda Item 1 – Call to Order/Administrative Items

Josh Martin called the meeting to order at 7:00 AM. Members in attendance included: Josh Martin (Director); Phyllis Bernard (Director); Harry Skilton (Director); Graham Edwards (Director); and, Bruce Scherr (Director). SPP staff in attendance included: Michael Desselle, Lauren Krigbaum, Richard Dillon, Barbara Stroope, Alan McQueen, Barbara Sugg, Sam Ellis, Chris Evans, Keith Collins, Erin Cullum Marcussen, Carl Stelly, Bruce Rew, Nick Brown, and Paul Suskie. Other Directors attending included Mark Crisson and Julian Brix. Mike Wise (GSEC) also attended for the open session (Attendance List – Attachment 1).

Graham Edwards moved and Bruce Scherr seconded adoption of the April 13, 2017 Oversight Committee meeting minutes, which were unanimously accepted (Minutes 4/13/2017 – Attachment 2).

Agenda Item 2 – Action Items Report

Michael Desselle reviewed the Pending Action Items status. The Committee directed staff to retain the fourth action item on the list (...list of Potomac Economics recommended changes that the MMU disagrees with) pending the new MMU Executive Director's (Keith Collins) perspective.

Agenda Item 3 – Quarterly Activities Report

Internal Audit – Lauren Krigbaum reviewed the Internal Audit Department report (Internal Audit Report – Attachment 3). She reported on staffing levels noting a vacancy in the department for which she is currently seeking applicants. As a follow-up action item from the last meeting, Lauren reported that the Policy Committee would be addressing the security awareness “stepping away” definition at its next meeting. She also noted that based on her ISO/RTO audit peers, her department is adding a planned audit of Board of Director and Executive Officer expense reporting.

Compliance – Carl Stelly reviewed his written report to the Oversight Committee (Compliance Activity Report – Attachment 4). Carl discussed Compliance department staffing. He described for the Committee the recent risk assessment performed on the Operations business unit and noted no substantive changes/recommendations or violations/self-reports. Carl described efforts underway to develop detective, corrective and preventative controls and their future use in the GRC tool. With respect to the GRC Tool, Carl reported on the status of the GRC Project.

Agenda Item 4 – Annual State of the Market Report

Alan McQueen presented the preliminary annual state of the market to the Committee (2017 ASOM Highlights – Attachment 5). He reported that the final ASOM would be ready for presentation to the Board in July. Alan reported that the MMU assessment is that the SPP Market is competitive and described elements that support that conclusion. Further, he described why the SPP markets are effective and efficient. Alan highlighted for the OC areas of concern and listed five areas: significant increases in congestion; wind capacity increases; declining self-commitment (despite remaining very high); Coal units not recovering avoidable costs; and, economic withholding mitigation is not adversely impacting market participants. Finally, Alan reviewed four recommendations that would resolve the MMU's concerns. Keith Collins noted that the Cal-ISO findings were very similar to the SPP state of the market.

Agenda Item 5 – Action Items

Action items are:

Relationship-Based • Member-Driven • Independence Through Diversity
Evolutionary vs. Revolutionary • Reliability & Economics Inseparable

- Keith Collins to provide perspective on the 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 compliance updates. Committee members expressed a desire to attend GridEx.

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
August 1, 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. Candidate interviews are complete; however, IA is waiting authorization to proceed.

Activity Update

- 2016-2017 Audit Schedule – Updated (see attached)
- 2018 Proposed Audit Schedule (see attached)
- Audits/Assessments Completed Since Last Meeting:
 - **Off We Go, LLC Invoice Review (11/1/16 through 4/30/17)**

The Internal Audit (IA) department has completed May 2017 review activities of Southwest Power Pool, Inc. (SPP) payments made to Off We Go, LLC for invoices received for the period of November 1, 2016 through April 30, 2017 for use of their private aircraft by SPP employees. 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.
 - **Security Awareness Review – Q2 2017**

This audit is one of a continuing series of audit tests designed to test SPP employee security awareness.

See attached for summary.
 - **Off We Go, LLC Fixed Cost Reimbursement Review**

On July 10, 2009, the SPP Finance Committee approved a process to reimburse the SPP CEO and CFO for specific fixed costs associated with the business use of aircraft owned by Off We Go, LLC, a limited liability company whose sole members are the SPP CEO and CFO. The aircraft owned by Off We Go, LLC is frequently used by SPP to transport SPP employees on SPP business. In general terms the approved process results in SPP reimbursing 85% of the fixed costs associated with the aircraft. Fixed costs associated with the aircraft include depreciation, interest, annual inspection, insurance, property taxes, hangar rent and aviation global positioning system (GPS) subscriptions. The Finance Committee requested that Internal Audit present to the Oversight Committee a review of the fixed cost reimbursements for Off We Go, LLC that are billed to SPP.

Fixed cost reimbursements made to Off We Go, LLC for the period September 1, 2016 to July 10, 2017 were reviewed by the Internal Audit department. Expense reports and supporting documentation for each reimbursement were obtained from SPP Accounting and reviewed for appropriateness and accuracy.

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/proof 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.

- **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.

- o **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.

- o **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.

- o **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.

- o **Employee Expense Reporting**

The primary review objectives are to determine: adequate processes and procedures are in place, documented and functioning properly; controls are in place to ensure compliance with federal and state laws, SPP policies, and industry standards; identify any areas of process improvement or best practices to make the expense reporting process more efficient, accurate, and/or timely. This audit is in the testing phase.

- o **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
 - BOD/SPP Executive Officer Expense Reporting
 - Vendor Management CSA
 - SPP Tariff Compliance Process
- Upcoming Audits:
 - EMBC (including e-mail reliance and critical spreadsheets)
 - Revenue Requirement and Rates (RRR) Process
 - Third Party Cyber Risk Management
 - SPP Security Awareness Q3 2017
- Other Activities:
 - 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, 37 in process (96 total Business control activities, 13 observation only)
 - 14 completed to date, 8 in process (30 total General IT control activities, 6 observation only)
 - Facilitation of 8 business and IT control objective risk assessments
 - Reviewed and updated SOC 1 Complementary User Entity Controls
 - Other consulting/advising:
 - Settlements System Replacement Project
 - 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



MARKET MONITORING ACTIVITY REPORT TO THE OVERSIGHT COMMITTEE

August 1, 2017

I. MMU Staffing

- The MMU has 16 authorized positions; 14 are filled and two are posted. Keith Collins began as the Executive Director on June 1, and Alan McQueen will retire August 15.

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 Reports (Annual Report) and potential market manipulation cases. Other topics include market screens, FERC NOPRs, proposed market rule changes not related to Annual Report recommendations, market inefficiencies, price spikes because of wind forecast errors, and possible market rule violations.
- In compliance with the FERC audit results, the MMU believes it has implemented all necessary changes. The third quarterly compliance report will be submitted to FERC by July 31, 2017.
- The Annual Meeting of the Market Monitors was hosted by FERC in June. Keith Collins, Alan McQueen, and Barbara Stroope attended. The meeting covered four topics: the referral process, market participant compliance, market mitigation, and seams issues.
- The MMU filed comments in support of the RTO's proposed changes to comply with Order 831 for offers above \$1,000/MWh. The proposal includes a \$100/MWh fuel price risk adder above the mitigated offer in the market energy offer.
- FERC staff from the Office of Enforcement is hoping to visit to SPP in October 2017. They plan to attend the SPP Marketplace Symposium and meet with the MMU.

III. Market Surveillance and Reporting

- The MMU published: 1) Monthly Market Reports through the Market Working Group for the months of April through June 2017; and 2) Quarterly State of the Market reports for Spring 2017.
- The MMU has posted a draft of the 2016 Annual Report with the Board of Directors meeting materials. The MMU will present results at the July Board meeting and at FERC in early August.
- The surveillance team has implemented several process improvements to screens and tracking processes which will increase efficiency and allow more time for in-depth analysis. Some of these changes are incremental improvements related to Potomac Economics recommendations.



IV. Market Analytics

- MMU Recommendations to SPP Board of Directors – the MMU continues to work with SPP staff and the Market Working Group regarding open recommendations.
 - The 2014 Annual Report recommendation on the use of fixed regulation bids in receiving excess regulation deployment adjustment charge has been closed. After extensive review and discussion, both the MMU and the RTO have jointly determined that a broader issue exists. The MMU will be working with the RTO to develop a solution for the problem.
 - The remaining MMU recommendation from the 2014 Annual Report is related to manipulation of make whole payments when minimum run time commitments are in excess of two days. A MMU proposal was rejected at the Market Working Group, so the MMU appealed the decision at the July MOPC. The MOPC remanded the topic back to the Market Working Group for review. This topic is on the August Market Working Group agenda.
 - In the 2015 Annual Report, the MMU recommended requiring non-dispatchable resources (NDVERs) to become dispatchable (DVER). A market participant (Westar) submitted a revision request that required NDVERs to register as DVERs if 33% of the resource was upgraded or replaced. The MMU does not think this meets the intent of our recommendation. In response, the MMU submitted comments that recommend requiring all NDVERs, with the exception of type 1 and 2 turbines, to convert to DVERs within a specified date. This topic is still open and being discussed at the Market Working Group.
- Proposals for changes to mitigation
 - Revision request (RR214) proposed to allow a 10 percent adder to the mitigated offer in cases where a resource is mitigated. The MMU does not agree with a flat 10 percent adder with the current structural design of mitigation. However, the MMU has agreed, during initial discussions at the Market Working Group, that inclusion of quantifiable fuel related costs may be granted on a per resource level.
 - The MMU submitted RR231 which is also related to mitigation. RR231 addresses issues with resources committed for local reliability (i.e. voltage support). The MWG has discussed RR231, but no action has been taken.
 - The MMU and the Market Working Group continue to discuss variable maintenance costs and if any of those costs should be included in mitigated offers.

V. Other Items

- The MMU physical space is now fully separate from the RTO staff as recommended in the FERC audit report.
- SAS training was conducted onsite for 7 MMU staff members and 8 other SPP staff members in late May and was well received by staff. The MMU is paying a per capita share of the training costs.

Respectfully submitted
Keith N. Collins
Executive Director, Market Monitoring and Analysis