



Southwest Power Pool, Inc.
OVERSIGHT COMMITTEE MEETING

September 25, 2008

Westin Hilton Head Island Resort and Spa

• A G E N D A •

9:00 a.m. – 3:00 p.m. CDT

1. Call to Order Josh Martin
2. Action Items Report..... Stacy Duckett
3. Update on Current Activities
 - a. External Market Advisor.....Craig Roach
 - b. Market Monitoring Unit..... Richard Dillon
 - c. Internal Compliance..... David Hodges
4. FERC Audits Status Report..... Stacy Duckett
5. NERC Audits Report David Hodges
6. 2009 EMA Contract Discussion..... Craig Roach/Richard Dillon
7. Future Markets Update..... Richard Dillon
8. New Action Items Stacy Duckett
9. Future Meetings Josh Martin

Schedule for 2008:

December 8 Dallas (prior to the Board of Directors meeting)

Schedule for 2009:

March 26 TBD
June 10 Little Rock (following the Board of Directors meeting)
September 24 TBD
December 7 Dallas (prior to the Board of Directors meeting)

Southwest Power Pool
OVERSIGHT COMMITTEE MEETING

June 25, 2008

Hilton Chicago O'Hare Airport

• M I N U T E S •

Agenda Item 1 – Administrative Items

SPP Chair Josh Martin called the meeting to order at 9:25 a.m. The following members were in attendance: Josh Martin (Director), Julian Brix (Director) and Phyllis Bernard (Director). Staff in attendance included Stacy Duckett. Guests included Richard Dillon and David Hodges (SPP); Larry Altenbaumer (Director) and Craig Roach (Boston Pacific).

Mr. Martin referred to the draft minutes of the April 2, 2008 meeting and asked for corrections or a motion for approval (4/2/08 Minutes – Attachment 1). Phyllis Bernard moved to approve the minutes as presented. Julian Brix seconded the motion, which passed unopposed.

Agenda Item 2 – Review of Past Action Items

Stacy Duckett reviewed the Action Items report (Action Items - Attachment 2).

Agenda Item 3 – Update on Current Activities

Compliance Department

David Hodges reviewed the Compliance Department activity report (Compliance Report – Attachment 3). Per the recent Reliability Readiness Evaluation, the training program is a potential Example of Excellence, awaiting the final vote at NERC. Mr. Hodges took questions from the group. Compliance continues to follow up on feedback from the Spring Compliance Workshop to further enhance assistance and support to Registered Entities.

NERC is considering eliminating and/or revising the Reliability Readiness Evaluation process. The group discussed facets of the audit and the evaluation processes.

The committee questioned Mr. Hodges regarding staffing. He is requesting three new staff members for 2009. Mr. Hodges works closely with training and also wants to ensure compliance is integrated into curriculums. Julian Brix moved that the Oversight Committee support Mr. Hodges request for three additional staff in 2009 to support the compliance efforts of SPP. Josh Martin seconded the motion, which passed unanimously.

Phyllis Bernard requested additional information on the flowgate issue noted in the Reliability Readiness Evaluation Report, page 16. Mr. Hodges discussed status and steps taken to address this issue. Ms. Bernard asked to ensure SPP has adequate documentation of its actions and to review the flowgate issue at the next Oversight Committee meeting.

Market Monitoring Unit

Richard Dillon reviewed the Market Monitoring Unit activity report (MMU Report – Attachment 4). The group discussed the status of Native Load Scheduling (NIS) tools and associated issues as discussed with FERC and internally. While no violations were found to have occurred, protocols have been revised to clarify proper use.

The group discussed staffing in the Market Monitoring Unit (MMU) department. The department is being reorganized to better align existing staff/skills and facilitate new staff. Mr. Dillon is requesting two new staff positions in the 2009 budget, including one administrative assistant.

Mr. Dillon and Craig Roach presented the 2007 State of the Market Report to FERC on June 3. The FERC staff responded very positively to the Report and Benefits Analysis.

Nick Brown and Mr. Dillon will participate in the FERC Market Oversight Conference on July 1 with other CEOs and market monitors to discuss the status of markets in the United States.

The group discussed other possible data points that may be available from the Benefits Analysis and/or how the analysis may serve as a basis for assessing additional benefits to be gained from additional market enhancements/additions. Mr. Dillon and Mr. Roach will discuss and report back to the committee.

Mr. Dillon briefed the group on an event in the Southwestern Public Service (SPS) area on June 17. The staff will assess lessons learned and include a scenario in future simulator training.

Phyllis Bernard moved that the Oversight Committee support Mr. Dillon's request for two additional staff positions in 2009 to support the market monitoring. Julian Brix seconded the motion, which passed unanimously.

External Market Advisor

Craig Roach reviewed the External Market Advisor's activities during the recent quarter (EMA Report – Attachment 5). The primary activity related to the 2007 State of the Market Report. Mr. Roach has requested guidance on additional activities/areas of focus for the remainder of the year. He concluded by providing the committee information on several issues impacting the industry today.

Agenda Item 4 – NERC Enforcement Actions

David Hodges reviewed the Enforcement Actions from NERC, which is the first issuance by NERC (Enforcement Actions – Attachment 6). The group also reviewed and discussed recent FERC enforcement actions and fines. The group discussed aspects of enforcement and specifics of some of the determinations/fines.

Agenda Item 5 – SPP NERC Reliability Readiness Evaluation Report

This report was previously discussed during the Compliance activity report (Item 3a) (Reliability Readiness Evaluation Report – Attachment 7). The committee commended the positive nature of the report.

Agenda Item 6 –New Action Items

Stacy Duckett reviewed new action items:

- Mr. Hodges will review SPP's response to the flowgate issue noted in the Reliability Readiness Evaluation Report, Page 16, at the next meeting.
- Mr. Dillon and Mr. Roach are to discuss other applications for Benefits Analysis results and/or a process.
- Mr. Roach will forward to the Oversight Committee the recent FERC presentation on price pressures.

Agenda Item 7 – Future Meetings

Future Oversight Committee meetings were confirmed.

Schedule for 2008:

September 25	Hilton Head, SC
December 8	Dallas

Schedule for 2009:

March 26	Washington, D. C.
June 10	Little Rock (following the Board of Directors meeting)
September 24	TBD
December 7	Dallas (prior to the Board of Directors meeting)

Compliance Committee Meeting
June 25, 2008

The meeting adjourned to Executive Session at 1:05 p.m. Mr. Martin asked Larry Altenbaumer to attend.

Executive Session

Mr. Hodges and Ms. Duckett provided an update on a current inquiry. The Executive Session adjourned at 1:25 p.m.

Respectfully Submitted,

Stacy Duckett
Secretary



Southwest Power Pool, Inc.
OVERSIGHT COMMITTEE
Pending Action Items Status Report
September 25, 2008

Action Item	Date Originated	Status	Comments
D. Hodges to provide compliance report related to NLS to Committee when completed	April 2	Completed	June 25 agenda item.
D. Hodges will review SPP's response to the flowgate issue noted in the Reliability Readiness Evaluation Report, Page 16, at the next meeting.	June 25	Completed	Presentation at September 25 meeting.
R. Dillon and C. Roach are to discuss other applications for Benefits Analysis results and/or a process.	June 25	Pending	Update at September 25 meeting.
C. Roach will forward to the Oversight Committee the recent FERC presentation on price pressures.	June 25	Completed	E-mailed to all following June 25 meeting.

SPP, INC
OVERSIGHT COMMITTEE MEETING
SEPTEMBER 25, 2008

SUMMARY OF EMA ACTIVITY
SINCE LAST MEETING ON JUNE 25, 2008

A. UPDATE OF THE OFFER CAP CALCULATION

1. Assisted SPP in the annual update of the CT Model. The Model is used to calculate the Annual Fixed Costs of a new, natural gas-fired, combustion turbine peaking generation facility. This number is in turn used the equation below to calculate the offer caps in SPP.
 - a. $(\text{Annual Fixed Cost} / \text{Annual Hours of Constraint}) + \text{Variable O\&M} + \text{Fuel Cost}$
2. Reviewed assumptions used to determine capital costs, target equity IRR, and state tax rates.

B. PHONE CALL WITH WIND COMPANY

1. Phone call on July 18, 2008 with a wind company that is potentially interested in interconnecting to SPP.
2. Questions about the *2007 State of the Market Report* in general and transmission congestion in particular.

C. UNINSTRUCTED RESOURCE DEVIATION

1. Assisted MMU Staff in researching Uninstructed Resource Deviation (URD) penalties in other areas.
2. Provided short memo that provided (a) a brief description of URD penalties in other RTOs and (b) sources for further research on this topic.

D. USED RETAINER TO STAY UP ON ISSUES

1. Economic Upgrades
2. Aggregate Study Process

3. Generation Interconnection Process
4. Demand Response
5. Uninstructed Resource Deviation

E. IDEAS FOR POSSIBLE ROLES FOR THE EMA IN 2009

1. Presented our ideas to the MMU on September 12, 2008, and received their ideas and feedback.
2. Presentation today and discussion.



Southwest Power Pool, Inc.

MARKET MONITOR

Report to the Oversight Committee

25 September 2008

Staffing

The Market Development and Analysis department has openings in the lead engineering position and a senior analyst position for which interviews are continuing. The department has offered a full-time position to the part-time employee from the University of Arkansas – Little Rock power engineering program (sponsored by SPP).

Activity Update

A summary of Market Monitoring contacts are as follow

- **Federal Energy Regulatory Commission (FERC)**
 - FERC staff continue to inquire at least weekly about EIS prices from an information perspective
 - MKEC Sunflower submitted a “Hotline” request to FERC regarding EIS congestion and resulting curtailments for the period June 3 through June 22, 2007. The FERC Office of Investigation education by SPP continues on this item.
 - On July 1, the RTO chief executive officers and market monitor briefed the FERC Commissioners on the overall “state of markets” in the country.
 - The VRL discussion between Golden Spread, Xcel, SPP staff, and a FERC facilitator is anticipated to reach a conclusion of withdrawing the interventions.
- **Market Participants**
 - Continue to work with SPS and ACES power on data request and analysis concerning congestion, settlement, and other concerns in the SPP EIS market.
- **Market Design**
 - The Cost Benefit Study for Future Markets is finalizing the analysis. Requests for expanding the study scope to include wind have resulted in a cost estimate that will be presented to the RSC and, if expenditure is approved, anticipated to be performed subsequent to the report on Cost Benefit finalization.
 - Market Monitoring has proposed changes to the uninstructed deviation handling in the market design.
 - Market Monitoring submitted an analysis to the Market Working Group regarding scheduling from offline resources.
- **Regulatory**
 - None
- **Other Items**
 - Market Monitoring has begun annual briefings of Market Participants regarding their results (ramping, capacity, etc.) as a means of both educating and opening dialog.

Infrastructure

- Market Monitoring continues to work with Information Technology on data warehouse and analysis needs.

Reports

The MMU periodically makes a summary Monthly Metric report to the MWG. This keeps the members abreast of market monitoring concerns and provides SPP members a forum to present questions and suggestions directly to the MMU. The Monthly Metrics Reports continues to be the primary tool for keeping FERC staff informed of EIS and transmission market conditions. The Market Analysis group also develops the Corporate Metrics Report for the Board of Directors and senior SPP management.

Respectfully submitted,

Richard Dillon
Director, Market Development and Analysis



Compliance Department
Report to the Oversight Committee
September 25, 2008

Recent Activities

2008 Fall Compliance Workshop

David Hodges will be speaking at the 2008 Fall Compliance Workshop in Tulsa, Ok as a follow up to the survey results previously received from SPP members and registered entities in support of a “Compliance Forum”. The compliance department will facilitate a spring and fall meeting in conjunction with the compliance workshops. The “Compliance Forum” will provide SPP members and registered entities the opportunity to speak openly regarding compliance issues and concerns without the Regional Entity being present.

Attached is an insert containing the **Reliability Standards Acronyms**. I hope this is helpful when reviewing the many different standards.

Reliability Standards Acronyms

BAL	Resource and Demand Balancing	NUC	Nuclear
CIP	Critical Infrastructure Protection	ORG	Organization Certification
COM	Communications	PER	Personnel Performance, Training, and Qualifications
EOP	Emergency Preparedness and Operations	PRC	Protection and Control
FAC	Facilities Design, Connections and Maintenance	TOP	Transmission Operations
INT	Interchange Scheduling and Coordination	TPL	Transmission Planning
IRO	Interconnection Reliability Operations and Coordination	VAR	Voltage and Reactive
MOD	Modeling, Data, and Analysis		

Compliance

FERC Order 676-C provided the industry with the first round of NAESB business standards. The majority of these standards will provide the specific details for OASIS functionality. Several of the business standards will become effective January 31, 2009 and others later in 2009.

Readiness Evaluations vs. Compliance Audits

- **Compliance Audit**
 - Reviews specifically; compliance with the Requirements of the Reliability Standards
 - Scope is not larger than what is required in the standards
 - Looks more at historical data and records and documentation of plans, programs, and procedures.

- **Readiness Evaluations**
 - Reviews current status of entities overall operation
 - Makes an assessment of the entities operating ability and preparedness to address the next contingency
 - More forward looking – sets targets
 - Scope is much larger than Compliance Audit

Readiness Evaluations are no longer being performed by NERC 2008 Audits

SPP RC – RRO Compliance Audit scheduled for October 21, 2008 through October 23, 2008. NERC has streamlined the scope of the audit from the initial Compliance Monitoring Enforcement Program (CMEP). The audit package include the NERC standards and specific requirements that will be audited. This level of granularity is a pleasant change from the previous audits. The audit will begin on Tuesday 10/21 morning and end on Thursday 10/23 afternoon.

The SERC audit will begin at 3 p.m. on November 3, 2008 for the ICT and ITO. The ICT and ITO will do their presentations during the same session for the SERC audit.

The ICT RC has a SERC Compliance Audit scheduled for November 4th, 2008.

The ITO has a SERC Audit scheduled for the morning of November 5th, 2008.

Preliminary findings will be presented by SERC for the ICT and ITO during the same session on the afternoon of November 5, 2008.

Future Activities

- Provide assistance to members and registered entities regarding compliance.
- Compliance Forum
- Participate in national forums
- NERC Compliance and Certification Committee
- TOOF – Compliance Practices Group
- OATI webCompliance Software being implemented for compliance tracking, monitoring, and standards updates.

Respectfully submitted,

David H. Hodges
Director, Compliance

EPAAct 2005 Civil Penalty Enforcement Actions

Subject of Investigation Order and Date	Total Payment	Explanation of Payments (Civil Penalty Under the NGA, FPA, or NGPA; Disgorgement of Profits; Other Payments) and Compliance Plans
In re Duquesne Light Company, 123 FERC ¶ 61,221 (May 29, 2008)	\$250,000 \$1,000,000	Civil penalty and at least \$1,000,000 designated for a comprehensive compliance plan for violations of FERC cost allocation procedures, the electric quarterly report filing requirement and the standards of conduct.
In re Edison Mission 123 FERC ¶ 61,170 (May 19, 2008)	\$7,000,000 \$2,000,000	Civil penalty and at least \$2,000,000 designated for a comprehensive compliance plan for violations of 18 C.F.R. § 35.41 (b) (2007), which imposed a duty to provide accurate, factual, and complete information in communications with the Commission upon electric power sellers authorized to engage in sales for resale of electric energy at market based rates.
In re Entergy New Orleans, Inc., 122 FERC ¶ 61,219 (March 11, 2008)	\$400,000	Civil penalty resulting from self-reported violations of the Commission's shipper-must-have-title requirement.
In Constellation NewEnergy-Gas Division, LLC (CNE-G) 122 FERC ¶ 61,220 (March 11, 2008)	\$5,000,000 \$1,899,416	Civil penalty, disgorgement, and a compliance monitoring plan resulting from self-reported violations of the Commission's capacity release policies, including circumvention of the posting and bidding requirements for released capacity, violations of the shipper-must-have-title requirement, and violations of the prohibition on buy-sell transactions.
In re BP Energy Company, 121 FERC ¶ 61,088 (October 25, 2007)	\$7,000,000	Civil penalty and compliance monitoring plan resulting from self-reported violations of competitive bidding regulations, shipper-must-have-title requirement, and prohibition on buy/sell arrangements.
In re MGTC, Inc., 121 FERC ¶ 61,087 (October 25, 2007)	\$300,000	Civil penalty and compliance report resulting from self-reported violations of the shipper-must-have-title requirement.

In re Gexa Energy, L.L.C., 120 FERC ¶ 61,175 (August 21, 2007)	\$500,000 \$12,481.41	Civil penalty and disgorgement resulting from a self-report of violations of the FPA.
In re Cleco Power, LLC, et al., 119 FERC ¶ 61,274 (June 12, 2007)	\$2,000,000	Civil penalty and a 1-2 year compliance plan resulting from a self-report for a violation of a 2003 Settlement agreement by sharing 9 employees and sharing prohibited market info between different Cleco companies.
In re Columbia Gulf Transmission Company, 119 FERC ¶ 61,174 (May 21, 2007)	\$2,000,000	Civil penalty resulting from a Commission referral for a violation of a Commission order to allow installation of a receipt interconnection.
In re Calpine Energy Services, L.P., 119 FERC ¶ 61,125 (May 9, 2007)	\$4,500,000	Civil penalty and a 1-2 year compliance plan resulting from a self-report for violations of shipper-must-have-title requirements.
In re Bangor Gas Company, 118 FERC ¶ 61,186 (March 7, 2007)	\$1,000,000	Civil penalty and a 1 year compliance plan resulting from a self-report for violations of shipper-must-have-title requirements.
In re PacifiCorp, 118 FERC ¶ 61,026 (January 18, 2007)	\$10,000,000	Civil penalty and a 1 year compliance plan resulting from a self-report for violations of OATT and Standards of Conduct.
In re SCANA Corporation, 118 FERC ¶ 61,028 (January 18, 2007)	\$9,000,000 \$1,800,000	Civil penalty, disgorgement, and a 1 year compliance plan resulting from a self-report for violations of OATT.
In re Entergy Services, Inc., 118 FERC ¶ 61,027 (January 18, 2007)	\$2,000,000	Civil penalty and a 1-2 year compliance plan resulting from a self-report for violations of OATT and Standards of Conduct OASIS posting requirements.
In re NorthWestern Corporation, 118 FERC ¶ 61,029 (January 18, 2007)	\$1,000,000	Civil penalty and a 2 year compliance plan resulting from a hotline call for violations of Business Practice Standards for OASIS Transactions.

In re NRG Energy, Inc., 118 FERC ¶ 61,025 (January 18, 2007)	\$500,000	Civil penalty and a 1 year compliance plan resulting from a self-report for violations of ISO-NE Market Rule 1 and the Commission's Market Behavior Rules 1 and 3.



IDEAS ON POSSIBLE ROLES FOR THE EMA IN 2009

PREPARED FOR:
SPP BOARD, OVERSIGHT COMMITTEE

PRESENTED BY:
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SEPTEMBER 25, 2008



Overview

- A. Continue Current Role Into 2009
- B. Add Defined Studies
- C. Add Explicit Advisory Role on Future Markets
- D. Add New Analyses, Metrics, or Reports for EIS and Transmission Markets



A. Continue Current Role Into 2009

1. Research and produce the *2008 State of the Market Report*.
 - i. Discuss with the MMU new or enhanced metrics or additional topics that should be added to this year's report. (See Item 2 below)
 - ii. Provide an outline of the Report to the MMU for review.
 - iii. Provide a first draft of the Report to the MMU for initial review and comment.
 - iv. The MMU will respond to the initial draft of the Report.
 - v. The EMA will present the Report to the Oversight Committee.
 - vi. The MMU and EMA will provide a joint presentation to FERC, as required and scheduled by FERC.
 - vii. Unless otherwise directed by the Oversight Committee, the EMA will present the Report to the Board of Directors/Members Committee.
 - viii. Publish the final *2008 State of the Market Report*.

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A. Continue Current Role Into 2009 (continued)

2. Additional topics for the *2008 State of the Market Report*.
 - i. Broader market and regulatory trends often drive results within SPP.
 - ii. A discussion of these trends would add value to the 2008 SOM.
 - iii. All of this would be based primarily on other respected studies.
 - iv. Likely topics
 - Near-term trends in natural gas prices: Since natural gas is on the margin 71% of the time in SPP's EIS Market, natural gas prices drive EIS prices and the Board should be given a heads up on trends.
 - Extent and impact of wind generation: SPP has some of the best wind resources in America, and wind development should be a focal point for the Board.
 - State action on new generation: Through competitive procurement or traditional prudence hearings State Commissions are determining how much and what type of new generation is added in the SPP footprint. The Board should be alerted to the trends.

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A. Continue Current Role Into 2009 (continued)

3. Prepare for and participate in all Oversight Committee meetings and in Board of Directors meetings as requested.
4. Advise Board as Requested.
5. Conduct Inquiries when requested and as approved by the Board.
6. Prepare other reports and/or metric assessments as requested.
7. Assist with Future Market Design as requested.

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B. Add Defined Studies

1. Major changes or events in SPP sometimes require one-time assessments.
2. Examples:
 - i. New Nebraska entities: An assessment of implications, if any, for market power and mitigation in general and for transmission congestion in particular.
 - ii. Inter-RTO Effects: An assessment of specific cases of actions by other RTOs or transmission entities which affect SPP's market outcomes. In particular, topics could include another RTO calling for transmission relief.
3. Reasons for SPP transmission outages: As documented in the 2007 SOM, transmission outages have increased significantly over the past three years in SPP. In cooperation with SPP Operations, conduct a study tracing the magnitude of and reasons for outages.

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C. Add Explicit Advisory Role on Future Markets

1. Advise on the final design and implementation of Future Markets (Day-Ahead Energy Market, Ancillary Services Markets, or both). Some or all of the following tasks:
 - i. Examples: Technical design issues
 - Most RTOs require load to supply or procure and pay for Ancillary Services. Since the need for spinning and non-spinning reserves (two Ancillary Services) vary by type of generation, should generators be responsible for these instead?
 - ii. Examples: Broader advisory work and expert witnessing
 - Update and advise the Board as needed on Future Markets.
 - Assist with FERC filings and testimony to win approval.
 - Assist with State Commission filings and testimony to win approval if necessary.
 - Design metrics for Future Markets to be included in Monthly and State of the Market Reports.

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D. Add New Analyses, Metrics, or Reports for EIS and Transmission Markets

1. Suggest and design additional metrics for *MMU Monthly Report*.
2. The Board has recently approved or will soon vote on approving many changes to market design or market processes. We believe that there should be reports or analyses done to determine whether these changes have in fact been successful.
 - i. Review the first “Balanced Portfolio” of economic upgrades to be included in the SPP Transmission Expansion Plan and assess its impacts, in particular estimates of benefits (actual results).
 - ii. Report on or design metrics to assess the participation of demand-side resources and external generators in the EIS Market – focused primarily on actual market effect.
 - iii. Participate in (or lead) a “case study” forum to address the Generation Interconnection and Aggregate Study processes.

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